GAGFAH Consolidated Annual Report

2007

Highlights

HIGHLIGHTS

- NET PROFIT of €588.9 million or €2.61 per share in 2007, compared to €159.7 million or €0.71 per share in 2006.
- FFO up 19 % to €197.4 million or €0.88 per share in 2007, from €165.4 million or €0.73 per share in 2006.
- NAV of €14.25 per share and gross asset value of €866 per square meter in 2007.
- PRE-TAX EARNINGS of €1,122.8 million in 2007 as compared to €195.8 million in 2006.
- QUARTERLY DIVIDEND for Q4 2007 of €0.20 per share will be paid on March 27, 2008.

VACANCY

- Overall reduction to a rate of 4.4 % (including new acquisitions), down from 5.7 % as of December 31, 2006, significantly exceeding our year-end vacancy target of 5.2 %.
- On a same-store basis, our vacancy rate decreased to 4.0 % in 2007.
- Excluding units held for privatization, our vacancy rate is 3.5 % (on a same-store basis).

PRIVATIZATIONS

- Strong privatization volume; up 127 % to 2,438 units at a margin of 22 % for 2007, compared to 1,073 units in 2006. Thereof 1,281 units sold in Q4 2007, compared to 597 units in Q4 2006.

RENTS

- Our rental growth rate was 1.6 % (residential rents on a same-store basis) for 2007.
- Portfolio currently under-rented by approximately 10 % based on external appraisals.

COSTS

- Our average management costs per unit declined to €448 in 2007 from €486 in 2006.

ACQUISITIONS

- Since IPO, we have acquired or committed to acquire 28,000 units for a total consideration of approximately €1.6 billion.

GAGFAH S.A. SHARES AS OF DECEMBER 31, 2007

ISIN	LU0269583422
Total Market Capitalization (€ million)	2,680
Industry Group	Real Estate
Number of Shares (million)	225.6
Listing	Frankfurt Stock Exchange
Major Indices Memberships	MDAX, EPRA, GPR

All per-share data is based on the 225.6 million shares outstanding.

Key Financial Information

FINANCIAL FIGURES

INCOME STATEMENT (€ MILLION)	2007	2006 pro forma[1]	Q4 2007	Q4 2006
Income from the leasing of investment property	927.8	823.2	229.1	216.3
Profit from the leasing of investment property	441.0	386.5	100.8	74.7
Profit from the sale of investment property	56.3	24.5	15.8	12.2
Profit from fair value measurement	984.2	65.5	330.5	12.7
EBITDA	1,434.1	406.1	453.9	81.7
EBIT	1,397.7	359.6	438.9	57.0
EBT	1,122.8	195.8	365.2	21.5
FFO	197.4	165.4	56.7	48.2
FFO per share (225.6m shares outstanding/ in €)	0.88	0.73	0.26	0.21

BALANCE SHEET (€ MILLION)	12-31-2007	12-31-2006
Investment property[2]	9,997.8	7,659.8
Financial liabilities	6,649.1	5,617.5

OPERATIONAL FIGURES	12-31-2007	12-31-2006
Group residential portfolio		
units	170,316	151,366
sqm	10,252,228	9,072,423
Net cold rent/ sqm (in €)	4.85	4.76
Vacancy (in %)	4.4	5.7
Privatized units	2,438	1,073

1) Since our Group is the result of acquisitions and corporate combinations occurring at various times since September 2004, with significant acquisitions in 2005 and 2006, we used pro forma financial figures until 2006. In 2007 we did not use pro forma figures because our asset and share deals were not significant enough.
2) Including prepayments.

FFO is a non-IFRS financial measure used by our Group's management to report the funds generated from continued operations. FFO is used as a measure of our Group's generation of funds for investment and the payment of dividends to shareholders. The following is a reconciliation of EBIT to FFO for our Group:

FUNDS FROM OPERATIONS - FFO (€ MILLION)	2007	2006 pro forma[1]	Q4 2007	Q4 2006
EBIT	1,397.7	359.6	438.9	57.0
Reorganization and restructuring expenses	22.4	39.8	5.8	22.8
Depreciation and amortization	14.0	6.7	9.2	1.9
EBITDA	1,434.1	406.1	453.9	81.7
Profit from fair value measurement	– 984.2	– 65.5	– 330.5	– 12.7
Realized valuation gains through sales	6.9	1.0	6.2	1.0
Net interest expenses (periodical)	– 263.5	– 223.4	– 70.4	– 53.5
Taxes paid	– 1.8	2.0	– 0.3	0.5
Other financing expenses	2.6	7.2	2.2	0.9
Expenses for share-based remuneration	2.1	20.4	– 0.2	20.4
Commercial real estate / property development	1.2	17.6	– 4.2	9.9
FFO	197.4	165.4	56.7	48.2
FFO per share (225.6m shares outstanding/ in €)	0.88	0.73	0.26	0.21

1) Since our Group is the result of acquisitions and corporate combinations occurring at various times since September 2004, with significant acquisitions in 2005 and 2006, we used pro forma financial figures until 2006. In 2007 we did not use pro forma figures because our asset and share deals were not significant enough.

GAGFAH S.A.

GAGFAH S.A. is a joint stock corporation organised under the laws of the Grand Duchy of Luxembourg qualifying as a securitization company under the Luxembourg Securitization Law of March 22, 2004. The core business of GAGFAH S.A.'s operating subsidiaries is the ownership, management and acquisition of a geographically diversified and well-maintained residential property portfolio located throughout Germany. With a portfolio of over 170,000 apartments, GAGFAH is the largest German listed residential property company. We aim to pay out a substantial portion of our FFO in form of stable and growing quarterly dividends to our shareholders.

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Letter to our Shareholders

Dear Shareholders,

2007 represents a milestone for our company – it was our first full year in which we reported financial results as a listed company. This is important because four quarters of operating information allow investors to view our execution progress since the IPO and gives us a basis for our goals in 2008. We operate within a dynamic German residential property market with a high quality asset portfolio of approximately 200,000 units located throughout Germany and an asset value of over €10 billion.

As you know, our main financial objective is to maximize earnings and cash flow (as measured by funds from operations or FFO) through the leasing and selling of residential apartments. In 2007, we have increased our FFO per share by 19 % and our Net Asset Value per share by 33 %. This objective has been reached by our group focusing on its business strategy – optimizing services and offering high quality accommodation to tenants. All operational targets for 2007 for the group have been met or exceeded and we plan to continue the progress going forward in 2008.

Heading into 2007, the group set operational targets, which we thought were challenging at the time: grow rents by 1.5 %, reduce vacancy to 5.2 % and management costs per unit to €450 and sell (privatize) 1,500 units.

Grow rents: We believed that one of the assets of the GAGFAH group portfolio was monthly rental rates below the market average. By focusing on closing this gap rents have grown by 1.6 % on a same-store basis, slightly exceeding the 2007 target of 1.5 %.

Reduce vacancy: If you aim to increase rents, can you also reduce vacancy? Our belief has been that vacancy is a result of under management rather than simply the level of the rent. To reduce portfolio vacancy the group has established a dedicated internal brokerage team, implemented economic incentives for the lease up team and increased advertising for vacant units. As a result, the group vacancy has been reduced from 5.7 % to 4.4 % in 2007. This exceeded the internal target of 5.2 %.

Optimize costs: Through active cost management and review and focusing on realizing operating efficiencies, the group has further decreased management costs per unit and surpassed the objective of €450 per year by decreasing the costs per unit to €448.

Privatize apartments: We see an opportunity in Germany because the country's home ownership rate of 43 % is below that of other industrialized countries and well below the E.U. average of 63 %, while the cost of home ownership compared to renting, can make purchasing homes attractive. Our view is that Germans will continue to purchase apartments and houses. The group's privatization team was able to respond to the strong demand for its units, and the privatization target has been increased from 1,500 units to 2,000-2,500 units during the year 2007. We are pleased that total sales of 2,438 units at a margin of 22 % have been reached.

Acquisitions: Since our IPO in 2006, the group has purchased and integrated units in the portfolio for a total amount of €1.6 billion. These will begin to contribute to our results in 2008.

The GAGFAH group's business model shows stable characteristics with the majority of its income coming from growing recurring rents. Decreasing residential construction activities combined with increased household demand formation within Germany supports our business model. The strong privatization and lease-up results in the fourth quarter of 2007 are only two examples of the stability of the group's business model in a potentially volatile environment.

We believe that the valuation of our company will ultimately reflect our ability to generate cash flow, so for us, our primary goal is to continue to focus on improving our revenue generation, while reducing costs. For 2008, our objectives are to grow earnings and FFO per share, maintain an improving quality of living for the tenants, and provide a challenging and satisfying place to work for the staff. We appreciate your support and the exceptional commitment of our employees in joining us in building the best German residential property business.

Robert I. Kauffman
Chairman

Burkhard U. Drescher
Member of the Board of Directors and CEO
of the German Subsidiaries

Management of GAGFAH S.A.

GAGFAH S.A. is managed by the Board of Directors. GAGFAH's operational subsidiaries in Germany are led by the Senior Management.

Board of Directors

The Board of Directors is vested with the broadest powers to manage the business of the Company and to authorize and perform all acts of disposal and administration falling within the purposes of the Company.

The Board of Directors is composed of the following members:

WESLEY R. EDENS
Mr. Edens is the Chairman of the Board of Directors and the Chief Executive Officer of Fortress Investment Group LLC and of FIG LLC. Mr. Edens has been a principal and the Chairman of the Management Committee of Fortress since co-founding the Company in May 1998. Mr. Edens is responsible for the Fortress private equity and publicly traded alternative investment businesses. He is also the Chairman of the Board of Directors of each of Aircastle Limited, Brookdale Senior Living Inc., Eurocastle Investment Limited, GateHouse Media, Inc., Mapeley Limited and Newcastle Investment Corp., and a director of GAGFAH S.A. Prior to forming Fortress, Mr. Edens was a partner and a managing director of BlackRock Financial Management Inc., where he headed BlackRock Asset Investors, a private equity fund. In addition, Mr. Edens was formerly a partner and a managing director of Lehman Brothers. Mr. Edens received a B.S. in Finance from Oregon State University.

ROBERT I. KAUFFMAN
Mr. Kauffman is the Chairman of the Board of Directors of GAGFAH S.A. and President (Europe) and a member of the Board of Directors of Fortress Investment Group LLC and of FIG LLC. Mr. Kauffman has been a principal and a member of the Management Committee of Fortress since co-founding the Company in 1998. Mr. Kauffman is responsible for the management of Fortress's European private equity investment operations. Mr. Kauffman is the Chairman of the Board of Directors of GAGFAH S.A. and Alea Group Holdings (Bermuda) Ltd. Prior to joining Fortress, Mr. Kauffman was a managing director of UBS from May 1997 to May 1998, and prior to that, was a principal of BlackRock Financial Management Inc. Mr. Kauffman was with Lehman Brothers from 1986 to 1994 and served as an executive director of Lehman Brothers International in London beginning in 1992. Mr. Kauffman received a B.S. in Business Administration from Northeastern University.

RANDAL A. NARDONE

Mr. Nardone is the Chief Operating Officer and a member of the Board of Directors of Fortress Investment Group LLC. Mr. Nardone has been a principal and a member of the Management Committee of Fortress since co-founding Fortress in May 1998. Mr. Nardone oversees Fortress's structured finance and legal matters. Mr. Nardone is a director of GAGFAH S.A. and Eurocastle Investment Limited. Mr. Nardone was previously a managing director of UBS from May 1997 to May 1998. Prior to joining UBS in 1997, Mr. Nardone was a principal of BlackRock Financial Management, Inc. Prior to joining BlackRock, Mr. Nardone was a partner and a member of the executive committee at the law firm of Thacher Proffitt & Wood. Mr. Nardone received a B.A. in English and Biology from the University of Connecticut and a J.D. from Boston University School of Law.

BURKHARD U. DRESCHER

Burkhard Ulrich Drescher was appointed a member of the Board in October 2006. He has a degree in business economics and chemistry and has worked as city treasurer and municipal chief executive (Oberstadtdirektor) in leading administrative positions. He ended his career in public administration as Lord Mayor of the city of Oberhausen and joined the Management Board of RAG Immobilien AG in 2004. On August 1, 2006, he was appointed CEO of GAGFAH S.A.'s German subsidiaries.

YVES WAGNER, PH.D.

Yves Wagner, Ph.D., was appointed as an independent member to the Board in October 2006. In addition, Mr. Wagner is an independent director of several management companies. He is co-founder and partner of The Directors' Office, a Luxembourg company supervised by the CSSF, providing substance and assistance in particular in risk management supervision of management companies and funds. Prior thereto, Mr. Wagner was Chief Executive Officer of Fortis Investment Luxembourg, after having served as a director for many years in the asset management division of Banque Générale du Luxembourg (Fortis Group). Mr. Wagner is also a lecturer at several universities and is President of the Luxembourg Society of Financial Analysts.

DIETER H. RISTAU

Dieter H. Ristau was appointed as an independent member of the Board in October 2006. Prior to joining our Group, Dieter H. Ristau was Chief Executive Officer of Allianz Global Investors Luxembourg S.A. and Chairman of the boards of Dresdner International Management Services Ltd., Ireland, and Dresdner Fund Administration Ltd., Cayman Islands.

DR. JÜRGEN ALLERKAMP

Dr. Jürgen Allerkamp was appointed as an independent member to the Board in October 2006. Dr. Allerkamp has degrees in law and political science. He began his career as a legal officer with Westdeutsche Landesbank. Prior to joining our Group, he was appointed a member of the management board of Stadtsparkasse Dresden in 1993. In 1997, he became a member of the board of NORD / LB Norddeutsche Landesbank Girozentrale.

COMMITTEES

The Board is supported by an Audit Committee, whose members are:

Dr. Jürgen Allerkamp
Wesley R. Edens
Robert I. Kauffman
Randal A. Nardone

The primary tasks of the Company's Audit Committee are:

- to assist the Board in fulfilling its oversight responsibilities relating to the integrity of our financial statements, including periodically reporting to the Board on its activities;
- and to make recommendations for the appointment, compensation, retention and oversight of, and consider the independence of the Company's external auditor and perform such other duties imposed by applicable laws and regulations of the regulated market or markets in which the shares are listed, as well as any other duties entrusted to the Committee by the Board.

In addition to the Audit Committee, we have a Compensation Committee in place which consists of the following members:

Wesley R. Edens
Robert I. Kauffman
Randal A. Nardone
Yves Wagner, Ph. D.

The Compensation Committee reviews the Company's compensation policy, determines the remuneration of executive directors and the senior management of the Company's subsidiaries and exercises discretion with regard to employee and management benefit plans.

OTHER INFORMATION

The Directors are appointed at the General Meeting of Shareholders by a simple majority of the votes cast. Directors serve for a period not exceeding six years or until their successors are elected. Directors may be removed with or without cause at the General Meeting of Shareholders by a simple majority of the votes cast at such meeting. The Directors are eligible for re-election. As long as the shares are listed on one or more regulated stock exchanges, the Board of Directors must include three independent Directors. In the event of a vacancy in the office of a Director because of death, retirement, resignation, dismissal, removal or otherwise, the remaining Directors may fill such vacancy and appoint a successor to act until the next Meeting of Shareholders without regard to the independence requirement.

Amendments of the Articles of Incorporation of GAGFAH S.A. are approved by resolution at an extraordinary General Meeting of Shareholders. Extraordinary General Meetings of Shareholders with the purpose of amending the Articles of GAGFAH S.A. are subject to a quorum of at least half of the issued and outstanding shares of GAGFAH S.A. If such quorum is not represented at a meeting, a second meeting may be convened with the same agenda. Such second meeting is not subject to a quorum. Amendments of the Articles of Incorporation of GAGFAH S.A., other than change of nationality, which requires unanimous consent of all shareholders, are approved by resolution of a two-thirds majority of the votes cast at the extraordinary General Meeting.

GAGFAH S.A. has a total authorized share capital of €10 billion. The Board of Directors has been authorized by the General Meeting of Shareholders to issue shares up to the total amount of the authorized share capital without further approval of the shareholders. Shares may be issued within the authorized share capital of GAGFAH S.A. with or without reserving pre-emptive subscription rights to existing shareholders at the discretion of the Board.

GAGFAH S.A., acting through its Board, has further been authorized by the General Meeting of Shareholders to purchase, acquire or receive own shares in the Company up to 10 % of the issued share capital from time to time.

Management of our Subsidiaries

Members of the senior management of the Company's subsidiaries are integral to the management of the Company's subsidiaries.

BURKHARD ULRICH DRESCHER – CEO CHIEF EXECUTIVE OFFICER

Burkhard Ulrich Drescher, born in 1951, graduated in business economics and chemistry and has worked as city treasurer and municipal chief executive (Oberstadtdirektor) in leading administrative positions. He ended his career in public administration as Lord Mayor of the city of Oberhausen and joined the Management Board of RAG Immobilien AG in 2004. On August 1, 2006, he was appointed CEO of GAGFAH S.A.'s German subsidiaries. Burkhard Ulrich Drescher is responsible for the central departments HR, Legal, Communications, Portfolio Management, Corporate Development and Internal Audit.

JÖRG DEISEL – COO CHIEF OPERATING OFFICER

Jörg Deisel, born in 1954, is Chief Operating Officer of the GAGFAH Group and its subsidiaries. Mr. Deisel has 25 years of professional experience and joined our Group in August 2005. After obtaining a degree in electrical science, Mr. Deisel worked for several German and international companies as Chief Executive Officer with a focus on strategic repositioning. Before joining our Group, he was Chief Executive Officer of Dynamit Nobel AG, where he was responsible for the restructuring of the company. Mr. Deisel also served as a consultant on international mergers and acquisitions. Mr. Deisel is responsible for the entire Real Estate Management.

ROLF GLESSING – CFO CHIEF FINANCIAL OFFICER

Rolf Glessing, born in 1962, joined the GAGFAH Group in March 2008. He studied business administration and economics at the University of Stuttgart-Hohenheim. After finishing his studies he worked for Arthur Andersen and qualified in Germany as a Tax Advisor and CPA. Thereafter, Rolf Glessing worked first as the CFO of a listed industrial group and then as CEO of the Luxembourg-based Buderus Foundry Management-Group. Mr. Glessing is responsible for Controlling, Treasury, Accounting, Tax and Investor Relations.

RAINER SEIFERT – CTO CHIEF TECHNICAL OFFICER

Rainer Seifert, born in 1959, is Chief Technical Officer of the GAGFAH subsidiaries. Mr. Seifert has 20 years of professional experience, and joined the WOBA GmbH in 2003. After obtaining a degree in business administration, Mr. Seifert worked for Arthur Andersen GmbH and Wohnbau Nordwest GmbH. Mr. Seifert is responsible for Project Management, Central Purchasing and IT.

DR. ULRICH WEBER – CIO CHIEF INVESTMENT OFFICER

Dr. Ulrich Weber, born in 1966, received his degree in business administration from the University of St. Gallen, Switzerland. In 1998, he founded bauconcept Gesellschaft für Immobilieninvestitionen mbH, a property development company which operated successfully in the residential and office markets of Berlin and Dresden. In 2003, Dr. Ulrich Weber founded apellas Property Management GmbH together with Soros Real Estate Investors C.V., a real estate private equity fund. Dr. Ulrich Weber is responsible for Acquisitions.

WORNA ZOHARI – CSO CHIEF SALES OFFICER

Worna Zohari, born in 1971, graduated in Real Estate Economics at the European Business School (EBS). He was then qualified as a Professional Member of the Royal Institution of Chartered Surveyors (MRICS), where he has also been serving as a member of the German Examination Board for some years now. Mr. Zohari has 14 years of experience in different positions in the real estate industry. After working for Viterra AG as head of one of its branch offices, he founded the Zohari Real Estate GmbH, a consulting firm for international investors specialized in the acquisition of residential property portfolios and tenant sales processes. On July 1, 2005, Mr. Zohari was appointed to the Management Board of the GAGFAH Group. Worna Zohari is responsible for Real Estate Sales, Condominium Management and Development Sales.

Directors' Report

GAGFAH at a Glance

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Competitive Strengths

We believe that the combination of our size, geographic diversity across Germany, scale of operations, and reputation as a respected German trade buyer makes us a strong player in the residential real estate market in Germany. Our most significant competitive strengths are:

HIGH-QUALITY ASSET PORTFOLIO

We currently own over 170,000 apartments totaling approximately ten million square meters. The apartments are located in over 350 towns and cities across Germany, with significant concentrations only in Dresden and Berlin. Our apartments have undergone substantial repairs and maintenance over the last years and we believe our portfolio is among the highest-quality multi-family portfolios in Germany.

EFFICIENT OPERATING PLATFORM

Our nationwide presence and size of our business enables us to constantly optimize general and administrative expenses, and provides us with cost savings in the purchasing of goods and services and cost efficiencies with respect to our corporate functions. We have the operational capability and capacity to integrate and operate both large and small residential property acquisitions at low marginal costs and to realize sustainable ongoing cost savings. Our significant ongoing cost advantages allow us to acquire assets more efficiently and to better compete against other smaller or less geographically diversified investors.

IN-DEPTH LOCAL MARKET KNOWLEDGE AND FOCUS ON GERMAN RESIDENTIAL REAL ESTATE

We have developed an in-depth knowledge of regional residential markets which enables us to efficiently manage, identify, evaluate, and acquire portfolios in all key markets throughout Germany. Our assets are directly managed through a streamlined operational network with six regional offices in Dresden, Essen, Berlin, Hamburg, Hanover and Frankfurt am Main. Our significant nationwide market presence through our properties located in more than 350 cities and towns throughout Germany gives us a competitive advantage over smaller or less diversified property companies, funds or investors aiming to take advantage of the trend of cities, municipalities and corporate entities selling their residential housing stock.

PROVEN TRACK RECORD OF SUCCESSFUL ACQUISITIONS

We have developed significant acquisition experience and expertise through the successful acquisition of both large as well as smaller-sized portfolio transactions in Germany. We believe we are perceived as a respected German trade buyer in highly politicized auctions as proven by our acquisitions of the GAGFAH GmbH and WOBA GmbH Groups. Since our IPO in October 2006, we have acquired or agreed to acquire over 28,000 units for approximately €1.6 billion in 19 transactions. Our acquisition experience positions us well to continue to successfully make accretive acquisitions of reasonably priced portfolios and to integrate such new portfolios into our platform without causing disruption to our operations.

Strategy

Our aim is to pay out a substantial portion of our FFO in form of quarterly dividends and to increase our earnings and dividends per share through organic and accretive growth. Key elements of our strategy to achieve these objectives include:

CONTINUE TO INCREASE RETURNS FROM CURRENT PORTFOLIO

We plan to continue to increase returns from our current portfolio while maintaining or improving tenant stability and their quality of accommodation. Over time we plan to continue to increase rents to market levels to the extent permitted by German law and existing rent restrictions. We believe that our portfolio is currently under-rented by 10 % based on external appraisal reports. We also plan to continue to lease-up vacant units and we have established a dedicated internal brokerage team, implemented economic incentives for management and introduced advertising and marketing campaigns to drive our lease-up activities. As of December 31, 2007, our overall vacancy rate was 4.4 %, down from 5.7 % as of December 31, 2006. On a same-store basis, excluding acquisitions, we reduced our vacancy rate from 5.7 % as of December 31, 2006 to 4.0 % as of December 31, 2007. The rental growth rate for 2007 was 1.6 %. Additionally, we are currently exploring ancillary businesses related to our core business to further drive organic growth.

INCREASE PROFITABILITY THROUGH OPERATING EFFICIENCIES

We intend to continue to reduce general and administrative expenses and reduce operating expenses by taking advantage of the purchasing power resulting from our size and centralized purchasing function, and through continuous active cost management and review. Our management costs per unit (includes general and administrative expenses and personnel costs excluding privatization and acquisition departments) declined from €486 to €448 in 2007. Furthermore, our size, geographic footprint and centralized corporate infrastructure should enable us to achieve ongoing cost savings upon the integration of new portfolios into our operational infrastructure.

ADD INCREMENTAL EARNINGS THROUGH REINVESTMENT OF PRIVATIZATION PROCEEDS

We will selectively sell individual apartments to current tenants and reinvest the proceeds in new apartments where deemed economically advantageous, i.e., where the privatization of units and reinvestment of the proceeds generates higher returns than holding the assets and hence increases earnings per share. However, our business plan is not predicated on selling individual apartment units. In 2007, we sold 2,438 apartments at a margin of 22 %. To cater for an increased demand for our units, we increased our target from 1,500 units to 2,000-2,500 privatized units during the year 2007.

ACCRETIVELY GROW OUR RESIDENTIAL REAL ESTATE PORTFOLIO IN GERMANY

We plan to take advantage of the trend of cities, municipalities and corporations selling their residential housing stock by targeting both smaller-sized as well as large portfolio acquisitions in Germany. We will selectively pursue acquisitions which will be earnings accretive and our acquisition strategy will continue to focus on residential portfolios where we can improve cash flow and earnings through rental growth, cost savings and selective privatizations. Since our IPO in October 2006, we have acquired or agreed to acquire approximately €1.6 billion of assets in 19 transactions totaling over 28,000 units.

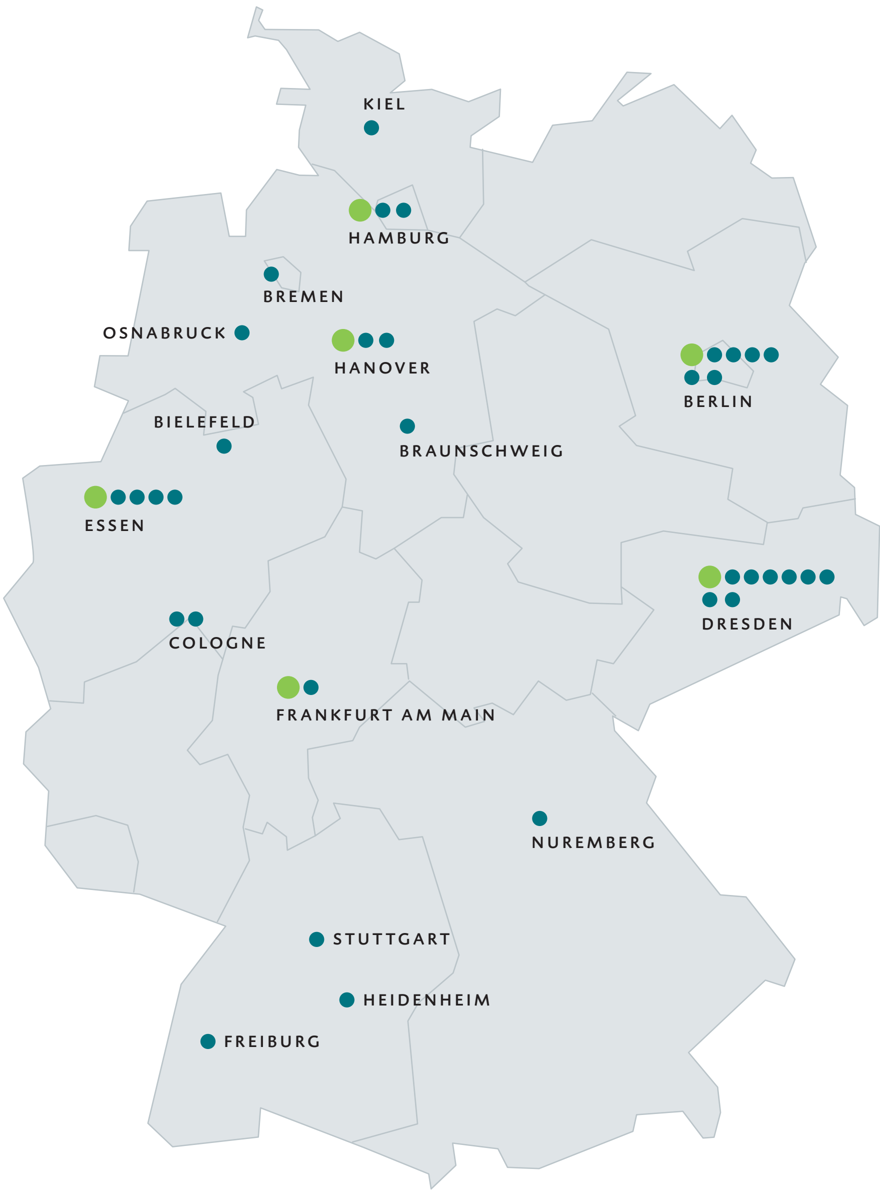
Business Overview

PORTFOLIO

We own a geographically diversified and well maintained residential property portfolio located throughout Germany. We currently own approximately 170,000 apartments totaling approximately ten million square meters. The majority of our buildings were built between 1950 and 1979. Our portfolio is characterized by a stable tenant base with an average current tenant tenure of approximately twelve years and an occupancy rate of about 96 %. The average apartment size is 60 square meters with an average rent of €292 per month. Our residential property portfolio includes 29,000 publicly subsidized rent-restricted apartments.

Our portfolio is located in over 350 towns and cities across Germany, with significant concentrations only in Dresden and Berlin. The following map and table illustrate, inter alia, the geographic spread of our residential portfolio as of December 31, 2007:

Our Operational Network



REGIONAL OFFICES   CUSTOMER CENTERS

Residential Property Portfolio[1] as of December 31, 2007

Our portfolio is located in over 350 towns and cities across Germany, with significant concentrations only in Berlin and Dresden. The following table illustrates, inter alia, the geographic spread of our residential portfolio as of December 31, 2007:

Top 20 Cities	Units	In % of Total	Rental Area sqm	Average unit size sqm	In-Place Rent annualized (in € million)	In % of Total	In-Place Rent mo / sqm (in €)	Market Rent mo / sqm (in €)[2]	Vacancy %
Dresden	42,672	25.1	2,412,292	57	129.8	21.7	4.48	4.81	7.7
Berlin	28,499	16.7	1,676,326	59	91.8	15.4	4.56	5.29	2.1
Hamburg	9,896	5.8	630,090	64	39.4	6.6	5.21	6.34	0.8
Hanover	5,995	3.5	376,038	63	24.1	4.0	5.33	5.88	4.0
Heidenheim	4,827	2.8	301,522	62	18.5	3.1	5.12	5.76	12.2
Bielefeld	4,173	2.5	276,574	66	14.0	2.3	4.22	4.75	1.4
Osnabruck	3,585	2.1	220,939	62	12.9	2.2	4.85	5.46	1.4
Braunschweig	2,801	1.6	167,279	60	9.9	1.7	4.93	5.58	2.6
Essen	2,384	1.4	156,879	66	9.8	1.6	5.19	5.72	7.0
Cologne	2,369	1.4	180,619	76	13.4	2.2	6.18	7.14	2.2
Frankenthal	2,112	1.2	130,995	62	7.6	1.3	4.83	5.14	9.1
Freiburg	1,937	1.1	129,091	67	8.5	1.4	5.49	6.08	0.3
Bocholt	1,811	1.1	111,813	62	6.0	1.0	4.46	5.49	0.8
Frankfurt am Main	1,730	1.0	96,632	56	8.1	1.4	6.98	7.97	0.6
Düsseldorf	1,710	1.0	99,436	58	7.8	1.3	6.54	6.95	1.0
Iserlohn	1,678	1.0	106,085	63	5.6	0.9	4.37	4.89	1.3
Bremen	1,498	0.9	94,911	63	5.5	0.9	4.79	5.42	5.7
Duisburg	1,432	0.8	96,397	67	5.1	0.9	4.39	4.84	13.5
Bonn	1,413	0.8	96,818	69	6.5	1.1	5.58	6.14	2.8
Leverkusen	1,404	0.8	89,835	64	5.7	1.0	5.32	5.97	0.1
Subtotal Top 20 Cities	**123,926**	**72.8**	**7,450,571**	**60**	**429.8**	**72.0**	**4.81**	**5.40**	**4.7**
Other Cities	46,390	27.2	2,801,658	60	167.4	28.0	4.98	5.46	3.6
Grand Total	**170,316**	**100.0**	**10,252,228**	**60**	**597.2**	**100.0**	**4.85**	**5.42**	**4.4**

[1] Core units – rental area for total portfolio amounts to 11,304,978 square meters as of December 31, 2007.
[2] The market rents were determined by CBRE as at December 31, 2007 for the subgroups GAGFAH and WOBA (approximately 70 % of total portfolio). The market rent for the remaining subgroups were determined by CBRE in the course of 2007.

Dresden is the city with the largest concentration of assets in our portfolio. We acquired these assets as part of the Company's acquisition of the WOBA GmbH Group in April 2006. Since the acquisition we have pursued selected modernizations of units in disrepair to facilitate their lease-up and rent increases. One example of a modernization project is the full refurbishment of our units in the Carolinum in Dresden in 2006 and 2007. We have invested €9.3 million and achieved an increase in average rents from €3.88 per square meter to €5.57 per square meter while simultaneously reducing vacancy from 55 % to 0.5 %. Dresden is the capital of the German state of Saxony and a major university city in eastern Germany with eight universities and 38,000 students. Between 2000 and 2007, Dresden's population has grown by 6.3 % from 472,350 to 501,915 residents with an increase in the number of households of 10 % from 242,857 households in 2000 to 267,898 households in 2006 (source: City of Dresden). Feri Research expects the number of households to continue to increase in the foreseeable future. Over the past years, Dresden has developed into a modern service and high-technology location, which is reflected in significant GDP growth over the past years.

In addition to our residential apartment portfolio, we own approximately 2,000 commercial units, which are primarily retail stores located on the ground floor of our residential apartment buildings, and approximately 33,000 parking spaces, which typically belong to our residential apartment buildings.

Operations

REAL ESTATE MANAGEMENT

Our operational network is structured to operate and manage our portfolio in an efficient manner. We operate through a streamlined operational network with six regional offices in Dresden, Essen, Berlin, Hamburg, Hanover and Frankfurt am Main, 34 local customer centers and approximately 450 on-site caretakers throughout Germany. Each customer center services approximately 5,000 apartments and is in close proximity to its dedicated portfolio and tenants. Responsibilities include rent collection, maintenance contracting, new leases, lease resolutions and lease renewals and other property management tasks. We estimate that, on average, our customer centers conclude approximately 20,000 new leases per year (fluctuation: 11.9 %). Our on-site caretakers are responsible for smaller facility management tasks, such as gardening and snow service and small repairs. Our network of customer centers and caretakers provides us with real time information and direct knowledge of the needs and behavior of our tenants, which supports our continuous efforts to retain existing tenants and attract new tenants. This level of market knowledge allows us to maintain an in-depth knowledge of the regional residential markets in Germany. All our corporate functions, such as information technology, human resources, accounting, controlling, finance and purchasing, have been centralized.

ACQUISITIONS

Since the IPO, we have acquired or committed to acquire 28,000 units for a total consideration of approximately €1.6 billion.

PRIVATIZATIONS

In 2007, we privatized 2,438 units at a margin of 22 %. As privatization business is traditionally strongest in the last quarter of the year, we privatized 1,281 units in the fourth quarter of 2007, which is 53 % of the total privatization volume in 2007.

Industry

OVERALL ECONOMIC DEVELOPMENT

The German economy continued to show strong growth during 2007, with a GDP growth rate of 2.5 %. GDP is forecast to grow by 1.9 % in 2008 and 1.6 % in 2009. (IfW Institut für Weltwirtschaft, Kieler Diskussionsbeiträge 447-448; December 07)

With 9 %, the unemployment rate for 2007 was 1.8 % lower than in 2006 and was at a 14-year low. This decrease was mainly a result of the positive economic development in Germany (German Federal Statistics Office, 2008).

THE GERMAN RESIDENTIAL REAL ESTATE MARKET

Germany has the largest residential property stock in Europe and is comprised of 39.4 million dwelling units of which approximately 80 % are in the western German states and western Berlin (the former West Germany), and approximately 20 % in the eastern German states and in eastern Berlin (the former East Germany). Approximately 57 % are rented apartments and approximately 43 % are owner-occupied. Owners of rented units are comprised of private investors with 13.5 million units, municipal housing and other communal housing enterprises with a stock of approximately 3.3 million units, building co-operatives with 2.1 million units, housing enterprises with 1.7 million units, banks, insurance companies and corporates with 1.5 million units and other owners with 0.5 million units (source: Deloitte: Der Deutsche Wohnimmobilienmarkt — Status Quo und Ausblick; German Federal Statistics Office).

DEVELOPMENT OF HOUSING SALES AND RENTAL PRICES

Historically, the German residential market has been very stable, both in terms of rent and house price development. Since the mid-1990s residential real estate prices in Germany have decreased slightly whereas most other European countries have experienced substantial increases.

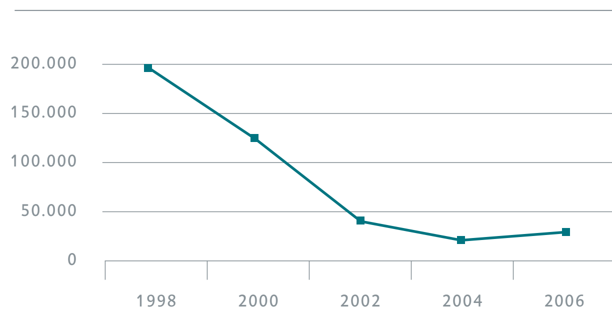
Apartment rents in Germany as a national average increased only slightly from €6.00 per square meter in 1995 to €6.25 per square meter in 2007 (BulwienGesa AG). Under corporate and public ownership, apartment rents are often below market levels as these owners are focusing on providing low-cost housing and rents are often subject to rent restrictions.

HOME OWNERSHIP RATE

The home ownership rate of approximately 43 % in Germany (the proportion of owner-occupant households to all households) is one of the lowest in Western Europe and well below the E.U. average of 63 % (source: German Federal Statistics Office; Euroconstruct).

We expect the structure of the German housing industry to change over the medium term with local governments and corporations selling more of their residential property stock and public subsidies running out. We believe that this will lead to an increase in rents to market levels and an increased investment in residential real estate by owner-occupiers.

NET CONSTRUCTION UNITS IN BUILDINGS WITH THREE OR MORE UNITS

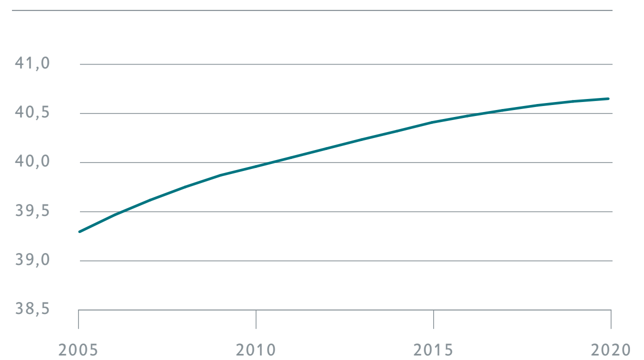


Source: German Federal Statistics Office

CHANGE IN STOCK OF RESIDENTIAL HOUSING UNITS IN GERMANY

Over the past ten years, the construction of units in buildings with three or more units (net of units becoming obsolete) decreased by approximately 90 % from 275,862 units in 1994 to 28,644 units in 2006 (source: German Federal Statistics Office). The decline in the construction of new residential housing units is largely attributable to high construction costs, the scarcity of land available for construction, low risk-adjusted returns for developers and strict regulations, particularly regarding building construction.

GERMAN HOUSEHOLD INCREASES € MILLION



Source: German Federal Office for Building and Regional Planning

DEMOGRAPHIC DEVELOPMENTS

Although the German Federal Office for Building and Regional Planning projects (source: German Federal Office for Building and Regional Planning: Raumordnungsprognose 2020 / 2050) that due to demographic change the population of Germany will decline slightly by 3 % until 2020, it is anticipated that the number of households in Germany will increase by one million or 3 % between 2007 and 2025, which will lead to an increase in the demand for residential units (German Federal Statistics Office, October 5, 2007). This is mainly due to a substantial reduction in household sizes and increased living space utilized per person as well as other social factors such as increasing divorce rates and people starting families later. We expect these trends to have a positive impact on residential property rents and unit price growth.

Results of Operations, Net Worth and Financial Position

As the WOBA GmbH has been acquired in April 2006, the financial results for the year 2006 partly omit the acquisition of WOBA. In order to provide comparable financial results, we use pro forma figures for 2006, as if the Group had included WOBA GmbH in its present form from the beginning of 2006. Please find the pro forma report beginning on page 26.

Consolidated Income Statement

PROFIT FROM THE LEASING OF INVESTMENT PROPERTY INCREASED

Profit from the leasing of investment property rose by 20.3 % compared to the previous year. The result from the leasing of investment property is computed as follows:

€ MILLION	2007	2006
Income from the leasing of investment property	927.8	774.9
Transferable leasehold land interest	– 2.1	– 2.1
Operating expenses for the generation of rental income	– 484.7	– 406.1
Profit from the leasing of investment property	**441.0**	**366.7**

The strong increase in the profit from the leasing of investment property is mainly a result of a 19.7 % increase in rental income. Our operating expenses increased at a lower rate of 19.4 %. The major source for the increases in income and expenses is the inclusion of acquisitions. Both rent increases and vacancy reduction also led to a stronger increase in income from the leasing of investment property.

Operating expenses break down as follows:

€ MILLION	2007	2006
Operating expenses	256.4	211.4
Maintenance costs	88.4	67.4
Personnel expenses	55.0	50.3
Real estate tax	27.8	22.9
Other	57.1	54.1
Operating expenses for the generation of rental income	**484.7**	**406.1**

INCREASED PRIVATIZATION VOLUME

In 2007, we sold 2,438 units as compared to 1,073 units in 2006. The sold units represent approximately 1.5 % of our total portfolio.

In 2007, profit from the sale of investment property was approximately €56.3 million compared to a profit of €22.6 million in 2006 and thus increased by 149 %.

PROFIT FROM FAIR VALUE MEASUREMENT

As of December 31, 2007, our IAS 40 valuations for the investment properties indicated a net increase to the values of our investment properties of €984.2 million over the values of our investment properties as of December 31, 2006.

Our fair market valuation module is based on a Discounted Cash-Flow (DCF) model, which derives the present value from the properties' future cash flows. The valuation is conducted on a property-by-property basis. The DCF model is based on a detailed planning period of ten years, within which the relevant real estate cash flow components are forecast for each period according to the risk assessment of each individual property. For example, the rental growth is calculated in line with legal provisions and forecast to grow to market level over time. After the detailed planning period of ten years, the residual value is calculated as perpetuity.

The cash flows for the detailed planning period are discounted with an average discount rate of 5.29 %, which is determined on the basis of discount rates for each property. The individual cash flows are then aggregated and the discounted residual value is added, resulting in the total value.

Independent appraisers CB Richard Ellis GmbH have verified and confirmed our valuation of investment properties as of December 31, 2007 for the subgroups GAGFAH and WOBA (approximately 70 % of total portfolio). The remaining subportfolios were confirmed by CBRE in the course of 2007.

PROFIT / LOSS FROM THE SALE OF COMMERCIAL REAL ESTATE AND PROPERTY DEVELOPMENT

€ MILLION	2007	2006 (restated)
Income from the sale of commercial real estate and property development	76.9	168.1
Carrying amount of commercial real estate and property development sold	– 61.5	– 171.7
Profit / loss from the sale of commercial real estate and property development	**15.4**	**– 3.6**

In 2005, it was decided to discontinue and sell the commercial real estate and construction / development business. In accordance with IFRS 5 the results from both operations have been presented as "Profit / loss from discontinued operations before taxes" in one condensed line in the income statement in 2005 and 2006. In 2007, it became evident that the liquidation of these businesses will take longer than originally expected. IFRS 5 does not permit an extension of the original time frame scheduled to present both businesses as discontinued operations. Accordingly, the amounts for the commercial real estate and the property construction / development business are presented now under continued operations for the fiscal year 2007. The comparative figures in the income statement have been revised to reflect the reclassification of the operations.

OTHER INCOME AND EXPENSE ITEMS

Other income and expense items for our Group was a net expense of €76.9 million in 2007 compared to €79.4 million in 2006.

Profit from other services contains revenues from non-core activities, such as caretaker services for third parties, brokerage of insurance policies and the leasing of broadband to third parties. In 2006 profit from other services included income from operations which were discontinued in 2007.

Selling expenses consist of personnel costs, marketing expenses and costs for external brokers, mainly for our privatization business.

In 2007, G&A expenses are distorted by the depreciation of our headquarter building in Essen amounting to €5.1 million.

In 2006, expenses for share-based remuneration related mainly to the grant of shares to GAGFAH employees.

The other operating income for 2007 mainly derives from the reversal of provisions, especially for environmental remediation and for restitution claims at WOBA.

The other operating expenses mainly consist of operating expenses for the non core businesses Property Development and Commercial Real Estate.

€ MILLION	2007	2006 (restated)
Profit from other services	4.6	15.4
Selling expenses	– 21.6	– 20.9
General and administrative expenses	– 57.0	– 52.0
Expenses for share-based remuneration	– 2.1	– 20.4
Other operating income	21.4	31.8
Other operating expenses	– 22.2	– 33.3
Total	**– 76.9**	**– 79.4**

INCREASED PROFIT FROM OPERATIONS BEFORE REORGANIZATION AND RESTRUCTURING

Our Group's profit from operations before reorganization and restructuring expenses is the sum of the following items:

€ MILLION	2007	2006 (restated)
Profit from the leasing of investment property	441.0	366.7
Profit from the sale of investment property	56.3	22.6
Profit from fair value measurement	984.2	57.5
Profit / loss from the sale of commercial real estate and property development	15.4	– 3.6
Other operating income and expenses (net expense)	– 76.9	– 79.4
Profit from operations before reorganization and restructuring expenses	**1,420.0**	**363.8**

REORGANIZATION AND RESTRUCTURING EXPENSES DOWN BY 44 %

Reorganization and restructuring expenses relate to our Group's rationalization of costs and integration of processes as we continue to combine operations of the acquired companies and portfolios. As the restructuring costs in 2006 were mainly attributable to the NILEG integration, we were able to reduce our reorganization and restructuring expenses by 43.7 % from €39.8 million in 2006 down to €22.4 million in 2007. The main part of the restructuring costs related to severance payments in 2007. Reorganization costs were mainly consulting fees for tax restructuring and for the implementation of a new IT system.

SIGNIFICANT GROWTH OF EARNINGS BEFORE INTEREST AND TAXES (EBIT)

In 2007, our EBIT was €1,397.7 million, compared to €324.3 million in 2006.

NET FINANCING EXPENSES

Net financing expenses increased from €160.9 million in 2006 to €274.9 million in 2007. In 2006, the net financing expenses included a positive effect of €65.1 million from the fair value measurement of derivatives. Considering this one-off effect, net financing expenses in 2007 increased by €48.9 million mainly due to the financing of new acquisitions.

INCOME TAXES

Income taxes totaled €533.9 million. Thereof €392.3 million are deferred taxes and €141.6 million are actual taxes, which are mainly attributable to a €128.2 million tax liability for the taxation of EK 02.

In November 2007, the German Annual Tax Act 2008 (Jahressteuergesetz) was adopted with a final taxation on EK 02. EK 02 amounts as of December 31, 2006 will be taxed at a rate of 3 %. The EK 02 tax is payable in ten equal annual installments beginning in 2008.

The GAGFAH Group disposed €5.3 billion of EK 02 amounts as of December 31, 2006. The taxes payable over the period of ten years amounts to €158.1 million. The discounted present value amounts to €128.2 million (discount rate 4.21 %).

STRONG GROWTH IN NET PROFIT

In 2007, we had a net profit of €588.9 million compared to €142.8 million in 2006.

STRONG GROWTH IN EBITDA

EBITDA is earnings before interest, taxes, depreciation and amortization and non-recurring items, such as reorganization and restructuring expenses. The following is a reconciliation of EBIT to EBITDA for our Group:

€ MILLION	2007	2006 (restated)
EBIT	1,397.7	324.3
Reorganization and restructuring expenses	22.4	39.8
Depreciation and amortization	14.0	6.4
EBITDA	**1,434.1**	**370.5**

SIGNIFICANT GROWTH IN FUNDS FROM OPERATIONS (FFO)

Funds from operations, or FFO, is a non-IFRS financial measure that our Group's management uses to report the funds generated from operations. FFO is used as a measure of our Group's generation of funds for investment and the payment of dividends to shareholders. Our principle objectives are to grow our FFO and to pay out a substantial portion of our FFO in the form of quarterly dividends.

FFO is computed as EBITDA net of the profit from measurement of the investment properties at fair value, current interest income and expenses and current income taxes paid and other non-recurring items, such as share-based remuneration, other financing expenses and commercial real estate / property development. The following is a reconciliation of EBITDA to FFO for 2007 and 2006 for our Group:

€ MILLION	2007	2006 (restated)
EBITDA	**1,434.1**	**370.5**
Results from fair value measurement	– 984.2	– 57.5
Realized valuation gains through sales	6.9	1.0
Share-based remuneration	2.1	20.4
Net interest expenses (periodical)	– 263.5	– 214.1
Taxes paid	– 1.8	2.1
Other financing expenses	2.6	7.2
Commercial real estate / property development	1.2	17.8
FFO	**197.4**	**147.4**

Financial Position

GROUP CAPITALIZATION

As of December 31, 2007 and 2006, the Group's equity and liabilities were as follows:

	12-31-2007 € MILLION	12-31-2007 %	12-31-2006 € MILLION	12-31-2006 %
Equity	2,867.2	27.0	2,396.5	27.8
Financial liabilities	6,649.1	62.6	5,617.5	65.0
Other liabilities	1,105.3	10.4	623.6	7.2
Total equity and liabilities	**10,621.6**	**100.0**	**8,637.6**	**100.0**

Our strategy is to make use of long-term fixed-rate financing, which minimizes the effects of short-term fluctuations in interest rates on our financing costs. Thus, our term loans with a notional amount of €5.9 billion show an average maturity until 2013.

Financial liabilities total €6,649.1 million (prior year: €5,617.5 million). Of this, €6,557.3 million (prior year: €5,508.3 million) relates to non-current liabilities and €91.8 million (prior year: €109.2 million) to current liabilities, consisting mainly of accrued interest.

Liabilities to banks total €6,590.2 million (prior year: €5,531.4 million) and mainly relate to liabilities from the financing of investment properties.

In order to eliminate the risk of interest rate fluctuations during the life time of the loans, we have hedged the interest rate cost of the term loans through interest rate swaps. In order to measure these risks, GAGFAH Group has established a finance and risk management system. The instruments used for limiting the financial risks are described in the Notes.

The Group was able to meet its payment obligations at all times. The full cash flow statements for the fiscal year 2007 are described in the Notes.

Net Assets

The balance sheet of the GAGFAH Group breaks down as follows:

€ MILLION	12-31-2007	12-31-2006
Non-current assets	10,103.5	7,879.1
Current assets	510.0	738.1
Assets held for sale	8.1	4.5
Assets of discontinued operations	0.0	15.9
Total assets	**10,621.6**	**8,637.6**
Equity	2,867.2	2,396.5
Non-current liabilities	7,374.5	5,880.2
Current liabilities	379.9	360.9
Total equity and liabilities	**10,621.6**	**8,637.6**

Non-current assets amount to €10,103.5 million of which 99 % relate to investment property of €9,997.8 million and 0.5 % to property, plant and equipment of €55.0 million. Non-current assets make up 95 % of total assets (€10,621.6 million).

Current assets amount to €510.0 million, of which 17 % is comprised of inventories of €84.5 million and 40 % is cash and cash equivalents (€205.6 million). All commercial assets from discontinued operations were sold in 2007.

Non-current liabilities of €7,374.5 million as of the balance sheet date were mainly comprised of financial liabilities of €6,557.3 million and deferred tax liabilities of €448.6 million. Non-current provisions of €133.2 million had been recognized as of the balance sheet date, of which €106.5 million relate to pension obligations.

EVENTS AFTER THE BALANCE SHEET DATE

The purchase price of €95.5 million for an acquisition of 3,000 residential units committed to in 2007 was paid on January 31, 2008. To finance the acquired portfolio, the GAGFAH Group has entered into another term loan with an amount of €60.0 million.

Disclosure regarding Article 11 (3) of the Law on Takeovers of May 19, 2006

a) Information regarding section a) of the law (structure of capital) can be found on pages 23 to 24 of this report.
b) There are no restrictions on the transfer of securities.
c) Information regarding section c) of the law (significant direct and indirect shareholdings) can be found on page 36 of this report.
d) There are no securities granting special control rights to their holders.
e) The control rights of any shares issued in connection with employee share schemes are exercised directly by the respective employees.
f) There are no restrictions on voting rights.
g) There are no agreements with shareholders which are known to the company and may result in restrictions on the transfer of securities or voting rights within the meaning of directive 2004/109/EC (Transparency Directive).
h) Information regarding section h) of the law (rules governing the appointment and replacement of board members and the amendment of the Articles of Incorporation) can be found on page 9 of this report.
i) Information regarding section i) of the law (issue and buy-back of shares and powers of the Board of Directors) can be found on page 9 of this report.
j) There are no significant agreements to which the company is a party and which take effect, alter or terminate upon a change of control of the company following a takeover bid.
k) There are no agreements between the company and its board members or employees providing for compensation if they resign or are made redundant without valid reason or of their employment ceases because of a takeover bid.

Outlook

We believe that our financial and trading prospects remain favorable based on the stable characteristics of our residential property portfolio and continued improvements in the performance of our existing portfolio.

Forward-looking Statements

This Annual Report contains statements that constitute forward-looking statements. Such forward-looking statements relate to, among other things, future commitments to acquire real estate and achievement of acquisition targets, timing of completion of acquisitions and the operating performance of our investments. Forward-looking statements are generally identifiable by use of forward-looking terminology such as “may”, “will”, “should”, “potential”, “intend”, “expect”, “endeavour”, “seek”, “anticipate”, “estimate”, “overestimate”, “underestimate”, “believe”, “could”, “project”, “predict”, “continue”, “plan”, “forecast” or other similar words or expressions.

Forward-looking statements are based on certain assumptions, discuss future expectations, describe future plans and strategies, contain projections of results from operations or of financial conditions or state other forward-looking information. Our ability to predict results or the actual effect of future plans or strategies is limited. Although we believe that the expectations reflected in such forward-looking statements are based on reasonable assumptions, our actual results and performance may differ materially from those set forth in the forward-looking statements. These forward-looking statements are subject to risks, uncertainties and other factors that may cause our actual results in future periods to differ materially from forecasted results or stated expectations, including the risk that GAGFAH S.A. will be unable to reach agreement or suitable final terms with respect to any portion of the real estate acquisition opportunities currently under commitment or consideration, or be unable to privatize further units or further reduce management costs.

Luxembourg, March 18, 2008

The Board of Directors of GAGFAH S.A.

Pro Forma Operational Performance

This pro forma report is based upon the consolidated income statement of GAGFAH S.A. for 2007 and the pro forma consolidated income statement for 2006. Since our Group is the result of acquisitions and corporate combinations occurring at various times since September 2004, with significant acquisitions in 2005 and 2006, comparisons of the two years with historical accounting results partly omit the acquisition of WOBA GmbH in 2006. Consequently, we use pro forma financial figures to provide comparable results, as if the Group had included WOBA GmbH in its present form since the beginning of 2006.

As such, the pro forma financial figures are based upon a comparably sized and capitalized consolidated company for both years. The comparison with pro forma financial figures is therefore more indicative of the operational results achieved during the periods. In 2007, we did not use pro forma figures, because our asset and share deals were not significant enough.

In 2005, it was decided to discontinue and sell the commercial real estate and construction / development business. In accordance with IFRS 5 the results from both operations have been presented as "Profit / loss from discontinued operations before taxes" in one condensed line in the income statement in 2005 and 2006. In 2007, it became evident that the liquidation of these businesses will take longer than originally expected.

IFRS 5 does not permit an extension of the original time frame scheduled to present both businesses as discontinued operations. Accordingly, the amounts for the commercial real estate and the property construction / development business are presented now under continued operations for the fiscal year 2007. The comparative figures in the income statement have been revised to reflect the reclassification of the operations.

STRONG ORGANIC GROWTH IN 2007

Net cold rent up
1.6 % (residential same-store basis)

EBIT increased to
€1,397.7 million

Vacancy reduced from 5.7 % to
4.4 % (residential)

EBITDA increased to
€1,434.1 million

Costs per unit decreased from €486 in 2006 to
€448

EPS (225.6 million shares outstanding) increased by €1.76 to
€2.50

Units privatized in 2007
2,438

Funds from Operations (FFO) increased by €32.0 million to
€197.4 million

Net Asset Value per share increased by 33 % to
€14.25

FFO per share (225.6 million shares outstanding) increased by €0.15 to
€0.88

Pro Forma Consolidated Income Statement

€ MILLION	2007	2006 pro forma (restated [1])
Income from the leasing of investment property	927.8	823.2
Transferable leasehold land interest	– 2.1	– 2.1
Operating expenses for the generation of rental income (excluding share-based remuneration)	– 484.7	– 434.6
Profit from the leasing of investment property	**441.0**	**386.5**
Income from the sale of investment property	202.7	159.1
Carrying amount of investment property sold	– 146.4	– 134.6
Profit from the sale of investment property	**56.3**	**24.5**
Unrealized gains from fair value measurement	1,276.1	605.5
Unrealized losses from fair value measurement	– 291.9	– 540.0
Profit from fair value measurement	**984.2**	**65.5**
Income from the sale of commercial real estate and property development	76.9	168.1
Carrying amount of commercial real estate and property development sold	– 61.5	– 171.7
Profit / loss from the sale of commercial real estate and property development	**15.4**	**– 3.6**
Profit from other services	4.6	16.2
Selling expenses (excluding share-based remuneration)	– 21.6	– 21.0
General and administrative expenses (excluding share-based remuneration)	– 57.0	– 54.4
Expenses for share-based remuneration	– 2.1	– 20.4
Other operating income	21.4	39.3
Other operating expenses	– 22.2	– 33.5
Profit from operations before reorganization and restructuring expenses	**1,420.0**	**399.1**
Reorganization and restructuring expenses	– 22.4	– 39.8
Profit from operations	**1,397.6**	**359.3**
Profit from other financial assets	0.1	0.3
Earnings before interest and taxes (EBIT)	**1,397.7**	**359.6**
Interest expenses (periodical)	– 278.5	– 236.2
Other financial income / expenses	– 0.6	1.0
Interest income (periodical)	15.0	9.7
Profit from the fair value measurement of derivatives	9.3	74.7
Interest (refinancing)	– 20.1	– 12.9
Profit before taxes	**1,122.8**	**195.9**
Income taxes (excluding EK 02)	– 405.7	– 36.2
Increase in corporate income tax based on the remaining EK 02	– 128.2	0.0
Net Profit	**588.9**	**159.7**
Thereof attributable to:		
Minority interests	25.0	7.3
Shareholders of the parent company	563.9	152.4
Weighted average number of shares (undiluted)	225,520,560	206,871,679
Weighted average number of shares (diluted)	226,164,589	207,021,271
Earnings per share (in €)	**2.50**	**0.74**
Diluted earnings per share (in €)	**2.49**	**0.74**
FFO per share (in €)	**0.88**	**0.73**

[1] For more information, please refer to page 47 of this report.

PROFIT FROM THE LEASING OF INVESTMENT PROPERTY INCREASED 14 %

The profit from the leasing of investment property rose by 14 % compared to the previous year on a pro forma basis. It represents the excess of income from the leasing of investment property over the related operating expenses for the generation of rental income. The profit from the leasing of investment property is computed as follows for 2007 and 2006:

€ MILLION	2007	2006 pro forma
Income from the leasing of investment property	927.8	823.2
Transferable leasehold land interest	– 2.1	– 2.1
Operating expenses for the generation of rental income	– 484.7	– 434.6
Profit from the leasing of investment property	**441.0**	**386.5**

INCOME FROM THE LEASING OF INVESTMENT PROPERTY UP 13 %

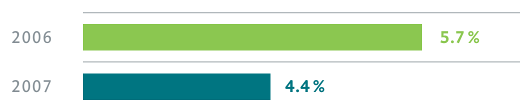
The leasing of investment property is our core business and hence the primary component of our income from operations. Our strategy is to raise rents to market levels while maintaining and increasing occupancy and the quality of accommodation. Rents are continuously evaluated against market levels and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

Income from the leasing of investment property includes rental income, allocations charged and rent from subsidized apartments. In 2007, our income from the leasing of investment property was €927.8 million, up 13 % over the previous year. Approximately 68 % of such income was attributable to rental income, the majority of the remainder to allocations charged. Growth in income from the leasing of investment property was mainly driven by acquisitions, raising rents closer to market levels and the lease up of residential units.

The income from the leasing of investment property is composed of:

€ MILLION	2007	2006 pro forma
Rental income, fees	633.9	569.4
Allocations charged	288.9	251.4
Other	5.0	2.4
Total	**927.8**	**823.2**

GROUP OVERALL VACANCIES 2007 AND 2006



Our lease-up program has been very successful for existing assets as well as acquisitions. We have implemented an internal brokerage team, introduced an incentive compensation program to reward employees for the achieved vacancy reduction and are undertaking aggressive advertising.

We have reduced our overall vacancy rate from 5.7 % as of December 31, 2006, to 4.4 % as of December 31, 2007 (including acquisitions) and exceeded our year-end vacancy target of 5.2 %. On a same-store basis, our vacancy rate decreased to 4.0 % as of December 31, 2007. Excluding units held for privatizations, our vacancy rate is 3.5 % (on a same-store basis). Since our IPO, we achieved an average vacancy reduction for our acquisitions of approximately 25 %.

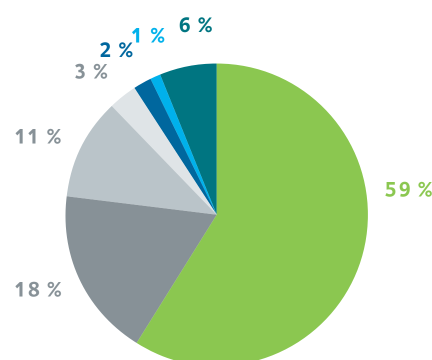
OPERATING EXPENSES FOR THE GENERATION OF RENTAL INCOME

In 2007, our operating expenses for the generation of rental income increased by 11.5 % to €484.7 million, from €434.6 million in 2006. This increase is mainly due to acquisitions resulting in a 13 % growth in our property portfolio. Operating expenses for the generation of rental income consists of the following items:

€ MILLION	2007	2006 pro forma
Real estate operating expenses [1]	284.2	250.9
Maintenance costs	88.4	71.3
Personnel expenses for operational staff (mainly staff of Property Management in Customer Centers and Caretakers)	55.0	53.0
Bad debt allowances	12.5	9.2
Administrative expenses	9.5	10.1
Amortization and depreciation of intangible and tangible operating assets and property, plant and equipment	4.5	1.9
Other	30.6	38.2
Operating expenses for the generation of rental income	**484.7**	**434.6**

[1] Mainly costs for water, sewage and heating; includes real estate taxes

The chart below illustrates the composition of the operating expenses for the generation of rental income for 2007:



Approximately 60 % of the operating expenses for the generation of rental income are charged back to our tenants in the form of recoverables. This includes expenses such as heating, electricity, water and sewage. As we reduced our vacancy rate, we could allocate a larger proportion of our recoverable expenses to the newly leased apartments.

Although our residential property portfolio grew by 13 %, our personnel and administration expenses increased only by 4 % or decreased by 6 %, respectively.

SALE OF INVESTMENT PROPERTY AT A MARGIN OF 22 %

We sell apartments by dividing a rental building into residential units for sale. During the year 2007, we increased our privatization target from 1,500 units to 2,000 – 2,500 units to cater for an increased demand for our privatization units. In 2007, we sold 2,438 units in our privatization program, compared to 1,073 units in 2006. We achieved a profit margin on IFRS book value plus sales and marketing costs and capital expenditures of 22 % in 2007.

The profit from the sale of investment property is the excess of income from the sale of investment property over the carrying amounts of the investment property sold. In 2007, profit from the sale of investment property was €56.3 million (thereof €46.4 million from privatization), as compared to a pro forma profit of €24.5 million in 2006.

OVERVIEW OF PRIVATIZATION RESULTS

	2007	2006	Q4 2007	Q4 2006
Privatized units	2,438	1,073	1,281	597
Privatized sqm	162,840	77,499	83,432	43,401

	Q4 2007 € MILLION	2007 € MILLION	2007 € per unit	2007 € per sqm
Gross disposition proceeds	67.7	187.9	77,061	1,154
Book value[1]	– 45.5	– 134.5	– 55,154	– 826
Disposition costs[2]	– 5.7	– 19.7	– 8,063	– 121
Net profit	**16.5**	**33.8**	**13,844**	**207**
Net profit margin	**32 %**		**22 %**	

[1] Includes realized revaluations.
[2] Includes sales costs such as external broker fees, CapEx (pro rata) and marketing costs.

INCREASED PROFIT FROM FAIR VALUE MEASUREMENT

The profit from fair value measurement is the net increase in the valuation of our investment properties. As of December 31, 2007, our IAS 40 valuations for the investment properties indicated a net increase in the values of our investment properties of €984.2 million over the values of our investment properties as of December 31, 2006.

Please see note C.4 on page 57 for more information on our valuation process.

Our fair market valuation module is based on a discounted cash flow valuation of each investment property. We calculate with an average discount rate of 5.29 %. We carry out the valuations of our investment properties and they are periodically verified by an independent third-party valuation.

PROFIT / LOSS FROM THE SALE OF COMMERCIAL REAL ESTATE AND PROPERTY DEVELOPMENT

The result from the sale of commercial real estate and property development amounts to a profit of €15.4 million as compared to a loss of €3.6 million in 2006. All commercial properties have been sold in 2007.

€ MILLION	2007	2006 pro forma (restated)
Income from the sale of commercial real estate and property development	76.9	168.1
Carrying amount of commercial real estate and property development sold	– 61.5	– 171.7
Profit / loss from the sale of commercial real estate and property development	**15.4**	**– 3.6**

OTHER INCOME AND EXPENSE ITEMS

Other income and expense items for our Group was a net expense of €76.9 million in 2007 compared to a pro forma net expense of €73.8 million in 2006.

Profit from other services contains revenues from non-core activities, such as caretaker services for third parties, brokerage of insurance policies and the leasing of broadband to third parties.

In 2006 profit from other services included income from operations which were discontinued in 2007.

Selling expenses consist of personnel costs, marketing expenses and costs for external brokers, mainly for our privatization business.

In 2007, G&A expenses are distorted by the depreciation of our headquarter building in Essen amounting to €5.1 million.

In 2006, expenses for share-based remuneration related mainly to the grant of shares to GAGFAH employees.

The other operating income for 2007 mainly derives from the reversal of provisions, especially for environmental remediation and revaluation of restitution claims.

The other operating expenses mainly consist of operating expenses for the businesses Commercial Real Estate and Property Development.

€ MILLION	2007	2006 pro forma (restated)
Profit from other services	4.6	16.2
Selling expenses	– 21.6	– 21.0
General and administrative expenses	– 57.0	– 54.4
Expenses for share-based remuneration	– 2.1	– 20.4
Other operating income	21.4	39.3
Other operating expenses	– 22.2	– 33.5
Total	**– 76.9**	**– 73.8**

MANAGEMENT COSTS[1] PER UNIT

[1] G&A and personnel costs, excluding related privatization and acquisition costs

We achieved a reduction in our management costs per unit from €486 in 2006 to €448 in 2007.

Our costs to manage a unit are fully-loaded including all costs associated with the management of units.

PROFIT FROM OPERATIONS BEFORE REORGANIZATION AND RESTRUCTURING EXPENSES

Our Group's profit from operations before reorganization and restructuring expenses is the sum of the following items:

€ MILLION	2007	2006 pro forma (restated)
Profit from the leasing of investment property	441.0	386.5
Profit from the sale of investment property	56.3	24.5
Profit from fair value measurement	984.2	65.5
Profit / loss from the sale of commercial real estate and property development	15.4	– 3.6
Other operating income and expenses (net expense)	– 76.9	– 73.8
Profit from operations before reorganization and restructuring expenses	**1,420.0**	**399.1**

REORGANIZATION AND RESTRUCTURING EXPENSES DOWN 44 %

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

In 2007, reorganization and restructuring expenses were €22.4 million compared to €39.8 million in 2006.

As the restructuring costs in 2006 were mainly attributable to the NILEG integration, we were able to reduce our reorganization and restructuring expenses by 43.7 %, down to €22.4 million in 2007. The main part of the restructuring costs related to severance payments. Reorganization costs were mainly consulting fees for tax restructuring and for the implementation of a new IT-system.

SIGNIFICANT GROWTH OF EARNINGS BEFORE INTEREST AND TAXES (EBIT)

In 2007, our EBIT was approximately €1,397.7 million, compared to €359.6 million in 2006.

NET FINANCING EXPENSES

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

Net financing expenses increased from €163.7 million in 2006 to €274.9 million in 2007. In 2006, the net financing expenses included a positive effect of €74.7 million from the fair value measurement of derivates. Considering this one-off effect, the net financing expenses increased by €36.5 million mainly due to the financing of acquisitions.

Our net financing expenses for 2007 and 2006 is the sum of the following items:

€ MILLION	2007	2006 pro forma (restated)
Interest expenses (periodical)	– 278.5	– 236.2
Interest (refinancing)	– 20.1	– 12.9
Total interest expenses	**– 298.6**	**– 249.1**
Interest income (periodical)	15.0	9.7
Other financial income / expenses	– 0.6	1.0
Result from the fair value measurement of derivatives	9.3	74.7
Net financing expenses	**– 274.9**	**– 163.7**

PROFIT BEFORE TAXES

In 2007, our Group's profit before taxes was approximately €1,122.8 million, as compared to €195.9 million in 2006. The profit before taxes is computed as EBIT of €1,397.7 million, reduced by net financing expenses of €274.9 million.

TAXES

Income taxes totaled €533.9 million. Thereof €392.3 million are deferred taxes and €141.6 million are actual taxes, which are mainly attributable to a €128.2 million tax liability for the taxation of EK 02.

In November 2007, the German Annual Tax Act 2008 (Jahressteuergesetz) was adopted with a final taxation on EK 02. EK 02 amounts as of December 31, 2006, will be taxed at a rate of 3 %. The EK 02 tax is payable in ten equal annual installments beginning in 2008.

The GAGFAH Group disposed €5.3 billion of EK 02 amounts as of December 31, 2006. The taxes payable in the period of ten years amounts to €158.1 million. The discounted present value amounts to €128.2 million (discount rate 4.21 %).

Our tax expenses were as follows:

€ MILLION	2007	2006 pro forma (restated)
Current income tax expenses	– 14.7	– 6.7
Increase in corporate income tax based on the remaining EK 02	– 128.2	0.0
Deferred income tax expenses	– 392.3	– 29.5
Tax payments from prior years	1.3	0.0
Income tax expenses	**– 533.9**	**– 36.2**

The actual tax rate (excluding EK 02 tax) for 2007 was 5.9 % on profit adjusted for unrealized gains and losses.

NET PROFIT

In 2007, we had a net profit of €588.9 million, as compared to €159.7 million in 2006.

GROWTH IN NET ASSET VALUE

NAV per share increased from €10.73 at the end of 2006 to €14.25 at the end of 2007. Total NAV of €3,213.8 billion was impacted by deferred taxes from IAS 40 valuation of €448.6 million.

€ MILLION	12-31-2007	12-31-2006
Shareholders' equity	2,765.2	2,330.0
Deferred taxes on IAS 40	448.6	91.0
NAV	**3,213.8**	**2,421.0**
NAV per share (€)	**14.25[1]**	**10.73[2]**

1) Based on 225.6 million shares
2) Based on 225.5 million shares

STRONG EBITDA GROWTH

EBITDA is earnings before interest, taxes, depreciation and amortization and non-recurring items, such as reorganization and restructuring expenses. The following is a reconciliation of EBIT to EBITDA for our Group:

€ MILLION	2007	2006 pro forma (restated)
EBIT	**1,397.7**	**359.6**
Reorganization and restructuring expenses	22.4	39.8
Depreciation and amortization	14.0	6.7
EBITDA	**1,434.1**	**406.1**

SIGNIFICANT GROWTH IN FUNDS FROM OPERATIONS (FFO)

Funds from operations, or FFO, is a non-IFRS financial measure that our Group's management uses to report the funds generated from operations. FFO is used as a measure of our Group's generation of funds for investment and the payment of dividends to shareholders.

FFO is computed as EBITDA reduced by the profit from measurement of the investment properties at fair value, current interest income and expenses and current income taxes paid and other non-recurring items, such as share-based remuneration, other financing expenses and commercial real estate and property development. The following is a reconciliation of EBITDA to FFO for 2007 and pro forma 2006 for our Group:

€ MILLION	2007	2006 pro forma (restated)
EBITDA	**1,434.1**	**406.1**
Results from fair value measurement	– 984.2	– 65.5
Realized valuation gains through sales	6.9	1.0
Share-based remuneration	2.1	20.4
Net interest expenses (periodical)	– 263.5	– 223.4
Taxes paid	– 1.8	2.0
Other financing expenses	2.6	7.2
Commercial real estate / property development	1.2	17.6
FFO	**197.4**	**165.4**
FFO per share (in €)	**0.88**	**0.73**

GAGFAH Shares

On December 31, 2007, the number of shares of GAGFAH S.A. totaled 225,553,192, of which 15,000 shares were issued on December 19, 2007 to members of the Board of Directors.

Each share represents one vote and all shares are entitled to the same dividend.

MAJOR SHAREHOLDERS

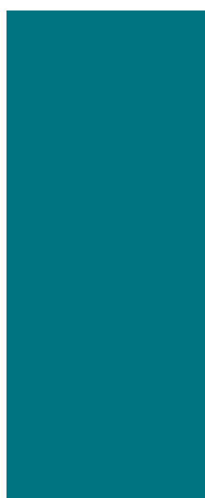
Shareholder	Numbers of Shares	%
Fortress Subsidiary (GAGACQ) LLC	26,060,607	11.56
Fortress Subsidiary (GAGACQ) Investors (Cayman) Ltd.	25,574,777	11.37
Fortress Residential Investment Deutschland (Fund A) LP	20,626,823	9.17
Fortress Residential Investment Deutschland (Fund B) LP	12,330,464	5.48
Fortress Investment Fund III (GAGACQ Subsidiary) LLC	16,539,554	7.35
Fortress Investment Fund III (Fund B) (GAGACQ Subsidiary) LLC	14,141,601	6.29
Highbridge Capital Management LLC	11,815,415	5.24

The authorized unissued share capital of GAGFAH amounts to €9,999,248,192.50, represented by 7,999,398,554 shares, each such share with a nominal value of €1.25.

SHARES ON DECEMBER 31, 2007

ISIN	LU0269583422
Security Identification Number	A0LBDT
Reuters Symbol	GFJ.DE
Bloomberg Symbol	GFJ GR
Xetra share price in €	11.88
Number of shares in million	225.6
Registered capital in € million	281.9
Total market capitalization in € million	2,680
Stock exchange	Frankfurt a. M.
Segment (Industry Group)	Real Estate
Accounting standard	IFRS
End of fiscal year	December 31

Content



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Consolidated Balance Sheet

December 31, 2007

ASSETS

€ MILLION	Notes	12-31-2007	12-31-2006
Non-current assets			
Intangible assets	E.1.	32.3	5.1
Investment property	E.2.	9,795.2	7,659.8
Prepayments for investment properties	E.2.	202.6	0.0
Property, plant and equipment	E.3.	55.0	63.0
Other financial assets	E.4.	9.8	43.5
Other assets	E.7.	4.8	11.5
Deferred tax assets	E.9.	3.8	96.2
		10,103.5	**7,879.1**
Current assets			
Inventories	E.5.	84.5	127.4
Financial receivables and other financial assets	E.4.	1.2	56.0
Receivables	E.6.	183.2	151.7
Other assets	E.7.	22.7	22.5
Securities		0.5	3.5
Current tax claims	E.8.	12.3	10.0
Bank balances and cash on hand	E.10.	205.6	367.0
		510.0	**738.1**
Assets held for sale	**E.11.**	**8.1**	**4.5**
Assets of discontinued operations	**E.17.**	**0.0**	**15.9**
Total assets		**10,621.6**	**8,637.6**

EQUITY AND LIABILITIES

€ MILLION	Notes	12-31-2007	12-31-2006
Equity	**E.12.**		
Subscribed capital		281.9	281.9
Share premium		1,537.5	1,572.1
Legal reserve		28.2	27.6
Revenue reserves		917.6	448.4
Equity attributable to the shareholders of the parent company		**2,765.2**	**2,330.0**
Minority interests		102.0	66.5
Total equity		**2,867.2**	**2,396.5**
Liabilities			
Non-current liabilities			
Liabilities to minority shareholders	E.13.	13.1	6.3
Pension provisions	E.14.1.	106.5	103.0
Other provisions	E.14.2.	26.7	30.7
Liabilities from income tax	E.15.	112.9	0.0
Deferred tax liabilities	E.9.	448.6	130.1
Financial liabilities	E.16.1.	6,557.3	5,508.3
Other liabilities		5.9	2.0
Deferred liabilities of government granted loans		103.5	99.8
		7,374.5	**5,880.2**
Current liabilities			
Pension provisions	E.14.1.	6.4	6.3
Other provisions	E.14.2.	60.1	68.4
Liabilities from income tax	E.15.	43.1	15.7
Financial liabilities	E.16.1.	91.8	109.2
Other liabilities	E.16.2.	172.7	155.3
Deferred liabilities of government granted loans		5.8	6.0
		379.9	**360.9**
Total liabilities		**7,754.4**	**6,241.1**
Total equity and liabilities		**10,621.6**	**8,637.6**

Consolidated Income Statement

for the period from January 1 to December 31, 2007

€ MILLION	Note	2007	2006 (restated [1])
Income from the leasing of investment property	F.1.	927.8	774.9
Transferable leasehold land interest		– 2.1	– 2.1
Operating expenses for the generation of rental income (excluding share-based remuneration)	F.2.	– 484.7	– 406.1
Profit from the leasing of investment property		**441.0**	**366.7**
Income from the sale of investment property		202.7	155.6
Carrying amount of investment property sold		– 146.4	– 133.0
Profit from the sale of investment property		**56.3**	**22.6**
Unrealized gains from fair value measurement		1,276.1	573.2
Unrealized losses from fair value measurement		– 291.9	– 515.7
Profit from fair value measurement	**F.3.**	**984.2**	**57.5**
Income from the sale of commercial real estate and property development		76.9	168.1
Carrying amount of commercial real estate and property development sold		– 61.5	– 171.7
Profit / loss from the sale of commercial real estate and property development	**F.4.**	**15.4**	**– 3.6**
Profit from other services	F.5.	4.6	15.4
Selling expenses (excluding share-based remuneration)	F.6.	– 21.6	– 20.9
General and administrative expenses (excluding share-based remuneration)	F.7.	– 57.0	– 52.0
Expenses for share-based remuneration	F.8.	– 2.1	– 20.4
Other operating income	F.9.	21.4	31.8
Other operating expenses	F.10.	– 22.2	– 33.3
Profit from operations before reorganization and restructuring expenses		**1,420.0**	**363.8**
Reorganization and restructuring expenses	F.11.	– 22.4	– 39.8
Profit from operations		**1,397.6**	**324.0**
Profit from other financial assets		0.1	0.3
Earnings before interest and taxes (EBIT)		**1,397.7**	**324.3**
Interest expense (periodical)	F.12.	– 278.5	– 223.4
Other financial expenses		– 0.6	1.0
Interest income (periodical)		15.0	9.3
Profit from the fair value measurement of derivatives	F.12.	9.3	65.1
Interest (refinancing)		– 20.1	– 12.9
Profit before taxes		**1,122.8**	**163.4**
Income taxes (excluding EK 02)	F.13.	– 405.7	– 20.6
Increase in corporate income tax based on the remaining EK 02	F.13.	– 128.2	0.0
Net profit		**588.9**	**142.8**
Thereof attributable to:			
Minority interests	F.14.	25.0	7.2
Shareholders of the parent company		563.9	135.6
Weighted average number of shares (undiluted)		225,520,560	206,871,679
Weighted average number of shares (diluted)		226,164,589	207,021,271
Earnings per share (in €)	F.15.	2.50	0.66
Diluted earnings per share (in €)	F.15.	2.49	0.66

[1] For more information, please refer to page 47 of this report.

Consolidated Cash Flow Statement

for the period from January 1 to December 31, 2007

€ MILLION	2007	2006 (restated[1])
Net profit	588.9	142.8
Change in the value of investment property	– 984.2	– 55.2
Amortization, depreciation and impairment losses on intangible assets and property, plant and equipment	14.3	6.5
Gains / losses on the disposal of property, plant and equipment	– 0.1	– 0.4
Gains / losses on the disposal of investment property	– 56.3	– 22.6
Other non-cash income / expenses	37.7	– 25.1
Change in provisions, pension provisions and deferred liabilities of government granted loans	– 29.3	– 21.5
Change in deferred taxes	392.3	14.0
Change in working capital	187.6	47.7
Cash flows from operating activities	**150.9**	**86.2**
Cash received from the sale of investment property	167.2	75.6
Cash paid for investment property – reinvestment	– 129.7	– 10.0
	188.4	**151.8**
Cash paid for investment property – acquisition and modernization	– 622.0	– 74.3
Cash paid for investments in property, plant and equipment	– 8.2	– 4.4
Cash received from disposals of property, plant and equipment	0.4	1.0
Cash received from the sale of commercial real estate	24.7	90.9
Cash received from the sale of other financial assets	77.2	0.0
Cash received from the sale of subsidiaries	0.0	1.2
Cash paid for other financial assets	0.0	– 12.6
Cash paid for the acquisition of subsidiaries and minority shares in subsidiaries	– 342.5	– 935.3
Cash flows from investing activities	**– 832.9**	**– 867.9**
Cash received from equity contributions	0.0	765.0
Cash paid to stockholders of GAGFAH S.A.	– 166.9	– 57.0
Cash paid to minority interests	– 0.9	– 0.4
Cash paid for liabilities to minority shareholders	– 1.5	– 1.6
Cash received from raising financial liabilities	1,862.7	1,343.2
Cash repayments of financial liabilities	– 1,157.6	– 1,054.0
Interest and cost paid for refinancing	– 18.2	– 60.7
Cash flows from financing activities	**517.6**	**934.6**
Change in cash and cash equivalents	**– 164.4**	**152.9**
Bank balances, cash on hand and securities at the beginning of the year	370.5	217.6
Bank balances, cash on hand and securities at the end of the year	**206.1**	**370.5**

[1] For more information, please refer to page 47 of this report.

Statement of Changes in Consolidated Equity

€ MILLION	Subscribed capital	Share premium	Legal reserve	REVENUE RESERVES Unrealized gains/losses from derivative financial instruments	Retained earnings	Equity attributable to the share-holders of the parent company	Minority interests	Total equity
January 1, 2007	**281.9**	**1,572.1**	**27.6**	**– 0.6**	**449.0**	**2,330.0**	**66.5**	**2,396.5**
Result from measurement of swaps	0.0	0.0	0.0	1.7	0.0	1.7	0.0	1.7
Total income and expenses for the year recognized directly in equity	**0.0**	**0.0**	**0.0**	**1.7**	**0.0**	**1.7**	**0.0**	**1.7**
Net profit	0.0	0.0	0.6	0.0	563.3	563.9	25.0	588.9
Total income and expenses for the year	**0.0**	**0.0**	**0.6**	**1.7**	**563.3**	**565.6**	**25.0**	**590.6**
Capital increase	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Share-based remuneration	0.0	5.6	0.0	0.0	0.0	5.6	0.0	5.6
Change in shareholdings and the consolidated Group	0.0	0.0	0.0	0.0	– 7.4	– 7.4	11.3	3.9
Dividends	0.0	– 40.2	0.0	0.0	– 88.4	– 128.6	– 0.8	– 129.4
December 31, 2007	**281.9**	**1,537.5**	**28.2**	**1.1**	**916.5**	**2,765.2**	**102.0**	**2,867.2**
January 1, 2006 (restated)	**224.9**	**913.7**	**22.5**	**0.0**	**351.5**	**1,512.6**	**50.1**	**1,562.7**
Result from measurement of swaps	0.0	0.0	0.0	– 0.6	0.0	– 0.6	0.0	– 0.6
Total income and expenses for the year recognized directly in equity	**0.0**	**0.0**	**0.0**	**– 0.6**	**0.0**	**– 0.6**	**0.0**	**– 0.6**
Net profit	0.0	0.0	0.0	0.0	135.6	135.6	7.2	142.8
Total income and expenses for the year	**0.0**	**0.0**	**0.0**	**– 0.6**	**135.6**	**135.0**	**7.2**	**142.2**
Capital increase	56.4	704.1	5.1	0.0	0.0	765.6	0.0	765.6
Share-based remuneration	0.6	11.2	0.0	0.0	0.0	11.8	0.0	11.8
Change in shareholdings and the consolidated Group	0.0	0.0	0.0	0.0	0.3	0.3	11.6	11.9
Dividends	0.0	– 56.9	0.0	0.0	– 38.4	– 95.3	– 2.4	– 97.7
December 31, 2006	**281.9**	**1,572.1**	**27.6**	**– 0.6**	**449.0**	**2,330.0**	**66.5**	**2,396.5**

A. General Information

The Company

GAGFAH S.A. is a joint stock corporation incorporated in Luxembourg, with its registered office at 2-4, Rue Beck, Luxembourg. The Company was formed on July 12, 2005, as NLG Acquisition Holdings S.C.A. and entered in the commercial register (Registre de Commerce et des Sociétés) of Luxembourg on July 27, 2005. On August 30, 2005, the Company changed its name to NLG Acquisition Investments S.C.A. and by shareholder resolution dated September 29, 2006, it was transformed into a Societé Anonyme and renamed GAGFAH S.A.

GAGFAH S.A. (in the following also referred to as "GAGFAH Group") is the Group's ultimate parent company. GAGFAH S.A.'s business is the securitization of risks relating to a geographically diversified residential property portfolio.

The core business of GAGFAH S.A.'s operating subsidiaries is the ownership, management and acquisition of a geographically diversified and well maintained residential property portfolio (over 170,000 apartments) throughout Germany. As of the balance sheet date, the Group was managing a total of approximately 200,000 apartments. GAGFAH S.A.'s operating subsidiaries also operate in the area of real estate sales.

In additon, GAGFAH S.A.'s operating subsidiaries work in the area of commercial real estate and property construction / development operations. As these operations are not part of our core business, all commercial properties were sold in 2007, while the property construction / development business will be closed down.

Consolidated Financial Statements

GAGFAH S.A. has prepared its consolidated financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the EU and the interpretations of the International Financial Reporting Interpretations Committee (IFRIC) – formerly Standards Interpretations Committee (SIC) – since its formation. All IFRSs that must be applied for the fiscal year were taken into account.

The fiscal year of GAGFAH S.A. is identical to the calendar year; it starts on January 1 and ends on December 31, 2007. If the fiscal year of any subsidiaries deviates from the calendar year, additional financial statements as of the fiscal year-end are prepared.

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

The prior-year financial statements were prepared using the same principles as the financial statements as of December 31, 2007.

In line with the recommendations of the European Public Real Estate Association (EPRA), the income statement was classified according to the cost of sales method.

The consolidated financial statements for the year ending December 31, 2007 have been formally approved by the Board of Directors on March 18, 2008 and will be presented to the Annual General Meeting of the Shareholders for approval on April 21, 2008.

New Accounting Standards

CHANGES IN ACCOUNTING POLICY AND DISCLOSURE

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

The Group has adopted the following new and amended IFRS and IFRIC interpretations during the year. Adoption of these revised standards and interpretations did not have any effect on the financial performance or position of the Group. They did however give rise to additional disclosures, including in some cases revisions to accounting policies.

IFRS 7 Financial Instruments: Disclosures requires disclosures that enable users of the financial statements to evaluate the significance of the Group's financial instruments and the nature and extent of risks arising from those financial instruments. The new disclosures are included throughout the financial statements. While there has been no effect on the financial position or results, comparative information has been revised where needed.

The amendment to **IAS 1 Presentation of Financial Statements** requires the Group to make new disclosures to enable users of the financial statements to evaluate the Group's objectives, policies and processes for managing capital. Related disclosures are made in note E.12.

IFRIC 8 Scope of IFRS 2 requires IFRS 2 to be applied to any arrangements in which the entity cannot specifically identify some or all of the goods received, in particular where equity instruments are issued for consideration which appears to be less than

fair value. As equity instruments are only issued to employees in accordance with the employee share scheme, the interpretation had no impact on the financial position or performance of the Group.

IFRIC 9 Reassessment of Embedded Derivatives states that the date to assess the existence of an embedded derivative is the date that an entity first became a party to the contract, with reassessment only if there is a change to the contract that significantly modifies the cash flows. As the Group has no embedded derivative requiring separation from the host contract, the interpretation had no impact on the financial position or performance of the Group.

The Group adopted **IFRIC 10 Interim Financial Reporting and Impairment** as of January 1, 2007, which requires that an entity must not reverse an impairment loss recognized in a previous interim period in respect of goodwill or an investment in either an equity instrument or a financial asset carried at cost. As the Group had no impairment losses previously reversed, the interpretation had no impact on the financial position or performance of the Group.

In the business year 2007, the Group voluntarily changed its presentation for the operating cash flow in its cash flow statement. The starting point of the operating cash flow was changed from "Earnings before interest and taxes" to "Net profit". The modification was made in order to adapt the presentation to the benchmark presentation for operating cash flows. The comparative figures for 2006 were adjusted accordingly.

NEW ACCOUNTING STANDARDS ISSUED BUT NOT YET EFFECTIVE

In addition to the IFRSs, whose application is mandatory for fiscal year 2007, the International Accounting Standards Board (IAS) and International Financial Reporting Interpretations Committee (IFRIC), respectively, have also published other IFRSs and IFRICs, whereof IFRS 8 and IFRIC11 have already received European endorsement. All newly published standards and interpretations will become mandatory at a later date. Voluntary early application of the relevant standards and interpretations are explicitly permitted and encouraged. GAGFAH S.A. did not apply any of the voluntarily applicable standards and interpretations.

IFRS 8 Operating Segments was issued in November 2006 and covers disclosures on an entity's operating segments, products and services, geographical areas and customer relationships and becomes effective for financial years beginning on or after January 1, 2009. It supersedes IAS 14. In accordance with IFRS 8, segment reporting must be prepared in the same way as internal reports for the entity's key decision makers (management approach). By contrast, ias 14 stipulates that segment reporting must be structured in accordance with the source and nature of the entity's risks and returns. The new standard will change disclosure but there will be no change in recognition and measurement for the consolidated financial statements.

A revised **IAS 1 Presentation of Financial Statements** was issued in September 2007. The revised standard shall enhance the usefulness of the information presented in the financial statements. The main changes comprise e.g. the introduction of a new statement of comprehensive income, a newly structured statement of changes in equity and the introduction of a new terminology for some components of the financial statements, although this is not obligatory. The revised standard becomes effective for annual periods beginning on or after January 1, 2009. The new provisions of IAS 1 will not cause changes in measurement. However, the Group will need to consider the future presentation of its financial statements.

A revised **IAS 23 Borrowing Costs** was issued in March 2007 and becomes effective for financial years beginning on or after January 1, 2009. The standard has been revised to require capitalization of borrowing costs when such costs relate to a qualifying asset. A qualifying asset is an asset that necessarily takes a substantial period of time to get ready for its intended use or sale. Since the Group already capitalizes borrowing costs for qualifying assets, the revised standard will not have any effects on its financial position.

IFRIC 11 IFRS 2 Group and Treasury Share Transactions was issued in November 2006 and becomes effective for annual periods beginning on or after March 1, 2007. This interpretation requires arrangements whereby an employee is granted rights to an entity's equity instruments to be accounted for as an equity-settled scheme even if the entity buys the instruments from another party or the shareholders provide the equity instruments needed. GAGFAH S.A. does not expect a material impact on the Group's financial statements due to this IFRIC.

IFRIC 12 Service Concession Arrangements was issued in November 2006 and becomes effective for annual periods beginning on or after January 1, 2008. This interpretation applies to service concession operators and explains how to account for the obligations undertaken and rights received in service concession arrangements. No member of the Group is an operator and hence this interpretation will have no impact on the Group.

IFRIC 13 Customer Loyalty Programs was issued in June 2007 and becomes effective for annual periods beginning on or after July 1, 2008. This interpretation requires customer loyalty award credits to be accounted for as a separate component of the sales transaction in which they are granted. Therefore, part of the fair value of the consideration received is allocated to the award credits and is deferred over the period that the award credits are fulfilled. The Group expects that this interpretation will have no impact on the Group's financial statements, as no such schemes currently exist.

IFRIC 14 IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction was issued in July 2007 and becomes effective for annual periods beginning on or after January 1, 2008. This interpretation provides guidance on how to assess the limit on the amount of surplus in a defined benefit scheme that can be recognized as an asset under IAS 19 Employee Benefits. The Group expects that this interpretation will have no impact on the financial position or performance of the Group as all defined benefit schemes are currently in deficit.

RESTATEMENT OF PRIOR YEAR FIGURES

Since the acquisition of the respective Group companies by GAGFAH S.A. in 2005, Group activities were focused on the core business of management and sale of residential property. Consequently, a management resolution was approved in 2005 to abandon the property construction / development business. Furthermore, it was decided to discontinue the commercial real estate business and a plan for its sale was prepared. According to **IFRS 5 Non-current Assets held for Sale and Discontinued Operations**, the results from both operations have been presented as "Profit / loss from discontinued operations before taxes" in a separate and condensed line in the income statement from 2005 onwards. The assets of the commercial real estate business have been presented as "assets from discontinued operations". In 2007, it became evident that the original time schedule for the liquidation of the remaining assets of property construction / development and the sale of the assets for commercial real estate cannot be kept since these activities take longer time than originally expected. Since the requirements of IFRS 5 do not permit an extension of the period required to complete the sale under the existing circumstances, the amounts for the commercial real estate and the property construction / development business are presented under continued operations for the fiscal year 2007; the comparative figures in the income statement have been revised to reflect the reclassification of the operations. A representation for the assets presented as "assets from discontinued operations" is not foreseen under IFRS 5.

For more details concerning the revision of comparative figures in the income statement, please refer to the detailed information provided in section F.

In fiscal year 2007, the Group changed the starting point for the cash flow statement from earnings before interest and taxes (adjusted for the loss from discontinued operations) to "net profit". In accordance with IAS 7, the Group adjusted the prior year's cash flow statement as well.

B. Consolidated Group and Consolidation Methods

1. Consolidated Group

73 subsidiaries were included in the consolidated financial statements of GAGFAH S.A. on the basis of full consolidation since GAGFAH S.A. governs the financial and operating policies of these entities. Normally, control is possible if an entity holds the majority of voting rights, either directly or indirectly. Two of these companies (Nr. 68 and Nr. 70 in the list of shareholdings) were included in the consolidated financial statements due to their nature as special purpose entities (SPEs) according to SIC 12. In addition, 20 fractional ownership funds ("HB-Fonds") were included in the financial statements on the basis of full consolidation and six joint ventures on a proportionate consolidation basis.

The composition of the GAGFAH S.A. Group is presented in the list of shareholdings attached as Exhibit (1).

COMPANY FORMATIONS, ACQUISITIONS AND SALES IN 2007

Acquisition of "Blitz F07-einhundert-neunzig GmbH"

On October 30, 2007, Blitz F07-einhundert-neunzig GmbH was acquired by GAGFAH S.A., Luxembourg for a purchase price of €27,000.

The name of the purchased company will be changed into GAGFAH Holding GmbH in the future.

Acquisitions of KALIRA Grundstücksgesellschaft mbH & Co. KG and KALIRA Grundstücks-Verwaltungsgesellschaft mbH

With contract of sale and assignment of November 20, 2007, Blitz F07-einhundert-neunzig GmbH acquired 94.9 % and KORIN Grundstücks-Verwaltungsgesellschaft Projekt 24 mbH acquired 5.1 % of the limited liability capital of KALIRA Grundstücks-gesellschaft mbH & Co. KG.

Furthermore, Blitz F07-einhundert-neunzig GmbH acquired 94.8 % and KORIN Grundstücks-Verwaltungsgesellschaft Projekt 24 mbH acquired 5.2 % of the share capital of KALIRA Grundstücks-Verwaltungsgesellschaft mbH.

Upstream merger of Apellas Erste Grundbesitzverwaltungsgesellschaft mbH and Apellas Dritte Grundbesitzverwaltungsgesellschaft mbH into GAGFAH Pegasus GmbH

Apellas Erste Grundbesitzverwaltungsgesellschaft mbH and Apellas Dritte Grundbesitz-verwaltungsgesellschaft mbH transferred their net assets as a whole to GAGFAH Pegasus GmbH by upstream mergers.

The mergers are based on the subsidiaries' closing balance sheets as of June 30, 2007. The takeover of the net assets was effected on July 1, 2007, in the internal relationship. The upstream merger was entered into the commercial register on August 9, 2007.

Change of corporate form and change of registered office of Wohnungsverein Ulm AG

A change in the corporate form of Wohnungsverein Ulm AG into Wohnungsverein Ulm GmbH was resolved at the extraordinary shareholders' meeting of Wohnungsverein Ulm AG on May 31, 2007.

The change in corporate form was entered in the commercial register on July 27, 2007.

At the shareholders' meeting of Wohnungsverein Ulm GmbH on August 31, 2007, the change of the registered office of Wohnungsverein Ulm GmbH from Ulm to Heidenheim an der Brenz was resolved.

The change of the registered office was entered in the commercial register on September 13, 2007.

Change in corporate form of GAGFAH Pegasus GmbH

At the extraordinary shareholders' meeting of GAGFAH Pegasus GmbH held on July 30, 2007, the change in the corporate form of GAGFAH Pegasus GmbH into GAGFAH Pegasus GmbH & Co. KG was resolved.

The change in corporate form was entered in the commercial register on August 15, 2007.

Acquisitions of the GBH Group and APH

The core business of the GBH Group and APH is the ownership and management of residential property portfolios.

On November 9, 2006, GBH Acquisition GmbH, a wholly-owned subsidiary of GAGFAH S.A., signed five purchase agreements to acquire 6,248,902 shares in Grundstücks- und Baugesellschaft Aktiengesellschaft, Heidenheim (GBH AG), i.e. 86.8 % of the shares issued by GBH AG. The purchase price is €48.00 per share. Furthermore, for the dividends payable for fiscal year 2006, the vendors of the shares receive a compensation payment of €0.35 per share. On January 4, 2007, all the following preconditions were met and the transfer of the shares in GBH Acquisition GmbH became effective. The essential preconditions for the transfer of shares in GBH Acquisition GmbH were the full payment of the purchase price and of compensatory payment and the non-existence of conditions that prohibit execution under antitrust legislation.

On December 15, 2006, GBH Acquisition GmbH published a tender offer for the remaining shares at a purchase price of €49.35 per share. In the following months GBH Acquisition GmbH purchased on and outside the stock exchange further shares in GBH AG. As of December 31, 2007, GBH Acquisition GmbH's investment in GBH AG amounts to 7,046,052 shares or about 97.86 % of the shares issued.

A squeeze-out process was initiated. In the course of this process, the remaining 153,948 shares, priced at the amount of €58.50 per share, are planned to be purchased.

The following companies were acquired together with Grundstücks- und Baugesellschaft Aktiengesellschaft, Heidenheim, (GBH AG) and included in the Consolidated Financial Statements of GAGFAH S.A. as of December 31, 2007, on the basis of full consolidation for the first time:

- Baugesellschaft Frankenthal GmbH, Frankenthal (Pfalz), Germany
- Wohnungsverein Ulm GmbH, Heidenheim an der Brenz, Germany
- Bocholter Wohnungsbaugesellschaft mbH, Bocholt, Germany
- GBH Beteiligung mbH, Heidenheim an der Brenz, Germany
- GBH Service GmbH, Heidenheim an der Brenz, Germany
- HWG Heidenheimer Wohnungsgesellschaft GmbH, Heidenheim an der Brenz, Germany
- GBH Verwaltungs GmbH, Heidenheim an der Brenz, Germany

On December 22, 2006, Blitz B06-615 GmbH (change of name to "GAGFAH Acquisition 3 GmbH" and office relocation to Essen resolved) and GAGFAH M Immobilien Management GmbH ("GAGFAH M") submitted an offer to the shareholders of Apellas Property Holding GmbH ("APH", change of name to "GAGFAH Pegasus GmbH") to purchase APH's shares as well as certain shareholder loans. On January 9, 2007, the sellers accepted that offer. The purchase agreement contained several conditions precedent, which were all fulfilled on February 7, 2007.

Concerning the acquisition of APH, GAGFAH complied with the following terms of execution:

- Payment of the agreed purchase price
- Admissibility of the execution under § 41 Antitrust Act

Under the purchase agreement, GAGFAH Acquisition 3 GmbH acquired 94.8 % of APH's shares as well as all shareholder loans. GAGFAH M acquired the remaining 5.2 % of the shares and later transferred its shares to KALIRA Grundstücksgesellschaft mbH & Co. KG.

The acquired net assets of GBH Group and APH break down as follows:

€ MILLION	Amounts recognized at the acquisition date			Carrying amounts immediately before combination
	GBH Group	APH Group	Total	GBH Group
Goodwill	0.0	24.5	24.5	0.0
Investment property	427.8	315.3	743.1	253.6
Other property, plant and equipment	3.1	0.0	3.1	3.1
Other financial assets	18.2	0.1	18.3	18.1
Deferred tax assets	4.1	0.0	4.1	4.1
Inventories	3.4	0.0	3.4	3.4
Receivables and other assets	7.6	1.1	8.7	7.3
Bank balances and cash on hand	63.7	6.0	69.7	64.6
Assets	**527.9**	**347.0**	**874.9**	**354.2**
Minority interests	17.4	0.0	17.4	10.0
Liabilities to minority shareholders	27.1	0.0	27.1	0.0
Pension provisions	2.0	0.0	2.0	2.0
Other provisions	1.0	2.0	3.0	1.5
Deferred tax liabilities	0.0	21.7	21.7	0.0
Financial liabilities	124.5	201.1	325.6	119.4
Deferred government loans	7.6	0.0	7.6	14.8
Other liabilities	23.0	7.9	30.9	11.6
Liabilities	**202.6**	**232.7**	**435.3**	**159.3**
Fair value of net assets	**325.3**	**114.3**	**439.6**	
Costs of acquisition:				
Acquisition costs	311.7	113.8	425.5	
Incidental acquisition costs	13.6	0.5	14.1	
	325.3	**114.3**	**439.6**	
Cash outflows due to acquisition:				
Cash outflows in the fiscal year	262.7	114.3	377.0	
Cash acquired with the subsidiaries	63.7	6.0	69.7	
Net cash outflow	**199.0**	**108.3**	**307.3**	

For purposes of the purchase price allocation pursuant to IFRS 3.36 the fair value of APH's real estate portfolio was calculated using certain parameters according to valuation standards used for the calculation of market prices. For purposes of the purchase price calculation GAGFAH-specific parameters were used to determine the value of the same properties. The latter are more favourable – mainly reflecting GAGFAH's economies of scale in the Berlin regional division, which will be realised by improved absorption of administrative overhead expenses and integration of the formerly outsourced real estate management activities into the Group structure. This procedure eventually led to the recognition of a goodwill of €24.5 million.

These acquisitions had an impact on total profit or loss for the period. From January 1 to December 31, 2007, both Groups generated revenues of €68.9 million, which breaks down into revenues of €65.3 million (GBH Group: €44.8 million, APH: €20.5 million) from the leasing of investment property, €3.2 million (GBH Group: €3.2 million, APH: €0.0 million) from the sale of investment property and €0.4 million (GBH Group: €0.4 million, APH: €0.0 million) from third-party real estate management.

The APH Group had a total loss of €1.0 million and revenues of €1.2 million in 2007 before becoming part of GAGFAH Group. The disclosures required by IFRS 3.67 (f) have not been made since the acquired company prepared its financial statements in accordance with the German Commercial Code and the calculation of the IFRS carrying amount would involve undue cost and effort.

The provisional purchase price allocation of GBH Group is final now.

Additionally, in fiscal year 2007, the following immaterial acquisitions and formations were made:

- Acquisition of mertus Achtundzwanzigste GmbH
- Acquisition of mertus Zweiunddreißigste GmbH
- Formation of GAGFAH First Property Holding GmbH & Co. KG
- Formation of GAGFAH Second Property Holding GmbH & Co. KG
- Formation of GAGFAH Dritte Grundbesitz GmbH & Co. KG
- Formation of GAGFAH Vierte Grundbesitz GmbH & Co. KG

Sales and Liquidations in the Reporting Period

The three following companies are no longer included in the scope of consolidation as of December 31, 2007:

- Objekt Kassel GbR, Hanover, Germany, was liquidated on June 13, 2007.
- GIP Heidenheim GmbH, Heidenheim an der Brenz, Germany, was sold on July 1, 2007.
- Kreiensen GbR, Hanover, Germany, was liquidated on July 4, 2007, and was transferred to NILEG GmbH.

2. Consolidation Principles

2.1. SUBSIDIARIES

In addition to GAGFAH S.A., all subsidiaries over which control is exercised pursuant to IAS 27.13 are fully consolidated. Control is deemed to be present when GAGFAH S.A. holds the majority of voting rights either directly or indirectly, may govern the financial and operating policies of the company, or is entitled to appoint the majority of supervisory board members.

The financial statements of the individual subsidiaries are included in the consolidated financial statements in accordance with IFRSs using the uniform accounting policies stipulated by GAGFAH S.A.

For the companies acquired in 2007, capital consolidation was performed using the purchase method in accordance with IFRS 3, under which the acquisition cost of the investment is offset against the respective share in the net assets (in line with the Group's interest), measured at fair value, as of the acquisition date.

The assets and liabilities of the relevant subsidiaries are measured at fair value.

If the acquired share of the net assets of the subsidiary exceeds the cost of the investment, the share of the net assets and the acquisition costs are reassessed as prescribed by IFRS 3.56. Any excess remaining after this reassessment is treated as a lucky buy and is recognized immediately as profit or loss.

All intercompany receivables and liabilities (and provisions), revenues, expenses and income as well as gains and losses are eliminated.

Subsidiaries are fully consolidated from the date of acquisition, i.e. the date on which the Group obtains control. Inclusion in the consolidated financial statements ends as soon as the parent ceases to have control.

An adjustment item for minority interests is recognized for shares in fully consolidated subsidiaries that do not belong to the parent company. Pursuant to IAS 27.33, the adjustment item is disclosed under consolidated equity as a separate item from the equity of the parent company.

Minority interests in consolidated profit or loss are recorded separately in the consolidated income statement as a "thereof" item below profit or loss in accordance with IAS 27.33.

The shares in joint ventures are included in the consolidated financial statements on a proportionate consolidation basis. For proportionate consolidation, the same methods are generally applied as for the consolidation of subsidiaries. Required consolidation entries for relationships with proportionately consolidated companies are performed in accordance with the respective share in equity.

2.2. INCREASE IN MAJORITY INTEREST

If a company is already a subsidiary and more of its shares are acquired, the carrying amounts of the company's assets and liabilities remain unchanged. Instead, there is an adjustment between majority shareholders and minorities within equity.

2.3. ASSOCIATES

The subsidiaries over which GAGFAH has a significant influence in accordance with IAS 28.6, but which it neither controls nor jointly controls, are disclosed as associates. The Company is considered to have a significant influence when it holds at least 20 % of the voting rights.

Pursuant to IAS 28.13, shares in associates are accounted for using the equity method, i.e. at the Group's share in the net assets of the relevant associate, and increased or decreased in accordance with the Group's share in the associate's net profit or loss. Profits from the disposal of associates are disclosed with other operating income.

C. Accounting Policies

1. Intangible Assets

ACQUIRED INTANGIBLE ASSETS
Acquired intangible assets with a finite lifespan are initially measured at cost and, if they are depreciable, amortized straight line over their expected useful lives in accordance with IAS 38.97.

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

GOODWILL
Goodwill arising upon capital consolidation represents the excess of the cost of a business acquisition over the acquirer's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of a subsidiary on the acquisition date.

Pursuant to IFRS 3.51, goodwill is recorded as an asset on the date of acquisition. In accordance with IFRS 3.55, it is not amortized, but subject to an annual impairment test pursuant to IAS 36. Following initial recognition, goodwill is measured in accordance with IFRS 3.54 at original cost less any accumulated impairment losses.

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

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

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

For the purpose of impairment testing, the acquired goodwill is allocated to each cash-generating unit expected to benefit from the synergies of the combination as of the acquisition date. The cash-generating units of GAGFAH S.A. correspond to the particular regional divisions. Impairment is determined by assessing the recoverable amount of the cash-generating unit to which the goodwill relates. Where the recoverable amount of the cash-generating unit is less than the carrying amount, an impairment loss is recognized.

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

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

2. Interests in Joint Ventures

The Group has interests in joint ventures. A joint venture is defined as a contractual arrangement between two or more parties to undertake economic activities that are subject to joint control. A jointly controlled entity is a joint venture which entails the formation of a separate entity in which each party has an interest. The Group accounts for its interest in the joint venture on the basis of proportionate consolidation. The Group combines its share in the assets, liabilities, income and expenses of the joint venture with the relevant items in the consolidated financial statements. The financial statements of the joint ventures are prepared as of the same balance sheet date of the parent company using consistent accounting policies. Adjustments are made to bring into line any dissimilar accounting policies that may exist.

If contributions are made or assets sold to the joint ventures, recognition of the portion of a gain or loss from the transaction reflects the substance of the transaction. When the Group purchases assets from a joint venture, it does not recognize its share of the profits of the joint venture from the transaction until it resells the assets to an unrelated party.

3. Leases

Leases are assessed in accordance with their substance.

For finance leases, a Group company is the lessee provided it alone has the risks and rewards incidental to ownership of the leased item. The leased item is capitalized at the inception of the lease at the lower of the fair or present value of the minimum lease payments. The lease payments are divided into interest and principal payments; the lease liability thus bears interest on an ongoing basis. Finance costs are recorded directly as expenses. If it is not sufficiently certain that the ownership has been transferred, the leased items are amortized / depreciated over their remaining useful lives or over the remaining term of the lease using the shorter of the two periods.

Lease payments from operating leases are recognized as expenses straight line over the term of the agreement. The rental agreements concluded by the Group as part of their operating activities do not represent leases within the meaning of IAS 17 since the rental agreements were mostly concluded for an indefinite period rather than for a fixed term. The tenants have a unilateral right to termination within the statutory notice period.

If a Group company acts as lessor but all risks and rewards incidental to ownership of the leased asset remain with the Group, the lease is considered to be an operating lease. Initial direct costs are capitalized and recorded as an expense over the term of the lease in accordance with the rent received.

4. Investment Property

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

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

Investment property is initially measured at cost plus any incidental purchase costs or transaction costs at the time of addition in accordance with IAS 40.20.

Properties are allocated to the investment property portfolio if there is a change in their usage evidenced by the end of owner occupation, the beginning of a lease agreement with another party or the end of construction or development.

Investment property is stated at net fair value (fair value less purchasers' cost) upon subsequent measurement.

All investment property is measured by GAGFAH S.A. itself at the end of each fiscal year.

The valuation module of GAGFAH S.A. uses market-oriented or typified (objective, non-entity-specific) figures where relevant (e.g. capitalization rate, administrative expenses, object-specific rates of cost increase) and the valuation is based on a discounted cash-flow model.

The cash flows are calculated over a detailed planning period of ten years. In the eleventh year, a residual value is included in the calculation. The net cash flows are calculated from the realizable rent less the risk relating to loss of rent, vacancy expenses, non-allocable operating expenses and administrative and maintenance costs.

Depending on the market rent and the individual adjustment options, the realizable rent is adjusted to the forecast market rent based on the current rent level. Starting from the currently realizable rent, an adjustment of rentals to the market rent considering the legal restrictions is presumed.

The directly allocable management costs are calculated in line with the classification of the property in the central portfolio management system. With its central portfolio management system, GAGFAH S.A. is pursuing its objective of increasing the value of and return on its entire portfolio in the long term. Decisions relating to investments and divestments as well as larger-scale modernization measures within the real estate portfolio are therefore taken on the basis of the portfolio management system.

The cash flows are discounted at an interest rate adjusted to the specific property, which takes account of additional uncertainties in the cash flows.

Administrative expenses are calculated at a flat rate of €250 (2006: €240) per unit. A price inflation rate of 1.2% (maintenance costs), 1.4 % (operating expenses) and 2.0 % (administrative expenses) per annum was applied to all cost figures.

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

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

Properties are taken out of the investment property portfolio if there is a change in their usage evidenced by the beginning of owner occupation.

The predominant part of the results of the internal valuation of the investment property portfolio underwent an external review of fair value appraisals as of December 31, 2007, and the smaller part as of June 30, 2007, by CB Richard Ellis Deutschland GmbH in accordance with International Valuation Standards (IVS) constituted by the International Valuation Standards Committee (IVSC) without regard to any outside capital and portfolio additions or discounts that have to be considered when selling investment properties. The results of the internal valuation were confirmed.

Prepayments for investments properties are shown separately in the balance sheet.

5. Property, Plant and Equipment

Other property, plant and equipment of GAGFAH S.A. is accounted for at cost less accumulated depreciation and impairment losses in accordance with the cost method of IAS 16.30.

If properties are owner-occupied within the scope of operating activities, they are disclosed under the balance sheet item property, plant and equipment.

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

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

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

Land and buildings held for the provision of services or for administrative purposes are recognized in the balance sheet at cost less depreciation. Cost includes consideration paid for third-party services and, with respect to qualifying assets, borrowing costs that were capitalized in accordance with Group accounting policies.

Assets under construction for lease or administrative purposes or for non-specified purposes are recognized at cost less any impairment losses charged. Cost includes consideration paid for third-party services and, with respect to qualifying assets, borrowing costs that were capitalized in accordance with Group accounting policies.

Furniture and fixtures as well as **technical equipment and machines** are disclosed at cost less accumulated depreciation and any impairment losses recognized.

Technical equipment and machines and other equipment, furniture and fixtures are depreciated on a straight-line basis with the residual book value serving as assessment base. Commercial and other buildings are depreciated on a straight-line basis with the acquisition and production costs serving as assessment base.

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

	Useful life
Commercial and other buildings	50 years
Technical equipment and machines	20 to 25 years
Other equipment, furniture and fixtures	3 to 13 years

The residual carrying amounts and useful lives are reviewed and adjusted if required at every balance sheet date. Impairment losses are recognized on the basis of impairment tests pursuant to IAS 16.63 in conjunction with IAS 36.59 if the carrying amount exceeds the higher of the value in use or the net selling price. If the reasons for impairment cease to apply, the impairment is reversed in accordance with IAS 36.110.

6. Borrowing Costs

Borrowing costs are expensed as incurred, except for borrowing costs relating to qualifying assets, in accordance with IAS 23.10.

If borrowing costs can be allocated directly to the acquisition, construction or production of assets, they are capitalized as part of cost in accordance with the capitalization option of IAS 23.11 (allowed alternative treatment).

A further prerequisite for the capitalization of borrowing costs is that the amount can be measured reliably and that the capitalized borrowing costs are matched by a probable future benefit.

As soon as costs including borrowing costs arise for the asset and preparations commence for the production of the asset, the borrowing costs are capitalized as part of cost in accordance with IAS 23.20.

Pursuant to IAS 23.25, capitalization ceases once all required actions have been performed in order to render the asset usable or saleable. For construction or renovation projects, this is the completion of construction date.

If the production process is interrupted for a long period, capitalization of the borrowing costs is suspended for this period in accordance with IAS 23.23.

In the normal course of business, (mortgage) loans are raised on a regular basis specifically for the production of an asset. Thus, only the interest actually accruing on this borrowing during the period less any investment income on the temporary investment of these borrowings is capitalized. The capitalized borrowing costs correspond to the specific borrowing costs of the relevant asset.

7. Impairment of Items of Property, Plant and Equipment and Intangible Assets

At every balance sheet date, GAGFAH S.A. reviews the carrying amounts of its items of property, plant and equipment and intangible assets (except for goodwill, see C.1) in order to ascertain whether there are any indications of impairment of these assets. If there are indications of such, the recoverable amount of the asset (or cash-generating unit) is estimated.

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

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

If the impairment is subsequently reversed, the carrying amount of the asset (or cash-generating unit) is increased to the newly estimated recoverable amount. This increased value may not exceed the carrying amount that would arise after taking account of amortization / depreciation if no impairment had been recognized in the prior periods.

The amount of any reversal must be included immediately in profit or loss for the period. Once a reversal has been made, the amortization / depreciation charge must be adjusted in future reporting periods in order to systematically allocate the adjusted carrying amount of the asset, less a residual carrying amount, over its remaining useful life.

8. Financial Instruments

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

Gains and losses on the disposal of financial instruments are disclosed as other operating income or expenses. Impairment losses are disclosed as other operating expenses. Other results from financial instruments, mainly interest, are disclosed in the financial result.

A) PRIMARY FINANCIAL ASSETS

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

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

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

If securities are purchased within the Group, these are treated as "available-for-sale financial assets". Other investments in equity instruments are also classified as "available-for-sale financial assets".

"Loans granted and receivables" and "available-for-sale financial assets" are initially measured at fair value plus transaction costs directly allocable to the acquisition of the financial asset in accordance with IAS 39.43. Transaction costs mainly include commissions, broker fees and notary fees.

Assets allocated to the category "available-for-sale financial assets" are measured at fair value with gains and losses being carried in a separate equity item. The loss or gain accumulated in equity is recognized in profit or loss when the financial investment is derecognized or impaired.

The fair value of available-for-sale financial assets traded on organized financial markets is determined by reference to the market price on the balance sheet date. If there is no active market, measurement methods that rely on recent market transactions on arm's length terms are used. If no fair value can be reliably measured, the asset is subsequently measured at amortized cost.

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

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

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

Primary and acquired loans and receivables with fixed or determinable payments that are not traded on an active market are categorized as **loans granted and receivables.**

In this category, GAGFAH S.A. in particular has trade receivables and other long-term loans.

After initial recognition, loans granted and receivables are measured at amortized cost using the **effective interest method** in accordance with IAS 39.46 (a), provided the fair value is not lower.

Low-interest-bearing receivables due in more than one year are recognized at the discounted amount taking account of appropriate interest.

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

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

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

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

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

B) PRIMARY FINANCIAL LIABILITIES

The primary financial liabilities within the GAGFAH Group comprise in particular financial liabilities, trade payables and rent liabilities.

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

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

Following initial recognition, the financial liabilities are measured at amortized cost using the effective interest method (IAS 39.47).

The fair value of the financial liabilities normally equals the amount received.

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

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

Gains or losses from financial liabilities are recorded in profit or loss in accordance with IAS 39.56 when the financial liability is derecognized. The amortization of transaction costs is also recorded in the income statement.

For current trade payables and other current financial liabilities, the Company assumes that the carrying amount reflects a reasonable approximation of fair value.

The fair value of the non-current financial liabilities is determined using a mathematical method by discounting the future cash flows at the market interest rate, as there is no active market for these liabilities.

The jubilee commitments of GAGFAH S.A., as is the case with the pension commitments, are made by way of a direct commitment. Corresponding liabilities are determined on the basis of actuarial principles.

Jubilee commitments are granted for 40 years, 25 years, 15 years and ten years of service.

C) DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING RELATIONSHIPS

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

Any gains or losses arising from changes in fair value on derivatives during the year are taken directly to the income statement.

In 2007, no derivative financial instruments in the form of hedge accounting were used.

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

Hedges which meet the strict criteria for hedge accounting are accounted for as follows:

The effective portion of the gain or loss on the hedging instrument is recognized directly in equity, while any ineffective portion is recognized immediately in the income statement.

Amounts taken to equity are transferred to the income statement when the hedged transaction affects the income statement, such as when the hedged financial income or financial expense is recognized. Where the hedged item is the cost of a non-financial asset or non-financial liability, the amounts taken to equity are transferred to the initial carrying amount of the non-financial asset or liability.

In fiscal year 2005, interest rate swaps were used for the first time within the GAGFAH Group for a short period to hedge interest rate risks. The hedges were initially measured at fair value with reference to the market values of similar financial instruments. On subsequent measurement, gains or losses from changes in the fair value were immediately recognized as profit or loss. Due to the short-term nature of the hedge, no use was made of the hedge accounting option.

9. Inventories

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

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

Financing costs are allocated to production costs if they are directly linked to financing within the meaning of IAS 23.11.

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

If inventories are sold, their carrying value is recognized as an expense in the year in which the related revenue is recognized in accordance with IAS 2.34.

10. Assets Held for Sale

Assets are classified as "held for sale" if the sale is likely and management has declared its intention to sell. At GAGFAH S.A., at present this only applies to investment property according to IAS 40 for which notarial sales agreements were signed as of the balance sheet date with a transfer of title at a later date.

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

11. Provisions for Pensions

GAGFAH S.A. offers its employees both defined benefit plans and defined contribution plans.

The provisions for pensions from defined benefit plans are calculated using the projected unit credit method stipulated under IAS 19.64 with an actuarial valuation performed at each balance sheet date. This method takes into account both the pensions known and expectancies acquired as of the balance sheet date and the increases in salaries and pensions to be expected in the future.

Actuarial gains and losses are incurred if, in the course of the fiscal year, the actual development deviates from assumptions made at the beginning of the fiscal year or if the parameters determined at the end of the fiscal year are different to those determined at the beginning of the fiscal year.

The total (accumulated) actuarial gains and losses existing at the end of the fiscal year derive from the gains or losses existing at the beginning of the fiscal year less amortization plus additions in the fiscal year.

In accordance with IAS 19.92, actuarial gains and losses accumulated as of the balance sheet date are first recognized when the net gains and losses at the end of the prior reporting period exceed the greater of 10 % of the present value of the defined benefit obligation at that date (before deducting plan assets) and 10 % of the fair value of any plan assets at that date.

Actuarial gains and losses exceeding the 10 % corridor of the obligation are, where appropriate, spread over the expected average residual number of years of service for each employee under the defined benefit plan.

12. Other Provisions

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

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

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

Provisions for restructuring expenses are recognized when the Group has prepared a detailed formal restructuring plan and made this plan available to the relevant parties.

13. Deferred Taxes

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

Deferred income tax assets are recognized for all deductible temporary differences, the carry forward of unused tax assets and unused tax losses to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and the carry forward of unused tax assets and unused tax losses can be utilized. The following exceptions were taken into account:
- Deferred income tax assets which arise from the initial recognition of an asset or a liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss, may not be recognized.
- In respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred income tax assets may only be recognized to the extent that it is probable that the temporary differences will reverse in the foreseeable future and sufficient taxable profit will be available against which the temporary differences can be utilized.

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

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

Income tax relating to items recognized directly in equity is recognized in equity and not in the income statement.

Deferred tax assets and deferred tax liabilities are offset against each other when the Group has an enforceable right to set off the current tax assets against its tax liabilities and these assets and liabilities relate to income taxes levied by the same tax authority for the same taxable entity.

14. Income and Expenses

Income and expenses in the fiscal year are accounted for regardless of the date of payment. Revenues from leasing and sales are recognized when the owed service has been rendered, or the risks of ownership have been transferred and the amount of expected consideration can be reliably estimated.

The **rental income** equal to the target rent less sales deductions is recognized monthly on the rendering of the service. The prepayments for operating expenses factored into the rent are recognized as revenues in the amount in which allocable operating expenses were incurred in the fiscal year. Any remaining difference is either disclosed as a rent receivable or liability.

Revenue from the **sale of land** is recognized when:

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

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

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

15. Government Grants

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

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

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

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

With the exception of the loans secured by charges on property, for which a modified waiver of receivables was issued, **redemption loans** have been recognized as liabilities.

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

16. Share-based Remuneration

Senior management of GAGFAH S.A. is entitled to an equity-settled remuneration plan based on the individual employment contracts. The cost of this plan is measured by reference to the fair value at the date on which the shares were granted. As the shares were granted prior to the initial public offering of the Company, the cost of the plan was measured at the share price of €19.00 offered in the initial public offering.

The costs are recognized, together with the corresponding increase in equity, over the period in which the service conditions are fulfilled, ending on the date on which the relevant managers become fully entitled to the award.

17. Cash Flow Statement

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

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

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

Financial liabilities are all liabilities to banks and other lenders.

18. Estimates and the Exercise of Judgment by Management

A) THE EXERCISE OF JUDGMENT

Management exercises its judgment in recognizing and measuring items; this can have a significant influence on the amounts disclosed in the financial statements. Major estimates requiring the exercise of judgment include the recognition of provisions, estimating useful lives of property, plant and equipment, assessing the recoverability of trade receivables and deferred tax assets as well as the adequate valuation of inventories.

Furthermore, management has to exercise judgment with regard to the consolidation of special purpose entities (SPEs).

IAS 27 regulates the consolidation of companies controlled by other companies. Given that the standard does not explicitly govern the consolidation of SPEs, SIC 12.8 has to be applied. According to the latter, a special purpose entity has to be consolidated by another company when the SPE is controlled by that company from an economic perspective even if the company does not hold more than half of the SPE's shares.

The application of the control concept requires judgment in each individual case with consideration of all relevant factors (business operations for the benefit of the controlling company, power of decision of the controlling company, the right to profit from the SPE as well as the bearing of the majority of the risks immanent in the SPE).

B) UNCERTAINTIES RELATING TO ESTIMATES

The preparation of the consolidated financial statements requires to a certain extent assumptions and estimates to be made which have an effect on the carrying amounts of recognized assets and liabilities, income and expenses and contingent liabilities. The assumptions and estimates relate mainly to the measurement of investment property, the uniform group calculation of useful lives for property, plant and equipment and the recognition and measurement of provisions. The assumptions and estimates are based on parameters which are derived from current knowledge at the time. In particular, the circumstances prevailing at the time of preparation of the consolidated financial statements and the realistic future development of the global and industry environment were used to estimate cash flows. Where these conditions develop differently than assumed and beyond the sphere of influence of management, the actual figures may differ from those anticipated. If there are deviations between actual and anticipated development, the assumptions, and where necessary, the carrying amounts of the relevant assets and liabilities, are adjusted accordingly.

For the valuation of investment properties an average discount rate of 5.29 %, compared to 5.69 % in the valuations performed as of December 31, 2006, was used. Pensions were discounted at a rate of 5.4 % compared to 4.5 % in 2006.

At the date of preparation of the consolidated financial statements, the underlying assumptions and estimates were not subject to any significant risk such that from today's point of view, it is not likely that the carrying amounts of assets and, liabilities will have to be adjusted significantly in the subsequent fiscal year.

D. Segment Reporting

The Group's primary reporting format is based on its business segments. Each segment represents a strategic business area with unique products and services.

The Group's business segments are:
- Real estate management
- Real estate sales
- Commercial real estate / property development

Real estate management comprises the management of own and third-party portfolios of rental apartments and other properties, management activities for condominium associations and special lease management.

Alongside the sale of existing properties of the Group companies, the **real estate sales** segment also comprises the carving up and resale of housing portfolios.

In addition, GAGFAH S.A.'s operating subsidiaries work in the area of commercial real estate and property construction / development operations. This business was discontinued due to a management resolution in December 2005. In 2007, it became evident that the original time schedule for the liquidation of the remaining assets of property construction / development and the sale of the assets for commercial real estate cannot be kept since these activities take longer than originally expected. Since the requirements of IFRS 5 do not permit an extension of the period required to complete the sale under the existing circumstances, the amounts for the commercial real estate and the property construction development business are presented within continued operations for fiscal year 2007; the comparative figures in the income statement have been revised to reflect the reclassification of the operations. A representation for the assets presented as "assets of discontinued operations" is not foreseen under IFRS 5.

There is also a segment **Group function / consolidation.** The overheads incurred by the Company's headquarters are not split between the segments.

The same accounting policies apply to the segments as to the consolidated financial statements.

Intragroup transactions between the segments are carried out at arm's length.

The listed investments are additions to intangible assets, investment property, and property, plant and equipment.

Except the segment Group function / consolidation, segment assets do not contain cash.

No reporting by geographical segment was prepared, as all the activities relate to Germany.

Group Segment Report

for the period from January 1, 2007 to December 31, 2007

€ MILLION	Real estate management	Real estate sales	Commercial real estate / Property development	Group function / consolidation	Group 2007
Segment revenues from third parties	927.8	202.7	78.8	0.0	1,209.3
Transactions with other segments	0.0	0.0	0.0	0.0	0.0
Segment revenues	**927.8**	**202.7**	**78.8**	**0.0**	**1,209.3**
Segment results (EBITDA)	**444.9**	**37.6**	**5.1**	**– 37.4**	**450.2**
Profit from fair value measurement	984.2	0.0	0.0	0.0	984.2
Segment depreciation / amortization	– 4.5	– 0.7	– 0.3	– 8.8	– 14.3
EBIT (before reorganization and restructuring expenses)	**1,424.6**	**36.9**	**4.8**	**– 46.2**	**1,420.1**
Reorganization and restructuring expenses					– 22.4
EBIT					**1,397.7**
Financial result / interest expense					– 274.9
Profit before taxes					1,122.8
Income taxes (excluding EK 02)					– 405.7
Increase in corporate income tax based on the remaining EK 02					– 128.2
Net profit					**588.9**
Segment assets	**10,029.0**	**157.7**	**88.7**	**346.2**	**10,621.6**
Segment liabilities	**44.7**	**4.7**	**4.2**	**7,700.8**	**7,754.4**
Segment investments (in investment property, property, plant and equipment or intangible assets)	751.7	0.0	0.0	8.2	759.9
Significant non-cash segment expenses	19.0	0.0	3.7	36.7	59.4

Group Segment Report

for the period from January 1, 2006 to December 31, 2006

€ MILLION	Real estate management	Real estate sales	Commercial real estate / Property development	Group function / consolidation	Group 2006 (restated)
Segment revenues from third parties	774.9	155.6	179.5	0.0	1,110.0
Transactions with other segments	0.3	0.0	0.0	– 0.3	0.0
Segment revenues	**775.2**	**155.6**	**179.5**	**– 0.3**	**1,110.0**
Segment results (EBITDA)	**361.8**	**5.8**	**– 12.8**	**– 41.7**	**313.1**
Profit from fair value measurement	57.5	0.0	0.0	0.0	57.5
Segment depreciation / amortization	– 2.7	0.0	0.0	– 3.8	– 6.5
EBIT (before reorganization and restructuring expenses)	**416.6**	**5.8**	**– 12.8**	**– 45.5**	**364.1**
Reorganization and restructuring expenses					– 39.8
EBIT					**324.3**
Financial result / interest expense					– 160.9
Profit before taxes					163.4
Income taxes (excluding EK 02)					– 20.6
Increase in corporate income tax based on the remaining EK 02					0.0
Net profit					**142.8**
Segment assets	**7,732.4**	**137.5**	**145.6**	**622.1**	**8,637.6**
Segment liabilities	**43.7**	**3.2**	**11.7**	**6,182.5**	**6,241.1**
Segment investments (in investment property, property, plant and equipment or intangible assets)	84.3	0.0	0.0	4.4	88.7
Significant non-cash segment expenses	22.5	0.0	1.3	24.9	48.7

E. Notes to the Consolidated Balance Sheet

1. Intangible Assets

Intangible assets with a finite lifespan mainly comprise software licenses for user programs amounting to €5.7 million (prior year: €3.0 million). The increase in software licenses for user programs is mainly due to the capitalization of costs from the implementation of an operating system.

With the exception of the goodwills from the acquisitions of APH of €24.5 million (prior year: €0.0 million) and NILEG subgroup of €2.1 million (prior year: €2.1 million) relating to the service provider NILEG Immobilien Service GmbH, there are no intangible assets with an indefinite lifespan.

For the purposes of testing for impairment, the goodwills were assigned according to the policies laid out in section C.1. €24.5 million was assigned to real estate of the regional division Berlin and €2.1 million was assigned to the service provider NILEG Immobilien Service GmbH.

The impairment test was carried out using a weighted discount rate of 4.92 %. This discount rate reflects management's estimate of the risks specific to the cash-generating unit. No impairment loss was recorded as of the date shown on the balance sheet.

Please refer to the statement of changes in consolidated non-current assets, which is attached as Exhibit (2).

2. Investment Property and Prepayments for Investment Properties

The following overview shows the development of the real estate portfolio since January 1, 2007.

€ MILLION	2007	2006
As of January 1	7,659.8	5,790.1
Changes to consolidated Group	743.1	1,833.8
Additions	555.1	68.8
Disposals	– 143.7	– 133.0
Reclassifications	– 3.3	42.6
Changes in value	984.2	57.5
As of December 31	**9,795.2**	**7,659.8**

The difference between the disposals shown in the development of the real estate portfolio (€143.7 million) and the disposals as per consolidated income statement (€146.4 million) results from the disposal of assets held for sale (€2.7 million).

Investment property by region breaks down as follows:

€ MILLION	12-31-2007	12-31-2006
Berlin	1,494.1	948.6
Dresden	2,230.4	1,856.1
Essen	1,771.0	1,400.9
Frankfurt am Main	1,551.9	1,148.1
Hamburg	1,255.8	1,135.0
Hanover	1,492.0	1,171.1
Total	**9,795.2**	**7,659.8**

The value of our investment properties increased from approximately €7.7 billion to approximately €9.8 billion in 2007. This increase was due to acquisitions amounting to approximately €1.3 billion and portfolio revaluation gains of approximately €1.0 billion.

The Discounted Cash-Flow (DCF) model, which derives the present value from the properties' future cash flows, serves as the methodological approach for the internal valuation. The valuation is conducted on a property-by-property basis.

The DCF model is based on a detailed planning period of ten years, within which the relevant real estate cash flow components are forecast for each period according to the risk assessment of each individual property. For example, the rental growth is calculated in line with legal provisions and forecast to grow to market level over time. After the detailed planning period of 10 years, the residual value is calculated as perpetuity.

The cash flows of the detailed planning period are discounted with an average discount rate of 5.29 % (prior year: 5.69 %), which is determined individually for each property. The individual cash flows are then aggregated and the discounted residual value is added, resulting in the total value.

Between 2001 and 2004, the transaction volume in the German real estate property market increased and peaked in 2004. Since then, we have seen a slight decrease in the transaction volume; however, purchase prices have gone up in 2007. The increased sustainable transaction volume of approximately 250,000 units p.a. in connection with increased prices have led to a lower market risk premium for residential property. The lower market risk premium resulted in an increase of our portfolio value.

Furthermore, the average in-place net cold rent per square meter increased from €4.76 to €4.85 between January 1, 2007 and December 31, 2007. This is mainly a result of the rental growth in our core regions. For example, the current official rent tables ("Mietspiegel"), which are used as a reference point for market rent levels, increased by 5.5 % or 5.8 %, respectively in our top two cities Dresden and Berlin. Our overall vacancy rate was re-

duced by 1.3 % from 5.7 % to 4.4 % in 2007, partly as a result of significant modernizations in our portfolio in Dresden. Several large modernization projects were completed at WOBA GmbH in the fourth quarter 2007. The total investment volume in 2007 at WOBA GmbH was approximately €61.0 million for repairs, maintenance and modernization. This led to a decline in the vacancy rate at WOBA GmbH from 11.5 % as of June 30, 2007 to 7.7 % as of December 31, 2007. In total, the expenses for repairs, maintenance and modernization for quality enhancements of our portfolio amounted to €190.0 million in 2007.

The independent third-party appraiser CB Richard Ellis GmbH confirmed the values for the subgroups GAGFAH and WOBA (estimated 70 % of total portfolio) as of December 31, 2007.

Land with residential buildings is leased under agreements which are predominantly concluded for an indefinite period and are subject to statutory notice periods.

For vacant investment property which did not generate any rental income during the fiscal year, refurbishment expenses of €5.4 million (prior year: €5.2 million) in connection with modernizations, which cannot be capitalized, were incurred.

Several direct and indirect subsidiaries of GAGFAH S.A. agreed in certain share and asset purchase agreements by which the property portfolio of the GAGFAH Group was acquired to comply with extensive welfare conditions, which in addition to the regular rent control conditions safeguard the relevant parts of the portfolio. It must be noted that these welfare conditions only relate to certain parts of the overall residential property stock of the GAGFAH Group and that certain specifications differ from unit to unit. Such welfare conditions include in particular, but are not limited to, the following obligations.

After the date of property purchases a general right of continuance usually exists for several years. Within this period, various regulations regarding the property apply:

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

Furthermore, the welfare conditions may comprise clauses defining upper limits of rent increases as well as regulations regarding minimum maintenance expenses and required improvement works. For certain parts of the portfolio the respective subsidiaries moreover have committed themselves to invest a defined average amount per square meter in maintenance and improvements.

Additionally, there are absolute selling restrictions for certain parts of the portfolio. Sales of this property are only possible with the approval of existing minority shareholders.

Prepayments for investment properties amount to €202.6 million (prior year: €0.0 million).

3. Property, Plant and Equipment

The breakdown of property, plant and equipment is presented in the statement of changes in consolidated non-current assets, which is attached as Exhibit (2).

4. Financial Receivables and Other Financial Assets

The financial receivables and other financial assets break down as follows:

€ MILLION	12-31-2007	12-31-2006
Non-current		
Derivative financial instruments measured at fair value	5.2	22.2
Investments	1.2	17.7
Other	3.4	3.6
	9.8	**43.5**
Current		
Financial receivables	1.2	0.0
Derivative financial instruments measured at fair value	0.0	56.0
	1.2	**56.0**
Total	**11.0**	**99.5**

The decrease in derivative financial instruments is mainly due to the sale of a swap.

For more information on the derivatives measured at fair value, please refer to section H.2.

€14.8 million of the prior year amount of investments result from the investment book value held by GBH Acquisition GmbH. For further information about the acquisition of GBH Group please refer to section B. "Consolidated Group and Consolidation Methods" of this report.

5. Inventories

The inventories of GAGFAH S.A. break down as follows:

€ MILLION	12-31-2007	12-31-2006
Land and land rights without buildings	24.8	31.7
Unfinished development	42.1	46.9
Land and land rights with unfinished buildings	6.2	35.8
Land and land rights with finished buildings	4.5	11.1
Land with hereditary building rights of third parties	0.7	0.7
Pre-construction expenses	0.0	1.0
Other	**6.2**	0.2
Total	**84.5**	**127.4**

The decrease in inventories compared to December 31, 2006, is mainly due to the sale of land with finished and unfinished buildings.

In the fiscal year, GAGFAH S.A. sold inventories totaled €44.1 million (prior year: €95.5 million).

Impairment losses were recorded on some of the inventories following measurement at the lower net realizable value, with costs yet to be incurred being deducted from the discounted sale price. Impairment losses totaling €8.6 million (prior year: €9.6 million) were posted to reflect the (lower) net realizable value. These impairment losses relate mainly to land and land rights with finished and unfinished buildings.

6. Receivables

Receivables break down as follows:

€ MILLION	12-31-2007	12-31-2006
Current		
Receivables from sales of land	165.0	133.1
Rent receivables	14.9	8.5
Receivables from other trade	1.8	6.5
Receivables from third-party real estate management	1.4	2.3
Other	0.1	1.3
Total	**183.2**	**151.7**

At the balance sheet date, the receivables from sales of land contain receivables from real estate disposals amounting to €157.7 million (prior year: €122.3 million). The increase in receivables from sales of land is due to the Group's increased sales activities.

Receivables from sales of land do not represent a material credit risk due to their contractual structure. Receivables from sales of land are pledged in the form of deposit on a notary trust account in the amount of €92.5 million (prior year: €62.7 million). All other receivables are unsecured and therefore represent a theoretical maximum credit risk in the amount of their positive fair value.

Invoiced receivables contain no interest rate risk due to their short-term nature.

Overall, impairment losses of €16.9 million (prior year: €9.9 million) were recognized for bad debts. There are no restrictions on ownership or disposal for the disclosed receivables.

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

7. Other Assets

Other assets break down as follows:

€ MILLION	12-31-2007	12-31-2006
Non-current		
Receivables referring to subsidies for costs of demolitions	4.8	10.5
Insurance claims	0.0	0.3
Other	0.0	0.7
Total non-current	**4.8**	**11.5**
Current		
Claims for reimbursement	3.9	4.3
Insurance claims	3.7	6.5
Receivables against joint ventures partners	2.5	0.0
Receivables referring to subsidies for costs of demolitions	2.1	1.3
Prepayments	1.9	5.7
Payments on account	0.2	0.3
Other	8.4	4.4
Total current	**22.7**	**22.5**
Total	**27.5**	**34.0**

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

8. Current Tax Claims

As of December 31, 2007, GAGFAH S.A. disclosed current tax claims of €12.3 million (prior year: €10.0 million).

These are mainly related to claims from sales tax and capital yields tax.

9. Deferred Taxes

A uniform tax rate of 32.00 % (prior year: 40.44 %) is generally applied to all Group companies. This comprises a corporate income tax rate including solidarity surtax of 15.83 % (prior year: 26.38 %). Trade tax is charged at 16.18 % (prior year: 14.06 %) due to the non-deductibility (prior year: deductibility) of corporate income tax. The changes of the tax rates and the non-deductibility of the trade tax from the corporate income tax is based on the German Business Tax Reform Act 2008 (Unternehmenssteuerreform 2008). The changes generally apply from 2008 onwards.

In accordance with IAS 12 the deferred tax assets and deferred tax liabilities had to be calculated with the new tax rate. This change in the tax rate led to an extraordinary deferred tax income of €92.8 million relating to the deferred tax assets and deferred tax liabilities as of December 31, 2007.

Deferred tax assets and liabilities are netted when there is a legally enforceable right to offset the current tax assets against the current tax liabilities and when the deferred tax assets and liabilities relate to the same taxpayer.

Deferred taxes are attributable to differences from recognition and measurement of the individual balance sheet items:

€ MILLION	12-31-2007	Additions resulting from acquisitions through business combinations	12-31-2006	Effect on income 2007	Effect on income 2006
Balance sheet					
Investment property	0.0	2.2	31.9	– 34.1	– 60.1
Other assets	11.2	0.0	13.4	– 2.2	11.1
Other provisions	6.3	0.0	9.4	– 3.1	1.0
Financial liabilities	0.0	0.0	6.2	– 6.2	– 6.6
Other liabilities	0.0	0.0	0.0	0.0	– 0.3
	17.5	**2.2**	**60.9**	**– 45.6**	**– 54.9**
Financial assets	0.0	0.0	0.0	0.0	0.1
Other assets	0.0	0.0	0.0	0.0	0.4
	0.0	**0.0**	**0.0**	**0.0**	**0.5**
Deferred tax assets on temporary differences	**17.5**	**2.2**	**60.9**	**– 45.6**	**– 54.4**
Loss carry forwards					
Corporate income tax	0.0	0.0	13.1	– 13.1	13.1
Trade tax	0.0	1.9	22.2	– 24.1	9.1
Deferred tax assets on loss carry forwards	**0.0**	**1.9**	**35.3**	**– 37.2**	**22.2**
Deferred tax assets	**17.5**	**4.1**	**96.2**	**– 82.8**	**– 32.2**

€ MILLION	12-31-2007	Additions resulting from acquisitions through business combinations	12-31-2006	Effect on income 2007	Effect on income 2006
Balance sheet					
Investment property	448.6	21.7	122.0	– 304.9	17.6
Financial assets	1.6	0.0	0.0	– 1.6	2.9
Other assets	3.3	0.0	0.7	– 2.6	– 0.2
Other provisions	0.0	0.0	2.1	2.1	– 1.0
Other liabilities	8.7	0.0	5.3	– 2.5	– 1.1
Deferred tax liabilities	**462.2**	**21.7**	**130.1**	**– 309.5**	**18.2**

Deferred tax liabilities resulted from investment property, and also partly from deferred tax claims that resulted from the differences between the carrying values disclosed in the IFRS balance sheet and the tax balance sheet. The tax base values are based on the continued recognition of the property at fair value at the date on which former non-profit housing companies became taxable.

In the balance sheet, deferred tax assets on temporary differences of €13.7 million were offset against deferred tax liabilities because the relevant companies belong to a fiscal unity.

As of December 31, 2007, the Group had corporate income tax loss carry forwards of €1,546.8 million (prior year: €1,478.0 million) and trade tax loss carry forwards of €770.6 million (prior year: €881.0 million). These are based on information available at the time of preparation of the financial statements and may be carried forward indefinitely pursuant to legislation in force as of December 31, 2007. Per period, tax gains of a maximum of €1.0 million and 60.0 % of the amount above this figure may be netted with loss carry forwards.

No deferred taxes were recognized on corporate income tax loss carry forwards of €1,546.8 million (prior year: €1,345.0 million) as well as trade tax loss carry forwards of €770.6 million (prior year: €672.0 million), as these are not expected to be realized in subsequent years.

Temporary differences associated with investments in subsidiaries, for which deferred tax liability has not been recognized, aggregate to €11.3 million (prior year: €5.0 million).

10. Bank Balances and Cash on Hand

This item contains cash and cash equivalents in the form of cash on hand, checks and bank balances totaling €205.6 million (prior year: €367.0 million).

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

The time deposits of GAGFAH S.A. have terms between one day and three months and accrue interest between 1.00 % and 4.50 % (weighted average: 3.77 %).

The balances in current accounts mainly accrue interest of 3.21 % to 3.47 %. The weighted average of the interest rate from the Group's main banks amounted to 3.34 % and 3.31 % in fiscal year 2007. The weighted average of the interest rate from other banks amounted to 1.21 % in fiscal year 2007.

Of the cash and cash equivalents, €89.0 million (prior year: €79.3 million) are restricted cash. The remaining cash and cash equivalents do not serve as collateral for bank loans and are available in the short term.

11. Assets Held for Sale

Assets held for sale amounting to €8.1 million (prior year: €4.5 million) contain the carrying amounts of real estate (mostly apartments) for which notarial sales agreements with a transfer of title at a later date were signed as of December 31, 2007. The assets are clear of debt.

12. Equity

The development of equity of GAGFAH S.A. is presented in the statement of changes in consolidated equity.

Subscribed capital relates to the parent company's capital stock of €281.9 million (prior year: €281.9 million) and comprises 225,553,192 (prior year: 225,515,377) shares, each with a nominal value of €1.25 (prior year: €1.25).

The **share premium** consists of the capital and the legal reserve.

The **capital reserve** amounts to €1,537.5 million (prior year: €1,572.1 million). The decrease mainly results from dividend payments.

The **legal reserve** amounts to €28.2 million (prior year: €27.6 million). Under Luxembourg law, an amount of €0.6 million was allocated to the legal reserve in order to equal 10 % of the issued subscribed capital.

Revenue reserves contain the profits retained by the consolidated entities and amounted to €917.6 million as of December 31, 2007 (prior year: €448.4 million).

Minority interests of €102.0 million (prior year: €66.5 million) comprise adjustment items for minority interests in equity subject to mandatory consolidation and their share in profit and loss.

Minority interests break down as follows among the subgroups:

- GAGFAH subgroup: €64.5 million, thereof €63.9 million fractional ownership funds (prior year: €46.0 million, thereof €45.5 million fractional ownership funds)
- WOBA subgroup: €19.8 million (prior year: €13.8 million)
- GBH subgroup: €16.5 million (prior year: €0.0 million)
- NILEG subgroup: €1.2 million (prior year: €6.7 million)
- UC ACQ Ireland Ltd.: €46 k (prior year: €46 k).

For more information on the minority interests in the net profit or loss for the year, please refer to our comments on the income statement (Section F. 14 of the notes to the consolidated financial statements).

Dividends amounting to €166.9 million (prior year: €57.0 million) were paid to the shareholders in 2007, thereof €38.3 million for the fourth quarter of 2006 that was paid in January 2007, and €128.6 million for the first, second and third quarter of 2007, paid in April, July and November 2007. The dividends paid in January and April were €0.17 per share; the dividends paid in July and November €0.20 per share.

CAPITAL MANAGEMENT

The primary objective of the Group's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and maximize shareholder value.

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares.

During the period GAGFAH Group complied with all externally imposed capital requirements to which it is subject.

The following table shows the development of the issued and fully-paid share capital from January 1, 2006 to December 31, 2007.

	Number of shares	Amount in €
January 1, 2006	**2,946,481**	**3,683,101**
Tranche April 2006	3,965,000	4,956,250
Tranche May 2006	41,088,519	51,360,648
Tranche September 2006	177,000,000	221,250,000
Tranche December 2006	515,377	644,221
December 31, 2006 / January 1, 2007	**225,515,377**	**281,894,221**
Bonus shares issued	22,815	28,518
Remuneration of independent directors	15,000	18,750
December 31, 2007	**225,553,192**	**281,941,490**

The new shares of the third capital increase in 2006 were issued in exchange for a contribution of Eurobond loans, which effectively granted control over the GAGFAH GmbH subgroup, into GAGFAH S.A. The contribution represented a transaction under common control. Accordingly, the prior year consolidated financial statements were prepared as if the contribution had taken place on January 1, 2006, and the Group's subscribed capital as of January 1, 2006, was disclosed at an amount of €224.9 million instead of €3.7 million.

As of December 31, 2007, the number of authorized and un-issued shares is 7,999,446,808 (prior year: 7,999,484,623), which are worth an amount of €9,999,308,510.00 (prior year: €9,999,355,778.75).

13. Liabilities to Minority Shareholders

Liabilities to minority shareholders amounting to €13.1 million (prior year: €6.3 million) relate to the minority's share, which are financial liabilities.

Thereof, €9.0 million relate to GBH subgroup, €3.4 million to WOBA subgroup and €0.7 million to KALIRA GmbH & Co. KG.

14. Provisions

14.1. PROVISIONS FOR PENSIONS AND SIMILAR OBLIGATIONS

Company pensions at GAGFAH S.A. are granted both by way of defined contribution and defined benefit plans.

Under the **defined contribution plans**, the Company pays contributions to public or private pension insurance schemes on the basis of statutory or contractual requirements. GAGFAH S.A. does not have any other benefit obligations beyond payment of contributions. The current contribution payments are disclosed as an expense in the relevant year under personnel expenses for the functional areas.

GAGFAH S.A. also manages **defined benefit plans** for its employees. There are various types of employer-funded pension plans for company pensions. The provisions are measured according to the projected unit credit method in accordance with IAS 19. The amount of the obligation is based on the present value of the earned and realistic pension entitlements on the measurement date, including probable future increases in pensions and salaries. The GAGFAH subgroup, for example, grants its employees company pensions under Pension Regulation 2002 (hereinafter referred to as "VO 2002"). In addition to its own pension scheme, the NILEG subgroup also participates in the pension scheme (hereinafter referred to as the "VBL") organized by the pension institution of the Federal Republic of Germany and the Federal States.

The VBL constitutes a multi-employer defined benefit plan which pursuant to IAS 19.30 (a) was accounted for as if it were a defined contribution plan, as the VBL does not make available sufficient information to permit treatment as a defined benefit plan.

GAGFAH S.A. pays old-age pensions, early retirement pensions, invalidity pensions, widow's / widower's and orphan's pensions. The age limits for old-age pensions, invalidity pensions, survivor's and orphan's pensions are the same as those for statutory pension insurance. There is a waiting period of ten years until a vested claim can be secured.

GAGFAH S.A. is not aware of any specific information on any surpluses or deficits in the plan or any future effects that such surpluses or deficits may have. However, in 2005 an external appraisal valued NILEG subgroup's insufficiently financed pension obligations at €24.9 million. It is assumed that those obligations still exist in the reporting period. This can be regarded as indicative of current deficits in the plan. This may result in the NILEG subgroup having to pay higher future contribution payments to the VBL.

The following tables present an overview of the plans.

NUMBER OF COMMITMENTS

The following groups are entitled to employer-funded pension benefits:

NUMBER	12-31-2007	12-31-2006
Active employees		
Non-vested expectancies	495	423
Vested expectancies	532	589
	1,027	1,012
Vested expectancies of employees no longer with the Company	231	160
Current pensions	843	846
Total	**2,101**	**2,018**

The following Group-wide parameters were used to calculate the obligations:

	12-31-2007	12-31-2006
In % p.a.:		
Discount rate	5.40	4.50
Salary increase, pension increase in service	2.50	2.00
Cost of living adjustment	1.00 - 2.00	1.00 - 2.00
Turnover	4.00 - 5.00	4.00 - 5.00
In years:		
Actual retirement age		
Men	63	63
Women	60 to 63	60 to 63
Special cases[1)]	60 to 63	60 to 63

1) Concerns particularly pensions due to reduction in earning capacity.

For death and disability, the 2005G mortality tables by Prof. Dr. Klaus Heubeck were used.

The salary trend accounts for the various reasons for salary increases, e.g. increases under collective wage agreements, promotions, etc.

The assumed turnover rate corresponds to the average turnover rate in Germany. Internal turnover tables provided by the actuary were used to factor this into the valuation.

If the actual development during the year deviates from the assumptions made at the beginning of the fiscal year or differing parameters are set at the end of the fiscal year than at the beginning, (additional) actuarial gains or losses arise.

Provisions are recognized for obligations to current and former employees from future and current benefit entitlements.

The pension provisions developed as follows in the fiscal year:

€ MILLION	2007	2006
Provisions as of January 1	109.3	106.4
Additions from the acquisition of subsidiaries / joint ventures	2.3	0.3
Pension expenses for the fiscal year	7.5	8.8
Direct pension payments	– 6.2	– 6.2
Provisions as of December 31	**112.9**	**109.3**

Reconciliation of liabilities from defined benefit obligations to the recognized pension provisions:

€ MILLION	12-31-2007	12-31-2006
Defined benefit obligations as of December 31	105.4	113.6
Unrecognized actuarial gains / losses	7.5	– 4.3
Provision as of December 31	**112.9**	**109.3**

The pension obligation is calculated as follows:

€ MILLION	2007	2006
Obligation as of January 1	113.6	125.0
Additions from the acquisition of subsidiaries / joint ventures	2.3	0.3
Current service cost	2.5	2.5
Interest expense	5.0	4.8
Effect of plan amendments in DBO	0.0	1.1
Actuarial gains and losses	– 11.8	– 13.9
Direct pension payments	– 6.2	– 6.2
Obligation as of December 31	**105.4**	**113.6**

The whole defined benefit obligation is not funded.

The total pension expense in the consolidated income statement breaks down as follows:

€ MILLION	2007	2006
Current service cost	2.5	2.5
Interest expense	5.0	4.8
Effect of plan amendments on DBO	0.0	1.1
Actuarial gains (-) or losses recognized in the income statement	0.0	0.4
Total	**7.5**	**8.8**

The current service cost and the actuarial gains or losses recognized in the income statement are disclosed under personnel expenses that are allocated to various categories of expenses due to the cost of sales method. The interest expense is disclosed under interest expense (periodical).

The expected pension expenses for fiscal year 2008 amount to €7.0 million.

14.2. OTHER PROVISIONS

The other provisions developed as follows in the fiscal year:

€ MILLION	As of January 1, 2007	Changes within the consolidated Group	Utilization
Phased retirement	17.6	0.1	1.3
Warranty obligations and latent risks	5.1	0.1	0.9
Severance payments, litigation costs and similar risks	5.8	0.0	0.6
Provision for distribution obligations	12.9	0.0	11.0
Restructuring provisions	22.4	0.0	11.4
Provision for BfA [1] obligation	0.1	0.0	0.0
Provision for demolition costs	11.8	0.0	4.9
Provision for restitution proceedings	9.4	0.0	0.0
Provision for share-based remuneration	3.4	0.0	3.4
Provision for refinancing	0.0	0.0	0.2
Other provisions	10.6	2.8	5.3
Total	**99.1**	**3.0**	**39.0**

€ MILLION	As of January 1, 2006	Changes within the consolidated Group	Utilization
Phased retirement	7.6	2.3	0.8
Warranty obligations and latent risks	10.1	0.3	0.6
Severance payments, litigation costs and similar risks	1.3	1.8	1.1
Provision for sales commissions	2.2	0.0	2.2
Provision for distribution obligations	17.1	0.0	7.4
Restructuring provisions	42.7	0.0	14.4
Provision for BfA [1] obligation	2.1	0.0	2.1
Provision for demolition costs	0.0	11.8	0.0
Provision for restitution proceedings	0.0	10.3	0.6
Provision for share-based remuneration	0.0	0.0	0.0
Other provisions	0.3	2.3	0.2
Total	**83.4**	**28.8**	**29.4**

1) Bundesversicherungsanstalt für Angestellte;
Federal Insurance Office for Salaried Employees

Reversals	Additions	As of December 31, 2007	Thereof non-current	Thereof current
1.4	1.4	16.4	13.8	2.6
0.5	3.7	7.5	0.2	7.3
2.2	3.7	6.7	0.0	6.7
0.2	1.2	2.9	0.0	2.9
0.0	9.0	20.0	7.5	12.5
0.1	0.0	0.0	0.0	0.0
0.0	0.0	6.9	4.8	2.1
1.0	0.3	8.7	0.0	8.7
0.0	0.0	0.0	0.0	0.0
0.1	8.0	7.7	0.4	7.3
8.5	10.4	10.0	0.0	10.0
14.0	**37.7**	**86.8**	**26.7**	**60.1**

Reversals	Additions	As of December 31, 2006	Thereof non-current	Thereof current
0.0	8.5	17.6	15.7	1.9
5.9	1.2	5.1	0.3	4.8
1.1	4.9	5.8	0.0	5.8
0.0	0.0	0.0	0.0	0.0
4.8	8.0	12.9	0.9	12.0
7.4	1.5	22.4	0.0	22.4
0.0	0.1	0.1	0.0	0.1
0.0	0.0	11.8	10.5	1.3
1.4	1.1	9.4	0.0	9.4
0.0	3.4	3.4	3.3	0.1
0.1	8.3	10.6	0.0	10.6
20.7	**37.0**	**99.1**	**30.7**	**68.4**

All of the provisions recognized as of the balance sheet date meet the recognition criteria of ias 37.14. Accordingly, provisions were only set up for current obligations to third parties as a result of past events which are highly likely to lead to a future outflow of resources and whose amount can be reliably estimated.

GAGFAH S.A. concluded a collective agreement (GAGFAH subgroup) and works agreements (NILEG and WOBA subgroup) respectively on **phased retirement.** These models allow employees above the age of 55 to make a smooth transition into retirement and ensure employment for younger employees. In the reporting period 55 (prior year: 67) new agreements were concluded.

The favored model of phased retirement is the "block model", whereby the phased retirement period may not be longer than six years and is spread over a work phase (first phase, full-time employment) and a release phase (second phase).

The relevant employees receive gross monthly pay based on the agreed working time pursuant to the arrangements under the collective agreement and the workplace agreements in place. The employees receive this pay for the entire duration of phased retirement.

Capital-forming payments are granted in line with the agreed part-time work, i.e. also in the release phase.

The provisions for phased retirement totaling €16.4 million (prior year: €17.6 million) recognized as of December 31, 2007, are mainly classified as non-current benefits.

Warranty provisions totaling €7.5 million (prior year: €5.1 million) were mainly set up for cases of liability from project business. The majority of the warranty obligations are current.

The provisions for **severance payments, litigation costs and similar risks** relate to estimated costs in connection with employees leaving the Company and litigation relating to project business. As of the balance sheet date, provisions of €6.7 million (prior year: €5.8 million) had been recognized.

The **provision for distribution obligations** serves to fulfill notarized commitments to buyers of individual apartments to renovate parts of the buildings jointly owned by the owners' associations.

The **provision for restructuring** relates to employee severance payments and other costs related to the strategic repositioning of the subgroups. As of January 1, 2007, the provision amounted to €22.4 million. €11.4 million thereof was used during the fiscal year. Provisions are allocated through restructuring expenses.

The provision is mainly based on various restructuring plans which have been concluded for the entities in all subgroups in November and December 2005. In 2006, a restructuring plan for the WOBA subgroup was concluded. These plans comprise the relocation of the central commercial and administrative operations to Essen, joint customer centers to optimize real estate management and the integration and harmonization of IT systems. In addition various individual agreements with employees about severance payments are covered through this provision. Furthermore, in 2007, a restructuring plan for the GBH subgroup was concluded.

The **provision for demolition costs** amounting to €6.9 million (prior year: €11.8 million) was recognized for the fulfillment of contractual obligations to demolish certain buildings within a certain period of time. €4.8 million thereof is long-term, €2.1 million short-term.

The **provision for restitution proceedings** amounting to €8.7 million (prior year: €9.4 million) concerns restitution requirements subject to the German Act on the Clarification of Property Claims ("Vermögensgesetz": VermG), for example the return of properties to their former owners and requirements to reimburse sales proceeds or rentals generated in this context. The provisions are entirely current.

The **provision for refinancing** amounting to €7.7 million results from a refinancing plan for the Acquisition entities. The majority of the provisions are current.

The outflows of cash and cash equivalents from non-current provisions are largely expected within the next five years.

No major refunds are expected. No asset items have been recognized for refunds.

15. Liabilities from Income Tax

As of December 31, 2007, the Group had obligations from corporate income tax and trade tax totaling €156.0 million (prior year: €15.7 million). They broke down as follows:

€ MILLION	12-31-2007	12-31-2006
Corporate income tax on EK 02	128.2	0.0
Corporate income tax	11.8	5.0
Trade tax	16.0	10.2
Other	0.0	0.5
Total	**156.0**	**15.7**

For details of the corporate income tax on EK 02 please refer to section F.13. "Income Taxes".

16. Liabilities

16.1. FINANCIAL LIABILITIES

Financial liabilities total €6,649.1 million (prior year: €5,617.5 million). Of this, €6,557.3 million (prior year: €5,508.3 million) relates to non-current liabilities and €91.8 million (prior year: €109.2 million) to current liabilities. These broke down as follows in the fiscal year:

Liabilities to banks total €6,590.2 million (prior year: €5,531.4 million) and mainly relate to liabilities from the financing of housing construction and acquisition financing.

Liabilities to other lenders amount to €58.9 million (prior year: €86.1 million) and mainly relate to liabilities from the financing of housing construction.

Non-interest-bearing or low-interest loans in return for which occupancy rights have been granted at conditions below market rent are carried at amortized cost. Cost is determined on the basis of the market interest on the date of raising the loan. In accounting for the acquisition of subsidiaries, acquisition cost was determined on the basis of the fair values of the loans as of the acquisition date.

Of the current and non-current liabilities to banks and other lenders, a total of €5,941.3 million (prior year: €5,243.4 million) is secured by charges on property. €275.1 million (prior year: €364.0 million) is secured by pledging of shares and €0.0 million (prior year: €2.8 million) by a bank guarantee. No collateral has been provided for the remaining €240.9 million (prior year: €7.3 million).

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

Of the total financial liabilities, €6,376.9 million (prior year: €5,365.0 million) relates to privately financed unsubsidized loans.

Overall, 293 (prior year: 856) loans totaling €117.9 million (prior year: €803.3 million) were repaid in the fiscal year. Additionally, €1,062.0 million were repaid during the refinancing process of the NILEG subgroup. The following loan types were therefore contracted in February 2007:

Loan type	€ million	Interest rate
Revolver loan	0 - 300 (credit line)	EURIBOR
Term loan	1,611	Fixed rate
Term loan	336	EURIBOR

As of December 31, 2007, the Group's financial liabilities primarily comprised of the following debt liabilities:

€ MILLION					2008	
	Notional amount as of 12-31-2007	Weighted avg. maturity	Effective interest rate	Fixed or floating rate	Required repay-ments	Interest payments
Term loans	5,628.3	2013	3.9620 %	Fixed	0.0	226.1
Term loans	279.4	2012	5.8060 %	Floating	0.0	16.4
Senior debt	563.9	2035	2.5000 %	Fixed	18.1	14.0
Revolving credit facility	238.6	2010	6.6500 %	Floating	0.0	16.1
NILEG other	40.6	2009	5.1898 %	Floating	0.0	2.1
	6,750.8				**18.1**	**274.7**

€ MILLION					2007	
	Notional amount as of 12-31-2006	Weighted avg. maturity	Effective interest rate	Fixed or floating rate	Required repay-ments	Interest payments
Term loans	3.951,3	2013	3,7556 %	Fixed	0.0	150.5
Term loans	1.161,6	2007	4,4190 %	Floating	1,161.6	34.6
Senior debt	654,5	2024	2,7400 %	Fixed	20.1	17.4
Revolving credit facility	0,0	–	–	Floating	0.0	0.0
NILEG other	31,2	2009	3,9142 %	Floating	0.0	1.2
	5.798,6				**1,181.7**	**203.7**

To essentially eliminate the exposure to changes in interest rates, GAGFAH has concluded several interest swap agreements.

The difference between the notional amount and the book value as shown in the balance sheet results from debt discount, amortized transaction costs and interest accruals.

The previous revolving credit (total amount: €300.0 million) has been refinanced with a new €300.0 million credit facility with a three year maturity. As of the end of the fourth quarter of 2007, €238.6 million of this loan had been drawn.

2009		2010		2011		2012		2013		≥ 2014	
Required repay-ments	Interest payments	Required repay-ments	Interest payments	Required repay-ments	Interest payments	Required repay-ments	Interest payments	Required repay-ments	Interest payments	Required repay-ments	Interest payments
0.0	226.1	0.0	226.1	0.0	226.1	0.0	226.1	4,017.0	173.0	1,611.3	34.4
0.0	16.4	0.0	16.4	0.0	16.4	279.4	4.7	0.0	0.0	0.0	0.0
18.1	13.4	17.3	12.9	17.1	12.6	16.7	12.2	16.1	11.6	460.4	216.2
0.0	16.1	238.6	12.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
14.6	1.6	9.6	1.0	16.4	0.2	0.0	0.0	0.0	0.0	0.0	0.0
32.7	**273.6**	**265.5**	**268.5**	**33.5**	**255.3**	**296.1**	**243.0**	**4,033.1**	**184.6**	**2,071.7**	**250.6**

2008		2009		2010		2011		2012		≥ 2013	
Required repay-ments	Interest payments	Required repay-ments	Interest payments	Required repay-ments	Interest payments	Required repay-ments	Interest payments	Required repay-ments	Interest payments	Required repay-ments	Interest payments
0.0	150.5	0.0	150.5	0.0	150.5	0.0	150.5	0.0	150.5	3,951.3	98.1
0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
20.0	16.9	19.9	16.2	18.9	15.6	18.5	15.1	18.1	14.4	539.0	179.9
0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
0.0	1.2	13.7	0.8	0.0	0.7	17.5	0.2	0.0	0.0	0.0	0.0
20.0	**168.6**	**33.6**	**167.5**	**18.9**	**166.8**	**36.0**	**165.8**	**18.1**	**164.9**	**4,490.3**	**278.0**

16.2. OTHER CURRENT LIABILITIES

Other current liabilities mainly include a call option, trade payables, rent liabilities and liabilities from operating expenses not yet invoiced. As of the balance sheet date, this item broke down as follows:

€ MILLION	12-31-2007	12-31-2006
Sellers' Note	47.8	0.0
Trade payables	27.2	23.3
Tax liabilities	21.7	9.1
Liabilities from operating expenses not yet invoiced	19.2	10.4
Rent liabilities	12.8	10.7
Prepayments received	11.5	9.8
Other liabilities from bonus payments	10.5	6.8
Other liabilities from basic / decorative repairs	3.7	3.7
Liabilities from construction management services not yet invoiced	1.7	6.2
Distributable dividend	0.0	38.3
Other liabilities	16.6	37.0
Total	**172.7**	**155.3**

All items disclosed by GAGFAH S.A. as other liabilities are non-interest bearing. There is no interest rate risk.

17. Assets and Liabilities from Discontinued Operations

The primary objective of GAGFAH S.A. is to manage and expand its residential real estate portfolio in Germany. In line with the current strategy of focusing on the management of and trade in residential real estate, a decision was made in 2005 to sell the commercial real estate operations.

As of the balance sheet date, there were no assets of disposal groups (prior year: €15.9 million) and no liabilities related to these assets. All commercial assets from discontinued operations were sold in the fiscal year 2007.

F. Notes to the Consolidated Income Statement

1. Income from the Leasing of Investment Property

Income from the leasing of investment property of GAGFAH S.A. breaks down as follows:

€ MILLION	2007	2006
Rental income, fees	633.9	550.9
Allocations charged	288.9	220.8
Rent, interest and expense subsidies	3.9	2.4
Risk of default on allocations	1.0	0.6
Lease income	0.1	0.2
Total	**927.8**	**774.9**

The rental income is mainly attributable to the leasing of land with residential buildings. Rental income include income from the reversal of deferred liabilities of government granted loans in amount of €9.9 million (prior year: €8.3 million).

The rent, interest and expense subsidies primarily relate to government allowances to allow lower rent to be charged for subsidized housing.

2. Operating Expenses for the Generation of Rental Income

Operating expenses for the generation of rental income break down as follows:

€ MILLION	2007	2006
Operating expenses	256.4	211.4
Maintenance costs	88.4	67.4
Personnel expenses	55.0	50.3
Real estate tax	27.8	22.9
Bad debt allowances	12.5	9.2
External costs for real estate management	12.3	11.2
Administrative expenses	9.5	9.0
Amortization and depreciation on intangible assets and property, plant and equipment	4.5	1.9
Other expenses for real estate management	18.3	22.8
Total	**484.7**	**406.1**

3. Profit from Fair Value Measurement

Income totaling €984.2 million (prior year: €57.5 million) from changes in value arose in connection with the measurement of investment property in the fiscal year.

The profit from fair value measurement breaks down as follows:

€ MILLION	2007	2006
Land with leased residential and commercial buildings	985.7	59.2
Land without buildings	– 1.7	– 0.1
Transferable leasehold land	0.1	– 1.6
Buildings on third party's land	0.1	0.0
Total	**984.2**	**57.5**

4. Profit / loss from the sale of commercial real estate and property development

In fiscal year 2007 the Group changed its approach in showing the result from discontinued operations on the income statement. The profit / loss from the sale of commercial real estate and property development is now shown as a separate line in the income statement. For more information, please refer to section A. "General Information", subsection "Restatement of prior year figures".

The profit / loss from the sale of commercial real estate and property development amounts to a profit of €15.4 million (prior year: loss of €3.6 million).

Income from the sale of commercial real estate and property development amounts to €76.9 million (prior year: €168.1 million), and the carrying amount of commercial real estate and property development sold to €61.5 million (prior year: €171.7 million).

In the prior year, there were a higher number of sales than in fiscal year 2007.

5. Profit from Other Services

The profit from other services breaks down as follows:

€ MILLION	2007	2006 (restated)
Revenues from third-party real estate management	6.8	5.9
Revenues from other trade	8.4	12.0
Personnel expenses	– 4.1	– 4.1
Third-party expenses from third-party real estate management	– 1.9	– 1.8
Third-party expenses from other trade	– 5.4	– 4.1
Subtotal	**3.8**	**7.9**
Profit from the leasing of commercial real estate	0.8	7.5
Total	**4.6**	**15.4**

In fiscal year 2007, the Group changed its approach in showing the result from discontinued operations on the income statement. Income and expenses from discontinued operations are no longer reported as a single-line-item. The result from the leasing of commercial real estate is now included in the result from other services. For more information, please refer to section A. “General Information”, subsection “Restatement of prior year figures”.

6. Selling Expenses

Expenses that are directly related to the sales activities of GAGFAH S.A. are recorded under this item. They are primarily attributable to sales, advertising and public relations.

The selling expenses of €21.6 million (prior year: €20.9 million) contain marketing expenses and expenses for selling prearrangements totaling €4.0 million (prior year: €2.4 million). For external selling partners there were accrued expenses of €6.2 million (prior year: €4.3 million).

The remaining selling expenses concern personnel expenses of €4.9 million (prior year: €4.2 million) and various administrative expenses.

An amount of €2.5 million (prior year: €6.8 million) results from the Group’s business segments property development and commercial real estate. In fiscal year 2007, the Group changed its proceedings in terms of showing the result from discontinued operations on the income statement. For more information, please refer to section A. “General Information”, subsection “Restatement of prior year figures”.

7. General and Administrative Expenses

€ MILLION	2007	2006
Salaries for administrative staff	21.9	23.8
Costs of office equipment, postage, telephone and IT	9.0	6.3
Amortization and depreciation on intangible assets and property, plant and equipment	7.4	4.2
Consulting costs	7.2	4.8
Audit fees	2.4	3.7
Insurances	1.4	0.7
Court and lawyer's fees	1.0	3.0
Other administrative expenses	6.7	5.5
Total	**57.0**	**52.0**

The increase in amortization and depreciation on intangible assets and property, plant and equipment results from the depreciation on the head office building in Essen.

The increase in consulting costs mainly results from the GBH squeeze-out.

8. Expenses for Share-based Remuneration

The share-based remuneration amounted to €2.1 million (prior year: €20.4 million). In contrast to the previous year, 2007 expenses exclusively relate to share-based payment plans for management. Furthermore, besides the share-based payment, the prior year expenses contained grants of shares totaling €14.2 million which were granted to GAGFAH S.A. staff in the course of the IPO.

Share-based remuneration to management is an equity-settled plan which is based on individual employment contracts. In 2007 a total number of 22,815 new shares were assigned. Currently, 538,443 shares are still outstanding.

9. Other Operating Income

All income not directly allocable to the various functional areas is disclosed under other operating income totaling €21.4 million (prior year: €31.8 million).

Other operating income breaks down as follows:

€ MILLION	2007	2006 (restated)
Income from the reversal of provisions	9.4	14.2
Income from the sale of financial assets	2.0	0.1
Transferable leasehold land interest	0.2	0.2
Write-off of liabilities	0.6	0.2
Income from the disposal of other fixed assets	0.0	1.0
Other	5.5	10.0
Subtotal	**17.7**	**25.7**
Other operating income due to commercial real estate and property development	3.7	6.1
Total	**21.4**	**31.8**

The income from the reversal of provisions mainly contains income from reversal of provisions for environmental remediation (€1.8 million), provisions for restitution claims (€1.2 million), provisions for maintenance (€1.2 million) and legal proceedings (€0.4 million). The conditions for those provisions were no longer met. Prior year income contained income from the reversal of restructuring provisions of €6.4 million.

An amount of €3.7 million (prior year: €6.1 million) results from the Group's business segments property development and commercial real estate. In fiscal year 2007, the Group changed its approach in showing the result from discontinued operations on the income statement. Income and expenses from discontinued operations are no longer reported as a single-line-item. For more information, please refer to section A. "General Information", subsection "Restatement of prior year figures".

10. Other Operating Expenses

All expenses not directly allocable to the various functional areas are disclosed under other operating expenses totaling €22.2 million (prior year: €33.3 million).

These mainly include consultants' fees of €2.6 million (prior year: €7.2 million), write-offs on receivables of €0.7 million (prior year: €0.3 million), due diligence costs of €0.6 million (prior year: €0.1 million) and losses on the disposal of non-current assets of €0.4 million (prior year: €0.5 million).

An amount of €12.5 million (prior year: €16.0 million) results from the Group's business segments property development and commercial real estate. In 2007, it became evident that the original time schedule for the liquidation of the remaining assets of property construction / development and the sale of the assets for commercial real estate cannot be kept since these activities take longer time than originally expected. Since the requirements of IFRS 5 do not permit an extension of the period required to complete the sale under the existing circumstances, the amounts for the commercial real estate and the property construction / development business are presented under continued operations for the fiscal year 2007; the comparative figures in the income statement have been revised to reflect the reclassification of the operations. For more information, please refer to section A. "General Information", subsection "Restatement of prior year figures".

11. Reorganization and Restructuring Expenses

Expenses break down as follows:

€ MILLION	2007 Restructuring	Reorganization	Total
Personnel-related expenses	14.1	0.0	14.1
Consulting fees	2.2	2.7	4.9
Non-personnel administrative costs	3.0	0.4	3.4
Total	**19.3**	**3.1**	**22.4**

€ MILLION	2006 Restructuring	Reorganization	Total
Personnel-related expenses	21.0	0.0	21.0
Consulting fees	15.4	0.0	15.4
Non-personnel administrative costs	3.4	0.0	3.4
Total	**39.8**	**0.0**	**39.8**

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

In 2007, reorganization and restructuring expenses were €22.4 million compared to €39.8 million in 2006.

As the restructuring costs in 2006 were mainly attributable to the NILEG integration, we were able to reduce our reorganization and restructuring expenses by 43.7 %, to €22.4 million in 2007. The main part of the restructuring costs related to severance payments. Reorganization costs were mainly consulting fees for tax restructuring and for the implementation of a new IT system.

Please refer to section E. 14.2 ("Other Provisions").

12. Interest Expense (Periodical) and Profit from the Fair Value Measurement of Derivatives

The current interest expense of €278.5 million (prior year: €223.4 million) mainly relates to interest on liabilities to banks. The item includes expenses from term loans of €191.6 million and expenses from loans left in place of €15.4 million. Another €40.7 million relates to accrued interest.

Furthermore, there are interest expenses of €5.6 million (prior year: €6.1 million) from the amortization of the present value of the government loans, €4.8 million (prior year: €4.6 million) from the interest component of pension obligations and €2.9 million (prior year: €3.2 million) from the HB-Fonds.

An amount of €6.3 million (prior year: €5.1 million) results from the Group's business segments property development and commercial real estate. In fiscal year 2007, the Group changed its approach in showing the result from discontinued operations in the income statement. Income and expenses from discontinued operations are no longer reported as a single-line item. For more information, please refer to section A. "General Information", subsection "Restatement of prior year figures".

Measurement of the derivatives at fair value resulted in a profit of €9.3 million (prior year: €65.1 million). Please refer to section H.2. ("Financial Risk Management").

13. Income Taxes

Income taxes break down as follows:

€ MILLION	2007	2006
Trade tax	– 7.8	– 5.9
Corporate income tax	– 6.9	– 1.1
Increase in corporate income tax based on the remaining EK 02	– 128.2	0,0
Tax payments (+) / refunds (-) for / from prior years	1.3	0.4
Deferred taxes – temporary differences	– 355.1	– 36.2
Deferred taxes – loss carry forwards	– 37.2	22.2
Total	**– 533.9**	**– 20.6**

The German Business Tax Act 2008 (Unternehmenssteuerreform 2008) passed the legislative procedure in July 2007. The changes apply generally from 2008 onwards. The key points are:

- Reduction of corporate income tax from 25 to 15 %, and reduction of trade tax
- Non-deductibility of trade tax
- Abolition of declining-balances depreciation
- Limitation on the tax deductibility of interest expenses ("Zinsschranke"), and simultaneous repeal of the existing thin-capitalization rules
- Amendment of trade tax provisions for interest and equivalent expenses
- Modification of the provisions governing use of carry forward losses after company transfers
- Introduction of new rules for the taxation of private investment income and private sales transactions as well as introduction of a flat 25 % private investment income tax to take effect on January 1, 2009.

In November 2007, the German Annual Tax Act 2008 (Jahressteuergesetz) was adopted with a final taxation of EK 02:

- EK 02 amounts as of December 31, 2006, will be taxed at a rate of 3 % (rather than 45 % on distributions)
- Tax is payable in 10 equal annual installments from 2008; immediate payment is possible (in which case a discount rate of 5.5 % p.a. applies).

The companies of the Group disposed of €5,271.1 million EK 02 as of December 31, 2006. The taxes payable in the period of 10 years amounts to €158.1 million. The discounted present value amounts to €128.2 million (discount rate 4.21 %).

Based on consolidated profit before taxes, anticipated income taxes of €454.1 million (prior year: €66.1 million) was calculated for the fiscal year. This contrasts with effective income taxes of €405.7 million (prior year: €20.6 million). The anticipated income taxes were calculated on the basis of a tax rate for the Group of 40.4 % (prior year: 40.4 %).

€ MILLION	2007	2006
Profit before taxes	**1,122.8**	**163.4**
Anticipated income taxes	**– 454.1**	**– 66.1**
Change in tax rate	92.8	0.0
Income taxes not related to the period and other adjustments to current income taxes	1.3	0.5
Tax-free income	50.7	50.3
Tax portion for non-deductible expenses	– 15.6	– 12.7
Permanent trade tax effects	– 18.7	– 16.8
Effects of unrecognized deferred taxes on temporary differences	– 28.8	50.5
Effects of unrecognized deferred taxes on loss carry forwards	– 35.3	– 25.6
Corporate income tax on dividend within profit and loss absorption agreement	– 0.1	– 0.7
Other tax effects	2.1	0.0
Effective income taxes	**– 405.7**	**– 20.6**
Increase in corporate income tax based on the remaining EK 02	**– 128.2**	**0,0**
Taxes from income	**– 533.9**	**– 20.6**

The change in tax rates reflects the decrease in the corporate income tax rate from 25 to 15 % and the non-deductibility of trade tax under the German Business Tax Reform Act 2008 (Unternehmenssteuerreform 2008). Income taxes relating to the period prior to January 1, 2007, are disclosed under income taxes not related to the period and other adjustments to current income taxes. The tax portion for non-deductible expenses mainly relates to non-deductible interest expenses from intercompany loans. The effects in particular of the addition of half of the interest on permanent debt are disclosed under permanent trade tax effects. The effects from the measurement of deferred tax assets that result from the expected realization of deferred taxes are disclosed under the items "effects of unrecognized deferred taxes on temporary differences" and "effects of unrecognized deferred taxes on loss carry forwards".

The Company qualifies as a securitization vehicle falling within the scope of the Luxembourg Law on Securitization of March 24, 2004. The Company is therefore fully liable for corporate income tax and municipal business tax. However it is not subject to net worth tax (paragraph 3 of the Net Worth Tax Law of October 16, 1934). Any commitments to investors (i.e. profit distributions) and commitments to other creditors of the Company are deductible and will not be subject to Luxembourg withholding tax.

14. Result From Minority Interests

€25.0 million (prior year: €7.2 million) of net profit relates to minority interests.

The profits and losses attributable to minority interests are allocated to the subgroups as follows: GAGFAH subgroup €19.8 million profit (prior year: €4.4 million profit), NILEG subgroup €0.0 million profit (prior year: €2.0 million loss), WOBA subgroup €6.0 million profit (prior year: €0.8 million profit) and GBH subgroup €0.8 million loss.

15. Earnings per Share

Basic earnings per share come to €2.50 (prior year: €0.66). They were calculated by dividing the net profit for the year distributable to ordinary equity holders of the parent company (€563.9 million; prior year: €135.6 million) by the weighted average number of undiluted ordinary shares outstanding during the year (225,520,560; prior year: 206,871,679).

Diluted earnings per share come to €2.49 (prior year: €0.66). These were calculated by dividing the net profit for the year distributable to ordinary equity holders of the parent company (€563.9 million; prior year: €135.6 million) by the weighted average number of diluted ordinary shares outstanding during the year adjusted for dilution (226,164,589 prior year: 207,021,271).

Dilutive instruments exclusively comprise bonus shares to be granted to employees (weighted average: 644,029; prior year: 149,593), of which 10,715 were granted in 2007, whereas 104,112 promises expired during the year. The grant schedule as of December 31, 2007 is:

- 2008: 135,408
- 2009: 74,640
- 2010: 209,085
- 2011: 119,310

During the year 2007, the following bonus shares were issued:

- On October 11, 2007, 22,815 shares were issued at a share price of €14.80.

G. Notes to the Consolidated Cash Flow Statement

The consolidated cash flow statement provides additional information on liquidity as part of GAGFAH S.A.'s consolidated financial statements and thus serves to present the Group's financial position. The cash flow statement shows how cash and cash equivalents changed at GAGFAH S.A. over the course of the fiscal year. Cash flows are explained in accordance with IAS 7 and are split up into inflows and outflows of funds from operating activities, investing activities and financing activities.

Cash flows only contain cash and cash equivalents with terms of up to three months in accordance with IAS 7.7. These comprise all cash and cash equivalents disclosed in the balance sheet and break down as follows:

€ MILLION	12-31-2007	12-31-2006
Cash on hand	0.1	0.1
Bank balances		
Time deposits	18.4	26.2
In current accounts	84.4	251.4
Restricted Cash	89.0	79.3
Fund balances	13.7	10.0
Bank balances and cash on hand	**205.6**	**367.0**
Securities	0.5	3.5
Bank balances, cash on hand and securities	**206.1**	**370.5**

Cash and cash equivalents as of the balance sheet date included cash from HB-Funds of €13.7 million (prior year: €10.0 million) and restricted cash of €89.0 million (prior year: €79.3 million) to which GAGFAH S.A. has direct access. These funds result from the sale of investment and development properties. GAGFAH S.A. is committed to using these account balances for reinvestments in investment property.

Cash flows from financing activities include interest and cost paid for refinancing of €18.2 million (prior year: €60.7 million).

Operating cash flow includes taxes paid of €5.1 million (prior year: €0.4 million) and interests paid of €225.2 million (prior year: €194.0 million).

Of cash paid for the acquisition of subsidiaries and minorities' shares in subsidiaries, €35.9 million were paid to acquire minorities' shares in subsidiaries which where already consolidated.

In fiscal year 2007, the Group changed the starting point for the cash flow statement from earnings before interest and taxes (adjusted for the loss from discontinued operations) to "net profit". In accordance with IAS 7, the Group adjusted the prior year's cash flow statement as well.

H. Other Notes

1. Additional Disclosures on Financial Instruments

The following table shows carrying amounts and fair values of all financial instruments included in the Group's financial statements:

€ MILLION	Category in accordance with IAS 39[1]	Carrying amount 12-31-2007	Amortized cost	Fair value recognized in equity	Fair value recognized in profit or loss	Fair value 12-31-2007
Assets						
Bank balances and cash on hand	LaR	205.6	205.6			205.6
Investments	AfS	1.2	1.2			1.2
Receivables from sale of land	LaR	165.0	165.0			165.0
Rent receivables	LaR	14.9	14.9			14.9
Derivative financial assets measured at fair value	aFVtpl	5.2			5.2	5.2
Securities	AfS	0.5	0.5			0.5
Other	LaR	18.4	18.4			18.4
Liabilities						
Global loans	FLAC	– 6,120.0	– 6,120.0			– 5,341.0
Government annuity loans	FLAC	– 272.2	– 272.2			– 252.2
Privately financed annuity loans	FLAC	– 109.7	– 109.7			– 106.4
Financial liabilities of the fund	FLAC	– 64.0	– 64.0			– 64.0
Other financial liabilities	FLAC	– 78.8	– 78.8			– 78.8
Trade payables	FLAC	– 28.1	– 28.1			– 28.1
Rent liabilities	FLAC	– 12.8	– 12.8			– 12.8
Liabilities from operating expenses not yet invoiced	FLAC	– 19.2	– 19.2			– 19.2
Derivative financial liabilities measured at fair value	aFVtpl	– 4.4			– 4.4	– 4.4
Other	FLAC	– 24.3	– 24.3			– 24.3

[1] LaR Loans and Receivables
AfS Available for Sale
aFVtpl at Fair Value through profit and loss
FLAC Financial Liabilities measured of Amortized Cost

Financial assets from the category Loans and Receivables (LaR) have short-term maturities. For this reason their carrying amounts approximate the fair values.

Trade payables break down into current liabilities of €27.2 million (prior year: €23.3) and non-current liabilities of €0.9 million (prior year: €0.7 million).

€ MILLION	Category in accordance with IAS 39	Carrying amount 12-31-2006	Amortized cost	Fair value recognized in equity	Fair value recognized in profit or loss	Fair Value 12-31-2006
Assets						
Bank balances and cash on hand	LaR	367.0	367.0			367.0
Investments	AfS	17.7	17.7			17.7
Receivables from sale of land	LaR	133.1	133.1			133.1
Rent receivables	LaR	8.5	8.5			8.5
Derivative financial assets measured at fair value	aFVtpl	78.2		– 0.6	78.8	78.2
Securities	AfS	3.5	3.5			3.5
Other	LaR	24.7	24.7			24.7
Liabilities						
Global loans	FLAC	– 5,074.5	– 5,074.5			– 4,928.3
Government annuity loans	FLAC	– 252.5	– 252.5			– 257.9
Privately financed annuity loans	FLAC	– 106.7	– 106.7			– 103.8
Financial liabilities of the fund	FLAC	– 70.2	– 70.2			– 70.2
Other financial liabilities	FLAC	– 113.6	– 113.6			– 113.6
Trade payables	FLAC	– 24.0	– 24.0			– 24.0
Rent liabilities	FLAC	– 10.7	– 10.7			– 10.7
Liabilities from operating expenses not yet invoiced	FLAC	– 10.4	– 10.4			– 10.4
Derivative financial liabilities measured at fair value	aFVtpl	– 3.0			– 3.0	– 3.0
Other	FLAC	– 45.5	– 45.5			– 45.5

Bank balances and cash on hand, receivables and claims for reimbursements as well as other liabilities are predominantly short-term. Therefore, their carrying amounts (book values) correspond approximately to their fair values.

The market value for financial liabilities was determined using mathematical methods on the basis of the market information available on the balance sheet date.

The net results per measurement categories break down as follows:

€ MILLION	From interest	From subsequent measurement: At fair value	From subsequent measurement: Impairment / reversal of impairment	From derecognition	Net gain (loss) 12-31-2007
Loans and Receivables (LaR)	14.7	0.0	– 18.3	0.0	– 3.5
Available-for-Sale financial assets (AfS)	0.9	0.0	– 0.8	2.0	2.1
Financial Assets held for Trading (FAHfT)	– 0.2	7.0	0.0	2.3	9.1
Financial Liabilities measured at Amortized Cost (FLAC)	– 291.6	0.0	0.6	0.0	– 291.0

€ MILLION	From interest	From subsequent measurement: At fair value	From subsequent measurement: Impairment / reversal of impairment	From derecognition	Net gain (loss) 12-31-2006
Loans and Receivables (LaR)	9.1	0.0	– 10.5	1.4	0.0
Available-for-Sale financial assets (AfS)	0.3	0.0	0.0	0.0	0.3
Financial Assets held for Trading (FAHfT)	– 3.5	65.1	0.0	0.0	61.6
Financial Liabilities measured at Amortized Cost (FLAC)	– 227.7	0.0	0.0	0.0	– 227.7

The following table shows the development of the Group's valuation allowances during the fiscal year and the prior year.

€ MILLION	13-31-2007	Utilization	Reversals	Additions	12-31-2006	Utilization	Reversals	Additions	12-31-2005
Receivables from sales of land	– 0.3	0.0	0.0	0.0	– 0.3	0.0	0.2	– 0.1	– 0.4
Rent receivables	– 23.6	0.7	2.9	– 6.1	– 21.1	0.8	2.4	– 7.6	– 16.7
Receivables from other trade	– 0.4	0.0	0.0	– 0.4	0.0	0.0	0.0	0.0	0.0
Receivables from third-party real estate management	– 0.1	0.0	0.5	– 0.1	– 0.5	0.0	0.0	– 0.4	– 0.1
Claims for reimbursement	– 1.5	0.0	0.0	0.0	– 1.5	0.0	0.0	0.0	– 1.5
Other	– 2.6	0.1	0.0	– 1.5	– 1.2	0.9	0.5	– 0.3	– 2.3
Total	**– 28.5**	**0.8**	**3.4**	**– 8.1**	**– 24.6**	**1.7**	**3.1**	**– 8.4**	**– 21.0**

CRITERIA FOR THE EVALUATION / IDENTIFICATION OF NEED FOR BAD DEBT ALLOWANCES

Receivables from sales of land

Receivables from sales of land are recorded with their maturity date, which is in case of deposit in a notary trust account the date of conveyance of title. Subsequent to unsuccessful dunning procedure the recoverability of overdue receivables is determined by the operating department as well as the need for and amount of a valuation allowance, which is then realized.

Rent receivables

Rent receivables are carried at amortized costs. The dunning procedure includes reminders, demand for payment by legal counsel and ultimately the court order. Subsequent to unsuccessful dunning procedure rent receivables from ongoing contracts are bad debt allowance and are written off from terminated contracts.

Trade receivables, receivables from third-party real estate management and claims from reimbursement

Trade receivables, receivables from third-party real estate management and claims from reimbursement are recorded with their maturity date. Subsequent to unsuccessful dunning procedure the recoverability of overdue receivables is determined by the operating department as well as the need for and amount of a valuation allowance, which is then realized.

Payments on account

Payments on account are carried at the initial amount. Valuation allowances are realized upon the occurrence of causal circumstances (i.e. insolvency of the creditor).

The following table shows the age structure of assets that are not impaired.

€ MILLION	Carrying amount	Of which: Neither impaired nor past due on the reporting date	Of which: not impaired and past due on the reporting date in the following periods			
			0-90 days	91-180 days	181-360 days	> 360 days
12-31-2007						
Assets						
Receivables from sales of land	165.0	151.8	11.5	0.4	0.2	1.0
Rent receivables	14.9	0.0	14.5	0.0	0.1	0.0
Receivables from other trade	1.8	0.8	0.9	0.0	0.0	0.1
Receivables from third-party real estate management	1.4	0.7	0.2	0.0	0.1	0.4
Claims for reimbursement	3.9	2.9	0.6	0.0	0.0	0.4
Other	11.3	7.9	2.0	0.2	0.0	1.0

€ MILLION	Carrying amount	Of which: Neither impaired nor past due on the reporting date	Of which: not impaired and past due on the reporting date in the following periods			
			0-90 days	91-180 days	181-360 days	> 360 days
12-31-2006						
Assets						
Receivables from sales of land	133.1	126.8	6.2	0.0	0.0	0.0
Rent receivables	8.5	0.0	8.3	0.0	0.0	0.0
Receivables from other trade	6.5	5.3	1.1	0.1	0.0	0.0
Receivables from third-party real estate management	2.3	0.1	2.2	0.0	0.0	0.0
Claims for reimbursement	4.3	2.6	0.2	0.0	0.0	0.9
Other	11.6	7.1	4.1	0.0	0.0	0.0

Regarding the financial assets that are neither impaired nor in delay of payment, there were no indications as of the balance sheet date that the debitors will not discharge all payment obligations.

The following table shows the expenses for full write-off of receivables and the corresponding income from recoveries on receivables written off per financial asset:

	Expenses for full write-off of receivables		Income from recoveries on receivables written off	
€ MILLION	12-31-2007	12-31-2006	12-31-2007	12-31-2006
Receivables from sales of land	0.0	0.0	0.0	0.0
Rent receivables	– 11.8	– 5.5	0.0	1.5
Receivables from other trade	0.0	0.0	0.0	0.0
Receivables from third-party real estate management	– 0.1	0.0	0.0	0.0
Other	– 3.7	– 0.9	0.2	0.0

In 2007, no financial assets were transferred in such a way that either one part of them or all financial assets are not considered to be booked out.

2. Financial Risk Management

The main financial instruments used by the Group – apart from derivative financial instruments – comprise bank loans, overdrafts, cash and short-term deposits. The primary purpose of these financial instruments is to finance the Group's continuing operations. In addition there are other financial assets and liabilities, such as trade receivables and trade payables that directly arise from the Group's operations.

The Group also applies derivative financial instruments (mainly interest rate swaps) to manage interest rate risks resulting from the Group's operating business and financing. The Group's policy states that derivative financial instruments are not used for speculative purposes.

The Group's significant financial risks are interest rate-based cash-flow risks, liquidity risks and credit risks. The Group is not exposed to any currency risks.

HEDGING POLICIES AND FINANCIAL DERIVATIVES

On December 31, 2007, the derivative financial instruments used by the Group were option agreements and interest rate swaps.

The method used for recording gains or losses depends on two factors: The derivative is a designated hedge and applies for hedge accounting.

The fair value of derivative financial instruments depends on fluctuations in the underlying interest rates and other variable market factors.

In 2007, no derivative financial instruments in the form of hedge accounting were used.

INTEREST RATE SWAPS

In the business year 2007, the Group used interest rate swaps to hedge future cash flows from variable-rate loans. To date the remaining amounts have not been designated as being hedging instruments.

All swap agreements were exclusively contracted with reputable financial institutions in accordance with specific Group guidelines as regards approval, restriction and management.

Interest rate swaps are accounted for at fair value and disclosed on the assets side under the items "Other financial assets" or "Financial receivables and other financial assets", depending on their maturity. In 2006, the effective portion of profit or loss from the hedging instruments was recognized directly under equity. In 2007, the valuation of the swap was recognized in the Group's income statement.

The following interest rate swaps existed as of the balance sheet date:

€ MILLION	12-31-2007	12-31-2006
Nominal value of interest rate swaps	610.3	2,301.0
Fair value of interest rate swaps	0.6	72.4
Revaluation reserve	0.0	– 0.6

The market values of the interest rate swaps are regularly determined and monitored on the basis of the market data available on the balance sheet date and suitable valuation methods. As of December 31, 2007, the valuation was based on the following term structure:

Interest rate for six months	4.707 %
Interest rate for one year	4.745 %
Interest rate for five years	4.557 %
Interest rate for ten years	4.746 %

The residual term of the interest rate swaps is more than five years – the same as the residual terms of mirrored global loans.

As of December 31, 2007, the €71.8 million decrease in derivative financial instruments is mainly due to the sale of the swap with a notional amount of €1,690.7 million. Changes in the fair value of the interest rate swaps were recognized through profit or loss under the item "profit from the fair value measurement of derivatives".

OPTION AGREEMENTS

At the end of the fiscal year, GAGFAH S.A. Group entities had the following option agreement on shares in German limited liability companies.

The assets linked to the option agreements do not have a quoted market price in an active market. Furthermore, the fair value cannot be measured using a recognized method due to the lack of measurement parameters.

For this reason, the existing option agreements are recognized at (historical) cost in line with IAS 39.46c and IAS 39 AG80.

The (historical) cost of all option agreements amounted to €0.

The option agreement contains a call option by NBN Norddeutsche Beteiligungsgesellschaft für Immobilien in Niedersachsen m.b.H. (buyer), which at any time until December 31, 2008, has the right to acquire the shares in Städtische Wohnungsbau GmbH Göttingen, Wohnungsgesellschaft m.b.H für den Landkreis Goslar, Lehrter Wohnungsbau GmbH, Lehrte, and Wohnungsbaugesellschaft mit beschränkter Haftung Salzgitter, at a fixed price as defined in the agreement. However, NILEG Norddeutsche Immobiliengesellschaft m.b.H. (seller) has the opportunity to prevent the buyer from exercising this option by paying the buyer a fixed amount.

Furthermore, this option agreement contains a put option for the seller, who at any time between October 1, 2010, and December 31, 2011, has the right to sell the above-mentioned shares at the same fixed price.

Another option agreement contained a put option which entitles NEPTUNO to sell its shares in NILEG Real Estate GmbH and NILEG Real Estate GmbH & Co. Management KG at the fixed price of €10.1 million at any time to a company to be named by NILEG. In December 2007, the parties waived their claims from the option contract. Instead, they agreed on a separate purchase contract.

The option existing as of the balance sheet date breaks down as follows:

€ MILLION	12-31-2007	12-31-2006
Put option (writer):		
Nominal volumes	0.0	10.1
(Historical) cost	0.0	0.0
Call option (writer):		
Nominal volumes	9.5	9.5
(Historical) cost	0.0	0.0
Put option:		
Nominal volumes	9.5	9.5
(Historical) cost	0.0	0.0

FINANCIAL RISK MANAGEMENT SYSTEM

The risk management system of GAGFAH S.A. covers the following areas:

- Risk policies and guidelines
- Risk inventory
- Risk analysis / Risk assessment
- Risk management
- Risk monitoring

Risks are managed in a qualified and timely manner in accordance with the risk management policies defined by management. The guidelines define roles and responsibilities, lay the foundation of the risk management system and provide the framework for the assessment and management of risks. Risks are managed in a proactive manner using the early warning system. The internal audit function monitors compliance with the guidelines.

The risk management procedures applied to the key categories of financial risk of the GAGFAH S.A. Group entities are described below:

INTEREST RATE RISK

Analyses of the current operating results show that a variation of the interest yield curve has an impact on the interest result.

If market interest rates are 100 basis points higher (lower) by the next reporting date, profit or loss would be €21.6 million (€– 23.4 million) higher (lower).

The hypothetical effect from €– 23.4 million on income results from the potential effects of €– 28.6 million from interest rate derivatives and a reduction of €5.2 million from variable-interest financial liabilities.

Same sensitivities for financial year 2006:

If the market interest rates had been 100 basis point higher (lower) on December 31, 2006, profit or loss would have been €105.7 million (€– 114.5 million) higher (lower).

Interest rate risks include the risk that future expected cash flows from a financial instrument could fluctuate due to changes in the market interest rate.

In particular, GAGFAH S.A. faces the risk of interest rate fluctuations in the area of financing. It is company policy to mitigate these risks using financial derivatives. Derivatives are only used to manage interest rate risks and exclusively serve hedging purposes. Pure trading transactions without an underlying transaction (speculative transactions) are not carried out.

All hedging measures are coordinated and carried out centrally by the Group's Treasury department.

When entering into hedging transactions, the Group only selects as partners reputable national and international banks whose credit rating is reviewed regularly by rating agencies.

Management receives regular reports on interest rate risk factors for GAGFAH S.A.

The strategies pursued by the Company allow the use of derivatives if there are underlying assets or liabilities, contractual claims or obligations or planned operating transactions.

LIQUIDITY RISK

Liquidity risk is the risk that an entity may not be in a position to raise funds to meet commitments associated with a contract. Liquidity risk arises from the possibility that tenants may not be able to meet obligations to the Company under the terms of the lease agreements.

Furthermore, liquidity risk also comprises the risk that financial assets cannot be sold quickly at fair value due to market bottlenecks (market liquidity risk).

A liquidity plan based on a fixed planning horizon ensures that GAGFAH S.A. Group entities have sufficient liquidity at all times.

GAGFAH S.A. helps its subsidiaries with certain financing arrangements by providing guarantees. These guarantees pose a risk in as much as they could be utilized. GAGFAH S.A. monitors these risks in close collaboration with its subsidiaries and takes appropriate measures where necessary.

Per December 31, 2007, the Group had credit facilities of €300.0 million, thereof with €238.6 million drawn at year-end. The interest charged is currently EURIBOR plus 2 %.

For the analysis of the Group's financial liabilities please refer to section E.16.1. "Financial Liabilities".

CREDIT RISK

Credit risk from financial assets comprises the danger of a contractual partner defaulting and therefore amounts at most to the positive fair value of the asset vis-à-vis the relevant counterparty.

For the maximum credit risk, please refer to the information provided in the balance sheet and the corresponding notes.

With regard to primary financial instruments, credit risk is accounted for by the recognition of bad debt allowances.

Derivative financial instruments are only entered into with reputable banks. This helps to limit the actual credit risk of these instruments.

Deposits achieved of €70.9 million (prior year: €55.0 million) and amounts paid by contracting parties into notary trust accounts of €92.5 million (prior year: €62.7 million) serve as collateral securities.

CURRENCY RISK

Currency risk results from the fact that the value of a financial instrument can change due to exchange rate fluctuations.

GAGFAH S.A. Group entities do not currently generate cash flows in foreign currencies. As a result, they are not exposed to exchange rate risk.

3. Joint Ventures

Joint ventures serve the purpose of the development and subsequent sale of property. Per year-end, the following entities were consolidated with a 50 % share in their net assets, liabilities, income and expenses:

- Wolmirstedt GbR
- Objekt Dresden GbR
- Lühnde IHG and NILEG GbR
- Grundstücksentwicklungsgesellschaft Oesselse "Langes Feld" GbR
- Möser GbR
- Danndorf GbR.

The Group's share breaks down as follows:

€ MILLION	12-31-2007	12-31-2006
Current assets	2.8	0.3
Non-current assets	0.0	0.0
Current liabilities	0.3	0.3
Non-current liabilities	0.1	0.0
	2.4	**0.0**
Income	0.5	7.0
Expenses	0.5	6.2

The Group's share in the prior year also included Objekt Kassel GbR. The company was sold in 2007. We refer to section B.1. "Consolidated Group".

4. Contingent Liabilities and Other Financial Obligations

CONTINGENT LIABILITIES

GAGFAH S.A. has issued a guarantee (up to the maximum amount of €36.4 million) for GAGFAH GmbH regarding the Guarantee Facility Agreement between GAGFAH GmbH and an external bank.

OTHER FINANCIAL OBLIGATIONS

The Group's other financial obligations break down as follows:

€ MILLION	Within one year	Between one year and three years	Between three and five years	More than five years	Total
Budget costs for the implementation of an operating system	8.2	3.0	0.0	0.0	11.2
Contractual obligations due to the implementation of an operating system (royalties, hosting fees etc.)	0.8	2.0	2.0	3.7	8.5
Hosting fees computer center	3.4	3.1	0.4	0.0	6.9
Rent obligations	0.5	1.0	0.7	1.3	3.5
Leasing obligations – automobile	0.8	1.1	0.3	0.0	2.2
Repair and maintenance of software	1.1	0.9	0.2	0.0	2.2
Rent and leasing obligations – hardware	0.5	0.5	0.4	0.0	1.4
Basic fees for telephony and data network	1.0	0.3	0.1	0.0	1.4
Repair and maintenance of hardware	0.3	0.2	0.0	0.0	0.5
Leasing obligations – copiers	0.1	0.2	0.1	0.0	0.4
Total	**16.7**	**12.3**	**4.2**	**5.0**	**38.2**

For the leasing contracts, neither renewal and rent adjustment clauses nor purchase options exist.

5. Number of Employees and Personnel Expenses

The average number of employees is presented below, broken down by business area and function:

	12-31-2007		12-31-2006	
	Heads	FTEs	Heads	FTEs
Authorized signatories / authorized agents	61	60	60	60
Salaried employees	906	875	906	881
Wage earners	434	418	444	436
Total	**1,401**	**1,353**	**1,410**	**1,377**

The total head count including temporary personnel was 1,815 (prior year: 1,762), thereof 50 (prior year: 45) trainees.

Personnel expenses came to €107.3 million (prior year: €128.6 million) and break down as follows:

€ MILLION	2007	2006
Wages and salaries	88.5	92.5
Social security	13.7	27.6
Pension costs	3.0	4.5
Other benefit costs	2.1	4.0
Total	**107.3**	**128.6**

Wages and salaries contain share bonuses amounting to €2.1 million (prior year: €20.5 million).

6. Related Party Transactions

Natural persons related to GAGFAH S.A. in the meaning of IAS 24.9 are the management of GAGFAH S.A. and immediate family members (e.g. spouses, children) of the aforementioned persons.

Related parties of GAGFAH S.A. in the meaning of IAS 24.9 include the ultimate parent company, all subsidiaries and associates as well as certain companies not included in the consolidated financial statements.

Related parties that are controlled by GAGFAH S.A. or over which GAGFAH S.A. may exercise significant influence are included in the consolidated financial statements and recorded in the list of shareholdings showing the relevant share capital in Exhibit 1.

GAGFAH S.A., Luxembourg, is majority-owned by the following investment funds which are managed by Fortress Investment Group LLC:

- Fortress Subsidiary (GAG ACQ) LLC
- FABP Subsidiary (GAG ACQ) LLC
- Fortress Investment Fund III (GAG ACQ Subsidiary) LLC
- Fortress Investment Fund III (Fund B) (GAG ACQ Subsidiary) LLC
- Fortress Investment Fund III (Fund C) (GAG ACQ Subsidiary) LLC
- Fortress Investment Fund III (Fund D) (GAG ACQ Subsidiary) LTD
- Fortress Investment Fund III (Fund E) (GAG ACQ Subsidiary) LLC
- Fortress Subsidiary (GAG ACQ) Investors (Cayman) Ltd
- Fortress Subsidiary (GAG ACQ) Co-Investor (Cayman) Ltd
- Fortress Investment Fund III (Coinvestment Fund A) LP
- Fortress Investment Fund III (Coinvestment Fund B) LP
- Fortress Investment Fund III (Coinvestment Fund C) LP
- Fortress Investment Fund III (Coinvestment Fund D) LP
- Fortress Residential Investment Deutschland (Fund A) LP
- Fortress Residential Investment Deutschland (Fund B) LP
- Fortress Residential Investment Deutschland (Fund C) LP
- Fortress Residential Investment Deutschland (Fund D) LP
- DB GFA Holdings LLC
- DBO GFA Holdings LLC

Accordingly, these entities are also related parties to GAGFAH S.A. In addition, Fortress Investment Group LLC controls a multitude of other entities which, however, are not relevant to the business of GAGFAH S.A.

All transactions with related parties are executed at arm's length on the basis of international methods of price comparison in accordance with IAS 24.

7. Management

7.1. BOARD OF DIRECTORS

MEMBERS	
Wesley R. Edens	Director
Robert I. Kauffman	Director
Randal A. Nardone	Director
Burkhard U. Drescher	Director
Dr. Jürgen Allerkamp	Independent Director
Dieter H. Ristau	Independent Director
Yves Wagner	Independent Director

Total Remuneration and Loans Granted

Wesley R. Edens, Robert I. Kauffman, Randal A. Nardone and Burkhard U. Drescher are not parties to service agreements with the Company and receive no compensation as Board members. They are reimbursed for expenses associated with their attendances of Board meetings.

On October 11, 2007, Burkhard U. Drescher exercised a part of his 228,150 stock options and received 22,815 shares at the price of €14.80.

Yves Wagner, Dieter H. Ristau and Dr. Jürgen Allerkamp are party to service agreements with the Company and receive compensation for their services as Board members and are reimbursed for their expenses on an annual basis. Such compensation consists (net) of €25,000 plus 5,000 shares in the Company. The service agreements do not provide for the receipt of any benefits upon termination of such service agreements.

We provide all Board members with directors' and officers' insurance. The total net compensation paid to members of the Board in 2007 amounts to €75,000 plus 15,000 shares in the Company.

As of December 31, 2007, no advances or loans had been granted to members of the Board.

7.2. SENIOR MANAGEMENT

Members

Members of the senior management of the Company's subsidiaries are integral to the management of the Company's subsidiaries. With the exception of Burkhard U. Drescher, members of the Board are not members of the senior management of the Company's subsidiaries. As a result, of the members of the Board, only Mr. Drescher is active in the day-to-day management of the subsidiaries.

The following individuals are members of the senior management of the Company's respective subsidiaries:

MEMBERS	
Burkhard U. Drescher	Managing Director (Chief Executive Officer)
Jörg Deisel	Managing Director (Chief Operating Officer)
Worna Zohari	Managing Director (Chief Sales Officer)
Martin E. Löffler	Managing Director (Chief Financial Officer) (until January 31, 2008)
Rolf Glessing	Managing Director (Chief Financial Officer) (since March 15, 2008)
Dr. Ulrich Weber	Managing Director (Chief Investment Officer)
Rainer Seifert	Managing Director (Chief Technical Officer)

Total Remuneration and Loans Granted

Current management remuneration comprises a fixed, a variable and a share-based component. In fiscal year 2007, the managers of the subgroups received remuneration totaling €5.2 million (prior year: €5.5 million) for the performance of their duties within the Group.

Of total remuneration, €2.3 million (prior year: €1.6 million) relates to fixed remuneration, €2.2 million (prior year: €1.5 million) thereof to basic remuneration and €0.1 million (prior year: €0.1 million) thereof to fixed benefits in kind, which mainly comprise the provision of company cars.

The variable component (management bonuses) totaling €2.6 million (prior year: €1.0 million) includes annually recurring components linked to the success of the Company.

Additionally, management received share-based remuneration amounting to €0.3 million (prior year: €2.7 million).

As of December 31, 2007, no advances or loans had been granted to managers.

Pension Obligations and Other Pension Benefits

Under certain circumstances, members of management are entitled to pension payments. The pension entitlement is calculated as a percentage of part of the employee's fixed salary. The percentage is dependent on the employee's function on the management board and the length of office.

Pensions totaling €0.1 million (prior year: €0.3 million) were paid to former managers and their dependents in the fiscal year.

Jubilee Commitments

There are no obligations to pay jubilee commitments.

Severance Payments

The subgroups have contractual arrangements with the members of management that regulate the granting of severance payments in the event of early retirement.

In the fiscal year, severance payments amounting to €0.2 million (prior year: €1.7 million) were made. In addition, as of the balance sheet date, the Group had outstanding obligations due to severance payments amounting to €0.8 million.

8. Events after the Balance Sheet Date

The purchase price of €95.5 million for an acquisition project totaling 3,000 residential units in Zwickau was paid on January 31, 2008.

To finance the acquired portfolio the GAGFAH Group has entered into a new term loan to an amount of €60.0 million.

NEW ACQUISITIONS

Since January 1, 2008, no further acquisitions have been signed.

(1) List of Shareholdings

No.	Company name	Registered office	Share of capital	Held by No.
1.	GAGFAH S.A.	Luxembourg, Luxembourg		
2.	GAGFAH GmbH	Essen, Germany	17.52 % 82.48 %	70 91
3.	GAGFAH I Invest GmbH & Co. KG	Essen, Germany	100.00 %	2
4.	GAGFAH M Immobilien Management GmbH	Essen, Germany	6.00 % 94.00 %	2 3
5.	GAGFAH A Asset GmbH & Co. KG	Essen, Germany	100.00 %	4
6.	GAGFAH Projektentwicklungs- und Projektsteuerungsgesellschaft mbH	Essen, Germany	100.00 %	4
7.	VHB Grundstücksverwaltungsgesellschaft "Haus und Bodenfonds" mbH	Essen, Germany	100.00 %	4
8.	Neues Schweitzer Viertel Betriebs- + Service GmbH & Co. KG	Berlin, Germany	94.99 %	4
9.	GSW Wohnbau GmbH	Freiburg, Germany	94.90 %	4
10.	Schweitzer Viertel Grundstücks GmbH	Berlin, Germany	94.74 % 5.26 %	4 8
11.	IVS Schrömbgens & Stephan Immobilienversicherungsservice GmbH	Muelheim an der Ruhr, Germany	100.00 %	4
12.	HaBeGe Bau- und Projektentwicklungsgesellschaft mbH	Essen, Germany	94.90 % 5.10 %	4 9
13.	GAGFAH B Beteiligungs GmbH	Essen, Germany	99.60 %	4
14.	Media Home GmbH & Co. KG	Essen, Germany	51.00 %	4
15.	Media Home Verwaltung GmbH	Essen, Germany	51.00 %	4
16.	Haus- und Boden-Fonds 5	Essen, Germany	66.83 %	3
17.	Haus- und Boden-Fonds 6	Essen, Germany	88.19 %	3
18.	Haus- und Boden-Fonds 7	Essen, Germany	76.25 %	3
19.	Haus- und Boden-Fonds 8	Essen, Germany	73.80 %	3
20.	Haus- und Boden-Fonds 9	Essen, Germany	72.79 %	3
21.	Haus- und Boden-Fonds 10	Essen, Germany	73.36 %	3
22.	Haus- und Boden-Fonds 11	Essen, Germany	73.16 %	3
23.	Haus- und Boden-Fonds 12	Essen, Germany	81.05 %	3
24.	Haus- und Boden-Fonds 13	Essen, Germany	77.72 %	3
25.	Haus- und Boden-Fonds 14	Essen, Germany	63.06 %	3
26.	Haus- und Boden-Fonds 15	Essen, Germany	71.88 %	3
27.	Haus- und Boden-Fonds 18	Essen, Germany	71.54 %	3
28.	Haus- und Boden-Fonds 19	Essen, Germany	74.11 %	3
29.	Haus- und Boden-Fonds 21	Essen, Germany	71.23 %	3
30.	Haus- und Boden-Fonds 23	Essen, Germany	53.93 %	3
31.	Haus- und Boden-Fonds 29	Essen, Germany	62.27 %	3
32.	Haus- und Boden-Fonds 33	Essen, Germany	56.90 %	3
33.	Haus- und Boden-Fonds 35	Essen, Germany	58.00 %	3
34.	Haus- und Boden-Fonds 37	Essen, Germany	47.79 %	3
35.	Haus- und Boden-Fonds 38	Essen, Germany	54.01 %	3

No.	Company name	Registered office	Share of capital	Held by No.
36.	NILEG Immobilien Holding GmbH	Hanover, Germany	94.80 % 5.20 %	91 1
37.	WTCH-World Trade Center Hannover GmbH	Hanover, Germany	100.00 %	36
38.	NORD / LB-Immobiliengesellschaft für Mecklenburg-Vorpommern mbH	Essen, Germany	100.00 %	36
39.	Osnabrücker Wohnungsbaugesellschaft mbH	Osnabrueck, Germany	94.09 % 5.91 %	36 93
40.	OWG Asset GmbH & Co. KG	Osnabrueck, Germany	100.00 %	39
41.	NILEG Real Estate GmbH	Hanover, Germany	94.81 % 5.19 %	36 93
42.	NILEG Real Estate GmbH & Co. Management KG	Hanover, Germany	94.90 % 5.10 %	36 93
43.	NILEG Norddeutsche Immobiliengesellschaft mbH	Hanover, Germany	94.85 % 5.15 %	36 42
44.	NILEG Commercial Asset GmbH & Co. KG	Hanover, Germany	100.00 %	43
45.	NILEG Residential Asset GmbH & Co. KG	Hanover, Germany	100.00 %	43
46.	WGNorden Beteiligungs GmbH	Hanover, Germany	100.00 %	51
47.	WBN Beteiligungs GmbH	Hanover, Germany	100.00 %	53
48.	OWG Beteiligungs GmbH	Hanover, Germany	100.00 %	39
49.	NILEG Norddeutsche Beteiligungs GmbH	Hanover, Germany	100.00 %	43
50.	Scholz Hofheim GmbH & Co. KG	Wetzlar, Germany	80.00 %	43
51.	Wohnungsgesellschaft Norden GmbH	Hanover, Germany	94.88 %	43
52.	WGNorden Asset GmbH & Co. KG	Hanover, Germany	100.00 %	51
53.	Wohnungsbau Niedersachsen GmbH	Hanover, Germany	94.85 %	51
54.	WBN Asset GmbH & Co. KG	Hanover, Germany	100.00 %	53
55.	NILEG-Immobilienservice GmbH	Hanover, Germany	100.00 %	53
56.	WBO Wohnungsbau-Beteiligungs GmbH für Osnabrück	Hanover, Germany	100.00 %	36
57.	WOBA HOLDING GMBH	Dresden, Germany	94.80 % 5.20 %	91 1
58.	Opera Co-Acquisition GP GmbH	Dresden, Germany	94.80 %	57
59.	Opera Co-Acquisition GmbH & Co. KG	Dresden, Germany	94.80 %	57
60.	WOBA DRESDEN GMBH	Dresden, Germany	100.00 %	57
61.	Immo Service Dresden GmbH	Dresden, Germany	100.00 %	60
62.	Dienstleistungs- und Bauhof Dresden GmbH	Dresden, Germany	100.00 %	61
63.	Bau- und Siedlungsgesellschaft Dresden mbH	Dresden, Germany	94.73 % 5.27 %	60 59
64.	Liegenschaften Weissig GmbH	Dresden, Germany	94.73 % 5.27 %	60 59
65.	Wohnbau NORDWEST GmbH	Dresden, Germany	94.90 % 5.10 %	60 59

No.	Company name	Registered office	Share of capital	Held by No.
66.	SÜDOST WOBA DRESDEN GmbH	Dresden, Germany	94.90 % 5.10 %	60 59
67.	PARKHAUS PROHLIS GmbH	Dresden, Germany	70.00 %	66
68.	Immobilien-Vermietungsgesellschaft Knappertsbusch & Co & SÜDOST WOBA Striesen KG	Leipzig, Germany	0.02 %	66
69.	GAG ACQ Ireland Limited	Clonee, Ireland	100.00 %	1
70.	UC ACQ Ireland Limited	Clonee, Ireland		
71.	GAGFAH Operations Advisors GmbH	Frankfurt am Main, Germany	17.00 % 83.00 %	70 69
72.	GAGFAH Acquisition 1 GmbH	Essen, Germany	94.80 % 5.20 %	91 1
73.	GAGFAH Acquisition 2 GmbH	Berlin, Germany	94.80 % 5.20 %	91 1
74.	GAGFAH Acquisition 3 GmbH	Essen, Germany	94.80 % 5.20 %	91 1
75.	GBH Acquisition GmbH	Essen, Germany	94.80 % 5.20 %	91 1
76.	Grundstücks- u. Baugesellschaft AG	Heidenheim an der Brenz, Germany	97.86 %	75
77.	Baugesellschaft Frankenthal GmbH	Frankenthal (Pfalz), Germany	74.90 %	76
78.	Wohnungsverein Ulm GmbH	Heidenheim an der Brenz, Germany	94.00 % 6.00 %	76 80
79.	Bocholter Wohnungsbaugesellschaft mbH	Bocholt, Germany	94.00 % 6.00 %	76 80
80.	GBH Beteiligung GmbH	Heidenheim an der Brenz, Germany	94.00 % 6.00 %	76 75
81.	GBH Service GmbH	Heidenheim an der Brenz, Germany	100.00 %	76
82.	HWG Heidenheimer Wohnungsgesellschaft Gesellschaft mit beschränkter Haftung	Heidenheim an der Brenz, Germany	94.00 % 6.00 %	76 80
83.	GBH Heidenheim Verwaltung GmbH	Heidenheim an der Brenz, Germany	74.00 % 26.00 %	76 75
84.	GAGFAH Pegasus GmbH & Co. KG	Berlin, Germany	94.80 % 5.20 %	74 93
85.	GAGFAH First Property Holding GP GmbH	Essen, Germany	100.00 %	74
86.	GAGFAH First Property Holding GmbH & Co. KG	Essen, Germany	100.00 %	74
87.	GAGFAH Second Property Holding GmbH & Co. KG	Essen, Germany	100.00 %	74
88.	GAGFAH Dritte Grundbesitz GmbH & Co. KG	Essen, Germany	100.00 %	74

No.	Company name	Registered office	Share of capital	Held by No.
89.	GAGFAH Vierte Grundbesitz GmbH & Co. KG	Essen, Germany	100.00 %	74
90.	GAGFAH Pegasus Verwaltungs GmbH	Essen, Germany	100.00 %	74
91.	Blitz F07-einhundert-neunzig GmbH (to be renamed GAGFAH Holding GmbH)	Frankfurt am Main, Germany	100.00 %	1
92.	KALIRA Grundstücks-Verwaltungsgsellschaft mbH	Gruenwald, Germany	94.80 %	91
93.	KALIRA Grundstücksgesellschaft mbH & Co. KG	Gruenwald, Germany	94.90 %	91

Joint Ventures (as defined by IAS 31) Included in the Consolidated Financial Statements on a Proportionate Basis

No.	Company name	Registered office	Share of capital	Held by No.
94.	Objekt Dresden GbR	Hanover, Germany	50.00 %	43
95.	Lühnde IHG und NILEG GbR	Essen, Germany	50.00 %	43
96.	Grundstücksentwicklungsgesellschaft Oesselse "Langes Feld" GbR	Essen, Germany	50.00 %	43
97.	Wolmirstedt GbR	Essen, Germany	50.00 %	43
98.	Möser GbR	Essen, Germany	50.00 %	43
99.	Danndorf GbR	Essen, Germany	50.00 %	43

Other Financial Assets of 20 % or more

No.	Company name		Share of capital	Total equity €k	Net profit / loss	Held by No.
100.	Hannover Region Grundstücksgesellschaft Verwaltung mbH & Co. Businesspark Hannover Nord KG	Hanover, Germany	33.33 %	945.8[2]	– 98.4[2]	43
101.	IDB Königsdamm GmbH & Co. KG	Buxtehude, Germany	33.33 %	1,560.1[2]	271.5[2]	43
102.	Wohnstätten Erste Vermögensverwaltungs GmbH	Heidelberg, Germany	20.00 %	1,196.0[1]	167.0[1]	43
103.	WBV Wohnbau Betreuungs- & Verwaltungs GmbH	Salzgitter, Germany	25.05 %	25.6[2]	0.0[2]	43
104.	Dreisam Wohn und Gewerbebau GmbH	Gundelfingen, Germany	52.00 %	4.5[2]	– 42.7[2]	9

[1] As of December 31, 2003
[2] As of December 31, 2006

(2) Statement of Changes in Consolidated Non-Current Assets 2007

€ MILLION	ACQUISITION OR PRODUCTION COSTS					
	Jan. 1, 2007	Change in the consolidated Group	Additions	Disposals	Reclassifications	Dec. 31, 2007
Intangible Assets						
Industrial rights	7.2	0.0	4.5	0.0	0.0	11.7
Goodwill	2.1	24.5	0.0	0.0	0.0	26.6
	9.3	**24.5**	**4.5**	**0.0**	**0.0**	**38.3**
Property, plant and equipment						
Land and buildings (owner-occupied)	59.2	2.4	0.4	0.0	– 6.7	55.3
Technical equipment and machines	20.4	0.0	0.7	0.0	0.2	21.3
Other equipment, furniture and fixtures	21.1	0.4	1.5	1.2	0.0	21.8
Assets under construction	0.3	0.3	0.8	0.2	– 0.9	0.3
Pre-construction expenses	0.0	0.0	0.4	0.1	– 0.3	0.0
Payments on account	0.0	0.0	0.0	0.0	0.0	0.0
	101.0	**3.1**	**3.8**	**1.5**	**– 7.7**	**98.7**
Other financial assets						
Investments	18.5	– 13.2	0.0	2.7	0.0	2.6
Other loan receivables	0.3	0.1	0.0	0.1	0.0	0.3
Other financial assets	25.5	0.1	5.0	22.2	0.0	8.4
	44.3	**– 13.0**	**5.0**	**25.0**	**0.0**	**11.3**
Total	**154.6**	**14.6**	**13.3**	**26.5**	**– 7.7**	**148.3**

	Accumulated depreciation						Book value
	Jan. 1, 2007	Change in the consolidated Group	Additions	Disposals	Reclassifications	Dec. 31, 2007	Dec. 31, 2007
	4.2	0.0	1.8	0.0	0.0	6.0	5.7
	0.0	0.0	0.0	0.0	0.0	0.0	26.6
	4.2	**0.0**	**1.8**	**0.0**	**0.0**	**6.0**	**32.3**
	16.1	0.0	7.5	0.0	– 4.6	19.0	36.3
	7.0	0.0	2.0	0.0	0.0	9.0	12.3
	14.9	0.0	2.0	1.2	0.0	15.7	6.1
	0.0	0.0	0.2	0.2	0.0	0.0	0.3
	0.0	0.0	0.1	0.1	0.0	0.0	0.0
	0.0	0.0	0.0	0.0	0.0	0.0	0.0
	38.0	**0.0**	**11.8**	**1.5**	**– 4.6**	**43.7**	**55.0**
	0.8	0.0	0.6	0.0	0.0	1.4	1.2
	0.0	0.0	0.0	0.0	0.0	0.0	0.3
	0.0	0.0	0.1	0.0	0.0	0.1	8.3
	0.8	**0.0**	**0.7**	**0.0**	**0.0**	**1.5**	**9.8**
	43.0	**0.0**	**14.3**	**1.5**	**– 4.6**	**51.2**	**97.1**

Statement of Changes in Consolidated Non-Current Assets 2006

€ MILLION	ACQUISITION OR PRODUCTION COSTS					
	Jan. 1, 2006 (restated)	**Change in the consolidated Group**	**Additions**	**Disposals**	**Reclassifications**	**Dec. 31, 2006**
Intangible Assets						
Industrial rights	5.2	0.6	1.4	0.0	0.0	7.2
Goodwill	2.1	0.0	0.0	0.0	0.0	2.1
	7.3	**0.6**	**1.4**	**0.0**	**0.0**	**9.3**
Property, plant and equipment						
Land and buildings (owner-occupied)	59.1	0.0	0.1	0.0	0.0	59.2
Technical equipment and machines	19.4	0.0	0.9	0.0	0.1	20.4
Other equipment, furniture and fixtures	19.2	1.5	2.0	1.6	0.0	21.1
Assets under construction	7.3	2.1	15.5	4.9	– 19.7	0.3
Pre-construction expenses	0.4	0.0	0.0	0.4	0.0	0.0
Payments on account	28.3	0.0	0.0	0.0	– 28.3	0.0
	133.7	**3.6**	**18.5**	**6.9**	**– 47.9**	**101.0**
Other financial assets						
Investments	4.5	0.0	15.0	1.0	0.0	18.5
Other loan receivables	1.7	0.0	0.0	1.4	0.0	0.3
Other financial assets	0.0	0.0	25.5	0.0	0.0	25.5
	6.2	**0.0**	**40.5**	**2.4**	**0.0**	**44.3**
Total	**147.2**	**4.2**	**60.4**	**9.3**	**– 47.9**	**154.6**

Accumulated depreciation						Book value
Jan. 1, 2006 (restated)	Change in the consolidated Group	Additions	Disposals	Reclassifications	Dec. 31, 2006	Dec. 31, 2006
2.7	0.0	1.5	0.0	0.0	4.2	3.0
0.0	0.0	0.0	0.0	0.0	0.0	2.1
2.7	**0.0**	**1.5**	**0.0**	**0.0**	**4.2**	**5.1**
15.1	0.0	1.0	0.0	0.0	16.1	43.1
5.1	0.0	1.9	0.0	0.0	7.0	13.4
13.5	0.0	2.1	0.7	0.0	14.9	6.2
4.4	0.0	0.0	4.4	0.0	0.0	0.3
0.4	0.0	0.0	0.4	0.0	0.0	0.0
0.0	0.0	0.0	0.0	0.0	0.0	0.0
38.5	**0.0**	**5.0**	**5.5**	**0.0**	**38.0**	**63.0**
1.4	0.0	0.0	0.6	0.0	0.8	17.7
0.0	0.0	0.0	0.0	0.0	0.0	0.3
0.0	0.0	0.0	0.0	0.0	0.0	25.5
1.4	**0.0**	**0.0**	**0.6**	**0.0**	**0.8**	**43.5**
42.6	**0.0**	**6.5**	**6.1**	**0.0**	**43.0**	**111.6**

Independent Auditor's Report

To the Shareholders
GAGFAH S.A.
Luxembourg

REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS

At your request, we have audited the accompanying consolidated financial statements of GAGFAH S.A., which comprise the balance sheet as at December 31, 2007, and the income statement, statement of changes in equity and cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory notes to the consolidated financial statements.

BOARD OF DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The Board of Directors is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the European Union. This responsibility includes: designing; implementing and maintaining internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable under the circumstances.

RESPONSIBILITY OF THE "RÉVISEUR D'ENTREPRISES"

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing as adopted by the "Institut des Réviseurs d'Entreprises". Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence on the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the judgement of the "Réviseur d'Entreprises", including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to

fraud or error. In making those risk assessments, the "Réviseur d'Entreprises" considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate under the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.

An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Board of Directors as well as evaluating the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

OPINION

In our opinion, the financial statements give a true and fair view of the financial position of GAGFAH S.A as of December 31, 2007, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

The annual report, which is the responsibility of the Board of Directors, is in accordance with the consolidated financial statements.

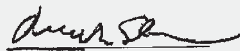
ERNST & YOUNG
Société Anonyme
Réviseur d'Entreprises

Bruno di Bartolomeo

Luxembourg, March 18, 2008

Financial Statement Certification

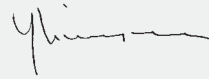
To the best of our knowledge, we hereby confirm that, in accordance with the applicable generally accepted reporting standards, the consolidated financial statements reflect the true asset, financial, and earnings situation of the Group and that the directors' report is a true and fair representation of the business development including the income and general situation of the Group and that the material risks and opportunities regarding the expected development of the Group for the remainder of the fiscal year have been described therein.

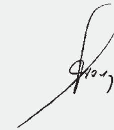

Wesley R. Edens

Robert I. Kauffman

Randal A. Nardone

Burkhard U. Drescher


Yves Wagner, PhD


Dieter H. Ristau

Dr. Jürgen Allerkamp

Luxembourg, March 18, 2008

Financial Calendar

MARCH 19, 2008
Publication of Annual Report – FY 2007

APRIL 21, 2008
Annual General Meeting, Luxembourg

MAY 2008
Publication of Interim Report – Q1 2008

AUGUST 2008
Publication of Interim Report – Q2 2008

NOVEMBER 2008
Publication of Interim Report – Q3 2008

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