2012
ANNUAL REPORT

KWG
KOMMUNALE WOHNEN AG

DEVELOPING VALUE
– GROWING TOGETHER

2012
ANNUAL REPORT

THE
KWG PRINCIPLE

THE KWG PRINCIPLE

Our recipe for success: Having an eye for **hidden value** and the expertise to utilise it. We explain this approach in the chapter on the KWG principle (p. 2). In the Acquisition process (p. 6), we are focusing on properties with **upside potential**. Our Construction Management (p. 8) repairs structural deficiencies and creates **high-quality living space** for our tenants. Asset Management (p. 10) aligns the supply of housing with the **specific requirements** of regional tenantmarkets. Our Property Management (p. 12) stays in **close contact with tenants**, in order to be able to respond quickly and efficiently to their needs. This tried and tested combination is the key to our **success**.

TO OUR
SHAREHOLDERS

GROUP-
MANAGEMENT REPORT

CONSOLIDATED
FINANCIAL STATEMENTS

ADDITIONAL
INFORMATION

KWG AT A GLANCE

STATEMENT OF COMPREHENSIVE INCOME

	2012	2011	2010
Revenue in EUR million	27.9	21.7	19.8
Net basic rent in EUR million	19.8	14.8	13.3
Funds from operations (FFO) in EUR million	2.3	1.2	0.8
EBIT in EUR million	64.2	18.4	16.6
Consolidated net profit in EUR million	46.5	9.8	8.6

STATEMENT OF FINANCIAL POSITION

	31 Dec. 2012	31 Dec. 2011	31 Dec. 2010
Property assets in EUR million	428.9	226.4	188.6
Equity in EUR million	171.8	87.8	78.1
Net financial liabilities in EUR million	175.4	135.7	119.1
Total assets in EUR million	473.0	238.8	205.2
Loan-to-value (LTV) in %	57.4	59.9	63.2
Equity ratio in %	36.3	36.8	38.1

SHARE

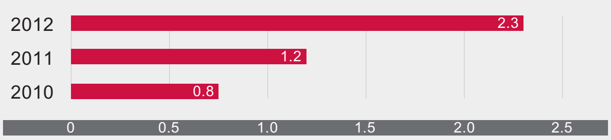
	2012	2011	2010
Share price in EUR (closing price)	6.62	5.50	5.15
Number of shares in million	15.9	10.8	10.8
Market capitalisation in EUR million	105.1	59.4	55.6
NAV per share in EUR	10.32	8.33	7.23
NNNAV per share in EUR	11.19	8.41	7.99
FFO per share in EUR	0.14	0.11	0.07

PORTFOLIO

	2012	2011	2010
Residential and commercial units	9,636	5,419	4,866
Parking spaces	2,623	1,210	1,093
Total space in m²	601,710	311,249	283,470
Vacancy rate in % (core portfolio)	1.6	2.7	6.0
Average rent in EUR per m² (core portfolio)	4.99	4.92	4.80

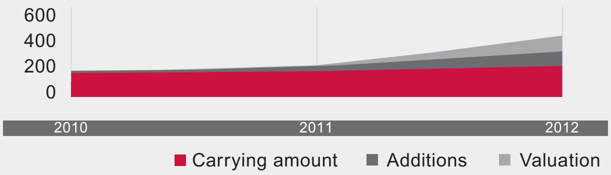
QUICK FACTS

FUNDS FROM OPERATIONS (in EUR mn.)



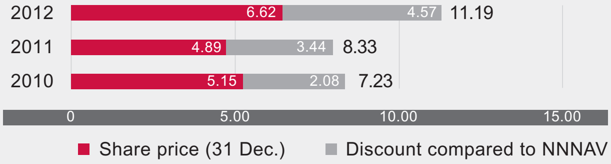
Increasing profitability
At EUR 2.3 million, funds from operations (FFO) almost doubled in the reporting period compared to the previous year.

PROPERTY ASSETS (in EUR mn.)



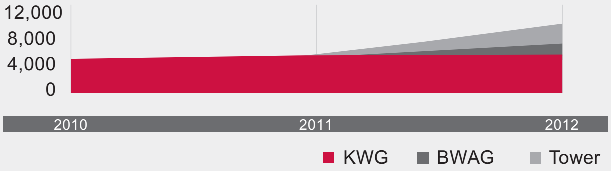
Property assets continue to grow
As a property company, KWG substantially increased its property assets to EUR 429 million.

NNNAV PER SHARE (in EUR)



Share offers attractive discount
The company's asset value increased considerably and as of 31 December 2012 it offers a 41% discount compared to the KWG share.

RESIDENTIAL AND COMMERCIAL UNITS



Property portfolio expanded significantly
KWG's property portfolio was expanded significantly to 9,636 units through the acquisition of attractive portfolios in the Company's target regions.

2012

OUR MISSION STATEMENT

DEVELOPING VALUE – GROWING TOGETHER

KWG has set itself the goal of identifying and enhancing true value. Whether we renovate a property in terms of energy efficiency, align its property management with regional requirements or bank on the potential of harnessing the local rental market – we always apply individualised approaches to the development of properties.

This not only allows KWG to become larger and more profitable every year; it also enables us to create affordable housing for the majority of the population and offer investors an attractive investment.

THE KWG PRINCIPLE

OUR PORTFOLIO

OUR PORTFOLIO REFLECTS OUR PRINCIPLE: SUCCESSFUL LONG-TERM GROWTH MUST BE ATTRACTIVELY PACKAGED FOR INVESTORS, TENANTS AND PROPERTY OWNERS IN EQUAL MEASURE.

2012

ANNUAL REPORT

Hermann-von-Vechelde-Straße, Braunschweig

9,636

UNITS AS AT 31 DEC. 2012

ACHIEVING MORE TOGETHER

As a residential property company with a long-term commitment to its assets, we aim to bring about the satisfaction of all parties. Our mission is therefore to offer our tenants and also investors attractive, long-term prospects. Satisfied tenants are the basis for our success, as only they ensure attractive returns in the long term. Successful continuous improvement of our occupancy figures and our strong business performance show that we are on the right track with this approach.

DEVELOPING VALUE STEP BY STEP

01 ACQUISITIONS

When making purchase decisions, we focus on properties with above-average upside potential. We view vacancies and structural deficiencies as opportunities because with the right strategy we can give a further substantial boost to the acquisition yield.

02 CONSTRUCTION MANAGEMENT

By employing customised renovation concepts, our Construction Management division leverages the potential of KWG's properties, raises the quality of living for our tenants and improves the buildings' energy balance. This enables us to create sustainable value and play an active role in the switch to green energy.

4

STEPS TO ACHIEVE SUSTAINABLE SUCCESS

03 ASSET MANAGEMENT

KWG's Asset Management division is the key to our profitable property portfolio. It manages all important steps taken to improve profitability, the vacancy rate and fluctuation. The success of this work can be seen in a new record low vacancy rate and an increase in the net basic rental yield.

04 PROPERTY MANAGEMENT

Thanks to the Group's own property management services provided by KWG Wohnwert GmbH with its ten regional offices, we are close to our tenants and can respond quickly and efficiently to their concerns. This has enabled us to further reduce tenant fluctuation in our property holdings.

IDENTIFYING POTENTIAL – ENSURING SUSTAINABLE RETURNS

ACQUISITIONS

9,636

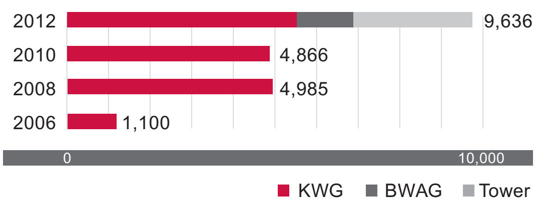
UNITS AS AT 31 DEC. 2012

01

»ACQUISITION PROVIDES THE BASIS FOR SUCCESSFUL DEVELOPMENT OF OUR PORTFOLIO. WE LOOK BEHIND THE FAÇADE AND DETERMINE THE TRUE VALUE OF THE PROPERTY.«

Christian Kaiser, Head of Acquisition

Number of units of KWG



IDENTIFYING TRUE VALUE

Structural deficiencies and maintenance backlogs often hide a property's true value. Our centralised Acquisition unit analyses properties based on both quantitative and qualitative criteria using a complex appraisal system. We are interested not only in ascertaining the status quo but, in particular, the property's prospects.

LOCATION, LOCATION, LOCATION

We focus on properties in secondary locations. Their above-average upside potential and attractive purchase prices enable us to offer our investors a high and equally secure return. Our mission is to achieve a long-term return on our investment of over 8%.

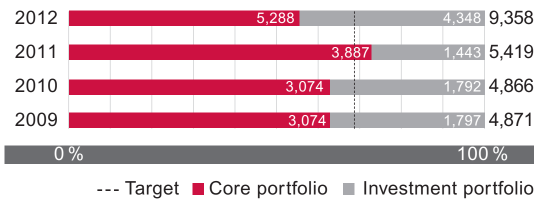
STRENGTHENING THE PORTFOLIO – DEVELOPING VALUE IN A TARGETED MANNER

02

»WE INCREASE THE VALUE OF OUR PROPERTY HOLDINGS THROUGH MODERNISATION AND RENOVATION AND CREATE HIGH-QUALITY LIVING SPACE FOR OUR TENANTS.«

Uwe Lunk, Head of Construction Management

Number of units of KWG



CONSERVING VALUE

As a residential property company with a long-term commitment to its assets, we regularly invest in the renovation and ongoing maintenance of our portfolio to ensure that our properties do not lose their appeal. Financial controlling of our portfolio ensures cost-effective and comprehensive maintenance of the portfolio in equal measure. Our aim is to safeguard the high quality of our core portfolio in a sustainable manner so as to provide our tenants with an attractive residential environment in the long term.

CREATING SOMETHING NEW

Modernisation and renovation increases the value of our properties, but also enhances the living space for our tenants. With our large-scale projects in Salzgitter and Braunschweig, we confirmed yet again that extensive renovation concepts for energy efficiency can mostly be designed without increasing total rent. This makes them attractive for tenants and investors alike.

We divide our portfolio into a core portfolio that has already been improved and an investment portfolio that still requires optimisation. The aim of Construction Management is to transfer properties from the investment portfolio to the core portfolio with modernisation and renovation work. As a result of acquiring the properties in the Tower portfolio last December, the investment portfolio now accounts for 45% of the overall portfolio. With targeted improvements to the property holdings and the streamlining of the Tower-portfolio, we hope to reduce this figure to around 30% by the end of 2014.

70%

TARGET FOR THE PROPORTION OF THE CORE PORTFOLIO

CONSTRUCTION MANAGEMENT

LEVERAGING EARNINGS POTENTIAL – REDUCING COSTS

ASSET MANAGEMENT

03

»ASSET MANAGEMENT PLANS AND CONTROLS THE MANAGEMENT OF THE PORTFOLIO. OUR GOAL IS SUSTAINBLE OPTIMISATION OF THE COSTS AND REVENUE FROM OUR PROPERTIES.«

Ivo Joachim Mokroß, Head of Asset Management

1.6%

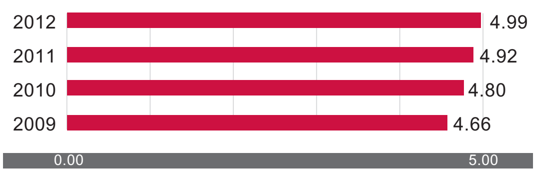
VACANCY RATE IN THE CORE PORTFOLIO


Veilchengrund, Celle

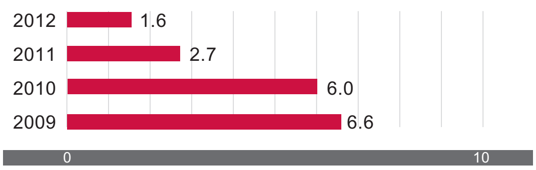
VEILCHENGRUND RESIDENTIAL COMPLEX

The Veilchengrund residential complex in Celle that was built in the 1960s was extensively renovated for energy efficiency. Due to sizeable heating savings of up to 75%, the renovation was essentially carried out without incurring an increase in total rent for tenants. In addition, the apartments now predominantly comply with the standards applicable to new buildings. The success can be seen in the occupancy figures – the complex is now almost fully let.

Development of the core portfolio (Actual rent in €/m²)



Vacancy rate in the core portfolio (in %)



MORE EFFICIENT ACTION

This past year was the most successful in the history of KWG. We profitably expanded our portfolio and significantly increased our net rental income by 31%. This motivates us to become even more efficient. We are focusing on reducing ancillary costs for our tenants and continuing to optimise the work of our property management services. In doing so, the achievement of set benchmarks is continuously monitored and adjusted.

SUCCESSFUL LETTING

What could give a better indication of the quality of our residential offering than the vacancy rate? We substantially reduced the vacancy rate of our core portfolio last year to below the 2% mark while continuously raising the number of residential and commercial units in our core portfolio. This sets a new record, especially as the average net basic rent per square metre and rental income were significantly increased.

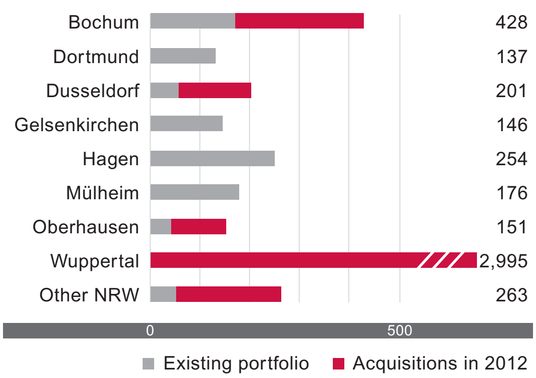
STRENGTHENING GROWTH REGIONS – LEVERAGING SYNERGIES

04

»THE PROPERTY MANAGEMENT COMPANY IS THE DIRECT LINK TO OUR TENANTS. WE ARE DIRECTLY ON THE SPOT, WHICH IS IDEAL FOR RESPONDING TO TENANTS' CONCERNS.«

Kerstin Sahr, Managing Director of KWG Wohnwert

Development of the core portfolio in NRW



CLOSE TO TENANTS

Our regional presence is the key to a successful letting policy. Only companies that know the regional tenant market and are close to tenants can provide individual, customised solutions. With the eight regional offices of our property management company KWG Wohnwert GmbH, we have focused our central property management structure on the needs of the regional tenant markets. This enables us to respond quickly and efficiently to changes.

EFFICIENT PROPERTY MANAGEMENT

Our commercial property management activities are based in Glauchau, from where KWG Wohnwert also performs receivables management in close co-operation with the regional offices. As our portfolio grows, the capacity of our property management is better utilised and thus becomes more efficient. The best example of this is our property management company in North Rhine-Westphalia, which now manages around 4,750 units following the acquisition of the BWAG units and the Tower property holdings.

470%

PORTFOLIO GROWTH IN THE NORTH RHINE-WESTPHALIA TARGET REGION

PROPERTY MANAGEMENT

FOCUSED GROWTH – GAINING ASSETS

»LONG-TERM SUCCESSFUL GROWTH IS ROOTED IN A HIGH-VALUE PORTFOLIO WITH ATTRACTIVE PROSPECTS. THIS APPROACH IS ALSO REFLECTED IN THE ACQUISITION OF AN INTEREST IN BARMER WOHNUNGSBAU AG. WE FURTHER IMPROVED THE QUALITY OF OUR PORTFOLIO AND BECAME EVEN MORE PROFITABLE.«

Torsten P. Hoffmann, Management Board

NORTH RHINE-WESTPHALIA GROWTH REGION

In March 2012, KWG acquired an equity interest in Barmer Wohnungsbau AG (BWAG) with around 1,400 apartments in Wuppertal. This transaction constituted the beginning of dynamic portfolio growth in one of Germany's most attractive tenant markets. By the end of the year, we had increased our portfolio in North Rhine-Westphalia by more than fourfold compared with 2011. This crucially strengthened our presence in the country's most populous state.

ALMOST FULL OCCUPANCY ACHIEVED

The portfolio of the acquired BWAG was extensively renovated in recent years and is in very good condition. The high quality is ultimately manifested in the vacancy rate of less than 1% as at 31 December 2012, which is considerably lower than the market level.

STRONG EARNINGS GROWTH POTENTIAL

The BWAG portfolio is already generating annual net rental income in excess of EUR 5 million. Nevertheless, rent per square metre is still substantially lower than for comparable property portfolios. With gradual, socially acceptable rent adjustments to market level, the portfolio offers above-average earnings growth potential.

Facts of the deal

BWAG owns more than 1,401 apartments with total usable space of approximately 92,000 square metres within the city of Wuppertal. The still low rents offer attractive prospects for KWG.

Units	1,401
Size	92,020m²
Parking spaces	382

1,401

NEW UNITS THROUGH THE BWAG ACQUISITION

Bornscheuerstraße, Wuppertal

18

APARTMENTS SUITABLE FOR SENIOR CITIZENS

In response to a growing demand for age-appropriate housing, a new retirement complex was built in Wuppertal on the site of the former Bornscheuerhaus. The residential building is equipped with a central elevator system, user-friendly landscaped gardens and parking spaces in the basement. The project was supported by funding from the state of North Rhine-Westphalia.

Löhrerlen, Wuppertal

EUR 7.5 MILLION

SPENT ON EXTENSIVE RENOVATION

We extensively refurbished the Löhrerlen housing complex in Wuppertal, raising the quality of living for tenants and increasing the building's energy efficiency. Around EUR 7.5 million has already been invested.

STRENGTHENING THE PORTFOLIO – INCREASING RENTAL INCOME

Dudenstraße, Berlin

608

NEW UNITS IN BERLIN

The capital of the Federal Republic is undoubtedly one of Germany's most sought-after property locations. By acquiring the Tower holdings we were able to further expand our presence in Berlin.

Häselerstraße, Wuppertal

2,302

ADDITIONAL UNITS IN NORTH RHINE-WESTPHALIA

Almost 80% of the units in the Tower portfolio are located in North Rhine-Westphalia. By expanding our portfolio in the Rhine-Ruhr Metropolitan Region, we are harnessing valuable synergy effects from the acquisition of a majority stake in Barmer Wohnungsbau AG (BWAG). Thanks to the know-how and expertise of our employees in this region, we succeeded in integrating the new holdings into our portfolio and optimising our marketing activities within a short space of time.

2,910

NEW UNITS THROUGH THE TOWER ACQUISITION

»IN DECEMBER 2012, WE SIGNED A PURCHASE AGREEMENT TO ACQUIRE AROUND 2,900 ADDITIONAL RESIDENTIAL AND COMMERCIAL UNITS. AS A RESULT, I BELIEVE THAT KWG IS WELL EQUIPPED FOR THE FUTURE BECAUSE THE PORTFOLIO HAS EXCELLENT GROWTH PROSPECTS.«

Stavros Efremidis, member of the Supervisory Board

ABOVE-AVERAGE APPRECIATION POTENTIAL

We acquired the portfolio for 9.2 times the annual net basic rent, which corresponds to a return of almost 11%. We will continue to boost net rental income through systematic reduction of the vacancy rate, further enhancing the portfolio's yield. In accordance with current planning, we anticipate annual net basic rent of around EUR 32 million for 2013, which represents an increase of more than 60%.

RENOVATION WORK ALREADY FINANCED

We will undertake extensive building and apartment renovations to reduce the vacancy rate. The financing for these refurbishments has already been secured from a Landesbank at attractive terms. We plan to begin this work in the second quarter of 2013. In Berlin we will concentrate on the renovation of individual apartments, while in North Rhine-Westphalia we are also planning to modernise buildings in terms of energy efficiency.

FOCUS ON CORE REGIONS

When making acquisitions we focus squarely on our core regions in order to leverage cost synergies in property management and to benefit from our close regional tenant network. The units in the Tower portfolio are located in our two most important growth regions: Berlin and North Rhine-Westphalia.

Facts of the deal

The acquisition of the Tower holdings with around 2,900 units is the largest acquisition in the history of the Company. KWG has kicked off a sweeping renovation programme with the goal of radically reducing the portfolio's vacancy rate in Berlin and North Rhine-Westphalia and increasing the value of the holdings.

Units	2,910m²
Size	202,539m²
Parking spaces	1,019m²

PORTFOLIO OVERVIEW

KWG'S PORTFOLIO

In 2012, we achieved our goal of expanding KWG's portfolio to just under 10,000 units. We have therefore more than doubled our property portfolio within 18 months. In the acquisition of new holdings, the focus was on the growth regions of Berlin and North Rhine-Westphalia. KWG also has property holdings in Lower Saxony, Bremen, Saxony and Thuringia.

PORTFOLIO OVERVIEW

31 Dec. 2012	Units	Parking	Size in m²	% of Total
Total portfolio	**9,636**	**2,623**	**601,710**	**100.0**
North Rhine-Westphalia, total	**4,751**	**1,652**	**324,291**	**53.9**
Dortmund	137	36	11,748	2.0
Düsseldorf	201	54	12,171	2.0
Gelsenkirchen	146	—	8,799	1.5
Mülheim	176	73	12,926	2.1
Oberhausen	151	92	11,508	1.9
Bochum	428	210	31,470	5.2
Wuppertal	2,995	878	199,774	33.2
Hagen	254	65	15,037	2.5
Other NRW	263	244	20,859	3.5
Berlin, total	**1,022**	**34**	**63,789**	**10.6**
Mitte	679	22	41,255	6.9
Neukölln	146	—	9,010	1.5
Schöneberg	46	—	3,435	0.6
Treptow-Köpenick	51	—	2,883	0.5
Other Berlin	100	12	7,206	1.2
Saxony, total	**1,868**	**533**	**99,205**	**16.5**
Hainichen	968	442	51,868	8.6
Glauchau	346	35	17,573	2.9
Chemnitz	250	56	14,937	2.5
Bernsdorf	304	—	14,828	2.5
Lower Saxony, total	**1,327**	**404**	**79,946**	**13.3**
Braunschweig	198	26	11,439	1.9
Wolfsburg	160	77	9,379	1.6
Delmenhorst	442	57	21,859	3.6
Celle	238	125	18,342	3.0
Sonstige Niedersachsen	289	119	18,927	3.1
Thuringia, total	**668**	**—**	**34,479**	**5.7**
Erfurt	347	—	17,162	2.9
Bad Langensalza	321	—	17,317	2.9

TORSTEN P. HOFFMANN
Management Board

»We took a number of important steps in the 2012 financial year:

By purchasing additional attractive properties we expanded our portfolio to now almost 10,000 units. We raised the quality of our portfolio at the same time, not only increasing rental income, but also reducing the vacancy rate and creating sustainable value from which our shareholders will benefit in the long term.

Our success shows that we are on the right track. Together with our shareholders we will continue this successful development.«

LETTER FROM THE MANAGEMENT BOARD

Dear Ladies and Gentlemen,
dear Shareholders!

The 2012 financial year was a highly successful one for KWG. Not only did we achieve excellent earnings, but we also set important milestones for our future growth. Before I go into the reasons for this encouraging trend, I would like to mention that Mr. Efremidis, who recently transferred from the Management Board to the Supervisory Board, played a key role in our record earnings. Together we will follow the same successful course as in the past.

FOCUSING SQUARELY ON VALUE PAYS DIVIDENDS

We lifted our revenue to a new record high of roughly EUR 27.9 million in the 2012 financial year. Revenue from net basic rent rose by 34% to EUR 19.8 million, increasing substantially in the course of the year. Extrapolating the rental income recorded in December 2012 alone would generate annual income from net basic rent of EUR 21.9 million. This trend will gain further momentum during the course of 2013 through the recognition of rental income from the property holdings from the Tower portfolio acquired in December 2012.

ACQUISITIONS SHOW KWG'S STRENGTH

We sustainably expanded KWG's portfolio in the 2012 reporting period with the acquisition of attractive property holdings in our growth regions. By acquiring a majority stake in Barmer Wohnungsbau AG with approximately 1,400 residential units, we increased the value of our portfolio in the first half of the year, both qualitatively and quantitatively. Shortly before the end of the financial year, with the purchase of some 2,900 units from the property holdings of the Tower Group, we acquired properties that have substantial earnings potential. This not only enabled us to achieve our goal of increasing KWG's portfolio to around 10,000 units, but also gives us a portfolio with exceptional prospects. Even more importantly, in conwert Immobilien Invest SE we gained a strong core shareholder with which we have come one step closer to our major goal of becoming one of Germany's leading residential property companies.

MAJOR SUCCESSES IN THE DEVELOPMENT OF OUR PORTFOLIO

Our success in developing our portfolio is reflected in the trend in consolidated profit, which increased almost fivefold from EUR 9.8 million to EUR 46.5 million. As at 31 December 2012, we trimmed the vacancy rate in our core portfolio to 1.6%. This is a new all-time low and is primarily attributable to the excellent work of our real estate management company. At the same time, average rent per square meter rose from EUR 4.92 to EUR 4.99, which documents that our properties are situated in stable tenant markets. This year we will concentrate on optimising the Tower portfolio. Through systematic reduction of the vacancy rate, rental adjustments in line with the market and the streamlining of the portfolio, we aim to achieve a cash inflow of over EUR 5.0 million in 2013. This goal underscores the enormous potential of the portfolio.

HEALTHY FINANCIAL STRUCTURE ALLOWS FLEXIBILITY

We strengthened KWG's financial structure and further improved our gearing. In the process, we made use of the favourable general conditions to extend existing loans at favourable conditions. We managed for the first time to remain below the 4% mark with an average nominal interest rate of 3.98%. At the same time, we kept our loan-to-value (LTV) at the healthy level of 57.4% and substantially expanded our equity base as well as total assets. This improved our financial stability, giving us a stable basis for continuing our successful development.

GOOD PROSPECTS FOR THE 2013 FINANCIAL YEAR

In the 2013 financial year we are planning to increase annual net basic rent to over EUR 30 million. We are also planning to lift our funds from operations (excluding sale) from EUR 2.3 million at present to EUR 5.0 million. The consolidation of the Tower portfolio is expected to give a further boost to our profitability.

I would like to take this opportunity to thank our dedicated, highly qualified employees who were the key to KWG's successful performance. With their hard work and the trust of our shareholders, we hope to make KWG even more successful. I am looking forward to continuing on this interesting path with you.

Sincerely,

TORSTEN P. HOFFMANN
(Member of the Management Board)

REPORT OF THE SUPERVISORY BOARD

PROF. DR. PEER WITTEN
Chairman of the Supervisory Board

Dear Shareholders!

The 2012 financial year was one of great success for KWG. Our business model paid dividends, as did focusing squarely on secondary locations. We are especially pleased to report that our portfolio was expanded through attractive acquisitions in KWG's existing target regions and our equity base was further strengthened.

WORKING WITH THE MANAGEMENT BOARD IN A SPIRIT OF TRUST AND COOPERATION

In the 2012 financial year, the Company's Supervisory Board performed its duties with due care as required by law, the Company's Articles of Association, the rules of procedure for the Supervisory Board and the German Corporate Governance Code. It regularly advised the Management Board on its management of KWG and closely monitored all related management activities. The Supervisory Board was also involved, directly and at an early stage, in all decisions material to the development of KWG.

The Management Board provided the Supervisory Board with regular, timely and comprehensive reports on corporate planning and strategy, material risks, business development and risk management. Deviations between actual and planned developments were discussed in detail. In addition, all significant transactions in the reporting period were agreed with the Supervisory Board.

Outside of the meetings of the Supervisory Board and its committees, the Chairman of the Supervisory Board and other members of this board also maintained regular contact with the Management Board to discuss issues relating to KWG's development. In the past year, these mainly related to the planned acquisitions and the capital increases that took place.

SUPERVISORY BOARD MEETINGS

At one extraordinary and four ordinary Supervisory Board meetings held in the course of the financial year, the Supervisory Board discussed the Company's business development, individual major business transactions and measures that required the Management Board's approval. At the individual meetings, the Supervisory Board approved the transactions submitted for its approval where necessary following an in-depth examination and detailed discussion in each case. Three resolutions were also passed by written circular on the basis of extensive information material and prior detailed deliberations.

In 2012, all Supervisory Board members attended more than half of the Supervisory Board meetings. One member of the Supervisory Board was unable to attend one of the ordinary meetings. Another member was unable to attend one ordinary Supervisory Board meeting and the extraordinary Supervisory Board meeting on 7 November 2012.

The Supervisory Board's work in the 2012 financial year focused on business planning and strategy, the planning and execution of transactions, the development of the Company's portfolio and the capitalisation measures implemented by the Company. The Supervisory Board also regularly discussed in depth the Group's business development as well as its financial and cash situation. The review and refinement of KWG's internal control and risk management system were a further focus of the Supervisory Board's work.

At the meeting on **17 January 2012**, the Supervisory Board mainly discussed the budget for 2012 and the status of the acquisition of Barmer Wohnungsbau AG. The Supervisory Board also received detailed reports on the refinement of KWG's database-supported risk management system.

At its meeting on **15 April 2012**, the Supervisory Board primarily concerned itself with the auditor's report on the 2011 annual financial statements as well as the planned acquisition of the Tower portfolio. Another topic on the agenda was the integration of Barmer Wohnungsbau AG. Torsten P. Hoffmann was appointed to the Company's Management Board for three more years.

The main purpose of the meeting on **31 July 2012** was to discuss the planned refinancing of existing loan agreements as well as expected synergies from the integration of Barmer Wohnungsbau AG.

The Supervisory Board meeting on **16 October 2012** focused on a detailed Management Board report on the planned acquisition of the Tower portfolio as well as the reappointment of Stavros Efremidis to the Management Board from 1 February 2013 to 31 January 2018.

At its extraordinary meeting on **07 November 2012**, the Supervisory Board discussed the acquisition of the Tower portfolio at length before approving the planned acquisition. The purchase agreements for the around 2,900 units were signed by the Management Board in December 2012.

The three Supervisory Board resolutions passed by written circular concerned the approval of the Company's cash and non-cash capital increases as well as the agenda for the Annual General Meeting on 31 July 2012.

EFFICIENT WORK OF THE SUPERVISORY BOARD

In order to perform its duties efficiently, the Supervisory Board maintains a Personnel Committee that deals primarily with matters concerning the Management Board. The Supervisory Board Chairman and Deputy Chairman constitute this Committee, which only has an advisory function. As there was no change in the Supervisory Board and Management Board committees in 2012, the Personnel Committee concerned itself exclusively with the reappointment of Stavros Efremidis as the Chairman of the Management Board, the appointment of Torsten P. Hoffmann as a member of the Management Board, as well as the variable compensation of the Management Board for 2011.

CORPORATE GOVERNANCE STANDARDS REFINED

The Management Board and Supervisory Board discussed in detail the requirements of the German Corporate Governance Code as applicable in the reporting period and the implementation of these requirements. They made their updated joint declaration of compliance with the German Corporate Governance Code in accordance with Section 161 German Stock Corporation Act permanently available to the public on the Company's Web site. The declaration of compliance can be viewed at www.kwg-ag.de under "Investor Relations" and "Corporate Governance".

CHANGES IN THE SUPERVISORY BOARD IN 2013

In connection with the acquisition of a controlling interest by conwert Immobilien Invest SE, Messrs. Franz-Josef Gesinn, Thies-Martin Brandt, Björn Engholm, Hans-Michael Porwoll and Patrik Zeigherman retired from the Supervisory Board by mutual agreement. The Chairman of the Supervisory Board thanks these gentlemen for their positive collaboration and their work for the Company.

The Local Court appointed Johannes Meran, Chairman of the Administrative Board of conwert Immobilien Invest SE, and Stavros Efremidis, Executive Director of conwert Immobilien Invest SE, as new Supervisory Board members. Prof. Dr. Peer Witten remains the Supervisory Board Chairman.

AUDIT OF THE ANNUAL AND CONSOLIDATED FINANCIAL STATEMENTS DISCUSSED

The Hamburg branch of FIDES Treuhand GmbH & Co. KG, Wirtschaftsprüfungsgesellschaft Steuerberatungsgesellschaft, which had been appointed as the Company's auditor by the Annual General Meeting on 31 July 2012 and was engaged by the Supervisory Board, audited the annual financial statements of KWG Kommunale Wohnen AG as at 31 December 2012, which were prepared by the Management Board, as well as the consolidated financial statements together with the management reports for the Company and the Group, and issued unqualified audit opinions for them.

The annual financial statements of KWG Kommunale Wohnen AG, the consolidated financial statements, the management reports for KWG Kommunale Wohnen AG and the Group, and the auditors' reports were distributed to all members of the Supervisory Board immediately after their preparation. The auditor attended the Supervisory Board meeting on 18 April 2013, at which he reported on the main findings of his audit and was available to answer questions and provide supplementary information to the members of the Supervisory Board. The Supervisory Board examined the annual financial statements, the management report, the consolidated financial statements, the Group management report, the proposal on the appropriation of retained earnings and the auditors' reports with due care. No objections were raised. The Supervisory Board then approved the annual and consolidated financial statements for the year ended 31 December 2012, which were prepared by the Management Board. The annual financial statements are therefore adopted.

Hamburg, April 2013

On behalf of the Supervisory Board

PROF. DR. PEER WITTEN
(Chairman of the Supervisory Board)

KWG SHARE

KWG SHARE SHOWS STRONG PERFORMANCE

KWG's share posted gains of around 37% in the 2012 financial year in a bull market. At the same time, the shareholder structure was strengthened with the entrance of conwert Immobilien Invest SE as a new core shareholder, the liquidity of the share increased further and the market capitalisation more than doubled to EUR 105.1 million. As a result, KWG's share developed very favourably in the 2012 financial year.

PROPERTY SHARES BENEFIT FROM MARKET VOLATILITY

At the beginning of 2012, the global economy appeared to have recovered from the European sovereign debt crisis and began to regain momentum. Yet, by April, the focus of the international equity markets had turned back to the euro. The uncertain outcome of the Greek parliamentary elections and concerns about the Spanish banking sector rattled market participants and dragged down share prices. The commitment of the European Central Bank (ECB) and individual Member States to the single currency had a positive effect. In this environment the global benchmark indices continued to rally.

Capital markets performed very well in 2012.

The DAX gained 29% in the course of the year to 7,612 points. Its development was nevertheless marked by considerable volatility, which reached a climax in June over concerns about the aid for Spain and Cyprus from the Euro Rescue Fund. The shaky market and meagre yields on government bonds prompted a flight to tangible assets, primarily real estate equities, which performed extraordinarily well in the reporting period.

KWG'S SHARE OUTPERFORMS BENCHMARK INDEX PROPERTY

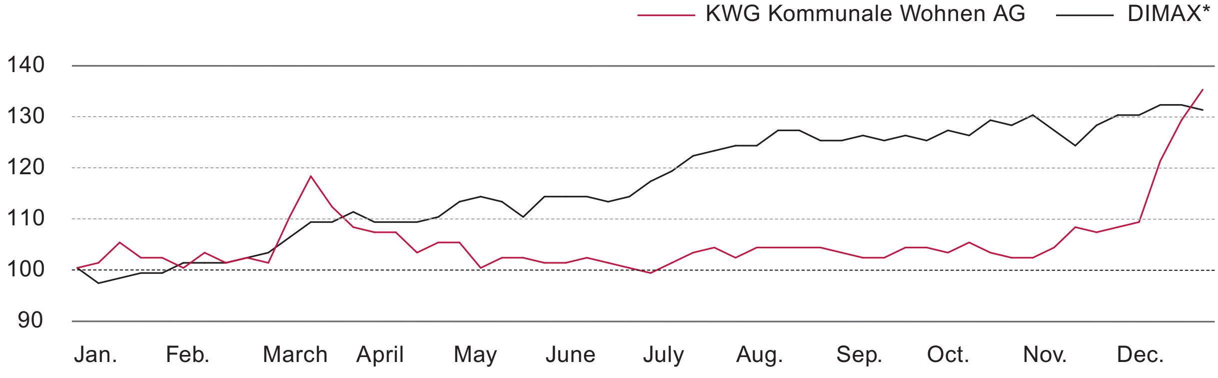
37%

KWG's share records above-average growth.

Property indices developed just as positively. The stock index for German property companies (DIMAX) created by Ellwanger & Geiger closed 2012 at 308.75 points. This corresponds to an increase of 32.5% since the beginning of the year. All the same, KWG's share outperformed the benchmark index, climbing 37.7% in the course of the year.

At the beginning of the year, KWG's share was developing virtually in parallel to the DIMAX. The announcement about the successful placement of a capital increase on 15 March pushed the share up to a preliminary high for the year of EUR 5.61 on the same date. KWG's share was unable to maintain this level in the months that followed despite strong operations, falling to its annual low of EUR 4.71 on 5 June. A turnaround became apparent with the Company's participation in capital market conferences and the report of record earnings as at 30 September 2012. The announcements about the signing of purchase agreements for the Tower portfolio and the equity interest acquired by conwert pushed KWG's share up to its high for the year of EUR 7.15 on 21 December. In the end-of-year rally, the stock outperformed the DIMAX, closing at EUR 6.62, an increase of 37.7% over the course of the year.

PERFORMANCE OF THE KWG SHARE IN 2012 (XETRA, indexed)



*German property share index, Bankhaus Ellwanger & Geiger KG

Market capitalisation exceeds EUR 100 million for the first time

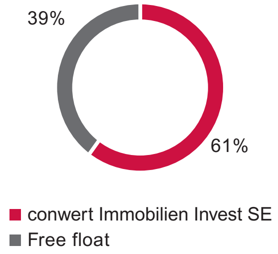
RISING MARKET CAPITALISATION AND TRADING VOLUMES

KWG's market capitalisation more than doubled on the strength of the price gains and the capital increases implemented, climbing from EUR 52.8 million in 2011 to EUR 105.1 million. The trading volume of KWG's share was similarly dynamic. The stock's liquidity increased twofold year-on-year to around 18,000 shares per day. Trading was especially buoyant in the month of December with an average daily trading volume of 35,000 shares. This shows that KWG substantially increased its visibility with the announcements about the acquisition of around 2,900 units and conwert's majority interest. Accordingly, the liquidity of KWG's share continued its uptrend in the initial months of 2013.

NEW CORE SHAREHOLDER: CONWERT IMMOBILIEN INVEST SE

conwert Immobilien Invest SE (conwert), which is quoted on the Austrian ATX, announced on 6 March 2013 that it had increased its stake in KWG Kommunale Wohnen AG, whose shares are listed in the Entry Standard of the Frankfurt/Main Stock Exchange, to a total of 75.7%. In December 2012, conwert had already acquired a controlling interest in KWG of around 60%.

Shareholder structure as at 31 December 2012



The Management Board of KWG has taken note of the change in the Company's shareholder structure and welcomes the involvement of this new, strong shareholder as a strategic partner with the aim of forming a group of leading real estate companies, especially in Germany. In the interests of the Company and KWG's shareholders, KWG's Management Board expects the Company's association with the conwert Group to strengthen its capacity to finance itself and make acquisitions in addition to anticipated synergies at operating level, among other things.

ANALYSTS RAISE UPSIDE TARGETS

KWG's share was covered in the reporting period by analysts from Close Brothers Seydler, SRC Research and Silvia Quandt. The published upside targets at the end of 2012 were between EUR 8.00 and EUR 8.30. All of the research reports recommended "buy". On 10 January 2013, SRC Research raised its upside target to EUR 8.50 on the basis of the encouraging development of operations and the expected positive effects of conwert's investment. The following table provides an overview of the most recent rating assessments:

Bank/Firm	Analyst	Recommen-dation	Upside target in EUR	Last updated
SRC Research	Denis Kuhn	Buy	8.50	21 March 2013
Close Brothers Seydler	Manuel Martin	Buy	8.30	20 March 2013
Silvia Quandt	Ralf Grönemeyer	Buy	8.00	12 June 2012

26%

Discount of the share price compared to the asset value (NNNAV)

The Company's triple net asset value (NNNAV) as at 31 December 2012 was EUR 11.19 per share. This shows that the share's closing price for the year is discounted at around 26% (previous year: 42%).

CAPITAL INCREASE PAVES THE WAY FOR PORTFOLIO GROWTH

In April, KWG successfully completed its capital increase from authorised capital, placing all shares with investors. The issue of a total of 3,576,505 new shares at a price of EUR 5.25 per share generated gross proceeds of around EUR 18.8 million for the Company. The new shares that had not been acquired as part of the subscription offer were subsequently placed with institutional investors in a private placement at the subscription price of EUR 5.25 per share.

The issue proceeds from the capital increase enabled KWG to significantly expand its portfolio in the course of the year to roughly 9,700 units through its equity investment in Barmer Wohnungsbau AG (BWAG) and the additional purchase of around 2,900 units. The Company has therefore more than doubled its portfolio within 18 months.

CLEAR VOTE AT GENERAL MEETINGS

KWG held two General Meetings in 2012, on 31 July and on 18 December. The Company's proposals for resolution were passed almost unanimously at both meetings. This shows shareholders' extremely positive attitude to the continuation of KWG's expansion and growth strategy.

37.7%

SHARE PRICE GAIN IN 2012

COMMUNICATION WITH THE CAPITAL MARKETS STEPPED UP

KWG's Investor Relations team closely assisted shareholders, analysts and interested capital market participants again in 2012. The Company's investor relations work focuses on an objective, fair assessment of KWG's share, for which we rely on regular, transparent reporting as well as clarification of our market potential and strategy. Only open, honest communication creates acceptance and long-term trust.

KEY KWG DATA

(Last updated: 31 Dec. 2012)

ISIN	DE0005227342
German securities identification number	522734
Numbers of shares	15,881,234
Share capital	15,881,234 EUR
Free Float	39%
Stock exchange segment	Entry Standard
Designated Sponsor	Silvia Quandt & Cie. AG
Research	SRC Research, Close Brothers Seydler, Silvia Quandt

In addition to a large number of one-on-one discussions and telephone calls with investors and analysts, KWG attended the SRC Conference, Zurich Capital Markets Conference and the Equity Forum last year. The Management Board also carried out road shows in Germany, England, Austria, Switzerland and Belgium. In October 2012, KWG had a stand at the EXPO REAL, holding numerous discussions with market participants at the three-day trade show. KWG also organised property tours of its holdings in Lower Saxony, North Rhine-Westphalia and Berlin to impress investors with the quality of its portfolio.

We will continue to conduct intensive dialogue with our shareholders in the future. You can find more information on our Web site at www.kwg-ag.de under Investor Relations.

MILESTONES

ACQUISITION OF A MAJORITY INTEREST IN BARMER WOHNUNGSBAU AG

KWG acquired a majority interest in Barmer Wohnungsbau AG (BWAG). BWAG owns more than 1,401 residential and commercial units with a total space of approximately 92,020 square metres within the city of Wuppertal.

The portfolio has been thoroughly renovated in recent years. Since the acquisition, the average net basic rent per square metre has increased by around 8% to EUR 4.71. Nonetheless, the vacancy rate has remained stable, at under 1% at the end of 2012. As things stand today, the investment decisions were therefore a complete success as the properties acquired are developing much better than projected.

Löhrerlen, Wuppertal

SUCCESSFUL PLACEMENT OF A CAPITAL INCREASE

KWG announced on 5 April that it had successfully completed its capital increase from authorised capital, placing all shares with investors. The issue of a total of 3,576,505 new shares at a subscription price of EUR 5.25 generated gross proceeds of around EUR 18.8 million for KWG.

The new shares that had not been acquired as part of the subscription offer were subsequently placed with institutional investors in a private placement at the subscription price of EUR 5.25 per share. The successful placement highlights shareholders' confidence in KWG and the Company's growth trajectory. The issue proceeds allowed KWG to continue the acquisition strategy it had initiated.

Veilchengrund, Celle

4,310

NEW UNITS THROUGH ACQUISITIONS

ACQUISITION OF A MAJORITY STAKE BY CONWERT IMMOBILIEN SE

KWG received notification on 21 December 2012 that, subject to the approval of the antitrust authorities, conwert Immobilien Invest SE (conwert) will hold a controlling interest of around 60% in KWG's share capital. On 21 January 2013, conwert announced that this approval had been granted and the interests had been acquired.

The Management Board of KWG has taken note of the change in the Company's shareholder structure and welcomes the involvement of its core shareholder as a strategic partner with the aim of forming a group of leading real estate companies, especially in Germany. In addition to delivering synergies at operating level, the Management Board of KWG expects this change to strengthen the Company's capacity to finance itself and make acquisitions.

Hohenstaufengasse, Wien

ACQUISITION OF SOME 2,900 UNITS IN OUR CORE REGIONS

Some 2,900 residential and commercial units were acquired in December 2012, including over 600 in Berlin. The portfolio was purchased for just under EUR 90 million, 9.2 times the annual net basic rent at the time of the purchase. KWG plans to lift its net rental income with corresponding renovation work and to reduce the vacancy rate.

As part of the acquisition, KWG was pledged funds of EUR 15 million for upcoming renovation work. This acquisition expands KWG's property holdings in its growth regions of Berlin and North-Rhine Westphalia.

Seestraße, Berlin

GROUP MANAGEMENT REPORT

EXTERNAL CONDITIONS

MACROECONOMIC CONDITIONS

The global economy lost momentum on a broad front in the reporting period. This slowdown in growth was mainly caused by uncertainties in the financial markets stemming from the intensification of the sovereign debt crisis in both the euro zone and the United States. Economic growth in countries across Asia also decelerated. The World Bank reported that in 2012 global gross domestic product (GDP) grew by just 2.3%. For 2013, the World Bank forecasts GDP growth of 2.4% year on year.

Economy slowed down in the euro zone in 2012

The euro zone economy continued to weaken as the year unfolded. Efforts to consolidate public budgets put a damper on economic development. However, the situation in the euro zone was exceedingly heterogeneous. In countries such as Greece, Spain, Italy and Portugal, the economic environment worsened as the year went on. Germany, on the other hand, recorded stable growth. For 2013 as a whole, the World Bank expects European GDP to stagnate.

In the euro zone, Germany showed solid performance with relatively continuous economic development throughout the year. Yet here, too, business confidence waned as the year progressed. This was especially reflected in a decline in corporate investment. Positive momentum continued to come from exports as well as increased private spending. In Germany, GDP adjusted for price and calendar effects rose by 0.9% for 2012 as a whole.

Institutes' estimates for German economic growth in 2013 range from declining development with a growth rate of +0.3% to a marked recovery of +1.3%. This spectrum highlights the extreme difficulty in making forecasts because, as the euro crisis continues, the economic situation will depend on policy decisions to an even greater degree than normal.

CONDITIONS IN THE PROPERTY SECTOR

While investment interest in European countries outside Germany retreated slightly in the reporting period, demand in the German property market rose. The housing market also benefited from this trend. According to experts from NAI Apollo, revenue from transactions with German residential properties in the 2012 financial year climbed to EUR 11.3 billion, the highest level since 2007 (EUR 14.2 billion). Compared with the previous year, this constitutes an increase of over 95%.

95%

German housing market exhibits dynamic growth in 2012

The high end-of-year result is largely attributable to five major transactions that account for around 45% of the total volume. These relate to the purchase of 25,000 residential units from DKB Immobilien AG by TAG Immobilien AG, the sale of 23,500 units from the BauBeCon portfolio (RREEF and Prelios) by Barclays Bank to Deutsche Wohnen AG, the sale of 22,000 apartments held by Speymill Deutsche Immobilien to Cerberus, the sale of 21,000 residential units owned by Landesbank Baden-

Württemberg to an institutional consortium lead-managed by Patrizia Immobilien AG and the sale of 11,400 units held by TLG Wohnen GmbH to TAG Immobilien AG.

LOWER SAXONY'S HOUSING MARKET

Lower Saxony is one of Germany's most prosperous states with gross domestic product of around EUR 225 billion. The state has just under eight million inhabitants. With unemployment standing at 6.4% on 31 December 2012, Lower Saxony was below the national average of 6.7%. Nevertheless, the effects of Germany's ageing and shrinking society are particularly apparent in this federal state. While rural regions are seeing increasingly depopulation, the number of people living in cities and towns is rising. KWG has properties in the cities of Braunschweig, Celle, Delmenhorst, Königslutter, Salzgitter and Wolfsburg. Lower Saxony's portfolio accounts for around 13% of KWG's overall portfolio.

KWG property portfolio in Lower Saxony

1,327	units
79,946 m²	usable space
13.3 %	share in total portfolio

Of the regions in which KWG has a presence, in 2012 Lower Saxony recorded the highest increase in quoted rents after Berlin. These rose by around 5% on average in the state of Lower Saxony to EUR 5.75/m² from EUR 5.45/m² in the previous year. Braunschweig, where around 15% of KWG's properties in Lower Saxony were located as at 31 December 2012, saw the most substantial increase. Here, rents rose by around 10% to EUR 6.35/m² compared with the previous year (EUR 5.75/m²). KWG's other locations in Lower Saxony, particularly Wolfsburg and Celle, have also been growing at a consistently healthy rate for years.

BERLIN'S HOUSING MARKET

As the capital city and place of government, Berlin holds an important position in Germany's housing market. Berlin's 3.5 million inhabitants make it Europe's fifth-largest city. Even though rent prices in Berlin are still lower than in other German metropolitan regions, Berlin is swiftly catching up. Berlin's housing market witnessed dynamic growth in the reporting period in particular, with the influx of people driving up the number of new rental contracts. Around 10.6% of KWG's portfolio or approximately 1,000 units can be found in Berlin. Here, the Company's footprint was strengthened markedly through additional purchases in the reporting period.

KWG property portfolio in Berlin

1,022	units
63,789 m²	usable space
10.6 %	share in total portfolio

Berlin's housing market is heading towards a supply problem. This is also manifested by the fact that quoted rents in Berlin increased by 8.1% in the reporting period to reach an average of EUR 7.60/m². However, this trend varies considerably from one district to another. While rents in the highly sought-after quarters of downtown Berlin moved between EUR 8.00 and EUR 11.00/m², prices for new rentals on the edge of the city with prefabricated buildings and large housing estates were between EUR 5.00 and EUR 7.50/m². Given the forecast increase in the population by around 250,000 people up to 2030, this growth is likely to continue.

KWG property portfolio in North Rhine-Westphalia

4,751	units
324,291 m²	usable space
53.9 %	share in total portfolio

KWG property portfolio in Saxony

1,868	units
99,205 m²	usable space
16.5 %	share in total portfolio

NORTH RHINE-WESTPHALIA'S HOUSING MARKET

North Rhine-Westphalia is Germany's most populated state with around 17.8 million inhabitants and the fourth-largest state measured by area, extending over approximately 34,080 km². The Rhine-Ruhr conurbation at the heart of North-Rhine Westphalia is one of the world's largest metropolitan regions with some 11 million residents. KWG's portfolio in North Rhine-Westphalia accounts for over half of the Company's overall portfolio and was significantly strengthened in the reporting period through acquisitions. All of KWG's properties in North Rhine-Westphalia are located in the populous Rhine-Ruhr agglomeration.

Average quoted rents in North Rhine-Westphalia edged up around 3% year on year to EUR 6.05/m² in the reporting period. This means that, after Berlin, KWG's target region of North Rhine-Westphalia has the highest average rent of all the regions in which the Company has a presence. One-third of KWG's properties in North-Rhine Westphalia are located in Wuppertal. Property prices followed the national trend, increasing by approximately 2% year on year in 2012. At EUR 5.50/m², up from EUR 5.40/m² in 2011, quoted rents in the reporting period were still significantly lower than the national average, which means that there is significant potential for catching up. All the same, the city is considered to have favourable growth prospects.

SAXONY'S HOUSING MARKET

Saxony has around 4.1 million inhabitants living in an area of some 18,400 m². The state's unemployment rate at the end of the reporting period was 9.4%, significantly higher than the national average of 6.7%. All the same, an encouraging trend could be seen in the economically and infrastructurally significant "Saxon triangle", which designates the industrial conurbation between the cities of Chemnitz, Dresden and Leipzig. The properties KWG owns in Saxony are located in this region and accounted for around 16.5% of KWG's overall portfolio as at 31 December 2012.

In spite of the still higher-than-average jobless rate, quoted rents in Saxony increased by an average of 2% in the reporting period to EUR 4.95/m² on 31 December 2012. The tenant market in Chemnitz, where roughly 13% of KWG's properties were situated at the end of the 2012 reporting period, mirrored this trend. Here, quoted rents for new lets likewise rose by 2% for the second year in a row. Real estate experts believe that the housing market in Chemnitz, one of Saxony's most attractive property locations, has good prospects for growth.

THURINGIA'S HOUSING MARKET

With a population of around 2.2 million and spanning a total area of approximately 16,000 km², Thuringia is one of Germany's smaller federal states. In recent years, Thuringia has been increasingly able to distance itself from the comparatively sluggish economic growth of Eastern Germany and reduce its unemployment rate to below 8%. The jobless figure in October 2012, for example, was 7.8%, the lowest level since 1991.

4,751

UNITS IN THE RHEIN-RUHR CONURBATION

KWG property portfolio in the Rhein-Ruhr conurbation

668	units
34,479 m²	usable space
5.7 %	share in total portfolio

In the reporting period, this trend also benefited Thuringia's property market, in which around 6% of KWG's properties are located, in Erfurt and Bad Langensalza.

Quoted rents in Thuringia rose in the period under review by 3% on average, from EUR 5.10/m² to EUR 5.25/m². The state capital Erfurt, where 52% of KWG's properties in Thuringia were located at the end of the reporting period, is seeing particularly gratifying development. Here, quoted rents climbed 5% year on year to EUR 6.25/m² in the reporting period. In the 2010/2011 period, rents had risen by 6%. This encouraging trend was confirmed in the annual comparative study of the largest cities in Germany conducted by the New Social Market Economy Initiative, in which Erfurt ranked sixth in terms of the pace of growth.

KWG'S BUSINESS MODEL

Integrated business model to achieve sustainable success

As a company that manages property portfolios based on a long-term strategy, KWG benefits from a positive development of the German property market. The Company is specialised in the acquisition of residential properties with above-average upside potential that have not been optimally developed to date. This asset class offers stable returns, high cash flows as well as robust and inflation-proof marketability. We exploit the potential of our property portfolio through an integrated business model that combines four operating divisions: Acquisition, Construction Management, Asset Management und Property Management.

ACQUISITION	CONSTRUCTION MANAGEMENT	ASSET MANAGEMENT	PROPERTY MANAGEMENT
Selective acquisition of property with upside potential	Rehabilitation and renovation of the investment portfolio	Portfolio optimisation in terms of yield and costs	Portfolio management with regional offices
Focus on existing growth regions	Leverage upside potential through customised renovation concepts	Reduction of vacancy rates and optimisation of rental income	Commonhold management and management of apartment buildings

Page 2 – KWG principle

The KWG principle shows how properties can be developed and sustainable value can be created step by step based on this business model.

www.kwg-wohnwert.de

ACQUISITION

KWG acquires mostly portfolios whose sellers have held them for longer periods of time such that meaningful portfolio data are available. Hamburg-based Acquisition analyses properties based on both qualitative and quantitative criteria using a complex appraisal system. In particular, KWG AG acquires properties in so-called secondary and tertiary locations of large metropolitan areas because they offer higher returns, given their upside potential and attractive purchase prices.

CONSTRUCTION MANAGEMENT

Construction Management is responsible for all renovation and rehabilitation work on KWG properties. Integrating construction management activities into the Group enables us to carry out construction and ongoing maintenance work much more cost-efficiently than would be the case if both planning and construction management were outsourced. For the most part, the properties have been renovated and rented at solid levels. In these properties, Construction Management only effects structural adjustments of individual rental units. KWG reports them as part of its core portfolio. Construction Management carries out comprehensive renovation work in properties that are allocated to the investment portfolio; they are transferred to the core portfolio once the work has been completed.

ASSET MANAGEMENT

Based in Hamburg, Asset Management plans, manages and monitors all operating processes related to residential property in our portfolio. Asset Management's main function is to safeguard and maximise the capital invested in properties, thereby exploiting all appreciation potential. In doing so, Asset Management records the whole performance of the entire property cycle, on the basis of which it develops a strategy aimed at a sustainable optimisation of revenue and costs.

PROPERTY MANAGEMENT

With KWG Wohnwert GmbH the KWG Group has a decentralised, lean, modern management structure. The company has a head office in Glauchau and regional offices in all key locations where KWG AG owns properties. KWG Wohnwert GmbH thereby pursues a concept that combines efficient management with proximity to tenants. The services it offers cover both commonhold management and management of apartment buildings.

GROUP STRUCTURE AND ORGANISATION

Group headquarters in Hamburg with four operating subsidiaries

KWG Kommunale Wohnen AG is a stock corporation under German law and acts as the parent company of the KWG Group, with the following divisions: Acquisition, Construction Management, Asset Management, Investor Relations, Controlling, Finance and Human Resources/Legal/IT. The operating subsidiaries – HWG Hainichener Wohnungsgesellschaft mbH, SWG Siedlungs- und Wohnhausgesellschaft Sachsen mbH, KWG Wohnwert GmbH and Barmer Wohnungsbau AG – manage and administer the portfolio under the umbrella of KWG.

Its individual portfolios are allocated to project companies that were included in the consolidated financial statements. As at 31 December 2012, the Group had a total of 30 subsidiaries (previous year: 30). The individual investees are enumerated in the notes to these consolidated financial statements.

KWG KOMMUNALE WOHNEN AG
(Management and central units)

HWG Hainichener Wohnungs-gesellschaft mbH	SWG Siedlungs- und Wohnhaus-gesellschaft Sachsen mbH	KWG Wohnwert GmbH	Barmer Wohnungsbau AG
(Management of the portfolio in Hainichen)	(Management of the portfolio in Chemnitz and Glauchau)	(Management of the portfolio in Berlin, Bremen, Lower Saxony, Saxony and Thuriangia)	(Management of the portfolio in North Rhine-Westphalia)

PORTFOLIO MANAGEMENT AND MEASUREMENT

PORTFOLIO MANAGEMENT

Hamburg-based Asset Management is responsible for the planning, management and monitoring of all housing-related processes in the property portfolio. Investments in the maintenance and renovation of KWG's holdings are made by Construction Management, which is also based in Hamburg.

Property portfolio
Gain an overview of the portfolio in the KWG Property Book

ıe objective of portfolio management is to increase the value of the individual residential properties and achieve a long-term positive operating cash flow from letting activities. This goal was achieved in the reporting period through an encouraging trend in rents, among other things. In the fourth quarter of 2012 alone, the Company posted net rental income of approximately EUR 5.5 million, key contributory factors being the successful reduction of the vacancy rate and the leveraging of rental potential for new lets.

DEVELOPMENT OF KWG'S PROPERTY PORTFOLIO

KWG's portfolio can be divided into a modernised core portfolio and an investment portfolio that still requires renovation. Once this work has been completed, the properties are transferred to the core portfolio.

CORE PORTFOLIO

1.6%

vacancy rate in the core portfolio as at 31 December 2012

KWG's core portfolio grew by 33% year on year to 5,288 units. This meant that just under 55% of all of KWG's properties were in the core portfolio as at 31 December 2012. The properties in the core portfolio are spread across the states of Berlin, Bremen, Lower Saxony, North Rhine-Westphalia, Saxony and Thuringia. Annualised net basic rent in December 2012 (i.e. net basic rent per square metre multiplied by the number of square metres and a factor of 12) was EUR 18.9 million (previous year: EUR 13.4 million). This corresponds to an increase of 41%. At the same time, the vacancy rate was reduced to an all-time low of 1.6%.

For the first time, the core portfolio includes the properties from Wuppertal-based Barmer Wohnungsbau AG (BWAG), in which KWG acquired a majority shareholding. With annual rent of around EUR 5.2 million, these make a significant contribution to the strong growth in net basic rent. For the 2013 financial year, the Management Board expects further positive effects from rent adjustments, which although introduced in the reporting period will not be reflected in revenue and cash until 2013.

City	Units	Parking spaces	Usable spaces in m²	Interest in %
Bad Langensalza	320	0	17,015	5
Berlin	414	31	24,240	7
Bernsdorf	249	0	13,072	4
Bochum	178	18	10,954	3
Braunschweig	198	26	11,440	4
Bremen	148	115	10,432	3
Celle	238	125	18,342	6
Chemnitz	250	56	14,938	5
Delmenhorst	442	57	21,859	7
Dortmund	137	36	11,748	4
Erfurt	347	0	17,162	5
Gelsenkirchen	146	0	8,799	3
Glauchau	185	35	10,617	3
Mülheim	176	73	12,926	4
Wolfsburg	160	77	9,379	3
Wuppertal	1,401	382	92,020	28
Sonstige	299	50	18,410	6
TOTAL	**5,288**	**1,081**	**323,353**	**100**

5,288

UNITS IN THE CORE PORTFOLIO

INVESTMENT PORTFOLIO

KWG's investment portfolio more or less tripled in size year-on-year to 4,348 units as at 31 December 2012, as a result of which the investment portfolio accounted for around 45% of the overall portfolio. The units in the core portfolio are spread across the states of Berlin, North Rhine-Westphalia, Saxony and Thuringia. Given the average vacancy rate of 26.9%, these holdings in KWG's portfolio have an above-average vacancy rate. Nevertheless, the Company plans to successively reduce the vacancy rate through renovation and modernisation activities as well as by reorganising the sales channels.

2,905

units in the investment portfolio after acquisitions

The acquisition of some 2,900 units at the end of 2012 had a major impact on the development of the investment portfolio. The units from the former Tower portfolio were bought in insolvency proceedings and, in some cases, were accordingly in need of repair. Within the scope of the transaction, KWG therefore secured outside capital of EUR 15.0 million to renovate the holdings. This work is expected to begin in the first half of 2013. Once the renovation has been completed, these units will be transferred to KWG's core portfolio.

In line with its portfolio strategy, KWG plans to sell some of the units. Cash freed up through partial sales will be invested in the expansion and optimisation of the remaining portfolio so as to further boost KWG's profitability.

City	Units	Parking spaces	Usable spaces m^2
Berlin	608	3	39,548
Hagen	254	65	15,037
Hainichen	968	442	51,868
Wuppertal	2,301	1,032	162,919
Other	217	0	9,013
TOTAL	**4,348**	**1,542**	**278,385**

VALUATION OF INVESTMENT PROPERTY

Profitable acquisitions and a further improvement in key rent indicators led to portfolio appreciation of EUR 41.6 million. This was valued at the reporting date and confirmed in external opinions prepared by Jones Lang LaSalle and NAI Apollo.

198.3

million increase in value year on year

(in EUR million)	31 Dec. 2012	previous year
Beginning of period	226,388	188,636
Additions	158,717	29,035
Disposals	– 1,988	– 36
Net gains	41,612	9,377
Net losses	– 27	– 624
VALUE OF INVESTMENT PROPERTY AFTER VALUATION	**424,702**	**226,388**

Higher rents and a lower vacancy rate in the letting portfolio in the core regions are the main reasons behind the portfolio's appreciation. This trend confirms the sustainable increase in value and underlines the high potential of KWG's portfolio.

SUSTAINABLE BUSINESS POLICY

Sustainable action plus responsible use of existing and future resources is one of KWG's long-term, permanent goals. Against the background of the transition to renewable energy sources that has commenced and the discussion of the trend in rents, the property industry is increasingly finding itself at the focus of this debate. More then ever before, legitimate questions are being asked about social responsibility, eco-friendly use of construction materials, treatment of employees, but also the creation of added value for the Company – all under the heading of sustainability.

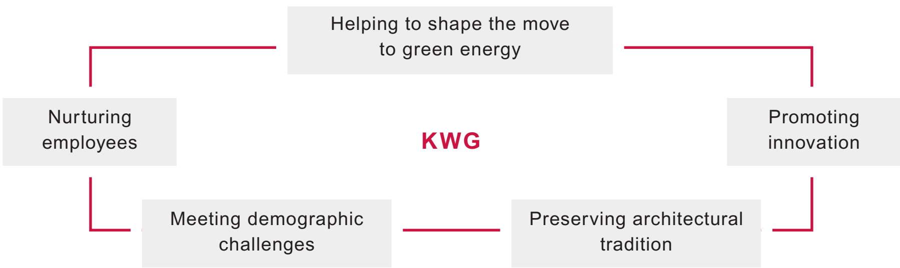
Social, ecological and cultural activities of KWG

KWG continued its ongoing commitment to social, environmental and cultural issues in the 2012 financial year. The scope and success of the measures taken is calculated in measurable quantities that are incorporated into KWG's reporting as key performance indicators (KPIs). In the process, KWG divides its involvement into five dimensions:

75%

ENERGY SAVINGS

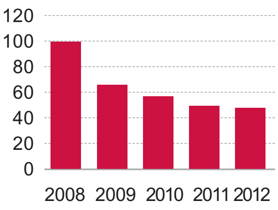
FIVE DIMENSIONS OF SUSTAINABLE BUSINESS POLICY



HELPING TO SHAPE THE MOVE TO GREEN ENERGY

Many of our buildings were constructed at a time when environmental and climate change issues were secondary concerns and energy standards barely existed. Progressive climate change and rising energy prices have brought about a shift in priorities. The building sector is playing an increasingly important role in issues such as energy efficiency and climate protection because buildings account for around 40% of the total final energy demand. Significant savings can be generated from the heat supply in particular. Consequently, the real estate business can play a key role in the transition to renewable energy sources.

Primary energy con sumption, Wolfsburg residential complex in %



As a residential property company, KWG is actively involved in this process. We achieved savings of between 40% and 75% in energy consumption by renovating buildings based on special energy concepts. This not only substantially reduced ancillary costs, but also made the properties more profitable.

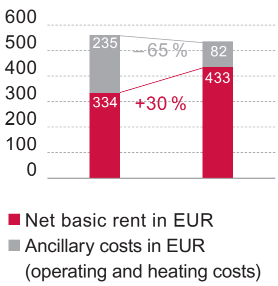
KWG is planning to step up its investments in energy-related improvements in 2013, focusing on systematic development of the holdings from the Tower portfolio taken over in December 2012. We are aiming to increase the holdings' energy efficiency so as to counter rising energy costs and further advance the change in energy policy. This goal was achieved with the renovation of the Wolfsburg residential complex for energy efficiency, amongst other projects. Extensive refurbishments generated energy savings of around 40% in the four high-rise blocks.

PROMOTING INNOVATION

After energy-saving renovation, one of the main ways in which energy efficiency can be increased is through the development of new technologies and construction materials. KWG is therefore committed to putting promising ideas into practice faster. In the Veilchengrund complex in Celle, for example, KWG installed 13 "home power plants" from Hamburg-based energy supplier LichtBlick, the first housing company to do this.

Through a local heating network, these compact power plants heat an entire residential quarter with 36 tenant-occupied houses renovated to the low-energy standard. Modernising and renovating the housing complex in terms of energy efficiency reduced its primary energy consumption by over 75%.

Development of the average total rent, "Veilchengrund"



In addition, KWG fitted the roofs of the buildings spanning a total area of around 8,800 m² with special roof tiles that by means of photocatalysis convert up to 90% of the waste gas from heating, traffic and industry into environmentally friendly nitrate, which is washed away by the rain. This corresponds to annual emissions of toxic nitrogen oxide from around 44 cars driving a total of 750,000 km.

In the future, KWG will continue to deploy forward-looking technologies provided their use offers advantages for tenants and the Company. For example, the renovation of the Veilchengrund housing complex for energy efficiency substantially reduced ancillary costs for tenants. Even after net basic rents were increased by an average of 30%, tenants still benefit from lower gross rent including heating charges.

PRESERVING ARCHITECTURAL TRADITION

KWG believes it has a duty to preserve architectural tradition. At the same time, the Company is striving to improve the energy efficiency of its buildings, especially older buildings that in some cases form part of Germany's cultural heritage. The demands that architects and urban planners place on building culture today are not incompatible with the returns expected by property investors. Indeed, in property development, meeting design quality criteria can result in a win-win situation which will both ensure successful marketing and satisfy the desire for excellence in the built environment of our towns and cities.

Listed KWG property

13 units in	Düsseldorf
146 units in	Gelsenkirchen
164 units in	Glauchau
9 units in	Hainichen
365 units in	Wuppertal

The best example of the successful implementation of this approach is the completed energy-saving renovation of the Vittinghoff complex in Gelsenkirchen, which is under a preservation order. Constructed between 1926 and 1929, this company- and cooperative-built housing project was extensively refurbished in line with the restrictions of the preservation order and, on completion of the work, meets the insulation standards stipulated by the German Energy Saving Regulation of 2009.

One of KWG's planned projects for the 2013 financial year is the energy-related modernisation of a listed housing complex in Glauchau, Saxony. The building envelope will be renovated for energy efficiency in accordance with listed property regulations with the aim of achieving kfW Efficiency House 100 standard. In addition, and in close consultation with the local conservation authorities, balconies will be built and all the building services systems, the heating systems and the roofing material will be replaced.

MEETING DEMOGRAPHIC CHALLENGES

Housing for senior citizens – i. e. houses or apartments that cater specially to the needs of older people – is becoming increasingly important on the German property market because German society is ageing rapidly. Whereas ten years ago only around 16% of Germany's population was 65 or older, according to forecasts by the Federal Statistical Office, in ten to fifteen years from now around 24% of all Germans will be over the age of 65.

Special housing offer for senior citizens

55 units in	Bernsdorf
60 units in	Hainichen
106 units in	Hagen
14 units in	Wuppertal

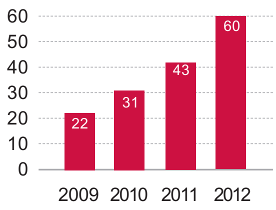
As a residential property company, KWG believes it has a responsibility to respond to demographic change and invest in housing that is suitable for senior citizens. In the reporting period, KWG had four residential projects catering specifically to the needs of elderly people at its locations in Bernsdorf, Hainichen, Hagen and Wuppertal, thus expanding its offering compared with the previous year. The most successful elderly living project is in Bornscheuerstrasse, Wuppertal, where all units were let as at 31 December 2012.

KWG is planning to further improve its offering for senior citizens in the 2013 financial year, implementing in Hainichen its assisted living (day care) concept that was successfully rolled out in Bernsdorf. Under the marketing campaign with the slogan "As much independence as possible, as much help as necessary", further innovations are envisaged that will improve the services offered for older people.

NURTURING EMPLOYEES

Employees form the basis of KWG's successful growth trajectory. For this reason, having an expert, highly motivated workforce that is determined to deliver top performance is very important for KWG. A modern-day company structure, flat hierarchies and a high level of personal responsibility facilitate rapid decision-making processes. This combination provides the cornerstone for entrepreneurial thinking and action among the Group's staff.

Average number of employees



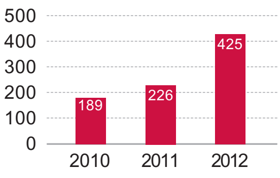
(excluding Management Board and trainees)

Excluding the Management Board, the Company had 55 employees on average in the reporting year (previous year: 43), of whom 19 (previous year: 13) were part-time staff. At the end of 2012, the KWG Group had 60 active employees (excluding employees on paternal leave and trainees) as well as two Management Board members. The Group also had two trainees as at 31 December 2012. The number of employees has steadily increased in recent years, underpinning KWG's sustained growth course.

FINANCIAL POSITION, CASH FLOWS AND FINANCIAL PERFORMANCE

FINANCIAL POSITION

Property assets of KWG in EUR million



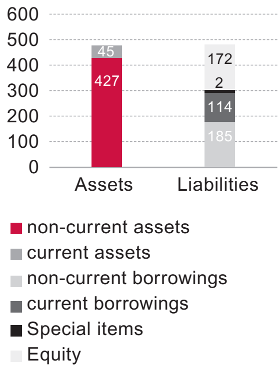
The 2012 financial year was a year of expansion for KWG. Through acquisitions and investments in the portfolio, the Company's investment property almost doubled, rising from EUR 226.4 million in the previous year to EUR 424.7 million as at 31 December 2012. On account of the planned resale of a sub-portfolio, properties held for sale in the amount of EUR 4.2 million are also carried under current assets.

Based on a purchase price receivable from the sale of the property in Schleswig and a security deposit in connection with the acquisition of the Tower portfolio at the end of 2012, other receivables and assets rose from EUR 3.1 million in 2011 to EUR 9.2 million at the reporting date. Cash rose from EUR 3.6 million in the previous year to EUR 30.3 million to guarantee the equity portion for the financing of the purchase price payment for the Tower portfolio of EUR 89.5 million that was not yet due at the reporting date.

Directly related to this is the surge in other current liabilities to EUR 93.1 million from EUR 2.8 million in the previous year, the settlement of which is guaranteed through financing arrangements already concluded by the reporting date.

Non-current financial liabilities increased from EUR 104.7 million to EUR 159.2 million in the course of the 2012 financial year on account of restructured refinancing arrangements as well as the acquisition and first-time consolidation of Barmer Wohnungsbau AG (BWAG). At the same time, current financial liabilities decreased from EUR 31.0 million to EUR 16.2 million. The deferred income items of EUR 7.3 million reported as at 31 December 2012 for the first time and the provisions for pensions of EUR 1.8 million are also directly associated with the first-time consolidation of BWAG.

Balance sheet structure as at 31 December 2012 in EUR million



On the whole, total assets rose substantially from EUR 238.8 million to EUR 473.0 million, while the equity ratio excluding the special items of deposits and premiums furnished for the implementation of the capital increase resolved remained virtually unchanged at 36.3% compared with 36.8% in the previous year. This means that KWG continues to possess a level of equity capital resources that is very comfortable for a property company.

The long-term fair value of the equity capital is confirmed by the positive trend in NNNAV (triple net asset value). NNNAV per share as at 31 December 2012 rose from EUR 8.41 to EUR 11.13 and is calculated by dividing adjusted consolidated equity before non-controlling interests (plus the special item, the reserve for market valuation and deferred tax liabilities less deferred tax assets) by the number of shares issued and still to be issued as part of the capital increase resolved.

11.13

NNNAV PER SHARE IN 2012

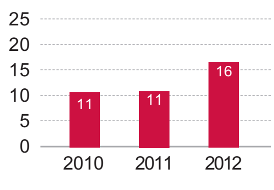
The balanced ratio of financial liabilities to property assets is also reflected in the lower LTV (loan-to-value). The LTV improved from 59.9% in the previous year to 57.4% as at 31 December 2012.

CASH FLOWS

The liquidity of KWG was assured at all times, both during the 2012 financial year and as at the reporting date. The cash of KWG as at 31 December 2012 amounted to EUR 30.3 million.

In the 2012 financial year, KWG used its authorised capital to implement two capital increases and significantly expand its property portfolio through two portfolio transactions. In spring 2012, KWG's share capital was increased by a nominal EUR 3,576,505 through a cash capital increase with a cash inflow after transaction costs of EUR 17.6 million. In summer 2012, the share capital was increased further by a nominal EUR 1,500,000 through a non-cash capital increase against the contribution of registered shares of BWAG with limited transferability.

Share capital of KWG in EUR million



The purchase of the majority shareholding in BWAG was settled in cash except for an amount of EUR 5.0 million financed with debt. The purchase price from the Tower transaction was not yet due at the 2012 reporting date, but is secured with cash deposits and contractually agreed long-term borrowings.

Together with the investments in KWG's portfolio of EUR 5.8 million and the purchase price payments for the shares in BWAG, cash flows from investing activities came to EUR – 24.1 million.

Loans of EUR 59.6 million were taken out for the long-term financing of the long-term investments in the property portfolio as well as the purchase of the shares in BWAG. In return, scheduled repayments were continuously made and supplementary loans were refinanced in the total amount of EUR 28.1 million. Taking into account the payments to equity, cash flows from financing activities totalled EUR 49.2 million in the 2012 financial year.

Cash flows from operating activities in 2012 amounted to EUR 1.7 million, reflecting the robust development of operations at KWG in the reporting period.

FINANCIAL PERFORMANCE

KWG's operations also developed positively, with funds from operations (FFO = operating result) rising from EUR 1.2 million in 2011 to EUR 2.3 million in 2012, which is also reflected in the increase in revenue of EUR 6.2 million year on year to EUR 27.9 million (2011: EUR 21.7 million). FFO is derived from consolidated net profit adjusted for non-recurring items such as the gain on the fair value measurement of the properties, the income from a lucky buy, depreciation and amortisation, expenses and income from the recognition of deferred tax assets and liabilities, as well as expenses arising from bad debts and other one-off transactions. Once again, this demonstrates the sustainability of the profitable business model KWG has chosen. The properties from the Tower portfolio acquired at the end of 2012 have not yet made a contribution to this.

Positive operations

Beyond this, the gain of EUR 41.6 million (2011: EUR 8.8 million) on the measurement of investment property resulting, among other things, from the successful refurbishments and letting as well as other operating income from the recognition through profit or loss of negative goodwill from the first-time consolidation (lucky buy) of EUR 13.1 million (2011: EUR 1.5 million) contributed EUR 56.9 million to the result from ordinary activities in 2012, up from EUR 11.9 million in the previous year.

This contrasts with a higher cost of materials (allocable operating costs from the management of the properties) of EUR 8.4 million (2011: EUR 7.0 million) stemming from the portfolio expansion as well as higher expenses from investment properties (non-allocable operating expenses from the management of the properties) of EUR 4.4 million (2011: EUR 3.4 million).

Page 73 – Notes
Cost of materials

In spite of the more favourable average interest rates for the loans in the refinancing arrangements, interest expense increased from EUR 6.4 million in 2011 to EUR 7.5 million in the reporting period on account of the additional borrowings for investments in 2012.

Due to the hiring of additional staff in connection with the expansion of the portfolio, staff costs rose to EUR 3.0 million in 2012 from EUR 2.3 million in the previous year.

The tax burden arising from regular business increased from EUR 1.5 million in 2011 to EUR 9.6 million in the 2012 financial year, primarily due to the deferred taxes charged on the measurement gains. In addition, income taxes of EUR 1.8 million resulting from the change in shareholder at KWG will rise through the elimination of deferred tax assets on tax loss carryforwards that would result due to the current legal situation. The Hamburg Financial Court has serious doubts as regards the constitutionality of the elimination of tax loss carryforwards in cases of changes in shareholders and has therefore referred this matter for decision to the Federal Constitutional Court.

EUR 46.5

MILLION – CONSOLIDATED NET PROFIT IN 2012

All in all, KWG generated consolidated earnings before taxes (EBT) of EUR 56.9 million, compared with EUR 11.9 million in the previous year. After taxes, KWG reported consolidated net profit of EUR 46.5 million, up from EUR 9.8 million in 2011.

EVENTS AFTER THE REPORTING PERIOD

conwert Immobilien Invest SE new core shareholder

conwert Immobilien Invest SE, Vienna, Austria (conwert), which is quoted on the Austrian ATX, announced on 06 March 2013 that it had increased its stake in KWG, whose shares are listed in the Entry Standard of the Frankfurt Stock Exchange, to a total of 75.7%. In December 2012, conwert had already acquired a controlling interest of around 60% in KWG subject to the approval of the antitrust authorities. On 21 January 2013, conwert notified KWG in accordance with Section 20 (1), (3) and (4) and Section 21 (1) and (2) German Stock Corporation Act that it had acquired a controlling interest in KWG. The Management Board of KWG welcomes the involvement of this new, strong core shareholder as a strategic partner with the aim of forming a group of leading real estate companies, especially in Germany.

On 19 February 2013, Stavros Efremidis declared that, as previously announced, he was stepping down from the Management Board at his own request and in consultation with the Supervisory Board and was transferring to conwert's Executive Board with effect from 20 February 2013. Since then, KWG has been managed by Torsten P. Hoffmann as the sole Management Board member. This has not changed the Company's situation from either a strategic or an operational perspective. Ongoing projects are being continued.

In agreement with the new majority shareholder, five of the six Supervisory Board members retired from office with effect from 28 February 2013. In a letter dated 7 March 2013, the Company solicited the court appointment of new Supervisory Board members.

No other material events have taken place since the reporting date.

REPORT ON RISKS AND OPPORTUNITIES

RISK MANAGEMENT AND INTERNAL CONTROL SYSTEM

Every business venture entails opportunities and risks due to uncertainties existing within and outside the Group. As part of its sustainable, future-oriented corporate policy, the Company therefore deliberately exposes itself to various risks that may have an impact on KWG's operations. The aim of KWG's risk management system (RMS) and internal control system (ICS) is to ensure that all relevant risks that have been taken are identified, recorded, analysed and assessed as well as communicated in the correct form to the competent decision-makers.

The economic benefit of the RMS lies not only in the fact that it provides transparency and ensures an early-warning function, but also in that it increases planning reliability and reduces risk costs. The RMS and ICS generally also cover processes relating to accounting and financial reporting, as well as all accounting-related risks and controls.

KWG's RMS and ICS for accounting and financial reporting processes are designed to ensure objective identification and assessment of individual risks that could impede the regulatory compliance of the consolidated financial statements. Identified risks are analysed and assessed so that their potential impact on the consolidated financial statements can be ascertained. The objective of the internal control system is to implement appropriate control mechanisms to provide adequate assurance that the consolidated financial statements prepared by KWG comply with regulatory requirements in spite of the risks identified.

Material individual risks

- Macroeconomic situation
- Property prices
- Liquidity
- Interest rate change
- IT risks
- Legal risks

Both the RMS and the ICS include all consolidated subsidiaries together with all processes of relevance for the preparation of the financial statements. The accounting-related controls are focused in particular on the risk of material misstatements in KWG's financial reporting. The assessment of materiality is based on the likelihood of occurrence as well as the financial impact on the key financial indicators.

Key elements for risk management and control in accounting and financial reporting are the clear allocation of responsibilities and controls in the preparation of financial statements, transparent requirements, appropriate access regulations in the IT systems of relevance for the financial statements, and a clear regulation of responsibilities in the involvement of external specialists. The principle of dual control and segregation of functions are other important control principles.

A database-supported risk management system is currently being established. Risk inventories have already been carried out and are currently being assessed. The implementation of the database-supported risk management system is expected to be completed in 2013.

6

MATERIAL INDIVIDUAL RISKS

RISK REPORT

The following individual risks, in particular, are closely monitored as part of the risk management process.

Macroeconomic risks, industry-specific risks and operating risks

KWG focuses on the German property market

KWG is engaged solely in the German property market. Experts believe that the economy's positive development will continue apace, though some corners of the press are already warning of a real estate bubble. A downturn on the German market could lead to stagnating or even declining market rents. What is more, a stagnating or shrinking economy may cause unemployment to rise, limiting tenants' financial means. This in turn would lead to more defaults on rent and advance payments of ancillary costs. Furthermore, it cannot be ruled out that an economic downturn as described above might have a negative effect on both achievable rental income and interest levels.

The currently high demand for properties from German and foreign investors in the German property market has pushed up prices on the whole, especially in German metropolitan regions. This requires greater care to be taken in the profitability analyses for future property acquisitions, in order to ensure continuous profitable growth.

Falling property prices

While KWG subjects residential properties on offer to intensive reviews and performs a due diligence before acquiring them, the fair values of properties in our portfolio may decline nonetheless due to outside influences. KWG counteracts this risk through proactive asset management and targeted investments in its portfolio. But the Group cannot escape global declines in property values that arise from inherent factors.

Liquidity risks

To pursue its growth strategy, KWG requires substantial additional outside capital besides its equity for both investing in its existing properties and acquiring additional portfolios of residential properties. These activities entail the risk that banks may not be able or willing to renew maturing loans. Refinancing also regularly entails one-off financing costs. In 2013, loans with a total volume of EUR 9.6 million need to be refinanced. Employees of the Group regularly monitor the risk of a potential liquidity bottleneck based on liquidity planning.

Interest rate risks/currency risks

KWG is exposed to interest rate fluctuations, especially in connection with its funding. This directly affects the Group's net interest income. In particular, interest rate risks also make themselves felt in connection with the extension of existing loans. We counteract these risks through proactive loan management by performing regular forecasts of interest rate trends. At this time, there are no foreign currency cash flows at KWG. The Group thus is not exposed to currency risks.

IT risks

There are IT risks because the majority of KWG's business processes are based on information technology. This also includes all required data privacy and protection measures. KWG protects its IT system from unauthorised access and loss of data by means of comprehensive technical precautions. In addition, the IT system is continuously reviewed and adapted to the development of the state of the art.

Legal risks

Legal risks may arise from the diverse range of statutory requirements that affect the companies of the KWG Group and, in certain circumstances, might trigger financial losses.

Risk situation as at 31 December 2012: no potential going-concern risks for KWG

A review of the Company's risk exposure as at the 31 December 2012 reporting date showed that there are no risks that could pose a going-concern risk to the Company and the Group or materially undermine their performance. We have not presently identified any risks of this nature for the future.

OPPORTUNITIES REPORT

In 2012, KWG further cemented its position as one of Germany's largest residential property companies and gained strength with the integration of BWAG. The Company also significantly expanded its portfolio by acquiring some 2,900 units in December 2012. As a well positioned consolidator, KWG has shown itself to be capable of effectively exploiting market opportunities and playing an active role in transactions.

The Management Board believes that KWG has the following opportunities in particular:

Effective exploitation of market opportunities

Given the prevailing bull market, the Management Board intends to systematically continue with the Company's growth trajectory. In pursuit of the growth strategy, workflows at KWG will be continually adjusted to the changed conditions. The integration of BWAG has made KWG stronger in its core region of North Rhine-Westphalia, enabling the Company to service the regional market even more effectively. With nine more regional offices, KWG can react to changes in the local tenant markets quickly and efficiently. The Company's flexible organisational structure provides strategic opportunities for long-term, successful development.

EUR 15

MILLION SECURED FOR RENOVATION WORK

Acquisition of portfolios at attractive prices

KWG sees further opportunities in the acquisition of property where payments on the related loans are in arrears (non-performing loans). In particular, this concerns highly leveraged properties that were bought in the past years. In the future, creditors are likely to seek out solvent buyers for their properties with non-performing loans. KWG perceives itself as a potential partner for such creditors.

Leveraging of the portfolios' potential

KWG's investment portfolio comprised approximately 4,300 residential and commercial units as at 31 December 2012. The Company's business model aims to transfer these properties to the core portfolio with the help of the Group's Construction Management and Asset Management divisions. To this end, KWG secured external financing of EUR 15.0 million in the reporting period. Corresponding renovation and modernisation work as well optimisation of the sales channels may further increase the profitability and valuation of the portfolio in the course of the year.

Focus on renovating new holdings in the investment portfolio

Encouraging development of secondary and tertiary locations

The portfolio as it stands places particular emphasis on secondary and tertiary locations, which analysts expect to develop exceptionally favourably. KWG will benefit from this trend by generating higher rental income and sustainable revaluation gains. A good mix was also achieved in the portfolio in terms of micro-locations, apartment sizes and tenant structure, leading us to expect constant, stable growth in rental income.

ANTICIPATED DEVELOPMENTS

DEVELOPMENT OF THE GENERAL CONDITIONS

The federal government expects the German economy to continue its robust, stable growth in 2013 in spite of the strained situation. While economic growth in the European Union is likely to stagnate, the German government's annual economic report predicts a 0.4% rise in German GDP in 2013.

The experts from NAI Apollo estimate that the German property market will make use of the positive macroeconomic conditions to continue its stable, sustained development. A slight decrease in the investment volume is nevertheless forecast for 2013, principally due to the limited offering of large residential portfolios in Germany. At the same time, it is expected that interest in the "residential property" asset class as a form of investment will remain high.

The German Property Association (Immobilienverband Deutschland – IVD) believes that the trend in rents will also stabilise. Price and rent curves are expected to flatten increasingly. This is due to the above-average increases in rents in recent years as well as to the rise in new construction.

Our goals in 2013

- Strengthen the core portfolio
- EUR 30 million in net basic rent
- FFO of EUR 5.0 million
- Loan-to-value of approx. 60%
- Consolidated net profit of EUR 4.4 million

EXPECTED BUSINESS DEVELOPMENT

Assuming that the stable general conditions are confirmed, KWG is planning to continue its growth trajectory and boost its profitability. In this connection, KWG has set itself following goals for the current financial year:

Strengthen the core portfolio through renovation

KWG's strategy is to strengthen its core portfolio by adding renovated, modernised properties from its investment portfolio. This makes it important to invest in the renovation of the Tower portfolio acquired in December 2012. We are aiming to increase the share of our core portfolio in the overall portfolio from 55% as at 31 December 2012 to approximately 70% by the end of 2014.

Increase rental income by reducing the vacancy rate

Rental income will be given a substantial boost in the course of the year by improving the quality of KWG's portfolio. In this context, the Tower holdings being renovated have considerable potential. Our goal is to increase our income from net basic rent from EUR 19.8 million in the reporting period to around EUR 30 million in the 2013 financial year, an increase of about 52%.

EUR 4.4

MILLION – CONSOLIDATED NET PROFIT IN 2013

Optimisation of financing costs based on a stable financing structure

Maintain the stable financing structure

The LTV (loan-to-value) will be maintained at a constant level of below 60% as at the end of 2013. At the same time, the attractive low interest rates will be used to refinance existing loan commitments at favourable terms. All in all, we therefore expect to further optimise our financing costs with a stable financing structure.

Make the Company more profitable

Our goal is to make the Company even more profitable in 2013. We are aiming to lift FFO (without sale) in the course of the year to approximately EUR 5.0 million. KWG's profitability will also be enhanced with strategic sales in connection with the streamlining of the portfolio. The equity freed up will be invested in the acquisition of attractive holdings with which higher sustainable yields can be generated.

We expect to generate net profit of EUR 4.4 million for the 2013 financial year, to be followed by EUR 4.8 million in 2014.

Hamburg 25 March 2013

KWG Kommunale Wohnen AG

TORSTEN P. HOFFMANN

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2012 PURSUANT TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS)

ASSETS (in EUR)

	Notes	31.12.2012	31.12.2011
Non-current assets			
Intangible assets	5.1, 7.1, 15	72,154.85	124,985.00
Property, plant and equipment	5.2, 7.2, 15	483,452.01	324,907.69
Investment property	5.3, 7.3, 15	424,702,475.00	226,388,000.00
Investments in associates	5.4, 7.4, 15	5,013.67	0.00
Deferred tax assets	5.5, 7.5	2,434,663.49	3,915,329.25
Total non-current assets		**427,697,759.02**	**230,753,221.94**
Current assets			
Inventories	5.6, 7.6	98,585.00	107,060.25
Properties held for sale	5.7, 7.7	4,169,096.46	0.00
Trade receivables	5.8, 7.8	1,397,299.32	1,245,725.40
Tax assets	5.8, 7.8	72,736.41	11,941.57
Other receivables and assets	5.8, 7.8	9,208,061.24	3,127,098.17
Cash	5.9, 7.9, 14	30,326,590.79	3,583,340.91
Total current assets		**45,272,369.22**	**8,075,166.30**
TOTAL ASSETS		**472,970,128.24**	**238,828,388.24**

EQUITY AND LIABILITIES (in EUR)

	Notes	31.12.2012	31.12.2011
Equity			
Issued capital	7.10	15,881,234.00	10,804,729.00
Capital reserves	7.10	65,031,286.61	40,887,174.49
Retained earnings	7.10	3,841,788.71	1,855.13
Market valuation reserve	5.14, 7.10	–727,765.80	–612,973.23
Consolidated net retained profits	7.10	80,932,733.79	36,688,070.28
Equity before non-controlling interests		**164,959,277.31**	**87,768,855.67**
Equity attributable to non-controlling interests	7.10	6,823,630.51	3,157.11
Total Equity	7.10	**171,782,907.82**	**87,772,012.78**
Special items			
Contributions related to the implementation of the capital increase	7.11	325,859.00	325,859.00
Share premium related to the implementation of the capital increase	7.11	1,955,154.00	1,955,154.00
Total special items		**2,281,013.00**	**2,281,013.00**
Non-current borrowings			
Non-current financial liabilities	5.12, 7.12	159,207,329.30	104,732,961.34
Deferred income	5.10, 7.13	7,077,441.42	0.00
Provisions for pensions	5.11, 7.14	1,762,486.00	0.00
Non-current trade payables	5.12, 7.15	915,980.67	1,009,377.82
Deferred tax liabilities	5.12, 7.16	15,835,034.73	7,021,027.46
Non-current borrowings (third-party interest in commercial partnerships)	5.12, 7.17	65,717.98	59,373.28
Total non-current borrowings		**184,863,990.10**	**112,822,739.90**
Current borrowings			
Current financial liabilities	5.12, 7.18	16,157,488.15	30,985,369.20
Deferred income	5.10, 7.18	225,653.61	0.00
Current trade payables	5.12, 7.18	4,285,652.10	2,070,017.78
Current tax liabilities	5.12, 7.18	299,217.95	98,152.79
Other current liabilities	5.12, 5.14, 7.18	93,074,205.51	2,799,082.79
Total current borrowings		**114,042,217.32**	**35,952,622.56**
TOTAL EQUITY AND LIABILITIES		**472,970,128.24**	**238,828,388.24**

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE PERIOD FROM 1 JANUARY TO 31 DECEMBER 2012 PURSUANT TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS)

(in EUR)	Notes	2012	2011
Revenue	6.1	27,917,030.82	21,658,714.30
Income from the fair value measurement of investment property	6.2	41,585,344.17	8,753,187.25
Other operating income	6.3	14,158,737.99	3,606,276.69
Cost of materials	6.4	–8,384,176.19	–7,013,337.32
Staff costs			
a) Wages and salaries	6.5	–2,655,894.84	–2,045,362.30
b) Social security and retirement benefit costs	6.5	–377,466.05	–278,052.84
Depreciation and amortisation	6.6	–228,228.14	–217,793.44
Expenses related to investment property	6.7	–4,367,635.02	–3,350,583.03
Other operating expenses	6.8	–3,471,562.70	–2,754,447.14
Profit from associated companies	6.9	13.67	0.00
Income from investment securities	6.10	158,760.00	8,148.19
Other interest and similar income	6.11	17,446.84	25,196.85
Interest and similar expenses	6.12	–7,464,276.59	–6,444,862.43
Profit attributable to non-controlling interests	6.13	–6,344.70	–6,616.13
Result from ordinary activities		**56,881,749.26**	**11,940,468.65**
Income taxes	6.14	–9,554,892.33	–1,494,146.24
Other taxes	6.15	–829,862.79	–619,869.50
Consolidated net profit for the period		**46,496,994.14**	**9,826,452.91**
Changes in the fair value of hedging instruments	6.16	–136,373.71	–177,509.63
Income taxes on expenses recognised directly in equity	6.17	21,581.14	28,090.90
Total income and expense recognised directly in equity		**–114,792.57**	**–149,418.73**

TOTAL COMPREHENSIVE INCOME		**46,382,201.57**	**9,677,034.18**

Consolidated net profit for the period attributable to:			
Non-controlling interests	6.18	2,252,330.63	7,020.00
Investors in the parent		44,244,663.51	9,819,432.91
Total comprehensive income attributable to:			
Non-controlling interests	6.18	2,252,330.63	7,020.00
Investors in the parent		44,129,870.94	9,670,014.18
Earnings per share (basic and diluted)	9.	3.04	0.89

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE PERIOD FROM 1 JANUARY TO 31 DECEMBER 2012 PURSUANT TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS)

(in EUR)	Notes 7.9,14	1 Jan.-31 Dec. 2012	1 Jan.-31 Dec, 2011
1. Consolidated profit (including non-controlling interests) before income taxes		56,052	11,321
2. Depreciation and amortisation		228	218
3. Other non-cash income		–13,192	–1,877
4. Gain (–)/loss (+) from the disposal of property, plant and equipment		–91	–74
5. Gain (–) from the disposal of property held for short-term sale		0	–1,088
6. Dividends received		–158	0
7. Interest and similar income		–17	–25
7. Interest expense		7,464	6,445
9. Loss (+)/gain (–) from the fair value measurement of investment property		–41,585	–8,753
10. Increase (–)/decrease (+) in inventories, trade receivables and other assets not attributable to investing or financing activities		–895	–837
11. Increase (+)/decrease (–) in trade payables and other liabilities not attributable to investing or financing activities		1,323	997
12. Income from dividends received		158	0
13. Interest received		17	25
14. Interest paid		–7,613	–6,380
15. Cash flow from operating activities		**1,691**	**–28**
16. Payments for the acquisition of shares in the subsidiary Barmer Wohnungsbau Aktiengesellschaft		–18,259	0
17. Payments for the acquisition of the subsidiaries HvD I and Viva I		0	–10,820
18. Payments for the acquisition of shares in the subsidiary KWG Grundbesitz CV GmbH & Co. KG		0	–3,190
19. Payments for investments in property held for short-term sale (–)		0	–5,012
20. Proceeds from the sale of property held for short-term sale (+)		0	6,100
21. Payments for investments in intangible assets		–34	–43
22. Proceeds from the sale of property, plant and equipment including investment property		79	110
23. Payments for investments in investment property		–5,791	–8,716
24. Payments for investments in other property, plant and equipment		–107	–74
25. Cash flows from investing activities		**–24,112**	**–21,645**
26. Income from the issue of share capital		3,577	0
27. Proceeds from issuing long-term loans		59,609	23,433
28. Cash payments for the redemption of loans		–28,056	–6,913
29. Proceeds from capital increases less payments for costs directly attributable to the capital increase		14,035	0
30. Cash flow from financing activities		**49,165**	**16,520**
31. Net change in cash funds		26,744	–5,153
32. Cash funds at beginning of period		3,583	8,736
33. Cash funds at end of period		**30,327**	**3,583**
Note: Income taxes paid (previous year: income taxes received)		–53	12

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FROM 1 JANUARY TO 31 DECEMBER 2012 PURSUANT TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS)

(in EUR)	Notes 7.10	**Issued capital**	**Capital reserves**	**Retained earnings**
AS AT 31 DEC. 2010 PURSUANT TO IFRS		**10,804,729.00**	**42,892,602.42**	**1,855.13**
Consolidated net profit for the year		0.00	0.00	0.00
Income and expenses recognised directly in equity		0.00	0.00	0.00
TOTAL COMPREHENSIVE INCOME		**0.00**	**0.00**	**0.00**
Withdrawal from reserves		0.00	–2,005,427.93	0.00
Withdrawals by non-controlling interests		0.00	0.00	0.00
AS AT 31 DEC. 2011 PURSUANT TO IFRS		**10,804,729.00**	**40,887,174.49**	**1,855.13**
Proceeds from the issue of share capital		5,076,505.00	25,125,146.25	0.00
Consolidated net profit for the year		0.00	0.00	0.00
Income and expenses recognised directly in equity		0.00	0.00	0.00
TOTAL COMPREHENSIVE INCOME		**0.00**	**0.00**	**0.00**
Withdrawals for transaction costs		0.00	–981,034.13	0.00
Acquisition of Barmer Wohnungsbau Aktiengesellschaft		0.00	0.00	0.00
Increase in the majority interest in Barmer Wohnungsbau Aktiengesellschaft		0.00	0.00	3,839,933.58
Withdrawals by non-controlling interests		0.00	0.00	0.00
AS AT 31 DEC. 2012 PURSUANT TO IFRS		**15,881,234.00**	**65,031,286.61**	**3,841,788.71**

Market valuation reserve	Consolidated net retained profits	Equity before non-controlling interests	Non-controlling interests	Consolidated equity
–463,554.50	**24,863,209.44**	**78,098,841.49**	**3,157.11**	**78,101,998.60**
0.00	9,819,432.91	9,819,432.91	7,020.00	9,826,452.91
–149,418.73	0.00	–149,418.73	0.00	–149,418.73
–149,418.73	**9,819,432.91**	**9,670,014.18**	**7,020.00**	**9,677,034.18**
0.00	2,005,427.93	0.00	0.00	0.00
0.00	0.00	0.00	–7,020.00	–7,020.00
–612,973.23	**36,688,070.28**	**87,768,855.67**	**3,157.11**	**87,772,012.78**
0.00	0.00	30,201,651.25	0.00	30,201,651.25
0.00	44,244,663.51	44,244,663.51	2,252,330.63	46,496,994.14
–114,792.57	0.00	–114,792.57	0.00	–114,792.57
–114,792.57	**44,244,663.51**	**44,129,870.94**	**2,252,330.63**	**46,382,201.57**
0.00	0.00	–981,034.13	0.00	–981,034.13
0.00	0.00	0.00	8,915,096.35	8,915,096.35
0.00	0.00	3,839,933.58	–4,339,933.58	–500,000.00
0.00	0.00	0.00	–7,020.00	–7,020.00
–727,765.80	**80,932,733.79**	**164,959,277.31**	**6,823,630.51**	**171,782,907.82**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

AS AT 31 DECEMBER 2012 ACCORDING TO IFRS

1. GENERAL DISCLOSURES

KWG Kommunale Wohnen AG ("KWG AG"), domiciled in Alstertor 9, Hamburg, Germany, is the parent of the KWG Group. The Company is a stock corporation under German law that is listed in the Entry Standard of the Frankfurt/Main Stock Exchange. It has been registered with the Hamburg District Court since 17 August 2009 under the number HRB 110567.

The KWG Group's business activities primarily comprise the acquisition, construction and sale of residential property; investments in property companies, especially not-for-profit, and collective housing development companies; as well as rental and management of its own properties. KWG AG's subsidiaries are largely responsible for the Group's operating business.

The business of renting the Company's properties is not subject to any material seasonal or economic fluctuations.

The calendar year is the financial year of both KWG AG and all of its consolidated subsidiaries.

2. ACCOUNTING PRINCIPLES

KWG AG has voluntarily prepared consolidated financial statements for the financial year from 1 January 2012 to 31 December 2012 — comprising the consolidated statement of financial position, consolidated statement of comprehensive income, consolidated statement of changes in equity, consolidated statement of cash flows and notes disclosures — in accordance with the International Financial Reporting Standards (IFRS) of the International Accounting Standards Board (IASB), as applicable within the European Union (EU), supplemented as necessary by the provisions of Section 315a (1) of the German Commercial Code (Handelsgesetzbuch - HGB). These consolidated financial statements, including the prior-year figures, comply with the IFRS.

All Standards and Interpretations of the International Accounting Standards Board and its committees, which were binding as at 31 December 2012, were applied to the consolidated financial statements.

The amendment to IFRS 7 (Financial Instruments: Disclosures) issued in October 2010 is the only new or amended accounting pronouncement that is required to be or has been implemented since the previous year. It concerns enhanced disclosure requirements for transfer transactions of financial assets where the entity transferring the assets has continuing involvement in the transferred financial assets. The application of IFRS 7, amended, has no effect on KWG's consolidated financial statements.

The following accounting pronouncements issued by the IASB are not yet effective and have also not yet been applied or implemented by KWG AG:

- Amendments to IAS 1, Presentation of Financial Statements
  (issued on 16 June 2011)
  Pursuant to these amendments, subtotals for certain line items must be presented in the statement presenting other comprehensive income. The amendments are effective no later than financial years beginning on or after 1 July 2012.

- Amendments to IAS 32, Financial Instruments: Presentation
  (issued on 16 December 2011)
  The amendments clarify existing offsetting rules. The amendments, which were endorsed by the EU in December 2012, are effective no later than financial years beginning on or after 1 January 2014.

- Amendments to IFRS 7, Financial Instruments: Disclosures
  (issued on 16 December 2011)
  The amendments enhance the disclosure requirements for financial assets and financial liabilities offset in the statement of financial position. The amendments, which were endorsed by the EU in December 2012, are effective no later than financial years beginning on or after 1 January 2013.

- Amendments to IAS 12, Income Taxes (issued on 20 December 2010)
  The amendments contain a rebuttable presumption that the carrying amount of an investment property measured at fair value will be recovered through sale. This is relevant for investment property in countries in which tax on capital gains differs from tax on current profits. KWG AG's property portfolio is exclusively located in Germany, where corporations and commercial partnerships are subject to the same tax system in this respect, based on the merits of the individual case and in terms of amount.

  The amendments, which were endorsed by the EU in December 2012, are effective in the EU no later than financial years beginning on or after 1 January 2013.

- Amendments to IAS 19, Employee Benefits (issued on 16 June 2011)
  The expected return on plan assets and the interest cost on the defined benefit obligation are replaced by a single net interest component. The amendments also provide for the recognition of unvested past service cost as an expense when it arises as well as supplementary disclosures.

  The amendments are effective no later than financial years beginning on or after 1 January 2013.

- Subsequent changes to IAS 27, Separate Financial Statements (issued on 12 May 2011)
  The amendments, which were endorsed by the EU in December 2012, are effective no later than financial years beginning on or after 1 January 2014.

- Subsequent changes to IAS 28, Investments in Associates (issued on 12 May 2011)
  The amendments, which were endorsed by the EU in December 2012, are effective no later than financial years beginning on or after 1 January 2014.

- IFRS 10, Consolidated Financial Statements (issued on 12 May 2011)
  This IFRS presents the control concept including guidance on interpreting the concept of control in cases of doubt.

  The Standard, which was endorsed by the EU in December 2012, is effective no later than financial years beginning on or after 1 January 2014.

- IFRS 11, Joint Arrangements (issued on 12 May 2011)
  This IFRS establishes principles for financial reporting by entities that have an interest in arrangements that are controlled jointly.

  The Standard, which was endorsed by the EU in December 2012, is effective no later than financial years beginning on or after 1 January 2014.

- IFRS 12, Disclosure of Interests in Other Entities (issued on 12 May 2011)
  The Standard sets out the disclosure requirements for all types of interests in other entities. Disclosure rules are defined by a series of requirements and objectives, with detailed guidance on how these are to be fulfilled.

  The Standard, which was endorsed by the EU in December 2012, is effective no later than financial years beginning on or after 1 January 2014.

- IFRS 13, Fair Value Measurement (published on 12 May 2011)
  The Standard defines fair value and harmonises disclosure requirements. The Standard, which was endorsed by the EU in December 2012, is effective no later than financial years beginning on or after 1 January 2013.

Apart from supplementary disclosures and explanations in the notes and besides minor formal changes in presentation (IAS 1) arising from the application of the new accounting pronouncements, KWG AG does not anticipate any or any material (IAS 19) effects on the consolidated financial statements of KWG AG.

In 2012 as well as in previous years, other Standards or amendments to Standards were adopted (including IFRS 7, Financial Instruments: Disclosures, on the effective date and disclosures, IFRS 9, Financial Instruments, transitional provisions for IFRS 10, Consolidated Financial Statements, IFRS 11, Joint Arrangements, and IFRS 12, Disclosures of Interests in Other Entities, as well as Improvements to IFRS 2009-2011: Improvements Process IFRS 1, IAS 1, IAS 16, IAS 32, IAS 34). Application of these IFRSs is contingent on their adoption by the EU.

The euro is the Company's reporting and functional currency. There was no need for currency translation as all Group companies are active solely in Germany. All figures are stated either in EUR or in thousand euros (TEUR).

To improve the clarity of the presentation, certain items in the consolidated statement of comprehensive income and the consolidated statement of financial position have been combined. These items are reported and explained separately in the notes. The consolidated income statement contained in the consolidated statement of comprehensive income is structured according to the nature of expense format.

In some cases, estimates and assumptions made in these consolidated financial statements affect the amount and recognition of assets, liabilities, income, expenses and contingent liabilities in the consolidated statement of financial position. Actual values may deviate from these estimates and assumptions. As changes are taken into account at the time more detailed knowledge becomes available, all assumptions and estimates are based on the facts known as at the reporting date.

3. PRINCIPLES AND METHODS OF CONSOLIDATION

All entities that KWG AG controls, indirectly or directly within the meaning of IAS 27.13 via a subsidiary, are fully consolidated in the consolidated financial statements. In all cases, control via a subsidiary is exercised through a voting right majority.

On 31 December 2012, KWG AG had a total of 30 domestic subsidiaries (previous year: 30):

	Issued capital Limited partner capital EUR	Share in capital in %
KWG Grundbesitz I Verwaltungs GmbH, Hamburg	25,000.00	100.00
KWG Grundbesitz CI GmbH & Co. KG, Hamburg	305,300.00	99.90
KWG Grundbesitz CII GmbH & Co. KG, Hamburg	5,000.00	100.00
KWG Grundbesitz CIII GmbH & Co. KG, Hamburg	600,000.00	95.41
KWG Grundbesitz CIV GmbH & Co. KG, Hamburg	1,000.00	100.00
KWG Grundbesitz CV GmbH & Co. KG, Hamburg	1,000.00	100.00
KWG Grundbesitz CVI GmbH & Co. KG, Hamburg	1,000.00	100.00
KWG Grundbesitz CVII GmbH & Co. KG, Hamburg	1,000.00	100.00
KWG Grundbesitz CVIII GmbH & Co. KG, Hamburg	1,000.00	100.00
KWG Grundbesitz III GmbH, Hamburg	25,000.00	100.00
Barmer Wohnungsbau Grundbesitz I GmbH, Hamburg (formerly: KWG Grundbesitz IV GmbH, Hamburg)	25,000.00	100.00
Barmer Wohnungsbau Grundbesitz II GmbH, Hamburg (formerly: KWG Grundbesitz V GmbH, Hamburg)	25,000.00	100.00
KWG Grundbesitz VI GmbH, Hamburg	25,000.00	100.00
KWG Grundbesitz VII GmbH, Hamburg	25,000.00	100.00
KWG Grundbesitz VIII GmbH, Hamburg	25,000.00	100.00
KWG Grundbesitz IX GmbH, Hamburg (formerly: Königsdorfer Straße 15+17 Projekt GmbH, Hamburg)	25,000.00	100.00
KWG Grundbesitz X GmbH, Hamburg	25,000.00	100.00
KWG Grundbesitz XI GmbH, Hamburg	25,000.00	100.00
KWG Grundbesitz XII GmbH, Hamburg	25,000.00	100.00
KWG Grundbesitz XIII GmbH, Hamburg	25,000.00	100.00
KWG Grundbesitz XIV GmbH, Hamburg	25,000.00	100.00
Barmer Wohnungsbau Grundbesitz III GmbH, Hamburg (formerly: KWG Grundbesitz XV GmbH, Hamburg)	25,000.00	100.00
Barmer Wohnungsbau Grundbesitz IV GmbH, Hamburg (formerly: KWG Grundbesitz XVI GmbH, Hamburg)	25,000.00	100.00
KWG Immobilien GmbH, Hamburg	25,000.00	100.00
KWG Wohnwert GmbH, Glauchau	30,000.00	90.00
Barmer Wohnungsbau Aktiengesellschaft, Wuppertal	520,000.00	89.56
HvD I Grundbesitzgesellschaft mbH, Hamburg	25,000.00	100.00
Viva I Immobilien u. Verwaltungs GmbH, Hamburg	25,000.00	100.00
Siedlungs- und Wohnhausgesellschaft Sachsen Gesellschaft mit beschränkter Haftung, Glauchau	565,000.00	100.00
Hainichener Wohnungsgesellschaft mit beschränkter Haftung, Hainichen	3,400,091.01	100.00

These consolidated financial statements are based on the separate IFRS financial statements that were prepared based on the HGB annual financial statements.

Pursuant to IFRS 3, capital consolidation is based on the principle of subsequent measurement as at the acquisition date of the given subsidiary. Negative goodwill as at the acquisition date is recognised in profit or loss immediately. Non-controlling interests in consolidated equity and consolidated profit or loss are shown separately from the interests attributable to the parent company. If the non-controlling interests concern non-controlling interests in commercial partnerships (Personenhandelsgesellschaft), the given interests are reported under non-current borrowings.

Loans and other receivables, as well as liabilities between the consolidated companies, are offset. In the consolidated statement of comprehensive income, revenue and other intragroup income are offset against the corresponding expenses.

Contractual obligations and contingent liabilities are offset within the Group. Intragroup profits and losses, as well as expenses and income, are eliminated.

The annual financial statements of the entities included in consolidation are prepared pursuant to the IFRSs based on uniform accounting policies.

In all cases, the reporting date for the annual financial statements of the consolidated companies corresponds to the reporting date of the consolidated financial statements (31 December).

4. ACQUISITIONS OF COMPANIES AND DECONSOLIDATION

BARMER WOHNUNGSBAU AKTIENGESELLSCHAFT, WUPPERTAL

On the basis of various contracts, KWG AG first directly acquired 82.92% of the shares in Barmer Wohnungsbau Aktiengesellschaft, Wuppertal (hereinafter referred to as BWAG). First-time consolidation on 1 May 2012 took place at the time KWG AG held over half of the voting rights.

For the sake of simplification, acquisitions were also consolidated as at 1 May 2012, shortly after the date of first-time consolidation. The effects of this consolidation are insignificant for the consolidated financial statements. BWAG manages residential properties in Wuppertal.

BWAG's revenue of TEUR 3,608 and an IRFS operating result of TEUR 643 were reported in the consolidated financial statements of KWG AG for the period 1 May to 31 December 2012.

Significant items on the statement of financial position of BWAG:

(in EUR)	Carrying amounts before initial consolida-tion	Purchase price allocation	Carrying amounts before initial consolida-tion
Investment property	23,051	46,161	69,212
Cash and cash equivalents	472	0	472
Other assets	1,036	0	1,036
TOTAL ASSETS	**24,559**	**46,161**	**70,720**
Non-current liabilities	15,383	1,202	16,585
Current liabilities	1,939	0	1,939
TOTAL LIABILITIES	**17,322**	**1,202**	**18,524**
NET ASSETS	**7,237**	**44,959**	**52,196**
Attributable to shareholders of KWG AG	6,001	37,280	43,281
Cost/Goodwill		30,156	13,125

The negative goodwill (TEUR 13,125) resulting from the purchase price allocation was recognised through profit and loss in connection with acquisition accounting pursuant to IFRS 3.34. The income is shown under other operating income.

The purchase price of BWAG was partly settled through the transfer of cash and cash equivalents (TEUR 18,731), with the remainder being settled through shares of KWG AG (TEUR 11,425).

Based on a verbal agreement dated 27 December 2012, KWG AG acquired further shares from the City of Wuppertal amounting to 6.64% of the share capital for a purchase price of TEUR 500. The date arranged for the transfer in rem including the right to ownership, use and encumbrance was 31 December 2012. The contractual basis was recorded in writing on 20/22 February. The difference between the agreed purchase price and the expensed minority interest (TEUR 3,840) was taken directly to equity under retained earnings.

DECONSOLIDATION OF GBR DELMENHORST, HAMBURG

GbR Delmenhorst left the consolidated group. This company will now only be active as an internal partnership; the assets, liabilities, income and expenses will be recognised on a pro rata basis at the subsidiaries HvD I Grundbesitzgesellschaft mbH and Viva I Immobilien u. Verwaltungs GmbH. The deconsolidation of GbR Delmenhorst has no effect on the consolidated statement of financial position, the consolidated statement of comprehensive income or the consolidated statement of cash flows.

5. ACCOUNTING POLICIES

It is expected that the non-current assets and borrowings reported in the consolidated statement of financial position will not be realised or discharged within a period of 12 months from the reporting date. Accordingly, the current assets and current borrowings shown in the consolidated statement of financial position have remaining terms of up to one year. Deferred taxes and the defined benefit obligation are allocated in full to non-current assets or non-current liabilities even if part of the asset or liability is scheduled to be realised or settled in the following year.

The assets and liabilities reported in the consolidated statement of financial position are basically shown at fair value.

5.1 INTANGIBLE ASSETS

All intangible assets have limited useful lives and are measured at cost less normal amortisation using the straight-line method. They are amortised over a useful life of three years at a rate of 33 1/3 % per annum. Acquisition accounting did not give rise to any goodwill. If there are indications of impairment, the given intangible assets subject to amortisation are tested for impairment and written down as necessary to the lower recoverable amount in accordance with IAS 36.

5.2 PROPERTY, PLANT AND EQUIPMENT

With the exception of the investment property, all property, plant and equipment are measured at cost less accumulated depreciation. Gains and losses on the disposal of property, plant and equipment are recognised in other operating income or expenses. Property, plant and equipment are depreciated pro rata temporis on a straight-line basis over the estimated useful life.

Minor-value tangible assets costing between EUR 150.00 and EUR 1,000.00 are combined in a compound item for purposes of simplification and depreciated at a rate of one-fifth of the cost using the straight-line method, both in the year they are acquired and in the four subsequent years. These assets are recognised as a disposal in the statement of changes in non-current assets at the close of the last financial year for which depreciation is taken on the compound item.

The following useful lives apply:

	Useful life in years
Fixtures and fittings	6 to 8
Office equipment	3 to 23

If there are indications of impairment, the given assets are tested for impairment and written down as necessary to the lower recoverable amount in accordance with IAS 36.

5.3 INVESTMENT PROPERTY

Investment property as at the reporting date comprises land and buildings that are held solely for the purpose of generating rental income, and not for own use. All investment property is measured at fair value in accordance with IAS 40.33. Initial acquisition date measurement is at cost including transaction costs in accordance with IAS 40.20. Pursuant to IAS 40.35, the gains and losses resulting from changes in the fair value are recognised through profit and loss in the period in which they occur. These items are shown separately in the consolidated statement of comprehensive income under the item, Income from the fair value measurement of investment property.

5.4 INVESTMENTS IN ASSOCIATES

Investments in associates are measured using the equity method in accordance with IAS 28. Based on the cost of the investment at the date of acquisition, the carrying amount of the investment is increased or decreased annually by the share of profit or loss, dividends distributed, and other changes in the equity of the associates attributable to the investments of KWG AG or its subsidiaries.

Goodwill included in the carrying amounts of the investments is accounted for in accordance with IFRS 3. Investments in companies accounted for using the equity method are impaired when the recoverable amount is lower than the carrying amount.

5.5 DEFERRED TAX ASSETS

Deferred tax assets are determined in accordance with IAS 12 based on the balance sheet liability method for all temporary and quasi-permanent differences; they are accrued for recognition and measurement differences of assets and liabilities between the IFRS statement of financial position and the tax base. In addition, deferred tax assets are recognised for tax loss carryforwards not yet utilised in an amount corresponding to likely taxable profits in the future.

Deferred tax assets and liabilities are measured based on current tax rates applicable to the period during which the temporary differences are likely to be equalised. Because the property companies are basically exempt from German trade taxes, the latter are not considered in the determination of the deferred taxes applicable to these entities.

5.6 INVENTORIES

The Group's inventories comprise heating oil and liquid gas. Pursuant to IAS 2.9, they are measured either at cost or at the lower net realisable value. The average cost method is used to determine the cost. The net realisable value is the estimated sale price less costs incurred until the sale. No write-downs to the lower net realisable value lower were necessary in the financial year.

5.7 PROPERTIES HELD FOR SALE

Purchases of properties held for sale are initially recognised at cost. In accordance with IAS 2, they are subsequently recognised at the lower of cost and net realisable value. No write-downs to the lower net realisable value lower were necessary in the financial year.

5.8 RECEIVABLES AND OTHER ASSETS

Trade receivables are shown at cost (= usually their nominal value) less appropriate bad debt allowances. Other assets are recognised at depreciated or amortised cost. Identifiable risks are taken into account by means of corresponding valuation allowances. All of these allowances are made on the basis of historical data by classifying the receivables and other assets by age and other information regarding their recoverability.

5.9 CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of bank balances and cash balances, all of which are highly liquid with terms of less than three months. They are not subject to interest rate risks and are recognised at their nominal value.

5.10 GOVERNMENT GRANTS

Prior to its affiliation with the Group, Barmer Wohnungsbau Aktiengesellschaft, Wuppertal, received government grants in the form of low-interest development loans from public-sector banks. The benefit from these low-interest loans was factored into the purchase price. The additional payment in the amount of the difference between the fair value and the repayment amount of the loans was carried in a deferred income item. This is recognised as income over the period in order to offset it against the corresponding expenses for which it is supposed to compensate.

The deferred income is released in the same amount as the interest on the financial liability. The amount released is recognised in revenue if the low-interest loans were granted as compensation for foregone rental revenues resulting from rent control and occupancy rights. If the interest benefit was granted in connection with an investment, the amount released from deferred income over the period in which the benefit is granted is recognised in other operating income.

5.11 PROVISIONS FOR PENSIONS

Provisions for pensions are measured using the projected unit credit method for defined benefits set out in IAS 19 "Employee Benefits". This method reflects both the pensions and acquired benefits known at the reporting date and expected future increases in salaries and pensions. The 2005 G mortality tables developed by Klaus Heubeck are used as the biometric basis for the measurement. Actuarial gains or losses arising from the difference between the estimated and the actual defined benefit obligation at year-end are recognised immediately in profit or loss. The interest rate used for the calculation is derived from the yield on premium corporate bonds. Where no deep market for such bonds exists, the yield on government bonds is used.

5.12 LIABILITIES

Liabilities are generally shown at the disbursement amount. Any difference between the amount disbursed and the amount repayable at final maturity is accrued on a pro rata basis.

Tax liabilities are shown at the expected settlement amount without discounting and include all identifiable liabilities as at the reporting date resulting from past transactions or events prior to the reporting date.

Liabilities with remaining terms of up to one year are reported as current items; liabilities with a remaining term of over one year are deemed to be non current.

Contingent liabilities are not shown in the consolidated statement of financial position. A contingent liability arises when both the possibility that there is a current, legal or constructive obligation and the possibility of an outflow of resources are merely possible, but not likely. An event is considered likely when indications that it may occur outweigh indications that it will not occur. However, contingent liabilities are disclosed in the notes if an outflow of resources is not unlikely.

5.13 LEASING

The existing leases concern operating leases where the Company always is the lessee. The lease assets must be reported by the lessor in its capacity as the beneficial owner. As a result, KWG AG recognises all lease payments due in full as expenses in the consolidated statement of comprehensive income.

The total of future minimum lease payments under non-cancellable operating leases for each of the following periods:

(in EUR '000)	31. Dec 2012	Previous year
Within one year	110	116
Later than one year and not later than five years	56	130
More than five years	0	0
TOTAL	**166**	**246**

A total of TEUR 116 (previous year: TEUR 75) in fixed lease expenses were recognised and paid for these leases in the 2012 financial year. These expenses are shown in the item, Other operating expenses.

5.14 DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGE ACCOUNTING

To hedge against interest rate risks, a derivative financial instrument that meets the hedge accounting criteria of IAS 39 has been recognised. It concerns an interest rate swap that serves to limit the interest rate risk on a variable-interest loan. This derivative financial instrument is measured at cost at the time the corresponding contract is made and subsequently measured at the fair value. It is reported as an asset if its fair value is positive and as a liability if its fair value is negative. Changes are recognised directly in equity as long as the requirements concerning the effectiveness of both the underlying transaction and the hedge are fulfilled. It is measured at fair value (mark-to-market).

5.15 REALISATION OF INCOME AND EXPENSE

Revenue and other operating income are realised at the time the service is rendered or the risk is transferred to the customer. Operating expenses are recognised as income at the time the service is obtained or allocated. Interest income and interest expense are recognised on an accrual basis.

6. DISCLOSURES ON THE CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

The consolidated income statement contained in the consolidated statement of comprehensive income was prepared using the nature of expense method. Pursuant to IAS 23.8, borrowing costs are recognised as an expense in the period in which they are incurred. There are no borrowing costs that are directly allocable to the acquisition, construction or manufacture of a qualified asset.

6.1 REVENUE

REVENUE		EUR 27,917,030.82
		(Previous year: EUR 21,658,714.30)
(in EUR '000)	**2012**	**Previous year**
Actual - Rent and other revenue	19,788	14,773
Revenue, apportionable charges	8,129	6,886
TOTAL	**27,917**	**21,659**

Revenue solely concerns income from the rental of investment property.

6.2 INCOME FROM THE FAIR VALUE MEASUREMENT OF INVESTMENT PROPERTY

INCOME		EUR 41,585,344.17
		(Vorjahr: EUR 8,753,187.25)
(in EUR '000)	**2012**	**Previous year**
Net gains from the adjustment of the fair value	41,612	9,377
Net losses from the adjustment of the fair value	–27	–624
TOTAL	**41,585**	**8,753**

6.3 OTHER OPERATING INCOME

OTHER OPERATING INCOME		EUR 14,158,737.99
		(Previous year: EUR 3,606,276.69)
(in EUR '000)	**2012**	**Previous year**
Income from the recognition through profit and loss of negative goodwill from accounting for the acquisition of Barmer Wohnungsbau Aktiengesellschaft, Wuppertal	13,125	0
Income from oncharging to tenants	148	147
Insurance compensation payments	108	75
Gains from the sale of investment property	100	74
Income from commissions	82	25
Other non-cash income	71	46
Income from the partial remission of KfW debt	67	346
Income from the reversal of provisions and valuation allowances under German commercial law	45	84
Income from continued payment of wages	21	14
Income from written off receivables	21	23
Income from the recognition through profit and loss of negative goodwill from accounting for the acquisition of HvD Grundbesitzgesellschaft mbH, Hamburg and Viva I Immobilien u. Verwaltungs GmbH, Hamburg	0	1,161
Income from the sale of other assets	0	1,088
Income from the recognition through profit and loss of negative goodwill from accounting for the acquisition of KWG Grundbesitz CV GmbH & Co. KG, Hamburg	0	370
Other	371	153
TOTAL	**14,159**	**3,606**

6.4 COST OF MATERIALS

COST OF MATERIALS		EUR 8,384,176.19
		(Previous year: EUR 7,013,337.32)
(in EUR '000)	**2012**	**Previous year**
Heating costs	2,398	2,114
Sewage disposal charges	819	634
Maintenance fees pursuant to the German Home Ownership Act (Wohnungseigentumsgesetz - WoEigG)	722	654
Outsourced janitor services	700	551
Refuse collection charges	623	575
Mains water charges	590	625
Insurance policies	374	255
Garden maintenance/winter services	290	291
Broadband/cable network	254	195
House cleaning	212	185
Other	1,402	934
TOTAL	**8,384**	**7,013**

6.5 STAFF COSTS

STAFF COSTS		EUR 3,033,360.89
		(Previous year: EUR 2,323,415.14)
(in EUR '000)	**2012**	**Previous year**
Wages and salaries	2,656	2,045
Social security and retirement benefit costs	377	278
TOTAL	**3,033**	**2,323**

Excluding the Management Board, the Company had 55 employees on average in the reporting year (previous year: 43), of whom 19 (previous year: 13) were part-time staff.

6.6 DEPRECIATION AND AMORTISATION

DEPRECIATION AND AMORTISATION		EUR 228.228,14
		(Previous year: EUR 217.793,44)
(in EUR '000)	**2012**	**Previous year**
Intangible assets	109	126
Property, plant and equipment	119	92
TOTAL	**228**	**218**

6.7 EXPENSES RELATED TO INVESTMENT PROPERTY

EXPENSES RELATED TO INVESTMENT PROPERTY		EUR 4,367,635.02
		(Previous year: EUR 3,350,583.03)
(in EUR '000)	**2012**	**Previous year**
Regular maintenance	2,530	1,702
Bad debt allowances	674	243
Court and litigation costs	267	215
Interest on ground rent	146	143
Administrator fees	145	229
Letting commission	80	104
Advertisements and advertising materials	74	105
Extraordinary maintenance	38	0
Agency commission	0	250
Other	414	360
SUMME	**4,368**	**3,351**

6.8 OTHER OPERATING EXPENSES

OTHER OPERATING EXPENSES		EUR 3,471,562.70
		(Previous year: EUR 2,754,447.14)
(in EUR ’000)	**2012**	**Previous year**
Finance costs	654	213
Legal and consulting costs	459	406
Unsuccessful acquisitions	339	132
Investor relations	263	208
Occupancy expenses	251	212
Experts’ fees, costs of preparing and auditing financial statements	204	178
Travel and hospitality expenses	192	209
Vehicle costs	192	186
Postal costs, telephone, office supplies, courier	158	138
Compensation of Supervisory Board members	127	106
Annual General Meeting	122	118
Annual reports	107	70
IT expenses	97	72
Insurance, contributions and other charges	42	48
Entertainment costs	22	44
Losses from the sale of investment property	9	0
Other	234	414
OTHER	**3,472**	**2,754**

6.9 PROFIT FROM ASSOCIATED COMPANIES

PROFIT FROM ASSOCIATED COMPANIES	EUR 13.67
	(Previous year: EUR 0,00)

The profit from associated companies stems from a 20% stake in Wuppertaler Quartiersentwicklungsgesellschaft mbH, Wuppertal.

6.10 INCOME FROM INVESTMENT SECURITIES

INCOME FROM INVESTMENT SECURITIES	EUR 158,760.00
	(Previous year: EUR 8,148.19)

The income from investment securities concerns dividends of BWAG for previous years.

6.11 OTHER INTEREST AND SIMILAR INCOME

OTHER INTEREST AND SIMILAR INCOME	EUR 17,446.84
	(Previous year: EUR 25.196,85)

This item consists solely of interest income from deposits of funds at banks.

6.12 INTEREST AND SIMILAR EXPENSES

INTEREST AND SIMILAR EXPENSES	EUR 7,464,276.59
	(Previous year: EUR 6,444,862.43)

This item mainly includes the interest expense associated with the acquisition of property using loans from various lenders.

6.13 PROFIT ATTRIBUTABLE TO NON-CONTROLLING INTERESTS

PROFIT ATTRIBUTABLE TO NON-CONTROLLING INTERESTS	EUR – 6,344.70
	(Previous year: EUR – 6,616.13)

This is the share in the profit or loss that is attributable to non-controlling interests in commercial partnerships.

6.14 INCOME TAXES

Composition of income tax expense:

INCOME TAXES	EUR – 9,554,892.33
	(Previous year: EUR – 1,494,146.24)

The income tax expense of TEUR 9,555 (previous year: TEUR 1,494) mainly concerns deferred taxes. The expense not related to deferred taxes is TEUR 256 (previous year: TEUR 3). Expenses on deferred taxes in both the previous year and the financial year just ended fully concern temporary differences.

A total of TEUR 9,555 in income taxes for the reporting period are derived as follows from an expected income tax expense that would have resulted from application of the statutory income tax rate applicable to the parent company to profits before taxes. As before, a corporate tax rate of 15% plus a solidarity surcharge of 0.825% (5.5% of 15%), as well as a trade tax rate of 14% (average assessment rate: 400%), were used to that end.

The reconciliation is shown in the following table:

(in EUR ’000)	2012	Previous year
Earnings before income taxes	56,052	11,320
Anticipated income tax expense (tax rate: 29.825%)	16,717	3,376
Trade tax exemption for property companies	–7,785	–1,585
Subtotal	**8,932**	**1,791**
Excess of tax liabilities over tax assets (lucky buy)	–2,077	–242
Elimination of loss carryforwards due to change of shareholders	1,845	0
Other differences (effects from loss carryforwards, capital increases, measurement of pension provisions etc.)	855	–55
TOTAL	**9,555**	**1,494**

KWG AG is a commercial enterprise by virtue of its legal form, and its commercial income thus is subject to trade taxes. However, many of the Group’s companies meet the requirements for extended trade tax reductions pursuant to Section 9 no. 1 sentence 2 German Trade Tax Act (Gewerbesteuergesetz - GewStG).

Currently, trade taxes apply only to income not covered by these extended trade tax reductions, e.g. interest income. In the current 2012 financial year, a total of TEUR 62 (previous year: TEUR 1) were deferred and thus are contained in the current tax expense.

Deferred tax assets and liabilities are attributable to the following items on the statement of financial position:

(in EUR ’000)	31 Dec. 2012 Assets	31 Dec. 2012 Liabilities	31 Dec. 2011 Assets	31 Dec. 2011 Liabilities
Investment property	0	15,835	0	7,021
Deferred tax assets on loss carryforwards	2,159	0	3,800	0
Pension provisions	103	0	0	0
Other current liabilities	137	0	115	0
Elimination of intercompany profits/losses	36	0	0	0
TOTAL	**2,435**	**15,835**	**3,915**	**7,021**

6.15 OTHER TAXES

OTHER TAXES		EUR 829,862.79
		(Previous year: EUR 619,869.50)
(in TEUR)	**2012**	**Previous year**
Property tax	797	598
Vehicle tax	3	2
Other	30	20
TOTAL	**830**	**620**

6.16 CHANGES IN THE FAIR VALUE OF HEDGING INSTRUMENTS

CHANGES IN THE FAIR VALUE OF HEDGING INSTRUMENTS	EUR –136,373.71
	(Previous year: EUR –177,509.63)

The Company has entered into an interest rate hedge to hedge against fluctuations in future cash flows. The resulting fluctuations in value are recognised directly in equity.

6.17 INCOME TAXES ON EXPENSES RECOGNISED DIRECTLY IN EQUITY

INCOME TAXES ON EXPENSES RECOGNISED DIRECTLY IN EQUITY	EUR 21,581.14
	(Previous year: EUR 28,090.90)

Deferred taxes arising from temporary differences were recognised in connection with the changes in the value of the hedging instruments that were recognized directly in equity.

6.18 PROFIT FOR THE PERIOD AND COMPREHENSIVE INCOME ATTRIBUTABLE TO NON-CONTROLLING INTERESTS

PROFIT FOR THE PERIOD AND COMPREHENSIVE INCOME ATTRIBUTABLE TO NON-CONTROLLING INTERESTS
EUR 2,252,330.63
(Previous year: EUR 7,020.00)

This is the share in the profit that is attributable to a non-controlling interest in stock corporations.

7. CONSOLIDATED STATEMENT OF FINANCIAL POSITION DISCLOSURES

7.1 INTANGIBLE ASSETS

INTANGIBLE ASSETS		EUR 72,154.85
		(Previous year: EUR 124,985.00)
(in EUR '000)	**31 Dec. 2012**	**31 Dec. 2011**
Balance on 1 January 2012	125	208
Additions	34	43
Additions from change in the basis of consolidation	22	0
	181	**251**
Depreciation and amortisation	109	126
Balance on 31 December 2012	**72**	**125**

The depreciation and amortisation recognised in the reporting year are shown in the consolidated statement of comprehensive income under the item, "Depreciation and amortisation".

The additions comprise the following:

(in EUR '000)	31 Dec. 2012
DOMUS 4000 software	15
Website of KWG Wohnwert GmbH, Glauchau	8
DIAMANT/3 IQ software	6
Other	5
TOTAL	**34**

7.2 PROPERTY, PLANT AND EQUIPMENT

PROPERTY, PLANT AND EQUIPMENT		EUR 483,452.01
		(Previous year: EUR 324.907,69)
(in EUR '000)	**31 Dec. 2012**	**31 Dec.2011**
Balance on 1 January 2012	325	343
Additions	107	74
Additions from change in the basis of consolidation	171	0
	603	**417**
Depreciation and amortisation	119	92
Balance on 31 December 2012	**484**	**325**

The depreciation and amortisation recognised in the reporting year are shown in the consolidated statement of comprehensive income under the item, “Depreciation and amortisation”.

The additions comprise the following:

(in EUR ’000)	31 Dec. 2012
Office furniture and equipment	71
Cars	16
Minor-value assets	20
TOTAL	**107**

7.3 INVESTMENT PROPERTY

INVESTMENT PROPERTY	EUR 424,702,475.00
	(Previous year: EUR 226,388,000.00)

The changes in the investment property are shown in the statement of changes in non-current assets. These properties are subject to restrictions on disposal that take the form of real property liens in amounts corresponding to both the current and the non-current financial liabilities.

Upon acquisition, the investment property is capitalised at cost plus transaction costs. It is measured at the fair value as of the reporting date.

The fair value corresponds to the estimated amount at which property would be transferred on the measurement date between a buyer willing to buy and a seller willing to sell upon due marketing, where each of the parties has acted at arm’s length, knowingly, prudently and without duress. The value is rounded and does not take into account transaction costs such as property transfer taxes, costs of the notary public and estate agent’s fees. The fair value is determined based on the rental income generated in the long term and takes into account maintenance and repairs as well as changes in the vacancy rate. The fair value is determined using the discounted cash flow method.

The investment property almost exclusively concerns residential property.

The fair value of investment property that can be expected to vary significantly in value is determined based on the appraisal of independent experts. These experts possess the requisite professional qualifications and current experience regarding both the location and type of the property to be appraised. In the reporting year and the previous year, this affected the entire portfolio in the amount of TEUR 424,702 (previous year: TEUR 226,388) after remeasurement.

The fair value of the investment property developed as follows based on the measurement:

(in EUR '000)	31 Dec. 2012	31 Dec. 2011
Balance on 1 January 2012	226,388	188,636
Additions from company acquisitions	69,212	0
Additions from portfolio acquisitions and other additions	89,505	29,035
Disposal from sales	–1,988	–36
Net gains from the adjustment of the fair value	41,612	9,377
Net losses from the adjustment of the fair value	–27	–624
Balance on 31 December 2012	**424,702**	**226,388**

Based on the independent expert's appraisal of the properties, net gains of TEUR 41,612 (previous year: TEUR 9,377) and net losses of TEUR 27 (previous year: TEUR 624) are reported under the profit for the year in the item, Gains/losses on the fair value measurement of investment property.

The additions from company acquisitions (TEUR 69,212) concern property in Wuppertal of Barmer Wohnungsbau Aktiengesellschaft, Wuppertal.

The additions from portfolio acquisitions and other additions in the amount of TEUR 89,505 (previous year: TEUR 29,035) mainly concern the acquisition of properties, among others in Berlin, Wuppertal, Bochum, Essen, Oberhausen, Düsseldorf, Remscheid and Wülfrath (TEUR 86,248), extensive renovation work on various properties and retroactive acquisition costs (totalling TEUR 3,257) related to property bought in previous years.

Disposals result from the sale of a property in connection with the strategic streamlining of the portfolio of Hainichener Wohnungsgesellschaft mit beschränkter Haftung, Hainichen, and the sale of a property of KWG Grundbesitz CII GmbH & Co. KG, Hamburg, in Schleswig.

The investment property generated a total of TEUR 27,917 (previous year: TEUR 21,659) in rental income.

Property held as hereditary building rights is subject to long-term leasehold contracts with terms until 2207.

7.4 INVESTMENTS IN ASSOCIATES

INVESTMENTS IN ASSOCIATES	EUR 5,013.67
	(Previous year: EUR 0.00)

This item concerns 20% of the shares in Wuppertaler Quartierentwicklungs GmbH, Wuppertal.

7.5 DEFERRED TAX ASSETS

DEFERRED TAX ASSETS	EUR 2,434,663.49
	(Previous year: EUR 3,915,329.25)

The deferred tax assets are attributable to the following items on the statement of financial position:

(in EUR '000)	31 Dec. 2012	31 Dec. 2011
Deferred tax assets on loss carryforwards	2,159	3,800
Pension provisions	103	0
Other current liabilities	137	115
Elimination of intercompany profits/losses	36	0
TOTAL	**2,435**	**3,915**

Due to a change in the shareholders of KWG AG and the elimination of tax loss carryforwards resulting from this due to the current legal situation, TEUR 1,845 in deferred tax assets on tax loss carryforwards were reversed through profit or loss in the 2012 financial year. The Hamburg Financial Court has serious doubts as regards the constitutionality of the elimination of tax loss carryforwards in cases of changes in shareholders and has therefore referred this matter for decision to the Federal Constitutional Court.

7.6 INVENTORIES

INVENTORIES	EUR 98,585.00
	(Previous year: EUR 107,060.25)

COMPOSITION (in TEUR)	31 Dec 2012	31 Dec 2011
Heating oil	92	102
Liquid gas	7	5
TOTAL	**99**	**107**

7.7 PROPERTIES HELD FOR SALE

PROPERTIES HELD FOR SALE	EUR 4,169,096.46
	(Previous year: EUR 0.00)

This item concerns the KWG Group's properties held for sale. The properties are located in Wuppertal. In accordance with IAS 2, they are recognised at the lower of cost and net realisable value. They are recognised at cost as at 31 December 2012. No write-downs to the lower net realisable value lower were necessary in the financial year.

7.8 RECEIVABLES AND OTHER ASSETS

RECEIVABLES AND OTHER ASSETS		EUR 10,678,096.97
		(Previous year: EUR 4,384,765.14)
(in EUR '000)	**31 Dec. 2012**	**31 Dec. 2011**
Trade receivables	1,397	1,246
Tax assets	73	12
Other current receivables	9,208	3,127
TOTAL	**10,678**	**4,385**

All receivables and other assets are recognised at their nominal value (= cost). A total of TEUR 674 (previous year: TEUR 243) in allowances on trade receivables were recognised as at the reporting date. These expenses are shown in the item, Expenses related to investment property.

The other current receivables mainly concern TEUR 2,000 (previous year: TEUR 0) in receivables from the sale of the Schleswig property, TEUR 2,000 (previous year: TEUR 0) in receivables from a deposit on the purchase price for the "Tower" portfolio, TEUR 1,734 (previous year: TEUR 1,675) in on-account payments for operating costs, TEUR 710 (previous year: TEUR 699) in credit balances related to provisions for maintenance and repairs as well as an on-account payment of TEUR 400 (previous year: TEUR 0) made on a future capital increase.

7.9 CASH AND CASH EQUIVALENTS

CASH AND CASH EQUIVALENTS	EUR 30,326,590.79
	(Previous year: EUR 3,583,340.91)

Cash and cash equivalents consist solely of cash and bank balances. They have a remaining term of less than three months at the time of acquisition or deposit. The change in cash and cash equivalents that constitute the cash funds pursuant to IAS 7 is presented in the statement of cash flows.

7.10 EQUITY

EQUITY	EUR 171,782,907.82
	(Previous year: EUR 87,772,012.78)

The change in equity is shown in the consolidated statement of changes in equity.

The Company's share capital is TEUR 15,881 (previous year: TEUR 10,805). It is divided into 15,881,234 no par value bearer shares (previous year: 10,804,729) with a pro rata interest in the share capital of EUR 1.00 per share. Each share represents one vote and fully participates in profits. The 15,881,234 no par value bearer shares issued (previous year: 10,804,729) have been paid in full.

The reserves comprise the following:

(in EUR '000)	31 Dec. 2012	31 Dec. 2011
Share premiums	65,031	40,887
Reserve for hedge accounting	–728	–613
Retained earnings	3,840	0
Legal reserve of the parent	2	2
TOTAL	**68,145**	**40,276**

The number of shares outstanding at the start and the end of the reporting period is shown in the reconciliation below:

	Number
Balance on 1 January 2012	**10,804,729**
Capital increase on 11 April 2012	3,576,505
Capital increase of 12 July 2012	1,500,000
Balance on 31 December 2012	**15,881,234**

On the basis of the capital increases implemented in the 2012 financial year, transaction costs totalling TEUR 981 (previous year: TEUR 0) were offset against the premiums recognised under reserves in the reporting period after deduction of deferred taxes of TEUR 184 (previous year: TEUR 0).

Non-controlling interests in the amount of TEUR 6,824 (previous year: TEUR 3) relate to the Company's non-controlling interests in its subsidiaries, BWAG (TEUR 6,821; previous year: TEUR 0) and KWG Wohnwert GmbH, Glauchau (TEUR 3; previous year: TEUR 3).

The Management Board is authorised, subject to the approval of the Supervisory Board, to increase the Company's share capital until 30 July 2017, once or repeatedly, by a total of up to EUR 7,940,617.00 by issuing new no par value bearer shares in return for contributions in cash or in kind (Authorised Capital 2012). The Management Board may utilise this authorisation for any legally permissible purpose. In certain circumstances, the Management Board is authorised to exclude shareholders' subscription right, in whole or in part, with the Supervisory Board's approval.

The share capital was increased on a contingent basis by up to EUR 4,911,240.00 divided into 4,911,240 no par value bearer shares (Contingent Capital). The contingent capital increase serves to grant shares, upon exercise of conversion rights or options, to the bearers or creditors of convertible bonds and/or bonds with warrants, which are issued by the Company or a subordinate affiliated company in accordance with the authorisation adopted by the Annual General Meeting on 5 July 2010 pursuant to Agenda item 6a. No corresponding rights have been issued to date.

KWG AG does not hold any treasury shares.

As at 31 December 2012, changes in the fair value of the derivative financial instruments in the amount of TEUR –728 (previous year: TEUR –613) were recognised directly in equity, taking into account deferred tax assets. The fair value (mark-to-market) before income taxes as at 31 December 2012 was TEUR –865 (previous year: TEUR –728).

The reserves concern the legal reserve (TEUR 2) in the single-entity financial statements of KWG AG and retained earnings (TEUR 3,840) from increasing the majority stake in Barmer Wohnungsbau Aktiengesellschaft, Wuppertal.

The consolidated net retained profits comprise the following items:

(in EUR '000)	31 Dec. 2012	31 Dec. 2011
Profit attributable to investors in the parent	44,245	9,820
Withdrawal from the capital reserves	0	2,005
Profit brought forward	36,688	24,863
CONSOLIDATED NET RETAINED PROFITS	**80,933**	**36,688**

7.11 SPECIAL ITEM

SPECIAL ITEM	EUR 2,281,013.00
	(Previous year: EUR 2,281,013.00)

The contributions made and premiums paid for the purpose of carrying out the capital increase as resolved concern the shares to be granted from Authorised Capital to the sellers in connection with the acquisition of the interests in HvD I Grundbesitz-gesellschaft mbH, Hamburg (TEUR 897); Viva I Immobilien u. Verwaltungs GmbH, Hamburg (TEUR 897); and KWG Grundbesitz CV GmbH & Co. KG, Hamburg (TEUR 487). A portion of the purchase price for these shares was paid to the sellers in the form of an equity component consisting of no par value bearer shares of KWG AG with a pro rata share in the share capital of EUR 1.00 per share. The plan is to issue the shares to be transferred in 2013. The number of shares has yet to be determined in negotiations.

7.12 NON-CURRENT FINANCIAL LIABILITIES

NON-CURRENT FINANCIAL LIABILITIES	EUR 159,207,329.30
	(Previous year: EUR 104,732,961.34)

Long-term loans were taken out to ensure that the properties reported in note 7.3 are financed at matching maturities. These loans have terms ending no later than December 2079.

7.13 DEFERRED INCOME

DEFERRED INCOME	EUR 7,077,441.42
	(Previous year: EUR 0.00)

Reference is made to the accounting policies explained under item (5.10).

7.14 PROVISIONS FOR PENSIONS

PROVISIONS FOR PENSIONS	EUR 1,762,486.00
	(Previous year: EUR 0.00)

Reference is made to the accounting policies explained under item (5.11).

The defined benefit obligations changed as follows in the reporting period:

(in EUR)	
Balance on 1 January 2012	**0.00**
Additions through changes in the basis of consolidation	1,621,407.00
Current service cost	3,465.00
Interest expense	68,109.00
Pension benefits paid	–81,904.00
Actuarial losses	151,409.00
Balance on 31 December 2012	**1,762,486.00**

Current service cost was reported under “Social security and retirement benefit costs”, while interest cost and actuarial losses were carried under “Interest and similar expenses”.

The benefits are financed internally through the accrual of provisions for pensions; funded plans that meet the requirements of IAS 19.7 regarding plan assets do not exist.

The calculation of pension obligations is based on the following actuarial assumptions:

(in %)	31 Dec. 2012
Discount rate p.a.	3.10
Wages and salary trend p.a.	2.00
Pension trend p.a.	2.00
Career trend	Not applicable
Development of medical costs	Not applicable
Development of the consumer price index	Not applicable
Fluctuation rate	Not applicable

Interest cost of TEUR 53 and pensions and other post-employment benefits payable in the amount of TEUR 123 are calculated for the subsequent reporting period.

7.15 NON-CURRENT TRADE PAYABLES

NON-CURRENT TRADE PAYABLES	EUR 915,980.67
	(Previous year: EUR 1,009,377.82)

The non-current trade payables concern the purchase of a heating system that must be paid off in 15 equal annual instalments. The non-current liability, which includes both a repayment and an interest component, is discounted at a rate of 4.64% p.a.

7.16 DEFERRED TAX LIABILITIES

DEFERRED TAX LIABILITIES	EUR 15,835,034.73
	(Previous year: EUR 7,021,027.46)

The deferred tax liabilities are attributable to the following item on the statement of financial position:

(in EUR '000)	31 Dec. 2012	31 Dec. 2011
Investment property	15,835	7,021
TOTAL	**15,835**	**7,021**

7.17 NON-CURRENT BORROWINGS (THIRD-PARTY INTERESTS IN COMMERCIAL PARTNERSHIPS)

NON-CURRENT BORROWINGS	EUR 65,717.98
	(Previous year: EUR 59,373.28)

This concerns liabilities to the third parties that have stakes in the consolidated commercial partnerships.

7.18 CURRENT BORROWINGS

CURRENT BORROWINGS		EUR 114,042,217.32
		(Previous year: EUR 35,952,622.56)
(in EUR '000)	**2012**	**Previous year**
Current financial liabilities	16,157	30,986
Current deferred income	226	0
Current trade payables	4,286	2,070
Current tax liabilities	299	98
Other current liabilities	93,074	2,799
TOTAL	**114,042**	**35,953**

The other current liabilities contain the full purchase price of TEUR 89,500 (previous year: TEUR 0) for the properties in Berlin, Wuppertal, Bochum, Düsseldorf, Ennepetal, Essen, Oberhausen, Remscheid, Marl, Velbert and Wülfrath that were acquired as at 31 December 2012, on-account payments received for operating costs in the amount of TEUR 1,846 (previous year: TEUR 1,590), liabilities from derivative financial instruments in the amount of TEUR 865 (previous year: TEUR 728) as well as liabilities of TEUR 500 (previous year: TEUR 0) from increasing the majority stake in BWAG.

These liabilities have remaining terms of up to one year.

7.19 CONTINGENT LIABILITIES AND OTHER FINANCIAL OBLIGATIONS

Based on the stipulated fixed lease term of 60 months, the remaining liabilities related to the office space rented on 1 March 2010 at Alstertor 9, Hamburg, as at the reporting date are TEUR 310.

There are also standard leases that are classified as operating leases pursuant to IAS 17.8. The leased property is recognised by the lessor, and not by the lessee. There are TEUR 166 in liabilities under the existent leases. Please see note 5.13 in regards to the maturities.

8. NATURE AND EXTENT OF RISKS FROM FINANCIAL INSTRUMENTS

8.1 CAPITAL MANAGEMENT

The aim of capital management is to ensure, in an effective manner, that the Company achieves its corporate goals and strategies in the interest of shareholders and employees alike. In particular, management focuses on achieving the capital market's demand for a minimum return on the invested capital, boosting the return on equity (RoE) and maximizing the Company's value.

The Company's financial objectives are consistently focused on enhancing the enterprise value, continuously and sustainably.

8.2 RISK MANAGEMENT

Pursuant to IFRS 7, the representation of market risks requires sensitivity analyses that show the effects of hypothetical changes in the relevant risk variables on both performance and equity. Periodic effects are determined by relating the hypothetical changes in the risk variables to the holdings of primary and derivative financial instruments as at the reporting date.

The analyses described below of the Group's activities aimed at lowering risk, as well as the sensitivity analyses performed, are hypothetical and thus constitute risky and uncertain disclosures. Actual outcomes might differ substantially from the disclosures herein due to unforeseeable developments in the capital and property markets. The methods utilised for purposes of risk analysis should not be deemed to be forecasts of future events or losses.

Interest rate risk

Fair value interest rate risks, i.e. potential changes in the fair value of financial instruments due to changes in market interest rates, arise especially in connection with non-current liabilities that carry fixed interest rates. The fair value of the loan liabilities as at the reporting date differs slightly from the carrying amounts recognised. Because these financial instruments are always recognised at amortised cost and not at the fair value, this does not directly affect either equity or earnings.

In contrast, the Company is exposed to cash flow interest rate risks in connection with items of the statement of financial position and financial derivatives that are based on variable interest rates. This applies, in particular, to the Group's variable-rate financial liabilities. Interest rate hedges are entered into as necessary to minimise this risk.

Risks of this nature do not arise in connection with the fixed-rate loans. In this context, a cash flow interest rate risk arises only when fixed-interest periods expire or less expensive financing gives competitors an advantage.

Market price risks

Market price risks are changes in the value of a financial instrument due to fluctuations in the market price. For the most part, KWG AG is not exposed to risks of this type. Derivative financial instruments serve to further limit residual risks.

The investment property that is recognised at fair value is also exposed to inherent market price risks. In particular, there is a certain correlation between the fair value of real property and interest rates as well as confidence in the national currency. Significant increases in interest rates and any stabilisation of the euro might have a negative effect on the property values. While KWG AG continuously monitors the market, it cannot fully disengage from global trends. But we are confident that judicious selection of properties helps to keep the related risks under control.

Credit risk

As regards non-derivative financial instruments, the default risk arises from the risk that contracting parties might not meet their contractual payment obligations.

The maximum default risk is limited by the carrying amounts of the financial assets recognised in the consolidated statement of financial position. Default risks are minimised by limiting receivables and other assets to the greatest extent possible. As the Company places stringent requirements on the credit rating of the bank where it invests its cash, default risks are considered unlikely.

The identifiable default risk related to individual receivables is covered through appropriate bad debt allowances.

Liquidity risk
Liquidity risks arise in connection with potential financial bottlenecks and the resulting increase in refinancing costs. The fundamental aim thus is to ensure the Company's solvency at all times by financing at matching maturities. The Group's liquidity needs are determined through liquidity targets and are covered through fixed loans and cash to ensure that its solvency is always assured.

The cash flows related to financial liabilities also follow from the consolidated statement of cash flows.

Derivative financial instruments and hedge accounting
Derivatives may be utilised if they are based on assets or liabilities recognised in the consolidated statement of financial position. Hedge accounting is carried out in accordance with the requirements of IAS 39, particularly in connection with hedges of fluctuations in future cash flows. Primarily cash flow hedges were used in the financial year just ended.

Carrying amounts and fair values
The fair value of a financial instrument is the amount at which an asset might be exchanged or a liability settled between knowledgeable, willing parties in an arm's-length transaction. The fair value of liabilities to banks and other non-current financial liabilities is determined as the present value of the future cash flows, taking yield curves into account. The fair value of a derivative financial instrument generally corresponds to its market value. The market price determined for all derivative financial instruments is the price at which a contracting party would assume the rights and/or obligations of the other contracting party.

Suitable mathematical methods, e.g. discounting the estimated future cash flows, are used to determine the fair value of derivatives that are not traded on the stock market.

The carrying amount of financial resources, current trade receivables and other receivables as well as current trade payables and other payables must be deemed a realistic estimate of their fair value given the items' short remaining terms.

9. EARNINGS PER SHARE

Basic earnings per share are calculated by dividing the profit to be allocated to owners of no par value shares by the weighted average of the shares outstanding during the period in question.

As the Company has issued neither options nor convertible bonds, basic earnings per share correspond to diluted earnings per share.

The determination of earnings per share is based on EUR 44,244,663.51 (previous year: EUR 9,819,432.91) in consolidated net profit attributable to the investors in the parent.

The weighted average number of shares issued or to be issued (14,535,238 shares; previous year: 10,977,765 shares) during the reporting period differs from the total number of ordinary shares outstanding at the end of the reporting date (15,881,234 shares; previous year: 10,804,729 shares). In addition to the capital increases executed during the financial year, this is due to the fact that portions of the consideration transferred in connection with business combinations must be issued in the form of ordinary shares and the relevant capital increase has not yet been recorded in the Commercial Register.

Basic earnings per share were EUR 3.04 (previous year: EUR 0.89).

10. RELATED PARTY DISCLOSURES

Individuals or companies are deemed related parties as defined in IAS 24 if one of the parties has the possibility of controlling the other party or exercising significant influence over it. The members of the Management Board and the Supervisory Board may have significant influence over KWG AG.

Transactions with related parties
In the 2012 financial year, there were no transactions between the Company, on the one hand, and members of the Management Board or Supervisory Board, on the other hand.

(11.) MANAGEMENT BOARD AND SUPERVISORY BOARD

MANAGEMENT BOARD

Torsten P. Hoffmann
- member of the Management Board of KWG AG (= actual profession)

Stavros Efremidis
- Executive Director of conwert Immobilien Invest SE, Vienna/Austria (since 20 February 2013 = actual profession)
- Spokesman of the Management Board of KWG AG (until 19 February 2013)

A total of TEUR 728 (previous year: TEUR 593) in compensation was paid to the members of the Management Board for their activities both in the parent company and its subsidiaries; it is comprised as follows for the 2012 financial year:

(in EUR ’000)	Annual fixed salary	Variable compensation	Total compensation
Stavros Efremidis	210	290	500
Torsten P. Hoffmann	188	40	228
TOTAL	**398**	**330**	**728**

SUPERVISORY BOARD

Chairman: Prof. Dr. Peer Witten, Honorary Chairman of BVL Bundesvereinigung Logistik, Hamburg

Deputy Chairman: Franz-Josef Gesinn, lawyer, Obersteinbach (until 28 February 2013)

Further members:
Thies-Martin Brandt, business graduate / architect, Hamburg (until 28 February 2013)
Björn Engholm, Deputy Chairman of the Board of Management of Verband Wohnsiegel - Das Europäische Markenhaus e. V., Lübeck
Hans-Michael Porwoll, school superintendent, Bremerhaven (until 28 February 2013)
Patrik Zeigherman, investment banker, Frankfurt am Main (until 28 February 2013)

MEMBERSHIP OF OTHER SUPERVISORY BOARDS, MANAGEMENT BOARDS AND ADVISORY BOARDS:

Prof. Dr. Peer Witten:

- Hamburger Hafen und Logistik AG (HHLA), Hamburg
  Chairman of the Supervisory Board
- Lufthansa Cargo AG, Frankfurt am Main
  Member of the Supervisory Board
- OTTO Group (GmbH & Co. KG), Hamburg
  Member of the Advisory Board
- OTTO Aktiengesellschaft für Beteiligungen, Hamburg
  Member of the Supervisory Board
- Röhlig & Co. Holding GmbH & Co. KG, Bremen
  Member of the Advisory Board
- Forum Grundstücksgesellschaft GmbH & Co. KG, Hamburg
  Member of the Advisory Board

Franz-Josef Gesinn:

- BHW Holding AG, Hameln
  Member of the Supervisory Board
- Aktionsgruppe „Kinder in Not“ e.V., Windhagen
  Member of the Board of Directors

Thies-Martin Brandt:
- Konsumgenossenschaft Berlin und Umgegend eG, Berlin
  Member of the Supervisory Board

Björn Engholm:
- Lübecker Hafen-Gesellschaft mbH, Lübeck
  Chairman of the Supervisory Board
- Deutsche Druck und Verlagsgesellschaft mbH, Hamburg, Member of the Board of Trustees of the Social Democratic Party (SPD)
- Europäisches Hansemuseum gGmbH, Lübeck
  Member of the Advisory Board
- Verband Wohnsiegel – Das Europäische Markenhaus e.V., Lohfelden-Kassel, Deputy Chairman of the Board of Directors and Chairman of the Advisory Design Council

A total of TEUR 106 (previous year: TEUR 106) in compensation were deferred for the Supervisory Board in the financial year just ended. The compensation of the members of the Supervisory Board does not contain any variable components. Compensation breaks down as follows by Supervisory Board member:

(in EUR '000)	2012
Prof. Dr. Peer Witten	36
Franz-Josef Gesinn	24
Thies-Martin Brandt	12
Björn Engholm	12
Patrik Zeigherman	12
Hans-Michael Porwoll	10
TOTAL	**106**

Any value-added tax (VAT) to be reimbursed to the Supervisory Board members is included in the aforementioned compensation.

12. RELEASE FOR PUBLICATION

The Management Board released the consolidated financial statements to the Supervisory Board as at the preparation date (25 March 2013). It is the task of the Supervisory Board to examine the consolidated financial statements and declare whether it approves them. The consolidated financial statements may be changed at any time until they have been approved by the Supervisory Board.

13. EVENTS AFTER THE REPORTING PERIOD

On 21 January 2013, conwert Immobilien Invest SE, Vienna, Austria, notified KWG AG in accordance with Section 20 (1), (3) and (4) and Section 21 (1) and (2) German Stock Corporation Act that it had acquired a controlling interest in KWG AG.

Effective 19 February 2013, the Chairman of the Management Board of KWG AG, Stavros Efremidis, retired from the Company's Management Board as planned.

Five of the six Supervisory Board members retired from office with effect from 28 February 2013. In a letter dated 7 March 2013, the Management Board solicited the court appointment of new Supervisory Board members.

On 6 March 2013, conwert Immobilien Invest SE, Vienna, Austria, announced that it had increased its stake in KWG AG to 75.7%.

There were no other events of material significance between the reporting date and the date of these consolidated financial statements.

14. STATEMENT OF CASH FLOWS DISCLOSURES

Cash corresponds to the definition of cash and cash equivalents provided in the disclosures on material measurement principles. The consolidated statement of cash flows was prepared in accordance with IAS 7; the changes in cash are broken down by cash flows from operating activities, investing activities and financing activities. It is structured according to the indirect method.

Interest payments are reported in full in the cash flow from operating activities.

CONSOLIDATED STATEMENT OF CHANGES IN NON-CURRENT ASSETS

AS AT 31 DEC. 2012

					COST
(in EUR)	01 Jan. 2012	Additions	Change IAS 40	Disposals	Additions from changes in the basis of consolidation
Intangible assets					
Concessions, industrial rights and similar rights and assets, and licences in such rights and assets	401,330.01	34,200.01	0.00	0.00	42,969.11
Property, plant and equipment					
Technical equipment and machinery	11,204.94	0.00	0.00	0.00	0.00
Other equipment, operating and office equipment	662,942.42	107,466.91	0.00	–28,387.36	292,808.53
TOTAL	**674,147.36**	**107,466.91**	**0.00**	**–28,387.36**	**292,808.53**
Investment property	226,388,000.00	89,504,929.15	41,585,344.17	–1,987,696.09	69,211,897.77
Long-term financial assets					
Investments in associates	0.00	13,67	0.00	0.00	5,000.00
TOTAL	**227,463,477.37**	**89,646,609.74**	**41,585,344.17**	**–2,016,083.45**	**69,552,675.41**

AS AT 31 DEC. 2011

					COST
(in EUR)	01 Jan. 2011	Additions	Change IAS 40	Disposals	Additions from changes in the basis of consolidation
Intangible assets					
Concessions, industrial rights and similar rights and assets, and licences in such rights and assets	270,344.86	43,557.57	0.00	0.00	87,427.58
Prepayments	87,427.58	0.00	0.00	0.00	–87,427.58
TOTAL	**357,772.44**	**43,557.57**	**0.00**	**0.00**	**0.00**
Property, plant and equipment					
Technical equipment and machinery	11,204.94	0.00	0.00	0.00	0.00
Other equipment, operating and office equipment	589,341.13	73,601.29	0.00	0.00	0.00
TOTAL	**600,546.07**	**73,601.29**	**0.00**	**0.00**	**0.00**
Investment property	188,635,558.02	9,824,885.66	8,753,187.25	–35,630.93	0.00
TOTAL	**227,463,477.37**	**9,942,044.52**	**8,753,187.25**	**–35,630.93**	**0.00**

	DEPRECIATION AND AMORTISATION					CARRYING AMOUNTS	
31 Dec. 2012	01 Jan. 2012	Additions	Disposals	Additions from changes in the basis of consolidation	31 Dec. 2012	31 Dec. 2012	31 Dec. 2011
478,499.13	276,345.01	108,745.61	0.00	21,253.66	406,344.28	72,154.85	124,985.00
11,204.94	11,203.94	0.00	0.00	0.00	11,203.94	1.00	1.00
1.034.830,50	338,035.73	119,482.53	– 28.387,36	122,248.59	551.379,45	483,451.01	324,906.69
1.046.035,44	**349,239.67**	**119,482.53**	**– 28.387,36**	**122,248.59**	**562.583,43**	**483,452.01**	**324,907.69**
424,702,475.00	0.00	0.00	0.00	0.00	0.00	424,702,475.00	226,388,000.00
5,013.67	0.00	0.00	0.00	0.00	0.00	5,013.67	0.00
426.232.023,24	**625,584.68**	**228,228.14**	**– 28.387,36**	**143,502.25**	**968.927,71**	**425,263,095.53**	**226,837,892.69**

	DEPRECIATION AND AMORTISATION					CARRYING AMOUNTS	
31 Dec. 2011	01 Jan. 2011	Additions	Disposals	Additions from changes in the basis of consolidation	31 Dec. 2011	31 Dec. 2011	31 Dec. 2010
0.00	401,330.01	150,264.86	126,080.15	0.00	276,345.01	124,985.00	120,080.00
0.00	0.00	0.00	0.00	0.00	0.00	0.00	87,427.58
0.00	**401,330.01**	**150,264.86**	**126,080.15**	**0.00**	**276,345.01**	**124,985.00**	**207,507.58**
0.00	11,204.94	11,203.94	0.00	0.00	11,203.94	1.00	1.00
0.00	662,942.42	246,322.44	91,713.29	0.00	338,035.73	324,906.69	343,018.69
0.00	**674,147.36**	**257,526.38**	**91,713.29**	**0.00**	**349,239.67**	**324,907.69**	**343,019.69**
19,210,000.00	226,388,000.00	0.00	0.00	0.00	0.00	226,388,000.00	188,635,558.02
19,210,000.00	**227,463,477.37**	**407,791.24**	**217,793.44**	**0.00**	**625,584.68**	**226,837,892.69**	**189,186,085.29**

17. AUDITORS' FEE

The auditor's fee calculated or to be calculated for the financial year is as follows:

(in EUR '000)	2012
For auditing services	58
For other confirmations	10
For other services	24
TOTAL	**92**

Hamburg, 25 March, 2013

KWG Kommunale Wohnen AG

Torsten P. Hoffmann

RESPONSIBILITY STATEMENT

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

KWG Kommunale Wohnen AG

Torsten P. Hoffmann

AUDITORS’ REPORT

TO THE KOMMUNALE WOHNEN AG, HAMBURG

To the Kommunale Wohnen AG, Hamburg

We have audited the consolidated financial statements prepared by KWG Kommunale Wohnen AG, Hamburg, comprising the balance sheet, the statement of comprehensive income, the statement of changes in equity, the cash flow statement and the notes to the consolidated financial statements, together with the group management report for the business year from January 1 to December 31, 2012. The preparation of the consolidated financial statements and the management report in accordance with the IFRSs, as adopted by the EU, and the additional requirements of German commercial law pursuant to § (article) 315a Abs. (paragraph) 1 HGB (“Handelsgesetzbuch”: German Commercial Code) are the responsibility of the Company’s Board of Management. Our responsibility is to express an opinion on the consolidated financial statements and on the management report based on our audit.

We conducted our audit of the consolidated financial statements in accordance with § 317 HGB and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (Institute of Public Auditors in Germany) (IDW). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the consolidated financial statements in accordance with the applicable financial reporting framework and in the management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Group and expectations as to possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the consolidated financial statements and the management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the annual financial statements of those entities included in consolidation, the determination of the entities to be included in consolidation, the accounting and consolidation principles used and significant estimates made by the Company’s Board of Management, as well as evaluating the overall presentation of the consolidated financial statements and the management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion, based on the findings of our audit, the consolidated financial statements comply with the IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to Article 315a paragraph 1 HGB and give a true and fair view of the net assets, financial position and results of operations of the Group in accordance with these requirements. The management report is consistent with the consolidated financial statements and as a whole provides a suitable view of the Group’s position and suitably presents the opportunities and risks of future development.

Hamburg, March 28, 2013

FIDES Treuhand GmbH & Co. KG
Wirtschaftsprüfungsgesellschaft
Steuerberatungsgesellschaft

(Hansen)	(Mackedanz)
German Public Auditor	German Public Auditor

GLOSSARY

BARMER WOHNUNGSBAU AG

Barmer Wohnungsbau AG (BWAG) is a residential property company that has let apartments in the Wuppertal metropolitan area for 135 years. KWG acquired a controlling interest in BWAG and consolidated the company as at 1 May 2012.

CONWERT IMMOBILIEN INVEST SE

Austrian conwert Immobilien Invest SE (conwert) is the majority shareholder of KWG. The Management Board of KWG welcomes the involvement of conwert with the aim of forming a group of leading real estate companies, especially in Germany.

FAIR VALUE

Fair value is the amount for which properties could be exchanged between knowledgeable, willing parties in an arm's length transaction.

FFO – FUNDS FROM OPERATIONS

FFO is a measure of cash generated by property companies
that is derived from the consolidated income statement. It is calculated as the operating cash flow after deducting extraordinary factors and, at KWG, does not include any sales revenue.

FINANCIAL COVENANTS

Financial covenants are part of the conditions of some loan agreements whereby the borrowing firm undertakes to achieve certain financial key figures.

LTV – LOAN TO VALUE

The LTV is an indicator of property companies' debt. It is expressed as the ratio of the property's actual value to the value of the loan financing the purchase.

RENTAL YIELD

The rental yield is a measure of the profitability of residential property companies. It is calculated as the annual net basic rent over the property assets.

NAV – NET ASSET VALUE

The NAV indicates the intrinsic value of a property company. It represents the present value of all of a company's assets less its liabilities.

NNNAV – TRIPLE NET ASSET VALUE

The NNNAV is calculated as the NAV adjusted for deferred taxes.

NET BASIC RENT

Net basic rent is calculated as the rental income adjusted for ancillary costs (such as waste collection, water charges, caretaker fees), heating costs and VAT.

NOI – NET OPERATING INCOME

Net operating income (NOI) is the operating income generated from housing management after deducting any personnel and material costs incurred.

TOWER-PORTFOLIO

In December 2012, KWG acquired around 2,900 units from the Tower Group's property portfolios. The properties are located in Berlin and North Rhine-Westphalia. A sweeping renovation programme with the goal of reducing the portfolio's vacancy rate and increasing the value of the properties was launched in 2013.

FINANCIAL CALENDAR 2013
PUBLISHING INFORMATION

FINANCIAL CALENDAR 2013

Publication of the 2012 financial statements	22 April
Publication of the Q1 results	08 May
Annual General Meeting, Hamburg	17 June
Publication of the half-yearly results	07 August
EXPO REAL, Munich	07-09 October
Publication of the Q3 results	06 November

Current as at 10 April 2013; may be subject to changes.

For the most up-to-date financial calender, please go to www.kwg-ag.com

PUBLISHING INFORMATION

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