

Hertha BSC GmbH & Co. Kommanditgesellschaft auf Aktien (KGaA), Berlin, Germany

CONSOLIDATED BALANCE SHEET as at 31 December 2018

ASSETS	€		Prior year in thousand €	LIABILITIES		Prior year in thousand €
	€	€		€	€	
A. Fixed assets				A. Equity		
I. Intangible assets				I. Share capital	2,600,000.00	2,981
1. Concessions purchased, trade and similar rights and assets and licences in such rights and assets	549,610.00			(contingent capital: € 187,929.00; prior year: € 188 thousand)		
2. Player market values	24,486,371.00	25,035,981.00	605	II. Revenue reserve	0.00	26,748
II. Tangible assets			24,881	III. Consolidated loss carryforward	-110,384,647.02	-106,357
1. Buildings on third-party land	2,073,102.00		(25,486)	IV. Consolidated net loss for the year	-19,043,507.85	-3,357
2. Operating and office equipment	1,079,402.59		2,636	V. Deficit not covered by equity	109,828,154.87	62,985
3. Prepayments and assets under construction	0.00		1,008	VI. Participation rights	17,000,000.00	17,000
III. Financial assets			951			(0)
Cooperative shares		3,152,504.59	(4,595)	B. Provisions		
		104.00	0	1. Tax provisions	62,000.00	62
			(30,081)	2. Other provisions	4,773,834.75	6,623
					4,835,834.75	(6,685)
B. Current assets				C. Liabilities		
I. Inventories				1. Bonds	40,382,777.78	0
II. Merchandise		1,609,650.73	1,408	2. Liabilities to banks	46,215,077.06	10,105
1. Receivables and other assets				3. Trade payables	6,765,075.19	5,483
2. Trade receivables	2,336,250.15		1,098	4. Liabilities for player transfers	3,632,839.04	10,045
3. Receivables from player transfers	487,808.40		1,124	5. Liabilities to companies in which investments are held	0.00	95
4. Other assets	2,547,583.25		0	6. Other liabilities	25,445,965.08	52,875
	4,544,997.60	9,916,639.40	5,180		122,441,734.15	(78,603)
			(7,402)	D. Deferred income	36,281,953.52	25,264
III. Cash and cash equivalents		3,324,189.58	2,267			
			(11,077)			
C. Prepaid expenses			6,409			
D. Deficit not covered by equity		109,828,154.87	62,985			
		163,559,522.42	110,552		163,559,522.42	110,552

Hertha BSC GmbH & Co. Kommanditgesellschaft auf Aktien (KGaA), Berlin

CONSOLIDATED INCOME STATEMENT

for the Financial Year from 1 July 2018 to 31 December 2018 [German GAAP (HGB)]

	€	€	Prior year in thousand €
1. Revenue		55.907.662,87	130.386
2. Other operating income		565.984,07	4.398
		56.473.646,94	134.784
3. Cost of materials			
Cost of merchandise purchased		-2.031.307,55	-3.765
4. Personnel expenses			
a) Wages and salaries	-28.296.482,31		-58.273
b) Social security contributions and expenses for pensions and other benefits	-1.423.461,68		-2.681
		-29.719.943,99	(-60.954)
5. Amortisation of intangible assets and depreciation of tangible assets		-4.855.649,77	-9.427
6. Other operating expenses		-35.886.421,05	-57.042
		-16.019.675,42	3.596
7. Other interest and similar income		503,75	9
- thereof € 500.00 (prior year: € 4,000) related to affiliated companies -			
8. Interest and similar expenses		-3.013.589,56	-5.829
9. Remuneration for profit participation rights		-6.750,00	-1.118
10. <u>Earnings after taxes</u>		-19.039.511,23	-3.342
11. Other taxes		-3.996,62	-15
12. <u>Consolidated net loss for the year</u>		-19.043.507,85	-3.357

**Hertha BSC GmbH & Co. Kommanditgesellschaft
auf Aktien (KGaA)
Hanns-Braun-Straße, Friesenhaus II, 14053 Berlin
Amtsgericht Berlin-Charlottenburg, HRB 84666**

**Notes to the Consolidated Financial Statements for the Financial Year
from 1 July 2018 to 31 December 2018**

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Appendix to the Notes to the Interim Consolidated Financial Statements:

Fixed asset schedule of player market values as at 31 December 2018 (consolidated fixed asset schedule)

I. General information on the interim consolidated financial statements and the reporting date for the interim consolidated financial statements

The interim consolidated financial statements as at 31 December 2018 were prepared in accordance with the rules and regulations of the Third Book of the German Commercial Code [Handelsgesetzbuch (HGB)] for large corporations in association with the Fifth Section of the First Book of the Stock Corporation Act [Aktiengesetz (AktG)].

The interim consolidated financial statements were prepared by applying the regulations of the German Commercial Code.

The prior year figures are indicated for the purpose of comparison.

For the purpose of clarity, the explanatory notes concerning the balance sheet and the income statement items as well as of any mandatory explanations concerning options exercised have been presented in the notes to the interim consolidated financial statements.

In accordance with § 265 (5) HGB, classification items specific to the Company (player market values as intangible fixed assets, receivables from transfers and liabilities for transfers or trade receivables and trade payables) have been disclosed on the balance sheet and in the fixed asset schedule.

The income statement was prepared by using the total cost method in accordance with § 275 (2) HGB.

II. Information on the group of entities consolidated

Disclosures on the names and legal seats of companies included in the consolidation

<u>Name, legal seat</u>	<u>Shareholding in %</u>
Hertha BSC GmbH & Co. Kommanditgesellschaft auf Aktien (KGaA), Berlin	(parent company)
Hertha BSC Rechte GmbH & Co. KG, Berlin *)	100
Hertha BSC Lizenz GmbH, Berlin *)	100
Hertha BSC Transfer GmbH & Co. KG, Berlin *)	100
Hertha BSC Infrastruktur GmbH, Berlin	100
Hertha BSC Stadion GmbH, Berlin *)	100
Hertha BSC Medien GmbH, Berlin*)	100

*) The company has a reporting date that differs from the reporting date for the interim consolidated financial statements and has been consolidated in the interim consolidated financial statements on the basis of the separate interim financial statements prepared.

III. Disclosure of the consolidation methods applied

1. Capital consolidation

The book value method (§ 301 (1) No. 1 HGB) was applied for consolidating capital (full consolidation). The shareholdings of the parent company were offset against the pro rata equity of the subsidiaries (pursuant to § 301 (2) sentence 1 HGB) on the basis of the book values as at 30 June 2010, the point in time the subsidiaries were initially consolidated (if acquired at a later point in time, then the point in time of the respective inclusion in the interim consolidated financial statements).

2. Debt consolidation

Debts were consolidated in accordance with § 303 (1) HGB by eliminating intercompany receivables with the respective intercompany liabilities of the entities included in the interim consolidated financial statements. No offset differences resulted.

3. Revenue and expense consolidation

Revenue and expenses were consolidated by applying § 305 (1) HGB by offsetting intercompany revenue and intercompany operating income shown in other operating income of the entities consolidated with the expenses allocated to them. This same procedure was also applied to other interest and similar income, which were offset against the respective expenses.

The transfers of profit or loss based on the terms of the existing profit transfer agreements as well as the portion of the profit generated by Group partnerships were eliminated.

4. Foreign currency translation

The separate annual financial statements of the subsidiaries consolidated were prepared in euros. No translation differences resulted thereby.

IV. Accounting policies and measurement methods

The interim consolidated financial statements as at 31 December 2018 were prepared under the assumption of the Group continuing as a going concern. The deficit not covered by equity was counteracted by positive forecasts from the liquidity planning and by hidden reserves in fixed assets (compare disclosures in the group management report).

The significant accounting policies and measurement methods applied in the reporting year are presented in the following:

Intangible assets purchased are capitalised at their acquisition costs less scheduled amortisation. They are amortised over their expected useful lives by applying the straight-line amortisation method. Player market values are amortised over each player's contractual term.

Tangible assets are measured at acquisition or production costs – to the extent they are subject to wear and tear – by using the straight-line depreciation method based on the expected useful lives of the assets.

Depreciation of additions to tangible assets is generally performed pro rata temporis.

Financial assets are recognised at the lower of acquisition cost or fair value.

Inventories are recognised at the lower of acquisition cost or market value. All identified risks in inventory assets resulting from slow moving items, impaired usability or obsolescence or for other reasons are considered by making appropriate write-downs.

Receivables and other assets are recognised at their nominal values. Specific risks identified are subject to impairment. General credit and interest risks are considered by setting up a bad debt allowance for receivables not individually impaired.

Prepaid expenses and deferred income are set up for accruing payment transactions or for allocating expenses/income to the respective reporting period.

Provisions are recognised at the settlement amounts required by using prudent judgement in order to recognise all identified risks and contingent liabilities.

Liabilities are recognised at their settlement amounts.

Foreign currencies are translated throughout the year at their average exchange rates. Current receivables and liabilities are valued at the spot exchange rate prevailing at the balance sheet date.

V. Explanatory notes on specific items of the interim consolidated financial statements for the period from 1 July 2018 to 31 Dezember 2018

Balance sheet

Explanatory notes in the following are only given for significant items.

1. Fixed assets

The development of fixed assets is presented in the appended consolidated fixed asset schedule; see Appendix 1.3.1. to the notes to the interim consolidated financial statements.

2. Receivables and other assets

All receivables and other assets have a residual term of up to one year.

Included in other assets are receivables from IM 1872 (€ 3,350 thousand) and from Lagardère Sports Germany GmbH (€ 647 thousand) from bartered settlements.

3. Cash and cash equivalents

€ 76 thousand of the cash and cash equivalents are not readily available (use earmarked for rental security deposits or pledging of income from player transfers).

4. Prepaid expenses

Prepaid expenses are shown in the following:

	<u>In thousand euros</u>
- Partial payments to Lagardère Sports Germany GmbH by virtue of the 21st change agreement	3,428
- Commission payments made to Lagardère Sports Germany GmbH	1,805
- Payments to players' agents	2,406
- Special payments	1,008
- Discounted liability for prepayments for marketing brand rights	561
- Banks interest factoring	846
- Insurances	294
- Discounted private loans	80
- Other	264

5. Equity

In the 2013/2014 season share capital was increased from 2,600,000.00 no-par value shares to 2,879,291.00 no-par value shares, which are registered shares. In this conjunction € 279,291.00 were added to share capital and € 17,520,709.00 were allocated to the capital reserve. In the 2016/17 season contributions amounting to € 81,682.00 were added to the share capital and € 7,999,978.24 were allocated to the capital reserve. In the 2017/18 season contributions amounting to € 20,421.00 were added to the share capital and € 1,226,864.54 were allocated to the capital reserve. By having redeemed the shareholdings of the investor, Kohlberg Kravis Roberts & Co. (KKR), in the season being reported, the share capital was decreased to its original amount of € 2.600.000,00. Since the redemption expense exceeded the capital reserve, it was reduced from € 26,757,551.78 to € 0.00. The remaining amount was recognised as a loss carryforward. The general partner, Hertha BSC Verwaltung GmbH, Berlin, did not benefit from the assets and earnings of the Group.

	€
Share capital	2,600,000.00
Capital reserve	0
Loss carryforward	-110,384,647.02
Participation rights	17,000,000.00
Consolidated half-year result P&L	<u>-19,043,507.85</u>
Deficit not covered by equity	<u>-109,828,154.87</u>

In accordance with the resolution of the annual general meeting held on 29 August 2014, the share capital of the Company was to be conditionally increased (Conditional Capital I) by up to € 89,050.00 and to be divided into up to 89,050 no-par value registered shares. This conditional capital increase served to ensure the conversion rights of Dual-Voltage (Europe) GmbH as agreed upon in the Convertible Mezzanine Agreement dated 18 June 2014 in the version of the Amendment Agreement dated 28/29 August 2014

According to the resolution of the annual general meeting dated 11 January 2017, the share capital of the Company was to be conditionally increased (Conditional Capital I) further by € 98,879.00 to € 187,929.00 and to be divided into up to 187,929 no-par value registered shares. This conditional capital increase served to grant conversion rights to F.U.G.E Beteiligungen GmbH & Co. KG as agreed upon in the Convertible Mezzanine Agreement dated 14/17 December 2015 as well as to Dual-Voltage (Switzerland) AG as stipulated by the terms of the Convertible Mezzanine Agreement dated 28 December 2015/4 January 2016.

The issue value of each of the new shares was equal to the lowest issue value of € 1.00. Conditional capital is only to be increased if the Convertible Mezzanine creditors exercise this option as stated in the terms of the agreements dated 18 June 2014 in the version of the Amendment Agreement dated 28/29 August 2014, 14/17 December 2015, respectively 28 December 2015/4 January 2016. The new shares issued due to exercising the

conversion rights are to participate in profits from the beginning of the financial year in which they are issued.

Hertha BSC GmbH & Co. KGaA issued a participation right at a nominal value of € 4.0 million in accordance with the agreement dated 14 December 2007, issued an additional tranche of a participation right at a nominal value of € 500,000.00 in accordance with the agreement dated 30 June 2010 and issued another participation right amounting to € 3.5 million on 12 January 2016. The performance-related remuneration entitlements existing up to 30 June 2013 amounted to € 1,619 thousand in total, which were not to be accounted for under liabilities by law because of a lack of free equity shares as at 30 June 2013.

An adjustment was agreed upon for both participation rights agreed upon in the supplementary agreement to the investment agreement concluded in the 2013/2014 financial year to the effect that the participation right agreements could only be terminated at the earliest on 30 June of the year following the calendar year in which the investor exercises the option and the measures as stipulated in these agreements are taken. Furthermore, additional conditions were agreed upon regarding the definition of free equity shares for the remuneration entitlements for the period up to 30 June 2013. This did not result in any retroactive remuneration entitlements. Remuneration entitlements up to 31 December 2018 totalled € 525 thousand and were accounted for in liabilities.

Hertha BSC GmbH & Co. KGaA issued another participation right at a nominal value of € 6.0 million in accordance with the agreement dated 18 June/28 August 2014, issued an additional participation right at a nominal value of € 1.5 million in accordance with the agreement dated 11 January 2016 and issued yet another participation right at a nominal value of € 1.5 million in accordance with the agreement dated 29 July/22 August 2016. Remuneration entitlements amounting to € 430 thousand existing up to 31 December 2018 were accounted for under liabilities.

6. Provisions

Provisions were set up for the following items:

	<i>In thousand euros</i>
Certificate redemption	1,635
Remuneration entitlements for interest on participation rights	955
Outstanding salaries	105
Employers' liability insurance association	1,167
Outstanding barter settlements	364
Trade taxes	62
Outstanding invoices for player agents	206
Miscellaneous	342

7. Liabilities

Liabilities are listed according to creditors and due dates (residual terms) in the following schedule of liabilities; prior year figures are presented in parentheses.

	<u>Total</u> <i>In thousand euros</i>	<u>Residual terms</u>		
		<u>up to 1 year</u> <i>In thousand euros</i>	<u>1 to 5 years</u> <i>In thousand euros</i>	<u>more than 5 years</u> <i>In thousand euros</i>
Bonds	<u>40,383</u> <u>(0)</u>	<u>383</u> <u>(0)</u>	<u>40,000</u> <u>(0)</u>	
Liabilities to banks	46,215 (10,105)	16,641 (105)	29,574 (10,000)	0 (0)
Trade payables	6,765 (5,483)	6,765 (5,483)	0 (0)	0 (0)
Liabilities to player transfers	3,633 (10,045)	3,633 (6,531)	0 (3,514)	0 (0)
Liabilities to companies in which investments are held	0 (95)	0 (95)	0 (0)	0 (0)
Other liabilities	25,446 (52,875)	13,679 (17,333)	11,767 (6,516)	0 (29,026)
Total	<u>122,442</u> <u>(78,603)</u>	<u>41,101</u> <u>(29,547)</u>	<u>81,341</u> <u>(20,030)</u>	<u>0</u> <u>(29,026)</u>

Other liabilities comprised, amongst others, prepayments for marketing brand rights of € 11,001 thousand (prior year: € 0), tax liabilities of € 5,738 thousand (prior year: € 10,064 thousand), personal loan liabilities of € 2,500 thousand (prior year: € 2,500 thousand), personnel expenses of € 3,183 thousand (prior year: € 3,588 thousand) and liabilities for digital financing of € 2,559 thousand (prior year: € 2,516 thousand). Prior year liabilities for license fee advanced payments amounting to € 32,171 thousand were settled through the redemption of shares and financing instruments in the course of the financial year.

Liabilities to banks are collateralised by assigning claims from central marketing, of receivables and a directly enforceable maximum guarantee as security.

The prepayments for marketing brand rights shown in other liabilities were collateralised by claims from hospitality agreements as security. Personal loans shown in other liabilities were collateralised by assigning claims from public catering as security.

8. Deferred income

This item essentially included advance payments made by Nike European Operations Netherlands B.V. on the extension of the equipment agreement and payments emanating from the signing fee of our marketing partner, Lagardère Sports Germany GmbH, in conjunction with modifying and extending the joint cooperation agreement, season and day tickets sold for the next season and advance payments for advertising agreements and factoring payments for agreements for the next season.

9. Other financial obligations

The breakdown of other financial obligations for rental contracts and leases is as follows:

<u>Description</u>	<u>Due < 1 year</u>	<u>Due 1-5 years</u>	<u>Due > 5 years</u>	<u>Total</u>
	<i>In thousand euros</i>	<i>In thousand euros</i>	<i>In thousand euros</i>	<i>In thousand euros</i>
Rental contracts (estimated)	7,098	27,489	12,140	46,727
Leasing agreements	<u>259</u>	<u>0</u>	<u>0</u>	<u>259</u>
	<u>7,357</u>	<u>27,489</u>	<u>12,140</u>	<u>46,986</u>

The terms and conditions of some of the existing contracts include variable payments so that the figures for the rental contracts are based on estimated amounts for the 2018/2019 financial year.

Income statement

The income statement was prepared by using the total cost method.

1. Revenue

	<u>1/7/2018 – 31/12/2018</u>		<u>2017/2018</u>	
	<i>In thousand euros</i>	<i>%</i>	<i>In thousand euros</i>	<i>%</i>
Game revenue/ticketing	6,256	11.2	17,752	13.6
Television subsidies	33,002	59.0	59,334	45.5
Advertising	12,605	22.6	27,043	20.7
Trade	2,770	4.9	5,058	3.9
Transfer revenue	145	0.3	19,128	14.7
Miscellaneous	<u>1,130</u>	<u>2.0</u>	<u>2,071</u>	<u>1.6</u>
Total	<u>55,908</u>	<u>100.0</u>	<u>130,386</u>	<u>100.0</u>

2. Depreciation and amortisation

Amortisation and depreciation are shown in the consolidated fixed asset schedule in Appendix 1.3.1.

3. Other operating expenses

	<u>1/7/2018 – 31/12/2018</u>	<u>2017/2018</u>
	<i><u>In thousand euros</u></i>	<i><u>In thousand euros</u></i>
Game operating expenses	10,292	23,328
TV/Advertising	5,528	20,699
Transfers	3,262	6,307
Trade	260	530
Administration	16,084	5,186
Amateur and youth football	<u>460</u>	<u>992</u>
	<u>35,886</u>	<u>57,042</u>

In the reporting year administration expenses amounting to € 13,807 thousand for terminating the agreement with the investor KKR and a bond issuance were shown in the item administration.

VI. Other disclosures

1. Executive bodies

In the year under review, the following persons were members of the Supervisory Board of Hertha BSC GmbH & Co. KGaA:

- Dr. Karl Kauermann, Chair of the Management Board, K.M.T. Potsdamer Treuhand AG, Berlin (Chair of the Supervisory Board)
- Mr. Walter Schubert, retired Sparkassendirektor (bank director) (Deputy Chair of the Supervisory Board)
- Dr. Christian Göke, Managing Director of Messe Berlin GmbH, CEO, Berlin
- Mr. Nicolas Heyer, lawyer, Berlin
- Mr. Harald J. Joos, entrepreneur, Berlin
- Mr. Christian Ollig, Director Kohlberg Kravis Roberts & Co. Partners LLP, London, Great Britain
- Mr. Horst Julius Pudwill, Chairman of Techtronic Industries Co. Ltd. (TTI), Hong Kong, People's Republic of China
- Ms. Vera Gäde-Butzlaff, Chair of the Supervisory Board of Vivantes Netzwerk für Gesundheit GmbH, Berlin
- Mr. Markus Hunold, Director of Kohlberg Kravis Roberts & Partners LLP, London, Great Britain

None of the Supervisory Board members received any remuneration for their services in the reporting year.

Hertha BSC GmbH & Co. KGaA is managed by the general partner, Hertha BSC Verwaltung GmbH, Berlin (share capital: € 25,000.00).

In the period under review Mr. Michael Preetz and Mr. Ingo Schiller were the Managing Directors of Hertha BSC Verwaltung GmbH. No managing director remuneration disclosures were made in accordance with § 286 (4) HGB.

2. Employees (headcount)

The breakdown of the number of employees (without the Managing Directors) was as follows:

	<u>1/7/2018 to 31/12/2018</u>	<u>2017/2018</u>
Licenced football players	31	28
Functional team of the licensed football players	12	12
Administrative staff	91	83
Temporary employees and trainees	61	60
Amateur Department and Primary Youth Team	68	70
Interns	11	14
Trainees	<u>2</u>	<u>0</u>
	<u>276</u>	<u>268</u>

In addition, a substantial number of short-term staff (security force and cashiers) is employed.

3. Related parties

The football club Hertha, Berliner Sport-Club (Hertha B.S.C.) e.V., holds 100.00% of the shares in Hertha BSC GmbH & Co. KGaA and 100 % of the shares in Hertha BSC Verwaltung GmbH.

4. Auditor fees

Included in other operating expenses are the following fees for the services of the auditor, Mazars GmbH & Co. KG:

	<i>In thousand euros</i>
Financial statement audit	53
Other attestation services	0
Tax advisory services	18
Other services	4
Total	75

5. Supplementary report

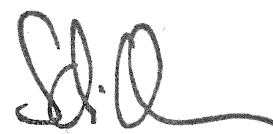
In transfer period II in January 2019, the player, Sinan Kurt, was released from his contract on a free transfer to WSG Wattens. Moreover, the following players were loaned to the following football clubs: Alexander Esswein to VfB Stuttgart until 30 June 2019, Sidney Friede to Royal Excel Mouscron and Muhammed Kiprit to FC Wacker Innsbruck.

Berlin, 28 February 2019

Hertha BSC GmbH & Co. Kommanditgesellschaft auf Aktien (KGaA),
represented by the General Partner of
Hertha BSC Verwaltung GmbH



Michael Preetz
- Managing Director -



Ingo Schiller
- Managing Director -

Hertha BSC GmbH & Co. Kommanditgesellschaft auf Aktien (KGaA), Berlin

Fixed Asset Schedule as at 31 December 2018
(Consolidated Fixed Asset Schedule)

	Acquisition and production costs				Accumulated depreciation and amortisation				Carrying amounts	
	1/7/2018	Additions	Reclassifications	Disposals	1/7/2018	Additions	Disposals	31/12/2018	31/12/2018	30/6/2018
	€	€	€	€	€	€	€	€	€	€
I. Intangible assets										
1. Concessions purchased, trade and similar rights and assets and licences in such rights and assets	1.839.862,91		0,00	0,00	1.234.806,91	55.446,00	0,00	1.290.252,91	549.610,00	605.056,00
2. Player market values	42.036.000,00	4.100.000,00	0,00	0,00	17.155.017,00	4.494.612,00	0,00	21.649.629,00	24.486.371,00	24.880.983,00
	43.875.862,91	4.100.000,00	0,00	0,00	18.389.823,91	4.550.058,00	0,00	22.939.881,91	25.035.981,00	25.486.039,00
II. Tangible assets										
1. Buildings on third-party land	6.107.206,61	0,00	0,00	-460.000,00	3.471.179,61	138.465,00	-35.540,00	3.574.104,61	2.073.102,00	2.636.027,00
2. Operating and office equipment	3.348.330,63	238.401,36	0,00	0,00	2.340.202,63	167.126,77	0,00	2.507.329,40	1.079.402,59	1.008.128,00
3. Prepayments and assets under construction	950.522,34	0,00	0,00	-950.522,34	0,00	0,00	0,00	0,00	0,00	950.522,34
	10.406.059,58	238.401,36	0,00	-1.410.522,34	5.811.382,24	305.591,77	-35.540,00	6.081.434,01	3.152.504,59	4.594.677,34
III. Financial assets										
Cooperative shares	104,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	104,00	104,00
	54.282.026,49	4.338.401,36	0,00	-1.410.522,34	24.201.206,15	4.855.649,77	-35.540,00	29.021.315,92	28.188.589,59	30.080.820,34

Hertha BSC GmbH & Co. Kommanditgesellschaft auf Aktien (KGaA), Berlin
Consolidated Statement of Cash Flows in Accordance with
German Accounting Standard 21 (DRS 21)
for the period from 1 July 2018 to 31 December 2018

	<u>01/07/2018 to 31/12/2018</u>	<u>2017/2018</u>
	<i>in thousand €</i>	<i>in thousand €</i>
Consolidated net loss for the period	-19.044	-3.357
+ Amortisation of intangible assets and depreciation of tangible assets	4.856	9.426
+/- Decrease in provisions not attributable to investing activities	-1.849	-79
+/- Other non-cash expenses/income	0	2
-/+ Decrease in inventories, trade receivables and other assets not attributable to investing or financing activities	-6.507	-1.761
-/+ Decrease in trade payables and other liabilities not attributable to investing or financing activities	-3.492	-4.171
- Proceeds from the outflows of player market values and fixed assets	0	-18.617
+/- Interest expenses/income	3.020	6.938
+/- Income tax payables/tax refunds	0	0
= Cash flows from operating activities	-23.016	-11.619
+ Proceeds from player transfers	782	26.849
- Outflows for player transfers	-10.512	-15.729
- Outflows for investments in miscellaneous fixed assets	-238	-1.888
+ Interest income	0	9
= Cash flows from investing activities	-9.968	9.241
+ Inflows from capital increase	0	1.247
+ Outflows for capital decrease	-27.800	0
+ Proceeds from factoring	17.500	14.300
- Outflows for factoring	-8.500	-5.565
+ Inflows from granting loans and borrowings	86.868	3.000
- Outflows for the repayment of loans and borrowings	-31.900	-3.000
- Interest paid	-2.127	-6.690
= Cash flows from financing activities	34.041	3.292
+ Change in cash and cash equivalents	1.057	914
+ Cash and cash equivalents at the beginning of the period	2.267	1.353
= Cash and cash equivalents at the end of the period	3.324	2.267

Hertha BSC GmbH & Co. Kommanditgesellschaft auf Aktien (KGaA)

Group Management Report for the Period

from 1 July 2018 to 31 December 2018

Contents of the group management report

- A) Group structure and business activities
- B) Business and framework conditions
- C) Presentation of the economic development
- D) Opportunities and risks of future development
- E) Changes in licenced football player team in Winter 2018/2019
- F) Outlook

A) Group structure and business activities

The parent company of the Group is Hertha BSC GmbH & Co. Kommanditgesellschaft auf Aktien KGaA. Included in the interim consolidated financial statements as at 31 December 2018 are not only the parent company but also the subsidiaries, Hertha BSC Rechte GmbH & Co. KG, Hertha BSC Transfer GmbH & Co. KG, Hertha BSC Lizenz GmbH as well as Hertha BSC Infrastruktur GmbH, Hertha BSC Stadion GmbH and Hertha BSC Medien GmbH.

The business purpose of Hertha BSC GmbH & Co. Kommanditgesellschaft auf Aktien KGaA is to engage in the sport of professional football by observing and complying with the Statutes of the German Football Association (Statuten des Deutschen Fußballbundes) and its classifications as well as participating in the licenced operation of the federal football leagues.

Hertha BSC Rechte GmbH & Co. KG uses rights of any kind, especially in conjunction with licenced football.

The business purpose of Hertha BSC Lizenz GmbH and Hertha BSC Transfer GmbH & Co. KG is to acquire, hold and administer licences or participation rights to transfer revenues for professional football players.

The business purpose of Hertha BSC Infrastruktur GmbH comprises obtaining loans and transferring loan proceeds to Hertha BSC GmbH & Co. KGaA or to Hertha, Berliner Sport-Club (Hertha B.S.C.) e.V. or to their affiliated companies.

The business purpose of Hertha BSC Stadion GmbH is to plan, to construct, to operate and to maintain sports facilities.

The business purposes of Hertha BSC Medien GmbH are

- (i) to organise, market and transmit television programmes via all types of broadcasting media, in particular in conjunction with television financed by subscriber fees;
- (ii) to produce, acquire, sell, market and broadcast television, cinema, radio and media productions of all types as well as other intangible rights;
- (iii) to render, procure and market services in the area of communication and electronic media including making available and marketing of connections and broadcasting services;
- (iv) to be active in merchandising, event and multimedia business areas.

B) Business and framework conditions

1. Development of licenced football

The “Economic Report 2019” („Wirtschaftsreport 2019“) for the 2017/2018 playing season published by the German Football League (DFL Deutsche Fußball Liga) once again reports a positive trend in the development of licenced football.

“German licenced football experienced an economically very successful year for the 2017/2018 playing season and thereby continues the positive trend of the last few years. It is actually the second time that total revenue of the two professional football leagues exceeded € 4 billion (2016/17: € 4.1 billion). The record amount of exactly € 4.42 billion was based on an increase of € 412 million or 10.3% in comparison to the first half of the prior year.

This remarkable revenue increase predominantly generated from the marketing of national media rights. The new contracts with four-year terms including the 2020/21 playing season, have displayed their economic impact here for the first time. But also the other revenue pillars such as game day, advertising and transfer revenues have continued at a very high level. Alone in the last five years revenue rose by a good 70% – in 2012/13 they ran to € 2.59 billion. This continuous growth that established a broad foundation on which professional football can continue to develop itself further.”

In the 2017/2018 playing season revenue of the Hertha BSC Group amounted to € 134.8 million, of which € 19.1 million were from player transfers. Revenue from games, advertising and the marketing of media rights amounted to around 77% of total revenue. Hertha BSC has budgeted a total revenue of € 118.4 million for the current 2018/2019 playing season.

2. Overview of the course of business in the first half year of the 2018/19 playing season

The Hertha BSC Group recognised a loss of € 16,019 thousand before interest and taxes in the first half year (first half of prior year: profit € 25,524 thousand). This result was greatly affected by having to redeem the shareholding of the former investor, Kohlberg Kravis Roberts & Co. (KKR), by replacing the financing instruments this former investor had provided as well as by issuing an institutional bond.

On 15 and 19 November 2018 the shares in Hertha BSC GmbH & Co. KGaA and the financing instruments were redeemed ahead of schedule from the long-term investor, Kohlberg Kravis Roberts & Co. (KKR). By having terminated this contractual relationship,

Hertha BSC e.V. once again holds 100% of the shares of its subsidiary, Hertha BSC GmbH & Co. KGaA.

The termination of the contractual relationship was financed amongst others by issuing an unsecured institutional bond in the Nordic Bond Format in the amount of € 40.0 million. This bond was issued on 8 November 2018 and has a term of five years with a possibility of a unilateral premature termination after 2.5 years. This bond is listed on the Nasdaq First North and on the Frankfurter Stock Exchange

Although the internal budget for the second half of the 2018/19 playing season estimated earnings of € 15,259 thousand, the Hertha BSC Group will probably recognise a net loss for the year of € 760 thousand before interest and taxes. Further information on results on operations can be found in Section C.

The uncommitted television and advertising rights thereby continue to be marketed by Lagardère Sports Germany GmbH (formerly: SPORTFIVE GmbH & Co. KG, Hamburg).

The detailed disclosures on the results of operations, financial position and net assets are shown in the appendices to the notes to the consolidated financial statements.

3. Overview of the development of the sport in the first half year of the 2018/19 playing season

For the new 2018/2019 playing season, the parent company, Hertha BSC GmbH & Co KGaA, obligated the licenced players, Javairo Dilrosun, Lukas Klünter and Pascal Köpke, under contract.

Moreover, contracts were concluded for the players, Marko Grujic and Derrick Luckassen, for them to be on loan until 30 June 2019. Furthermore, the young talent players, Maurice Covic, Dennis Jastrzembki, Muhammed Kiprit, Maximilian Pronichev and Dennis Smarsch received licenced player contracts.

Conversely, the players, Maximilian Pronichev and Nils Körber, were given on loan until 30 June 2019.

The licenced player team, including the players on contract, now encompasses 34 players. The average age is 23.9 years.

At the end of the first half of the season, Hertha BSC GmbH & Co. KGaA, with 24 points, ranked 8th on the German Federal League Chart.

C) **Presentation of the economic development**

1. Results of operations

The Hertha BSC Group concluded the first half of the 2018/2019 playing season with a net loss for the year amounting to € 19,044 thousand after interest and taxes (first half of prior year: net loss for the year of € 3,357 thousand).

Revenue for the first half of the financial year for the ongoing season amounted to € 55,908 thousand (first half of prior year: € 60,425 thousand). In the 2017/2018 playing season Hertha BSC took part in the group phase of the UEFA Europa League, which essentially explains the significant difference in revenue when comparing the ongoing playing season with the first half of the prior year.

Budget targets were achieved in the material revenue areas, whereby positive and negative deviations offset each other for the most part.

The actual value for personnel expenses is lower than budget because of players having long-term injuries and their associated salaries being discontinued during the budget period.

In addition to sales revenue, an additional € 566 thousand in other operating income was generated.

In the item administration expenses, € 13,807 thousand was for expenses associated with terminating the contract relationship with KKR – this concerned reversals of prepaid expenses and deferred income through profit or loss – as well as the transaction costs in conjunction with issuing a bond.

The other revenue and expense items had no noteworthy extraordinary items, and for the most part reflected budget characterising normal business operations.

2. Financial position

Liquidity remained on the budget course. The redemption payment in the amount of € 71.2 million to KKR was compensated for by issuing a bond in the amount of € 40.0 million, payments on account from sponsoring and hospitality revenue amounting to € 20.0 million, a bank loan of € 10.0 million as well as funds from cash flows from operating activities. In addition, the unplanned positive and negative effects have generally offset each other.

3. Net assets

Material fixed-asset items are the player market values amounting to € 24,486 thousand (30 June 2018: € 24,881 thousand) accounted for under fixed assets. Yet the actual transfer or market values of players as assets (please refer to the independent valuation conducted by “transfermarkt.de” as at 28 February 2019: market value of € 165.2 million) was assessed at far more than the value accounted under the item player market values (hidden reserves). Further hidden reserves exist in other intangible assets.

Receivables and other assets amounted to € 9,917 thousand (30 June 2018: € 7,402 thousand).

By redeeming the shares from KKR, the capital reserve sank to € 0.00 (30 June 2018: € 26,748 thousand) and share capital dropped to € 2,600 thousand (30 June 2018: € 2,981 thousand). In addition, the net loss for the first half of the year of € 19,044 thousand had a negative impact on equity. The Hertha BSC Group disclosed a deficit not covered by equity of € 109,828 thousand (30 June 2018: € 62,985 thousand). The deficit not covered by equity was counteracted by the positive forecast of continuing as a going concern in the liquidity budget and by the hidden reserves in player market values.

Liabilities – particularly influenced by the issuance of a bond in the amount of € 40.0 million – amounted to € 122,442 thousand (30 June 2018: € 78,603 thousand) and are presented in a breakdown in the notes to the interim consolidated financial statements.

D) Opportunities and risks of future development

Just as the other participants in the Bundesliga, the Hertha BSC Group is subject to legal and economic risks, which could affect the future development of the Company. General risks to be mentioned in this connection are in particular:

- The business targets set for income depend on the successes in the sport of football that ultimately cannot be planned or budgeted. This also applies to the market development of revenue generated by the marketing activities of the German National Football League (Bundesliga).
- The future development of the transfer market for buying and selling football players, including the future salary development of licenced football players cannot be precisely estimated at this time.

Since there is a strong correlation between economic success in the income area (income from games, sponsor payments based on performance, allocation of income from TV advertising) and the developments in the sport of football, economic success can only be planned to a limited extent. As of the 2017/2018 playing season, a marketing contract has been concluded for TV marketing for four playing seasons so that fixed income from this source can be counted on for the Bundesliga. Income generated by TV marketing of the Bundesliga is thus contractually stipulated until 2021. Again this can also only be planned to a limited extent because both depend on the popularity of football as a sport and the development of the TV licence market. In the end Hertha BSC cannot influence the industry risks to which the professional football is subject.

Just as in the prior season, the Hertha Group was able to generate revenue from transfer activities. However, we will continue to attempt to hire new players without having to pay any transfer fees. Conversely, Hertha BSC can only limitedly plan on revenue from transfer fees. Especially for above-average players, high transfer fees continue to be charged. Our existing reservoir of above-average players such as Davie Selke, Valentino Lazaro, Ondrej Duda, Niklas Stark, Arne Maier could, if applicable, generate high transfer fee revenues. There are opportunities for the Hertha BSC Group to improve its marketing activities and sports situation as well as in generating transfer revenue.

Because of the high number of above-average, talented players on the youth team [presently 32 national players from the U15 (under 15 year-olds) and from the U21 as well as another 15 young players having been invited to attend football training camps organised by the DFB (German Football Federation)], Hertha BSC continues to assume that the expense of integrating external licensed players will be considerably lower than for other Bundesliga clubs. Owing to having already been successful at integrating our own young players, expenses for training and transfer fees can be kept low in this area. Moreover, additional

income can be achieved through the sale of young players (and licensed players). This business avenue is being systematically tracked by the management of Hertha BSC GmbH & Co. KGaA.

E) Changes in the licenced football player team in Winter 2018/2019

During transfer period II in January 2019 the following players were loaned out: Alexander Esswein (to VfB Stuttgart with compensation payment), Sidney Friede (to Royal Excel Mouscron), Muhammed Kiprit (to FC Wacker Innsbruck) and Maximilian Pronichev (to Hallescher FC). The player Sinan Kurt went to WSG Wattens on a free transfer.

F) Outlook

After the 23rd game day the licenced team of Hertha BSC ranked 10th in the upper one-third of the Bundesliga chart. The budget up to now for the 2018/2019 financial year has been updated. By not taking the special effects of terminating the contractual relationship with KKR in the first half year into consideration, the present budget foresees earnings running at € 6,728 thousand.

The results for 2019/2020 *et seqq.* have been conservatively planned by the management of Hertha BSC GmbH & Co. KGaA; distinctly higher earnings could be achieved through success in the sport of football or receiving more income. Conversely, the lack of success in the sport of football could also lead to lower than budget earnings.

The following points are significant for the further development:

Through the existing cooperation contract with our long-term business partner, Lagardère Sports Germany GmbH, we have a secure contract situation with a competent partner in the sponsoring area.

With our main sponsors, TEDI, the sports equipment manufacturer NIKE and our new sleeve partner since this playing season, Hyundai, Hertha BSC is confident to be supported by three strong partners.

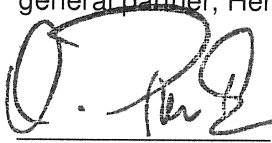
In addition, there are other contractual relationships with co-sponsors – the so-called exclusive partners – AOK (health insurance), Berliner Kindl (beer brewer), Berliner Volksbank, Coca-Cola, Deutsche Bahn (German railway), MoPlay, Orafol, Topradio 94,3 RS2 (radio station), Ryobi and yabo sports.

Not only due to the momentarily positive sports situation, management assumes that the development of Hertha BSC will continue to be successful in the sport and in business because of existing opportunities and of the above-average good infrastructure of the Hertha BSC Group (in particular sports facilities and working with young football talents).

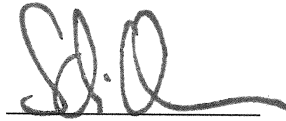
The developments of the last five playing seasons have shown to a great extent that there is a great dependency on having success in the sport of football. We have, however, laid a good foundation for a positive steering of the Group in the past. Our maintaining our course along the lines of the business framework we have set up will result in a positive development of the Group. In Section D. we have already pointed out that planning depends on success in football.

Berlin, 28 February 2019

Hertha BSC GmbH & Co. Kommanditgesellschaft auf Aktien (KGaA), represented by the
general partner, Hertha BSC Verwaltung GmbH

A handwritten signature in black ink, appearing to read 'M. Preetz', written over a horizontal line.

Michael Preetz
- Managing Director -

A handwritten signature in black ink, appearing to read 'I. Schiller', written over a horizontal line.

Ingo Schiller
- Managing Director -