08

GAGFAH Consolidated Annual Report

2008

Highlights

HIGHLIGHTS FINANCIAL YEAR 2008

- Profit from **the leasing of investment property** up 7 % to € 473.0 million in 2008 from € 441.0 million in 2007.
- EBIT before revaluation gains/losses up 9 % to € 449.6 million in 2008 from € 413.5 million in 2007.
- FFO up 8 % to € 200.2 million or € 0.89 per share in 2008, from € 185.9 million or € 0.82 per share in 2007.
- NAV of € 13.72 per share and gross asset value of € 860 per square meter as of December 31, 2008.
- QUARTERLY DIVIDEND for Q4 2008 of € 0.20 per share will be paid on April 7, 2009.

VACANCY

- Overall vacancy of 3.9 %, down from 4.4 % as of December 31, 2007, exceeding our 2008 year-end vacancy target of 4.5 %.
- On a same-store basis, our vacancy rate remained stable at 3.6 % in 2008.
- Excluding units held for privatization, our vacancy rate is 3.3 % (on a same-store basis).

SALE OF INVESTMENT PROPERTY

- Strong privatization volume; up by 96 % to 4,777 units at a margin of 33 % for 2008, compared to 2,438 units at a margin of 22 % in 2007, significantly exceeding our 2008 year-end sales target of 3,500–4,000 units. 2,783 units sold in Q4 2008, compared to 1,281 units in Q4 2007.

RENTS

- Our rental growth rate was 2.0 % (residential rents on a same-store basis) for 2008, in line with our target.

COSTS

- We reduced our average management costs per unit to € 407 in 2008 from € 448 in 2007.

GAGFAH S.A. SHARES AS OF DECEMBER 31, 2008

ISIN	LU0269583422
Total Market Capitalization (€ Million)	907.3
Industry Group	Real Estate
Number of Shares (Million)	225.7
Listing	Frankfurt Stock Exchange
Major Indices Memberships	MDAX, EPRA, GPR

All per-share data is based on the number of shares outstanding as of the respective dates.

Key Financial Information

FINANCIAL FIGURES

INCOME STATEMENT (€ MILLION)	2008	2007	Q4 2008	Q4 2007
Income from the leasing of investment property	979.3	927.8	237.5	229.1
Profit from the leasing of investment property	473.0	441.0	120.1	100.8
Profit from the sale of investment property	58.8	56.3	22.8	15.8
Loss/profit from fair value measurement	– 233.0	984.2	– 223.0	330.5
EBITDA	249.2	1,434.1	– 85.9	453.9
EBIT	216.6	1,397.7	– 93.8	438.9
EBT	– 119.5	1,122.8	– 204.6	365.2
FFO[1]	200.2	185.8	58.7	62.8
FFO per share[1]	0.89	0.82	0.26	0.28

BALANCE SHEET (€ MILLION)	12-31-2008	12-31-2007
Investment property[2]	9,774.1	9,997.8
Financial liabilities	6,732.5	6,649.1

OPERATIONAL FIGURES	12-31-2008	12-31-2007
Group residential portfolio		
units	172,298	170,316
sqm	10,394,302	10,252,228
Net cold rent / sqm (in €)	4.95	4.85
Vacancy (in %)	3.9	4.4
Privatized units	4,777	2,438

1) FFO recognizes income taxes as accrued.
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 an appropriate measure of underlying operating performance of real estate companies as it provides shareholders with information regarding the Group's ability to service debt, make capital expenditures or pay dividends. The following is a reconciliation of EBIT to FFO for our Group:

FUNDS FROM OPERATIONS – FFO (€ MILLION)	2008	2007	Q4 2008	Q4 2007
EBIT	216.6	1,397.7	– 93.8	438.9
Reorganization and restructuring expenses	22.8	22.4	3.0	5.8
Depreciation and amortization	9.8	14.0	4.9	9.2
EBITDA	249.2	1,434.1	– 85.9	453.9
Results from fair value measurement	233.0	– 984.2	223.0	– 330.5
Realized valuation gains through sales	9.9	6.9	5.2	6.2
Share-based remuneration	3.5	2.1	0.7	– 0.2
Net interest expenses (periodical)	– 296.9	– 263.5	– 74.4	– 70.4
Tax expenses [1]	– 14.5	– 13.4	-9.0	5.8
Commercial real estate/property development	13.4	1.2	2.3	– 4.2
Others	2.6	2.6	– 3.2	2.2
FFO	200.2	185.8	58.7	62.8
FFO per share	0.89	0.82	0.26	0.28

[1] See footnote on previous page.

STRONG ORGANIC GROWTH IN 2008

Net cold rent up
2.0 % (residential same-store basis)

Overall vacancy reduced from 4.4 % to
3.9 %

Costs per unit reduced from €448 in 2007 to
€ 407

Units privatized in 2008
4,777

Net Asset Value per share of
€ 13.72

EBIT at
€ 216.6 million

EBITDA amounting to
€ 249.2 million

Funds from Operations (FFO) increased by €14.4 million or 7.8 % to
€ 200.2 million

FFO per share (225.7 million shares outstanding) increased by €0.07 to
€0.89

Gross Asset Value per sqm of
€ 860

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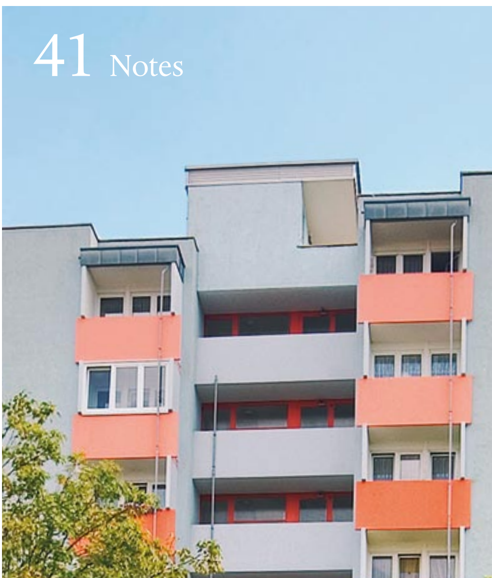
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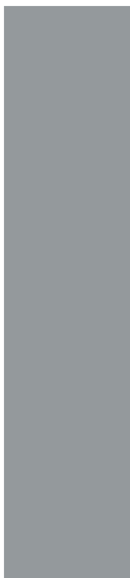

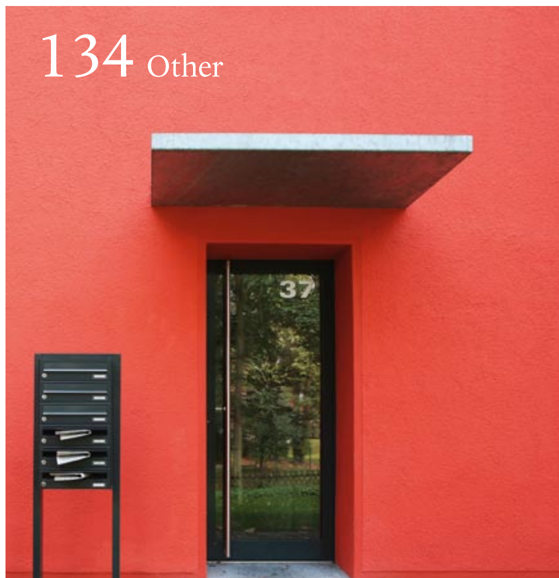
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Letter to our Shareholders

Dear Fellow Shareholders:

The German residential housing market has a historical reputation for stability. With the tremendous volatility in the capital markets in 2008, this characteristic has been demonstrated by our solid operating performance for the year. Our main financial objective is to maximize earnings and cash flow through the leasing and selling of residential apartments. We are broadly satisfied with the fundamental progress we have made. We manage a large, high quality, and geographically diverse portfolio of over 190,000 housing units throughout Germany, with an efficient operating company focused on delivering stable and growing cash flows. Our portfolio has an asset value of almost €10 billion, and the majority of our cash flow comes from stable recurring rental income – on average our tenants have been with us for over 11 years.

While we achieved many of our operational targets in our second full year as a public company, our shares currently trade at a very substantial discount to our net asset value per share. In response to this development, and the general disruption in the financing markets, we have increased our focus on organic cash flow growth, and generating incremental liquidity. We are fortunate in that the vast majority of our financing is locked in at attractive rates for long term, and we have no debt maturing in the next twelve months. We can use our excess liquidity to retire or repurchase our debt, reinvest in our

existing assets, or return it to shareholders, for example in the form of dividends or share buy backs. We seek to strike a balance between maintaining a prudent financial structure, sufficient liquidity, and maximizing returns for shareholders.

In terms of our key performance indicators, our asset sales program has been particularly successful to date. From a standing start two years ago, we have ramped up to selling over €200 million in the past year, comprised of over 4,700 units in over 670 transactions, generating a net profit of over €50 million. We intend to increase the scale of our sales, in part due to the strong demand we have observed for individual assets. We are targeting to sell over €500 million this coming year. Even net of this reduction in the size of our balance sheet, we would still be the largest listed German residential housing company.

Our other targets for the year were focused on increasing our recurring cash flow and are fairly straight forward. We increased our revenue by increasing rents to market levels and reducing vacancy across the portfolio. We were able to achieve our goals of 2 % same store rental growth and reducing overall vacancy to 3.9 %. We believe that we can continue to achieve rental growth in the 1.5–2.0 % range while maintaining our vacancy rate at approximately today's levels.

We continue to achieve operating efficiencies that help us reduce expenses. This is primarily due to the hard work done by our employees in integrating acquisitions and consolidating operations, which lower our overheads. Our target for the year was to reduce our average cost to manage an apartment from €448 per unit in 2007 to €400. We ended the year at €407 and we feel there is still progress to be made. One of our largest areas of expenses is for the maintenance and improvement of our buildings. By applying a more disciplined approach to refurbishment and capital expenditures, we have been able to both grow rents and reduce vacancy while keeping those costs (on a per square meter basis) roughly constant. Overall, we know there are opportunities in both direct expenses and at corporate level to use our size and scale to our advantage.

In sum, while we are broadly satisfied with the operating performance of our company in 2008, we have more work to do than ever in 2009. Up until now the German residential housing market has not been directly affected by the turbulence in the world around us, but we are facing challenging times, to say the least. However, the assets we own are stable, durable and strong generators of cash flow. On a per-unit

basis, we feel our assets are some of the most attractively valued in the world, and have significantly higher replacement costs if rebuilt today. Historically low rates of construction and the steadily increasing number of households in Germany support our business model.

Additionally, we enhanced our management team with the addition of William Brennan as our new Deputy CEO, his deep operational experience and German/American background provides a terrific set of skills to GAGFAH. In August, Mr. Brennan will replace Burkhard Drescher as CEO. We thank Burkhard Drescher for his contributions to GAGFAH's growth thus far.

Finally for 2009, we intend to continue to focus on cash flow growth, while maintaining a straight forward and transparent business model. We feel these goals will ultimately lead to enhanced shareholder value. We appreciate the strong commitment of our staff to providing quality, safe and affordable housing for our tenants, while helping us build the premier German residential real estate company. Thank you for your support.

Robert I. Kauffman
Chairman

Management

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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:

ROBERT I. KAUFFMAN
Chairman of the Board of Directors of GAGFAH S.A.

WESLEY R. EDENS

RANDAL A. NARDONE

BURKHARD U. DRESCHER

YVES WAGNER, PH.D.

DIETER H. RISTAU

DR. JÜRGEN ALLERKAMP

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 of Shareholders.

GAGFAH S.A. has a total authorized share capital of approximately €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 preemptive 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.

GAGFAH's operational subsidiaries in Germany are led by the Senior Management. The Members of the Senior Management are:

Burkhard Ulrich Drescher (until July 31, 2009)
CEO Chief Executive Officer

William Joseph Brennan
COO Chief Operations Officer (from January 1, 2009 until March 20, 2009)
Deputy Chief Executive Officer (from March 20, 2009 until July 31, 2009)
CEO Chief Executive Officer (from August 1, 2009)

Rolf Glessing
CFO Chief Financial Officer

Nicolai Kuss
COO Chief Operations Officer (appointed on March 20, 2009)

Rainer Seifert (until March 20, 2009)
CTO Chief Technical Officer

Worna Zohari
CSO Chief Sales Officer

GAGFAH Shares

On December 31, 2008, the number of shares of GAGFAH S.A. totaled 225,700,384. As of February 4, 2009, the total number of shares outstanding amounted to 225,715,384.

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

MAJOR SHAREHOLDERS

Shareholder	Number of Shares	%
Fortress Subsidiary (GAGACQ) Investors Ltd.	25,574,777	11.33
Fortress Residential Investment Deutschland (Fund A) LP	20,626,823	9.14
Fortress Investment Fund III (GAGACQ Subsidiary) LLC	16,539,554	7.33
Fortress Investment Fund III (Fund B) (GAGACQ Subsidiary) LLC	14,141,601	6.27
Fortress Residential Investment Deutschland (Fund B) LP	12,330,464	5.47
Highbridge Capital Management LLC	11,818,697	5.24
Fortress Subsidiary (GAGACQ) LLC	11,669,744	5.17

On December 31, 2008, the authorized unissued share capital of GAGFAH S.A. amounted to €9,999,124,520, represented by 7,999,299,616 shares, each such share with a nominal value of €1.25.

SHARES ON DECEMBER 31, 2008

ISIN	LU0269583422
Security Identification Number	A0LBDT
Reuters Symbol	GFJ.DE
Bloomberg Symbol	GFJ GR
Xetra share price (in €)	4.02
Number of shares (Million)	225.7
Total market capitalization (€ Million)	907.3
Stock exchange	Frankfurt a. M.
Segment (Industry Group)	Real Estate
Accounting standard	IFRS
End of fiscal year	December 31

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GAGFAH at a Glance

GAGFAH S.A. is a joint stock corporation organized under the laws of the Grand Duchy of Luxembourg qualifying as a securitization company under the Luxembourg Securitization Law of March 22, 2004. The core business of our operating subsidiaries is the ownership and management of a geographically diversified and well-maintained residential property portfolio located throughout Germany. With a portfolio of over 170,000 apartments, we are the largest German listed residential property company.

Competitive Strengths

We believe that the combination of our size, geographic diversity across Germany and scale of operations 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 over 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 believe that we are among the most efficient property managers in Germany.

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

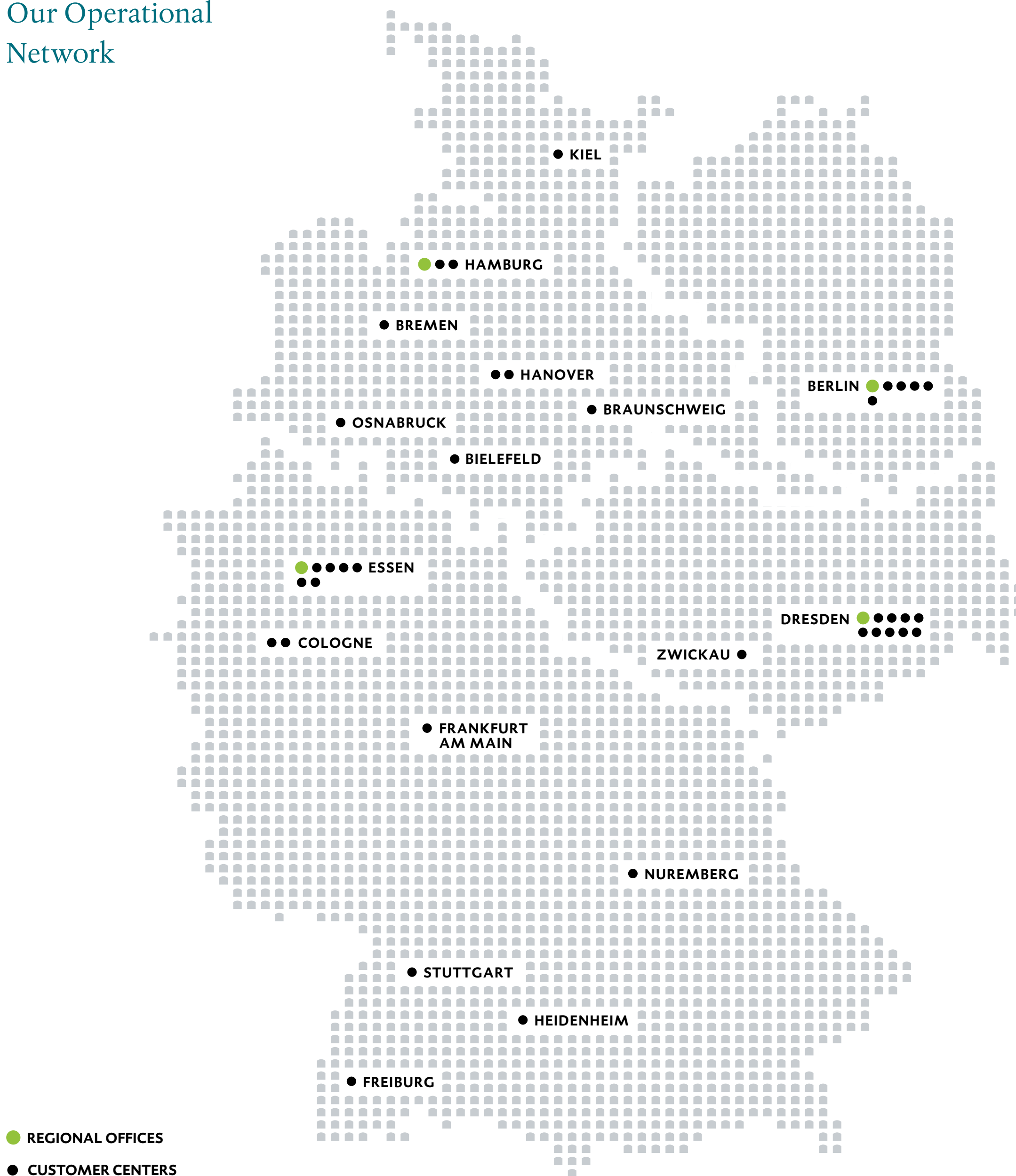
We have developed an in-depth knowledge of regional residential markets which enables us to efficiently manage, identify, evaluate and acquire portfolios in all key markets throughout Germany. Our assets are directly managed through a streamlined operational network with 37 customer centers in the four regions Southwest, East, North and Berlin. 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.

Strategy

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 also continue to strengthen the processes in leasing-up vacant units and we have established a dedicated internal brokerage team, implemented economic incentives and introduced advertising and marketing campaigns to drive our lease-up activities. As of December 31, 2008, our overall vacancy rate for our core residential portfolio was 3.9 %, down from 4.4 % as of December 31, 2007. On a same-store basis, excluding acquisitions and sales, our vacancy rate remained unchanged at 3.6 % as of December 31, 2008, compared to December 31, 2007. The rental growth rate for 2008 was 2.0 % (on a same-store basis).

Our Operational Network



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 (including general and administrative expenses and personnel costs, excluding privatization and acquisition departments) declined to €407 in 2008 from €448 in 2007.

REALIZE VALUE THROUGH ASSET SALES

In 2008, we sold 4,777 apartments at a margin of 33 %, with a volume of approximately €200 million, or approximately 2.1 % of our portfolio value. We continue to see strong demand from current tenants and investors for multifamily homes. We intend to ramp up our sales program, due in part to the strong demand we are experiencing. Our shares are currently trading at a substantial discount to their NAV, thus we have shifted our focus from acquiring portfolios to incrementally realizing the value embedded in our assets. Net proceeds from sales can be used to optimize our capital structure for example by repaying or repurchasing debt, paying dividends or repurchasing shares.

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 over 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 eleven years and an occupancy rate of about 96 %. The average apartment size is 60 square meters with an average rent of approximately €297 per month. Our residential property portfolio includes 24,000 publicly subsidized rent-restricted apartments.

Residential Property Portfolio [1]

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:

Top 20 Cities	Units	In % of total sqm	Rental Area per sqm	Average Unit Size per sqm	Fully-let Rent annualized in € million	In % of total	In-place Rent per month and sqm (€)	Market Rent per month and sqm (€)[2]	Vacant %
Dresden	40,816	20.3	2,309,619	57	128.6	18.5	4.64	4.98	4.9
Berlin	29,051	15.1	1,720,674	59	97.7	14.1	4.73	5.52	2.3
Hamburg	9,849	5.5	627,223	64	40.0	5.8	5.31	6.34	0.5
Hanover	6,182	3.4	389,786	63	25.4	3.7	5.43	5.88	3.1
Heidenheim	4,786	2.6	298,694	62	18.7	2.7	5.22	5.76	12.0
Bielefeld	4,172	2.4	276,481	66	14.2	2.0	4.29	4.75	1.3
Osnabruck	3,560	1.9	219,723	62	13.1	1.9	4.96	5.46	1.2
Braunschweig	3,237	1.8	199,097	62	12.0	1.7	5.04	5.58	2.0
Zwickau	3,087	1.5	172,790	56	8.5	1.2	4.10	4.13	18.2
Essen	2,363	1.4	155,662	66	9.8	1.4	5.25	5.72	7.3
Cologne	2,341	1.6	178,444	76	13.5	2.0	6.29	7.14	2.1
Frankenthal	2,108	1.2	130,861	62	7.8	1.1	4.94	5.14	6.3
Freiburg	1,916	1.1	128,085	67	8.7	1.3	5.67	6.08	0.9
Bocholt	1,808	1.0	111,585	62	6.2	0.9	4.64	5.49	2.2
Dusseldorf	1,702	0.9	98,941	58	7.9	1.1	6.67	6.95	1.2
Frankfurt am Main	1,691	0.8	94,362	56	8.0	1.2	7.10	7.97	0.5
Iserlohn	1,678	0.9	106,085	63	5.6	0.8	4.42	4.89	3.0
Bremen	1,569	0.9	99,525	63	5.8	0.8	4.88	5.42	6.1
Duisburg	1,431	0.9	96,333	67	5.1	0.7	4.44	4.84	16.5
Leverkusen	1,404	0.8	89,835	64	5.8	0.8	5.37	5.97	1.7
Subtotal Top 20 Cities	**124,751**	**66.0**	**7,503,804**	**60**	**442.4**	**63.8**	**4.91**	**5.47**	**4.1**
Other Cities	47,547	25.4	2,890,498	61	175.4	25.3	5.06	5.46	3.6
Total Core Residential Property Portfolio	**172,298**	**91.4**	**10,394,302**	**60**	**617.8**	**89.1**	**4.95**	**5.47**	**3.9**
Other[3]	n/m	8.6	975,288	n/m	75.6	10.9	n/m	n/m	22.4
		100.0	11,369,590		693.4	100.0			

[1] GAGFAH property information as of December 31, 2008.
[2] Market rents were determined by CBRE.
[3] Includes HB-Funds, commercial properties, garages, senior homes.

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 in the four regions Southwest, East, North and Berlin, 37 local customer centers and approximately 500 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, new leases, lease renewals and other property management tasks. We estimate that, on average, our customer centers conclude approximately 20,000 new leases per year (fluctuation: 11.6 %). Our on-site caretakers are responsible for smaller facility management tasks, such as gardening, small repairs and snow service. 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.

SALES

In 2008, we sold 4,777 units at a margin of 33 %. We increasingly sold multi-family houses in response to a higher investor demand for this type of asset. As sales business is traditionally strongest in the last quarter of the year, we sold 2,783 units in the fourth quarter of 2008, which is 58 % of the total volume in 2008.

Industry

OVERALL ECONOMIC DEVELOPMENT

In 2008, German GDP grew only by 1.3 %, and contracted by 2.1 % in the fourth quarter of 2008. In 2009, GDP is forecast to decrease by approximately 2.25 %.

With 7.8 %, the unemployment rate for 2008 was 13 % lower than in 2007 and was at a 15-year low. Economic downturns usually have an impact on the unemployment rate with a time lag. Therefore, it is expected that the unemployment rate will increase in the course of 2009.

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 located in the western German states including western Berlin (the former West Germany), and approximately 20 % in the eastern German states and in eastern Berlin (the former East Germany). 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 and German Federal Statistics Office 2006).

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 followed by strong price reductions within 2008, especially in UK and in Spain.

Rents in western Germany have shown a stable and consistent growth through economic cycles and recessions since 1975. Only the reunification in 1990 led to a significant increase of rents in western Germany followed by a rent decrease as a result of the end of the reunification boom. The historical performance of rents and house prices underlines residential property as a stable asset class.

Apartment rents in Germany as a national average increased only slightly from €6.00 per square meter in 1995 to €6.44 per square meter in 2008 (BulwienGesa AG).

HOME OWNERSHIP RATE

According to the German Federal Office for Building and Regional Planning, the home ownership rate in Germany was at 46 % in 2005 (German Federal Office for Building and Regional Planning, Raumordnungsprognose 2020/2050, 2006) and one of the lowest in Western Europe and well below the E.U. average of 63 % (Source: German Federal Statistics Office; Euroconstruct). Furthermore, the German Federal Office for Building and Regional Planning expects the rate to increase to 49 % in 2020.

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.

CHANGE IN STOCK OF RESIDENTIAL HOUSING UNITS IN GERMANY

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). In 2008, the number of building permits dropped to a 20 year low of 174,595 or 4.2 % compared to 2007. We believe that the decline in building permits and 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.

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, 2006) that due to demographic changes 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 factors such as an increasing number of elderly people (German Federal Office for Building and Regional Planning, Raumordnungsprognose 2020/2050, 2006). We expect these trends to have a positive impact on residential property rents and house prices.

Consolidated Income Statement

for the period from January 1 to December 31, 2008

€ MILLION	2008	2007	Q4 2008	Q4 2007
Income from the leasing of investment property	979.3	927.8	237.5	229.1
Transferable leasehold land interest	– 2.1	– 2.1	– 0.5	– 0.5
Operating expenses for the generation of rental income (excluding share-based remuneration)	– 504.2	– 484.7	– 116.9	– 127.8
Profit from the leasing of investment property	**473.0**	**441.0**	**120.1**	**100.8**
Income from the sale of investment property	206.0	202.7	97.5	67.8
Carrying amount of investment property sold	– 147.2	– 146.4	– 74.7	– 52.0
Profit from the sale of investment property	**58.8**	**56.3**	**22.8**	**15.8**
Loss/profit from fair value measurement	**– 233.0**	**984.2**	**– 223.0**	**330.5**
Income from the sale of commercial real estate and property development	24.8	76.9	1.6	14.6
Carrying amount of commercial real estate and property development sold	– 25.7	– 61.5	– 0.6	– 6.6
Loss/profit from the sale of commercial real estate and property development	**– 0.9**	**15.4**	**1.0**	**8.0**
Profit from other services	4.9	4.6	2.0	1.6
Selling expenses (excluding share-based remuneration)	– 15.0	– 21.6	– 4.5	– 7.4
General and administrative expenses (excluding share-based remuneration)	– 41.1	– 57.0	– 9.2	– 16.4
Expenses for share-based remuneration	– 3.5	– 2.1	– 0.7	0.2
Other operating income	24.3	21.4	12.3	10.6
Other operating expenses	– 27.6	– 22.2	– 11.3	1.4
Profit/Loss from operations before reorganization and restructuring expenses	**239.9**	**1,420.0**	**– 90.5**	**445.1**
Reorganization and restructuring expenses	– 22.8	– 22.4	– 3.0	– 5.8
Profit from operations	**217.1**	**1,397.6**	**– 93.5**	**439.3**
Loss/profit from other financial assets	– 0.5	0.1	– 0.3	– 0.4
Earnings before interest and taxes (EBIT)	**216.6**	**1,397.7**	**– 93.8**	**438.9**
Interest expenses (periodical)	– 309.1	– 278.5	– 78.0	– 73.5
Other financial expenses	– 1.6	– 0.6	0.0	0.9
Interest income (periodical)	12.2	15.0	3.6	3.1
Loss/profit from the fair value measurement of derivatives	– 33.3	9.3	– 36.1	0.3
Interest expenses (refinancing)	– 4.3	– 20.1	– 0.3	– 4.5
Loss/profit before taxes (EBT)	**– 119.5**	**1,122.8**	**– 204.6**	**365.2**
Income taxes (excluding EK 02)	165.6	– 405.7	224.5	– 331.9
Increase in corporate income tax based on the remaining EK 02	0.0	– 128.2	0.0	– 128.2
Net profit	**46.1**	**588.9**	**19.9**	**– 94.9**
Thereof attributable to:				
Minority interests	4.9	25.0	– 1.6	3.1
Shareholders of the parent company	41.2	563.9	21.5	– 98.0
Weighted average number of shares (undiluted)	225,630,258	225,520,560	225,630,258	225,520,560
Weighted average number of shares (diluted)	226,216,407	226,164,589	226,216,407	226,164,589
Earnings per share (in €)	0.18	2.50	0.09	– 0.44
Diluted earnings per share (in €)	0.18	2.49	0.09	– 0.44

Results of Operations, Net Worth and Financial Position

Consolidated Income Statement

INCOME FROM THE LEASING OF INVESTMENT PROPERTY

The leasing of investment property is our core business and hence the primary component of our income from operations. Our strategy is to raise rents to market levels while maintaining 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 rents from subsidized apartments. In 2008, our income from the leasing of investment property increased by 5.6 % to €979.3 million, compared to €927.8 million in 2007. Approximately 69 % of such income was attributable to rental income in 2008. Rental income mainly consists of net cold rent, which grew on a same-store basis by 2.0 % to €4.97 per square meter since 2007, in line with our 2008 target. Charges to tenants for recoverable expenses represented approximately 31 % of the income from the leasing of investment property in 2008. Growth of income from the leasing of investment property was mainly driven by raising rents and by the inclusion of acquisitions. Our average number of properties increased between 2007 and 2008 by approximately 7,000 units.

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

€ MILLION	2008	2007	Q4 2008	Q4 2007
Rental income, fees	674.5	633.9	168.5	164.4
Allocations charged	301.6	288.9	68.0	63.7
Other	3.2	5.0	1.0	1.0
Total	**979.3**	**927.8**	**237.5**	**229.1**

Rental income increased by 6.4 % to €674.5 million in 2008 from €633.9 million in 2007.

Our overall vacancy rate for our core residential portfolio has decreased to 3.9 % at the end of 2008 from 4.4 % at the end of 2007, exceeding our goal of 4.5 % for 2008. On a same-store basis, our vacancy rate remained stable at 3.6 %, compared to the end of 2007. Excluding units held for privatization, our vacancy rate is at 3.3 % (on a same-store basis).

OPERATING EXPENSES FOR THE GENERATION OF RENTAL INCOME

In 2008, our operating expenses for the generation of rental income totaled €504.2 million, an increase of 4.0 % as compared to 2007, mainly as a result of our increased property portfolio.

Operating expenses for the generation of rental income consist of the following items:

€ MILLION	2008	2007	Q4 2008	Q4 2007
Real estate operating expenses	267.8	256.4	61.2	57.4
Maintenance costs	90.6	88.4	22.2	28.8
Personnel expenses	58.1	55.0	13.9	15.7
Real estate tax	30.9	27.8	5.3	5.2
External costs for real estate management	13.5	12.3	3.6	4.6
Bad debt allowances	11.9	12.5	4.5	5.2
Administrative expenses	9.2	9.5	2.6	2.3
Amortization and depreciation on intangible assets and property, plant and equipment	3.5	4.5	0.9	1.8
Other	18.7	18.3	2.7	6.8
Operating expenses for the generation of rental income	**504.2**	**484.7**	**116.9**	**127.8**

Real estate operating expenses slightly increased to €267.8 million in 2008 as compared to €256.4 million in 2007. The increase is mainly due to the inclusion of acquisitions. The majority of these expenses are recoverable from tenants and include expenses such as heating, electricity, water and sewage.

Approximately 60 % or €301.6 million of the operating expenses for the generation of rental income of €504.2 million were charged back to our tenants in the form of recoverables in 2008.

Maintenance costs remained fairly stable in 2008 at €90.6 million, as compared to €88.4 million in 2007 despite a higher number of units. On a quarterly basis, maintenance costs decreased to €22.2 million in Q4 2008 from €28.8 million in Q4 2007. On a per square meter basis, we spent €8.33 in repairs and maintenance in 2008, compared to €8.23 in 2007.

External costs for real estate management include marketing expenses in connection with GAGFAH's lease-up activities.

Bad debt allowances decreased to €11.9 million in 2008 from €12.5 million in 2007 due to an improved rent collection process.

Other operating expenses for the generation of rental income remained on previous year's level with €18.7 million.

PROFIT FROM THE LEASING OF INVESTMENT PROPERTY

The profit from the leasing of investment property rose by 7.3 % in 2008 compared to the previous year. The result from the leasing of investment property is computed as follows:

€ MILLION	2008	2007	Q4 2008	Q4 2007
Income from the leasing of investment property	979.3	927.8	237.5	229.1
Transferable leasehold land interest	– 2.1	– 2.1	– 0.5	– 0.5
Operating expenses for the generation of rental income	– 504.2	– 484.7	– 116.9	– 127.8
Profit from the leasing of investment property	**473.0**	**441.0**	**120.1**	**100.8**

The strong increase in the profit from the leasing of investment property is mainly a result of a 6.4 % increase in rental income. Our operating expenses increased at a lower rate of 4.0 %. 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.

SALE OF INVESTMENT PROPERTY

In 2008, we sold 4,777 units at a margin of 33 % as compared to 2,438 units at a margin of 22 % in 2007. The sold units represent approximately 2.8 % of our total portfolio.

The result from the sale of investment property is the excess of income from the sale of investment property over the carrying amount of the investment property sold. In 2008, profit from the sale of investment property was €58.8 million compared to a profit of €56.3 million in 2007 and thus increased by 4.4 %. Recognizing disposition costs, such as external broker fees, capital expenditures (capex) (pro rata) and marketing costs, net profit from sales is as follows:

€ MILLION	2008	2007	Q4 2008	Q4 2007
Privatized units	4,777	2,438	2,783	1,281
Privatized sqm	282,284	162,840	162,997	83,432

	Q4 2008 € Million	2008 € Million	2008 € per unit	2008 € per sqm
Gross disposition proceeds	97.5	206.0	43,123	730
Book value [1]	– 69.5	– 137.3	– 28,742	– 486
Disposition costs [2]	– 5.5	– 17.2	– 3,601	– 61
Net profit	**22.5**	**51.5**	**10,780**	**183**
Net profit margin	**30 %**		**33 %**	

[1] Net of revaluation gains.
[2] Includes sales related costs such as external broker fees, capex (pro rata), marketing costs, personnel costs and G&A.

LOSS/PROFIT FROM FAIR VALUE MEASUREMENT

As of December 31, 2008, our IAS 40 valuations for the investment properties indicated a net loss from fair value measurement of €233.0 million over the values of our investment properties as of December 31, 2007.

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, an exit value is calculated.

The cash flows for the detailed planning period are discounted with a weighted average discount rate of 5.45 % (prior year: 5.18 %), 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. The valuation impact from the higher discount rate was partly compensated by increased cash flows from higher rental income resulting from rent increases, lower vacancy and modernizations.

Given the large and diverse nature of our portfolio, our aim is to verify the value of each of our investment properties by an independent third party appraiser on a rolling basis over a period of four years. In 2008 CB Richard Ellis GmbH confirmed the values of 31 % of GAGFAH's portfolio.

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

€ MILLION	2008	2007	Q4 2008	Q4 2007
Income from the sale of commercial real estate and property development	24.8	76.9	1.6	14.6
Carrying amount of commercial real estate and property development sold	– 25.7	– 61.5	– 0.6	– 6.6
Loss/profit from the sale of commercial real estate and property development	**– 0.9**	**15.4**	**1.0**	**8.0**
Profit from other services	0.0	0.8	0.1	0.0
Selling expenses (excluding share-based remuneration)	– 0.5	– 2.5	– 0.1	– 0.7
Other operating income	2.1	3.7	1.0	0.1
Other operating expenses	– 11.6	– 12.5	– 3.7	– 2.5
Loss/profit before interest and taxes (EBIT)	**– 10.9**	**4.9**	**– 1.7**	**4.9**
Net interest expenses	– 2.5	– 6.6	– 0.6	– 1.1
Net loss/profit	**– 13.4**	**– 1.7**	**– 2.3**	**3.8**

In 2005, it was decided to discontinue and sell the commercial real estate and property construction/development business. In accordance with IFRS 5 the results from both operations were presented as "Profit/loss from discontinued operations before taxes" in one condensed line in the income statements in 2005 and 2006. In 2007, it became evident that the liquidation of these businesses would 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 and 2008.

OTHER INCOME AND EXPENSE ITEMS

Other income and expense items for our Group decreased substantially by 24.6 % to a net expense of €58.0 million in 2008 compared to €76.9 million in 2007.

Profit from other services contains revenues from non-core activities, such as caretaker services for third parties and brokerage of insurance policies. With €4.9 million in 2008, previous year's level of €4.6 million was slightly exceeded.

Selling expenses consist of personnel costs, marketing expenses and costs for external brokers, mainly for our sales business. In 2008, selling expenses decreased by 30.6 % to €15.0 million from €21.6 million in 2007 and by 39.2 % to €4.5 million in Q4 2008 from €7.4 million in Q4 2007. The decrease is basically related to a shift from external to internal brokers and the increased number of multifamily house sales.

General and administrative expenses mainly consist of personnel costs, IT-costs, consulting fees, depreciation and office costs. In 2008, general and administrative expenses decreased by 27.9 % to €41.1 million from €57.0 million in 2007. In 2007, an extraordinary write-down on our headquarter building of €5.1 million and higher consulting fees impacted this cost item. With the successful implementation of a reorganization program, we were able to reduce personnel costs by €5.0 million in 2008 compared to 2007. On a quarterly basis, general and administrative expenses decreased by 43.9 % to €9.2 million in Q4 2008 from €16.4 million in Q4 2007.

Expenses for share-based remuneration related mainly to option programs for GAGFAH management in 2007. The increase in 2008 is mainly related to new commitments.

In 2008, the other operating income was positively impacted by the sale of Media Home GmbH & Co. KG and Media Home Verwaltungs GmbH, amounting to an income of €8.9 million.

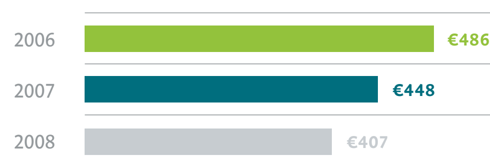
The other operating expenses consist of operating expenses for the commercial real estate and property development business of €11.6 million. Furthermore, €7.7 million relate to real estate transfer taxes in connection with a refinancing.

€ MILLION	2008	2007	Q4 2008	Q4 2007
Profit from other services	4.9	4.6	2.0	1.6
Selling expenses	– 15.0	– 21.6	– 4.5	– 7.4
General and administrative expenses	– 41.1	– 57.0	– 9.2	– 16.4
Expenses for share-based remuneration	– 3.5	– 2.1	– 0.7	0.2
Other operating income	24.3	21.4	12.3	10.6
Other operating expenses	– 27.6	– 22.2	– 11.3	1.4
Total	**– 58.0**	**– 76.9**	**– 11.4**	**– 10.0**

MANAGEMENT COSTS PER UNIT

As a result of our reorganization activities, we were able to reduce our management costs per unit to €407 in 2008, down from €448 per unit in 2007. Our costs to manage include all costs associated with the management of units.

MANAGEMENT COSTS PER UNIT



EARNINGS BEFORE INTEREST AND TAXES (EBIT)

In 2008, our EBIT was €216.6 million as compared to €1,397.7 million in 2007. Excluding revaluation gains/losses, EBIT increased by 8.7 % to €449.6 million in 2008 from €413.5 million in 2007.

REORGANIZATION AND RESTRUCTURING EXPENSES

Reorganization and restructuring expenses relate to our Group's rationalization of costs and integration of processes as we continue to combine and optimize the operations of the acquired companies and portfolios as well as our existing operations. In 2008, reorganization and restructuring expenses were €22.8 million, as compared to €22.4 million in 2007. The main part of the reorganization and restructuring costs related to severance payments and related provisions as well as related consulting fees.

NET FINANCING EXPENSES

Net financing expenses are the sum of interest expenses on borrowings and the cost of refinancing of our Group's indebtedness, reduced by interest income and the loss/profit from the fair value measurement of derivatives. Net financing expenses increased from €274.9 million in 2007 to €336.1 million in 2008 mainly due to the financing of new acquisitions and the fair value measurement of derivatives.

INCOME TAXES

Income taxes of €14.5 million were compensated by deferred tax assets on tax loss carry forwards totaling € 189.8 million and other deferred tax assets and liabilities of € – 9.7 million. Therefore, total income taxes amounted to € 165.6 million in 2008.

NET PROFIT

In 2008, we had a net profit of €46.1 million compared to €588.9 million in 2007. Net profit before revaluation gains/losses was €132.3 million (calculated as net profit of €46.1 million plus €233.0 million loss from fair value measurement of our investment property and plus €33.3 million loss from the fair value measurement of derivatives less €180.1 million deferred taxes) in 2008 and €115.9 million in 2007.

NET ASSET VALUE

NAV per share slightly decreased to €13.72 at the end of 2008 as compared to €14.25 at the end of 2007.

€ MILLION	12-31-2008	12-31-2007
Shareholders' equity	2,628.2	2,765.2
Deferred taxes on investment properties	469.5	448.6
NAV	3,097.7	3,213.8
NAV per share (€)	13.72	14.25

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	2008	2007	Q4 2008	Q4 2007
EBIT	216.6	1,397.7	– 93.8	438.9
Reorganization and restructuring expenses	22.8	22.4	3.0	5.8
Depreciation and amortization	9.8	14.0	4.9	9.2
EBITDA	**249.2**	**1,434.1**	**– 85.9**	**453.9**

STABLE 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 an appropriate measure of underlying operating performance of real estate companies as it provides shareholders with information regarding the Group's ability to service debt, make capital expenditures or pay dividends.

FFO is computed as EBITDA net of the profit from measurement of the investment properties at fair value, realized valuation gains through sales, interest income and expenses, tax expenses and other non-recurring items, such as share-based remuneration, others and commercial real estate/property development. The following is a reconciliation of EBITDA to FFO for 2008 and 2007 for our Group:

€ MILLION	2008	2007	Q4 2008	Q4 2007
EBITDA	**249.2**	**1,434.1**	**-85.9**	**453.9**
Results from fair value measurement	233.0	– 984.2	223.0	– 330.5
Realized valuation gains through sales	9.9	6.9	5.2	6.2
Share-based remuneration	3.5	2.1	0.7	– 0.2
Net interest expenses (periodical)	– 296.9	– 263.5	– 74.4	– 70.4
Tax expenses[1)]	– 14.5	– 13.4	– 9.0	5.8
Commercial real estate/property development	13.4	1.2	2.3	– 4.2
Others	2.6	2.6	– 3.2	2.2
FFO	**200.2**	**185.8**	**58.7**	**62.8**

[1)] FFO recognizes income taxes as accrued.

Financial Position

GROUP CAPITALIZATION

As of December 31, 2008 and 2007, the Group's equity and liabilities were as follows:

	12-31-2008 € MILLION	12-31-2008 %
Equity	2,733.6	26.4
Financial liabilities	6,732.5	65.2
Other liabilities	865.4	8.4
Total equity and liabilities	**10,331.5**	**100.0**

	12-31-2007 € MILLION	12-31-2007 %
Equity	2,867.2	27.0
Financial liabilities	6,649.1	62.6
Other liabilities	1,105.3	10.4
Total equity and liabilities	**10,621.6**	**100.0**

Our general strategy is to minimize the effects of short-term fluctuations in interest rates on our financing costs by making use of long-term financing and locking in fixed rates. Thus, our financial liabilities with a notional amount of €6,794.5 million show an average maturity until 2015.

Financial liabilities total €6,732.5 million (prior year: €6,649.1 million). Of this, €6,644.1 million (prior year: €6,557.3 million) relates to non-current liabilities and €88.4 million (prior year: €91.8 million) to current liabilities, consisting mainly of accrued interest.

Liabilities to banks total €6,677.8 million (prior year: €6,590.2 million) and mainly relate to liabilities from the financing of investment properties.

In order to reduce 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 Section H.2. "Financial Risk Management".

The Group was able to meet its payment obligations at all times. The full cash flow statement for the fiscal year 2008 is described in the Notes.

As of December 31, 2008, the Group's financial liabilities primarily comprised of the following long-term debt liabilities:

	Notional amount as of 12-31-2008	Weighted average maturity[1]	Effective interest rate	Fixed or floating rate
Term loans	5,614.9	2013	3.9628 %	Fixed
Term loans	322.5	2012	6.1393 %	Floating[2]
Senior debt	538.9	2034	2.4200 %	Fixed
Revolving credit facility	289.0	2010	5.2622 %	Floating[2]
NILEG other[3]	29.2	2010	4.0773 %	Floating
	6,794.5			

[1] For detailed debt maturities, please refer to pages 100 and 101 of this report.
[2] In order to reduce the risk of interest rate fluctuations during the lifetime of the loans, we have predominantly hedged the interest rate cost of the loans through interest rate swaps.
[3] Relates mainly to land developments pre-sold to local municipalities.

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

Net Assets

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

€ MILLION	12-31-2008	12-31-2007
Non-current assets	9,863.9	10,103.5
Current assets	462.3	510.0
Assets held for sale	5.3	8.1
Total assets	**10,331.5**	**10,621.6**
Equity	2,733.6	2,867.2
Non-current liabilities	7,254.9	7,374.5
Current liabilities	343.0	379.9
Total equity and liabilities	**10,331.5**	**10,621.6**

Non-current assets amount to €9,863.9 million of which 99.0 % relate to investment property of €9,774.1 million and 0.4 % to property, plant and equipment of €43.0 million. Non-current assets make up 95.5 % of total assets (€10,331.5 million).

Current assets amount to €462.3 million, of which 12.7 % is comprised of inventories of €58.8 million and 38.2 % is cash and cash equivalents (€176.4 million).

Non-current liabilities of €7,254.9 million as of the balance sheet date were mainly comprised of financial liabilities of €6,644.1 million and deferred tax liabilities of €273.6 million. Non-current provisions of €129.8 million had been recognized as of the balance sheet date, of which €106.9 million relate to pension obligations.

EVENTS AFTER THE BALANCE SHEET DATE

NEW ACQUISITIONS

Since January 1, 2009, no further acquisitions have been signed.

SENIOR MANAGEMENT

William Joseph Brennan was appointed Chief Operations Officer on January 1, 2009.

On March 20, 2009, the supervisory board of GAGFAH GmbH and GAGFAH M Immobilien Management GmbH resolved to appoint William Joseph Brennan to succeed Burkhard U. Drescher as Chief Executive Officer (i. e. Chairman of the Management Board of GAGFAH GmbH and of the German GAGFAH Group) beginning August 1, 2009, when Mr Drescher's contract and office will have expired. Mr. Drescher will continue to be responsible for the management of the operating subsidiaries and remain Chairman of the Management Board of GAGFAH GmbH and of the GAGFAH Group through July 31, 2009. At that same supervisory board meeting, Mr. Brennan stepped down as COO and was appointed Deputy CEO. In replacement, Nicolai Kuss has been appointed COO (Chief Operations Officer) of GAGFAH S.A.'S operating subsidiaries on March 20, 2009. Furthermore, Rainer Seifert has been withdrawn from the Management Board of GAGFAH GmbH and GAGFAH M Immobilien Management GmbH on March 20, 2009, his contract will expire on April 30, 2009.

PUT-OPTION FOR BAUGESELLSCHAFT FRANKENTHAL GMBH

The senior management of GAGFAH Group resolved to exercise the put option for Baugesellschaft Frankenthal GmbH on January 7, 2009.

The Net Asset Value (NAV) of Baugesellschaft Frankenthal GmbH amounted to €6.4 million as of December 31, 2008.

We expect a single-figure million euro non-cash loss due to the deconsolidation of Baugesellschaft Frankenthal GmbH.

CLOSE-OUT OF DERIVATIVE FINANCIAL INSTRUMENTS

In February 2009, the GAGFAH Group closed out interest rate swaps, mainly related to our revolving credit facility, with a total notional amount of €275.0 million.

For the aforementioned close-out, an amount of €24.3 million was paid in February 2009.

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 30 to 32 of this report.
b) There are no restrictions on the transfer of securities in the articles of the company.
c) Information regarding section c) of the law (significant direct and indirect shareholdings) can be found on page 12 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) are as follows: 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 General 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 of Shareholders.
i) Information regarding section i) of the law (issue and buy-back of shares and powers of the Board of Directors) are as follows: GAGFAH S.A. has a total authorized share capital of approximately €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 20 % of the issued share capital from time to time.
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 if their employment ceases because of a takeover bid.

Outlook

We believe that our financial prospects remain robust based on the stable characteristics of our residential property portfolio and continued improvements in the performance of our existing portfolio. 4 % of GAGFAH debt will mature in late September 2010 and 91 % of the Company's debt matures in 2013 and beyond.

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 forecast results or stated expectations, including the risk that GAGFAH S.A. will be unable to increase rents, sell or privatize further units or further reduce management costs.

Luxembourg, March 24, 2009

The Board of Directors of GAGFAH S.A.

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Consolidated Balance Sheet

December 31, 2008

ASSETS

€ MILLION	Notes	12-31-2008	12-31-2007
Non-current assets			
Intangible assets	E.1.	27.9	32.3
Investment property	E.2.	9,774.1	9,795.2
Prepayments for investment properties	E.2.	0.0	202.6
Property, plant and equipment	E.3.	43.0	55.0
Other financial assets	E.4.	3.7	9.8
Other assets	E.7.	5.3	4.8
Deferred tax assets	E.9.	9.9	3.8
		9,863.9	**10,103.5**
Current assets			
Inventories	E.5.	58.8	84.5
Financial receivables and other financial assets	E.4.	1.8	1.2
Receivables	E.6.	182.6	183.2
Other assets	E.7.	26.0	22.7
Securities		0.0	0.5
Current tax claims	E.8.	16.7	12.3
Bank balances and cash on hand	E.10.	176.4	205.6
		462.3	**510.0**
Assets held for sale	**E.11.**	**5.3**	**8.1**
Total assets		**10,331.5**	**10,621.6**

EQUITY AND LIABILITIES

€ MILLION	Notes	12-31-2008	12-31-2007
Equity	**E.12.**		
Subscribed capital		282.1	281.9
Share premium		1,540.7	1,537.5
Legal reserve		28.2	28.2
Revenue reserves		777.2	917.6
Equity attributable to the shareholders of the parent company		**2,628.2**	**2,765.2**
Minority interests		105.4	102.0
Total equity		**2,733.6**	**2,867.2**
Liabilities			
Non-current liabilities			
Liabilities to minority shareholders	E.13.	4.1	13.1
Pension provisions	E.14.1.	106.9	106.5
Other provisions	E.14.2.	22.9	26.7
Liabilities from income tax	E.15.	101.9	112.9
Deferred tax liabilities	E.9.	273.6	448.6
Financial liabilities	E.16.1.	6,644.1	6,557.3
Other liabilities		4.4	5.9
Deferred liabilities of government-granted loans		97.0	103.5
		7,254.9	**7,374.5**
Current liabilities			
Pension provisions	E.14.1.	6.5	6.4
Other provisions	E.14.2.	50.7	60.1
Liabilities from income tax	E.15.	39.6	43.1
Financial liabilities	E.16.1.	88.4	91.8
Other liabilities	E.16.2.	152.8	172.7
Deferred liabilities of government-granted loans		5.0	5.8
		343.0	**379.9**
Total liabilities		**7,597.9**	**7,754.4**
Total equity and liabilities		**10,331.5**	**10,621.6**

Consolidated Income Statement

for the period from January 1 to December 31, 2008

€ MILLION	Notes	2008	2007
Income from the leasing of investment property	F.1.	979.3	927.8
Transferable leasehold land interest		– 2.1	– 2.1
Operating expenses for the generation of rental income (excluding share-based remuneration)	F.2.	– 504.2	– 484.7
Profit from the leasing of investment property		**473.0**	**441.0**
Income from the sale of investment property		206.0	202.7
Carrying amount of investment property sold		– 147.2	– 146.4
Profit from the sale of investment property		**58.8**	**56.3**
Loss/profit from fair value measurement	**F.3.**	**– 233.0**	**984.2**
Income from the sale of commercial real estate and property development		24.8	76.9
Carrying amount of commercial real estate and property development sold		– 25.7	– 61.5
Loss/profit from the sale of commercial real estate and property development	**F.4.**	**– 0.9**	**15.4**
Profit from other services	F.5.	4.9	4.6
Selling expenses (excluding share-based remuneration)	F.6.	– 15.0	– 21.6
General and administrative expenses (excluding share-based remuneration)	F.7.	– 41.1	– 57.0
Expenses for share-based remuneration	F.8.	– 3.5	– 2.1
Other operating income	F.9.	24.3	21.4
Other operating expenses	F.10.	– 27.6	– 22.2
Profit from operations before reorganization and restructuring expenses		**239.9**	**1,420.0**
Reorganization and restructuring expenses	F.11.	– 22.8	– 22.4
Profit from operations		**217.1**	**1,397.6**
Loss/profit from other financial assets		– 0.5	0.1
Earnings before interest and taxes (EBIT)		**216.6**	**1,397.7**
Interest expenses (periodical)	F.12.	– 309.1	– 278.5
Other financial expenses		– 1.6	– 0.6
Interest income (periodical)		12.2	15.0
Loss/profit from the fair value measurement of derivatives	F.12.	– 33.3	9.3
Interest expenses (refinancing)		– 4.3	– 20.1
Loss/profit before taxes (EBT)		**– 119.5**	**1,122.8**
Income taxes (excluding EK 02)	F.13.	165.6	– 405.7
Increase in corporate income tax based on the remaining EK 02	F.13.	0.0	– 128.2
Net profit		**46.1**	**588.9**
Thereof attributable to:			
Minority interests	F.14.	4.9	25.0
Shareholders of the parent company		41.2	563.9
Weighted average number of shares (undiluted)		225,630,258	225,520,560
Weighted average number of shares (diluted)		226,216,407	226,164,589
Earnings per share (in €)	F.15.	0.18	2.50
Diluted earnings per share (in €)	F.15.	0.18	2.49

Consolidated Cash Flow Statement [1)]

for the period from January 1 to December 31, 2008

€ MILLION	2008	2007
Net profit	46.1	588.9
Change in the value of investment property	233.0	– 984.2
Amortization, depreciation and impairment losses on intangible assets and property, plant and equipment	9.8	14.3
Gains on the disposal of property, plant and equipment	– 0.1	– 0.1
Gains on the disposal of investment property	– 58.8	– 56.3
Gains on the sale of subsidiaries	– 8.7	0.0
Other non-cash income/expenses	76.0	37.7
Change in provisions, pension provisions and deferred liabilities of government-granted loans	– 25.0	– 29.3
Change in deferred taxes	– 180.1	392.3
Change in working capital	– 10.9	187.6
Cash flows from operating activities [2)]	**81.3**	**150.9**
Cash received from the sale of investment property	207.0	167.2
Cash paid for investment property – reinvestment	– 88.6	– 129.7
	199.7	**188.4**
Cash paid for investment property – acquisition and modernization	– 76.3	– 622.0
Cash paid for investments in property, plant and equipment	– 3.2	– 8.2
Cash received from disposals of property, plant and equipment	0.2	0.4
Cash received from the sale of commercial real estate	0.0	24.7
Cash received from the sale of other financial assets	0.4	77.2
Cash received from the sale of subsidiaries	16.7	0.0
Cash paid for the acquisition of subsidiaries and minority shares in subsidiaries	– 19.5	– 342.5
Cash flows from investing activities	**36.7**	**– 832.9**
Cash paid to stockholders of GAGFAH S.A.	– 180.5	– 166.9
Cash paid to minority interests	– 2.1	– 0.9
Cash paid for liabilities to minority shareholders	– 1.5	– 1.5
Cash received from raising financial liabilities	147.4	1,862.7
Cash repayments of financial liabilities	– 104.1	– 1,157.6
Interest and cost paid for refinancing	– 6.9	– 18.2
Cash flows from financing activities	**– 147.7**	**517.6**
Change in cash and cash equivalents	**– 29.7**	**– 164.4**
Bank balances, cash on hand and securities at the beginning of the year	206.1	370.5
Bank balances, cash on hand and securities	**176.4**	**206.1**

[1)] For further information, please refer to section G.

[2)] Operating cash flow includes taxes paid of €31.5 million (prior year: €5.1 million), interests paid of €283.4 million (prior year: €239.7 million) and interests received of €10.2 million (prior year: €14.6 million).

Statement of Changes in Consolidated Equity [1)]

€ MILLION	Subscribed capital	Share premium	Legal reserve	Revenue reserves: Unrealized gains/losses from derivative financial instruments	Revenue reserves: Retained earnings	Equity attributable to the shareholders of the parent company	Minority interests	Total equity
January 1, 2008	**281.9**	**1,537.5**	**28.2**	**1.1**	**916.5**	**2,765.2**	**102.0**	**2,867.2**
Result from measurement of swaps	0.0	0.0	0.0	– 1.1	0.0	– 1.1	0.0	– 1.1
Total income and expenses for the year recognized directly in equity	**0.0**	**0.0**	**0.0**	**– 1.1**	**0.0**	**– 1.1**	**0.0**	**– 1.1**
Net profit	0.0	0.0	0.0	0.0	41.2	41.2	4.9	46.1
Total income and expenses for the year	**0.0**	**0.0**	**0.0**	**– 1.1**	**41.2**	**40.1**	**4.9**	**45.0**
Share-based remuneration	0.2	3.2	0.0	0.0	0.0	3.4	0.0	3.4
Change in shareholdings and the consolidated Group	0.0	0.0	0.0	0.0	0.0	0.0	0.6	0.6
Dividends	0.0	0.0	0.0	0.0	– 180.5	– 180.5	– 2.1	– 182.6
December 31, 2008	**282.1**	**1,540.7**	**28.2**	**0.0**	**777.2**	**2,628.2**	**105.4**	**2,733.6**
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**
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**

1) For further information, please refer to section E.12.

Notes

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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 Société 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 and management 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 related commercial properties were sold in 2007, while the property construction/development business will be closed down over time. However, GAGFAH's operating subsidiaries will continue to own commercial real estate which it deems to be part of its core business, such as ground floor retail.

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. 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, 2008.

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, 2008, were formally approved by the Board of Directors on March 24, 2009, and will be presented to the Annual General Meeting of the Shareholders for approval on April 21, 2009.

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 adopted the following new and amended IFRSs and IFRICs 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.

IAS 39 **Financial Instruments: Recognition and Measurement** was amended in connection with IFRS 7 **Financial Instruments: Disclosures** and was issued in October 2008. The amended standards become effective for financial years beginning on or after July 1, 2008. The amendments permit reclassification of some financial instruments out of the fair-value-through-profit-or-loss category and out of the available-for-sale category. In the event of reclassification, additional disclosures are required under IFRS 7. As GAGFAH S.A. did not exercise the right of reclassification, there was no impact on the Consolidated Financial Statement due to this amendment.

IFRIC 11 IFRS 2 Group and Treasury Share Transactions 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. This interpretation had no impact on the Group.

IFRIC 12 Service Concession Arrangements 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 was an operator and hence this interpretation had no impact on the Group.

IFRIC 13 Customer Loyalty Programs 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. As no such schemes currently exist, this interpretation had no impact on the Consolidated Financial Statements.

IFRIC 14 IAS 19 The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction 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. As all defined benefit schemes are currently in deficit this interpretation had no impact on the financial position or performance of the Group.

NEW ACCOUNTING STANDARDS ISSUED BUT NOT YET EFFECTIVE

In addition to the IFRSs, whose application is mandatory for fiscal year 2008, the International Accounting Standards Board (IASB) and the International Financial Reporting Interpretations Committee (IFRIC), respectively, have also published other IFRSs and IFRICs, which become effective at a later date and are explained below. Of those new Accounting Standards and Interpretations, the following IFRSs and IFRICs have already received European endorsement:

IFRS/IFRIC	Date of endorsement
Improvements to IFRSs	January 23, 2009
Amendments to IFRS 1 and IAS 27 Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate	January 23, 2009
Amendments to IAS 32 and IAS 1 Puttable Instruments and Obligations Arising on Liquidation	January 21, 2009
Amendments to IAS 1 Presentation of Financial Statements: A Revised Presentation	December 17, 2008
Amendments to IFRS 2 Share-Based Payment: Vesting Conditions and Cancellations	December 16, 2008
Amendments to IAS 23 Borrowing Costs	December 10, 2008
IFRS 8 Operating segments	November 21, 2007

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 as of December 31, 2008.

The amendments to **IFRS 1 First Time Adoption of International Financial Reporting Standards and IAS 27 Consolidated and Separate Financial Statements – Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate** allow first-time adopters, in their separate financial statements, to use a deemed cost option for determining the cost in accordance with IAS 27 of an investment in a subsidiary, jointly controlled entity or associate. Deemed cost is defined as the fair value at the entity's date of transition to IFRSs or the previous GAAP carrying amount at that date. The standard was issued in May 2008 and becomes effective for financial years beginning on or after January 1, 2009. The new requirements affect only a parent's separate financial statements and do not have an impact on the Consolidated Financial Statements due to this standard.

The amendment to **IFRS 2 Share-based Payment – Vesting conditions and cancellations** was issued in January 2008 and becomes effective for financial years beginning on or after January 1, 2009. The standard clarifies that vesting conditions are service conditions and performance conditions only. Other features of a share-based payment are not vesting conditions. It also specifies that all cancellations, whether by the entity or by other parties, should receive the same accounting treatment. GAGFAH S.A. does not expect a material impact on the Consolidated Financial Statements.

The revised **IFRS 3 Business Combinations** was issued in January 2008 in connection with **IAS 27 Consolidated and Separate Financial Statements** and becomes effective for financial years beginning on or after July 1, 2009. The revised standard is the result of a joint project with the US Financial Accounting Standards Board. The main changes comprise e. g. the recognition of acquisition-related costs, the treatment of step acquisitions and the measurement of goodwill and non-controlling interests and will therefore have impacts for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after July 1, 2009. In the case of GAGFAH Group it is January 1, 2010.

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, especially whether it will have one or two statements of comprehensive income. IAS 1 was also subject to an annual improvement. The amended standard was issued in May 2008 and becomes effective for financial years beginning on or after January 1, 2009. It states that assets and liabilities classified as held for trading in accordance with **IAS 39 Financial Instruments: Recognition and Measurement** are not automatically classified as current in the balance sheet. The amendment does not have any impact on the disclosure of the financial instruments used by the GAGFAH Group.

IAS 20 **Government Grants** was subject to an annual improvement. The amended standard was issued in May 2008 and becomes effective for financial years beginning on or after January 1, 2009. It states that loans granted in the future with no or low interest rates will not be exempt from the requirement to impute interest. The difference between the amount received and the discounted amount is accounted for as government grant. GAGFAH S.A. does not expect a material impact on the Consolidated Financial Statements due to this amendment.

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.

The amended **IAS 27 Consolidated and Separate Financial Statements** was issued in January and May 2008 in connection with **IFRS 3 Business Combinations** and becomes effective for financial years beginning on or after July 1, 2009. The amendments deal with increases or decreases in a parent's ownership interest that do not result in a loss of control, attributions of acquired entity's losses to non-controlling interest and loss of control of a subsidiary. The Group already accounts changes in ownership interests of a subsidiary (without loss of control) as equity transactions as required by the amended standard.

The amendments to IAS 32 Financial Instruments: Presentation and IAS 1 Presentation of Financial Statements – Puttable Financial Instruments and Obligations Arising on Liquidation were issued in February 2008. The amended standards become effective for financial years beginning on or after January 1, 2009. The amended standards apply to balance sheet classification of puttable financial instruments and obligations arising only on liquidation. As a result of the amendments, some financial instruments that currently meet the definition of a financial liability will be classified as equity because they represent the residual interest in the net assets of the entity. The amendment will not change the accounting for puttable minority interests in the Consolidated Financial Statements. GAGFAH S.A. does not expect any impact on the Consolidated Financial Statements due to this amendment.

IAS 39 Financial Instruments: Recognition and Measurement – Eligible Hedged Items. These amendments to IAS 39 were issued in August 2008 and become effective for financial years beginning on or after July 1, 2009. The amendments address the designation of a one-sided risk in a hedged item, and the designation of inflation as a hedged risk or portion in particular situations. It clarifies that an entity is permitted to designate a portion of the fair value changes or cash flow variability of a financial instrument as a hedged item. GAGFAH S.A. has concluded that the amendment will have no impact on the Consolidated Financial Statements.

IAS 40 Investment Property was subject to an annual improvement. The amended standard was issued in May 2008 and becomes effective for financial years beginning on or after January 1, 2009. It states that investment property under construction is treated in accordance with IAS 40 and not IAS 16. GAGFAH S.A. does not expect a material impact on the Consolidated Financial Statements due to this amendment.

In May 2008, the IASB published "**Improvements to IFRSs**", an omnibus standard of amendments to its standards, primarily with a view to removing inconsistencies and clarifying wording. There are separate transitional provisions for each standard and unless otherwise specified the amendments are effective for annual periods beginning on or after January 1, 2009. In addition to the already described amendments to IAS 1, IAS 40 and IAS 20, the omnibus standard contains the following amendments:

- IFRS 5 – Plan to sell the controlling interest in a subsidiary
- IAS 16 – Recoverable amount; Sale of assets held for rental
- IAS 19 – Curtailments and negative past service costs; Plan administration costs; Replacement of term 'fall due'; Guidance on contingent liabilities
- IAS 23 – Components of borrowing costs
- IAS 27 – Measurement of subsidiary held for sale in separate financial statements
- IAS 28 – Required disclosures when investments in associates are accounted for at fair value through profit or loss; Impairment of investment in associate
- IAS 29 – Description of measurement basis in financial statements
- IAS 31 – Required disclosures when investments in jointly controlled entities are accounted for at fair value through profit or loss
- IAS 36 – Disclosure of estimates used to determine recoverable amount
- IAS 38 – Advertising and promotional activities; Unit of production method of amortisation
- IAS 39 – Reclassification of derivatives into or out of the classification of at fair value through profit or loss; Designation and documentation of hedges at the segment level; Applicable effective interest rate on cessation of fair value hedge accounting
- IAS 41 – Discount rate for fair value calculations; Additional biological transformations

GAGFAH S.A. has concluded that the amendments will have no material impact on the Consolidated Financial Statements.

IFRIC 15 Agreements for the Construction of Real Estate was issued in July 2008 and becomes effective for financial years beginning on or after January 1, 2009. The Interpretation deals with the question whether the developer is selling a product (goods) – the completed apartment or house – or is selling a service – a construction service as a contractor engaged by the buyer. Revenue from selling products is normally recognized at delivery (IAS 18). Revenue from selling services is normally recognized on a percentage-of-completion basis as construction progresses (IAS 11). Since GAGFAH S.A. decided to discontinue the business segment "Property construction/development", the interpretation will have no impact on the Group.

IFRIC 16 Hedges of a Net Investment in a Foreign Operation was issued in July 2008 and becomes effective for financial years beginning on or after October 1, 2008. This Interpretation clarifies the application of hedge accounting in accordance with IAS 39 with respect to a hedge of a foreign currency risk arising from net investments in foreign operations. As the Group is currently not exposed to exchange rate risks, the interpretation will have no impact.

IFRIC 17 Distributions of Non-cash Assets to Owners was issued in November 2008 and becomes effective for annual periods beginning on or after July 1, 2009. The Interpretation clarifies how an entity should measure distributions of assets other than cash when it pays dividends to its owners. GAGFAH S.A. has concluded that the interpretation will have no impact on the Consolidated Financial Statements.

IFRIC 18 Transfers of Assets from Customers was issued in January 2009 and becomes effective for the transfers of assets from customers received on or after July 1, 2009. The Interpretation clarifies the accounting for transfers of items of property, plant and equipment by entities that receive such transfers from their customers. GAGFAH S.A. has concluded that the interpretation will have no impact on the Consolidated Financial Statements.

B. Consolidated Group and Consolidation Principles

1. Consolidated Group

In total, 60 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 (No. 7 and No. 69 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.

Compared to prior year the number of subsidiaries has changed as follows:

	Number of subsidiaries
As of January 1, 2008	**93**
Formations	1
Sales	– 3
Upstream Mergers	– 11
As of December 31, 2008	**80**

The composition of the GAGFAH S.A. Group as well as further information about upstream mergers and changes of corporate form and name are presented in the list of shareholdings attached as Exhibit (1).

COMPANY FORMATIONS AND SALES IN 2008

Formation of GAGFAH Verwaltung GmbH

GAGFAH Verwaltung GmbH was founded by GAGFAH Holding GmbH on July 2, 2008, and entered into the commercial register on September 1, 2008.

Sales in the Reporting Period

a) Subsidiaries

On July 2, 2008, GSW Wohnbau GmbH sold all of its shares in HaBeGe Bau- und Projektentwicklungsgesellschaft mbH to KALIRA Grundstücksgesellschaft mbH & Co. KG.

On August 12, 2008, GAGFAH M Immobilien Management GmbH (GAGFAH M) sold all of its shares in GSW Wohnbau GmbH to Mr. Dieter Schräpler and Mr. Ralf Werner Schräpler.

On December 30, 2008, GAGFAH M sold all of its shares in Media Home GmbH & Co. KG and Media Home Verwaltungs GmbH to Kronen tausend360 GmbH (the company was renamed into Versatel Media GmbH).

The sold net assets of Media Home GmbH & Co. KG/Media Home Verwaltungs GmbH (Media Home) and GSW Wohnbau GmbH (GSW) break down as follows:

€ MILLION	Media Home Dec. 30, 2008	GSW Aug. 12, 2008	Total
Property, Plant and Equipment	10.0	0.0	10.0
Inventories	0.0	0.8	0.8
Receivables and Other Assets	0.4	0.8	1.2
Bank Balances and Cash on Hand	0.6	0.0	0.6
Assets	**11.0**	**1.6**	**12.6**
Minority Interests	– 0.6	0.0	– 0.6
Other Provisions	0.3	0.8	1.1
Financial Liabilities	8.8	0.4	9.2
Other Liabilities	3.3	0.1	3.4
Liabilities	**11.8**	**1.3**	**13.1**
Fair Value of Net Assets	**– 0.8**	**0.3**	**– 0.5**
Cash inflows Due to Sale:			
Sales Price	8.9	0.1	9.0
Loans Taken-over	8.3	0.0	8.3
Cash and Cash Equivalents Disposed	– 0.6	0.0	– 0.6
Net cash inflow	**16.6**	**0.1**	**16.7**

b) Investments

NILEG Norddeutsche Immobiliengesellschaft mbH sold all of its shares in IDB Königsdamm GmbH & Co. KG in the first half of 2008.

Acquisition of GBH and Squeeze-Out GBH

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 was €48.00 per share. Upon request of GBH Acquisition GmbH, the shareholders' meeting of GBH AG on October 9, 2007, had resolved to squeeze out the remaining minority shareholders of GBH AG by transferring their shares to GBH Acquisition GmbH in exchange for granting the minority shareholders a compensation payment. As a result of several lawsuits, the compensation payment was determined to equal €61.50 per share.

In the course of March and April 2008 the squeeze out became valid and GBH Acquisition GmbH became the sole shareholder in GBH AG. Effective as of April 2, 2008, the listing of GBH AG at the stock exchange of Stuttgart was terminated.

Acquisition of Apellas Property Holding GmbH (APH)

Under the purchase agreement in the year of 2007, 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 net assets of GBH Group and APH, acquired in 2007, break down as follows:

	Amounts recognized at the acquisition date			Carrying amounts immediately before combination
€ MILLION	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**	

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, 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 net profit or loss in accordance with IAS 27.33.

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. 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. For proportionate consolidation, the same methods are generally applied as for the full consolidation of subsidiaries. Required consolidation entries for relationships with proportionately consolidated companies are performed in accordance with the respective share in equity. 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.

2.4. 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 to ten 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 favorable than the general estimation used in the valuation of the real estate. These cost advantages can result in an incremental value in use which justifies the goodwill for the underlying real estate.

In the case of a service provider without 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. The recoverable amount is the higher amount of the fair value in use and the fair value less costs to sell. 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. 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 value and the 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 straight lined and expensed over the term of the agreement. The tenants have a unilateral right to terminate 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.

3. Investment Property

A) RECOGNITION

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.

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.

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

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.

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.

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

B) VALUATION

Investment property is initially measured at cost plus any incidental purchase costs or transaction costs at the time of addition in accordance with IAS 40.20. In the subsequent annual accounts the portfolios are valued at their fair value. The valuation results are shown in the line "Profit/loss from fair value measurement" of the income statement.

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 and at each quarterly reporting date.

A certain part of the results of the internal valuation of the investment property portfolio undergoes an external review of fair value appraisals.

The internal property valuation of GAGFAH S.A. 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 and with market growth thereafter. After the detailed planning period of ten years, an exit value is calculated.

The valuation model of GAGFAH S.A. uses market-oriented figures where relevant (e. g. capitalization rate, administrative expenses, object-specific rates of cost increase).

The future cash flows and the discount rate therefore have the strongest influence on the value of the investment property.

Discount Rate

The discount rates used in the DCF model of GAGFAH's internal valuation are based on current transaction prices paid for residential property assets comparable to GAGFAH's property portfolio and reflect current developments in the German residential real estate market. An average discount rate is calculated which represents the market average for transactions in assets comparable to GAGFAH assets. Based on this average, property-specific asset-by-asset discount rates are derived by applying a discount or premium to the average depending on the risk assessment of the specific asset.

The assessment of the real estate risk is done on a property-by-property level and is the result of a scoring model developed by GAGFAH that takes into account the criteria of lease-up, property and location risk. The lease-up risk reflects the current occupancy situation, the vacancy rate, the fluctuation rate and the current tenant mix. The property risk is derived from the property structure as well as from the quality standard and the current building condition. The quality of the macro and micro location for assessing the location risk complete the assessment of the real estate risk.

Market-oriented figures

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

Depending on the prevailing market rent and the asset-specific rent adjustment options, the current in-place rent is forecast to reach the market level over time and grow in line with the market rent thereafter. The market rent grows on a property-by-property level and is assumed to range between 0.00 % and 1.50 % per year. The net in-place rent is calculated by subtracting collection losses due to vacancy as well as rent reductions. First, the current collection loss is applied. Over a period of three years it then develops into and is continued as a property-specific, sustainable collection loss rate.

The asset-specific directly allocable operating costs, such as repairs and maintenance and other operating costs are derived from the scoring model.

C) WELFARE CONDITIONS AND CONTRACTUAL OBLIGATIONS

Several direct and indirect subsidiaries of GAGFAH S.A. agreed in certain share and asset purchase agreements by which the property portfolio of the GAGFAH Group was acquired to comply with 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.

4. Property, Plant and Equipment

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

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	10 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 and the net selling price (please refer to section C.6. “Impairment of Items of Property, Plant and Equipment and Intangible Assets”). If the reasons for impairment cease to apply, the impairment is reversed in accordance with IAS 36.110.

5. 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 qualifying 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.

6. 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 have arisen 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.

7. 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, notary fees and swaps which have been subject to novation.

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.

In accounting for the acquisition of subsidiaries, acquisition cost was determined on the basis of the fair values of the loans as of the acquisition date. The difference between the 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 10 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.

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.

At present, GAGFAH Group makes no use of the hedge accounting option as described above.

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

8. 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 and net realizable value as of the balance sheet date in accordance with IAS 2.9. Net realizable value is the estimated selling price less all estimated costs of completion and marketing and selling expenses. 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.

9. Assets Held for Sale

Assets are classified as “held for sale” if the sale is highly probable and management has declared its intention to sell. At GAGFAH S.A., this presently 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.

10. Provisions for Pensions

GAGFAH S.A. offers its employees both defined benefit plans and defined contribution 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 GBH subgroup is involved in the pension scheme of the VBL and of a public corporation called “Kommunaler Versorgungsverband Baden-Württemberg” (hereinafter referred to as the “KVBW”).

The VBL and the KVBW constitute 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 and the KVBW do not make available sufficient information to permit treatment as a defined benefit plan.

The GAGFAH subgroup pays old-age pensions, early retirement pensions, invalidity pensions, widow's/widower's and orphan's pensions according to VO 2002. Payments to recipients are made if the requirements under the workplace agreement are fulfilled and if payments from the pension insurance are made. The above-mentioned criteria have to be proved by presentation of a notice of a German pension insurance institution and a professional pension fund respectively. The compliance with the waiting period, which in this case equals the legal vesting terms, is regarded as a general requirement.

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.

11. 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.

12. 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.

13. 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 and buildings** 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. or its subsidiaries;
- the amount of revenue can be measured reliably;
- it is sufficiently probable that the proceeds from the sale will flow to the entity;
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

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

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

14. 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.

15. Share-based Remuneration

Senior management of GAGFAH Group is entitled to an equity-settled remuneration plan based on the individual employment contracts. When 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. All other costs of this plan are measured by reference to the fair value at the date on which the shares were granted.

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.

The middle management of the Company's subsidiaries is entitled to a cash-settled remuneration plan based on a standardized additional agreement. The plan is running over three years starting on July 1, 2008. Costs of this plan are measured initially at fair value at the grant date. Subsequent measurement until the vesting date takes place by reference to the fair value at the respective balance sheet date.

The costs are recognized, together with the corresponding increase in liabilities, over the period in which the service conditions are fulfilled, ending on July 1, 2011. Changes in the provision are recognized in the income statement.

16. 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.

17. 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.

In the Consolidated Financial Statement for 2007 it was assumed that all material companies of the GAGFAH Group would be part of an overall tax group in 2008 by termination of profit and loss pooling agreements. Therefore no deferred tax assets on tax loss carry forwards were realized for companies which should enter into profit and loss pooling agreements because the tax loss carry forwards could not be used for the minimum time of five years.

Against the background of potential tax changes regarding the interest barrier rules, the restriction to use the tax loss carry forwards not during a five-year period was regarded as too extensive and it was decided in 2008 that no overall tax group should be established. As a result of this decision, deferred tax assets totalling €189.9 million on tax loss carry forwards could be realized.

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.

Currently there are considerable risks for the valuation of real estate due to the financial market crisis. The current crisis in the global financial system, and in particular the failure of major investment banks and the nationalisation of a number of US financial institutions that occurred in the week beginning September 15, 2008, combined with subsequent events, has created a significant degree of uncertainty in the European real restate market. In the immediate aftermath of these events and whilst the financial crisis continues there is a lack of clarity as to the market drivers. In this environment, it is possible that prices and values could go through a period of heightened volatility whilst the market absorbs the various issues and reaches its conclusions. The lack of liquidity in the capital markets could make it difficult to sell assets in the short-term.

The average discount rate of 5.61 % (prior year: 5.29 %) is derived from prices paid for assets comparable to the real estate portfolio of GAGFAH in Germany. For further information please refer to section E.2. "Investment Property and Prepayments for Investment Properties".

In real estate valuation a market value can only be securely and finally confirmed by the sale of such property. The insecurity lies especially in the assumptions for future cash flows and the discount rate.

A potential change in the discount rate by 10 basis points, for example, changes the total value of the GAGFAH Group portfolio by approximately €135 million.

Pensions were discounted at a rate of 5.59 %, compared to 5.40 % in 2007. A reference can be made to section E.14.1. "Provisions for pensions and similar obligations".

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.

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 to December 31, 2008

€ MILLION	Real estate management	Real estate sales	Commercial real estate/Property development	Group function/consolidation	Group 2008
Segment revenues	**979.3**	**206.0**	**24.8**	**0.0**	**1,210.1**
Segment results (EBITDA)	**478.6**	**43.8**	**– 11.0**	**– 29.2**	**482.2**
Loss/profit from fair value measurement	– 233.0	0.0	0.0	0.0	– 233.0
Segment depreciation	– 3.5	0.0	0.0	– 3.3	– 6.8
Impairment losses	– 3.0	0.0	0.0	0.0	– 3.0
EBIT (before reorganization and restructuring expenses)	**239.1**	**43.8**	**– 11.0**	**– 32.5**	**239.4**
Reorganization and restructuring expenses					– 22.8
EBIT					**216.6**
Financial result/interest expenses					– 336.1
Profit before taxes					– 119.5
Income taxes (excluding EK 02)					165.6
Increase in corporate income tax based on the remaining EK 02					0.0
Net profit					**46.1**
Segment assets	**9,797.4**	**163.9**	**61.8**	**308.4**	**10,331.5**
Segment liabilities	**47.6**	**4.3**	**15.8**	**7,530.2**	**7,597.9**
Segment investments (in investment property, property, plant and equipment or intangible assets)	164.9	0.0	0.0	3.2	168.1
Significant non-cash segment expenses	19.6	0.0	3.3	18.6	41.5

Group Segment Report

for the period from January 1 to December 31, 2007

€ MILLION	Real estate management	Real estate sales	Commercial real estate/Property development	Group function/ consolidation	Group 2007
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**
Loss/profit from fair value measurement	984.2	0.0	0.0	0.0	984.2
Segment depreciation	– 4.5	– 0.7	– 0.3	– 8.8	– 14.3
Impairment losses	0.0	0.0	0.0	0.0	0.0
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 expenses					– 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

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 €4.3 million (prior year: €5.7 million). The decrease in software licenses for user programs is mainly due to the depreciation of an operating system.

With the exception of the goodwills from the acquisitions of GAGFAH Pegasus GmbH (previously: Apellas Property Holding GmbH, "APH") of €21.5 million (prior year: €24.5 million) and NILEG subgroup of €2.1 million (prior year: €2.1 million) relating to the service provider VHB FM GmbH (previously: NILEG-Immobilienservice 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. "Intangible Assets".

€2.1 million was assigned to the service provider VHB FM GmbH (previously: NILEG-Immobilienservice GmbH). The takeover of caretaker services in the fiscal year resulted in an increase of earnings, which in turn confirmed the goodwill of the previous year's level.

€21.5 million was assigned to real estate in the regional division Berlin. The savings attainable in the regional division Berlin were discounted over 50 years at a weighted average cost of capital (WACC) of 4.60 %. This weighted discount rate of 4.60 % (prior year: 4.92 %) reflects management's estimate of the risks specific to the cash-generating unit.

These savings attainable in the regional division Berlin have slightly decreased compared to the prior year. As a direct consequence of this, the goodwill fell below its prior year amount by 12.2 %, resulting in an impairment loss of €3.0 million.

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:

€ MILLION	2008	2007
As of January 1	9,795.2	7,659.8
Changes to consolidated Group	0.0	743.1
Additions[1]	356.2	555.1
Disposals	– 139.4	– 143.7
Reclassifications	– 4.9	– 3.3
Changes in value	– 233.0	984.2
As of December 31	**9,774.1**	**9,795.2**

[1] Additions in 2008 include acquisitions of €202.6 million, which were recorded as prepayments in 2007.

The additions during the fiscal year 2008 mainly relate to the purchase of property portfolios in Berlin (€124.7 million; prior year: €140.4 million), Dresden (€99.2 million; prior year: €130.9 million), Hanover (€46.5 million; prior year: €86.1 million), Frankfurt a.M./Essen (€31.4 million; prior year: €53.9 million) and Hamburg (€3.6 million; prior year: €52.9 million).

The residual additions of €50.8 million (prior year: €90.9 million) relate to modernization programs.

For investment property that was vacant either for a short time within the fiscal year, due to tenant fluctuation, or during the entire fiscal year, refurbishment expenses of €24.3 million (prior year: €21.7 million) in connection with modernizations, which cannot be capitalized, were incurred.

The difference between the disposals shown in the development of the real estate portfolio (€139.4 million) and the disposals as per consolidated income statement (€147.2 million) mainly results from the disposal of assets held for sale (€ 8.1 million).

Investment property by region breaks down as follows:

	2008			
	Units [1]	Rental Area [2] (sqm)	Fully-let Rent annualized (€ Million)	Fair Value (€ Million)
Regional division Berlin	33,026	1,928,885	112	1,547.5
Regional division Hamburg	22,363	1,335,880	84	1,258.9
Regional division Hanover	28,726	1,781,639	105	1,458.2
Regional division Dresden	51,200	3,136,142	169	2,279.9
Regional division Frankfurt a.M.	25,034	1,461,084	103	1,453.7
Regional division Essen	30,893	2,004,138	124	1,775.9
Total	**191,242**	**11,647,768**	**697**	**9,774.1**

[1] Garages and other units are regarded as 1/6 residential unit.
[2] For the garages no rental area is included.

	2007			
	Units [1]	Rental Area [2] (sqm)	Fully-let Rent annualized (€ Million)	Fair Value (€ Million)
Regional division Berlin	32,540	1,896,094	106	1,494.1
Regional division Hamburg	22,436	1,349,848	83	1,255.8
Regional division Hanover	28,173	1,740,387	101	1,492.0
Regional division Dresden	51,434	3,151,625	164	2,230.4
Regional division Frankfurt a.M.	24,931	1,451,487	101	1.551,9
Regional division Essen	31,000	2,042,457	123	1,771.0
Total	**190,514**	**11,631,898**	**678**	**9.795,2**

[1] Garages and other units are regarded as 1/6 residential unit.
[2] For the garages no rental area is included.

Within the first three months of 2009, GAGFAH Group will achieve minimum leasing payments of approximately €151.3 million (prior year: €149.4 million) from the present real estate portfolio and the existing operating lease contracts with third parties.

INTERNAL VALUATION

The valuation model used by the GAGFAH Group is described in detail in the Accounting Policies. For more information, please refer to section C.3. “Investment Property”.

The average discount rate of 5.61 % (prior year 5.29 %) is derived from prices paid for assets comparable to the real estate portfolio of the GAGFAH Group in Germany.

Based on the processes described in the Accounting Policies, property-specific discount rate weighted by the fair value for the GAGFAH Group is 5.45 % (prior year: 5.18 %).

The cash flows of the detailed planning period were discounted with the property-specific discount rate. The individual cash flows are then aggregated and the discounted residual value is added, resulting in the total value.

Administrative expenses are calculated at a flat rate of €250 (prior year: €250) per unit. The costs for repairs and maintenance as well as other operational costs are determined on a property-by-property level.

The crisis on the financial and capital markets in 2008 has also had an impact on the transaction prices in the real estate market and has led to an increase of the average discount rate. The valuation impact from an increased discount rate was partly compensated by higher cash flows resulting from lower vacancy rates, rent increases and modernizations.

EXTERNAL VALUATION

Approximately 31 % of the portfolio and therefore of the internal valuation of the investment property portfolio was externally valued by CB Richard Ellis Deutschland GmbH in accordance with International Valuation Standards (IVS) constituted by the International Valuation Standards Committee (IVSC). The valuation does not reflect or consider a specific financing structure available to a potential buyer or a portfolio sale which could result in a premium or a discount to the property values.

The independent third-party appraiser CB Richard Ellis Deutschland GmbH confirmed the values for 31 % of our investment property within 2008.

The appraiser’s reports show the current market value as of the valuation date and are therefore identical to the value definition in accordance with IFRSs. A confirmation of the portfolio values therefore indirectly confirms the internal valuation assumptions including the applied discount rate.

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	12-31-2008	12-31-2007
Non-current		
Investments	0.8	1.2
Derivative financial instruments measured at fair value	0.0	5.2
Other	2.9	3.4
	3.7	**9.8**
Current		
Financial receivables	1.8	1.2
	1.8	**1.2**
Total	**5.5**	**11.0**

In the fiscal year 2008, the fair values of the derivatives turned into negative amounts. For more information on the derivatives measured at fair value, please refer to section E.16.1. “Financial liabilities” and H.2. “Financial Risk Management”.

5. Inventories

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

€ MILLION	12-31-2008	12-31-2007
Land and land rights without buildings	47.4	66.9
Land and land rights with unfinished buildings	1.5	6.2
Land and land rights with finished buildings	0.4	4.5
Land with hereditary building rights of third parties	0.7	0.7
Other	8.8	6.2
Total	**58.8**	**84.5**

The decrease in total inventories compared to December 31, 2007, is mainly due to the sale of land and land rights without buildings.

The increase in other inventories compared to December 31, 2007, is mainly due to an increase in the stock of repair material.

In the fiscal year, GAGFAH S.A. sold inventories totaling €25.7 million (prior year: €61.5 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 €0.6 million (prior year: €8.6 million) were posted to reflect the (lower) net realizable value. These impairment losses relate mainly to land and land rights without buildings.

6. Receivables

Receivables break down as follows:

€ MILLION	12-31-2008	12-31-2007
Current		
Receivables from sales of land and buildings	164.6	165.0
Rent receivables	12.9	14.9
Receivables from other trade	4.7	1.8
Receivables from third-party real estate management	0.4	1.4
Other	0.0	0.1
Total	**182.6**	**183.2**

Receivables from sales of land and buildings do not represent a material credit risk due to their contractual structure. They are pledged in the form of deposit on an interest-bearing notary trust account in the amount of €42.6 million (prior year: €92.5 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 €13.1 million (prior year: €16.9 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	12-31-2008	12-31-2007
Non-current		
Receivables referring to subsidies for costs of demolition	5.3	4.8
Total non-current	**5.3**	**4.8**
Current		
Claims for reimbursement	2.9	3.9
Payments on account	2.9	0.2
Insurance claims	2.7	3.7
Receivables against joint ventures partners	2.6	2.5
Receivables referring to subsidies for costs of demolition	1.5	2.1
Prepayments	1.5	1.9
Other	11.9	8.4
Total current	**26.0**	**22.7**
Total	**31.3**	**27.5**

The increase in payments on account is mainly due to the advance payment for external providers of maintenance activities.

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, 2008, GAGFAH S.A. disclosed current tax claims of €16.7 million (prior year: €12.3 million).

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

9. Deferred Taxes

A uniform tax rate of 32.00 % (prior year: 32.00 %) is generally applied to all Group companies. This comprises a corporate income tax rate including solidarity surcharge of 15.83 % (prior year: 15.83 %). Trade tax is charged at 16.18 % (prior year: 16.18 %).

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	12-31-2008	12-31-2007	Effect on income 2008	Effect on income 2007
Balance sheet				
Investment property	12.8	0.0	12.8	– 34.1
Other assets	9.6	11.2	– 1.6	– 2.2
Other provisions	9.6	6.3	3.3	– 3.1
Financial liabilities	9.9	0.0	9.9	– 6.2
Deferred tax assets on temporary differences	**41.9**	**17.5**	**24.4**	**– 45.6**
Loss carry forwards				
Corporate income tax	126.3	0.0	126.3	– 13.1
Trade tax	63.5	0.0	63.5	– 24.1
Deferred tax assets on loss carry forwards	**189.8**	**0.0**	**189.8**	**– 37.2**
Deferred tax assets	**231.7**	**17.5**	**214.2**	**– 82.8**

€ MILLION	12-31-2008	12-31-2007	Effect on income 2008	Effect on income 2007
Balance sheet				
Investment property	482.3	448.6	– 33.7	– 304.9
Financial assets	2.8	1.6	– 1.2	– 1.6
Other assets	0.9	3.3	2.4	– 2.6
Other provisions	2.1	0.0	– 2.1	2.1
Other liabilities	7.3	8.7	0.5	– 2.5
Deferred tax liabilities	**495.4**	**462.2**	**– 34.1**	**– 309.5**

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 €221.8 million were offset against deferred tax liabilities because the relevant companies belong to a fiscal unity.

As of December 31, 2008, the Group had corporate income tax loss carry forwards of €1,615.1 million (prior year: €1,546.8 million) and trade tax loss carry forwards of €787.1 million (prior year: €770.6 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, 2008. 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 €817.1 million (prior year: €1,546.8 million) as well as trade tax loss carry forwards of €394.4 million (prior year: €770.6 million), as these are not expected to be realized in subsequent years. The basic change about the ability to realize the loss carry forwards compared to last year, depends on the appraisal that no overall tax group for corporate income tax and trade tax will be established. In the prior year, it was assumed to establish an overall tax group for corporate income tax and trade tax and therefore no deferred tax assets on loss carry forwards could be recognized under the planned profit and loss pooling agreements.

No deferred taxes were recognized on interest carry forwards of €54.4 million (prior year: € 0.0 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 €10.3 million (prior year: €11.3 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 €176.4 million (prior year: €205.6 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 and three months and accrue interest between 1.68 % and 3.62 % (prior year: between 1.00 % and 4.50 %). The weighted average is 2.52 % (prior year: 3.77 %).

The bank deposits have no maturity and are daily disposable. The balances in current accounts mainly accrue interest of 1.68 % to 2.45 % (prior year: 3.21 % to 3.47 %). The

weighted average of the interest rates from the Group's main banks amounted to 2.06 % for the last month, 2.64 % for the last quarter and 3.26 % for the fiscal year 2008. Bank deposits at all other banks have an interest rate of 0.55 % for the last quarter and 0.94 % for the fiscal year 2008.

Of €176.4 million (prior year: €205.6 million) total cash, €98.3 million (prior year: €89.0 million) are restricted and €78.1 million (prior year: €116.6 million) are unrestricted.

11. Assets Held for Sale

Assets held for sale amounting to €5.3 million (prior year: €8.1 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, 2008. 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 €282.1 million (prior year: €281.9 million) and comprises 225,700,384 (prior year: 225,553,192) shares, each with a nominal value of €1.25 (prior year: €1.25).

The **share premium** amounts to €1,540.7 million (prior year: €1,537.5 million).

The **legal reserve** amounts to €28.2 million (prior year: €28.2 million).

Revenue reserves contain the profits retained by the consolidated entities and amounted to €777.2 million as of December 31, 2008 (prior year: €917.6 million).

Minority interests of €105.4 million (prior year: €102.0 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: €67.4 million for fractional ownership funds (prior year: €64.5 million, thereof €63.9 million fractional ownership funds)
- WOBA subgroup: €20.8 million (prior year: €19.8 million)
- GBH subgroup: €16.0 million (prior year: €16.5 million)
- NILEG subgroup: €1.2 million (prior year: €1.2 million)
- UC ACQ Ireland Ltd.: €46 k (prior year: €46 k).

For more information on the minority interests in the net profit for the year, please refer to our comments on the income statement (Section F. 14 “Result from Minority Interests”).

Dividends amounting to €180.5 million (prior year: €166.9 million) were paid to the shareholders in 2008, thereof €45.1 million for the fourth quarter of 2007 that were paid in March 2008, and €135.4 million for the first, second and third quarter of 2008, paid in June, September and December 2008. The dividends paid were €0.20 per share.

The following table shows the development of the issued and fully-paid share capital from January 1, 2007, to December 31, 2008.

€ MILLION	Numbers of shares	Amount in €
January 1, 2007	**225,515,377**	**281,894,221.25**
Bonus shares issued	22,815	28,518.75
Remuneration of independent directors	15,000	18,750.00
December 31, 2007/January 1, 2008	**225,553,192**	**281,941,490.00**
Bonus shares issued	147,192	183,990.00
December 31, 2008	**225,700,384**	**282,125,480.00**

As of December 31, 2008, the number of authorized and unissued shares is 7,999,299,616 (prior year: 7,999,446,808), which are worth an amount of €9,999,124,520.00 (prior year: €9,999,308,510.00).

CAPITAL MANAGEMENT

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

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.

Furthermore, the GAGFAH Group is subject to certain customary financial covenants under the conditions of its loan agreements. These covenants include debt service cover ratios, and in certain circumstances minimum capital expenditure per square meter and minimum average disposal price requirements.

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

13. Liabilities to Minority Shareholders

Liabilities to minority shareholders amounting to €4.1 million (prior year: €13.1 million) relate to the minority's share, which are financial liabilities.

Thereof, €3.4 million (prior year: €3.4 million) relate to WOBA subgroup and €0.7 million (prior year: €0.7 million) to KALIRA Grundstücksgesellschaft mbH & Co. KG. The previous year amount also included liabilities of €9.0 million relating to GBH subgroup.

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. For a detailed description on these plans, please refer to section C.10. "Provisions for Pensions". The following tables present an overview of the plans.

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

NUMBER OF COMMITMENTS

	12-31-2008	12-31-2007
Active employees		
Non-vested expectancies	549	495
Vested expectancies	503	532
	1,052	1,027
Vested expectancies of employees no longer with the Company	243	231
Current pensions	862	843
Total	**2,157**	**2,101**

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

	12-31-2008	12-31-2007
In % p.a.:		
Discount rate	5.59	5.40
Salary increase, pension increase in service	2.50	2.50
Cost of living adjustment	2.00	1.00 – 2.00
Turnover	5.00	4.00 – 5.00

The calculation is based on a flexible retirement age in the German pension insurance.

For death and disability, the 2005 G 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 if 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	2008	2007
Provisions as of January 1	112.9	109.3
Additions from the acquisition of subsidiaries	0.0	2.3
Pension expenses for the fiscal year	6.9	7.5
Direct pension payments	– 6.4	– 6.2
Provisions as of December 31	**113.4**	**112.9**

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

€ MILLION	12-31-2008	12-31-2007
Defined benefit obligations as of December 31	102.2	105.4
Unrecognized actuarial gains (+)/losses (–)	11.2	7.5
Provision as of December 31	**113.4**	**112.9**

The pension obligation is calculated as follows:

€ MILLION	2008	2007
Obligation as of January 1	105.4	113.6
Additions from the acquisition of subsidiaries	0.0	2.3
Current service cost	1.9	2.5
Interest expense	5.5	5.0
Effect of settlement on DBO	– 0.2	0.0
Actuarial gains and losses	– 4.0	– 11.8
Direct pension payments	– 6.4	– 6.2
Obligation as of December 31	**102.2**	**105.4**

The whole defined benefit obligation is not funded.

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

€ MILLION	2008	2007
Current service cost	1.9	2.5
Interest expense	5.5	5.0
Gains (–) or losses (+) on settlement in period	– 0.3	0.0
Actuarial gains (–) or losses (+) recognized in the income statement	– 0.2	0.0
Total	**6.9**	**7.5**

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 2009 amount to €6.9 million (prior year: €7.0 million).

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 and may result in the NILEG subgroup having to pay higher future contribution payments to the VBL.

14.2. OTHER PROVISIONS

The other provisions developed as follows in the fiscal year:

€ MILLION	As of January 1, 2008	Changes within the consolidated Group	Utilization
Phased retirement	16.4	0.0	1.1
Warranty obligations and latent risks	7.5	– 0.6	1.5
Severance payments, litigation costs and similar risks	6.7	– 0.1	2.8
Provision for distribution obligations	2.9	0.0	1.5
Restructuring provisions	20.0	– 0.1	10.7
Provision for demolition costs	6.9	0.0	1.9
Provision for restitution proceedings	8.7	0.0	0.5
Provision for refinancing	7.7	0.0	3.9
Other provisions	10.0	– 0.3	4.7
Total	**86.8**	**– 1.1**	**28.6**

€ 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**

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

Reversals	Additions	As of December 31, 2008	Thereof non-current	Thereof current
0.1	0.0	15.2	12.2	3.0
1.5	2.4	6.3	0.0	6.3
0.8	1.3	4.3	0.0	4.3
0.7	0.5	1.2	0.0	1.2
1.3	6.5	14.4	5.3	9.1
0.0	2.5	7.5	4.9	2.6
0.0	0.6	8.8	0.0	8.8
2.3	1.8	3.3	0.3	3.0
1.0	8.6	12.6	0.2	12.4
7.7	**24.2**	**73.6**	**22.9**	**50.7**

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**

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 and GBH subgroup) and workplace agreements (NILEG and WOBA subgroup) respectively on **phased retirement.** These models allow employees over the age of 55 to make a smooth transition into retirement and ensure employment for younger employees. In the reporting period, 53 (prior year: 55) 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 €15.2 million (prior year: €16.4 million) recognized as of December 31, 2008, are mainly classified as non-current benefits.

Warranty provisions totaling €6.3 million (prior year: €7.5 million) were mainly set up for cases of liability from project business.

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 €4.3 million (prior year: €6.7 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, 2008, the provision amounted to €20.0 million. €10.7 million thereof was used during the fiscal year. Provisions of €6.5 million are allocated through restructuring expenses.

Furthermore in 2008, a restructuring plan was set up to improve internal control in the regions and to outsource maintenance services.

The **provision for demolition costs** amounting to €7.5 million (prior year: €6.9 million) was recognized for the fulfillment of contractual obligations to demolish certain buildings within a certain period of time.

The **provision for restitution proceedings** amounting to €8.8 million (prior year: €8.7 million) concerns restitution requirements subject to the German Act on the Clarification of Property Claims ("Gesetz zur Regelung offener Vermögensfragen" – Vermögensgesetz": VermG), for example the return of properties to their former owners and requirements to reimburse sales proceeds or rentals generated in this context. The provisions are entirely current.

The **provision for refinancing** amounting to €3.3 million (prior year: €7.7 million) results from a refinancing plan for the Group's 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, 2008, the Group had obligations from corporate income tax, trade tax and capital yields tax totaling €141.5 million (prior year: €156.0 million). They break down as follows:

€ MILLION	12-31-2008	12-31-2007
Corporate income tax on EK 02	118.9	128.2
Corporate income tax	10.4	11.8
Trade tax	8.8	16.0
Capital yields tax	3.4	0.0
Total	**141.5**	**156.0**

The decrease of corporate income tax on EK 02 is due to payments of €14.5 million and to the addition of accrued interest of €5.2 million.

For details of the corporate income tax on EK 02 please refer to section F.13. "Income Taxes" and section F.12. "Interest Expenses (Periodical) and Loss/Profit from the Fair Value Measurement of Derivatives".

16. Liabilities

16.1. FINANCIAL LIABILITIES

Financial liabilities total €6,732.5 million (prior year: €6,649.1 million). Of this, €6,644.1 million (prior year: €6,557.3 million) relates to non-current liabilities and €88.4 million (prior year: €91.8 million) to current liabilities. These break down as follows in the fiscal year:

Liabilities to banks total €6,677.8 million (prior year: €6,590.2 million) and mainly relate to liabilities from the financing of housing construction and acquisition financing.

Liabilities to other lenders amount to €54.7 million (prior year: €58.9 million) and mainly relate to liabilities from the financing of housing construction.

The value of the investment property portfolio of €9,774.1 million (prior year: €9,795.2 million) is predominantly encumbered by charges on property for the securization of the current and non-current financial liabilities to banks and other lenders. The financial liabilities which are secured by charges on property amount to €6,360.9 million (prior year: €5,997.5 million). In the current fiscal year, no financial liabilities (prior year: €264.4 million) were secured by pledging of shares. No collateral has been provided for the remaining €371.6 million (prior year: €387.2 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, €6,466.8 million (prior year: €6,376.9 million) relates to privately financed unsubsidized loans.

Overall, loans amounting to €104.1 million (prior year: €1,157.6 million) were repaid in the fiscal year. Thereof, 114 (prior year: 293) loans totaling €11.4 million (prior year: €117.9 million) were fully repaid in the fiscal year.

During the fiscal year 2008, the following new loan types were contracted:

Loan type	€ Million	Interest rate	Contract date	Maturity
Term loan	60.0	EURIBOR plus 1.2 %	January 2008	2015
Term loan	37.2	EURIBOR plus 1.0 %	September 2008	2015

An amount of €60.0 million was used for financing the portfolio located in Zwickau acquired by GAGFAH Acquisition 3 GmbH. An amount of €52.5 million was repaid in the fiscal year 2008. An amount of €37.2 million was used for refinancing the properties located in Berlin and owned by Schweizer Viertel Grundstücks GmbH.

The Group is long term financed. As of December 31, 2008, the Group's financial liabilities primarily comprised of the following debt liabilities:

€ MILLION					2009	
	Notional amount as of 12-31-2008	Weighted avg. maturity	Effective interest rate	Fixed or floating rate	Required repay-ments	Interest payments
Term loans	5,614.9	2013	3.9628 %	Fixed	0.0	225.6
Term loans	322.5	2012	6.1393 %	Floating	0.0	20.1
Senior debt	538.9	2034	2.4200 %	Fixed	17.0	15.3
Revolving credit facility	289.0	2010	5.2622 %	Floating	0.0	15.4
NILEG other	29.2	2010	4.0773 %	Floating	9.0	0.9
	6,794.5				**26.0**	**277.3**

€ 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**

To reduce the exposure to changes in interest rates, GAGFAH has concluded several interest swap agreements. Due to the valuation of the derivatives, interest rate swaps with a negative amount of €33.5 million (prior year: €4.6 million) are disclosed in the financial liabilities. Due to its positive fair value, an amount of €5.2 million was disclosed in the other financial assets in 2007.

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

Per December 31, 2008, the Group had a revolving credit facility of €300.0 million, of which €289.5 million had been used by year-end. The interest charged is currently EURIBOR plus 2.5 %.

2010		2011		2012		2013		2014		≥ 2015	
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	225.6	0.0	225.6	0.0	225.6	4,012.3	172.7	1,602.6	34.3	0.0	0.0
0.0	20.1	0.0	20.1	278.0	7.3	0.0	2.2	0.0	2.2	44.5	1.3
16.3	14.9	16.1	14.5	15.9	14.2	15.2	13.6	15.0	13.6	443.4	261.9
289.0	11.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
3.6	0.7	16.6	0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
308.9	**272.8**	**32.7**	**260.4**	**293.9**	**247.1**	**4,027.5**	**188.5**	**1,617.6**	**50.1**	**487.9**	**263.2**

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	460.5	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**	**2,071.8**	**250.6**

16.2. OTHER CURRENT LIABILITIES

Other current liabilities mainly include a seller's note, trade payables, rent liabilities and liabilities from operating expenses not yet invoiced. As of the balance sheet date, this item breaks down as follows:

€ MILLION	12-31-2008	12-31-2007
Sellers' Note	47.8	47.8
Trade payables	22.0	27.2
Liabilities from operating expenses not yet invoiced	14.5	19.2
Rent liabilities	14.2	12.8
Prepayments received	10.5	11.5
Tax liabilities	9.4	21.7
Other liabilities from bonus payments	7.3	10.5
Other liabilities from basic/decorative repairs	3.7	3.7
Liabilities from construction management services not yet invoiced	1.6	1.7
Other liabilities	21.8	16.6
Total	**152.8**	**172.7**

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

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	2008	2007
Rental income, fees	674.5	633.9
Allocations charged	301.6	288.9
Rent, interest and expense subsidies	2.2	3.9
Risk of default on allocations	0.9	1.0
Lease income	0.1	0.1
Total	**979.3**	**927.8**

The rental income is mainly attributable to the leasing of land with residential buildings. Rental income includes income from the reversal of deferred liabilities of government-granted loans in an amount of €7.3 million (prior year: €9.9 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	2008	2007
Operating expenses	267.8	256.4
Maintenance costs	90.6	88.4
Personnel expenses	58.1	55.0
Real estate tax	30.9	27.8
External costs for real estate management	13.5	12.3
Bad debt allowances	11.9	12.5
Administrative expenses	9.2	9.5
Amortization and depreciation on intangible assets and property, plant and equipment	3.5	4.5
Other expenses for real estate management	18.7	18.3
Total	**504.2**	**484.7**

3. Loss/Profit from Fair Value Measurement

Changes in value from the measurement of investment property in the fiscal year amount to an expense of €233.0 million (prior year: a profit of €984.2 million).

The loss/profit from fair value measurement breaks down as follows:

€ MILLION	2008	2007
Land with leased residential and commercial buildings	– 231.3	985.7
Land without buildings	– 0.8	– 1.7
Transferable leasehold land	0.0	0.1
Buildings on third-party's land	– 0.9	0.1
Total	**– 233.0**	**984.2**

4. Loss/profit from the sale of commercial real estate and property development

The loss/profit from the sale of commercial real estate and property development amounts to a loss of €0.9 million (prior year: a profit of €15.4 million).

Income from the sale of commercial real estate and property development amounts to €24.8 million (prior year: €76.9 million), and the carrying amount of commercial real estate and property development sold to €25.7 million (prior year: €61.5 million).

In the prior year, there was a higher number of sales than in fiscal year 2008.

The related commercial real estate was completely sold in 2007.

5. Profit from Other Services

The profit from other services breaks down as follows:

€ MILLION	2008	2007
Revenues from other trade	9.9	8.4
Revenues from third-party real estate management	5.9	6.8
Personnel expenses	– 5.1	– 4.1
Expenses from third-party real estate management	– 1.0	– 1.9
Expenses from other trade	– 4.8	– 5.4
Subtotal	**4.9**	**3.8**
Profit from the leasing of commercial real estate	0.0	0.8
Total	**4.9**	**4.6**

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 and advertising.

The selling expenses of €15.0 million (prior year: €21.6 million) mainly contain marketing expenses and expenses for selling prearrangements totaling €1.9 million (prior year: €4.0 million). For external selling partners there were accrued expenses of €4.0 million (prior year: €6.2 million). An amount of €0.5 million (prior year: €2.5 million) results from the Group's business segments property development and commercial real estate.

Furthermore, the selling expenses include personnel expenses of €4.5 million (prior year: €4.9 million) and various related administrative expenses.

7. General and Administrative Expenses

€ MILLION	2008	2007
Personnel expenses for administrative staff	16.9	21.9
Costs of office equipment, postage, telephone and IT	7.7	9.0
Consulting costs	4.6	7.2
Audit fees	2.6	2.4
Amortization and depreciation on intangible assets and property, plant and equipment	1.8	7.4
Insurances	1.1	1.4
Court and lawyers' fees	0.7	1.0
Other administrative expenses	5.7	6.7
Total	**41.1**	**57.0**

The prior year's high amount of amortization and depreciation on intangible assets and property, plant and equipment was due to the depreciation on the headquarter building in Essen.

8. Expenses for Share-based Remuneration

The share-based remuneration amounted to €3.5 million (prior year: €2.1 million). The expenses exclusively relate to share-based payment plans for management and executive staff.

Share-based remuneration to management is partly an equity-settled plan (€3.4 million) which is based on individual employment contracts. In 2008, a total number of 147,192 (prior year: 22,815) new shares were assigned. Currently, 575,513 (prior year: 538,443) shares are still outstanding.

Share-based remuneration consists also of a cash-settled plan for executive staff (€0.1 million).

9. Other Operating Income

All income not directly allocable to the various functional areas is disclosed under other operating income totaling €24.3 million (prior year: €21.4 million).

Other operating income breaks down as follows:

€ MILLION	2008	2007
Income from the sale of subsidiaries	8.9	0.0
Income from the reversal of provisions	6.1	9.4
Write-off of liabilities	1.3	0.6
Income from the sale of financial assets	0.3	2.0
Transferable leasehold land interest	0.2	0.2
Other	5.4	5.5
Subtotal	**22.2**	**17.7**
Other operating income due to commercial real estate and property development	2.1	3.7
Total	**24.3**	**21.4**

In the fiscal year, the income from the sale of subsidiaries contains income due to the sale of Media Home GmbH & Co. KG and Media Home Verwaltungs GmbH.

The income from the reversal of provisions mainly contains income from the reversal of provisions for refinancing (€2.3 million), provisions for rent guarantees (€1.3 million), provisions for property transfer tax (€0.9 million) and personnel expenses (€0.3 million). The conditions for those provisions were no longer met.

An amount of €2.1 million (prior year: €3.7 million) results from the Group's business segments commercial real estate and property development.

10. Other Operating Expenses

All expenses not directly allocable to the various functional areas are disclosed under other operating expenses totaling €27.6 million (prior year: €22.2 million).

These mainly include real estate transfer taxes (€7.7 million), the loss from the impairment test for the goodwill of GAGFAH Pegasus GmbH (€3.0 million), expenses relating to the sale of restitution objects (€0.9 million), additions to provisions for restitution proceedings (€0.6 million), expenses for the GBH squeeze-out process (€0.6 million) and losses on the disposal of non-current assets of €0.3 million (prior year: €0.4 million).

The prior-year amount also contained consultants' fees of €2.6 million (fiscal year: €0.1 million), write-offs on receivables of €0.7 million (fiscal year: €0.1 million) and due diligence costs of €0.6 million (fiscal year: €0.0 million).

An amount of €11.6 million (prior year: €12.5 million) results from the Group's business segments commercial real estate and property development.

11. Reorganization and Restructuring Expenses

In 2008, reorganization and restructuring expenses were €22.8 million compared to €22.4 million in 2007.

Expenses break down as follows:

	2008			2007		
€ MILLION	Restructuring	Reorganization	Total	Restructuring	Reorganization	Total
Personnel-related expenses	9.0	2.4	11.4	14.1	0.0	14.1
Consulting fees	1.6	6.3	7.9	2.2	2.7	4.9
Non-personnel administrative costs	0.7	2.8	3.5	3.0	0.4	3.4
Total	**11.3**	**11.5**	**22.8**	**19.3**	**3.1**	**22.4**

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

Reorganization and restructuring expenses mainly consist of severance payments, consulting fees for the tax restructuring of the Group as well as of the costs for an IT project.

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

12. Interest Expenses (Periodical) and Loss/Profit from the Fair Value Measurement of Derivatives

The current interest expense of €309.1 million (prior year: €278.5 million) mainly relates to interest on liabilities to banks. The item includes expenses from term loans and the revolving credit facility of €224.9 million (prior year: €191.6 million) and expenses from other loans of €11.5 million (prior year: €15.4 million). Another €38.4 million (prior year: €40.7 million) relates to accrued interest.

Furthermore, there are interest expenses of €6.8 million (prior year: €5.6 million) from the amortization of the present value of the government-granted loans, €5.5 million (prior year: €5.0 million) from the interest component of pension obligations, €5.2 million (prior year: €0.0 million) from the addition of accrued interest of liabilities due to corporate income tax on EK 02 and €2.5 million (prior year: €2.9 million) from the HB-funds.

An amount of €2.5 million (prior year: €6.3 million) results from the Group's business segments commercial real estate and property development.

Measurement of the derivatives at fair value results in a loss of €33.3 million (prior year: profit of €9.3 million). Please refer to section H.2. "Financial Risk Management".

13. Income Taxes

Income taxes break down as follows:

€ MILLION	2008	2007
Trade tax	– 7.8	– 7.8
Corporate income tax	– 3.4	– 6.9
Capital yields tax	– 3.4	0.0
Tax payments (+)/refunds (–) for/from prior years	– 0.4	1.3
Deferred taxes – temporary differences	– 9.7	– 355.1
Deferred taxes – loss carry forwards	189.8	– 37.2
Reversal of liabilities from income taxes	0.5	0.0
	165.6	**– 405.7**
Increase in corporate income tax based on the remaining EK 02	0.0	– 128.2
Total	**165.6**	**– 533.9**

NOTES

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 balance 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 2008) 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 ten equal annual installments starting in 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 amount to €158.1 million. The discounted present value amounts to €118.9 million (discount rate 4.21 %).

Based on consolidated profit before taxes, anticipated income tax revenues of €38.2 million (prior year: income tax expenses of €454.1 million) were calculated for the fiscal year. This contrasts with effective income tax revenues of €170.5 million (prior year: income tax expenses of €405.7 million). The anticipated income taxes were calculated on the basis of a tax rate for the Group of 32.0 % (prior year: 40.4 %).

€ MILLION	2008	2007
Loss/Profit before taxes	**– 119.5**	**1,122.8**
Anticipated income taxes	**38.2**	**– 454.1**
Change in tax rate	0.0	92.8
Income taxes not related to the period and other adjustments to current income taxes	– 0.4	1.3
Tax-free income	0.3	50.7
Tax portion for non-deductible expenses	– 20.1	– 15.6
Tax portion for non-deductible interest	– 17.4	0.0
Permanent trade tax effects	– 4.6	– 18.7
Effects of unrecognized deferred taxes on temporary differences	– 10.9	– 28.8
Effects of unrecognized deferred taxes on loss carry forwards	189.8	– 35.3
Corporate income tax on dividend within profit and loss absorption agreement	– 0.8	– 0.1
Other tax effects	– 3.6	2.1
Effective income taxes	**170.5**	**– 405.7**
Capital yields tax	**– 3.4**	**0.0**
Trade tax on capital gain minorities	**– 1.5**	**0.0**
Income taxes (excluding EK 02)	**165.6**	**– 405.7**
Increase in corporate income tax based on the remaining EK 02	**0.0**	**– 128.2**
Taxes from income	**165.6**	**– 533.9**

The change in tax rates in the prior year 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, 2008, 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 expenses for tax purposes in Luxembourg and Ireland (prior year: non-deductible interest expenses from intercompany loans). The tax portion of non-deductible interest relates to the interest barrier (Zinsschranke) under the German Business Tax Reform Act 2008. The effects in particular of the addition of a quarter 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 basic change about the ability to realize the loss carry forwards depends on the appraisal that no overall tax group for corporate income tax and trade tax will be established.

The Company qualifies as a securitization vehicle falling within the scope of the Luxembourg Law on Securitization of March 22, 2004. The Company is therefore fully liable for corporate income tax and municipal business tax. However, it is not subject to net worth tax (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

€4.9 million (prior year: €25.0 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 €3.5 million profit (prior year: €19.8 million profit), WOBA subgroup €1.9 million profit (prior year: €6.0 million profit) and GBH subgroup €0.5 million loss (prior year: €0.8 million loss).

15. Earnings per Share

Basic earnings per share come to €0.18 (prior year: €2.50). They were calculated by dividing the net profit for the year distributable to ordinary equity holders of the parent company (€41.2 million; prior year: €563.9 million) by the weighted average number of undiluted ordinary shares outstanding during the year (225,630,258; prior year: 225,520,560).

Diluted earnings per share amount to €0.18 (prior year: €2.49). These were calculated by dividing the net profit for the year distributable to ordinary equity holders of the parent company (€41.2 million; prior year: €563.9 million) by the weighted average number of diluted ordinary shares outstanding during the year adjusted for dilution (226,216,407; prior year: 226,164,589).

Dilutive instruments exclusively comprise bonus shares to be granted to employees (weighted average 2008: 586,149; prior year: 644,029), of which 171,104 were granted in 2008.

The vesting schedule as of December 31, 2008, is:
- 2009: 158,097
- 2010: 159,479
- 2011: 158,620
- 2012: 49,658
- 2013: 49,659

During the fiscal year, 147,192 shares were issued at a weighted average share price of €9.49.

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	12-31-2008	12-31-2007
Cash on hand	0.1	0.1
Bank balances		
Time deposits	10.7	18.4
In current accounts	53.4	84.4
Restricted cash	98.3	89.0
HB-funds balances	13.9	13.7
Bank balances and cash on hand	**176.4**	**205.6**
Securities	0.0	0.5
Bank balances, cash on hand and securities	**176.4**	**206.1**

We have €176.4 million (prior year: €205.6 million) in cash, of which €98.3 million (prior year: €89.0 million) are restricted and €78.1 million (prior year: €116.6 million) are unrestricted.

Restricted cash contains an amount of €32.5 million which corresponds to the interests on term loans due but not yet payable until the end of the reporting period and an amount of €8.0 million which is pledged for guarantee facilities. Restricted cash also includes an amount of €49.1 million which can be either used for the repayment of term loans or reinvestment for the acquisition of new properties.

Cash flows from financing activities include interest and cost paid for refinancing of €6.9 million (prior year: €18.2 million).

Of cash paid for the acquisition of subsidiaries and minority shares in subsidiaries, €19.5 million (prior year: €35.9 million) was paid to acquire minority shares in subsidiaries which were already consolidated.

H. Other Notes

1. Additional Disclosures on Financial Instruments

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

Table 1

€ MILLION	Category in accordance with IAS 39[1]	Carrying amount 12-31-2008	Amortized cost	Fair value recognized in equity	Fair value recognized in profit or loss	Fair value 12-31-2008
Assets						
Bank balances and cash on hand	LaR	176.4	176.4			176.4
Investments	AfS	0.8	0.8			0.8
Receivables from sales of land and buildings	LaR	164.6	164.6			164.6
Rent receivables	LaR	12.9	12.9			12.9
Derivative financial assets measured at fair value	HfT	0.0			0.0	0.0
Securities	AfS	0.0	0.0			0.0
Other	LaR	22.2	22.2			22.2
Liabilities						
Global loans	FLAC	– 5,913.2	– 5,913.2			– 5,678.9
Government annuity loans	FLAC	– 265.7	– 265.7			– 248.2
Privately financed annuity loans	FLAC	– 102.4	– 102.4			– 98.3
Financial liabilities of the funds	FLAC	– 60.0	– 60.0			– 60.0
Revolving credit facility	FLAC	– 289.5	– 289.5			– 289.5
Derivative financial liabilities measured at fair value	FLAC	– 33.5			– 33.5	– 33.5
Other financial liabilities	HfT	– 68.2	– 68.2			– 68.2
Trade payables	FLAC	– 22.8	– 22.8			– 22.8
Rent liabilities	FLAC	– 14.2	– 14.2			– 14.2
Liabilities from operating expenses not yet invoiced	FLAC	– 14.5	– 14.5			– 14.5
Other	FLAC	– 25.8	– 25.8			– 25.8

[1] LaR: Loans granted and Receivables
AfS: Available-for-Sale Financial Assets
HfT: Financial Assets/Liabilities Held for Trading
FLAC: Financial Liabilities measured at Amortized Cost

Financial assets from the category Loans granted and Receivables (LaR) have short-term maturities. For this reason, their carrying amounts approximate their fair values. Trade payables break down into current liabilities of €22.0 million (prior year: €27.2 million) and non-current liabilities of €0.8 million (prior year: €0.9 million).

Table 1

€ 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 sales of land and buildings	LaR	165.0	165.0			165.0
Rent receivables	LaR	14.9	14.9			14.9
Derivative financial assets measured at fair value	HfT	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 funds	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	HfT	– 4.6			– 4.6	– 4.6
Other	FLAC	– 24.3	– 24.3			– 24.3

[1] LaR: Loans granted and Receivables
AfS: Available-for-Sale Financial Assets
HfT: Financial Assets/Liabilities Held for Trading
FLAC: Financial Liabilities measured at Amortized Cost

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

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

The net results per measurement category break down as follows:

Table 2

€ MILLION	From interest	From subsequent measurement: At fair value	From subsequent measurement: Impairment/ reversal of impairment	From derecognition	Net gain (loss) 12-31-2008
Loans granted and Receivables (LaR)	9.1	0.0	– 14.3	0.2	– 5.0
Available-for-Sale Financial Assets (AfS)	0.3	0.0	– 0.3	0.0	0.0
Financial Assets/Liabilities held for Trading (HfT)	3.3	– 33.3	0.0	0.0	– 30.0
Financial Liabilities measured at Amortized Cost (FLAC)	– 303.0	0.0	0.0	0.0	– 303.0

€ 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 granted and Receivables (LaR)	14.7	0.0	– 18.3	0.0	– 3.6
Available-for-Sale Financial Assets (AfS)	0.9	0.0	– 0.8	2.0	2.1
Financial Assets/Liabilities held for Trading (HfT)	– 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

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

Table 3

€ MILLION	12-31-2008	Utili-zation	Rever-sals	Addi-tions	Reclas-sifi-cations	12-31-2007	Utili-zation	Rever-sals	Addi-tions	Reclas-sifi-cations	12-31-2006
Receivables from sales of land and buildings	– 0.3	0.0	0.0	0.0	0.0	– 0.3	0.0	0.0	0.0	0.0	– 0.3
Rent receivables	– 22.7	0.3	2.5	– 1.4	– 0.5	– 23.6	0.7	2.9	– 6.1	0.0	– 21.1
Receivables from other trade	0.0	0.4	0.0	0.0	0.0	– 0.4	0.0	0.0	– 0.4	0.0	0.0
Receivables from third-party real estate management	– 0.1	0.0	0.0	0.0	0.0	– 0.1	0.0	0.5	– 0.1	0.0	– 0.5
Claims for reimbursement	– 1.9	0.1	0.1	0.0	– 0.6	– 1.5	0.0	0.0	0.0	0.0	– 1.5
Other	0.0	0.4	0.1	0.0	1.1	– 1.6	0.1	0.0	– 0.5	0.0	– 1.2
Total	**– 25.0**	**1.2**	**2.7**	**– 1.4**	**0.0**	**– 27.5**	**0.8**	**3.4**	**– 8.1**	**0.0**	**– 24.6**

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

Receivables from sales of land and buildings

Receivables from sales of land and buildings are recorded with their maturity date. This is applicable in the case of an existing deposit in a notary trust account as at the date of conveyance of title. Subsequent to unsuccessful dunning procedure, the recoverability of overdue receivables is determined by the operating department 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 subject to bad debt allowance and are written off from terminated contracts.

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

Trade receivables, receivables from third-party real estate management and claims from reimbursement are recorded at 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.

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

Table 4

€ 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
12-31-2008 **Assets**						
Receivables from sales of land and buildings	164.6	133.5	28.2	1.0	1.1	0.8
Rent receivables	12.9	3.5	7.9	0.0	0.6	0.9
Receivables from other trade	4.7	4.7	0.0	0.0	0.0	0.0
Receivables from third-party real estate management	0.4	0.1	0.2	0.0	0.0	0.1
Claims from reimbursement	2.9	2.9	0.0	0.0	0.0	0.0
Other	14.1	11.2	2.8	0.0	0.1	0.0

€ 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
12-31-2007 **Assets**						
Receivables from sales of land and buildings	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 from 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

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:

Table 5	Expenses for full write-off of receivables		Income from recoveries on receivables written off	
€ MILLION	12-31-2008	12-31-2007	12-31-2008	12-31-2007
Receivables from sales of land and buildings	0.0	0.0	0.0	0.0
Rent receivables	– 13.4	– 11.8	0.0	0.0
Receivables from other trade	0.0	0.0	0.0	0.0
Receivables from third-party real estate management	0.0	– 0.1	0.0	0.0
Other	– 1.7	– 3.7	0.2	0.2

In 2008, no financial assets were transferred in such a way that either one part of them or all financial assets are not considered to be written-off.

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, 2008, 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 2008, no derivative financial instruments in the form of hedge accounting were used.

INTEREST RATE SWAPS

In the business year 2008, the Group used interest rate swaps to hedge future cash flows from variable-rate loans. Up to now, the remaining amounts have not been designated as being hedging instruments.

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, or on the liabilities side under the item "Financial liabilities (current/non-current)".

Due to the valuation of the derivatives, interest rate swaps with a negative amount of €33.5 million (prior year: €4.6 million) are disclosed in the financial liabilities. Due to its positive fair value, an additional amount of €5.2 million was disclosed in the other financial assets in 2007.

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

€ MILLION	12-31-2008	12-31-2007
Nominal value of interest rate swaps	600.4	610.3
Fair value of interest rate swaps	– 33.5	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, 2008, the valuation was based on the following term structure:

Interest rate for six months	2.971 %
Interest rate for one year	3.049 %
Interest rate for five years	3.268 %
Interest rate for ten years	3.805 %

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

As of December 31, 2008, the decrease in derivative financial instruments of €34.1 million was mainly due to the valuation of the swaps (€33.3 million). A further €0.8 million was used in connection with the refinancing of properties located in Berlin and owned by Schweizer Viertel Grundstücks GmbH. In the refinancing process, the €0.8 million was transferred to the bank assigned with the refinancing.

Changes in the fair value of the interest rate swaps were recognized through profit or loss under the item F.12. "Interest Expenses (Periodical) and Loss/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 €0.00.

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, 2012, 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 GmbH (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 abovementioned shares at the same fixed price.

Since December 31, 2007, the call option by Norddeutsche Beteiligungsgesellschaft für Immobilien in Niedersachsen m.b.H. has been deeply in-the-money and NILEG Norddeutsche Immobiliengesellschaft GmbH has no longer been beneficial owner of the shares. Therefore, the investment book values of the abovementioned shares (€2.2 million) are no longer displayed within the investments in the balance sheet.

Another option agreement was purchased in the context of the acquisition of the GBH Group. This option agreement contained a put option which entitles the GAGFAH Group to sell its shares in Baugesellschaft Frankenthal GmbH (74.90 %) at a fixed price of €47.8 million.

As regards the exercise of this put option, please refer to section H.8. “Events after the Balance Sheet Date”.

The options existing as of the balance sheet date break down as follows:

€ MILLION	12-31-2008	12-31-2007
Call option (writer):		
Nominal volumes	9.5	9.5
(Historical) cost	0.0	0.0
Put option:		
Nominal volumes	57.3	57.3
(Historical) cost	0.0	0.0

FINANCIAL RISK MANAGEMENT SYSTEM

The risk management system of the GAGFAH Group comprises the following aspects:

- an early warning system
- a risk report
- an ad-hoc reporting method in the sense of risk management

The early warning system mainly includes a monthly report on the actual figures as compared to the budget targets. These variance analyses have led to indicators that allow for an early detection of risks during the fiscal year as well as for the implementation of appropriate countermeasures. The early warning signals that have been implemented ensure a proactive control of financial risks.

The risk reporting structure is based on the risk management guidelines that have been defined and communicated by the GAGFAH Group Management as the risk policy principles. These guidelines govern the roles and responsibilities, lay out the basic principles of the risk management system, and define the parameters for assessing and controlling qualitative and quantitative risks.

The report which is prepared and presented to the GAGFAH Group Management on a quarterly basis includes the following elements:

- overall risk portfolio
- risks by risk owner
- risks from staff departments
- cross-departmental risks

In addition to an overview of potential portfolio- or strategy- threatening quantitative or qualitative risks, the risk report also includes, to the extent necessary, the ad-hoc reports as called for by the risk management as well as explanations on the measures to be taken.

In the context of the risk reporting, the risks are monitored and countermeasures are followed-up to in a timely manner as called for by the risk management guidelines defined by the GAGFAH Group Management.

The measures which are adopted to the extent necessary are sufficient in order to detect the risks, and they have been documented throughout the entire Group in the form of risk policy principles and guidelines.

The monthly reporting, in the context of the early warning system and the quarterly risk reporting, ensures the measures are coordinated and adopted to the current business environment as well as to the processes and functions.

Against the background of the present financial crisis, the risk monitoring process was intensified.

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 lower (higher) by the next reporting date, profit or loss would be €20.2 million (€18.7 million) lower (higher).

The hypothetical effect from €– 20.2 million on income results from the potential effects of €– 26.4 million from interest rate derivatives and a reduction of €6.2 million from variable-interest financial liabilities.

Same sensitivities for financial year 2007:

If the market interest rates had been 100 basis points lower (higher) on December 31, 2007, profit or loss would have been €23.4 million (€21.6 million) lower (higher).

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.

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

The strategies pursued by the Group 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 also 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 comprises the risk that financial assets cannot be sold quickly at fair value due to market bottlenecks (market liquidity risk).

The Group is financed long term. A liquidity plan based on a fixed planning horizon which endeavours to ensure that GAGFAH S.A. Group entities have sufficient liquidity at all times.

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.

The maximum exposure to credit risk at the reporting date is the carrying value of each class of financial assets mentioned in section H.1. “Additional Disclosures on Financial Instruments”, Table 1.

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 banks whose rating at Moody's has a minimum of "A3" or whose rating at Standard & Poor's has a minimum of "A-". This helps to limit the actual credit risk of these instruments.

Deposits achieved of €79.9 million (prior year: €70.9 million) and amounts paid by contracting parties into notary trust accounts of €42.6 million (prior year: €92.5 million) serve as collateral securities mainly for the receivables for the sale of land and buildings.

CURRENCY RISK

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

GAGFAH 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 und NILEG GbR
- Grundstücksentwicklungsgesellschaft Oesselse "Langes Feld" GbR
- Möser GbR
- Danndorf GbR.

The Group's share breaks down as follows:

€ MILLION	12-31-2008	12-31-2007
Current assets	2.6	2.8
Current liabilities	0.3	0.3
Non-current liabilities	0.0	0.1
	2.3	**2.4**
Income	0.1	0.5
Expenses	0.2	0.5

4. Contingent Liabilities and Other Financial Obligations

CONTINGENT LIABILITIES

There were no contingent liabilities in the fiscal year.

OTHER FINANCIAL OBLIGATIONS

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

€ MILLION 12-31-2008	Within one year	Between one year and three years	Between three and five years	More than five years	Total
Outsourcing contracts (provider of maintenance activities)	63.0	120.0	120.0	290.0	593.0
Hosting fees for computer center	5.7	9.2	5.3	0.0	20.2
Rent obligations (buildings)	3.5	7.0	4.0	4.8	19.3
Repair and maintenance of software	1.6	2.4	0.8	0.0	4.8
Leasing obligations – automobile	0.9	1.2	0.3	0.0	2.4
Basic fees for telephony and data network	0.8	1.0	0.1	0.0	1.9
Rent and leasing obligations – hardware	0.4	0.6	0.0	0.0	1.0
Project costs for the implementation of an operating system	0.9	0.0	0.0	0.0	0.9
Leasing obligations – copiers	0.3	0.4	0.1	0.0	0.8
Repair and maintenance of hardware	0.3	0.1	0.0	0.0	0.4
Total	**77.4**	**141.9**	**130.6**	**294.8**	**644.7**

€ MILLION 12-31-2007	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 for computer center	3.4	3.1	0.4	0.0	6.9
Rent obligations (buildings)	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**

In 2008, a restructuring plan was set up to improve internal control in the regions and to outsource maintenance services. In regards to this, two outsourcing contracts with external maintenance providers were closed. The annual expected payments amount to approximately €60.0 million per year. Due to these contracts, the Group expects savings within the maintenance costs for the next fiscal years.

For some of the rental agreements for buildings, there are individual renewal and rent adjustment clauses. The rent adjustments are geared to the consumer price index.

For the rental agreements there are no purchase options.

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

In the fiscal year 2008, the total payments for operating lease contracts amounted to €1.9 million.

5. Number of Employees and Personnel Expenses

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

	12-31-2008		12-31-2007	
	Heads	FTEs	Heads	FTEs
Authorized signatories/authorized agents	53	52	61	60
Salaried employees	893	860	906	875
Wage earners	495	478	434	418
Total	**1,441**	**1,390**	**1,401**	**1,353**

The total head count including temporary personnel was 1,890 (prior year: 1,815), thereof 68 (prior year: 50) trainees.

Personnel expenses came to €101.8 million (prior year: €107.3 million) and break down as follows:

€ MILLION	2008	2007
Wages and salaries	82.7	88.5
Social security	13.8	13.7
Pension costs	1.4	2.5
Other	3.9	2.6
Total	**101.8**	**107.3**

Other personnel expenses mainly contain share bonuses amounting to €3.5 million (prior year: €2.1 million).

€6.2 million (prior year: €7.0 million) of the expenses for social security are recognized as an expense for defined contribution plans.

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 close 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 in Exhibit (1) the relevant share capital.

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

MAJOR SHAREHOLDERS

Shareholder	Number of Shares	%
Fortress Subsidiary (GAGACQ)Investors Ltd.	25,574,777	11.33
Fortress Residential Investment Deutschland (Fund A) LP	20,626,823	9.14
Fortress Investment Fund III (GAGACQ Subsidiary) LLC	16,539,554	7.33
Fortress Investment Fund III (Fund B) (GAGACQ Subsidiary) LLC	14,141,601	6.27
Fortress Residential Investment Deutschland (Fund B) LP	12,330,464	5.47
Highbridge Capital Management LLC	11,818,697	5.24
Fortress Subsidiary (GAGACQ) LLC	11,669,744	5.17

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, Ph.D.	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.

With the notarial deed dated August 11, 2008, Burkhard U. Drescher received 22,815 shares at the price of €8.86.

Yves Wagner, Dieter H. Ristau and Dr. Jürgen Allerkamp are party to service agreements with the Company, 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 to members of the Board was paid in January 2009 for the fiscal year 2008 and amounts to €75,000 plus 15,000 shares in the Company.

As of December 31, 2008, 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 were 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) (until September 30, 2008)
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) (until June 30, 2008)
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 2008, the managers of the subgroups received remuneration totaling €4.3 million (prior year: €5.2 million) for the performance of their duties within the Group.

Of total remuneration, €1.6 million (prior year: €2.3 million) relates to fixed remuneration, €1.5 million (prior year: €2.2 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 €1.3 million (prior year: €2.6 million) includes annually recurring components linked to the success of the Company.

Additionally, management received share-based remuneration amounting to €1.4 million (prior year: €0.3 million).

As of December 31, 2008, 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 €0.4 million (prior year: €0.1 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 €1.0 million (prior year: €0.2 million) were made. In addition, as of the balance sheet date, the Group had outstanding obligations due to severance payments amounting to €0.6 million (prior year: €0.8 million).

8. Events after the Balance Sheet Date

NEW ACQUISITIONS
Since January 1, 2009, no further acquisitions have been signed.

SENIOR MANAGEMENT
William Joseph Brennan was appointed Chief Operating Officer on January 1, 2009.

On March 20, 2009, the supervisory board of GAGFAH GmbH and GAGFAH M Immobilien Management GmbH resolved to appoint William Joseph Brennan to succeed Burkhard U. Drescher as Chief Executive Officer (i.e. Chairman of the Management Board of GAGFAH GmbH and of the German GAGFAH Group) beginning August 1, 2009, when Mr Drescher's contract and office will have expired. Mr. Drescher will continue to be responsible for the management of the operating subsidiaries and remain Chairman of the Management Board of GAGFAH GmbH and of the GAGFAH Group through July 31, 2009. At that same supervisory board meeting, Mr. Brennan stepped down as COO and was appoin ted Deputy CEO. In replacement, Nicolai Kuss has been appointed COO (Chief Operations Officer) of GAGFAH S.A.'s operating subsidiaries on March 20, 2009. Furthermore, Rainer Seifert has been withdrawn from the Management Board of GAGFAH GmbH and GAGFAH M Immobilien Management GmbH on March 20, 2009, his contract will expire on April 30, 2009.

PUT-OPTION FOR BAUGESELLSCHAFT FRANKENTHAL GMBH
The senior management of GAGFAH Group resolved to exercise the put option for Baugesellschaft Frankenthal GmbH on January 7, 2009.

The Net Asset Value (NAV) of Baugesellschaft Frankenthal GmbH amounted to €6.4 million as of December 31, 2008.

We expect a single-figured million euro non-cash loss due to the deconsolidation of Baugesellschaft Frankenthal GmbH.

CLOSE-OUT OF DERIVATIVE FINANCIAL INSTRUMENTS
In February 2009, the GAGFAH Group closed out interest rate swaps, mainly related to the revolving credit facility, with a total notional amount of €275.0 million.

For the aforementioned close-out, an amount of €24.3 million was paid in February 2009.

Other

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(1) List of Shareholdings

UPSTREAM MERGERS IN FISCAL YEAR 2008

Parent company	Subsidiary	Closing balance sheet date	Date of the take-over of net assets	Date of entry into the commercial register
GBH Acquisition GmbH	Grundstücks- und Baugesellschaft AG	December 31, 2007	January 1, 2008	June 6, 2008
GBH Acquisition GmbH	Wohnungsverein Ulm GmbH	December 31, 2007	January 1, 2008	July 29, 2008
GBH Acquisition GmbH	Bocholter Wohnungsbaugesellschaft mbH	December 31, 2007	January 1, 2008	July 29, 2008
GBH Acquisition GmbH	GBH Beteiligung GmbH	December 31, 2007	January 1, 2008	July 1, 2008
GBH Acquisition GmbH	HWG Heidenheimer Wohnungsgesellschaft mit beschränkter Haftung	December 31, 2007	January 1, 2008	July 29, 2008
GAGFAH M Immobilien Management GmbH	GAGFAH Projektentwicklungs- und Projektsteuerungsgesellschaft mbH	December 31, 2007	January 1, 2008	October 7, 2008
NILEG Immobilien Holding GmbH	WTCH-World Trade Center Hannover GmbH	December 31, 2007	January 1, 2008	October 27, 2008
NILEG Immobilien Holding GmbH	WBO Wohnungsbau-Beteiligungs GmbH	December 31, 2007	January 1, 2008	October 9, 2008
GAGFAH Acquisition 3 GmbH	GAGFAH Second Property Holding GmbH & Co. KG	December 31, 2008	December 31, 2008	not yet entered
GAGFAH Acquisition 3 GmbH	GAGFAH Dritte Grundbesitz GmbH & Co. KG	December 31, 2008	December 31, 2008	not yet entered
GAGFAH Acquisition 3 GmbH	GAGFAH Vierte Grundbesitz GmbH & Co. KG	December 31, 2008	December 31, 2008	not yet entered

CHANGES OF CORPORATE FORM AND OF NAME IN FISCAL YEAR 2008

New corporate form/name	Old corporate form/name
GAGFAH Pegasus GmbH	GAGFAH Pegasus GmbH & Co. KG
GAGFAH Erste Grundbesitz GmbH	GAGFAH First Property Holding GmbH & Co. KG
GAGFAH Holding GmbH	Blitz F07-einhundert-neunzig GmbH
NILEG Hofheim GmbH & Co. KG	Scholz Hofheim GmbH & Co. KG
VHB FM GmbH	NILEG-Immobilienservice GmbH

LIST OF SHAREHOLDINGS AS OF DECEMBER 31, 2008

No.	Company name	Registered office	Share of capital	Held by No.
1.	GAGFAH S.A.	Luxembourg, Luxembourg		
2.	GAGFAH Holding GmbH	Essen, Germany	100.00 %	1
3.	KALIRA Grundstücks-Verwaltungsgesellschaft mbH	Gruenwald, Germany	94.80 %	2
4.	KALIRA Grundstücksgesellschaft mbH & Co. KG	Gruenwald, Germany	94.90 %	2
5.	GAGFAH Verwaltung GmbH	Essen, Germany	100.00 %	2
6.	GAG ACQ Ireland Limited	Clonee, Ireland	100.00 %	1
7.	UC ACQ Ireland Limited	Clonee, Ireland		
8.	GAGFAH Operations Advisor GmbH	Essen, Germany	83.00 % 17.00 %	6 7
9.	GAGFAH GmbH	Essen, Germany	82.48 % 17.52 %	2 7
10.	GAGFAH M Immobilien Management GmbH	Essen, Germany	94.00 % 6.00 %	11 9
11.	GAGFAH I Invest GmbH & Co. KG	Essen, Germany	100.00 %	9
12.	GAGFAH B Beteiligungs GmbH	Essen, Germany	99.60 %	10
13.	GAGFAH A Asset GmbH & Co. KG	Essen, Germany	100.00 %	10
14.	VHB Grundstücksverwaltungsgesellschaft "Haus und Bodenfonds" mbH	Essen, Germany	100.00 %	10
15.	Neues Schweizer Viertel Betriebs + Service GmbH & Co. KG	Berlin, Germany	94.99 %	10
16.	Schweizer Viertel Grundstücks GmbH	Berlin, Germany	94.74 % 5.26 %	10 15
17.	IVS Immobilienversicherungsservice GmbH	Muelheim an der Ruhr, Germany	100.00 %	10
18.	HaBeGe Bau- und Projektentwicklungsgesellschaft mbH	Essen, Germany	94.90 % 5.10 %	10 4
19.	Haus- und Boden-Fonds 5	Essen, Germany	66.83 %	11
20.	Haus- und Boden-Fonds 6	Essen, Germany	88.19 %	11
21.	Haus- und Boden-Fonds 7	Essen, Germany	76.25 %	11
22.	Haus- und Boden-Fonds 8	Essen, Germany	73.80 %	11
23.	Haus- und Boden-Fonds 9	Essen, Germany	72.79 %	11
24.	Haus- und Boden-Fonds 10	Essen, Germany	73.36 %	11
25.	Haus- und Boden-Fonds 11	Essen, Germany	73.16 %	11
26.	Haus- und Boden-Fonds 12	Essen, Germany	81.05 %	11
27.	Haus- und Boden-Fonds 13	Essen, Germany	77.72 %	11
28.	Haus- und Boden-Fonds 14	Essen, Germany	63.06 %	11
29.	Haus- und Boden-Fonds 15	Essen, Germany	71.88 %	11
30.	Haus- und Boden-Fonds 18	Essen, Germany	71.54 %	11
31.	Haus- und Boden-Fonds 19	Essen, Germany	74.11 %	11
32.	Haus- und Boden-Fonds 21	Essen, Germany	71.23 %	11

No.	Company name	Registered office	Share of capital	Held by No.
33.	Haus- und Boden-Fonds 23	Essen, Germany	53.93 %	11
34.	Haus- und Boden-Fonds 29	Essen, Germany	62.27 %	11
35.	Haus- und Boden-Fonds 33	Essen, Germany	56.90 %	11
36.	Haus- und Boden-Fonds 35	Essen, Germany	58.00 %	11
37.	Haus- und Boden-Fonds 37	Essen, Germany	47.79 %	11
38.	Haus- und Boden-Fonds 38	Essen, Germany	54.01 %	11
39.	NILEG Immobilien Holding GmbH	Hanover, Germany	94.80 % 5.20 %	2 1
40.	NILEG Real Estate GmbH	Hanover, Germany	94.81 % 5.19 %	39 4
41.	NILEG Real Estate GmbH & Co. Management KG	Hanover, Germany	94.90 % 5.10 %	39 4
42.	NILEG Norddeutsche Immobiliengesellschaft mbH	Hanover, Germany	94.86 % 5.14 %	39 41
43.	NORD/IMG Immobiliengesellschaft für Mecklenburg-Vorpommern mbH	Essen, Germany	100.00 %	39
44.	Osnabrücker Wohnungsbaugesellschaft mbH	Osnabrueck, Germany	94.09 % 5.91 %	39 4
45.	OWG Beteiligungs GmbH	Hanover, Germany	100.00 %	44
46.	OWG Asset GmbH & Co. KG	Osnabrueck, Germany	100.00 %	44
47.	NILEG Norddeutsche Beteiligungs GmbH	Hanover, Germany	100.00 %	42
48.	NILEG Commercial Asset GmbH & Co. KG	Hanover, Germany	100.00 %	42
49.	NILEG Residential Asset GmbH & Co. KG	Hanover, Germany	100.00 %	42
50.	Wohnungsgesellschaft Norden mit beschränkter Haftung	Hanover, Germany	94.88 %	42
51.	NILEG Hofheim GmbH & Co. KG	Essen, Germany	100.00 %	42
52.	WGNorden Beteiligungs GmbH	Hanover, Germany	100.00 %	50
53.	WGNorden Asset GmbH & Co. KG	Hanover, Germany	100.00 %	50
54.	Wohnungsbau Niedersachsen GmbH	Hanover, Germany	94.85 %	50
55.	VHB FM GmbH	Essen, Germany	100.00 %	54
56.	WBN Beteiligungs GmbH	Hanover, Germany	100.00 %	54
57.	WBN Asset GmbH & Co. KG	Hanover, Germany	100.00 %	54
58.	WOBA HOLDING GMBH	Dresden, Germany	94.80 % 5.20 %	2 1
59.	Opera Co-Acquisition GP GmbH	Dresden, Germany	94.80 %	58
60.	Opera Co-Acquisition GmbH & Co. KG	Dresden, Germany	94.90 %	58
61.	WOBA DRESDEN GMBH	Dresden, Germany	100.00 %	58
62.	Immo Service Dresden GmbH	Dresden, Germany	100.00 %	61
63.	Dienstleistungs- und Bauhof Dresden GmbH	Dresden, Germany	100.00 %	62
64.	Bau- und Siedlungsgesellschaft Dresden mbH	Dresden, Germany	94.73 % 5.27 %	61 60

No.	Company name	Registered office	Share of capital	Held by No.
65.	Liegenschaften Weissig GmbH	Dresden, Germany	94.75 % 5.25 %	61 60
66.	WOHNBAU NORDWEST GmbH	Dresden, Germany	94.90 % 5.10 %	61 60
67.	SÜDOST WOBA DRESDEN GmbH	Dresden, Germany	94.90 % 5.10 %	61 60
68.	Parkhaus Prohlis GmbH	Dresden, Germany	70.00 %	67
69.	Immobilien-Vermietungsgesellschaft Knappertsbusch & Co. SÜDOST WOBA Striesen KG	Leipzig, Germany	0.02 %	67
70.	GAGFAH Acquisition 1 GmbH	Essen, Germany	94.80 % 5.20 %	2 1
71.	GAGFAH Acquisition 2 GmbH	Essen, Germany	94.80 % 5.20 %	2 1
72.	GAGFAH Acquisition 3 GmbH	Essen, Germany	94.80 % 5.20 %	2 1
73.	GAGFAH Pegasus GmbH	Berlin, Germany	94.80 % 5.20 %	72 4
74.	GAGFAH First Property Holding GP GmbH	Essen, Germany	100.00 %	72
75.	GAGFAH Erste Grundbesitz GmbH	Essen, Germany	100.00 %	72
76.	GAGFAH Pegasus Verwaltungs GmbH	Essen, Germany	100.00 %	72
77.	GBH Acquisition GmbH	Essen, Germany	94.80 % 5.20 %	2 1
78.	Baugesellschaft Frankenthal GmbH	Frankenthal (Pfalz), Germany	74.90 %	77
79.	GBH Service GmbH	Heidenheim an der Brenz, Germany	100.00 %	77
80.	GBH Heidenheim Verwaltung GmbH	Heidenheim an der Brenz, Germany	100.00 %	77

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.
81.	Objekt Dresden GbR	Hanover, Germany	50.00 %	42
82.	Lühnde IHG und NILEG GbR	Essen, Germany	50.00 %	42
83.	Grundstücksentwicklungsgesellschaft Oesselse "Langes Feld" GbR	Essen, Germany	50.00 %	42
84.	Wolmirstedt GbR	Essen, Germany	50.00 %	42
85.	Möser GbR	Essen, Germany	50.00 %	42
86.	Danndorf GbR	Essen, Germany	50.00 %	42

Other Financial Assets of 20% or More

No.	Company name	Registered office	Share of capital	Total equity (€k)	Net profit /loss (€k)	Held by No.
87.	Hannover Region Grundstücksgesellschaft Verwaltung mbH & Co. Businesspark Hannover Nord KG	Hanover, Germany	33.33 %	5.8[1)]	– 582.2[1)]	42
88.	Wohnstätten Erste Vermögensverwaltungs GmbH	Heidelberg, Germany	20.00 %	1,196.0[2)]	167.0[2)]	42

1) As of December 31, 2007
2) As of December 31, 2003

OTHER

(2) Statement of Changes in Consolidated Non-Current Assets 2008

€ MILLION	ACQUISITION OR PRODUCTION COSTS					
	Jan. 1, 2008	Change in the consolidated Group	Additions	Disposals	Reclassifications	Dec. 31, 2008
Intangible Assets						
Industrial rights	11.7	– 0.1	0.1	0.5	0.0	11.2
Goodwill	26.6	0.0	0.0	0.0	0.0	26.6
	38.3	**– 0.1**	**0.1**	**0.5**	**0.0**	**37.8**
Property, plant and equipment						
Land and buildings (owner-occupied)	55.3	0.0	0.0	0.0	0.3	55.6
Technical equipment and machines	21.3	– 19.4	1.4	0.0	0.2	3.5
Other equipment, furniture and fixtures	21.8	0.0	1.5	3.3	0.0	20.0
Assets under construction	0.3	0.0	0.2	0.0	– 0.5	0.0
Pre-construction expenses	0.0	0.0	0.0	0.0	0.0	0.0
	98.7	**– 19.4**	**3.1**	**3.3**	**0.0**	**79.1**
Other financial assets						
Investments	2.6	0.0	0.0	0.1	0.0	2.5
Other loan receivables	0.3	0.0	0.0	0.0	0.0	0.3
Other financial assets	8.4	0.0	0.0	5.2	0.0	3.2
	11.3	**0.0**	0.0	**5.3**	**0.0**	**6.0**
Total	**148.3**	**– 19.5**	**3.2**	**9.1**	**0.0**	**122.9**

	ACCUMULATED DEPRECIATION						BOOK VALUE
	Jan. 1, 2008	**Change in the consolidated Group**	**Additions**	**Disposals**	**Reclassifications**	**Dec. 31, 2008**	**Dec. 31, 2008**
	6.0	– 0.1	1.3	0.3	0.0	6.9	4.3
	0.0	0.0	3.0	0.0	0.0	3.0	23.6
	6.0	**– 0.1**	**4.3**	**0.3**	**0.0**	**9.9**	**27.9**
	19.0	0.0	0.9	0.0	0.3	20.2	35.4
	9.0	– 9.4	2.1	0.0	0.0	1.7	1.8
	15.7	0.0	1.7	3.2	0.0	14.2	5.8
	0.0	0.0	0.0	0.0	0.0	0.0	0.0
	0.0	0.0	0.0	0.0	0.0	0.0	0.0
	43.7	**– 9.4**	**4.7**	**3.2**	**0.3**	**36.1**	**43.0**
	1.4	0.0	0.3	0.0	0.0	1.7	0.8
	0.0	0.0	0.0	0.0	0.0	0.0	0.3
	0.1	0.0	0.5	0.0	0.0	0.6	2.6
	1.5	**0.0**	**0.8**	**0.0**	**0.0**	**2.3**	**3.7**
	51.2	**– 9.5**	**9.8**	**3.5**	**0.3**	**48.3**	**74.6**

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
	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
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**

Independent Auditor's report

To the Shareholders of
GAGFAH S.A.
2-4, rue Beck
L-1222 Luxembourg

REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS

Following our appointment by the Board of Directors, we have audited the accompanying consolidated financial statements of GAGFAH S.A., which comprise the balance sheet as at December 31, 2008, 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.

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 in 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 about 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 in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.

An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Board of Directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the financial position of GAGFAH S.A. as of December 31, 2008, 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 management report, which is the responsibility of the Board of Directors, is consistent with the consolidated financial statements.

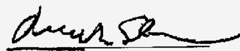
ERNST & YOUNG
Société Anonyme
Réviseur d'entreprises

Bruno DI BARTOLOMEO

Luxembourg, March 24, 2009

Financial Statement Certification

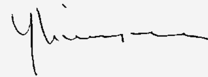
To the best of our knowledge, we hereby confirm that, in accordance with the applicable generally accepted reporting standards, the Consolidated Financial Statements reflect the true asset, financial, and earnings situation of the Group and that the directors' report is a true and fair representation 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.

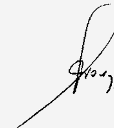

Wesley R. Edens

Robert I. Kauffman

Randal A. Nardone

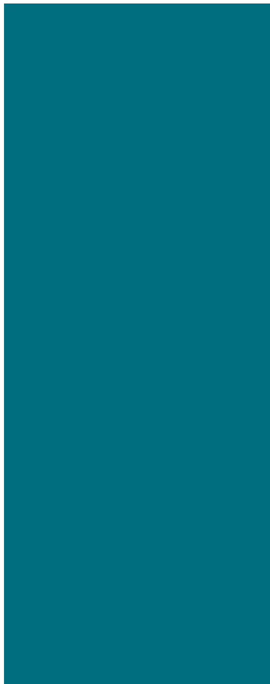
Burkhard U. Drescher

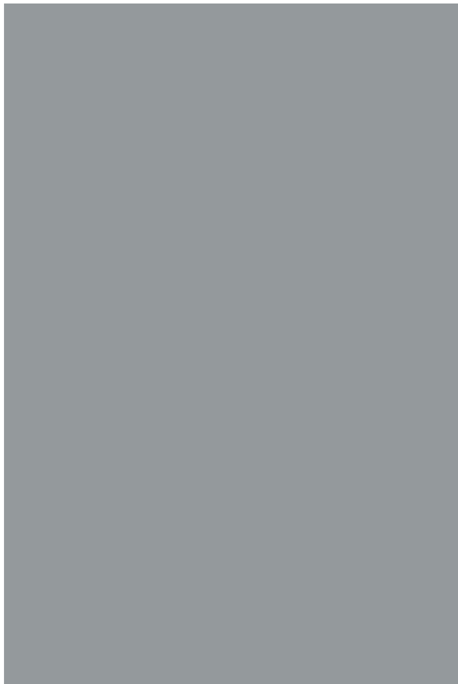

Yves Wagner, PhD

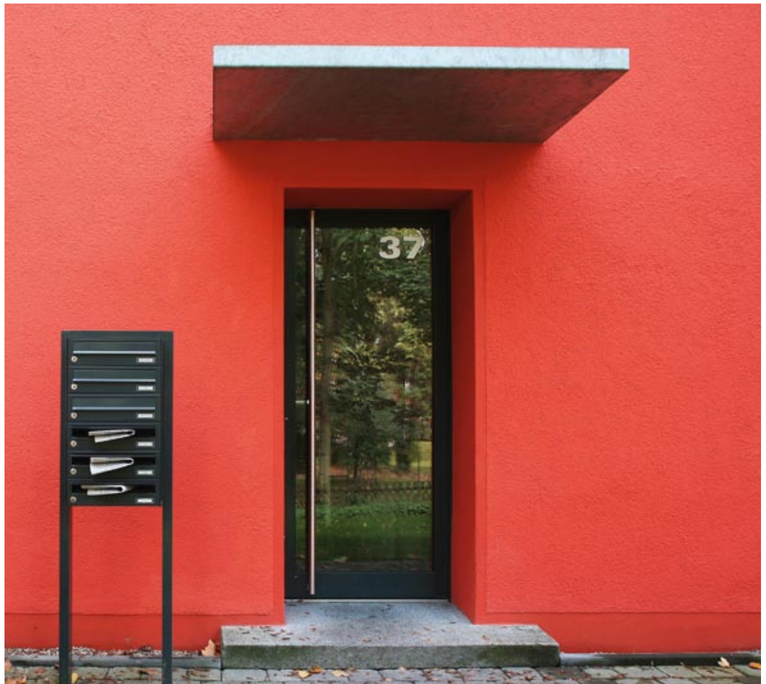

Dieter H. Ristau

Dr. Jürgen Allerkamp

Luxembourg, March 24, 2009



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Financial Calendar

March 25, 2009
Publication of Annual Report 2008

April 21, 2009
Annual General Meeting, Luxembourg

May 2009
Publication of Interim Report – Q1 2009

August 2009
Publication of Interim Report – Q2 2009

November 2009
Publication of Interim Report – Q3 2009

IMPRINT:
GAGFAH S.A.
2-4, RUE BECK
L-1222 LUXEMBOURG
GRAND DUCHY OF LUXEMBOURG

CONCEPT/DESIGN:
3ST KOMMUNIKATION, MAINZ

PRINT:
MWW DRUCK, MAINZ-KASTEL

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GRAND DUCHY OF LUXEMBOURG