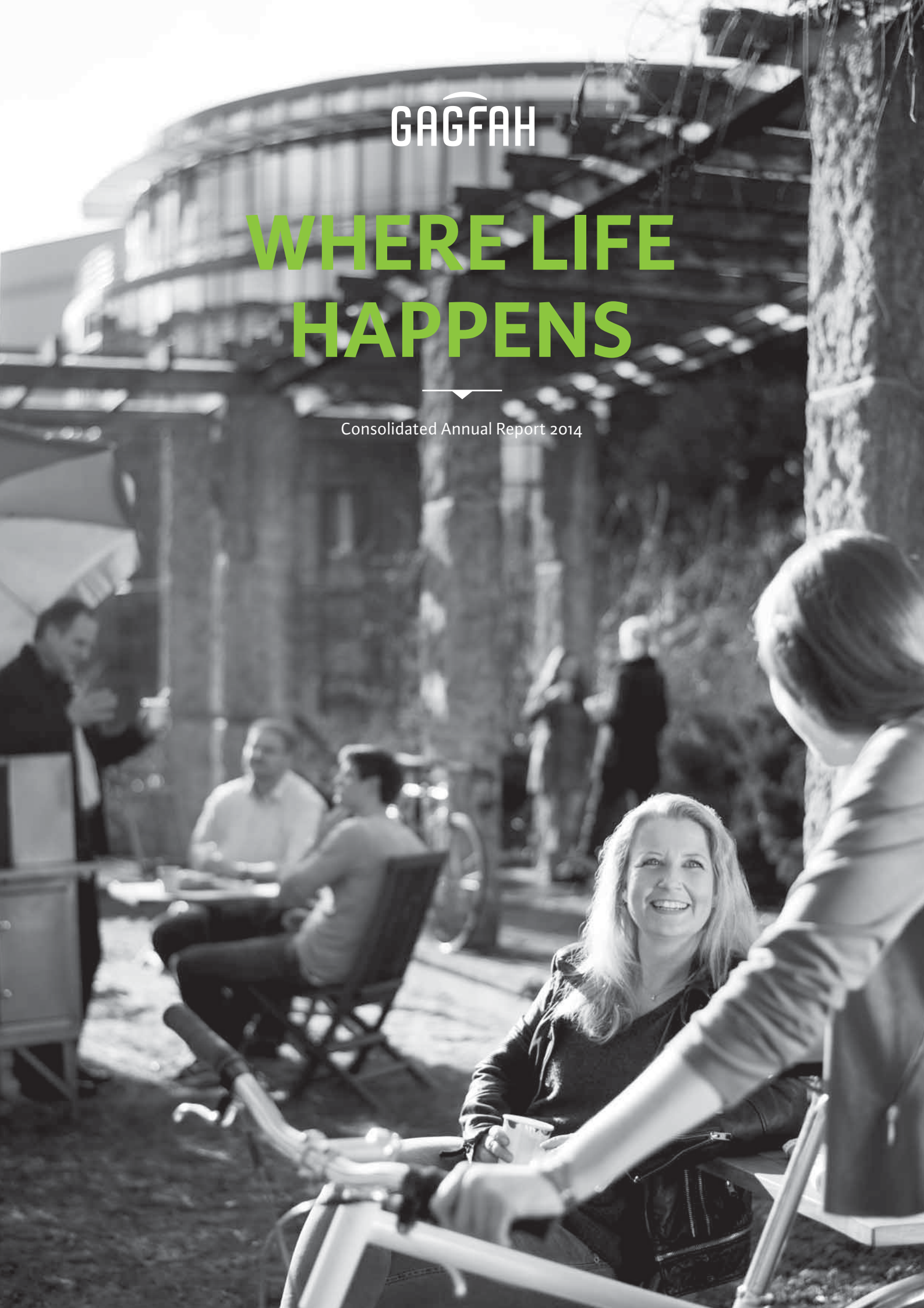
GAGFAH

WHERE LIFE HAPPENS

Consolidated Annual Report 2014

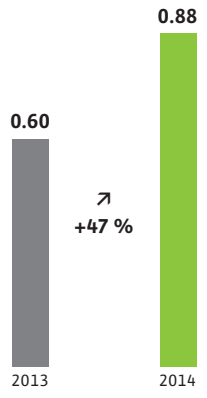


Key Figures GAGFAH S. A.

		Dec. 31, 2013	Dec. 31, 2014
Portfolio			
Residential units		143,196	144,452
Residential square meters	thousand	8,698.90	8,760.50
Average net cold rent	€/sqm/month	5.21	5.35
Vacancy rate	%	4.1	3.4
Repairs & maintenance + Capex	€/sqm	13.84	17.59
Earnings		**2013**	**2014**
Gross rental income	€ million	555.7	562.0
Net operating income (NOI)	€ million	372.6	390.7
EBIT	€ million	335.1	471.5
Adj. EBITDA	€ million	335.3	349.7
Adj. EBITDA	€/share	1.64	1.62
Recurring FFO	€ million	123.7	189.9
Recurring FFO	€/share	0.60	0.88
FFO incl. sales	€ million	170.2	250.2
FFO incl. sales	€/share	0.83	1.16
CAD 1	€ million	93.9	100.7
CAD 1	€/share	0.46	0.47
Weighted average number of shares (in million, undiluted, excluding treasury shares)	million	204.8	215.4
Other		**Dec. 31, 2013**	**Dec. 31, 2014**
EPRA NAV	€/share	13.07	14.39
LTV	%	61.9	59.6

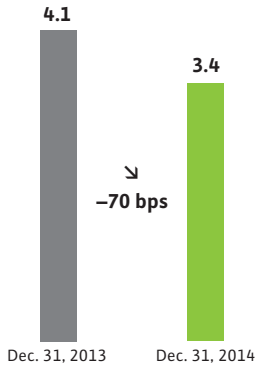
Recurring FFO

€/share



Vacancy Rate

in %



OUR MISSION

GAGFAH S. A. is a joint stock corporation organized under the laws of the Grand Duchy of Luxembourg qualifying as a securitization company under the Luxembourg Securitization Law of March 22, 2004. The core business of GAGFAH S. A.'s operating subsidiaries is the acquisition, ownership and management of a residential property portfolio located in Germany.

GAGFAH is a leading owner and operator of residential real estate in Germany. Our portfolio includes more than 144,000 own residential units that are mostly located in the large German cities and their respective commuter belts. We believe that our size, our significant presence in the key residential markets and our scalable operating platform make us one of the leading providers of affordable housing for low- to medium- income households in Germany. Our operating subsidiaries are full-scale service providers for a broad range of property and facility management services.

Our objective is to generate shareholder value through sustainable and growing cash flows, efficiently managing our portfolio, carrying out value-enhancing property investments, pursuing accretive growth opportunities, and realizing value through selected asset sales.

CONTENT

Our employees are the soul and face of the Company.

That is why the photographs on the following pages show GAGFAH employees and their relatives on, in or close to our properties.

CONSOLIDATED FINANCIAL STATEMENTS

NOTES

OTHER

LETTER TO SHAREHOLDERS

Dear Shareholders,

2014 was yet another exciting year for GAGFAH and a quantum leap forward to the benefit of our shareholders. Our operating performance was substantially stronger than in prior years as a result of the changes we have implemented. We have continued to intensify the dialogue with our stakeholders and greatly enhanced the perception of GAGFAH. Including the turnaround period that began in the spring of 2013, we have managed to double the market capitalization of the Company to more than € 4 billion.

Early in the year, the Board of Directors appointed Gerhard Zeiler as the new Independent Chairman. Shortly afterwards, and continuing the development that had started in mid 2013, Fortress Investment Group made another secondary offering, reducing their stake in GAGFAH to about 28 % and thus substantially increasing the Company's independence. In June, Fortress sold the remainder of their shares, increasing the free float of the Company to basically 100 %.

In May, GAGFAH issued € 375 million of convertible bonds, which at the time was the largest issuance of that kind by a German real estate company since the financial crisis. The convertible bonds helped us to further improve our debt profile and diversify our funding sources. Backed by a substantially improved operating performance, GAGFAH published a three-year outlook until 2017 together with its half-year results in August. The outlook was very well received by the capital markets and helped to further strengthen GAGFAH's profile as a reliable and transparent market participant.

During the fourth quarter, GAGFAH returned to the external growth track by acquiring three portfolios with a combined volume of about 6,300 units that are largely located in the Company's core regions. The transactions marked the first acquisitions since 2008 and underpinned GAGFAH's successful turnaround in 2013 and the significant progress throughout 2014. On the sales front, we continued to execute on our condo and non-core sales channels and sold a total of 6,642 units in the course of 2014 (signed and closed transactions).

On the back of these developments and alongside our continuously improving operational performance with significantly lower vacancies and above-market rent growth we saw a strong share performance. This was further supported by the favorable macro-economic conditions and low interest environment. By the end of November, GAGFAH shares had risen by 45 % since the end of 2013. Including the share price growth between the announcement of Deutsche Annington's voluntary public takeover offer to the shareholders of GAGFAH on December 1 and the end of 2014, GAGFAH's shares increased by a total of 73 % in the course of 2014. The implied price per GAGFAH share on the basis of the last prices before the announcement was €18.00. This is 16 % above the last price on November 28 and 29 % above the NAV at that time.

While GAGFAH had been making tremendous progress on a stand-alone basis and remains confident that it would have achieved an NAV to allow a share price of around €18.00 on its own, the offer by Deutsche Annington to shareholders of GAGFAH accelerates that process and allows our shareholders to reap the benefits earlier than if GAGFAH were to continue on its own. The complimentary cross-regional portfolio structure, the full-scale service mentality for the business, the view towards external growth and the value accretion through portfolio investments are all strategies that are shared by both GAGFAH and Deutsche Annington, underpinning the strategic fit of the two companies. Economies of scale, especially in purchasing material and services, and potential access to the unsecured bond market for GAGFAH's debt using Deutsche Annington's investment grade rating further demonstrate the advantages of the transaction. The combined company is set to become the second largest real estate company in Europe and by far the largest player in Germany. The goal is to join forces in creating the German-wide residential company of European scale.

German residential real estate has experienced a tremendous level of interest especially from international investors who are seeking attractive risk-adjusted returns in a low-interest rate environment. We expect this demand to continue for the foreseeable future and are confident that the predictability and stability of the business will be perceived as attractive by a large number of investors going forward as well. The business combination with Deutsche Annington is expected to lead to stronger interest from investors than would be the case for each entity on a stand-alone basis.

Unsurprisingly, the integration of Deutsche Annington and GAGFAH is expected to be a major area of focus in 2015. While this project will require a significant amount of work and management attention, we are confident that this will not come at the expense of the operating business. Our guideline for the integration project will be to establish the best of both worlds and creating a new company that shall become the hallmark of residential real estate in Europe. We have set ambitious goals for 2015 and are determined to continue our track record of delivering on our promises.

While 2015 will bring new challenges we draw confidence from the fact that in its more than 90 year long history, GAGFAH has always managed to successfully adapt to new situations. During the turnaround in 2013 and the strong performance in 2014, our employees have proven more than ever that they are willing and able to adapt and that they know how to move the Company forward to the benefit of our shareholders.

The management of GAGFAH would like to thank you as our shareholders for your continued support and we would like to especially express our gratitude towards our employees who made 2014 a very special year and who will contribute to a successful development in the future as well.

Yours faithfully,

THOMAS ZINNÖCKER
DIRECTOR AND CEO OF
THE SENIOR MANAGEMENT

GERALD KLINK
CFO OF THE SENIOR
MANAGEMENT

NICOLAI KUSS
COO OF THE SENIOR
MANAGEMENT

REPORT BY THE CHAIRMAN OF THE BOARD OF DIRECTORS

Dear Shareholders and Friends of the Company

While 2013 was the turnaround year for GAGFAH and established the basis on which the Company started reaping the fruits of its labor, 2014 was no less eventful. I had the privilege of joining the Board of Directors of GAGFAH S. A. in March and of supporting the Company in its successful development in 2014. All in all, the Board of Directors held 17 meetings with an additional 8 meetings of the various committees. In these meetings, my colleagues on the Board and I primarily discussed the strategic options and best alternatives for moving the Company forward, including the proactive analysis of the competitive landscape of the German listed and unlisted residential real estate market.

Towards the end of the year then, at a time when our thoughts had been on completing one of the if not the most successful year in the Company's history, we were informed by Deutsche Annington about their intention to launch a voluntary public takeover to all the shareholders of GAGFAH S. A. Of course, our internal discussions throughout the year had also included the possibility of being faced with a takeover offer; given the strong run of our share price in 2014 and all the way until the end of November, however, we had not exactly expected such an offer at that time. And while GAGFAH had put in place and communicated to the market a clear vision for the next three years which was expected to substantially drive the value of the Company on its own, we now had to make a decision on how to deal with the offer and what reaction to give to the market.

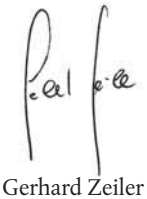
Deutsche Annington's combined cash and share offer represented a value of €18.00 per share based on the closing prices prior to the announcement of the offer. This reflects a 16 % premium on the last price on November 28, 2014 and a 29 % uplift on the NAV as of September 30, 2014. Following a thorough analysis of the offer economics, the Board of Directors deemed the consideration offered by Deutsche Annington to be adequate both in terms of its type and its amount.

After deciding on the adequateness of the offer, the Board focused its attention on negotiating a business combination agreement to safeguard the interests of GAGFAH's stakeholders. The time frame for these negotiations was rather short, but thanks to our previous internal discussions on various scenarios and options, we were able to swiftly negotiate a comparatively comprehensive business combination agreement with Deutsche Annington. We are confident that the result, together with the objectives and the intentions laid out by Deutsche Annington in their offer prospectus, provides a good framework to successfully implement the transaction and lever the full potential of a combined company. We are confident that the integration of the two entities will lead to a better future for the combined company than each of the two would have been able to achieve on its own.

2015 will certainly hold no less challenges than previous years, but these challenges will also bring opportunities, and I am confident that the new company will successfully manage to seize these opportunities to its advantage and to the advantage of its stakeholders.

I am extremely grateful to my colleagues on the Board for their vital contribution to the positive development of GAGFAH. My special gratitude goes to the operating management of GAGFAH and the organization's employees. It was their hard work and dedication that made the developments of the previous twelve months possible and I have no doubt that their energy will prove to be essential in developing the new company.

Yours faithfully,



Gerhard Zeiler
Chairman of the Board of Directors of GAGFAH S. A.

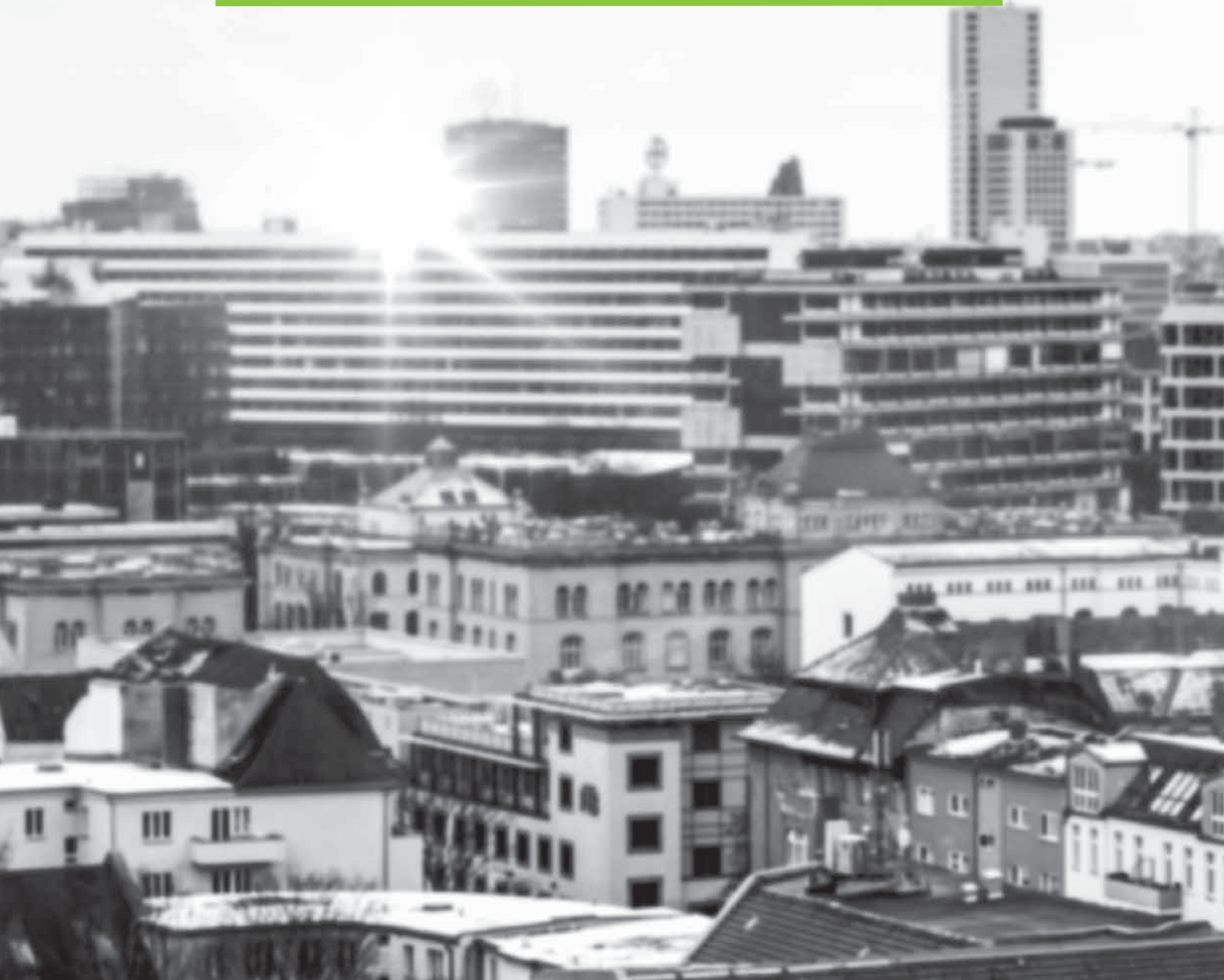

SUPREME COURT

CITY PLAYER

Given the continuous urbanization trend in Germany, we believe that the biggest potential for the residential industry lies in the cities. Germany's metropolitan and urban centers are GAGFAH's court. More than 90 % of our portfolio is located in our 30 largest cities and their respective commuter belts.

BRIGHT PERSPECTIVES

After turning around the Company and substantially improving its operating performance, we have established unparalleled visibility. GAGFAH has cleared the way for a positive outlook to the benefit of share- and stakeholders alike.



MOVING CLOSER

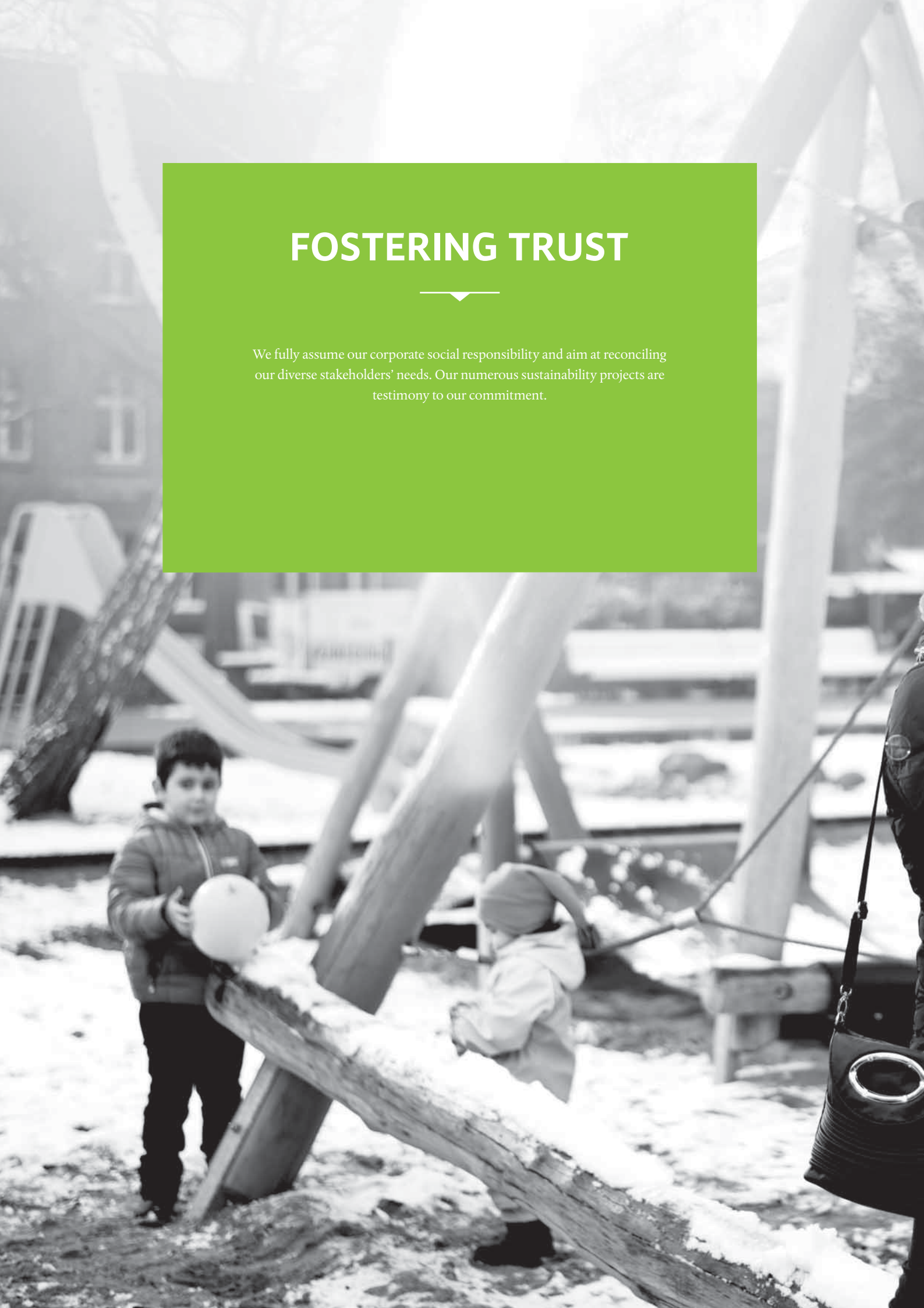
With our GAGFAH 2015 Change Program, we prove that in real estate business, standardization and customer orientation are everything but incompatible. While streamlining our operating platform, we have extended decision-making autonomy of our employees who are closest to our tenants. More than 38 local customer service teams all across Germany provide close relations and fast service.

WIN WIN WIN

We see modernization as a driver for growth, and we invested more than €60 million in 2014, with an additional €120 million earmarked for 2015 to flow into value-enhancing modernization measures. At the same time, we will keep to our commitment to offer affordable urban living space to broad sections of the population – for the mutual benefit of our tenants as well as the municipalities where our assets are located.

FOSTERING TRUST

We fully assume our corporate social responsibility and aim at reconciling our diverse stakeholders' needs. Our numerous sustainability projects are testimony to our commitment.



ONE TEAM

Our employees' dedication and perseverance have carried the Company through challenging times. Their ability to adapt to an ever-changing environment has proven invaluable in the past, and we take comfort in knowing that we can count on GAGFAH's employees going forward as well.

SHAREHOLDER INFORMATION

GAGFAH AT A GLANCE

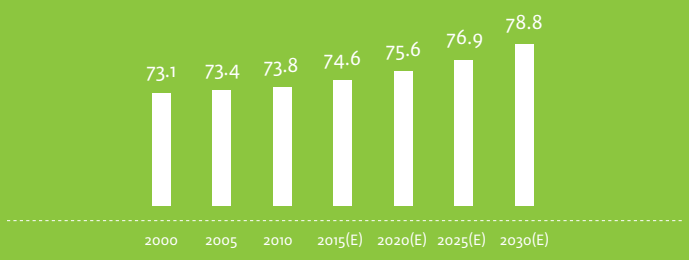
GAGFAH is a large owner and operator of residential real estate in Germany. Our portfolio includes more than 144,000 own residential units that are mostly located in large German cities and their respective commuter belts. We believe that our size, our significant presence in the key residential markets and our scalable operating platform make us one of the leading providers of affordable housing for low- to medium-income households in Germany. Our operating subsidiaries are full-scale service providers for a broad range of property and facility management services.

Our objective is to generate shareholder value through sustainable and growing cash flows, increasing net asset value by efficiently managing our portfolio, carrying out value-enhancing property investments, pursuing accretive growth opportunities, and realizing value through selected asset sales.

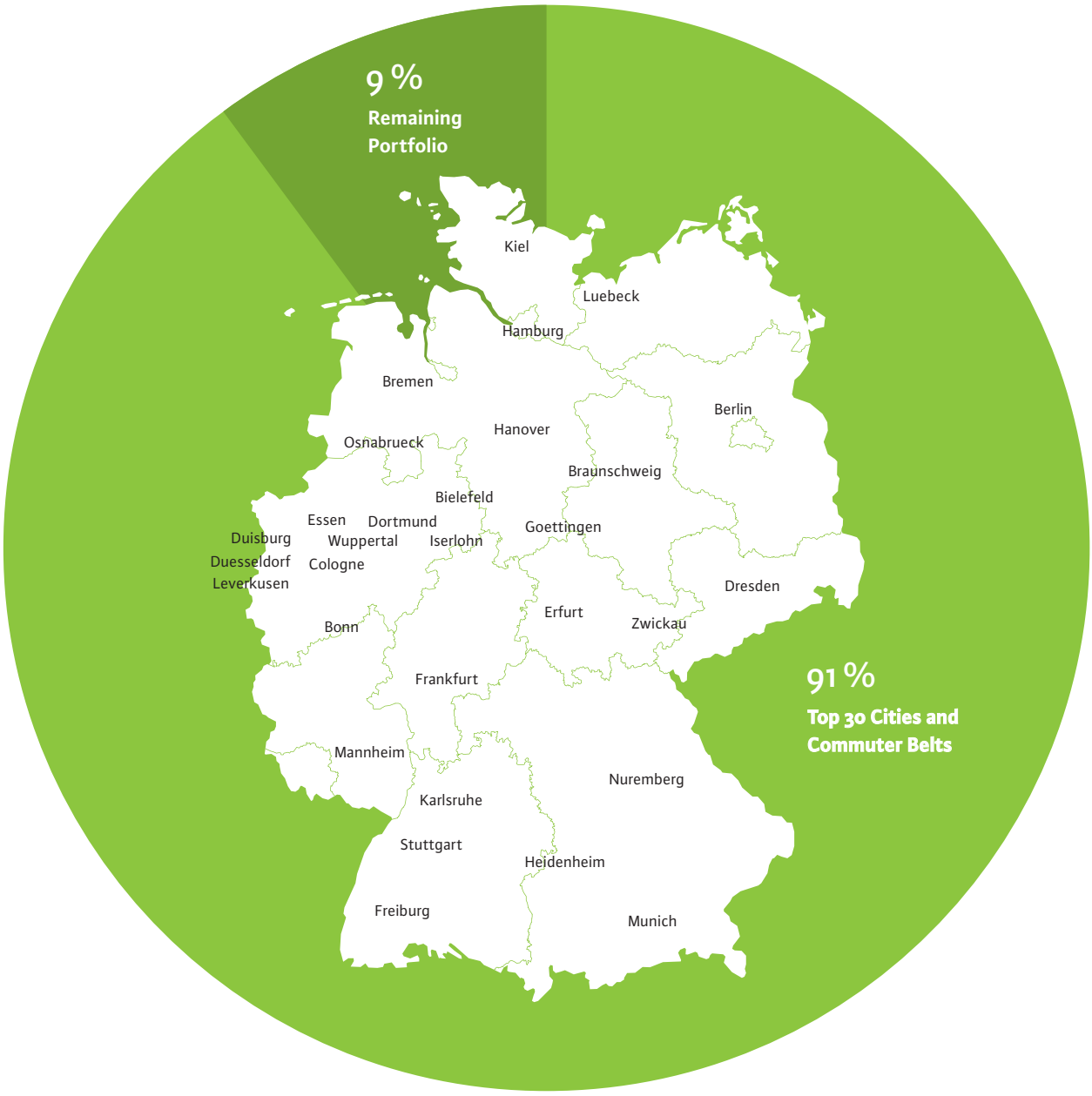
Our focus is on metropolitan areas and urban centers. More than 90 % of our portfolio is located in our 30 largest cities and their respective commuter belts. Given the continuous urbanization trend in Germany, we believe that the largest potential for the real estate industry lies in the cities.

CONTINUOUS TREND OF MIGRATION TO CITIES

% of people in Germany living in cities



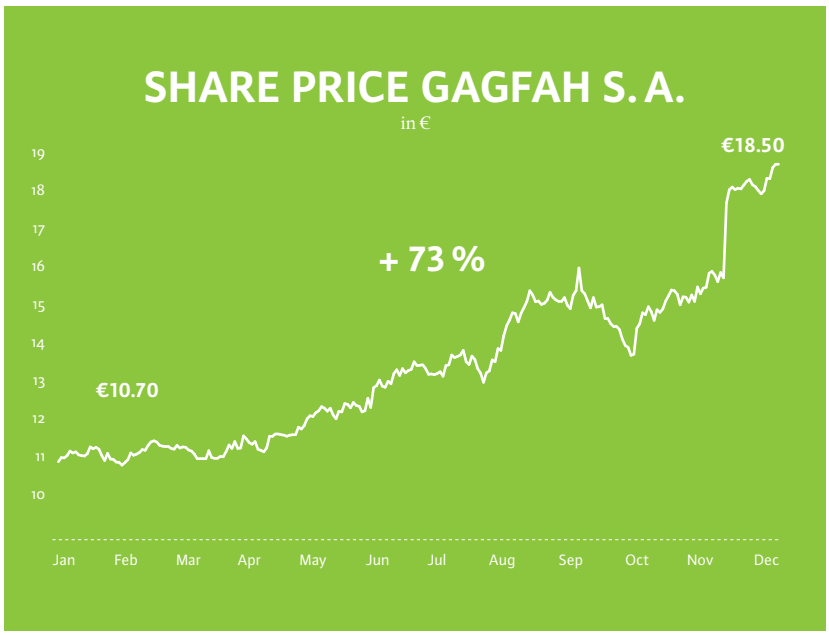
Source: Federal Statistical Office (2014)


9 %
Remaining Portfolio
Kiel
Luebeck
Hamburg
Bremen
Berlin
Hanover
Osnabrueck
Braunschweig
Bielefeld
Essen
Dortmund
Goettingen
Duisburg
Wuppertal
Iserlohn
Duesseldorf
Cologne
Leverkusen
Dresden
Erfurt
Zwickau
Bonn
Frankfurt
91 %
Top 30 Cities and Commuter Belts
Mannheim
Nuremberg
Karlsruhe
Stuttgart
Heidenheim
Freiburg
Munich

	GOALS 2014	RESULTS 2014
RENT GROWTH	2.3 %	2.6 % ☑
VACANCY RATE	3.5 %	3.4 % ☑
RENTAL INCOME	€545M – €550M	€562M ☑
ADJ. EBITDA	€350M – €354M	€350M ☑
RECURRING FFO	€185M – €189M	€190M ☑
EPRA NAV PER SHARE	€13.90 – €14.10	€14.39 ☑
DIVIDEND PER SHARE	€0.30 – €0.35	€0.35[1] ☑ REFLECTING A 2.4% YIELD ON NAV AS OF DECEMBER 31, 2014

1 Subject to approval by Annual General Shareholder Meeting

HIGHLIGHTS 2014



MARCH 25
Board of Directors appoints Gerhard Zeiler as new member and Chairman of the Board.

APRIL 4
Secondary placement by Fortress Investment Group, reducing their stake in GAGFAH S. A. to ca. 28 %.

MAY 13
GAGFAH launches € 375 million convertible bonds.

JUNE 17
Secondary placement by Fortress Investment Group, reducing their stake in GAGFAH S. A. to 0 %.

AUGUST 13
GAGFAH publishes three-year outlook, further underlining its high degree of transparency.

DECEMBER 1
Deutsche Annington Immobilien SE announces voluntary public takeover offer to the shareholders of GAGFAH S. A.

GAGFAH AND DEUTSCHE ANNINGTON BUSINESS COMBINATION

On December 1, 2014, Deutsche Annington Immobilien SE announced its intention to launch a voluntary public takeover offer for all shareholders of GAGFAH S. A. The offer is structured as a combined cash and exchange offer, which will grant €122.52 in cash plus five shares of Deutsche Annington Immobilien SE for every 14 shares of GAGFAH S. A.

Deutsche Annington published the offer document in connection with the transaction on December 18, 2014. It describes, inter alia, the structure and envisaged timeline of the offer and the intentions of Deutsche Annington upon a successful completion of the offer. The Board of Directors of GAGFAH S. A. published a reasoned response statement in accordance with the requirements of the German Securities Acquisition and Takeover Act on December 23, 2014. All documents are available on the websites of the two companies.

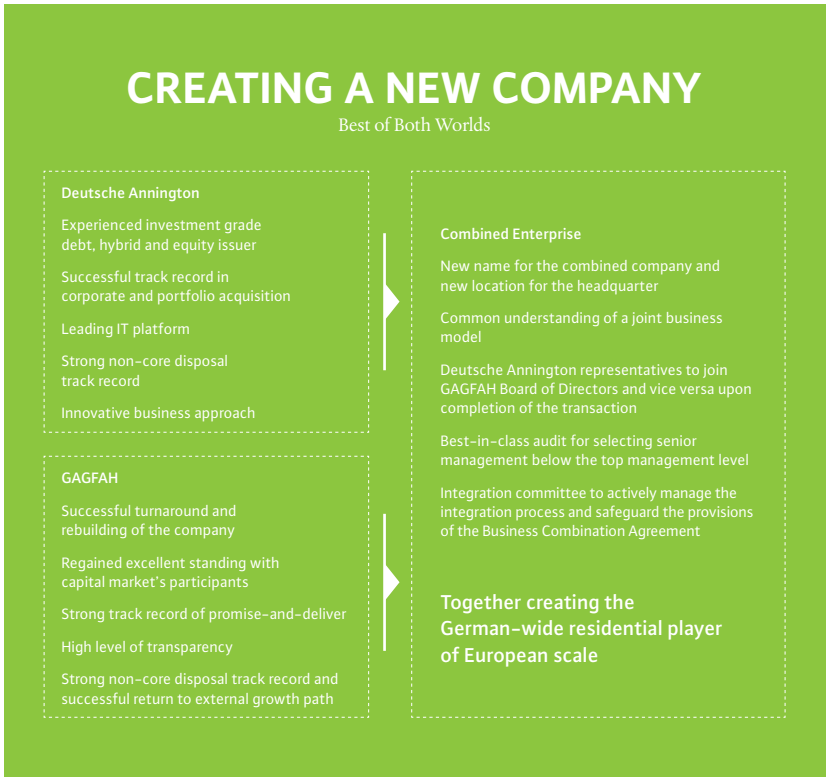
During the acceptance period between December 19, 2014, and January 21, 2015, 84.8 % of GAGFAH S. A. shares (assuming full conversion of GAGFAH's convertible bonds) had been tendered into the offer. As indicated in the offer document, the acceptance period was followed by an additional acceptance period between January 27, 2015, and February 9, 2015, during which an additional 21,996,582 GAGFAH S. A. shares were offered to Deutsche Annington Immobilien SE. All in all, after the two acceptance periods and assuming full conversion of GAGFAH S. A.'s convertible bonds into GAGFAH S. A. shares as a result of the change of control as described in the terms and conditions of the convertible bonds, a total of 93.8 % of all GAGFAH S. A. shares had been tendered to Deutsche Annington. This was well above the target acceptance rate of 57 % and cleared the way for beginning the integration process of Deutsche Annington and GAGFAH once the transaction has been closed, which is expected to occur in early March 2015.

The combined enterprise, which will also have a new name, is set to become the second largest real estate company in Europe. It will have around €21 billion worth of real estate assets in a portfolio of about 350,000 residential units and a pro forma rental income of around €1.3 billion. The cross regional portfolios and business strategies of both GAGFAH and Deutsche Annington are complimentary, and the combined enterprise is expected to continue in their tracks of sustainable operations with a view towards value creation and an attractive risk-adjusted return profile. The objectives and intentions of Deutsche Annington set out in the offer document and the business combination agreement between Deutsche Annington and GAGFAH provide good framework conditions to successfully implement the transaction and lever the full potential of a combined enterprise.

GAGFAH welcomes Deutsche Annington's determination to continue to manage the joint portfolios in a sustainable and responsible manner and shares the view that the topics addressed in the offer document are suitable for realizing synergies. GAGFAH

also welcomes the possibility to further examine synergy potential within the joint integration project. GAGFAH shares the view that the combined enterprise will enjoy improved borrowing conditions thanks to a strengthened capital markets profile as well as improved evaluation prospects by rating agencies. Finally, GAGFAH agrees that enhanced visibility and improved market positioning will make the combined company attractive to a broader investor base, including the perspective of inclusion in the German DAX 30.

Both GAGFAH and Deutsche Annington can look back on a very strong performance in recent history. Deutsche Annington has repeatedly demonstrated its expertise as an investment grade debt, hybrid and equity issuer. It has built a strong track record in corporate and portfolio transactions and is operating on an industry-leading IT platform. GAGFAH has regained a position as one of the leading real estate companies through its sustainable operating improvements, its internal reorganization and high degree of transparency. In addition to GAGFAH's formidable sales track record, the Company also recently returned to the external growth track with the acquisition of about 6,300 units in the fourth quarter of 2014. The two companies operate on a similar business model and strategic approach to real estate management. A carefully managed integration process that is based on a best-of-both-worlds principle will make sure that the combined entity will become the German wide residential player of European scale.



SUSTAINABILITY

In light of a listed residential real estate company's broad and diverse stakeholder groups, the reconciliation of the heterogeneous needs and expectations of these groups is key and lies at the very heart of sustainability in German residential real estate. Among the main stakeholder groups of GAGFAH are its tenants, employees, investors, local communities, members of the local, regional and national political arena, suppliers and other business partners to name but a few.

Unsurprisingly, the interests of one group may well be in conflict with those of another. When it comes to environmental questions, such as the energy efficiency of a building, for example, legislators and the general public may call for energy-efficient renovations and investments to curb a building's energy consumption, while a tenant may primarily care about the affordability of his flat.

A sustainable approach to the business aims to strike a balance between the different stakeholder interests. In such an approach, the economically sustainable management is the "conditio sine qua non". Only when a company operates on a financially sound footing will it be able to meet its sustainability objectives also in terms of environmental and social issues.

There is a large number of various good examples for sustainable and responsible conduct of GAGFAH in many different areas, and sustainability remains a growing focus. Below is an overview of illustrative examples:

RESPONSIBILITY FOR OUR EMPLOYEES

GAGFAH GROUP strives to be an attractive employer in the competition for talented and highly-qualified personnel, as GAGFAH views a motivated and qualified team as the basis for achieving the Company's goals.

PROFESSIONAL TRAINING, APPRENTICESHIPS AND CONTINUED EDUCATION

Investments in our employees are investments in GAGFAH's future and the training programs and apprenticeships are designed to make sure GAGFAH GROUP will maintain its high-qualified employee level throughout the whole group.

Offering a broad variety of career opportunities is a key element in securing today's up- and coming generation, and as of December 31, 2014, there are 112 apprentices in the various job programs for commercial and technical real estate professions. High-quality training programs as well as the opportunity to start working within the organization after completion of the training are important elements of successful apprenticeships.

The fact that one of our own won an award confirming her as one of the best apprentices in the real estate sector of the Hamburg region is a good example for our success in this area and proves that an apprenticeship with GAGFAH is both a challenge and a chance.

At the GAGFAH Academy, a variety of specialized and interdisciplinary offers promotes our employees' strategic development. Another building block is the promotion of post-secondary education for working professionals, such as BA programs in real estate, real estate economy, and facility management.

STAFF DEVELOPMENT AS PART OF GAGFAH 2015 CHANGE PROGRAM

The challenge of GAGFAH 2015 Change Program was to prepare the entire organization for a change in management processes. Our staff is qualified for new functions and processes by comprehensive workshops and seminars with special trainers. Many years of staff development allowed us to fill newly created senior positions internally. We performed management audits or similar measures for the managing board and senior management. Based on the results, we created internal development programs providing targeted support to our senior managers. An online portal developed specially for senior managers contains helpful tools and information and simplifies daily executive decisions.

ONBOARDING

The GAGFAH Academy offers steady onboarding processes for new colleagues. They consist of multiple stations, which the colleagues pass over several weeks. At the beginning, the colleagues meet their tutors, who provide answers and further information. Onboarding processes provide systematic job training for a lasting integration of new colleagues. The training includes a "moderated knowledge transfer." This transfer consists of an appointment between the new colleague, an experienced colleague with similar responsibilities, and a moderator. In addition to specific aspects, they discuss individual experiences, such as greatest achievements, critical situations, blunders and the right contact persons. Impulse questions accompany the interview, which is also recorded. This creates helpful documentation for the new colleague. Knowledge can also be transferred when colleagues take on new tasks within the company. This method preserves longstanding experience. The prerequisite is a knowledge-friendly corporate culture that promotes active communication within the organization.

WORK AND FAMILY

On June 17, 2014, GAGFAH was certified by the "work and family" ("berufundfamilie") audit. The audit initiates the advancement of family-conscious work methods.

Our existing offers, such as flexible work hours and individually adjusted part-time employment are considered an optimal foundation for further improvements. This led to a definition of further goals and the conclusion of a binding target agreement. The resulting measures in the areas of work organization, workplace, information and communication, leadership, staff development and service for families are to be implemented within the next three years and thus entrench family-consciousness in our corporate culture.

REMUNERATION STRUCTURE AND PROPORTION OF MALE AND FEMALE EMPLOYEES

The employees of GAGFAH are paid on the basis of their qualification and performance.

There is no discrimination on the basis of sex, age, ethnic background, religious beliefs or sexual orientation. GAGFAH and its subsidiaries act in accordance with applicable collective bargaining agreements and company agreements, including their pay structures as well as minimum wage agreements. Equal opportunities for men and women are important to GAGFAH.

As of December 31, 2014, the gender breakdown across the entire Group was as follows:

GENDER BREAKDOWN

NUMBER OF EMPLOYEES IN THE GAGFAH GROUP	1,577
MEN	65 %
WOMEN	35 %
WOMEN IN SENIOR POSITIONS	34 %

Without the staff in facility management, which consists mostly of men, the total number of employees is 734, of which 37 % are men and 63 % are women.

RECRUITMENT

To optimize our application procedure, we introduced an automated professional tool which gives applicants easy access to our company and supports our communication.

INTERNATIONAL INTERNS

For a number of years, GAGFAH has been successfully cooperating with the IS Duesseldorf, a language institute that is associated with the Swedish Training Institute "Folksuniversitetet" and works closely with large Swedish universities, offering internships in Germany to Swedish students learning German. An intern program includes a three-month language course at the language institute and a three-month internship at a German company. GAGFAH's experience with Swedish students has been very positive, which is why in past years, the Company has been offering one or two internships twice a year. Given the academic background of most students, the majority of them spend most of their internship time in corporate finance, controlling and accounting.

LTIP FOR ALL EMPLOYEES IN LEADERSHIP POSITIONS

We view the alignment of the Company's leaders' targets with the interests and expectations of the shareholder community as a crucial element of success. Making sure all parties share the same goals will most likely lead to a better outcome for the mutual benefit of both groups. That is the reason why at the end of 2013, against the background of the GAGFAH 2015 Change Program, the Senior Management of the operating subsidiaries developed a long-term incentive plan (LTIP) for employees in leadership positions below the Senior Management. These employees include department heads and selected employees with managerial responsibilities in operations as well as in the headquarter. All in all, 80 employees are currently beneficiaries under the new LTIP. The program is laid out for a three-year period between the financial years 2014 to 2016.

Depending on the leadership role of the individual employee, a certain number of phantom stock options are granted each year during the LTIP period and based on meeting specific targets. The Senior Management will set these targets for each year of the program during the budget process for that year. For each of the three installments, there will be a three-year waiting period before the phantom stocks vest. Once they have vested, beneficiaries will have 12 months to exercise the options they have earned. Due to administrative and tax reasons, options will be settled on a net cash basis. The LTIP, therefore, will not have an impact on the total share count of the Company. The vesting of the options hinges on two criteria immediately linked to the total shareholder return: NAV per share growth and dividend yield on NAV.

INTERNAL COMMUNICATION

GAGFAH values communication across hierarchies and departments; it was also very important in our most recent business year. Comprehensive and thorough changes in our corporate organization and structure and the processes resulting from the GAGFAH 2015 Change Program needed to be presented to employees in an accessible manner. The managing board's fundamental commitment to open dialog and regular internal communication is also reflected in the creation of an office for "internal communication" in the corporate communication department. Given the current restructuring, the internal communication focused mostly on communication of changes. The first-stage goal was to inform all colleagues from a single source about the changes, their background, and benefits. During staff meetings at all six regional offices of GAGFAH, corporate and department executives came together to inform colleagues and answer questions. The second step was to ensure that executives were able to speak and to support them in communicating and implementing changes. Instruments provided here included various presentations, Q&A catalogs, and language regulations, which could be accessed through the intranet. Planning progress and events at the subsidiary locations were constantly reported on the intranet, which also served as a platform for employee questions. After having been restructured in the 2013 business year, this year, the intranet established itself as an information platform. Employees preferably access pages concerning their personal issues. The intranet has grown further: from 179 websites after the relaunch to 246.

GAGFAH 2015 CHANGE PROGRAM

The GAGFAH 2015 Change Program has returned the Company's strategic focus to housing and to the principle of sustainable management. A platform was established which allows GAGFAH to optimally employ the capabilities of the individual divisions and employees. Efficient structures and lean processes and procedures give us the necessary freedom to pursue the tasks relevant for the profitable management of our properties. The new structure also gives us the necessary flexibility to take over new portfolios.

Around 200 employees participated in various ways in developing the contents and organizing processes as well as a new corporate organization. We consciously worked without external consultants and instead relied on the long-term experience and knowledge of our employees, which positively influenced their motivation.

The most demanding job of the GAGFAH 2015 Change Program was to coherently connect 49 sub-projects. This was a special challenge for the program's managers. Regular "jours fixe" between project and process supervisors and corporate/department managers and communication over the intranet ensured that all employees were informed and involved.

In October 2014, the GAGFAH 2015 Change Program started successfully as a pilot project in Berlin. The time until nation-wide implementation on January 1, 2015 was used to comprehensively train employees for new processes and also to take into account experiences from the pilot in the final development of the processes. The company-wide transition in the new year went positively.

CODE OF CONDUCT

In March 2014, the Board of Directors asked the Senior Management of the operating subsidiaries to implement a Code of Conduct for GAGFAH S. A .'s operating subsidiaries. This Code of Conduct was implemented as a group policy by the subsequently set up Compliance Committee in the second quarter of 2014 and reflects GAGFAH's awareness of its responsibility to shareholders, employees, customers, business associates and to the public. The Code of Conduct clearly demonstrates the Company's conviction that the strict compliance and conformity with legal and ethical norms are an elementary part of this responsibility and the system of values. The Code of Conduct summarizes legal and ethical principles of GAGFAH's actions and provide employees with a guide to support them in dealing with the legal and ethical challenges of their day-to-day work. The Code of Conduct applies to everyone within GAGFAH GROUP and represents a guideline with regards to, inter alia, the compliance with all applicable laws and regulations, the responsibility for GAGFAH's reputation, mutual respect and equal opportunities, dealing with conflicts of interests, data protection and confidentiality etc. Furthermore, the Compliance Committee implemented a Compliance Policy in form of a group policy which accompanies the Code of Conduct and describes and implements in particular reporting and compliance processes in the second half of 2014.

SOCIAL RESPONSIBILITY AND RESPONSIBILITY FOR OUR TENANTS

GAGFAH provides homes to more than 300,000 people in Germany. Therefore we pay special attention to improving the social environment of our holdings. We work with donations, sponsoring deals and charitable foundations to promote understanding across generations and cultures.

GAGFAH FOUNDATION "MENSCH UND WOHNEN"

First and foremost the GAGFAH foundation strives to improve the relations and coexistence between different generations in the dwellings of the GAGFAH GROUP. The foundation funds community centers, playgrounds and institutions with a focus on social activities. The GAGFAH foundation only supports non-profit activities. Its work aims to support younger and older generations and their living together, mostly in properties of the GAGFAH GROUP.

The GAGFAH GROUP has equipped the foundation with a capital stock of €5 million. Among the projects the foundation has been supporting and continues to support are the following:

Project Canarisweg in Hanover In cooperation with "Miteinander für ein schöneres Viertel" (Together for a Better Neighborhood), the foundation has set up and supports the maintenance of an internet café including computer training, the Kids Club daycare facility and a weightlifting room.

Project Bergmannsfeld in Essen In cooperation with the "Sozialdienst katholischer Frauen" (Local Chapter of Catholic Women Organization), the foundation has been financially supporting the position of a social worker for the local chapter. The Bergmannsfeld properties are characterized by a comparatively large share of immigrant families, and the Sozialdienst katholischer Frauen offers assistance in various ways, such as grocery shopping, support in dealing with the authorities, language courses for non-German-speaking people, etc. GAGFAH supports the position of a social worker by providing financial means.

Project Leuben in Dresden The foundation supports the "Trägerwerk Soziale Dienste" (TWSD) in Sachsen GmbH (non-profit social organization), mainly by providing office space within the Leuben district to help the TWSD meet its goal of allowing the elderly and people with disabilities to live a self-determined life within their familiar environment. The TWSD supports senior citizens in dealing with the authorities, organizing care services, grocery shopping or transfer services for doctors' visits.

SPONSORING

In the course of 2014, GAGFAH supported a number of social, athletic and cultural projects with donations of approximately €600,000, which is in line with the amount of prior years. Among the beneficiaries were a community center, the debt counseling services of a nation-wide operating social agency, initiatives to improve relations among our tenants, different sports clubs and a social institution that provides homework assistance to school children.

INDEPENDENT AND IN ONE'S OWN HOME

GAGFAH cooperates with the "Deutsche Gesellschaft für Seniorenbetreuung" (DGS, German Society for Senior Care), who offers free-of-charge advice to our tenants when it comes to assisted living in their own flat, 24/7 emergency availability, consulting on senior-adequate housing equipment, or information on special offers for senior citizens. Our tenants can call a toll-free number and make an appointment with a DGS representative in their own flat to discuss their individual needs.

In 2014, the cooperation with the German Society for Senior Care (DGS) was expanded to further regions and customer centers. GAGFAH took additional measures regarding age-appropriate and accessible living, providing innovative concepts to respond to tenants' diversifying wishes and needs.

Suitable modifications allowed many tenants, not just senior citizens, to use their apartments independently.

To keep it this way and further recognize and develop adequate concepts for the changing requirements our housing faces, GAGFAH continues to keep pace with the changes and prepare its housing stock for the future.

ENVIRONMENTAL AWARENESS

Efficient use of energy and protection of natural resources helps the environment, and it helps GAGFAH's profitability. Environmentally conscious action is thus in GAGFAH's long-term interest.

In 2014 we also expanded and initiated various environmental projects; for example, there are many promising pilot projects for the generation of home electricity from solar panels (in cooperation with the Toshiba home electricity team), surface heating using infrared systems, and we participated in the "free ventilation" project (in cooperation with Klimagriff GmbH and the Fraunhofer Institute), one of the largest indoor climate research projects in the German housing industry.

The foremost environmental sustainability projects include:

Energy Efficiency by Fine-tuning Heating Systems GAGFAH works together with ennovatis GmbH, an energy management systems provider, with the objective of reducing the energy consumption of heating systems. Ennovatis installs remotely-operated, digital measuring devices that permanently monitor the water temperature of the heating system. The data is analyzed by ennovatis, who then suggest adjustments to the heating system's set-up to make it run more efficiently. Many heating systems run at substantially more than the 60 degrees Celsius, which are required by law to make sure all bacteria and germs are killed. By reducing the temperature to the required 60 degrees Celcius, energy savings of 5 % to 10 % are usually possible. One third of the savings is for the benefit of the tenants, another third finances ennovatis' investment into the undertaking and the remaining third flows to GAGFAH.

Intelligent Waste Management GAGFAH has implemented waste management projects in several of its dwellings in different cities. The general idea behind the waste management projects is to separate different types of waste more effectively, thereby reducing CO_2 emissions and saving waste disposal fees. By disposing recyclable waste in the dedicated waste bins and not in the residual waste bin, more recyclable material remains in the recycling loop. An external partner advises tenants, helps with the right allocation of different wastes into different bins and regularly checks the bins to make sure they contain the right types of waste. The positive effect is twofold: On the one hand, it helps to reduce the residual waste volume and therefore reduces the CO_2 emission. One kilogram of plastic or other recyclable material that is kept in the recycling loop and not disposed in the general waste bin equals about 1 kilogram reduced CO_2 emission. The property in Duisburg-Mündelheim managed to reduce its residual waste volume by about 16,000 kilograms year-on-year, equaling 50 kilograms per household. On the other hand, it lowers the overall waste fees, as recycling bins are usually free of charge.

Collecting and Recycling Used Clothes In cooperation with different partners focused on the recycling of used clothes, GAGFAH has set up almost 160 dedicated containers on its properties in different cities. The partners regularly collect used clothes and make sure the sites remain clean. The clothes are then sorted by hand and sold usually to countries in Eastern Europe or Africa, where they are often a welcome and comparatively inexpensive way to obtain clothing. This form of recycling minimizes the burden on the environment and its resources. According to the Bureau of International Recycling, collecting 1 kilogram of used clothing can reduce 3.6 kilogram of CO_2 emissions, 6,000 liters of water consumption, 0.3 kilogram of fertilizers and 0.2 kilograms of pesticides.

GAGFAH: A RELIABLE LOCAL PARTNER

As a large landlord in many cities across the country, GAGFAH has a viable interest in maintaining good relations with different political parties, municipal administrations and social groups. A continuous dialogue with the different stakeholders is essential in making sure that the interests of our tenants and our interest as the landlord are reconciled with the demands of the other parties in a given city or micro location.

Among the examples of this kind of cooperation are:

- In Dresden, we were able to expand our good cooperation with the city administration on all levels. In 2014, we supported Dresden in accommodating refugees and have now provided decent housing for about 1,500 refugees. We also work closely with the refugees' social environment, for example in a roundtable with all stakeholders.

- In Hamburg, we have started to implement the sustainable improvement of living conditions for people in the large-scale housing developments of Steilshoop and Wilhelmsburg. Hand in hand with politicians, administrations and welfare associations, we launched a large investment program for Hamburg spanning several years. Just in time for the beginning of the first House Improvement District (HiD) project in Europe, GAGFAH rebuilt a former sales pavilion and gave it to the welfare association Arbeiterwohlfahrt (AWO) as a meeting place for providing social assistance to the multicultural population of the quarter. In addition to many counseling services, AWO wants to use the regular resident meetings here to initiate a dialog between the various groups and improve coexistence in the neighborhood. GAGFAH contributes a total of €1 million to these improvements.

- In Essen we successfully completed the announced modernization measures and started several neighborhood improvement projects together with the administration. GAGFAH is part of a support network of citizens, doctors, retailers and housing associations. This Network for Securing Household Independence in Essen ("NAEHE") intends to help senior citizens live a long life in their habitual surroundings.

- In Bielefeld, we initiated an urban development competition for improving the living situation of senior citizens and families in the neighborhood of Sennestadt. The first results are expected in the upcoming year. GAGFAH is providing financial support for this.

- In Zwickau, we were able to offer quick help when the district administration urgently needed 40 free apartments for refugees. After negotiation with the responsible authorities, all families and individuals could be relocated to a contiguous development in the neighborhood of Neuplanitz. This facilitates single-source care and social support for the people. Furthermore, GAGFAH supports Gert-Fröbe-Haus, which is operated by Zwickauer Kinderhausverein. This is a temporary home for 29 children and adolescents who are (usually for a limited time) not able to live with their parents and families. Large-scale redevelopment has made living conditions for young and old more friendly, happy, comfortable and eventful. A young mother with her child can now also move into her "own" little apartment in our building. Children and adolescents enjoy many new opportunities to play, do sports, explore and relax; GAGFAH has supported these projects with €10,000.

- In Bonn's Neu-Tannenbusch neighborhood, there are 5,000 people from over 100 nations living very closely together. In this classical 1970s development, GAGFAH is starting a joint project with Deutsche Annington, the tenant association Mietverein NRW, the welfare assocation VfG and Bonn's city administration. This employment project intends to return long-term job-seekers to regular occupations. Participants are trained for assistant positions in gardening, house-painting, construction, and facility management. The project also gives a chance to unemployed youths to earn their own incomes and lead independent lives. GAGFAH supports the project with €100,000.

THE GAGFAH SHARE

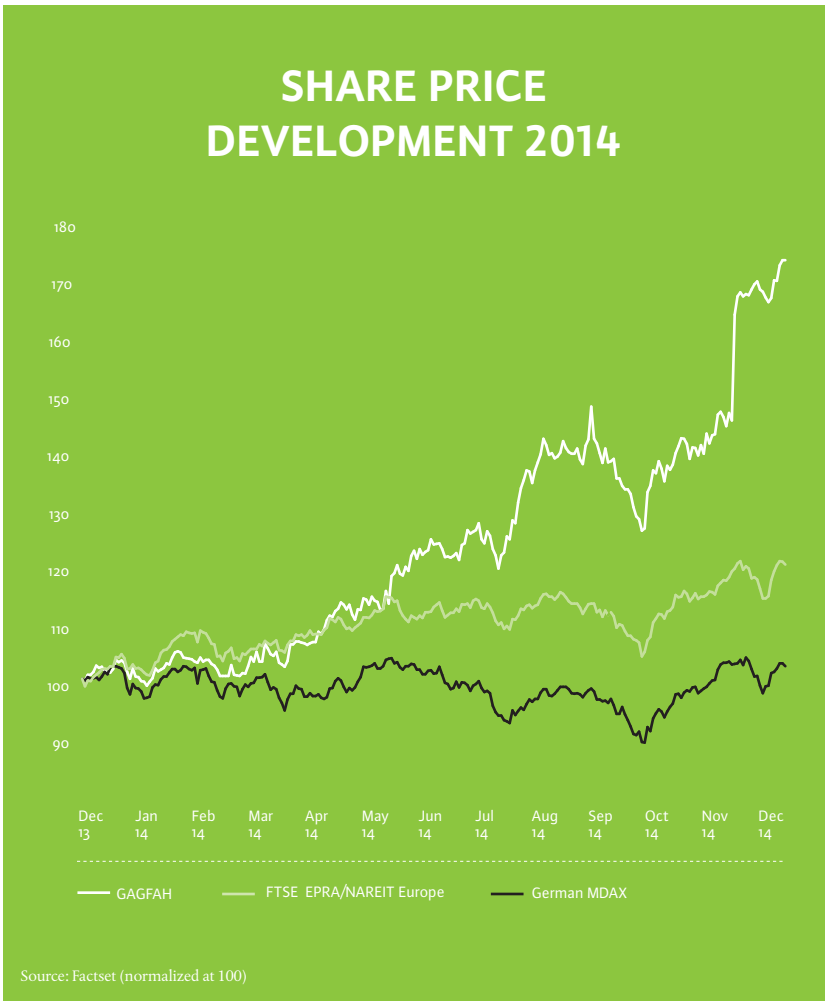
STOCK MARKET ENVIRONMENT AND GAGFAH SHARE PRICE PERFORMANCE

2014 was a rather turbulent year for stock markets around the globe and was severely influenced by monetary policy decisions and geopolitical crises. The European markets were considerably impacted by the European Central Bank's decisions. Their expansive fiscal policy and the expectation of quantitative easing (QE) – which eventually materialized in January 2015 – supported the generally positive performance on most equity markets and indices. The German DAX 30 Index was up 2.6 % at the end of 2014, after a year full of ups and downs. On June 5, it had crossed the 10,000 points mark for the first time in its history, partly driven by interest rate cuts. In October, it saw the 2014 low with 8,476 points, following a somewhat gloomy economic outlook for Europe and weaker-than-expected labor market statistics from the US.

After having grown by more than 20 % in 2013, GAGFAH S. A.'s shares had another tremendous run in 2014 and at €18.50 closed 73 % above the last price of €10.70 in 2013. This compares to a MDAX performance of just above 2 % and an EPRA Europe performance of almost 20 % in 2014. Within the DAX and MDAX stock universe, GAGFAH was the second-best performing share in 2014, slightly behind KUKA AG.

Among the external factors that supported the share price were the low interest rate environment and the continuously high interest among international investors in the German residential market, which benefitted the sector as a whole. Furthermore, the public takeover offer of Deutsche Annington Immobilien SE for all shares of GAGFAH S. A. gave the share price a boost towards the end of the year.

At the same time, we believe that our strong operational performance, our high level of transparency and our continuous delivery on the targets we have set contributed greatly to the strong share price performance last year.


SHARE PRICE
DEVELOPMENT 2014
180
170
160
150
140
130
120
110
100
90
Dec 13
Jan 14
Feb 14
Mar 14
Apr 14
May 14
Jun 14
Jul 14
Aug 14
Sep 14
Oct 14
Nov 14
Dec 14
GAGFAH
FTSE EPRA/NAREIT Europe
German MDAX
Source: Factset (normalized at 100)

GAGFAH S. A. SHARES AS OF DECEMBER 31, 2014 / FOR THE FULL YEAR 2014

As of December 31, 2014, the number of GAGFAH S. A. shares totaled 215,952,555, of which 459,057 were treasury shares. In principle, each share represents one vote, and all shares have the same dividend rights. Voting rights and dividend rights of treasury shares held by the Company are suspended for as long as such shares are held in treasury.

ISIN
LU0269583422

SECURITY IDENTIFICATION CODE (WKN)
A0LBDT

TICKER SYMBOL
GFJ

REUTERS SYMBOL
GFJ.DE

BLOOMBERG SYMBOL
GFR.DE

XETRA CLOSING PRICE DEC. 31, 2014
€18.50

HIGHEST CLOSING PRICE ON XETRA IN 2014
€18.50

LOWEST CLOSING PRICE ON XETRA IN 2014
€10.58

AVERAGE FIVE-DAY TRADING VOLUME ON XETRA
€36.6M

NUMBER OF SHARES ISSUED
215,952,555

OF WHICH TREASURY SHARES
459,057

FREE FLOAT MARKET CAP DEC. 31, 2014 (€M)
3,995

MAIN STOCK EXCHANGE LISTING
FRANKFURT STOCK EXCHANGE (PRIME STANDARD)

MAJOR INDICES MEMBERSHIPS
MDAX, EPRA, GPR, STOXX EUROPE TOTAL MARKET

LOWEST THRESHOLD FOR VOTING RIGHTS NOTIFICATIONS
5 %

Source for Xetra-related data: Factset

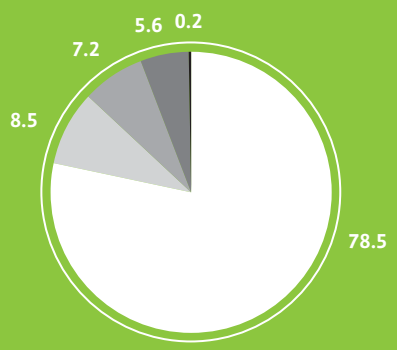
Please go to www.gagfah.com (>share) for the most recent information on GAGFAH S. A.'s shares.

SHAREHOLDER STRUCTURE

As of December 31, 2014, and based on information the Company has received pursuant to the applicable requirements of the Luxembourg Transparency Law, there were three shareholders who each held more than 5 % of all outstanding shares. The free float, as defined by Deutsche Börse AG, was 99.8 %.

SHAREHOLDER STRUCTURE AS OF DEC. 31, 2014

in %



Free Float according to Deutsche Börse AG: 99.8 %

78.5 Other free float
8.5 Lansdowne Partners
7.2 Sun Life Financial Inc.
5.6 Deutsche Asset & Wealth Management Investment GmbH, DWS Investment S. A. and Deutsche Investment Management Americas Inc.
0.2 Treasury shares

DIALOGUE WITH THE FINANCIAL COMMUNITY

GAGFAH engaged in a continuous and close dialogue with the financial community during 2014. All in all, the Company attended twelve conferences, presented during 20 non-deal roadshows and hosted 15 property tours. We are confident that this close interaction and trust-building with the financial community alongside our day-to-day investor relations work went a long way towards explaining the business, enhancing investors' awareness and understanding of the Company. Especially the disclosure of a comparatively detailed three-year outlook supported the capital market's understanding of the Company. We believe that our permanent and open dialogue with the capital markets and all stakeholders as well as the large degree of transparency in our financial disclosures and investor relations work most likely supported the capital market's perception of GAGFAH and contributed to the positive share price performance in 2014.

SELL-SIDE ANALYSTS

As of November 28, 2014, the last trading day prior to the announcement of Deutsche Annington regarding the planned voluntary public takeover offer, there were 18 analysts who covered the stock of GAGFAH S. A. Eight of them had a positive recommendation and target prices of up to €17.10. Another eight had a neutral rating and target prices between €14.50 and €16.00. One analyst had an undisclosed rating and target price, and one analyst had a target price range without a recommendation.

Following the announcement of the voluntary public takeover offer by Deutsche Annington on December 1, 2014, and the instant share price appreciation, some analysts adjusted their recommendations and/or price targets, some left it unchanged, others recommended to accept the offer while yet others became restricted because they are involved in the transaction one way or another. As a result, as of December 31, 2014, the coverage universe of GAGFAH does not reflect a representative assessment of the stock.

THE MANAGEMENT OF GAGFAH GROUP

BOARD OF DIRECTORS

GAGFAH S. A. IS MANAGED BY THE BOARD OF DIRECTORS

The Board of Directors is responsible for managing the Company and is vested with the broadest powers to manage the business and to authorize and perform all acts of acquisition, disposal and administration falling within the purposes of the Company. All powers not expressly reserved by law or by the Articles of Incorporation of the Company to the General Meeting of Shareholders are within the competence of the Board of Directors.

The Directors are appointed at the General Meeting of Shareholders by a simple majority of the votes cast. Directors serve for a period not exceeding six years or until their successors are elected. Directors may be removed with or without cause at the General Meeting of Shareholders by a simple majority of the votes cast at such meeting. The Directors are eligible for re-election.

The Company's Articles of Incorporation provide for the Board of Directors to include no more than twelve members and no less than three members. As long as the shares are listed on one or more regulated stock exchanges, the Board of Directors must include three Independent Directors. In the event of a vacancy in the office of a Director because of death, retirement, resignation, dismissal, removal or otherwise, the remaining Directors may fill such vacancy and appoint a successor to act until the next Meeting of Shareholders without regard to the independence requirement.

Meetings of the Board of Directors require a quorum of at least the majority of all Directors present or represented. Decisions are taken by a majority of votes cast by the Directors present or represented at the meetings. In the course of 2014, the Board of Directors held 17 meetings. Board meetings are usually convened with at least one week's prior notice.

As of February 27, 2015, the Board of Directors includes the following members.

GERHARD ZEILER
CHAIRMAN, INDEPENDENT DIRECTOR

HENDRIK JELLEMA
INDEPENDENT DIRECTOR

DANIEL JUST
INDEPENDENT DIRECTOR

DIETER H. RISTAU
INDEPENDENT DIRECTOR

YVES WAGNER, PH. D.
INDEPENDENT DIRECTOR

THOMAS ZINNÖCKER
CEO OF GAGFAH GROUP

Mr. Jonathan Ashley had resigned from his position as Director and Chairman of the Board and member of certain committees on March 25, 2014. His successor is Gerhard Zeiler, who was co-opted by the Board on the same day and elected as Director of the Company by the Annual General Meeting of Shareholders on June 12, 2014.

On July 8, 2014, as a consequence of Fortress Investment Group reducing their stake in GAGFAH to 0 %, the Fortress affiliated Board Members Wesley R. Edens and Randal A. Nardone resigned from their positions as Directors of the Company and members of certain committees.

As of December 31, 2014, Dr. Jürgen Allerkamp resigned from his position as Director and member of certain committees in order to take on the position of Chairman of the Management Board of the Investitionsbank Berlin (IBB).

Gerhard Zeiler (Chairman) Gerhard Zeiler was co-opted as Member and appointed as Chairman of the Board of Directors of GAGFAH S. A. on March 25, 2014. Austrian-native Gerhard Zeiler is an internationally renowned media manager and currently serves as President of Turner Broadcasting System International, a Time Warner Company. Prior to his current position at Turner Broadcasting, Mr. Zeiler held leading positions within the RTL Group, Europe's leading entertainment network, and between 2003 and 2012, he was the CEO of RTL Group and Member of the Executive Board of Bertelsmann Group.

Hendrik Jellema Until the end of November 2014, Hendrik Jellema was a Member of the Management Board of GEWOBAG, a municipal housing company in Berlin with about 60,000 residential units. After working as project manager for real estate market analysis at GEWOS in Hamburg and for the Ministry of Construction and Housing of the federal state North Rhine-Westphalia, Mr. Jellema held various managerial and executive functions within GAGFAH GROUP between 1992 to 2007. After serving as head of a regional office and manager of various subsidiaries of GAGFAH GROUP, Mr. Jellema also held responsibility for the executive management of the real estate operations. In 2007, Mr. Jellema was appointed to the Management Board of GEWOBAG in Berlin.

As of January 1, 2015, Hendrik Jellema has been co-opted as a member of the Board of Directors of GAGFAH S. A.

Daniel Just Daniel Just is the CEO of the Bayerische Versorgungskammer in Munich. The Berlin-native holds a business graduate degree and held various management and leadership roles at Dresdner Bank and Bayerische Vereinsbank. He joined the management of the Bayerische Versorgungskammer, a Service and Competence Center for 12 Bavarian Public and Private Pension Schemes, in 1998. As Member of the Management Board from 2001 onwards, his responsibilities included the newly-organised investment division. In February 2013, Mr. Just was appointed Chairman of the Management Board of the Bayerische Versorgungskammer.

As of January 1, 2015, Daniel Just has been co-opted as a member of the Board of Directors of GAGFAH S. A.

Dieter H. Ristau Dieter H. Ristau was appointed member of the Board in October 2006. Before his appointment as an Independent Director, Dieter H. Ristau was CEO of Allianz Global Investors Luxembourg S. A. and Chairman of the Board of Dresdner International Management Services Ltd., Ireland, and Dresdner Fund Administration Ltd., Cayman Islands.

Yves Wagner, Ph.D. Yves Wagner, Ph.D., was appointed member of the Board in October 2006. He is an Associate of The Directors' Office, the leading practice of independent Directors in Luxembourg. He has both an academic and professional career. He is Doctor of Economic Science and a university professor. After a career within the Fortis Group, he co-founded "The Directors' Office". He still teaches and holds chairs at different Universities and Business Schools, such as the University of Luxembourg, the Institut de Formation Bancaire, the Agence pour le Transfert de Technologies Financières and the Académie Bancaire Européenne. He is an advisor in research to the Luxembourg School of Finance. Mr. Wagner is also the President of the Luxembourg Society of Financial Analysts.

Thomas Zinnöcker Thomas Zinnöcker was appointed as member of the Board of Directors of GAGFAH S. A., effective as of April 16, 2013. Prior to his GAGFAH appointment, Mr. Zinnöcker served as the Chief Executive Officer of GSW Immobilien AG, which he took public in May 2011 and during his tenure turned into one of the leading listed property companies in Germany. Before his work for GSW, Mr. Zinnöcker served in leading positions especially in the real estate industry, including Chief Restructuring Officer for Deutsche Telekom Immobilien und Service GmbH, Chief Financial Officer and then Chief Executive Officer for Krantz TKT GmbH, Head of Strategic Controlling at Deutsche Babcock AG and various senior positions within the AEG Group.

COMMITTEES

The Board of Directors may set up committees. Currently, there are four committees in place: Audit Committee, Nomination and Compensation Committee, Securities Dealings Committee and Related Party Transaction Committee. Committee meetings are usually convened with at least one week's prior notice.

As of February 27, 2015, these are the Committees set up by the Board of Directors:

Audit Committee	Dieter H. Ristau, Chairman Daniel Just Yves Wagner, Ph.D.
Nomination and Compensation Committee	Gerhard Zeiler, Chairman Hendrik Jellema Dieter H. Ristau
Securities Dealings Committee	Dieter H. Ristau, Chairman Daniel Just Yves Wagner, Ph. D.
Related Party Transaction Committee	Gerhard Zeiler, Chairman Hendrik Jellema Dieter H. Ristau

The purpose of the Audit Committee is to assist the Board of Directors in fulfilling its oversight responsibilities relating to the integrity of the financial statements, including periodically reporting to the Board on its activities and the adequacy of internal control systems over financial reporting and to make recommendations for the appointment, compensation, retention and oversight of, and consider the independence of the external auditors and perform such other duties imposed by applicable laws and regulations of the regulated market or markets on which the shares may be listed, as well as any other duties entrusted to the committee by the Board of Directors.

The purpose of the Nomination and Compensation Committee is to review the compensation policy, make proposals as to the remuneration of Executive Directors and Senior Management, and advise on any benefit or incentive schemes. It shall further assist the Board with respect to matters relating to the nomination of Board candidates and Committee members. The committee shall decide on the qualifications of potential candidates for Director positions, evaluate qualified candidates, recommend candidates to the Board for election as Directors and propose qualified individuals for election as Directors by the Annual General Meeting of Shareholders, as required.

The purpose of the Securities Dealings Committee is to approve transactions in GAGFAH securities, to manage the ad-hoc disclosure of inside information as required by applicable laws and to be point of contact in connection with questions and comments relating to potential inside information and corresponding duties.

The purpose of the Related Party Transaction Committee is to assist the Board in the review of material related party transactions (as defined in the International Accounting Standards) to be entered into by the Company and/or its subsidiaries (as relevant) to determine whether their terms are consistent with market conditions or are otherwise fair to the Company and/or its subsidiaries (as the case may be), and perform such other duties as may be entrusted to it by decision of the Board of Directors from time to time.

SENIOR MANAGEMENT TEAM

THE SENIOR MANAGEMENT TEAM IS RESPONSIBLE FOR THE OPERATING BUSINESS OF THE COMPANY

The Senior Management of the operating subsidiaries comprises three members. Each member is responsible for certain activities and departments of the business, with joint management responsibility for the business as a whole.

Thomas Zinnöcker (CEO) Thomas Zinnöcker was appointed as CEO of the GAGFAH GROUP effective on April 16, 2013. Prior to joining GAGFAH, Mr. Zinnöcker was CEO of GSW Immobilien AG, which he took public in 2011 and during his tenure turned into one of the leading listed property companies in Germany. Before his work for GSW, Mr. Zinnöcker served in leading positions especially in the real estate industry, including Chief Restructuring Officer for Deutsche Telekom Immobilien und Service GmbH, Chief Financial Officer and then Chief Executive Officer for Krantz TKT GmbH, Head of Strategic Controlling at Deutsche Babcock AG and various senior positions within AEG Group.

Gerald Klinck (CFO) Gerald Klinck has been with GAGFAH GROUP since April 2011 and started out as Head of Treasury. On April 1, 2012, he was appointed as CFO of GAGFAH GROUP. Gerald Klinck has held various positions in the real estate industry for many years. He started his career at HSH Nordbank AG in June 1997, where he was part of the project management of the GEHAG and LEG Schleswig-Holstein joint venture. In 2003, he was appointed CFO of HSH Real Estate Consulting GmbH. From 2006, Gerald Klinck was employed at GEHAG GmbH (wholly-owned subsidiary of Deutsche Wohnen AG). He was subsequently appointed Head of Corporate Controlling and Planning at Deutsche Wohnen AG. In the summer of 2009, he became a member of the Executive Board of Deutsche Wohnen AG. Mr. Klinck has a degree in Business Administration (Diplom-Kaufmann).

Nicolai Kuss (COO) Nicolai Kuss has been working in various positions in the real estate business for almost 16 years. After working as senior consultant for Arthur Andersen and Ernst & Young Real Estate for four years, he was responsible for asset and investment management of residential property investments in the Fortress Investment Group in Germany from 2004 to 2009. On March 20, 2009, he was appointed to the management of GAGFAH as Chief Operating Officer. Nicolai Kuss manages the operational business of GAGFAH. Since August 1, 2012, he has also been responsible for acquisitions and sales. Nicolai Kuss studied Business Administration at the European Business School (ebs) in Oestrich-Winkel, the Ecole Supérieure de Commerce in Clermont-Ferrand, France, and at the James Madison University in Harrisonburg, Virginia, USA, and has a degree in Business Administration (Diplom-Kaufmann).

DIRECTORS' REPORT

WHO WE ARE

GAGFAH S. A. is a joint stock corporation incorporated in Luxembourg and organized under the laws of the Grand Duchy of Luxembourg, qualifying as a securitization company under the Luxembourg Securitization Law of March 22, 2004. The core business of our operating subsidiaries within the GAGFAH GROUP is the ownership and management of a geographically diversified and well-maintained residential property portfolio in Germany.

GAGFAH is a large owner and operator of residential real estate in Germany. Our portfolio includes more than 144,000 own residential units that are mostly located in large German cities and their respective commuter belts. We believe that our size, our significant presence in the key residential markets and our scalable operating platform make us one of the leading providers of affordable housing for low- to medium-income households in Germany. Our operating subsidiaries are full-scale service providers for a broad range of property and facility management services.

Our objective is to generate shareholder value through sustainable and growing cash flows, increasing net asset value by efficiently managing our portfolio, carrying out value-enhancing property investments, pursuing accretive growth opportunities, and realizing value through selected asset sales.

WHAT WE OWN

We own residential properties, mostly located in 30 of our largest cities and urban concentrations. Our total portfolio comprises more than 144,000 apartments with a total of 8.8 million square meters. The average apartment size is ca. 61 square meters. Approximately 18,200 units (ca. 13 %) are publicly subsidized, rent-restricted apartments. The average construction year for our portfolio is 1963, with the majority of our buildings built between the mid 1950s and the mid 1970s. Our portfolio is characterized by a stable tenant base with an average tenant tenure of approximately eleven years and a fluctuation rate of around 10.8 %. In addition to our core residential portfolio, we own approximately 1,500 commercial units, primarily retail stores located on the ground floor of our residential apartment buildings, and approximately 30,000 parking spaces, which typically belong to our residential apartment buildings.

Property Portfolio
as of December 31, 2014

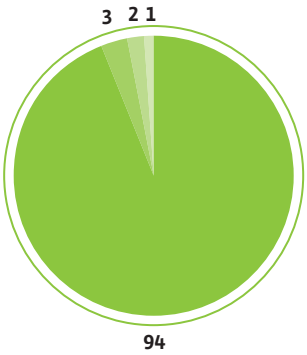
	GAGFAH						Market	
	Fair value (€ million)	Residential units	Net cold rent multiple (target rent)	Net cold rent (€/sqm)	Vacancy rate residential	Vacancy rate change y-o-y [1]	CBRE Market rent [2]	Small household growth [3]
Dresden	1,889.3	36,896	13.8	5.06	2.8 %	– 0.5 %	5.16	7.1 %
Berlin	862.6	15,098	14.0	5.28	1.4 %	– 0.2 %	5.51	4.0 %
Hamburg	724.9	9,036	16.0	6.00	0.7 %	– 0.2 %	6.77	8.4 %
Hanover	372.1	5,862	13.4	5.81	3.0 %	– 1.6 %	5.91	7.6 %
Heidenheim	226.0	3,965	12.7	5.77	6.3 %	– 2.8 %	5.65	11.1 %
Cologne	192.9	1,786	15.7	6.83	1.1 %	– 1.6 %	7.02	12.2 %
Osnabrueck	191.8	3,478	12.9	5.46	2.9 %	0.1 %	5.50	13.1 %
Bielefeld	189.9	4,169	11.6	4.84	1.8 %	0.6 %	4.88	9.0 %
Essen	169.1	2,962	12.4	5.25	6.3 %	– 1.4 %	5.47	4.9 %
Braunschweig	153.0	3,090	12.4	5.34	0.4 %	– 0.5 %	5.42	6.1 %
Freiburg	147.5	1,772	15.1	6.60	0.4 %	– 0.3 %	7.05	13.4 %
Dortmund	131.3	2,887	12.1	4.76	4.3 %	2.3 %	4.88	6.1 %
Frankfurt	95.6	1,218	14.6	7.76	0.7 %	– 0.2 %	8.28	8.5 %
Zwickau	88.4	2,971	10.2	4.23	11.1 %	– 1.5 %	4.38	– 11.7 %
Bonn	83.4	1,076	14.5	6.13	2.0 %	– 1.4 %	6.30	9.9 %
Leverkusen	82.4	1,404	13.5	5.64	0.8 %	– 1.2 %	5.78	6.9 %
Stuttgart	72.1	824	16.0	7.98	0.8 %	0.7 %	8.06	13.1 %
Duesseldorf	71.1	485	21.6	7.18	2.7 %	0.2 %	7.32	13.5 %
Bremen	70.9	1,499	12.0	5.01	4.1 %	– 1.5 %	4.97	3.6 %
Nuremberg	69.4	1,008	14.4	6.37	0.4 %	0.1 %	6.39	10.9 %
Iserlohn	68.1	1,676	11.3	4.64	4.0 %	– 1.3 %	4.71	2.0 %
Goettingen	63.0	1,356	12.2	5.36	0.2 %	– 0.4 %	5.35	2.3 %
Erfurt	46.9	889	13.1	5.36	0.4 %	0.2 %	5.39	– 1.0 %
Munich	45.0	398	20.1	6.27	0.3 %	0.3 %	9.36	13.5 %
Mannheim	41.8	699	13.5	6.04	1.4 %	– 0.1 %	6.11	9.8 %
Wuppertal	37.7	741	11.9	5.36	3.5 %	– 6.1 %	5.42	0.9 %
Karlsruhe	32.6	441	15.7	6.88	0.5 %	0.0 %	6.90	9.6 %
Kiel	30.8	709	12.0	5.18	1.0 %	– 1.1 %	5.22	4.7 %
Duisburg	29.1	700	10.9	5.03	10.0 %	– 12.3 %	5.07	1.5 %
Luebeck	28.5	685	12.6	5.42	5.5 %	1.6 %	5.47	3.9 %
Subtotal Top 30 cities	**6,307.4**	**109,780**	**13.8**	**5.41**	**2.7 %**	**– 0.8 %**	**5.59**	
Remaining core	1,098.4	21,091	12.5	5.32	4.2 %	– 0.9 %	5.42	
Regional non-core	572.8	13,581	11.3	4.93	7.8 %	0.1 %	4.91	
Total	**7,978.6**	**144,452**	**13.4**	**5.35**	**3.4 %**	**– 0.8 %**	**5.50**	

1 December 2014 compared to December 2013
2 Source: CBRE
3 Source: Federal Department of Construction and Urban Development (estimated one- and two-person household growth between 2010 and 2030)

Annualized Net Cold Rent

in %

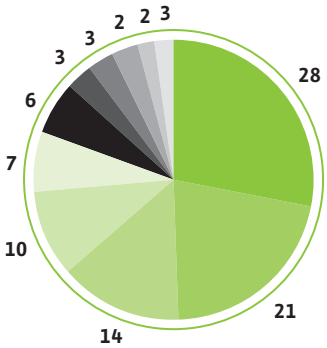
94 Residential
3 Commercial
2 Parking
1 Other



Residential Portfolio Clustered by Federal State

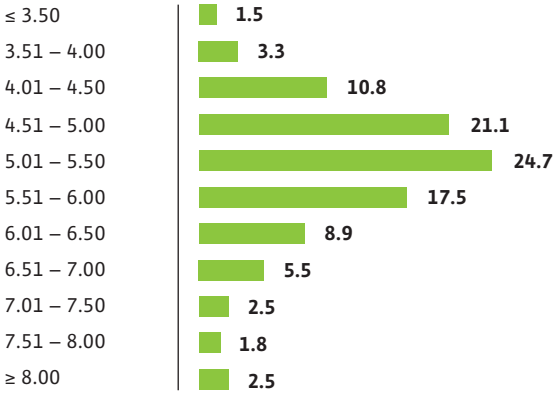
in %

28 Saxony
21 North Rhine-Westphalia
14 Lower Saxony
10 Berlin
7 Baden-Wurttemberg
6 Hamburg
3 Schleswig-Holstein
3 Bavaria
2 Hesse
2 Bremen
3 Other



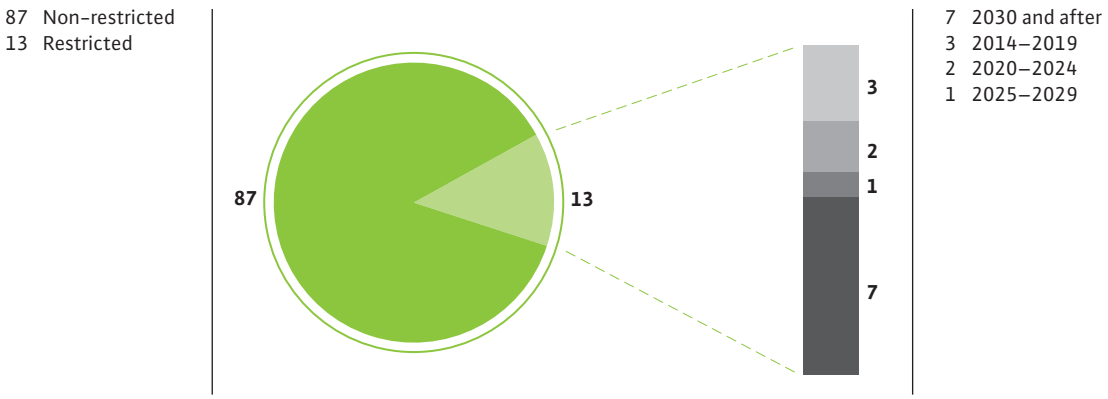
Residential Portfolio Clustered by Net Cold Rent (€/sqm) Excluding Vacant Units

in %



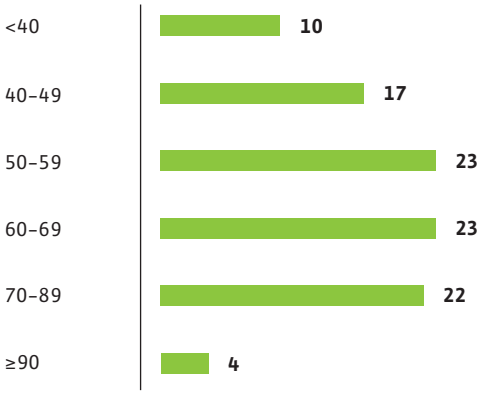
Non-restricted vs. Restricted Residential Portfolio Including Expiration Clusters by Year

in %



Residential Portfolio Clustered by Average Square meter per Unit

in %



INTERNAL FINANCIAL CONTROL SYSTEM

The two leading metrics for managing the operating business are net cold rent growth and vacancy rate of the residential portfolio. Like-for-like net cold rent growth is calculated as rent growth of residential properties owned both at the beginning and at the end of the period. The vacancy rate is calculated as number of vacant residential units as of the reporting date divided by the total number of residential units as of the same date. Rental income, i.e. the amount of gross rent collected over a given period, largely depends on the growth rate of the underlying rents and the level of vacancy within the portfolio.

The management of the business' earnings situation is closely linked to cash-based key performance indicators. Since EBIT and Net Result reported in the IFRS Consolidated Statement of Comprehensive Income include material non-cash and / or non-recurring items, GAGFAH's management, for the purpose of controlling the actual cash flows from the operating business, primarily focuses on Adjusted EBITDA, Recurring FFO and CAD (Cash Available for Distribution).

EBIT – Recurring FFO Bridge

€ million (unless stated otherwise)	2013	2014
EBIT	**335.1**	**471.5**
Depreciation and amortization	2.9	18.2
EBITDA	**338.0**	**489.7**
Reorganization and restructuring expenses [1]	6.9	31.6
Result from the fair value measurement of investment property	– 5.4	– 161.9
Other operating income / expenses (w / o property development business)	– 5.6	– 2.9
Non–cash rental income	– 4.0	– 5.5
Property development business	3.8	0.5
Result from other services and result from HB Funds [1]	– 2.5	– 3.8
Expenses for share–based remuneration	7.0	7.6
Profit from the sale of investment property and assets held for sale	– 15.5	– 16.8
Sales expenses [1]	12.6	11.2
Adjusted EBITDA	**335.3**	**349.7**
Adjusted EBITDA (€/share)	**1.64**	**1.62**
Net interest expenses	– 203.9	– 151.7
Current tax expenses	– 7.7	– 8.1
Recurring FFO before sales	**123.7**	**189.9**
Recurring FFO before sales (€/share)	**0.60**	**0.88**
Weighted average number of shares (in million, undiluted, excl. treasury shares)	204.8	215.4

1 Without depreciation and amortization

Adjusted EBITDA reflects the cash generated from the recurring operating business after all related expenses including overhead expenses. It is derived from the EBIT as stated in the IFRS Consolidated Statement of Comprehensive Income by adjusting that number for non-cash and non-recurring items. Similarly, Recurring FFO, or FFO I, is Adjusted EBITDA minus net interest expenses and cash tax expenses. Recurring FFO is the industry benchmark figure for recurring earnings from operations. While FFO definitions of the different companies may differ slightly, the recurring FFO usually does not account for certain cash elements; truly free cash flow, however, should take all cash items into account. Towards that end, GAGFAH calculates CAD to determine the fully loaded cash flow from the operating business.

The tables EBIT – Recurring FFO Bridge and Recurring FFO – CAD Bridge are a reconciliation of EBIT as stated in the IFRS Consolidated Statement of Comprehensive Income, first to the Adjusted EBITDA, then to FFO excluding and including sales, and finally to CAD.

Recurring FFO – CAD Bridge

€ million (unless stated otherwise)	2013	2014
Recurring FFO before sales	**123.7**	**189.9**
Recurring FFO before sales (€/share)	**0.60**	**0.88**
Sales proceeds	144.1	222.0
Sales expenses	– 12.6	– 11.2
Debt repayment	– 85.0	– 150.5
FFO including sales	**170.2**	**250.2**
FFO including sales (€/share)	**0.83**	**1.16**
Capex	– 26.3	– 60.1
Adjusted FFO (AFFO)	**143.9**	**190.1**
Adjusted FFO (AFFO) (€/share)	**0.70**	**0.88**
Mandatory amortization	– 23.1	– 37.4
EK02 payment	– 15.6	– 15.6
Reorganization and restructuring expenses [1]	– 6.9	– 31.6
Result from other services and result from HB Funds (incl. interest expenses) [1]	2.4	3.7
Other	– 4.0	– 8.5
Cash available for distribution (CAD 1)	**93.9**	**100.7**
Cash available for distribution (CAD 1) (€/share)	**0.46**	**0.47**
Net debt repayment	– 214.3	– 199.2
Cash received from equity contributions	176.1	0.0
Convertible bonds	0.0	375.0
Restricted to unrestricted cash	0.0	20.0
Payments in connection with acquisitions	0.0	– 289.8
Refinancing fees and other transaction costs	– 135.0	– 16.2
CAD 2	**– 79.3**	**– 9.5**
CAD 2 (€/share)	**– 0.39**	**– 0.04**
Weighted average number of shares (in million, undiluted, excl. treasury shares)	204.8	215.4

1 Without depreciation and amortization

In addition to these earnings-based key performance indicators, there are additional metrics for managing the Company. Net asset value (NAV) is the leading figure for determining the value of the Company. The calculation of NAV in line with current EPRA Best Practice Recommendations is laid out in the following table.

EPRA NAV

€ million (unless stated otherwise)	Dec. 31, 2013	Dec. 31, 2014
Shareholders' equity	2,235.2	2,185.3
Effect of exercise of options, convertibles and other equity interests	0.0	0.0
Deferred taxes on investment property and assets held for sale	581.9	709.0
Fair value of financial derivatives	– 5.6	215.1
Deferred taxes on financial derivatives	1.8	– 7.8
Goodwill (as a result from deferred taxes)	0.0	0.0
EPRA NAV	**2,813.3**	**3,101.6**
EPRA NAV (€/share)	**13.07**	**14.39**
Number of shares (million, excl. treasury shares, undiluted)	215.3	215.5

With regards to the capital structure, LTV is the predominant number used for determining the relation between the net debt position and the gross asset value of the real estate assets. The LTV is calculated as follows:

LTV

€ million (unless stated otherwise)	Dec. 31, 2013	Dec. 31, 2014
Financial liabilities	4,874	4,928
Bank balances and cash on hand	102	155
Net financial liabilities	**4,772**	**4,773**
Investment property	7,634	7,884
Assets held for sale	49	94
Owner–occupied properties	28	28
Total property value	**7,710**	**8,006**
LTV (in %)	**61.9**	**59.6**

ECONOMIC ENVIRONMENT

GROSS DOMESTIC PRODUCT

With approximately 80.8 million inhabitants in 2013 and a gross domestic product (GDP) of €2.8 trillion in 2013, Germany is the fourth largest economy in the world and the largest economy in Europe (Source: German Federal Statistical Office; World Bank). Germany is a leading, world-wide exporter particularly in the automotive, chemical, machinery, engineering and household equipment sectors. As a consequence of the recession in 2008 / 2009 – the deepest since World War II – the price-adjusted German GDP dropped by 5.6 % in 2009. However, the German economy recovered swiftly with a GDP increase of 4.1 % in 2010 and 3.6 % in 2011 (Source: German Federal Statistical Office). In 2012, GDP continued to grow and increased by 0.4 %, compared with the previous year in spite of modest global economic growth and continuing euro and sovereign debt crises. The substantial growth in the previous two years had been caused by a rapid recovery process after the global economic crisis of 2009. For 2013, the German Federal Statistical Office reported real GDP growth in Germany of 0.1 % (Source: German Federal Statistical Office). In its Annual Economic Report, the German government sees German GDP to grow by 1.5 % in 2014 and expects a growth rate of 1.5 % for 2015 (Source: German government). 2014 GDP growth is expected to come out at 1.3 % for the European Union and 0.8 % for the Euro Area. Similarly, 2015 forecasts see GDP growth at 1.5 % for the European Union and 1.1 % for the Euro Area (Source: European Commission). Germany's recovery and expected outperformance is based on a continuing strong global demand for German products mainly from outside the Eurozone.

OVERALL ECONOMIC ENVIRONMENT AND LABOR MARKET

The inflation in Germany has been declining from 2.1 % in 2011 to 2.0 % in 2012, 1.5 % in 2013 and 0.9 % in 2014. Similarly, the course of 2014 was a steady decline from 1.3 % year-on-year in January to 0.2 % in December. The trend in the Eurozone was not much different in 2014 with 0.8 % in January year-on-year steadily down to – 0.2 % in December (Source: German Federal Statistical Office) December marked the lowest year-on-year monthly inflation rate since September 2009 and was severely impacted by the low oil price (Source: Berenberg). The current inflation rate is substantially below the ECB target of "close to but below 2 %" which had fuelled the continuous debate about ECB asset purchase policies, which eventually materialized in January 2015.

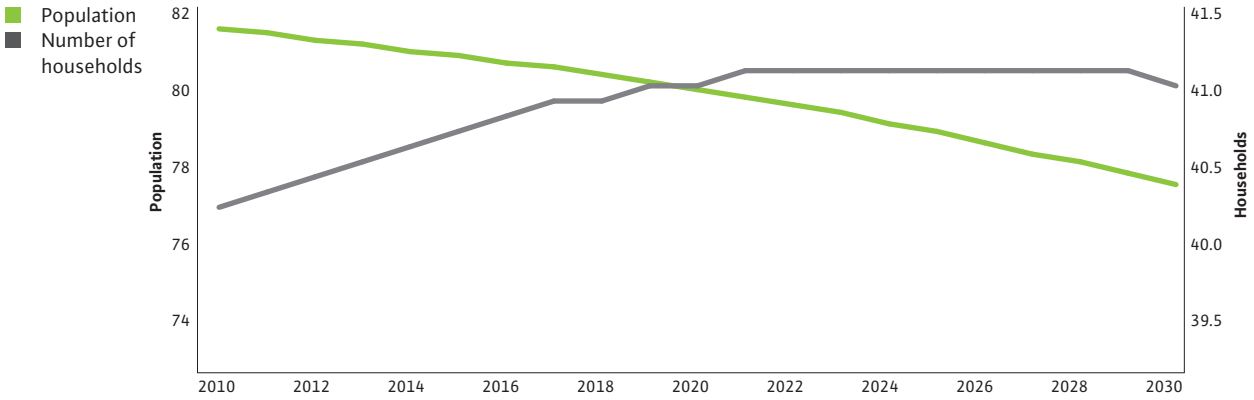
In spite of slowing GDP growth, the labor market remained robust; with an average unemployment rate of 6.7 % in 2014, the labor market is in a stronger shape than at any time in recent history. The unemployment rate had peaked at 11.7 % in 2005 and has been declining since then. At the end of 2014 it was as low as 6.4 % (Source: German Federal Statistical Office). According to the European Union, which applies a different definition to the unemployment statistics and sees Germany with an even lower number of 5.0 % unemployment, only Austria has a lower rate (4.9 %), and the average unemployment rate is 11.5 % for the Euro Zone and 10.0 % for the European Union (Source: German Federal Statistical Office).

DEMOGRAPHIC DEVELOPMENT

According to estimates from the Federal Statistical Office, Germany was home to a population of about 80.8 million people at the end of 2013. This represents a slight increase from the 80.5 million at the end of 2012 (Source: German Federal Statistical Office). Furthermore, Germany experiences a positive inflow of immigrants, with around 112,000 people having gained German citizenship in 2013 (Source: German Federal Statistical Office). On a more long-term basis, the overall

Estimated Development of Overall Population and Number of Households

in million



Source: German Federal Statistical Office

population in Germany is still forecasted to significantly decline. In its medium-term scenario, the German Federal Statistical Office expects the population in Germany to decline from about 82.0 million in 2008 to 77.4 million in 2030 (Source: German Federal Statistical Office).

At the same time, however, the number of households, which is the more relevant number when looking at demand for residential housing, is expected to grow from 40.2 million to 41.0 million during the same period. Within this trend, it is expected that one and two-person households will compose more than 80 % of the market whilst the number of households with three or more persons is expected to shrink by over 700 basis points to make up less than 19 % of the overall market (Source: German Federal Statistical Office).

Given the limited new supply of housing, this development should lead to an increase in the demand of residential units. We expect these trends to have a positive impact on residential rents and prices.

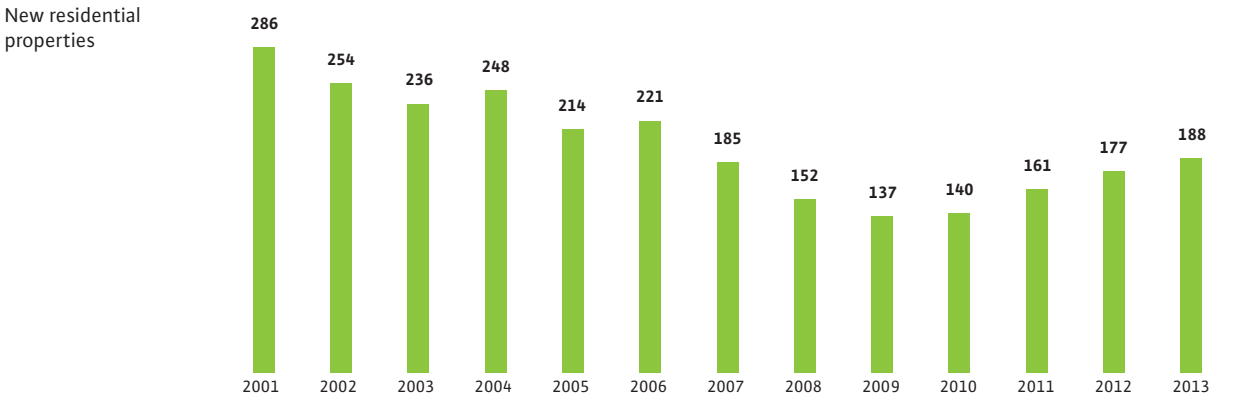
GERMAN RESIDENTIAL REAL ESTATE MARKET

The real estate industry in Germany contributes ca. 12 % or more than €250 billion to German GDP and employs more than 430,000 people. The total net asset value of all real estate in Germany is estimated to be more than €10 trillion including land and more than €7 trillion excluding land (Source: ZIA). Broken down to the residential real estate sector, the estimated net asset value is about €4.2 trillion, valued at replacement costs (Source: CBRE GmbH).

With about 41 million units, the German residential market is the largest in Europe. Of that amount, approximately 58 % are rental units and the remaining 42 % are inhabited by owner-occupiers. Within the rental segment of 23 million, more than 14 million units are owned by private, amateur landlords, 3.5 million by professional, non-listed owners, 2.5 million by municipal and other public owners and more than two million by other institutions. Only ca. 750,000 apartments are in the hands of listed property companies (Sources: CBRE GmbH, Jones Lang Lasalle, own calculations).

Average Annual New Residential Construction Volume in Germany

in thousand



Source: German Federal Statistical Office

In terms of supply, new residential construction activity peaked in the late 1990s with more than half a million new residential units being constructed per year. Since then, the level of new constructions has declined significantly. During the years 2001 to 2005, the average number of new constructions was still comparatively high with about 275,000 new residential units on average per year, while for the years 2006 to 2010 only 187,000 new residential buildings came to the market annually. This downward trend has broadly stabilized on a low level and the number of new constructions rose slightly to 196,000 residential units completed in 2013 (Source: German Federal Statistical Office). This recent development is most likely attributable to the low interest rate environment and the increasing belief that one's own home is a relevant part of one's old age provision. But even the slight increase in new constructions is probably not sufficient to cover demand. In its high-net-migration scenario, the Federal Institute for Research on Building, Urban Affairs and Spatial Development (Source: BBSR) estimates the demand for residential properties until 2025 to be around 256,000 units per year (Source: BBSR).

With regards to home-ownership, Germany has traditionally had one of the lowest home-ownership rates in Europe. While in Belgium, Portugal or Spain approximately three out of four people own the home in which they live, about half of all people in Germany do not own the accommodation in which they live. This is the lowest home ownership rate of any country within the European Union, where the overall average home ownership rate is ca. 70 % (Source: EuroStat). Within Germany, the home-ownership rate varies greatly; Berlin, for example, has the lowest rate with 16 %, while in the Saarland, more than 63 % of all people own their home (Source: German Federal Statistical Office).

DEVELOPMENT OF LOCAL MARKET RENTS

While rent growth in larger cities has picked up in recent months, the overall rent growth in Germany continues at a slow but steady pace with a slight upward trend for the national average. The Federal Statistical Office found that net cold rents in Germany grew by 1.6 % in 2013 and by 1.5 % in 2014. Both growth rates are above the rates of prior years. (Source: German Federal Statistical Office).

However, different local markets have seen different developments. While rent growth in urban areas has been gaining momentum, the trend in small towns and rural areas has been less dynamic. Cities such as Berlin, Hamburg or Dusseldorf, for example, are expected to have seen rent growth of up to 4 % in 2013 and 2014 (Source: DG Hyp).

TRANSACTION MARKET AND APARTMENT PRICES

The transaction volume on the German residential real estate market reached about €12.9 billion in 2014, which was the second largest volume since 2007. A total of 218,000 units were traded in smaller and larger transactions. The average deal size was 580 units per transaction, which is slightly higher than the 526 units in the record year 2013. About one third of all transactions included 800 units or less. In terms of geography, more than 60 % of the transaction volume was represented by geographically diversified portfolios. The top three locations Berlin, the Ruhr Area and Hamburg represented more than €3 billion of the total volume. In light of the continuously favorable market conditions and investment climate, the 2015 transaction volume is expected to be in line with 2014 (Sources: Jones Lang LaSalle).

Net Cold Rent Development in Germany

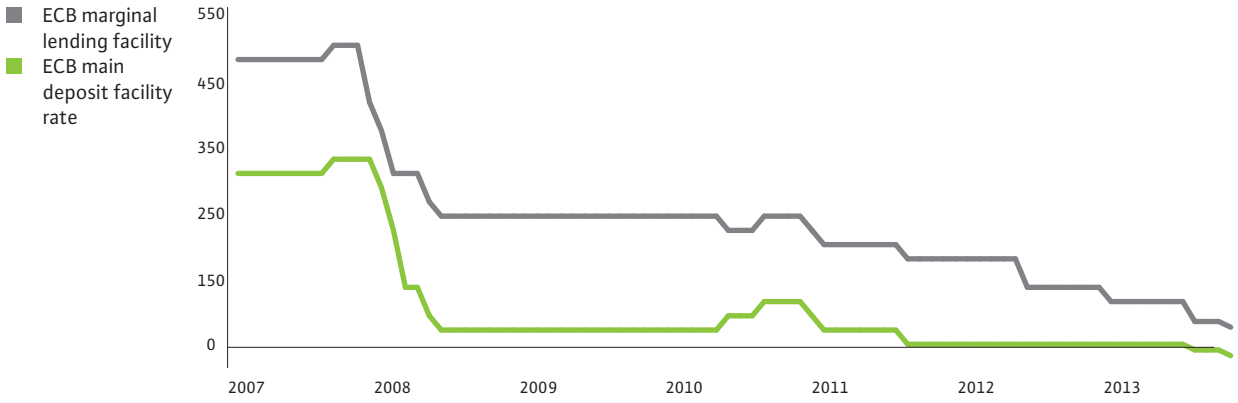
in %, as compared to prior year

Source: German Federal Statistical Office

Real estate prices in Germany have traditionally been stable and have not been subject to extreme volatility. The traditionally long-term secured financing is generally considered one of the main reasons why Germany has not been exposed to the boom and bust cycles that became evident in many other countries such as Spain, Ireland or the United States. According to the Hypoport Composite Index, one of the most widely recognized price indices in Germany, prices for existing apartments and new homes grew by 1.6 % between Q3 2013 and Q3 2014. The overall price increase since mid-2005, when this index started

ECB Interest Rates

in bps



Source: European Central Bank

tracking prices, amounts to 17.0 %, although this movement was mainly driven by a steep price increase of 9.7 % between September 2012 to September 2014, it generally indicates a moderate upward movement of apartment prices in Germany (Source: Hypoport).

The sovereign debt crisis, the general economic uncertainty and the continued low-interest rate environment have all contributed to a stronger demand for German residential assets, and this demand is generally expected to create an upward pressure on prices.

FINANCING ENVIRONMENT IN GERMANY

With increased competition on the loan supply side and banks regaining confidence in cheap refinancing, interest rates are reaching historical lows. As a result, borrowers find themselves in one of the most favorable markets for real estate loans. This environment is especially supported by the European Central Bank's decisions on interest rate reductions. Since early September 2014, the main refinancing rate of the Eurosystem has been 0.05 % and the bank deposit facility has been pushed even further into the negative and now stands at – 0.20 % (Source: European Central Bank).

ANALYSIS OF RESULTS OF OPERATIONS, NET WORTH AND FINANCIAL POSITION

Condensed Consolidated Income Statement for the period from January 1 to December 31, 2014

€ million	2013	2014
Income from the leasing of investment property	829.8	833.5
Transferable leasehold land interest	– 2.2	– 2.2
Operating expenses for the generation of rental income (excluding share-based remuneration)	– 455.0	– 440.6
Profit from the leasing of investment property	**372.6**	**390.7**
Income from the sale of investment property and assets held for sale	144.1	222.0
Carrying amount of the sold investment property and assets held for sale	– 128.6	– 205.2
Profit from the sale of investment property and assets held for sale	**15.5**	**16.8**
Result from the fair value measurement of investment property	**5.4**	**161.9**
Income from the sale of property development projects	1.1	2.2
Carrying amount of property development projects sold	– 1.0	– 1.2
Profit from the sale of property development projects	**0.1**	**1.0**
Result from other services	1.0	2.4
Selling expenses (excluding share-based remuneration)	– 12.1	– 11.1
General and administrative expenses (excluding share-based remuneration)	– 34.9	– 37.2
Expenses for share-based remuneration	– 7.0	– 7.6
Other operating income	8.8	15.2
Other operating expenses	– 7.1	– 28.7
Profit from operations before reorganization and restructuring expenses	**342.3**	**503.4**
Reorganization and restructuring expenses	– 7.2	– 31.9
Earnings before interest and taxes (EBIT)	**335.1**	**471.5**
Interest expenses	– 220.6	– 181.1
Interest income	0.8	1.4
Other financial expenses	– 0.1	– 0.2
Result from the fair value measurement of derivatives	1.5	– 171.9
Refinancing expenses	– 67.9	– 11.4
Net financing expenses	**– 286.3**	**– 363.2**
Earnings before taxes (EBT)	**48.8**	**108.3**
Income taxes	– 45.5	– 125.2
Net result	**3.3**	**– 16.9**
Net result attributable to:		
Non-controlling interests	**3.5**	**8.3**
Shareholders of the parent company	**– 0.2**	**– 25.2**

PROFIT FROM THE LEASING OF INVESTMENT PROPERTY (NOI)

The profit from the leasing of investment property (NOI) represents the excess of income from the leasing of investment property (rents and other charges to tenants) over land rent expenses and related operating expenses for the generation of rental income and is computed as follows:

Profit from the Leasing of Investment Property (NOI)

€ million	2013	2014
Rental income, fees	554.6	561.0
Allocations charged	274.1	271.5
Other	1.1	1.0
Income from the leasing of investment property	**829.8**	**833.5**
Transferable leasehold land interest	– 2.2	– 2.2
Operating expenses	– 455.0	– 440.6
Profit from the leasing of investment property (NOI)	**372.6**	**390.7**

Despite a 1.6 % fewer units on average during the course of 2014, the profit from the leasing of investment property (NOI) increased to € 390.7 million in 2014 from € 372.6 million in 2013. For further information on the development of the single line items see the explanations below.

INCOME FROM THE LEASING OF INVESTMENT PROPERTY

The leasing of investment property is our core business and hence the primary component of our income from operations. Our strategy is to raise rents to market levels while maintaining occupancy and the quality of accommodation. Rents are continuously evaluated against market levels and adjusted over time.

The income from the leasing of investment property in 2014 was € 833.5 million after € 829.8 million in the prior-year and is composed of:

Income from the Leasing of Investment Property

€ million	2013	2014
Rental income, fees	554.6	561.0
Allocations charged	274.1	271.5
Other	1.1	1.0
Total	**829.8**	**833.5**

Approximately 67 % (€ 561.0 million) of the income from leasing was attributable to rental income and fees. On an average per square meter basis, rents grew by 2.7 % from € 5.21 at the end of 2013 to € 5.35 at the end of 2014. On a like-for-like basis, the rent growth was 2.6 % between 2013 and 2014.

Approximately 33 % (€ 271.5 million) of the income from leasing was related to charges to tenants for recoverable operating expenses (allocations charged). The decrease in allocations charged corresponds with a simultaneous effect in the operating expenses recoverable from tenants.

Rental income is net of vacancy. Our vacancy rate at the end of 2014 was 3.4 % (equaling an occupancy rate of 96.6 %) after 4.1 % at the end of 2013. This significant reduction compared to the prior-year period is a result of our effective sales program and our continuing successful vacancy reduction program which was commenced in the course of the financial year 2013.

OPERATING EXPENSES FOR THE GENERATION OF RENTAL INCOME

Operating expenses in 2014 decreased to €440.6 million after €455.0 million in the prior year and consist of the following items:

Operating Expenses for the Generation of Rental Income

€ million	2013	2014
Real estate operating expenses	243.4	236.5
Real estate tax	23.5	24.8
Operating expenses recoverable from tenants	266.9	261.3
Repair and maintenance expenses	78.0	73.1
Personnel expenses	63.7	62.8
Bad debt allowances	8.0	8.0
Administrative expenses	11.5	12.7
External costs for real estate management	6.9	4.8
Real estate operating expenses	4.7	5.0
Real estate tax	0.4	0.3
Amortization an depreciation on Intangible assets and property, plant and equipment	1.6	2.2
Other	13.3	10.4
Operating expenses non-recoverable from tenants	188.1	179.3
Total	**455.0**	**440.6**

Operating expenses for the generation of rental income include expenses that are mainly recoverable from our tenants such as heating, electricity, water, sewage and real estate taxes as well as non-recoverable expenses such as maintenance costs and personnel expenses. We are expanding the services of our facility management companies to reduce external costs and to gain more independence from third party services.

Recoverable operating expenses were €261.3 million in 2014 compared to €266.9 million in the prior-year period. The decrease in real estate operating expenses is largely attributable to extraordinary high heating expenses in the prior year. Due to the fact that those expenses are chargeable to our tenants, the decrease is mirrored in the line item "Allocations charged" in section "Income from the Leasing of Investment Property".

Non-recoverable operating expenses were €179.3 million in 2014 compared to €188.1 million in the prior-year.

Of that amount, repair and maintenance costs were €73.1 million after €78.0 million in the year 2013. The decrease in repair and maintenance costs has to be considered together with an increase in capex to €60.1 million in 2014 (prior-year period: €26.3 million). The amount of work carried out by our 100 % affiliated facility management companies remained on a constantly high level.

The combined investments of repairs and maintenance and capex on a per square-meter basis increased from €13.84 in the prior year period to €17.59 in 2014.

PROPERTY-RELATED CAPEX

Capex breaks down as follows:

Property-related Capex

€ million	2013	2014
Turnover investments	14.4	21.7
Vacancy reduction investments	3.5	13.7
Large capex projects	8.4	24.7
Capex concerning investment property	**26.3**	**60.1**

The investments fall into these three categories:

TURNOVER INVESTMENTS

We are investing in individual flats in order to benefit from the positive rent dynamics in various local markets. By upgrading the apartments to a higher standard (modernized bathroom etc.), we are able to offer a better product for which we can then charge a higher rent. This is also a main driver behind the improved rent growth.

VACANCY REDUCTION INVESTMENTS

During the period of careful property spending we built up a pool of vacant units in good locations. These vacancies are usually not the result of insufficient market demand but rather of the below-average quality of the product in a given location.

LARGE CAPEX PROJECTS

This includes the repositioning of entire buildings through extensive refurbishments, often including energy efficient renovation of the facade, modernization of roofs, heating systems, entrance areas and balconies etc.

SALE OF INVESTMENT PROPERTY AND ASSETS HELD FOR SALE

We closed the sale of 4,934 units for a total consideration of €222.0 million in 2014. Of that amount, 766 units for €82.0 million came from our condo sales program and the remaining 4,168 units for €140.0 million were portfolio strategy sales. Total net cash for sales in 2014 amounted to €60.3 million (prior year: €46.5 million).

Our condo sales break down as follows:

Condo Sales

	2013	2014
Sold units	613	766
Gross proceeds (€ million)	58.0	82.0
Carrying value (€ million)	– 47.0	– 65.0
Gross margin (in %)	23.4	26.2
NCR multiple	19.6	20.2

The improved condo sales performance resulted in a higher gross margin and a better NCR multiple.

ACQUISITION OF VITU ACQUICO I GMBH AND GRIFFIN FLATS NRW GMBH

On December 18, 2014, GAGFAH Holding GmbH acquired the VITEX Group including VITU ACQUICO I GMBH and a majority of its subsidiary GRIFFIN FLATS NRW GMBH.

The business of VITEX Group is the ownership of a well-maintained residential property portfolio.

The following table summarizes the consideration paid for VITEX Group, the fair value of assets acquired, liabilities assumed and the non-controlling interest at the acquisition date.

Acquisition of Vitu Acquico I GmbH and Griffin Flats NRW GmbH

			Amounts recognized at the acquisition date	Carrying amounts immediately before combination
€ million	VITU ACQUICO I GMBH	GRIFFIN FLATS NRW GMBH	Total	VITEX Group
Investment property	0.0	182.9	182.9	185.5
Other financial assets	1.5	0.0	1.5	1.5
Receivables and other assets	62.7	4.6	67.3	4.6
Bank balances and cash on hand	0.0	5.0	5.0	5.0
Assets	**64.2**	**192.5**	**256.7**	**196.6**
Other provisions	0.0	0.5	0.5	0.5
Deferred tax liabilities	0.0	3.9	3.9	0.0
Financial liabilities	0.0	191.5	191.5	128.8
Other liabilities	0.0	2.4	0.0	2.4
Liabilities	**0.0**	**198.3**	**198.3**	**131.7**
Fair value of net assets	**64.2**	**– 5.8**	**58.4**	**64.9**
Non-controlling interest	**0.0**	**– 0.3**	**– 0.3**	**– 0.1**
Costs of acquisition:				
Acquisition costs	192.9	–	192.9	
Incidental acquisition costs	1.8	–	1.8	
	194.7	–	194.7	
Cash outflows due to acquisition:				
Cash outflows in the fiscal year	192.9	–	192.9	
Cash acquired with the subsidiaries	0.0	5.0	5.0	
Net cash outflow	**192.9**	**5.0**	**187.9**	

RESULT FROM THE FAIR VALUE MEASUREMENT

The value of our investment property including assets held for sale amounts to €7,978.7 million and represents a net cold rent multiple of 13.4 on the target rent as of December 31, 2014. The result from the fair value measurement in 2014 was a gain of €161.9 million after a small gain of €5.4 million in the prior year.

As in prior years, the fair value measurement was conducted by CBRE, an independent appraiser. Their fair market valuation model is based on a discounted cash flow (DCF) model, which derives the present value from the properties' future cash flows. The valuation is computed on a property-by-property basis. The DCF model is based on a detailed planning period of ten years, within which the relevant real estate cash flow components are forecast each period according to the risk assessment of each individual property.

One material key driver in the DCF are potential rent increases. To estimate the market rent, CBRE takes into account market conditions as well as the advantages and disadvantages of the locations and the properties themselves, so far as they have an effect on the letting ability. In the year 2014 the estimated market rents increased by €0.08 to €5.52 per sqm and month. Mainly due to this increase of market rents the valuation results in a gain of €161.9 million in 2014.

OTHER INCOME AND EXPENSE ITEMS

Other income and expense items for our Group totalled a net expense of €67.0 million in 2014, as compared to a net expense of €51.3 million in the prior-year. The development of our other income and expense items is shown in the table below:

Other Income and Expense Items

€ million	2013	2014
Result from other services	1.0	2.4
Selling expenses	– 12.1	– 11.1
General and administrative expenses	– 34.9	– 37.2
Expenses for share-based remuneration	– 7.0	– 7.6
Other operating income	8.8	15.2
Other operating expenses	– 7.1	– 28.7
Total	**– 51.3**	**– 67.0**

The result from other services contains revenues from activities such as caretaker services for third parties and insurance brokerage fees. The improved result from other services is mainly influenced by decreased personnel costs of €1.7 million between 2013 and 2014.

Selling expenses mainly include external broker fees, personnel expenses, as well as sales-related general and administrative expenses in connection with our sales operations.

General and administrative expenses mainly consist of personnel costs, IT costs, consulting fees, audit fees and office costs. The overall increase in general and administrative expenses to €37.2 million in the year 2014 (prior year: €34.9 million) results mainly from higher personnel expenses for administrative staff as a result of higher additions to provisions for bonus compensation.

The expenses for share-based remuneration result from new long-term incentive plans established in the course of the financial year 2013.

All income and expenses not directly allocable to the various categories of income or expenses according to the cost of sales method are disclosed in other operating income or other operating expenses, respectively.

The increase in the other operating income of €6.4 million from €8.8 million in the year 2013 to €15.2 million in the year 2014 is mainly caused by reversal of provisions for income tax of €5.4 million (prior year: €0.0 million).

The increase of the other operating expenses is caused by an impairment of goodwill from Berlin portfolio of €14.9 million in 2014. We refer to section E.1. of the notes "Intangible Assets".

REORGANIZATION AND RESTRUCTURING EXPENSES

Reorganization and restructuring expenses relate to our Group's rationalization of costs and integration of processes as we continue to combine and optimize the operations of our Group companies and portfolios.

In 2014, total reorganization and restructuring expenses were €31.9 million, compared to €7.2 million in 2013. The overall increase is mainly due to consulting costs in connection with the Capital Market Monitoring Project of €21.7 million and the reorganization program "GAGFAH 2015" of €3.4 million.

EARNINGS BEFORE INTEREST AND TAXES (EBIT)

The increase in EBIT from €335.1 million in 2013 to €471.5 million in 2014 mainly results from the result from fair value measurement of investment property of €161.9 million countered by higher expenses for reorganization and restructuring of €31.9 million.

NET FINANCING EXPENSES

Our net financing expenses are the sum of the following items:

Net Financing Expenses

€ million	2013	2014
Interest expenses related to loans	– 198.1	– 145.5
Other	– 22.5	– 35.6
Total interest expenses	**– 220.6**	**– 181.1**
Interest income	0.8	1.4
Other financial expenses	– 0.1	– 0.2
Result from the fair value measurement of derivatives	1.5	– 171.9
Refinancing expenses	– 67.9	– 11.4
Net financing expenses	**– 286.3**	**– 363.2**

Net financing expenses are the sum of interest expenses on borrowings and the cost of refinancing of our Group's indebtedness, adjusted by interest income and the result from the fair value measurement of derivatives.

Total interest expenses decreased substantially to €181.1 million in 2014 from €220.6 million in the prior-year. The decrease reflects lower interest rates as a result of the successful refinancing of the subgroups GAGFAH, WOBA and NILEG as well as lower interest payments as a consequence of the scheduled amortization of financial liabilities in the course of the financial year 2013.

The increase in the line „Other" of €13.1 million from €22.5 million in 2013 to €35.6 million in 2014 is mainly due to higher amortization of financial liabilities of €8.6 million from 2013 to €23.2 million in the year 2014. The prior-year figure was also influenced by an extraordinary income from the reversal of an accrual concerning a margin step-up in the former GAGFAH loan of €12.2 million.

The decrease in refinancing expenses results from extraordinary high prior-year expenses due to our completed refinancing processes in the financial year 2013.

Net financing expenses increased considerably to €363.2 million in 2014 compared to €286.3 million in the prior-year period mainly due to the result from the fair value measurement of derivatives.

The result from the fair value measurement of derivatives is mainly influenced by the derivative component of the convertible bonds. The market value depends on the performance of GAGFAH GROUP shares. As a result of the increase of the share price in the second half of 2014, the valuation of the market valuation results in a loss of €173.2 million (prior year: €0.0 million).

The effect of the derivative component of the convertible bonds is countered by an income of €1.3 million (prior year: €1.5 million) from the fair value measurement of interest rate swaps.

EARNINGS BEFORE TAXES (EBT)

In 2014, our Group's EBT was €108.3 million, as compared to €48.8 million in 2013. Earnings before taxes are computed as earnings before interest and taxes (EBIT) of €471.5 million reduced by net financing expenses of €363.2 million. The increase of EBT in 2014 is mainly due to a better operating performance, the gain in the fair value measurement of investment property and lower interest expenses.

INCOME TAXES

Income taxes of €125.2 million (prior year: €45.5 million) comprise deferred income tax expenses of €117.1 million (prior year: €37.8 million) and current income tax expenses of €8.1 million (prior year: €7.7 million). Deferred income tax expenses result from reduction in deferred tax assets from loss carryforwards due to the potential change of control and changes in deferred tax liabilites from temporary differences. The deferred tax liabilities from temporary differences mainly result from differences between the carrying amounts of investment property disclosed in the IFRS Statement of Financial Position and in the Tax Statement. The increase of deferred income tax expenses is mainly driven by the rise of the result from fair value measurement on investment property of €161.9 million. On the other hand the effect from the market valuation of the derivative component of the convertible bond of €173.2 million has no influence on the deferred taxes. For further information about deferred taxes see chapter F. 13. "Income taxes" of the notes.

VOLUNTARY PUBLIC TAKEOVER OFFER BY DEUTSCHE ANNINGTON IMMOBILIEN SE

Excluding the effects of the voluntary public takeover offer by Deutsche Annington Immobilien SE the net result for the reporting year would have been €168.4 million (€185.7 million higher than the €–17.3 million reported in the Income Statement). The actual result for 2014 was negatively impacted by €21.7 million for expenses for the Capital Markets Monitoring Project, €125.8 million relating to the valuation of the derivative component of convertible bonds, mainly related to the takeover bid and €38.2 million in relation to the reduction in deferred tax assets from loss carryforwards due to the potential change of control.

EPRA NET ASSET VALUE (NAV)

Since December 31, 2013, the undiluted EPRA NAV per share increased by 10.1 % to €14.39 and the diluted EPRA NAV per share increased by 10.6 % to €14.33. The increase in the diluted and undiluted EPRA NAV per share predominantly results from higher fair values of the investment properties.

Below is the NAV calculation as supported by EPRA Best Practices Recommendations:

EPRA Net Asset Value (NAV)

€ million (unless stated otherwise)	12-31-2013	12-31-2014
Shareholders' equity	**2,235.2**	**2,185.3**
Effect of exercise of options, convertibles and other equity interests	0.0	0.0
Deferred taxes on investment property and assets held for sale	581.9	709.0
Fair value of financial derivatives	– 5.6	215.1
Deferred taxes on financial derivatives	1.8	– 7.8
Goodwill (as a result from deferred taxes)	0.0	0.0
EPRA NAV	**2,813.3**	**3,101.6**
EPRA NAV per share (€, undiluted)	**13.07**	**14.39**
EPRA NAV per share (€, diluted)	**12.96**	**14.33**
Number of shares (million, excl. treasury shares, undiluted)	215.3	215.5
Number of shares (million, excl. treasury shares, diluted)	217.1	216.4

Diluted EPRA NAV did not include the effect from the convertible bond as this effect is undilutive with regard to a conversion price of €15.50. Taking into account the convertible bond amounting to €359.6 million in connection with an adjusted conversion price of €12.30, diluted EPRA NAV would be €14.02.

The negative impact of the public takeover offer by Deutsche Annington Immobilien SE on NAV amounts to €59.9 million, thereof €21.7 million for expenses for the Capital Markets Monitoring Project and €38.2 million from the reduction in deferred tax assets from loss carryforwards due to the potential change of control. On an undiluted per share base the negative impact was €0.28.

FINANCIAL POSITION

As of December 31, 2014, and December 31, 2013, the Group's equity and liabilities were as follows:

Financial Position

	12-31-2013 (€ million)	12-31-2013 (%)	12-31-2014 (€ million)	12-31-2014 (%)
Total equity	2,272.3	28.6	2,154.6	25.9
Financial liabilities	4,874.3	61.2	4,928.0	59.2
Other liabilities	813.2	10.2	1,243.7	14.9
Total equity and liabilities	**7,959.8**	**100.0**	**8,326.3**	**100.0**

As of December 31, 2014, the Group's financial liabilities break down as follows:

Group's Financial Liabilities

€ million (unless stated otherwise)	Carrying amount	Notional amount	Weighted average years to maturity	Current average interest rate (%)
Commercial mortgage-backed floating rate notes	2,622.5	2,635.7	3.7	2.75
thereof fixed [1]	2,457.1	2,467.0	3.7	2.82
thereof floating	165.4	168.7	3.8	1.76
Loans granted by institutional lenders	1,651.5	1,674.9	4.0	3.06
thereof fixed [1]	1,326.5	1,359.2	3.8	3.30
thereof floating, secured with cap	202.4	196.9	4.8	2.03
thereof floating	122.7	118.9	5.6	2.03
Convertible Bonds	359.6	375.0	4.4	1.50
Senior debt (fixed)	281.9	343.1	22.5	2.00
Other (fixed)	12.5	12.5	4.1	4.49
Total	**4,928.0**	**5,041.2**	**5.1**	**2.71**

1 In order to reduce the risk of interest rate fluctuations during the lifetime of the loans, we have predominantly hedged the interest rate cost of the loans through interest rate swaps.

The difference between the notional amount and the carrying amount as shown in the Consolidated Statement of Financial Position results from the application of the effective interest rate method and the fair value measurement of senior debts, amortized transaction costs and interest accruals.

ASSETS AND LIABILITIES

The Consolidated Statement of Financial Position of GAGFAH GROUP breaks down into the following main categories:

Assets and Liabilities

€ million	12-31-2013	12-31-2014
Non-current assets	7,703.0	7,963.0
Current assets	208.2	268.8
Assets held for sale	48.6	94.5
Total assets	**7,959.8**	**8,326.3**
Equity	2,272.3	2,154.6
Non-current liabilities	4,952.2	5,217.5
Current liabilities	735.3	954.2
Total equity and liabilities	**7,959.8**	**8,326.3**

Non-current assets of €7,963.0 million mainly include investment property of €7,884.2 million (99.0 % of all non-current assets) and €33.8 million (0.4 %) property, plant and equipment. Non-current assets make up 95.6 % of total assets.

Current assets of €268.8 million mainly include bank balances and cash on hand of €154.9 million (57.6 % of all current assets), receivables of €46.5 million (17.3 %) and other assets of €67.4 million (25.1 %).

Non-current liabilities of €5,217.5 million mainly comprise €4,395.7 million financial liabilities (84.2 % of all non-current liabilities), €448.0 million deferred tax liabilities (8.6 %) and €141.1 million pension provisions (2.7 %).

Current liabilities of €954.2 million mainly include financial liabilities of €532.3 million which is 55.8 % of all current liabilities. The increase is mainly due to the successful placement of convertible bonds in May 2014 with a present value of the derivative component in the current liabilities of €191.6 million (prior year: €0.0 million)

DIVIDENDS

In its meeting on February 27, 2015, the Board of Directors of GAGFAH S. A. decided to propose to the Annual Shareholder Meeting the payment of a cash dividend of €0.35 per share for the financial year 2014.

SIGNIFICANT EVENTS AFTER THE REPORTING DATE

VOLUNTARY PUBLIC TAKEOVER OFFER BY DEUTSCHE ANNINGTON IMMOBILIEN SE

On December 1, 2014, Deutsche Annington Immobilien SE launched a voluntary public takeover offer to the shareholders of GAGFAH S. A. to acquire all shares of GAGFAH S. A. for payment of €122.52 in cash plus five shares of Deutsche Annington Immobilien SE per 14 tendered shares of GAGFAH S. A. The acceptance period started on December 19, 2014, and ended on January 21, 2015. On January 26, 2015, Deutsche Annington announced that the takeover offer had been accepted for a total of 84.8 % of all GAGFAH S. A. shares (assuming full conversion of GAGFAH S. A.'s convertible bonds). The acceptance period was followed by an additional acceptance period from January 27 to February 9, 2015. On February 17, 2015, Deutsche Annington announced that the takeover offer had been accepted for a total of 93.8 % of all GAGFAH S. A. shares (assuming full conversion of GAGFAH S. A.'s convertible bonds).

CONVERTIBLE BONDS CHANGE OF CONTROL

GAGFAH S. A. had issued convertible bonds with a total volume of €375 million on May 13, 2014. On December 19, 2014, GAGFAH had notified bondholders and the capital markets about the voluntary public takeover offer by Deutsche Annington Immobilien SE to shareholders of GAGFAH S. A. This notice included, inter alia, a reference to the terms and conditions of the convertible bonds and the rights of the bondholders under the terms and conditions of the convertible bonds either to demand the early redemption of their convertible bonds or to exercise their conversion rights on the basis of the adjusted conversion price by submitting a conditional conversion notice if due to the offer a change of control occured. Following Deutsche Annington Immobilien SE's announcement of the results of the offer period on January 26, 2015, GAGFAH published a note to convertible bondholders and the capital markets on the same day. This note included, inter alia, the adjusted conversion price and the effective date in relation to the early redemption of the convertible bonds.

As of January 21, 2015, convertible bonds holders with a total of approximately €355 million nominal value (ca. 95 %) had submitted a valid conditional conversion notice, leading to the creation of 28,864,657 shares. Hence, the total number of GAGFAH S. A. shares outstanding as of the end of January was 244,817,212, of which 459,057 were treasury shares. As of February 20, all of the remaining convertible bonds with a nominal value of about €20 million had submitted a regular conversion notice and were also redeemed in shares. At the end of February, the total number of outstanding GAGFAH S. A. shares was 246,166,178, of which 199,017 were treasury shares.

CORPORATE GOVERNANCE

VOLUNTARY DECLARATION ON THE GERMAN CORPORATE GOVERNANCE CODE IN ACCORDANCE WITH § 161 AKTG

Introduction GAGFAH S. A., Luxembourg, is a securitization company under the Luxembourg Securitization Law of March 22, 2004 in the legal form of a stock company under Luxembourg law (Société Anonyme – S. A.) whose shares are admitted for trading solely on the Frankfurt Stock Exchange.

For this reason the Luxembourg Code of Corporate Governance relevant for listed companies in Luxembourg is not applicable for GAGFAH S. A. Furthermore, also the corresponding German corporate governance system which refers to German stock corporations within the meaning of Section 161 of the German Stock Corporation Act (Aktiengesetz – "AktG")) is not applicable.

Although GAGFAH S. A. is outside the scope of Section 161 para 1 AktG, the Board of Directors of GAGFAH S. A. has decided, to make a voluntary declaration in relation with the "German Corporate Governance Code" in the version of June, 24 2014 (the "Code") in accordance with Section 161 AktG, since the Code is in the opinion of the Board of Directors of GAGFAH S. A. a key element for responsible corporate governance.

APPLICABILITY OF THE RECOMMENDATIONS BASED ON THE PECULIARITY OF THE LUXEMBOURG COMPANY LAW AND THE GOVERNANCE STRUCTURE OF GAGFAH S. A.

The Code presents essential statutory regulations for the management and supervision (governance) of German listed companies and contains internationally and nationally recognized standards for good and responsible governance. The Code aims to make the German Corporate Governance system transparent and understandable. Its purpose is to promote the trust of international and national investors, customers, employees and the general public in the management and supervision of listed German stock corporations.

The individual recommendations of the Code are only relevant for GAGFAH S. A. insofar as they are in conformity with the Luxembourg securitization and corporate law as well as GAGFAH S. A.'s governance structure. In particular, GAGFAH S. A.'s governance structure does not follow the two-tier system with the Executive Board (Vorstand) and Supervisory Board (Aufsichtsrat) but the one-tier system with a Board of Directors (Verwaltungsrat). The Code is based on the two-tier system for German stock corporations that distinguish between the Management Board and Supervisory Board of a company.

The corporate purpose of GAGFAH S. A. as a securitization company is the securitization of risks, especially risks associated with (German) property that are owned by GAGFAH

S. A.'s German subsidiaries. This results in the particularity that the company's purpose at the level of GAGFAH S. A. is limited to the securitization of risks, while GAGFAH S. A.'s subsidiaries are operating in the housing industry. At the top level of the companies operating in the housing industry stands GAGFAH Holding GmbH, Essen, as a holding company. GAGFAH Holding GmbH is led by the senior management (CEO, CFO and COO of the GAGFAH GROUP). At the level of GAGFAH Holding GmbH an advisory board (Beirat) has been implemented; the relevant company law regulations contain regulatory elements at the level of GAGFAH S. A.'s subsidiaries operating in the housing industry.

In line with the foregoing description, the following voluntary statement refers to the GAGFAH S. A.'s Board of Directors in case it seems reasonable to comply with the Code's recommendations in relation to the Executive Board and Supervisory Board and with reference to the two-tier system which is the underlying principle the Code. In addition, in the opinion of GAFGAH S. A.'s Board of Directors, the following exceptions apply in connection with the governance structure of the one-tier system and the Luxembourg securitization and corporate law:

- Contrary to Section 2.2.1 of the Code, the auditor is not appointed by the company's annual general meeting, since, according to the Luxembourg Securitization Law of March 22, 2004, the Board of Directors decides on the appointment of the auditor.

- Contrary to Section 5.4.3 sentence 2 of the Code, Luxembourg law does not allow to have an application for the judicial appointment of a member of the Board of Directors which is limited in time. Luxembourg law provides for a so-called co-optation of new members of the Board by the other members of the Board of Directors and the co-opted member must then be confirmed by the company's annual general meeting.

- Contrary to Section 5.5.3 of the Code, only the annual general meeting of GAGFAH S. A. can dismiss members of the Board of Directors and is therefore the only competent authority to decide if significant and non-temporary conflicts of interest in the person of a Director shall lead to a termination of the Director's mandate.

Despite the above-mentioned legal and structural peculiarities of GAGFAH S. A. (GAGFAH S. A. as a Luxembourg securitization company with a one-tier governance structure) GAGFAH S. A. mainly complies with the recommendations of the Code. In particular, the recommendations to Cipher 2 (Shareholders and General Meeting), 6 (Transparency) and 7 (Accounting and Auditing) are fully complied with. In light of the foregoing reasons, the Board of Directors is of the opinion that only the following recommendations of the Code cannot be taken into consideration: Cipher 3.1 to 3.4, 3.6, 3.8 para. 2 (recommendations relating to the interaction of the Executive Board and the Supervisory Board), 4.2.1 to 4.2.5, 4.3 (recommendations relating to the Executive Board), 5.1.1 to 5.1.2, 5.2 para. 3, 5.4.1 para. 2 and para. 3 sentence 3, 5.4.2, 5.4.3 sentence 2, 5.4.4, 5.4.5 sentence 2 (recommendations relating to the Supervisory Board).

VOLUNTARY DECLARATION OF COMPLIANCE

In consideration of the above peculiarities of the Luxembourg securitization and corporate law and the governance structure, GAGFAH S. A. voluntarily complies with the recommendations of the Code in the version of June 24, 2014, with the deviations listed below, and it will in future comply with the recommendations of the Code in the version of June 24, 2014, with the deviations listed below.

- Contrary to Section 3.8, para. 3 of the Code, the D&O (directors' and officers' liability insurance) policy for the Board of Directors, do not contain a deductible. On the one hand, GAGFAH S. A. is a Luxembourg stock company which does not fall within the scope of Section 93 para. 2 sentence 3 AktG. On the other hand, the Board of Directors is of the opinion that a deductible for members of the Board of Directors is unnecessary, because the D&O policy is a group insurance for individuals at inland and abroad and outside the Federal Republic of Germany a deductible is unusual.

- Contrary to Section 5.6 of the Code, the Board of Directors has not verified the effectiveness of its activities in the financial year 2014. Against the background that in the second half of the financial year 2014, three of the seven members of the Board of Directors have resigned their seats and two new members were co-opted with effect on January 1, 2015, a verification of the effectiveness of the activities of the Board of Directors does not seem appropriate.

Luxembourg, February 27, 2015
The Board of Directors of GAGFAH S. A.

COMPENSATION OF DIRECTORS

While the CEO of the operating subsidiaries receives no compensation for his work as Director and Committee Member, the Independent Directors receive compensation for their services as Board Members as approved by the Annual General Meeting of Shareholders of the Company on June 12, 2014. The following table shows the compensation scheme applicable to all Independent Board Members. The respective compensation shall be granted pro rata temporis and on the basis of meetings actually attended.

Compensation of Independent Board Members

Position	Cash component – fix (€ per annum)	Share component – fix (shares per annum)
Board Chairman	80,000 (p. a.)	7,500 (p. a.)
Board Member	40,000 (p. a.)	5,000 (p. a.)
Committee Chairman	5,000 per meeting, capped at 10,000 p. a.	
Committee Member	2,500 per meeting, capped at 5,000 p. a.	

Before June 12, 2014, the remuneration scheme for all Independent Board Members was an annual cash component of €40,000 and an annual share component of 10,000.

COMPENSATION OF SENIOR MANAGEMENT

The total management remuneration in the 2014 financial accounts was €2,850,979.84 (excluding long-term incentive plans), consisting of € 1,400,979.84 for fixed remuneration and €1,450,000 for annual bonuses for the year 2013.

Management Remuneration 2014

	Thomas Zinnöcker Chief Executive Officer (CEO)	Nicolai Kuss Chief Operating Officer (COO)	Gerald Klinck Chief Financial Officer (CFO)	Total
	Entry date: April 16, 2013	Entry date: March 20, 2009	Entry date: September 1, 2012	
Basic remuneration	750,000.00	300,000.00	300,000.00	1,350,000.00
Fixed benefits in kind	19,775.52	13,204.32	18,000.00	50,979.84
Subtotal fixed remuneration	**769,775.52**	**313,204.32**	**318,000.00**	**1,400,979.84**
Annual bonus	400,000.00	550,000.00	500,000.00	1,450,000.00
Subtotal fixed remuneration + annual bonus	**1,169,775.52**	**863,204.32**	**818,000.00**	**2,850,979.84**

In addition to the fixed remuneration and the annual bonuses, GAGFAH established a long-term incentive plan to further align the interests of shareholders with the goals of the senior management and all other employees in leadership positions. Senior management benefits from the LTIP will be settled with real shares, while benefits for all other employees will be settled via phantom stocks. Please see the section "Responsibility for Our Employees" for further details relating to the LTIP for employees in leadership positions.

Fixed Remuneration, annual bonuses and LTIP for 2015 and following years

	Thomas Zinnöcker Chief Executive Officer (CEO)	Nicolai Kuss Chief Operating Officer (COO)	Gerald Klinck Chief Financial Officer (CFO)	Total
	Entry date: April 16, 2013	Entry date: March 20, 2009	Entry date: September 1, 2012	
Basic remuneration	750,000.00	300,000.00	300,000.00	1,350,000.00
Fixed benefits in kind	19,775.52	13,204.32	18,000.00	50,979.84
Subtotal fixed remuneration	**769,775.52**	**313,204.32**	**318,000.00**	**1,400,979.84**
Annual bonus	375,000.00	300,000.00	300,000.00	975,000.00
Subtotal fixed remuneration + annual bonus	**1,144,775.52**	**613,204.32**	**618,000.00**	**2,375,979.84**
Average annual number of shares under LTIP (gross amount)	300,000.00	50,000.00	50,000.00	400,000.00

The remuneration of the members of the senior management under the current service agreements basically consists of three elements. The members of the senior management receive a fixed salary, amounting to €750,000 for Thomas Zinnöcker, €300,000 for Gerald Klinck and €300,000 for Nicolai Kuss. In addition, the service agreements provide for a short-term incentive in the form of an annual variable cash bonus. Further, the members of the senior management are also entitled to a share based remuneration including certain stock awards of the Company. In addition, the members of the senior management are entitled to certain benefits, including company car and coverage by a D&O and an accident insurance.

VARIABLE ANNUAL CASH BONUS

The annual variable cash bonus for Thomas Zinnöcker depends on the achievement of certain targets set by the Board of Directors as well as on the level of the Board of Directors' satisfaction with his performance and is capped at a maximum of 50% of his annual fixed salary. Under the service agreements for Gerald Klinck and Nicolai Kuss a discretionary annual variable bonus may be granted in case of extraordinary performance or success of the company, whereas it has been indicated to Gerald Klinck and Nicolai Kuss that such bonus will amount up to € 300,000 per annum.

SHARE-BASED REMUNERATION

In 2013, two long-term incentive plans containing stock awards with exercise prices of €0.0 each were established to which the members of the Senior Management are entitled. The first of these plans provides for the following conditions: The stock awards entitle the beneficiary to GAGFAH S. A. shares without payment. Each 20 % of the stock awards vest on April 1 of the years 2014 to 2018. Vesting condition is the beneficiary's continued service or employment with GAGFAH Group on the respective vesting dates. Some of the grants are subject to an immediate retransfer obligation to GAGFAH S. A. in case of a claw-back event (e.g., resignation from office or termination by GAGFAH Group). The fair value of these stock awards is estimated to about €17.9 million. The second plan is based on the following conditions: The stock awards entitle the beneficiary to GAGFAH S. A. shares without payment. The stock awards vest to 20 % on April 1, 2015, 30 % on April 1, 2016 and 50 % on April 1, 2017. Vesting condition is the beneficiary's continued service or employment with GAGFAH Group on the respective vesting dates and the reaching of a certain stock yield. The fair value of these stock awards is estimated to about € 3.0 million.

Thomas Zinnöcker is entitled to grants of shares in the Company with a nominal value of €1.25 each and subject to an agreed schedule. Initials grants of 200,000 and 300,000 shares were made in April 2014; further tranches of 300,000 shares each shall be delivered to Thomas Zinnöcker on each April 1, 2014, 2015, 2016, 2017 and 2018. The tranches 3 to 6 are in principle subject to a holding period of twelve months following the respective grant date and subject to certain claw-back provisions. According to these provisions the net settled shares from these tranches are to be retransferred by Thomas Zinnöcker in case of his resignation or announcement of resignation as managing director or Chief Executive Officer (CEO) of GAGFAH GmbH (unless in case this is due to a breach of duties by the company), provided the holding period for the respective shares has not already expired, or in the event of the termination of his service agreement for cause (as defined by section 626 of the German Civil Code (Bürgerliches Gesetzbuch)) by the Company. According to the service agreement all entitlements to outstanding stock grants shall lapse in case of a significant breach of duties by the managing director.

Gerald Klinck is entitled to share grants with a nominal value of € 1.25 each in three tranches as follows: An initial tranche of 30,000 shares in the Company shall be granted on April 1, 2015 and further tranches of 45,000 shares respectively 75,000 shares shall be granted on April 1, 2016 respectively April 1, 2017, in each case provided that certain conditions are met, including the achievement of a Total Shareholder Return (TSR)-target or another economic figure set by the Board of Directors of the Company and the approval of the annual financial statement of the Company as well as that the service agreement was not terminated. All tranches are subject to a minimum holding period until June 30, 2017. According to the service agreement, in case of a revocation from office for important reason (aus wichtigem Grund) or in the event of a termination of the service agreement for cause, entitlements for future tranches shall lapse and, in the latter case, already granted shares shall be retransferred by Gerald Klinck without compensation.

Nicolai Kuss is entitled to share grants under the same conditions as set out above for Gerald Klinck.

PAYMENTS IN THE EVENT OF A TERMINATION OF THE SERVICE AGREEMENTS OR THE REVOCATION FROM OFFICE

The service agreements of the members of the senior management further provide for payments upon termination of the service agreements in certain circumstances.

In case Thomas Zinnöcker terminates his service agreement in the event of (i) a change of control (as defined in the service agreement) or (ii) following his premature revocation from office (Abberufung), he is entitled to a compensation payment equivalent to one annual fixed salary plus the amount of the variable bonus granted for the previous fiscal year as well as – under certain conditions – additional shares in the Company which would have been granted in the next twelve months following the early termination event. In case Gerald Klinck or Nicolai Kuss terminates their service agreement in the event of (i) a change of control (as defined in the respective service agreement) they are entitled to a compensation payment equivalent to two annual fixed salaries plus twice the amount of the variable bonus granted for the previous financial year or (ii) following a premature revocation from office (Abberufung), they are entitled to a compensation payment equivalent to one annual fixed salary plus the amount of the variable bonus granted for the previous financial year, in both events capped at the amount of the fixed salary plus maximum annual bonus that would have been payable until the end of the regular contractual term. Further, in the event of a termination of the service agreement by Gerald Klinck or Nicolai Kuss following a change of control they are entitled to additional shares in the Company which would have been granted in the next 24 months following the early termination event.

In case of a revocation from office without a subsequent termination of the service agreement by the relevant member of the senior management, payments to Thomas Zinnöcker, Gerald Klinck and Nicolai Kuss following the revocation from office shall not exceed, but equal the sum of one annual fixed salary plus the amount of the variable bonus granted for the previous fiscal year (capped in case of Gerald Klinck and Nicolai Kuss at the amount of the fixed salary plus maximum annual bonus that would have been payable until the end of the regular contractual term), whereby all entitlements to the variable remuneration (bonus) for the fiscal year in which the office ends shall be settled.

Such payments in the event of a termination of a service agreement or the revocation from office are excluded in certain cases, e.g., in case of a significant breach of duties by a member of the senior management.

LUXEMBOURG CORPORATE GOVERNANCE REGIME

As a société anonyme – société de titrisation of Luxembourg law, the Company is subject to, and complies with, the corporate governance regime as set forth in particular in the law of August 10, 1915, on commercial companies. As a company whose shares are listed on a regulated stock exchange, the Company is further subject, and complies with, the law of May 24, 2011, on the exercise of certain shareholder rights in listed companies.

The Articles of Incorporation of the Company provide for the requirement of three Independent Directors, for as long as the Company's shares are listed. The Company has set up the following committees: Audit Committee, Nomination and Compensation Committee, Securities Dealings Committee and Related Party Transactions Committee. The composition and purpose of these committees is described in the section "Management of GAGFAH S. A."

The information required by Article 10(1) c), d), f) h) and i) of Directive 2004/25/EC on takeover bids which has been implemented by Article 11 of the law of May 19, 2006, on takeovers (the "Law on Takeovers") regarding significant shareholdings, special control rights, restrictions on voting rights, rules governing the appointment and replacement of Board Members and the amendment of the Articles of Incorporation and the powers of the Board Members, in particular with respect to the issue or buy-back of shares, is set forth herebelow under "Disclosure under Article 11 of the Law on Takeovers of May 19, 2006".

DISCLOSURE UNDER ARTICLE 11 OF THE LAW ON TAKEOVERS OF MAY 19, 2006

A) For information regarding the structure of capital, reference is made to sections "Statement of Financial Positions" and "Assets and Liabilities".

B) The constitutional documents of the Company do not contain any restrictions on the transfer of shares of the Company.

C) Information regarding Section c) of the law (significant direct and indirect shareholdings) can be found in the section H.5. "Related Party Transactions".

D) The Company has not issued any securities granting special control rights to their holders.

E) The control rights of any shares issued in connection with employee share schemes are exercised directly by the respective employees.

F) The constitutional documents of the Company do not contain any restrictions on voting rights.

G) There are no agreements with shareholders which are known to the Company and may result in restrictions on the transfer of securities or voting rights within the meaning of Directive 2004/109/EC (Transparency Directive).

H) Rules governing the appointment and replacement of Board Members and the amendment of the Articles of Incorporation:

- The Directors are appointed at the General Meeting of Shareholders by a simple majority of the votes cast, or in the case of a vacancy, by way of cooptation by the Board.
- Directors serve for the term determined by the General Meeting of Shareholders but not exceeding a period of six years or until their successors are elected.
- Directors may be removed with or without cause by the General Meeting of Shareholders by a simple majority of the votes cast at such meeting.
- The Directors are eligible for re-election.
- The Articles of Incorporation of the Company provide that for as long as the shares are listed on one or more regulated stock exchanges, the Board of Directors must include three Independent Directors.
- In the event of vacancy in the office of a Director because of death, retirement, resignation, dismissal, removal or otherwise, the remaining Directors may fill such vacancy and appoint a successor to act until the next Meeting of Shareholders, without regard to the independence requirement.
- Amendments of the Articles of Incorporation are generally subject to the decision of the General Meeting of Shareholders of the Company at qualified majority.
- Extraordinary General Meetings of Shareholders with the purpose of amending the Articles of GAGFAH S. A. are subjected to a quorum of at least half of the share capital of GAGFAH S. A. If such quorum is not represented at a meeting, a second meeting may be convened with the same agenda. Such second meeting is not subject to a quorum.

I) Powers of the Board of Directors:

- The Company shall be managed by a Board of Directors.
- The Board of Directors is vested with the broadest powers to manage the business of the Company and to authorize and/or perform all acts of acquisition, disposal and administration falling within the purposes of the Company.
- All powers not expressly reserved by law or by the Articles of Incorporation of the Company to the General Meeting are within the competence of the Board of Directors.

- Except as otherwise provided in the Articles of Incorporation or by law, the Board of Directors of the Company is authorized to take such action (by resolution or otherwise) and to adopt such provisions as shall be necessary or convenient to implement the purpose of the Company.

- The Board may delegate the daily management of the business of the Company, as well as the power to represent the Company in its day-to-day business, to individual Directors or other officers or agents of the Company, who need not be shareholders. Any such delegation of daily management in favor of one or more Directors requires the prior authorization of the General Meeting of Shareholders.

- The Board of Directors may set up committees including without limitation an Audit Committee, Nomination and Compensation Committee, Securities Dealings Committee and a Related Party Transactions Committee. If such four committees are set up, they shall be composed of at least three Directors, one of them at least being an Independent Director. The Board of Directors may also appoint persons who are not Directors to the committees.

- The Board of Directors may appoint a secretary of the Company, who need not be a member of the Board of Directors, and determine his responsibilities, powers and authorities.

- GAGFAH S. A. has a total authorized unissued share capital of almost €9.952 billion. The Board of Directors has been authorized by the General Meeting of Shareholders to issue shares up to the total amount of authorized share capital without further approval of the shareholders. Shares may be issued within the authorized share capital of GAGFAH S. A. with or without reserving any pre-emptive subscription rights to existing shareholders at the discretion of the Board such authorization ending five years after the date of the publication of the minutes of the extraordinary general meeting of shareholders of the Company held on April 21, 2011 in the Mémorial (unless amended or extended by the general meeting of shareholders).

- At the Annual General Meeting of Shareholders held on June 12, 2013, the General Meeting inter alia resolved to extend the authorization of the Company, acting through its Board of Directors, to purchase, acquire, receive or hold shares in the Company up to 25 % of the issued share capital as at June 12, 2013, such authorization being for a period of five years from June 12, 2013.

J) The Company has issued €375million 1.50 % convertible bonds due 2019, the terms and conditions of which provide that, in case of a Change of Control (as defined therein) each Bondholder may, at his option, declare all or some only of his Bonds not previously converted or redeemed due, and the Company must redeem such Bonds at an adjusted conversion price. There are no other significant agreements to which the Company is a party and which take effect, alter or terminate upon a change of control of the Company following a takeover bid.

K) As at 31st December 2014,

- there are no agreements between the Company and its Board Members or its employees providing for compensation if they resign or are made redundant without a valid reason or if their employment ceases because of a take-over bid.

- at the GAGFAH Group level, the employment contracts concluded by Mr. Zinnöcker, Mr. Klinck and Mr. Kuss with the GAGFAH Group (but to which the Company is not a party) provide for special rights of termination in case of a change of control in respect of GAGFAH Group. In case of a termination, Mr. Zinnöcker will receive a cash compensation consisting of the total of his annual fixed salary and the granted bonus for the preceding financial year, payable in twelve monthly instalments. In addition, he will receive the stock grants he would have been granted during the twelve months following the exercise of the special right of termination. In case of a termination, each of Mr. Klinck and Mr. Kuss will receive a cash compensation consisting of the total of his double annual fixed salary and double bonus for the preceding financial year, payable in twelve

monthly instalments. In addition, they will receive the stock grants they would have been granted during the twenty-four months following the exercise of the special right of termination.

Since that date, within the take-over process and subject inter alia to the effectiveness of their contractual arrangements with, and appointment to the management board of, Deutsche Annington Messrs Zinnöcker and Klinck have agreed to waive these termination rights.

In addition, key executives of the GAGFAH Group (except for the members of the senior management of the Gagfah Group) have special rights of termination under their employment contracts (to which the Company is not a party) in case of a change of control. In case of a termination, the relevant key executives will receive a cash compensation consisting of the total of their double annual fixed salary and double bonus for the preceding financial year.

OPPORTUNITY AND RISK REPORT

The Company's financial risk management is described in section H.2. "Financial Risk Management" in the Notes. The section also lays out the internal monitoring, early warning and controlling system implemented and used by the Company as well as the specific interest rate, liquidity and credit risks.

OUTLOOK

The forecast for the 2014 financial year was achieved and in some cases overachieved for all key performance indicators. Rents and vacancy rate developed better than anticipated. Driven by various positive developments in the course of 2014, the Recurring FFO growth was substantially stronger than the 35 % growth rate forecast in last year's annual report. And the targeted shareholder return between 5 % and 7 % was more than achieved through an NAV growth of 10.2 %.

For the financial year 2015, and against the backdrop of the business integration between Deutsche Annington and GAGFAH, a stand-alone outlook for GAGFAH is challenging at this point, as some of the decisions and events going forward will not be exclusively in the hands of the current decision-makers. Similarly, the progress and success of the integration will be a material factor also for the development of the GAGFAH stand-alone performance. Nonetheless, the current management of GAGFAH expects the following developments for the current financial year:

While the overall outlook of the general economy may be characterized by a considerable degree of uncertainty, GAGFAH, as an owner and operator of a regionally diverse portfolio of residential real estate in Germany, is optimistic about the business outlook for 2015. The continuously low interest rate environment, the lack of adequate alternative investments for institutional investors and the attractive risk-adjusted returns offered by German residential real estate are the main macro drivers that should support a favorable business development. What is more, the ongoing upward pressure on rents and real estate prices should further add to a positive development. On the downside, the much-debated new rent legislation may have a negative impact on GAGFAH's ability to grow rents in line with our business case. At the same time, the current draft bill and the provisions of the planned law as GAGFAH has been made aware of them, are not expected to have a material impact on our results.

On the operations side, GAGFAH is confident to be able to grow like-for-like rents by at least 2.3 % in the course of 2015. The Company expects the vacancy rate to drop to 3.0 % by the end of 2015 after 3.4 % at the end of 2014. Recurring FFO, which was €189.9 million in 2014 is expected to grow to between €215 million and €220 million in the current financial year.

2015 will be an extraordinary year, as it will be impacted by the risks and opportunities of the business combination between Deutsche Annington and GAGFAH. The GAGFAH management believes that the opportunities outweigh the risks and that the integration of the two companies and portfolios should have a positive impact on the stand-alone GAGFAH portfolio.

CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
as of December 31, 2014

ASSETS € million	Notes	12-31-2013	12-31-2014
Non-current assets			
Intangible assets	E.1.	17.8	10.2
Investment property	E.2.	7,633.7	7,884.2
Property, plant and equipment	E.3.	32.9	33.8
Other financial assets	E.4.	18.6	9.7
Other assets		0.0	0.0
Deferred tax assets	E.14.	0.0	25.1
		7,703.0	**7,963.0**
Current assets			
Inventories	E.5.	12.0	10.7
Receivables	E.6.	42.6	46.5
Other assets	E.7.	39.9	50.2
Current tax claims	E.8.	11.8	6.5
Bank balances and cash on hand	E.9.	101.9	154.9
		208.2	**268.8**
Assets held for sale	E.10.	**48.6**	**94.5**
Total assets		**7,959.8**	**8,326.3**

EQUITY AND LIABILITIES € million	Notes	12-31-2013	12-31-2014
Equity	E.11.		
Subscribed capital		269.9	269.9
Share premium		1,083.2	1,085.9
Legal reserve		28.2	28.2
Revenue reserves		853.9	801.3
Equity attributable to the shareholders of the parent company		**2,235.2**	**2,185.3**
Non-controlling interests		37.1	– 30.7
Total equity		**2,272.3**	**2,154.6**
Liabilities			
Non-current liabilities			
Liabilities due to non-controlling shareholders	E.12.	3.1	3.2
Pension provisions	E.13.1. / E.11.	120.9	141.1
Other provisions	E.13.2.	8.2	6.9
Deferred tax liabilities	E.14. / E.11.	340.1	448.0
Liabilities from income tax	E.15.	41.4	28.0
Financial liabilities	E.16.1.	4,347.8	4,395.7
Other liabilities	E.16.2.	29.6	137.5
Deferred liabilities of government-granted loans		61.1	57.1
		4,952.2	**5,217.5**
Current liabilities			
Pension provisions	E.13.1 / E.11.	6.8	6.7
Other provisions	E.13.2	35.1	49.0
Liabilities from income tax	E.15	38.0	42.6
Financial liabilities	E.16.1.	526.5	532.3
Other liabilities	E.16.2.	126.1	320.1
Deferred liabilities of government-granted loans		2.8	3.5
		735.3	**954.2**
Total liabilities		**5,687.5**	**6,171.7**
Total equity and liabilities		**7,959.8**	**8,326.3**

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
for the period from January 1 to December 31, 2014

€ million, unless stated otherwise	Notes	2013	2014
Income from the leasing of investment property	F.1.	829.8	833.5
Transferable leasehold land interest	H.3.	– 2.2	– 2.2
Operating expenses for the generation of rental income (excluding share-based remuneration)	F.2.	– 455.0	– 440.6
Profit from the leasing of investment property		**372.6**	**390.7**
Income from the sale of investment property and assets held for sale		144.1	222.0
Carrying amount of the sold investment property and assets held for sale		– 128.6	– 205.2
Profit from the sale of investment property and assets held for sale		**15.5**	**16.8**
Result from the fair value measurement of investment property	F.3.	**5.4**	**161.9**
Income from the sale of property development projects		1.1	2.2
Carrying amount of property development projects sold		– 1.0	– 1.2
Profit from the sale of property development projects		**0.1**	**1.0**
Result from other services	F.4.	1.0	2.4
Selling expenses (excluding share-based remuneration)	F.5.	– 12.1	– 11.1
General and administrative expenses (excluding share-based remuneration)	F.6.	– 34.9	– 37.2
Expenses for share-based remuneration	F.7.	– 7.0	– 7.6
Other operating income	F.8.	8.8	15.2
Other operating expenses	F.9.	– 7.1	– 28.7
Profit from operations before reorganization and restructuring expenses		**342.3**	**503.4**
Reorganization and restructuring expenses	F.10.	– 7.2	– 31.9
Profit from operations		**335.1**	**471.5**
Result from joint ventures	E.4.	0.0	0.0
Earnings before interest and taxes (EBIT)		**335.1**	**471.5**
Interest expenses	F.11.	– 220.6	– 181.1
Interest income		0.8	1.4
Other financial expenses		– 0.1	– 0.2
Result from the fair value measurement of derivatives	E.16.2. / H.2.	1.5	– 171.9
Refinancing expenses	F.12.	– 67.9	– 11.4
Net financing expenses		**– 286.3**	**– 363.2**
Earnings before taxes (EBT)		**48.8**	**108.3**
Income taxes	F.13.	– 45.5	– 125.2
Net result		**3.3**	**– 16.9**
Net result attributable to:			
Non-controlling interests	F.14.	**3.5**	**8.3**
Shareholders of the parent company		**– 0.2**	**– 25.2**
Weighted average number of shares, undiluted (in million)		204.8	215.4
Weighted average number of shares, diluted (in million)		207.3	215.4
Basic earnings per share (in €)	F.15.	0.00	– 0.12
Diluted earnings per share (in €)	F.15.	0.00	– 0.12
Net result		**3.3**	**– 16.9**

€ million, unless stated otherwise	Notes	2013	2014
Net movement on cash flow hedges	H.2.	8.9	– 118.5
Income tax effect	H.2.	– 2.8	31.8
Other comprehensive income, net of tax (recyclable)		**6.1**	**– 86.7**
Actuarial gains/losses on defined benefit plans	E.13.1	– 1.1	– 20.2
Income tax effect	E.13.1	0.3	6.5
Other comprehensive income, net of tax (non-recyclable)		**– 0.8**	**– 13.7**
Other comprehensive income, net of tax		**5.3**	**– 100.4**
Total comprehensive income, net of tax		**8.6**	**– 117.3**
Total comprehensive income, net of tax, attributable to:			
Non-controlling interests		**9.7**	**– 63.2**
Shareholders of the parent company		**– 1.1**	**– 54.1**

CONSOLIDATED STATEMENT OF CASH FLOWS
for the period from January 1 to December 31, 2014

€ million	Notes	2013	2014
Net result		3.3	– 16.9
Change in deferred taxes	E.14.	37.8	117.1
Result from the fair value measurement of investment property	F.3.	– 5.4	– 161.9
Amortization, depreciation and impairment losses on intangible assets and property, plant and equipment		2.9	18.2
Profit from the sale of investment property and assets held for sale	E.10.	– 15.5	– 16.8
Profit from the deconsolidation of subsidiaries	B.	– 0.1	– 0.1
Other non-cash expenses (+) / income (-)	G.	4.8	202.9
Change in provisions, pension provisions and deferred liabilities of government-granted loans		– 7.4	3.1
Change in inventories	E.5.	0.8	– 4.2
Change in receivables and other assets	E.6.	– 8.1	– 18.1
Change in other liabilities	E.16.2	– 6.9	38.1
Reclassification of interest and other cost paid for refinancing into "Cash flows from financing activities"		65.3	8.3
Cash flows from operating activities [1]		**71.5**	**169.7**
Cash received from the sale of investment property and assets held for sale	G.	130.1	222.1
Cash paid for investment property	E.2.	– 26.3	– 157.8
Cash paid for investments in intangible assets, property, plant and equipment and financial assets		– 1.8	– 2.0
Cash paid for the acquisition of subsidiaries		0.0	– 187.9
Cash flows from investing activities		**102.0**	**– 125.6**
Cash received from equity contributions	E.11.	178.0	0.0
Transaction costs paid for equity contributions	E.11.	– 2.0	0.0
Cash paid to non-controlling shareholders / interests	E.11.	– 3.1	– 3.9
Cash paid for liabilities to non-controlling shareholders / interests		– 1.3	– 0.1
Cashflows from equity capital measures		**171.6**	**– 4.0**
Cash received from convertible bond		0.0	375.0
Cash received from raising financial liabilities	E.16.1./G.	4,130.8	377.2
Cash repayments of financial liabilities	E.16.1./G.	– 4,414.9	– 715.1
Transaction costs paid for convertible bond	F.12.	0.0	– 5.4
Transaction costs paid for refinancing	E.16.1.	– 69.7	– 2.5
Interest and other cost paid for refinancing	F.12.	– 65.3	– 8.3
Securities paid for swaps		0.0	– 8.2
Cashflows from debt capital measures		**– 419.1**	**12.7**
Cash flows from financing activities		**– 247.5**	**8.7**
Change in cash and cash equivalents		**– 74.0**	**52.8**
Bank balances and cash on hand at the beginning of the financial year	E.9.	175.9	101.9
Bank balances and cash on hand as of the end of the financial year	**E.9.**	**101.9**	**154.7**

1) Operating cash flow includes taxes paid of € 6.3 million (prior year: € 18.3 million), interest paid of € 155.2 million (prior year: € 212.5 million) and interest received of € 2.2 million (prior year: € 0.7 million).

STATEMENT OF CHANGES IN CONSOLIDATED EQUITY
for the period from January 1 to December 31, 2014

				Revenue reserves						
€ million	Subscribed capital	Share premium	Legal reserve	Unrealized losses/gains from derivative financial instruments	Unrealized losses/gains from pension provisions	Treasury shares	Retained earnings	Equity attributable to the shareholders of the parent company	Non-controlling interests	Total equity
01-01-2014	**269.9**	**1,083.2**	**28.2**	**– 0.8**	**– 11.8**	**– 4.4**	**870.9**	**2,235.2**	**37.1**	**2,272.3**
Net result	0.0	0.0	0.0	0.0	0.0	0.0	– 25.2	– 25.2	8.3	– 16.9
Other comprehensive income, net of tax	0.0	0.0	0.0	– 15.1	– 13.7	0.0	0.0	– 28.8	– 71.6	– 100.4
Total comprehensive income, net of tax	**0.0**	**0.0**	**0.0**	**– 15.1**	**– 13.7**	**0.0**	**– 25.2**	**– 54.0**	**– 63.3**	**– 117.3**
Capital increase	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Share-based remuneration	0.0	2.7	0.0	0.0	0.0	1.3	0.0	4.0	0.0	4.0
Changes in shareholdings and the Consolidated Group	0.0	0.0	0.0	0.0	0.0	0.0	0.1	0.1	– 0.6	– 0.5
Dividends	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	– 3.9	– 3.9
12-31-2014	**269.9**	**1,085.9**	**28.2**	**– 15.9**	**– 25.5**	**– 3.1**	**845.8**	**2,185.3**	**– 30.7**	**2,154.6**

STATEMENT OF CHANGES IN CONSOLIDATED EQUITY
for the period from January 1 to December 31, 2013

				Revenue reserves						
€ million	Subscribed capital	Share premium	Legal reserve	Unrealized losses/gains from derivative financial instruments	Unrealized losses/gains from pension provisions	Treasury shares	Retained earnings	Equity attributable to the shareholders of the parent company	Non-controlling interests	Total equity
01-01-2013	**258.1**	**985.8**	**28.2**	**– 0.7**	**0.0**	**– 75.2**	**873.6**	**2,069.8**	**30.6**	**2,100.4**
Change of accounting policies	0.0	0.0	0.0	0.0	– 11.0	0.0	0.0	– 11.0	0.0	– 11.0
01-01-2013 (adjusted)	**258.1**	**985.8**	**28.2**	**– 0.7**	**– 11.0**	**– 75.2**	**873.6**	**2,058.8**	**30.6**	**2,089.4**
Net result	0.0	0.0	0.0	0.0	0.0	0.0	– 0.2	– 0.2	3.5	3.3
Other comprehensive income, net of tax	0.0	0.0	0.0	– 0.1	– 0.8	0.0	0.0	**– 0.9**	6.2	5.3
Total comprehensive income, net of tax	**0.0**	**0.0**	**0.0**	**– 0.1**	**– 0.8**	**0.0**	**– 0.2**	**– 1.1**	**9.7**	**8.6**
Capital increase	11.8	93.6	0.0	0.0	0.0	70.6	0.0	**176.0**	0.0	176.0
Share-based remuneration	0.0	3.8	0.0	0.0	0.0	0.2	– 2.5	1.5	0.0	1.5
Changes in shareholdings and the Consolidated Group	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	– 0.1	– 0.1
Dividends	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	– 3.1	– 3.1
12-31-2013	**269.9**	**1,083.2**	**28.2**	**– 0.8**	**– 11.8**	**– 4.4**	**870.9**	**2,235.2**	**37.1**	**2,272.3**

NOTES

A. GENERAL INFORMATION

THE COMPANY

GAGFAH S.A. is a joint stock corporation incorporated in Luxembourg, having its registered office at 2-4, Rue Beck, L-1222 Luxembourg, Grand Duchy of Luxembourg, registered with the Registre de Commerce et des Sociétés under number B109.526. GAGFAH S.A. and its subsidiaries form the GAGFAH GROUP. GAGFAH S.A. is the Group's ultimate parent company. GAGFAH GROUP's business is the securitization of risks relating to a geographically diversified residential property portfolio.

The business of GAGFAH GROUP's operating subsidiaries is the ownership and management of a geographically diversified and well-maintained residential property portfolio. As of the balance sheet date, the Group owned a total of more than 144,000 units. Additional 25,000 units of third parties are managed by the Group or maintained by the Group's facility management companies. GAGFAH GROUP's operating subsidiaries also operate in the area of real estate sales.

CONSOLIDATED FINANCIAL STATEMENTS

GAGFAH GROUP has prepared its Consolidated Financial Statements in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU and the interpretations of the International Financial Reporting Standards Interpretations Committee (IFRS IC) – formerly Standing Interpretations Committee (SIC) – since its formation. All IFRS that must be applied for the financial year were taken into account.

The financial year of GAGFAH S.A. and all subsidiaries is identical to the calendar year.

The Consolidated Financial Statements have been prepared on a historical cost basis, except for especially investment properties and derivative financial instruments that have been measured at fair value. The Consolidated Financial Statements have been prepared in euros (€). Unless stated otherwise, all values are rounded to the nearest million euros (€ million).

The Consolidated Financial Statements as of December 31, 2014, were prepared using the same principles as prior year's Consolidated Financial Statements.

The Consolidated Statement of Comprehensive Income was classified according to the cost of sales method.

The Consolidated Financial Statements for the year ended December 31, 2014, were formally approved by the Board of Directors on February 27, 2015, and will be presented to the Annual General Meeting of Shareholders for approval on June 12, 2015.

ADJUSTMENT OF PRIOR-YEAR FIGURES

In the fiscal year 2014, considerable adjustments in our segment reporting are made due to changes in the internal organization and reporting structure. Due to these changes the prior-year figures have been adjusted correspondingly. For more details please refer to section D. "Group Segment Report".

The diluted earnings per share for the fiscal year 2013 were adjusted from € 0.03 to € 0.00 as the prior-year figure comprises also antidilutive instruments. For further information see section F.15. “Earnings per Share”.

In the prior year, derivative financial instruments were disclosed as “Financial Liabilities”. Due to the character of derivative financial instruments with no fixed payments in the future the classification of such instruments as Liabilities has been changed. Therefore in the actual year they are shown under “Other Liabilities” For further information see section H.2. “Financial Risk Management”.

NEW ACCOUNTING STANDARDS

CHANGES IN ACCOUNTING POLICY AND DISCLOSURE IN 2014

The accounting policies adopted are consistent with those of the previous financial year except as follows:

The Group adopted the following new and amended IFRS and IFRIC interpretations which are relevant for the operations of the Group during the year.

On May 20, 2013, the IASB issued IFRIC Interpretation 21 Levies, an interpretation on the accounting for levies imposed by governments. The Interpretations Committee was asked to consider how an entity should account for liabilities to pay levies imposed by governments, other than income taxes, in its financial statements. The principal question raised was about when the entity should recognize a liability to pay a levy. IFRIC 21 is an interpretation of IAS 37 Provisions, Contingent Liabilities and Contingent Assets. IAS 37 sets out criteria for the recognition of a liability, one of which is the requirement for the entity to have a present obligation as a result of a past event (known as an obligating event). The interpretation clarifies that the obligating event that gives rise to a liability to pay a levy is the activity described in the relevant legislation that triggers the payment of the levy. The analysis includes guidance illustrating how the interpretation should be applied. IFRIC 21 is effective for annual periods beginning on or after 1 January 2014. The amendments had no effect on the Consolidated Financial Statements of GAGFAH GROUP.

On May 29, 2013, the IASB issued Recoverable Amount Disclosures for Non-financial Assets (Amendments to IAS 36). The objective of the project is to amend the disclosure requirements in IAS 36 Impairment of Assets with regard to the measurement of the recoverable amount of impaired assets that were made as a consequence of issuing IFRS 13 Fair Value Measurement in May 2011. It has come to the IASB's attention that some of the amendments made to IAS 36 resulted in the requirement being more broadly applied than the IASB had intended. In particular, instead of requiring an entity to disclose the recoverable amount of an asset (including goodwill) or a cash-generating unit for which a material impairment loss was recognized or reversed during the reporting period, the amendment made to IAS 36 required an entity to disclose the recoverable amount of each cash-generating unit for which the carrying amount of goodwill or intangible assets with indefinite useful lives allocated to that unit is significant in comparison with the entity's total carrying amount of goodwill or of intangible assets with indefinite useful lives. This project aims to amend IAS 36 so that those disclosure requirements better represent the IASB's intention. The amendments are effective for annual periods beginning on or after January 1, 2014. The amendments had no effect on the Consolidated Financial Statements of GAGFAH GROUP.

On November 21, 2013, the IASB issued Defined Benefit Plans: Employee Contributions (Amendments to IAS 19 Employee Benefits). The amendments clarify the requirements that relate to how contributions from employees or third parties that are linked to service should be attributed to periods of service. In addition, it permits that a practical expedient of the amount of the contributions is independent of the number of years of service. The amendments are effective for annual periods beginning on or after July 1, 2014, with earlier application permitted. The amendments, that have been made will have no effect on the Consolidated Financial Statements of GAGFAH GROUP.

On December 12, 2013 the IASB issued the Annual Improvements to IFRSs 2010-2012. The issues included in this cycle are: IFRS 2: Definition of 'vesting condition', IFRS 3: Accounting for contingent consideration in a business combination, IFRS 8: Aggregation of operating segments, IFRS 8: Reconciliation of the total of the reportable segments' assets to the entity's assets, IFRS 13: Short-term receivables and payables, IAS 7: Interest paid that is capitalized, IAS 16/IAS 38: Revaluation method—proportionate restatement of accumulated depreciation, IAS 24: Key management personnel. The amendments are effective for annual periods beginning on or after July 1, 2014, with earlier application permitted. The amendments had no effect on the Consolidated Financial Statements of GAGFAH GROUP.

On December 12, 2013 the IASB issued the Annual Improvements to IFRSs 2011-2013. The issues included in this cycle are: IFRS 1: Meaning of effective IFRSs; IFRS 3: Scope exceptions for joint ventures; IFRS 13: Scope of paragraph 52 (portfolio exception); and IAS 40: Clarifying the interrelationship of IFRS 3 Business Combinations and IAS 40 Investment Property when classifying property as investment property or owner-occupied property. The amendments are effective for annual periods beginning on or after July 1, 2014, with earlier application permitted. The amendments had no effect on the Consolidated Financial Statements of GAGFAH GROUP.

NEW ACCOUNTING STANDARDS NOT YET ADOPTED

The following IFRS and IFRIC, that might have an impact on the future Consolidated Financial Statements of GAGFAH GROUP, are not yet adopted at the date of this report:

- IFRS 9 Financial Instruments (replacement of IAS 39) and subsequent amendments (amendments to IFRS 9 and IFRS 7) (issued on November 12, 2009, resp. December 16, 2011; endorsement postponed)
- IFRS 14 Regulatory Deferral Accounts (issued on January 30, 2014, not yet endorsed)
- Amendments to IFRS 11: Accounting for Acquisitions of Interests in Joint Operations (issued on May 6, 2014, not yet endorsed)
- Amendments to IAS 16 and IAS 38: Clarification of Acceptable Methods of Depreciation and Amortization (issued on May 12, 2014, not yet endorsed)
- IFRS 15 Revenue from Contract with Customers (issued on May 28, 2014, not yet endorsed)
- Amendments to IAS 16 and IAS 41: Bearer Plants (issued on June 30, 2014, not yet endorsed)
- Amendments to IAS 27; Equity Method in Separate Financial Statements (issued on August 12, 2014, not yet endorsed)
- Amendments to IFRS 10 and IAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (issued on September 11, 2014, not yet endorsed)
- Annual Improvements to IFRSs 2012-2014 Cycle (issued on September 25, 2014, not yet endorsed)
- Amendments to IFRS 10, IFRS 12 and IAS 28: Investment Entities: Applying the Consolidation Exception (issued on December 18, 2014, not yet endorsed)
- Amendments to IAS 1: Disclosure Initiative (issued on December 18, 2014, not yet endorsed)

IFRS 9 Financial Instruments was issued on November 12, 2009, and contained requirements for the accounting of financial assets. On October 28, 2010, the IASB reissued IFRS 9 and added requirements on the accounting for financial liabilities. These requirements completed Phase 1: "Classification and measurement" of the IASB's project to replace IAS 39 Financial Instruments: Recognition and Measurement. The final version of IFRS 9 was issued on July 24, 2014.

Most of the added requirements were carried forward unchanged from IAS 39. However, the requirements related to the "fair value option" for financial liabilities were changed to address the issue of own credit risk in response to consistent feedback from users of financial statements and others that the effects of changes in a liability's credit risk ought not to affect profit or loss unless the liability is held for trading.

IFRS 9 uses the following approach to determine whether a financial asset is measured at amortized cost or fair value: If the objective of the entity's business model is to hold the financial asset to collect the contractual cash flows (business model test) and if the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal outstanding (cash flow characteristics test), a debt instrument can be measured at amortized cost. Even if an instrument meets the two amortized cost tests, IFRS 9 contains an option to designate a financial asset as measured at fair value through profit or loss, if doing so eliminates or significantly reduces a measurement or recognition inconsistency (sometimes referred to as an "accounting mismatch") (fair value option).

The impairment phase of the IFRS 9 has not yet been completed.

The standard was initially effective for annual periods beginning on or after January 1, 2013, but Amendments to IFRS 9 Mandatory Effective Date of IFRS 9 and Transition Disclosures, issued in December 2011, moved the mandatory effective date to January 1, 2015. In November 2013, the IASB removed the January 1, 2015, mandatory effective date of IFRS 9, to provide sufficient time for preparers of financial statements to make the transition to the new requirements. The actual effective date is January 1, 2018 (earlier application is permitted).The endorsement of the standard has still to be determined.

The implications of the new standard as a whole will be assessed when all phases are finalized.

On January 30, 2014, the IASB issued IFRS 14 Regulatory Deferral Accounts. IFRS 14 Regulatory Deferral Accounts permits an entity which is a first-time adopter of International Financial Reporting Standards to continue to account, with some limited changes, for 'regulatory deferral account balances' in accordance with its previous GAAP, both on initial adoption of IFRS and in subsequent financial statements. Regulatory deferral account balances, and movements in them, are presented separately in the statement of financial position and statement of profit or loss and other comprehensive income, and specific disclosures are required. The standard applies to an entity's first annual IFRS financial statements for a period beginning on or after January 1, 2016, and will have no effects on the Consolidated Financial Statements of GAGFAH GROUP.

Amendments to IFRS 11: Accounting for Acquisitions of Interests in Joint Operations was issued on May 6, 2014. The amendments of the IASB add guidance on how to account for the acquisition of an interest in a joint operation that constitutes a business, and resulted from a submission to the IFRS Interpretations Committee. The new guidance would only address the accounting for an interest in a joint operation when the joint operation is formed and there is an existing business that is contributed or where the acquisition of the interest is in an existing joint operation that is a business. The amendments have a proposed effective date of January 1, 2016, (earlier application is permitted) and will have no effects on the Consolidated Financial Statements of GAGFAH GROUP.

On May 12, 2014, the IASB issued Amendments to IAS 16 and IAS 38: Clarification of Acceptable Methods of Depreciation and Amortization to clarify that preparers should not use revenue-based methods to calculate charges for the depreciation or amortization of items of property, plant and equipment or intangible assets. This is because a revenue-based method reflects a pattern of economic benefits being generated from the asset, rather than the expected pattern of consumption of the future economic benefits

embodied in the asset. The amendments have a proposed effective date of January 1, 2016 (earlier application is permitted) and will have no effects on the Consolidated Financial Statements of GAGFAH GROUP.

On May 28, 2014, the IASB issued IFRS 15: Revenues from Contracts with Customers. IFRS 15 specifies how and when an IFRS reporter will recognize revenue as well as requiring such entities to provide users of financial statements with more informative, relevant disclosures. The standard provides a single, principles based five-step model to be applied to all contracts with customers. The objective of IFRS 15 is to establish the principles that an entity shall apply to report useful information to users of financial statements about the nature, amount, timing, and uncertainty of revenue and cash flows arising from a contract with a customer. The standard has a proposed effective date of January 1, 2017, (earlier application is permitted). The effect of the amendments on the Consolidated Financial Statements of GAGFAH GROUP is currently under consideration.

On June 30, 2014, the IASB issued Amendments to IAS 16 and IAS 41: Bearer Plants. These amendments change the financial reporting for bearer plants, such as grape vines, rubber trees and oil palms. The amendments have a proposed effective date of January 1, 2016 (earlier application is permitted) and will have no effects on the Consolidated Financial Statements of GAGFAH GROUP.

On August 12, 2014, the IASB issued Amendments to IAS 27; Equity Method in Separate Financial Statements. The amendments reinstate the equity method as an accounting option for investments in subsidiaries, joint ventures and associates in an entity's separate financial statements. The amendments are effective for annual periods beginning on or after 1 January 2016. Earlier application is permitted. The amendments are to be applied retrospectively in accordance with IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors. The amendments will have no effects on the Consolidated Financial Statements of GAGFAH GROUP.

On September 11, 2014, the IASB issued Amendments to IFRS 10 and IAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture. IAS 28 (2011) has been amended so that: the current requirements regarding the partial gain or loss recognition for transactions between an investor and its associate or joint venture only apply to the gain or loss resulting from the sale or contribution of assets that do not constitute a business as defined in IFRS 3 Business Combinations and the gain or loss resulting from the sale or contribution to an associate or a joint venture of assets that constitute a business as defined in IFRS 3 is recognized in full. IFRS 10 has been amended, so that the gain or loss resulting from the sale or contribution of a subsidiary that does not constitute a business as defined in IFRS 3 to an associate or joint venture is recognized only to the extent of unrelated investors' interests in the associate or joint venture. The standard has a proposed effective date of January 1, 2016. The effect of the amendments on the Consolidated Financial Statements of GAGFAH GROUP is currently under consideration.

On September 25, 2014, the IASB issued Annual Improvements to IFRSs 2012-2014 Cycle. The issues included in this cycle are: IFRS 5: Changes in methods of disposal, IFRS 7: Servicing contracts and Applicability of the amendments to IFRS 7 to condensed interim financial statements, IAS 19: Discount rate: regional market issue and IAS 34: Disclosure of information 'elsewhere in the interim financial report. The standard has a proposed effective date of January 1, 2016, (earlier application is permitted). The effect

of the amendments on the Consolidated Financial Statements of GAGFAH GROUP is currently under consideration.

On December 18, 2014, the IASB issued Amendments to IFRS 10, IFRS 12 and IAS 28: Investment Entities: Applying the Consolidation Exception. Amendments make changes aimed at clarifying the following aspects: The amendments confirm that the exemption from preparing consolidated financial statements for an intermediate parent entity is available to a parent entity that is a subsidiary of an investment entity, even if the investment entity measures all of its subsidiaries at fair value. A subsidiary that provides services related to the parent's investment activities should not be consolidated if the subsidiary itself is an investment entity. When applying the equity method to an associate or a joint venture, a non-investment entity investor in an investment entity may retain the fair value measurement applied by the associate or joint venture to its interests in subsidiaries. An investment entity measuring all of its subsidiaries at fair value provides the disclosures relating to investment entities required by IFRS 12.

On December 18, 2014, the IASB issued Amendments to IAS 1: Disclosure Initiative. The amendments aim at clarifying IAS 1 to address perceived impediments to preparers exercising their judgment in presenting their financial reports. The amendments clarify that information should not be obscured by aggregating or by providing immaterial information, materiality considerations apply to the all parts of the financial statements, and even when a standard requires a specific disclosure, materiality considerations do apply. Statement of financial position and statement of profit or loss and other comprehensive income. The amendments introduce a clarification that the list of line items to be presented in these statements can be disaggregated and aggregated as relevant and additional guidance on subtotals in these statements and clarify that an entity's share of OCI of equity-accounted associates and joint ventures should be presented in aggregate as single line items based on whether or not it will subsequently be reclassified to profit or loss. The amendments add additional examples of possible ways of ordering the notes to clarify that understandability and comparability should be considered when determining the order of the notes and to demonstrate that the notes need not be presented in the order so far listed in IAS 1.114. The IASB also removed guidance and examples with regard to the identification of significant accounting policies that were perceived as being potentially unhelpful. The standard has a proposed effective date of January 1, 2016, (earlier application is permitted). The effect of the amendments on the Consolidated Financial Statements of GAGFAH GROUP is currently under consideration.

B. CONSOLIDATED GROUP AND CONSOLIDATION PRINCIPLES

1. CONSOLIDATED GROUP

In total, 69 subsidiaries were included in the Consolidated Financial Statements of GAGFAH S.A. on a fully consolidated basis since GAGFAH S.A. governs the financial and operating policies of these entities. Normally, control is possible if an entity holds the majority of voting rights, either directly or indirectly.

For four of these companies (No. 8, No. 29, No. 46 and No. 58 in the List of Shareholdings) GAGFAH determined that it has control over these entities (without having a majority of voting rights) based on other factors due to their nature as structured entities. Please refer to section B.2.1. "Subsidiaries".

In addition, 4 fractional ownership funds (“HB Funds”) were included in the Consolidated Financial Statements on a fully consolidated basis, thereof one HB Fund (No. 27 in the List of Shareholdings) without the majority of shares (see section B.2.1. "Subsidiaries").

The number of Group companies, that have been included in the Consolidated Financial Statements on a fully consolidated basis, has developed as follows:

	NUMBER OF GROUP COMPANIES (INCLUDING GAGFAH S.A.)
As of January 1, 2013	**86**
Acquisitions	–
Formations	3
Merger by way of accretion	–8
Deconsolidations	–6
As of December 31, 2013 / January 1, 2014	**75**
Acquisitions	2
Formations	5
Merger by way of accretion	–3
Deconsolidations	–10
As of December 31, 2014	**69**

COMPOSITION OF THE GROUP STRUCTURED BY ACTIVITIES AND LOCATION OF THE COMPANIES

Information about the activities and location of GAGFAH GROUP's subsidiaries at the end of the reporting period and in the prior year is as follows:

PRINCIPAL ACTIVITY	REGISTERED OFFICE	NUMBER OF WHOLLY-OWNED SUBSIDIARIES (INCLUDING GAGFAH S.A.)	
		12-31-2013	12-31-2014
Leasing of investment property	Germany	15	16
Facility management	Germany	7	6
Holding/staff	Germany	15	19
Holding/staff	Ireland	1	1
Holding/staff	Luxembourg	1	1
Other	Germany	8	7
Total		**47**	**50**

PRINCIPAL ACTIVITY	REGISTERED OFFICE	NUMBER OF NON-WHOLLY-OWNED SUBSIDIARIES	
		12-31-2013	12-31-2014
Leasing of investment property	Germany	16	7
Holding/staff	Germany	7	7
Holding/staff	Ireland	1	1
Financing	Ireland	2	2
Other	Germany	2	2
Total		**28**	**19**

The composition of the GAGFAH GROUP and further information on changes in the Consolidated Group are presented in the List of Shareholdings attached as Exhibit (1) "List of Shareholdings".

CHANGES IN THE CONSOLIDATED GROUP IN 2014

FORMATIONS / MERGERS

In the course of the reorganization of GAGFAH Group, on March 27, 2014, WEG Service GmbH has been founded by GAGFAH Holding GmbH. The entry into the commercial register took place on July 3, 2014. The corporate purpose of the company is to provide management services for condominiums.

After the transfer of the limited partner's share in OWG Asset GmbH & Co. KG from the limited partner OWG Beteiligungs GmbH to the general partner Osnabrücker Wohnungsbau GmbH on April 2, 2014, OWG Asset GmbH & Co. KG has been dissolved (without liquidation) and has been merged by way of accretion to Osnabrücker Wohnungsbau GmbH on the same date with retroactive effect to January 1, 2014.

With effect as of May 22, 2014, OWG Beteiligungs GmbH has been merged with Osnabrücker Wohnungsbaugesellschaft mit beschränkter Haftung.

On July 15, 2014, GAGFAH Asset Management GmbH and GAGFAH Property Management GmbH have been founded by GAGFAH Holding GmbH. The entry into the commercial register took place on December 16, 2014 and November 3, 2014. The corporate purpose of the companies is to provide all services in connection with investment properties.

With effect as of July 28, 2014, Grünflächen Service GmbH (GSG) has been merged with GAGFAH Facility Management GmbH.

On July 30, 2014, GAGFAH Zweite Grundbesitz GmbH has been founded by GAGFAH Holding GmbH. The entry into the commercial register took place on October 7, 2014. The corporate purpose of the company is the acquisition, construction, management, leasing and sale of land, buildings and condominiums, all activities in connection therewith and commercial transaction of each kind.

On October 15, 2014, GAGFAH Dritte Grundbesitz GmbH has been founded by GAGFAH Holding GmbH. The entry into the commercial register took place on November 6, 2014. The corporate purpose of the company is the acquisition, construction, management, leasing and sale of land, buildings and condominiums, all activities in connection therewith and commercial transaction of each kind.

DECONSOLIDATIONS

After the sale of all their assets initiated in 2010, the following 10 HB Funds were liquidated and therefore deconsolidated in the financial year 2014. The liquidation surpluses amounting to € 0.9 million were transferred as dividend to the remaining shareholders in 2014:

- Haus- und Boden-Fonds 6
- Haus- und Boden-Fonds 9
- Haus- und Boden-Fonds 11
- Haus- und Boden-Fonds 12
- Haus- und Boden-Fonds 14
- Haus- und Boden-Fonds 15
- Haus- und Boden-Fonds 18

- Haus- und Boden-Fonds 21
- Haus- und Boden-Fonds 23
- Haus- und Boden-Fonds 29

There was no material result from the deconsolidation of the aforementioned HB Funds.

CHANGE OF NAME

With effect as of March 18, 2014, Instandhaltungs-Service GmbH (ISG) was renamed into GAGFAH Facility Management GmbH.

With effect as of March 26, 2014, Dienstleistungs- und Bauhof Dresden GmbH was renamed into GAGFAH Facility Management Dresden GmbH.

With effect as of April 21, 2014, Fortalis GmbH was renamed into GAGFAH Transaktionsmanagement GmbH.

With effect as of December 17, 2014, VHB Facility Management GmbH was renamed into GAGFAH Hausservice GmbH

(INTERCOMPANY) TRANSFER

On April 2, 2014, OWG Beteiligungs GmbH transferred its € 1,000.00 limited partner's share in OWG Asset GmbH & Co. KG to Osnabrücker Wohnungsbau GmbH.

On December 16, 2014, with effect as of December 31, 2014, GAGFAH Hausservice GmbH transferred its € 25,000.00 limited partner's share in GAGFAH Facility Management GmbH to GAGFAH Holding GmbH.

On December 16, 2014, with effect as of December 31, 2014 GAGFAH M Immobilien-Management GmbH transferred its € 130,000.00 limited partner's share in GAGFAH Hausservice GmbH to GAGFAH Property Management GmbH.

On December 16, 2014, with effect as of December 31, 2014, Wohnungsbau Niedersachsen GmbH transferred its € 50,000.00 limited partner's share in VHB FM GmbH to GAGFAH Hausservice GmbH.

On December 16, 2014, with effect as of December 31, 2014, GAGFAH Verwaltung GmbH transferred its € 25,000.00 limited partner's share in DW Management GmbH to GAGFAH Facility Management GmbH.

On December 16, 2014, with effect as of December 31, 2014, GAGFAH M Immobilien-Management GmbH transferred its € 25,000.00 limited partner's share in IVS Immobilienservice GmbH to GAGFAH Holding GmbH.

On December 16, 2014, with effect as of December 31, 2014, NILEG Immobilien Holding GmbH transferred its € 2,556,459.41 limited partner's share in GAGFAH S Service GmbH to GAGFAH Property Management GmbH.

ACQUISITIONS

Acquisition of VITU ACQUICO I GMBH and GRIFFIN FLATS NRW GMBH

On December 18, 2014, GAGFAH Holding GmbH acquired 100.00% of VITU ACQUICO I GMBH´s shares and the constructive possession of 94.90% of it´s subsidiary GRIFFIN FLATS NRW GMBH´s shares as well as all shareholder loans of VITU HOLDCO S.A.

The business of VITEX Group is the ownership of a well-maintained residential property portfolio.

The following table summarizes the consideration paid for VITEX Group, the fair value of assets acquired, liabilities assumed and the non-controlling interest at the acquisition date.

	Amounts recognized at the acquisition date			Carrying amounts immediately before combination
€ million	VITU ACQUIC O I GMBH	GRIFFIN FLATS NRW GMBH	Total	VITEX Group
Investment property	0.0	182.9	182.9	185.5
Other financial assets	1.5	0.0	1.5	1.5
Receivables and other assets	62.7	4.6	67.3	4.6
Bank balances and cash on hand	0.0	5.0	5.0	5.0
Assets	**64.2**	**192.5**	**256.7**	**196.6**
Other provisions	0.0	0.5	0.5	0.5
Deferred tax liabilities	0.0	3.9	3.9	0,0
Financial liabilities	0.0	191.5	191.5	128.8
Other liabilities	0.0	2.4	0.0	2.4
Liabilities	**0.0**	**198.3**	**198.3**	**131.7**
Fair value of net assets	**64.2**	**-5.8**	**58.4**	**64.9**
Non-controlling interest	**0.0**	**-0.3**	**-0.3**	**-0.1**
Costs of acquisition:				
Acquisition costs	192.9	-	192.9	
Incidental acquisition costs	1.8	-	1.8	
	194.7	**-**	**194,7**	
Cash outflows due to acquisition:				
Cash outflows in the fiscal year	192.9	-	192.9	
Cash acquired with the subsidiaries	0.0	5.0	5.0	
Net cash outflow	**192.9**	**5.0**	**187.9**	

For purposes of the purchase price allocation pursuant to IFRS 3.36 the fair value of VITEX's real estate portfolio was calculated using certain parameters according to valuation standards used for the calculation of market prices. The latter are more favourable mainly reflecting GAGFAH's economies of scale in the "Nord/Süd" regional division, which will be realized by improved absorption of administrative overhead expenses. This procedure lead to the recognition of a partial goodwill of € 7.1 million. The goodwill recognized is not expected to be deductible for income tax purposes.

The non-controlling interest in VITEX Group represents 5.10% stakes held by ZBI Invest Beteiligungs GmbH and are valued by their proportionate carrying amounts. The Goodwill concerning non-controlling interest amounts to € 0.6 million.

The accounting for the business combinations of VITEX Group can be determined only provisionally.

The fair value of the receivables and other assets is € 67.3 million and includes trade receivables with a fair value of € 4.2 million as well as an intercompany loan of € 62.7 million between VITU ACQUICO I GMBH and GRIFFIN FLATS NRW GMBH. The gross contractual amount for trade receivables is € 7.7 million, of which € 3.5 million are expected to be uncollectible

The VITEX Group had a total loss before revaluation in connection of the business combination of € 0.7 million and revenues of € 11.3 million in financial year 2014 before becoming part of GAGFAH Group. If VITEX Group had been consolidated from January 1, 2014 on, the Consolidated Statement of Comprehensive Income would show a pro-forma loss of € 0.7 million and revenue of € 11.3 million. This acquisition had no material impact on total profit or loss for the period from January 1 to December 31, 2014.

CHANGES IN THE CONSOLIDATED GROUP IN 2013

FORMATIONS / MERGERS BY WAY OF ACCRETION

On January 21, 2013, GAGFAH Achte Wohnen GmbH & Co. KG was founded in the course of the refinancing of GAGFAH subgroup and with the purpose of taking over assets and liabilities of GAGFAH A Asset GmbH & Co. KG.

Due to the ultimate refinancing situation based on a Commercial Mortgage Backed Security there was no further use for the company. Therefore, the company has been merged by way of accretion as of May 31, 2013, and all assets and liabilities which were not material were retransferred to GAGFAH I Invest GmbH & Co. KG and GAGFAH A Asset GmbH & Co. KG.

DECONSOLIDATIONS

After the sale of all their assets initiated in 2010, the following six HB Funds were liquidated and therefore deconsolidated in the financial year 2013. The liquidation surpluses amounting to € 0.4 million were transferred as dividend to the remaining shareholders in 2013:

- Haus- und Boden-Fonds 5
- Haus- und Boden-Fonds 7
- Haus- und Boden-Fonds 8
- Haus- und Boden-Fonds 10
- Haus- und Boden-Fonds 13
- Haus- und Boden-Fonds 35

There was no material result from the deconsolidation of the aforementioned HB Funds.

CHANGE OF NAME

With effect as of June 14, 2013, VHB Grundstücksverwaltungsgesellschaft "Haus- und Boden-Fonds" mbH was renamed into VHB Facility Management GmbH.

(INTERCOMPANY) TRANSFER

On January 31, 2013, GAGFAH I Invest GmbH & Co. KG divided its share of capital in GAGFAH M Immobilienmanagement GmbH in the notional amount of € 65,800,000.00 (94.00%) into two shares in the nominal amount of € 61,600,000.00 (88.00%) and € 4,200,000 (6.00%) and transferred the 88.00% share to GAGFAH GmbH.

2. CONSOLIDATION PRINCIPLES

2.1. SUBSIDIARIES

GAGFAH S.A. applies IFRS 10, IFRS 11, IFRS 12 and IAS 28 (as revised in 2011) together with the Amendments to IFRS 10, IFRS 11 and IFRS 12 regarding the transitional guidance.

Management has to exercise judgment with regard to the consolidation of all entities. IFRS 10 regulates the consolidation of companies controlled by other companies. Every entity has to be consolidated by another company when it is controlled by that company from an economic perspective even if the company does not hold more than half of the entity's shares. The application of the control concept requires judgment in each individual case with consideration of all relevant factors.

All subsidiaries over which control is exercised pursuant to IFRS 10.7 are fully consolidated. GAGFAH S.A. controls the subsidiaries if and only if it has:

- power over the investee
- exposure, or rights to variable returns from its involvement with the investee and
- the ability to use its power over the investee to affect the amount of the investor's returns.

In the light of the aforementioned factors, five of the Group companies (UC ACQ Ireland Limited, 12. CR Immobilien-Vermietungsgesellschaft mbH & Co. SÜDOST WOBA Striesen KG, Haus- und Boden-Fonds 37 and the two in 2013 established companies GERMAN RESIDENTIAL FUNDING 2013-1 LIMITED and GERMAN RESIDENTIAL FUNDING 2013-2 LIMITED) were included in the Consolidated Financial Statements according to IFRS 10, although GAGFAH has not the majority of shares.

Due to the narrow purpose of the GERMAN RESIDENTIAL FUNDING 2013-1 LIMITED and GERMAN RESIDENTIAL FUNDING 2013-2 LIMITED, the underlying CMBS structure and the corresponding contracts, GAGFAH GROUP has the ability to control the variable cash flows and the repayment of the junior tranche by own activities and bears substantial risks. Furthermore, GAGFAH GROUP had a significant role in the formation of the companies and the conclusion of the corresponding contracts. This leads to the assumption, that GAGFAH GROUP has control according to IFRS 10.5 ff. and GAGFAH GROUP had to fully consolidate the companies according to IFRS 10.

GAGFAH GROUP bears all risks and variable returns of 12. CR Immobilien-Vermietungsgesellschaft mbH & Co. SÜDOST WOBA Striesen KG due to an existing long-term leasing contract and therefore has control over this subsidiary as well.

Due to diverse cross connections within the combined business activities with UC ACQ Ireland Limited, GAGFAH GROUP also has control over this subsidiary.

Through the exercise of the fiduciary management, GAGFAH GROUP controls Haus- und Boden-Fonds 37 as a principal. Moreover, GAGFAH GROUP has the majority of shares in the remaining 3 HB Funds.

The financial statements of the individual subsidiaries are included in the Consolidated Financial Statements in accordance with the IFRS using the uniform accounting policies stipulated by GAGFAH GROUP.

All business combinations reflected in the Consolidated Financial Statements took place before financial year 2008 with exception of the VITEX Group acquired in 2014, and had been recorded according to IFRS 3 as applicable at the acquisition date.

For the companies acquired, capital consolidation was performed using the purchase method in accordance with IFRS 3, under which the acquisition costs of the investment is offset against the respective share in the net assets (in line with the Group's interest) measured at fair value as of the acquisition date.

The assets and liabilities of the relevant subsidiaries were remeasured at fair value as of the respective acquisition dates.

If the acquired share of the net assets of the subsidiary exceeds the cost of the investment, the share of the net assets and the acquisition costs are reassessed as prescribed by IFRS 3.32. Any excess remaining after this reassessment is recognized immediately as profit or loss.

All intercompany receivables and liabilities (and provisions), revenues, expenses and income as well as gains and losses are eliminated in accordance with IFRS 10.B86.

Subsidiaries are fully consolidated from the date of acquisition, i.e. the date on which the Group obtains control (IFRS 3.8 in conjunction with IFRS 3.15). Inclusion in the Consolidated Financial Statements ends as soon as the parent company ceases to have control (IFRS 10.25).

An adjustment item for non-controlling interests is recognized for shares in fully consolidated subsidiaries that do not belong to the parent company. Pursuant to IFRS 10.22, the adjustment item is disclosed under consolidated equity as a separate item from the equity of the parent company.

In accordance with IFRS 10.B94, the portion of non-controlling interests in consolidated net profit or loss is recorded separately as a "thereof" line item below net profit or loss in the Consolidated Statement of Comprehensive Income. Profit or loss and other comprehensive income are attributed to the non-controlling interests even if this results in a deficit balance of the non-controlling interests.

2.2. CHANGE IN CONTROLLING INTEREST

A change in ownership interest of a subsidiary without a change of control is accounted for as an equity transaction.

2.3. JOINT VENTURES

According to IFRS 11.5, a joint arrangement is defined as a contractual arrangement between two or more parties to undertake economic activities that are subject to joint control. A joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement, is called "joint venture". The Group has interests in the following four joint ventures:

- Objekt Dresden GbR
- Grundstücksentwicklungsgesellschaft Oesselse “Langes Feld” GbR
- Wolmirstedt GbR
- Möser GbR

C. ACCOUNTING POLICIES

The following table summarizes GAGFAH GROUP's material valuation methods:

SUMMARY OF SELECTED MATERIAL VALUATION METHODS

Acquired intangible assets	Initially measured at cost and amortized straight-line over the expected useful lives.
Goodwill	Initially recognized as excess of the cost of a business acquisition over the acquirer's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of a subsidiary on the acquisition date less any accumulated impairment losses, subsequently remeasured by impairment test. The decision for the full goodwill method or the partial goodwill method will be taken for every business combination individually.
Finance leases (Lessee)	Initially recognized at amounts equal to the lower of the fair value of the leased property and the present value of the minimum lease payments. Subsequently, the minimum lease payments are divided into interest and principal payments; the lease liability thus bears interest on an ongoing basis.
Investment Property	Initially measured at cost plus transaction costs, subsequently remeasured at fair value.
Property, plant and equipment	Initially measured at cost, subsequently recognized at cost less accumulated depreciation and impairment losses.
Loans granted, receivables and available-for-sale financial assets	Initially measured at fair value plus transaction costs, subsequently remeasured at amortized cost using the effective interest method.
Primary financial liabilities	Initially recognized at fair value plus transaction costs, subsequently remeasured at amortized cost using the effective interest method.
Derivative financial instruments and hedging relationships	Initially recognized at fair value on the date on which a derivative contract is entered into and subsequently remeasured at fair value. The result is either shown as profit or loss or in the other operating income.
Inventories	Initially measured at cost, subsequently remeasured at the lower of cost and net realizable value.
Pension provisions	Projected unit credit method
Other provisions	Current: settlement amount Non-current: at present value if material.

A more detailed description of these methods can be found in the following sections.

1. INTANGIBLE ASSETS

ACQUIRED INTANGIBLE ASSETS

Acquired intangible assets with a finite lifespan are initially measured at cost and amortized straight-line over their expected useful lives in accordance with IAS 38.97.

The software licenses recorded under intangible assets are amortized over a useful life of three to ten years.

GOODWILL

Pursuant to IFRS 3.32, goodwill is recorded as an asset on the date of acquisition. All business combinations reflected in the Consolidated Financial Statements had been recorded according to IFRS 3 as applicable at the acquisition date.

Goodwill is not amortized, but subject to an annual impairment test pursuant to IAS 36. Following initial recognition, goodwill is measured at original cost less any accumulated impairment losses.

Basically, GAGFAH GROUP distinguishes whether the goodwill relates to a real estate portfolio or whether the goodwill relates to a service provider without a real estate portfolio.

In the case of a real estate portfolio, cash flows from the real estate are included in the calculation of the value in use of the real estate. For the calculation of the fair value of the real estate, GAGFAH GROUP uses certain parameters based on valuation standards used for calculation of market prices. An additional amount can result from the fact that the individual parameters for GAGFAH GROUP (e.g. administrative expenses) turn out more favorable than the general estimation used in the valuation of the real estate. These cost advantages can result in an incremental value in use which justifies the goodwill for the underlying real estate.

In the case of a service provider without a real estate portfolio the prospective discounted cash flows of that company are used for the impairment test of the goodwill. Future cash flows are projected in detail for one year. After this detailed planning horizon, no increase in future cash flows is planned.

For the purpose of impairment testing, the acquired goodwill is allocated to the cash-generating units expected to benefit from the synergies of the combination as of the acquisition date. GAGFAH GROUP performs the impairment test on the level of cash-generating units corresponding with the particular regional divisions. Impairment is determined by assessing the recoverable amount of the cash-generating unit to which the goodwill relates. The recoverable amount is calculated using the value-in-use approach. Where the recoverable amount of the cash-generating unit is less than the carrying amount, an impairment loss is recognized.

The parameters for the impairment test of the goodwill in the region Berlin (for further information please refer to section E.1. "Intangible Assets") are as follows:

The impairment test was carried out using a weighted average cost of capital after taxes (WACC). This WACC is a peer-group WACC, i.e. the individual parameters are calculated from peer-group values. The calculation assumes a re-levered beta and a risk-free interest rate.

%	2013	2014
WACC after taxes	4.21	4.80
WACC before taxes	5.50	5.33
Re-levered beta	0.80	0.83
Risk-free interest rate	3.28	2.98

For the purpose of the impairment test, the region Berlin served as a cash-generating unit , since the respective assets were located therein and geographic regions are the lowest level at which goodwill is monitored. The future cash flows are based on budget values for 2015 and are modeled for the period 2016 through 2024 (prior year: budget values for 2014; modeled for the period 2015 through 2023). For the first five years, a detailed calculation is made. After this period, the future cash flows are extrapolated. This perpetual annuity is presumed, as a long term detailed calculation is hardly possible and GAGFAH GROUP expects at least the same cash flows as in the fifth year for the following years. The key drivers of rent growth are based on the 2014 budget (prior year: 2013 budget) and / or past experience and are held constant throughout the period in which the cash flows are extrapolated. The costs in the model are subject to an assumed increase of 1.50 % (prior year: 1.60 %) per annum.

Where goodwill forms part of a CGU and part of the operation within that unit is disposed of, the goodwill linked to the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured on the basis of the relative values of the operation disposed of and the portion of the CGU retained.

Taken into account that rental business is constant and calculable, we did not see reasonably possible changes in the key assumptions, that would cause the carrying amounts to exceed the recoverable amounts, therefore we did not disclose a sensitivity analysis.

When a subsidiary is sold, the allocable amount of goodwill is included in determining the gain or loss on disposal.

2. LEASES

Leases are assessed in accordance with their substance. A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership of an asset. All other leases are classified as operating leases (IAS 17.4). According to IAS 17.13, classification is made at the inception of the lease.

FINANCE LEASES

FINANCE LEASES IN THE FINANCIAL STATEMENTS OF LESSEES

At initial recognition, lessees recognize assets and liabilities in their Statement of Financial Position at amounts equal to the lower of the fair value of the leased property and the present value of the minimum lease payments (IAS 17.20).

For subsequent measurement, the minimum lease payments are divided into interest and principal payments; the lease liability thus bears interest on an ongoing basis.

A finance lease gives rise to depreciation expense for depreciable assets as well as finance expenses for each accounting period. Finance costs are recorded directly as expenses. If it is not sufficiently certain that the ownership will be transferred, the leased items are amortized / depreciated over their remaining useful lives or over the remaining term of the lease using the shorter of the two periods.

Finance leases in GAGFAH GROUP concern several transferable leasehold land contracts as well as leasing contracts for commercial vehicles (since 2014). In the corresponding contracts, GAGFAH GROUP is lessee and the conditions for a recognition as finance lease are fulfilled. For further information, please refer to section H.3. “Contingent Liabilities and Other Financial Obligations and Receivables”.

OPERATING LEASES

OPERATING LEASES IN THE FINANCIAL STATEMENTS OF LESSEES

According to IAS 17.33, lease payments under an operating lease are recognized as an expense on a straight-line basis over the lease term unless another systematic basis is more representative of the time pattern of the user’s benefit.

OPERATING LEASES IN THE FINANCIAL STATEMENTS OF LESSORS

Lessors present assets subject to operating leases in their Statement of Financial Position according to the nature of the asset (IAS 17.49). Lease income from operating leases are recognized in income on a straight-

line basis over the lease term unless another systematic basis is more representative of the time pattern in which user's benefit derived from the leased asset is diminished (IAS 17.50).

All existing rental leases related to the Group's investment properties have been assessed as operating leases. The tenants have a unilateral right to terminate the lease contract within the statutory notice period.

Further operating leases are transferable leasehold land contracts in which GAGFAH GROUP is lessee and lessor respectively and the conditions for a recognition as operating lease are fulfilled. For further information, please refer to section H.3. "Contingent Liabilities and Other Financial Obligations and Receivables".

3. INVESTMENT PROPERTY

RECOGNITION

Investment property is defined as property held in the long term to earn rentals and / or for capital appreciation (IAS 40.5 et seqq.). This includes land without buildings, land and similar land rights with buildings as well as land with third-party inheritable building rights. This balance sheet item does not include owner-occupied real estate (e.g. administrative buildings) or property held for short-term sale within the scope of ordinary activities.

Where buildings are partly owner-occupied and partly leased to third parties, the relevant parts of the buildings are accounted for separately in accordance with IAS 40.10 only if the leased part of the property can be disposed of separately or leased separately within the scope of a finance lease transaction.

Properties are transferred from property, plant and equipment or from inventories to the investment property portfolio if there is a change in their usage evidenced by the end of owner occupation or the beginning of a lease agreement with another party (IAS 40.57 (c) and (d)).

Properties are transferred from the investment property portfolio to property, plant and equipment if there is a change in their usage evidenced by the beginning of owner occupation (IAS 40.57 (a)).

According to IAS 40.66, investment properties are derecognized when they have either been disposed of or when the investment property is permanently withdrawn from use and no future benefit is expected from its disposal. Any gains or losses from the discontinuation or disposal of the investment property are recognized in the year in which it was discontinued or disposed of (IAS 40.69).

Any gains or losses that result from a change in the fair value of the investment property are recognized as profit or loss for the period in which they arise (IAS 40.35).

VALUATION

Investment property is initially measured at cost plus any incidental purchase costs or transaction costs at the time of addition in accordance with IAS 40.20. In the subsequent annual accounts each property is valued at its fair value. The valuation results are shown in the line "Result from the fair value measurement of investment property" of the Consolidated Statement of Comprehensive Income.

The Group's valuation policies and procedures are decided by the management. The valuation process is coordinated by the department "Asset Management" and generally carried out quarterly by independent external appraisers from CBRE GmbH (hereinafter abbreviated to "CBRE") on the basis of the data schedule for the quarter preceding the date of valuation (end of period). On the reporting date, the underlying assumptions of the valuation are evaluated by CBRE as to their timeliness and plausibility. Amongst other things, this presumes that the properties had been properly markted and that exchange of contracts took place on this date. The valuation result will be adjusted by GAGFAH GROUP for disposals by sale and carried forward to the balance sheet value of the current quarter. The changes in the fair value from quarter to quarter are analyzed by the department "Asset Management" and the accounting department in cooperation with CBRE. The valuation results and the aforementioned analyses are discussed with the management.

The valuation of investment property has been prepared in accordance with the RICS Valuation – Professional Standards, Eighth Edition (Red Book), published by the Royal Institution of Chartered Surveyors in March 2012. As in prior years, a discounted cash flow model was used to determine the investment properties' fair value which equals their net capital value (i.e. capital value less assumed purchaser's costs).

FAIR VALUE

The properties have been valued at fair value in accordance with IFRS 13 and IAS 40 of the International Financial Reporting Standards (IFRS), published by the International Accounting Standards Board (IASB). "Fair value" is defined as follows:

Fair value is "the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date" (IAS 40.5 and IFRS 13.9).

The definition of "fair value" corresponds with the definition of "market value" in accordance with Valuation Statement (VS) 3.2. of the RICS Valuation – Professional Standards (Eighth Edition (Red Book)), published by the Royal Institution of Chartered Surveyors (RICS), London:

"The estimated amount for which an asset or liability should exchange on the valuation date between a willing buyer and a willing seller in an arm's length transaction after proper marketing where the parties had each acted knowledgeably, prudently and without compulsion."

The fair value measurement of investment property takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use. The highest and best use of investment

property takes into account the use of an asset that is physically possible, legally permissible and financially feasible (IFRS 13.27 et. seqq.). The current use of the total property of GAGFAH GROUP corresponds to the highest and best use.

IFRS 13 requires that the classification of investment properties at fair value be determined by reference to the source of inputs used to derive the fair value. This classification uses the following three-level hierarchy:

- **Level 1**: quoted prices (unadjusted) in active markets for identical assets or liabilities;
- **Level 2**: inputs other than quoted prices included within level 1 that are observable for the asset or liability either directly (i.e., as prices) or indirectly (i.e., derived from prices);
- **Level 3**: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

In the Group's Consolidated Financial Statements, investment property is not actively traded, but was valued by using a model with inputs that are not based on observable market data (Level 3).

No allowances have been made for any expenses of realization nor taxation, which might arise in the event of a disposal.

No account has been taken of any intercompany lease arrangements, or of any mortgages, debentures or other charges.

Of the three valuation techniques mentioned in IFRS 13.62 (market approach, cost approach and income approach), GAGFAH GROUP applies the income approach that converts future amounts (e.g. income and expenses) to a single current (discounted) amount. A more detailed description on the valuation technique applied can be found below:

DCF (DISCOUNTED CASH FLOW)

The model designed by CBRE for the IFRS appraisal of the GAGFAH GROUP's real estate holdings is based on the DCF method. IAS 40.46 (c) permits the use of this method.

In order to ensure the basic suitability of the DCF method for the assessment of fair value in accordance with IFRS 13 and IAS 40, in addition to the general permissibility of the method, certain essential requirements must be complied with in its design, to allow for the derivation of sound, i.e. economically meaningful, values that are plausible and comparable in principle with the methods of real estate appraisal that are usually adopted.

The following guidelines have been complied with when implementing the DCF model:

- Reliable estimation of future cash flows
- Based on the conditions of existing leases

- Substantial external references, such as current market rental values
- Discounting at an interest rate that reflects the risk of the cash flows

The DCF method determines the value of the subject property as the net capital value of the achievable cash flows. The property is therefore assessed on the basis of its future financial benefit to the investor as at the date of valuation.

The application of market-oriented, standardized and non-company-specific input parameters, e.g. rental growth potential, risk of vacancy, tenant fluctuation, management costs, repair and maintenance costs, and costs on tenant change – ensures that the demands for objectivity in appraisal required for fair value can be complied with.

Using the DCF model, the fair value is assessed as the net capital value at the end of the reporting period (date of valuation), on the basis of the current and future returns from the subject property.

The calculation model is set up to include two phases: During the first phase, the so-called period of detailed consideration, usually extending over a period of ten years, the net periodic cash flows (based on the current net rental income) are discounted, monthly in advance, to the date of valuation. For the periods following the period of detailed consideration, the estimated long-term net income achievable is capitalized in perpetuity. This so-called residual (or terminal) value is discounted to the date of valuation and then added to the net capital value calculated for the period of detailed consideration. From the eleventh year onwards, the net income from the tenth year is capitalized in perpetuity as a constant income. The resulting terminal value is discounted at the discount rate to the date of valuation (to simulate the sale of the property) and adjusted for transaction cost.

The most sensitive input parameters for investment properties are the net future returns, the discount rate applied for the period of detailed consideration and the capitalization rate used to assess the residual value.

Only an insignificant portion of investment properties (amounting to approximately 3.3 % (prior year: 0.4 %) of the entire carrying amount of all investment properties) have been fair valued in accordance with valuation models other than the DCF model (e.g. liquidation method, adjusted DCF model for demolition properties or freezing of the fair value due to modernization).

DETERMINATION OF THE DISCOUNT RATE AND CAPITALIZATION RATE

IAS 40 does not give a prescriptive guideline on how to determine the discount rates to be applied in a DCF model. In principle, the capital market or the real estate market can be used as sources for discount rates appropriate for property valuation. CBRE has derived the discount rate from the real estate market. The basis of the model is closely referenced on the German residential property market. This relates both to the reflection of a specific market yield and the current level of transactions in German residential property. A discount rate derived from the real estate market reflects changes in the market, in the same way as deriving the discount rate from the basis of the capital market, taking into account specific additions for risks arising from market circumstances.

The average basic discount rate derived from prices paid for assets comparable to the real estate portfolio of GAGFAH GROUP in Germany is 6.00% (prior year: 6.00%). Specific risks in the cash flow of a property are reflected by appropriate additions or deductions from the average discount rate. The average discount rate after these adjustments is 5.99% (prior year: 5.99%).

The capitalization rate of 5.31% (prior year 5.36%) used is calculated by deducting the location-related growth component from the discount rate.

LIQUIDATION VALUE

The liquidation value has been assessed for all properties that exhibit a negative cash flow, as a result of low rental income and higher costs, for more than five years. The liquidation value is calculated as the site value less demolition and site clearance costs.

Demolition and site clearance costs have been assessed at a spot figure of € 70.00 / sqm (prior year: € 70.00 / sqm) of lettable area.

If, on checking the liquidation values for plausibility, zero or negative values are ascertained, a check has been made to determine whether or not there is a market for the property concerned. If so, the cash flow has been modified in order to reflect the value accepted by the market ("comparable value"). In all other instances the value has been reported as zero.

WELFARE CONDITIONS AND CONTRACTUAL OBLIGATIONS

Several direct and indirect subsidiaries of GAGFAH S.A. agreed in certain share and asset purchase agreements by which the property portfolio of the GAGFAH GROUP was acquired to comply with welfare conditions, which, in addition to statutory rules, safeguard the relevant parts of the portfolio. It must be noted that the welfare conditions only relate to certain though significant parts of the overall residential property portfolio of the GAGFAH GROUP and vary with the different parts of the overall portfolio. Welfare conditions include, in particular, the following obligations:

After the date of property purchases a protection period applies for several years. Within this period, various regulations regarding the relevant real estate holding companies, their employees and most importantly the properties apply:

In the event of planned single-property sales, for example, the respective properties may have to be offered first to the tenants or their immediate family members before they can be offered to third parties (pre-emptive right). For certain parts of the portfolio, these offers may additionally be subject to predefined upper limits. In the event of planned sales of condominium units or leased buildings with more than one rental apartment, such sales may only be permitted if certain obligations are fulfilled, such as predefined tenant occupancy rates or vacancy rates. The impact on the valuation is very limited and reflected in the discount and cap rates.

Furthermore, the welfare conditions may comprise clauses defining upper limits of rent increases as well as regulations regarding required improvement works. For certain parts of the portfolio the respective subsidiaries moreover have committed themselves to invest a defined average amount per square meter in maintenance. The effect is not material.

The restrictions for rent increases refer mostly to rental contracts that have been in place on and before the date of an acquisition of a certain portfolio. Due to the normal fluctuation in the properties this refers to less apartments each year. CBRE accounts for that by assuming a continuous fluctuation rate of 10.00% for the whole portfolio (German average) which means that only 10.00% of the rental area is let at market conditions each year and the rest is let to current conditions.

The potential for rent increases of existing leases is also sometimes limited. CBRE accounts for that by reducing the allowed rent increase (20.00% in three years for existing leases) to between 10.00% to 15.00%.

In some cases the welfare conditions prohibit so called "Luxury Refurbishments" in order to protect the tenants. This has no impact on the valuation since most of the properties are located in sub markets where there is no economical reason for such refurbishments. However, standard refurbishments which can have a positive effect on the property value are not forbidden.

In the case of a property being subsidized with public loans CBRE accounts for that by only applying the allowed subsidized rent (cost rent) and not the market rent. Furthermore, the indexation of rents is limited to 0.50%.

Additionally, there are absolute selling restrictions for certain parts of the portfolio. Sales of individual properties from this portfolio are only possible with the approval of existing non-controlling shareholders.

Welfare conditions are often protected by penalties which can be substantial and for which in some cases securities have been granted.

4. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment of GAGFAH GROUP is accounted for at cost less accumulated depreciation and impairment losses in accordance with the cost model of IAS 16.30.

An item of property, plant and equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the Statement of Comprehensive Income for the year the item is derecognized (IAS 16.67 et seq.).

The residual values of the items of property, plant and equipment, useful lives and depreciation methods are reviewed at the end of each financial year and adjusted as necessary.

In the case of major renovations, the relevant components are recognized as replacement investments if the recognition criteria are met.

Depreciation on property, plant and equipment is generally based on the following useful lives:

	USEFUL LIFE
Owner-occupied buildings	50 years
Technical equipment and machines	10 to 25 years
Other equipment, furniture and fixtures	3 to 13 years

The residual carrying amounts and useful lives are reviewed at every balance sheet date and adjusted if required.

Impairment losses are recognized on the basis of impairment tests pursuant to IAS 16.63 in conjunction with IAS 36.59 if the carrying amount exceeds the higher of the value in use and the fair value less costs to sell ("recoverable amount") (please refer to the following section C.5. "Impairment of Items of Property, Plant and Equipment and Intangible Assets"). If the reasons for impairment cease to apply, the impairment is reversed in accordance with IAS 36.110.

5. IMPAIRMENT OF ITEMS OF PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE ASSETS

At every balance sheet date, GAGFAH GROUP reviews the carrying amounts of its items of property, plant and equipment and intangible assets in order to ascertain whether there are any indications of impairment of these assets. If there are indications of such, the recoverable amount of the asset (or cash-generating unit) is estimated (IAS 36.9). For a more detailed information on the impairment testing of goodwill see C.1. "Intangible Assets".

The recoverable amount is the higher of the fair value less costs to sell and the value in use (IAS 36.6).

If the estimated recoverable amount of an asset (or the cash-generating unit) is less than the carrying amount, the latter is reduced to the recoverable amount and the impairment loss is recognized immediately in profit or loss (IAS 36.59 et seqq.).

If the impairment is subsequently reversed, the carrying amount of the asset (or cash-generating unit) is increased to the newly estimated recoverable amount. This increased value may not exceed the carrying amount that would have arisen after taking into account amortization / depreciation if no impairment had been recognized in the prior periods. The amount of any reversal is included immediately in profit or loss for the period. Once a reversal has been made, the amortization / depreciation charge is adjusted in future reporting periods in order to systematically allocate the adjusted carrying amount of the asset less a residual carrying amount over its remaining useful life.

6. FINANCIAL INSTRUMENTS

A financial instrument is any contract that gives rise to both a financial asset for one entity and a financial liability or equity instrument for another entity (IAS 32.11).

A financial asset or a financial liability is recognized in the Statement of Financial Position when GAGFAH GROUP becomes a party to the contractual provisions of the instrument (IAS 39.14).

Gains and losses on the disposal of financial instruments are disclosed as other operating income or expenses in the Statement of Comprehensive Income (IAS 39.26). Impairment losses are disclosed in the separate line "Result from Other Financial Assets". Other results from financial instruments, mainly interest, are disclosed in the financial result.

We refer to the section “Criteria for the Evaluation / Identification of the Need for Bad Debt Allowances” under the section H.1. “Additional Disclosures on Financial Instruments”.

PRIMARY FINANCIAL ASSETS

Ordinary purchases or sales of financial assets are accounted for as of the settlement date, and thus as of the date the asset is delivered.

Financial assets are derecognized when the contractual rights or obligations underlying the financial instrument no longer exist (elimination) or have been transferred to a third party (transfer).

IAS 39.9 divides financial assets into four categories for the purpose of subsequent measurement and recognition:

- Financial assets measured at fair value through profit or loss
- Held-to-maturity investments
- Loans and receivables
- Available-for-sale financial assets

The financial assets are classified in accordance with the respective purpose for which they were acquired.

Loans and receivables and available-for-sale financial assets are initially measured at fair value plus transaction costs directly allocable to the acquisition of the financial asset in accordance with IAS 39.43. Transaction costs mainly include commissions, broker fees, notary fees and swaps which have been subject to novation.
Assets allocated to the category available-for-sale financial assets are investments in equity instruments. These instruments are subsequently measured at fair value with gains and losses being recognized directly in equity. The loss or gain accumulated in equity is recognized in profit or loss when the financial investment is derecognized or impaired.
The fair value of available-for-sale financial assets traded on organized financial markets is determined by reference to the market price on the balance sheet date. If there is no active market, measurement methods that rely on recent market transactions on arm's length terms are used. If no fair value can be reliably measured, the asset is subsequently measured at amortized cost.
Primary and acquired loans and receivables with fixed or determinable payments that are not traded on an active market are categorized as loans and receivables. In this category, GAGFAH GROUP in particular has trade receivables and other non-current loans granted by institutional lenders.

After initial recognition, loans and receivables are measured at amortized cost using the effective interest method in accordance with IAS 39.46 (a).

On every balance sheet date, GAGFAH GROUP determines whether there are any objective indications of the impairment of a financial asset or group of financial assets.

If there are objective indications of impairment, the asset is tested for impairment in accordance with IAS 39.58 in conjunction with IAS 39.63 et seq. If impairment is established, the expected cash flows are estimated and capitalized at the interest rate used for first-time recognition. If a loss arises from the difference of the present value of estimated future cash flows as compared with the carrying amount, this amount is recorded in the Consolidated Statement of Comprehensive Income.

For rent receivables, the receivables from current rental agreements and rental agreements which are no longer in place are grouped together in order to test them jointly for impairment and specific bad debt allowances are recognized on the basis of past experience. For other loans and receivables, appropriate allowances are charged on an item-by-item basis (if required) for uncollectible amounts.

Subsequent reversals in accordance with IAS 39.65 are recognized as profit or loss.

For current trade receivables and other current receivables, GAGFAH GROUP assumes that the carrying amount reflects a reasonable approximation of fair value.

The fair value of the non-current loans and receivables is determined by discounting the future cash flows at the market interest rate, as there is no active market for these assets.

PRIMARY FINANCIAL LIABILITIES

Primary financial liabilities within the GAGFAH GROUP comprise in particular liabilities from loan agreements, trade payables and rent liabilities.

Pursuant to IAS 39.14, financial liabilities are recognized on the date on which GAGFAH GROUP becomes a party to the contractual provisions governing the financial instruments.

Financial liabilities are initially recognized in accordance with IAS 39.43 at fair value plus transaction costs that are directly allocable to the raising of the financial liabilities.

Following initial recognition, the financial liabilities are measured at amortized cost using the effective interest method (IAS 39.47). Amortized cost are calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate over the expected life of the financial liability. If the Group revises its estimates of payments or receipts, the carrying amount of the financial asset or financial liability (or group of financial instruments) will be adjusted in accordance with IAS 39 AG 8 to reflect actual and revised estimated cash flows. The adjustment is recognized in profit or loss as interest income or interest expenses.

Liabilities that bear no or low interest for which the lenders receive occupancy rights for apartments at discounted rent in return are recognized at amortized cost using the effective interest method. The liabilities are initially measured at fair value on the date the government grant was issued using the market level of interest at that time. In accounting for the acquisition of subsidiaries, acquisition cost was determined on the basis of the fair values of the loans as of the acquisition date. The difference between the notional amount and the fair value is disclosed separately as a deferred item and allocated in subsequent years on a proportionate basis over the term of the loan as “revenues from real estate management”. By contrast, the interest expense is recorded at amortized cost using the effective interest method.

The amortization of transaction costs is recorded in the Statement of Comprehensive Income.

Financial liabilities – or parts thereof – are derecognized as soon as the liability is extinguished, i.e. when the obligations stipulated in the agreement are settled or canceled.

According to IAS 39.40, an exchange between an existing borrower and lender of debt instruments with substantially different terms is accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability. Similarly, a substantial modification of the terms of it (whether or not attributable to the financial difficulty of the debtor) is accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability.

Gains or losses from financial liabilities are recorded in profit or loss in accordance with IAS 39.56 when the financial liability is derecognized.

For presentation purposes, the remaining term of a financial liability is based on the earlier date of the end of the interest lock-in period and the last principal repayment.

Current trade payables and other current financial liabilities have short-term maturities. For this reason, GAGFAH GROUP assumes that the carrying amount reflects a reasonable approximation of fair value.

The fair value of the non-current financial liabilities is determined by using the following three-level hierarchy:

- **Level 1**: quoted prices (unadjusted) in active markets for identical assets or liabilities;
- **Level 2**: inputs other than quoted prices included within level 1 that are observable for the asset or liability either directly (i.e. as prices) or indirectly (i.e. derived from prices);
- **Level 3**: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The fair value for financial liabilities is determined using mathematical methods on the basis of the market information available on the balance sheet date. In order to determine the fair value of financial liabilities, the mark-to-market calculation works with the actual cash value method. Therefore, a yield curve is created and the liabilities are discounted from the maturity date back to the current accounting date. All relevant and known market data as of the accounting date are used for the calculation of the values.

DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING RELATIONSHIPS

The Group uses derivative financial instruments, such as interest rate swaps, to hedge its interest rate risks. Such derivative financial instruments are initially recognized at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as other assets when the fair value is positive and as other liabilities when the fair value is negative.

Any gains or losses arising from changes in the fair value of derivatives are taken directly to profit or loss, except for the effective portion of cash flow hedges, which is recognized in other comprehensive income.

For the purpose of hedge accounting, hedges are generally classified as cash flow hedges when hedging the exposure to variability in cash flows is either attributable to a particular risk associated with a recognized asset or liability or a highly probable forecast transaction or the foreign currency risk in an unrecognized firm commitment.

At the inception of a hedge relationship, the Group formally designates and documents the hedge relationship to which the Group wishes to apply hedge accounting and the risk management objective and strategy for undertaking the hedge. The documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the entity will assess the effectiveness of changes in the hedging instrument's fair value in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk. Such hedges are expected to be highly effective in achieving offsetting changes in fair value or cash flows and are assessed on an ongoing basis to determine that they actually have been highly effective throughout the financial reporting periods for which they were designated.

At present, GAGFAH GROUP makes use of cash flow hedges in the form of interest rate swaps as well as interest rate caps to hedge the interest rate risk arising from variable-interest loans. These interest hedging instruments are accounted for as described below:

The effective portion of the gain or loss on the cash flow hedging instrument is recognized directly in other comprehensive income in the cash flow hedge reserve, while any ineffective portion is recognized immediately in the income statement as other operating expenses.

Amounts recognized as other comprehensive income are transferred to profit or loss when the hedged transaction affects profit or loss, such as when the hedged financial income or financial expense is recognized or when a forecast sale occurs. When the hedged item is the cost of a non-financial asset or non-financial liability, the amounts recognized as other comprehensive income are transferred to the initial carrying amount of the non-financial asset or liability.

If the forecast transaction or firm commitment is no longer expected to occur, the cumulative gain or loss previously recognized in equity is transferred to the income statement. If the hedging instrument expires or is sold, terminated or exercised without replacement or rollover, or if its designation as a hedge is revoked, any cumulative gain or loss previously recognized in other comprehensive income remains in other comprehensive income until the forecast transaction or firm commitment affects profit or loss.

In accordance with IAS 39.74(a), the option contract is separated into the intrinsic value and the time value of the designated interest rate caps. Only the change in the intrinsic value of the corresponding interest rate cap is designated as the hedging instrument. The change in its time value is accounted for as a separate derivate.

Derivative instruments are classified as current or non-current or separated into current and non-current portions based on an assessment of the facts and circumstances (i.e., the underlying contracted cash flows):

- When the Group expects to hold a derivative as an economic hedge (and does not apply hedge accounting) for a period beyond 12 months after the reporting date, the derivative is classified as non-current (or separated into current and non-current portions) consistent with the classification of the underlying item.
- Embedded derivatives that are not closely related to the host contract are classified consistent with the cash flows of the host contract.
- Derivative instruments that are designated as, and are effective hedging instruments, are classified consistently with the classification of the underlying hedged item. The derivative instrument is separated into a current portion and a non-current portion only if a reliable allocation can be made.

CONVERTIBLE BONDS

Convertible bonds are divided into two separate components: the derivative component on the one hand and the debt component on the other hand.

The market value of convertible bonds is derived from bond prices stated by the Bloomberg Mid Market Index. The debt component is initially measured at fair value and is subsequently remeasured at amortized cost using the effective interest method. The difference between the market value of the whole convertible bond and the fair value of the debt component is disclosed separately as a derivative financial instrument (category "Derivative financial liabilities measured at fair value, aFVtPL").

7. INVENTORIES

Inventories include land and buildings held for sale as well as other inventories.

Other inventories are initially measured at cost. Cost comprises all costs directly allocable to the production process and an appropriate share of overheads.

The inventories are measured at the lower of cost and net realizable value as of the balance sheet date in accordance with IAS 2.9. Net realizable value is the estimated selling price less all estimated costs of completion and marketing and selling expenses (IAS 2.6).

If inventories are sold, their carrying value is recognized as an expense in the year in which the related revenue is recognized in accordance with IAS 2.34. Any write-downs of inventories to net realizable value and all losses of inventories are recognized as an expense in the corresponding period. Any reversal of any write-down of inventories (due to an increase in net realizable value) is shown as a reduction in the amount of inventories recognized as an expense in the period in which the reversal occurs.

The operating expenses not yet invoiced are offset with the corresponding liabilities due to tenants' prepayments, only the surplus is shown in the Consolidated Statement of Financial Position.

8. CASH AND CASH EQUIVALENTS

Cash and cash equivalents are defined as the balance of cash and cash equivalents and all securities with a residual term (at the acquisition date) of up to three months, less the liabilities from overdrafts disclosed under current financial liabilities which are part of the Group-wide cash management system.

9. ASSETS HELD FOR SALE

Non-current assets, previously classified as investment property and owner-occupied property, are classified as “held for sale” if the following requirements are fulfilled:

- The asset must be available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such assets (IFRS 5.7),
- the sale of the asset must be highly probable (IFRS 5.7) and
- the asset must not be in the process of being abandoned (IFRS 5.13).

Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification (IFRS 5.8).

Investment property classified as "assets held for sale" is measured in accordance with the fair value model in IAS 40 (IFRS 5.5). The fair value is deducted from sales prices already known or reasonably certain at balance sheet date. These sales prices meet the definition of level 2 inputs according to IFRS 13 ("inputs other than quoted market prices that are directly observable for the asset"). The valuation results are shown in the line "Result from the fair value measurement of investment property" of the Consolidated Statement of Comprehensive Income.

For owner-occupied property classified as "assets held for sale", depreciation is suspended from the moment of reclassification. These assets are measured at the lower of carrying amount and fair value less costs to sell.

In case of a later decision not to sell the asset, a reclassification from assets held for sale into investment property and owner-occupied property has to be made (IFRS 5.26).

In case of a classification of property as “held for sale”, a decision about the use of the sales profit has to be made. If no reinvestment is intended, it is assumed that the Group has got a current repayment obligation. The respective financial liabilities need to be disclosed as current financial liabilities.

GAGFAH GROUP currently distinguishes between the following two categories of assets held for sale:

- "Condo sales program": Sale of individual apartments (single-unit sale) and of small multi-family homes to tenants or retail investors. Due to its current nature, only the condo sales program is shown as its own segment in the Group Segment Report.
- "Portfolio strategy sales" usually occur in the context of selling our regional non-core portfolio. GAGFAH GROUP has identified approximately 10% of its portfolio as regional non-core. These assets are in geographically remote locations compared to the core portfolio in GAGFAH GROUP's 30 largest locations plus their respective commuter belts.

In prior years asset held for sale also includes the category "Block sales". Block sales include sales of a large number of units to institutional buyers. Among the reasons to sell properties by way of a block sale are location-related reasons, high vacancy levels, significant capex requirements, financing-related reasons or the fact that we believe an asset has reached its maturity and is fully valued. Block sales also include the sale of the HB Funds assets that was initiated in 2010.

10. EQUITY

Equity is the residual interest in the assets of the entity after deducting all its liabilities. An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities.

According to IAS 32.33, own equity instruments which are repurchased (treasury shares) are recognized at cost and deducted from equity. No gain or loss is recognized in the Statement of Comprehensive Income on the purchase, sale, issue or cancellation of the entity's own equity instruments. Treasury shares may be acquired and held by GAGFAH S.A. or by other members of the Consolidated Group. Any difference between the carrying amount and the consideration paid or received is recognized directly in equity.

According to IAS 39.95(a), the effective portion of the gains or losses on cash flow hedges and the respective income tax effect are recognized in other comprehensive income.

According to IAS 19 (revised 2011), actuarial gains or losses concerning pension provisions are recognized in other comprehensive income.

11. PENSION PROVISIONS

GAGFAH GROUP offers its employees both defined contribution plans and defined benefit plans.

Under the defined contribution plans, GAGFAH GROUP pays contributions to public or private pension insurance schemes on the basis of statutory or contractual requirements. GAGFAH GROUP does not have any other benefit obligations beyond payment of contributions. The current contribution payments are disclosed as an expense in the relevant year under personnel expenses for the various categories of expenses according to the cost of sales method.

Regarding the Group's expenses for defined contribution plans we refer to section H.4. "Number of Employees and Personnel Expenses".

In conjunction with the defined benefit plans, there are various types of employer-funded pension plans for company pensions, e.g. old-age pensions, early retirement pensions, invalidity pensions, widow's / widower's and orphan's pensions. The GAGFAH subgroup, for example, grants its employees company pensions under Pension Regulation 2002 (hereinafter referred to as "VO 2002"). Payments to recipients are made if the requirements under the workplace agreement are fulfilled and if payments from the pension insurance are made. The above-mentioned criteria have to be proved by presentation of a notice of a German pension insurance institution and a professional pension fund, respectively. The compliance with the waiting period, which, in this case equals the legal vesting terms, is regarded as a general requirement.

Payment of old-age pensions are subject to the ending of employment relationship after the age of 65. The old-age pension is calculated as the sum of the individual benefit modules which accumulate during the pensionable working life. Benefit modules are measured as a fixed percentage of pensionable earnings in September of each year. The future cash flows arising from this pension scheme are covered by means of pension provisions which are calculated using the projected unit credit method.

Current pension benefits and legally vested rights to pension benefits are protected against the effects of an insolvency in accordance with the Act to Improve Occupational Pensions (Gesetz zur Verbesserung der betrieblichen Altersversorgung). For this purpose, the Company pays contributions to a pension assurance association (Pensions-Sicherungs-Verein Versicherungsverein auf Gegenseitigkeit (PSVaG), Cologne), the institution of statutory insolvency insurance for occupational pensions.

The obligations from company pensions are fully provided for pension provisions which in turn are backed by sound assets and are partially covered by individual contracts for the reinsurance of pension benefits.

The pension provisions from defined benefit plans are calculated using the projected unit credit method stipulated under IAS 19.67 with an actuarial valuation performed at each balance sheet date. This method takes into account both the pensions known and expectancies acquired as of the balance sheet date and the increases in salaries and pensions to be expected in the future.

Actuarial assumptions are the best estimates of the variables that will determine the ultimate cost of providing post-employment benefits. Actuarial assumptions comprise demographic assumptions (e.g. mortality, rates of employee turnover) and financial assumptions (e.g. discount rate or future salary increases). Actuarial gains and losses result from increases or decreases in the present value of the defined benefit obligation include of changes in actuarial assumptions and include adjustments. Actuarial gains and losses do not include changes in the present value of the defined benefit obligation include of introduction, amendment, curtailment or settlement of the defined benefit plan.

Remeasurements arising from defined benefit plans comprise actuarial gains and losses, the return on plan assets (excluding interest). Effects from remeasurements are recognized immediately in other comprehensive income (OCI). All other expenses related to defined benefit plans (e.g. service cost, net interest on the net defined benefit liability/asset) are recognized in profit or loss.

Past service costs are recognized in profit or loss at the earlier of either the date when the plan amendment or curtailment occurs or the date when the entity recognizes related restructuring costs or termination benefits.

Gains or losses on the settlement of a defined benefit plan are recognized in profit or loss when the settlement occurs.

The net defined benefit liability as shown in the Consolidated Statement of Financial Position is calculated as the balance of the defined benefit obligation and the fair value of plan assets.

Plan assets are assets that are held by a long-term employee benefit fund or qualifying insurance policies. All plan assets are not available to the creditors of the Group, nor can they be paid directly to the Group.

The pension plans expose GAGFAH GROUP to actuarial risks, mainly in the form of interest rate risks, furthermore inflation risks (future salary and pension increases) and longevity risks. A sensitivity analysis containing the impacts of a change in the significant actuarial assumptions on the defined benefit obligation can be found in chapter E.13.1. “Pension Provisions”.

In addition to their own pension schemes, NILEG subgroup and GBH subgroup are members of supplementary pension funds which qualify as multi-employer defined benefit plans. The NILEG subgroup participates in the pension scheme organized by the pension institution of the Federal Republic of Germany and the Federal States (“Versorgungsanstalt des Bundes und der Länder”; hereinafter referred to as “VBL”). The GBH subgroup is involved in the pension scheme of the public corporation “Kommunaler Versorgungsverband Baden-Württemberg” (“Zusatzversorgungskasse des Kommunalen Versorgungsverbandes Baden-Württemberg”; hereinafter referred to as “ZVK-KVBW”). The services of those supplementary pension funds are funded by levies of the employers and contributions of the employees, each based on certain percentage of the employee’s remuneration. In addition, the supplementary pension funds raise recapitalization payments (“Sanierungsgelder”) from the participating employers in order to cover any additional financing requirements. A joint liability for other participating

companies is not apparent from the statutes of the supplementary pension funds. The proportion of the subgroups NILEG and GBH of the total contributions to the plan is less than 1%.

Due to the fact that the aforementioned supplementary pension funds are public-law institutions, a future wind-up of the plans is considered unlikely. In the unlikely event of a wind-up, first all liabilities of the supplementary pension funds against third-parties (non-insured) must be met. Then the remaining assets shall be used exclusively for the insured beneficiaries.

As the VBL and the ZVK-KVBW do not provide available sufficient information to permit treatment as defined benefit plans, the multi-employer defined benefit plans constituted by them are pursuant to IAS 19.34 (a) accounted for as if they were defined contribution plans. GAGFAH GROUP is not aware of any specific information on any surpluses or deficits in the plan or any future effects that such surpluses or deficits may have. The respective countervalue amounts to € 30.0 million. GAGFAH GROUP will have to pay this amount only in case its membership of VBL and ZVK-KVBW would be terminated. Regarding the Group's current contributions to the supplementary pension funds we refer to section H.4. "Number of Employees and Personnel Expenses".

12. OTHER PROVISIONS

Pursuant to IAS 37.14, other provisions are recognized if a legal or constructive obligation in respect of a third party exists that results from a past event and it is likely that GAGFAH GROUP will be called on to settle this obligation and the anticipated amount of the provision can be reliably estimated.

In accordance with IAS 37.36, the provisions are measured at the amount of the best estimate of the expenditure required to settle the present obligation at the balance sheet date.

Provisions expected to be utilized after more than one year are discounted in accordance with IAS 37.45 if the effect is material and recognized in the amount of the present value of the expected expenditure.

In accordance with IAS 37.71 et seqq., provisions for restructuring and reorganization expenses are recognized when the Group has prepared a detailed formal restructuring plan and made this plan available to the relevant parties.

13. DEFERRED TAXES

Deferred taxes are recognized using the liability method for all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognized for all temporary differences that will result in taxable amounts in determining taxable profit or tax loss of future periods when the carrying amount of the asset or liability is recovered or settled (taxable temporary differences).

Deferred tax assets are recognized for all temporary differences that will result in amounts that are deductible in determining taxable profit or tax loss of future periods when the carrying amount of the asset or liability is recovered or settled (deductible temporary differences). Deferred tax assets are also recognized for the carryforward of unused tax credits and unused tax losses to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and the carryforward of unused tax credits and unused tax losses can be utilized.

In assessing the probability that taxable profit will be available against which the unused tax credits and unused tax losses can be utilized the entity considers

- whether it has sufficient taxable temporary differences relating to the same taxation authority and the same taxable entity, which will result in taxable amounts against which the unused tax losses can be utilized before they expire.
- whether it is probable that the respective entity will have taxable profits with regard to the same taxation authority before the unused tax losses or unused tax credits expire.

The following exceptions were taken into account:

- Deferred tax liabilities which arise from the initial recognition of goodwill must not be recognized.
- Deferred tax assets and liabilities which arise from the initial recognition of an asset or a liability in a transaction that is not a business combination and at the time of the transaction affects neither the accounting profit nor taxable profit or loss must not be recognized.
- In respect of temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax liabilities are recognized except to the extent that the Group is able to control the timing of the reversal of the temporary difference and it is probable that the temporary differences will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available against which all or part of the deferred tax asset can be utilized.

Deferred tax assets and liabilities are measured using the tax rates expected to apply to the period when the asset is realized or the liability is settled based on tax rates (and tax laws) that have been enacted or substantively enacted by the balance sheet date (IAS 12.47).

Income tax relating to items recognized directly in equity (e.g. derivative financial instruments) is recognized in equity and not in the Statement of Comprehensive Income.

Deferred tax assets and deferred tax liabilities are offset against each other when the Group has an legally enforceable right to set off the current tax assets against its current tax liabilities and the deferred tax assets and liabilities relate to income taxes levied by the same taxation authority for the same taxable entity or different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realize the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered (IAS 12.74).

14. INCOME AND EXPENSES

The rental income is recognized monthly on a straight-line basis taking into consideration lease incentives. The prepayments for operating expenses factored into the rent are recognized as revenues in the amount in which allocable operating expenses were incurred in the same period. Any remaining difference is disclosed either as a rent receivable or liability.

Revenues from the sale of property are recognized when:

- the entity has transferred to the buyer the significant risks and rewards of ownership of the property;
- no rights of disposal or control over the sold items remain with GAGFAH GROUP or its subsidiaries;
- the amount of revenue can be measured reliably;
- it is sufficiently probable that the proceeds from the sale will flow to the entity;
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Management fees are only recognized as revenues from third-party real estate management if the agreed management services (including chargeable part-services) have been rendered.

Other revenues are recognized when the service has been rendered, the risks of ownership have been transferred, and the amount of expected consideration can be measured reliably.

15. GOVERNMENT GRANTS

Pursuant to IAS 20.12, government grants should be recognized as income over the periods necessary to match them with the related costs which they are intended to compensate on a systematic basis.

GAGFAH GROUP companies receive government grants in the form of construction cost allowances, redemption subsidies, redemption loans and low-interest loans.

Construction cost allowances are, wherever they relate to construction work, deducted from cost and released over the useful life of the subsidized asset. If the allowances do not relate to capitalizable maintenance work, they are recognized as income immediately.

Redemption subsidies which are granted in the form of rent, interest and other redemption subsidies are recognized as income over the life of the respective loans. They are disclosed under income from the leasing of investment property.

Low-interest loans relate to government assistance. They are recognized at present value on the basis of the market interest rate prevailing at the date of issue. The difference is posted to a deferred item which is released to income from the leasing of investment property on a straight-line basis over the remaining term.

16. SHARE-BASED REMUNERATION

EQUITY-SETTLED REMUNERATION PLANS

Management of GAGFAH GROUP is entitled to different equity-settled remuneration plans based on the individual employment contracts.

In 2009, stock options were granted to members of Senior Management and other levels of management. 50% of the stock options vested on December 31, 2010; another 50% vested on December 31, 2011. Vesting condition is the beneficiaries' continued service or employment with GAGFAH GROUP on the respective vesting dates. The exercise period ends on December 31, 2015.

In 2011, a further stock option plan was established with the following conditions: 33.3% of the stock options vested on December 31, 2011, and December 31, 2012, respectively; another 33.4% vested on December 31, 2013. Vesting condition is the beneficiaries' continued service or employment with GAGFAH GROUP on the respective vesting dates. The exercise period ends on December 31, 2015.

The fair value of the options of stock option plan 2009 and stock option plan 2011 was estimated at the respective grant dates in accordance with IFRS 2 using the Black & Scholes option pricing model.

All remaining claims from the stock option plans 2009 and 2011 were settled in the financial year 2013.

In 2013, two long-term incentive plans containing stock awards with exercise prices of € 0.00 each were established, the first of these with the following conditions: The stock awards entitle the beneficiary to GAGFAH S.A. shares without payment. Each 20.0% of the stock awards vest on or around April 1 of the years 2014 to 2018. Vesting condition is the beneficiaries' continued service or employment with GAGFAH GROUP on the respective vesting dates. Some of the grants are subject to an immediate retransfer obligation to GAGFAH S.A. in case of a claw-back event (e.g. resignation from office or termination by GAGFAH GROUP). In case of a change of control or a premature revocation from office, beneficiaries are entitled to a compensation payment equivalent to one annual fixed salary plus the amount of the variable bonus granted for the previous financial year as well as – under certain conditions – additional shares in the Company which would have been granted in the next twelve months following the early termination event. The fair value of these stock awards is estimated on the basis of the share price net of expected dividends to be paid during the vesting period at the grant date in accordance with IFRS 2 and amounts to € 15.0 million.

The second long-term incentive plan set up in 2013 is based on the following conditions: The stock awards entitle the beneficiary to GAGFAH S.A. shares without payment. The vesting schedule of these stock awards is as follows:

- 20% on or around April 1, 2015
- 30% on or around April 1, 2016
- 50% on or around April 1, 2017

Vesting condition is the beneficiaries' continued service or employment with GAGFAH GROUP on the respective vesting dates and the reaching of a certain stock yield. In case of a change of control or a premature revocation from office, beneficiaries are entitled to a compensation payment equivalent to two annual fixed salaries plus twice the amount of the variable bonus granted for the previous financial year (in both events capped at the amount of the fixed salary plus maximum annual bonus that would have been payable until the end of the regular contractual term). Furthermore, only in case of a change of control, beneficiaries are entitled to additional shares in the Company which would have been granted in the next 24 months following the early termination event. The fair value of these stock awards is estimated on the basis of the share price net of expected dividends to be paid during the vesting period at the grant date in accordance with IFRS 2 and amounts to € 3.2 million.

Together with a corresponding increase in equity, the costs of equity-settled transactions are recognized equally over the period in which the service conditions are fulfilled (IFRS 2.15 (a)), ending on the date on which the relevant managers become fully entitled to the award. The cumulative expense recognized for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest.

CASH-SETTLED REMUNERATION PLANS

Middle management and executive staff of GAGFAH GROUP are entitled to a cash-settled remuneration plan (phantom stocks) based on a standardized additional agreement. The stock options are granted over a period of three consecutive years, one tranche each year. Vesting condition is the continued service or employment with GAGFAH GROUP until the end of the vesting period. Within the following exercise period of twelve to twenty-four months, the stock options can be exercised within the first 15 days of each quarter.

Costs of this plan are measured initially at fair value at the grant date. Subsequent measurement until the vesting date takes place by reference to the fair value at the respective balance sheet date. The costs are recognized together with the corresponding increase in provisions over the period in which the service conditions are fulfilled. Changes in the provision are recognized in profit or loss.

17. STATEMENT OF CASH FLOWS

The Consolidated Statement of Cash Flows is prepared in accordance with the provisions of IAS 7. It is split into the three parts: cash flows from operating, investing and financing activities. For mixed transactions, cash flows are allocated to more than one area as appropriate.

Pursuant to IAS 7.18 (b), cash flows from operating activities are disclosed using the indirect method, under which profit or loss for the period is translated into cash flow in a reconciliation. The cash flows from investing and financing activities are calculated on the basis of payments.

Financial liabilities are all liabilities to banks and other lenders.

18. UNCERTAINTIES RELATING TO ESTIMATES

The preparation of the Consolidated Financial Statements requires to a certain extent assumptions and estimates to be made which have an effect on the carrying amounts of recognized assets and liabilities, income and expenses and contingent liabilities. The assumptions and estimates relate mainly to

- the measurement of investment property,
- the recognition and measurement of provisions,
- the valuation of financial liabilities and
- the assessment of recoverability of trade receivables and deferred tax assets.

The assumptions and estimates are based on parameters which are derived from current knowledge at that time. In particular, the circumstances prevailing at the time of preparation of the Consolidated Financial Statements and the realistic future development of the global and industry environment were used to estimate cash flows. Where these conditions develop differently than assumed and beyond the sphere of influence of management, the actual figures may differ from those anticipated. If there are deviations between actual and anticipated development, the assumptions and, wherever necessary, the carrying amounts of the relevant assets and liabilities are adjusted accordingly.

Assumptions and estimates derived from the financial markets are currently subject to considerable uncertainty. This is due to the sovereign debt crisis evoked by certain member states of the European Union as a consequence of the financial and real economy market crisis in the preceding years. This uncertainty has affected the European real estate market, though the German residential real estate market proved to be comparably stable over the last years. Still, under these circumstances, the fair values of assets may be subject to a heightened volatility.

INVESTMENT PROPERTY

GAGFAH GROUP carries its investment properties at fair value, with changes in fair value being recognized in profit or loss. The assessment of the real estate portfolio is provided by CBRE, an independent external appraiser. For the investment property, CBRE used a valuation methodology based on a DCF model. The determined fair value of the investment property is most sensitive to the estimated yield as well as the long-term vacancy rate. The key assumptions used to determine the fair value of investment property and a quantitative sensitivity analysis are disclosed in sections C.3. “Investment Property” (Accounting Policies) and E.2. “Investment Property” (Notes).

PENSION PROVISIONS

The cost of defined benefit pension plans and the present value of the pension obligation are determined using actuarial valuations. An actuarial valuation involves making various assumptions which may differ from actual developments in the future. These include the determination of the discount rate, future salary and pension increases, turnover rate, inflation rate and mortality rates. Due to the complexity of the valuation, the underlying assumptions and its long-term nature, a defined benefit obligation is highly sensitive to changes in these assumptions. All assumptions are reviewed at each annual reporting date.

In determining the appropriate discount rate, management considers the interest rates of corporate bonds in the respective currency with at least AA rating, with extrapolated maturities corresponding to the expected duration of the defined benefit obligation. A detailed sensitivity analysis regarding the impact of the discount rate and other parameters on the defined benefit obligation can be found in section E.13.1. “Pension Provisions”.

FINANCIAL LIABILITIES

Regarding the senior debts, estimates in respect of the future cash flows are necessary. Some of those loans are granted by state-owned banks and include an option for the bank to increase the interest rate over a specific period up to a maximum level.

For valuation purposes concerning senior debts, Senior Management estimates the future interest rate adjustments on an annual basis. For the valuation in the financial year 2014, Senior Management assumed that the state-owned banks will exercise all possible future interest rate adjustment options. In the financial year 2014, these estimates did not change compared to the prior year.

Further information on financial liabilities can be found in section E.16.1. “Financial Liabilities”. A sensitivity analysis regarding financial instruments can be found in section H.2. “Financial Risk Management”.

CURRENT AND DEFERRED TAXES

To measure and recognize current and deferred taxes, GAGFAH GROUP has to consider the effects of uncertain tax items and the due dates of taxes. This assessment is made on the basis of estimates and assumptions and may contain a number of judgments about future events. New information may become available which causes GAGFAH GROUP to change its judgments regarding the appropriateness of existing tax liabilities, such changes to tax liabilities will affect the tax expense in the period in which such a change is made.

Furthermore, GAGFAH GROUP needs to estimate its income tax obligations by estimating the tax exposure as well as assessing temporary differences resulting from differing treatment of items for tax and accounting purposes. Estimates are required in determining the provision for income taxes because, during the ordinary course of business, there are transactions and calculations for which the ultimate tax determination is uncertain.

Deferred tax assets inter alia are recognized to the extent that it is considered probable that sufficient taxable income will be available against which the temporary difference or tax loss carryforwards can be applied. Deferred tax assets are reviewed at each balance-sheet date and they are reduced to the extent that it is no longer considered probable that the related tax benefit will be realized. Estimates are required in determining the amounts of deferred tax assets and whether those assets can be utilized.

GOODWILL

To calculate the value in use of the corresponding reporting units, assumptions and estimates concerning the parameters are necessary. Details can be found in section C.1. “Intangible assets”.

D. GROUP SEGMENT REPORTING

According to IFRS 8 Operating Segments, the Group Segment Reporting is prepared in a manner consistent with internal reports regularly used by the Group's key decision-makers for the internal assessment of the segments' performance or the allocation of resources to the Group's segments.

In the course of the fiscal year 2014, considerable adjustments in our segment reporting are made due to changes in the internal organisation and reporting structure. In comparison to prior years, we changed the classification of our segments as well as one of our key performance indicators.

GAGFAH's reporting format is furthermore based on its core business segments "Real estate management" and "Real estate sales" as these segments represent strategic business functions within the Group. But in comparison to prior years, the following changes regarding the classification of our segments are made.

The real estate management segment represents the ownership and management of our residential property portfolio. The revenues of the real estate management segment comprise the total income from the leasing of investment property as shown in the Consolidated Statement of Comprehensive Income. Income from the leasing of assets held for sale continues to be shown within the segment revenues of the real estate management segment.

In prior years, the real estate management segment also comprised income from third-party real estate management and other trade. By changing to our key performance indicator Funds From Operations (FFO) this income is no longer shown within the real estate management segment. From 2014 onwards, income from third-party real estate management and other trade is disclosed in the column "All other segments", following new organisational processes. Furthermore, in contrast to prior years, the non-cash income from the amortization of deferred liabilities of government-granted loans has not been reclassified from the income from the leasing of investment property to the column "Other".

From 2014 onwards, the real estate sales segment concentrates all our residential property sales activities. In contrast to prior years revenues of the real estate sales segment includes the revenues of our condo sales as well as revenues from our portfolio strategy sales and the prior year revenues from block sales.

Information about other business activities and operating segments that are not reportable are disclosed from 2014 onwards in the column "All other segments". This comprises the income from third-party real estate management and other trade as well as income from the sale of property development projects.

Due to the described changes regarding the classification of our segments the prior-year figures have been adjusted correspondingly.

All other income and expenses that are not allocated to our operating segments are shown in the separate column "Other" in the Group Segment Report. Basically, this comprises the result from the fair value

measurement of investment property, reorganization and restructuring expenses and the impairment loss from the remeasurement of the goodwill amounting to € 15.0 million (prior year: € 0.0 million).

”Segment revenues” and “Segment FFO” are key performance indicators used by the Group for measuring segment performance. Due to changes in the internal reporting system in 2014, the Group's management changed one of the key performance indicators from "Segment EBITDA" to "Segment FFO". The prior-year figures have been adjusted accordingly.

Segment revenues as reported in our Group Segment Report are revenues from our external customers.

GROUP SEGMENT REPORT
for the period from January 1 to December 31. 2014

€ million	Real estate management	Real estate sales	All other segments	Total segments	Other	Total group
Segment revenues	**833.5**	**222.0**	**14.4**[2]	**1,069.9**	**0.0**	**1,069.9**
Carrying amount of property sold	0.0	-205.2	-1.2	-206.4	0.0	-206.4
(Net) Operating expenses	-487.4	-11.2	-11.3	-509.9	117.9	-392.0
Net financing expenses	0.0	0.0	0.0	0.0	-363.2	-363.2
Segment EBT	**346.1**	**5.6**	**1.9**	**353.6**	**-245.3**	**108.3**
Interest expenses	0.0	0.0	0.0	0.0	181.1	181.1
Interest income	0.0	0.0	0.0	0.0	-1.4	-1.4
Other financial expenses	0.0	0.0	0.0	0.0	0.2	0.2
Result from the fair value measurement of derivatives	0.0	0.0	0.0	0.0	171.9	171.9
Refinancing expenses	0.0	0.0	0.0	0.0	11.4	11.4
Segment EBIT	**346.1**	**5.6**	**1.9**	**353.6**	**117.9**	**471.5**
Depreciation and amortization	2.5	0.0	0.4	2.9	15.3	18.2
Segment EBITDA	**348.6**	**5.6**	**2.3**	**356.5**	**133.2**	**489.7**
Reorganization and restructuring expenses	0.0	0.0	0.0	0.0	31.6	31.6
Result from the fair value measurement of investment property	0.0	0.0	0.0	0.0	-161.9	-161.9
Cash surplus from sales	0.0	54.6[3]	0.0	54.6	0.0	54.6
Other	1.1	0.1	-2.3	-1.1	-2.9	-4.0
Net interest expenses	0.0	0.0	0.0	0.0	-151.7	-151.7
Current tax expenses	0.0	0.0	0.0	0.0	-8.1	-8.1
Segment FFO	**349.7**	**60.3**	**0.0**	**410.0**	**-159.8**	**250.2**
Capex	-60.1	0.0	0.0	-60.1	0.0	-60.1
Adjusted FFO (AFFO)	**289.6**	**60.3**	**0.0**	**349.9**	**-159.8**	**190.1**
Segment investments[1]	159.8	0.0	0.0	159.8	0.0	159.8

1) Segment investments comprise capex and acquisitions of investment properties as well as investments in intangible assets, property, plant and equipment and financial assets.
2) The revenues of other segments consist of other income, e. g. revenues from third-party management of condominiums, third-party facility management, third-party house services and third-party insurance management.
3) The cash surplus from sales mainly results from the correction of the non cash carrying amount of property sold in an amount of € 205.2 million and € -150.5 million debt repayment connection with the sales.

GROUP SEGMENT REPORT
for the period from January 1 to December 31, 2013

€ million	Real estate management	Real estate sales	All other segments	Total segments	Other	Total group
Segment revenues	**829.8**	**144.1**	**15.6[2)]**	**989.5**	**0.0**	**989.5**
Carrying amount of property sold	0.0	–128.6	–1.0	–129.6	0.0	–129.6
(Net) Operating expenses	–498.6	–12.1	–17.4	–528.1	3.3	–524.8
Net financing expenses	0.0	0.0	0.0	0.0	–286.3	–286.3
Segment EBT	**331.2**	**3.4**	**–2.8**	**331.8**	**–283.0**	**48.8**
Interest expenses	0.0	0.0	0.0	0.0	220.6	220.6
Interest income	0.0	0.0	0.0	0.0	–0.8	–0.8
Other financial expenses	0.0	0.0	0.0	0.0	0.1	0.1
Result from the fair value measurement of derivatives	0.0	0.0	0.0	0.0	–1.5	–1.5
Refinancing expenses	0.0	0.0	0.0	0.0	67.9	67.9
Segment EBIT	**331.2**	**3.4**	**–2.8**	**331.8**	**3.3**	**335.1**
Depreciation and amortization	2.2	0.0	0.4	2.6	0.3	2.9
Segment EBITDA	**333.4**	**3.4**	**–2.4**	**334.4**	**3.6**	**338.0**
Reorganization and restructuring expenses	0.0	0.0	0.0	0.0	6.9	6.9
Result from the fair value measurement of investment property	0.0	0.0	0.0	0.0	–5.4	–5.4
Cash surplus from sales	0.0	43.1[3)]	0.0	43.1	0.0	43.1
Other	1.9	0.0	2.4	4.3	–5.1	–0.8
Net interest expenses	0.0	0.0	0.0	0.0	–203.9	–203.9
Current tax expenses	0.0	0.0	0.0	0.0	–7.7	–7.7
Segment FFO	**335.3**	**46.5**	**0.0**	**381.8**	**–211.6**	**170.2**
Capex	–26.3	0.0	0.0	–26.3	0.0	–26.3
Adjusted FFO (AFFO)	**309.0**	**46.5**	**0.0**	**355.5**	**–211.6**	**143.9**
Segment investments[1)]	27.9	0.0	0.2	28.1	0.0	28.1

1) Segment investments comprise capex and acquisitions of investment properties as well as investments in intangible assets, property, plant and equipment and financial assets.
2) The revenues of other segments consist of other income, e. g. revenues from third-party management of condominiums, third-party facility management, third-party house services and third-party insurance management.
3) The cash surplus from sales mainly results from the correction of the non cash carrying amount of property sold in an amount of € 128.6 million and € -85.0 million debt repayment in connection with the sales.

E. NOTES TO THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION

1. INTANGIBLE ASSETS

A part of goodwill with a prior-year amount of € 15.0 million related to our operations in the Region Berlin, originally resulting from the acquisition of GAGFAH Pegasus GmbH. Due to the changes in the key assumptions for the impairment test (see section C.1. "Intangible Assets") and the value enhancements of the investment property that have already been realized, the intrinsic value of the goodwill could not be confirmed. Therefore the goodwill in the region Berlin had to be written off completely. The impairment loss of € 15.0 million (prior year: € 0.0 million) is included in the line item "Other Operating Expenses" of the Consolidated Statement of Comprehensive Income. Please refer to section F.9. "Other operating expenses". In the Group Segment Report the impairment loss of € 15.0 million is reported in the column "Other", consistent with the disclosure of the "Result from the fair value measurement of investment property". In the prior year, the annual impairment test did not lead to a remeasurement result.

A Goodwill in the amount of € 7.1 million arose from the acquisition of the VITEX GROUP. The acquisition took place on December 18, 2014, close to the year end. The accounting for the business combinations of VITEX Group can be determined only provisionally. Therefore the goodwill is not allocated to a CGU yet. For further information to the acquisition of the VITEX GROUP please refer to section B.1. "Consolidated Group".

For the purposes of testing for impairment, the goodwill was assigned according to the policies laid out in section C.1. "Intangible Assets".

The goodwill from the acquisition of the NILEG subgroup of € 2.1 million (prior year: € 2.1 million) was also subject to an impairment test which did not result in the recognition of an impairment loss.

Intangible assets with a finite lifespan mainly comprise software licenses for user programs amounting to € 0.9 million (prior year: € 0.7 million). The slight increase compared to the prior year is mainly due to the capitalization of software licenses, partly compensated by scheduled depreciation.

	Industrial Rights	Goodwill	Total
Acquisition or production cost			
01-01-2014	9.5	18.3	27.8
Additions	0.6	7.1	7.7
Disposals	-0.1	0.0	-0.1
12-31-2014	10.0	25.4	35.4
Accumulated depreciation			
01-01-2014	-8.8	-1.2	-10.0
Additions	-0.3	-15.0	-15.3
Disposals	0.1	0.0	0.1
12-31-2014	-9.1	-16.2	-25.2
Book Value			
12-31-2014	0.9	9.2	10.2

	Industrial Rights	Goodwill	Total
Acquisition or production cost			
01-01-2013	9.1	18.3	27.4
Additions	0.5	0.0	0.5
Disposals	-0.1	0.0	-0.1
12-31-2013	9.5	18.3	27.8
Accumulated depreciation			
01-01-2013	-8.5	-1.2	-9.7
Additions	-0.4	-0.0	-0.4
Disposals	0.1	0.0	0.1
12-31-2013	-8.8	-1.2	-10.0
Book Value			
12-31-2013	0.7	17.1	17.8

All additions relate to intangible assets acquired separately.

2. INVESTMENT PROPERTY

The valuation of the real estate portfolio as at December 31, 2014, for the annual accounts has been carried out by independent external appraisers from CBRE. CBRE confirms that it has no conflict of interest in carrying out the subject valuation. For more information on the valuation procedures and techniques, please refer to section C.3. "Investment Property".

IFRS 13 requires that the classification of investment property at fair value be determined by reference to the source of inputs used to derive the fair value. This classification uses the following three-level hierarchy:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2: inputs other than quoted prices included within level 1 that are observable for the asset or liability either directly (i.e., as prices) or indirectly (i.e., derived from prices);
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The total property assets of GAGFAH GROUP are categorized as level 3 investment property.

Due to the fact that potential rent increases are a material key driver in the DCF market valuation, the classification of investment property according to IFRS 13.94 was made on the basis of potential rent increases, leading to the following seven risk clusters:

RISK CLUSTER	POTENTIAL MARKET RENT INCREASE (in%)
Risk cluster 1	1.50
Risk cluster 2	1.25
Risk cluster 3	1.00
Risk cluster 4	0.75
Risk cluster 5	0.50
Risk cluster 6	0.25
Risk cluster 7	0.00

Each town and district is allocated to one of the above-mentioned seven risk clusters. As part of the valuation the regional base value is adjusted by the individual object and location properties again.

Each risk cluster is again divided into the following three sub-risk clusters:

SUB-RISK CLUSTER	DESCRIPTION OF THE PROPERTY'S CONDITION
Risk cluster 1	good property quality
Risk cluster 2	average property quality
Risk cluster 3	below-average property quality

UNOBSERVABLE INPUT PARAMETERS OF THE DCF MODEL

The net cash flows are based on the current asset-specific operating income less non-recoverable expenses such as vacancy loss, non-recoverable operating expenses, administrative costs, repair and maintenance costs and tenant improvements.

In estimating future net cash flows the following assumptions have been made in respect of the significant unobservable input parameters:

December 31, 2014

		Input Parameters											
		Discount rate (%)			Capitalization rate (%)			Market rent growth (%)			Structural vacancy[1] (%)		
Level		3			3			2			3		
Risk cluster	Sub-risk cluster	Min.	Weight av. (10y)	Max.	Min.	Weight av. (10y)	Max.	Min.	Weight av. (10y)	Max.	Min.	Weight av. (10y)	Max.[1]
1	1	5.13	5.96	6.95	4.00	4.49	5.70	1.35	1.51	1.65	0.00	0.60	1.31
	2	5.38	6.21	7.20	4.00	4.72	5.70	1.20	1.50	1.50	0.50	0.89	1.75
	3	5.63	6.05	6.88	4.25	4.72	5.40	1.35	1.36	1.50	0.50	1.11	1.38
2	1	5.00	6.02	7.23	4.00	4.76	5.98	1.13	1.27	1.38	0.00	1.25	5.00
	2	5.38	6.08	9.38	4.13	4.88	8.13	1.00	1.23	1.25	0.50	1.36	2.70
	3	5.58	5.92	7.25	4.38	4.87	6.13	0.88	1.10	1.25	0.55	1.54	4.50
3	1	5.13	6.11	9.00	4.13	5.11	8.00	0.90	1.00	1.10	0.00	1.21	5.00
	2	5.13	6.19	8.63	4.13	5.21	7.83	0.80	0.99	1.00	0.00	1.73	7.50
	3	5.38	6.22	7.50	4.48	5.33	6.60	0.70	0.88	1.00	0.00	2.22	7.50
4	1	4.88	5.95	7.88	4.13	5.20	7.13	0.68	0.75	0.83	0.00	1.32	5.00
	2	5.38	6.09	7.45	4.63	5.36	7.20	0.60	0.74	0.83	0.00	2.09	20.00
	3	5.38	6.06	7.25	4.63	5.39	7.00	0.53	0.68	0.75	0.55	2.69	6.50
5	1	5.00	6.05	8.38	4.50	5.54	7.93	0.45	0.50	0.55	0.00	2.14	10.00
	2	5.38	6.11	7.00	4.88	5.62	6.50	0.40	0.49	0.50	0.00	3.11	20.00
	3	5.63	6.06	6.63	5.18	5.61	6.18	0.35	0.45	0.50	2.48	4.33	10.00
6	1	5.75	6.04	8.10	5.48	5.78	7.85	0.23	0.25	0.28	0.00	3.90	20.00
	2	5.75	6.19	7.88	5.50	5.94	7.63	0.20	0.25	0.28	0.00	6.28	20.00
	3	5.88	6.41	8.00	5.63	6.19	7.75	0.18	0.21	0.25	3.25	6.55	10.00
7	1	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
	2	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
	3	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a

1) The maximum value for structural vacancy can reach in individual cases significantly higher values (up to 100%). Reasons for this can be the high vacancy. the property conditions and the low demand in the residential market.

Input Parameters									Other key information					
Repairs and maintenance (€/sqm)			Tenant improvements[2] (€/sqm)			Management costs (€/sqm)			Year of construction			Net cold rent (€/sqm)		
3			3			3			3			2		
Min.	Weight av. (10y)	Max.	Min.	Weight av. (10y)	Max.	Min.	Weight av. (10y)	Max.	Min.	Weight av. (10y)	Max.	Min.	Weight av. (10y)	Max.
6.50	7.32	10.00	30	72	105	205	251	255	1898	1962	2004	3.70	6.66	12.64
7.50	8.75	11.00	40	71	80	205	249	255	1900	1962	1995	3.73	5.78	8.75
10.00	10.64	12.00	40	81	105	230	249	255	1937	1960	1983	4.12	6.16	9.42
6.50	7.23	9.50	5	55	80	180	231	255	1800	1964	2005	2.30	5.68	10.74
7.50	8.57	11.00	35	70	95	180	238	255	1800	1966	2002	2.52	5.56	8.59
10.00	11.17	13.20	40	68	95	205	247	255	1870	1953	1990	2.86	4.99	6.81
6.50	7.27	10.00	10	62	95	180	241	255	1878	1968	2007	3.30	5.32	11.88
7.50	8.65	11.00	5	68	95	180	242	255	1873	1959	2006	3.31	5.06	7.71
6.50	10.41	13.20	45	74	100	230	249	255	1896	1956	1975	3.30	5.39	7.69
6.50	7.25	8.50	5	60	80	180	246	255	1855	1968	2005	2.57	5.13	9.20
7.50	8.66	11.00	35	59	70	205	243	255	1900	1966	1998	1.37	4.79	6.88
10.00	11.26	13.00	45	53	70	230	253	255	1900	1962	1983	3.41	4.27	6.55
6.50	7.29	8.50	10	55	75	205	244	255	1880	1965	2005	3.22	4.89	11.25
7.50	8.53	11.00	40	57	95	205	249	255	1888	1953	1994	2.25	4.67	6.42
10.00	11.16	13.20	40	47	70	230	248	255	1904	1958	1995	3.20	4.36	5.30
6.50	7.33	8.50	5	48	70	205	226	230	1887	1958	1998	2.44	4.59	6.59
7.50	8.36	11.00	10	43	70	205	226	230	1892	1967	2000	2.60	3.96	5.37
10.00	11.49	13.00	45	45	45	205	208	230	1913	1974	1980	3.58	3.77	4.71
n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a

2) Tenant improvements only occur on simulated vacation. e.g. at a fluctuation rate of 10% tenant improvements only occur once in a 10-year period.

December 31. 2013

		Input Parameters											
		Discount rate (%)			Capitalization rate (%)			Market rent growth (%)			Structural vacancy[1] (%)		
Level		3			3			2			3		
Risk cluster	Sub-risk cluster	Min.	Weight av. (10y)	Max.	Min.	Weight av. (10y)	Max.	Min.	Weight av. (10y)	Max.	Min.	Weight av. (10y)	Max.[1]
1	1	5.38	5.98	6.50	4.00	4.54	5.20	1.35	1.51	1.65	0.00	0.34	0.75
	2	5.63	5.90	6.25	4.13	4.43	5.00	1.50	1.50	1.50	0.50	0.50	0.50
	3	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
2	1	5.13	5.95	6.95	4.00	4.70	5.95	1.13	1.27	1.38	0.00	0.65	2.25
	2	5.38	6.15	7.25	4.13	4.95	6.00	1.00	1.24	1.25	0.00	0.92	1.50
	3	5.63	6.06	6.88	4.50	4.99	5.70	0.88	1.13	1.25	0.50	1.14	1.38
3	1	5.00	6.07	8.30	4.00	5.07	7.30	0.90	1.01	1.10	0.00	1.35	5.00
	2	5.38	6.14	9.38	4.38	5.16	8.38	0.80	0.99	1.00	0.00	1.87	20.00
	3	5.38	6.18	8.70	4.38	5.30	7.80	0.70	0.89	1.00	0.00	2.45	7.50
4	1	5.25	6.00	7.38	4.43	5.26	6.70	0.68	0.75	0.83	0.00	1.40	10.00
	2	5.38	6.08	7.88	4.63	5.36	7.28	0.60	0.73	0.83	0.00	1.92	5.00
	3	5.63	6.07	6.75	4.88	5.41	6.23	0.53	0.66	0.75	0.00	3.49	10.00
5	1	5.00	6.05	8.10	4.50	5.54	7.60	0.45	0.51	0.55	0.00	2.09	5.25
	2	5.38	6.50	7.50	4.88	5.96	7.00	0.40	0.50	0.50	0.00	3.32	20.00
	3	5.88	6.28	8.00	5.38	5.87	7.50	0.35	0.41	0.50	2.48	5.24	10.00
6	1	5.63	6.13	8.38	5.38	5.88	8.15	0.23	0.25	0.28	0.00	6.71	20.00
	2	5.75	6.02	7.88	5.50	5.77	7.63	0.20	0.25	0.28	0.00	6.01	20.00
	3	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
7	1	5.88	5.88	5.88	5.88	5.88	5.88	0.00	0.00	0.00	5.25	5.25	5.25
	2	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
	3	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a

1) The maximum value for structural vacancy can reach in individual cases significantly higher values (up to 100%). Reasons for this can be the high vacancy. the property conditions and the low demand in the residential market.

Input Parameters									Other key information					
Repairs and maintenance (€/sqm)			Tenant improvements[2] (€/sqm)			Management costs (€/sqm)			Year of construction			Net cold rent (€/sqm)		
3			3			3			3			2		
Min.	Weight av. (10y)	Max.	Min.	Weight av. (10y)	Max.	Min.	Weight av. (10y)	Max.	Min.	Weight av. (10y)	Max.	Min.	Weight av. (10y)	Max.
6.50	7.26	8.00	30	64	80	230	250	255	1929	1982	2002	4.42	6.88	10.42
8.50	9.35	11.00	70	73	80	255	255	255	1931	1969	1993	5.36	7.28	8.62
n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
6.50	7.33	10.00	5	70	105	205	249	255	1898	1965	2005	3.38	6.38	10.82
7.00	8.63	11.00	40	71	95	180	247	255	1898	1962	1999	3.45	5.69	9.23
10.00	10.90	12.00	40	70	95	205	247	255	1924	1960	1978	2.93	5.44	6.95
6.50	7.26	10.00	5	56	95	180	234	255	1800	1965	2007	2.28	5.22	11.88
7.50	8.69	12.00	5	65	100	180	236	255	1800	1964	2006	0.77	4.79	7.33
10.00	10.67	13.20	35	63	100	230	248	255	1839	1955	1990	2.12	4.78	6.55
6.50	7.30	10.00	10	62	95	205	250	255	1855	1965	2006	3.13	5.01	8.96
7.50	8.67	11.00	35	61	70	205	251	255	1900	1959	2000	1.37	4.83	6.50
10.00	11.53	13.00	45	48	70	230	252	255	1900	1957	1983	3.14	4.19	5.73
6.50	7.29	8.50	5	55	80	205	239	255	1880	1963	2005	2.56	4.91	11.25
7.50	8.87	11.00	5	49	70	205	245	255	1888	1968	2004	2.68	3.99	6.42
10.00	10.74	13.20	40	50	70	205	232	255	1913	1972	1995	3.50	4.19	5.14
6.50	7.25	8.25	35	53	70	230	230	230	1887	1938	1974	2.57	4.13	5.21
7.50	7.92	10.00	40	47	70	230	230	230	1898	1959	2000	2.25	4.19	5.24
n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
7.00	7.00	7.00	45	45	45	230	230	230	1906	1940	1958	4.19	4.43	4.60
n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a

2) Tenant improvements only occur on simulated vacation, e.g. at a fluctuation rate of 10% tenant improvements only occur once in a 10-year period.

DISCOUNT RATE AND CAPITALIZATION RATE

IAS 40 does not give a prescriptive guideline on how to determine the discount rates to be applied in a DCF model. In principle, the capital market or the real estate market can be used as sources for discount rates appropriate for property valuation. CBRE has derived the discount rate from the real estate market. The basis of the model is closely referenced on the German residential property market. This relates both to the reflection of a specific market yield and the current level of transactions in German residential property. A discount rate derived from the real estate market reflects changes in the market, in the same way as deriving the discount rate from the basis of the capital market, taking into account specific additions for risks arising from market circumstances.

The average basic discount rate derived from prices paid for assets comparable to the real estate portfolio of GAGFAH GROUP in Germany is 6.00% (prior year: 6.00%). Specific risks in the cash flow of a property are reflected by appropriate additions or deductions from the average discount rate. The average discount rate after these adjustments is 5.99% (prior year: 5.99%).

The average capitalization rate of 5.31% (prior year 5.36%) used is calculated by deducting the location-related growth component from the discount rate.

MARKET RENT GROWTH

Depending on the prevailing market rent and the asset-specific rent adjustment options, the current in-place rent is forecast to reach the market level over time and grow in line with the market rent thereafter. The market rent grows at a property-by-property level, reflecting the regional basis with adjustments for the quality of situation and building condition. The net in-place rent is calculated by subtracting vacancy losses as well as rent reductions.

STRUCTURAL VACANCY

Vacant space is reflected in the calculation model at the due date of the reporting period on the basis of the identified vacancy. The actual vacancy is reduced in stages, depending on the quality of the property and its location, until the long-term vacancy level assessed by CBRE for the macro location is reached.

The level of long-term vacancy was also subject to granular adjustments, depending on the property and situation. If actual vacancy was below the long-term vacancy level, in order to reflect the risk inherent in the location, vacancy was notionally increased over time, albeit at a slower rate than that used for vacancy reduction.

Commercially-occupied units were not subject to this modelling process. The cash flow from the commercially-occupied units is oriented on the lease data.

During the 10-year period of detailed consideration, CBRE has assumed that there would be 10% basic fluctuation rate. In cases of fluctuation CBRE assumes a delay in re-letting of zero up to six months depending on the individual property risk.

REPAIRS AND MAINTENANCE

Ongoing repairs and maintenance are assumed with € 6.50 / sqm p.a. (prior year: € 6.50 / sqm p.a.) for new buildings or recently refurbished properties and up to € 12.00 / sqm p.a. (prior year: € 12.00 / sqm p.a.) for properties in bad condition or without any significant modernizations and / or refurbishments.

TENANT IMPROVEMENTS

Landlord's costs on change of tenants are one-off costs (tenant improvements), which occur only on simulated vacation and subsequent re-letting. CBRE applied a basic rate of € 70.00 / sqm (prior year: € 70.00 / sqm) for residential units (to determine the terminal value after the ten year time horizon, tenant improvements are not directly included in the cash-flow calculation but considered in the capitalization rate) .

MANAGEMENT COSTS

Management costs have been modelled at € 255 / unit p.a. (prior year: € 225 / unit p.a. on the basis of the 2nd cost calculation regulation ("Zweite Berechnungsverordnung").

YEAR OF CONSTRUCTION

The year of construction basically describes the original year of construction. In the case of comprehensive basic renovations, the year of the basic renovation is defined as the year of construction.

NET COLD RENT

Net cold rent represents the amount of rent that could be produced assuming no vacancies or collection losses occur.

INDEXATION OF COSTS

Within the period under detailed review, all cost positions are indexed to a yearly increase of 1.66 % (prior year: 1.64 %) (average of a 10-year period).

SENSITIVITY ANALYSIS

The following table shows a quantitative sensitivity analysis regarding the aforementioned input parameters:

December 31, 2014

€ million

Input Parameters			Discount and capitalization rate		Market rent growth		Structural vacancy	
Sensitivity level		Carrying amount	-0.1%	+0.1%	-0.5%	+0.5%	-0.1%	+0.1%
Risk cluster	Sub-risk cluster							
1	1	872.4	889.6	855.8	789.7	955.2	873.2	871.7
	2	356.2	363.4	349.4	322.3	394.3	356.7	355.8
	3	90.4	92.0	88.8	83.2	98.5	90.5	90.3
2	1	1,941.8	1,982.3	1,902.9	1,747.2	2,171.0	1,943.3	1,940.3
	2	379.1	387.1	371.4	340.8	425.8	379.6	378.7
	3	33.2	33.9	32.5	29.9	37.1	33.2	33.1
3	1	2,128.7	2,170.6	2,088.6	1,923.5	2,379.6	2,131.9	2,127.7
	2	509.1	518.9	499.6	461.6	567.1	509.7	508.5
	3	160.8	163.9	157.8	146.8	177.7	161.0	160.6
4	1	475.7	484.6	467.1	431.8	529.3	476.1	475.3
	2	310.1	315.1	305.1	285.3	340.1	310.4	309.6
	3	34.7	35.2	34.1	31.7	38.1	34.8	34.6
5	1	308.1	312.4	303.8	286.6	334.7	308.2	307.8
	2	66.3	67.4	65.2	60.8	73.3	66.4	66.2
	3	99.0	100.7	97.4	91.0	109.3	99.2	98.9
6	1	102.8	104.6	101.1	98.3	114.0	102.9	102.7
	2	11.4	11.6	11.2	10.9	12.8	11.4	11.4
	3	4.4	4.4	4.3	4.1	4.9	4.4	4.3
7	1	n/a	n/a	n/a	n/a	n/a	n/a	n/a
	2	n/a	n/a	n/a	n/a	n/a	n/a	n/a
	3	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Total		**7,884.2**	**8,037.7**	**7,736.1**	**7,145.5**	**8,762.8**	**7,892.9**	**7,877.5**
Deviation		n/a	1.95%	-1.88%	-9.37%	11.14%	0.11%	-0.08%

Repairs and maintenance		Tenant improvements		Management costs		Indexation of costs (10-year period)	
-€1.00 / sqm	+€1.00 / sqm	-€5.00 / sqm	+€5.00 / sqm	-€10.00 / unit	+€10.00 / unit	-0.1%	+0.1%
884.8	860.1	874.9	870.0	874.4	870.5	873.7	871.2
361.6	351.0	357.3	355.2	357.0	355.5	356.9	355.6
91.8	89.0	90.7	90.1	90.6	90.1	90.6	90.2
1,978.5	1,905.3	1,948.9	1,934.7	1,947.6	1,936.0	1,944.9	1,938.7
386.9	371.4	380.6	377.6	380.3	377.9	380.0	378.3
34.1	32.3	33.4	33.0	33.3	33.0	33.3	33.0
2,173.7	2,084.5	2,139.1	2,119.2	2,136.5	2,121.6	2,133.4	2,124.2
519.9	498.1	511.3	506.7	510.8	507.3	510.3	507.8
164.8	156.5	161.7	159.7	161.4	160.2	161.3	160.3
486.4	465.0	478.2	473.3	477.5	473.9	476.8	474.6
317.5	302.5	311.6	308.4	311.2	308.9	310.9	309.2
36.0	33.3	34.9	34.3	34.9	34.4	34.8	34.4
314.5	301.5	309.5	306.5	309.1	306.9	308.7	307.3
68.2	64.4	66.7	65.9	66.7	66.0	66.5	66.1
103.4	93.9	100.0	97.4	99.8	98.3	99.6	98.4
106.1	99.7	103.7	102.1	103.5	102.2	103.3	102.5
11.8	11.0	11.5	11.3	11.5	11.4	11.5	11.4
4.6	4.1	4.4	4.3	4.4	4.3	4.4	4.3
n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
8,044.6	**7,723.6**	**7,918.4**	**7,849.7**	**7,910.5**	**7,858.4**	**7,900.9**	**7,867.5**
2.04%	-2.04%	0.43%	-0.44%	0.33%	-0.33%	0.21%	-0.21%

December 31, 2013

€ million

Input Parameters			Discount and capitalization rate		Market rent growth		Structural vacancy	
Sensitivity level		Carrying amount	-0.1%	+0.1%	-0.5%	+0.5%	-0.1%	+0.1%
Risk cluster	Sub-risk cluster							
1	1	142.7	145.8	139.7	127.7	158.5	142.8	142.6
	2	41.7	42.6	40.7	37.1	46.2	41.7	41.6
	3	0.0	0.0	0.0	0.0	0.0	0.0	0.0
2	1	1,385.2	1,413.7	1,357.5	1,248.9	1,543.3	1,386.3	1,384.1
	2	512.9	523.5	502.8	462.9	573.5	513.5	512.3
	3	84.6	86.3	83.0	76.9	93.8	84.7	84.4
3	1	3,163.8	3,227.1	3,103.0	2,854.8	3,540.0	3,166.7	3,161.0
	2	699.6	713.5	686.1	631.4	782.5	700.5	698.7
	3	76.6	78.1	75.1	69.5	85.1	76.7	76.5
4	1	701.1	714.6	688.1	633.9	782.9	701.7	700.5
	2	254.7	259.5	250.0	230.6	284.0	255.0	254.4
	3	29.6	30.1	29.1	27.1	32.5	29.6	29.5
5	1	420.5	428.4	413.0	382.0	467.8	420.9	420.2
	2	71.7	72.8	70.7	66.4	78.2	71.8	71.7
	3	9.5	9.7	9.4	8.6	10.6	9.6	9.5
6	1	19.7	20.0	19.3	18.8	21.8	19.7	19.6
	2	19.1	19.4	18.8	18.2	21.4	19.1	19.1
	3	0.0	0.0	0.0	0.0	0.0	0.0	0.0
7	1	0.7	0.7	0.7	0.7	0.8	0.7	0.7
	2	0.0	0.0	0.0	0.0	0.0	0.0	0.0
	3	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total		**7,633.7**	**7,785.8**	**7,487.0**	**6,895.5**	**8,522.9**	**7,641.0**	**7,626.4**
Deviation		n/a	1.99%	-1.92%	-9.67%	11.65%	0.10%	-0.10%

Repairs and maintenance		Tenant improvements		Management costs		Indexation of costs (10-year period)	
-€1.00 / sqm	+€1.00 / sqm	-€5.00 / sqm	+€5.00 / sqm	-€10.00 / unit	+€10.00 / unit	-0.1%	+0.1%
144.5	141.0	143.1	142.4	143.0	142.4	142.9	142.5
42.2	41.1	41.8	41.6	41.7	41.6	41.7	41.6
0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
1,406.8	1,363.7	1,389.6	1,380.8	1,388.6	1,381.9	1,387.2	1.383.3
521.8	504.0	514.7	511.1	514.3	511.5	513.9	511.9
86.3	82.9	85.0	84.2	84.9	84.3	84.8	84.4
3,231.5	3,096.2	3,178.0	3,149.7	3,175.2	3,152.4	3,170.1	3,157.7
716.9	681.6	703.1	695.9	703.1	696.8	701.4	697.7
79.1	74.0	77.1	75.9	76.9	76.2	76.9	76.2
719.5	684.0	705.4	697.2	703.9	698.3	702.9	699.3
260.7	248.7	256.1	253.3	255.8	253.6	255.5	253.9
30.9	28.2	29.8	29.2	29.8	29.4	29.7	29.4
431.3	409.8	423.1	418.0	422.3	418.8	421.6	419.5
73.3	70.2	72.1	71.3	72.0	71.5	71.9	71.5
9.9	9.1	9.6	9.4	9.6	9.4	9.6	9.5
20.3	19.0	19.8	19.5	19.8	19.5	19.7	19.6
19.8	18.4	19.3	18.9	19.2	19.0	19.2	19.0
0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
0.7	0.7	0.7	0.7	0.7	0.7	0.7	0.7
0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
7,795.5	**7,472.6**	**7,668.3**	**7,599.1**	**7,660.8**	**7,607.3**	**7,649.7**	**7,617.7**
2.12%	-2.11%	0.45%	-0.45%	0.36%	-0.35%	0.21%	-0.21%

A change in the assumptions made for the estimated discount rate or for the market rent growth is accompanied by a similar change in the capitalization rate. A change in the assumptions made for the indexation of costs is accompanied by a similar change in the expenses for repair and maintenance, tenant improvements and management costs.

DEVELOPMENT OF INVESTMENT PROPERTY

The following overview shows a reconciliation from the opening balances to the closing balances of the fair value for each class of investment property:

December 31, 2014

€ million	2014								
Risk cluster	1			2			3		
(Sub-)risk cluster	1	2	3	1	2	3	1	2	3
01-01-2014	**142.7**	**41.7**	**0.0**	**1,385.2**	**512.9**	**84.6**	**3,163.8**	**699.6**	**76.6**
Changes in the Consolidated Group	0.0	0.0	0.0	0.0	0.0	0.0	0.0	1.2	91.3
Additions due to Acquisitions	0.0	0.0	0.0	0.0	52.8	0.0	0.0	0.0	0.0
Additions due to value enhancing measurements	0.1	0.1	0.0	4.8	7.6	0.5	21.1	9.6	4.0
Disposals	-7.4	-4.1	0.0	-26.9	-1.8	0.0	-9.1	-1.2	0.0
Reclassifications to assets held for sale	-1.2	-4.3	0.0	-17.7	-6.2	0.0	-22.6	-17.1	-3.4
Reclassifications to/from property. plant and equipm	0.0	0.0	0.0	0.0	0.0	0.0	-0.4	0.0	0.0
Changes in value recorded in profit or loss	0.1	-0.5	0.0	48.4	30.9	4.4	85.7	17.6	3.9
Reclassifications between (sub-) risk clusters	738.1	323.3	90.4	548.0	-217.1	-56.3	-1.109.8	-200.6	-11.6
12-31-2014	**872.4**	**356.2**	**90.4**	**1,941.8**	**379.1**	**33.2**	**2,128.7**	**509.1**	**160.8**

2014												
		4			5			6			7	
1	2	3	1	2	3	1	2	3	1	2	3	Total
701.1	**254.7**	**29.6**	**420.5**	**71.7**	**9.5**	**19.7**	**19.1**	**0.0**	**0.7**	**0.0**	**0.0**	**7,633.7**
0.0	0.0	0.0	0.0	3.3	87.1	0.0	0.0	0.0	0.0	0.0	0.0	182.9
0.0	40.7	0.0	0.0	4.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	97.6
3.6	1.0	0.1	7.1	0.4	0.1	0.0	0.0	0.0	0.0	0.0	0.0	60.1
-5.1	-0.2	0.0	-1.3	-0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	-57.3
-31.2	-39.7	-2.4	-33.0	-2.2	0.0	-5.0	-8.3	0.0	0.0	0.0	0.0	-194.3
0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	-0.4
-7.0	-4.2	-0.1	-11.8	-0.4	-0.4	-1.1	-3.6	0.0	0.0	0.0	0.0	161.9
-185.7	57.8	7.5	-73.4	-10.4	2.7	89.2	4.2	4.4	-0.7	0.0	0.0	0.0
475.7	**310.1**	**34.7**	**308.1**	**66.3**	**99.0**	**102.8**	**11.4**	**4.4**	**0.0**	**0.0**	**0.0**	**7,884.2**

December 31, 2013

€ million	2013								
Risk cluster	1			2			3		
(Sub-)risk cluster	1	2	3	1	2	3	1	2	3
01-01-2014	**141.1**	**44.0**	**0.0**	**1,167.0**	**696.9**	**126.8**	**2,982.6**	**907.2**	**84.7**
Changes in the Consolidated Group	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Additions due to Acquisitions	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Additions due to value enhancing measurements	0.0	0.0	0.0	1.4	1.2	0.3	9.9	7.4	2.4
Disposals	-0.7	-0.1	0.0	-21.1	-3.1	-0.1	-8.8	-6.0	0.0
Reclassifications to assets held for sale	-0.1	-0.2	0.0	-2.8	-3.4	-1.7	-13.2	-22.7	-9.6
Reclassifications to/from property. plant and equipm	0.0	0.0	0.0	6.9	0.0	0.0	0.0	0.0	0.0
Changes in value recorded in profit or loss	0.5	-0.2	0.0	-1.3	11.0	4.8	-1.2	2.2	5.2
Reclassifications between (sub-) risk clusters	1.9	-1.8	0.0	235.1	-189.7	-45.5	194.5	-188.5	-6.1
12-31-2014	**142.7**	**41.7**	**0.0**	**1,385.2**	**512.9**	**84.6**	**3,163.8**	**699.6**	**76.6**

The additions comprise the acquisition of 6,292 total residential units. In North Rhine-Westphalia (VITEX Group) with a fair value of € 182.9 million and in Rhine-Main area with a fair value of € 97.6 million.

A further amount of additions of € 60.1 million (prior year: € 26.3 million) related to value-enhancing maintenance measures for vacant flats and modernization programs due to our efforts to focus more on the real estate side of the business. The value-enhancing measures relate to large modernization measures (extensive renovation works in a single unit) as well as single unit modernization measures (works in single flats in a unit). These modernization measures increase the standard of the corresponding flats and the future economic use as well as the fair value of the unit. If the modernization measure leads to a permanent increase in value (usually value increasement higher than investment costs), the corresponding expenses are capitalized.

Regarding the reclassifications to assets held for sale we refer to section E.10. “Assets Held for Sale”.

2013												
		4			5			6			7	
1	2	3	1	2	3	1	2	3	1	2	3	Total
725.2	266.1	42.4	394.4	106.3	15.6	28.6	11.9	0.0	0.7	0.0	0.0	7,741.5
0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
1.2	1.0	0.2	1.2	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	26.3
-3.1	0.0	0.0	-1.0	-0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	-44.1
-28.5	-2.7	-5.6	-0.2	-7.3	-4.3	0.0	0.0	0.0	0.0	0.0	0.0	-102.3
0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	6.9
-11.4	-1.9	2.3	-4.4	1.1	0.4	-1.4	-0.3	0.0	0.0	0.0	0.0	5.4
17.7	-7.8	-9.7	30.5	-28.4	-2.2	-7.5	7.5	0.0	0.0	0.0	0.0	0.0
701.1	254.7	29.6	420.5	71.7	9.5	19.7	19.1	0.0	0.7	0.0	0.0	7,633.7

The reclassifications from investment property to property, plant and equipment comprise parts of an office building with a carrying amount of € 0.4 million that are now own-used. The reclassifications to investment property in the prior year mainly concerned a former own-used office building with a carrying amount of € 6.9 million that was reclassified from property, plant and equipment.

All changes in value recorded in profit or loss are attributable to changes in unrealized gains or losses relating to investment property held at the end of the reporting period and are shown in the line item "Result from the fair value measurement of investment property" in the Consolidated Statement of Comprehensive Income.

BRIDGE OF UNITS

The following table shows a bridge from the total units recognized as investment property to our total core residential property portfolio:

December 31, 2014

€ million	2014								
Risk cluster	1			2					
(Sub-)risk cluster	1	2	3	1	2	3	1	2	3
Total units recognized as investment property	**1,386**	**533**	**0**	**17,534**	**8,225**	**1,734**	**68,552**	**16,618**	**1,960**
Commercial units	-5	-6	0	-238	-66	-11	-854	-178	-7
Garages [1]	-5	-195	0	-161	-1,111	-15	-1,041	-1,641	-10
Senior homes	0	0	0	-1	0	0	-1	0	0
Other units[1]	-5	-7	0	-90	-29	-5	-337	-154	-10
Residential units recognized as investment property	**1,371**	**324**	**0**	**17,044**	**7,019**	**1,703**	**66,319**	**14,645**	**1,933**
Assets held for sale – condo sales	-12	-21	0	-38	-9	0	-33	-15	0
Assets held for sale – portfolio strategy sales	0	0	0	-279	-84	0	-189	-179	-33
Other units	0	0	0	0	0	0	0	0	0
Total residential property portfolio	**1,359**	**303**	**0**	**16,727**	**6,926**	**1,703**	**66,097**	**14,451**	**1,900**

1) Garages and other units are counted as 1/6 residential unit.

December 31, 2013

€ million	2013								
Risk cluster	1			2			3		
(Sub-)risk cluster	1	2	3	1	2	3	1	2	3
Total units recognized as investment property	**1,447**	**566**	**0**	**17,894**	**8,440**	**1,735**	**62,726**	**16,958**	**2,101**
Commercial units	-6	-6	0	-238	-65	-11	-839	-189	-14
Garages [1]	-5	-210	0	-165	-1.134	-15	-719	-1.671	-10
Senior homes	0	0	0	-1	0	0	-1	0	0
Other units[1]	-5	-8	0	-89	-28	-5	-336	-160	-11
Residential units recognized as investment property	**1.431**	**342**	**0**	**17,401**	**7,213**	**1,704**	**60,831**	**14,938**	**2,066**
Assets held for sale – condo sales	-2	0	0	-44	-23	0	-29	-2	0
Assets held for sale – portfolio strategy sales	0	0	0	0	-149	0	-16	-12	-89
Other units	0	0	0	0	0	0	0	-2	0
Total residential property portfolio	**1,429**	**342**	**0**	**17,357**	**7,041**	**1,704**	**60,786**	**14,922**	**1,977**

1) Garages and other units are counted as 1/6 residential unit.

2014												
4			5			6			7			Total
1	2	3	1	2	3	1	2	3	1	2	3	
15,156	6,007	1,261	9,601	1,795	469	459	541	3	20	0	0	151,854
-26	-40	-4	-52	-32	-6	0	-5	0	0	0	0	-1,530
-61	-503	-8	-18	-268	0	-8	-32	0	0	0	0	-5,077
0	0	0	-1	-1	0	0	0	0	0	0	0	-4
-90	-19	-5	-25	-9	0	-2	-4	0	0	0	0	-791
14,979	5,445	1,244	9,505	1,485	463	449	500	3	20	0	0	144,451
-13	0	-4	-20	0	0	0	0	0	0	0	0	-165
-350	-353	-32	-309	0	0	-12	-219	0	0	0	0	-2,039
0	0	0	0	0	0	0	0	0	0	0	0	0
14,616	5,092	1,208	9,176	1,485	463	437	281	3	20	0	0	142,247

2013												
4			5			6			7			Total
1	2	3	1	2	3	1	2	3	1	2	3	
16,113	6,871	1.441	10,190	2,036	659	657	697	13	20	0	0	150,564
-35	-42	-4	-80	-44	-7	-1	-6	0	0	0	0	-1.587
-61	-569	-8	-18	-336	0	-8	-42	0	0	0	0	-4.971
0	0	0	-1	-1	0	0	0	0	0	0	0	-4
-97	-21	-5	-26	-9	-1	-2	-3	0	0	0	0	-806
15,920	6,239	1,424	10,065	1,646	651	646	646	13	20	0	0	143,196
-7	0	0	-3	0	0	0	0	0	0	0	0	-110
-420	-233	-126	0	-152	-184	0	0	0	0	0	0	-1.381
0	0	0	0	0	0	0	0	0	0	0	0	-2
15,493	6,006	1,298	10,062	1,494	467	646	646	13	20	0	0	141,703

3. PROPERTY, PLANT AND EQUIPMENT

The development and breakdown of property, plant and equipment is shown in the following tables:

	Land and Buildings (owner-occupied)	Technical equipment and machines	Other equipment, furniture and fixtures	Assets under construction	Total
Acquisition or production cost					
01-01-2014	37.2	5.2	13.4	0.0	55.8
Additions	0.0	0.0	3.3	0.0	3.3
Disposals	0.0	0.0	-5.9	0.0	-5.9
Reclassifications	0.4	0.0	0.0	0.0	0.4
12-31-2014	37.6	5.2	10.8	0.0	53.6
Accumulated depreciation					
01-01-2014	-9.1	-3.5	-10.3	0.0	-22.9
Additions	-0.7	-0.5	-1.6	0.0	-2.8
Disposals	0.0	0.0	5.9	0.0	5.9
12-31-2014	-9.8	-4.0	-11.9	0.0	-25.7
Book Value					
12-31-2014	27.8	1.2	4.8	0.0	33.8

	Land and Buildings (owner-occupied)	Technical equipment and machines	Other equipment, furniture and fixtures	Assets under construction	Total
Acquisition or production cost					
01-01-2013	48.0	4.7	13.7	0.3	66.7
Additions	0.0	0.0	1.1	0.2	1.3
Disposals	-3.9	0.0	-1.4	0.0	-5.3
Reclassifications	-6.9	0.5	0.0	-0.5	-6.9
12-31-2013	37.2	5.2	13.4	0.0	55.8
Accumulated depreciation					
01-01-2013	-12.3	-3.0	-10.4	0.0	-25.7
Additions	-0.7	-0.5	-1.3	0.0	-2.5
Disposals	3.9	0.0	1.4	0.0	5.3
12-31-2013	-9.1	-3.5	-10.3	0.0	-22.9
Book Value					
12-31-2013	28.1	1.7	3.1	0.0	32.9

The reclassifications to property, plant and equipment from investment property comprise parts of an office building with a carrying amount of € 0.4 million that are now own-used. The reclassifications from property, plant and equipment in the prior year mainly concerned a former own-used office building with a carrying amount of € 6.9 million that was reclassified to investment property.

The total depreciation and amortization concerning intangible assets and property, plant and equipment amounts to € 18.2 million (prior year: € 2.8 million).Thereof € 15.0 million from the remeasurement of the goodwill of the region berlin (see section E.1. “Intangible Assets”).

4. OTHER FINANCIAL ASSETS

The development and breakdown of other financial assets is shown in the following tables:

	Investments in joint ventures	Other Investments	Other loan receivables	Other financial assets	Derivative financial instruments measured at fair value	Financial receivables	Total
Acquisition or production cost							
01-01-2014	4.0	2.6	0.1	3.2	9.2	0.8	19.9
Additions	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Disposals	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Reclassifications	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Valuation	0.0	0.0	0.0	0.0	-9.2	0.0	-9.2
12-31-2014	4.0	2.6	0.1	3.2	0.0	0.8	10.7
Accumulated depreciation							
01-01-2014	0.0	-1.7	0.0	0.4	0.0	0.0	-1.3
Additions	0.0	0.0	0.0	0.3	0.0	0.0	0.3
Disposals	0.0	0.0	0.0	0.0	0.0	0.0	0.0
12-31-2014	0.0	-1.7	0.0	0.7	0.0	0.0	-1.0
Book Value							
12-31-2014	4.0	0.9	0.1	3.9	0.0	0.8	9.7

	Investments in joint ventures	Other Investments	Other loan receivables	Other financial assets	Derivative financial instruments measured at fair value	Financial receivables	Total
Acquisition or production cost							
01-01-2013	4.0	2.6	0.2	3.2	0.0	0.0	10.0
Additions	0.0	0.0	0.0	0.0	0.0	0.8	0.8
Disposals	0.0	0.0	-0.1	0.0	0.0	0.0	-0.1
Reclassifications	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Valuation	0.0	0.0	0.0	0.0	9.2	0.0	9.2
12-31-2013	4.0	2.6	0.1	3.2	9.2	0.8	19.9
Accumulated depreciation							
01-01-2013	0.0	-1.7	0.0	0.0	0.0	0.0	-1.7
Additions	0.0	0.0	0.0	0.4	0.0	0.0	0.4
Disposals	0.0	0.0	0.0	0.0	0.0	0.0	0.0
12-31-2013	0.0	-1.7	0.0	0.4	0.0	0.0	-1.3
Book Value							
12-31-2013	4.0	0.9	0.1	3.6	9.2	0.8	18.6

INVESTMENTS IN JOINT VENTURES

GAGFAH GROUP has a 50% interest in each of the following four joint ventures, which serve the purpose of the development and subsequent sale of property:

- Wolmirstedt GbR
- Objekt Dresden GbR
- Grundstücksentwicklungsgesellschaft Oesselse "Langes Feld" GbR
- Möser GbR

The aforementioned joint ventures are joint arrangements whereby GAGFAH GROUP and a third party have joint control of the arrangements and have rights to the net assets of the arrangements.

The book value of the equity investments of the four joint ventures as of December 31, 2014, amounts to € 4.0 million (prior year: € 4.0 million).

There was no material impact on the Consolidated Statement of Comprehensive Income, the Consolidated Statement of Cash Flows or the basic and diluted earnings per share, neither in the current financial year nor in the previous financial year.

Furthermore there are no unrecognized shares of losses of the above-mentioned joint ventures and no significant restrictions on the ability of the joint ventures to transfer funds to the Group in form of cash dividends or to repay loans or advances made by the entity. Investments in which no significant influence can be exerted are recognized within the other financial assets.

Thereof, holdings of 20 % and more are reported in the List of Shareholdings, which is attached as Exhibit (1).

OTHER INVESTMENTS

The line item "Other Financial Assets" also includes other investments in the amount of € 0.9 million (prior year: € 0.9 million) which primarily include investments in which GAGFAH GROUP holds less than 20 % of capital and only one investment in which GAGFAH GROUP holds more than 20 % in capital:

Although its respective share is more than 20 %, GAGFAH GROUP has no significant influence on the business activities of Hannover Region Grundstücksgesellschaft Verwaltung mbH & Co. Businesspark Hannover Nord KG (No. 72 of List of Shareholdings). According to the company agreement, the business is exclusively managed by the personally liable shareholder (Hannover Region Grundstücksgesellschaft Verwaltung II mbH, Hanover). GAGFAH GROUP has no participation in policy-making processes, there are no material transactions between the investor and the investee, there is no interchange of managerial personnel and no provision of essential technical information.

The decrease in other financial assets since year-end 2013 is mainly attributable to the valuation of interest rate swaps which are now presented on the liabilities side of the Consolidated Statement of Financial Position. We refer to section H. 2. "Financial Risk Management".

OTHER FINANCIAL ASSETS

Other financial assets mainly comprise two equity portfolios of GAGACQ and UCACQ amounting to € 3.9 million (prior year: € 3.6 million). The valuation gain of € 0.3 million (prior year: € 0.4 million) is included in the line item "Other Operating Income" of the Consolidated Statement of Comprehensive Income. Please refer to section F.10. "Other operating Income".

DERIVATIVE FINANCIAL INSTRUMENTS

In the financial year, derivative financial instruments measured at fair value have been reclassified to "Other assets". For further information see section A. "General Information".

5. INVENTORIES

The inventories of GAGFAH GROUP break down as follows:

€ million	12-31-2013	12-31-2014
Prepayments to insurance companies	5.9	5.8
Land and land rights without buildings	3.3	2.3
Repair material	2.5	2.3
Land and land rights with finished buildings	0.3	0.3
Total	**12.0**	**10.7**

The decrease in total inventories compared to December 31, 2013, mainly results from sales of land and land rights without buildings.

In the financial year 2014, inventories (repair material) with an amount of € 0.2 million (prior year: € 0.9 million) were recognized as an expense.

6. CURRENT RECEIVABLES

Current receivables break down as follows:

€ million	12-31-2013	12-31-2014
Receivables from sales of land and buildings	32.5	32.8
Rent receivables	7.6	11.9
Receivables against joint ventures	1.4	1.3
Receivables from other trade	1.1	0.5
Total	**42.6**	**46.5**

Receivables from sales of land and buildings do not represent a material credit risk due to their contractual structure. They are mainly pledged in the form of deposits on interest-bearing notary trust accounts in the amount of € 28.0 million (prior year: € 30.8 million).

All other receivables are unsecured and therefore represent a theoretical maximum credit risk in the amount of their positive fair value which equals their carrying amounts.

Invoiced receivables contain no interest rate risk. There are no restrictions on ownership or disposal for the disclosed receivables.

Overall, impairment losses of € 11.3 million (prior year: € 10.8 million) were recognized for bad debts, thereof € 8.0 million (prior year: € 8.1 million) relating to rent receivables. The impairment losses for rent receivables are included in the line item "Operating expenses the generation of rental income". Other impairments in the amount of € 0.3 million (prior year: € 0.8 million) are included in the line item "Selling expenses."

The development of the Group's valuation allowances is shown in section H.1. "Additional Disclosures on Financial Instruments" of this report.

7. OTHER ASSETS

Other assets break down as follows:

€ million	12-31-2013	12-31-2014
Payments on account concerning maintenance services	20.0	23.1
Collateral in connection with swap agreement	0.0	8.7
Insurance claims	6.0	6.0
Payments on notary trust accounts	2.3	2.0
Prepayments	0.3	0.2
Claims for reimbursement	0.1	0.1
Other	11.2	10.1
Total	**39.9**	**50.2**

The increase of current other assets mainly result from a collateral in connection with swap agreement of GAGFAH Holding GmbH € 8.7 million.

The payments on a notary trust account resulted from the sale of the subsidiaries GAGFAH Acquisition 3 GmbH and GAGFAH Pegasus GmbH in 2011 and represent the portion of the purchase price which has not yet been paid.

In the prior year, the derivative financial instruments measured at fair value were disclosed on the assets side under the items "Other financial assets". For further information see section H.2. "Financial Risk Management".

The development of the Group's valuation allowances is shown in section H.1. "Additional Disclosures on Financial Instruments" of this report.

8. CURRENT TAX CLAIMS

As of December 31, 2014, GAGFAH GROUP disclosed current tax claims of € 6.5 million (prior year: € 11.8 million). These claims break down as follows:

€ million	12-31-2013	12-31-2014
Capital yields tax	2.6	3.2
Trade tax	2.9	2.1
Corporate income tax	2.4	1.1
Value added tax	0.7	0.0
Other	3.2	0.1
Total	**11.8**	**6.5**

The decrease in other tax claims is mainly due to an incoming payment for tax claims in connection with the sale of GAGFAH Acquisition 3 GmbH and GAGFAH Pegasus GmbH.

9. BANK BALANCES AND CASH ON HAND

This item contains cash and cash equivalents in the form of cash on hand, checks and bank balances totaling € 154.9 million (prior year: € 101.9 million).

The Group's cash and cash equivalents are recorded at their nominal value.

The time deposits of GAGFAH GROUP have terms between three weeks and three months and accrue key date interest rates between 0.00 % and 0.18 % (prior year: between 0.00 % and 0.29 %). The weighted average is 0.13 % (prior year: 0.18 %).

The bank deposits have no maturity and are disposable on a daily basis. The balances in current accounts mainly accrue interest of 0.00 % to 0.38 % (prior year: 0.00 % to 0.75 %). The weighted average of the interest rates from the Group's main banks (Aareal Bank AG and HSBC Trinkaus & Burkhardt AG) amounted to 0.28 % for the financial year 2014 (prior year: 0.41 % for the financial year 2013). Bank deposits at all other banks have an average interest rate of 0.12 % for the financial year 2014 (prior year: 0.12 % for the financial year 2013).

Bank balances and cash on hand comprise all cash and cash equivalents disclosed in the Consolidated Statement of Financial Position and break down as follows:

€ million	12-31-2013	12-31-2014
Cash on hand	0.1	0.1
Bank balances	39.4	94.2
Restricted cash	62.4	60.6
Bank balances and cash on hand	**101.9**	**154.9**

Restricted cash breaks down as follows:

12-31-2014

€ million	GAGFAH subgroup	GBH subgroup	Other	Total
From asset sales	24.9	1.6	12.8	39.3
thereof for either repayment or reinvest	24.9	1.6	12.8	39.3
thereof for a specific purpose	0.0	0.0	0.0	0.0
From regular business	0.0	0.0	0.0	0.0
Initial amount in accordance with credit agreement	0.0	0.0	0.0	0.0
Restrictions under company law	2.7[1]	0.0	2.5[2]	5.2
Accrued interests[3]	5.4	0.0	6.3	11.7
Other	1.6	0.0	2.8	4.4
Total	**34.6**	**1.6**	**24.4**	**60.6**

1) Thereof HB Funds balances of € 1.4 million.
2) Thereof 12. CR Immobilien-Vermietungsgesellschaft mbH & Co. SÜDOST WOBA Striesen KG of € 2.2 million
3) Interests on financial liabilities due but not yet payable.

12-31-2013

€ million	GAGFAH subgroup	GBH subgroup	Other	Total
From asset sales	4.1	2.2	2.6	8.9
thereof for either repayment or reinvest	4.1	0.0	2.6	6.7
thereof for a specific purpose[1),2)]	0.0	2.2	0.0	2.2
From regular business [2) 3)]	0.0	1.0	0.0	1.0
Initial amount in accordance with credit agreement [2)]	20.0	2.8	0.0	22.8
Restrictions under company law	5.3[4)]	0.0	2.5[5)]	7.8
Accrued interests [6)]	5.5	1.9	11.5	18.9
Other	1.7	0.1	1.2	3.0
Total	**36.6**	**8.0**	**17.8**	**62.4**

1) Proceeds from property sales after deducting sales costs as far as they exceed the proportionate amount of the loan thereon.
2)According to the existing loan agreements, certain contractually defined cash amounts have to be accumulated on separate accounts which are pledged in favor of the lenders.
3) Monthly cash surplus from regular business after deducting all costs.
4) Thereof HB Funds balances of € 4.9 million.
5) Thereof 12. CR Immobilien-Vermietungsgesellschaft mbH & Co. SÜDOST WOBA Striesen KG of € 2.2 million.
6) Interests on financial liabilities due but not yet payable.

An amount of € 11.7 million (prior year: € 18.9 million) corresponds to the interests and scheduled amortizations on loans granted by institutional lenders due but not yet payable until the end of the reporting period. In the prior year amount there was included an amount of € 2.8 million as deposited for the financing of capex tasks for properties of GBH Acquisition GmbH.

Out of the total restricted cash from asset sales of € 39.3 million (prior year: € 8.9 million), € 36.4 million (prior year: € 8.7 million) will be used for the repayment of loans granted by institutional lenders.

In 2013 an initial amount of € 20.0 million was pledged in accordance with the former credit agreement of GAGFAH GmbH. Due to the refinancing process the whole amount have been released.

10. ASSETS HELD FOR SALE

Assets held for sale amounting to € 94.5 million (prior year: € 48.6 million) contain the carrying amounts of real estate for which the sale is highly probable and management has declared its intention to sell and for

which the sale is expected to qualify for a recognition as a completed sale within one year from the date of classification.

Additionally, the assets held for sale contain € 15.8 million (prior year: € 8.0 million) related to the sale of individual apartments ("condo sales program").

The profit from the sale of investment property and assets held for sale and the balances of assets held for sale split up as follows:

€ million

	2013			12-31-2013	2014			12-31-2014
	Income from the sale	Carrying amount	Profit	Assets held for sale	Income from the sale	Carrying amount	Profit	Assets held for sale
Portfolio strategy sales	86.1	-81.6	4.5	40.6	140.0	-140.2	-0.2	78.7
Condo sales	58.0	-47.0	11.0	8.0	82.0	-65.0	17.0	15.8
Total	**144.1**	**-128.6**	**15.5**	**48.6**	**222.0**	**-205.2**	**16.8**	**94.5**

For further information on the directly related financial liabilities we refer to section E.16.1. “Financial Liabilities”.

Gains or losses from the last-time fair value measurement of investment property before reclassification into assets held for sale are shown in the line item “Result from the Fair Value Measurement of Investment Property” (see section F.3. “Result from the Fair Value Measurement of Investment Property”).

11. EQUITY

The development of equity of GAGFAH GROUP is presented in the Statement of Changes in Consolidated Equity.

Subscribed capital relates to the parent company’s capital stock of € 269.9 million (prior year: € 269.9 million) and comprises 215,952,555 (prior year: 215,952,555) shares, each with a nominal value of € 1.25 (prior year: € 1.25).

On April 1, 2014, Fortress Investment Group sold 30 million GAGFAH shares to various institutional investors by way of an accelerated bookbuilding. As a result of this placement, the stake of the Fortress funds dropped to 27.6% and the free float increased to almost three quarters.

On June 9, 2014, Fortress Investment Group sold its remaining stake leading to a free float of almost 100%.

The following table shows the development of the issued and fully-paid share capital from January 1, 2013, to December 31, 2014:

	Number of shares	Nominal Value
January 1, 2013	**206,452,555**	**258,065,694**
Issue of new shares	9,500,000	11,875,000
December 31, 2013 / January 1, 2014	**15,952,555**	**269,940,694**
December 31, 2014	**215,952,555**	**269,940,694**

For further information on the exercise of stock options and the transfer of bonus shares as part of remuneration of independent directors and other employees, we refer to sections F.7. "Expenses for Share-based Remuneration" and H.6.1. "Board of Directors".

As of December 31, 2014, the authorized unissued capital is set at 7,960,286,377 shares (prior year: 7,990,500,000 shares) which represent € 9,950,357,971.25 (prior year: € 9,988,125,000).

SHARE PREMIUM

The increase of € 2.7 million within the financial year is mainly due to an increase of € 5.6 million that was caused by the equity-settled share based remuneration that has been partly compensated by € 2.7 million from the settlement of equity-settled stock options (not recognized in profit and loss), € 1.1 million thereof taken from treasury shares, and by € 0.2 million remuneration of independent directors out of treasury shares. In the prior year, the increase was basically caused by € 93.6 million premium from the capital increase carried out on July 10, 2013.

LEGAL RESERVE

Under Luxembourg law, an amount equal to at least 5 % of the profit of the year must be allocated to a legal reserve until such reserve equals 10 % of the issued share capital. This reserve is not available for dividend distribution and amounts to € 28.2 million (prior year: € 28.2 million).

REVENUE RESERVES – UNREALIZED GAINS / LOSSES FROM DERIVATIVE FINANCIAL INSTRUMENTS

Revenue reserves in connection with unrealized gains / losses from derivative financial instruments result from several swap agreements negotiated in order to hedge the cash flow risk from interest fluctuations and include the net valuation movements on the aforementioned cash flow hedges of € -22.2 million (prior year: € -0.2 million) and the corresponding income tax effect of € 7.1 million (prior year: € 0.1 million). We also refer to section H. 2. "Financial Risk Management".

REVENUE RESERVES – UNREALIZED GAINS / LOSSES FROM PENSIONS PROVISIONS

Total revenue reserves in connection with unrealized gains / losses on defined benefit plans result from actuarial gains / losses. Due to the abolition of the so-called "corridor method" according to IAS 19 Employee Benefits (revised 2011), actuarial gains / losses and the corresponding income tax effect now have to be recognized directly in equity (see section C. "Accounting Policies"). We also refer to section E.13.1. "Pension Provisions". The increase in actuarial losses compared to January 1, 2013 mainly resulted from the decrease of the discount rate from 3.50 % to 2.15 %.

The movement in the current year splits up into an effect on other comprehensive income of € -20.2 million, reduced by an income tax effect of € 6.5 million.

REVENUE RESERVES – TREASURY SHARES

As of December 31, 2014, the total number of treasury shares held by the Company was 459,057. This equals approximately 0.21 % of the subscribed capital.

The following table contains an overview of the Share Buy-back Programs and the respective number of treasury shares:

TREASURY SHARES

	Number of treasury shares	Nominal amount of shares in €	Portion of subscribed capital in %	Average price in €	Cost of acquisition / disposal in €
January 1, 2013	**11,178,507**	**13,973,134**	**5.41**	**6.70**	**75,145,997**
Transfer of bonus shares as part of remuneration of independent directors on July 1, 2013	-30,000	-37,500	0.01	6.70	-201,000
Sale of treasury shares on July 12, 2013	-10,500,000	-13,125,000	4.86	6.70	-70,585,516[1)]
December 31, 2013 / January 1, 2014	**648,507**	**810,634**	**0.30**	**6.70**	**4,359,481**
Transfer of additional bonus shares to members of the senior management on April 1, 2014	-157,575	-196,969	0.07	6.70	1,059,542[2)]
Transfer of Bonus shares as part of remuneration of independent directors on July 1, 2014	-31,875	-39,844	0.02	6.70	-213,562
December 31, 2014	**459,057**	**573,821**	**0.21**	**6.70**	**3,086,377**

1) Includes a write-off of incidental acquisition costs of € -235,516.
2) Includes incidental acquisition costs of € -3,7892

Revenue Reserves – Retained Earnings

In the financial year 2015 this column includes an effect of € 1.3 million (prior year: € -2.5 million) without impact on net result from the conversion of stock options.

Non-controlling interests of € -30.7 million (prior year: € 37.1 million) comprise adjustment items for non-controlling interests in equity subject to mandatory consolidation and their share in profit or loss. They break down as follows among the subgroups and subsidiaries:

€ million (unless stated otherwise)	12-31-2013	12-31-2014
WOBA subgroup [1]	24.3	28.1
GAGFAH subgroup [2]	11.5	-41.2
NILEG subgroup [3]	1.3	-17.3
VITU subgroup	0.0	-0.3
UC ACQ Ireland Ltd.	(k€) 46	(k€) 46
Total	**37.1**	**-30.7**

1) Mainly 12. CR Immobilien-Vermietungsgesellschaft mbH & Co. SÜDOST WOBA Striesen KG (No. 58 in the list of shareholdings).
2) Including GERMAN RESIDENTIAL FUNDING 2013-1 LIMITED (No. 29 in the list of shareholdings; for details see table below).
3) Including GERMAN RESIDENTIAL FUNDING 2013-2 LIMITED (No. 46 in the list of shareholdings; for details see table below).

The following table shows details of non-wholly owned subsidiaries that have material non-controlling interests:

Company name	Registered office	Proportion of interests and voting rights held by non-controlling interests		Result allocated to non-controlling interests		Other comprehensive income effects non-controlling interests		Accumulated non-controlling interests	
		2013	2014	2013	2014	2013	2014	2013	2014
GERMAN RESIDENTIAL FUNDING 2013-1 LIMITED	Dublin, Ireland	100%	100%	-0.2	-0.1	6.1	-53.3	5.8	-47.5
GERMAN RESIDENTIAL FUNDING 2013-2 LIMITED	Dublin, Ireland	100%	100%	-0.1	-0.2	0.1	-18.4	0.1	-18.5
Individually immaterial subsidiaries with non-controlling interests[1]				-4.5	-8.0	0.0	0.0	31.2	35.3
Total				**-4.5**	**-8.3**	**6.2**	**-71.7**	**37.1**	**-30.7**

1) No. 8, 20, 21, 25-28, 39, 42, 48, 49, 57 and 58 of the list of shareholdings.

No subsidiary of GAGFAH GROUP owns any equity shares of GERMAN RESIDENTIAL FUNDING 2013-1 LIMITED and GERMAN RESIDENTIAL FUNDING 2013-2 LIMITED. For further information refer to section B.2.1. "Subsidiaries".

Summarized financial information in respect of each of the above-mentioned subsidiaries that has material non- controlling interests is set out below. The summarized financial information below represents amounts before intragroup eliminations.

€ million	GERMAN RESIDENTIAL FUNDING 2013-1 LIMITED		GERMAN RESIDENTIAL FUNDING 2013-2 LIMITED		Total effect on GAGFAH Group	
	2013	2014	2013	2014	2013	2014
Current assets [1]	18.8	25.6	7.9	7.7	0.0	0.0
Non-current assets [1]	2,093.1	2,053.6	733.3	733.3	0.0	0.0
Current liabilities [1]	-124.3	-189.2	-44.9	-45.7	0.0	0.0
Non-current liabilities	-1,981,8	-1,937.6	-696.3	-716,2	0.0	0.0
Equity attributable to shareholders of the parent company	0.0	0.0	0.0	0.0	0.0	0.0
Non-controlling interests	-5.8	55.4	-0.1	24.3	-5.9	79.7
Income [1]	33.3	62.2	4.4	22.2	0.0	0.0
Expenses [1]	-33.6	-62.3	-4.4	-22.4	0.0	0.0
Net result	**-0.3**	**-0.1**	**0.0**	**-0.2**	**0.0**	**0.0**
Net result attributable to shareholders of the parent company	0.0	0.0	0.0	0.0	0.0	0.0
Net result attributable to non-controlling interests	-0.3	-0.1	0.0	-0.2	-0.3	-0.3
Net result	**-0.3**	**-0.1**	**0.0**	**-0.2**	**-0.3**	**-0.3**
Other comprehensive income, net of tax, attributable to shareholders of the parent company	0.0	0.0	0.0	0.0	0.0	0.0
Other comprehensive income, net of tax, attributable to non-controlling interests	6.1	-53.3	0.1	-18.4	6.2	-71.7
Other comprehensive income, net of tax	**6.1**	**-53.3**	**0.1**	**-18.4**	**6.2**	**-71.7**
Total comprehensive income, net of tax, attributable to shareholders of the parent company	0.0	0.0	0.0	0.0	0.0	0.0
Total comprehensive income, net of tax, attributable to non-controlling interests	6.1	-53.3	0.1	-18.4	6.2	-71.7
Total comprehensive income, net of tax	**6.1**	**-53.3**	**0.1**	**-18.4**	**6.2**	**-71.7**

€ million	GERMAN RESIDENTIAL FUNDING 2013-1 LIMITED		GERMAN RESIDENTIAL FUNDING 2013-2 LIMITED		Total effect on GAGFAH Group	
Dividends paid to non-controlling interests	0.0	0.0	0.0	0.0	0.0	0.0
Cash flows from operating activities	0.0	0.0	0.0	0.0	0.0	0.0
Cash flows from investing activities	-2,094.1	46.2	-736.6	6.7	0.0	0.0
Cash flows from financing activities	2,094.1	-46.2	736.6	-6.7	0.0	0.0
Change in cash and cash equivalents	0.0	0.0	0.0	0.0	0.0	0.0

1) This line item includes intercompany relations.

The development of non-controlling interests in 2014 contains, inter alia, other comprehensive income of € -71.7 million (prior year: € 6.2 million) resulting from unrealized gains/losses from derivative financial instruments in connection with swap agreements negotiated in order to hedge the cash flow risk from interest fluctuations of the new loans (GAGFAH and NILEG subgroup refinancing). This item includes the net valuation movements on the aforementioned cash flow hedges of € -96.3 million (prior year: € 9.1 million) and the corresponding income tax effect of € 24.6 million (prior year: € -2.9 million). For general information on financial derivatives we refer to section H. 2. “Financial Risk Management”. Due to these valuation effects, on December 31, 2014, the non-controlling interests have a deficit balance.

The dividends to non-controlling interests include dividends of € 2.1 million (prior year: € 2.0 million) relating to non-controlling interests of WOBA subgroup (12. CR Immobilien-Vermietungsgesellschaft mbH & Co. SÜDOST WOBA Striesen KG) and € 1.8 million (prior year: € 1.1 million) relating to non-controlling interests of HB-Funds, thereof € 0.9 million in connection with the liquidation of ten HB Funds that were transferred as dividend to the outstanding shareholders in 2014.

For more information on the non-controlling interests in the net result for the year, please refer to our comments on the Consolidated Statement of Comprehensive Income (Section F.14. "Result Attributable to Non-controlling Interests").

Dividends In its meeting on February 27, 2015, the Board of Directors of GAGFAH S.A. decided to propose to the Annual Shareholder Meeting to be held on June 12, 2015, the payment of a cash dividend of € 0.35 per share for the financial year 2014.

Capital management The primary objective of the Group’s capital management is to ensure that it maintains healthy capital ratios in order to support its business and maximize shareholder value. This implicates generation of a sound capital base for the purposes of servicing its debt obligations and paying dividends to its shareholders.

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares.

EQUITY CAPITAL MEASURES

Share Buy-Back Programs in the financial years 2010 to 2012 The objective of the Share Buy-back Programs was to reduce GAGFAH S.A.'s share capital and to reduce the stock's discount to NAV. The XETRA share price of € 10.70 as of December 31, 2013 (prior year: € 8.86), was € 2.26 (prior year: € 4.33) lower than the comparable EPRA NAV of € 12.96 (prior year (adjusted): € 13.19) per share (diluted). A detailed description of the third Share Buy-back Program can be found in subsection "Revenue Reserves – Treasury Shares".

The Extraordinary General Meeting of Shareholders held on June 12, 2012, resolved to reduce the issued share capital of the Company by a maximum amount of € 69,250,000 by the repurchase and cancellation of a maximum of 55,400,000 shares from existing shareholders during a period ending March 31, 2013.

At the Extraordinary General Meeting of Shareholders held on June 12, 2013, the General Meeting resolved to reduce the issued share capital of the Company by a maximum amount of € 64,516,250 by the repurchase and cancellation of a maximum of 51,613,000 shares from existing shareholders during a period ending March 31, 2014, midnight, and delegate any related powers to the Board of Directors in relation thereto including as to the determination of the final number of shares to be cancelled.

According to the latest Company's Articles of Incorporation dated as of July 11, 2013, the authorized unissued share capital of the Company is set at € 9,988,125,000 to be represented by 7,990,500,000 shares.

Capital increase in the financial year 2013 On July 10, 2013, GAGFAH S.A. placed 9,500,000 new shares that were issued on July 11, 2013 under the authorized capital of the Company and 10,500,000 existing treasury shares of the Company by way of an accelerated bookbuilding. The placement price for the accelerated bookbuilding was fixed at € 8.85 per share. The net proceeds from the sale of the shares amount to approximately € 176.0 million. Due to the fact that GAGFAH S. A. estimates no income tax expenses for the next years, the transaction costs cannot be used as an income tax benefit. Following the consummation of the capital increase, the aggregate number of shares of GAGFAH S.A. outstanding is 215,952,555.

Fortress Investment Group and its affiliates sold 20,000,000 shares in GAGFAH S.A. as part of the transaction. The sale reduces the Fortress Investment Group managed shareholding in the Company from ca. 60.8% to ca. 48.8% (on a diluted basis following consummation of the capital increase).

GAGFAH S.A. used two-thirds of the net proceeds from the offering of the new shares and treasury shares towards optimizing its capital structure through, among other things, the repayment of certain higher interest-bearing loans and the remaining one-third of the net proceeds for value-enhancing capex projects. GAGFAH GROUP did not receive any proceeds from the sale of shares by Fortress Investment Group.

Capital ratios The following key financial figures are used in conjunction with the Group's capital management:

Loan-to-value (LTV) The Loan-to-value (LTV) ratio is generally used by lenders to express the ratio of the property's value that is mortgaged. The amount of loans to the value of the properties is given as a ratio in percentage. Typically, assessments with high LTV ratios are generally seen as a higher risk.

There are different lender requirements used to determine whether a loan will be granted with a certain LTV. As defined in some financing contracts, GAGFAH GROUP is subject to certain LTV covenants at individual levels. Following these requirements, the LTV must not be over the agreed percentage. The requirements are constantly monitored and are / were fulfilled in the financial year and in the prior years.

The Group LTV ratio as of December 31, 2014, amounts to 59.6% (prior year: 61.9%).

EPRA Net Asset Value (NAV) GAGFAH GROUP discloses EPRA NAV, which provides a measure of the fair value of a company on a long-term basis. EPRA NAV is a measure of the fair value of net assets assuming a normal investment property company business model. Accordingly, there is an assumption of owning and operating investment property for the long term. For this reason, deferred taxes on property revaluations are excluded as the investment property is not expected to be sold and the tax liability is not expected to materialize. In addition, the fair value of financial instruments which the Company intends to hold to maturity is excluded as these will cancel out on settlement. All other assets including trading property, finance leases, and investments reported at cost are adjusted to fair value. The diluted EPRA NAV as of December 31, 2014, amounts to € 3,101.6 million (prior year: € 2,813.3 million). The diluted EPRA NAV per share as of December 31, 2014, amounts to € 14.33 (prior year: € 12.96). The increase in the diluted EPRA NAV per share predominantly results from higher fair values of the investment properties.

Diluted EPRA NAV did not include the effect from the convertible bond as this effect is antidilutive with regard to a conversion price of € 15.50. Taking into account the convertible bond amounting to € 359.6 million in connection with an adjusted conversion price of € 12.30 (notice from January 26, 2015), diluted EPRA NAV would be € 14.02.

12. LIABILITIES DUE TO NON-CONTROLLING SHAREHOLDERS

Liabilities due to non-controlling shareholders amount to € 3.2 million (prior year: € 3.1 million).

Thereof, € 2.9 million (prior year: € 2.8 million) relate to WOBA subgroup and € 0.3 million (prior year: € 0.3 million) to KALIRA Grundstücksgesellschaft mbH & Co. KG.

13. PROVISIONS

13.1. Pension Provisions Company pensions at GAGFAH GROUP are granted both by way of defined contribution and defined benefit plans. Provisions are recognized for obligations to current and former employees from future and current benefit entitlements. For a detailed description on these plans, please refer to section C.10. "Pension Provisions".

The following groups are entitled to employer-funded pension benefits:

Number of Commitments	12-31-2013	12-31-2014
Active employees		
Vested expectancies	673	644
Non-vested expectancies	21	16
	694	**660**
Vested expectancies of employees no longer with the Company	355	370
Current pensions	851	842
Total	**1,900**	**1,872**

The following Group-wide actuarial assumptions were used to calculate the obligations:

in % p.a.	12-31-2013	12-31-2014
Discount rate	3.50	2.15
Turnover rate	4.50	4.50
Future salary increases	2.50	2.50
Future inflation rate	2.00	1.50
Future pension increases	2.00	1.50
in years		
Average longevity for current pensioners		
Males	20.5	21.1
Females	24.8	25.4
Average longevity for current employees (future pensioners)		
Males	23.3	23.9
Females	27.4	28.0

Increases and decreases in discount rate, future salary increases, future pension increases and longevity have effects on the determination of the defined benefit obligation that have not the same absolute amount (mainly due to the compound interest effect in the calculation of the present value). If several assumptions are changed at the same time, the total effect of these changes needs not necessarily to correspond to the sum of the individual effects due to the changes in assumptions.

The significant changes in discount rate, future inflation rate and future pension increases correspond to the actual facts and the expectations for the near future. Due to the low interest rate, inflation rate and expected pension increases are on a low level as well, in the foreseeable future, an increase is not to be expected.

The calculation is based on a flexible retirement age in the German pension insurance.

The adjusted 2005G mortality tables (with adjustment 2011) by Prof. Dr. Klaus Heubeck were used for death and disability.

The salary trend accounts for the various reasons for salary increases, e.g. increases under collective wage agreements, promotions, etc.

The assumed turnover rate corresponds to the average turnover rate in Germany. Internal turnover tables provided by the actuary were used to factor this into the valuation.

If the actual development during the year deviates from the assumptions made at the beginning of the financial year or if parameters are set at the end of the financial year that differ from those set at the beginning, actuarial gains or losses arise.

In the financial year 2014 and the prior year, there were no plan amendments, curtailments and settlements.

As the requirements for plan assets specified in IAS 19.8 are fulfilled, the net defined benefit liability as shown in the Consolidated Statement of Financial Position is calculated as the balance of the defined benefit obligation and the fair value of plan assets:

€ million	12-31-2013	12-31-2014
Defined benefit obligation	132.3	152.4
Less fair value of plan assets	-4.6	-4.6
Net defined benefit liability	127.7	147.8

The defined benefit obligation developed as follows:

€ million	12-31-2013	12-31-2014
Defined benefit obligation as of January 1	131.3	132.3
Current service cost	2.2	2.2
Interest expense	4.6	4.5
Remeasurements: Actuarial gains (-) or losses (+) from changes in financial assumptions	1.8	21.5
Remeasurements: Actuarial gains (-) or losses (+) from experience adjustments	-0.7	-1.3
Direct pension payments	-6.9	-6.8
Defined benefit obligation as of December 31	132.3	152.4

The increase in actuarial losses from changes in financial assumptions compared to the prior year mainly results from the decrease of the discount rate from 3.50 % to 2.15 %.

The calculation of the defined benefit obligation is sensitive to the actuarial assumptions set out above.

The following table summarizes how the impact on the defined benefit obligation at the end of the reporting period would have increased (+) /decreased (-) as a result of a change in significant assumptions:

Defined benefit obligation	12-31-2013		12-31-2014	
	0.5 % increase	0.5 % decrease	0.5 % increase	0.5 % decrease
Effects in € Million				
Discount rate	-8.8	+9.9	-11.3	+12.9
Future salary increases	+0.4	-0.4	+0.5	-0.5
	0.25 % increase	0.25 % decrease	0.25 % increase	0.25 % decrease
Future pension increases	+3.3	-3.2	+4.0	-3.8
	1 year increase		1 year increase	
Longevity	+6.7		+8.2	

The change in the other actuarial assumptions would not lead to a comparable high impact on the defined benefit obligation. The above sensitivities are based on the defined benefit obligation as of December 31, 2014 and December 31, 2013, and are applied to adjust the defined benefit obligation at the end of the reporting period for the assumptions concerned.

GAGFAH GROUP concluded reinsurance policies to hedge a part of the pension obligations. They are similar to life insurances including specified performance and profit participation and are measured at fair value equaling to the present value of the related obligations.

Plan assets exclusively consist of the aforementioned reinsurance policies. The movements in the fair value of these plan assets were as follows:

€ million	2013	2014
Fair value of plan assets as of January 1	4.5	4.6
Interest income on plan assets	0.2	0.1
Benefits paid	–0.1	–0.1
Fair value of plan assets as of December 31	4.6	4.6

The net pension expenses recognized in the Consolidated Statement of Comprehensive Income break down as follows:

€ million	2013	2014
Current service cost	2.2	2.2
(Net) Interest expense	4.4	4.4
Net pension expenses	6.6	6.6

Current service cost recognized in the Consolidated Statement of Comprehensive Income are disclosed under personnel expenses that are allocated to various categories of expenses according to the cost of sales method. Interest cost is disclosed under interest expenses.

As in the prior year, there are no expected contributions to the plan for the financial year 2015.

The weighted average duration of the defined benefit obligation as of December 31, 2014, is 16.2 years (prior year: 14.6 years).

The distribution of the timing of benefit payments is as follows:

- in 2015 € 6.7 million
- in 2016 € 6.8 million
- in 2017 € 6.7 million
- in 2018 € 6.7 million
- in 2019 € 6.7 million
- from 2020 until 2024 (inclusive) € 33.3 million

13.2. OTHER PROVISIONS

The other provisions developed as follows in the financial year:

€ million	As of January 1, 2014	Changes within the consolidated group	Utilization
Reorganization and restructuring provisions	7.4	0.0	–3.0
Provisions for costs concerning sold properties	6.2	0.0	–1.3
Provisions for severance payments, litigation costs and similar risks	4.6	0.0	–1.9
Provisions for refinancing	4.5	0.0	–2.4
Provision for restitution proceedings	4.0	0.0	–0.2
Provisions for phased retirement	3.4	0.0	–1.9
Warranty obligations and latent risks	3.3	0.0	0.0
Provision for demolition costs	0.1	0.0	–0.1
Provision for distribution obligations	0.1	0.0	0.0
Other provisions	9.7	0,6	–1.8
Total	**43.3**	**0.6**	**–12.6**

€ million	As of January 1, 2013	Changes within the consolidated group	Utilization
Reorganization and restructuring provisions	6.8	0.0	–1.8
Provisions for costs concerning sold properties	7.9	0.0	–0.6
Provisions for severance payments, litigation costs and similar risks	4.3	0.0	–0.8
Provisions for refinancing	2.9	0.0	–2.5
Provision for restitution proceedings	4.4	0.0	0.0
Provisions for phased retirement	5.3	0.0	–2.3
Warranty obligations and latent risks	3.4	0.0	–0.1
Provision for demolition costs	0.2	0.0	–0.1
Provision for distribution obligations	0.2	0.0	–0.1
Provisions in connection with WOBA lawsuits	0.4	0.0	0.0
Other provisions	9.2	0.0	–2.6
Total	**45.0**	**0.0**	**–10.9**

Reversals	Additions	Reclassifications	As of December 31, 2014	Thereof non-current	Thereof current
-0.8	21.5	0.0	25.1	2.0	23.1
-2.1	0.6	0.0	3.4	0.0	3.4
-1.8	1.6	0.0	2.5	0.0	2.5
-2.0	0.5	0.0	0.6	0.0	0.6
0.0	0.0	0.0	3.8	0.0	3.8
0.0	0.1	0.0	1.6	0.6	1.0
-0.1	0.0	0.0	3.2	0.0	3.2
0.0	0.0	0.0	0.0	0.0	0.0
0.0	0.1	0.0	0.2	0.0	0.2
-2.3	9.3	0.0	15.5	4.3	11.2
-9.1	**33.7**	**0.0**	**55.9**	**6.9**	**49.0**

Reversals	Additions	Reclassifications	As of December 31, 2014	Thereof non-current	Thereof current
0.0	2.4	0.0	7.4	3.4	4.0
-1.9	0.8	0.0	6.2	0.0	6.2
-0.4	1.5	0.0	4.6	0.0	4.6
-0.4	4.5	0.0	4.5	0.0	4.5
-0.4	0.0	0.0	4.0	0.0	4.0
0.0	0.4	0.0	3.4	1.5	1.9
0.0	0.0	0.0	3.3	0.0	3.3
0.0	0.0	0.0	0.1	0.0	0.1
0.0	0.0	0.0	0.1	0.0	0.1
-0.4	0.0	0.0	0.0	0.0	0.0
-0.7	3.8	0.0	9.7	3.3	6.4
-4.2	**13.4**	**0.0**	**43.3**	**8.2**	**35.1**

As of December 31, 2014, the reorganization and restructuring provisions amounted to € 25.1 million (prior year: € 7.4 million). Provisions of € 21.3 million are allocated for consulting costs in connection with capital market monitoring, € 2.4 million for rental guarantees and € 1.4 million through other reorganization and restructuring expenses, mainly for the reorganization program GAGFAH 2015. In the prior year, Provisions of € 2.1 million were allocated through reorganization and restructuring expenses, € 1.2 million thereof were allocated for the reorganization program GAGFAH 2015. Further € 0.8 million are related to a recalculation of existing non-current restructuring provisions for rental guarantees and rental payments. € 0.1 million were allocated for prior restructuring measures.

The provisions for costs concerning sold properties mainly concern compensation for damages in connection with sold properties.

The provisions for severance payments, litigation costs and similar risks relate to estimated costs in connection with litigation relating to GAGFAH GROUP's core business and development business as well as estimated costs in connection with employees leaving the Company. As of the balance sheet date, provisions of € 2.5 million (prior year: € 4.6 million) had been recognized. The decrease in this position is mainly influenced by the reversal of provisions relating to settlements in litigation in the amount of € 1.2 million.

In connection with the successful refinancing of the major loans in the GAGFAH Group in the year 2013, the provision for refinancing of € 4.5 million at the end of the year 2013 decreased to € 0.6 million at the end of the year 2014 (see section F.12. "Refinancing Expenses").

The provision for restitution proceedings amounting to € 3.8 million (prior year: € 4.0 million) concerns restitution requirements subject to the German Act on the Clarification of Property Claims ("Gesetz zur Regelung offener Vermögensfragen"- "Vermögensgesetz"; VermG), for example the return of properties to their former owners and requirements to reimburse sales proceeds or rentals generated in this context. In the financial year 2014, an amount of € 0.2 million was utilized.

GAGFAH GROUP concluded a collective agreement (GAGFAH and GBH subgroup) and workplace agreements (NILEG and WOBA subgroup), respectively, on phased retirement. These models allow employees above the age of 55 to make a smooth transition into retirement and ensure employment for younger employees. In the reporting period and in the prior year, no new agreements were concluded. All arrangements that were concluded in the past have already started as of the balance sheet date.

The favored model of phased retirement is the "block model", whereby the phased retirement period may not be longer than six years and is spread over a work phase (first phase, full-time employment) and a release phase (second phase).

The relevant employees receive gross monthly pay based on the agreed working time pursuant to the arrangements under the collective agreement and the workplace agreements in place. The employees receive this pay for the entire duration of phased retirement. Capital-forming payments are granted in line with the agreed part-time work, i.e. also in the release phase.

Warranty obligations and latent risks totaling € 3.2 million (prior year: € 3.3 million) were mainly set up for cases of liability from sales activities and property development business.

Other provisions amounting to € 15.6 million (prior year € 9.7 million) comprise various smaller amounts, such as legal advise for projects, social insurance contribution united kingdom for a former manager and some additions by changes within the consolidated Group for the Griffin Flats NRW GmbH.

The outflows of cash and cash equivalents from non-current provisions are largely expected within the next five years.

14. DEFERRED TAX LIABILITIES

A uniform tax rate of 32.00 % (prior year: 32.00 %) is generally applied to all Group companies. This comprises a corporate income tax rate including solidarity surcharge of 15.83% (prior year: 15.83 %). Trade tax is charged at 16.17 % (prior year: 16.17 %).

Deferred tax assets and liabilities are netted when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred tax assets and liabilities relate to the same taxpayer. As the deferred tax assets mainly of GERMAN RESIDENTIAL FUNDING 2013-1 LIMITED and GERMAN RESIDENTIAL FUNDING 2013-2 LIMITED do not qualify for a netting as described above, deferred tax assets amounting to € 25.1 million (prior year: € 0.0 million) are stated under “Non-current-assets”.

Deferred taxes are attributable to differences from recognition and measurement of the individual balance sheet items:

GROSS DEFERRED TAX ASSETS

€ million	12-31-2013	12-31-2014	Effect on profit or loss 2013	Effect on OCI 2013	Effect on profit or loss 2014	Effect on OCI 2014
Consolidated Statement of Financial Position						
Investment property	0.4	0.3	-4.5	0.0	-0.1	0.0
Financial assets	1.7	3.0	1.4	0.0	1.3	0.0
Other assets	5.7	8.8	3.1	0.0	3.1	0.0
Provisions	18.8	23.2	-2.0	0.3	-2.1	6.5
Liabilities	14.6	39.0	-5.7	-0.1	-7.1	31.5
Assets held for sale	3.4	1.2	0.9	0.0	-2.2	0.0
Deferred tax assets on temporary differences	**44.6**	**75.5**	**-6.8**	**0.2**	**-7.1**	**38.0**
Loss carryforwards						
Corporate income tax	171.5	156.8	20.3	0.0	-14.7	0.0
Trade tax	66.6	70.1	10.9	0.0	3.5	0.0
Deferred tax assets on loss carryforwards	**238.1**	**226.9**	**31.1**	**0.0**	**-11.2**	**0.0**
Deferred tax assets	**282.7**	**302.4**	**24.3**	**0.2**	**-18.3**	**38.0**

GROSS DEFERRED TAX LIABILITIES

€ million	12-31-2013	12-31-2014	Effect on profit or loss 2013	Effect on OCI 2013	Effect on profit or loss 2014	Effect on OCI 2014
Consolidated Statement of Financial Position						
Investment property	585.1	704.7	-49.1	0.0	-115.6	0.0
Financial assets	0.2	1.0	0.1	0.0	-0.8	0.0
Other assets	3.0	1.0	0.0	-2.9	2.0	0.0
Provisions	0.6	1.4	0.0	0.0	-0.8	0.0
Liabilities	15.4	11.3	-12.0	0.2	3.9	0.2
Assets held for sale	0.5	5.9	-0.2	0.0	-5.4	0.0
Untaxed special reserve	17.9	0.0	-0.9	0.0	17.9	0.0
Deferred tax assets	**622.8**	**725.3**	**-62.1**	**-2.7**	**-98.8**	**0.2**

Deferred tax liabilities predominantly result from differences between the carrying values of investment property disclosed in the IFRS Statement of Financial Position and in the Tax Statement. The tax base values are based on the continued recognition of the property at fair value at the date on which former non-profit housing companies became taxable. Deferred tax assets mainly result from the carryforward of unused tax losses and also partly from differences between IFRS values and tax bases of provisions and liabilities.

In the Consolidated Statement of Financial Position, deferred tax assets of € 275.5 million (prior year: € 282.7 million) and deferred tax liabilities of € 1.7 million (prior year: € 0.0 million) were offset.

As of December 31, 2014, the Group had corporate income tax loss carryforwards of € 1,849.0 million (prior year: € 1,761.7 million) and trade tax loss carryforwards of € 907.8 million (prior year: € 831.0 million). These are based on information available at the time of preparation of the Consolidated Financial Statements and may be carried forward indefinitely pursuant to legislation in force as of December 31, 2014. Per period, tax gains of a maximum of € 1.0 million and 60.0 % of the amount above this figure may be netted with loss carryforwards (minimum taxation). For further details regarding the loss of tax loss carryforwards resulting from the potential change of control in March 2015 please refer to section F.13. "Income Taxes".

Deferred tax assets on tax loss carryforwards are first of all recognized to the extent that deferred tax liabilities on temporary differences exist, this taking into account the minimum taxation. Additionally, deferred tax assets on tax loss carryforwards are recognized to the extent that it is considered probable that sufficient taxable income will be available against which these tax loss carryforwards can be applied. Thus, deferred tax assets on loss carryforwards were recognized only to the extent described above, leading to residual corporate income tax loss carryforwards of € 858.3 million (prior year: € 678.4 million) as well as trade tax loss carryforwards of € 473.9 million (prior year: € 419.4 million), on which no deferred tax assets have been recognized.

Interest expenses are deductible up to the amount of the interest earnings. Beyond this amount, the deductibility is limited to 30 % of the fiscal year's EBITDA, wherein GAGFAH's fiscal year equals its financial year. Interest expenses which may not be deducted in the current year are carried forward to the following fiscal or financial years (interest carryforward). Deferred tax assets shall be recognized for the interest carryforward to the extent that it is probable that the interest expenses can be used in following years. Due to the Group's capital structure, in principle the use of the interest carryforward is not probable in the foreseeable future. As result of group internal corporate action in one subsidiary a reallocation of interest carryforwards into tax loss carryforwards took place. According to this, no deferred taxes were recognized on interest carryforwards of € 269.2 million (prior year: € 294.6 million) as these interest expenses are not expected to be realized in subsequent years.

Deferred tax liabilities on temporary differences associated with investments in subsidiaries, for which deferred taxes have not been recognized, aggregate to € 18.5 million (prior year: € 12.7 million).

15. LIABILITIES FROM INCOME TAX

As of December 31, 2014, the Group had obligations from corporate income tax and trade tax totaling € 70.6 million (prior year: € 79.4 million). They break down as follows:

€ million	12-31-2013	12-31-2014
Non-current		
Corporate income tax on EK 02	41.4	28.0
Total non-current	41.4	**28.0**
Current		
Trade Tax	14.0	19.8
Corporate income tax on EK 02	15.6	15.6
Corporate income tax	8.4	7.2
Total current	**38.0**	**42.6**
Total	**79.4**	**70.6**

In November 2007, the German Annual Tax Act 2007 (Jahressteuergesetz) was adopted with a final taxation of EK 02 which is payable in ten equal installments from 2008 onwards. The decrease of corporate income tax on EK 02 since December 31, 2013, is primarily caused by payments of € 15.6 million (prior year: € 15.6 million). The decrease is partly offset by the addition of accrued interest of € 2.2 million (prior year: € 2.8 million).

16. LIABILITIES

16.1. FINANCIAL LIABILITIES

Financial liabilities total € 4,928.0 million (prior year: € 4,874.3 million) and relate mainly to the financing of residential real estate assets. Due to the refinancings closed in 2013, the largest part of the financial liabilities is non-current.

Of the total financial liabilities, € 4,712.9 million (prior year: € 4,652.0 million) relate to unsubsidized loans.

Overall, loans amounting to € 715.1 million (prior year: € 4,414.9 million) were repaid in the financial year. Thereof, 92 (prior year: 142) loans totaling € 581.7 million were fully repaid in the financial year.In the prior year 4,221.7 million were fully repaid in the course of the refinancings, thereof € 2,037.3 million relating to the refinancing of the GAGFAH subgroup loan granted by institutional lenders, € 1,037.3 million relating

to the refinancing of the WOBA subgroup loan granted by institutional lenders, € 976.2 million relating to the NILEG subgroup and € 146.7 million relating to GAGFAH Acquisition 1 GmbH and additional € 24.2 million from senior debts.

GAGFAH HOLDING REVOLVING LOAN FACILITY

For working capital purposes, on March 21, 2014, GAGFAH Holding GmbH negotiated a revolving loan facility in the amount of € 25.0 million. This revolving loan facility has a maturity of one year until March 21, 2015, and can be utilized in tranches of at least € 2.5 million. As of the reporting date no tranches had been utilized.

REFINANCING OF GBH LOAN

On April 11, 2014, GAGFAH GROUP successfully refinanced the GBH portfolio with more than 4,400 residential units mostly located in Heidenheim with HSH Nordbank.

The new loan comprises two tranches, reflecting the strategy for the underlying portfolio. The first tranche of € 134.0 million for the core portfolio has a seven-year maturity while the second tranche with € 42.0 million is mostly secured by a sales portfolio and has a three-year maturity.

With a weighted average maturity of around six years, the maturity rate has been significantly extended compared to the previous loan, and on the basis of the current hedging strategy and the current EURIBOR rate the weighted average interest rate of the new loan is 3.05%, about 130 basis points lower than for the previous loan. In addition, GBH was able to save one-off refinancing fees of ca. 1% that would have been incurred if GBH had executed the two-year extension option of the former loan.

GAGFAH S.A. CONVERTIBLE BONDS

On May 13, 2014, the Board of Directors of GAGFAH S.A. resolved to launch an offering of senior unsecured convertible bonds due 2019 (the "Bonds") in an aggregate nominal amount of € 375.0 million, convertible into ordinary registered shares of GAGFAH S.A. under exclusion of shareholders' pre-emptive rights.

The Bonds have a maturity of 5 years and are issued and redeemed at 100% of their principal amount. The Bonds were placed with a coupon of 1.50% per annum, payable semi-annually in arrears, and with a conversion premium of 30% above the reference share price, being the volume-weighted average price of GAGFAH S.A.'s shares on XETRA between launch and pricing.

Convertible bonds are divided into two separate components: The derivativecomponent on the one hand and the debt component on the other hand.

The market value of convertible bonds is derived from bond prices stated by the Bloomberg Mid Market Index. The debt component is initially measured at fair value and is subsequently remeasured at amortized cost using the effective interest method. The difference between the market value of the

whole convertible bond and the debt component is disclosed separately as a derivative financial instrument.

The bond component is reported in the balance sheet in the current proportion of the financial liabilities at a present value of € 359.6 million.

In the event of the exercise of their conversion right, bondholders may receive new and/or existing shares of GAGFAH S.A. GAGFAH will also have the option to settle conversion in cash in whole or in part.

For further information about convertible bonds see chapter H.1. “Events after the Balance Sheet Date".

REFINANCING OF MALIBU LOAN

On July 21, 2014, the Group repaid the amount of € 358.0 million using the proceeds of issuing the convertible bonds. The repaid amount is divided into € 37.7 million on the Malibu loans granted by an institutional lender of GAGFAH Acquisition 2 GmbH and € 320.3 million on the Malibu loans granted by an institutional lender of GAGFAH Erste Grundbesitz GmbH. On September 29, 2014, GAGFAH Acquisition 2 GmbH and GAGFAH Erste Grundbesitz GmbH entered into a loan agreement with Berlin Hyp AG in an aggregate amount of € 230.0 million with a final maturity date on October 20, 2021. The cumulative amount of € 230.0 million was drawn on December 18, 2014.

The loan is fully secured by land charges and account pledge agreements. The interest of the above mentioned Malibu loan is completely variable, with an interest rate aligned to EURIBOR. To hedge the interest rate risk, GAGFAH Holding GmbH entered into a swap agreement with Deutsche Bank AG. The concluded swap with a notional amount of € 160.0 million has an effective date of October 20, 2014 and will terminate on October 20, 2021. Due to this financing structure, the outstanding loan amount of € 230.0 million has a current weighted average interest rate of approximately 2.05% as of December 31, 2014 with fixed repayments of € 2.3 million p. a.

REFINANCING OF GRIFFIN FLATS

On December 22, 2014, Griffin Flats NRW GmbH entered into a loan agreement with UniCredit Bank AG. The new loan with an undrawn facility of €112.0 million has a seven-year maturity. The loan is completely variable, with an interest rate aligned to the 3M EURIBOR and with fixed repayments of 1.0 percent of the notional amount p. a.

SECURITIES FOR FINANCIAL LIABILITIES

The value of the investment property portfolio (including assets held for sale) of € 7,978.7 million (prior year: € 7,682.3 million) is predominantly encumbered by charges on property for the securization of the current and non-current financial liabilities to banks and other lenders. The financial liabilities which are secured by charges on property amount to € 4,552.7 million (prior year: € 4,834.0 million). No collateral has been provided for the remaining € 375.2 million (prior year: € 40.3 million).

LOANS IN CONNECTION WITH ASSETS HELD FOR SALE

In the financial year 2014, several reclassifications of loans granted by institutional lenders from non-current to current financial liabilities were made in connection with assets held for sale and sold assets.

As of December 31, 2014, a total amount of € 20.7 million (prior year: € 11.8 million) related to condo sales was reclassified from non-current to current financial liabilities (loans granted by institutional lenders) due to the repayment expected to be prior to the contractual maturity of these liabilities. Part of further loans of € 74.1 million (prior year: € 47.7 million) in connection with portfolio strategy sales were reclassified into current financial liabilities. The aforementioned reclassified loans granted by institutional lenders contain financial liabilities related to assets held for sale as shown in the Consolidated Statement of Financial Position at the end of the financial year as well as financial liabilities related to asset sales that have already been recognized during the financial year 2014.

Of the current financial liabilities, loans amounting to € 52.3 million (prior year: € 45.9 million) are directly related to assets held for sale of € 94.5 million (prior year: € 48.6 million) as shown in the Consolidated Statement of Financial Position. These loans are allocated to the Group's assets held for sale as follows:

€ million	12-31-2013		12-31-2014	
	Assets held for sale	Related financial liabilities	Assets held for sale	Related financial liabilities
Portfolio strategy sales	40.6	40.2	78.7	42.0
Condo sales	8.0	5.7	15.8	10.3
Total	**48.6**	**45.9**	**94.5**	**52.3**

The total reclassified liabilities have been revalued according to IAS 39.AG8. For more information on the respective sales programs, we refer to section E.10. "Assets Held for Sale".

Debt maturity profile and Interest payment The tables include both interest and principal cash flows. To the extent that interest payments are calculated by using a floating rate, the undiscounted amount is derived from interest rate as of the last interest payment date. The contractual maturity is based in the earliest date on which the Group may be required to pay. We also refer to section H. 2. "Financial Risk Management".

The Group monitors credit terms very closely in light of its refinancing needs. As of December 31, 2014, the Group's financial liabilities primarily comprise of the following liabilities:

DEBT MATURITY PROFILE AS OF DECEMBER 31. 2014

					2015		2016	
€ million	Carrying amount as of 12-31-2014	Notional amount as of 12-31-2014	Weighted avg. years to maturity	Interest rate (current)	Scheduled repay-ments[1]	Scheduled maturity[2]	Scheduled repay-ments[1]	Scheduled maturity[2]
Commercial mortgage-backed floating rate note	2,622.5	2,635.7	3.72	2.75%	73.0	0.0	13.5	0.0
thereof fixed	2,457.1	2,467.0	3.72	2.82%	13.3	0.0	13.3	0.0
thereof floating	165.4	168.7	3.82	1.76%	59.7	0.0	0.2	0.0
Loans granted by intitutional lenders[3]	1,651.5	1,674.9	4.02	3.06%	42.0	36.0	17.1	90.0
thereof fixed[4]	1,326.5	1,359.2	3.76	3.30%	11.8	36.0	11.6	75.0
thereof floating. secured with cap[5]	202.4	196.9	4.84	2.03%	24.6	0.0	1.3	15.0
thereof floating	122.7	118.9	5.58	2.03%	5.6	0.0	4.2	0.0
Convertible bonds (fixed)	359.6	375.0	4.39	1.50%	0.0	0.0	0.0	0.0
Senior debt (fixed)	281.9	343.1	22.51	2.00%	8.9	21.0	9.1	7.8
Other (fixed)	12.5	12.5	4.06	4.49%	1.0	0.0	0.9	0.0
Total	**4,928.0**	**5,041.2**	**5.1**	**2.71%**	**124.9**	**57.1**	**40.6**	**97.8**

1) Regulary repayments and releases from sales.
2) Loans that are due for repayment or loans for which a new interest rate needs to be fixed, including scheduled repayments till maturity.
3) The Loans granted by institutional lenders attributable to assets held for sale and sold assets are € 83.7 million (€ 45.5 million thereof relate to assets held for sale and € 38.2 million relate to sold assets).
4) As of the interim reporting date, the interest rate of the full amount of the GBH Acquisition GmbH loan is secured as follows: € 175.0 million are secured by an interest rate swap and € 18.8 million by an interest rate cap. From the period from April 22, 2014, to April 22, 2016, an amount of up to € 173.0 million will be secured by an interest rate cap. For the period from April 22, 2016, to April 22, 2021 (end of maturity), an amount of € 110.0 million will be secured by an interest rate swap negotiated in the context of the latest refinancing.
5) The cash flows include caps, ending or replaced by swaps. In these cases the maturity is presented from this time in the lines "therof floating" or "thereof fixed".

DEBT MATURITY PROFILE AS OF DECEMBER 31. 2014

2017		2018		2019		2020		> 2020	
Scheduled repay-ments[1]	Scheduled maturity[2]	Scheduled repay-ments[1]	Scheduled maturity[2]	Scheduled repay-ments[1]	Scheduled maturity[2]	Scheduled repay-ments[1]	Scheduled maturity[2]	Scheduled repay-ments[1]	Scheduled maturity[2]
13.5	0.0	7.6	2,528.1	0.0	0.0	0.0	0.0	0.0	0.0
13.3	0.0	7.5	2,419.6	0.0	0.0	0.0	0.0	0.0	0.0
0.2	0.0	0.1	108.6	0.0	0.0	0.0	0.0	0.0	0.0
16.5	30.7	8.4	1,007.8	5.7	0.0	5.5	84.9	2.4	327.9
11.1	0.0	3.4	972.4	0.8	0.0	0.6	76.4	0.0	270.7
0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
5.4	30.7	5.0	35.4	4.9	0.0	4.9	8.5	2.4	57.2
0.0	0.0	0.0	0.0	0.0	375.0	0.0	0.0	0.0	0.0
9.2	6.9	9.4	2.3	9.9	6.9	10.8	7.2	233.8	0.0
1.0	0.0	0.3	3.6	0.0	5.7	0.0	0.0	0.0	0.0
40.2	**37.6**	**25.7**	**3,541.9**	**15.6**	**387.5**	**16.2**	**92.1**	**236.2**	**327.9**

1) Regulary repayments and releases from sales.
2) Loans that are due for repayment or loans for which a new interest rate needs to be fixed, including scheduled repayments till maturity.

INTEREST PAYMENTS [1)]

€ million	Carrying amount as of 12-31-2014	Notional amount as of 12-31-2014	Weighted avg. years to maturity	Interest rate (current)	2015 Interest payments[1)]	2016 Interest payments[1)]
Commercial mortgage-backed floating rate note	2,622.5	2,635.7	3.72	2.75%	73.0	72.0
thereof fixed	2,457.1	2,467.0	3.72	2.82%	70.3	70.1
thereof floating	165.4	168.7	3.82	1.76%	2.7	1.9
Loans granted by intitutional lenders	1,651.5	1,674.9	4.02	3.06%	50.1	49.7
thereof fixed	1,326.5	1,359.2	3.76	3.30%	44.3	44.8
thereof floating, secured with cap[2)]	202.4	196.9	4.84	2.03%	3.6	1.9
thereof floating	122.7	118.9	5.58	2.03%	2.2	3.0
Convertible bonds (fixed)	359.6	375.0	4.39	1.50%	5.6	5.6
Senior debt (fixed)	281.9	343.1	22.51	2.00%	6.8	6.7
Other (fixed)	12.5	12.5	4.06	4.49%	0.6	0.5
Total	**4,928.0**	**5,041.2**	**5.1**	**2.71%**	**136.0**	**134.5**

1) Calculated on the assumption that every ending contract would not be renewed or extended.
2) The cash flows may include subsequent changes from position "thereof floating, secured with cap" to position "thereof fixed" or "thereof floating" due to the existing hedge and forward hedge agreements.

INTEREST PAYMENTS

2017	2018	2019	2020	> 2020
Interest payments[1)]	Interest payments[1)]	Interest payments[1)]	Interest payments[1)]	Interest payments[1)]
71.5	57.8	0.0	0.0	0.0
69.6	56.0	0.0	0.0	0.0
1.9	1.9	0.0	0.0	0.0
46.9	28.8	11.6	11.5	6.3
43.9	26.7	10.1	10.1	5.2
0.0	0.0	0.0	0.0	0.0
3.0	2.0	1.5	1.4	1.1
5.6	5.6	2.2	0.0	0.0
6.5	6.3	6.0	5.8	51.7
0.5	0.4	0.2	0.0	0.0
131.0	**98.9**	**20.0**	**17.3**	**58.0**

1) Calculated on the assumption that every ending contract would not be renewed or extended.

The amounts above include variable interest rate instruments for both non derivative financial assets and liabilities that are subject to change if changes in variable interest rates differ to those estimates of interest rates determined at the end of the reporting period.

To reduce the exposure to changes in interest rates, GAGFAH GROUP has concluded interest rate swap agreements. Due to the valuation of the derivatives, interest rate swaps with a positive amount of € 0.8 million (prior year: € 9.2 million) are disclosed in other financial assets and interest rate swaps with a negative amount of € 301.6 million (prior year: € 3.6 million) are disclosed in the financial liabilities. Due to the hedging strategy of GAGFAH GROUP, the effective part of the interest rate swaps of € - 117.1 million (prior year: € 8.9 million) is recognized directly in equity. The ineffective part of the interest rate swaps of € 171.9 million (prior year: profit of € 1.5 million) is recognized as an expense in profit or loss. For further information about the hedging strategy see chapter H.2. “Financial Risk Management", subsection "Interest Rate Risk".

The difference between the notional amount and the carrying amount as shown in the Consolidated Statement of Financial Position mainly results from debt discount, amortized transaction costs and interest accruals.

As of the reporting date, there were undrawn credit facilities in the amount of € 201.6 million (prior year: € 66.2 million) which comprise from liquidity facility agreements between Goldman Sachs Bank USA and GERMAN RESIDENTIAL FUNDING 2013-1 LIMITED of € 47.5 million (prior year: € 48.9 million), between Bank of America N.A., London Branch, and GERMAN RESIDENTIAL FUNDING 2013-2 LIMITED of € 17.1 million (prior year: € 17.3 million) and the new loan agreement between the UniCredit Bank and the Griffin Flats NRW GmbH of € 112.0 million (prior year: € 0.0 million) on the one hand and a further amount of € 25.0 million (prior year: € 0.0 million) resulting from a revolving loan facility agreement between Barclays Bank PLC and GAGFAH Holding GmbH on the other hand.

16.2. OTHER LIABILITIES

As of the balance sheet date, other liabilities break down as follows:

€ million	12-31-2013	12-31-2014
Non-current		
Derivative financial instruments measured at fair value	3.6	110.7
Liabilities from settlement payments to the State Capital of Dresden	20.7	17.5
Liabilities from finance lease	4.2	5.4
Other liabilities	1.1	3.9
Total non-current	**29.6**	**137.5**
Current		
Derivative financial instruments measured at fair value	0.0	191.6
Trade payables	37.2	31.9
Liabilities from operating expenses not yet invoiced	22.4	31.4
Liabilities to tenants	16.9	18.9
Liabilities from bonus payments	12.6	11.0
Prepayments received	7.2	6.6
Liabilities from settlement payments to the State Capital of Dresden	3.9	3.9
Other liabilities	25.9	24.8
Total current	**126.1**	**320.1**
Total	**155.7**	**457.6**

The WOBA companies and the State Capital of Dresden agreed to fully resolve all their disputes by mutual agreement that had been formally approved by the legal supervisory authority of Saxony on March 21, 2012. Under the conditions of this settlement agreement, the State Capital of Dresden receives nine annual instalments in the amount of € 4.0 million each (€ 36.0 million in total) from 2012 through 2020. The discounted liability amounts to € 21.4 million (prior year: € 24.6 million), thereof € 3.9 million (prior year: € 3.9 million) current and € 17.5 million (prior year: € 20.7 million) non-current.

The increase of the liabilities from operating expenses not yet invoiced result from higher advanced payments for heating costs in the actual year as result of a higher bill of heating costs for the prior year.

The additions to current derivative financial instruments measured at fair value since year-end 2013 comprise the option component of our new convertible bond (€ 190.6 million) and interest rate swaps (€ 1.0 million).The non-current derivative financial instruments measured at fair value are interest rate swaps (€ 110.7 million).

The effects from the market valuation of the option component of the convertible bond of € 173.2 million (prior year: € 0.0 million) are recognized through profit or loss under the line item "Result from the fair value measurement of derivatives", netted with an income of € 1.3 million (prior year: € 1.5 million) from the fair value measurement of interest rate swaps.

In the prior year, the derivative financial instruments measured at fair value were disclosed on the assets side under the items “Other financial assets”. For further information see section H.2. “Financial Risk Management”.

The non-current liabilities from finance lease of € 5.4 million (prior year: € 4.2 million) relate to finance leases concerning hereditary building rights and finance leases concerning vehicles (mainly for the facility management companies), for which GAGFAH GROUP is lessee.

The lower amount of trade payables compared to the prior year represents a cut-off effect due to various smaller obligations.

With the exception of liabilities from settlement payments to the State Capital of Dresden, jubilee commitments, liabilities from finance lease and liabilities from reorganization, all items disclosed by GAGFAH GROUP as other liabilities, are non-interest-bearing. There is no interest rate risk.

F. NOTES TO THE CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

1. INCOME FROM THE LEASING OF INVESTMENT PROPERTY

Income from the leasing of investment property of GAGFAH GROUP breaks down as follows:

€ million	2013	2014
Rental income, fees	554.6	561.0
Allocations charged	274.1	271.5
Other	1.1	1.0
Total	**829.8**	**833.5**

Income from the leasing of investment property is mainly attributable to the leasing of apartments.

Rental income includes non-cash income from the amortization of deferred liabilities of government-granted loans in the amount of € 5.5 million (prior year: € 4.0 million). The increase compared to the prior year is a result of a rent growth despite a comparatively smaller portfolio.

The decrease in allocations charged is mainly due to extraordinary high heating expenses in the prior year.

The operating expenses arising from investment property that did not generate rental income during the financial year amounted to € 12.2 million (prior year: € 12.7 million).

Other income includes, inter alia, rent, interest and expense subsidies, which primarily relate to government allowances to allow lower rent to be charged for subsidized housing.

The rental agreements for residential property concluded by GAGFAH GROUP have notice periods of three months. GAGFAH GROUP expects to achieve minimum leasing payments of approximately € 133.3 million within the first three months of 2015 (prior-year estimate for the first three months of the financial year 2014: € 128.4 million).

GAGFAH GROUP also concluded long-term rental agreements for commercial property. Based on the rental agreements for commercial property existing as of the respective balance sheet dates, the following minimum lease payments are expected to be due over the coming years:

€ million	≤ one year	> one year ≤ five years	> five years	Total
12-31-2013	13.4	22.8	5.9	42.1
12-31-2014	13.4	18.8	6.8	39.0

The leases are unlimited with a legal period of notice or have notice periods between 3 and 12 months. For the unlimited contracts, the basis for the determination of the minimum lease payments was the legal period of notice.

2. OPERATING EXPENSES FOR THE GENERATION OF RENTAL INCOME

Operating expenses for the generation of rental income break down as follows:

€ million	2013	2014
Real estate operating expenses	248.1	241.5
Repair and maintenance costs	78.0	73.1
Personnel expenses	63.7	62.8
Real estate tax	23.9	25.1
Administrative expenses	12.2	12.7
Bad debt allowances	8.0	8.0
External costs for real estate management	6.2	4.8
Amortization and depreciation on intangible assets and property, plant and equipment	1.6	2.2
Other expenses for real estate management	13.3	10.4
Total	**455.0**	**440.6**

The decrease in operating expenses for the generation of rental income is largely attributable to a decrease in real estate operating expenses, mainly due to extraordinary high heating expenses in the prior year. Due to the fact that those expenses are chargeable to our tenants, the decrease is mirrored in the line item "Allocations charged" in section F. 1. "Income from the Leasing of Investment Property".

The decrease in repair and maintenance costs has to be considered together with an increase in capex to € 60.1 million in 2014 (prior-year period: € 26.3 million) For further information refer to section E.2. "Investment Property").

3. RESULT FROM THE FAIR VALUE MEASUREMENT OF INVESTMENT PROPERTY

Changes in value from measurement of investment property in the financial year amount to a positive net result of € 161.9 million (prior year: a positive net result of € 5.4 million). Thereof, a profit of € 161.4 million (prior year: a profit of € 6.4 million) relates to the regular DCF-valuation of investment property, which was mainly influenced by an increase of estimated market rents and an opposing gain of € 0.5 million (prior

year: a loss of € 1.0 million) relates to the last-time fair value measurement of investment property before reclassification into assets held for sale.

4. RESULT FROM OTHER SERVICES

The result from other services breaks down as follows:

€ million	2013	2014
Revenues from third-party real estate management	4.5	4.5
External costs for third-party real estate management	-0.8	-0.3
Personnel expenses	-3.4	-3.3
Subtotal third-party real estate management	**0.3**	**0.9**
Revenues from other trade	10.0	7.7
External costs for other trade	-5.4	-4.1
Personnel expenses	-3.9	-2.1
Subtotal results from other trade	**0.7**	**1.5**
Total	**1.0**	**2.4**

The decrease in personnel expenses for other trade corresponds to the decrease in revenues from other trade. Overall the increase of the results from other trade reflects the optimization of our internal processes.

5. SELLING EXPENSES

Expenses that are directly related to the sales activities of GAGFAH GROUP are recorded under this item. They are primarily attributable to sales and advertising.

Selling expenses break down as follows:

€ million	2013	2014
External brokers	3.5	3.7
Personnel expenses	2.8	3.1
General and administrative expenses	0.7	1.1
Clearing of encumbrances	0.4	0.7
Marketing and selling prearrangements	1.2	0.6
Maintenance on vacant flats and sample flats	0.2	0.1
Expenses in connection with the sale of HB Funds	1.0	0.0
Other	2.2	1.7
Subtotal	**12.0**	**11.0**
Selling expenses due to property development business	0.1	0.1
Total	**12.1**	**11.1**

The overall decrease in selling expenses results mainly from the lower sales costs in connection with HB Funds.

6. GENERAL AND ADMINISTRATIVE EXPENSES

General and administrative expenses break down as follows:

€ million	2013	2014
Personnel expenses for administrative staff	15.7	18.6
IT costs	5.7	5.7
Consulting fees	2.1	1.9
Audit fees	1.4	1.2
Costs of office equipment, postage and telephone	1.0	0.9
Travel expenses, expenses for cars	0.8	0.8
Insurances	0.8	0.8
Personnel related costs	0.9	0.6
Association fees	0.6	0.5
Occupancy costs	0.5	0.5
Amortization and depreciation on intangible assets and fixed assets	0.6	0.4
Court and lawyers' fees	0.3	0.4
Other	4.5	4.9
Total	**34.9**	**37.2**

The overall increase in general and administrative expenses results from higher personnel expenses for administrative staff as a result of higher additions to provisions for bonus compensation.

7. EXPENSES FOR SHARE-BASED REMUNERATION

GAGFAH GROUP offers its employees both equity-settled stock option plans (long-term incentive plans) and cash-settled stock option plans (phantom stocks). A description of the stock option plans can be found in the Accounting Policies, section C.15. "Share-based Remuneration".

In the financial year 2014, expenses of € 7.6 million (prior year: € 7.0 million) were recognized in the Consolidated Statement of Comprehensive Income. This amount splits up as follows:

€ million	2013	2014
Equity-settled share-based remuneration	-6.6	-5.6
Cash-settled share-based remuneration	-0.4	-2.0
Total expenses (-) / income (+)	**-7.0**	**-7.6**

The equity-settled share-based remuneration (remuneration of senior management and independent directors) of € 5.6 million (prior year: € 6.6 million) led to a corresponding increase of share premium. This increase of share premium was partially compensated by € 2.7 million from the cash-settlement of originally equity-settled stock options (not recognized in profit or loss), € 1.1 million thereof taken from treasury shares. The prior-year increase of share premium of € 6.6 million was partially compensated by € 2.8 million from the cash-settlement of originally equity-settled stock options (not recognized in profit or loss).

The cash-settled share-based remuneration totaling € 2.0 million (prior year: € 0.4 million) led to an increase in the corresponding provisions. The increase compared to the prior year results from new cash-settled remuneration plans established in 2014 for middle management and executive staff.

As of December 31, 2014, the provision for cash-settled share-based payment amounted to € 2.0 million (prior year: € 0.5 million).

The following table illustrates the movements in share options during the financial year:

Number of stock options	2013		2014	
	Equity-settled stock option plans	Cash-settled stock option plans	Equity-settled stock option plans	Cash-settled stock option plans
Outstanding as of January 1	**1,193,289**	**54,500**	**2,100,000**	**85,000**
Granted during the financial	2,100,000	43,500	0	161,000
Forfeited during the financial	0	0	-300,000	0
Exercised during the financial	0	-13,000	-300,000 [1]	-25,000
Settled during the financial year	-1,193,289	0	0	0
Outstanding as of December 31	**2,100,000**	**85,000**	**1,500,000**	**221,000**

1) In the course of the exercise of a tranche comprising 300,000 stock options, only 157,575 shares have actually been transferred out of treasury shares. The countervalue of the remaining 142,425 stock options has been used as a monetary advantage for tax payments.

In the Financial year 2014, no new stock options were granted. The weighted average fair value of options granted during the prior year was € 2.83.

As in the prior year, no shares relating to our equity-settled stock option plans were issued.

In the prior year, the following settlements of equity-settled stock options took place:

- 186,450 stock options were settled in cash to current members of the Senior Management.
- 1,006,839 stock options and stock awards were settled in cash to former members of the Senior Management who retired in the respective financial year.

With the aforementioned settlements, all remaining claims from former long-term incentive plans and stock option plans were balanced out. The outstanding number of stock options as of December 31, 2014, only refers to the two new long-term incentive plans established in the financial year 2013.

As of the balance sheet date and the prior year's reporting date, there were no outstanding equity-settled stock options with contractually agreed exercise prices.

On the balance sheet date, no stock awards (prior year: 300,000 stock options) were vested and exercisable.

The vesting schedule as of December 31, 2014, is:

2015:	360,000
2016:	390,000
2017:	450,000
2018:	300,000

The vesting schedule as of December 31, 2013, was:

2014:	300,000
2015:	360,000
2016:	390,000
2017:	450,000
2018:	300,000

The weighted average remaining contractual life for the share options outstanding as of December 31, 2014, is 1.71 years (prior year: 2.30 years).

On the basis of our cash-settled stock option plan, 25,000 (prior year: 13,000) options were exercised at a weighted average share price of € 11.64 (prior year: € 9.33).

8. OTHER OPERATING INCOME

All income not directly allocable to the various categories of income according to the cost of sales method is disclosed under other operating income totaling € 15.2 million (prior year: € 8.8 million).

Other operating income breaks down as follows:

€ million	2013	2014
Reversal of provisions for income tax	0.0	5.4
Reversal of provisions in connection with EK02	0.0	2.0
Reversal of provisions for refinancing	0.3	1.9
Reversal of provisions for litigation	0.4	1.2
Reversal of provisions in connection with WOBA lawsuits	0.4	0.4
Reversal of provisions for restitution objects	0.4	0.1
Reversal of provisions for sales cost in connection with HB Funds added in the prior year	1.4	0.0
Reversal of provisions for phased retirement	1.2	0.0
Reversal of various other provisions	0.8	0.5
Subtotal reversal of provisions	**4.9**	**11.5**
Derecognition of liabilities	0.0	0.4
Revaluation of non-current assets	0.4	0.3
Sale of cable network connections	0.7	0.2
Transferable leasehold land interest	0.2	0.1
Other	2.1	2.4
Subtotal	**8.3**	**14.9**
Other operating income due to property development business	0.5	0.3
Total	**8.8**	**15.2**

The reversal of provisions for income tax € 5.4 million (prior year: € 0.0 million) are a result of a calculation with actual information.

Due to the final clarification of tax issues the provision for EK02 in an amount of € 2.0 million was completely released.

As a result of the completed refinancing in the prior year the remaining provisions for refinancing were released.

The remaining other operating income amounting to € 2.4 million (prior year: € 2.1 million) comprises various smaller amounts.

An amount of € 0.3 million (prior year: € 0.5 million) results from property development business.

9. OTHER OPERATING EXPENSES

All expenses not directly allocable to the various categories of expenses according to the cost of sales method are disclosed under other operating expenses totaling € 28.6 million (prior year: € 7.1 million).

These expenses break down as follows:

€ million	2013	2014
Impairment of goodwill	0.0	15.0
Consulting fees for various projects	0.6	3.3
Depreciation of receivables	0.0	2.5
Addition to provision for restitution proceedings	0.0	1.9
Expenses in connection with acquisitions	0.0	1.1
Consulting fees in connection with DRV settlement	0.7	0.0
Consulting fees in connection with the examination of the corporate strategy for the WOBA subgroup	0.3	0.0
Consulting / audit fees in connection with portfolio optimization	0.1	0.0
Other	1.0	3.2
Subtotal	**2.7**	**27.0**
Other operating income due to property development business	4.4	1.7
Total	**7.1**	**28.7**

The impairment of goodwill of € 14.9 million in the actual year was due to the goodwill wich arose from the acquisition of GAGFAH Pegasus GmbH € 14.9 million. Due to the changes in the key assumptions for the impairment test and the value enhancements of the investment property that have already been realized, the intrinsic value of the goodwill could not be confirmed. Therefore the goodwill in the region Berlin had to be written off completely.

The increase of consulting fees to € 3.3 million (prior year: € 0.6 million) is caused by various capital market related projects.

The depreciation of receivables for uncollectible accounts of € 2.5 million results mainly from the settlement of a lawsuit.

The expenses for restitution proceedings concerning restitution requirements subject to the German Act on the Clarification of Property Claims ("Gesetz zur Regelung offener Vermögensfragen" - "Vermögensgestz"; VermG) were for several new cases in the current year.

The expenses in connection with acquisitions mainly caused by € 0.8 million for the acquistion of the VITEX Group and € 0.1 million for the Urbanus portfolio as well as € 0.1 million for unrealized acquisitions.

An amount of € 1.7 million (prior year: € 4.4 million) results from the property development business. Thereof, € 1.1 million (prior year: € 2.3 million) relate to prior-year expenses and additions to provisions concerning sold properties.

The remaining other operating expenses amounting to € 3.2 million (prior year: € 1.0 million) comprise various smaller amounts.

10. REORGANIZATION AND RESTRUCTURING EXPENSES

Reorganization and restructuring expenses relate to our Group's rationalization of costs and integration of processes as we continue to combine and optimize the operations of our Group companies and portfolios.

In 2014, total reorganization and restructuring expenses were € 31.9 million, compared to € 7.2 million in 2013. The overall increase is mainly due to consulting costs in connection with capital market monitoring and the reorganization program "GAGFAH 2015".

Regarding the corresponding provisions, please refer to section E.13.2. “Other Provisions”.

The expenses break down as follows:

€ million	2014		
	Reorganization	Restructuring	Total
Personnel-related expenses	4.8	0.0	4.8
Consulting fees	25.9	0.0	25.9
Non-personnel administrative costs	1.7	-0.5	1.2
Total	**32.4**	**-0.5**	**31.9**

€ million	2013		
	Reorga-nization	Restruct-uring	Total
Personnel-related expenses	3.5	0.0	3.5
Consulting fees	2.5	0.0	2.5
Non-personnel administrative costs	0.5	0.7	1.2
Total	**6.5**	**0.7**	**7.2**

The personnel-related reorganization expenses of € 4.8 million in the financial year 2014 mainly consist of expenses for the new program GAGFAH 2015. Of the corresponding amount of € 3.5 million in the prior year, € 0.7 million related to compensation payments and € 2.7 million related to expenses for the new program GAGFAH 2015.

The consulting fees amounting to € 25.9 mainly include expenses in connection with capital market monitoring of € 21.7 million and € 3.4 million consulting fees in connection with the new program GAGFAH 2015. The prior year consulting fees amounting to € 2.5 mainly included expenses in connection with group reorganization measures in light of the refinancing process of GAGFAH subgroup of € 1.8 million and € 0.3 million consulting fees in connection with the new program GAGFAH 2015.

Non-personnel-related administrative reorganization costs of € 1.7 million in the financial year 2014 mainly include € 1.3 million expenses in connection with the new program GAGFAH 2015 and scheduled depreciation in connection with prior reorganization measures amounting to € 0.3 million. Non-personnel-related administrative reorganization costs of € 0.5 million in the prior year mainly included scheduled depreciation in connection with prior reorganization measures amounting to € 0.3 million and € 0.2 million expenses in connection with the new program GAGFAH 2015.

Non-personnel administrative restructuring costs of € -0.5 million in the financial year 2014 mainly include income relating to a revaluation of existing non-current restructuring provisions for rental guarantees and rental payments (prior-year revaluation expenses: € 0.7 million).

11. INTEREST EXPENSES

Interest expenses break down as follows:

€ million	2013	2014
Interest expenses related to loans	198.1	145.5
Amortization of financial liabilities	8.6	23.2
Interest share of pension obligations	4.4	4.4
Fees for commercial mortgage-backed floating rate notes	0.2	2.3
Amortization of EK02 liability	2.8	2.2
Finance lease interest	0.3	0.3
Guarantee facility	4.4	0.0
Other interest expenses	1.8	3.2
Total	**220.6**	**181.1**

The total interest expenses related to loans of € 145.5 million (prior year: € 198.1 million) split up into expenses from loans granted by institutional lenders and commercial mortgage-backed floating rate notes of € 134.7 million (prior year: € 189.7 million), expenses from other loans of € 7.4 million (prior year: € 8.6 million) and expenses for convertible bonds of € 3.4 million (prior year: € 0.0 million). The overall decrease reflects the lower interest rates due to the new loans granted by institutional lenders of GAGFAH, NILEG and WOBA subgroups.

The increase of amortization of financial liabilities results from a positive effect in 2013 from the complete reversal of € 12.0 million from the remaining accrual of the margin step-up in the former GAGFAH loan granted by institutional lenders in the course of the GAGFAH refinancing in June 2013.

From the second half of 2013 onwards, GAGFAH Group has to pay fees in connection with the commercial mortgage-backed floating rate notes. These expenses were € 2.3 million in the year 2014 (prior year: € 0.2 million).Due to the fact that part of this fees in 2013 was paid in course of the refinancing these parts were classified as refinancing expenses.

In connection with the DRV settlement (see section H.3. “Contingent Liabilities and Other Financial Obligations and Receivables”), in the prior year the bank guarantee has been prolonged and the corresponding liability from commissions has been recalculated. Due to the recalculation, expenses for guarantee facilities of € 4.4 million have been accrued. Non-current other liabilities increased correspondingly.

12. REFINANCING EXPENSES

The decrease of refinancing expenses from € 67.9 million in the prior year to € 11.4 million in 2014 results from the successful conclusion of the main refinancing processes in 2013.

Refinancing expenses break down as follows: [1)]

2014

€ million	GAGFAH S.A. [1)]	GAGFAH	WOBA	NILEG	ACQ 1	GAGFAH HOLDING	GBH	MALIBU	Total
Compensation payments in connection with the early redemption of the former loans	0.0	0.0	0.0	0.0	0.0	0.0	0.0	3.6	3.6
Court and lawyers' fees	0.2	0.3	0.0	0.2	0.1	0.1	0.4	0.7	1.9
Consulting fees	4.7	0.2	0.1	0.0	0.0	0.0	0.3	0.0	5.4
Other	0.0	–0.1	0.0	0.6	0.0	0.0	0.0	0.0	0.5
Total	**4.9**	**0.4**	**0.1**	**0.8**	**0.1**	**0.1**	**0.7**	**4.3**	**11.4**

2013

€ million	GAGFAH S.A. [1)]	GAGFAH	WOBA	NILEG	ACQ 1	GAGFAH HOLDING	GBH	MALIBU	Total
Compensation payments in connection with the early redemption of the former loans	0.0	14.1	8.9	19.2	1.4	0.0	0.0	0.0	43.6
Court and lawyers' fees	0.0	7.9	0.4	2.7	0.7	0.7	0.2	0.0	12.6
Consulting fees	0.0	5.9	0.7	3.9	1.1	0.0	0.0	0.0	11.6
Other	0.0	0.0	0.0	0.0	0.1	0.0	0.0	0.0	0.1
Total	**0.0**	**27.9**	**10.0**	**25.8**	**3.3**	**0.7**	**0.2**	**0.0**	**67.9**

1) In connection with the launch of convertible bonds in May 2014.€ 4.9 million (prior year: € 0.0 million) costs incurred in the GAGFAH S.A., mainly for consulting fees in an amount of € 4.7 million (prior year: € 0.0 million).

For further information on the refinancing processes, please refer to section E.16.1. "Financial Liabilities".

13. INCOME TAXES

Income taxes break down as follows:

€ million	2013	2014
Trade tax	-5.8	-6.4
Corporate income tax	-1.8	-3.5
Tax refunds (+) / payments (-) from / for prior years	-0.4	0.1
Deferred taxes – temporary differences	-69.0	-105.9
Deferred taxes – loss carryforwards	31.2	-11.2
Reversal of liabilities from income taxes	0.3	1.7
Total	**-45.5**	**-125.2**

In 2014 as well as in 2013, no remarkable tax law changes took place. Nevertheless, in 2013, changes relating to the current German group taxation system ("Organschaft") became effective. For the GAGFAH Group, especially changes relating to the profit and loss transfer agreement (PLTA) are relevant. PLTAs which do not fulfill the new requirements would have to be amended to comply with the new rule by January 1, 2015. GAGFAH renewed all affected PLTAs in 2013.

Consolidated profit before taxes, multiplied with the tax rate for the Group of 32.0 % (prior year: 32.0 %) leads to anticipated income taxes of € -34.7 million (prior year: € -15.6 million).

The following table reconciles this anticipation to effective income taxes:

€ million	2013	2014
Profit before taxes	**48.8**	**108.4**
Anticipated income taxes	**-15.6**	**-34.7**
Income taxes not related to the period and other adjustments to current income taxes	-0.1	1.8
Tax-free income	0.5	3.8
Tax portion for non-deductible expenses	-3.5	-75.2
Tax portion for non-deductible interest	-18.1	-11.1
Permanent trade tax effects	-6.1	-6.6
Effects of previously unrecognized deferred taxes on loss carryforwards	-2.5	15.7
Valuation adjustment on deferred taxes on loss carryforwards (harmful change of shareholder)	0.0	-19.0
Corporate income tax dividend within profit and loss transfer agreement	-0.1	-0.3
Other tax effects	0.0	0.4
Income taxes	**-45.5**	**-125.2**

As result of a tax audit provisions for prior year's income taxes could be released in 2014, the respective effect is shown as "Income taxes not related to the period".

The tax portion for non-deductible expenses mainly relates to non-deductible expenses in Luxembourg.

Especially, the loss from the fair value measurement of derivatives of € 173.2 million (prior year: € 0.0 million) does not decrease the taxable income in Luxembourg.

The "Effects of previously unrecognized deferred taxes on loss carryforwards" mainly relate to a reallocation of interest carryforwards into tax loss carryforwards. As result of group internal corporate action deferred tax assets on these tax loss carryforward could be realized while no deferred tax assets on the respective interest carryforwards were disclosed.

As result of the potential change of control in March 2015 valuation adjustments on deferred taxes on tax loss carryforwards had to be made. Although the change of shareholders will take place in the fiscal year 2015; the consequential effects have to be recognized in 2014. According to the German tax rules of a harmful change of control (schädlicher Gesellschafterwechsel), generally tax loss carry forwards disappear if more than 50 % of the shares of a German company is directly or indirectly transferred to new shareholders. An exemption is made, if hidden reserves, calculated as difference between purchase price and tax book value of the assets are bought. In this amount, tax loss carryforwards stay in place.

Because the bought hidden reserves are higher than the tax loss carryforwards, most tax loss carry forwards of the operating group companies will be conserved. According to a draft decree of the German Finance Authorities, this exemption should not apply to holding companies because holding companies could sell their subsidiaries nearly exempt of taxation. Following this opinion, deferred tax assets on tax loss carryforwards on holing companies were completely reduced.

The Company qualifies as a securitization vehicle falling within the scope of the Luxembourg Law on Securitization of March 22, 2004. The Company is therefore fully liable for corporate income tax and municipal business tax. However, it is not subject to net worth tax (section 3 of the Net Worth Tax Law of October 16, 1934). Any commitments to investors (i.e. profit distributions) and commitments to other creditors of the Company are deductible and will not be subject to Luxembourg withholding tax.

14. NET RESULT ATTRIBUTABLE TO NON-CONTROLLING INTERESTS

A profit of € 8.3 million (prior year: a profit of € 3.5 million) of net result relates to non-controlling interests.

The profit attributable to non-controlling interests splits up into a profit of € 2.8 million (prior year: a profit of € 0.4 million) relating to GAGFAH subgroup, a loss of € 0.3 million and a profit of € 5.8 million (prior year: a profit of € 3.2 million) relating to WOBA subgroup.

15. EARNINGS PER SHARE

Basic earnings per share (EPS) were calculated by dividing the net result for the year attributable to ordinary equity holders of the parent company by the weighted average number of ordinary shares outstanding during the year.

Diluted earnings per share were calculated by dividing the diluted net result for the year attributable to ordinary equity holders of the parent company by the weighted average number of ordinary shares outstanding during the year plus the weighted average number of ordinary shares that would be issued on conversion of all the dilutive potential ordinary shares into ordinary shares.

As there are no dilutive instruments outstanding, basic and diluted earnings per share are identical.

The following table shows the income and share data used in the basic and diluted EPS computations:

	12-31-2013 [1]	12-31-2014
Net result attributable to ordinary equity holders (€ million)	-0.2	-25.2
Weighted average number of shares	204,823,336	215,437,532
Basic / diluted EPS (€)	0.00	-0.12

1)The prior-year diluted earnings per share were adjusted as they comprised also instruments that were antidilutive.

The following instruments were not included in the calculation of diluted earnings per share because they are antidilutive for the periods presented:

	12-31-2013	12-31-2014
Stock awards / stock options	2,448,326	1,026,122
Convertible bonds [1]	0.00	14,913,831

1)The average number of potential shares from convertible bonds is calculated with the conversion price of € 15.50.

For more details regarding stock awards / stock options please refer to section F.7. "Expenses for Share-based Remuneration". For details to our convertible bonds please refer to section E.16.1. "Financial Liabilities".

Between the reporting date and the date of authorisation of these financial statements, the conversion rights of GAGFAH S.A. convertible bonds in the amount of € 375.0 million were exercised or declared. With an adjusted conversion price of € 12.3057, 30,473,663 shares were issued, thereof 260,040 shares were deducted from treasury shares.

For further information about convertible bonds see chapter H.1. “Events after the Balance Sheet Date".

G. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

The Consolidated Statement of Cash Flows provides additional information on liquidity as part of GAGFAH GROUP's Consolidated Financial Statements and thus serves to present the Group's financial position. The Consolidated Statement of Cash Flows shows how cash and cash equivalents changed at GAGFAH GROUP over the course of the financial year. Cash flows are explained in accordance with IAS 7 and are split up into inflows and outflows of funds from operating activities, investing activities and financing activities.

The line item "Other non-cash expenses / income" contains expenses of € 202.9 million (prior year: € 4.8 million) and mainly includes non-cash interest expenses and non-cash expenses for share-based remuneration. We refer to section F.11. "Interest Expenses".

The change in receivables and other assets of € -18.1 million (prior year: € -8.1 million) results from various items.

The change in provisions, pension provisions and deferred liabilities of government-granted loans splits up into a change in deferred liabilities of government-granted loans of € -5.6 million (prior year: € -4.0 million) and a change in provisions and pension provisions of € 8.7million (prior year: € -3.4 million).

The cash received from the sale of investment property and assets held for sale of € 222.1 million (prior year: € 130.1 million) is calculated as the aggregate of income from the sale of investment property and assets held for sale of € 222.0 million (prior year: € 144.1 million) and the cash-relevant changes in receivables from sales of land and buildings of € 0.1 million (prior year: € -14.1 million) and prepayments received of € 0.0 million (prior year: € 0.1 million).

Cash paid for investment property splits up into cash paid for acquisitions of € 97.7 million (prior year: € 0.0 million) and cash paid for the modernization of investment property representing increases in operating capacity in the amount of € 60.1 million (prior year: € 26.3 million). In addition the Group had expenses in connection with the maintenance of operating capacity of € 73.1 million (prior year: € 78.0 million). We also refer to section F.2. "Operating Expenses for the Generation of Rental Income".

The amount of cash received from convertible bonds and raising financial liabilities of € 752.2 million (prior year: € 4,130.8 million) mainly relates to the launch of the convertible bonds of € 375.0 million (prior year: € 0.0 million) and the refinancing of the Malibu loans of € 358.0 million. In the prior year subgroup loans granted by institutional lenders of € 1,998.1 million (GAGFAH), € 1,077.5 million (WOBA), € 791.4 million (NILEG) and € 144.6 million (GAGFAH Acquisition 1 GmbH), were refinanced.

Overall, loans amounting to € 715.1 million (prior year: € 4,414.9 million) were repaid in the financial year. Thereof, 92 (prior year: 142) loans totaling € 581.7 million were fully repaid in the financial year. In the prior year 4,221.7 million were fully repaid in the course of the refinancings, thereof € 2,037.3 million relating to the refinancing of the GAGFAH subgroup loan granted by institutional lenders, € 1,037.3 million relating to the refinancing of the WOBA subgroup loan granted by institutional lenders, € 976.2 million relating to the NILEG subgroup and € 146.7 million relating to GAGFAH Acquisition 1 GmbH and additional € 24.2 million from senior debts.

We refer to section E.16.1. “Financial Liabilities”.

For detailed information on cash, cash equivalents and on restricted cash please refer to section E.9. “Bank balances and cash on hand”.

H. OTHER NOTES

1. ADDITIONAL DISCLOSURES ON FINANCIAL INSTRUMENTS

The following table shows carrying amounts and fair values of all financial instruments included in the Consolidated Financial Statements:

€ million	Category in accordance with IAS 39[1]	Carrying amount 12-31-2014	Amortized cost	Fair value recognized in profit or loss (accumulated)	Fair value recognized in equity (accumulated)	Fair Value 12-31-2014
Assets						
Bank balances and cash on hand	LaR	154.9	154.9	0.0	0.0	154.9
Investments	AfS	0.9	0.9	0.0	0.0	0.9
Receivables from sales of land and buildings	LaR	32.8	32.8	0.0	0.0	32.8
Rent receivables	LaR	11.9	11.9	0.0	0.0	11.9
Other	LaR	33.4	33.4	0.0	0.0	33.4
Liabilities						
Commercial mortgage-backed floating rate note	FLAC	-2,640.2	-2,640.2	0.0	0.0	-2,621.4
Loans granted by institutional lenders	FLAC	-1,630.6	-1,630.6	0.0	0.0	-1,711.9
Government annuity loans	FLAC	-214.5	-214.5	0.0	0.0	-256.5
Privately financed annuity loans	FLAC	-73.4	-73.4	0.0	0.0	-78.8
Financial liabilities of the funds	FLAC	-5.5	-5.5	0.0	0.0	-5.5
Convertible Bonds, debt component	FLAC	-359.6	-359.6	0.0	0.0	-361.6
Derivative financial liabilities measured at fair value	aFVtpl	-191.6	0.0	-174.2	0.0	-191.6
Derivative financial liabilities measured at fair value	cashflow hedge	-110.7	0.0	0.0	-110.7	-110.7

€ million	Category in accordance with IAS 39[1)]	Carrying amount 12-31-2014	Amor-tized cost	Fair value recognized in profit or loss (accumulated)	Fair value recognized in equity (accumulated)	Fair Value 12-31-2014
Other financial liabilities	FLAC	-4.1	-4.1	0.0	0.0	-4.1
Trade payables	FLAC	-31.9	-31.9	0.0	0.0	-31.9
Liabilities to tenants	FLAC	-18.9	-18.9	0.0	0.0	-18.9
Liabilities from operating expenses not yet invoiced	FLAC	-31.4	-31.4	0.0	0.0	-31.4
Other	FLAC	-37.7	-37.7	0.0	0.0	-37.7

1) LaR: Loans and Receivables
AfS: Available-for-Sale Financial Assets
aFVtpl: at Fair Value through profit or loss
FLAC: Financial Liabilities measured at Amortized Cost

	Category in accordance with IAS 39[1)]	Carrying amount 12-31-2013	Amor-tized cost	Fair value recognized in profit or loss (accumulated)	Fair value recognized in equity (accumulated)	Fair Value 12-31-2013
Assets						
Bank balances and cash on hand	LaR	101.9	101.9	0.0	0.0	101.9
Investments	AfS	0.9	0.9	0.0	0.0	0.9
Receivables from sales of land and buildings	LaR	32.5	32.5	0.0	0.0	32.5
Rent receivables	LaR	7.6	7.6	0.0	0.0	7.6
Derivative financial assets measured at fair value	cashflow hedge	9.2	0.0	0.0	9.2	9.2
Other	LaR	26.6	26.6	0.0	0.0	26.6
Liabilities						
Commercial mortgage-backed floating rate note	FLAC	-2,695.1	-2,695.1	0.0	0.0	-2,902.2
Loans granted by institutional lenders	FLAC	-1,862.8	-1,862.8	0.0	0.0	-1,860.7
Government annuity loans	FLAC	-221.4	-221.4	0.0	0.0	-266.1
Privately financed annuity loans	FLAC	-81.3	-81.3	0.0	0.0	-86.9
Financial liabilities of the funds	FLAC	-6.0	-6.0	0.0	0.0	-6.0
Convertible Bonds, debt component	FLAC	0.0	0.0	0.0	0.0	0.0
Derivative financial liabilities measured at fair value	aFVtpl	-2.3	0.0	-2.3	0.0	-2.3
Derivative financial liabilities measured at fair value	cashflow hedge	-1.3	0.0	0.0	-1.3	-1.3
Other financial liabilities	FLAC	-4.1	-4.1	0.0	0.0	-4.1
Trade payables	FLAC	-37.2	-37.2	0.0	0.0	-37.2
Liabilities to tenants	FLAC	-16.9	-16.9	0.0	0.0	-16.9
Liabilities from operating expenses not yet invoiced	FLAC	-22.4	-22.4	0.0	0.0	-22.4
Other	FLAC	-42.4	-42.4	0.0	0.0	-42.4

1) LaR: Loans and Receivables
AfS: Available-for-Sale Financial Assets
aFVtpl: at Fair Value through profit or loss
FLAC: Financial Liabilities measured at Amortized Cost

Financial assets from the category "Loans and Receivables (LaR)" have short-term maturities. For this reason, their carrying amounts approximate their fair values. Trade payables are completely current.

Bank balances and cash on hand, receivables and other liabilities are predominantly short term. Therefore, their carrying amounts (book values) correspond approximately to their fair values.

IFRS 13 requires that the classification of financial instruments at fair value be determined by reference to the source of inputs used to derive the fair value. This classification uses the following three-level hierarchy:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2: inputs other than quoted prices included within level 1 that are observable for the asset or liability either directly (i.e., as prices) or indirectly (i.e., derived from prices);
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

In the Group's Consolidated Financial Statements, derivatives are the only financial instruments measured at fair value as shown in Table 1. These derivatives themselves are not actively traded, but were valued by using a model with inputs that are directly or indirectly observable market data (Level 2). For further details, please refer to section H.2. "Financial Risk Management", subsection "Interest Rate Risk".

Financial liabilities are not measured at fair value in the Consolidated Statement of Financial Position, but the fair value is disclosed in the first two tables in section H.1. "Additional Disclosures on Financial Instruments". These liabilities are also valued by using a model with inputs that are directly or indirectly observable market data (Level 2).

The net results per measurement category break down as follows:

	From subsequent measurement					
€ million	From interest	At fair value recognized in profit or loss	At fair value recognized in equity	Impairment/ Reversal of impairment	From derecognistion	Total result
Loans and Receivables (LaR)	1.4	0.0	0.0	–17.2	0.6	–15.2
Financial Assets/Liabilities at fair value through profit or loss (AFVtpl)	–24.2	–171.9	–118.6	0.0	0.0	–196.1
Financial Liabilities measured at Amortized Cost (FLAC)	–161.6	0.0	0.0	0.0	0.0	–161.6

	From subsequent measurement					
€ million	From interest	At fair value recognized in profit or loss	At fair value recognized in equity	Impairment/ Reversal of impairment	From derecognistion	Total result
Loans and Receivables (LaR)	0.8	0.0	0.0	–12.0	0.4	–10.8
Financial Assets/Liabilities at fair value through profit or loss (AFVtpl)	–12.7	1.5	8.9	0.0	0.0	–11.2
Financial Liabilities measured at Amortized Cost (FLAC)	–268.5	0.0	0.0	0.0	0.0	–268.5

The following table shows the development of the Group's valuation allowances during the financial year and the prior year:

€ million	12-31-2012	Utilization	Reversals	Additions	Changes due to the sale/ acquisition of subsidiaries	12-31-2013	Utilization	Reversals	Additions	Changes due to the sale/ acquisition of subsidiaries	12-31-2014
Receivables from sales of land and buildings	-0.3	0.0	0.0	-0.1	0.0	-0.4	0.0	0.0	0.0	0.0	-0.4
Rent receivables	-14.4	9.0	5.5	-11.8	0.0	-11.7	7.2	0.2	-8.2	-3.5	-16.0
Insurance claims	-1.2	0.0	0.8	-0.6	0.0	-1.0	0.0	0.4	-0.3	0.0	-0.9
Other	0.0	0.0	0.0	-0.8	0.0	-0.8	0.0	0.0	-0.3	0.0	-1.1
Total	**-15.9**	**9.0**	**6.3**	**-13.3**	**0.0**	**-13.9**	**7.2**	**0.6**	**-8.8**	**-3.5**	**-18.4**

CRITERIA FOR THE EVALUATION / IDENTIFICATION OF THE NEED FOR BAD DEBT ALLOWANCES

RECEIVABLES FROM SALES OF LAND AND BUILDINGS

Receivables from sales of land and buildings are recorded on their due date. This is applicable in the case of an existing deposit in a notary trust account as at the date of conveyance of title. Subsequent to unsuccessful dunning procedure, the recoverability of overdue receivables is determined by the operating department (sales department, development department) as well as the need for and amount of a valuation allowance, which is then realized.

RENT RECEIVABLES

Rent receivables are carried at amortized costs. They need to be impaired if a full payment receipt from the claim can no longer be expected.

The dunning procedure includes reminders, demand for payment by legal counsel and ultimately the court order. Subsequent to unsuccessful dunning procedure, rent receivables are subject to bad debt allowance.

The impairment of rent receivables is made by way of generalized practices. Based on the experiences in the past, overdue rent receivables from ongoing contracts are impaired by 40%, and rent receivables from terminated contracts are impaired by 90%.

INSURANCE CLAIMS

Insurance claims are carried at amortized costs. If the full payment can no longer be expected, an allowance is recorded.

The following table shows the age structure of assets:

12-31-2014

€ million	Carrying amount	Of which: Neither impaired nor past due on the reporting date	Of which: Past due on the reporting date in the following periods			
			0-90 days	91-180 days	181-360 days	> 360 days
Assets						
Receivables from sales of land and buildings	33.3	18.6	13.8	0.0	0.0	0.5
Rent receivables	11.9	0.0	4.2	0.0	7.8	0.0
Receivables from other trade	0.4	0.1	0.3	0.0	0.0	0.0
Claims for reimbursement	0.1	0.1	0.0	0.0	0.0	0.0
Insurance claims	6.9	6.0	0.0	0.0	0.0	0.0
Other	25.7	24.6	0.0	0.0	0.0	0.0

12-31-2013

€ million	Carrying amount	Of which: Neither impaired nor past due on the reporting date	Of which: Past due on the reporting date in the following periods			
			0-90 days	91-180 days	181-360 days	> 360 days
Assets						
Receivables from sales of land and buildings	32.9	29.1	2.7	0.0	0.0	0.7
Rent receivables	7.7	0.0	7.7	0.0	0.0	0.0
Receivables from other trade	1.0	0.3	0.7	0.0	0.0	0.0
Claims for reimbursement	0.1	0.1	0.0	0.0	0.0	0.0
Insurance claims	7.0	6.0	0.0	0.0	0.0	0.0
Other	17.6	16.4	0.4	0.0	0.0	0.0

Regarding the financial assets that are neither impaired nor in delay of payment, there were no indications as of the balance sheet date that the debtors will not discharge all payment obligations.

The following table shows the expenses for full write-off of receivables and the corresponding income from recoveries on receivables written off per financial asset:

	Expenses for full write-off of receivables		Income from recoveries on receivables written off	
€ million	12-31-2013	12-31-2014	12-31-2013	12-31-2014
Rent receivables	-10.8	-7.3	0.0	0.0
Receivables from other trade	-0.4	-0.1	0.0	0.0
Other	-2.7	-5.4	0.4	0.6

The line item "Other" mainly includes the expenses for full write-off in connection with the sale of HB Funds with an amount of € 2.6 million (prior year: € 1.4 million). Further € 2.5 million mainly result from the settlement of a lawsuit.

In 2014, no financial assets were transferred in such a way that GAGFAH GROUP has retained substantially all the risks and rewards of ownership of the transferred assets.

2. FINANCIAL RISK MANAGEMENT

FINANCIAL RISK MANAGEMENT SYSTEM

The risk management system of the GAGFAH GROUP consists of the following elements:

- internal monitoring system
- early warning system
- controlling system

The internal monitoring system consists of supervisory measures which are either part of processes (organizational safeguards, controls) or independent security measures mainly monitored by the internal audit department based on a risk-oriented audit plan. One further basic task of the internal audit department is also the supervision of the risk management system. Organizational safeguards are designed to ensure a set security level and are generally part of an ongoing, automatic process, including the prevention of failures in the operational and organizational structure (such as separation of function and GAGFAH GROUP directives).

The early warning system is the entirety of all activities relating to risk identification and risk control. The early warning system is based on the internal early warning directive that has been defined and communicated by the GAGFAH GROUP Management and which is mandatory for all employees. This directive lays out the basic principles of an early warning system, defining the parameters for assessing and controlling qualitative and quantitative risks. It furthermore defines potential risk categories as well as the responsibilities.

The quarterly reporting structure is based on the internal early warning directive. The risk owners report their risks to the risk coordinator who compiles all such information in a risk report. This risk report is presented to the GAGFAH GROUP Management on a quarterly basis. In addition to an overview of quantitative and qualitative risks of the departments / regions, the risk report also includes descriptions of the measures to be taken.

As defined by the internal early warning directive, the monitoring of risks and the related countermeasures have to be followed up by the respective risk owners, in some circumstances in coordination with the CEO.

Irrespective of the quarterly reporting, there is also an ad hoc reporting system to the extent necessary as described in the early warning directive. In case of ad hoc reporting, the risk owners report informally and immediately.

A controlling system has been established and implemented for the delivery of all target figures, monitoring and possible countermeasures and also to serve as an indicator for entrepreneurial variances by target /actual analyses. The controlling system is positioned in the controlling department, which prepares a monthly controlling report for the GAGFAH GROUP Management. This controlling system ensures proactive control of financial risks.

The early warning system and the monthly controlling report ensure that the measures are coordinated and adjusted to the current business environment as well as to the processes and functions.

The Group's significant financial risks are interest-rate-based cash flow risks, liquidity risks and credit risks. The Group is not exposed to any currency risks. The risk management procedures applied to the key categories of financial risk of the GAGFAH GROUP entities are described below.

INTEREST RATE RISK

Interest rate risks include the risk that future expected cash flows from a financial instrument could fluctuate due to changes in the market interest rate.

In particular, GAGFAH GROUP faces the risk of interest rate fluctuations in the area of financing. It is Company policy to mitigate these risks by using financial derivatives. Derivatives are used to manage interest rate risks and serve hedging purposes.

All hedging measures are coordinated and carried out centrally by the Group's Corporate Finance Department.

Management receives regular reports on interest rate risk factors for GAGFAH GROUP.

The strategies pursued by the Company allow the use of derivatives if there are underlying assets or liabilities, contractual claims or obligations or planned operating transactions.

The current situation shows that the main portion of loans granted by institutional lenders or notes holder has no interest risk due to the existing interest rate swaps. A further portion of the loans granted by

institutional lenders is hedged by interest rate caps. However, an analysis of the current operating results shows that a variation of the interest yield curve has an impact on the interest result.

The floating interest rate is based on the 3M EURIBOR which was in average 0.082% in Q4 2014.

If market interest rates were 50 basis points higher, the result would be € 55.3 million higher. The increase of € 55.3 million in income results from valuation gains of € 57.8 million on interest rate derivatives compensated by higher interest expenses of € 2.5 million related to variable-interest financial liabilities. The total effect of € 55.3 million would split up into a positive effect of € 57.7 million from interest rate swaps that would have to be recognized in other comprehensive income and a negative effect of € 2.4 million that would have to be recognized in profit or loss (thereof € 2.5 million resulting from variable-interest financial liabilities, partly compensated by € 0.1 million from valuation gains of the interest rate swaps).

If market interest rates were 50 basis points lower, the result would be € 68.7 million lower. The decrease of € 68.7 million in income results from valuation losses of € 59.2 million on interest rate derivatives and net higher interest expenses of € 9.5 million, in particular caused of additional interest swap payments. These payments result from compensation for the negative interest rate in this scenario. The total effect of € 68.7 million would split up into a negative effect of € 59.0 million from interest rate swaps that would have to be recognized in other comprehensive income and a negative effect of € 9.7 million that would have to be recognized in profit or loss (thereof € 9.5 million in particular resulting from interest swap payments and € -0.2 million from valuation losses of the interest rate swaps).

HEDGING POLICIES AND FINANCIAL DERIVATIVES

The main financial instruments used by the Group – apart from derivative financial instruments – comprise bank loans, overdrafts, cash and short-term deposits. The primary purpose of these financial instruments is to finance the Group's continuing operations. In addition, there are other financial assets and liabilities such as trade receivables and trade payables that directly arise from the Group's operations.

The Group applies derivative financial instruments (interest rate swaps and caps) to manage interest rate risks resulting from the Group's operating business and financing.

Interest rate swaps and caps are accounted for at fair value and disclosed on the assets side under the items "Other financial assets" (non-current / current) or on the liabilities side under the item "Financial liabilities" (non-current / current).

At the inception of a hedge relationship, the Group formally designates and documents the hedge relationship to which the Group wishes to apply hedge accounting and the risk management objective and strategy for undertaking the hedge. The documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the entity will assess the effectiveness of changes in the hedging instrument's fair value in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk. Such hedges are expected to be highly effective in achieving offsetting changes in fair value or cash flows and are

assessed on an ongoing basis to determine that they actually have been highly effective throughout the financial reporting periods for which they were designated.

The effective portion of the gain or loss on the hedging instrument is recognized in equity (other comprehensive income) as "unrealized gains/losses from derivative financial instruments", while any ineffective portion is recognized immediately in the income statement in the line item "Result from the fair value measurement of derivatives".

On December 31, 2014, the derivative financial instruments used by the Group were interest rate swaps and caps in order to hedge future cash flows from variable-rate loans. Interest rate swap contracts enable the Group to exchange the difference between the fixed and floating rate interest amounts calculated on the agreed notional amounts.

Swap agreements

€ million	Hedging strategy	Fixed rate	Reference rate	Starting date	Maturity
Schweizer Viertel Grundstücks GmbH	Variable into fixed	4.250%	3M EURIBOR	19-Sep-2008	31-Aug-2015
GBH Acquisition GmbH	Variable into fixed	1.644%	3M EURIBOR	22-Apr-2016	22-Apr-2021
GBH Acquisition GmbH	Variable into fixed	1.160%	3M EURIBOR	22-Apr-2016	22-Apr-2021
GERMAN RESIDENTIAL FUNDING 2013-1 LIMITED	Fixed into variable	1.058%	3M EURIBOR	20-Jun-2013	27-Aug-2018
GERMAN RESIDENTIAL FUNDING 2013-2 LIMITED (A1)	Fixed into variable	1.220%	3M EURIBOR	21-Oct-2013	27-Nov-2018
GERMAN RESIDENTIAL FUNDING 2013-2 LIMITED (A2) [2)]	Fixed into variable	1.220%	3M EURIBOR	21-Oct-2013	27-Nov-2018
GAGFAH Holding GmbH [2)]	Variable into fixed	1.220%	3M EURIBOR	21-Oct-2013	27-Nov-2018
GAGFAH Holding GmbH	Variable into fixed	1.135%	3M EURIBOR	20-Oct-2014	20-Oct-2021
GAGFAH Acquisition 1 GmbH	Variable into fixed	0.684%	3M EURIBOR	14-Nov-2013	14-Oct-2016
OWG Asset GmbH & Co. KG	Variable into fixed	1,925%	3M EURIBOR	21-Oct-2014	21-Oct-2020
Total					

Cap agreements

€ million	Hedging strategy	Cap rate	Reference rate	Starting date	Maturity
GBH Acquisition GmbH	Variable into fixed	1.500%	3M EURIBOR	20-Apr-2014	22-Apr-2016
GAGFAH Acquisition 1 GmbH	Variable into fixed	3.250%	3M EURIBOR	14-Nov-2013	14-Oct-2016
OWG Asset GmbH & Co. KG	Variable into fixed	1.800%	3M EURIBOR	21-Oct-2103	21-Oct-2014
Total					

	Outstanding nominal value			Fair value[1]				
Initial nominal value	12-31-2014	12-31-2013	Deviation	12-31-2014	12-31-2013	Deviation	Deviation recognized in profit or loss	Deviation recognized in OCI
37.2	37.2	37.2	0.0	-1.0	-2.3	1.3	1.3	0.0
110.0	0.0	37.2	-37.2	-7.0	-0.8	-6.2	0.0	-6.2
0.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
1,898.2	1,882.5	1,892.5	-10.0	-62.9	9.0	-71.9	0.0	-71.9
588.2	584.5	588.2	-3.7	-24.2	0.2	-24.4	0.0	-24.4
76.5	76.5	76.5	0.0	-3.2	0.0	-3.2	0.0	-3.2
76.5	76.5	76.5	0.0	3.2	0.0	3.2	0.0	3.2
160.0	160.0	0.0	160.0	-8.3	0.0	-8.3	0.0	-8.3
76.2	76.4	76.2	0.2	-0.8	0.0	-0.8	0.0	-0.8
81.1	81.1	0.0	81.1	-7.5	-0.5	-7.0	0.0	-7.0
3,104.5	**2,974.7**	**2,784.3**	**190.4**	**-111.7**	**5.6**	**-117.3**	**1.3**	**-118.6**

	Outstanding nominal value			Fair value[1]				
Initial nominal value	12-31-2014	12-31-2013	Deviation	12-31-2014	12-31-2013	Deviation	Deviation recognized in profit or loss	Deviation recognized in OCI
173.00	173.00	31.50	141.50	0.00	0.00	0.00	0.00	0.00
60.20	53.40	60.20	-6.80	0.00	0.00	0.00	0.00	0.00
81.90	0.00	81.90	-81.90	0.00	0.00	0.00	0.00	0.00
315.10	**226.40**	**173.60**	**52.80**	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**

1) Positive amounts are recognized in the line item "Other assets" and negative amounts are recognized in the line item "other liabilities" respectively.

2) These two swaps have the same conditions but the respective hedging strategies move in opposite directions. The swaps and any related effects are therefore offset against each other on Group level.

With the exception of the interest rate swap of Schweizer Viertel Grundstücks GmbH, GERMAN RESIDENTIAL FUNDING 2013-2 LIMITED (A2) and GAGFAH Holding GmbH (€76.6m.), all of the abovementioned derivative financial instruments have been designated as being hedging instruments.

The increase in the nominal mainly results from the following agreements concluded in 2014. Furthermore the decrease in the fair value of swaps and caps primarily effects from the decline EURIBOR reference rates as wall as swap rates.

- The new seven-year loan agreement of the GBH portfolio is secured by an interest rate cap in the first two years. From the third year until the end of maturity the loan is secured by two interest rate swaps that convert the fixed interest rates into variable interest rates.
- In relation to the financing of the GAGFAH Acquisition 2 GmbH and the GAGFAH Erste Grundbesitz GmbH portfolio GAGFAH Holding is entered into a forward swap agreement with seven-year maturity as a swap payer.

The market values of the interest rate swaps and caps are regularly determined and monitored on the basis of the market data available on the balance sheet date and suitable valuation methods.

As of December 31, 2014, the valuation was based on the following term structure:

in %	12-31-2013	12-31-2014
Interest rate for six months	0.389	0.171
Interest rate for one year	0.556	0.325
Interest rate for two years	0.537	0.074
Interest rate for five years	1.261	0.232

Due to the fact that the cap rates are higher than the current EURIBOR, the fair values of the interest rate caps amount to € 0.0 million.

The ineffective part of the interest rate swaps of € 1.3 million profit (prior year: € 1.5 million profit) is recognized through profit or loss under the line item "Result from the fair value measurement of derivatives".

The effective part of the interest rate swaps of € -118.5 million (prior year: € 8.9 million) and the corresponding income tax effect of € 31.8 million (prior year: € -2.8 million) is recognized directly in equity (OCI) Fur further information please refer to section E.11. "Equity" - "Revenue Reserves – Unrealized / Gains / Losses from Derivative Financial Instruments" and "Non-controlling interests".

The following table shows the development of the cash flow hedging reserve:

	2013		2014	
€ million	Share-holders of the parent company	Non-controlling interests	Share-holders of the parent company	Non-controlling interests
January 1	-0.7	0.0	-0.8	6.2
Gains (+) / losses (-) arising from changes in the fair value of interest rate swaps	-0.2	9.1	-22.2	-96.3
Income taxes related to gains (+) / losses (-) arising from changes in the fair value of interest rate swaps	0.1	-2.9	7.1	24.7
December 31	-0.8	6.2	-15.9	-65.4

LIQUIDITY RISK

Liquidity risk is the risk that an entity may not be in a position to raise funds to meet commitments associated with a contract. Liquidity risk also arises from the possibility that tenants may not be able to meet obligations to the Company under the terms of the lease agreements.

The Group is financed long term. However, it regularly monitors credit terms and intends to refinance ahead of the respective loan maturities. A liquidity plan based on a fixed planning horizon endeavors to ensure that GAGFAH GROUP entities have sufficient liquidity at all times.

GAGFAH GROUP provides guarantees for certain financing arrangements of the subsidiaries. These guarantees pose a risk in as much as they could be utilized. GAGFAH GROUP monitors these risks in close collaboration with its subsidiaries and takes appropriate measures wherever necessary.

For an analysis of the Group's financial liabilities, please refer to section E.16.1. "Financial Liabilities".

CREDIT RISK

Credit risk from financial assets involves the danger of a contractual partner defaulting and therefore amounts at most to the positive fair value of the asset vis-à-vis the relevant counterparty.

The maximum exposure to credit risk at the reporting date is the carrying value of each class of financial assets mentioned in section H.1., Table 1 "Additional Disclosures on Financial Instruments".

With regard to primary financial instruments, credit risk is accounted for by the recognition of bad debt allowances.

Deposits achieved of € 89.9 million (prior year: € 88.3 million) and amounts paid by contracting parties into notary trust accounts of € 56.5 million (prior year: € 33.1 million) serve as collateral securities mainly for the receivables from sales of land and buildings.

CURRENCY RISK

Currency risk results from the fact that the value of a financial instrument can change due to exchange rate fluctuations.

GAGFAH GROUP entities do not currently generate cash flows in foreign currencies. As a result, they are not exposed to exchange rate risk.

OPERATIONAL RISK

The potential for future rent growth depends on regulatory and market influences that cannot totally be influenced by the Company. A limitation of rent growth would have a negative impact on the profit and loss account.

Higher vacancy rates (for example due to a lack of capital expenditure) of residential properties can considerably affect the rental income and the profit from operations.

GAGFAH GROUP might be exposed to liability risks after the sale of residential and commercial properties. Furthermore, there is a general risk that the sales prices for residential and commercial properties might decline.

The construction dates of residential properties as well as environmental and further factors might lead to expenses for renovation, maintenance and modernization that are higher than expected.

In case of a recession on the real estate market, the fair value measurement could have the effect that the actual fair values of the property (as in case of a change of interest rates) are lower than the acquisition- or production costs reduced by scheduled amortization. Non-scheduled depreciation resulting from this would have negative impacts on the Consolidated Statement of Financial Position and the Consolidated Statement of Comprehensive Income.

Furthermore the budgets and terms of modernizations and new constructions might be exceeded.

Altogether GAGFAH Group is subject to general risk of cost and price increases.

OPTION AGREEMENTS

On August 28, 2012, subsidiaries of GAGFAH S.A. and MURSUK Grundstücks-Verwaltungsgesellschaft mbH (in the following also referred to as “MURSUK”) signed a formal obligation. According to this agreement, MURSUK has the option to sell its limited partner’s share in Opera Co-Acquisition GmbH & Co. KG and its share in Opera Co-Acquisition GP GmbH to GAGFAH Holding GmbH for a total sales price of at

least € 2.9 million. As of the balance sheet date, the fair value of the option amounts to € 3.4 million. A corresponding amount is recognized within the line item "Liabilities due to Non-controlling Shareholders". GAGFAH Holding GmbH will be bound to its offer until December 31, 2018.

3. CONTINGENT LIABILITIES AND OTHER FINANCIAL OBLIGATIONS AND RECEIVABLES

CONTINGENT LIABILITIES

There were no material contingent liabilities in the financial year as well as in the prior year.

OTHER FINANCIAL OBLIGATIONS AND RECEIVABLES

TRANSFERABLE LEASEHOLD LAND AGREEMENTS

GAGFAH GROUP has financial obligations in connection with finance leases concerning transferable leasehold land with a carrying amount of € 3.7 million (prior year: € 3.7 million). These leases have residual terms of between 43 and 88 years. For further information, please refer to section C.2. "Leases".

Future minimum lease payments under finance leases together with the present value of the net minimum lease payments are as follows:

12-31-2014

€ million	≤ one year	> one year ≤ three years	> three years ≤ five years	> five years	Total
Minimum lease payments	0.3	0.6	0.6	15.6	17.1
Discount	0.0	0.1	0.1	11.6	11.8
Present value of payments	0.3	0.5	0.5	4.0	5.3

12-31-2013

€ million	≤ one year	> one year ≤ three years	> three years ≤ five years	> five years	Total
Minimum lease payments	0.3	0.6	0.6	15.9	17.4
Discount	0.0	0.1	0.1	12.0	12.2
Present value of payments	0.3	0.5	0.5	3.9	5.2

Commonly, those leases have neither terms of renewal nor purchase options and escalation clauses.

The adjustment of lease payments and updating of the discount rates led to an increase of the minimum lease payments and the present value of payments.

There are no sublease contracts concerning transferable leasehold land, but the respective land is commercialized in terms of rental leases related to the Group's investment property.

COMMERCIAL VEHICLES

Since 2014, GAGFAH GROUP has financial obligations in connection with finance leases concerning commercial vehicles of the facility companies with a carrying amount of € 1.6 million (prior year: € 0.0 million). These leases have residual terms of between 4 and 5 years. For further information, please refer to section C.2. "Leases".

Future minimum lease payments under finance leases together with the present value of the net minimum lease payments are as follows:

12-31-2014

€ million	≤ one year	> one year ≤ three years	> three years ≤ five years	> five years	Total
Minimum lease payments	0.8	1.5	0.6	0.0	2.9
Discount	0.4	0.7	0.2	0.0	1.3
Present value of payments	0.4	0.8	0.4	0.0	1.6

Furthermore, GAGFAH GROUP has financial obligations and financial receivables in connection with operating leases concerning transferable leasehold land.

The operating leases whereby the GROUP is the lessee, have residual terms of between 3and 86 years. Future minimum rentals payable as of December 31 are as follows:

€ million	≤ one year	> one year ≤ three years	> three years ≤ five years	> five years	Total
12-31-2014					
Minimum lease payments	2.2	4.4	4.4	85.8	96.8
12-31-2013					
Minimum lease payments	2.2	4.3	4.3	85.8	96.6

In the financial year 2014, lease payments of € 2.2 million (prior year: € 2.2 million) were recognized as an expense. There were no sublease payments.

The operating leases whereby the GROUP is the lessor, have residual terms of between 49 and 87 years. Future minimum rentals receivable as of December 31 are as follows:

€ million	≤ one year	> one year ≤ three years	> three years ≤ five years	> five years	Total
12-31-2014					
Minimum rentals receivable	0.1	0.1	0.1	4.1	4.4
12-31-2013					
Minimum rentals receivable	0.1	0.1	0.1	4.4	4.7

OTHER FINANCIAL OBLIGATIONS

The Group's other financial obligations break down as follows:

12-31-2014

€ million	≤ one year	> one year ≤ three years	> three years ≤ five years	> five years	Total
Rent obligations (buildings)	4.2	5.8	2.0	1.4	13.4
Hosting fees for computer center	4.7	0.0	0.0	0.0	4.7
Leasing obligations – automobile	1.0	1.0	0.1	0.0	2.1
Outsourcing contracts (provider of maintenance activities)[1]	0.7	0.0	0.0	0.0	0.7
Repair and maintenance of software	0.5	0.0	0.0	0.0	0.5
IT projects (facility management)	0.5	0.0	0.0	0.0	0.5
Other services from third parties	0.3	0.0	0.0	0.0	0.3
Basic fees for telephony and data network	0.5	0.0	0.0	0.0	0.5
Rent and leasing obligations – hardware	0.4	0.2	0.0	0.0	0.6
Repair and maintenance of hardware	0.1	0.0	0.0	0.0	0.1
Leasing obligations – copiers	0.0	0.0	0.0	0.0	0.0
Total	**12.9**	**7.0**	**2.1**	**1.4**	**23.4**

1) GAGFAH GROUP agreed in prior years, besides the issue of maintenance orders, to a fixed financial compensation to the outsourcing partner. This agreement has now expired. The remaining amount refers to a contract with another outsourcing partner with a fixed monthly amount for small maintenance and repair orders.

12-31-2013

€ million	≤ one year	> one year ≤ three years	> three years ≤ five years	> five years	Total
Outsourcing contracts (provider of maintenance activities)[1]	24.0	0.0	0.0	0.0	24.0
Rent obligations (buildings)	3.9	5.9	3.9	1.2	14.9
Hosting fees for computer center	4.8	0.0	0.0	0.0	4.8
Leasing obligations – automobile	1.8	2.8	1.0	0.0	5.6
Repair and maintenance of software	0.7	0.0	0.0	0.0	0.7
IT projects (facility management)	0.0	0.0	0.0	0.0	0.0
Other services from third parties	0.2	0.0	0.0	0.0	0.2
Basic fees for telephony and data network	0.5	0.0	0.0	0.0	0.5
Rent and leasing obligations – hardware	0.4	0.1	0.0	0.0	0.5
Repair and maintenance of hardware	0.2	0.1	0.0	0.0	0.3
Leasing obligations – copiers	0.1	0.0	0.0	0.0	0.1
Total	**36.6**	**8.9**	**4.9**	**1.2**	**51.6**

1) GAGFAH GROUP agreed, besides the issue of maintenance orders, to a fixed financial compensation to the outsourcing partner. The agreement with the outsourcing partner was renegotiated regarding service volume and contract term. In this context it was contractually agreed that the future cost increases are linked to the building price indices published by the Federal Statistical Office.

The decrease in financial obligations from outsourcing contracts is due to the termination of a contract with a provider of maintenance activities. In the new contract, there is no fixed financial compensation to this outsourcing partner.

A significant proportion of the expected costs in connection with rent obligations (buildings) is covered by a long-term restructuring provision. Regarding the corresponding provisions, please refer to section E.13.2. "Other Provisions".

For some of the rental agreements for buildings, there are individual renewal and rent adjustment clauses. The rent adjustments are pegged to the consumer price index.

There are no purchase options for the rental agreements, but some of the contracts include renewal clauses up to ten years.

In the financial year 2014, the total payments for operating leases within other financial obligations amounted to € 6.2 million (prior year: € 5.7 million).

Apart from the financial obligations disclosed in the tables above, GAGFAH GROUP is subject to minimum annual investments in its real estate as a result of privatization and loan contracts.

The Group's other financial obligations from purchase agreements concerning subgroups and subsidiaries break down as follows:

		12-31-2013		13-31-2014	
Single entity / subgroup	Maturity	Minimum Capital Expenditure (in € per sqm)	Affected Area (in sqm)	Minimum Capital Expenditure (in € per sqm)	Affected Area (in sqm)
GAGFAH A Asset GmbH & Co. KG	09-30-2018	11.00	63,636	11.00	47,304
GAGFAH I Invest GmbH & Co. KG	09-30-2018	11.00	3,758,020	11.00	3,266,426
GAGFAH M Immobilien-Management GmbH	09-30-2018	11.00	5,289	11.00	5,289
GBH Acquisition GmbH	12-31-2017	18.33	289,439	18.33	270,366
Schweizer Viertel Grundstücks GmbH	09-30-2018	11.00	30,207	11.00	23,748
GAGFAH Hausservice GmbH	09-30-2018	11.00	13,017	11.00	13,017
WBN Asset GmbH & Co. KG[1)]	12-31-2013	12.78	94,055	0.0	0,0
WOBA subgroup	04-05-2021	9.00	2,023,658	9.00	2,012,820

1) The obligation concerning WBN Asset GmbH & Co. KG has expired on December 31, 2013

Other financial obligations result from the GAGFAH purchase agreement concluded on September 30, 2004, between the Federal Insurance Office for Salaried Employees (Bundesversicherungsanstalt für Angestellte) (as the legal predecessor of the German Statutory Pension Insurance Scheme (Deutsche Rentenversicherung Bund), hereinafter also referred to as "DRV"), Berlin, and GAG ACQ Beteiligungs mbH, UC ACQ Beteiligungs GmbH (both as the legal predecessors of GAGFAH GmbH), GAG ACQ Ireland Limited as well as UC ACQ Ireland Limited on the acquisition of the former GAGFAH Gemeinnützige Aktien-Gesellschaft für Angestellten-Heimstätten (now GAGFAH GmbH) on the one hand and from an amendment agreement to the GAGFAH purchase agreement on the other hand that has been concluded on May 31, 2013, with effect on the above-mentioned parties, GAGFAH GmbH, various subsidiaries of GAGFAH GmbH as well as GAGFAH Holding GmbH. The main purpose of the amendment agreement is to create a clear contractual basis for the contracting parties by clarifying a number of open questions relating to the GAGFAH purchase agreement. Furthermore, the validity of certain protective clauses has been extended until September 30, 2018.

The agreement stipulates amongst others that residential property owning subsidiaries of GAGFAH GmbH invest a minimum annual average of € 11.00 per square meter of residential space for each residential unit during the period from January 1, 2013, to September 30, 2018 (pro rata temporis for 2018).

Concerning the financial obligations from the buying contract of the WOBA subgroup, the respective lower obligation is fulfilled by observing the minimum threshold required by the respective higher obligation.

The Group's other financial obligations from refinancing contracts break down as follows:

		12-31-2013		13-31-2014	
Single entity / subgroup	Maturity	Minimum Capital Expenditure (in € per sqm)	Affected Area (in sqm)	Minimum Capital Expenditure (in € per sqm)	Affected Area (in sqm)
GAGFAH Acquisition[1] GmbH	10-14-2016	11.65	404,421	12.27	287,013
GAGFAH Acquisition2) GmbH	20-10-2021[1]	5.00	48,312	13.78	47,453
GAGFAH Erste Grundbesitz GmbH	20-10-2021[1]	5.00	471,234	7.82	347,312
GBH Acquisition GmbH	04-22-2017[2]			10.60	52,693
GBH Acquisition GmbH	04-22-2021[2]	8.00	295,521	10.60	219,829
GAGFAH A Asset GmbH & Co. KG	08-20-2018	10.00	109,012	10.00	98,058
GAGFAH I Invest GmbH & Co. KG	08-20-2018	10.00	3,773,449	10.00	3,670,128
OWG Asset GmbH & Co. KG	11-20-2018	10.00	189,124	10.00	188,658
WGNorden Asset GmbH & Co. KG	11-20-2018	10.00	554,038	10.00	544,887
WBN Asset GmbH & Co. KG	11-20-2018	10.00	483,355	10.00	480,998
NILEG Residential Asset GmbH & Co. KG	11-20-2018	10.00	367,076	10.00	354,699
WOBA subgroup	05-15-2018	10.50	2,157,127	10.50	2,144,389

1) the former obligation with maturity October 20, 2014, has been replaced by the obligation from the new Malibu-Loan.
2) the former obligation with maturity April 22, 2014, has been replaced by the obligation from the new credit agreement

4. NUMBER OF EMPLOYEES AND PERSONNEL EXPENSES

The average number of employees is presented below, broken down according to GAGFAH GROUP's business segments:

	2013		2014	
	Heads	FTEs	Heads	FTEs
Real estate management	1,370	1,338	1,366	1,338
Thereof male	919	916	923	920
Thereof female	451	422	443	418
thereof facility management services	843	833	843	833
Real estate sales	32	31	32	32
Thereof male	16	16	15	15
Thereof female	16	15	17	17
Other	165	158	179	172
Thereof male	82	82	90	90
Thereof female	83	76	89	82
Total	1,567	1,527	1,577	1,542
Thereof male	1,017	1,014	1,028	1,025
Thereof female	550	513	549	517

In addition to the above-mentioned 1,577 (prior year: 1,567) employees, the Group employed 217 (prior year: 286) low-income workers and 109 (prior year: 93) trainees with the result that the total average headcount was 1,903 (prior year: 1,946).

Personnel expenses amounted to € 101.1 million (prior year: € 99.4 million) and break down as follows:

€ million	2013	2014
Wages and salaries	77.0	74.7
Social security	12.2	14.4
Pension costs	2.2	2.2
Supplementary pensions funds "VBL"	1.4	1.8
Other	6.6	8.0
Total	**99.4**	**101.1**

Other personnel expenses mainly contain expenses for share-based payment (equity-settled) of senior management amounting to € 5.2 million (prior year: € 6.3 million) and expenses for share-based payment (cash-settled) amounting to € 2.0 million (prior year: € 0.4 million).

Of the expenses for social security, € 6.6 million (prior year: € 5.4 million) are recognized as an expense for defined contribution plans.

The Group's contributions to the supplementary pension funds amounted to € 1.9 million (prior year: € 1.4 million). Due to the fluctuating recapitalization payments ("Sanierungsgelder"), the expected contributions for the next financial year cannot be estimated reliably.

5. RELATED PARTY TRANSACTIONS

Natural persons related to GAGFAH GROUP in the meaning of IAS 24.9 are the management of GAGFAH S.A. and close family members (e.g. spouses, children) of the aforementioned persons.

In the financial year, significant related party transactions concerned share-based remuneration and the sale of shares by members of the board of directors. Regarding the share-based remuneration of our management we refer to section F.7. "Expenses for Share-based Remuneration". The sales of shares are immediately published on our website "www.gagfah.com" under "Directors' Dealings" and "Management Dealings". In the financial year 2014, 8 transactions took place in March, April and June, in which 781,380 shares with an equivalent of € 9.1 million were sold and 36,790 shares with an equivalent of € 0.4 million were bought. In the financial year 2013, 4 transactions took place in July and December, in which 280,396 shares with an equivalent of € 2.6 million were sold.

Related parties of GAGFAH GROUP in the meaning of IAS 24.9 include the ultimate parent company, all subsidiaries and associates as well as certain companies not included in the Consolidated Financial Statements.

Related parties that are controlled by GAGFAH GROUP or over which GAGFAH GROUP may exercise significant influence are included in the Consolidated Financial Statements and recorded in the List of Shareholdings, indicating in Exhibit (1) the relevant share capital.

Based on the company's knowledge and the last available information, of GAGFAH S.A. shares, 99.8% are in the free float, thereof 21.3% are owned by investors and the remaining 0.2% are treasury shares. Based on voting rights notifications the following investors have shares of more than 5%:

SHAREHOLDER (EXCEEDING 5%)
As of December 31,2014

	%
Lansdowne Partners	8.5
Sun Life Financial / MFS	7.2
Deutsche Asset & Wealth Management Investment GmbH, DWS Investment S. A and Deutsche Investment Management Americas Inc.	5.6

SHAREHOLDER (EXCEEDING 5%)
As of December 31,2013

	%
Fortress Residential Investment Deutschland (Fund A) LP	7.0
Fortress Investment Fund III LP[1)]	5.6

1) In 2014 the entity was renamed. In prior-year reports, the same entity was named "Fortress Investment Fund III (GAGACQ Subsidiary) LLC".

These entities are also related parties to GAGFAH S.A. In addition, Fortress Investment Group controls a multitude of other entities which, however, are not relevant to the business of GAGFAH S.A.

All transactions with related parties are executed at arm's length on the basis of international methods of price comparison in accordance with IAS 24.

6. MANAGEMENT

6.1. BOARD OF DIRECTORS

MEMBERS

The Board of Directors is vested with the broadest powers to manage the business of the Company and to authorize and / or perform all acts of acquisition, disposal and administration falling within the purposes of the Company.

The following individuals were members of the Board of Directors of GAGFAH S.A as of the balance sheet date:

MEMBERS

Jonathan Ashley	Chairman (until March 25, 2014)
Gerhard Zeiler	Chairman (since March 25, 2014)
Thomas Zinnöcker	Director
Wesley R. Edens	Director (until July 8, 2014)
Randal A. Nardone	Director (until July 8, 2014)
Dr. Jürgen Allerkamp	Independent Director (until December 31, 2014)
Dieter H. Ristau	Independent Director
Yves Wagner, Ph.D.	Independent Director

At the Annual General Meeting of Shareholders of June 12, 2014, Gerhard Zeiler, who had been co-opted as Board Member and appointed as Chairman on March 25, 2014, was confirmed and elected as Board Member for a term ending at the Annual General Meeting to be held in mid of 2019.

On July 8, 2014, Wesley R. Edens and Randal A. Nardone submitted their resignation letter to Chairman Gerhard Zeiler informing him of their immediate resignation from their positions as Directors of the Company and members of different committees.

In its meeting on November 18, 2014, the Board of Directors of GAGFAH S.A. co-opted three new Board Members, effective as of January 1, 2015:

- Hendrik Jellema (from 2007-2014 Member of the Management Board of GEWOBAG (Berlin Municipal Housing company with ca. 60,000 residential units))
- Daniel Just (since 2013 CEO of Bayerische Versorgungskammer (Service and Competence Center for 12 Bavarian Public and Private Pension Schemes))
- Dr. Wolfgang Ruttenstorfer (from 2002 to 2011 CEO of OMV AG (Austria's largest listed industrial company)). Dr. Wolfgang Ruttenstorfer resigned on December 22, 2014, before taking up his duties.

Hendrik Jellema, Daniel Just and Dr. Wolfgang Ruttenstorfer succeed the two Fortress Investment Group affiliated Directors, who had resigned in July following the final placement of shares owned by Fortress Investment Group funds, and Dr. Allerkamp, who resigned on November 18, 2014, with effect as of December 31, 2014.

6.2. SENIOR MANAGEMENT

MEMBERS

Members of the Senior Management of the Company's subsidiaries are integral to the management of the Company's subsidiaries. With the exception of Thomas Zinnöcker, members of the Board are not members of the Senior Management of the Company's subsidiaries. As a result, of the members of the Board, only Thomas Zinnöcker is active in the day-to-day management of the subsidiaries.

The following individuals were members of the Senior Management of the Company's respective subsidiaries:

MEMBERS	
Thomas Zinnöcker	Chief Executive Officer (CEO)
Gerald Klinck	Chief Financial Officer (CFO)
Nicolai Kuss	Chief Operating Officer (COO)

SEVERANCE PAYMENTS

The subgroups have contractual arrangements with the members of management that regulate the granting of severance payments in the event of early retirement. There were no severance payments in the financial year, severance payments in the prior year amounted to € 0.3 million.

As of December 31, 2014, no advances or loans had been granted to managers.

PENSION OBLIGATIONS AND OTHER PENSION BENEFITS

Under certain circumstances, members of management are entitled to pension payments. The pension entitlement is calculated as a percentage of part of the employee's fixed salary. The percentage is dependent on the employee's function on the management board and the length of office.

Pensions totaling € 0.6 million (prior year: € 0.7 million) were paid to former managers and their dependents in the financial year.

JUBILEE COMMITMENTS

There are no obligations to pay jubilee commitments to Senior Management.

6.3. TOTAL REMUNERATION AND LOANS GRANTED TO THE BOARD OF DIRECTORS AND THE SENIOR MANAGEMENT

BOARD OF DIRECTORS

Gerhard Zeiler is party to a service agreement with the Company. He receives compensation for his services as Chairman and is reimbursed for his expenses on an annual basis. Such compensation consists for 2014 (net) of € 80,000 plus 7,500 shares in the Company. Furthermore, he is reimbursed for expenses incurred through his attendances of Board meetings. Thomas Zinnöcker serves as member of the Board of Directors and the Senior Management. For details regarding the remuneration of Senior Management see below (section H.6.2. "Senior Management"). The members of the Board of Directors are reimbursed for expenses incurred through their attendances of Board meetings.

Yves Wagner, Dieter H. Ristau and Dr. Jürgen Allerkamp are party to service agreements with the Company. They receive compensation for their services as Board members and are reimbursed for their expenses on an annual basis. Such compensation consists for 2014 (net) of € 40,000 plus 10,000 shares in the Company. The compensation for the financial year 2013, was € 40,000plus 10,000 shares in the Company. The service agreements do not provide for the receipt of any benefits upon termination of such service agreements.

The total net compensation to members of the Board for the financial year 2013 was paid in 2014 and amounted to € 120,000 plus 30,000 shares in the Company. An amount of € 201,000, equaling to the aforementioned 30,000 shares with a (net) average price of € 6.70, was deducted from treasury shares. We refer to section E.11. "Equity". In addition, we provide all Board members with directors' and officers' insurance.

As of December 31, 2014, no advances or loans had been granted to members of the Board.

SENIOR MANAGEMENT

Current management remuneration comprises a fixed, a variable and a share-based component.

In the financial year 2014, the Senior Management received fixed and variable remuneration for the performance of their duties within the Group. Fixed benefits in kind mainly comprise the provision of company cars and double-homestead allowance. The variable component includes annually recurring components linked to the success of the Company. The remuneration splits up as follows:

€ million	2013	2014
Board of Directors		
Net compensation	0.1	0.1
Shares in the company	0.2	0.2
Board of Directors total	**0.3**	**0.3**
Senior Management		
Basic remuneration	1.1	1.3
Fixed benefits in kind	0.1	0.1
Subtotal fixed remuneration	**1.2**	**1.4**
Annual bonus	1.3	1.5
Subtotal fixed remuneration + annual bonus	**2.5**	**2.9**
Non-cash expenses for share-based remuneration	6.3	5.2
Senior Management total	**8.8**	**8.1**
Key management personnel compensation total	**9.1**	**8.4**

In the financial year 2014, an amount of € 1,055,753, equaling to 157,575 shares with a (net) average price of € 6.70 was transferred from treasury shares as remuneration of members of the senior management. There was no such transaction in the prior year.

Furthermore, claims from former equity-settled share based remuneration plans amounting to € 3.3 million (prior year: € 5.3 million) were settled in cash in the financial year 2014.

7. EVENTS AFTER THE BALANCE SHEET DATE

On December 1, 2014, Deutsche Annington Immobilien SE, Düsseldorf ("Deustche Annington") launched a voluntary public takeover offer to the shareholders of GAGFAH S.A. to acquire all shares of GAGFAH S.A. for payment €122.52 cash amount plus five shares of Deutsche Annington Immobilien SE per 14 tendered shares of GAGFAH S.A. The acceptance period started on December 19, 2014, and ended on January 21, 2015. On January 26, 2015, Deutsche Annington announced that the takeover offer had been accepted for a total of 183,997,924 GAGFAH shares. This corresponded to approximately 85.2% of the issued share capital at that time. The acceptance period was followed by an additional acceptance period from January 27 to February 9, 2015. On February 17, 2015, Deutsche Annington announced that the takeover offer had been accepted for a total of 230,954,655] GAGFAH Shares. This corresponded to approximately [93.8]% of the issued share capital at that time.

With achievement of the acceptance level and the approval of the Federal Cartel Office, the essential conditions for the completion are fulfilled.

The formal closing of the transaction is expected for early March, 2015.

GAGFAH S.A. had issued convertible bonds with a total volume of € 375 million on May 13, 2014. On December 19, 2014, GAGFAH had notified bondholders and the capital markets about the voluntary public takeover offer by Deutsche Annington Immobilien SE to shareholders of GAGFAH S.A. This notice included, inter alia, a reference to the change-of-control clause in the terms and conditions of the convertible bonds. Following Deutsche Annington Immobilien SE's announcement of the results of the offer period on January 26, 2015, GAGFAH published a note to convertible bondholders and the capital markets on the same day. This note included, inter alia, the date for the change of control and the adjusted conversion price.

As of the relevant change-of-control date of January 21, 2015, pursuant to the convertible bonds terms and conditions, convertible bonds holders with a total of approximately €355 million nominal value (ca. 95%) had submitted a valid conditional conversion notice, leading to the creation of 28,864,657 shares (based on the adjusted conversion price of €12.3057. Hence, the total number of GAGFAH S.A. shares outstanding as of the end of January was 244,817,212, of which 459,057 were treasury shares As of February 20, the majority of the remaining convertible bonds with a nominal value of about €20 million had submitted a regular conditional conversion notice and were also redeemed in shares and based on the adjusted conversion price. At the end of February, the total number of GAGFAH S. A. shares outstanding was 246,166,178, of which 199,017 were treasury shares.

The Company's Articles of incorporation have been changed correspondingly on January 28, 2015 and February 6, 2015.

Further events after the Balance Sheet Date with material significance for GAGFAH GROUP are not known to us.

OTHER

LIST OF SHAREHOLDINGS

FORMATIONS IN THE FINANCIAL YEAR 2014

Fully consolidated subsidiaries

Parent company	Subsidiary	Date of formation	Date of entry into the commercial register
GAGFAH Holding GmbH	GAGFAH WEG Service GmbH	March 27, 2014	July 3, 2014
GAGFAH Holding GmbH	GAGFAH Asset Management GmbH	July 15, 2014	December 16, 2014
GAGFAH Holding GmbH	GAGFAH Property Management GmbH	July 15, 2014	November 3, 2014
GAGFAH Holding GmbH	GAGFAH Zweite Grundbesitz GmbH	July 30, 2014	October 7, 2014
GAGFAH Holding GmbH	GAGFAH Dritte Grundbesitz GmbH	October 15, 2014	November 6, 2014

DECONSOLIDATIONS IN THE FINANCIAL YEAR 2014

Parent company	Subsidiary	Date of liquidation	Date of deconsolidation
GAGFAH I Invest GmbH & Co. KG	Haus- und Boden-Fonds 6	December 31, 2013[1)]	March 31, 2014
GAGFAH I Invest GmbH & Co. KG	Haus- und Boden-Fonds 9	December 31, 2013[1)]	March 31, 2014
GAGFAH I Invest GmbH & Co. KG	Haus- und Boden-Fonds 11	December 31, 2013[1)]	March 31, 2014
GAGFAH I Invest GmbH & Co. KG	Haus- und Boden-Fonds 12	December 31, 2013[1)]	March 31, 2014
GAGFAH I Invest GmbH & Co. KG	Haus- und Boden-Fonds 14	July 31, 2014	August 31, 2014
GAGFAH I Invest GmbH & Co. KG	Haus- und Boden-Fonds 15	December 31, 2013[1)]	March 31, 2014
GAGFAH I Invest GmbH & Co. KG	Haus- und Boden-Fonds 18	December 31, 2013[1)]	March 31, 2014
GAGFAH I Invest GmbH & Co. KG	Haus- und Boden-Fonds 21	December 31, 2013[1)]	March 31, 2014
GAGFAH I Invest GmbH & Co. KG	Haus- und Boden-Fonds 23	July 31, 2014	August 31, 2014
GAGFAH Who Invest GmbH & Co. KG	Haus- und Boden-Fonds 29	January 31, 2014	March 31, 2014

1) The payment of the liquidation surpluses took not place before February and March 2014, therefore the deconsolidation could not take place earlier.

MERGER BY WAY OF ACCRETION IN THE FINANCIAL YEAR 2014

Parent company	Subsidiary	Date of merger by way of accretion
Osnabrücker Wohnungsbau GmbH	OWG Asset GmbH & Co. KG	April 2, 2014
Osnabrücker Wohnungsbau GmbH	OWG Beteiligungs GmbH	May 22, 2014
VHB Facility Management GmbH	Grünflächen-Service GmbH (GSG)	July 28, 2014

LIST OF SHAREHOLDINGS AS OF DECEMBER 31, 2014

Fully consolidated subsidiaries

	Company name	Registered office	Activity	Share in capital 2014	Share in capital 2013	Held by No. [1]
1	GAGFAH S.A.	Luxembourg, Luxembourg	Holding/ Staff	100.00%	100.00%	1
2	GAGFAH Holding GmbH	Essen, Germany	Holding/ Staff	94.80%	94.80%	2
3	KALIRA Grundstücks-Verwaltungsgesellschaft mbH	Gruenwald, Germany	Holding/ Staff	94.90%	94.90%	2
4	KALIRA Grundstücksgesellschaft mbH & Co. KG	Gruenwald, Germany	Holding/ Staff	100.00%	100.00%	2
5	GAGFAH Verwaltung GmbH	Essen, Germany	Holding/ Staff	100.00%	100.00%	24
6	DW Management GmbH	Essen, Germany	Facility Management	100.00%	100.00%	1
7	GAG ACQ Ireland Limited	Clonee, Ireland	Holding/ Staff	0.00%	0.00%	n/a
8	UC ACQ Ireland Limited	Clonee, Ireland	Holding/ Staff	83.00% 17.00%	83.00% 17.00%	7 8
9	GAGFAH Operations Advisor GmbH	Essen, Germany	Other	100.00%	100.00%	2
10	GAGFAH Transaktionsmanagement GmbH	Essen, Germany	Other	100.00%	–	2
11	GAGFAH WEG Service GmbH	Essen, Germany	Holding/ Staff	100.00%	–	2
12	GAGFAH Asset Management GmbH	Essen, Germany	Holding/ Staff	100.00%	–	2
13	GAGFAH Property Management GmbH	Essen, Germany	Holding/ Staff	82.48% 17.52%	82.48% 17.52%	2 8
14	GAGFAH GmbH	Essen, Germany	Holding/ Staff	94.00% 6.00%	94.00% 6.00%	16 14

1) Prior year shareholder structures are given in brackets.

LIST OF SHAREHOLDINGS AS OF DECEMBER 31, 2014
Fully consolidated subsidiaries

	Company name	Registered office	Activity	Share in capital 2014	Share in capital 2013	Held by No. [1]
15	GAGFAH M Immobilien-Management GmbH	Essen, Germany	Holding/ Staff	100.00%	100.00%	14
16	GAGFAH I Invest GmbH & Co. KG	Essen, Germany	Leasing of investment properties	51.00% 48.60%	51.00% 48.60%	4 15
17	GAGFAH B Beteiligungs GmbH	Essen, Germany	Holding/ Staff	100.00%	100.00%	15
18	GAGFAH A Asset GmbH & Co. KG	Essen, Germany	Leasing of investment properties	100.00%	100.00%	(15)13
19	GAGFAH Hausservice GmbH	Essen, Germany	Facility Manage-ment	94.99%	94.99%	15
20	Neues Schweizer Viertel Betriebs+Service GmbH & Co. KG	Berlin, Germany	Other	94.74% 5.26%	94.74% 5.26%	15 20
21	Schweizer Viertel Grundstücks GmbH	Berlin, Germany	Leasing of investment properties	100.00%	100.00%	(15)2
22	IVS Immobilienversicherungsservice GmbH	Muelheim an der Ruhr, Germany	Other	94.90% 5.10%	94.90% 5.10%	15 4
23	HaBeGe Bau- und Projektentwicklungsgesellschaft mbH	Essen, Germany	Other	100.00%	100.00%	(19)2
24	GAGFAH Facility Management GmbH	Essen, Germany	Facility Manage-ment	74.20%	74.20%	16
25	Haus- und Boden-Fonds 19	Essen, Germany	Leasing of investment properties	57.10%	57.10%	16
26	Haus- und Boden-Fonds 33	Essen, Germany	Leasing of investment properties	47.97%	47.97%	16
27	Haus- und Boden-Fonds 37	Essen, Germany	Leasing of investment properties	54.15%	54.15%	16
28	Haus- und Boden-Fonds 38	Essen, Germany	Leasing of investment properties	0.00%	0,00%	n/a
29	GERMAN RESIDENTIAL FUNDING 2013-1 LIMITED	Dublin, Ireland	Financing	94.80% 5.20%	94.80% 5.20%	2 1

1) Prior year shareholder structures are given in brackets.

LIST OF SHAREHOLDINGS AS OF DECEMBER 31, 2014
Fully consolidated subsidiaries

	Company name	Registered office	Activity	Share in capital 2014	Share in capital 2013	Held by No. [1]
30	NILEG Immobilien Holding GmbH	Hanover, Germany	Holding/ Staff	100.00%		
31	NILEG Real Estate GmbH	Hanover, Germany	Holding/ Staff	94.81% 5.19%	94.81% 5.19%	30 4
32	NILEG Real Estate GmbH & Co. Management KG	Hanover, Germany	Holding/ Staff	94.90% 5.10%	94.90% 5.10%	30 4
33	NILEG Norddeutsche Immobiliengesellschaft mbH	Hanover, Germany	Holding/ Staff	94.86% 5.14%	94.86% 5.14%	30 32
34	GAGFAH S Service GmbH	Essen, Germany	Other	100.00%	100.00%	(30)13
35	Osnabrücker Wohnungsbaugesellschaft mit beschränkter Haftung	Osnabruck, Germany	Holding/ Staff	94.09% 5.91%	94.09% 5.91%	30 4
36	NILEG Norddeutsche Beteiligungs GmbH	Hanover, Germany	Holding/ Staff	100.00%	100.00%	33
37	NILEG Commercial Asset GmbH & Co. KG	Hanover, Germany	Leasing of investment properties	100.00%	100.00%	33
38	NILEG Residential Asset GmbH & Co. KG	Hanover, Germany	Leasing of investment properties	100.00%	100.00%	33
39	Wohnungsgesellschaft Norden mbH	Hanover, Germany	Holding/ Staff	94.88%	94.88%	33
40	WGNorden Beteiligungs GmbH	Hanover, Germany	Holding/ Staff	100.00%	100.00%	39
41	WGNorden Asset GmbH & Co. KG	Hanover, Germany	Leasing of investment properties	100.00%	100.00%	39
42	Wohnungsbau Niedersachsen GmbH	Hanover, Germany	Holding/ Staff	94.85%	94.85%	39
43	VHB FM GmbH	Essen, Germany	Facility Manage-ment	100.00%	100.00%	(42)19
44	WBN Beteiligungs GmbH	Hanover, Germany	Holding/ Staff	100.00%	100.00%	42
45	WBN Asset GmbH & Co. KG	Hanover, Germany	Leasing of investment properties	100.00%	100.00%	42
46	GERMAN RESIDENTIAL FUNDING 2013-2 LIMITED	Dublin, Ireland	Financing	0.00%	-	n/a

1) Prior year shareholder structures are given in brackets.

LIST OF SHAREHOLDINGS AS OF DECEMBER 31, 2014
Fully consolidated subsidiaries

	Company name	Registered office	Activity	Share in capital 2014	Share in capital 2013	Held by No. [1]
47	WOBA HOLDING GMBH	Dresden, Germany	Holding/ Staff	94.80% 5.20%	94.80% 5.20%	2 1
48	Opera Co-Acquisition GP GmbH	Dresden, Germany	Holding/ Staff	94.80%	94.80%	47
49	Opera Co-Acquisition GmbH & Co. KG	Dresden, Germany	Holding/ Staff	94.90%	94.90%	47
50	WOBA DRESDEN GMBH	Dresden, Germany	Holding/ Staff	100.00%	100.00%	47
51	Immo Service Dresden GmbH	Dresden, Germany	Facility Manage-ment	100.00%	100.00%	50
52	GAGFAH Facility Management Dresden GmbH	Dresden, Germany	Facility Manage-ment	100.00%	100.00%	51
53	Bau- und Siedlungsgesellschaft Dresden mbH	Dresden, Germany	Leasing of investment properties	94.73% 5.27%	94.73% 5.27%	50 49
54	Liegenschaften Weißig GmbH	Dresden, Germany	Leasing of investment properties	94.75% 5.25%	94.75% 5.25%	50 49
55	WOHNBAU NORDWEST GmbH	Dresden, Germany	Leasing of investment properties	94.90% 5.10%	94.90% 5.10%	50 49
56	SÜDOST WOBA DRESDEN GMBH	Dresden, Germany	Leasing of investment properties	94.90% 5.10%	94.90% 5.10%	50 49
57	Parkhaus Prohlis GmbH	Dresden, Germany	Other	70.00%	70.00%	56
58	12. CR Immobilien-Vermietungsgesellschaft mbH & Co. SÜDOST WOBA Striesen KG	Leipzig, Germany	Other	0.02%	0.02%	56
59	WOHNBAU NORDWEST Dienstleistungen GmbH	Dresden, Germany	Other	100.00%	100.00%	2
60	GAGFAH Acquisition 1 GmbH	Essen, Germany	Leasing of investment properties	94.80% 5.20%	94.80% 5.20%	2 1
61	GAGFAH Acquisition 2 GmbH	Essen, Germany	Leasing of investment properties	94.80% 5.20%	94.80% 5.20%	2 1

1) Prior year shareholder structures are given in brackets.

LIST OF SHAREHOLDINGS AS OF DECEMBER 31, 2014
Fully consolidated subsidiaries

	Company name	Registered office	Activity	Share in capital 2014	Share in capital 2013	Held by No. [1]
62	Griffin Flats NRW GmbH	Essen, Germany	Leasing of investment properties	94,9%	–	63
63	VITU AcquiCo I GmbH	Essen, Germany	Holding/ Staff	100%	–	2
64	GAGFAH Erste Grundbesitz GmbH	Essen, Germany	Leasing of investment properties	94.80% 5.20%	94.80% 5.20%	2 4
65	GAGFAH Zweite Grundbesitz GmbH	Essen, Germany	Leasing of investment properties	100%	100%	2
66	GAGFAH Dritte Grundbesitz GmbH	Essen, Germany	Leasing of investment properties	100%	–	2
67	GBH Acquisition GmbH	Essen, Germany	Leasing of investment properties	94.80% 5.20%	94.80% 5.20%	2 1
68	GBH Service GmbH	Heidenheim an der Brenz, Germany	Other	100.00%	100.00%	67
69	GBH Heidenheim Verwaltung GmbH	Heidenheim an der Brenz, Germany	Other	100.00%	100.00%	67

1) Prior year shareholder structures are given in brackets.

LIST OF SHAREHOLDINGS AS OF DECEMBER 31, 2014
Joint Ventures consolidated at equity

	Company name	Registered office	Activity	Share in capital 2013	Share in capital 2012	Held by No. [1]
70	Objekt Dresden GbR	Hanover, Germany	50.00%	50.00%	33	70
71	Grundstücksentwicklungsgesellschaft Oesselse “Langes Feld” GbR	Essen, Germany	50.00%	50.00%	33	71
72	Wolmirstedt GbR	Essen, Germany	50.00%	50.00%	33	72
73	Möser GbR	Essen, Germany	50.00%	50.00%	33	73

Purpose of the above listed joint ventures are all activities in connection with the development and marketing of precisely defined sites.

LIST OF SHAREHOLDINGS AS OF DECEMBER 31, 2014
Other Financial Assets of 20% or More

	Company name	Registered office	Activity	Share in capital 2013	Share in capital 2012	Held by No. [1]
74	Hannover Region Grundstücksgesellschaft Verwaltung mbH & Co. Business-Park Hannover-Nord-KG	Hanover, Germany	33.33%	1,851[1]	346[1]	33

1) As of December 31, 2013 (last available published financial statements).

FINANCIAL STATEMENT CERTIFICATION

To the best of our knowledge, we hereby confirm that, in accordance with the applicable generally accepted reporting standards, the Consolidated and Stand-alone Financial Statements reflect the true asset, financial, and earnings situation of GAGFAH S.A. and the Group and that the Directors' Report is a true and fair representation of the business development including the income and general situation of GAGFAH S.A. and the Group and that the material risks and opportunities regarding the expected development of GAGFAH S.A. and the Group have been described therein.

Gerhard Zeiler

Hendrik Jellema

Daniel Just

Dieter H. Ristau

Yves Wagner, Ph.D.

Thomas Zinnöcker

Luxembourg, February 27, 2015

REPORT OF THE REVISEUR D'ENTREPRISES AGREE

To the Shareholders of
GAGFAH S. A.
2 – 4, rue Beck
L-1222 Luxembourg

REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS

Following our appointment, we have audited the accompanying consolidated financial statements of GAGFAH S.A., which comprise the consolidated statement of financial position as at 31 December 2014, the consolidated statement of comprehensive income, the consolidated statement of cash flows and the consolidated statement of changes in equity for the year then ended, and a summary of significant accounting policies and other explanatory information.

RESPONSIBILITY OF THE BOARD OF DIRECTORS' FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The Board of Directors is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the European Union, and for such internal control the Board of Directors determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

RESPONSIBILITY OF THE RÉVISEUR D'ENTREPRISES AGRÉÉ

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing as adopted for Luxembourg by the Commission de Surveillance du Secteur Financier. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the réviseur d'entreprises agréé's judgment including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the réviseur d'entreprises agréé considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Board of Directors, as well as evaluating the overall presentation of the consolidated financial statements.

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

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of GAGFAH S.A. as of 31 December 2014, and its financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

The directors' report, which is the responsibility of the Board of Directors, is consistent with the consolidated financial statements. The accompanying Corporate Governance Statement which is the responsibility of the Board of Directors, includes the information required by the law of 19 December 2002 on the commercial and companies register and on the accounting records and annual accounts of undertakings, as amended and the description included with respect to Article 68bis paragraphs c and d of the aforementioned law and is consistent with the consolidated financial statements.

For Deloitte Audit, Cabinet de révision agréé

Jan van Delden, Réviseur d'entreprises agréé

Partner

27 February 2015

GLOSSARY

CAD 1
CAD 1 is cash available for distribution and is calculated as Adjusted FFO minus additional non-financing-related cash items not yet included in AFFO, such as amortization, EK02 payments or restructuring expenses. CAD 1 is the yardstick for defining dividend payments.

CAD 2
CAD 2 is derived from CAD 1 and accounts for financing-related cash items such as debt repayment, new debt and refinancing fees and transaction costs.

CAPEX
Work on a building or an apartment that leads to value enhancements. Capex can be capitalized and does not impact the consolidated statement of comprehensive income.

CONDO SALES PROGRAM
Sale of individual apartments (single-unit sale) to tenants or retail investors.

EBIT
Earnings before interest and taxes.

EBITDA
Earnings before interest, taxes, depreciation and amortization.

Adjusted EBITDA is the EBITDA as reported in the statement of comprehensive income adjusted for certain noncash and non-recurring items.

EBT
Earnings before taxes.

EOP
End of period.

EPRA

European Real Estate Association. Founded in 1999, EPRA is one of the real estate industry's leading organizations. Please see www.epra.com for further details.

FUNDS FROM OPERATIONS (FFO)

Recurring FFO before sales is calculated as EBITDA, adjusted for non-cash and non-recurring items.

FFO including sales is calculated as recurring FFO before sales plus gross sales proceeds and minus sales expenses and debt repaid as a consequence of those sales.

Adjusted FFO is calculated as FFO including sales adjusted by capex investments.

FFO per share figures are calculated by dividing the nominal amount by the undiluted weighted average number of shares (excluding treasury shares) for the respective period.

HB FUNDS

The HB Funds are comprised of four closed-end real estate funds. All units held in these funds are non-core and therefore not part of GAGFAH's core residential portfolio. The sale of the HB Funds assets was initiated in 2010, and out of a total of initially 7,130 units held in 20 different funds, [6,814] have already been sold as of the reporting date and [16] funds have been liquidated. The remaining [316] units are held in one HB Fund. The HB Funds are structured in the legal form of "economic fractional ownership" in which GAGFAH holds the majority of shares. GAGFAH M, one of GAGFAH S. A.'s operating subsidiaries, acts as trustee and manager of the funds.

LIKE-FOR-LIKE BASIS (L-F-L)

Residential units GAGFAH owned at both dates: as of the current reporting date and as of the comparable prior-year reporting date, irrespective of whether a unit is vacant or not.

LOAN-TO-VALUE (LTV)

The loan-to-value is calculated as the net debt (carrying amount of financial liabilities minus cash) divided by the total asset value including owner-occupied properties.

NET OPERATING INCOME (NOI)

Net operating income (also referred to as profit from the leasing of investment property) represents the excess of income from the leasing of investment property (rents and other charges to tenants) over land rent expenses and related operating expenses for the generation of rental income.

PORTFOLIO STRATEGY SALES

Portfolio strategy sales describe the sale of a larger number of units and are usually made in the context of the disposal of our regional non-core assets.

RECOVERABLE OPERATING EXPENSES

Recoverable operating expenses are expenses incurred in connection with managing our properties and can be charged back to our tenants. These expenses include public charges on the property, such as

- real estate tax
- snow removal
- water supply / sewage
- building cleaning
- drainage
- gardening
- heating
- lighting
- warm water
- chimney cleaning
- maintenance of elevators
- insurances
- street cleaning and
- garbage removal

REPAIRS AND MAINTENANCE (R&M)

The work that is done for fixing or upkeeping an apartment. R&M expenses are not capitalized.

VACANCY

A unit is considered vacant if there is no valid lease agreement in place as of the respective date.

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DISCLAIMER

FORWARD-LOOKING STATEMENTS

This Report contains statements that constitute forward-looking statements. Such forward-looking statements relate to, among other things, future commitments to acquire real estate and achievement of acquisition targets, timing of completion of acquisitions and the operating performance of our investments. Forward-looking statements are generally identifiable by use of forwardlooking terminology such as “may”, “will”, “should”, “potential”, “intend”, “expect”, “endeavor”, “seek”, “anticipate”, “estimate”, “overestimate”, “underestimate”, “believe”, “could”, “project”, “predict”, “continue”, “plan”, “forecast” or other similar words or expressions. Forward-looking statements are based on certain assumptions, discuss future expectations, describe future plans and strategies, contain projections of results from operations or of financial conditions or state other forwardlooking information. Our ability to predict results or the actual effect of future plans or strategies is limited. Although we believe that the expectations reflected in such forward-looking statements are based on reasonable assumptions, our actual results and performance may differ materially from those set forth in the forwardlooking statements. These forward-looking statements are subject to risks, uncertainties and other factors that may cause our actual results in future periods to differ materially from forecast results or stated expectations, including the risk that GAGFAH S. A. will be unable to increase rents, sell or privatize further units or further reduce management costs.

ROUNDING EFFECTS

Percentages and figures in this report may include rounding effects.

IMPRINT

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GAGFAH S. A. is a joint stock corporation organized under the laws of the Grand Duchy of Luxembourg qualifying as a securitization company under the Luxembourg Securitization Law of March 22, 2004.
The core business of GAGFAH S. A.'s operating subsidiaries is the ownership and management of a residential property portfolio located in Germany.