GAGFAH

CONSOLIDATED ANNUAL REPORT

2011

GAGFAH at a Glance

GAGFAH S.A. is a joint stock corporation incorporated in Luxembourg and organized under the laws of the Grand Duchy of Luxembourg, qualifying as a securitization company under the Luxembourg Securitization Law of March 22, 2004. The core business of our operating subsidiaries is the ownership and management of a geographically diversified and well-maintained residential property portfolio located throughout Germany. With a portfolio of almost 150,000 apartments, we are the largest residential property company listed in Germany.

Highlights 2011

- **FFO** for 2011 from the core rental business of €0.52 per share. Including the contribution from sales, the Company delivered €0.73 of FFO per share for 2011. Fourth quarter 2011 FFO per share was €0.24 including sales, of which €0.17 came from the core rental business.
- **PROFIT FROM LEASING** was €419.6 million in 2011 compared to €460.1 million in 2010, on an average basis of ca. 12,500 fewer units due to sales.
- **OPERATING PROFIT MARGIN** for 2011 of 48.1 %.
- **OPERATIONS ON TRACK** with 1.5 % same-store rent growth, turnover at 12.0 % and vacancy rate of 5.1 %, all in line with our targets.
- **SALES:** Financial closing of 7,605 units for a total value of €388.8 million. 4,897 of these units for €325.8 million came from our condo and large multi-family homes sales programs out of our core portfolio and the remaining 2,708 units for €63.0 million were non-core asset sales.
- **SHARE DEAL:** In addition, we financially closed the sale of approx. 4,800 units by way of a share deal in the fourth quarter of 2011, generating €330.0 million of gross proceeds and €67.0 million of net cash.
- **COST TO MANAGE** per unit was €380 for 2011 after €374 for 2010 and on an average basis of about 7.0 % fewer units.
- **NAV** of €12.53 per share and gross asset value of €849 per square meter as of December 31, 2011.

City of Dresden Litigation

In the interest of a timely resolution of the disputes and a good and trustful future cooperation, the WOBA companies and the State Capital of Dresden agreed to fully resolve all their disputes by mutual agreement and, on March 2, 2012, entered into a settlement agreement subject to the approval by Dresden's city council and supervisory authority. While the settlement has already been approved by the City Council of Dresden on March 15, it is still subject to formal approval by the legal supervisory authority of Saxony which is expected to be rendered on or before March 21, 2012. Please see the City of Dresden Litigation Section for further details.

COVER ILLUSTRATION: Darmstadt, Germany

Key Financial Information

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

€ MILLION (UNLESS STATED OTHERWISE)	2011	2010	Q4 2011	Q4 2010
Income from the leasing of investment property	872.2	911.5	211.2	215.5
Profit from the leasing of investment property	419.6	460.1	112.2	108.0
Profit from the sale of investment property and assets held for sale	22.0	16.2	6.9	3.5
Loss from the fair value measurement of investment property	- 41.9	- 69.5	- 11.5	- 12.2
EBITDA	326.5	365.8	79.4	87.8
EBIT	306.9	348.3	72.6	80.2
EBT	20.6	51.2	10.6	17.8
FFO	159.5	170.6	48.8	42.0
Weighted average number of shares, undiluted (in million) [1)]	218.8	225.9	207.1	225.9
FFO in € per share [1)]	0.73	0.76	0.24	0.19

GROUP CAPITALIZATION

	12-31-2011 € million	12-31-2011 %	12-31-2010 € million	12-31-2010 %
Total equity	2,136.9	25.5	2,302.7	24.9
Financial liabilities	5,427.9	64.9	6,011.2	64.9
Other liabilities	801.6	9.6	947.8	10.2
Total equity and liabilities	**8,366.4**	**100.0**	**9,261.7**	**100.0**

OPERATIONAL FIGURES (CORE PORTFOLIO)

	12-31-2011	12-31-2010
Group residential portfolio		
Units	148,694	158,314
Sqm	9,027,693	9,597,660
Net cold rent / sqm (in €)	5.11	5.07
Vacancy rate (in %)	5.1	5.2
Sold units (financial closing) [2)]	4,897	7,521

1) Excluding treasury shares.

2) In addition, we closed the sale of 2,708 non-core units in 2011. These numbers do not include the share deal in which we sold approximately 4,800 units.

FFO is a non-IFRS financial measure used by our Group's management to report the funds generated from continuing 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 from EBIT to FFO for our Group:

FUNDS FROM OPERATIONS – FFO

€ MILLION (UNLESS STATED OTHERWISE)	2011	2010	Q4 2011	Q4 2010
EBIT	306.9	348.3	72.6	80.2
Reorganization and restructuring expenses	14.6	12.8	5.9	6.2
Depreciation and amortization	5.0	4.7	0.9	1.4
EBITDA	326.5	365.8	79.4	87.8
Loss from the fair value measurement of investment property	41.9	69.5	11.5	12.2
Realized valuation gains through sales	35.3	7.3	10.0	3.7
Expenses for share-based remuneration	3.8	1.8	0.5	0.2
Net interest expenses	- 290.9	- 296.4	- 61.9	- 64.4
Current tax expenses	- 17.3	- 4.7	- 8.7	- 4.4
Property development business	2.4	- 2.4	- 0.2	0.2
Sales expenses (non-condo)	8.0	26.9	3.7	7.7
Other	49.8	2.8	14.5	- 1.0
FFO	159.5	170.6	48.8	42.0
Weighted average number of shares, undiluted (in million) [1)]	218.8	225.9	207.1	225.9
FFO in € per share [1)]	0.73	0.76	0.24	0.19

1) Excluding treasury shares.

Our performance in 2011

1.5 %

Net cold rent growth (residential same-store basis), in line with our target.

94.9 %

Occupancy rate, slightly up from 94.8 % at the end of 2010.

€380

Cost to manage per unit.

7,605

Units financially closed through our condo and multi-family home sales programs and non-core asset sales. This number does not include the approx. 4,800 units we sold by way of a share deal.

€12.53

Net asset value per share, up 3.0 % from €12.17 as of Dec. 31, 2010.

€306.9 MILLION

EBIT in 2011.

€326.5 MILLION

EBITDA in 2011.

€159.5 MILLION

Funds from Operations (FFO) in 2011.

€0.73

FFO per share, after €0.76 FFO per share in 2010, in spite of approx. 12,500 fewer units on average.

€849

Gross Asset Value per sqm.

DIRECTORS' REPORT

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Letter to our Shareholders

Dear Fellow Shareholders:

In a year of uncertain economic outlook based on macroeconomic issues within the Eurozone and beyond, the German economy maintained its relative stability, growing 3.0 % in 2011. Exports remained strong, helping drive continued improvement in the employment market as evidenced by the 7.1 % unemployment rate for the year. The German economy thus far has largely weathered the financial turmoil that has negatively impacted many other European countries. Against this backdrop, in 2011 the German residential real estate market continued to demonstrate its historic stability, with average rent growth of 1.2 % and an average value increase of 4.7 %

GAGFAH is Germany's largest publicly listed owner and manager of residential real estate with almost 150,000 owned residential units and another 19,000 units that we manage for third parties. We provide safe, affordable housing to about 300,000 people in approximately 350 cities and towns across Germany. On average, our apartments are about 95 % occupied, our tenants stay with us for 11 years, and 19 % of our tenants have been our customers for over 20 years. We offer a full range of real estate management services including facility management for our own assets and third-party owners.

While our 2011 performance was in line with expectations operationally, GAGFAH had come under negative pressure because of a lawsuit in excess of €1 billion that the City of Dresden had brought against certain subsidiaries of GAGFAH S.A. We recently reached an amicable out-of-court settlement with the City of Dresden, for which we anticipate the final regulatory approval shortly. While we have always remained confident in our compliance with all of our contractual obligations and in our legal position, we felt it was in the best interest of the company, our tenants, shareholders and other stakeholders to resolve this dispute and allow us to solely focus on our business. As a result, we have taken a € 30.5 million liability for the cash component of the settlement as of year end.

Our focus in 2011 was to deliver solid operational performance through increased rental growth and a reduction in expenses. We also sought to decrease the discount our shares are valued at compared to net asset value (NAV), primarily by selling assets and using the proceeds to repay debt or otherwise improve our capital structure.

For the year we were able to grow our rents by 1.5 % and reduce our G&A expenses by 7.5 %. Additionally we closed the sale of €720 million in real estate, paid back over €589 million in debt, and bought back over €113 million in shares leading to a 3 % NAV accretion per share.

Our goals for 2012 are threefold. Firstly, to improve our operational performance by selectively targeting segments of our property portfolio for incremental investment that will reposition assets for better rental growth. On average we have increased our property spend year on year from €8.14 to €10.33 per square meter. Our occupancy rate of 94.9 % at the end of 2011 shows that we are on the right track.

Secondly, sell selected assets or parts of our real estate holdings. Demand for residential property continues to grow as investors recognize the value in German real estate. Having sold over €1.7 billion in assets over the past few years at an average premium of 7.5 % over the respective carrying values, GAGFAH is one of the largest potential sources of residential real estate available in Germany. We expect to continue to focus significant efforts on our asset sales program.

Thirdly, improve our capital structure. We are proactively working on dealing with our upcoming debt refinancing requirements. In 2011 we repaid or refinanced €589 million in debt and we have agreed on terms to extend our only 2012 debt maturity. Year on year, the outlook for financing capacity for German residential property has improved and we are optimistic regarding the availability of suitable financing options for GAGFAH. Additionally, as we generate cash from operations and asset sales, we will consider incremental opportunities to accretively buyback shares or otherwise return cash to shareholders.

To summarize, we are broadly satisfied with the operating performance of our company in 2011. The resolution of the dispute in Dresden gives us positive momentum going into 2012. Our operating business remains robust, and we continue to generate stable and largely predictable incomes from a solid portfolio of real estate assets. Going forward, we intend to continue to focus on generating stable operating cash flow and on improving both our balance sheet and property portfolio through active property management and selected asset sales.

We are mindful of the fact that quite some work is still to be done to reach our goal: being the most efficient and cost-effective owner and manager of residential real estate in Germany, while maintaining high standards of care and customer satisfaction.

We thank our staff for their hard work and dedication in providing good quality and affordable housing for our tenants, and thank you as our shareholders for your continued support.

Robert I. Kauffman
Chairman

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 Company is managed by the 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. All powers not expressly reserved by the law or by the Articles of Incorporation of the Company to the General Meeting of Shareholders are within the competence of the Board of Directors.

The Directors are appointed at the Annual 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 Annual 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.

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

WILLIAM J. BRENNAN

YVES WAGNER, PH.D. (INDEPENDENT DIRECTOR)

DIETER H. RISTAU (INDEPENDENT DIRECTOR)

DR. JÜRGEN ALLERKAMP (INDEPENDENT DIRECTOR)

COMMITTEES
The Board of Directors may set up committees.

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

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

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

In addition to the Audit Committee, the Company has a Compensation Committee composed as follows:

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

The purpose of the Compensation Committee is to review the compensation policy, make proposals as to the remuneration of Executive Directors and Senior Management, and advise on any benefit or incentive schemes.

In addition to the above mentioned committees, the Company has a Securities Dealings Committee composed as follows:

Mr. Robert I. Kauffman
Mr. Dieter Ristau
Mr. Yves Wagner, Ph.D.

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

CHANGES IN THE COMPANY'S ARTICLES OF INCORPORATION
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 Incorporation 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 validly cast at the Extraordinary General Meeting of Shareholders.

At the Extraordinary General Meeting of Shareholders held on April 21, 2011, the General Meeting resolved to amend the Articles of Incorporation so as to change the date of the Annual General Meeting of Shareholders to June 12 of each year. At the same meeting, it was resolved to renew and extend the authorized issued share capital to €10.0 billion including the related authorizations and validity period.

The Extraordinary General Meeting of Shareholders further resolved to reduce the issued share capital of the Company by a maximum amount of €70,600,000.00 by the repurchase and cancellation of a maximum of 56,480,000 shares from existing shareholders during a period ending nine (9) months after the date of the Extraordinary General Meeting of Shareholders and to delegate any related powers to the Board of Directors in relation thereto including the determination of the final number of shares to be cancelled.

At the same meeting, it was further resolved to reduce the issued share capital of the Company by cancelling the shares acquired under the Share Buy-back Program of the Company announced on December 7, 2010 (please see section "GAGFAH S.A. Shares" for further details).

As of December 31, 2011, GAGFAH S.A. had a total authorized share capital of €10.0 billion. The Board of Directors has been authorized by the Annual 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 of Directors.

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:

WILLIAM J. BRENNAN
CEO Chief Executive Officer

STEPHEN CHARLTON
CFO Chief Financial Officer
(since January 25, 2011)

NICOLAI KUSS
COO Chief Operating Officer

STEFAN DE GREIFF
CISO Chief Investment and Sales Officer

GAGFAH S.A. Shares

On December 31, 2011, the number of shares of GAGFAH S.A. totaled 221,602,832, of which 15,150,277 shares were held as treasury shares.

With the exception of treasury shares, each share represents one vote and all non-treasury shares are entitled to the same dividend. Voting rights of the shares held in treasury by the Company are suspended for as long as such shares are held in treasury.

The lowest threshold for voting rights notifications according to Luxembourg law is 5.0 %. As of December 31, 2011, the major shareholders of GAGFAH S.A. were as follows (the percentage values are calculated based on the total number of shares in issue, i.e. including treasury shares):

MAJOR SHAREHOLDERS

Shareholder	Number of shares	%
Fortress Residential Investment Deutschland (Fund A) LP	20,626,823	9.31
Fortress Investment Fund III (GAGACQ Subsidiary) LLC	16,539,554	7.46
Fortress Investment Fund III (Fund B) (GAGACQ Subsidiary) LLC	14,141,601	6.38
Fortress Residential Investment Deutschland (Fund B) LP	12,330,464	5.56
Fortress Subsidiary GAGACQ LLC	11,669,744	5.27

GAGFAH S.A., acting through its Board, had been authorized by the Annual General Meeting of Shareholders to purchase, acquire or receive own shares in the Company of up to 25 % of the issued share capital from time to time for a period of five (5) years from April 21, 2010.

At the Annual General Meeting of Shareholders held on April 21, 2011, shareholders resolved, inter alia, to extend the authorization to acquire shares in the Company of up to 25 % of the issued share capital as at April 21, 2011, such authorization being valid for a period of five (5) years from April 21, 2011.

The Extraordinary General Meeting of Shareholders held on April 21, 2010, had resolved to reduce the issued share capital of the Company by a maximum amount of €70,600,000.00 by the repurchase and cancellation of a maximum of 56,480,000 shares from existing shareholders during a period ending nine (9) months after the date of such Extraordinary General Meeting of Shareholders and delegate any related powers to the Board of Directors in relation thereto including the determination of the final number of shares to be cancelled. The Extraordinary General Meeting of Shareholders held on April 21, 2011, resolved on a reduction of the share capital as set forth above.

SHARE BUY-BACK PROGRAM

On December 7, 2010, the Board of Directors of GAGFAH S.A. resolved to proceed to a buy-back of shares (the “Share Buy-back Program”) for a maximum number of shares equivalent to an overall purchase price of up to €125,000,000.00 in accordance with the authorizations granted by shareholders at the Annual and Extraordinary General Meetings of Shareholders of April 21, 2010, and formed a committee for that purpose (the “Buy-back Committee”). Under these authorizations, between December 8, 2010, and July 29, 2011, the Company bought back (and subsequently cancelled) a total of 5,632,247 shares with a proportionate amount of the share capital of €7,040,308.75 and thus approximately 2.5 % of the issued share capital at an average purchase price of €6.79 for a total investment volume of €38,230,084.64 (including incidental acquisition costs).

On December 31, 2010, the number of shares of GAGFAH S.A. totalled 225,972,693, of which 881,128 shares were held in treasury.

On February 16, 2011, the Buy-back Committee resolved, in accordance with the resolutions of the Extraordinary

General Meeting of Shareholders of 2010, to reduce the issued share capital by an amount of €2,390,493.75 through the cancellation of 1,912,395 own shares acquired until January 21, 2011. Further thereto, as of February 16, 2011, the total number of outstanding shares amounted to 225,322,684, of which 1,121,362 were held as treasury shares.

On July 31, 2011, the Board of Directors resolved to end the Share Buy-back Program commenced on December 8, 2010, and on November 28, the 3,719,852 remaining shares bought back between January 22, 2011, and July 29, 2011, were cancelled in accordance with the resolution of the Extraordinary General Meeting of Shareholders of April 21, 2011.

PUBLIC BUY-BACK OFFER

On September 5, 2011, the Board of Directors resolved to proceed to a Public Share Buy-back Offer (cash offer) to shareholders of GAGFAH S.A. for the acquisition of a portion of the shares in the Company for a maximum aggregate consideration of €75,000,000.00 in accordance with the resolutions of the General Meetings of Shareholders held on April 21, 2011.

Under the Public Share Buy-Back Offer that started on September 6, 2011, a total of 20,480,521 shares were tendered to GAGFAH S.A. within the price range from €3.50 to €5.00 and until the expiration of the acceptance period on October 4, 2011 (midnight CET). The final purchase price as determined by the Company was €4.95 per share. As a result of the pro rata allocation, 15,150,277 shares were repurchased by the Company under the Public Share Buy-back Offer.

Following the settlement of the Public Share Buy-back Offer on October 12, 2011, the Company held 18,870,129 own shares, equivalent to approx. 8.37 % of the outstanding share capital, and including 3,719,852 shares acquired under the Share Buy-back Program, which were eventually cancelled on November 28, 2011. As a result of this most recent cancellation of shares, the Company currently holds 15,150,277 own shares in treasury.

GAGFAH S.A. reserves the right to resume share buy-backs or offers in the same or in a different form.

EXERCISE OF STOCK OPTIONS

On January 21, 2011, a total of 1,262,386 stock options were exercised, resulting in an issue of 1,262,386 shares and an increase of the share capital by €1,577,982.50.

CHANGES IN TOTAL SHARES IN ISSUE

Date	Number of shares	
Dec. 31, 2010	**225,972,693**	
	+ 1,247,386	(exercise of stock options)
	+ 15,000	(remuneration Independent Directors)
Jan. 21, 2011	227,235,079	
	- 1,912,395	(cancellation of shares from Share Buy-back Program; tranche 1)
Feb. 16, 2011	225,322,684	
	- 3,719,852	(cancellation of shares from Share Buy-back Program; tranche 2)
Nov. 28, 2011	221,602,832	
Dec. 31, 2011	**221,602,832** [1]	

[1] 15,150,277 of those shares are treasury shares.

GAGFAH S.A. SHARES ON DECEMBER 31, 2011

ISIN	LU0269583422
Security Identification Number	A0LBDT
Reuters Symbol	GFJ.DE
Bloomberg Symbol	GFJ.GR
Xetra share price (€)	3.97
Number of shares excl. treasury shares (million)	206.5
Total market capitalization (€ million)	820.4
Stock exchange	Frankfurt a. M.
Segment (Industry Group)	Real Estate

DIRECTORS' REPORT

Directors' Report

GAGFAH at a Glance

GAGFAH S.A. is a joint stock corporation incorporated in Luxembourg and organized under the laws of the Grand Duchy of Luxembourg, qualifying as a securitization company under the Luxembourg Securitization Law of March 22, 2004. The core business of our operating subsidiaries is the ownership and management of a geographically diversified and well-maintained residential property portfolio located throughout Germany. With a portfolio of almost 150,000 apartments, we are the largest residential property company listed in Germany.

Competitive Strengths

LARGE AND DIVERSE ASSET PORTFOLIO
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. We currently own almost 150,000 apartments totaling more than 9.0 million square meters. 43 % of our core portfolio units are located in the attractive cities of Dresden (ca. 25.3 %), Berlin (ca. 11.4 %) and Hamburg (ca. 6.3 %). The top 20 cities represent more than 70 % of our core residential portfolio.

EFFICIENT OPERATING PLATFORM
Our nationwide presence with 1,173 employees in property and facility management and the size of our business provide us with economies of scale. We have a strong track record of implementing cost efficiencies and seek to further optimize general and administrative expenses. 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, evaluate and acquire portfolios in all key markets throughout Germany. Our assets are directly managed through a streamlined operational network with 19 customer centers in two regions (with ca. 86,000 units in the Region North / South and ca. 63,000 units in the Region Berlin / Dresden). We consider our significant nationwide market presence through our properties located in approximately 350 towns and cities across Germany as 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 tenant stability and improving tenants' quality of accommodation. We intend to keep our occupancy at a high level and to increase rents to market levels to the extent permitted by German law and existing rent restrictions over time. As of December 31, 2011, our overall vacancy rate for our core residential portfolio was 5.1 %, in line with our target. The rental growth rate for 2011 was 1.5 % (on a same-store basis).

INCREASE PROFITABILITY THROUGH OPERATING EFFICIENCIES
We continuously review our cost structure in an effort to further improve our profitability. Our cost to manage per unit was €380 for 2011 after €374 for 2010 and on an average basis of about 12,500 fewer units. We intend to maintain the current level of our cost to manage per unit as we adjust our cost basis in line with our asset sales.

Our Operational Network

Furthermore, we strive to optimize our cost of re-letting vacant units while maintaining our assets in good condition. On the one hand, we are doing almost half of all repair and maintenance work through our cost-efficient, in-house staff. On the other hand, we are using a nationwide operating external service provider for the more complex refurbishment projects, which require different qualifications.

REALIZE VALUE THROUGH ASSET SALES

We financially closed the sale of 7,605 units for a total value of €388.8 million in 2011. Of those units, 3,018 for €248.2 million were condo sales, 1,879 units for €77.6 million were large multi-family home sales, both from our core portfolio, and the remaining 2,708 units for €63.0 million were non-core asset sales from the HB Funds. In addition to these property sales, we also sold approximately 4,800 units by way of a share deal that we financially closed in the fourth quarter of 2011, generating €330.0 million of gross proceeds and €67.0 million of net cash.

As our shares are still trading at a discount to our net asset value, we intend to continue to focus on incrementally realizing the value embedded in our assets. The net proceeds from sales can be used, for example, to repay or repurchase debt, pay dividends or repurchase shares.

OPTIMIZE OUR CAPITAL STRUCTURE

Our properties are primarily financed in ten separate, ring-fenced, non-recourse facilities. The total weighted average interest rate of all our loans is 4.01 % and the weighted average term to maturity is 3.7 years. We believe that the low interest environment and the continued willingness of lenders to provide debt capital will support our financing objectives.

Business Overview

PORTFOLIO

We own a geographically diversified and well-maintained residential property portfolio located throughout Germany, comprising close to 150,000 apartments and totaling more than 9.0 million square meters. The average apartment size is 61 square meters. Approximately 22,000 units (ca. 14.7 %) are publicly subsidized, rent-restricted apartments. The average construction year for our portfolio is 1964, with the majority of our buildings built between the mid 1950s and the mid 1980s. Our portfolio is characterized by a stable tenant base with an average tenant tenure of eleven years and a fluctuation rate of 12.0 %. In 2011, we concluded more than 18,400 new lease agreements. Our occupancy level is at roughly 95 %.

In addition to our core residential apartment portfolio, we own approximately 1,600 commercial units, primarily retail stores located on the ground floor of our residential apartment buildings, and approximately 31,000 parking spaces, which typically belong to our residential apartment buildings. We also manage a number of non-core units, which are held in various closed-end real estate funds (“HB Funds”) that GAGFAH fully consolidates. GAGFAH M, one of GAGFAH S.A.’s operating subsidiaries, acts as trustee and manager of the funds. The sale of these HB Funds assets was initiated in 2010, and out of initially 7,130 units, 6,786 units were sold as of December 31, 2011.

Residential Property Portfolio as of December 31, 2011

Our portfolio is located in approximately 350 towns and cities across Germany, with significant concentrations in Berlin and Dresden alone. The following table illustrates, inter alia, the geographic spread of our residential portfolio:

Top 20 Cities	Units	In % of total sqm	Rental area (sqm)	Average unit size (sqm)	Net cold rent (annualized) (€ million)[1]	In % of total	Net cold rent per month and sqm (€)	Market rent per month and sqm (€)[2]	Vacant %[3]
Dresden	37,658	22.7	2,129,801	57	121.8	20.6	4.77	5.04	5.1
Berlin	16,905	10.9	1,020,773	60	60.9	10.3	4.97	5.22	2.4
Hamburg	9,307	6.4	599,454	64	39.6	6.7	5.51	6.69	0.8
Hannover	6,064	4.1	383,637	63	25.9	4.4	5.62	5.85	6.7
Heidenheim	4,669	3.1	290,342	62	19.0	3.2	5.44	5.46	12.7
Bielefeld	4,172	2.9	276,481	66	15.1	2.6	4.54	4.70	1.8
Osnabrück	3,485	2.3	215,429	62	13.4	2.3	5.17	5.39	2.2
Braunschweig	3,199	2.1	196,643	61	12.3	2.1	5.20	5.41	1.4
Zwickau	3,086	1.8	172,724	56	8.7	1.5	4.18	4.42	15.9
Essen	2,293	1.6	152,143	66	9.7	1.6	5.32	5.72	7.6
Köln	2,040	1.7	161,037	79	12.6	2.1	6.52	6.92	3.2
Freiburg	1,772	1.3	119,615	68	8.8	1.5	6.15	6.92	1.2
Iserlohn	1,677	1.1	106,004	63	5.7	1.0	4.49	4.70	7.5
Bremen	1,538	1.0	97,725	64	5.8	1.0	4.96	4.96	9.0
Bocholt	1,515	1.0	92,507	61	5.5	0.9	4.98	5.35	3.4
Duisburg	1,431	1.0	96,336	67	5.3	0.9	4.58	4.81	21.2
Leverkusen	1,404	1.0	89,835	64	5.9	1.0	5.48	5.76	4.1
Göttingen	1,356	0.8	77,440	57	4.8	0.8	5.16	5.35	0.1
Frankfurt am Main	1,324	0.8	73,915	56	6.6	1.1	7.42	8.15	1.1
Dortmund	1,240	0.9	85,814	69	4.9	0.8	4.73	5.20	1.1
Subtotal Top 20 Cities	**106,135**	**68.6**	**6,437,654**	**61**	**392.3**	**66.4**	**5.08**	**5.43**	**4.8**
Other Cities	42,559	27.6	2,590,039	61	161.3	27.3	5.19	5.42	6.0
Total Core Residential Property Portfolio	**148,694**	**96.1**	**9,027,693**	**61**	**553.6**	**93.7**	**5.11**	**5.43**	**5.1**
Other[4]		**3.9**	**363,212**		**37.3**	**6.3**			**29.1**
		100.0	9,390,905		590.9	100.0			

[1] Annualized rent calculated as net cold rent per square meter as of December 31, 2011, multiplied by number of square meters and by 12 (before vacancy loss and rent reductions).
[2] Market rents were determined by CBRE.
[3] The vacancy rate was calculated on the basis of units.
[4] Includes HB Funds, commercial properties, non-core properties, garages, senior homes and other properties.

Operations

REAL ESTATE MANAGEMENT

Our scalable operating platform is structured to manage our portfolio in an efficient manner. We operate through a streamlined operational network of 19 customer centers in two regions. The customer centers are in close proximity to their dedicated portfolio and tenants. Responsibilities include rent collection, new leases, lease renewals and other tenant issues as well as property management tasks. Our customer centers concluded more than 18,400 new lease agreements in 2011. Our on-site caretakers perform almost half of all repair and maintenance work as well as the typical facility management tasks, such as gardening, snow removal, etc. Our nationwide network of customer centers and caretakers provides us with real-time information and direct knowledge of the needs of our tenants, supporting our continuous efforts to retain existing tenants and attract new ones. This allows us to maintain an in-depth knowledge of the regional residential markets in Germany. All our corporate functions, such as human resources, accounting, controlling and treasury, are centralized.

SALES

We financially closed the sale of 7,605 units for a total value of €388.8 million in 2011. Of those units, 3,018 for €248.2 million were condo sales, 1,879 units for €77.6 million were large multi-family home sales, both from our core portfolio, and the remaining 2,708 units for €63.0 million were non-core asset sales from the HB Funds. In addition to these property sales, we also sold approximately 4,800 units by way of a share deal that we financially closed in the fourth quarter of 2011, generating €330.0 million of gross proceeds and €67.0 million of net cash.

Industry

OVERALL ECONOMIC DEVELOPMENT

After the strongest GDP contraction in the history of the Federal Republic of Germany in 2009 with - 5.1 %, the German economy rebounded strongly in 2010 (3.7 %) and continued to show considerable growth in 2011 with a GDP of 3.0 %. This was well above the German ten-year average (0.9 %) as well as above the estimated Eurozone average for 2011 of 1.4 % (Source: German Federal Statistics Office and European Commission). At the same time, the ongoing sovereign debt crisis and the turmoil in the financial markets are taking their toll on the German economy, too, and forecasts for 2012 are considerably lower than the growth seen in the two prior years. The European Commission forecasts a GDP increase of 0.6 % for 2012, and the German Ministry for Economic Affairs expects the GDP growth to come out at 0.7 %, which would still be above the Eurozone as a whole, for which the European Commission estimates a negative GDP of -0.3 %.

While the German economy has traditionally been largely driven by exports, domestic demand has taken over a stronger role and is expected to continue to be a crucial factor going forward (Source: Federal Ministry of Economic Affairs). The robust economic performance has had positive impacts first and foremost on the labor market. The unemployment rate continued to drop and averaged 7.1 % for 2011, after 7.7 % for 2010. This positive development is expected to continue, and the average unemployment rate for 2012 is estimated to be 6.8 %. The absolute number of employed persons exceeded 40.5 million in 2011, which represents the highest number since reunification (Source: Federal Ministry of Economic Affairs).

The further development of the economy both in Germany and abroad largely depends on when and to what extent the current crisis can be overcome and whether confidence in the financial markets can be restored anytime soon.

GERMAN RESIDENTIAL REAL ESTATE MARKET

At the beginning of 2011, the net asset value of residential assets (valued at their respective replacement costs) totaled more than €4.2 trillion and hence made up more than half of the total amount of Germany's net asset value (Source: CBRE).

With about 40.2 million residential units, the German housing market is the largest in Europe (Source: German Federal Statistics Office). About 40 % of the units are inhabited by owner-occupiers, approximately 37 % are owned and let by retail investors, and the remaining 23 % are in the hands of commercial owners such as private and public companies, cooperatives, local and regional government entities, etc. (Source: German Housing Association GDW).

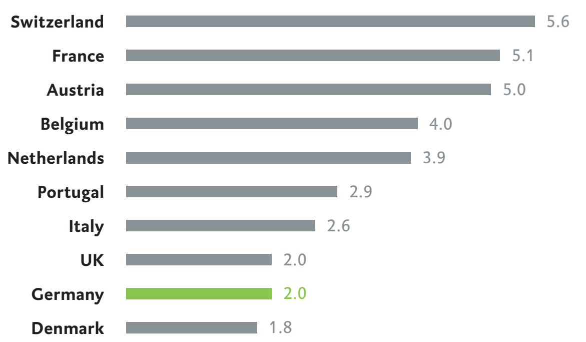
Construction activity in the residential sector has been comparatively low and is expected to stay flat for the coming years, in spite of careful estimates of slightly higher numbers. While the latter part of the 1990s saw up to 600,000 and more new residential units built per year, this volume has dropped significantly over the past ten years to only about 188,000 residential building permits in 2010 (Sources: German Federal Statistics Office, Association of Construction Industry). The LBS (home financing partners of the German Savings and Loan Association) estimate that the number of building permits will be somewhat higher for 2011 but at the same time concedes that due to the time lag between a building permit and the actual construction, the construction volume for 2011 will probably not be above 200,000 new units.

AVERAGE ANNUAL NEW RESIDENTIAL CONSTRUCTION VOLUME (IN '000)

Source: Federal Statistics Office, Federal Department for Construction and Urban Development
A = actual; E = estimate

The declining residential construction activity of the past 15 years has put Germany at the bottom in Europe with respect to new residential constructions. While Germany ranked second after Ireland for new constructions per 1,000 inhabitants in 1995, the strong decline in residential construction activity in Germany and the continuously high residential construction levels in many European countries have put Germany at the end of the table (Sources: CBRE, Euroconstruct, LBS).

RESIDENTIAL CONSTRUCTIONS PER 1,000 INHABITANTS (2011 FORECAST)



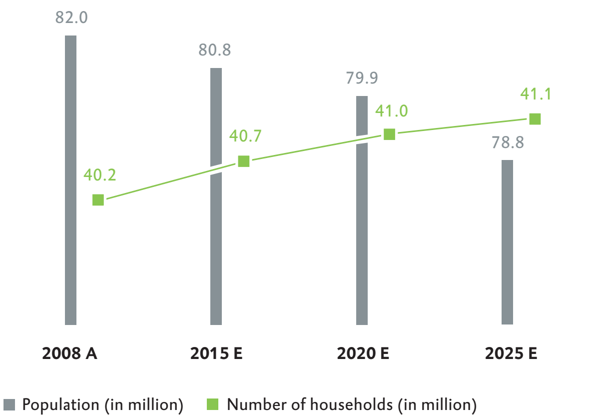
Source: CBRE, Euroconstruct, LBS

The Federal Department for Construction and Urban Development forecasts an annual new construction volume of 183,000 units annually between 2010 and 2025. The insecurity created by the financial turmoil may be responsible for redirecting some additional capital into real estate, but even a slightly higher level of new supply would probably be too low to cover the demand. Estimates for residential construction requirements range from 270,000 to 350,000 units per year until 2025 (Source: LBS). We believe that comparatively high construction costs, the scarcity of land available for new constructions, low risk-adjusted returns for developers and strict regulations are among the main reasons for the continued low level of new supply.

DEMOGRAPHIC DEVELOPMENT

In its “medium scenario”, the German Federal Statistics Office forecasts the population in Germany to decline from 82.0 million in 2008 to 78.8 million by 2025. During the same period, however, the number of households is expected to increase by 2.2 % to then 41.1 million. According to this estimate, it is especially smaller households that will grow. According to the Federal Statistics Office, the number of one- and two-person households will rise by more than 10 %, while the number of households with three or more persons will decline by more than 20 %. This would underline an ongoing trend: Today, nearly three quarters of all households comprise no more than one or two persons; in 1960, less than half of all households were home to only one or two persons (Source: Deutsche Bank).

DEVELOPMENT OF OVERALL POPULATION AND HOUSEHOLDS



Source: Federal Statistics Office
A = actual; E = estimate

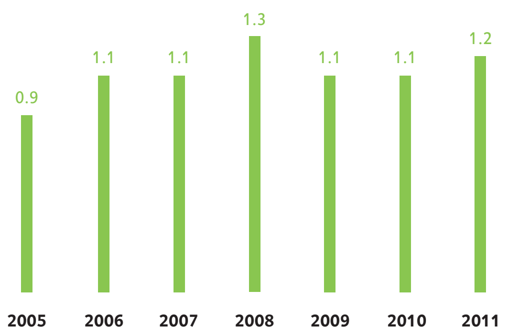
Given the limited new supply of housing, this development should lead to an increase in the demand of residential units. We expect these trends to have a positive impact on residential rents and prices.

DEVELOPMENT OF HOUSING AND RENTAL PRICES

Property values in Germany have been traditionally stable even in economically turbulent times. Many countries in Europe and elsewhere have seen significant value appreciations followed by severe price contractions, as evidenced by the subprime crisis in the United States or the housing crisis in Ireland. German property values have mostly moved sideways. The hypoport index, for example, a monthly index that tracks price levels of existing and new homes, grew by 4.7 % between 2005 and 2011. Nonetheless, residential prices in Germany have experienced an uplift in 2011 as a result of higher demand. It is generally believed that due to the financial crisis, investors have been increasingly looking for low-risk investments. This is evidenced by the transaction volume for residential assets as well: Depending on the research source, the total residential transaction volume in 2011 was between €4.8 billion and €6.2 billion of residential assets, in any case higher than in the previous year (Source: CBRE, Jones Lang LaSalle, Dr. Lübke, Savills).

The overall steady development of prices is evident in net cold rent levels for residential units as well. The annual net cold rent growth in Germany was in the range of 0.9 % and 1.3 % between 2005 and 2011.

AVERAGE NET COLD RENT GROWTH IN GERMANY (IN %)



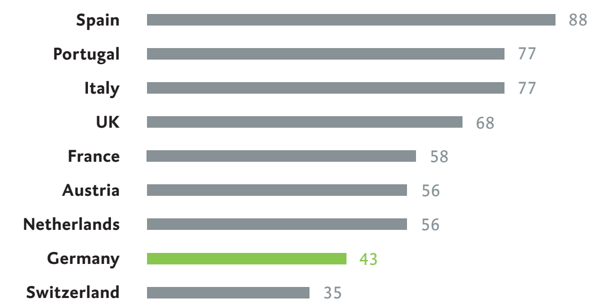
Source: Federal Statistics Office

This moderate growth rate is not homogeneous throughout Germany. Larger cities such as Berlin, Dresden or Hamburg have shown much stronger average net cold rent growth, while some smaller cities and towns have shown little to no growth in the past years (Source: empirica).

HOME OWNERSHIP RATE

Germany has one of the lowest home ownership rates in Europe with 43 %. While some German Federal States show home ownership rates of close to 60 %, others have rates as low as 16 %. Hence, less than half of all German households live in their own home compared to an average of 65 % in the European Union (Source: CBRE). Against the backdrop of continued availability of financing for potential home owners and the widespread belief that owning one's own home is a cornerstone of one's old age provision, the home ownership rate is likely to increase. Forecasts prepared by the Federal Institute for Construction and Urban Research see the home ownership rate in Germany rising to about 47 % by 2020.

HOME OWNERSHIP RATE (IN %)



Source: CBRE

FINANCING ENVIRONMENT

Real estate companies in Germany and abroad have traditionally used a significant amount of debt to finance their business, and such debt has largely been collateralized by the real estate assets. The ratio between financial liabilities and investment properties is usually referred to as loan-to-value ratio (LTV). With only few exceptions, the average LTV of listed German real estate companies has been consistently higher than the average LTV of European listed real estate companies since 2006. While LTV peaks between 2004 and the end of 2011 have at times been close to 70 %, the LTV has usually moved in a bandwidth of between 40 % and 60 % in Germany (Source: European Public Real Estate Association, EPRA).

About 14 % of the EPRA European constituents will face debt maturities over the next 12 months, with another 61 % having to refinance their debt within the next one to five years (Source: EPRA). The total financial liabilities of all EPRA European constituents amount to just under €100 billion.

While the disruptions in the financial markets in general have given rise to concerns that a growing number of companies may encounter difficulties in extending or refinancing their financial liabilities, there is also increasing evidence of successful financial transactions across Europe. Researchers at Credit Suisse counted financing transactions in excess of €5.5 billion in December 2011 alone.

Similarly, researchers at Goldman Sachs see reasons for many listed landlords to be positive with respect to financing. Risks may still be significant, given the financial markets' volatility and general uncertainty, but at the same time, there are positive indications as well. Especially the low base rates and positive financing deals at attractive spreads in recent months give reason to be optimistic.

In terms of interest rates, the risk premium required by lenders may be higher than some years ago; however, the underlying base rates, to which the risk premium is added, have come down significantly in the wake of the current low-interest environment. Five-year Euro swap rates, for example, which are often used as a benchmark, were between 2.5 % and more than 5.0 % between 2002 and the end of 2008 and were as low as 1.7 % at the end of 2011 (Source: Bloomberg).

Our 1,173 employees in property management and facility management serve 300,000 people in almost 150,000 apartments in about 350 cities and towns across Germany.

ILLUSTRATION: Aschheim, Germany

Results of Operations, Net Worth and Financial Position

Consolidated Statement of Comprehensive Income for the period from January 1 to December 31, 2011

€ MILLION (UNLESS STATED OTHERWISE)	2011	2010	Q4 2011	Q4 2010
Income from the leasing of investment property	872.2	911.5	211.2	215.5
Transferable leasehold land interest	- 2.0	- 2.1	- 0.4	- 0.3
Operating expenses for the generation of rental income (excluding share-based remuneration)	- 450.6	- 449.3	- 98.6	- 107.2
Profit from the leasing of investment property	**419.6**	**460.1**	**112.2**	**108.0**
Income from the sale of investment property and assets held for sale	388.8	531.5	116.6	156.8
Carrying amount of the sold investment property and assets held for sale	- 366.8	- 515.3	- 109.7	- 153.3
Profit from the sale of investment property and assets held for sale	**22.0**	**16.2**	**6.9**	**3.5**
Loss from the fair value measurement of investment property	**- 41.9**	**- 69.5**	**- 11.5**	**- 12.2**
Income from the sale of property development projects	2.2	11.8	0.4	6.0
Carrying amount of property development projects sold	- 1.8	- 8.0	- 0.3	- 6.0
Profit from the sale of property development projects	**0.4**	**3.8**	**0.1**	**0.0**
Profit from other services	3.7	5.0	0.0	1.4
Selling expenses (excluding share-based remuneration)	- 17.5	- 26.7	- 6.9	- 11.8
General and administrative expenses (excluding share-based remuneration)	- 35.0	- 37.9	- 7.6	- 8.7
Expenses for share-based remuneration	- 3.8	- 1.8	- 0.5	- 0.2
Other operating income	34.3	20.2	26.9	9.8
Other operating expenses	- 60.2	- 8.3	- 41.2	- 3.4
Profit from operations before reorganization and restructuring expenses	**321.6**	**361.1**	**78.4**	**86.4**
Reorganization and restructuring expenses	- 14.6	- 12.8	- 5.9	- 6.2
Profit from operations	**307.0**	**348.3**	**72.5**	**80.2**
Loss / profit from other financial assets	- 0.1	0.0	0.1	0.0
Earnings before interest and taxes (EBIT)	**306.9**	**348.3**	**72.6**	**80.2**
Interest expenses	- 293.3	- 298.0	- 62.4	- 65.3
Interest income	2.4	1.6	0.5	0.9
Other financial expenses	- 0.1	- 0.7	0.0	- 0.1
Profit from the fair value measurement of derivatives	6.0	4.1	1.2	2.3
Interest expenses (refinancing)	- 1.3	- 4.1	- 1.3	- 0.2
Net financing expenses	**- 286.3**	**- 297.1**	**- 62.0**	**- 62.4**
Earnings before taxes (EBT)	**20.6**	**51.2**	**10.6**	**17.8**
Income taxes	- 38.5	- 51.8	- 13.4	- 29.2
Net loss / profit (Total comprehensive income)	**- 17.9**	**- 0.6**	**- 2.8**	**- 11.4**
Net loss / profit (Total comprehensive income) attributable to:				
Non-controlling interests	- 1.5	- 8.3	- 1.8	2.4
Shareholders of the parent company	- 16.4	7.7	- 1.0	- 13.8
Weighted average number of shares, undiluted (in million)	218.8	225.9	207.1	225.9
Weighted average number of shares, diluted (in million)	221.1	228.6	209.3	228.6
Earnings per share (in €)	- 0.07	0.03	0.00	- 0.06
Diluted earnings per share (in €)	- 0.07	0.03	0.00	- 0.06

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.

The income from the leasing of investment property breaks down as follows:

€ MILLION	2011	2010	Q4 2011	Q4 2010
Rental income, fees	594.1	630.1	149.3	155.9
Allocations charged	276.5	279.7	61.4	58.9
Other	1.6	1.7	0.5	0.7
Total	**872.2**	**911.5**	**211.2**	**215.5**

Income from the leasing of investment property includes rental income, allocations charged and rents from subsidized apartments. In 2011, our income from the leasing of investment property was €872.2 million, compared to €911.5 million in 2010.

Approximately 68 %, or €594.1 million, of income from leasing was attributable to rental income. The decrease in rental income is mainly due to an average of 7.0 % fewer units, as our average number of properties decreased by approximately 12,500 units in 2011. Rental income mainly consists of net cold rent, which grew on a same-store basis by 1.5 % to €5.11 per square meter since the end of 2010, in line with our 2011 target. Approximately 32 %, or €276.5 million, of income from leasing was related to charges to tenants for recoverable expenses (allocations charged).

Rental income is net of vacancy. Our overall vacancy rate for our core residential portfolio was at 5.1 % at the end of 2011, in line with our target and slightly better than at the end of 2010. We estimate the stabilized occupancy rate for our current portfolio at around 95 %.

OPERATING EXPENSES FOR THE GENERATION OF RENTAL INCOME

In 2011, our operating expenses for the generation of rental income totaled €450.6 million and were thus on the same level as in 2010.

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

€ MILLION	2011	2010	Q4 2011	Q4 2010
Real estate operating expenses	247.2	252.4	57.8	55.3
Real estate tax	26.3	27.6	3.1	3.7
Operating expenses recoverable from tenants	**273.5**	**280.0**	**60.9**	**59.0**
Repair and maintenance costs	76.5	61.0	15.2	18.6
Personnel expenses	55.1	61.0	12.8	16.1
Bad debt allowances	7.9	8.4	1.1	2.1
External costs for real estate management	8.8	9.0	2.6	3.1
Administrative expenses	6.9	7.1	2.0	1.9
Real estate operating expenses	5.0	5.1	1.1	1.6
Real estate tax	0.4	0.4	0.1	0.2
Amortization and depreciation on intangible assets and property, plant and equipment	2.3	2.4	0.5	0.7
Other	14.2	14.9	2.3	3.9
Non-recoverable operating expenses	**177.1**	**169.3**	**37.7**	**48.2**
Operating expenses for the generation of rental income	**450.6**	**449.3**	**98.6**	**107.2**

Operating expenses for the generation of rental income include expenses that are mainly recoverable from our tenants, such as heating, electricity, water, sewage and real estate taxes, and non-recoverable expenses such as repair and maintenance costs and personnel expenses.

Operating expenses recoverable from our tenants decreased to €273.5 million in 2011, compared to €280.0 million in 2010, mainly as a result of a smaller portfolio. Non-recoverable operating expenses increased to €177.1 million in 2011 from €169.3 million in 2010. This increase was driven by higher expenses for repairs and maintenance, as planned.

In line with our announcement to increase repair and maintenance expenses, we spent €76.5 million, compared to €61.0 million in 2010. Including the work carried out by our 100 % affiliated facility management companies, to allow for a like-for-like comparison with other housing companies, our repair and maintenance expenses in 2011 were €10.23 per square meter.

Personnel expenses were €55.1 million in 2011, down 9.7 % from €61.0 million in 2010. This decline is mainly the result of a slightly lower headcount as a consequence of a smaller portfolio due to sales. We continue to do a large share of the repairs and maitenance work in-house because we believe that doing this type of work with our own resources enables us to respond to our tenants' needs more quickly and provide a better service.

External costs for real estate management mainly include marketing expenses in connection with GAGFAH's leasing of rental units. In 2011, these costs were €8.8 million and thus broadly in line with the previous year.

PROFIT FROM THE LEASING OF INVESTMENT PROPERTY

The profit from the leasing of investment property was €419.6 million in 2011 compared to €460.1 million in the previous year. The decline is mainly the result of approximately 12,500 fewer average units in 2011 and the higher repair and maintenance expenses in line with our investment plan. The operating profit margin, calculated as profit from the leasing over income from the leasing, was 48.1 % in 2011.

The profit from the leasing of investment property represents the excess of income from the leasing of investment property over land rent expenses and the related operating expenses for the generation of rental income and is computed as follows:

€ MILLION	2011	2010	Q4 2011	Q4 2010
Rental income, fees	594.1	630.1	149.3	155.9
Allocations charged	276.5	279.7	61.4	58.9
Other	1.6	1.7	0.5	0.7
Income from the leasing of investment property	**872.2**	**911.5**	**211.2**	**215.5**
Transferable leasehold land interest	- 2.0	- 2.1	- 0.4	- 0.3
Operating expenses for the generation of rental income	- 450.6	- 449.3	- 98.6	- 107.2
Profit from the leasing of investment property	**419.6**	**460.1**	**112.2**	**108.0**

SALE OF INVESTMENT PROPERTY AND ASSETS HELD FOR SALE

We financially closed the sale of 7,605 units for a total value of €388.8 million in 2011. Of those units, 3,018 units for €248.2 million were condo sales, 1,879 units for €77.6 million were large multi-family home sales, both from our core portfolio, and the remaining 2,708 units for €63.0 million were non-core asset sales from the HB Funds. In addition to these property sales, we also sold approximately 4,800 units by way of a share deal that we financially closed in the fourth quarter of 2011, generating €330.0 million of gross proceeds and €67.0 million of net cash.

TOTAL SALES IN 2011

€ MILLION	From 2010 Program	From 2011 Program	Total 2011
Closed	218.0	170.8	388.8
Notarized	1.6	10.5	12.1
Total closed and notarized in 2011	**219.6**	**181.3**	**400.9**

The net profit from the sale of investment property and assets held for sale is the excess of the income over the carrying amounts of the sold investment property and assets held for sale. Recognizing disposition costs, such as external broker fees, capex (pro rata) and marketing costs, net profit from the condo sales program was as follows:

CONDO SALES (FINANCIALLY CLOSED)

	2011	2010	Q4 2011	Q4 2010
Sold units	3,018	984	860	320
Sold sqm	188,594	66,331	58,455	21,611
	2011 € million	**2011 € per unit**	**2011 € per sqm**	**Q4 2011 € million**
Gross disposition proceeds	248.2	82,241	1,316	70.5
Book value [1]	- 190.8	- 63,234	- 1,012	- 53.6
Disposition costs [2]	- 12.6	- 4,187	- 67	- 3.7
Net profit	**44.7**	**14,820**	**237**	**13.2**
Net profit margin	**22.0 %**	**22.0 %**	**22.0 %**	**23.0 %**

[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 FROM FAIR VALUE MEASUREMENT OF INVESTMENT PROPERTY

The value of our investment properties including assets held for sale amounts to €7,975.0 million or a net cold rent multiplier of 13.4 as of December 31, 2011. The IAS 40 valuations for the investment properties indicated a net loss from fair value measurement of €41.9 million or 0.5 % over the values of our investment properties as of December 31, 2010.

As in previous quarters, the Q4 valuation was done by CBRE, an independent appraiser. Their 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 computed on a property-by-property basis. The DCF model is based on a detailed planning period of ten years, within which the relevant real estate cash flow components are forecast 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, a net present value is calculated for the remaining useful life. For more information on the valuation please see the Notes section C.3. “Investment Property” (Accounting Policies) and section E.2. “Investment Property” (Notes to the Consolidated Statement of Financial Position).

EBT CONTRIBUTION OF PROPERTY DEVELOPMENT BUSINESS

The earnings before taxes (EBT) contribution of the property development business was as follows:

€ MILLION	2011	2010	Q4 2011	Q4 2010
Income from the sale of property development projects	2.2	11.8	0.4	6.0
Carrying amount of property development projects sold	- 1.8	- 8.0	- 0.3	- 6.0
Profit from the sale of property development projects	**0.4**	**3.8**	**0.1**	**0.0**
Selling expenses (excluding share-based remuneration)	- 0.1	- 0.1	0.0	- 0.1
Other operating income	2.1	2.2	1.4	0.9
Other operating expenses	- 4.7	- 3.3	- 1.2	- 1.0
Earnings before interest and taxes (EBIT)	**- 2.3**	**2.6**	**0.3**	**- 0.2**
Net interest expenses	- 0.1	- 0.2	- 0.1	0.0
Earnings before taxes (EBT)	**- 2.4**	**2.4**	**0.2**	**- 0.2**

OTHER INCOME AND EXPENSE ITEMS

€ MILLION	2011	2010	Q4 2011	Q4 2010
Profit from other services	3.7	5.0	0.0	1.4
Selling expenses	- 17.5	- 26.7	- 6.9	- 11.8
General and administrative expenses	- 35.0	- 37.9	- 7.6	- 8.7
Expenses for share-based remuneration	- 3.8	- 1.8	- 0.5	- 0.2
Other operating income	34.3	20.2	26.9	9.8
Other operating expenses	- 60.2	- 8.3	- 41.2	- 3.4
Total	**- 78.5**	**- 49.5**	**- 29.3**	**- 12.9**

Other income and expense items for our Group totaled a net expense of €78.5 million in 2011 compared to a net expense of €49.5 million in 2010.

Selling expenses consist of costs for external brokers, personnel expenses and marketing expenses for our sales business. In 2011, selling expenses were €17.5 million, down 34.5 %, reflecting the smaller large multifamily home sales volume in 2011 compared to the previous year.

General and administrative expenses mainly consist of personnel costs, IT costs, consulting fees, depreciation and office costs. In 2011, general and administrative expenses were down 7.7 % to €35.0 million compared to €37.9 million in 2010. The reduction is mainly the result of our ongoing efforts to optimize our cost structure.

Expenses for share-based remuneration mainly relate to option programs for GAGFAH Management and amounted to expenses of €3.8 million in 2011 after €1.8 million in 2010. The increase is the result of additional expenses in the context of a new stock option plan issued in 2011.

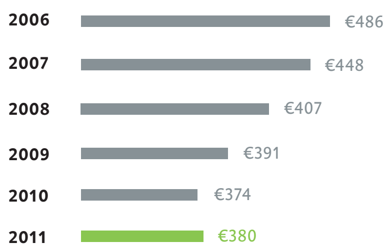
All income not directly allocable to the various categories of income according to the cost of sales method is disclosed under other operating income. In 2011, other operating income amounted to €34.3 million after €20.2 million in 2010. The increase is largely attributable to the deconsolidation result of €22.2 million after selling approximately 4,800 units by way of a share deal.

Other operating expenses totaled €60.2 million in 2011 after €8.3 million in 2010. This increase is mostly attributable to the settlement agreement with the State Capital of Dresden, ending the legal disputes between the State Capital of Dresden and certain subsidiaries of GAGFAH S.A. As a result of this settlement, which is expected to be formally approved and put in force by the legal supervisory authority of Saxony within the next days, the WOBA companies agreed to pay nine annual installments of €4.0 million each plus up to €4.0 million for litigation expenses incurred by the State Capital of Dresden. Consequently, the other operating expenses include a total amount of €44.9 million related to the settlement, made up of €30.5 million liabilities for the agreed cash payment (€36.0 million discounted with 3.59 %), €7.3 million provisions for legal expenses and €7.1 million for legal expenses already incurred.

MANAGEMENT COST PER UNIT

Our cost to manage was €380 for 2011 after €374 for 2010 and on an average basis of about 12,500 fewer units.

MANAGEMENT COST PER UNIT



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 our existing operations. In 2011, reorganization and restructuring expenses were €14.6 million, as compared to €12.8 million in 2010. Reorganization expenses in 2011 mainly included compensation payments in connection with the cancellation of an outsourcing contract with a maintenance service provider, allowing GAGFAH GROUP to increasingly insource maintenance services, and severance payments.

EARNINGS BEFORE INTEREST AND TAXES (EBIT)

In 2011, our EBIT was €306.9 million after €348.3 million in 2010. Adjusted for valuation effects, the EBIT was €348.8 million in 2011 after €417.8 million in 2010.

NET FINANCING EXPENSES

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

€ MILLION	2011	2010	Q4 2011	Q4 2010
Interest expenses related to loans	- 238.1	- 253.3	- 58.5	- 62.8
Prepayment fees	- 22.0	- 18.0	2.3	- 2.3
Other	- 33.2	- 26.7	- 6.2	- 0.2
Total interest expenses	**- 293.3**	**- 298.0**	**- 62.4**	**- 65.3**
Interest income	2.4	1.6	0.5	0.9
Other financial expenses	- 0.1	- 0.7	0.0	- 0.1
Profit from the fair value measurement of derivatives	6.0	4.1	1.2	2.3
Interest expenses (refinancing)	- 1.3	- 4.1	- 1.3	- 0.2
Net financing expenses	**- 286.3**	**- 297.1**	**- 62.0**	**- 62.4**

Net financing expenses decreased to €286.3 million in 2011 after €297.1 million in 2010. Total interest expenses declined to €293.3 million from €298.0 million during the same period the year before. Of the total interest expenses, interest expenses related to loans decreased by 6.0 % to €238.1 million in 2011 after €253.3 million in 2010. This decrease results from the paydown of debt mainly related to sales.

The prepayment fees of €22.0 million are mainly related to the early repayment of a loan associated with the sale of the disposal group, a share deal transaction in which we sold approximately 4,800 units.

The line item Other mainly includes the amortization of financial liabilities and the interest share of pension obligations.

EARNINGS BEFORE TAXES (EBT)

In 2011, our Group's EBT was €20.6 million after €51.2 million in 2010. Earnings before taxes are computed as earnings before interest and taxes (EBIT) of €306.9 million reduced by net financing expenses of €286.3 million.

INCOME TAXES

Income tax expenses for 2011 of €38.5 million (2010: €51.8 million) comprise deferred tax expenses of €21.2 million (2010: €47.1 million) and effective tax expenses of €17.3 million (2010: €4.7 million).

NET ASSET VALUE

The NAV per share grew by 3.0 % to €12.53 at the end of 2011 after €12.17 at the end of 2010. The lower shareholders' equity, the deferred taxes on investment property and assets held for sale and the small loss from the fair value measurement were offset by the positive impact from the buying back of own shares.

€ MILLION (UNLESS STATED OTHERWISE)	12-31-2011	12-31-2010
Shareholders' equity	2,103.1	2,240.8
Deferred taxes on investment property and assets held for sale	482.9	498.8
NAV	2,586.0	2,739.6
Number of shares (excluding treasury shares) (in million)	206.5	225.1
NAV per share (in €)	12.53	12.17

Financial Position

GROUP CAPITALIZATION

As of December 31, 2011 and 2010, the Group's equity and liabilities were as follows:

	12-31-2011 € million	12-31-2011 %	12-31-2010 € million	12-31-2010 %
Total equity	2,136.9	25.5	2,302.7	24.9
Financial liabilities	5,427.9	64.9	6,011.2	64.9
Other liabilities	801.6	9.6	947.8	10.2
Total equity and liabilities	**8,366.4**	**100.0**	**9,261.7**	**100.0**

As of December 31, 2011, the Group's financial liabilities primarily comprised of the following liabilities:

	Carrying amount as of 12-31-2011	Notional amount as of 12-31-2011	Weighted average years to maturity	Current interest rate	Fixed or secured interest rate
Term loans	4,762.8	4,738.5	1.8	4.08 %	fixed
Term loans	312.0	303.8	0.5	5.19 %	secured [1)]
Senior debt	338.0	414.8	27.3	2.29 %	fixed
Other	15.1	15.1	7.0	5.73 %	fixed
Total	**5,427.9**	**5,472.2**	**3.7**	**4.01 %**	

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

Our tenants stay in our apartments for an average of 11 years. 19 % of our tenants stay 20 years or longer.

ILLUSTRATION: Duisburg, Germany

The difference between the notional amount and the carrying amount as shown in the Consolidated Statement of Financial Position results mainly from the fair value measurement at initial recognition of senior debts, transaction costs and interest accruals.

Net Assets

The Consolidated Statement of Financial Position of GAGFAH GROUP breaks down as follows:

€ MILLION	12-31-2011	12-31-2010
Non-current assets	8,017.7	8,572.4
Current assets	327.0	475.9
Assets held for sale	21.7	213.4
Total assets	**8,366.4**	**9,261.7**
Equity	2,136.9	2,302.7
Non-current liabilities	5,577.2	6,216.2
Current liabilities	652.3	742.8
Total equity and liabilities	**8,366.4**	**9,261.7**

Non-current assets amount to €8,017.7 million, of which 99.2 % relate to investment property of €7,953.3 million and 0.5 % to property, plant and equipment of €41.6 million. Non-current assets make up 95.8 % of total assets (€8,366.4 million).

Current assets amount to € 327.0 million, of which 6.7 % is comprised of inventories of € 21.8 million and 61.2 % is cash and cash equivalents (€200.1 million).

Non-current liabilities of € 5,577.2 million as of the balance sheet date were mainly comprised of financial liabilities of € 5,006.4 million and deferred tax liabilities of €273.3 million.

Dividends

In order to retain additional flexibility and financial resources within the business and to support the property investment and financing objectives, the Board decided not to pay any dividends for 2011.

GAGFAH S.A. had declared a dividend for the fourth quarter of 2010 of €0.10 per share, which was paid out on April 12, 2011, to shareholders of record as of March 30, 2011.

Significant Events after the Reporting Date

FINANCING

On February 24, 2012, a subsidiary of GAGFAH S.A. concluded a term sheet with its current lender for extending the approximately €270 million term loan for GBH Acquisition GmbH. Under the conditions of this term sheet, the lender proposed to extend the existing term loan for one year plus another one-year extension option and GBH Acquisition GmbH has accepted. As part of the contract, GAGFAH GROUP will provide an upfront cash reserve of €10.0 million available for a capital expenditure program.

CITY OF DRESDEN LITIGATION

On March 31, 2011, the State Capital of Dresden had filed substantially identical actions against WOBA HOLDING GMBH and certain subsidiaries of WOBA HOLDING GMBH based on alleged breaches of certain obligations under a privatization agreement for the WOBA companies entered into with the State Capital of Dresden in 2006. The underlying claims amounted in total to about €1.08 billion. However, after reviewing the statements of claim, GAGFAH GROUP was convinced that the claims were unfounded and accordingly WOBA HOLDING GMBH, SÜDOST WOBA DRESDEN GMBH and WOHNBAU NORDWEST GmbH had defended themselves against the claims.

Legal responses to, as well as requests for dismissal of the Dresden claims were filed by WOBA HOLDING GMBH with the arbitral tribunal, and by SÜDOST WOBA DRESDEN GMBH and WOHNBAU NORDWEST GmbH with the District Civil Court in Dresden. The three WOBA companies also had brought declaratory actions against the State Capital of Dresden. Additionally, WOBA Dresden GmbH, by way of declaratory action, sued Dresden's mayor for finance Hartmut Vorjohann personally in the District Civil Court in Dresden for breaches of his fiduciary duties in his function as member of the supervisory board of WOBA Dresden GmbH. The complaint was also aimed at the State Capital of Dresden, as, among other things, the State Capital of Dresden had placed Mr. Vorjohann on the supervisory board as its representative.

In the interest of a timely resolution of the disputes and a good and trustful future cooperation, the WOBA companies and the State Capital of Dresden agreed to fully resolve all their disputes by mutual agreement and, on March 2, 2012, entered into a settlement agreement subject to the approval by Dresden's city council and supervisory authority. While the settlement has already been approved by the City Council of Dresden on March 15, it is still subject to formal approval by the legal supervisory authority of Saxony which is expected to be rendered on or before March 21, 2012.

The settlement agreement provides for the withdrawal of all complaints and the mutual waiver of the claims put forward in the complaints. The State Capital of Dresden and the WOBA companies have also agreed on the amendment of the social regulations of the privatization agreement. Most of these social provisions have been prolonged by five years until April 2021. The required annual minimum investment in the WOBA companies' real estate is raised from €5.00 (net) per square meter to €7.56 (net) per square meter. Furthermore, the State Capital's number of occupation rights will be raised by 2,000 units to 10,000 units in total. Additionally, the State Capital of Dresden from 2012 through 2020 receives nine annual installments in the amount of €4.0 million each (€36.0 million in total). 40 % of these payments will be used for social projects that preferably will be to the benefit of the GAGFAH GROUP's tenants in Dresden. Furthermore, the WOBA companies will bear the State Capital's procedural costs up to an amount of €4.0 million.

Corporate Governance

As a société anonyme – société de titrisation of Luxembourg law, the Company is subject to, and complies with, the corporate governance regime as set forth in particular in the law of August 10, 1915, on commercial companies. As a company whose shares are listed on a regulated stock exchange, the Company is further subject, and complies with, the law of May 24, 2011, on the exercise of certain shareholder rights in listed companies. The Company is not subject to any code of conduct or governance code.

The Articles of Incorporation of the Company provide for the requirement of three Independent Directors, and the Company has set up various committees including an Audit Committee, a Compensation Committee and a Securities Dealings Committee. The composition and purpose of these committees is described in the section "Board of Directors".

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

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

a) For information regarding the structure of capital, reference is made to sections “Statement of Financial Positions” and “Group Capitalization”.
b) The constitutional documents of the Company do not contain any restrictions on the transfer of shares of the Company.
c) Information regarding section c) of the law (significant direct and indirect shareholdings) can be found in the section “GAGFAH S.A. Shares”.
d) The Company has not issued any securities granting special control rights to their holders.
e) The control rights of any shares issued in connection with employee share schemes are exercised directly by the respective employees.
f) The constitutional documents of the Company do not contain any restrictions on voting rights.
g) There are no agreements with shareholders which are known to the Company and may result in restrictions on the transfer of securities or voting rights within the meaning of Directive 2004 / 109 / EC (Transparency Directive).
h) Rules governing the appointment and replacement of Board Members and the amendment of the Articles of Incorporation:

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

GAGFAH S.A. are subjected to a quorum of at least half of the share capital of GAGFAH S.A. If such quorum is not represented at a meeting, a second meeting may be convened with the same agenda. Such second meeting is not subject to a quorum.

i) Powers of the Board of Directors:

- The Company shall be managed by a Board of Directors.
- The Board of Directors is vested with the broadest powers to manage the business of the Company and to authorize and / or perform all acts of disposal and administration falling within the purposes of the Company. All powers not expressly reserved by the law or by the Articles of Incorporation of the Company to the General Meeting are within the competence of the Board of Directors. Except as otherwise provided in the Articles of Incorporation or by law, the Board of Directors of the Company is authorized to take such action (by resolution or otherwise) and to adopt such provisions as shall be necessary or convenient to implement the purpose of the Company.
- The Board may delegate the daily management of the business of the Company, as well as the power to represent the Company in its day-to-day business, to individual Directors or other officers or agents of the Company, who need not be shareholders. Any such delegation of daily management in favor of one or more Directors requires the prior authorization of the General Meeting of Shareholders.
- The Board of Directors may set up committees including without limitation an audit committee, a compensation committee and a related party transaction committee. Each such committee shall be composed of at least three Directors, one of them at least being an Independent Director. The Board of Directors may also appoint persons who are not Directors to the committees. The Board of Directors may appoint a secretary of the Company, who need not be a member of the Board of Directors, and determine his responsibilities, powers and authorities.
- GAGFAH S.A. has a total authorized unissued share capital of €10 billion. The Board of Directors has been authorized by the General Meeting of Shareholders to issue shares up to the total amount of authorized share capital without further approval of the shareholders. Shares may be issued within the authorized share capital of GAGFAH S.A. with or without reserving any pre-emptive subscription rights to existing shareholders at the discretion of the Board. The General Meeting further resolved to reduce the issued share capital of the Company by a maximum amount of €70,600,000.00 by the repurchase and cancellation of a maximum of 56,480,000 shares from existing shareholders during a period ending nine months after the date of the Extraordinary General Meeting held on April 21, 2011, and delegated any related powers to the Board of Directors in relation thereto including as to the determination of the final number of shares to be (acquired and) cancelled.
- At the Annual General Meeting of Shareholders held on April 21, 2011, the General Meeting inter alia resolved to extend the authorization of the Company, acting through its Board of Directors, to purchase, acquire, receive or hold shares in the Company up to 25 % of the issued share capital as at April 21 2011, such authorization being for a period of five years from April 21, 2011.

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.

Financial Risk Management

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

Outlook

GAGFAH's performance in 2011 met our expectations both in terms of operations and sales. The settlement of the Dresden litigation should add some additional favorable momentum and lay the groundwork for a positive development in 2012.

Our rent growth in the past has been in line or even slightly above the market in Germany, and we expect our rents to keep pace with market levels. Occupancy at the end of 2011 had slightly improved over both Q4 2010 and Q3 2011, and we are confident that our enhanced property investments will allow us to hold our occupancy rate at around 95 %.

Costs have always been a focus for us, as we are constantly reviewing our cost structure, adjusting our cost base in accordance with our organizational structure and operating activities. Our sales business will also remain an important area for us. We demonstrated yet again in 2011 that we are able to sell assets at or even above their respective carrying values. The sale of about 4,800 units to GSW Immobilien AG was one of the largest portfolio transactions last year. With demand for assets remaining high and property financing generally available, we see property sales as a viable way to lift the intrinsic value of our assets.

In addition to our regular business, our capital structure and the extension / refinancing of our 2013 debt maturities will be a major theme for us in 2012. The low-interest-rate environment and the cash from our operations and sales business should allow us to refinance our term loans at their maturities.

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", "endeavor", "seek", "anticipate", "estimate", "overestimate", "underestimate", "believe", "could", "project", "predict", "continue", "plan", "forecast" or other similar words or expressions.

Forward-looking statements are based on certain assumptions, discuss future expectations, describe future plans and strategies, contain projections of results from operations or of financial conditions or state other 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 20, 2012

The Board of Directors of GAGFAH S.A.

CONSOLIDATED FINANCIAL STATEMENTS

Consolidated Statement of Financial Position

as of December 31, 2011

ASSETS

€ MILLION	Notes	12-31-2011	12-31-2010
Non-current assets			
Intangible assets	E.1.	18.8	26.0
Investment property	E.2.	7,953.3	8,493.3
Property, plant and equipment	E.3.	41.6	49.0
Other financial assets	E.4.	4.0	4.0
Receivables	E.6.	0.0	0.1
		8,017.7	**8,572.4**
Current assets			
Inventories	E.5.	21.8	23.1
Receivables	E.6.	37.6	25.2
Other assets	E.7.	59.4	35.9
Current tax claims	E.8.	8.1	16.2
Bank balances and cash on hand	E.9.	200.1	375.5
		327.0	**475.9**
Assets held for sale	**E.10.**	**21.7**	**213.4**
Total assets		**8,366.4**	**9,261.7**

EQUITY AND LIABILITIES

€ MILLION	Notes	12-31-2011	12-31-2010
Equity	**E.11.**		
Subscribed capital		277.0	282.5
Share premium		1,042.4	1,179.2
Legal reserve		28.2	28.2
Revenue reserves		755.5	750.9
Equity attributable to the shareholders of the parent company		**2,103.1**	**2,240.8**
Non-controlling interests		33.8	61.9
Total equity		**2,136.9**	**2,302.7**
Liabilities			
Non-current liabilities			
Liabilities due to non-controlling shareholders	E.12.	4.5	4.9
Pension provisions	E.13.1.	103.4	103.6
Other provisions	E.13.2.	10.6	9.5
Deferred tax liabilities	E.14.	273.3	278.2
Liabilities from income tax	E.15.	66.5	78.3
Financial liabilities	E.16.1.	5,006.4	5,648.4
Other liabilities	E.16.2.	35.0	10.5
Deferred liabilities of government-granted loans		77.5	82.8
		5,577.2	**6,216.2**
Current liabilities			
Pension provisions	E.13.1.	7.0	7.0
Other provisions	E.13.2.	55.6	51.7
Liabilities from income tax	E.15.	52.1	55.9
Financial liabilities	E.16.1.	421.5	362.8
Other liabilities	E.16.2.	111.8	260.5
Deferred liabilities of government-granted loans		4.3	4.9
		652.3	**742.8**
Total liabilities		**6,229.5**	**6,959.0**
Total equity and liabilities		**8,366.4**	**9,261.7**

Consolidated Statement of Comprehensive Income

for the period from January 1 to December 31, 2011

€ MILLION (UNLESS STATED OTHERWISE)	Notes	2011	2010
Income from the leasing of investment property	F.1.	872.2	911.5
Transferable leasehold land interest		- 2.0	- 2.1
Operating expenses for the generation of rental income (excluding share-based remuneration)	F.2.	- 450.6	- 449.3
Profit from the leasing of investment property		**419.6**	**460.1**
Income from the sale of investment property and assets held for sale		388.8	531.5
Carrying amount of the sold investment property and assets held for sale		- 366.8	- 515.3
Profit from the sale of investment property and assets held for sale		**22.0**	**16.2**
Loss from the fair value measurement of investment property	**F.3.**	**- 41.9**	**- 69.5**
Income from the sale of property development projects		2.2	11.8
Carrying amount of property development projects sold		- 1.8	- 8.0
Profit from the sale of property development projects		**0.4**	**3.8**
Profit from other services	F.4.	3.7	5.0
Selling expenses (excluding share-based remuneration)	F.5.	- 17.5	- 26.7
General and administrative expenses (excluding share-based remuneration)	F.6.	- 35.0	- 37.9
Expenses for share-based remuneration	F.7.	- 3.8	- 1.8
Other operating income	F.8.	34.3	20.2
Other operating expenses	F.9.	- 60.2	- 8.3
Profit from operations before reorganization and restructuring expenses		**321.6**	**361.1**
Reorganization and restructuring expenses	F.10.	- 14.6	- 12.8
Profit from operations		**307.0**	**348.3**
Loss / profit from other financial assets		- 0.1	0.0
Earnings before interest and taxes (EBIT)		**306.9**	**348.3**
Interest expenses	F.11.	- 293.3	- 298.0
Interest income		2.4	1.6
Other financial expenses		- 0.1	- 0.7
Profit from the fair value measurement of derivatives	H.2.	6.0	4.1
Interest expenses (refinancing)	F.12.	- 1.3	- 4.1
Net financing expenses		**- 286.3**	**- 297.1**
Earnings before taxes (EBT)		**20.6**	**51.2**
Income taxes	F.13.	- 38.5	- 51.8
Net loss / profit (Total comprehensive income)		**- 17.9**	**- 0.6**
Net loss / profit (Total comprehensive income) attributable to:			
Non-controlling interests	F.14.	- 1.5	- 8.3
Shareholders of the parent company		- 16.4	7.7
Weighted average number of shares, undiluted (in million)		218.8	225.9
Weighted average number of shares, diluted (in million)		221.1	228.6
Earnings per share (in €)	F.15.	- 0.07	0.03
Diluted earnings per share (in €)	F.15.	- 0.07	0.03

Consolidated Statement of Cash Flows[1)]

for the period from January 1 to December 31, 2011

€ MILLION	2011	2010
Net loss / profit (Total comprehensive income)	- 17.9	- 0.6
Change in deferred taxes	21.2	47.1
Loss from the fair value measurement of investment property	41.9	69.5
Amortization, depreciation and impairment losses on intangible assets and property, plant and equipment	5.5	4.8
Profit from the sale of investment property and assets held for sale	- 22.0	- 16.2
Profit from the deconsolidation of subsidiaries	- 22.2	0.0
Other non-cash expenses (+) / income (-)	42.5	25.5
Change in provisions, pension provisions and deferred liabilities of government-granted loans	- 13.5	- 19.6
Change in inventories	1.1	21.1
Change in receivables and other assets	- 0.3	10.4
Change in other liabilities	13.2	2.2
Cash flows from operating activities[2)]	**49.5**	**144.2**
Cash received from the sale of investment property and assets held for sale	235.9	686.7
Cash paid for investment property – acquisition and modernization	- 0.9	- 5.1
Cash paid for investments in intangible assets, property, plant and equipment and other financial assets	- 2.2	- 2.8
Cash paid for investments in financial assets	- 0.1	0.0
Cash received from disposals of property, plant and equipment	0.1	0.0
Cash received from loss of control of a subsidiary, net of cash disposed	38.1	0.0
Cash flows from investing activities	**270.9**	**678.8**
Cash received from equity contributions	4.8	0.0
Dividends paid to stockholders of GAGFAH S.A.	- 22.3	- 135.6
Cash paid for share buy-back	- 107.4	- 5.8
Cash paid to non-controlling shareholders / interests	- 26.8	- 14.4
Cash received from raising financial liabilities	20.5	175.1
Cash repayments of financial liabilities	- 364.6	- 698.9
Interest and cost paid for refinancing	0.0	- 4.1
Cash flows from financing activities	**- 495.8**	**- 683.7**
Change in cash and cash equivalents	**- 175.4**	**139.3**
Bank balances, cash on hand and securities at the beginning of the year	375.5	236.2
Bank balances and cash on hand as of the reporting date	**200.1**	**375.5**

1) For further information, please refer to section G. "Notes to the Consolidated Statement of Cash Flows".
2) Operating cash flow includes taxes paid of €25.0 million (prior year: €18.9 million), interest paid of €249.9 million (prior year: €272.6 million) and interest received of €2.2 million (prior year: €1.5 million). Interest paid include prepayment fees of €7.4 million (prior year: €17.4 million) relating to the sale of investment property.

Statement of Changes in Consolidated Equity [1)]

for the period from January 1 to December 31, 2011

€ MILLION	Subscribed capital	Share premium	Revenue reserves: Legal reserve	Revenue reserves: Treasury shares	Revenue reserves: Retained earnings	Equity attributable to the share-holders of the parent company	Non-controlling interests	Total equity
January 1, 2011	**282.5**	**1,179.2**	**28.2**	**- 5.8**	**756.7**	**2,240.8**	**61.9**	**2,302.7**
Total comprehensive income for the period	0.0	0.0	0.0	0.0	- 16.4	- 16.4	- 1.5	- 17.9
Share-based remuneration	1.6	7.0	0.0	0.0	0.0	8.6	0.0	8.6
Change in shareholdings and the Consolidated Group	0.0	0.0	0.0	0.0	- 0.2	- 0.2	0.2	0.0
Dividends	0.0	- 112.7	0.0	0.0	90.4	- 22.3	- 26.8	- 49.1
Share Buy-back and cancellation of shares	- 7.1	- 31.1	0.0	- 69.2	0.0	- 107.4	0.0	- 107.4
December 31, 2011	**277.0**	**1,042.4**	**28.2**	**- 75.0**	**830.5**	**2,103.1**	**33.8**	**2,136.9**

[1)] For further information, please refer to section E.11. "Equity".

Statement of Changes in Consolidated Equity [1)]

for the period from January 1 to December 31, 2010

€ MILLION	Subscribed capital	Share premium	Legal reserve	Revenue reserves: Treasury shares	Revenue reserves: Retained earnings	Equity attributable to the shareholders of the parent company	Non-controlling interests	Total equity
January 1, 2010	**282.4**	**1,358.4**	**28.2**	**0.0**	**703.9**	**2,372.9**	**84.6**	**2,457.5**
Total comprehensive income for the period	0.0	0.0	0.0	0.0	7.7	7.7	- 8.3	- 0.6
Share-based remuneration	0.1	1.5	0.0	0.0	0.0	1.6	0.0	1.6
Change in shareholdings and the Consolidated Group	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Dividends	0.0	- 180.7	0.0	0.0	45.1	- 135.6	- 14.4	- 150.0
Share Buy-back and cancellation of shares	0.0	0.0	0.0	- 5.8	0.0	- 5.8	0.0	- 5.8
December 31, 2010	**282.5**	**1,179.2**	**28.2**	**- 5.8**	**756.7**	**2,240.8**	**61.9**	**2,302.7**

1) For further information, please refer to section E.11. "Equity".

NOTES

A. General Information

The Company

GAGFAH S.A. is a joint stock corporation incorporated in Luxembourg, having its registered office at 2-4, Rue Beck, L-1222 Luxembourg, Grand Duchy of Luxembourg, registered with the Registre de Commerce et des Societés under number B109.526. GAGFAH S.A. and its subsidiaries form the GAGFAH GROUP (in the following also referred to as "GAGFAH"). GAGFAH S.A. 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 of almost 150,000 apartments throughout Germany. As of the balance sheet date, the Group managed a total of more than 175,000 units. GAGFAH S.A.'s operating subsidiaries also operate in the area of real estate sales.

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 financial year were taken into account.

The financial year of GAGFAH S.A. is identical to the calendar year; it starts on January 1 and ends on December 31. If the financial year of any subsidiary deviates from the calendar year, additional Financial Statements as of calendar 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 Consolidated Financial Statements were prepared using the same principles as the Consolidated Financial Statements as of December 31, 2011.

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

The Consolidated Financial Statements for the year ending December 31, 2011, were formally approved by the Board of Directors on March 20, 2012, and will be presented to the Annual General Meeting of Shareholders for approval on June 12, 2012.

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 which are relevant for the operations of the Group during the year. The adoption of these revised standards and interpretations did not have any impact on the financial performance or position of GAGFAH GROUP.

On November 4, 2009, the International Accounting Standards Board (IASB) issued amendments to **IAS 24 Related Party Disclosures.** The revised Standard provides a partial exemption from the disclosure requirements of IAS 24 for entities that are controlled, jointly controlled or significantly influenced by a government ("government-related entities") and clarifies the definition of a related party. GAGFAH GROUP adopted this amendment as of January 1, 2011. No new disclosures were required resulting from the adoption of the amended standard.

On November 26, 2009, the IASB issued **Amendments to IFRIC 14 Prepayments of a Minimum Funding Requirement.** The amendments correct an unintended consequence of **IFRIC 14 IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction.** Without the amendments, in some circumstances entities are not permitted to recognize as an asset some voluntary prepayments for minimum funding contributions. This was not intended when IFRIC 14 was issued, and the amendments correct the problem. GAGFAH GROUP adopted this amendment as of January 1, 2011.

On November 26, 2009, the IASB issued **Amendments to IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments.** IFRIC 19 requires that the equity instruments issued are measured at their fair value. Any difference between the carrying amount of the financial liability extinguished and the initial measurement amount of the equity instruments issued is included in the entity's profit or loss for the period. As a result, IFRIC 19 will impact entities that have previously recognized the equity instruments issued in a debt for equity swap at the carrying amount of the financial liability. IFRIC 19 also applies to partial extinguishments of the financial liability by the issue of equity instruments to the creditor and the modification of the terms of the financial liability that remains outstanding. GAGFAH GROUP adopted this amendment as of January 1, 2011.

On May 6, 2010, the IASB issued **"Improvements to IFRSs"**, the third collection of amendments issued under the annual improvements process, primarily with a view to removing inconsistencies and clarifying wording. The omnibus standard contains amendments to six standards and one interpretation:

- IFRS 1 First-time Adoption of IFRSs
- IFRS 3 Business Combinations
- IFRS 7 Financial Instruments: Disclosures
- IAS 1 Presentation of Financial Statements
- IAS 27 Consolidated and Separate Financial Statements
- IAS 34 Interim Financial Reporting
- IFRIC 13 Customer Loyalty Programs

GAGFAH GROUP adopted these amendments as of January 1, 2011.

NEW ACCOUNTING STANDARDS NOT YET ADOPTED

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

- Amendments to IFRS 7 Financial Instruments: Disclosures (issued on October 7, 2010; endorsed on November 22, 2011)
- Amendments to IAS 12 Income taxes: Deferred tax: Recovery of Underlying Assets (endorsement expected in Q3 2012)
- Amendments to IAS 1 Presentation of Financial Statements (endorsement expected in Q2 2012)
- Amendments to IAS 19 Employee Benefits (issued June 16, 2011; endorsement expected in Q2 2012)
- IFRS 9 Financial Instruments (replacement of IAS 39) and subsequent amendments (amendments to IFRS 9 and IFRS 7) (endorsement postponed)
- IFRS 10 Consolidated Financial Statements (replacement of IAS 27) (issued on May 12, 2011; endorsement expected in Q4 2012)
- IFRS 11 Joint Arrangements (replacement of IAS 31 Interests in Joint Ventures and SIC-13 Jointly-controlled Entities – Non-monetary Contributions by Venturers) (issued on May 12, 2011; endorsement expected in Q4 2012)
- IFRS 12 Disclosure of Involvement with Other Entities (issued on May 12, 2011; endorsement expected in Q4 2012)
- IFRS 13 Fair Value Measurement (issued on May 12, 2011; endorsement expected in Q3 2012)
- IAS 27 Separate Financial Statements (issued on May 12, 2011; endorsement expected in Q4 2012)

- IAS 28 Investments in Associates and Joint Ventures (issued on May 12, 2011; endorsement expected in Q4 2012)
- Disclosures – Offsetting Financial Assets and Financial Liabilities (Amendments to IFRS 7) (issued on December 16, 2011; endorsement expected in Q4 2012)
- Offsetting Financial Assets and Financial Liabilities (Amendments to IAS 32) (issued on December 16, 2011; endorsement expected in Q4 2012)

Amendments to IFRS 7 Financial Instruments: Disclosures were issued on October 7, 2010, as part of the IASB's comprehensive review of off-balance-sheet activities. The amendments will allow users of financial statements to improve their understanding of transfer transactions of financial assets (for example, securitizations), including understanding the possible effects of any risks that may remain with the entity that transferred the assets. The amendments also require additional disclosures if a disproportionate amount of transfer transactions are undertaken around the end of a reporting period. The effective date of the amendments is for annual periods beginning on or after July 1, 2011. The amendment affects disclosure only and has no impact on the GAGFAH GROUP's financial position or performance.

On December 20, 2010, the IASB issued **Amendments to IAS 12 Income Taxes:** The amendments provide an exception to the general principles of IAS 12 for investment property measured using the fair value model in **IAS 40 Investment Property.** It can be difficult and subjective to assess whether recovery of deferred taxes will be through use or through sale. The amendments introduce a rebuttable presumption that the carrying amount of such an asset will be recovered entirely through sale. The effective date of the amendments is for annual periods beginning on or after January 1, 2012. Earlier application is permitted. As a result of the amendments, **SIC-21 Income Taxes – Recovery of Revalued Non-Depreciable Assets** would no longer apply to investment properties carried at fair value. The amendments also incorporate into IAS 12 the remaining guidance previously contained in SIC-21, which is accordingly withdrawn.

On June 16, 2011, the IASB issued **Amendments to IAS 1 Presentation of Financial Statements** that will improve and align the presentation of items of other comprehensive income (OCI) in financial statements prepared in accordance with International Financial Reporting Standards and those prepared in accordance with US generally accepted accounting principles (US-GAAP). The amendments require companies preparing financial statements in accordance with IFRSs to group together items within OCI that may be reclassified to the profit or loss section of the income statement. The amendments also reaffirm existing requirements that items in OCI and profit or loss should be presented as either a single statement or two consecutive statements. The effective date of the amendments is for annual periods beginning on or after July 1, 2012.

On June 16, 2011, the IASB published an amended **IAS 19 Employee Benefits.** Prior to the amendment, IAS 19 permitted choices on how to account for actuarial gains and losses on pensions and similar items, including the so-called “corridor approach” which resulted in the deferral of gains and losses. The amended standard removes the “corridor approach” and instead mandates that all remeasurement impacts be recognized in OCI (with the remainder in profit or loss). Various other amendments to IAS 19 may have impacts in particular areas. Furthermore, the amended IAS 19 enhances the disclosure requirements for defined benefit plans, provides better information about the characteristics of defined benefit plans and the risks that entities are exposed to through participation in those plans. The amended version of IAS 19 comes into effect for financial years beginning on or after January 1, 2013. Earlier application is permitted.

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

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

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

The second and third phases of IFRS 9 are concerned with accounting for the impairment of financial assets and hedge accounting: In January 2011, the supplementary document Financial Instruments: Impairment (Phase 2: “Impairment methodology”) was published. The comment period closed on April 1, 2011, and redeliberations are ongoing. In December 2010, the exposure draft Hedge Accounting (Phase 3: “Hedge accounting”) was published. The comment period closed on March 9, 2011, and redeliberations are ongoing. The implications of the new standard as a whole will be assessed when all phases are finalized.

It was intended that the reissued standard should become effective for annual periods beginning on or after January 1, 2013, but may be applied earlier. On August 4, 2011, the Board issued an exposure draft proposing to change the mandatory effective date of IFRS 9 to annual periods beginning on or after January 1, 2015, rather than being required to apply them for annual periods beginning on or after January 1, 2013, as it is currently the case. Early application of both would continue to be permitted.

IFRS 10 Consolidated Financial Statements replaces the portion of **IAS 27 Consolidated and Separate Financial Statements** that addresses the accounting for consolidated financial statements. It also includes the issues raised in **SIC-12 Consolidation - Special Purpose Entities.** IFRS 10 establishes a single control model that applies to all entities including special purpose entities. The changes introduced by IFRS 10 will require management to exercise significant judgment to determine which entities are controlled, and therefore, are required to be consolidated by a parent. This standard becomes effective for annual periods beginning on or after January 1, 2013.

IFRS 11 Joint Arrangements replaces **IAS 31 Interests in Joint Ventures and SIC-13 Jointly-controlled Entities - Non-monetary Contributions by Venturers.** IFRS 11 removes the option to account for jointly controlled entities (JCEs) using proportionate consolidation. Instead, JCEs that meet the definition of a joint venture must be accounted for using the equity method. The application of this new standard will have no material impact on the financial position of the Group. This standard becomes effective for annual periods beginning on or after January 1, 2013.

IFRS 12 Disclosure of Involvement with Other Entities includes all of the disclosures that were previously in IAS 27 related to consolidated financial statements, as well as all of the disclosures that were previously included in IAS 31 and IAS 28. These disclosures relate to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. A number of new disclosures are also required. This standard becomes effective for annual periods beginning on or after January 1, 2013.

IFRS 13 Fair Value Measurement establishes a single source of guidance under IFRS for all fair value measurements. IFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under IFRS when fair value is required or permitted and sets out new disclosure requirements. GAGFAH GROUP is currently assessing the impact that this standard will have on the financial position and performance. This standard becomes effective for annual periods beginning on or after January 1, 2013.

As a consequence of the new IFRS 10 and IFRS 12, what remains of IAS 27 is limited to accounting for subsidiaries, JCEs, and associates in separate financial statements. **IAS 27 Consolidated and Separate Financial Statements** has been renamed **IAS 27 Separate Financial Statements.** GAGFAH GROUP does not present separate financial statements. The amendment becomes effective for annual periods beginning on or after January 1, 2013.

As a consequence of the new IFRS 11 and IFRS 12, **IAS 28 Investments in associates** has been renamed **IAS 28 Investments in Associates and Joint Ventures**, and describes the application of the equity method to investments in joint ventures in addition to associates. The amendment becomes effective for annual periods beginning on or after January 1, 2013.

The offsetting model in **IAS 32 Financial Instruments: Presentation** requires an entity to offset a financial asset and financial liability when, and only when, an entity currently has a legally enforceable right to set-off and intends either to settle on a net basis or to realize the financial asset and settle the financial liability simultaneously. The US GAAP offsetting model, while similar to the model in IFRS, also provides a broad exception which permits entities to present derivative assets and derivative liabilities subject to master netting arrangements net in the statement of financial position even if an entity does not have a current right or intention to settle net.

In 2011, the IASB and the FASB decided to retain their existing different offsetting models and instead issue new disclosure requirements, narrower than the current conditions currently in US GAAP, to allow investors to better compare financial statements prepared in accordance with IFRSs or US GAAP.

On December 16, 2011, the IASB and FASB issued common disclosure requirements. The new requirements are set out in **Disclosures – Offsetting Financial Assets and Financial Liabilities (Amendments to IFRS 7).** As part of that project the IASB also clarified aspects of **IAS 32 Financial Instruments: Presentation.** The amendments to IAS 32 clarify the meaning of “currently has a legally enforceable right to set-off” and that some gross settlement systems may be considered equivalent to net settlement. The amendments to IFRS 7 and IAS 32 become effective for annual periods beginning on or after January 1, 2013, and January 1, 2014, respectively.

The effects of the adoption of the aforementioned amendments on the Consolidated Financial Statements of GAGFAH S.A. are currently under consideration.

B. Consolidated Group and Consolidation Principles

1. Consolidated Group

In total, 58 subsidiaries were included in the Consolidated Financial Statements of GAGFAH S.A. on the fully consolidated basis since GAGFAH S.A. governs the financial and operating policies of these entities. Normally, control is possible if an entity holds the majority of voting rights, either directly or indirectly.

Two of these companies (No. 8 and No. 72 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. Please refer to section C.17. "Estimates and the Exercise of Judgment by Management".

In addition, 20 fractional ownership funds ("HB Funds") were included in the Consolidated Financial Statements on a fully consolidated basis and four joint ventures on a proportionate consolidation basis.

Year on year, the number of Group companies has changed as follows:

	Number of Group companies
As of January 1, 2010	**76**
Formations	4
As of December 31, 2010 / January 1, 2011	**80**
Formations	1
Sales	- 2
As of December 31, 2011	**79**

The composition of the GAGFAH GROUP as well as further information on formations are presented in the List of Shareholdings attached as Exhibit (1).

CHANGES IN THE CONSOLIDATED GROUP IN 2011

Formation of Fortalis GmbH

Fortalis GmbH was founded by GAGFAH Holding GmbH on May 11, 2011, and entered into the commercial register on August 9, 2011. The corporate purpose of the company is to provide real estate management services.

Sales in the reporting period

In line with the Group's continuous portfolio optimization, the Senior Management of the Company's subsidiaries resolved to sell the subsidiaries GAGFAH Acquisition 3 GmbH and GAGFAH Pegasus GmbH. The corporate purpose of GAGFAH Acquisition 3 GmbH and GAGFAH Pegasus GmbH is the management of residential and other buildings in Berlin, Germany.

On November 2, 2011, the contract negotiations on the sale of GAGFAH Acquisition 3 GmbH and GAGFAH Pegasus GmbH were concluded and the sales agreement was notarized and signed. The two subsidiaries were sold on November 23, 2011, and were deconsolidated on November 30, 2011.

The assets and liabilities of GAGFAH Acquisition 3 GmbH and GAGFAH Pegasus GmbH as of November 30, 2011, break down as follows:

€ MILLION	11-30-2011
Assets	
Non-current assets	
Intangible assets	5.3
Investment property	330.0
	335.3
Current assets	
Receivables	0.5
Other assets	0.4
Bank balances and cash on hand	5.2
	6.1
Assets of disposal group	**341.4**
Liabilities	
Non-current liabilities	
Deferred tax liabilities	26.1
Financial liabilities	218.3
	244.4
Current liabilities	
Other provisions	0.1
Liabilities from income tax	1.1
Financial liabilities	47.5
Other liabilities	3.5
	52.2
Liabilities of disposal group	**296.6**
Partial receipt of sales price in 2011	43.3
Payments on notary trust account	23.7
Total sales price	**67.0**
Total sales price	67.0
Sold net assets	- 44.8
Profit from the deconsolidation	**22.2**
Partial receipt of sales price in 2011	43.3
Cash and cash equivalents disposed	- 5.2
Net cash inflow due to sale	**38.1**

The profit from the deconsolidation is shown in the Consolidated Statement of Comprehensive Income under the item "Other operating income".

Prior to the sale of GAGFAH Acquisition 3 GmbH, the 100 % share of GAGFAH Acquisition 3 GmbH in GAGFAH Erste Grundbesitz GmbH has been sold to GAGFAH Holding GmbH (94.80 %) and KALIRA Grundstücksgesellschaft mbH & Co. KG (5.20 %). We also refer to the List of Shareholdings, which is attached as Exhibit (1).

CHANGES IN THE CONSOLIDATED GROUP IN 2010

Formation of WOHNBAU NORDWEST Dienstleistungen GmbH

WOHNBAU NORDWEST Dienstleistungen GmbH was founded by GAGFAH Holding GmbH on January 14, 2010, and entered into the commercial register on February 5, 2010. The corporate purpose of the company is real estate management and to provide concierge services.

Formation of DW Management GmbH

DW Management GmbH was founded by GAGFAH Verwaltung GmbH on November 12, 2010, and entered into the commercial register on January 25, 2011. The corporate purpose of the company is to provide real estate management services.

Formation of Instandhaltungs-Service GmbH (ISG)

Instandhaltungs-Service GmbH (ISG) was founded by VHB Grundstücksverwaltungsgesellschaft “Haus und Bodenfonds” mbH on December 20, 2010, and entered into the commercial register on April 1, 2011. The corporate purpose of the company is to provide real estate management services, in particular maintenance services.

Formation of Grünflächen-Service GmbH (GSG)

Grünflächen-Service GmbH (GSG) was founded by VHB Grundstücksverwaltungsgesellschaft “Haus und Bodenfonds” mbH on December 20, 2010, and entered into the commercial register on April 1, 2011. The corporate purpose of the company is to provide real estate management services, in particular gardening services.

2. Consolidation Principles

2.1. SUBSIDIARIES

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.

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

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

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

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

All intercompany receivables and liabilities (and provisions), revenues, expenses and income as well as gains and losses are eliminated in accordance with IAS 27.20.

Subsidiaries are fully consolidated from the date of acquisition, i.e. the date on which the Group obtains control (IFRS 3.8 in conjunction with IFRS 3.15). Inclusion in the Consolidated Financial Statements ends as soon as the parent company ceases to have control (IAS 27.34).

An adjustment item for non-controlling interests is recognized for shares in fully consolidated subsidiaries that do not belong to the parent company. Pursuant to IAS 27.27, the adjustment item is disclosed under consolidated equity as a separate item from the equity of the parent company.

In accordance with IAS 27.27, the portion of non-controlling interests in consolidated net profit or loss is recorded separately as a "thereof" line item below net profit or loss in the Consolidated Statement of Comprehensive Income.

2.2. CHANGE IN CONTROLLING INTEREST

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

2.3. JOINT VENTURES

The Group has interests in joint ventures. According to IAS 31.3, 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 (JCE) 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.

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.

C. Accounting Policies

1. Intangible Assets

ACQUIRED INTANGIBLE ASSETS

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

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

GOODWILL

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.

All business combinations reflected in the Consolidated Financial Statements took place before financial year 2008 and had been recorded according to IFRS 3 as applicable at the acquisition date.

Pursuant to IFRS 3.32, goodwill is recorded as an asset on the date of acquisition. It is not amortized, but subject to an annual impairment test pursuant to IAS 36. Following initial recognition, goodwill is measured at original cost less any accumulated impairment losses.

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

In the case of a real estate portfolio, cash flows from the real estate are included in the calculation of the value in use of the real estate. For the calculation of the fair value of the real estate, GAGFAH 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 a real estate portfolio, the prospective discounted cash flows of that company are used for the impairment test of the goodwill. Future cash flows are projected in detail for one year. After this detailed planning horizon, no increase in future cash flows is planned.

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

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

FINANCE LEASES

Finance leases in the Financial Statements of lessees

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

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

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

Finance leases in the Financial Statements of lessors

At initial recognition, lessors recognize assets held under finance lease in their Statement of Financial Position and present them as a receivable at an amount equal to the net investment in the lease (IAS 17.36).

For subsequent measurement, the recognition of finance income is based on a pattern reflecting a constant periodic rate of return on the lessor's net investment in the finance lease.

OPERATING LEASES

Operating leases in the Financial Statements of lessees

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

Operating leases in the Financial Statements of lessors

Lessors present assets subject to operating leases in their Statement of Financial Position according to the nature of the asset (IAS 17.49). Lease income from operating leases are recognized in income on a straight-line basis over the lease term unless another systematic basis is more representative of the time pattern in which user's benefit derived from the leased asset is diminished (IAS 17.50).

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

3. Investment Property

RECOGNITION

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

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

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

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

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

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

VALUATION

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

The valuation of investment property has been prepared in accordance with the RICS Valuation Standards, 7th edition (Red Book), published by the Royal Institution of Chartered Surveyors on May 2, 2011. As in prior years, a discounted cash flow model was used to determine the investment properties' fair value which equals their net capital value (i.e. capital value less assumed purchaser's costs).

The valuation as at December 31, 2011, has been carried out by independent valuers from CBRE GmbH (hereinafter abbreviated to "CBRE"). CBRE confirms that it has no conflict of interest in carrying out the subject valuation.

Fair Value

The properties have been valued at fair value in accordance with IAS 40.33 et seqq. of the International Financial Reporting Standards (IFRS), published by the International Accounting Standards Board (IASB). "Fair value" is defined as follows:

"Fair value is the amount for which an asset could be exchanged between knowledgeable, willing parties in an arm's-length transaction." (IAS 40.5)

The definition of "fair value" corresponds with the definition of "market value" in accordance with Valuation Statement (VS) 3.2. of the RICS Valuation Standards (7th edition), published by the Royal Institution of Chartered Surveyors (RICS), London:

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

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

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

The fair value is reported as the net capital value, i.e. capital value less purchaser's costs.

DCF (Discounted Cash Flow)

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

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

IAS 40.46 (c) specifies some guidelines in this regard, which have been fully implemented in the DCF model:

- Reliable estimation of future cash flows
- Based on the conditions of existing leases
- Substantial external references, such as current market rental values
- Discounting at an interest rate that reflects the risk of the cash flows

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

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

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

The calculation model is set up to include two phases: During the first phase, the so-called period of detailed consideration, extending over a period of ten years, the net periodic cash flows (based on the current net rental income) are discounted, monthly in advance, to the date of valuation. For the periods following the ten-year period of detailed consideration, the estimated long-term net income achievable is capitalized in perpetuity. This so-called residual (or terminal) value is discounted to the date of valuation and then added to the net capital value calculated for the period of detailed consideration.

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

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

Liquidation Value

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

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

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

Demolition properties

Properties with an existing demolition permit or agreement to demolish have been identified as demolition properties with a definite demolition date (in each case December 31 of the year concerned).

Up to the date of demolition, obtaining vacant possession of the units that are still let has been modeled, while repair and maintenance costs have been included at 20 % of the actual cost approach. The individual net capital values of the net income still receivable, the site value and the demolition costs of the property have been assessed, taking into account any demolition subsidies receivable (WOBA subgroup) and discounted to the date of valuation.

If demolition properties produce a negative net capital value, this has been set as zero.

Parameters of the DCF model

The net cash flows are based on the current asset-specific operating income less non-recoverable expenses such as vacancy loss, non-recoverable operating expenses, administrative costs, repair and maintenance costs and tenant improvements. In estimating future net cash flows the following assumptions have been made in respect of the key parameters:

	12-31-2011			
Parameters (Residential units)	**min**	**max**	**Basic rate**	**Weighted average 10 years period**
Market rent growth	0.00 %	1.65 %		0.93 %
Structural vacancy	0.50 %	7.00 % [1]		4.02 %
Repairs and maintenance	€6.50 / sqm	€12.00 / sqm		€9.46 / sqm
Tenant improvements [2]	€30.00 / sqm	€80.00 / sqm	€70.00 / sqm	€7.02 / sqm
Management costs	€180.00 / unit	€255.00 / unit		€219.00 / unit
Non transferable costs			€1.00 / sqm	
Indexation of costs (10-year period)			1.60 %	

	12-31-2010			
Parameters (Residential units)	**min**	**max**	**Basic rate**	**Weighted average 10 years period**
Market rent growth	0.00 %	1.65 %		0.94 %
Structural vacancy	0.50 %	7.00 % [1]		3.97 %
Repairs and maintenance	€6.50 / sqm	€12.00 / sqm		€9.06 / sqm
Tenant improvements [2]	€30.00 / sqm	€80.00 / sqm	€70.00 / sqm	€6.60 / sqm
Management costs	€180.00 / unit	€255.00 / unit		€220.00 / unit
Non transferable costs			€1.00 / sqm	
Indexation of costs (10-year period)			1.60 %	

[1] The max-value for structural vacancy can reach in individual cases significantly higher values (up to 100 %).
[2] Tenant improvements only occur on simulated vacation, e.g. at a fluctuation rate of 10 % tenant improvements only occur once in a 10-year period. Parameters for commercial units and garages are different to the parameters for residential units shown in the table above (5.90 % of fair value as at December 31, 2011, 6.30 % of fair value as at December 31, 2010).

Depending on the prevailing market rent and the asset-specific rent adjustment options, the current net cold rent is forecast to reach the market level over time and grow in line with the market rent thereafter. The market rent grows at a property-by-property level, reflecting the regional basis with adjustments for the quality of situation and building condition. The net cold rent is calculated by subtracting vacancy losses as well as rent reductions (page 97: “Residential Property Portfolio”).

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

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

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

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

Ongoing repairs and maintenance is assumed with €6.50 / sqm p.a. for new buildings or recently refurbished properties up to €12.00 / sqm p.a. for properties in bad condition or without any significant modernizations and / or refurbishments within the last 40 years.

Landlord’s costs on change of tenants are one-off costs (tenant improvements), which occur only on simulated vacation and subsequent re-letting. CBRE applied a basic rate of €70.00 / sqm for residential units.

Within the period under detailed review, all cost positions are indexed to a yearly increase of 1.6 % (average of a 10-year period).

Discount Rate

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

The average basic discount rate derived from prices paid for assets comparable to the real estate portfolio of GAGFAH in Germany is 6.00 % (prior year: 6.00 %).

Specific risks in the cash flow of a property have been reflected by appropriate additions or deductions from the average discount rate. The average discount rate is 5.94 % (prior year: 6.01 %).

Parameters (property average)	12-31-2011	12-31-2010
Discount rate	5.94 %	6.01 %
Capitalization rate	5.33 %	5.24 %

From the eleventh year onwards, the net income from the tenth year is capitalized in perpetuity as a constant income. The yield (capitalization rate) used is derived from the discount rate for the property by deducting the location-related growth components.

The resulting terminal value is discounted at the discount rate to the date of valuation.

WELFARE CONDITIONS AND CONTRACTUAL OBLIGATIONS

Several direct and indirect subsidiaries of GAGFAH S.A. agreed in certain share and asset purchase agreements by which the property portfolio of the GAGFAH GROUP was acquired to comply with welfare conditions, which in addition to 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, but are not limited to, the following obligations in particular.

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-emptive right). For certain parts of the portfolio, these offers may additionally be subject to predefined upper limits. In the event of planned sales of condominium units or leased buildings with more than one rental apartment, such sales may only be permitted if certain obligations are fulfilled, such as predefined tenant occupancy rates or vacancy rates.

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 individual properties from this portfolio are only possible with the approval of existing non-controlling shareholders.

4. Property, Plant and Equipment

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

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

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

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

Owner-occupied **land and buildings** are held for the provision of services or for administrative purposes (IAS 40.5). According to IAS 40.7 for owner-occupied land and buildings IAS 16 is applicable. These properties are recognized in the Statement of Financial Position at cost less depreciation. Costs include consideration paid for third-party services.

Assets under construction for administrative purposes or for non-specified purposes are recognized at cost less any impairment losses charged. Costs include consideration paid for third-party services.

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

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

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

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. Owner-occupied buildings are depreciated on a straight-line basis with the acquisition and production costs serving as assessment base.

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

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

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

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

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

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

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

6. Financial Instruments

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

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

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

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

PRIMARY FINANCIAL ASSETS

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

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

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

- Financial assets measured at fair value through profit or loss
- Held-to-maturity 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.

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 investments in equity instruments. These instruments are subsequently measured at fair value with gains and losses being recognized directly in equity. The loss or gain accumulated in equity is recognized in profit or loss when the financial investment is derecognized or impaired.

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

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

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.

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

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

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

For current trade receivables and other current receivables, GAGFAH 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.

PRIMARY FINANCIAL LIABILITIES

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

Pursuant to IAS 39.14, financial liabilities are recognized on the date on which GAGFAH 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). Amortized cost are calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate over the expected life of the financial liability. If the Group revises its estimates of payments or receipts, the carrying amount of the financial asset or financial liability (or group of financial instruments) will be adjusted in accordance with IAS 39 AG 8 to reflect actual and revised estimated cash flows. The adjustment is recognized in profit or loss as interest income or interest expenses.

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

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

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

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

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

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

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

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

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

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

DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING RELATIONSHIPS

The Group uses derivative financial instruments such as interest rate swaps to hedge its 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 present, GAGFAH GROUP makes no use of the hedge accounting option as described by IAS 39.

Therefore, any gains or losses arising from changes in fair value on derivatives during the year are taken directly to the Statement of Comprehensive Income.

7. Inventories

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

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

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

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

8. Assets Held for Sale

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

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

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

Investment property classified as "assets held for sale" is measured in accordance with the fair value model in IAS 40 (IFRS 5.5). For owner-occupied property classified as "assets held for sale", depreciation is suspended from the moment of reclassification. These assets are measured at the lower of carrying amount and fair value less costs to sell.

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

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

9. Equity

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

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

10. Pension Provisions

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

In conjunction with the **defined benefit plans**, 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 “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 public corporation “Kommunaler Versorgungsverband Baden-Württemberg” (hereinafter referred to as “ZVK-KVBW”).

Under the **defined contribution plans**, GAGFAH 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 various categories of expenses according to the cost of sales method.

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 pension provisions 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 financial year the actual development deviates from assumptions made at the beginning of the financial year or if the parameters determined at the end of the financial year are different than those determined at the beginning of the financial year.

The total (accumulated) actuarial gains and losses existing at the end of the financial year derive from the gains or losses existing at the beginning of the financial year less amortization plus additions in the financial 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, wherever appropriate, spread over the expected average residual number of years of service for each employee under the defined benefit plan.

The defined benefit asset or liability comprises the present value of the defined benefit obligation, less past service costs and actuarial gains and losses not yet recognized and less the fair value of plan assets out of which the obligations are to be settled. Plan assets are assets that are held by a long-term employee benefit fund or qualifying insurance policies. Plan assets are not available to the creditors of the Group, nor can they be paid directly to the Group. Fair value is based on market price information and in the case of quoted securities, it is the published bid price. The value of any defined benefit asset recognized is restricted to the sum of any past service costs and actuarial gains and losses not yet recognized and the present value of any economic benefits available in the form of refunds from the plan or reductions in the future contributions to the plan.

11. Other Provisions

Pursuant to IAS 37.14, other provisions are recognized if a legal or constructive obligation in respect of a third party exists that results from a past event and it is likely that GAGFAH 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.

In accordance with IAS 37.71 et seqq., 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 tax liabilities are recognized for all temporary differences that will result in taxable amounts in determining taxable profit or tax loss of future periods when the carrying amount of the asset or liability is recovered or settled (taxable temporary differences).

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

In assessing the probability that taxable profit will be available against which the unused tax losses can be utilized, the entity considers whether it has sufficient taxable temporary differences relating to the same taxation authority and the same taxable entity, which will result in taxable amounts against which the unused tax losses can be utilized before they expire.

The following exceptions were taken into account:

- Deferred tax liabilities which arise from the initial recognition of goodwill must not be recognized.
- Deferred tax assets and liabilities which arise from the initial recognition of an asset or a liability in a transaction that is not a business combination and at the time of the transaction affects neither the accounting profit nor taxable profit or loss must not be recognized.
- In respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets may only be recognized to the extent that it is probable that the temporary differences will be reversed in the foreseeable future and sufficient taxable profit will be available against which the temporary differences can be utilized.

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

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

Income tax relating to items recognized directly in equity is recognized in equity and not in the Statement of Comprehensive Income.

Deferred tax assets and deferred tax liabilities are offset against each other when the Group has an 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 (IAS 12.71).

13. Income and Expenses

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

Revenues from the **sale of land** are 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.

Sales of goods and services sometimes involve the provision of **multiple elements**. Within GAGFAH GROUP, these arrangements may in particular include the sale of cable network connections. In these cases, the Company determines whether the contract or arrangement contains more than one unit of accounting. An arrangement is separated if

(1) the delivered element(s) has (have) value to the customer on a stand-alone basis,
(2) there is reliable evidence of the fair value of the undelivered element(s) and
(3) if the arrangement includes a general right of return relative to the delivered element(s), delivery or performance of the undelivered element(s) is (are) considered probable and substantially in the control of GAGFAH.

If all three criteria are fulfilled, the appropriate revenue recognition convention is then applied to each separate unit of accounting. Generally, the total arrangement consideration is allocated to the separate units of accounting based on their relative fair values. The hierarchy of fair value evidence is as follows:

(a) sales prices for the component when it is regularly sold on a stand-alone basis,
(b) third-party prices for similar components or, under certain circumstances,
(c) cost plus an adequate business-specific profit margin related to the relevant element.

By this means, reliable fair values are generally available. However, there might be cases when fair value evidence according to (a) and (b) is not available and the application of the cost-plus method (c) does not create reasonable results because the costs incurred are not an appropriate base for the determination of the fair value of an element. In such cases the residual method is used, if fair value evidence is available for the undelivered but not for one or more of the delivered elements, i.e. the amount allocated to the delivered elements equals the total arrangement consideration less the aggregate fair value of the undelivered elements. If the three separation criteria (1) to (3) are not met, revenue is deferred until such criteria are met or until the period in which the last undelivered element is delivered. The amount allocable to the delivered elements is limited to the amount that is not contingent upon delivery of additional elements or meeting other specified performance obligations.

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

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

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

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

15. Share-based Remuneration

Equity-settled Remuneration Plans

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

The conditions of the first equity-settled remuneration plan (**Stock Option Plan 2006**) are as follows: When shares were granted prior to the initial public offering of GAGFAH S.A., 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.

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

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

The fair value of the options of Stock Option Plan 2009 and Stock Option Plan 2011 is estimated at the respective grant dates in accordance with IFRS 2 using the Black & Scholes option pricing model. The individual parameters taken as a basis for the calculation of the fair value are shown in the Notes to the Consolidated Statement of Comprehensive Income (see section F.7. "Expenses for Share-based Remuneration").

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

Cash-settled Remuneration Plans

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

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

16. Statement of Cash Flows

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

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

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

JUDGMENTS (OTHER THAN THOSE INVOLVING ESTIMATIONS)

Management exercises its judgment in recognizing and measuring items. This can have a significant influence on the amounts disclosed in the Consolidated Financial Statements.

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).

In the light of all the aforementioned factors, two of the Group companies (No. 8 and No. 72 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.

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 impairment assessment of property, plant and equipment and intangible assets,
- the measurement of investment property,
- the uniform Group calculation of useful lives for property, plant and equipment,
- the recognition and measurement of provisions,
- the valuation of financial liabilities and
- the assessment of recoverability of trade receivables and deferred tax assets.

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

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

Investment Property

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

The average basic discount rate of 6.00 % (prior year: 6.00 %) used for the valuation of investment properties 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".

A potential change in the discount rate by 10 basis points, for example, changes the total value of the GAGFAH GROUP portfolio by approximately €158.0 million (prior year: €138.3 million).

Pension Provisions and other Employee Benefits

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

In determining the appropriate discount rate, management considers the interest rates of corporate bonds in the respective currency with at least AA rating, with extrapolated maturities corresponding to the expected duration of the defined benefit obligation. Pensions were discounted at a rate of 4.90 %, compared to 5.30 % as of December 31, 2010. Reference is made to section E.13.1. "Pension Provisions".

Jubilee commitments are discounted at a rate of 4.90 % (prior year: 4.70 %). Provisions for phased retirement are discounted at a rate of 4.90 % (prior year: 4.70 %).

Financial Liabilities

Regarding the senior debts, estimates in respect of the future cash flows are necessary. Some of those loans are granted by state-owned banks and include an option for the bank to increase the interest rate over a specific period up to a maximum level. Due to the special organization of the lenders as state-owned banks the respective state parliaments have the option to cancel the interest increase by an act of parliament.

For valuation purposes concerning senior debts, Senior Management estimates the future interest rate adjustments on an annual basis. For the valuation in the financial year 2011, Senior Management assumed that the state-owned banks will exercise all possible future interest rate adjustment options and that the respective state parliament will not cancel those adjustments. In the financial year 2011, these estimates did not change compared to the prior year.

In the course of the complete integration of Wohnungsbauförderungsanstalt Nordrhein-Westfalen (WfA) into NRW.BANK some legislative amendments were made. Due to the ensuing uncertainties concerning the future interest developments of our loans from NRW.BANK, the legislative amendments have so far not been included in the course of the estimation of future payment of interest or principal.

D. Group Segment Reporting

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

GAGFAH's reporting format is based on its core business segments "Real estate management" and "Real estate sales". These segments represent strategic business functions within the Group.

All other income and expenses that do not concern the real estate management and real estate sales segments are shown in the separate column "Other" in the Group Segment Report.

"Segment revenues" and "Segment EBITDA [1)]" are key performance indicators used by the Group for measuring segment performance. The primary differences between segment revenues and segment EBITDA on the one hand and Group revenues and Group EBITDA on the other hand are explained in footnotes (1) and (2) to the Group Segment Reports for the periods from January 1 to December 31, 2011, and 2010 on pages 92 and 93, respectively.

The segment revenues of the real estate management segment comprise the total income from the leasing of investment property as shown in the Consolidated Statement of Comprehensive Income plus revenues from third-party real estate management and other trade, reduced by non-cash income from the amortization of deferred liabilities of government-granted loans.

Income and expenses concerning the large multi-family home sales program [2)] and the sale of HB Funds are allocated to the column "Other". Income from the leasing of assets held for sale continues to be shown within the segment revenues of the real estate management segment.

Income and expenses related to the sale of GAGFAH Acquisition 3 GmbH and GAGFAH Pegasus GmbH are shown in the Column "Other". For detailed information on this issue, please refer to section B. "Consolidated Group and Consolidation Principles".

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

1) EBITDA = Earnings before interest, taxes, depreciation and amortization.
2) The large multi-family home sales program includes the sales of entire buildings to institutional or professional investors whereas the condo sales program includes the sale of individual apartments ("privatization") or small multi-family homes to tenants or small investors.

Group Segment Report

for the period from January 1 to December 31, 2011

€ MILLION	Real estate management	Real estate sales	Total segments	Other	Total Group	Notes
Segment revenues	**880.6**	**248.2**	**1,128.8**	**150.1** [1]	**1,278.9**	
Segment EBITDA	**387.2**	**10.9**	**398.1**	**- 71.6** [2]	**326.5**	
Reorganization and restructuring expenses	- 8.2	0.0	- 8.2	- 6.4	- 14.6	F.10.
Depreciation / amortization	- 2.8	0.0	- 2.8	- 2.2	- 5.0	
Earnings before interest and taxes (EBIT)	**376.2**	**10.9**	**387.1**	**- 80.2**	**306.9**	
Interest expenses	- 255.3	- 1.4	- 256.7	- 36.6	- 293.3	F.11.
Interest expenses (refinancing)	- 1.3	0.0	- 1.3	0.0	- 1.3	F.12.
Profit from the fair value measurement of derivatives	0.0	0.0	0.0	6.0	6.0	H.2.
Other financial expenses	0.0	0.0	0.0	- 0.1	- 0.1	
Interest income	0.8	0.1	0.9	1.5	2.4	
Earnings before taxes (EBT)	**120.4**	**9.6**	**130.0**	**- 109.4**	**20.6**	
Income taxes	0.0	0.0	0.0	- 38.5	- 38.5	F.13.
Net loss / profit	**120.4**	**9.6**	**130.0**	**- 147.9**	**- 17.9**	
Segment investments	0.9	0.0	0.9	2.2	3.1	
Significant non-cash segment expenses (-) / income (+)	- 22.2 [3]	- 2.3 [4]	- 24.5	- 96.3 [5]	- 120.8	

[1] This item includes income from the sale of properties concerning the large multi-family home sales program (€77.6 million), income from the sale of investment properties of HB Funds (€63.0 million), income from the sale of property development projects (€2.2 million) and income from the amortization of deferred liabilities of government-granted loans (€7.3 million).

[2] This item mainly includes the loss from the fair value measurement of investment property (€- 41.9 million) (see section F.3.), the profit from the deconsolidation of subsidiaries (€22.2 million) (see section B.1.), the EBITDA contribution of the large multi-family home sales program and the HB Funds asset sales (€- 8.2 million), adjustments in connection with HB Funds (€- 0.3 million), the EBT attributable to the property development business (€- 2.4 million), income from the amortization of deferred liabilities of government-granted loans (€7.3 million) (see section F.1.) and income from the reversal of provisions recorded in other operating income (€3.3 million). Further adjustments are expenses in connection with the WOBA lawsuits (€- 44.9 milllion) (see section F.9.) and additions to provisions for restitution proceedings (€- 2.6 million) (see section F.9.).

[3] Significant non-cash expenses of real estate management contain additions to provisions concerning real estate management (€- 12.7 million), write-offs of rent receivables (€- 7.9 million) (see section F.2.), interest expenses (refinancing) (€- 1.3 million) (see section F.12.) and income from the reversal of provisions concerning real estate management (€2.0 million).

[4] Significant non-cash expenses of real estate sales mainly contain an IAS 39 AG 8 valuation impact in connection with the prepayment fees (€- 1.4 million) and adjustments of provisions (€- 0.9 million).

[5] Other significant non-cash expenses / income mainly consist of the loss from the fair value measurement of investment property (€- 41.9 million) (see section F.3.), the profit from the fair value measurement of derivatives (€6.0 million) (see section H.2.), income from the amortization of deferred liabilities of government-granted loans (€7.3 million), the present value of loans carried at amortized cost (€- 5.4 million), income from the reversal of provisions (€3.3 million), additions to other provisions (€- 9.5 million) (see section E.13.2), expenses in connection with prepayment fees of the sold subsidiaries (€- 20.3 million) (see section F.11.) and expenses in connection with the WOBA lawsuits (€- 37.8 million) (see section F.9.).

Group Segment Report

for the period from January 1 to December 31, 2010

€ MILLION	Real estate management	Real estate sales	Total Segments	Other	Total Group	Notes
Segment revenues	**920.3**	**72.7**	**993.0**	**476.6** [1]	**1,469.6**	
Segment EBITDA	**416.2**	**8.2**	**424.4**	**- 58.6** [2]	**365.8**	
Reorganization and restructuring expenses	- 10.1	0.0	- 10.1	- 2.7	- 12.8	F.10.
Depreciation / amortization	- 2.7	0.0	- 2.7	- 2.0	- 4.7	
Earnings before interest and taxes (EBIT)	**403.4**	**8.2**	**411.6**	**- 63.3**	**348.3**	
Interest expenses	- 271.5	- 8.0	- 279.5	- 18.5	- 298.0	F.11.
Interest expenses (refinancing)	- 4.1	0.0	- 4.1	0.0	- 4.1	F.12.
Profit from the fair value measurement of derivatives	0.0	0.0	0.0	4.1	4.1	H.2.
Other financial expenses	0.0	0.0	0.0	- 0.7	- 0.7	
Interest income	0.3	0.1	0.4	1.2	1.6	
Earnings before taxes (EBT)	**128.1**	**0.3**	**128.4**	**- 77.2**	**51.2**	
Income taxes	0.0	0.0	0.0	- 51.8	- 51.8	F.13.
Net loss / profit	**128.1**	**0.3**	**128.4**	**- 129.0**	**- 0.6**	
Segment investments	5.0	0.0	5.0	2.8	7.8	
Significant non-cash segment expenses (-) / income (+)	- 24.5 [3]	- 7.2	- 31.7	- 59.2 [4]	- 90.9	

[1] The revenues include income from the sale of properties concerning the large multi-family home sales program (€321.5 million), income from the sale of investment properties of HB Funds (€137.3 million), income from the sale of property development projects (€11.8 million) and income from the amortization of deferred liabilities of government-granted loans (€6.0 million) (see section F.1.).

[2] This item includes loss from the fair value measurement of investment property (€- 69.5 million) (see section F.3.), the EBITDA contribution of the large multi-family home sales program and the HB Funds asset sales (€- 16.8 million), adjustments in connection with HB Funds (€11.2 million), the EBT attributable to the property development business (€2.4 million), income from the amortization of deferred liabilities of government-granted loans (€6.0 million) and income from the reversal of provisions (€7.0 million). Other adjustments amount to €1.1 million.

[3] Significant non-cash expenses of real estate management contain additions to provisions concerning real estate management (€- 16.8 million), write-offs of rent receivables (€- 8.4 million) (see section F.2.) and other receivables concerning real estate management (€- 0.5 million) and income from the reversal of provisions concerning real estate management (€1.2 million).

[4] Other significant non-cash expenses / income mainly consist of the loss from the fair value measurement of investment property (€- 69.5 million) (see section F.3.), the profit from the fair value measurement of derivatives (€4.1 million) (see section H.2.), income from the amortization of deferred liabilities of government-granted loans (€6.0 million), the present value of loans carried at amortized cost (€2.8 million), income from the reversal of provisions (€10.5 million), additions to other provisions (€- 15.4 million) and expenses for compensation payments for the early redemption of financial liabilities in connection with the large multi-family home sales program and HB Funds asset sales (€2.0 million) (see section F.11.).

E. Notes to the Consolidated Statement of Financial Position

1. Intangible Assets

Prior to the sale of the subsidiaries GAGFAH Acquisition 3 GmbH and GAGFAH Pegasus GmbH, a portion of €5.3 million of the total amount of goodwill from the acquisition of GAGFAH Pegasus GmbH of €21.5 million was allocated to the operations to be disposed of. The allocation was done based on the relative values of the operations disposed of and the portion of the operations retained in the Region Berlin. The subsidiaries that have been comprised in the disposal group were deconsolidated as of November 30, 2011, after control had been transferred to the buyers on November 23, 2011.

The part of the goodwill attributable to the remaining cash-generating unit (CGU) amounts to €16.2 million. This part of goodwill was subject to an impairment test which did not result in the recognition of an impairment loss.

For the purposes of testing for impairment, the goodwills were assigned according to the policies laid out in section C.1. "Intangible Assets". The impairment test was carried out using a weighted average cost of capital before taxes (WACC) of 5.22 %. The WACC is a peer-group WACC, i.e. the individual parameters are calculated from peer-group values. The calculation assumes a re-levered beta of 0.90 and a risk-free interest rate of 3.91 %. In prior year's impairment test, an after-tax WACC of 4.39 % had been used, with a beta of 0.89 and a risk-free interest rate of 2.45 %.

The value of an asset or CGU is measured at its value in use. For the purpose of the impairment test, the Berlin Region served as a CGU, since the respective assets were located therein and geographic regions are the lowest level at which goodwill is monitored. The future cash flows are based on budget values for 2012 and are modeled for the period 2013 through 2021. The key drivers of rent growth (1.69 % per annum) and vacancy loss (5.17 % per annum) are based on the 2012 budget and / or past experience and are held constant throughout the extrapolated cash flows. The costs in the model are subjected to an assumed increase of 1.60 % per annum.

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

Intangible assets with a finite lifespan mainly comprise software licenses for user programs amounting to €0.5 million (prior year: €2.4 million). The decrease compared to the prior year is mainly due to full write-off of software licenses whose further use is regarded as unlikely.

The expenses for the full write-off of the aforementioned software licenses are recognized in the line item "Reorganization and Restructuring Expenses" (we also refer to section F.10. "Reorganization and Restructuring Expenses").

Please refer to the Statement of Changes in Consolidated Non-current Assets, which is attached as Exhibit (2).

All additions relate to intangible assets acquired separately.

2. Investment Property

For the annual accounts 2011, the valuation of the real estate portfolio was provided by CBRE. For more information, please refer to section C.3. "Investment Property".

Each quarterly valuation by CBRE is carried out on the basis of the data schedule for the quarter preceding the date of valuation (end of period). On the reporting date, the underlying assumptions of the valuation are again evaluated by CBRE as to their timeliness. Amongst other things, this presumes that the properties had been properly marked and that exchange of contracts took place on this date. The valuation result will be adjusted by GAGFAH for disposals by sale and carried forward to the balance sheet value of the current quarter.

The following overview shows the development of the real estate portfolio:

€ MILLION	2011	2010
As of January 1	**8,493.3**	**9,019.0**
Changes in the Consolidated Group	- 330.0	0.0
Additions	0.9	5.1
Disposals and reclassifications to assets held for sale	- 175.1	- 455.8
Reclassifications from / to property, plant and equipment and inventories	6.1	- 5.5
Changes in value	- 41.9	- 69.5
As of December 31	**7,953.3**	**8,493.3**

The changes in the Consolidated Group relate to investment property of the former subsidiary GAGFAH Pegasus GmbH of €330.0 million, which was disclosed as part of the disposal group as of September 30, 2011, and was deconsolidated as of November 30, 2011.

The total amount of additions of €0.9 million relates to modernization programs. In the prior year, only a part of the additions amounting to €3.9 million had related to modernization programs.

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

Investment property by region breaks down as follows:

	12-31-2011			
	Units [1]	**Rental area (sqm)** [2]	**Net cold rent annualized (€ million)** [1]	**Fair value (€ million)** [1]
Region Berlin	20,097	1,203,366	73.1	975.9
Region North	46,922	2,851,926	179.3	2,431.4
Region East	46,205	2,689,642	152.2	2,018.0
Region Southwest	44,146	2,747,248	187.6	2,528.0
Total	**157,370**	**9,492,182**	**592.2**	**7,953.3**

	12-31-2010			
	Units [1]	**Rental area (sqm)** [2]	**Net cold rent annualized (€ million)** [1]	**Fair value (€ million)** [1]
Region Berlin	25,920	1,544,345	94.5	1,308.5
Region North	47,423	2,882,102	179.5	2,470.5
Region East	47,395	2,765,700	154.4	2,045.7
Region Southwest	47,791	2,962,659	200.2	2,668.6
Total	**168,529**	**10,154,806**	**628.6**	**8,493.3**

[1] Including residential and commercial properties, garages, senior homes and other units. Garages and other properties are counted as 1 / 6 residential unit.
[2] For the garages, no rental area is included.

Our portfolio is located in approximately 350 towns and cities across Germany, with significant concentrations in Dresden and Berlin alone. The following table illustrates, inter alia, the geographic spread of our residential portfolio:

RESIDENTIAL PROPERTY PORTFOLIO AS OF DECEMBER 31, 2011

Top 20 Cities	Units	In % of total sqm	Rental area (sqm)	Average unit size (sqm)	Net cold rent annualized (€ million) [1]	In % of total	Net cold rent per month and sqm (€)	Market rent per month and sqm (€) [2]	Vacant % [3]
Dresden	37,658	22.7	2,129,801	57	121.8	20.6	4.77	5.04	5.1
Berlin	16,905	10.9	1,020,773	60	60.9	10.3	4.97	5.22	2.4
Hamburg	9,307	6.4	599,454	64	39.6	6.7	5.51	6.69	0.8
Hannover	6,064	4.1	383,637	63	25.9	4.4	5.62	5.85	6.7
Heidenheim	4,669	3.1	290,342	62	19.0	3.2	5.44	5.46	12.7
Bielefeld	4,172	2.9	276,481	66	15.1	2.6	4.54	4.70	1.8
Osnabrück	3,485	2.3	215,429	62	13.4	2.3	5.17	5.39	2.2
Braunschweig	3,199	2.1	196,643	61	12.3	2.1	5.20	5.41	1.4
Zwickau	3,086	1.8	172,724	56	8.7	1.5	4.18	4.42	15.9
Essen	2,293	1.6	152,143	66	9.7	1.6	5.32	5.72	7.6
Köln	2,040	1.7	161,037	79	12.6	2.1	6.52	6.92	3.2
Freiburg	1,772	1.3	119,615	68	8.8	1.5	6.15	6.92	1.2
Iserlohn	1,677	1.1	106,004	63	5.7	1.0	4.49	4.70	7.5
Bremen	1,538	1.0	97,725	64	5.8	1.0	4.96	4.96	9.0
Bocholt	1,515	1.0	92,507	61	5.5	0.9	4.98	5.35	3.4
Duisburg	1,431	1.0	96,336	67	5.3	0.9	4.58	4.81	21.2
Leverkusen	1,404	1.0	89,835	64	5.9	1.0	5.48	5.76	4.1
Göttingen	1,356	0.8	77,440	57	4.8	0.8	5.16	5.35	0.1
Frankfurt am Main	1,324	0.8	73,915	56	6.6	1.1	7.42	8.15	1.1
Dortmund	1,240	0.9	85,814	69	4.9	0.8	4.73	5.20	1.1
Subtotal Top 20 Cities	**106,135**	**68.6**	**6,437,654**	**61**	**392.3**	**66.4**	**5.08**	**5.43**	**4.8**
Other Cities	42,559	27.6	2,590,039	61	161.3	27.3	5.19	5.42	6.0
Total Core Residential Property Portfolio	**148,694**	**96.1**	**9,027,693**	**61**	**553.6**	**93.7**	**5.11**	**5.43**	**5.1**
Other [4]	n/m	3.9	363,212	n/m	37.3	6.3	n/m	n/m	29.1
		100.0	**9,390,905**		**590.9**	**100.0**			

[1] The net cold rent is calculated as annualized value as of the balance sheet date and represents the target rent (rent without revenue reductions, e.g. due to vacancy).
[2] Market rents were determined by CBRE.
[3] The vacancy rate was calculated on the basis of units.
[4] Includes HB Funds, commercial properties, non-core properties, garages, senior homes and other properties.

RESIDENTIAL PROPERTY PORTFOLIO AS OF DECEMBER 31, 2010

Top 20 Cities	Units	In % of total sqm	Rental area (sqm)	Average unit size (sqm)	Net cold rent annualized (€ million) [1]	In % of total	Net cold rent per month and sqm (€)	Market rent per month and sqm (€) [2]	Vacant % [3]
Dresden	37,867	21.0	2,143,756	57	120.6	19.0	4.69	5.03	5.9
Berlin	23,623	13.9	1,421,770	60	84.9	13.4	4.98	5.41	2.6
Hamburg	9,375	5.9	603,591	64	39.4	6.2	5.44	6.68	0.6
Hannover	6,072	3.8	384,073	63	25.4	4.0	5.51	5.82	5.6
Heidenheim	4,687	2.8	291,947	62	18.9	3.0	5.38	5.44	12.3
Bielefeld	4,172	2.7	276,481	66	14.8	2.3	4.45	4.71	2.3
Osnabrück	3,492	2.1	215,947	62	13.2	2.1	5.11	5.36	3.0
Braunschweig	3,217	1.9	197,862	62	12.3	1.9	5.17	5.40	1.8
Zwickau	3,087	1.7	172,796	56	8.7	1.4	4.18	4.46	17.3
Essen	2,321	1.5	153,644	66	9.8	1.5	5.29	5.74	7.0
Köln	2,098	1.6	165,635	79	12.7	2.0	6.38	6.82	2.9
Freiburg	1,773	1.2	119,658	67	8.5	1.3	5.95	6.96	1.0
Iserlohn	1,677	1.0	106,004	63	5.7	0.9	4.45	4.70	5.0
Bocholt	1,582	0.9	94,627	60	5.6	0.9	4.93	5.33	3.8
Bremen	1,550	1.0	98,407	63	5.9	0.9	4.96	5.07	8.8
Frankfurt am Main	1,522	0.8	83,574	55	7.4	1.2	7.34	8.17	0.3
Duisburg	1,416	0.9	95,697	68	5.1	0.8	4.47	4.79	20.2
Leverkusen	1,404	0.9	89,835	64	5.9	0.9	5.43	5.85	3.7
Göttingen	1,356	0.8	77,434	57	4.8	0.8	5.15	5.35	0.4
Dortmund	1,288	0.9	88,921	69	5.1	0.8	4.77	5.24	1.7
Subtotal Top 20 Cities	**113,579**	**67.3**	**6,881,659**	**61**	**414.7**	**65.2**	**5.02**	**5.47**	**4.9**
Other Cities	44,735	26.6	2,716,001	61	169.5	26.7	5.20	5.41	6.2
Total Core Residential Property Portfolio	**158,314**	**93.9**	**9,597,660**	**61**	**584.2**	**91.9**	**5.07**	**5.45**	**5.2**
Other [4]	n/m	6.1	619,240	n/m	51.6	8.1	n/m	n/m	28.9
		100.0	**10,216,900**		**635.8**	**100.0**			

[1] The net cold rent is calculated as annualized value as of the balance sheet date and represents the target rent (rent without revenue reductions, e.g. due to vacancy).
[2] Market rents were determined by CBRE.
[3] The vacancy rate was calculated on the basis of units.
[4] Includes HB Funds, commercial properties, non-core properties, garages, senior homes and other properties.

Bridge from the total units recognized as investment property to our total core residential property portfolio:

	12-31-2011	12-31-2010
Total units recognized as investment property	**157,370**	**168,529**
Commercial units	- 1,770	- 1,849
Garages[1)]	- 5,302	- 5,665
Senior homes	- 10	- 10
Other units[1)]	- 752	- 736
Residential units investment property	**149,536**	**160,269**
Assets held for sale	322	2,980
HB Funds units	- 344	- 3,044
Other non-core units[2)]	- 820	- 1,891
Total core residential property portfolio	**148,694**	**158,314**

1) Garages and other units are counted as 1 / 6 residential unit.
2) Mainly WOBA units set aside for demolition.

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. Other Financial Assets

The breakdown of other financial assets is presented in the Statement of Changes in Consolidated Non-current Assets, which is attached as Exhibit (2).

Investments in which no significant influence can be exerted are recognized within the other financial assets. Thereof, holdings of 20 % and more are reported in the List of Shareholdings, which is attached as Exhibit (1).

GAGFAH GROUP has no significant influence on the business activities of Hannover Region Grundstücksgesellschaft Verwaltung mbH & Co. Businesspark Hannover Nord KG (No. 84 of the list of shareholdings). According to the company agreement, the business is exclusively managed by the personally liable shareholder (Hannover Region Grundstücksgesellschaft Verwaltung II mbH, Hannover). GAGFAH GROUP has no participation in policy-making processes, there are no material transactions between the investor and the investee, there is no interchange of managerial personnel and no provision of essential technical information.

5. Inventories

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

€ MILLION	12-31-2011	12-31-2010
Land and land rights without buildings	9.5	11.0
Repair material	3.5	4.1
Land with inheritable building rights of third parties	0.7	0.7
Land and land rights with finished buildings	0.5	0.7
Other	7.6	6.6
Total	**21.8**	**23.1**

The decrease in total inventories compared to December 31, 2010, mainly results from sales of land without buildings.

In the financial year 2011, inventories with an amount of €0.4 million (prior year: €22.1 million) were recognized as an expense.

Write-downs to the net realizable value 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 sales price. Write-downs totaling €0.0 million (prior year: €0.1 million) relating to land and land rights without buildings were posted to reflect the (lower) net realizable value.

6. Receivables

Receivables break down as follows:

€ MILLION	12-31-2011	12-31-2010
Non-current		
Receivables from other trade	0.0	0.1
Total non-current	**0.0**	**0.1**
Current		
Receivables from sales of land and buildings	24.3	9.2
Rent receivables	10.6	11.8
Receivables from other trade	2.6	3.3
Receivables from third-party real estate management	0.1	0.1
Receivables from construction management	0.0	0.8
Total current	**37.6**	**25.2**
Total	**37.6**	**25.3**

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 deposits on interest-bearing notary trust accounts in the amount of €22.1 million (prior year: €5.9 million). The increase in receivables from sales of land and buildings is mainly attributable to the completion of sales contracts concerning investment property at the end of the financial year 2011, on which the receipt of the sales price is still outstanding.

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

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

Overall, impairment losses of €9.4 million (prior year: €9.3 million) were recognized for bad debts.

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

7. Current Other Assets

Current other assets break down as follows:

€ MILLION	12-31-2011	12-31-2010
Payments on notary trust account	23.7	0.0
Payments on account concerning maintenance services	14.1	11.3
Receivables referring to subsidies for costs of demolition	4.7	4.4
Claims for reimbursement	4.4	4.5
Receivables from joint venture partners	2.4	2.4
Insurance claims	1.7	3.0
Prepayments	0.7	2.6
Other	7.7	7.7
Total	**59.4**	**35.9**

The payments on a notary trust account result from the sale of the subsidiaries GAGFAH Acquisition 3 GmbH and GAGFAH Pegasus GmbH and represent the portion of the purchase price which has not yet been paid. For further information, we refer to section B.1. "Consolidated Group".

The decrease in insurance claims mainly results from the increase in impairment losses by €0.8 million (prior year: €0.0 million).

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, 2011, GAGFAH S.A. disclosed current tax claims of €8.1 million (prior year: €16.2 million).

These are mainly related to claims from sales tax, trade tax, corporate income tax, capital yields tax and value-added tax.

9. Bank Balances and Cash on Hand

This item contains cash and cash equivalents in the form of cash on hand, checks and bank balances totaling €200.1 million (prior year: €375.5 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 0.15 % and 1.56 % (prior year: between 0.06 % and 1.00 %). The weighted average is 0.96 % (prior year: 0.52 %).

The bank deposits have no maturity and are disposable on a daily basis. The balances in current accounts mainly accrue interest of 0.07 % to 1.05 % (prior year: 0.00 % to 0.75 %). The weighted average of the interest rates from the Group's main banks (Aareal Bank AG and HSBC Trinkaus & Burkhardt AG) amounted to 0.46 % for the fourth quarter and 0.48 % for the financial year 2011 (prior year: 0.38 % for the fourth quarter and 0.40 % for the financial year 2010). Bank deposits at all other banks have an interest rate of 0.09 % for the fourth quarter and 0.09 % for the financial year 2011 (prior year: 0.11 % for the fourth quarter and 0.11 % for the financial year 2010).

Of €200.1 million (prior year: €375.5 million) total cash, €100.6 million (prior year: €288.7 million) are restricted cash and €99.5 million (prior year: €86.8 million) unrestricted. As of December 31, 2011, restricted cash includes an amount of €70.0 million (prior year: €199.7 million) relating to asset sales which can be either used for the repayment of term loans or for the reinvestment in the acquisition of new properties. For further information on restrictions on cash, please refer to section G. "Notes to the Consolidated Statement of Cash Flows".

10. Assets Held for Sale

Assets held for sale amounting to €21.7 million (prior year: €213.4 million) contain the carrying amounts of real estate for which the sale is highly probable and management has declared its intention to sell. The decrease since December 31, 2010, is mainly due to the sale of large multi-family homes which were financially closed in 2011.

The large multi-family home sales program includes the sale of entire buildings to institutional or professional investors whereas the condo sales program includes the sale of individual apartments ("privatization") or small multi-family homes to tenants or retail investors.

In the financial years 2010 and 2011, GAGFAH focused on the sale of investment property related to HB Funds. The HB Funds comprise of 20 closed-end real estate funds, which are structured as a fractional co-ownership ("Bruchteilsgemeinschaft").

Of the total proceeds concerning assets held for sale, €8.5 million (prior year: €97.4 million) related to condo sales and €0.0 million (prior year: €80.9 million) related to large multi-family home sales were used to repay debt. Accordingly, the corresponding term loans were reclassified from non-current to current financial liabilities. Further €0.4 million in connection with HB Funds sales (prior year: €8.9 million) were reclassified from non-current financial liabilities to current financial liabilities. Please refer to section E.16.1. "Financial Liabilities" of this report.

11. 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 €277.0 million (prior year: €282.5 million) and comprises 221,602,832 (prior year: 225,972,693) shares, each with a nominal value of €1.25 (prior year: €1.25).

The following table shows the development of the issued and fully-paid share capital from January 1, 2010, to December 31, 2011:

	Number of shares	Amount in €
January 1, 2010	**225,893,880**	**282,367,350.00**
Exercise of stock options	76,213	95,266.25
Issue of bonus shares as part of remuneration of independent directors and other employees	2,600	3,250.00
December 31, 2010 / January 1, 2011	**225,972,693**	**282,465,866.25**
Exercise of stock options	1,247,386	1,559,232.50
Issue of bonus shares as part of remuneration of independent directors and other employees	15,000	18,750.00
Cancellation of shares	- 5,632,247	- 7,040,308.75
December 31, 2011	**221,602,832**	**277,003,540.00**

As of December 31, 2011, the number of authorized and unissued shares is 8,000,000,000 (prior year: 7,999,027,307) with a corresponding nominal value of €10,000,000,000.00 (prior year: €9,998,784,133.75).

TREASURY SHARES

In the financial years 2010 and 2011, GAGFAH GROUP initiated two Share Buy-back Programs.

The following table contains an overview of the Share Buy-back Programs and the respective number of treasury shares:

Share Buy-back Programs	Number of treasury shares	Average price in €	Acquisition costs in €
January 1, 2010	**0**	**0.00**	**0.00**
Share Buy-back from December 8, 2010, until December 31, 2010	881,128	6.58	5,802,174.50
December 31, 2010 / January 1, 2011	**881,128**	**6.58**	**5,802,174.50**
Share Buy-back from January 1, 2011, until July 29, 2011	4,751,119	6.83	32,427,910.14
Cancellation of shares on February 16, 2011	- 1,912,395	6.76	- 12,932,630.35
Share Buy-back from September 5, 2011, until October 4, 2011	15,150,277	4.95	74,993,871.15
Cancellation of shares on November 28, 2011	- 3,719,852	6.80	- 25,297,454.29
December 31, 2011	**15,150,277**	**4.95**	**74,993,871.15**

First Share Buy-back Program

On July 31, 2011, the Board of Directors of GAGFAH S.A. resolved to end its first Share Buy-back Program which had commenced on December 8, 2010. In total, 5,632,247 shares were bought at an average price of €6.79 under this Share Buy-back Program. The acquisition costs amounting to €38,230,084.64 (including incidental acquisition costs of €32,395.55) were deducted in full from revenue reserves.

1,912,395 of the repurchased shares were cancelled on February 16, 2011. As a consequence, a deduction amount of €2,390,493.75 was reclassified from treasury shares into subscribed capital leading to a reduction of the subscribed capital, while a deduction amount of €10,542,136.60 was reclassified from treasury shares into the share premium leading to a reduction of the share premium.

On November 28, 2011, the Board of Directors resolved to reduce the issued share capital through the cancellation of the remaining 3,719,852 shares from the first Share Buy-back Program. As a consequence, a deduction amount of €4,649,815.00 was reclassified from treasury shares into subscribed capital leading to a reduction of the subscribed capital, while a deduction amount of €20,647,639.29 was reclassified from treasury shares into the share premium leading to a reduction of the share premium.

Second Share Buy-back Program

On September 5, 2011, the Board of Directors of GAGFAH S.A. resolved to make a cash tender offer for shares in the Company with a maximum aggregate purchase price of €75.0 million. The offer was made in the form of a modified Dutch auction tender offer with an offer price range between €3.50 and €5.00 per share. The acceptance period started on September 6, 2011, and ended on October 4, 2011.

Under the Share Buy-back Offer, an overall number of 20,480,521 shares had been tendered to GAGFAH S.A. within the price range from €3.50 to €5.00 until the expiration of the acceptance period on October 4, 2011.

The final purchase price as determined by the Company upon expiration of the acceptance period was calculated via a modified Dutch auction process and amounted to €4.95 per share. Shares which had been tendered at a price higher than the final purchase price were not accepted for buy-back. As a result, 15,150,277 shares were purchased under the Share Buy-back Offer.

Non-controlling interests of €33.8 million (prior year: €61.9 million) comprise adjustment items for non-controlling interests in equity subject to mandatory consolidation and their share in profit or loss. They break down as follows among the subgroups:

- GAGFAH subgroup: €10.9 million for fractional ownership funds (prior year: €39.7 million)
- WOBA subgroup: €21.7 million (prior year: €21.0 million)
- NILEG subgroup: €1.2 million (prior year: €1.2 million)
- UC ACQ Ireland Ltd.: €46 thousand (prior year: €46 thousand).

The decrease in the non-controlling interests relating to GAGFAH subgroup of €28.8 million in the financial year 2011 is mainly caused by dividend payments amounting to €24.8 million and a net loss attributable to non-controlling interests as a result of expenses in connection with the sale of HB Funds properties and the consequent dividend to non-controlling shareholders.

For more information on the non-controlling interests in the net loss for the year, please refer to our comments on the Consolidated Statement of Comprehensive Income (Section F.14. "Result Attributable to Non-controlling Interests").

At the Annual General Meeting of Shareholders on April 21, 2011, the shareholders of GAGFAH S.A. approved the **interim dividends** paid for the financial year 2010. Since the shareholders approved payment of the dividends out of the share premium, the corresponding amount of €112.7 million was reclassified from the revenue reserves.

On April 12, 2011, GAGFAH GROUP paid a cash dividend of €22.3 million (€0.10 per share) for the fourth quarter of 2010.

In order to retain additional flexibility and financial resources within the business and to support the Company's property investment and financing objectives, the Board decided not to pay any dividends for 2011.

CAPITAL MANAGEMENT

The primary objective of the Group's capital management is to ensure that it maintains healthy capital ratios in order to support its business and maximize shareholder value. This implicates generation of a sound capital base for the purposes of servicing its debt obligations and paying dividends to its shareholders.

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

The following key financial figures are used in conjunction with the Group's capital management:

The Earnings before Interest, Taxes, Depreciation and Amortization (**EBITDA**) before results from fair value measurement of investment property, adjusted by certain one-off income and expenses, were chosen as the key performance figure for the Group and are used as an indicator for the Group's ability to service its debt obligations. This figure corresponds to the "Segment EBITDA" for the two core business segments "Real estate management" and "Real estate sales" as shown in the Group Segment Report.

The Net Asset Value (NAV) is a term used to describe the fundamental value of an entity. The Group's NAV is calculated as the shareholders' equity plus the deferred taxes on investment property and assets held for sale. The corporate objective is to have a market capitalization which is at least equivalent to the Group's NAV.

In the financial year 2011, the Segment EBITDA of €398.1 million (prior year: €424.4 million) and the NAV of €2,586.0 million (prior year: €2,739.6 million) were within the range that was expected by management.

During the financial year 2010, the following changes were made in the objectives, policies or processes of capital management: The Extraordinary General Meeting of Shareholders held on April 21, 2010, had resolved to reduce the issued share capital of the Company by a maximum amount of €70,600,000.00 by the repurchase and cancellation of a maximum of 56,480,000 shares from existing shareholders during a period ending nine months after the date of such Extraordinary General Shareholders' meeting and delegate any related powers to the Board of Directors in relation thereto including the determination of the final number of shares to be cancelled. The Extraordinary General Meeting of Shareholders held on April 21, 2011, resolved on a reduction of the share capital as set forth above.

On December 7, 2010, the Board of Directors of GAGFAH S.A. resolved to proceed to a buy-back of shares for a maximum number of shares equivalent to an overall purchase price of up to €125,000,000.00 in accordance with the authorizations granted by shareholders at the Annual and Extraordinary General Meetings of April 21, 2010, and formed a committee for that purpose (the "Buy-back Committee").

The objective of the Buy-back Programs was to reduce GAGFAH S.A.'s share capital and to reduce the stock's discount to NAV. The XETRA share price of €3.97 as of December 31, 2011, was €8.56 lower than the comparable NAV of €12.53 per share.

For details on the Share Buy-back Programs we refer to the subchapter "Treasury shares" within this section.

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.

The debt service cover ratio which is calculated monthly gives an indication of the ability of the Group to make its future interest payments with its main business, represented by EBITDA of the last four quarters. The future interest payments are calculated as a forecast for the next four quarters.

During the period, GAGFAH GROUP was not subject to externally imposed capital requirements.

12. Liabilities due to Non-controlling Shareholders

Liabilities due to non-controlling shareholders amounting to €4.5 million (prior year: €4.9 million) relate to the non-controlling shares.

Thereof, €4.1 million (prior year: €4.0 million) relate to WOBA subgroup and €0.4 million (prior year: €0.9 million) to KALIRA Grundstücksgesellschaft mbH & Co. KG.

13. Provisions

13.1. PENSION PROVISIONS

Company pensions at GAGFAH S.A. are granted both by way of defined contribution and defined benefit plans. Provisions are recognized for obligations to current and former employees from future and current benefit entitlements. For a detailed description on these plans, please refer to section C.10. "Pension Provisions".

The following tables present an overview of the plans.

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

NUMBER OF COMMITMENTS

	12-31-2011	12-31-2010
Active employees		
Vested expectancies	613	588
Non-vested expectancies	195	323
	808	**911**
Vested expectancies of employees no longer with the Company	303	249
Current pensions	861	874
Total	**1,972**	**2,034**

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

	12-31-2011	12-31-2010
In % p.a.:		
Discount rate	4.90	5.30
Future salary increases	2.50	2.50
Future pension increases	2.50	2.00
Turnover rate	4.50	4.50
Inflation rate	2.00	2.00

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

The adjusted 2005G mortality tables (with adjustment 2011) by Prof. Dr. Klaus Heubeck were used for death and disability.

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

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

If the actual development during the year deviates from the assumptions made at the beginning of the financial year or if parameters are set at the end of the financial year that differ from those set at the beginning, (additional) actuarial gains or losses arise.

The defined benefit obligation is calculated as follows:

€ MILLION	2011	2010
Defined benefit obligation as of January 1	109.8	100.3
Current service cost	1.7	2.2
Interest cost	5.6	5.3
Actuarial gains (-) or losses (+)	3.4	8.9
Direct pension payments	- 7.1	- 6.9
Defined benefit obligation as of December 31	**113.4**	**109.8**

The changes in the fair value of plan assets are as follows:

€ MILLION	2011	2010
Fair value of plan assets as of January 1	4.8	0.0
Contributions by employer	0.0	4.8
Expected return	0.2	0.2
Benefits paid	- 0.1	- 0.2
Fair value of plan assets as of December 31	**4.9**	**4.8**

The plan assets consist of liability insurances similar to life insurances including specified performance and profit participation.

The reconciliation of the present value of the defined benefit obligation and the fair value of plan assets to the assets or liabilities recognized in the Consolidated Statement of Financial Position is presented below.

€ MILLION	12-31-2011	12-31-2010
Defined benefit obligation	113.4	109.8
Less fair value of plan assets	- 4.9	- 4.8
	108.5	**105.0**
Unrecognized actuarial gains (+) or losses (-)	1.9	5.6
Provisions as of December 31	**110.4**	**110.6**

The pension provisions developed as follows in the financial year:

€ MILLION	2011	2010
Provisions as of January 1	110.6	115.0
Total pension expenses for the financial year	7.0	7.3
Direct pension payments	- 7.1	- 6.9
Fair value of plan assets	- 0.1	- 4.8
Provisions as of December 31	**110.4**	**110.6**

The net pension expenses recognized in the Consolidated Statement of Comprehensive Income break down as follows:

€ MILLION	2011	2010
Current service cost	1.7	2.2
Interest cost	5.6	5.3
Expected return on plan assets	- 0.2	- 0.2
Actuarial gains (-) or losses (+) recognized in the Consolidated Statement of Comprehensive Income	- 0.3	- 0.2
Net pension expenses	**6.8**	**7.1**

Current service cost, past service cost and actuarial gains or losses recognized in the Consolidated Statement of Comprehensive Income are disclosed under personnel expenses that are allocated to various categories of expenses according to the cost of sales method. Interest cost is disclosed under interest expenses.

The expected pension expenses for the financial year 2012 amount to €6.9 million (prior-year estimate for the financial year 2011: €7.3 million).

The actual return on plan assets equals the expected return and amounts to €0.2 million (prior year: €0.2 million). It was netted with interest cost of €5.6 million (prior year: €5.3 million).

The offsetting of the fair value of plan assets against the present value of the defined benefit obligation resulted in a deficit during the financial year 2011 and the previous four annual periods:

€ MILLION	12-31-2011	12-31-2010	12-31-2009	12-31-2008	12-31-2007
Defined benefit obligation	113.4	109.8	100.3	102.2	105.4
Less fair value of plan assets	- 4.9	- 4.8	0.0	0.0	0.0
Deficit (+) / surplus (-)	**108.5**	**105.0**	**100.3**	**102.2**	**105.4**

The supplementary pension funds VBL ("Versorgungsanstalt des Bundes und der Länder"; concerning NILEG subgroup) and ZVK-KVBW ("Zusatzversorgungskasse des Kommunalen Versorgungsverbandes Baden-Württemberg"; concerning GBH subgroup) constitute multi-employer defined benefit plans which pursuant to IAS 19.30 (a) were accounted for as if they were defined contribution plans, as the VBL / ZVK do not provide sufficient information to permit treatment as a defined benefit plan. 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.

If an employer terminates its participation in VBL, VBL continues to be responsible for the settlement of present and future pension claims of the insurants (employees). For purposes of funding the pension encumbrances, the diverging party (employer) has to pay an appropriate countervalue to VBL. These countervalues belong to the taxable income from dependent work according to German Income Tax Act. Employers have to pay taxes on countervalues paid after August 23, 2006, using a lump sum wage tax rate of 15 %. This new legislation caused an increase in NILEG subgroup's insufficiently financed pension obligations from €24.9 million to €30.0 million.

13.2. OTHER PROVISIONS

The other provisions developed as follows in the financial year:

€ MILLION	As of January 1, 2011	Changes due to sales of subsidiaries	Utilization
Provision for restitution proceedings	8.6	0.0	0.2
Restructuring and reorganization provisions	11.9	0.0	6.4
Provisions for costs concerning sold properties	10.2	0.0	2.6
Provisions in connection with WOBA lawsuits	0.0	0.0	0.0
Phased retirement	7.5	0.0	2.0
Warranty obligations and latent risks	5.1	0.0	0.5
Provision for demolition costs	5.0	0.0	3.1
Severance payments, litigation costs and similar risks	3.1	0.0	0.8
Provision for distribution obligations	1.2	0.0	0.2
Provision for refinancing	1.1	0.1	0.1
Other provisions	7.5	0.0	2.8
Total	**61.2**	**0.1**	**18.7**

€ MILLION	As of January 1, 2010	Changes due to sales of subsidiaries	Utilization
Provision for restitution proceedings	9.5	0.0	0.0
Restructuring and reorganization provisions	21.7	0.0	12.1
Provisions for costs concerning sold properties	3.0	0.0	0.3
Provisions in connection with WOBA lawsuits	0.0	0.0	0.0
Phased retirement	4.4	0.0	2.0
Warranty obligations and latent risks	8.3	0.0	2.4
Provision for demolition costs	7.2	0.0	2.1
Severance payments, litigation costs and similar risks	4.1	0.0	0.8
Provision for distribution obligations	1.6	0.0	0.3
Provision for refinancing	2.4	0.0	0.2
Other provisions	4.7	0.0	2.1
Total	**66.9**	**0.0**	**22.3**

Reversals	Additions	Additions due to reclassification	As of December 31, 2011	Thereof non-current	Thereof current
0.4	2.6	0.0	10.6	0.0	10.6
1.8	6.1	0.0	9.8	4.2	5.6
1.2	3.1	0.0	9.5	0.0	9.5
0.0	7.3	0.0	7.3	0.0	7.3
0.1	1.2	0.0	6.6	4.4	2.2
0.4	0.1	0.0	4.3	0.0	4.3
0.0	0.6	0.0	2.5	0.4	2.1
1.3	0.5	0.0	1.5	0.0	1.5
0.2	0.5	0.0	1.3	0.0	1.3
0.0	0.1	0.0	1.0	0.0	1.0
1.0	2.5	5.6	11.8	1.6	10.2
6.4	**24.6**	**5.6**	**66.2**	**10.6**	**55.6**

Reversals	Additions	Additions due to reclassification	As of December 31, 2010	Thereof non-current	Thereof current
1.3	0.4	0.0	8.6	0.0	8.6
4.4	6.7	0.0	11.9	2.5	9.4
0.3	7.8	0.0	10.2	0.0	10.2
0.0	0.0	0.0	0.0	0.0	0.0
0.1	5.2	0.0	7.5	5.3	2.2
1.7	0.9	0.0	5.1	0.0	5.1
0.4	0.3	0.0	5.0	0.0	5.0
0.8	0.6	0.0	3.1	0.0	3.1
0.8	0.7	0.0	1.2	0.0	1.2
1.3	0.2	0.0	1.1	0.0	1.1
0.7	5.6	0.0	7.5	1.7	5.8
11.8	**28.4**	**0.0**	**61.2**	**9.5**	**51.7**

The **provision for restitution proceedings** amounting to €10.6 million (prior year: €8.6 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. An amount of €2.6 million has been added in order to reflect our expectations as of the balance sheet date regarding the amount that will become payable in the short term.

The **restructuring and reorganization provisions** relate to employee severance payments and other costs related to the strategic repositioning of the subgroups. These provisions include obligations from prior-year restructuring projects recognized under the special criteria for restructuring provisions of IAS 37.71 et seqq. in connection with IAS 37.14 as well as obligations from ongoing reorganization projects which meet the general recognition criteria of IAS 37.14.

Regarding the restructuring and reorganization projects we refer to section F.10. “Reorganization and Restructuring Expenses”.

As of December 31, 2011, the provision amounted to €9.8 million (prior year: €11.9 million). Provisions of €6.1 million are allocated through reorganization and restructuring expenses, €2.7 million thereof are related to a recalculation of existing long-term restructuring provisions for rental guarantees and rental payments as well as €3.1 million relating to personnel-related expenses for severance payments. Further €0.3 million were allocated for prior restructuring measures.

In the prior year, provisions of €6.7 million were allocated through reorganization and restructuring expenses, thereof €4.8 million relating to personnel-related expenses for severance payments and €1.2 million relating to personnel-related expenses in connection with an IT-outsourcing project. Please refer to section F.10. “Reorganization and Restructuring Expenses”. Further €0.7 million were allocated for prior reorganization measures.

Provisions in the amount of €6.4 million (prior year: €12.1 million) were used during the financial year.

The additions to **provision for costs concerning sold properties** mainly concern sales cost in connection with HB Funds and compensation for damages in connection with sold properties.

The **provisions in connection with WOBA lawsuits** of €7.3 million (prior year: €0.0 million) include a discounted amount of €3.9 million due to the WOBA companies’ obligation to bear the State Capital's procedural costs up to an amount of €4.0 million. Another €3.4 million were added for consulting fees in connection with the lawsuits. We also refer to section F.9. "Other Operating Expenses".

The discounted obligation of €30.5 million arising from the total settlement amount of €36.0 million is disclosed within Other Liabilities (see section E.16.2. "Other Liabilities").

For more detailed information on this issue, we refer to section H.8. "Events after the Balance Sheet Date".

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 above the age of 55 to make a smooth transition into retirement and ensure employment for younger employees. In the reporting period and in the prior year, no new agreements were concluded. All arrangements that were concluded in the past have already started as of the balance sheet date.

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

The relevant employees receive gross monthly pay based on the agreed working time pursuant to the arrangements under the collective agreement and the workplace agreements in place. The employees receive this pay for the entire duration of phased retirement. Capital-forming payments are granted in line with the agreed part-time work, i.e. also in the release phase.

The **provisions for severance payments, litigation costs and similar risks** relate to estimated costs in connection with litigation relating to GAGFAH's core business and development business as well as estimated costs in connection with employees leaving the Company. As of the balance sheet date, provisions of €1.5 million (prior year: €3.1 million) had been recognized.

Warranty obligations and latent risks totaling €4.3 million (prior year: €5.1 million) were mainly set up for cases of liability from property development business.

The **provision for demolition costs** amounting to €2.5 million (prior year: €5.0 million) was recognized for the fulfillment of contractual obligations to demolish certain buildings belonging to our Region East within a certain period of time.

The addition due to reclassification results from the change in disclosure of a tax liability that is now included in **other provisions**.

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

The provision for demolition costs is covered by claims against the municipality of Dresden. Concerning the other provisions, no asset items have been recognized for refunds.

14. Deferred Tax Liabilities

A uniform tax rate of 32.00 % (prior year: 32.00 %) is generally applied to all Group companies. This comprises a corporate income tax rate including solidarity surcharge of 15.83 % (prior year: 15.83 %). Trade tax is charged at 16.17 % (prior year: 16.17 %).

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

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

€ MILLION	12-31-2011	12-31-2010	Effect from the deconsolidation of subsidiaries in 2011	Effect on income 2011	Effect on income 2010
Consolidated Statement of Financial Position					
Investment property	5.0	7.4		- 2.4	- 1.0
Financial assets	0.2	0.5		- 0.3	- 1.2
Other assets	4.5	6.7		- 2.2	- 0.4
Provisions	14.3	16.4		- 2.1	3.1
Liabilities	22.5	22.2		0.3	16.1
Assets held for sale	0.0	0.0		0.0	- 0.2
Deferred tax assets on temporary differences	**46.5**	**53.2**		**- 6.7**	**16.4**
Loss carryforwards					
Corporate income tax	132.4	137.0	- 1.7	- 2.9	- 13.0
Trade tax	57.1	68.3	- 0.6	- 10.6	- 6.8
Deferred tax assets on loss carryforwards	**189.5**	**205.3**	**- 2.3**	**- 13.5**	**- 19.8**
Deferred tax assets	**236.0**	**258.5**	**- 2.3**	**- 20.2**	**- 3.4**

€ MILLION	12-31-2011	12-31-2010	Effect from the deconsolidation of subsidiaries in 2011	Effect on income 2011	Effect on income 2010
Consolidated Statement of Financial Position					
Investment property	486.5	488.2	28.1	- 26.4	- 11.3
Financial assets	1.0	1.9		0.9	- 1.4
Other assets	0.2	0.0		- 0.2	0.2
Provisions	0.1	0.2		0.1	1.8
Liabilities	3.6	7.8	0.3	3.9	0.7
Assets held for sale	1.4	18.0		16.6	- 13.1
Untaxed special reserve	16.5	20.6		4.1	- 20.6
Deferred tax liabilities	**509.3**	**536.7**	**28.4**	**- 1.0**	**- 43.7**

Deferred tax liabilities predominantly result from differences between the carrying values of investment property disclosed in the IFRS Statement of Financial Position and in the Tax Statement. The tax base values are based on the continued recognition of the property at fair value at the date on which former non-profit housing companies became taxable. Deferred tax assets mainly result from the carryforward of unused tax losses and also partly from differences between IFRS values and tax bases of provisions and liabilities.

In the Consolidated Statement of Financial Position, deferred tax assets of €236.0 million (prior year: €258.5 million) were offset against deferred tax liabilities because the relevant entities have the legally enforceable right to set off current tax assets against current tax liabilities and the deferred tax assets and the deferred tax liabilities relate to income taxes levied by the same taxation authority on the same taxable entity.

As of December 31, 2011, the Group had corporate income tax loss carryforwards of €1,579.6 million (prior year: €1,671.8 million) and trade tax loss carryforwards of €739.9 million (prior year: €818.6 million). These are based on information available at the time of preparation of the Consolidated Financial Statements and may be carried forward indefinitely pursuant to legislation in force as of December 31, 2011. Per period, tax gains of a maximum of €1.0 million and 60.0 % of the amount above this figure may be netted with loss carryforwards.

Deferred tax assets on tax loss carryforwards are recognized to the extent that deferred tax liabilities on temporary differences exist. Net deferred tax assets on loss carryforwards were recognized only to the extent that they will be utilized in the near future, leading to residual corporate income tax loss carryforwards of €743.2 million (prior year: €806.2 million) as well as trade tax loss carryforwards of €386.9 million (prior year: €396.6 million), on which no deferred tax assets have been recognized.

Interest expenses are deductible up to the amount of the interest earnings. Beyond this amount, the deductibility is limited to 30 % of the financial year's EBITDA, wherein GAGFAH's fiscal year equals its financial year. Interest expenses which may not be deducted in the current year are carried forward to the following fiscal or financial years (interest carryforward). Deferred tax assets shall be recognized for the interest carryforward to the extent that it is probable that the interest expenses can be used in following years. Due to the Group's capital structure, the use of the interest carryforward is not probable in the foreseeable future. According to this, no deferred taxes were recognized on interest carryforwards of €199.1 million (prior year: €146.1 million) as these interest expenses are not expected to be realized in subsequent years.

Temporary differences associated with investments in subsidiaries, for which deferred tax liabilities have not been recognized, aggregate to €8.3 million (prior year: €8.9 million).

15. Liabilities from Income Tax

As of December 31, 2011, the Group had obligations from corporate income tax, trade tax and capital yields tax totaling €118.6 million (prior year: €134.2 million). They break down as follows:

€ MILLION	12-31-2011	12-31-2010
Non-current		
Corporate income tax on EK02	66.5	78.3
Total non-current	**66.5**	**78.3**
Current		
Trade tax	21.5	19.3
Corporate income tax on EK02	15.6	20.9
Corporate income tax	15.0	12.3
Capital yields tax	0.0	3.4
Total current	**52.1**	**55.9**
Total	**118.6**	**134.2**

The decrease of corporate income tax on EK 02 is primarily caused by payments of €15.6 million (prior year: €15.6 million). The decrease is partly offset by the addition of accrued interest of €3.8 million (prior year: €4.2 million).

16. Liabilities

16.1. FINANCIAL LIABILITIES

Financial liabilities total €5,427.9 million (prior year: €6,011.2 million) and relate mainly to the financing of residential real estate assets.

Of the total financial liabilities, €5,181.3 million (prior year: €5,755.4 million) relates to unsubsidized loans.

Overall, loans amounting to €364.6 million (prior year: €698.9 million) were repaid in the financial year. Thereof, 130 (prior year: 140) loans totaling €41.0 million (prior year: €30.6 million) were fully repaid in the financial year.

Floating credit agreement

As of September 1, 2010, GAGFAH S.A had changed the former €300.0 million credit agreement into a new €180.0 million loan agreement. The interest rate charged on the new loan agreement was EURIBOR plus 5.0 %. The loan had to be partially amortized at fixed repayment dates during the credit period. The ultimate maturity date of the new loan agreement was December 31, 2011. Therefore, no loan amount (except to accrued interest) is outstanding at the year-end 2011 (€100.0 million at the year-end 2010, thereof €75.0 million relating to a term loan with a fixed interest period and €25.0 million relating to a revolving credit facility).

To control the interest risk of the aforementioned floating credit agreement, GAGFAH S.A. had negotiated a cap, the amount and maturity date of which was equal to the credit agreement.

Securities for financial liabilities

The value of the investment property portfolio (including assets held for sale) of €7,975.0 million (prior year: €8,706.7 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 €5,405.2 million (prior year: €5,878.2 million). No collateral has been provided for the remaining €22.7 million (prior year: €133.0 million). The decrease in unsecured financial liabilities results from the lower amount of the credit facility as well as the repayment of liabilities relating to unfinished development on behalf of cities and municipalities.

Loans in connection with assets held for sale

In the financial year 2011, several reclassifications of term loans from non-current to current financial liabilities were made in connection with assets held for sale and sold assets because the proceeds of the sale of large multi-family homes, condos and HB Funds were partly used to repay debt.

As of December 31, 2011, a total amount of €55.1 million (prior year: €178.3 million) was reclassified from non-current to current financial liabilities (term loans) due to the repayment expected to be prior to the contractual maturity of these liabilities, thereof €8.4 million (prior year: €80.9 million) in connection with the large multi-family home sales program and €46.7 million (prior year: €97.4 million) related to condo sales. The aforementioned reclassified term loans contain financial liabilities related to assets held for sale as shown in the Consolidated Statement of Financial Position at the end of the financial year as well as financial liabilities related to asset sales that have already been recognized during the financial year 2011.

An additional €0.4 million (prior year: €8.9 million) in connection with HB Funds sales were reclassified from non-current to current financial liabilities. Due to the reclassification of assets from assets held for sale back into investment property an amount of €6.1 million was reclassified to non-current financial liabilities.

Of the total reclassifications, loans amounting to €8.9 million (prior year: €136.1 million) are directly related to assets held for sale of €21.7 million (prior year: €213.4 million) as shown in the Consolidated Statement of Financial Position. These loans are allocated to the Group's assets held for sale as follows:

	12-31-2011		12-31-2010	
€ MILLION	Assets held for sale	Related financial liabilities	Assets held for sale	Related financial liabilities
Large multi-family home sales	0.0	0.0	59.4	42.2
Condo sales	20.1	8.5	119.7	85.0
HB Funds sales (non-core)	1.6	0.4	34.3	8.9
Total	**21.7**	**8.9**	**213.4**	**136.1**

The total reclassified liabilities have been revalued according to IAS 39.AG8. The current financial liabilities include an amount of €1.6 million (prior year: €7.8 million) due to potential prepayment fees. For further information about the effect on the Consolidated Statement of Comprehensive Income please refer to section F.11. "Interest Expenses".

For more information on the respective sales programs, we refer to section E.10. "Assets Held for Sale".

Loans secured by demolition properties

The part of the term loans secured by demolition properties was reclassified from current to non-current financial liabilities in the amount of €28.6 million (prior year: €0.0 million).

Debt maturity profile and interest payment

The Group is financed long term, but monitors credit terms very closely in light of its refinancing needs. As of December 31, 2011, the Group's financial liabilities primarily comprise of the following liabilities:

DEBT MATURITY PROFILE AS OF DECEMBER 31, 2011

€ MILLION	Carrying loan amount as of 12-31-2011	Notional loan amount as of 12-31-2011	Weighted average years to maturity	Current interest rate	Fixed or secured interest rate	2012 Scheduled repay-ments [1]	2012 Scheduled maturity [2]
Term loans [3]	4,762.8	4,738.5	1.8	4.08 %	Fixed	54.2	0.0
Term loans [3]	312.0	303.8	0.5	5.19 %	Secured [4]	0.9	266.9
Senior debt [5]	338.0	414.8	27.3	2.29 %	Fixed	12.1	10.8
Revolving credit facility	0.0	0.0	0.0	0.00 %	Secured [4]	0.0	0.0
Other	15.1	15.1	7.0	5.73 %	Fixed	0.8	0.0
Total	**5,427.9**	**5,472.2**	**3.7**	**4.01 %**		**68.0**	**277.7**

[1] Regular repayments and releases from sales.
[2] Loans which are due for repayment or loans which have to be refixed on the interest rate, including scheduled repayments till maturity.
[3] The term loans attributable to assets held for sale and sold assets are €55.1 million (€8.5 million thereof relate to assets held for sale and €46.6 million relate to sold assets).
[4] In order to reduce the risk of interest rate fluctuation during the lifetime of the loans, we have predominantly hedged the interest rate cost of the loans through interest rate swaps or interest rate caps.
[5] The repayments in 2012 include an amount of €0.4 million from assets held for sale.

INTEREST PAYMENT (FIX) [1]

€ MILLION	Carrying amount as of 12-31-2011	Notional amount as of 12-31-2011	2012	2013	2014	2015	2016
Term loans	4,762.8	4,738.5	198.2	148.7	28.9	0.0	0.0
Term loans	312.0	303.8	6.0	1.9	1.9	1.3	0.0
Senior debt	338.0	414.8	9.1	7.9	7.1	6.6	6.0
Revolving credit facility	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other	15.1	15.1	0.9	0.8	0.8	0.7	0.7
Total	**5,427.9**	**5,472.2**	**214.2**	**159.3**	**38.7**	**8.6**	**6.7**

[1] Calculated on the assumption that no ending contract will be renewed or extended.

	2013		2014		2015		2016		2017		≥ 2018	
	Scheduled repay-ments [1]	Scheduled maturity [2]	Scheduled repay-ments [1]	Scheduled maturity [2]	Scheduled repay-ments [1]	Scheduled maturity [2]	Scheduled repay-ments [1]	Scheduled maturity [2]	Scheduled repay-ments [1]	Scheduled maturity [2]	Scheduled repay-ments [1]	Scheduled maturity [2]
	0.0	3,340.3	0.0	1,344.0	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	36.0	0.0	0.0	0.0	0.0	0.0	0.0
	11.4	15.2	11.1	13.5	11.1	12.7	11.1	0.2	11.1	3.9	290.6	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
	0.8	0.0	0.8	0.0	0.8	0.0	0.8	0.0	0.9	0.0	10.2	0.0
	12.2	**3,355.5**	**11.9**	**1,357.5**	**11.9**	**48.7**	**11.9**	**0.2**	**12.0**	**3.9**	**300.8**	**0.0**

	2017	≥ 2018
	0.0	0.0
	0.0	0.0
	5.9	64.9
	0.0	0.0
	0.6	0.7
	6.5	**65.6**

DEBT MATURITY PROFILE AS OF DECEMBER 31, 2010

€ MILLION	Carrying amount as of 12-31-2010	Notional amount as of 12-31-2010	Weighted average maturity	Current interest rate	Fixed or secured interest rate	2011 Scheduled repay-ments [1]	2011 Scheduled maturity [2]
Term loans [3]	5,206.0	5,189.2	2013	4.10 %	Fixed	177.5	0.0
Term loans [3]	320.3	306.4	2012	5.19 %	Secured [4]	0.8	0.0
Senior debt [5]	368.4	449.5	2039	2.37 %	Fixed	20.3	10.1
Revolving credit facility	100.2	100.0	2011	5.94 %	Secured [4]	100.0	0.0
Other	16.3	16.3	2018	5.71 %	fix	0.8	0.0
Total	**6,011.2**	**6,061.4**	**2015**	**4.06 %**		**299.4**	**10.1**

[1] Regular repayments and releases from sales.
[2] Loans that are due for repayment or loans for which a new interest rate needs to be fixed and which the Company intends to extend or refinance.
[3] The fixed-rate term loans attributable to assets held for sale and sold assets are €178.3 million (thereof €127.2 million relates to assets held for sale and €51.1 million relates to sold assets).
[4] In order to reduce the risk of interest rate fluctuation during the lifetime of the loans, we have predominantly hedged the interest rate cost of the loans through interest rate swaps or interest rate caps.
[5] The repayments in 2011 include an amount of €8.9 million from assets held for sale.

INTEREST PAYMENT (FIX) [1]

€ MILLION	Carrying amount as of 12-31-2010	Notional amount as of 12-31-2010	2011	2012	2013	2014	2015
Term loans	5,206.0	5,189.2	215.5	217.3	163.5	35.7	0.0
Term loans	320.3	306.4	16.1	6.0	1.9	1.9	1.3
Senior debt	368.4	449.5	10.4	9.6	8.4	7.5	6.9
Revolving credit facility	100.2	100.0	3.9	0.0	0.0	0.0	0.0
Other	16.3	16.3	0.9	0.9	0.8	0.8	0.7
Total	**6,011.2**	**6,061.4**	**246.8**	**233.7**	**174.6**	**45.9**	**8.9**

[1] Calculated on the assumption that no ending contract will be renewed or extended.

	2012		2013		2014		2015		2016		≥ 2017	
	Scheduled repayments [1]	Scheduled maturity [2]	Scheduled repayments [1]	Scheduled maturity [2]	Scheduled repayments [1]	Scheduled maturity [2]	Scheduled repayments [1]	Scheduled maturity [2]	Scheduled repayments [1]	Scheduled maturity [2]	Scheduled repayments [1]	Scheduled maturity [2]
	0.0	0.0	0.0	3,418.1	0.0	1,593.6	0.0	0.0	0.0	0.0	0.0	0.0
	0.0	269.6	0.0	0.0	0.0	0.0	0.0	36.0	0.0	0.0	0.0	0.0
	11.8	11.3	11.5	13.6	11.2	15.6	11.1	13.6	11.2	1.0	307.2	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
	0.8	0.0	0.8	0.0	0.8	0.0	0.8	0.0	0.8	0.0	11.5	0.0
	12.6	**280.9**	**12.3**	**3,431.7**	**12.0**	**1,609.2**	**11.9**	**49.6**	**12.0**	**1.0**	**318.7**	**0.0**

	2016	≥ 2017
	0.0	0.0
	0.0	0.0
	6.3	78.5
	0.0	0.0
	0.7	1.3
	7.0	**79.8**

To reduce the exposure to changes in interest rates, GAGFAH has concluded interest swap agreements. Due to the valuation of the derivatives, interest rate swaps with a negative amount of €5.9 million (prior year: negative amount of €11.8 million) are disclosed in the financial liabilities.

The difference between the notional amount and the carrying amount as shown in the Consolidated Statement of Financial Position mainly results from debt discount, amortized transaction costs and interest accruals.

16.2. OTHER LIABILITIES

As of the balance sheet date, other liabilities break down as follows:

€ MILLION	12-31-2011	12-31-2010
Non-current		
Liabilities from settlement payments to the State Capital of Dresden	26.6	0.0
Liabilities from finance lease	4.2	4.3
Jubilee commitments	1.5	1.6
Liabilities from reorganization	1.1	3.2
Liabilities from commission on bank guarantee	0.8	1.4
Other liabilities	0.8	0.0
Total non-current	**35.0**	**10.5**
Current		
Liabilities from operating expenses not yet invoiced	30.0	30.6
Trade payables	20.4	22.1
Liabilities to tenants	16.0	17.4
Prepayments received	11.7	152.1
Liabilities from bonus payments	9.4	9.4
Liabilities from settlement payments to the State Capital of Dresden	3.9	0.0
Liabilities from basic / decorative repairs	3.6	3.6
Tax liabilities	2.2	7.6
Liabilities from construction management services not yet invoiced	2.2	2.0
Liabilities from commissions	0.9	2.0
Liabilities from reorganization	0.1	1.5
Other liabilities	11.4	12.2
Total current	**111.8**	**260.5**
Total	**146.8**	**271.0**

The WOBA companies and the State Capital of Dresden agreed to fully resolve all their disputes by mutual agreement and on March 2, 2012, entered into a settlement agreement subject to the approval by Dresden's city council and supervisory authority. While the settlement has already been approved by the City Council of Dresden on March 15, it is still subject to formal approval by the legal supervisory authority of Saxony which is expected to be rendered on or before March 21, 2012.

Under the conditions of this settlement agreement, the State Capital of Dresden receives nine annual installments in the amount of €4.0 million (€36.0 million in total) from 2012 through 2020. The discounted liability amounts to €30.5 million, thereof €3.9 million current and €26.6 million non-current.

For more detailed information on this issue, we refer to section H.8. "Events after the Balance Sheet Date".

The non-current liabilities from finance lease of €4.2 million (prior year: €4.3 million) relate to finance leases concerning hereditary building rights, for which GAGFAH GROUP is lessee.

Compared to year-end 2010, the prepayments received decreased by €140.4 million, mainly due to the completion of sales contracts in connection with the large multi-family home sales program and the condo sales program.

With the exception of jubilee commitments, liabilities from finance lease and liabilities from reorganization, 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 Statement of Comprehensive Income

1. Income from the Leasing of Investment Property

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

€ MILLION	2011	2010
Rental income, fees	594.1	630.1
Allocations charged	276.5	279.7
Other	1.6	1.7
Total	**872.2**	**911.5**

Income from the leasing of investment property is mainly attributable to the leasing of apartments. The decrease compared to the prior year is a result of a comparatively smaller portfolio.

Rental income includes non-cash income from the amortization of deferred liabilities of government-granted loans in the amount of €7.3 million (prior year: €6.0 million).

The operating expenses arising from investment property that did not generate rental income during the financial year amounted to €14.0 million (prior year: €17.7 million). These expenses are recognized as revenue reduction within the allocations charged.

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

GAGFAH GROUP expects to achieve minimum leasing payments of approximately €133.0 million within the first three months of 2012 (prior-year estimate for the first three months of the financial year 2011: €137.5 million) from the present real estate portfolio and the existing operating lease contracts with third parties.

2. Operating Expenses for the Generation of Rental Income

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

€ MILLION	2011	2010
Real estate operating expenses	252.2	257.5
Repair and maintenance costs	76.5	61.0
Personnel expenses	55.1	61.0
Real estate tax	26.7	28.0
External costs for real estate management	8.8	9.0
Bad debt allowances	7.9	8.4
Administrative expenses	6.9	7.1
Amortization and depreciation on intangible assets and property, plant and equipment	2.3	2.4
Other expenses for real estate management	14.2	14.9
Total	**450.6**	**449.3**

Operating expenses decreased to €252.2 million in the financial year 2011 from €257.5 million in the financial year 2010. The decrease is primarily attributable to an overall smaller portfolio.

Repair and maintenance costs in the financial year 2011 were €76.5 million, as compared to €61.0 million in the financial year 2010. While the repair and maintenance spent during the financial year 2010 was below average, the expenses during the financial year 2011 are more representative of an appropriate volume for our current portfolio.

This development reflects an increase in the following category of maintenance costs: For investment property that was vacant either for a short time within the financial year, due to tenant fluctuation, or during the entire financial year, refurbishment expenses of €25.4 million (prior year: €9.9 million) in connection with modernizations, which cannot be capitalized, were incurred.

3. Loss from the Fair Value Measurement of Investment Property

Changes in value from measurement of investment property in the financial year amount to a net loss of €41.9 million (prior year: €69.5 million).

The loss from fair value measurement is mainly attributable to land with leased residential buildings.

4. Profit from Other Services

The profit from other services breaks down as follows:

€ MILLION	2011	2010
Revenues from third-party real estate management	5.1	5.5
External costs for third-party real estate management	- 0.4	- 0.4
Personnel expenses	- 3.1	- 3.3
Subtotal third-party real estate management	**1.6**	**1.8**
Revenues from other trade	10.6	9.3
External costs for other trade	- 6.0	- 4.0
Personnel expenses	- 2.5	- 2.1
Subtotal results from other trade	**2.1**	**3.2**
Total	**3.7**	**5.0**

5. Selling Expenses

Expenses that are directly related to the sales activities of GAGFAH GROUP are recorded under this item. They are primarily attributable to sales and advertising.

Selling expenses break down as follows:

€ MILLION	2011	2010
External brokers	4.2	7.5
Personnel expenses	3.5	3.8
General and administrative expenses	2.6	2.6
Additions to provisions for sales cost in connection with HB Funds	1.8	5.2
Clearing of encumbrances	1.6	3.7
Marketing and selling prearrangements	0.9	0.8
Maintenance on vacant flats and sample flats	0.4	0.6
Other	2.4	2.4
Subtotal	**17.4**	**26.6**
Selling expenses due to property development business	0.1	0.1
Total	**17.5**	**26.7**

The overall decrease in selling expenses results from the lower volume of asset sales compared to the prior year.

6. General and Administrative Expenses

General and administrative expenses break down as follows:

€ MILLION	2011	2010
Personnel expenses for administrative staff	15.9	17.5
IT costs	5.8	6.3
Consulting fees	2.6	2.4
Audit fees	1.9	2.1
Costs of office equipment, postage and telephone	1.4	1.4
Insurances	1.1	1.1
Personnel-related costs	1.1	1.0
Amortization and depreciation on intangible assets and fixed assets	0.8	2.0
Occupancy costs	0.8	0.8
Travel expenses, expenses for cars	0.7	0.7
Court and lawyers' fees	0.4	0.5
Other	2.5	2.1
Total	**35.0**	**37.9**

The prior-year amount of amortization and depreciation on intangible assets and fixed assets included an impairment charge of fixed assets due to the move of GAGFAH GROUP's administrative headquarter.

7. Expenses for Share-based Remuneration

GAGFAH offers its employees both equity-settled stock option plans and cash-settled stock option plans. A description of the stock option plans can be found in the Accounting Policies, section C.15. "Share-based Remuneration".

The total fair value of the options relating to the second and third equity-settled stock option plans, estimated at the respective grant dates using the Black & Scholes option pricing model, amounts to €6.5 million (prior year: €3.9 million). The respective expenses are allocated equally over the vesting period. In the financial year 2011, expenses of €3.8 million (prior year: €1.8 million) were recognized in the Consolidated Statement of Comprehensive Income.

The following table lists the inputs to the Black & Scholes option pricing model used for the calculation of the fair value of the stock options granted in 2009 and 2011:

€ MILLION	Stock Option Plan 2011	Stock Option Plan 2009
Weighted average share price (€)	5.40	5.23
Exercise price (€)	6.36	3.70 – 6.31
Expected volatility (%)	59.37	59.83 – 61.12
Expected life of the option (years)	2.00 – 4.00	2.58 – 3.75
Expected dividends / dividend yield (%)	0.00	12.68 – 21.62
Risk-free interest rate (%)	1.31 – 2.64	3.35 – 3.49

The underlying exercise prices of the options are equal to the respective closing prices of one share at the Frankfurt Stock Exchange on the trading day immediately preceding the individual grant dates.

The expected volatility reflects the assumption that the historical volatility over a period similar to the life of the options is indicative of future trends, which may also not necessarily be the actual outcome. The expected volatility used for the Black & Scholes option pricing model is based on a historical volatility calculated over 710 to 750 trading days.

The expected life of the share options is based on historical data and current expectations and is not necessarily indicative of exercise patterns that may occur.

The total expenses for share-based remuneration recognized in the Consolidated Statement of Comprehensive Income are shown in the following table:

€ MILLION	2011	2010
Equity-settled share-based payment (Stock Option Plan 2006)	0.0	0.2
Equity-settled share-based payment (Stock Option Plan 2009)	- 2.2	- 1.8
Equity-settled share-based payment (Stock Option Plan 2011)	- 1.5	0.0
Cash-settled share-based payment	- 0.1	- 0.2
Total expenses (-) / income (+)	**- 3.8**	**- 1.8**

As of December 31, 2011, the provision for cash-settled share-based payment amounted to €0.3 million (prior year: €0.5 million).

The following table illustrates the movements in share options during the financial year:

Number of stock options	2011		2010	
	Equity-settled stock option plans	Cash-settled stock option plans	Equity-settled stock option plans	Cash-settled stock option plans
Outstanding as of January 1	**2,644,509**	**81,000**	**2,720,722**	**62,000**
Granted during the financial year	1,000,000	10,000	0	32,000
Forfeited during the financial year	- 202,595	- 6,000	0	- 13,000
Exercised during the financial year	- 1,247,386	- 25,000	- 76,213	0
Outstanding as of December 31	**2,194,528**	**60,000**	**2,644,509**	**81,000**

During the financial year, 1,247,386 (prior year: 76,213) shares relating to our equity-settled stock option plans were issued at a weighted average share price of €6.73 (prior year: €6.22).

The range of exercise prices for equity-settled stock options outstanding at the end of the year was €0.00 to €6.36 (prior year: €0.00 to €6.31).

On the basis of our cash-settled stock option plan, 25,000 (prior year: 0) options were exercised at a weighted average share price of €4.66.

On the balance sheet date, 1,513,850 (prior year: 1,305,150) stock options were vested and exercisable.

Up to the date of this report no further options have been exercised.

8. Other Operating Income

All income not directly allocable to the various categories of income according to the cost of sales method is disclosed under other operating income totaling €34.3 million (prior year: €20.2 million).

Other operating income breaks down as follows:

€ MILLION	2011	2010
Deconsolidation of subsidiaries	22.2	0.0
Sale of cable network connections	4.3	6.2
Reversal of provisions	3.3	7.0
Write-off of liabilities	0.0	0.3
Other	2.4	4.5
Subtotal	**32.2**	**18.0**
Other operating income due to property development business	2.1	2.2
Total	**34.3**	**20.2**

The income from the deconsolidation of subsidiaries of €22.2 million (prior year: €0.0 million) relates to the sale of GAGFAH Acquisition 3 GmbH and GAGFAH Pegasus GmbH. The two former Group companies were deconsolidated as of November 30, 2011. Please refer to section B.1. "Consolidated Group".

The income from the sale of cable network connections contains income due to the sale of physical components of cable network connections to several cable network operators.

An amount of €2.1 million (prior year: €2.2 million) results from property development business. Thereof, an amount of €0.9 million (prior year: €1.0 million) relates to the reversal of provisions concerning objects sold. Further €0.5 million (prior year: €0.2 million) relate to the reversal of other provisions, mainly provisions for litigation risks. Income of €0.5 million results from the write-off of liabilities.

9. Other Operating Expenses

All expenses not directly allocable to the various categories of expenses according to the cost of sales method are disclosed under other operating expenses totaling €60.2 million (prior year: €8.3 million).

These expenses break down as follows:

€ MILLION	2011	2010
Expenses in connection with WOBA lawsuits	44.9	0.0
Addition to provision for restitution proceedings	2.6	0.0
Depreciation of the right to the name of Heidenheim soccer stadium	1.4	0.0
Expenses in connection with litigation risks	1.3	0.0
Expenses in connection with Share Buy-back	1.2	0.0
Expenses in connection with portfolio optimization	1.0	0.0
Additions to other provisions	0.2	1.4
Write-off of receivables	0.1	0.5
Other	2.8	3.1
Subtotal	**55.5**	**5.0**
Other operating expenses due to property development business	4.7	3.3
Total	**60.2**	**8.3**

The expenses in connection with the WOBA lawsuits include an amount of €30.5 million (prior year: €0.0 million) arising from the settlement according to which nine annual installments have to be paid to the State Capital of Dresden from 2012 through 2020. We refer to section E.16.2. “Other Liabilities”.

Another €3.9 million (prior year: €0.0 million) of the expenses in connection with the WOBA lawsuits are additions to provisions for procedural costs that the WOBA companies will bear for the State Capital of Dresden. Additional expenses of €10.5 million (prior year: €0.0 million), mainly for consulting fees in connection with the lawsuits, are also included. Of that amount, €3.4 million (prior year: €0.0 million) are additions to provisions and €7.1 million (prior year: €0.0 million) are current expenses. We also refer to section E.13.2. “Other Provisions”.

For more detailed information on this issue, we refer to section H.8. "Events after the Balance Sheet Date".

The depreciation of the right to the name of the Heidenheim soccer stadium was recognized in the course of the sale of the right.

The expenses in connection with litigation risks include €1.3 million (prior year: €0.0 million) relating to compensation claims in connection with sales.

The expenses in connection with portfolio optimization result from the sale of the subsidiaries GAGFAH Acquisition 3 GmbH and GAGFAH Pegasus.

An amount of €4.7 million (prior year: €3.3 million) results from the property development business. Thereof, €2.4 million (prior year: €1.2 million) relate to prior-year expenses and additions to provisions concerning land sold.

10. Reorganization and Restructuring Expenses

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

In 2011, total reorganization and restructuring expenses were €14.6 million compared to €12.8 million in 2010, and break down as follows:

	2011			2010		
€ MILLION	Restructuring	Reorganization	Total	Restructuring	Reorganization	Total
Personnel-related expenses	0.4	2.7	3.1	- 0.3	6.0	5.7
Consulting fees	0.0	0.4	0.4	0.0	0.3	0.3
Non-personnel administrative costs	2.8	8.3	11.1	0.0	6.8	6.8
Total	**3.2**	**11.4**	**14.6**	**- 0.3**	**13.1**	**12.8**

The personnel-related restructuring expenses of €0.4 million in the financial year 2011 mainly include additions to provisions for prior restructuring measures in the amount of €0.3 million. The prior-year personnel-related restructuring income of €0.3 million included expenses of €1.5 million that were compensated by income of €1.8 million from the reversal of provisions in connection with a restructuring project started in 2009.

Of the personnel-related reorganization expenses of €2.7 million in the financial year 2011, €0.4 million relate to expenses for phased retirement and €2.3 million relate to severance payments. €1.3 million of the latter are net expenses from adjustments of corresponding reorganization provisions (additions of €3.1 million and reversals of €1.8 million), and €1.0 million are current expenses. The corresponding amount in the prior year included personnel-related expenses for severance payments of €4.8 million and personnel-related expenses for the outsourcing of parts of the IT department of €1.2 million.

The consulting fees of €0.4 million (prior year: €0.3 million) in the column "Reorganization" mainly relate to tax advice.

Non-personnel administrative costs of €2.8 million in the column "Restructuring" in the financial year 2011 mainly include expenses of €2.7 million relating to a revaluation of existing long-term restructuring provisions for rental guarantees and rental payments.

Non-personnel administrative costs of €8.3 million in the column "Reorganization" include €6.1 million legal costs in connection with the premature termination of a further agreement with an external maintenance provider and €1.8 million expenses from the full write-off of software licenses, the further use of which is regarded as unlikely. The corresponding prior-year amount included expenses of €6.8 million for compensation payments due to the renegotiation of a service agreement with another outsourcing partner regarding service volume and contract term.

Regarding the corresponding provisions, please refer to section E.13.2. "Other Provisions".

11. Interest Expenses

Interest expenses break down as follows:

€ MILLION	2011	2010
Interest expenses related to loans	238.1	253.3
Prepayment fees	22.0	18.0
Amortization of financial liabilities	16.0	17.9
Interest share of pension obligations	5.4	5.1
Amortization of EK02 liability	3.8	4.2
Finance lease interest	0.3	0.3
Revaluation of financial liabilities	0.0	- 9.8
Other interest expenses	7.6	8.8
Subtotal	**293.2**	**297.8**
Interest due to property development business	0.1	0.2
Total	**293.3**	**298.0**

The total interest expenses related to loans of €238.1 million (prior year: €253.3 million) split up into expenses from term loans and the loan contract of GAGFAH S.A. of €196.2 million (prior year: €208.4 million) and expenses from other loans of €10.3 million (prior year: €10.3 million). Another €31.6 million (prior year: €34.6 million) relates to accrued interest.

The expenses for prepayment fees of €22.0 million (prior year: €18.0 million) primarily include an amount of €20.3 million (prior year: €0.0 million) in connection with the sale of the subsidiaries GAGFAH Acquisition 3 GmbH and GAGFAH Pegasus GmbH. Further prepayment fees relate to the sale of investment property (€1.2 million; prior year: €18.0 million) and to repayments due to the ongoing demolition program (€0.5 million; prior year: €0.0 million).

12. Interest Expenses (Refinancing)

The interest expenses (refinancing) of €1.3 million (prior year: €4.1 million) mainly include an amount of €1.2 million in connection with the refinancing of the sold subsidiary GAGFAH Pegasus GmbH.

The prior-year expenses included €3.6 million relating to arrangement fees in connection with the then new loan agreement of GAGFAH S.A. Please refer to section E.16.1. "Financial Liabilities".

13. Income Taxes

Income taxes break down as follows:

€ MILLION	2011	2010
Trade tax	- 9.6	- 9.5
Corporate income tax	- 7.3	- 5.1
Capital yields tax	- 0.1	- 0.1
Tax refunds (+) / payments (-) for / from prior years	- 2.9	4.7
Deferred taxes – temporary differences	- 7.7	- 27.3
Deferred taxes – loss carryforwards	- 13.5	- 19.8
Reversal of liabilities from income taxes	2.6	5.3
Total	**- 38.5**	**- 51.8**

In 2011, no remarkable tax law changes took place. In 2010, the German Citizen Relief Act (Bürgerentlastungsgesetz) and the German Act to Accelerate Economic Growth (Wachstumsbeschleunigungsgesetz) became effective. The following changes were made:

- Several changes to interest cap rules, especially:
  - enduring increase of the threshold from €1.0 million to €3.0 million of the net interest expenses (interest expenses less interest income),
  - increase of the annual volatility margin for the equity compensation from 1 % to 2 % and
  - introduction of a five-year excess EBITDA carryforward within the interest barrier rules.
- Changes in the add-back for trade tax purposes,
- Implementation of a recapitalization exemption regarding tax loss carryforwards in the case of companyctransfers,
- Implementation of group restructuring exemptions for real estate transfer tax and the use of loss carryforwards,
- Modification of the use of loss carryforwards after company transfers.

Additionally, with the 2010 annual tax act, restrictions regarding the sale of assets and the use of tax losses for former non-profit housing companies (section 13 paragraph 3 sentences 2 to 11 Körperschaftsteuergesetz – KStG) were eliminated from German corporate income tax law.

Consolidated profit before taxes, multiplied with the tax rate for the Group of 32.0 % (prior year: 32.0 %) leads to anticipated income taxes of €- 6.6 million (prior year: €- 16.4 million).

The following table reconciles this anticipation to effective income taxes.

€ MILLION	2011	2010
Profit before taxes	**20.6**	**51.2**
Anticipated income taxes	**- 6.6**	**- 16.4**
Income taxes not related to the period and other adjustments to current income taxes	- 0.3	10.0
Tax-free income	0.9	1.5
Tax portion for non-deductible expenses	- 42.6	- 18.5
Tax portion for non-deductible interest	- 16.9	- 14.2
Permanent trade tax effects	- 6.4	- 5.4
Effects of unrecognized deferred taxes on temporary differences	2.2	1.9
Effects of unrecognized deferred taxes on loss carryforwards	7.6	- 11.0
Corporate income tax on dividend within profit and loss absorption agreement	- 0.2	- 0.3
Effect from deconsolidation of GAGFAH Pegasus GmbH	23.8	0.0
Other tax effects	0.1	0.7
Effective income taxes	**- 38.4**	**- 51.7**
Capital yields tax	**- 0.1**	**- 0.1**
Income taxes	**- 38.5**	**- 51.8**

The tax portion for non-deductible expenses mainly relates to non-deductible expenses for tax purposes in Luxembourg as well as to non-deductible expenses in connection with the disposal of GAGFAH Pegasus GmbH. The tax portion of non-deductible interest relates to the interest barrier rule (Zinsschranke). The effects in particular of the addition of a quarter of the interest are disclosed under "permanent trade tax effects".

In 2011, the Company agreed with the tax authority to increase the tax base of the investment properties of one subsidiary. The resulting tax benefits are reflected in a decrease of deferred tax liabilities. Effects from the measurement of deferred tax assets that result from the expected realization of loss carryforwards are disclosed under the item "effects of unrecognized deferred taxes on loss carryforwards". The tax effect from the disposal of GAGFAH Pegasus GmbH mainly arises from the deconsolidation of its deferred tax liabilities.

The Company qualifies as a securitization vehicle falling within the scope of the Luxembourg Law on Securitization of March 22, 2004. The Company is therefore fully liable for corporate income tax and municipal business tax. However, it is not subject to net worth tax (section 3 of the Net Worth Tax Law of October 16, 1934). Any commitments to investors (i.e. profit distributions) and commitments to other creditors of the Company are deductible and will not be subject to Luxembourg withholding tax.

14. Result Attributable to Non-controlling Interests

A loss of €1.5 million (prior year: loss of €8.3 million) of net profit relates to non-controlling interests.

The losses attributable to non-controlling interests are allocated to the subgroups as follows: GAGFAH subgroup €4.2 million loss (prior year: €10.5 million loss) and WOBA subgroup €2.7 million profit (prior year: €2.2 million profit).

15. Earnings per Share

Basic earnings per share (EPS) amount to €- 0.07 (prior year: €0.03). They were calculated by dividing the net loss for the year distributable to ordinary equity holders of the parent company (€- 16.4 million; prior year: net profit of €7.7 million) by the weighted average number of undiluted ordinary shares outstanding during the year (218,841,326; prior year: 225,903,717).

Diluted earnings per share amount to €- 0.07 (prior year: €0.03). These were calculated by dividing the net loss for the year distributable to ordinary equity holders of the parent company (€- 14.2 million; prior year: net profit of €9.5 million) by the weighted average number of diluted ordinary shares outstanding during the year (221,125,428; prior year: 228,582,033).

The weighted average number of ordinary shares outstanding is defined as the number of ordinary shares outstanding at the beginning of the period, adjusted by the number of ordinary shares bought back or issued during the period multiplied by a time-weighted factor.

The following table shows the reconciliation from the number of undiluted ordinary shares to the number of diluted ordinary shares:

	12-31-2011		12-31-2010	
	Weighted average number	EPS	Weighted average number	EPS
Undiluted ordinary shares	218,841,326	- 0.07	225,903,717	0.03
Weighted average number of share options	2,284,102	0.00	2,678,316	0.00
Diluted ordinary shares	221,125,428	- 0.07	228,582,033	0.03

Dilutive instruments exclusively comprise bonus shares and stock options in connection with share-based remuneration. For details please refer to section F.7. "Expenses for Share-based Remuneration".

On the balance sheet date, 1,513,850 (prior year: 1,305,150) stock options were vested and exercisable.

The vesting schedule as of December 31, 2011, is:
- 2012: 339,839
- 2013: 340,839

The weighted average remaining contractual life for the share options outstanding as of December 31, 2011, is 1.49 years (prior year: 1.02 years).

G. Notes to the Consolidated Statement of Cash Flows

The Consolidated Statement of Cash Flows 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 Consolidated Statement of Cash Flows shows how cash and cash equivalents changed at GAGFAH S.A. over the course of the financial year. Cash flows are explained in accordance with IAS 7 and are split up into inflows and outflows of funds from operating activities, investing activities and financing activities.

Cash flows only contain cash and cash equivalents with terms of up to three months in accordance with IAS 7.7. Bank balances and cash on hand comprise all cash and cash equivalents disclosed in the Consolidated Statement of Financial Position and break down as follows:

€ MILLION	12-31-2011	12-31-2010
Cash on hand	0.1	0.1
Bank balances	72.0	64.8
Restricted cash	100.6	288.7
HB Funds balances	27.4	21.9
Bank balances and cash on hand	**200.1**	**375.5**

Restricted cash mainly comprises the following:

An amount of €70.0 million (prior year: €199.7 million) relates to asset sales and can be either used for the repayment of term loans or for the reinvestment in the acquisition of new properties. The management of GAGFAH S.A. decided to repay an amount of €46.6 million (prior year: €149.6 million). The residual amount of €23.4 million (prior year: €50.1 million) will be freely available after the aforementioned amount has been repaid.

A further amount of €24.6 million (prior year: €29.6 million) corresponds to the interests on term loans due but not yet payable until the end of the reporting period.

Further €1.9 million (prior year: €2.6 million) are pledged for guarantee facilities.

The prior-year restricted cash included an amount of €55.3 million from the sale of HB Funds assets from which €17.0 million have to be used for distributions to non-controlling interests.

Other non-cash expenses / income mainly include prepayment fees in connection with the sale of subsidiaries of €20.3 million (prior year: €0.0 million) and other non-cash interest expenses of €23.0 million (prior year: €25.4 million).

The amount of cash received from raising financial liabilities of €20.5 million (prior year: €175.1 million) as shown in the Consolidated Statement of Cash Flows is based on the resetting of several loans in accordance with IAS 39.AG62. The prior-year amount related to the loan agreement of GAGFAH S.A. For further information we refer to section E.16.1. "Financial Liabilities".

As of the balance sheet date and the reference date of the previous year, there were no undrawn credit facilities.

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 12-31-2011	Amortized cost	Fair value recognized in profit or loss	Fair value 12-31-2011
Assets					
Bank balances and cash on hand	LaR	200.1	200.1		200.1
Investments	AfS	0.9	0.9		0.9
Receivables from sales of land and buildings	LaR	24.3	24.3		24.3
Rent receivables	LaR	10.6	10.6		10.6
Other	LaR	45.5	45.5		45.5
Liabilities					
Global loans	FLAC	- 5,067.4	- 5,067.4		- 5,293.2
Government annuity loans	FLAC	- 246.6	- 246.6		- 276.8
Privately financed annuity loans	FLAC	- 90.6	- 90.6		- 74.2
Financial liabilities of the funds	FLAC	- 7.3	- 7.3		- 7.3
Loan contract of GAGFAH S.A.	FLAC	0.0	0.0		0.0
Derivative financial liabilities measured at fair value	AFVtpl	- 5.8		- 5.8	- 5.8
Other financial liabilities	FLAC	- 10.1	- 10.1		- 10.1
Trade payables	FLAC	- 20.4	- 20.4		- 20.4
Liabilities to tenants	FLAC	- 16.0	- 16.0		- 16.0
Liabilities from operating expenses not yet invoiced	FLAC	- 30.0	- 30.0		- 30.0
Other	FLAC	- 15.6	- 15.6		- 15.6

TABLE 1

€ MILLION	Category in accordance with IAS 39[1]	Carrying amount 12-31-2010	Amortized cost	Fair value recognized in profit or loss	Fair value 12-31-2010
Assets					
Bank balances and cash on hand	LaR	375.5	375.5		375.5
Investments	AfS	0.8	0.8		0.8
Receivables from sales of land and buildings	LaR	9.2	9.2		9.2
Rent receivables	LaR	11.8	11.8		11.8
Other	LaR	24.4	24.4		24.4
Liabilities					
Global loans	FLAC	- 5,512.6	- 5,512.6		- 5,857.5
Government annuity loans	FLAC	- 255.8	- 255.8		- 291.5
Privately financed annuity loans	FLAC	- 76.4	- 76.4		- 88.7
Financial liabilities of the funds	FLAC	- 28.6	- 28.6		- 28.6
Revolving credit facility	FLAC	- 100.2	- 100.2		- 100.2
Derivative financial liabilities measured at fair value	AFVtpl	- 11.8		- 11.8	- 11.8
Other financial liabilities	FLAC	- 25.8	- 25.8		- 25.8
Trade payables	FLAC	- 22.1	- 22.1		- 22.1
Liabilities to tenants	FLAC	- 17.4	- 17.4		- 17.4
Liabilities from operating expenses not yet invoiced	FLAC	- 30.6	- 30.6		- 30.6
Other	FLAC	- 17.9	- 17.9		- 17.9

[1] LaR: Loans granted and Receivables
AfS: Available-for-Sale Financial Assets
AFVtpl: At Fair Value through profit or loss
FLAC: Financial Liabilities measured at Amortized Cost

Financial assets from the category "Loans granted and Receivables (LaR)" have short-term maturities. For this reason, their carrying amounts approximate their fair values. Trade payables are completely current.

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

IFRS 7 requires that the classification of financial instruments at fair value be determined by reference to the source of inputs used to derive the fair value. This classification uses the following three-level hierarchy:

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

In the Group's Consolidated Financial Statements, derivatives are the only financial instruments measured at fair value as shown in Table 1. These derivatives themselves are not actively traded, but were valued by using a model with inputs that are directly or indirectly observable market data (Level 2). For further details, please refer to section H.2. "Financial Risk Management", subchapter "Interest Rate Derivatives".

The net results per measurement category break down as follows:

TABLE 2

€ MILLION	From subsequent measurement				
	From interest	At fair value	Impairment / Reversal of impairment	From derecognition	Net gain (loss) 12-31-2011
Loans granted and Receivables (LaR)	2.4	0.0	- 7.4	0.3	- 4.7
Available-for-Sale Financial Assets (AfS)	0.0	0.0	0.0	0.0	0.0
Financial Assets / Liabilities at Fair Value through profit or loss (AFVtpl)	- 8.9	6.0	0.0	0.0	- 2.9
Financial Liabilities measured at Amortized Cost (FLAC)	- 276.5	0.0	0.0	0.0	- 276.5

TABLE 2

€ MILLION	From subsequent measurement				
	From interest	At fair value	Impairment / Reversal of impairment	From derecognition	Net gain (loss) 12-31-2010
Loans granted and Receivables (LaR)	1.6	0.0	- 8.7	0.4	- 6.7
Available-for-Sale Financial Assets (AfS)	0.0	0.0	0.0	0.0	0.0
Financial Assets / Liabilities at Fair Value through profit or loss (AFVtpl)	- 10.7	4.1	0.0	0.0	- 6.6
Financial Liabilities measured at Amortized Cost (FLAC)	- 282.0	0.0	0.0	0.0	- 282.0

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

TABLE 3

€ MILLION	12-31-2009	Utili-zation	Rever-sals	Addi-tions	Changes due to the sale of subsidiaries	12-31-2010	Utili-zation	Rever-sals	Addi-tions	Changes due to the sale of subsidiaries	12-31-2011
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	- 22.6	3.8	1.1	- 4.6	0.0	- 22.3	4.3	1.8	- 3.9	0.8	- 19.3
Receivables from third-party real estate management	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Claims for reimbursement	- 0.5	0.0	0.0	0.0	0.0	- 0.5	0.0	0.0	0.0	0.0	- 0.5
Insurance claims	- 0.4	0.0	0.2	- 0.2	0.0	- 0.4	0.0	0.3	- 1.1	0.0	- 1.2
Other	- 0.6	0.1	0.1	0.0	0.0	- 0.4	0.0	0.0	0.0	0.4	0.0
Total	**- 24.4**	**3.9**	**1.4**	**- 4.8**	**0.0**	**- 23.9**	**4.3**	**2.1**	**- 5.0**	**1.2**	**- 21.3**

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

Receivables from sales of land and buildings

Receivables from sales of land and buildings are recorded on their due date. This is applicable in the case of an existing deposit in a notary trust account as at the date of conveyance of title. Subsequent to unsuccessful dunning procedure, the recoverability of overdue receivables is determined by the operating department (sales department, development department) as well as the need for and amount of a valuation allowance, which is then realized.

Rent receivables

Rent receivables are carried at amortized costs. They need to be impaired if a full payment receipt from the claim can no longer be expected.

The dunning procedure includes reminders, demand for payment by legal counsel and ultimately the court order. Subsequent to unsuccessful dunning procedure, rent receivables are subject to bad debt allowance.

The impairment of rent receivables is made by way of generalized practices. Based on the experiences in the past, overdue rent receivables from ongoing contracts are impaired by 40 %, and rent receivables from terminated contracts are impaired by 90 %.

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

Trade receivables, receivables from third-party real estate management and claims for reimbursement are recorded on their due 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. Receivables from third-party real estate management overdue for more than one year are reduced by a 100 % valuation allowance.

Insurance claims

Insurance claims are carried at amortized costs. If the full payment can no longer be expected, an allowance is recorded.

The following table shows the age structure of assets 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
12-31-2011						
Assets						
Receivables from sales of land and buildings	24.3	21.8	1.8	0.0	0.0	0.4
Rent receivables	10.6	0.4	10.2	0.0	0.0	0.0
Receivables from other trade	2.6	0.6	2.0	0.0	0.0	0.0
Receivables from third-party real estate and construction management	0.1	0.1	0.0	0.0	0.0	0.0
Claims for reimbursement	4.4	3.9	0.0	0.0	0.0	0.0
Insurance claims	1.7	1.7	0.0	0.0	0.0	0.0
Other	36.6	36.4	0.1	0.0	0.0	0.0

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
12-31-2010						
Assets						
Receivables from sales of land and buildings	9.2	6.8	1.6	0.1	0.0	0.5
Rent receivables	11.8	0.4	11.4	0.0	0.0	0.0
Receivables from other trade	3.4	0.1	3.2	0.0	0.0	0.1
Receivables from third-party real estate and construction management	0.9	0.8	0.0	0.0	0.0	0.0
Claims for reimbursement	4.5	4.0	0.0	0.0	0.0	0.0
Insurance claims	3.0	3.0	0.0	0.0	0.0	0.0
Other	12.6	11.8	0.4	0.0	0.0	0.0

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

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

TABLE 5

€ MILLION	Expenses for full write-off of receivables		Income from recoveries on receivables written off	
	12-31-2011	12-31-2010	12-31-2011	12-31-2010
Receivables from sales of land and buildings	- 0.1	0.0	0.0	0.0
Rent receivables	- 9.4	- 8.2	0.0	0.0
Other	- 1.4	- 1.0	0.3	0.4

In 2011, no financial assets were transferred in such a way that either one part of them or all financial assets are not considered to be booked out.

2. Financial Risk Management

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

The Group also applies derivative financial instruments (interest rate swaps and caps) 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, 2011, the derivative financial instruments used by the Group were option agreements and interest rate swaps.

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

In the financial year 2011, no derivative financial instruments were used for hedge accounting.

INTEREST RATE DERIVATIVES

In the business year 2011, the Group used interest rate swaps and interest rate caps to hedge future cash flows from variable-rate loans. Since year-end 2011, the Group has no caps any longer as the linked loan has matured. Up to now, the remaining amounts have not been designated as hedging instruments.

Interest rate swaps and caps are accounted for at fair value and disclosed on the assets side under the items "Other financial assets" (non-current / current) or on the liabilities side under the item "Financial liabilities" (non-current / current).

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

€ MILLION	12-31-2011	12-31-2010
Nominal value of interest rate swaps	316.6	316.6
Fair value of interest rate swaps	- 5.8	- 11.8

Due to the valuation of the derivatives, interest rate swaps with a negative amount of €5.8 million (prior year: €11.8 million) are disclosed in the balance sheet item "Financial liabilities".

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

€ MILLION	12-31-2011	12-31-2010
Nominal value of interest rate caps	0.0	100.0
Fair value of interest rate caps	0.0	0.0

The market values of the interest rate swaps and caps are regularly determined and monitored on the basis of the market data available on the balance sheet date and suitable valuation methods.

As of December 31, 2011, the valuation was based on the following term structure:

%	12-31-2011	12-31-2010
Interest rate for six months	1.617 %	1.227 %
Interest rate for one year	1.947 %	1.507 %
Interest rate for two years	1.330 %	1.555 %
Interest rate for five years	1.760 %	2.485 %

The residual term of the interest rate derivatives except one swap is more than one year – the same as the residual terms of mirrored global loans.

Changes in the fair value of the interest rate swaps and caps of €6.0 million profit (prior year: €4.1 million profit) were recognized through profit or loss under the item "Profit from the fair value measurement of derivatives".

OPTION AGREEMENTS

In the course of the acquisition of NILEG subgroup in the financial year 2005, an option agreement was concluded. This option agreement contained 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 mbH (seller) had the opportunity to prevent the buyer from exercising this option by paying the buyer a fixed amount.

Furthermore, this option agreement contained a put option for the seller, who, at any time between October 1, 2010, and December 31, 2011, had the right to sell the abovementioned shares at the same fixed price.

The assets linked to the option agreement did not have a quoted market price in an active market. Furthermore, the fair value could not be measured using a recognized method due to the lack of measurement parameters. For this reason, the options were recognized at (historical) cost in line with IAS 39.46c and IAS 39.AG80. The (historical) cost of all options amounted to €0.00.

In the financial years 2009 to 2011, NILEG Norddeutsche Immobiliengesellschaft mbH sold all shares in the respective companies:

	Date of sale	Nominal volume of the option in € million
Wohnungsbaugesellschaft mit beschränkter Haftung Salzgitter	November 19, 2009	4.9
Städtische Wohnungsbau GmbH Göttingen	December 1, 2009	2.1
Lehrter Wohnungsbau GmbH	June 30, 2010	1.9
Wohnungsgesellschaft m.b.H. für den Landkreis Goslar	December 12, 2011	0.6
Total		**9.5**

In accordance with the sales contracts, the aforementioned reverse call and put rights between NBN Norddeutsche Beteiligungsgesellschaft für Immobilien in Niedersachsen m.b.H. and NILEG Norddeutsche Immobiliengesellschaft mbH concerning the shares in the sold companies ceased.

As of the balance sheet date, no further options existed.

FINANCIAL RISK MANAGEMENT SYSTEM

The risk management system of the GAGFAH GROUP consists of the following elements:

- internal monitoring system
- early warning system
- controlling system

The internal monitoring system consists of supervisory measures which are either part of processes (organizational safeguards, controls) or independent security measures mainly monitored by the internal audit department. A basic task of the internal audit department is also the supervision of the risk system. Organizational safeguards are designed to ensure a set security level and are generally part of an ongoing, automatic process, including the prevention of failures in the operational and organizational structure (such as separation of function and Group directives).

The early warning system is the entirety of all activities relating to risk identification and risk control. The early warning system is based on the internal early warning directive that has been defined and communicated by the GAGFAH GROUP Management and which is mandatory for all employees. This directive lays out the basic principles of an early warning system, defining the parameters for assessing and controlling qualitative and quantitative risks. It furthermore defines potential risk categories as well as the responsibilities.

The quarterly reporting structure is based on the internal early warning directive. The risk owners report their risks to the risk coordinator who compiles all such information in a risk report. This risk report is presented to the GAGFAH GROUP Management on a quarterly basis. In addition to an overview of quantitative and qualitative risks of the departments / regions, the risk report also includes descriptions of the measures to be taken.

As defined by the internal early warning directive, the monitoring of risks and the related countermeasures have to be followed up by the respective risk owners, in some circumstances in coordination with the CEO.

Irrespective of the quarterly reporting, there is also an ad hoc reporting system to the extent necessary as described in the early warning directive. In case of ad hoc reporting, the risk owners report informally and immediately.

A controlling system has been established and implemented for the delivery of all target figures, monitoring and possible countermeasures and also to serve as an indicator for entrepreneurial variances by target / actual analyses. The controlling system is positioned in the controlling department, which prepares a monthly controlling report for the GAGFAH GROUP Management. This controlling system ensures proactive control of financial risks.

The early warning system and the monthly controlling report ensure that the measures are coordinated and adjusted to the current business environment as well as to the processes and functions.

The risk management procedures applied to the key categories of financial risk of the GAGFAH 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 were 50 basis points lower (or 100 basis points higher) by the next reporting date, the result would be €1.1 million lower (€2.0 million higher).

The decrease of €1.1 million in income results from valuation losses of €2.6 million on interest rate derivatives and lower interest expenses of €1.5 million related to variable-interest financial liabilities.

The increase of €2.0 million in income results from valuation gains of €5.1 million on interest rate derivatives and higher interest expenses of €3.1 million related to variable-interest financial liabilities.

If the market interest rates had been 50 basis points lower (or 100 basis points higher) on December 31, 2010, the result would have been €0.8 million lower (€1.4 million 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 GROUP faces the risk of interest rate fluctuations in the area of financing. It is Company policy to mitigate these risks by using financial derivatives. Derivatives are only used to manage interest rate risks and serve exclusively 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 Finance Department.

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

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

LIQUIDITY RISK

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

The Group is financed long term, but regularly considers the credit terms and intends to refinance at an early stage. A liquidity plan based on a fixed planning horizon endeavors to ensure that GAGFAH GROUP entities have sufficient liquidity at all times.

GAGFAH GROUP provides guarantees for certain financing arrangements of the subsidiaries. These guarantees pose a risk in as much as they could be utilized. GAGFAH GROUP monitors these risks in close collaboration with its subsidiaries and takes appropriate measures wherever necessary.

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

CREDIT RISK

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

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

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

Deposits achieved of €84.2 million (prior year: €82.2 million) and amounts paid by contracting parties into notary trust accounts of €45.8 million (prior year: €5.9 million) serve as collateral securities mainly for the receivables from sales of land and buildings and for the purchase price receivable in connection with the sale of GAGFAH Acquisition 3 GmbH and GAGFAH Pegasus GmbH.

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. As of year-end, the following entities were consolidated with a 50 % share in their net assets, liabilities, income and expenses:

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

The Group’s share in these four joint ventures breaks down as follows:

€ MILLION	12-31-2011	12-31-2010
Current assets	2.3	2.5
Current liabilities	0.2	0.2
Net assets	**2.1**	**2.3**
Income	0.0	0.0
Expenses	0.0	0.0

4. Contingent Liabilities and Other Financial Obligations and Receivables

CONTINGENT LIABILITIES

GAGFAH GROUP provided securities in terms of land charges with a nominal value of €16.4 million (prior year: €16.4 million) in favor of Grundstücksgesellschaft Klinik-Teltow GbR.

Furthermore, GAGFAH GROUP put a guarantee with a nominal value of €4.8 million (prior year: €4.8 million) for financial liabilities of Grundstücksgesellschaft Klinik-Teltow GbR.

Beyond that, there were no material contingent liabilities in the financial year.

OTHER FINANCIAL OBLIGATIONS AND RECEIVABLES

Transferable leasehold land agreements

GAGFAH GROUP has financial obligations in connection with finance leases concerning transferable leasehold land. These leases typically have lease terms of 99 years. For further information, please refer to section C.2. “Leases”.

Future minimum lease payments under finance leases together with the present value of the net minimum lease payments are as follows:

€ MILLION 12-31-2011	Within one year	Between one year and three years	Between three and five years	More than five years	Total
Minimum lease payments	0.3	0.5	0.5	14.6	15.9
Present value of payments	0.3	0.5	0.4	3.1	4.3

€ MILLION 12-31-2010	Within one year	Between one year and three years	Between three and five years	More than five years	Total
Minimum lease payments	0.3	0.5	0.5	14.8	16.1
Present value of payments	0.3	0.5	0.4	3.1	4.3

Regularly, those leases have neither terms of renewal nor purchase options and escalation clauses.

There are no sublease contracts concerning transferable leasehold land, but the respective land is commercialized in terms of rental leases related to the Group's investment property.

Furthermore, GAGFAH GROUP has financial obligations and financial receivables in connection with operating leases concerning transferable leasehold land. These leases typically have lease terms of 99 years as well.

Future minimum rentals payable as of December 31 are as follows:

€ MILLION	Within one year	Between one year and three years	Between three and five years	More than five years	Total
12-31-2011					
Minimum lease payments	2.2	4.3	4.3	89.5	100.3
12-31-2010					
Minimum lease payments	2.1	4.1	4.1	87.2	97.5

Future minimum rentals receivable as of December 31 are as follows:

€ MILLION	Within one year	Between one year and three years	Between three and five years	More than five years	Total
12-31-2011					
Minimum rentals receivable	0.2	0.5	0.5	16.2	17.4
12-31-2010					
Minimum rentals receivable	0.2	0.4	0.4	14.7	15.7

Other financial obligations

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

€ MILLION **12-31-2011**	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)	26.7	40.8	0.0	0.0	67.5
Rent obligations (buildings)	3.7	5.8	5.5	0.1	15.1
Hosting fees for computer center	5.2	3.3	0.0	0.0	8.5
Leasing obligations – automobile	1.2	1.0	0.1	0.0	2.3
Repair and maintenance of software	0.9	1.0	0.0	0.0	1.9
IT projects (facility management)	0.8	0.0	0.0	0.0	0.8
Other services from third parties	0.4	0.2	0.0	0.0	0.6
Basic fees for telephony and data network	0.3	0.2	0.0	0.0	0.5
Rent and leasing obligations – hardware	0.3	0.2	0.0	0.0	0.5
Repair and maintenance of hardware	0.1	0.2	0.1	0.0	0.4
Leasing obligations – copiers	0.1	0.0	0.0	0.0	0.1
Total	**39.7**	**52.7**	**5.7**	**0.1**	**98.2**

€ MILLION **12-31-2010**	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)	24.0	48.0	12.0	0.0	84.0
Rent obligations (buildings)	3.3	5.8	5.1	6.6	20.8
Hosting fees for computer center	5.2	5.6	0.0	0.0	10.8
Leasing obligations – automobile	1.1	1.3	0.1	0.0	2.5
Repair and maintenance of software	1.8	1.1	0.0	0.0	2.9
Basic fees for telephony and data network	0.6	0.3	0.0	0.0	0.9
Rent and leasing obligations – hardware	0.5	0.4	0.1	0.0	1.0
Repair and maintenance of hardware	0.1	0.1	0.1	0.0	0.3
Leasing obligations – copiers	0.3	0.4	0.1	0.0	0.8
Total	**36.9**	**63.0**	**17.5**	**6.6**	**124.0**

Due to the decision in the financial year 2010 to perform parts of maintenance activities in-house, the agreement with the outsourcing partners was renegotiated accordingly regarding service volume and contract term. The latter will end in 2014.

A significant proportion of the expected costs in connection with rent obligations is covered by a long-term restructuring provision. Regarding the corresponding provisions, please refer to section E.13.2. "Other Provisions".

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

There are no purchase options for the rental agreements, but some of the contracts include renewal clauses up to ten years.

The decrease of the financial obligations concerning repair and maintenance of software compared to the prior year is mainly due to a renegotiation of a service contract for software licenses. The licenses have been completely written-off as their further use is regarded as unlikely. Please refer to section E.1. "Intangible Assets".

Further, the application for facility management had been optimized in the course of an IT project.

The other services from third parties essentially consist of the outsourcing of the hotline for IT support as well as corresponding services in connection with the latter. In the financial year 2011, the total payments for operating leases amounted to €5.2 million (prior year: €6.0 million).

Apart from the financial obligations disclosed in the tables above GAGFAH GROUP is subject to minimum annual investments in its real estate as a result of privatization and loan contracts.

5. Number of Employees and Personnel Expenses

The average number of employees is presented below, broken down according to GAGFAH's business segments:

	2011		2010	
	Heads	FTEs	Heads	FTEs
Real estate management	1,173	1,124	1,235	1,179
thereof facility management service	666	648	705	680
Real estate sales	33	32	32	31
Other	177	170	203	195
Total	**1,383**	**1,326**	**1,470**	**1,405**

Including 306 part-time employees (prior year: 338) and 101 trainees (prior year: 104), the total average headcount was 1,790 (prior year: 1,912).

Personnel expenses amounted to €87.6 million (prior year: €95.7 million) and break down as follows:

€ MILLION	2011	2010
Wages and salaries	69.1	77.8
Social security	13.0	13.7
Pension costs	1.5	2.3
Other	4.0	1.9
Total	**87.6**	**95.7**

Other personnel expenses mainly contain expenses for share-based payment (equity-settled) amounting to €3.8 million (prior year: €1.6 million), expenses for share-based payment (cash-settled) amounting to €0.1 million (prior year: €0.2 million) and personnel expenses relating to the prior year of €0.1 million (prior year: €0.1 million).

€5.2 million (prior year: €5.7 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.

With the exception of share-based remuneration there were no significant related party transactions in the financial year 2011. Regarding the share-based remuneration of our management we refer to section F.7. "Expenses for Share-based Remuneration".

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, indicating in Exhibit (1) the relevant share capital.

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

MAJOR SHAREHOLDERS (EXCEEDING 5 %) AS OF DECEMBER 31, 2011

Shareholder	Number of shares	%
Fortress Residential Investment Deutschland (Fund A) LP	20,626,823	9.31
Fortress Investment Fund III (GAGACQ Subsidiary) LLC	16,539,554	7.46
Fortress Investment Fund III (Fund B) (GAGACQ Subsidiary) LLC	14,141,601	6.38
Fortress Residential Investment Deutschland (Fund B) LP	12,330,464	5.56
Fortress Subsidiary GAGACQ LLC	11,669,744	5.27

MAJOR SHAREHOLDERS (EXCEEDING 5 %) AS OF DECEMBER 31, 2010

Shareholder	Number of shares	%
Fortress Residential Investment Deutschland (Fund A) LP	20,626,823	9.16
Fortress Investment Fund III (GAGACQ Subsidiary) LLC	16,539,554	7.35
Fortress Investment Fund III (Fund B) (GAGACQ Subsidiary) LLC	14,141,601	6.28
Fortress Residential Investment Deutschland (Fund B) LP	12,330,464	5.48

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

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

The following individuals were members of the Board of Directors as of December 31, 2011:

Members	
Robert I. Kauffman	Chairman
William J. Brennan	Director
Wesley R. Edens	Director
Randal A. Nardone	Director
Dr. Jürgen Allerkamp	Independent Director
Dieter H. Ristau	Independent Director
Yves Wagner, Ph.D.	Independent Director

Total Remuneration and Loans Granted

Robert I. Kauffman, William J. Brennan, Wesley R. Edens and Randal A. Nardone are not parties to service agreements with the Company and receive no compensation as Board members. William J. Brennan serves as member of the Board of Directors and the Senior Management. For details regarding the remuneration of Senior Management see below (section H.7.2. "Senior Management"). The members of the Board of Directors are reimbursed for expenses incurred through their attendances of Board meetings.

Yves Wagner, Dieter H. Ristau and Dr. Jürgen Allerkamp are party to service agreements with the Company, receive compensation for their services as Board members and are reimbursed for their expenses on an annual basis. Such compensation consists (net) of €25,000.00 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.

The total net compensation to members of the Board for the financial year 2010 was paid in January 2011 and amounted to €75,000.00 plus 15,000 shares in the Company. In addition, we provide all Board members with directors' and officers' insurance.

As of December 31, 2011, 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 William J. Brennan, 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 William J. Brennan 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	
William J. Brennan	Chief Executive Officer (CEO)
Stephen Charlton	Chief Financial Officer (CFO) (since January 25, 2011)
Nicolai Kuss	Chief Operating Officer (COO)
Stefan de Greiff	Chief Investment and Sales Officer (CISO)

Total Remuneration and Loans Granted

Current management remuneration comprises a fixed, a variable and a share-based component. In financial year 2011, the Senior Management received remuneration totaling €5.9 million (prior year: €2.7 million) for the performance of their duties within the Group.

Of total remuneration, €1.0 million (prior year: €1.0 million) relates to fixed remuneration, €0.9 million (prior year: €0.9 million) thereof to basic remuneration and €0.1 million (prior year: €0.1 million) to fixed benefits in kind, which mainly comprise the provision of company cars and double-homestead allowance.

The variable component (management bonuses) totaling €1.4 million (prior year: €1.3 million) includes annually recurring components linked to the success of the Company.

Additionally, management received share-based remuneration amounting to €3.5 million (prior year: €0.4 million).

As of December 31, 2011, 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 €0.7 million (prior year: €0.7 million) were paid to former managers and their dependents in the financial year.

Jubilee Commitments

There are no obligations to pay jubilee commitments to Senior Management.

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 financial year and the prior year, no severance payments were made.

8. Events after the Balance Sheet Date

REFINANCING

On February 24, 2012, GBH Acquisition GmbH concluded a term sheet with its current creditor for extending the €267.8 million term loan. Under the conditions of this term sheet, the lender proposed to extend the existing term loan for one year plus another one-year extension option and GBH Acquisition GmbH has accepted. As a part of the contract, GAGFAH GROUP will provide an upfront cash reserve of €10.0 million available for a capital expenditure program.

WOBA LAWSUITS

On March 31, 2011, the State Capital of Dresden had filed substantially identical actions against WOBA HOLDING GMBH and certain subsidiaries of WOBA HOLDING GMBH based on alleged breaches of certain obligations under a privatization agreement for the WOBA companies entered into with the State Capital of Dresden in 2006. The underlying claims amounted in total to about €1.08 billion. However, after reviewing the statements of claim, GAGFAH GROUP was convinced that the claims are unfounded and accordingly WOBA HOLDING GMBH, SÜDOST WOBA DRESDEN GMBH and WOHNBAU NORDWEST GmbH had defended themselves against the claims.

Legal responses to, as well as requests for dismissal of the Dresden claims were filed by WOBA HOLDING GMBH with the arbitral tribunal, and by SÜDOST WOBA DRESDEN GMBH and WOHNBAU NORDWEST GmbH with the District Civil Court in Dresden. The three WOBA companies also had brought declaratory actions against the State Capital of Dresden. Additionally, WOBA DRESDEN GMBH, by way of declaratory action, sued Dresden's mayor for finance Hartmut Vorjohann personally in the District Civil Court in Dresden for breaches of his fiduciary duties in his function as member of the supervisory board of WOBA DRESDEN GMBH. The complaint was also aimed at the State Capital of Dresden, as, among other things, the State Capital of Dresden placed Mr. Vorjohann on the supervisory board as its representative.

In the interest of a timely resolution of the disputes and a good and trustful future cooperation, the WOBA companies and the State Capital of Dresden agreed to fully resolve all their disputes by mutual agreement and on March 2, 2012, entered into a settlement agreement subject to the approval by Dresden's city council and supervisory authority. While the settlement has already been approved by the City Council of Dresden on March 15, it is still subject to formal approval by the legal supervisory authority of Saxony which is expected to be rendered on or before March 21, 2012.

The settlement agreement provides for the withdrawal of all complaints and the mutual waiver of the claims put forward in the complaints. The State Capital of Dresden and the WOBA companies have also agreed on the amendment of the social regulations of the privatization agreement. Most of these social provisions have been prolonged by five years until April 2021. The required annual minimum investment in the WOBA companies' real estate is raised from €5.00 / sqm (net) to €7.56 / sqm (net). Furthermore, the State Capital's number of occupation rights will be raised by 2,000 units to 10,000 units in total. Additionally, the State Capital of Dresden from 2012 through 2020 receives nine annual installments in the amount of €4.0 million (€36.0 million in total). 40 % of these payments will be used for social projects that preferably will be to the benefit of the GAGFAH GROUP's tenants in Dresden. Furthermore, the WOBA companies will bear the State Capital's procedural costs up to an amount of €4.0 million.

Reference is made to sections E.13.2. "Other Provisions", E.16.2. "Other Liabilties" and and F.9. "Other Operating Expenses".

OTHER

(1) List of Shareholdings

FORMATIONS IN THE FINANCIAL YEAR 2011
FULLY CONSOLIDATED SUBSIDIARIES

Parent company	Subsidiary	Date of formation	Date of entry into the commercial register
GAGFAH Holding GmbH	Fortalis GmbH	May 11, 2011	August 9, 2011

LIST OF SHAREHOLDINGS AS OF DECEMBER 31, 2011
FULLY CONSOLIDATED SUBSIDIARIES

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	Grünwald, Germany	94.80 %	2
4	KALIRA Grundstücksgesellschaft mbH & Co. KG	Grünwald, Germany	94.90 %	2
5	GAGFAH Verwaltung GmbH	Essen, Germany	100.00 %	2
6	DW Management GmbH	Essen, Germany	100.00 %	5
7	GAG ACQ Ireland Limited	Clonee, Ireland	100.00 %	1
8	UC ACQ Ireland Limited	Clonee, Ireland	0.00 %	n/a
9	GAGFAH Operations Advisor GmbH	Essen, Germany	83.00 % 17.00 %	7 8
10	Fortalis GmbH	Essen, Germany	100.00 %	2
11	GAGFAH GmbH	Essen, Germany	82.48 % 17.52 %	2 8
12	GAGFAH M Immobilien Management GmbH	Essen, Germany	94.00 % 6.00 %	13 11
13	GAGFAH I Invest GmbH & Co. KG	Essen, Germany	100.00 %	11
14	GAGFAH B Beteiligungs GmbH	Essen, Germany	99.60 %	12
15	GAGFAH A Asset GmbH & Co. KG	Essen, Germany	100.00 %	12
16	VHB Grundstücksverwaltungsgesellschaft “Haus und Bodenfonds” mbH	Essen, Germany	100.00 %	12
17	Neues Schweizer Viertel Betriebs + Service GmbH & Co. KG	Berlin, Germany	94.99 %	12
18	Schweizer Viertel Grundstücks GmbH	Berlin, Germany	94.74 % 5.26 %	12 17
19	IVS Immobilienversicherungsservice GmbH	Mülheim an der Ruhr, Germany	100.00 %	12
20	HaBeGe Bau- und Projektentwicklungsgesellschaft mbH	Essen, Germany	94.90 % 5.10 %	12 4
21	Instandhaltungs-Service GmbH (ISG)	Essen, Germany	100.00 %	16
22	Grünflächen-Service GmbH (GSG)	Essen, Germany	100.00 %	16
23	Haus- und Boden-Fonds 5	Essen, Germany	66.96 %	13

LIST OF SHAREHOLDINGS AS OF DECEMBER 31, 2011
FULLY CONSOLIDATED SUBSIDIARIES

No.	Company name	Registered office	Share of capital	Held by No.
24	Haus- und Boden-Fonds 6	Essen, Germany	88.66 %	13
25	Haus- und Boden-Fonds 7	Essen, Germany	76.38 %	13
26	Haus- und Boden-Fonds 8	Essen, Germany	74.30%	13
27	Haus- und Boden-Fonds 9	Essen, Germany	72.85 %	
28	Haus- und Boden-Fonds 10	Essen, Germany	73.36 %	13
29	Haus- und Boden-Fonds 11	Essen, Germany	73.16 %	13
30	Haus- und Boden-Fonds 12	Essen, Germany	81.05 %	13
31	Haus- und Boden-Fonds 13	Essen, Germany	77.72 %	13
32	Haus- und Boden-Fonds 14	Essen, Germany	63.06 %	13
33	Haus- und Boden-Fonds 15	Essen, Germany	70.60 %	13
34	Haus- und Boden-Fonds 18	Essen, Germany	71.59 %	13
35	Haus- und Boden-Fonds 19	Essen, Germany	74.20 %	13
36	Haus- und Boden-Fonds 21	Essen, Germany	71.10 %	13
37	Haus- und Boden-Fonds 23	Essen, Germany	54.44 %	13
38	Haus- und Boden-Fonds 29	Essen, Germany	62.60 %	13
39	Haus- und Boden-Fonds 33	Essen, Germany	57.10 %	13
40	Haus- und Boden-Fonds 35	Essen, Germany	58.36 %	13
41	Haus- und Boden-Fonds 37	Essen, Germany	47.97 %	13
42	Haus- und Boden-Fonds 38	Essen, Germany	54.15 %	13
43	NILEG Immobilien Holding GmbH	Hannover, Germany	94.80 % 5.20 %	2 1
44	NILEG Real Estate GmbH	Hannover, Germany	94.81 % 5,19 %	43 4
45	NILEG Real Estate GmbH & Co. Management KG	Hannover, Germany	94.90 % 5.10 %	43 4
46	NILEG Norddeutsche Immobiliengesellschaft mbH	Hannover, Germany	94.86 % 5.14 %	43 45
47	GAGFAH S Service GmbH	Essen, Germany	100.00 %	43
48	Osnabrücker Wohnungsbaugesellschaft mbH	Osnabrück, Germany	94.09 % 5.91 %	43 4
49	OWG Beteiligungs GmbH	Hannover, Germany	100.00 %	48
50	OWG Asset GmbH & Co. KG	Osnabrück, Germany	100.00 %	48
51	NILEG Norddeutsche Beteiligungs GmbH	Hannover, Germany	100.00 %	46
52	NILEG Commercial Asset GmbH & Co. KG	Hannover, Germany	100.00 %	46
53	NILEG Residential Asset GmbH & Co. KG	Hannover, Germany	100.00 %	46
54	Wohnungsgesellschaft Norden mbH	Hannover, Germany	94.88 %	46
55	WGNorden Beteiligungs GmbH	Hannover, Germany	100.00 %	54
56	WGNorden Asset GmbH & Co. KG	Hannover, Germany	100.00 %	54

LIST OF SHAREHOLDINGS AS OF DECEMBER 31, 2011
FULLY CONSOLIDATED SUBSIDIARIES

No.	Company name	Registered office	Share of capital	Held by No.
57	Wohnungsbau Niedersachsen GmbH	Hannover, Germany	94.85 %	54
58	VHB FM GmbH	Essen, Germany	100.00 %	57
59	WBN Beteiligungs GmbH	Hannover, Germany	100.00 %	57
60	WBN Asset GmbH & Co. KG	Hannover, Germany	100.00 %	57
			94.80 %	2
61	WOBA HOLDING GMBH	Dresden, Germany	5.20 %	1
62	Opera Co-Acquisition GP GmbH	Dresden, Germany	94.80 %	61
63	Opera Co-Acquisition GmbH & Co. KG	Dresden, Germany	94.90 %	61
64	WOBA DRESDEN GMBH	Dresden, Germany	100.00 %	61
65	Immo Service Dresden GmbH	Dresden, Germany	100.00 %	64
66	Dienstleistungs- und Bauhof Dresden GmbH	Dresden, Germany	100.00 %	65
			94.73 %	64
67	Bau- und Siedlungsgesellschaft Dresden mbH	Dresden, Germany	5.27 %	63
			94.75 %	64
68	Liegenschaften Weissig GmbH	Dresden, Germany	5.25 %	63
			94.90 %	64
69	WOHNBAU NORDWEST GmbH	Dresden, Germany	5.10 %	63
			94.90 %	64
70	SÜDOST WOBA DRESDEN GMBH	Dresden, Germany	5.10 %	63
71	Parkhaus Prohlis GmbH	Dresden, Germany	70.00 %	70
72	Immobilien-Vermietungsgesellschaft Knappertsbusch & Co. & SÜDOST WOBA Striesen KG	Leipzig, Germany	0.02 %	70
73	WOHNBAU NORDWEST Dienstleistungen GmbH	Dresden, Germany	100.00 %	2
			94.80 %	2
74	GAGFAH Acquisition 1 GmbH	Essen, Germany	5.20 %	1
			94.80 %	2
75	GAGFAH Acquisition 2 GmbH	Essen, Germany	5.20 %	1
			94.80 %	2
76	GAGFAH Erste Grundbesitz GmbH	Essen, Germany	5.20 %	4
			94.80 %	2
77	GBH Acquisition GmbH	Essen, Germany	5.20 %	1
78	GBH Service GmbH	Heidenheim an der Brenz, Germany	100.00 %	77
79	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:

LIST OF SHAREHOLDINGS AS OF DECEMBER 31, 2011

No.	Company name	Registered office	Share of capital	Held by No.
80	Objekt Dresden GbR	Hannover, Germany	50.00 %	46
81	Grundstücksentwicklungsgesellschaft Oesselse "Langes Feld" GbR	Essen, Germany	50.00 %	46
82	Wolmirstedt GbR	Essen, Germany	50.00 %	46
83	Möser GbR	Essen, Germany	50.00 %	46

Other Financial Assets of 20 % or more:

LIST OF SHAREHOLDINGS AS OF DECEMBER 31, 2011

No.	Company name	Registered office	Share of capital	Total equity (€k)	Net profit / loss (€k)	Held by No.
84	Hannover Region Grundstücksgesellschaft Verwaltung mbH & Co. Businesspark Hannover Nord KG	Hannover, Germany	33.33 %	1,083.0 [1]	- 307.2 [1]	46

[1] As of December 31, 2010

(2) Statement of Changes in Consolidated Non-current Assets 2011

	Acquisition or production costs					
€ MILLION	January 1, 2011	Changes in the Consolidated Group	Additions	Disposals	Reclassifications	December 31, 2011
Intangible Assets						
Industrial rights	11.6	0.0	0.5	3.3	0.0	8.8
Goodwill	26.6	- 8.3	0.0	0.0	0.0	18.3
	38.2	**- 8.3**	**0.5**	**3.3**	**0.0**	**27.1**
Property, plant and equipment						
Land and buildings (owner-occupied)	53.5	0.0	0.9	1.5	- 5.9	47.0
Technical equipment and machines	4.6	0.0	0.1	0.0	0.0	4.7
Other equipment, furniture and fixtures	20.8	0.0	0.6	6.9	0.0	14.5
Assets under construction	0.0	0.0	0.1	0.0	0.0	0.1
	78.9	**0.0**	**1.7**	**8.4**	**- 5.9**	**66.3**
Other financial assets						
Investments	2.5	0.0	0.1	0.0	0.0	2.6
Other loan receivables	0.2	0.0	0.0	0.0	0.0	0.2
Other financial assets	3.2	0.0	0.0	0.0	0.0	3.2
	5.9	**0.0**	**0.1**	**0.0**	**0.0**	**6.0**
Total	**123.0**	**- 8.3**	**2.3**	**11.7**	**- 5.9**	**99.4**

	Accumulated depreciation					Book value
	January 1, 2011	**Changes in the Consolidated Group**	**Additions**	**Disposals**	**December 31, 2011**	**December 31, 2011**
	9.2	0.0	2.4	3.3	8.3	0.5
	3.0	- 3.0	0.0	0.0	0.0	18.3
	12.2	**- 3.0**	**2.4**	**3.3**	**8.3**	**18.8**
	11.5	0.0	1.2	1.4	11.3	35.7
	2.2	0.0	0.4	0.0	2.6	2.1
	16.2	0.0	1.4	6.8	10.8	3.7
	0.0	0.0	0.0	0.0	0.0	0.1
	29.9	**0.0**	**3.0**	**8.2**	**24.7**	**41.6**
	1.7	0.0	0.0	0.0	1.7	0.9
	0.0	0.0	0.0	0.0	0.0	0.2
	0.2	0.0	0.1	0.0	0.3	2.9
	1.9	**0.0**	**0.1**	**0.0**	**2.0**	**4.0**
	44.0	**- 3.0**	**5.5**	**11.5**	**35.0**	**64.4**

(2) Statement of Changes in Consolidated Non-current Assets 2010

€ MILLION	Acquisition or production costs					
	January 1, 2010	Changes in the Consolidated Group	Additions	Disposals	Reclassifications	December 31, 2010
Intangible Assets						
Industrial rights	11.5	0.0	0.1	0.0	0.0	11.6
Goodwill	26.6	0.0	0.0	0.0	0.0	26.6
	38.1	**0.0**	**0.1**	**0.0**	**0.0**	**38.2**
Property, plant and equipment						
Land and buildings (owner-occupied)	53.2	0.0	0.7	9.1	8.7	53.5
Technical equipment and machines	4.1	0.0	0.0	0.0	0.5	4.6
Other equipment, furniture and fixtures	21.0	0.0	1.5	1.7	0.0	20.8
Assets under construction	0.0	0.0	0.5	0.0	- 0.5	0.0
	78.3	**0.0**	**2.7**	**10.8**	**8.7**	**78.9**
Other financial assets						
Investments	2.5	0.0	0.0	0.0	0.0	2.5
Other loan receivables	0.2	0.0	0.0	0.0	0.0	0.2
Other financial assets	3.2	0.0	0.0	0.0	0.0	3.2
	5.9	**0.0**	**0.0**	**0.0**	**0.0**	**5.9**
Total	**122.3**	**0.0**	**2.8**	**10.8**	**8.7**	**123.0**

Accumulated depreciation					Book value
January 1, 2010	**Changes in the Consolidated Group**	**Additions**	**Disposals**	**December 31, 2010**	**December 31, 2010**
8.0	0.0	1.2	0.0	9.2	2.4
3.0	0.0	0.0	0.0	3.0	23.6
11.0	**0.0**	**1.2**	**0.0**	**12.2**	**26.0**
19.7	0.0	0.9	9.1	11.5	42.0
1.9	0.0	0.3	0.0	2.2	2.4
15.2	0.0	2.4	1.4	16.2	4.6
0.0	0.0	0.0	0.0	0.0	0.0
36.8	**0.0**	**3.6**	**10.5**	**29.9**	**49.0**
1.7	0.0	0.0	0.0	1.7	0.8
0.0	0.0	0.0	0.0	0.0	0.2
0.3	0.0	0.0	0.1	0.2	3.0
2.0	**0.0**	**0.0**	**0.1**	**1.9**	**4.0**
49.8	**0.0**	**4.8**	**10.6**	**44.0**	**79.0**

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 dated March 22, 2011, we have audited the accompanying consolidated financial statements of GAGFAH S.A., which comprise the consolidated statement of financial position as at December 31, 2011, the consolidated statement of comprehensive income, the statement of changes in consolidated equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

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 and for such internal control as the Board of Directors determines is necessary to enable the preparation and presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

RESPONSIBILITY OF THE "RÉVISEUR D'ENTREPRISES AGRÉÉ"

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing as adopted for Luxembourg by the "Commission de Surveillance du Secteur Financier". Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about 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 agréé", including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the "réviseur d'entreprises agréé" considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Board of Directors, as well as evaluating the overall presentation of the consolidated financial statements.

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

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the financial position of GAGFAH S.A. as of December 31, 2011, 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 Directors' report, which is the responsibility of the Board of Directors, is consistent with the consolidated financial statements.

ERNST & YOUNG
Société Anonyme
Cabinet de révision agréé

René ENSCH

Luxembourg, March 20, 2012

Glossary

CAPEX
Work on a building or an apartment leading to value enhancements.

CBRE
CBRE (CBRE GmbH, previously CB Richard Ellis GmbH) is an independent appraiser we use for the external valuation of our portfolio.

CONDO SALES PROGRAM
Sale of individual apartments ("privatization") or small multi-family homes to tenants or small investors.

FUNDS FROM OPERATIONS (FFO) PER SHARE
FFO per share is calculated as total FFO divided by the undiluted weighted average number of shares for the respective period (excluding treasury shares).

DISPOSAL GROUP
The disposal group comprised the two subsidiaries GAGFAH Acquisition 3 GmbH and GAGFAH Pegasus GmbH with approximately 4,800 units in Berlin. On November 2, 2011, the contract negotiations on the sale of GAGFAH Acquisition 3 GmbH and GAGFAH Pegasus GmbH were concluded and the sales agreement was notarized and signed. The sale of the two subsidiaries was financially closed on November 23, 2011, and the companies were deconsolidated on November 30, 2011. The impact of the deconsolidation on GAGFAH's earnings is reflected in "other operating income" in the Consolidated Statement of Comprehensive Income.

GROSS ASSET VALUE PER SQUARE METER
The gross asset value per square meter is the value of the investment properties and assets held for sale divided by the number of square meters represented by these assets.

HB FUNDS
The HB Funds comprise 20 closed-end real estate funds. All units held in these funds are non-core and therefore not part of GAGFAH's core residential portfolio. The sale of the HB Funds assets was initiated in 2010, and out of a total of initially 7,130 units, 6,786 units have already been sold as of December 31, 2011. The remaining 344 units are held in two different HB Funds. The HB Funds are structured in a legal form of "economic fractional ownership" and fully consolidated by GAGFAH S.A. GAGFAH M, one of GAGFAH S.A.'s operating subsidiaries, acts as trustee and manager of the funds.

LARGE MULTI-FAMILY HOME SALES PROGRAM
Sale of entire buildings or clusters of buildings to institutional / professional investors.

MANAGEMENT COST PER UNIT / COST TO MANAGE
The annualized average cost for managing one unit for one year. This number includes the costs directly associated with the management of our units, but does not include any repair and maintenance costs.

NET ASSET VALUE (NAV) PER SHARE
NAV per share is calculated as shareholders' equity plus deferred taxes on investment properties and assets held for sale divided by the number of shares outstanding (excluding treasury shares) as of the reporting date.

NET COLD RENT
Also called "in-place rent". Net cold rent represents the amount of rent that could be produced assuming no vacancies or collection losses occur.

NON-CORE ASSETS
Mainly the properties held in the HB Funds and the properties earmarked for demolition in Dresden are considered non-core assets.

RECOVERABLE OPERATING EXPENSES
Recoverable operating expenses are expenses incurred in connection with managing our properties and can be charged back to our tenants. These expenses include
- real estate tax
- water supply / sewage
- drainage
- heating
- warm water
- maintenance of escalators
- street cleaning and garbage removal
- snow removal
- building cleaning
- gardening
- lighting
- chimney cleaning
- insurances
- caretakers

REPAIRS AND MAINTENANCE (R & M)
The work that is done for fixing or upkeeping an apartment. R&M expenses are not capitalized.

SAME STORE BASIS
Residential units GAGFAH owned at both dates:
As of December 31, 2010, and December 31, 2011.

VACANCY
A unit is considered vacant if there is no valid lease agreement in place as of the respective date. Not included are non-core units.

Financial Statement Certification

In accordance with Article 3 of the law of 11 January 2008 on transparency requirements in relation to information about issuers whose securities are admitted to trading on a regulated market, we confirm that to the best of our knowledge, the consolidated financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union, and give a true and fair view of the assets, liabilities, financial position and profit or loss of GAGFAH S.A. and its subsidiaries included in the consolidation taken as a whole. In addition, the Directors' Report includes a fair review of the development and performance of the business and the position of GAGFAH S.A. and its subsidiaries included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

Wesley R. Edens

Robert I. Kauffman

Randal A. Nardone

William J. Brennan

Yves Wagner, PhD

Dieter H. Ristau

Dr. Jürgen Allerkamp

Luxembourg, March 20, 2012

Financial Calendar

March 20, 2012
Publication of Annual Report 2011

May 2012
Publication of Interim Report – Q1 2012

June 12, 2012
Annual General Meeting of Shareholders, Luxembourg

August 2012
Publication of Interim Report – Q2 2012

November 2012
Publication of Interim Report – Q3 2012

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PERCENTAGES AND FIGURES IN THIS REPORT MAY INCLUDE ROUNDING EFFECTS.