GAGFAH

2012

Consolidated Annual Report

KEY FINANCIAL INFORMATION

INCOME STATEMENT
€ million

	2012	2011	Q4 2012	Q4 2011
Income from the leasing of investment property	**825.9**	872.2	**194.3**	211.2
Rental income, fees	**566.6**	594.1	**142.8**	149.3
Profit from the leasing of investment property	**385.5**	419.6	**91.2**	112.2
Income from the sale of investment property and assets held for sale	**213.1**	388.8	**76.3**	116.6
Profit from the sale of investment property and assets held for sale	**18.2**	22.0	**3.2**	6.9
EBITDA	**343.8**	326.5	**84.5**	79.4
EBIT	**335.1**	306.9	**81.9**	72.6

STATEMENT OF FINANCIAL POSITION
€ million

	2012	2011
Investment property	**7,741.5**	7,953.3
Assets held for sale	**31.0**	21.7
Total assets	**8,111.3**	8,366.4
Equity	**2,100.4**	2,136.9
Financial liabilities	**5,231.1**	5,427.9
Total equity and liabilities	**8,111.3**	8,366.4

OPERATIONAL FIGURES (CORE RESIDENTIAL PORTFOLIO)

	2012	2011
Units	**145,035**	148,694
Square meters	**8,815,946**	9,027,693
Net cold rent (€/sqm)	**5.15**	5.11
Vacancy rate (%)	**5.0**	5.1
Sold units (financial closing)	**3,687**	4,897

KPIs

	2012	2011	Q4 2012	Q4 2011
FFO I (€ million)	**96.7**	113.6	**20.9**	35.8
FFO I (€/share)	**0.49**	0.52	**0.11**	0.17
FFO II (€ million)	**135.2**	159.5	**25.9**	48.8
FFO II (€/share)	**0.68**	0.73	**0.13**	0.24
No. of shares (million, weighted average for the period, excl. treasury shares)	**199.2**	218.8	**195.3**	207.1
NAV (€/share)	**13.31**	12.53	**13.31**	12.53
No. of shares (million, end of period, excl. treasury shares)	**195.3**	206.5	**195.3**	206.5
Gross sales margin (condo sales)	**13.1 %**	9.7 %	**18.7 %**	10.8 %
Net cold rent multiple (target rent)	**13.3x**	13.4x	**13.3x**	13.4x
LTV	**64.7 %**	65.3 %	**64.7 %**	65.3 %

FUNDS FROM OPERATIONS

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)

	2012	2011	**Q4 2012**	Q4 2011
EBIT	**335.1**	306.9	**81.9**	72.6
Reorganization and restructuring expenses	**4.5**	14.6	**0.6**	5.9
Depreciation and amortization	**4.2**	5.0	**2.0**	0.9
EBITDA	**343.8**	326.5	**84.5**	79.4
Result from the fair value measurement of investment property	**13.4**	41.9	**– 2.3**	11.5
Profit from the sale of investment property	**– 18.2**	– 22.0	**– 3.2**	– 6.9
Disposition costs	**12.6**	15.0	**1.9**	4.1
Expenses for share-based remuneration	**1.2**	3.8	**1.7**	0.5
Net interest expenses	**– 247.8**	– 290.9	**– 57.5**	– 61.9
Current tax expenses	**– 5.7**	– 17.3	**5.6**	– 8.7
Property development business	**2.0**	2.4	**– 0.4**	– 0.2
Sales expenses (non-condo)	**5.0**	8.0	**1.9**	3.7
Sale of cable rights	**– 0.2**	– 3.6	**– 0.1**	– 0.2
Other	**– 9.4**	49.8	**– 11.2**	14.5
FFO I	**96.7**	**113.6**	**20.9**	**35.8**
FFO I in € per share	**0.49**	**0.52**	**0.11**	**0.17**
Profit from the sale of investment property	**18.2**	22.0	**3.2**	6.9
Disposition costs	**– 12.6**	**– 15.0**	**– 1.9**	**– 4.1**
Realized valuation gains through sales	**32.7**	35.3	**3.6**	10.0
Sale of cable rights	**0.2**	3.6	**0.1**	0.2
FFO II	**135.2**	159.5	**25.9**	48.8
FFO II in € per share	**0.68**	0.73	**0.13**	0.24
Number of shares (million)[1]	**199.2**	218.8	**195.3**	207.1

1 Weighted average, undiluted, excl. treasury shares.

HIGHLIGHTS 2012

FFO I of € 0.49 per share for 2012, in line with guidance and after € 0.52 for 2011. The slight decline in FFO comes on the basis of 5.8 % fewer units on average and 6.9 % higher repairs and maintenance expenses in 2012.

GROSS ASSET VALUE of € 7,741.5 million, stable at € 850 per square meter, representing a net cold rent multiple of 13.3 x.

NET ASSET VALUE of € 13.31 per share as of December 31, 2012, up by 6.2 % from € 12.53 as of December 31, 2011.

OCCUPANCY increased to 95.0 % at the end of 2012, representing an increase of 10 basis points compared to the end of 2011.

SALE of 3,687 units for € 213.1 million in 2012. Of that amount, 937 units were single-unit sales with a multiple of 19.6 x and a gross sales margin of 26.6 %.

NET PROFIT of € 47.7 million for 2012 after a net loss of € 17.9 million for 2011.

EBIT up by 9.2 % year-on-year.

MILESTONES 2013 SO FAR

WOBA REFINANCING COMPLETED New € 1.06 billion loan arranged by Bank of America Merrill Lynch with 3.85 % coupon, 48 basis points lower than the previous loan. The maturity is five years with an extension option for one year.

GRF REFINANCING WELL UNDERWAY GAGFAH plans to refinance the full loan amount via six different pools. Term sheets with lenders have been signed for five of the pools. Pool six is expected to be a commercial mortgage-backed security, for which we believe there is an increasing demand from investors. Based on current estimates, the overall interest rate is expected to be lower than on the recent WOBA financing, and the weighted average maturity is expected to be around 7 years.

BLOCK SALE 576 units sold in Heidenheim (GBH) with a vacancy rate of about 27 %. As a result, the vacancy rate in Heidenheim is expected to come down to around 10 % at the end of Q1 2013 after 12.1 % at the end of 2012.

NEW CEO Having resolved the Company's key challenges during the past twelve months, Stephen Charlton has tendered his resignation as member of the Board of Directors of GAGFAH S. A. , effective as of April 16, 2013. Thomas Zinnöcker has been appointed as member of the Board of Directors of GAGFAH S. A. and CEO of the GAGFAH GROUP, effective as of April 16, 2013. Thomas Zinnöcker is one of the most successful and respected leaders in the sector, and we believe that his skills, experience and reputation make him the right person to drive the future growth of GAGFAH.

GAGFAH'S PORTFOLIO INCLUDES MORE THAN 145,000 OWN RESIDENTIAL UNITS AND AN ADDITIONAL 40,000 UNITS UNDER PROPERTY AND FACILITY MANAGEMENT FOR THIRD PARTIES. OUR PORTFOLIO MAKES US THE LARGEST RESIDENTIAL PROPERTY COMPANY LISTED IN GERMANY, AND WE BELIEVE THAT OUR SIZE, GEOGRAPHIC DIVERSITY AND SCALABLE OPERATING PLATFORM MAKE US ONE OF THE LEADING PROVIDERS OF LOW-COST HOUSING. OUR OPERATING SUBSIDIARIES ARE FULL-SCALE SERVICE PROVIDERS FOR A BROAD RANGE OF PROPERTY AND FACILITY MANAGEMENT SERVICES WITH A CLEAR FOCUS ON RESIDENTIAL PROPERTIES IN GERMANY.

OUR PERFORMANCE 2012

€ 0.49
FFO I
per share

€ 13.31
NAV
per share

95 %
OCCUPANCY

€ 850
GROSS ASSET VALUE
per sqm

937
SINGLE-UNIT SALES
at 26.6 % gross margin
and 19.6 x multiple

€ 335.1
MILLION
EBIT

GOALS & RESULTS

GOALS 2012	RESULTS 2012	GOALS 2013
RENT GROWTH: Approximately 1 %	**RENT GROWTH:** 0.8 %	**RENT GROWTH:** In line with historic annual rent growth
VACANCY RATE: Approximately 5 %	**VACANCY RATE:** 5.0 %	**VACANCY RATE:** Approximately 4.8 %
R & M PER SQM: € 10 or slightly higher	**R & M PER SQM:** € 10.68	**PROPERTY INVESTMENTS:** € 12 – € 13 per sqm
FFO I PER SHARE: € 0.49	**FFO I PER SHARE:** € 0.49	**FFO I PER SHARE:** Growth of 5 % – 10 %
SALES: Between € 210 million and € 230 million total gross proceeds	**SALES:** € 213.1 million total gross proceeds	**SALES:** 600 – 700 units through condo sales (€ 65 – € 70 million gross proceeds) Approximately 1,200 units through block sales (€ 90 – € 100 million gross proceeds)

CONTENT
CONSOLIDATED ANNUAL REPORT

LETTER TO OUR SHAREHOLDERS

Dear Fellow Shareholders,

2012 has been an eventful year for GAGFAH with positive news on many fronts and an overall improvement of the Company's perception and reputation. We were able to settle the lawsuit with the City of Dresden by reaching an amicable agreement and waiving all claims. I am glad to be able to say that both the City of Dresden and GAGFAH have been able to close this chapter and open up a new one that is once again based on trust and the spirit of cooperation.

In terms of capital markets and our shares, we have seen a very positive development in 2012 with our share price more than doubling in the course of the year. We believe that among the main drivers behind the share performance were the settlement with the City of Dresden, the accretive Public Share Buy-back Program that we closed in May 2012 and the generally strong interest in the German residential market.

Our preparations for resolving the two large 2013 debt maturities were a significant focus for us in 2012. Faced with more than € 3 billion of debt to be refinanced in 2013, we pursued a dual-track strategy on the WOBA portfolio and split the GRF (German Residential Funding) debt into separate pools to be refinanced individually.

The dual-track approach on WOBA meant that we initiated a structured bidding process to see if there was sufficient appetite for such a large portfolio in the context of growing demand for German residential assets as a viable alternative to refinancing the existing loan. While it turned out that the demand was indeed quite strong and the final bids that we received were close to the carrying value of the portfolio, the financing markets regained strength towards the end of the year, so that the second option, the refinancing of the full debt amount, appeared to be the better alternative for the Company. Hence, faced with two good choices, the Board of Directors decided to keep the WOBA portfolio and refinance it with a new loan arranged by Bank of America Merrill Lynch for a period of five years in spite of attractive bids from potential acquirers. This decision was made mindful of the fact that the WOBA portfolio is a strong portfolio in an attractive market, making a significant contribution towards GAGFAH's earnings.

With one major refinancing completed, the focus is now on finalizing the GRF refinancing. The portfolio has been subdivided into six pools that all have similar risk profiles. For five of the six pools, we have signed term sheets with different lenders and for different debt volumes and maturities. For the sixth pool, the Company plans to issue commercial mortgage-backed securities (CMBS), and based on feedback from the leading investment bank and in light of the demand from potential debt investors, we are optimistic that this part of the transaction will be successful as well. As we have indicated previously, we expect closing during the first half of 2013.

Our overall goal for the refinancing is to achieve the best combination of pricing and terms. We are looking forward to updating our shareholders and other stakeholders on this subject going forward. 2013 is and will continue to be an extraordinary year for the Company. Having resolved some major challenges over the past twelve months and being close to resolving the remaining major challenges, we are preparing ourselves for the future. Stephen Charlton has supported GAGFAH over the past twelve months during a difficult period for the Company. Among his major achievements have been the restoring of good relations with the City of Dresden, the refinancing of the WOBA portfolio and his crucial contributions towards our efforts to refinance GRF. We are grateful for everything he has done for the Company.

For the next phase of GAGFAH's development, however, our focus is going to be a different one. In this context, the Board of Directors has decided to bring in a seasoned German CEO with a strong background in the German residential sector. We are delighted we were able to attract Thomas Zinnöcker for this position. Thomas Zinnöcker has been appointed as member of the Board of Directors of GAGFAH S. A. and CEO of the GAGFAH GROUP, effective as of April 16, 2013. We believe that his skills, experience and reputation will be most beneficial for what lies ahead of us.

German residential properties continue to be a popular asset class. In times of ongoing financial uncertainty, investors appreciate the attractive risk-return profile offered by these types of assets. We believe we can benefit from this trend, and going forward we intend to refocus on the core business of the Company, which is the management, acquisition and sale of residential real estate. We own more than 145,000 residential units and provide property and facility management services for another 40,000 units owned by third parties. Our size and experience should serve us well in our attempt to seize market opportunities.

I thank our staff for their hard work and dedication, and I thank you as our shareholders for your continued support.

JONATHAN ASHLEY, 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.

William J. Brennan resigned as Member of the Board of Directors with effect as of March 31, 2012. He is succeeded by Stephen Charlton.

Robert I. Kauffman resigned as Member and Chairman of the Board of Directors with effect as of January 15, 2013. He is succeeded by Jonathan Ashley as Member and Chairman of the Board of Directors.

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Please see the Company's website www.gagfah.com (→ Company → Directors) for more information on the Board of Directors.

BOARD OF DIRECTORS

JONATHAN ASHLEY
(since January 15, 2013) Chairman of the Board of Directors of GAGFAH S. A.

DR. JÜRGEN ALLERKAMP
Vice Chairman of the Board of Directors of GAGFAH S. A. (Independent Director)

STEPHEN CHARLTON
(since April 1, 2012)

WESLEY R. EDENS

RANDAL A. NARDONE

DIETER H. RISTAU
(Independent Director)

YVES WAGNER, PH.D.
(Independent Director)

COMMITTEES

The Board of Directors may set up committees. Currently, there are three committees: Audit Committee, Compensation Committee and Securities Dealings Committee.

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

The purpose of the 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.

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.

AUDIT COMMITTEE	COMPENSATION COMMITTEE	SECURITIES DEALINGS COMMITTEE
DR. JÜRGEN ALLERKAMP	JONATHAN ASHLEY* (since January 15, 2013)	JONATHAN ASHLEY* (since January 15, 2013)
JONATHAN ASHLEY* (since January 15, 2013)	WESLEY R. EDENS	DIETER H. RISTAU
WESLEY R. EDENS	RANDAL A. NARDONE	DR. JÜRGEN ALLERKAMP
RANDAL A. NARDONE	YVES WAGNER, PH.D.	

* Robert I. Kauffman resigned as Member of all three committees with effect as of January 15, 2013. He is succeeded by Jonathan Ashley.

MANAGEMENT OF OUR SUBSIDIARIES

GAGFAH's operational subsidiaries in Germany are led by the Senior Management. Members of the Senior Management of the Company's subsidiaries are integral to the management of the Company's subsidiaries and responsible for the day-to-day management of the business.

The senior management comprises three members. Each member is responsible for certain activities and branches of the business, with joint management responsibility for the business as a whole.

With effect as of March 31, 2012, William J. Brennan resigned from his position as Chief Executive Officer of the GAGFAH GROUP. His successor is Stephen Charlton who had been Chief Financial Officer since January 2011.

With effect as of July 31, 2012, Stefan de Greiff resigned from his position as Chief Investment and Sales Officer and Nicolai Kuss assumed responsibility for this part of the business in addition to his role as Chief Operating Officer.

With effect as of November 16, 2012, Gerald Klinck has been appointed Chief Financial Officer of the GAGFAH GROUP. Gerald Klinck had already served as interim Chief Financial Officer since March 2012.

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Please see the Company's website www.gagfah.com (→ Company → Directors) for more information on the Senior Management of our subsidiaries.

SENIOR MANAGEMENT

STEPHEN CHARLTON
CEO Chief Executive Officer
(since April 1, 2012)

GERALD KLINCK
CFO Chief Financial Officer
(since November 16, 2012)

NICOLAI KUSS
COO Chief Operating Officer
CISO Chief Investment and Sales Officer

GENERAL MEETINGS OF SHAREHOLDERS

The 2012 Annual General Meeting of Shareholders (AGM) and an Extraordinary General Meeting of Shareholders (EGM) took place on June 12, 2012, in Luxembourg. All resolutions were approved as proposed.

Among the resolutions approved by the Extraordinary General Meeting of Shareholders was the reduction of the issued share capital by an amount of €18,937,846 and the cancellation of 15,150,277 shares held in treasury from the first public tender offer that had been settled in October 2011. This resolution was implemented on August 29, 2012.

The Extraordinary General Meeting of Shareholders further resolved to authorize the Board of Directors to reduce the issued share capital of the Company by a maximum amount of €69,250,000 by the repurchase and cancellation of a maximum of 55,400,000 shares from existing shareholders during a period ending on March 31, 2013 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.

Finally, the Extraordinary General Meeting of Shareholders resolved to make certain changes to the Articles of Incorporation, which were mainly required further to the implementation of the shareholder rights directive in Luxembourg and the changes of certain procedures relating in particular to the convening of general meetings contained therein.

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.

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Please see the Company's website www.gagfah.com (→ Investor Relations → Annual General Meeting) for a full description of all agenda items and voting results of the AGM and EGM as well as for the Articles of Association (→ Company).

REVIEW 2012

JAN – MAR	APR – JUN	JUL – SEP	OCT – DEC
Q1	Q2	Q3	Q4
-- SETTLEMENT WITH THE CITY OF DRESDEN TO END LEGAL DISPUTE -- AGREED EXTENSION OF GBH LOAN -- PUBLISHED FY 2011 RESULTS	-- STEPHEN CHARLTON APPOINTED CEO -- GERALD KLINCK APPOINTED INTERIM CFO -- PUBLIC SHARE BUY-BACK PROGRAM FOR € 75 MILLION (11.2 MILLION SHARES) -- ATTENDED DEUTSCHE BANK CONFERENCE IN FRANKFURT -- PUBLISHED Q1 RESULTS -- AGM AND EGM OF SHAREHOLDERS IN LUXEMBOURG	-- CITY OF DRESDEN AND GAGFAH AGREED TO STOP DEMOLITION PROGRAM AND PRE-SERVE 100 UNITS -- PUBLISHED H1 RESULTS -- ATTENDED GOLDMAN SACHS / BERENBERG CONFERENCE IN MUNICH -- LAUNCHED NEW WEB-SITE FOR GAGFAH S. A. -- CANCELLED CA. 15.2 MILLION SHARES	-- ATTENDED SOCIÉTÉ GENERAL CONFERENCE IN LONDON -- GERALD KLINCK APPOINTED CFO -- PUBLISHED 9 M RESULTS

GAGFAH S. A. SHARES

NUMBER OF SHARES AND SHARE CAPITAL

On December 31, 2012, the number of shares of GAGFAH S. A. totaled 206,452,555, of which 11,178,507 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, 2012, 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 (>5.0 %) AS OF DECEMBER 31, 2012

Shareholder	Number of shares	%
Fortress Residential Investment Deutschland (Fund A) LP	**20,626,823**	9.99
Fortress Investment Fund III (GAGACQ Subsidiary) LLC	**16,539,554**	8.01
Fortress Investment Fund III (Fund B) (GAGACQ Subsidiary) LLC	**14,141,601**	6.85
Fortress Residential Investment Deutschland (Fund B) LP	**12,330,464**	5.97

GAGFAH S. A., acting through its Board, had been authorized by the 2011 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, 2011. At the Annual General Meeting of Shareholders held on June 12, 2012, 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 June 12, 2012, such authorization being valid for a period of five (5) years from June 12, 2012.

At the Extraordinary General Meeting of Shareholders held on June 12, 2012, the General Meeting resolved to reduce the issued share capital by an amount of € 18,937,846 and to cancel 15,150,277 shares held in treasury from the first public tender offer that had been settled in October 2011. The cancellation of shares was implemented on August 29, 2012.

The Extraordinary General Meeting of Shareholders further resolved to authorize the Company to reduce the issued share capital of the Company by a maximum amount of € 69,250,000 by the repurchase and cancellation of a maximum of 55,400,000 shares from existing shareholders during a period ending on March 31, 2013 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.

SHARE PRICE PERFORMANCE IN 2012

GAGFAH shares closed at € 8.86 at the end of 2012, which represented a share price increase of 123 % over the 2011 year-end closing price. This compares to an MDAX performance of + 34 %, an EPRA / NAREIT Europe index performance of + 24 % and a performance of + 28 % for the Global Property Research 250 Europe Index.

During the year, the share price fluctuated between a high of € 9.28 and a low of € 3.63. The average daily trading volume on Xetra was about 317,000 shares. In addition to the generally positive sentiment towards the German residential asset class, we believe that the two single largest positive impacts on the share price performance were the settlement with the City of Dresden and the Public Share Buy-back offer announced in March.

While the share price performance in 2012 was very positive, the year-end closing price of € 8.86 still represents a discount of about 33 % to the December 31, 2012 NAV. We believe that this discount is to a large extent attributable to the Company's debt maturity profile.

GAGFAH S. A. SHARES AS OF DECEMBER 31, 2012

ISIN	LU0269583422
International Securities Identification Number (ISIN)	A0LBDT
Reuters Symbol	GFJ.DE
Bloomberg Symbol	GFJ.GR
Xetra share price on Dec. 31, 2012	€ 8.86
Highest share price in 2012 (Xetra)	€ 9.28
Lowest share price in 2012 (Xetra)	€ 3.63
Average daily trading volume on Xetra	approximately 317,000
Number of shares excl. treasury shares (million)	195.3
Total market capitalization (€ million)	1,730.1
Stock exchange listing	Frankfurt a. M.
Segment (Industry Group)	Real Estate
Major indices membership	MDAX, EPRA, Global Property Research indices

TREASURY SHARES

On March 28, 2012, the Board of Directors of GAGFAH S. A. had announced a cash tender offer for shares of the Company for 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 € 6.00 and € 6.75 per share. The acceptance period ended on April 27, 2012. Under the Share Buy-back Offer, 12,854,682 shares were tendered to GAGFAH S. A. within the price range from € 6.00 to € 6.75 per share. The final purchase price as determined by the Company and published on May 4, 2012, amounted to € 6.70 per share.

Out of the 12,854,682 shares tendered, 11,844,178 shares were tendered at the final purchase price or at the lower price. Shares which were tendered at a price higher than the final purchase price were not accepted for share buy-back. As the offer was oversubscribed, the ratio at which the relevant tenders were accepted was 1 to 1.0581 (rounded), so that a total of 11,193,507 shares were repurchased by the Company for € 6.70 per share. The settlement of the offer took place on May 11, 2012.

The 15,150,277 shares repurchased in the Public Share Buy-back Program in September and October 2011 and held by the Company as of December 31, 2011, were cancelled on August 29, 2012. As a consequence, the share capital was reduced by an amount of € 18,937,846 and the relating share premium was reduced by an amount of € 56,056,025. An amount of € 100,500 equaling 15,000 shares with a (net) average price of € 6.70, was allocated out of treasury shares as a compensation for the Independent Directors of the Company.

After settling the Share Buy-back Offer and taking into account the cancellation of 15,150,277 shares as well as the 15,000 shares transferred to the Independent Directors, GAGFAH S. A. currently holds 11,178,507 own shares, equivalent to 5.41 % of the 206,452,555 issued shares.

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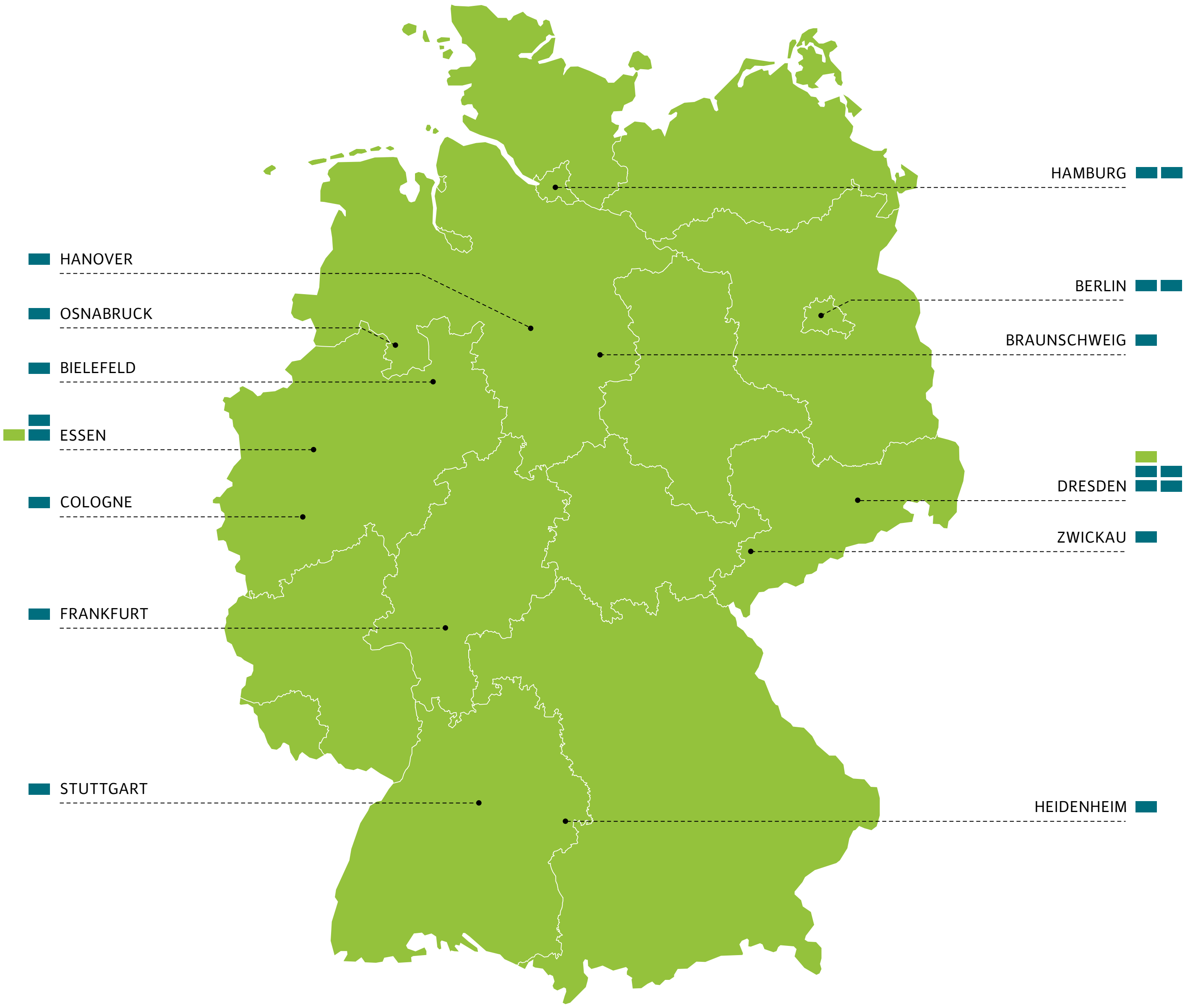
Please see the Company’s website www.gagfah.com (→ Investor Relations → Share → Share Buy-back) for further information on the Public Buy-back offer.

OUR OPERATIONAL NETWORK

REGIONAL OFFICES
CUSTOMER CENTERS



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DIRECTORS' REPORT

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DIRECTORS' REPORT

DIRECTORS' REPORT

WHO WE ARE

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

GAGFAH's portfolio includes more than 145,000 own residential units and an additional 40,000 units under property and facility management for third parties. Our portfolio makes us the largest residential property company listed in Germany, and we believe that our size, geographic diversity and scalable operating platform make us one of the leading providers of low-cost housing. Our operating subsidiaries are full-scale service providers for a broad range of property and facility management services with a clear focus on residential properties in Germany.

FACTS

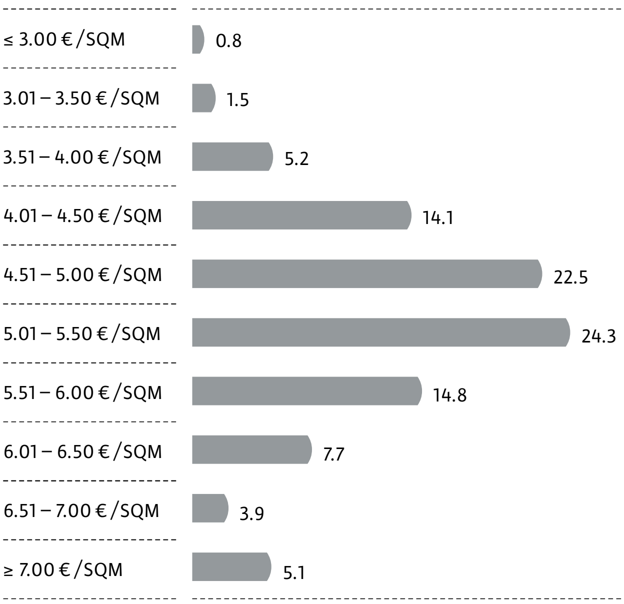
OUR 1,280 EMPLOYEES IN PROPERTY AND FACILITY MANAGEMENT SERVE ABOUT 300,000 PEOPLE IN MORE THAN 145,000 OWN APARTMENTS IN ABOUT 350 CITIES AND TOWNS ACROSS GERMANY.

WHAT WE OWN

We own a well-maintained residential property portfolio located throughout Germany with significant concentrations in Dresden, Berlin and Hamburg. Our portfolio comprises more than 145,000 apartments with a total of almost nine million square meters. The average apartment size is 61 square meters. Approximately 21,400 units (ca. 15 %) 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 1970s. Our portfolio is characterized by a stable tenant base with an average tenant tenure of 11.5 years and a fluctuation rate of 11.7 %.

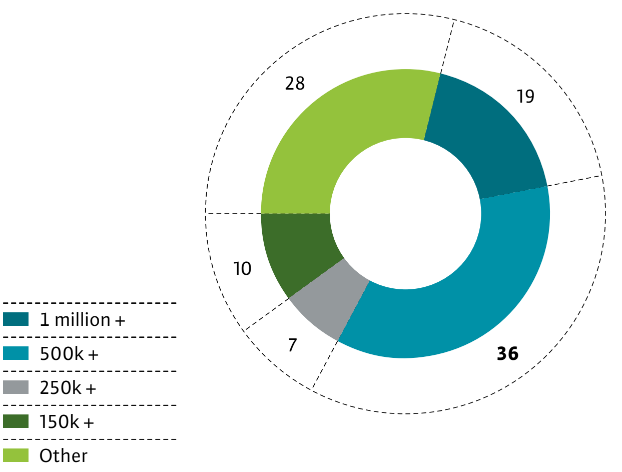
RESIDENTIAL CORE PORTFOLIO CLUSTERED BY NET COLD RENT, EXCLUDING VACANT UNITS

in %



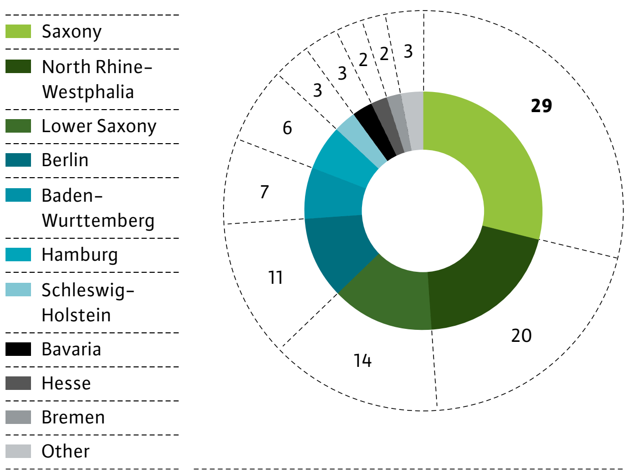
SPREAD OF GAGFAH RESIDENTIAL PORTFOLIO ACROSS LARGEST GERMAN CITIES

by number of inhabitants, in %



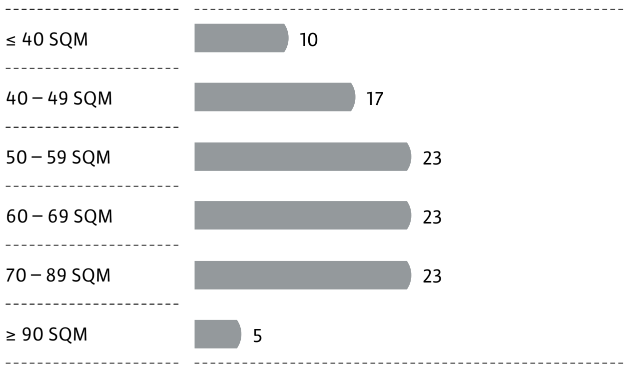
RESIDENTIAL PORTFOLIO CLUSTERED BY FEDERAL STATE

in %



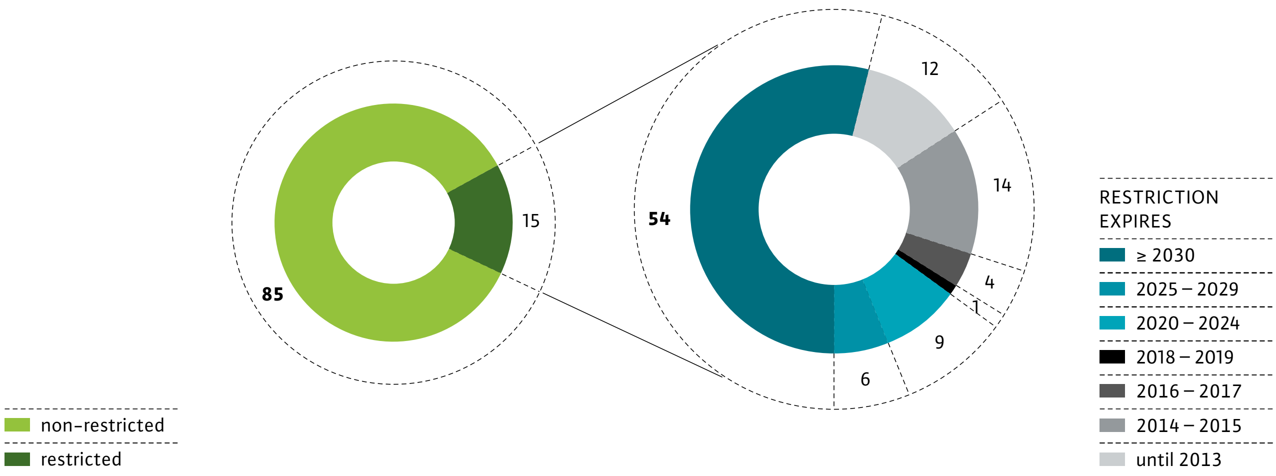
In addition to our core residential portfolio, we own approximately 1,600 commercial units, the vast majority of which are retail stores located on the ground floor of our residential buildings, and approximately 30,400 parking spaces, which typically belong to our residential properties. We also manage a number of non-core units, which are held in two different closed-end real estate funds ("HB Funds") that are fully consolidated within the GAGFAH GROUP. GAGFAH M, one of GAGFAH S. A.'s operating subsidiaries, acts as trustee and manager of the funds. The sale of the HB Funds assets, which initially comprised 7,130 units held in 20 funds, was initiated in 2010, and 6,786 units were sold as of December 31, 2012.

RESIDENTIAL CORE PORTFOLIO CLUSTERED BY UNIT SIZE
in %



NON-RESTRICTED VS. RESTRICTED RESIDENTIAL PORTFOLIO

in %



PROPERTY PORTFOLIO

Top 20 cities	Core residential units	Other units[1]	Total sqm	Net cold rent annualized (€ million, all usage types)[2]	Net cold rent in % of total (all usage types)	Residential net cold rent per month and per sqm (€)	Residential market rent per month and per sqm (€)[3]	Residential vacancy rate (%)[4]	Net cold rent multiple (target rent)
Dresden	37,663	1,979	2,238,626	132.6	22.9	4.81	5.02	4.5	13.3
Berlin	15,438	568	956,618	59.5	10.2	5.03	5.25	2.5	13.7
Hamburg	9,213	649	607,758	42.4	7.3	5.64	6.69	0.9	15.8
Hanover	5,978	299	395,337	27.3	4.7	5.63	5.84	5.8	13.6
Heidenheim	4,655	600	297,683	20.2	3.5	5.47	5.50	12.1	12.2
Bielefeld	4,171	152	279,068	15.4	2.7	4.55	4.70	2.1	11.7
Osnabruck	3,486	137	219,863	14.0	2.4	5.22	5.41	2.6	13.6
Braunschweig	3,173	73	195,651	12.5	2.1	5.25	5.37	1.2	12.6
Zwickau	3,086	124	178,189	8.9	1.5	4.13	4.39	13.8	10.7
Essen	2,277	129	175,020	12.0	2.1	5.34	5.73	7.2	12.3
Cologne	1,919	71	156,381	12.5	2.2	6.58	6.93	2.6	15.6
Freiburg	1,772	96	120,408	9.2	1.6	6.23	6.92	1.2	15.1
Iserlohn	1,677	32	106,540	5.8	1.0	4.52	4.70	8.0	11.7
Bremen	1,499	76	97,009	5.9	1.0	4.95	5.33	7.5	11.2
Duisburg	1,430	65	97,343	5.5	0.9	4.63	4.82	22.1	9.7
Leverkusen	1,404	10	89,835	6.0	1.0	5.50	5.76	4.1	13.3
Gottingen	1,356	58	78,431	5.0	0.9	5.19	5.35	0.4	12.4
Dortmund	1,228	24	99,251	6.3	1.1	4.78	5.10	2.0	12.6
Frankfurt a. M.	1,222	24	69,669	6.3	1.1	7.53	8.17	1.2	14.9
Bonn	1,156	77	81,848	6.0	1.0	5.93	6.62	3.4	14.1
Subtotal Top 20 Cities	103,803	5,243	6,540,529	413.2	71.2	5.13	5.42	4.5	13.4
Other Cities	41,232	2,539	2,606,025	167.1	28.8	5.18	5.40	6.4	12.9
Total portfolio	145,035	7,782	9,146,553	580.3	100.0	5.15	5.41	5.0	13.3

1 Includes HB Funds, commercial properties, non-core properties, senior homes, garages (1/6) and other properties (1/6).
2 Net cold rent as of the reporting date, multiplied by the number of square meters and by 12 (before vacancy loss and rent reductions).
3 Market rents were determined by CBRE.
4 The vacancy rate was calculated on the basis of units.

FACTS

OUR TENANTS STAY IN OUR APARTMENTS FOR AN AVERAGE OF 11.5 YEARS. 24% OF OUR TENANTS STAY 15 YEARS OR LONGER.

WHAT WE DO

REAL ESTATE MANAGEMENT We are a pure-play residential property company with a diversified portfolio across Germany. Our scalable operating platform is structured to manage our assets in an efficient manner. We operate through a streamlined operational network of 19 customer centers in two regions. Responsibilities include rent collection, new leases, lease renewals and other tenant-related issues as well as the full range of property management and a large number of facility management activities. Our customer centers concluded more than 17,200 new lease agreements in 2012.

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. The nationwide network of our 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 and to make our property investment decisions based on a comprehensive understanding of our assets and the specific sub-markets in which we operate. All our corporate functions, such as human resources, accounting, controlling and treasury, are centralized.

SALES We generally sell via one of two sales channels:
(1) condo sales: the sale of an individual apartment (single-unit sale) or the sale of small multi-family homes to tenants or retail investors;
(2) block sales: the sale of a larger number of units to institutional buyers.

Over the past few years, a special emphasis has been on our block-sale channel. For example, we sold almost all units held within the closed-end real estate funds ("HB Funds"), in which GAGFAH was the majority owner. We also carried out several larger transactions that were either largely opportunistic (such as the sale of about 4,800 units in Berlin in the second half of 2011) or that were made with a view towards liquidating assets close to their carrying value and thereby reducing our overall debt volume (such as the block sale of most of our Bocholt assets at the end of 2012).

Going forward, we will focus our sales efforts on condo sales, but we will remain opportunistic with respect to block sales, especially with a view towards reducing our overall debt amount and optimizing our portfolio.

ACQUISITIONS Since the inception of GAGFAH S.A. in 2006, we have acquired and successfully integrated more than 100,000 units in 27 different transactions. During the last few years, in the context of the large gap between the share price and NAV, the Company's refinancing efforts and the broader financial turmoil, GAGFAH was more active on the seller's side.

After resolving its 2013 debt maturities, the Company will increasingly seek to make accretive acquisitions again. With a portfolio of currently more than 145,000 owned units, we are the largest owner and operator of residential real estate listed in Germany and, generally speaking, we are looking to grow further and to become even more efficient by acquiring and integrating additional assets into our portfolio.

WHAT DISTINGUISHES US

DIVERSIFIED PORTFOLIO AND IN-DEPTH LOCAL MARKET KNOWLEDGE Through our presence with 515 employees in property management and another 765 employees in facility management throughout Germany, we have developed an in-depth knowledge of regional residential markets that enables us to efficiently manage, evaluate and acquire portfolios in all key markets throughout Germany. We consider our significant nationwide market presence with larger concentrations primarily in Dresden, Berlin and Hamburg and an overall presence in approximately 350 towns and cities across Germany as a competitive advantage over smaller or less diversified property companies.

PROVEN TRACK RECORD IN ACQUISITIONS, SALES AND COST EFFICIENCIES Since the inception of GAGFAH S. A. in 2006, we have acquired and successfully integrated more than 100,000 units in 27 different transactions. We have also built a strong track record in our sales business with about 38,000 units sold over the last five years. Over time, we have continuously reviewed and adjusted our cost structure to the changing portfolio size and we believe that our streamlined processes and operations platform make us one of the most efficient property companies in the industry.

SCALABLE OPERATING PLATFORM We manage our assets through a streamlined operational network of currently 19 customer centers in two regions (with approximately residential 83,800 units in the Region North / South and residential 61,200 units in the Region Berlin / Dresden). Our customer centers are in close proximity to their dedicated portfolio and tenants.

FULL-SCALE SERVICE PROVIDER WITH FOCUS ON GERMAN RESIDENTIAL ASSETS Our 1,280 employees in property and facility management offer a very broad range of residential real estate services, including, inter alia, letting, recoverables billing, marketing, complaints management, debt collection, smaller repair & maintenance work, gardening and hotline services. We are doing about half of all repair and maintenance work through our cost-efficient, in-house staff. For the more complex refurbishment projects that require different qualifications we are using a nationwide operating external service provider.

FACTS

THERE ARE 59 CITIES IN GERMANY THAT ARE HOME TO 76 UNIVERSITIES AND SCHOOLS OF APPLIED SCIENCES, EACH WITH MORE THAN 10,000 STUDENTS ENROLLED AND AN AGGREGATE STUDENT POPULATION OF MORE THAN 1.5 MILLION. GAGFAH HAS MORE THAN 70 % OF ITS PORTFOLIO LOCATED IN THESE CITIES.

WHAT WE WANT TO ACCOMPLISH

CONTINUE TO INCREASE RETURNS FROM EXISTING PORTFOLIO We plan to continue to increase returns from our existing portfolio through rent increases and vacancy reductions while maintaining tenant stability and quality of accommodation.

REALIZE VALUE THROUGH ASSET SALES We have sold about 38,000 units for a total consideration of close to € 2 billion since 2008. Through these sales, we have mainly achieved two objectives: (1) We have been able to realize the value embedded in our assets while our shares have been trading at a significant discount to their net asset value; and (2) We have been able to reduce the overall debt amount by repaying term debt with the proceeds generated through the sales.

Going forward, we expect the focus of our regular sales to be on our condo sales channel. The remaining sales will come either in the context of our refinancing in order to reduce the overall debt amount or to support our efforts to continuously optimize our portfolio.

OPTIMIZE OUR CAPITAL STRUCTURE As of December 31, 2012, our properties were primarily financed in ten separate, ring-fenced, non-recourse facilities. The total weighted average interest rate of all our loans was 4.35 % and the weighted average term to maturity was 2.9 years.

One large term debt of more than € 1 billion was successfully refinanced on February 20, 2013. On the GRF loan, which had a notional value of approximately € 2.072 billion as of December 31, 2012, the Company is making good progress. Please see the section "Significant events after the reporting date" on page 40 for further details. GAGFAH's objective is to resolve its debt maturities by achieving the best combination of prices and terms. We are seeking to increase our lender base to include German and international banks, insurance companies as well as the capital markets and to level the maturity profile to avoid balloon risks going forward.

INCREASE PROFITABILITY THROUGH OPERATING EFFICIENCIES We continuously review our organization, our processes and our cost structure in an effort to further improve our performance and our profitability to the extent possible.

REDUCE DISCOUNT TO NAV In spite of good progress over the past twelve months, GAGFAH's shares still trade at a signifcant discount to net asset value (NAV). One of the company's focal points continues to be the narrowing of this gap. The recent steps that we have taken, especially during the first three months of 2013, should serve as a basis on which we attempt to drive the share price through a solid operating performance, greater transparency and a more solid capital structure.

PURSUE ACCRETIVE GROWTH OPPORTUNITIES We provide accommodation for about 300,000 people across Germany. In addition to the property and facility management services we already offer to our tenants, we strive to pursue further add-on services that not only benefit our tenants but that could also provide additional forms of income. Similarly, we already service 40,000 third-party units with our property and facility management services and seek to increase this volume going forward.

INDUSTRY

OVERALL ECONOMIC ENVIRONMENT In the context of continuously weak foreign demand, the German economy, measured on the basis of its gross domestic product (GDP), grew by about 0.7 % in 2012, largely driven by domestic demand (Source: BMWi). While this represented a considerable slowdown after the 3.0 % growth in the prior year, this performance was still stronger than in the rest of the Euro Area, for which the European Union forecast an overall GDP decline of – 0.4 % in 2012 (Source: EC). For 2013, the German government expects a GDP growth of 0.4 %, which would compare to a growth rate of 0.1 % that the European Union expects for the euro area (Sources: BMWi, EC). So, while Germany continues to perform more strongly than many of its peers within the euro area, the sovereign debt crisis, the general uncertainty and the weak external demand continue taking their toll on the German economy as well.

Inflation in Germany was 2.0 % in 2012, after 2.3 % in 2011 (Source: Federal Statistical Office). For the euro area as a whole, the European Union expects 2.5 % for 2012 (Source: EC). Main drivers for price increases in Germany were energy costs, without which the inflation would have been 1.6 % in 2012 (Source: Federal Statistical Office).

In spite of slowing GDP growth, the labor market remained robust, and the 41.6 million people in employment meant a new record for Germany. As a consequence, the unemployment rate was 6.8 % at the end of 2012, compared to 7.1 % at the end of the prior year. The German government forecasts an unemployment rate of 7.0 % for the end of 2013, which compares to estimates from the European Union of 11.8 % for the entire euro area (Sources: BMWi, EC).

GERMAN RESIDENTIAL REAL ESTATE MARKET At the beginning of 2011, CBRE estimated the net asset value of the total residential housing market in Germany to be around of € 4.2 trillion, valued at replacement costs (Source: CBRE). According to the Federal Statistical Office, the number of residential units in Germany totaled 40.5 million at the end of 2011, making Germany the largest housing market in Europe. Based on the most recent figures, about 42 % of all residential units in Germany are inhabited by owner-occupiers, 35 % 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: CBRE). Residential construction activity had peaked in the late 1990s with more than half a million new residential units being constructed per year. Since then, the level of new constructions has declined significantly. During the first five years of the new millennium, the average number of new constructions was still comparatively high with about 278,000 new constructions on average per year, while the second half of the first decade saw only 182,000 new constructions annually (Source: Federal Statistical Office).

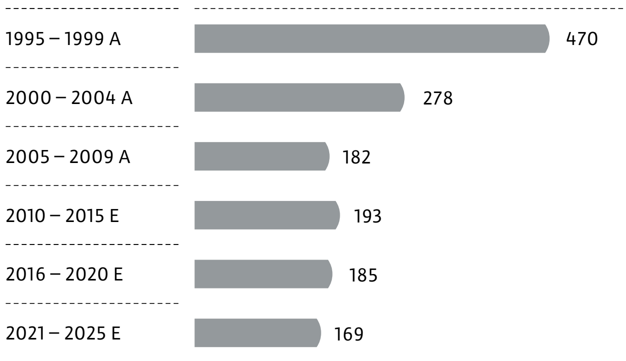
This downward trend has somewhat stabilized on a low level and the number of new constructions has even started to slowly rise (Source: Federal Statistical Office). This recent development is most likely attributable to the low interest rate environment and the increasing belief that a person's own home is a relevant part of one's old age provision. But even the slight increase in new constructions is not nearly sufficient to cover demand.

LBS, the Home Financing Partner of the German Savings and Loan Association, surveyed a number of research institutes on the required new constructions until the year 2020, and almost 60 % of the respondents were of the opinion that 225,000 to 300,000 new constructions are needed each year. 12 % even said that they consider more than 300,000 as necessary (Source: LBS). Based on estimates prepared by the Federal Statistical Office and the Federal Department for Construction and Urban Development, the upcoming level of new residential construction will be clearly below the required numbers.

One also needs to keep in mind that an estimated 0.3 % – 0.5 % of the total housing stock are taken off the market each year (Source: GdW).

AVERAGE ANNUAL VOLUME OF NEW RESIDENTIAL CONSTRUCTIONS

in `000



Sources: Federal Statistical Office and Federal Department for Construction and Urban Development

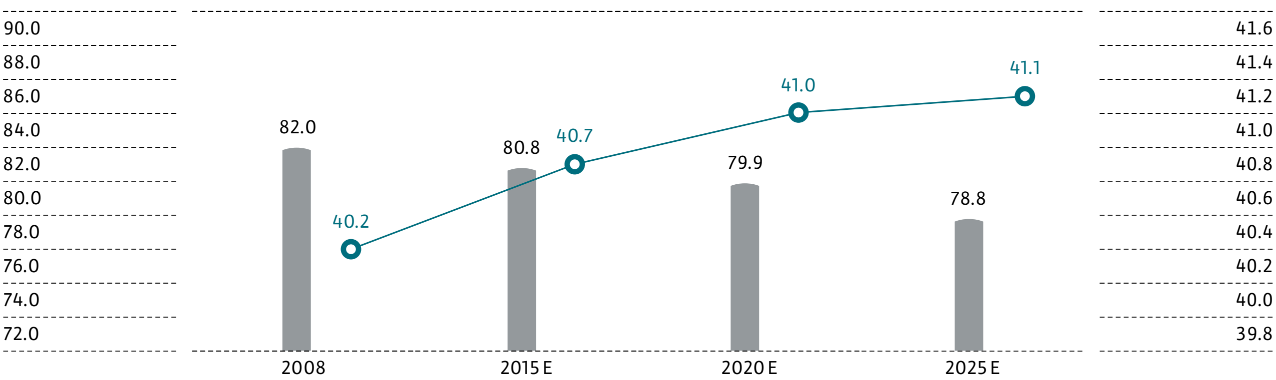
With regards to home-ownership, Germany has traditionally had one of the lowest home-ownership rates in Europe. While in Norway, Portugal or Spain more than three out of four people own the home in which they live, more than 50 % of all people in Germany are not the owner of the accommodation in which they live. Across the European Union, the overall average home ownership rate is about 65 %. Within Germany, the home ownership rate varies greatly; Berlin, for example, has the lowest rate with 16 %, while in the Saarland, about 60 % of all people own their home (Source: CBRE).

DEMOGRAPHIC DEVELOPMENT According to estimates of the Federal Statistical Office, Germany was home to a population of about 82.0 million people at the end of 2012. This would represent a slight increase from the 81.8 million at the end of 2011, and it would be the second increase in a row after eight consecutive years of decline. Among the main reasons for this positive development is the positive migration balance, which was more than sufficient to compensate for the negative birth-to-death ratio.

On a more long-term basis, the overall population in Germany is still forecast to decline. The most recent positive developments may well lead researchers to adjust their forecast models, but it is more likely than not that the overall picture will remain largely unchanged, and that foresees a slightly declining population. In its 2011 medium scenario, the Federal Statistical Office expects the population in Germany to develop from about 82.0 million in 2008 to 78.8 million in 2025.

At the same time, however, the number of households, which is the more relevant number when looking at demand for residential housing, is expected to grow from 40.2 million to 41.1 million during the same period. Within this trend, it is expected that one and two-person households will grow by more than 10 % while the number of three- or more-person households is expected to decline by more than 20 % (Source: Federal Statistical Office). Given the limited new supply of housing, this development should lead to an increase in the demand of residential units. We expect these trends to have a positive impact on residential rents and prices.

DEVELOPMENT OF POPULATION AND NUMBER OF HOUSEHOLDS
in million



Source: Federal Statistical Office

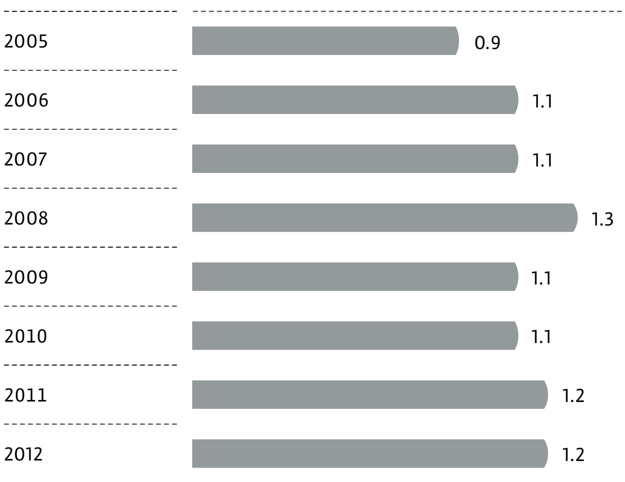
TRANSACTION MARKET AND APARTMENT PRICES The market for larger residential real estate transactions reached about €11 billion in 2012, representing the largest volume since 2007 (Sources: JLL, Savills). This increase was primarily driven by five larger deals with 10,000 or more units. All in all, it is estimated that approximately 200,000 units changed hands through residential real estate deals of various sizes. Against the backdrop of continued economic uncertainty, lower interest rates and the proven resilience of the German residential market, researchers expect the transaction volume to remain high in 2013 as well.

Real estate prices in Germany have traditionally moved broadly sideways and have not been subject to extreme volatility. The traditionally long-term secured financing is generally considered one of the main reasons for why Germany has not been exposed to the boom-and-bust cycles that became evident in many other countries such as Spain, Ireland or the United States. According to the Hypoport Index, one of the most widely recognized price indices in Germany, prices for apartments grew by 2.2 % in 2012. The overall price increase since mid 2005, when this index started tracking apartment prices, is 7.8 %, underlining the mostly sideways movement of apartment prices in Germany.

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

While rent growth in larger cities has picked up in recent months, the overall rent growth in Germany continues at a slow but steady pace. The Federal Statistical Office found that net cold rents in Germany grew by 1.2 % in 2012, in line with the 2011 rent growth. This steady growth is also illustrated by the historic rent growth over the last eight years.

HISTORIC NET COLD RENT GROWTH IN GERMANY
in %



Source: Federal Statistical Office

FINANCING ENVIRONMENT FOR REAL ESTATE COMPANIES
In light of the continuously low-interest rate environment and the proven resilience of the German residential market, financing opportunities remain available and additional lenders, such as insurance companies, are joining the ranks of the more traditional real estate lenders from the banking sector. Similarly, commercial mortgage-backed securities (CMBS) transactions are being carried out again, as indicated by the €886 million Florentia Limited securitization in September 2012.

All in all, there have been a number of larger real estate financings in the German residential sector well in excess of €500 million with various sources of funding and from different types of lenders in 2012 (Source: Commerzbank). And in the early part of 2013, there have already been two large financing transactions in excess of €750 million (Sources: CoStar News; GAGFAH).

RESULTS OF OPERATIONS, NET WORTH AND FINANCIAL POSITION

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

for the period from January 1 to December 31, 2012

€ million

	2012	2011	Q4 2012	Q4 2011
Income from the leasing of investment property	825.9	872.2	194.3	211.2
Transferable leasehold land interest	– 2.0	– 2.0	– 0.4	– 0.4
Operating expenses for the generation of rental income (excluding share-based remuneration)	– 438.4	– 450.6	– 102.7	– 98.6
Profit from the leasing of investment property	385.5	419.6	91.2	112.2
Income from the sale of investment property and assets held for sale	213.1	388.8	76.3	116.6
Carrying amount of the sold investment property and assets held for sale	– 194.9	– 366.8	– 73.1	– 109.7
Profit from the sale of investment property and assets held for sale	18.2	22.0	3.2	6.9
Result from the fair value measurement of investment property	– 13.4	– 41.9	2.3	– 11.5
Income from the sale of property development projects	4.8	2.2	1.9	0.4
Carrying amount of property development projects sold	– 3.5	– 1.8	– 0.9	– 0.3
Profit from the sale of property development projects	1.3	0.4	1.0	0.1
Result from other services	2.3	3.7	0.6	0.0
Selling expenses (excluding share-based remuneration)	– 13.8	– 17.5	– 3.4	– 6.9
General and administrative expenses (excluding share-based remuneration)	– 35.1	– 35.0	– 9.2	– 7.6
Expenses for share-based remuneration	– 1.2	– 3.8	– 1.7	– 0.5
Other operating income	11.8	34.3	6.3	26.9
Other operating expenses	– 16.0	– 60.2	– 7.8	– 41.2
Profit from operations before reorganization and restructuring expenses	339.6	321.6	82.5	78.4
Reorganization and restructuring expenses	– 4.5	– 14.6	– 0.6	– 5.9
Profit from operations	335.1	307.0	81.9	72.5
Result from other financial assets	0.0	– 0.1	0.0	0.1
Earnings before interest and taxes (EBIT)	335.1	306.9	81.9	72.6
Interest expenses	– 249.5	– 293.3	– 58.0	– 62.4
Interest income	1.7	2.4	0.5	0.5
Other financial expenses	– 0.1	– 0.1	0.0	0.0
Result from the fair value measurement of derivatives	2.1	6.0	0.3	1.2
Interest expenses (refinancing)	– 3.9	– 1.3	– 2.3	– 1.3
Net financing expenses	– 249.7	– 286.3	– 59.5	– 62.0
Earnings before taxes (EBT)	85.4	20.6	22.4	10.6
Income taxes	– 37.7	– 38.5	– 5.7	– 13.4
Net result	47.7	– 17.9	16.7	– 2.8

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

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

€ million

	2012	2011	Q4 2012	Q4 2011
Rental income, fees	566.6	594.1	142.8	149.3
Allocations charged	258.1	276.5	51.2	61.4
Other	1.2	1.6	0.3	0.5
Total	825.9	872.2	194.3	211.2

Approximately 69 % (€ 566.6 million) of the income from leasing was attributable to rental income and fees. The average portfolio in 2012 was about 5.8 % (ca. 9,700 units) smaller than in 2011, and as a result, the rental income declined by 4.6 % year on year. Excluding the impact from sales, the net cold rent grew by € 5.3 million in 2012.

The rent growth of 0.8 %, measured on a same-store and per-square-meter basis, is slightly below our historic average. The main reason for the lower rent growth is the fact that in 2012, only about 20 % of the units in our portfolio become subject to a new rent table ("Mietspiegel"). We expect this number to rise to more than 50 % in 2013, providing us with more flexibility to grow rents across our portfolio.

Approximately 31 % (€ 258.1 million) of the income from leasing was related to charges to tenants for recoverable operating expenses (allocations charged). On an annualized basis, allocations charged represent about one third of income from the leasing of investment property. On a quarterly basis, however, allocations charged can vary depending on the timing of recoverables billing.

Rental income is net of vacancy. Our vacancy rate continued to decline and was 5.0 % at the end of 2012 (prior year: 5.1 %), equaling an occupancy rate of 95.0 %.

OPERATING EXPENSES FOR THE GENERATION OF RENTAL INCOME Inspite of higher repairs and maintenance expenses, the operating expenses in 2012 declined to € 438.4 million after € 450.6 million in the prior year, mostly as a result of a smaller portfolio overall. Operating expenses for the generation of rental income consist of the following items:

€ million

	2012	2011	Q4 2012	Q4 2011
Real estate operating expenses	227.7	247.2	47.2	57.8
Real estate tax	24.2	26.3	2.5	3.1
Operating expenses recoverable from tenants	**251.9**	**273.5**	**49.7**	**60.9**
Repair and maintenance costs	81.8	76.5	24.0	15.2
Personnel expenses	59.6	55.1	15.9	12.8
Bad debt allowances	7.4	7.9	1.2	1.1
External costs for real estate management	9.3	8.8	2.8	2.6
Administrative expenses	7.4	6.9	1.2	2.0
Real estate operating expenses	5.6	5.0	2.3	1.1
Real estate tax	0.5	0.4	0.2	0.1
Amortization and depreciation on intangible assets and property, plant and equipment	2.1	2.3	0.7	0.5
Other	12.8	14.2	4.7	2.3
Non-recoverable operating expenses	**186.5**	**177.1**	**53.0**	**37.7**
Operating expenses for the generation of rental income	**438.4**	**450.6**	**102.7**	**98.6**

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

Recoverable operating expenses were € 251.9 million in 2012 compared to € 273.5 million in 2011, in line with the smaller asset base.

Non-recoverable operating expenses were € 186.5 million in 2012 compared to € 177.1 million in the prior year.

In accordance with our guidance for 2012, we increased our repairs and maintenance expenses. The external costs were € 81.8 million in 2012 (+ 6.9 %), which translates into total property investments of € 10.68 per square meter including the work carried out by our 100 % affiliated facility management companies. We are continuing to do a large share of repair and maintenance work in-house, as we believe that doing this type of work with our own resources enables us to respond to our tenants' needs more quickly and to provide a better service.

Personnel expenses in 2012 were € 59.6 million after € 55.1 million in the prior year. The increase is largely the result of a growing number of caretakers responsible for the facility management of our own properties and third-party assets.

The increase of administrative expenses to € 7.4 million during 2012 after € 6.9 million during the prior year is mostly attributable to more temporary workers, recruitment fees and training expenses within our facility management subsidiaries.

PROFIT FROM THE LEASING OF INVESTMENT PROPERTY

The profit from the leasing of investment property was € 385.5 million for 2012 compared to € 419.6 million for 2011, on the basis of approximately 5.8 % or about 9,700 fewer units on average and higher expenses for repairs and maintenance.

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

€ million

	2012	2011	Q4 2012	Q4 2011
Rental income, fees	566.6	594.1	142.8	149.3
Allocations charged	258.1	276.5	51.2	61.4
Other	1.2	1.6	0.3	0.5
Income from the leasing of investment property	**825.9**	**872.2**	**194.3**	**211.2**
Transferable leasehold land interest	– 2.0	– 2.0	– 0.4	– 0.4
Operating expenses	– 438.4	– 450.6	– 102.7	– 98.6
Profit from the leasing of investment property	**385.5**	**419.6**	**91.2**	**112.2**

SALE OF INVESTMENT PROPERTY AND ASSETS HELD FOR SALE We closed the sale of 3,687 units for a total consideration of € 213.1 million in 2012. Of that amount, 2,419 units for € 156.9 million came from our condo sales program and the remaining 1,268 units for € 56.2 million were block sales.

Our condo sales break down as follows:

CONDO SALES

	FY 2012			FY 2011		
	Total	**Single unit**	**Small MFH**	Total	Single unit	Small MFH
Sold units	**2,419**	**937**	**1,482**	3,018	1,102	1,916
Gross proceeds (€ million)	**156.9**	**83.8**	**73.1**	248.2	112.9	135.3
Carrying value (€ million)	**– 138.7**	**– 66.2**	**– 72.5**	– 226.2	– 94.6	– 131.6
Gross margin in %	**13.1**	**26.6**	**0.8**	9.7	19.3	2.8
NCR multiple	**16.7**	**19.6**	**14.2**	16.9	20.1	14.9

RESULT FROM THE FAIR VALUE MEASUREMENT OF INVESTMENT PROPERTY The value of our investment property including assets held for sale amounts to € 7,772.5 million or a net cold rent multiple of 13.3 x as of December 31, 2012. The IAS 40 valuations for our investment properties indicated a net loss from the fair value measurement of € 13.4 million for 2012 (0.2 % on the investment property value as of December 31, 2011) and a small gain of € 2.3 million for the fourth quarter of 2012.

€ 15.5 million of the valuation loss for the full year relate to the block-sale assets, which have been reclassified as assets held for sale. For the remaining properties, the valuation resulted in a small gain of € 2.1 million for 2012. As in prior years, the fair value measurement was conducted by CBRE, an independent appraiser.

Their fair market valuation model is based on a discounted cash flow (DCF) model, which derives the present value from the properties' future cash flows. The valuation is computed on a property-by-property basis. The DCF model is based on a detailed planning period of ten years, within which the relevant real estate cash flow components are forecast 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.

OTHER INCOME AND EXPENSE ITEMS Other income and expense items for our Group totaled a net expense of € 52.0 million in 2012, as compared to a net expense of € 78.5 million in 2011. The development of our other income and expense items is shown in the table below:

€ million

	2012	2011	Q4 2012	Q4 2011
Result from other services	2.3	3.7	0.6	0.0
Selling expenses	– 13.8	– 17.5	– 3.4	– 6.9
General and administrative expenses	– 35.1	– 35.0	– 9.2	– 7.6
Expenses for share-based remuneration	– 1.2	– 3,8	– 1.7	– 0.5
Other operating income	11.8	34.3	6.3	26.9
Other operating expenses	– 16.0	– 60.2	– 7.8	– 41.2
Total	– 52.0	– 78.5	– 15.2	– 29.3

The result from other services contains revenues from activities such as caretaker services for third parties and insurance brokerage fees.

Selling expenses consist of personnel expenses, costs for external brokers and general and administrative expenses for our sales business. In 2012, selling expenses were € 13.8 million and mainly included external broker fees, personnel expenses, as well as sales-related general and administrative expenses in connection with our sales operations. The reduced expenses compared to 2011 are primarily the result of a lower sales volume.

General and administrative expenses mainly consist of personnel costs, IT costs, consulting fees, audit fees and office costs. These expenses remained stable at € 35.1 million in 2012.

All income and expenses not directly allocable to the various categories of income or expenses according to the cost of sales method are disclosed in the line items Other operating income or Other operating expenses, respectively. In 2012, Other operating income was € 11.8 million. The prior year had included the deconsolidation result of € 22.2 million from the share deal in which we sold ca. 4,800 units in Berlin.

Other operating expenses decreased to € 16.0 million in 2012 from € 60.2 million in the prior year, which had included € 44.9 million of expenses in connection with the settlement with the City of Dresden.

MANAGEMENT COST PER UNIT The annualized management cost per unit for the fourth quarter of 2012 was € 397, which compares to € 380 for the fourth quarter of 2011 and € 396 for the third quarter of 2012.

REORGANIZATION AND RESTRUCTURING EXPENSES Reorganization and restructuring expenses relate to our Group's rationalization of costs and integration of processes as we continue to optimize our operations. In 2012, reorganization and restructuring expenses were € 4.5 million, down significantly from € 14.6 million in the prior year, which had included provisions for litigation risks in connection with a cancellation of an outsourcing contract with a maintenance service provider allowing GAGFAH GROUP to increasingly insource maintenance services.

EARNINGS BEFORE INTEREST AND TAXES (EBIT) In 2012, our EBIT was € 335.1 million compared to € 306.9 million in 2011. Adjusted for valuation effects, the EBIT for 2012 was € 348.5 million compared to € 348.8 million for 2011.

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

Net financing expenses decreased to € 249.7 million in 2012 compared to € 286.3 million in the prior year.

Total interest expenses declined to € 249.5 million in 2012 from € 293.3 million during the previous year, which had included prepayment fees of € 22.0 million, mostly related to the share deal in which we sold ca. 4,800 units in Berlin and repaid the related term debt ahead of its maturity. Of the total interest expenses, interest expenses related to loans decreased by 6.8 % to € 222.0 million during 2012 compared to € 238.1 million during 2011. The decrease of interest expenses results from the paydown of debt mainly related to sales.

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

€ million

	2012	2011	Q4 2012	Q4 2011
Interest expenses related to loans	– 222.0	– 238.1	– 58.2	– 58.5
Prepayment fees	– 3.4	– 22.0	– 0.2	2.3
Other	– 24.1	– 33.2	0.4	– 6.2
Total interest expenses	**– 249.5**	**– 293.3**	**– 58.0**	**– 62.4**
Interest income	1.7	2.4	0.5	0.5
Other financial expenses	– 0.1	– 0.1	0.0	0.0
Result from the fair value measurement of derivatives	2.1	6.0	0.3	1.2
Interest expenses (refinancing)	– 3.9	– 1.3	– 2.3	– 1.3
Net financing expenses	**– 249.7**	**– 286.3**	**– 59.5**	**– 62.0**

EARNINGS BEFORE TAXES (EBT) In 2012, our Group's EBT was € 85.4 million, as compared to € 20.6 million in 2011. Earnings before taxes are computed as earnings before interest and taxes (EBIT) of € 335.1 million reduced by net financing expenses of € 249.7 million.

INCOME TAXES Income taxes for 2012 of € 37.7 million (prior year: € 38.5 million) comprise deferred income tax expenses of € 32.0 million (prior year: € 21.2 million) and current income tax expenses of € 5.7 million (prior year: € 17.3 million).

NET ASSET VALUE (NAV) The NAV per share grew by 6.2 % to € 13.31 since December 31, 2011, largely as a result of the accretive Share Buy-back Program settled in May 2012.

€ million (unless stated otherwise)

	12-31-2012	12-31-2011
Shareholders' equity	2,069.8	2,103.1
Deferred taxes on investment property and assets held for sale	528.9	482.9
NAV	2,598.7	2,586.0
NAV per share (€)	13.31	12.53
Number of shares (excl. treasury shares, undiluted)	195.3	206.5

FINANCIAL POSITION

As of December 31, 2011 and 2012, the Group's equity and liabilities were as follows:

	12-31-2012 € million	12-31-2012 %	12-31-2011 € million	12-31-2011 %
Total equity	2,100.4	25.9	2,136.9	25.5
Financial liabilities	5,231.1	64.5	5,427.9	64.9
Other liabilities	779.8	9.6	801.6	9.6
Total equity and liabilities	8,111.3	100.0	8,366.4	100.0

As of December 31, 2012, the Group's financial liabilities primarily consisted of the following liabilities:

€ million (unless stated otherwise)	Carrying amount as of 12-31-2012	Notional amount as of 12-31-2012	Weighted average years to maturity	Current interest rate (%)	Interest rate type [1]
Term loans	4,891.3	4,851.4	0.8	4.54	Fixed/Secured
thereof fixed	4,845.1	4,805.4	0.8	4.54	Fixed
thereof floating with CAP	46.2	46.0	1.2	3.71	Secured
Senior debt	325.0	398.0	27.8	2.00	Fixed
Other	14.8	14.8	6.1	5.70	Fixed
Total	5,231.1	5,264.2	2.9	4.35	

1 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 and interest rate caps.

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

The term loans in the table above include € 1,037 million of debt for the WOBA portfolio. This debt was refinanced with a five-year loan on February 20, 2013. Please see the section "Significant events after the reporting date" on page 40 for further details.

Furthermore, the interest rate for the term debt of 4.54 % includes the 100 basis points margin step-up for the GRF term debt of € 2.072 billion from 3.32 % to 4.32 %, which had been agreed in the original loan documentation and which took effect on October 19, 2012, as expected. This margin step-up does not impact FFO or the Statement of Comprehensive Income, as the interest rate in the IFRS accounts uses a blended rate of 3.49 % that had already included the anticipated margin step-up in order to evenly account for the step-up across the lifetime of the term loan.

NET ASSETS

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

€ million

	12-31-2012	12-31-2011
Non-current assets	7,804.5	8,017.7
Current assets	275.8	327.0
Assets held for sale	31.0	21.7
Total assets	**8,111.3**	**8,366.4**
Equity	2,100.4	2,136.9
Non-current liabilities	2,454.4	5,577.2
Current liabilities	3,556.5	652.3
Total equity and liabilities	**8,111.3**	**8,366.4**

Non-current assets of € 7,804.5 million include investment property of € 7,741.5 million (99.2 % of all non-current assets) and € 41.0 million (0.5 %) property, plant and equipment. Non-current assets make up 96.2 % of total assets. The valuation of our investment property was done by CBRE, an independent third-party appraiser.

Current assets of € 275.8 million include bank balances and cash on hand of € 176.0 million (63.8 % of all current assets), inventories of € 15.2 million (5.5 %) and other assets of € 39.9 million (14.5 %).

Non-current liabilities of € 2,454.4 million comprise € 1,880.7 million (76.6 % of all non-current liabilities) financial liabilities, € 304.9 million (12.4 %) deferred taxes, € 103.4 million (4.2 %) pension provisions and € 165.4 million (6.7 %) other non-current liabilities.

Current liabilities of € 3,556.5 million mainly include financial liabilities of € 3,350.4 million (94.2 %). The increase over December 31, 2011, is the result of reclassifying the term loans for the GRF and WOBA portfolios from non-current to current liabilities.

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 2012.

SIGNIFICANT EVENTS AFTER THE REPORTING DATE

RESIGNATION OF ROBERT I. KAUFFMAN AS DIRECTOR OF THE COMPANY AND APPOINTMENT OF JONATHAN ASHLEY AS NEW MEMBER AND CHAIRMAN OF THE BOARD OF DIRECTORS

On January 04, 2013, Robert I. Kauffman informed the Company that he would resign as Member and Chairman of the Board of Directors with effect as of January 15, 2013. Mr. Kauffman's resignation occurred in the context of his retirement from Fortress Investment Group LLC, the indirect majority shareholder of GAGFAH S. A. In its meeting on January 15, 2013, the Board of Directors co-opted Jonathan Ashley as new Member and Chairman to the Board of Directors with immediate effect.

GBH LOAN EXTENDED

On April 20, 2012, GBH Acquisition GmbH, a subsidiary within the GAGFAH GROUP, had signed a credit agreement with its creditor for extending the € 266.5 million loan by one year with the option to extend it by another year if certain requirements, including a sales plan for amortizing the loan, were met. GAGFAH had met all requirements ahead of time, and, as a consequence, executed the extension option so that this loan with a nominal value of € 221.0 million as of December 31, 2012, will now expire in April 2014.

NEW WOBA FINANCING

On February 20, 2013, GAGFAH closed the financing of € 1.06 billion of new debt arranged by Bank of America Merrill Lynch. The new loan was used to repay the original debt facility which was due to mature on May 15, 2013. This transaction was one of the largest financings in the German real estate sector in recent years. The new term debt has a five year maturity and an annual amortization rate of 1.0 %. The coupon of 3.85 % is 48 basis points lower than for the prior facility.

GRF CLOSE TO BEING REFINANCED

The GRF term loan with a nominal value of approximately € 2.072 billion as of December 31, 2012, is scheduled to mature on August 15, 2013. With a view towards refinancing this loan, GAGFAH has created six pools with similar profiles and is in advanced negotiations with insurance companies, mortgage bond banks as well as German and international investors for refinancing the loan. As of mid March, GAGFAH has signed term sheets for five of the six pools. For the sixth pool GAGFAH intends to raise slightly more than € 700 million via a securitized loan (commercial mortgage-backed security). Due to the nature of this planned transaction, no term sheet has been signed for this refinancing tranche, but based on the assessment by the leading investment bank and the demand for German residential assets in general, we believe it is highly probable that this transaction will be completed successfully. For more information on the individual pools, please see section H. Other Notes "Events after the balance sheet date."

NEW MEMBER OF THE BOARD OF DIRECTORS AND CEO

Thomas Zinnöcker has been appointed as member of the Board of Directors of GAGFAH S. A. and CEO of the GAGFAH GROUP, effective as of April 16, 2013. Stephen Charlton has resigned effective as of the same date and will continue to support the Company during the transition phase.

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 to, 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 the following committees: Audit Committee, Compensation Committee and Securities Dealings Committee. The composition and purpose of these committees is described in the section "Management of GAGFAH S.A.".

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

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 "Financial Position" and "Net Assets".

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 "Number of Shares and Share Capital".

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 subject 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 of Shareholders 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 Extraordinary General Meeting of Shareholders further resolved to reduce the issued share capital of the Company by a maximum amount of €69,250,000 by the repurchase and cancellation of a maximum of 55,400,000 shares from existing shareholders during a period ending on March 31, 2013, 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 June 12, 2012, the General Meeting inter alia resolved to extend the authorization of the Company, acting through its Board of Directors, to purchase, acquire, receive or

hold shares in the Company up to 25 % of the issued share capital as at June 12, 2012, such authorization being for a period of five years from June 12, 2012.

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.

OPPORTUNITY AND RISK REPORT

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

OUTLOOK

GAGFAH is off to a good start into 2013. The WOBA term loan was successfully refinanced on February 20, 2013, and the negotiations on refinancing GRF are well advanced. Term sheets have been signed for pools one to five. For pool six, GAGFAH intends to issue a commercial mortgage-backed security, and based on the assessment from the leading investment bank and the generally strong demand for German residential properties, we are confident that this part of the transaction will also be completed successfully.

Completing the two large refinancings during the first half of 2013 should allow GAGFAH to refocus on its core business, which is the management, acquisition and sale of residential assets in Germany. Towards that end, Thomas Zinnöcker has been appointed as member of the Board of Directors of GAGFAH S. A. and CEO of the GAGFAH GROUP, effective as of April 16, 2013. He will succeed Stephen Charlton who tendered his resignation as a member of the board of directors of the Company with effect on April 16, 2013. Stephen Charlton will remain in office until April 16, 2013 and will continue to support the Company during the transition phase. Mr. Zinnöcker's professional background, experience, and reputation in the residential sector should have a positive impact on the perception and performance of GAGFAH. With the main challenges resolved or well underway to being resolved, we look forward with optimism, and we are confident in our ability to narrow the discount of the price of our shares to their NAV and to increase shareholder value.

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 21, 2013
The Board of Directors of GAGFAH S. A.

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CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

-- AS OF DECEMBER 31, 2012 --

ASSETS

€ million

	Notes	12-31-2012	12-31-2011
Non-current assets			
Intangible assets	E.1.	17.7	18.8
Investment property	E.2.	7,741.5	7,953.3
Property, plant and equipment	E.3.	41.0	41.6
Other financial assets	E.4.	4.3	4.0
		7,804.5	8,017.7
Current assets			
Inventories	E.5.	15.2	21.8
Receivables	E.6.	29.7	37.6
Other assets	E.7.	39.9	59.4
Current tax claims	E.8.	15.0	8.1
Bank balances and cash on hand	E.9.	176.0	200.1
		275.8	327.0
Assets held for sale	E.10.	31.0	21.7
Total assets		8,111.3	8,366.4

EQUITY AND LIABILITIES

€ million

	Notes	12-31-2012	12-31-2011
Equity	E.11.		
Subscribed capital		258.1	277.0
Share premium		985.8	1,042.4
Legal reserve		28.2	28.2
Revenue reserves		797.7	755.5
Equity attributable to the shareholders of the parent company		2,069.8	2,103.1
Non-controlling interests		30.6	33.8
Total equity		2,100.4	2,136.9
Liabilities			
Non-current liabilities			
Liabilities due to non-controlling shareholders	E.12.	4.3	4.5
Pension provisions	E.13.1.	103.4	103.4
Other provisions	E.13.2.	8.7	10.6
Deferred tax liabilities	E.14.	304.9	273.3
Liabilities from income tax	E.15.	54.2	66.5
Financial liabilities	E.16.1.	1,880.7	5,006.4
Other liabilities	E.16.2.	30.7	35.0
Deferred liabilities of government-granted loans		67.5	77.5
		2,454.4	5,577.2
Current liabilities			
Pension provisions	E.13.1.	7.3	7.0
Other provisions	E.13.2.	36.3	55.6
Liabilities from income tax	E.15.	36.6	52.1
Financial liabilities	E.16.1.	3,350.4	421.5
Other liabilities	E.16.2.	122.5	111.8
Deferred liabilities of government-granted loans		3.4	4.3
		3,556.5	652.3
Total liabilities		6,010.9	6,229.5
Total equity and liabilities		8,111.3	8,366.4

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

-- FOR THE PERIOD FROM JANUARY 1 TO DECEMBER 31, 2012 --

€ million

	Notes	2012	2011
Income from the leasing of investment property	F.1.	825.9	872.2
Transferable leasehold land interest		– 2.0	– 2.0
Operating expenses for the generation of rental income (excluding share-based remuneration)	F.2.	– 438.4	– 450.6
Profit from the leasing of investment property		**385.5**	**419.6**
Income from the sale of investment property and assets held for sale	E.10.	213.1	388.8
Carrying amount of the sold investment property and assets held for sale		– 194.9	– 366.8
Profit from the sale of investment property and assets held for sale		**18.2**	**22.0**
Result from the fair value measurement of investment property	F.3.	**– 13.4**	**– 41.9**
Income from the sale of property development projects		4.8	2.2
Carrying amount of property development projects sold		– 3.5	– 1.8
Profit from the sale of property development projects		**1.3**	**0.4**
Result from other services	F.4.	2.3	3.7
Selling expenses (excluding share-based remuneration)	F.5.	– 13.8	– 17.5
General and administrative expenses (excluding share-based remuneration)	F.6.	– 35.1	– 35.0
Expenses for share-based remuneration	F.7.	– 1.2	– 3.8
Other operating income	F.8.	11.8	34.3
Other operating expenses	F.9.	– 16.0	– 60.2
Profit from operations before reorganization and restructuring expenses		**339.6**	**321.6**
Reorganization and restructuring expenses	F.10.	– 4.5	– 14.6
Profit from operations		**335.1**	**307.0**
Result from other financial assets		0.0	– 0.1
Earnings before interest and taxes (EBIT)		**335.1**	**306.9**
Interest expenses	F.11.	– 249.5	– 293.3
Interest income		1.7	2.4
Other financial expenses		– 0.1	– 0.1
Result from the fair value measurement of derivatives	H.2.	2.1	6.0
Interest expenses (refinancing)	F.12.	– 3.9	– 1.3
Net financing expenses		**– 249.7**	**– 286.3**
Earnings before taxes (EBT)		**85.4**	**20.6**
Income taxes	F.13.	– 37.7	– 38.5
Net result		**47.7**	**– 17.9**
Other comprehensive income (recyclable):			
Net movement on cash flow hedges		– 1.1	0.0
Income tax effect		0.4	0.0
Other comprehensive income, net of tax		**– 0.7**	**0.0**
Total comprehensive income, net of tax		**47.0**	**– 17.9**
Net result attributable to:			
Non-controlling interests	F.14.	**4.5**	**– 1.5**
Shareholders of the parent company		**43.2**	**– 16.4**
Total comprehensive income, net of tax, attributable to:			
Non-controlling interests	F.14.	**4.5**	**– 1.5**
Shareholders of the parent company		**42.5**	**– 16.4**
Weighted average number of shares, undiluted (in million)		199.2	218.8
Weighted average number of shares, diluted (in million)		200.9	221.1
Earnings per share (in €)	F.15.	0.22	– 0.07
Diluted earnings per share (in €)	F.15.	0.22	– 0.07

CONSOLIDATED STATEMENT OF CASH FLOWS[1]

-- FOR THE PERIOD FROM JANUARY 1 TO DECEMBER 31, 2012 --

€ million

	Notes	2012	2011
Net result		47.7	– 17.9
Change in deferred taxes	E.14. / F.13.	32.0	21.2
Result from the fair value measurement of investment property	F.3.	13.4	41.9
Amortization, depreciation and impairment losses on intangible assets and property, plant and equipment		4.3	5.5
Profit from the sale of investment property and assets held for sale		– 18.2	– 22.0
Profit from the deconsolidation of subsidiaries	B1. / F.8.	0.0	– 22.2
Other non-cash expenses (+) / income (–)		26.4	42.5
Change in provisions, pension provisions and deferred liabilities of government-granted loans		– 33.0	– 13.5
Change in inventories		5.0	1.1
Change in receivables and other assets		24.2	– 0.3
Change in other liabilities		– 36.5	13.2
Cash flows from operating activities[2]		**65.3**	**49.5**
Cash received from the sale of investment property and assets held for sale		215.4	235.9
Cash paid for investment property - acquisition and modernization	E.2.	– 4.1	– 0.9
Cash paid for investments in intangible assets, property, plant and equipment and financial assets		– 1.6	– 2.3
Cash received from disposals of property, plant and equipment		0.0	0.1
Cash paid for the acquisition of non-controlling shares in subsidiaries		– 0.1	0.0
Cash received from the loss of control of a subsidiary, net of cash disposed	B.1.	0.0	38.1
Cash flows from investing activities		**209.6**	**270.9**
Cash received from equity contributions		0.0	4.8
Dividends paid to stockholders of GAGFAH S. A.	E.11.	0.0	– 22.3
Cash paid for share buy-back	E.11.	– 75.3	– 107.4
Cash paid to non-controlling shareholders / interests		– 7.8	– 26.8
Cash paid for liabilities to non-controlling shareholders / interests		– 0.3	0.0
Cash received from raising financial liabilities		141.2	20.5
Cash repayments of financial liabilities	E.16.1.	– 352.4	– 364.6
Transaction costs paid for refinancing		– 2.8	0.0
Interest and other cost paid for refinancing		– 1.6	0.0
Cash flows from financing activities		**– 299.0**	**– 495.8**
Change in cash and cash equivalents		**– 24.1**	**– 175.4**
Bank balances and cash on hand at the beginning of the year		200.1	375.5
Bank balances and cash on hand as of the reporting date		**176.0**	**200.1**

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 € 47.1 million (prior year: € 25.0 million), interest paid of € 224.0 million (prior year: € 249.9 million) and interest received of € 1.5 million (prior year: € 2.2 million).

STATEMENT OF CHANGES IN CONSOLIDATED EQUITY[1]

-- FOR THE PERIOD FROM JANUARY 1 TO DECEMBER 31, 2012 --

€ million

				Revenue reserves					
	Subscribed capital	Share premium	Legal reserve	Unrealized losses/gains from derivative financial instruments	Treasury shares	Retained earnings	**Equity attributable to the shareholders of the parent company**	Non-controlling interests	**Total equity**
January 1, 2012	**277.0**	**1,042.4**	**28.2**	**0.0**	**– 75.0**	**830.5**	**2,103.1**	**33.8**	**2,136.9**
Total comprehensive income	0.0	0.0	0.0	– 0.7	0.0	43.2	**42.5**	4.5	**47.0**
Share-based remuneration	0.0	– 0.5	0.0	0.0	0.0	0.0	**– 0.5**	0.0	**– 0.5**
Change in shareholdings and the Consolidated Group	0.0	0.0	0.0	0.0	0.0	– 0.1	**– 0.1**	0.1	**0.0**
Dividends	0.0	0.0	0.0	0.0	0.0	0.0	**0.0**	– 7.8	**– 7.8**
Share Buy-back and cancellation of shares	– 18.9	– 56.1	0.0	0.0	– 0.2	0.0	**– 75.2**	0.0	**– 75.2**
December 31, 2012	**258.1**	**985.8**	**28.2**	**– 0.7**	**– 75.2**	**873.6**	**2,069.8**	**30.6**	**2,100.4**

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, 2011 --

€ million

				Revenue reserves					
	Subscribed capital	Share premium	Legal reserve	Unrealized gains/ losses from derivative financial instruments	Treasury shares	Retained earnings	**Equity attributable to the shareholders of the parent company**	Non-controlling interests	**Total equity**
January 1, 2011	**282.5**	**1,179.2**	**28.2**	**0.0**	**– 5.8**	**756.7**	**2,240.8**	**61.9**	**2,302.7**
Total comprehensive income	0.0	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	0.0	**8.6**	0.0	**8.6**
Change in shareholdings and the Consolidated Group	0.0	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	0.0	90.4	**– 22.3**	– 26.8	**– 49.1**
Share Buy-back and cancellation of shares	– 7.1	– 31.1	0.0	0.0	– 69.2	0.0	**– 107.4**	0.0	**– 107.4**
December 31, 2011	**277.0**	**1,042.4**	**28.2**	**0.0**	**– 75.0**	**830.5**	**2,103.1**	**33.8**	**2,136.9**

1 For further information, please refer to section E.11. “Equity”.

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NOTES

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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 over 145,000 apartments and 7,000 other units like garages (counted with a factor of 1 / 6) and commercial units throughout Germany. Additionally, the Group managed 15,000 units owned by third parties. As of the balance sheet date, the Group managed a total of more than 167,000 units. An additional 25,000 units of third parties are managed within the Group’s facility management services. 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, 2012.

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, 2012, were formally approved by the Board of Directors on March 21, 2013, and will be presented to the Annual General Meeting of Shareholders for approval on June 12, 2013.

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 the GAGFAH GROUP.

On June 16, 2011, the International Accounting Standards Board (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. Furthermore, the amendments to IAS 1 revise the way other comprehensive income is presented: requiring separate subtotals for those elements which may be “recycled”, and those elements that will not. The taxes associated with items presented before tax have to be shown separately for each of the two groups of OCI items. The effective date of the amendments is for annual periods beginning on or after July 1, 2012. GAGFAH GROUP has chosen to apply these amendments voluntarily earlier: From June 30, 2012, onwards, the net valuation movements on hedging instruments and the respective income tax effects have been recognized in OCI.

Amendments to IFRS 7 Financial Instruments: Disclosures – Transfer of financial assets 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 disclosures only and has no impact on the GAGFAH GROUP’s financial position or performance.

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 IAS 12 Income taxes: Deferred tax: Recovery of Underlying Assets (issued on December 20, 2010; endorsed on December 11, 2012)
- Amendments to IAS 19 Employee Benefits (issued on June 16, 2011; endorsed on June 5, 2012)
- IFRS 9 Financial Instruments (replacement of IAS 39) and subsequent amendments (amendments to IFRS 9 and IFRS 7) (issued on November 12, 2009 resp. December 16, 2011; endorsement postponed)
- IFRS 10 Consolidated Financial Statements (replacement of IAS 27) (issued on May 12, 2011; endorsed on December 11, 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; endorsed on December 11, 2012)

- IFRS 12 Disclosure of Involvement with Other Entities (issued on May 12, 2011; endorsed on December 11, 2012)
- IFRS 13 Fair Value Measurement (issued on May 12, 2011; endorsed on December 11, 2012)
- IAS 27 Separate Financial Statements (issued on May 12, 2011; endorsed on December 11, 2012)
- IAS 28 Investments in Associates and Joint Ventures (issued on May 12, 2011; endorsed on December 11, 2012)
- Amendments to IFRS 7 Financial Instruments: Disclosures – Offsetting Financial Assets and Financial Liabilities (issued on December 16, 2011; endorsed on December 13, 2012)
- Amendments to IAS 32 Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities (issued on December 16, 2011; endorsed on December 13, 2012)
- Improvements to IFRSs 2009 – 2011 (issued on May 17, 2012; endorsement expected in Q1 2013)
- Transition Guidance (Amendments to IFRS 10, IFRS 11 and IFRS 12) (issued on June 28, 2012; endorsement expected in Q1 2013)
- Investment Entities (Amendments to IFRS 10, IFRS 12 and IAS 27) (issued on October 31, 2012; endorsement expected in Q3 2013)

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 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 have to 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 but dispensed by GAGFAH. The revised standard will have to be applied retrospectively in accordance with IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors. Thus, on January 1, 2013, an adjustment of pension provisions to the present value of the defined benefit obligation minus any plan assets will have to be made. Unless companies in the past have used the so-called “corridor method” and therefore have not yet recognized actuarial losses, these accumulated losses will increase pension provisions and reduce the retained earnings and thus equity (or vice versa on actuarial gains).

As of December 31, 2012, GAGFAH’s (net) pension provisions under current IAS 19 do not include actuarial losses of €16.1 million. In the course of the retrospective application of IAS 19 (revised 2011), (net) pension provisions increase by this amount from €110.7 million to €126.8 million. As of the beginning of the comparative period, on January 1, 2012, GAGFAH’s (net) pension provisions under current

IAS 19 did not include actuarial gains of € 1.9 million. In the course of the retrospective application of IAS 19 (revised 2011), (net) pension provisions decrease by this amount from € 110.4 million to € 108.5 million.

Furthermore, the calculation of net interest expense / income will replace the current IAS 19 concepts of expected return on plan assets and interest expense on the defined benefit obligation that were previously recognised in profit or loss. In future, net interest expense / income will be the product of the net balance sheet pension liability or asset and the discount rate used to measure the employee benefit obligation. In cases where the expected return was greater than the discount rate used for the employee benefit obligation, this change will result in a decrease in profit or loss (ignoring other changes in IAS 19R). GAGFAH assumes that this will not have a material impact.

Entities will also be required to restate the impact of disposals of subsidiaries during the comparative period. However, GAGFAH is not affected by this requirement because the sold net assets of GAGFAH Acquisition 3 GmbH and GAGFAH Pegasus GmbH did not include pension provisions.

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 and have not yet been completed.

The standard was initially effective for annual periods beginning on or after January 1, 2013, but Amendments to IFRS 9 Mandatory Effective Date of IFRS 9 and Transition Disclosures, issued in December 2011, moved the mandatory effective date to January 1, 2015. Earlier application is permitted.

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

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 of 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 IFRSs, 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 doesn't 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 Amendments to IFRS 7 Financial Instruments: Disclosures – Offsetting Financial Assets and Financial Liabilities. 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 of 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.

On May 17, 2012, the IASB issued Improvements to IFRSs 2009 – 2011, a collection of amendments to IFRSs, in response to issues addressed during the 2009 – 2011 cycle. The following five standards are primarily affected by six amendments, with consequential amendments to other standards:

- IFRS 1 First-time Adoption of International Financial Reporting Standards
- IAS 1 Presentation of Financial Statements
- IAS 16 Property, Plant and Equipment
- IAS 32 Financial Instruments: Presentation
- IAS 34 Interim Financial Reporting

The amendments are effective for annual periods beginning on or after January 1, 2013. In the EU, however, the standard will most likely not become effective for annual periods beginning on or after January 1, 2014.

On June 28, 2012, the IASB issued Amendments to IFRS 10 Consolidated Financial Statements, IFRS 11 Joint Arrangements and IFRS 12 Disclosure of Interests in Other Entities. The amendments clarify the transition guidance in IFRS 10 Consolidated Financial Statements. The amendments also provide additional transition relief in IFRS 10 Consolidated Financial Statements, IFRS 11 Joint Arrangements and IFRS 12 Disclosure of Interests in Other Entities, limiting the requirement to provide adjusted comparative information to only the preceding comparative period. Furthermore, for disclosures related to unconsolidated structured entities, the amendments will remove the requirement to present comparative information for periods before IFRS 12 is first applied. The amendments are effective for annual periods beginning on or after January 1, 2013.

On October 31, 2012, the IASB issued Investment Entities (Amendments to IFRS 10, IFRS 12 and IAS 27). These amendments include the creation of a definition of an investment entity, the requirement that such entities measure investments in subsidiaries at fair value through profit or loss instead of consolidating them, new disclosure requirements for investment entities and requirements for an investment entity's separate financial statements. The amendments are effective for annual periods beginning on or after January 1, 2014.

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, 65 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. 79 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, 2011	**80**
Formations	1
Sales	– 2
As of December 31, 2011 / January 1, 2012	**79**
Formations	7
As of December 31, 2012	**86**

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 2012

FORMATIONS With the purpose of taking over assets and liabilities of GAGFAH I Invest GmbH & Co. KG and GAGFAH A Asset GmbH & Co. KG in the course of the refinancing of GAGFAH subgroup, the following seven group companies were founded on December 21, 2012:

- GAGFAH Erste Wohnen GmbH & Co. KG
- GAGFAH Zweite Wohnen GmbH & Co. KG
- GAGFAH Dritte Wohnen GmbH & Co. KG
- GAGFAH Vierte Wohnen GmbH & Co. KG
- GAGFAH Fünfte Wohnen GmbH & Co. KG
- GAGFAH Sechste Wohnen GmbH & Co. KG
- GAGFAH Siebte Wohnen GmbH & Co. KG

The corporate purpose of these companies is the management of residential and other buildings. As of the balance sheet date, the entry into the commercial register is still being processed. We refer to Exhibit (1) “List of Shareholdings”.

For further information on the refinancing, we refer to sections E.16.1. “Financial Liabilities”, subsection “Refinancing”, and H.8. “Events after the Balance Sheet Date”.

(INTERCOMPANY) SALES Again, in the course of the refinancing of GAGFAH subgroup, on December 21, 2012, GAGFAH M Immobilien-Management GmbH divided its share of capital in GAGFAH B Beteiligungs GmbH in the notional amount of € 24,900.00 (99.60 %) into two shares in the nominal amount of € 12,750.00 (51.00 %) and € 12,150.00 (48.60 %) and sold the 51.00 % share to KALIRA Grundstücksgesellschaft mbH & Co. KG.

CHANGES IN THE CONSOLIDATED GROUP IN 2011

FORMATIONS 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 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 the 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 the 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).

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 operating 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 "Result from the 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, eighth edition (Red Book), published by the Royal Institution of Chartered Surveyors in March 2012. As in prior years, a discounted cash flow model was used to determine the investment properties' fair value which equals their net capital value (i. e. capital value less assumed purchaser's costs).

The valuation as at December 31, 2012, 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 (eighth edition), published by the Royal Institution of Chartered Surveyors (RICS), London:

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

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 0.3 % (prior year: 0.4 %) of the entire carrying amount of all investment properties) have been fair valued in accordance with valuation models other than the DCF model (e. g. liquidation method, adjusted DCF-model for demolition properties).

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

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

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

DEMOLITION PROPERTIES The demolition program is almost entirely completed. Only remaining stocks of real estate will be dismantled in the coming year.

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:

	12-31-2012			
Parameters (Residential units)	min	max	Basic rate	Weighted average 10-year period
Market rent growth	0.00 %	1.65 %		0.93 %
Structural vacancy[1]	0.50 %	7.00 %[2]		3.93 %
Repairs and maintenance	€ 6.50 / sqm	€ 12.00 / sqm		€ 8.72 / sqm
Tenant improvements[3]	€ 30.00 / sqm	€ 80.00 / sqm	€ 70.00 / sqm	€ 6.52 / sqm
Management costs	€ 180.00 / unit	€ 255.00 / unit		€ 219.00 / unit
Non-transferable costs			€ 1.00 / sqm	
Indexation of costs (10-year period)			1.62 %	

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

2 Depending on supply and demand of housing units in the location, general structural vacancy rates were assumed as a function of 0.5 % to 20.0 %. After segment-specific adjustments, the applied range was up to 7 % for residential area.

3 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.

	12-31-2011			
Parameters (Residential units)	**min**	**max**	**Basic rate**	**Weighted average 10-year period**
Market rent growth	0.00 %	1.65 %		0.93 %
Structural vacancy	0.50 %	7.00 %		4.02 %
Repairs and maintenance	€ 6.50 / sqm	€ 12.00 / sqm		€ 8.84 / sqm
Tenant improvements	€ 30.00 / sqm	€ 80.00 / sqm	€ 70.00 / sqm	€ 6.56 / 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 %	

Depending on the prevailing market rent and the asset-specific rent adjustment options, the current in-place rent is forecast to reach the market level over time and grow in line with the market rent thereafter. The market rent grows at a property-by-property level, reflecting the regional basis with adjustments for the quality of situation and building condition. The net in-place rent is calculated by subtracting vacancy losses as well as rent reductions (see section E.2. “Investment Property”, table “Total 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 re-letting of zero up to six months depending on the individual property risk.

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

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

Within the period under detailed review, all cost positions are indexed to a yearly increase of 1.62 % (prior year: 1.60 %) (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 5.99 % (prior year: 5.94 %).

PARAMETERS (PROPERTY AVERAGE)
%

	12-31-2012	12-31-2011
Discount rate	**5.99**	5.94
Capitalization rate	**5.36**	5.33

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 statutory rules, safeguard the relevant parts of the portfolio. It must be noted that the welfare conditions only relate to certain - though significant - parts of the overall residential property portfolio of the GAGFAH GROUP and vary with the different parts of the overall portfolio. Welfare conditions include, in particular, the following obligations.

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

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

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

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

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

4. PROPERTY, PLANT AND EQUIPMENT

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

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

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

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

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
years

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

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 costs 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.

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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 in order to ascertain whether there are any indications of impairment of these assets. If there are indications of such, the recoverable amount of the asset (or cash-generating unit) is estimated (IAS 36.9). For a more detailed information on the impairment testing of goodwill, see C.1. “Intangible Assets”.

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

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

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

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6. FINANCIAL INSTRUMENTS

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

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

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

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

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

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

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

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

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 interest rate risks. Such derivative financial instruments are initially recognized at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative.

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

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

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

At present, GAGFAH GROUP makes only use of cash flow hedges in the form of interest rate swaps to hedge the interest rate risk arising from variable-interest loans. These interest rate swaps are accounted for as described below: The effective portion of the gain or loss on the cash flow hedging instrument is recognized directly in other comprehensive income in the cash flow hedge reserve, while any ineffective portion is recognized immediately in the income statement as other operating expenses.

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

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

Derivative instruments that are not designated as effective hedging instruments are classified as current or non-current or separated into current and non-current portions based on an assessment of the facts and circumstances (i. e., the underlying contracted cash flows):

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

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.

GAGFAH GROUP currently distinguishes between the following two categories of assets held for sale:
- "Condo sales program": Sale of individual apartments (single-unit sale) and of small multi-family homes to tenants or retail investors. Due to its current nature, only the

condo sales program is shown as its own segment in the Group Segment Report.
- "Block sales": Sale of a larger number of units to institutional buyers. Among the reasons to sell properties by way of a block sale are location-related reasons, high vacancy levels, significant capex requirements, financing-related reasons or the fact that we believe an asset has reached its maturity and is fully valued. Block sales also include the sale of the HB Funds assets that was initiated in 2010. Out of a total of initially 7,130 units, 6,786 have already been sold as of December 31, 2012 (unchanged to the prior year). As in the prior year, the remaining 344 units are held in two different HB Funds, thereof 28 within assets held for sale.

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.

According to IAS 39.55(d), the effective portion of the gains or losses on cash flow hedges and the respective income tax effect are recognized in other comprehensive income.

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 "Zusatzversorgungskasse des Kommunalen Versorgungsverbandes 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 ZVB-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 (e. g. derivative financial instruments) is recognized in equity and not in the Statement of Comprehensive Income.

Deferred tax assets and deferred tax liabilities are offset against each other when the Group has an 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 property are recognized when:

- the entity has transferred to the buyer the significant risks and rewards of ownership of the property;
- no rights of disposal or control over the sold items remain with GAGFAH 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 vested on December 31, 2010; another 50 % vested on December 31, 2011. Vesting condition is the beneficiaries' continued service or employment with GAGFAH GROUP on the respective vesting dates. The exercise period ends on December 31, 2015.

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

In 2012, no new stock option plan was established.

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 are entitled to a cash-settled remuneration plan based on a standardized additional agreement. The stock options are granted over a period of two or 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.

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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.

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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 inherent 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 evoked by certain member states of the European Union as a consequence of the financial and real economy market crisis in the preceding years. This uncertainty has affected the European real estate market, though the German residential real estate market proved to be comparably stable over the last years. Still, under these circumstances, the fair values of assets may be subject to a heightened volatility.

INVESTMENT PROPERTY GAGFAH GROUP carries its investment properties at fair value, with changes in fair value being recognized in profit or loss. The assessment of the real estate portfolio is provided by CBRE, an independent external appraiser. For the investment property, CBRE used a valuation methodology based on a DCF model. The determined fair value of the investment property is most sensitive to the estimated yield as well as the long-term vacancy rate. The key assumptions used to determine the fair value of 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. 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 5.99 % (prior year: 5.94 %). 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 € 152.9 million (prior year: € 158.0 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 3.60 %, compared to 4.90 % as of December 31, 2011. Reference is made to section E.13.1. “Pension Provisions”.

Jubilee commitments are discounted at a rate of 3.60 % (prior year: 4.90 %). Provisions for phased retirement are discounted at a rate of 3.60 % (prior year: 4.90 %).

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 prior year, 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 course of the complete integration of Wohnungsbauförderungsanstalt Nordrhein-Westfalen (WfA) into NRW.BANK some legislative amendments were made. In the financial year 2012, these legislative amendments have been included in the course of the estimation of future payment of interest or principal.

The main change concerns the development of the interest rate, that is now calculated depending on the development of the corresponding rent. Furthermore, the option of the parliament is set as confirmed. For the valuation in the financial year 2012, Senior Management assumed that all rent adjustments and therefore all interest rate adjustments will be done on the maximum level.

The updated assessment required a recalculation of the loans leading to a positive effect of € 6.5 million. In accordance with IAS 8.36 (f) in conjunction with IAS 39.AG 8 this positive effect was recorded immediately in current earnings for the financial year 2012. Please refer to section F.11. “Interest Expenses”.

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" 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, 2012, and 2011 on the following two pages.

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.

The segment revenues of the real estate sales segment only comprise the total income from the sale of individual apartments (single-unit sale) and of small multi-family homes to tenants or retail investors ("condo sales program").

Income and expenses concerning the block sales (including the sale of HB Funds assets) 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.

Prior-year 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.

GROUP SEGMENT REPORT

-- FOR THE PERIOD FROM JANUARY 1 TO DECEMBER 31, 2012 --

€ million

	Real estate management	Real estate sales	Total segments	Other	Total Group	Notes
Segment revenues	835.1	156.9	992.0	68.1[1]	1,060.1	
Segment EBITDA	354.2	7.9	362.1	– 18.3[2]	343.8	
Reorganization and restructuring expenses	– 1.3	0.0	– 1.3	– 3.2	– 4.5	F.10.
Depreciation/amortization	– 2.5	0.0	– 2.5	– 1.7	– 4.2	
Earnings before interest and taxes (EBIT)	350.4	7.9	358.3	– 23.2	335.1	
Interest expenses	– 236.7	– 3.0	– 239.7	– 9.8	– 249.5	F.11.
Interest expenses (refinancing)	– 3.9	0.0	– 3.9	0.0	– 3.9	F.12.
Result from the fair value measurement of derivatives	0.0	0.0	0.0	2.1	2.1	H.2.
Other financial expenses	0.0	0.0	0.0	– 0.1	– 0.1	
Interest income	0.9	0.0	0.9	0.8	1.7	
Earnings before taxes (EBT)	110.7	4.9	115.6	– 30.2	85.4	
Income taxes	0.0	0.0	0.0	– 37.7	– 37.7	F.13.
Net result	110.7	4.9	115.6	– 67.9	47.7	
Segment investments	4.1	0.0	4.1	1.6	5.7	
Significant non-cash expenses (–)/income (+)	– 17.7[3]	– 2.0[4]	– 19.7	– 1.9[5]	– 21.6	

1 This item includes the income from block sales (€ 56.2 million), income from the amortization of deferred liabilities of government-granted loans (€ 7.1 million) and income from the sale of property development projects (€ 4.8 million).

2 This item mainly includes the result from the fair value measurement of investment property (€ – 13.4 million) (see section F.3.), the EBITDA contribution of the large multi-family home sales program, portfolio adjustments and the HB Funds assets sales (€ – 5.0 million), adjustments in connection with HB Funds (€ – 1.9 million), the EBT attributable to the property development business (€ – 2.0 million), income from the amortization of deferred liabilities of government-granted loans (€ 7.1 million) (see section F.1.) and income from the reversal of provisions recorded in other operating income (€ 7.2 million) (see section F.8.), thereof € 1.7 million due to the settlement of the lawsuit with the City of Dresden.

3 Significant non-cash expenses of real estate management mainly contain additions to provisions concerning real estate management (€ – 7.0 million) and bad debt allowances (rent receivables) (€ – 7.4 million) (see section F.2.).

4 Significant non-cash expenses of real estate sales mainly contain additions to sales provisions (€ – 1.5 million).

5 Other significant non-cash expenses/income mainly consist of the result from the fair value measurement of investment property (€ – 13.4 million), the result from the fair value measurement of derivatives (€ 2.1 million) (see section H.2.), income from the amortization of deferred liabilities of government-granted loans (€ 7.1 million), the present value of loans carried at amortized cost (€ – 6.8 million), income from the revaluation of financial liabilities (€ 6.5 million), income from the reversal of provisions/liabilities (€ 11.4 million) and additions to other provisions (€ – 8.7 million).

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.
Result 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 result	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 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 result 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 assets 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 lawsuit (€ – 44.9 million) (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.AG8 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 result from the fair value measurement of investment property (€ – 41.9 million) (see section F.3.), the result 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 the prepayment fees of the sold subsidiaries (€ – 20.3 million) (see section F.11.) and an amount in connection with the WOBA lawsuit (€ – 37.8 million) (see section F.9.).

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 in the financial year 2011, 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 included 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. In the course of the financial year 2012, several properties of this CGU have been subject to sales. Therefore, the goodwill is remeasured on the basis of the relative values of the properties disposed. As a result of this remeasurement, the goodwill was reduced by € 1.2 million; the effect was recognized in other operating expenses. The remaining part of the 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 5.13 % (prior year: 5.75 %). 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 0.81 (prior year: 0.90) and a risk-free interest rate of 3.59 % (prior year: 3.91 %).

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 2013 and are modeled for the period 2014 through 2022 (prior year: budget values for 2012; modeled for the period 2013 through 2021). For the first five years, a detailed calculation is made. After this period, the future cash flows are extrapolated.

The key drivers of rent growth (1.76 % per annum; prior year: 1.69 % per annum) and vacancy loss (4.45 % per annum; prior year: 5.17 % per annum) are based on the 2013 budget (prior year: 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 % (prior year: 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 € 0.6 million (prior year: € 0.5 million). The slight increase compared to the prior year is mainly due to the capitalization of software licenses, partly compensated by scheduled depreciation.

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

All additions relate to intangible assets acquired separately.

2. INVESTMENT PROPERTY

For the annual accounts 2012, 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	2012	2011
As of January 1	**7,953.3**	8,493.3
Changes in the Consolidated Group	**0.0**	– 330.0
Additions	**4.1**	0.9
Disposals and reclassifications to assets held for sale	**– 201.5**	– 175.1
Reclassifications to / from property, plant and equipment and inventories	**– 1.0**	6.1
Changes in value	**– 13.4**	– 41.9
As of December 31	**7,741.5**	7,953.3

The changes in the Consolidated Group in the prior year relate to investment property of the former subsidiary GAGFAH Pegasus GmbH of € 330.0 million, which was deconsolidated as of November 30, 2011.

The total amount of additions of € 4.1 million (prior year: € 0.9 million) related to modernization programs. The increase compared to the prior year is due to substantial refurbishment measures resulting from the GBH credit agreement. We refer to sections E.16.1. “Financial Liabilities”, subsection “GBH subgroup refinancing in 2012”, and G. “Notes to the Consolidated Statement of Cash Flows”.

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:

	12-31-2012			
	Units [1]	**Rental area (sqm) [2]**	**Net cold rent annualized (€ million)**	**Fair value (€ million)**
Region Berlin / Dresden	64,271	3,772,879	220.2	3,329.4
Region North / South	88,005	5,415,445	357.5	4,412.1
Total	**152,276**	**9,188,324**	**577.7**	**7,741.5**

	12-31-2011			
	Units [1]	**Rental area (sqm) [2]**	**Net cold rent annualized (€ million)**	**Fair value (€ million)**
Region Berlin / Dresden	66,302	3,893,008	225.3	2,993.9
Region North / South	91,068	5,599,174	366.9	4,959.4
Total	**157,370**	**9,492,182**	**592.2**	**7,953.3**

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 only in Dresden and Berlin. The following table illustrates, inter alia, the geographic spread of our residential portfolio:

TOTAL PROPERTY PORTFOLIO AS OF DECEMBER 31, 2012

Top 20 Cities	Core residential units	Other units[1]	Total (sqm)	Net cold rent annualized (€ million, all usage types)[2]	Net cold rent of total (all usage types) %	Residential net cold rent per month and per sqm (€)	Residential market rent per month and per sqm (€)[3]	Residential vacancy rate (%)[4]	Net cold rent multiple (target rent)
Dresden	37,663	1,979	2,238,626	132.6	22.9	4.81	5.02	4.5	13.3
Berlin	15,438	568	956,618	59.5	10.2	5.03	5.25	2.5	13.7
Hamburg	9,213	649	607,758	42.4	7.3	5.64	6.69	0.9	15.8
Hanover	5,978	299	395,337	27.3	4.7	5.63	5.84	5.8	13.6
Heidenheim	4,655	600	297,683	20.2	3.5	5.47	5.50	12.1	12.2
Bielefeld	4,171	152	279,068	15.4	2.7	4.55	4.70	2.1	11.7
Osnabruck	3,486	137	219,863	14.0	2.4	5.22	5.41	2.6	13.6
Braunschweig	3,173	73	195,651	12.5	2.1	5.25	5.37	1.2	12.6
Zwickau	3,086	124	178,189	8.9	1.5	4.13	4.39	13.8	10.7
Essen	2,277	129	175,020	12.0	2.1	5.34	5.73	7.2	12.3
Cologne	1,919	71	156,381	12.5	2.2	6.58	6.93	2.6	15.6
Freiburg	1,772	96	120,408	9.2	1.6	6.23	6.92	1.2	15.1
Iserlohn	1,677	32	106,540	5.8	1.0	4.52	4.70	8.0	11.7
Bremen	1,499	76	97,009	5.9	1.0	4.95	5.33	7.5	11.2
Duisburg	1,430	65	97,343	5.5	0.9	4.63	4.82	22.1	9.7
Leverkusen	1,404	10	89,835	6.0	1.0	5.50	5.76	4.1	13.3
Gottingen	1,356	58	78,431	5.0	0.9	5.19	5.35	0.4	12.4
Dortmund	1,228	24	99,251	6.3	1.1	4.78	5.10	2.0	12.6
Frankfurt	1,222	24	69,669	6.3	1.1	7.53	8.17	1.2	14.9
Bonn	1,156	77	81,848	6.0	1.0	5.93	6.26	3.4	14.1
Subtotal Top 20 Cities	**103,803**	**5,243**	**6,540,529**	**413.2**	**71.2**	**5.13**	**5.42**	**4.5**	**13.4**
Other Cities	41,232	2,539	2,606,025	167.1	28.8	5.18	5.40	6.4	12.9
Total Portfolio	**145,035**	**7,782**	**9,146,553**	**580.3**	**100.0**	**5.15**	**5.41**	**5.0**	**13.3**

1 Includes HB Funds, commercial properties, non-core properties, senior homes, garages (1/6) and other properties (1/6).
2 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).
3 Market rents were determined by CBRE.
4 The vacancy rate was calculated on the basis of units.

TOTAL PROPERTY PORTFOLIO AS OF DECEMBER 31, 2011

Top 20 Cities	Core residential units	Other units[1]	Total (sqm)	Net cold rent annualized (€ million, all usage types)[2]	Net cold rent of total (all usage types) %	Residential net cold rent per month and per sqm (€)	Residential market rent per month and per sqm (€)[3]	Residential vacancy rate (%)[4]	Net cold rent multiple (target rent)
Dresden	37,658	2,377	2,263,479	132.7	22.5	4.77	5.04	5.1	13.4
Berlin	16,905	595	1,039,692	63.8	10.8	4.97	5.22	2.4	13.5
Hamburg	9,307	652	613,396	41.8	7.1	5.51	6.69	0.8	16.2
Hanover	6,064	297	404,195	27.9	4.7	5.62	5.85	6.7	13.7
Heidenheim	4,669	581	298,464	20.1	3.4	5.44	5.46	12.7	12.9
Bielefeld	4,172	151	279,068	15.4	2.6	4.54	4.70	1.8	11.8
Osnabruck	3,485	138	219,863	13.9	2.3	5.17	5.39	2.2	13.7
Braunschweig	3,199	74	197,353	12.4	2.1	5.20	5.41	1.4	12.8
Zwickau	3,086	124	178,173	9.0	1.5	4.18	4.42	15.9	10.4
Essen	2,293	128	175,982	12.0	2.0	5.32	5.72	7.6	12.5
Cologne	2,040	70	163,867	13.0	2.2	6.52	6.92	3.2	15.8
Freiburg	1,772	119	120,408	9.1	1.5	6.15	6.92	1.2	15.0
Iserlohn	1,677	32	106,540	5.8	1.0	4.49	4.70	7.5	11.8
Bremen	1,538	77	99,333	6.0	1.0	4.96	4.96	9.0	11.3
Bocholt	1,515	99	94,608	5.8	1.0	4.98	5.35	3.4	14.0
Duisburg	1,431	65	97,428	5.4	0.9	4.58	4.81	21.2	9.8
Leverkusen	1,404	10	89,835	5.9	1.0	5.48	5.76	4.1	13.3
Gottingen	1,356	58	78,431	5.0	0.8	5.16	5.35	0.1	12.5
Frankfurt	1,324	23	74,563	6.7	1.1	7.42	8.15	1.1	15.0
Dortmund	1,240	24	99,982	6.3	1.1	4.73	5.20	1.1	13.4
Subtotal Top 20 Cities	**106,135**	**5,691**	**6,694,659**	**418.1**	**70.8**	**5.08**	**5.43**	**4.8**	**13.6**
Other Cities	42,559	2,569	2,696,189	172.8	29.2	5.19	5.42	6.0	13.0
Total Portfolio	**148,694**	**8,260**	**9,390,848**	**590.9**	**100.0**	**5.11**	**5.43**	**5.1**	**13.4**

1 Includes HB Funds, commercial properties, non-core properties, senior homes, garages (1/6) and other properties (1/6).
2 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).
3 Market rents were determined by CBRE.
4 The vacancy rate was calculated on the basis of units.

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

€ million

	12-31-2012	12-31-2011
Total units recognized as investment property	**152,276**	**157,370**
Commercial units	– 1,713	– 1,770
Garages[1]	– 5,093	– 5,302
Senior homes	– 9	– 10
Other units[1]	– 763	– 752
Residential units investment property	**144,698**	**149,536**
Assets held for sale	1,132	322
HB Funds units	– 344[2]	– 344[2]
Other non-core units[3]	– 451	– 820
Total core residential property portfolio	**145,035**	**148,694**

1 Garages and other units are counted as 1/6 residential unit.
2 Thereof 28 units relating to assets held for sale and 316 units relating to investment property.
3 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. 91 of List of Shareholdings). According to the company agreement, the business is exclusively managed by the personally liable shareholder (Hannover Region Grundstücksgesellschaft Verwaltung II mbH, Hanover). GAGFAH GROUP has no participation in policy-making processes, there are no material transactions between the investor and the investee, there is no interchange of managerial personnel and no provision of essential technical information.

5. INVENTORIES

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

€ million

	12-31-2012	12-31-2011
Land and land rights without buildings	6.2	9.5
Repair material	3.5	3.5
Land with inheritable building rights of third parties	0.0	0.7
Land and land rights with finished buildings	0.3	0.5
Other	5.2	7.6
Total	**15.2**	**21.8**

The decrease in total inventories compared to December 31, 2011, mainly results from sales of land without buildings and the reclassification of land with inheritable building rights of third parties of €0.7 million from inventories to investment property. The decrease in other inventories results from the settlement of a development project in 2012 (€6.3 million) that was partly compensated by the addition of accrued insurance claims (€4.8 million).

In the financial year 2012, inventories with an amount of €0.1 million (prior year: €0.4 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. In the financial year 2012, no write-downs (prior year: €0.0 million) relating to land and land rights without buildings were posted to reflect the (lower) net realizable value.

6. CURRENT RECEIVABLES

Current receivables break down as follows:

€ million	12-31-2012	12-31-2011
Receivables from sales of land and buildings	**20.2**	24.3
Rent receivables	**7.5**	10.6
Receivables from other trade	**1.9**	2.6
Receivables from third-party real estate management	**0.1**	0.1
Total	**29.7**	**37.6**

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 €15.4 million (prior year: €22.1 million). The decrease in receivables from sales of land and buildings is mainly attributable to the lower volume of completion of sales contracts compared to the prior year.

The decrease in rent receivables is due to an improved claims management.

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 €8.4 million (prior year: €9.4 million) were recognized for bad debts, thereof €7.4 million (prior year: €7.9 million) relating to rent receivables.

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	12-31-2012	12-31-2011
Payments on account concerning maintenance services	**16.5**	14.1
Claims for reimbursement	**4.4**	4.4
Insurance claims	**3.8**	1.7
Receivables from joint venture partners	**2.7**	2.4
Payments on notary trust account	**2.3**	23.7
Receivables referring to subsidies for costs of demolition	**1.1**	4.7
Prepayments	**0.6**	0.7
Other	**8.5**	7.7
Total	**39.9**	**59.4**

The increase in insurance claims partly results from individual major damages occurred in the financial year 2012. The payments on a notary trust account in the prior year resulted 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 of receivables referring to subsidies for costs of demolition results from incoming payments during the financial year 2012. As of the balance sheet date, the demolition program is completed almost entirely. Only remaining stocks of real estate will be dismantled in the coming year.

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, 2012, GAGFAH S. A. disclosed current tax claims of €15.0 million (prior year: €8.1 million). These claims break down as follows:

€ million

	12-31-2012	12-31-2011
Trade tax	5.6	0.4
Corporate income tax	5.0	0.9
Capital yields tax	1.0	1.9
Value added tax	0.5	1.8
Other	2.9	3.1
Total	**15.0**	8.1

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 €176.0 million (prior year: €200.1 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 0.00% and 0.39% (prior year: between 0.15% and 1.56%). The weighted average is 0.16% (prior year: 0.96%).

The bank deposits have no maturity and are disposable on a daily basis. The balances in current accounts mainly accrue interest of 0.00% to 1.05% (prior year: 0.07% to 1.05%).The weighted average of the interest rates from the Group’s main banks (Aareal Bank AG and HSBC Trinkaus & Burkhardt AG) amounted to 0.52% for the fourth quarter and 0.52% for the financial year 2012 (prior year: 0.46% for the fourth quarter and 0.48% for the financial year 2011). Bank deposits at all other banks have an interest rate of 0.14% for the fourth quarter and 0.15% for the financial year 2012 (prior year: 0.09% for the fourth quarter and 0.09% for the financial year 2011).

Of €176.0 million (prior year: €200.1 million) total cash, €104.8 million (prior year: €100.6 million) are restricted cash and €71.2 million (prior year: €99.5 million) unrestricted. 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 € 31.0 million (prior year: € 21.7 million) contain the carrying amounts of real estate for which the sale is highly probable and management has declared its intention to sell and for which the sale is expected to qualify for a recognition as a completed sale within one year from the date of classification.
As of the balance sheet date, the assets held for sale contain € 20.3 million (prior year: € 1.6 million) from block sales, primarily concerning assets from our portfolios in Heidenheim and Bocholt.

Additionally, the assets held for sale contain € 10.7 million (prior year: € 20.1 million) related to the sale of individual apartments and small multi-family homes ("condo sales program").

The total proceeds concerning assets held for sale are allocated to the Group's assets held for sale as follows:

€ million

	12-31-2012		12-31-2011	
	Assets held for sale	**Proceeds from the sale**	Assets held for sale	Proceeds from the sale
Block sales	**20.3**	**56.2**	1.6	140.6
Condo sales	**10.7**	**156.9**	20.1	248.2
Total	**31.0**	**213.1**	21.7	388.8

For further information on the directly related financial liabilities we refer to section E.16.1. "Financial Liabilities".

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 € 258.1 million (prior year: € 277.0 million) and comprises 206,452,555 (prior year: 221,602,832) 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, 2011, to December 31, 2012:

	Number of shares	Nominal value in €
January 1, 2011	**225,972,693**	**282,465,866**
Exercise of stock options	1,247,386	1,559,233
Transfer of bonus shares as part of remuneration of independent directors and other employees	15,000	18,750
Cancellation of shares	– 5,632,247	– 7,040,309
December 31, 2011 / January 1, 2012	**221,602,832**	**277,003,540**
Cancellation of shares	– 15,150,277	– 18,937,846
December 31, 2012	**206,452,555**	**258,065,694**

For further information on the exercise of stock options and the transfer of bonus shares as part of remuneration of independent directors and other employees, we refer to sections F.7. “Expenses for Share-based Remuneration” and H.7.1. “Board of Directors”.

As of December 31, 2012, the number of authorized and unissued shares is 8,000,000,000 (prior year: 8,000,000,000) with a corresponding nominal value of € 10,000,000,000 (prior year: € 10,000,000,000).

SHARE BUY-BACK AND CANCELLATION OF SHARES In the financial years 2010 to 2012, GAGFAH GROUP initiated three 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	Nominal value in €	Portion of subscribed capital in %	Average price in €	Cost of acquisition/disposal in €
January 1, 2010	**0**	**0**	**0.00**	**0.00**	**0.00**
First Share Buy-back Program (December 8, 2010, until December 31, 2010)	881,128	1,101,410	0.43	6.58	5,802,174
December 31, 2010/January 1, 2011	**881,128**	**1,101,410**	**0.43**	**6.58**	**5,802,174**
First Share Buy-back Program (January 1, 2011, until July 29, 2011)	4,751,119	5,938,899	2.30	6.82	32,427,910[1]
Cancellation of shares on February 16, 2011	– 1,912,395	– 2,390,494	0.93	6.76	– 12,932,630
Second Share Buy-back Program (September 5, 2011, until October 4, 2011)	15,150,277	18,937,846	7.34	4.95	74,993,871
Cancellation of shares on November 28, 2011	– 3,719,852	– 4,649,815	1.80	6.80	– 25,297,454
December 31, 2011/January 1, 2012	**15,150,277**	**18,937,846**	**7.34**	**4.95**	**74,993,871**
Third Share Buy-back Program (March 29, 2012, until April 27, 2012)	11,193,507	13,991,884	5.42	6.70	75,246,497[2]
Cancellation of shares on August 29, 2012	– 15,150,277	– 18,937,846	7.34	4.95	– 74,993,871
Transfer of bonus shares as part of remuneration of independent directors on September 30, 2012	– 15,000	– 18,750	0.01	6.70	– 100,500
December 31, 2012	**11,178,507**	**13,973,134**	**5.41**	**6.70**	**75,145,997**

1 Includes incidental acquisition costs of € 32,396.
2 Includes incidental acquisition costs of € 250,000.

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 € 38,230,085 (including incidental acquisition costs of € 32,396) 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 € 2,390,494 was reclassified from treasury shares into subscribed capital leading to a reduction of the subscribed capital, while a deduction amount of € 10,542,136 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 was reclassified from treasury shares into subscribed capital leading to a reduction of the subscribed capital, while a deduction amount of € 20,647,639 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.

The 15,150,277 repurchased shares held as of December 31, 2011, were cancelled on August 29, 2012. As a consequence, a deduction amount of € 18,937,846 was reclassified from treasury shares into subscribed capital leading to a reduction of the subscribed capital, while a deduction amount of € 56,056,025 was reclassified from treasury shares into the share premium leading to a reduction of the share premium.

THIRD SHARE BUY-BACK PROGRAM On March 28, 2012, the Board of Directors of GAGFAH S. A. announced a cash tender offer for shares of the Company for 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 € 6.00 and € 6.75 per share. The acceptance period ended on April 27, 2012.

Under the Share Buy-back Offer, 12,854,682 shares were tendered to GAGFAH S. A. within the price range from € 6.00 to € 6.75 per share. The final purchase price as determined by the Company and published on May 4, 2012, amounted to € 6.70 per share. Out of the 12,854,682 shares tendered, 11,844,178 shares were tendered at the final purchase price or at a lower price. Shares which were tendered at a price higher than the final purchase price were not accepted for share buy-back. As the offer was oversubscribed, the ratio at which the relevant tenders were accepted was 1 to 1.0581 (rounded), so that a total of 11,193,507 shares were repurchased by the Company for € 6.70 per share. The settlement of the offer took place on May 11, 2012.

An amount of € 100,500, equaling to 15,000 shares with a (net) average price of € 6.70, was deducted from treasury shares as a compensation for the Independent Directors of the Company for the financial year 2011.

After settling the Share Buy-back Offer and taking into account the cancellation of 15,150,277 shares as well as the 15,000 shares transferred to the Independent Directors, GAGFAH currently holds 11,178,507 own shares, equivalent to 5.41 % of the 206,452,555 issued shares.

UNREALIZED GAINS / LOSSES FROM DERIVATIVE FINANCIAL INSTRUMENTS In order to hedge the cash flow risk from interest fluctuations of the new loan of GBH Acquisition GmbH, GAGFAH GROUP also negotiated a swap and a cap in the second quarter of 2012. These two financial instruments have been designated as being hedging instruments.

The net valuation movements on those cash flow hedges and the respective income tax effect are recognized in other comprehensive income.

Non-controlling interests of € 30.6 million (prior year: € 33.8 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: € 6.1 million for fractional ownership funds (prior year: € 10.9 million)

- WOBA subgroup: € 23.2 million (prior year: € 21.7 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 in the financial year 2012 is mainly caused by dividend payments amounting to € 5.8 million to non-controlling shareholders.

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

DIVIDENDS In 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 and 2012.

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

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 reduction amount of € 112.7 million was reclassified from the revenue reserves into the share premium.

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 2012, the Segment EBITDA of € 362.1 million (prior year: € 398.1 million) and the NAV of € 2,598.7 million (prior year: € 2,586.0 million) were within the range that was expected by management.

At the Extraordinary General Meeting of Shareholders held on April 21, 2011, the General Meeting resolved to amend the articles 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 authorised issued share capital to € 10 billion and the related authorizations and validity period.

The Extraordinary General Meeting further resolved to reduce the issued share capital of the Company by a maximum amount of € 70,600,000 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 and delegate any related powers to the Board of Directors in relation thereto including as to the determination of the final number of shares to be cancelled.

At the same meeting it was further resolved to reduce the issued share capital of the Company by cancellation of the shares acquired under the Share Buy-back Program of the Group announced on December 7, 2010.

At the Extraordinary General Meeting of Shareholders held on June 12, 2012, the General Meeting resolved to reduce the issued share capital by an amount of € 18,937,846.25 and to cancel 15,150,277 treasury shares held by the Company and to reduce the relevant reserves constituted in relation thereto.

The Extraordinary General Meeting further resolved to reduce the issued share capital of the Company by a maximum amount of € 69,250,000 by the repurchase and cancellation of a maximum of 55,400,000 shares from existing shareholders during a period ending March 31, 2013.

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 € 8.86 as of December 31, 2012 (prior year: € 3.97), was € 4.45 (prior year: € 8.56) lower than the comparable NAV of € 13.31 (prior year: € 12.53) per share.

For details on the Share Buy-back Programs we refer to the subsection "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 € 4.3 million (prior year: € 4.5 million) relate to the non-controlling shares.

Thereof, € 4.0 million (prior year: € 4.1 million) relate to WOBA subgroup and € 0.3 million (prior year: € 0.4 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 groups are entitled to employer-funded pension benefits:

NUMBER OF COMMITMENTS

	12-31-2012	12-31-2011
Active employees		
Vested expectancies	656	613
Non-vested expectancies	81	195
	737	808
Vested expectancies of employees no longer with the Company	335	303
Current pensions	862	861
Total	1,934	1,972

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

In % p. a.

	12-31-2012	12-31-2011
Discount rate	3.60	4.90
Turnover rate	4.50	4.50
Expected return on plan assets	4.00	4.00
Future salary increases	2.50	2.50
Future inflation rate	2.00	2.00
Future pension increases	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

	2012	2011
Defined benefit obligation as of January 1	113.4	109.8
Current service cost	1.6	1.7
Interest cost	5.4	5.6
Actuarial gains (–) or losses (+)	18.3	3.4
Direct pension payments	– 7.4	– 7.1
Defined benefit obligation as of December 31	131.3	113.4

The increase in actuarial losses compared to the prior year mainly results from the decrease of the discount rate from 4.90 % to 3.60 %.

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

€ million

	2012	2011
Fair value of plan assets as of January 1	4.9	4.8
Expected return	0.2	0.2
Benefits paid	– 0.6	– 0.1
Fair value of plan assets as of December 31	4.5	4.9

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

	12-31-2012	12-31-2011
Defined benefit obligation	131.3	113.4
Less fair value of plan assets	– 4.5	– 4.9
	126.8	108.5
Unrecognized actuarial gains (+) or losses (–)	– 16.1	1.9
Provisions as of December 31	110.7	110.4

The pension provisions developed as follows in the financial year:

€ million

	2012	2011
Provisions as of January 1	110.4	110.6
Total pension expenses for the financial year	7.3	7.0
Direct pension payments	– 7.4	– 7.1
Fair value of plan assets	0.4	– 0.1
Provisions as of December 31	110.7	110.4

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

€ million

	2012	2011
Current service cost	1.6	1.7
Interest cost	5.4	5.6
Expected return on plan assets	– 0.2	– 0.2
Actuarial gains (–) or losses (+) recognized in the Consolidated Statement of Comprehensive Income	0.3	– 0.3
Net pension expenses	7.1	6.8

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 2013 amount to € 6.5 million (prior year estimate for the financial year 2012: € 6.9 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 € 5.4 million (prior year: € 5.6 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 2012 and the previous four annual periods:

€ million

	12-31-2012	12-31-2011	12-31-2010	12-31-2009	12-31-2008
Defined benefit obligation	131.3	113.4	109.8	100.3	102.2
Less fair value of plan assets	– 4.5	– 4.9	– 4.8	0.0	0.0
Deficit (+) / surplus (–)	**126.8**	**108.5**	**105.0**	**100.3**	**102.2**

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-KVBW 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, 2012	Change due to sales of subsidiaries	Utilization
Provisions for costs concerning sold properties	9.5	0.0	– 0.5
Restructuring and reorganization provisions	9.8	0.0	– 3.5
Provisions for phased retirement	6.6	0.0	– 2.3
Severance payments, litigation costs and similar risks	1.5	0.0	– 0.1
Provision for restitution proceedings	10.6	0.0	– 6.8
Warranty obligations and latent risks	4.3	0.0	– 2.3
Provisions for refinancing	1.0	0.0	0.0
Provisions in connection with WOBA lawsuits	7.3	0.0	– 5.2
Provision for demolition costs	2.5	0.0	– 1.8
Provision for distribution obligations	1.3	0.0	– 0.1
Other provisions	11.8	0.0	– 1.8
Total	**66.2**	**0.0**	**– 24.4**

€ million

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

	Reversals	Additions	Reclassifications	As of December 31, 2012	Thereof non-current	Thereof current
	− 2.9	1.8	0.0	7.9	0.0	7.9
	− 0.2	0.7	0.0	6.8	3.5	3.3
	0.0	1.0	0.0	5.3	3.2	2.1
	− 0.5	3.4	0.0	4.3	0.0	4.3
	− 0.4	1.0	0.0	4.4	0.0	4.4
	− 0.3	1.4	0.3	3.4	0.0	3.4
	0.0	1.9	0.0	2.9	0.0	2.9
	− 1.7	0.0	0.0	0.4	0.0	0.4
	− 0.5	0.0	0.0	0.2	0.0	0.2
	− 0.7	0.0	− 0.3	0.2	0.0	0.2
	− 4.3	3.5	0.0	9.2	2.0	7.2
	− 11.5	**14.7**	**0.0**	**45.0**	**8.7**	**36.3**

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

The provisions for costs concerning sold properties mainly concern compensation for damages in connection with sold properties.

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, 2012, the provision amounted to €6.8 million (prior year: €9.8 million). Provisions of €0.5 million are allocated through reorganization and restructuring expenses, €0.3 million thereof are related to a recalculation of existing long-term restructuring provisions for rental guarantees and rental payments, including €0.2 million effect from the compounding of the provision, as well as €0.1 million relating to personnel-related expenses for severance payments. Further €0.2 million were allocated for prior restructuring measures. In the prior year, 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. Please refer to section F.10. “Reorganization and Restructuring Expenses”.

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 €4.3 million (prior year: €1.5 million) had been recognized.

The provision for restitution proceedings amounting to €4.4 million (prior year: €10.6 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. In the financial year 2012, an amount of €6.8 million from paying out the proceeds in connection with restitution obligation had been used. An amount of €1.0 million (prior year: €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.

Warranty obligations and latent risks totaling €3.4 million (prior year: €4.3 million) were mainly set up for cases of liability from property development business.

The additions to provisions for refinancing of €1.9 million relate to expenses in connection with the ongoing refinancing process of GAGFAH subgroup (see section F.12. "Interest Expenses (Refinancing)").

The remaining provisions in connection with WOBA lawsuits amount to €0.4 million (prior year: €7.3 million) and relate to procedural costs in connection with the settlement of the lawsuit with the City of Dresden. In the financial year 2012, provisions of €5.2 million (thereof €3.3 million relating to procedural costs and €1.9 million relating to consulting fees) have been utilized. A partial reversal of the aforementioned provisions with an amount of €1.7 million was allocated through other operating income. We also refer to section F.8. "Other Operating Income".

The provision for demolition costs amounting to €0.2 million (prior year: €2.5 million) was recognized for the fulfillment of contractual obligations to demolish certain buildings belonging to our Region East within a certain period of time. As of the balance sheet date, the demolition program is almost entirely completed. Only remaining stocks of real estate will be dismantled in the coming year.

The addition due to reclassification in the prior year resulted from the change in disclosure of a tax liability that is now included in other provisions. An amount of €3.6 million thereof was reversed in the financial year 2012.

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

	12-31-2012	12-31-2011	Effect on income 2012	Effect from the deconsolidation of subsidiaries in 2011	Effect on income 2011
Consolidated Statement of Financial Position					
Investment property	**4.9**	5.0	– 0.1		– 2.4
Financial assets	**0.3**	0.2	0.1		– 0.3
Other assets	**2.6**	4.5	– 1.9		– 2.2
Provisions	**15.4**	14.3	1.1		– 2.1
Liabilities	**20.4**	22.5	– 2.1		0.3
Assets held for sale	**2.5**	0.0	2.5		0.0
Deferred tax assets on temporary differences	**46.1**	**46.5**	**– 0.4**		**– 6.7**
Loss carryforwards					
Corporate income tax	**151.2**	132.4	18.8	– 1.7	– 2.9
Trade tax	**55.7**	57.1	– 1.4	– 0.6	– 10.6
Deferred tax assets on loss carryforwards	**206.9**	**189.5**	**17.4**	**– 2.3**	**– 13.5**
Deferred tax assets	**253.0**	**236.0**	**17.0**	**– 2.3**	**– 20.2**

€ million

	12-31-2012	12-31-2011	Effect on income 2012	Effect from the deconsolidation of subsidiaries in 2011	Effect on income 2011
Consolidated Statement of Financial Position					
Investment property	**536.0**	486.5	– 49.5	28.1	– 26.4
Financial assets	**0.3**	1.0	0.7		0.9
Other assets	**0.1**	0.2	0.1		– 0.2
Provisions	**0.6**	0.1	– 0.5		0.1
Liabilities	**3.6**	3.6	– 0.4[1]		3.9
Assets held for sale	**0.3**	1.4	1.1	0.3	16.6
Untaxed special reserve	**17.0**	16.5	– 0.5		4.1
Deferred tax liabilities	**557.9**	**509.3**	**– 49.0**	**28.4**	**– 1.0**

1 In order to hedge the cash flow risk from interest fluctuations of the new loan of GBH Acquisition GmbH, GAGFAH GROUP also negotiated a swap and a cap in the second quarter of 2012. These two financial instruments have been designated as being hedging instruments. The effective net valuation movements on those cash flow hedges and the respective income tax effect (€ 0.4 million) are recognized in other comprehensive income.

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 € 253.0 million (prior year: € 236.0 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, 2012, the Group had corporate income tax loss carryforwards of € 1,640.2 million (prior year: € 1,579.6 million) and trade tax loss carryforwards of € 716.5 million (prior year: € 739.9 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, 2012. 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 € 684.9 million (prior year: € 743.2 million) as well as trade tax loss carryforwards of € 372.1 million (prior year: € 386.9 million), on which no deferred tax assets have been recognized.

Interest expenses are deductible up to the amount of the interest earnings. Beyond this amount, the deductibility is limited to 30 % of the fiscal year's EBITDA, wherein GAGFAH's fiscal year equals its financial year. Interest expenses which may not be deducted in the current year are carried forward to the following fiscal or financial years (interest carryforward). Deferred tax assets shall be recognized for the interest carryforward to the extent that it is probable that the interest expenses can be used in following years.

Due to the Group's capital structure, 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 € 239.0 million (prior year: € 199.1 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 € 14.3 million (prior year: € 8.3 million).

15. LIABILITIES FROM INCOME TAX

As of December 31, 2012, the Group had obligations from corporate income tax, trade tax and capital yields tax totaling € 90.8 million (prior year: € 118.6 million). They break down as follows:

€ million

	12-31-2012	12-31-2011
Non-current		
Corporate income tax on EK02	54.2	66.5
Total non-current	**54.2**	**66.5**
Current		
Corporate income tax on EK02	15.6	15.6
Trade tax	13.6	21.5
Corporate income tax	7.4	15.0
Total current	**36.6**	**52.1**
Total	**90.8**	**118.6**

In November 2007, the German Annual Tax Act 2007 (Jahressteuergesetz) was adopted with a final taxation of EK02 which is payable in ten equal installments from 2008 onwards. The decrease of corporate income tax on EK02 since December 31, 2011 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 € 3.3 million (prior year: € 3.8 million).

The decrease of corporate income tax and trade tax is mainly due to payments.

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16. LIABILITIES

16.1. FINANCIAL LIABILITIES Financial liabilities total €5,231.1 million (prior year: €5,427.9 million) and relate mainly to the financing of residential real estate assets.

Of the total financial liabilities, €4,986.0 million (prior year: €5,181.3 million) relate to unsubsidized loans.

Due to their maturity date on May 15, 2013, WOBA subgroup term loans of €1,036.6 million were reclassified from non-current into current financial liabilities in the second quarter of 2012. Additionally, GAGFAH German Residential Funding (GRF) term loans of €2,080.4 million were reclassified from non-current into current financial liabilities due to their maturity date on August 15, 2013. For further information on the ongoing refinancing process, we refer to section H.8. “Events after the Balance Sheet Date”.

Overall, loans amounting to €352.4 million (prior year: €364.6 million) were repaid in the financial year. Thereof, 41 (prior year: 130) loans totaling €5.9 million (prior year: €41.0 million) were fully repaid in the financial year.

REFINANCING

GBH SUBGROUP REFINANCING IN 2012 On April 20, 2012, GBH Acquisition GmbH signed a loan contract with its current creditor for extending the €266.5 million term loan. Under the conditions of this loan contract, the lender commits to extending the existing term loan for another year plus another one-year extension option. As a part of the contract, GAGFAH GROUP provided an upfront cash reserve of €10.0 million available for a capital expenditure program. Due to the ongoing repair and maintenance activities, the aforementioned cash reserve decreased to €7.1 million as of December 31, 2012. Moreover, according to the agreed loan contract, cash from operating activities and from asset sales totaling €4.2 million have been paid to the trapped account. For further information on restricted cash we refer to the disclosures section G. “Notes to the Consolidated Statement of Cash Flows”.

In order to hedge the cash flow risk from interest fluctuations of the new loan of GBH Acquisition GmbH, GAGFAH GROUP also negotiated a swap and a cap with identical maturities. These two financial instruments have been designated as being hedging instruments.

On October 19, 2012, GAGFAH GROUP sold 1,244 units in Bocholt to LEG Wohnen Bocholt GmbH i. G. The disposal was made out of GAGFAH’s GBH portfolio. We also refer to section E.10. “Assets held for sale”. By a redemption payment of €45.0 million out of the sales proceeds, this sale not only allowed GBH to meet the amortization targets for December 2012 and January 2013 but also satisfied the criteria for extending the loan due April 2013 by another year. As a consequence, the term loan was reclassified from current into non-current financial liabilities as of the balance sheet date. The amortization targets are as follows:

- DECEMBER 15, 2012: €20.0 million
- JANUARY 20, 2013: €20.0 million
- OCTOBER 20, 2013: €20.0 million
- JANUARY 20, 2014: €10.0 million

GAGFAH SUBGROUP CURRENT FINANCING SITUATION The original loan documentation for the German Residential Funding (GRF) facility provided for a cash sweep starting October 19, 2012, for application towards prepayment of the loan. As expected, the cash sweep took effect on October 19, 2012. GAGFAH and the servicer for the loan have reached a separate agreement that provides for certain temporary waivers to ensure the continued operation and maintenance of the properties. By way of this agreement, GAGFAH is entitled to retain the portion of its rental income that is necessary to pay for expenditures. The remaining rental income will be transferred to a trapped account where it will remain as security for the loan. This temporary arrangement is effective from October 19, 2012, until at least mid April 2013. GAGFAH GROUP expects a gradual extension of this arrangement until the end of maturity of the existing term loan in August 2013. For further information on restricted cash we refer to the disclosures section G. "Notes to the Consolidated Statement of Cash Flows".

The original loan documentation also provided for a margin step-up of 100 basis points that went into effect on October 18, 2012, as expected. This margin step-up does not impact FFO or the profit and loss statement, since in the IFRS accounts the weighted interest rate (including this margin step-up) is calculated over the whole term of the loan in accordance with IAS 39.

From a cash perspective, the interest payment for the first seven years of the GRF facility was calculated with an interest rate before margin step-up of 3.32 %. Since October 18, 2012, the interest rate for the payments has turned to 4.32 % (valid until the end of maturity). Over its total lifespan, the GRF facility has an overall effective interest rate of 3.49 %. In accordance with IAS39, this effective interest rate has been taken into account for the interest expenses and also for the FFO for the total period of eight years.

GAGFAH SUBGROUP REFINANCING IN 2013 It is planned to refinance the existing financing agreement via six different pools. On December 20, 2012, a term sheet for an amount of € 138.4 million was signed with an insurance company for the first pool. The offered term is 10 years with a fixed interest period of equal length.

For the remaining five pools, the negotiations with our refinancing partners are already at an advanced stage. For four of the five pools, negotiations include term sheets as a major milestone of the refinancing process. Those term sheets were signed within the first three months of 2013. For the fifth pool, the Company plans to issue commercial mortgage backed securities.

For further information on the ongoing refinancing process for the five other pools, we refer to section H.8. "Events after the Balance Sheet Date".

WOBA SUBGROUP REFINANCING IN 2013 In the course of the WOBA refinancing process GAGFAH GROUP was able to close the negotiations with the signing of a loan agreement with a credit volume of € 1,060.5 million on February 20, 2013. For further information on the ongoing refinancing process, we refer to section H.8. "Events after the Balance Sheet Date".

SECURITIES FOR FINANCIAL LIABILITIES The value of the investment property portfolio (including assets held for sale) of € 7,772.5 million (prior year: € 7,975.0 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 € 5,211.4 million (prior year: € 5,405.2 million). No collateral has been provided for the remaining € 19.7 million (prior year: € 22.7 million).

LOANS IN CONNECTION WITH ASSETS HELD FOR SALE In the financial year 2012, 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 the underlying properties will have to be partly used to repay debt.

As of December 31, 2012, a total amount of € 16.2 million (prior year: € 55.1 million) related to condo sales was reclassified from non-current to current financial liabilities (term loans) due to the repayment expected to take place prior to the contractual maturity of these liabilities. Part of further loans of € 25.6 million (prior year: € 8.8 million) in connection with block sales were reclassified into current financial liabilities. 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 2012.

Due to the reclassification of assets from assets held for sale back into investment property, no financial liabilities (prior year: € 6.1 million) were reclassified to non-current financial liabilities.

Of the current financial liabilities, loans amounting to € 23.9 million (prior year: € 8.9 million) are directly related to assets held for sale of € 31.0 million (prior year: € 21.7 million) as shown in the Consolidated Statement of Financial Position. These loans are allocated to the Group's assets held for sale as follows:

€ million

	12-31-2012		12-31-2011	
	Assets held for sale	**Related financial liabilities**	Assets held for sale	Related financial liabilities
Block sales	**20.3**	**16.4**	1.6	0.4
Condo sales	**10.7**	**7.5**	20.1	8.5
Total	**31.0**	**23.9**	21.7	8.9

The total reclassified liabilities have been revalued according to IAS 39.AG8. The current financial liabilities include an amount of € 0.4 million (prior year: € 1.6 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 Due to the obligation to repay the part of term loans secured by demolition properties within the next year, those loans were reclassified from non-current to current financial liabilities in the amount of € 8.8 million (prior year: € 28.6 million).

DEBT MATURITY PROFILE AND INTEREST PAYMENT The Group monitors credit terms very closely in light of its refinancing needs. As of December 31, 2012, the Group's financial liabilities primarily comprise of the following liabilities:

DEBT MATURITY PROFILE AS OF DECEMBER 31, 2012

€ million (unless stated otherwise)

						2013		2014	
	Carrying amount as of 12-31-2012	Notional amount as of 12-31-2012	Weighted avg. years to maturity	Current interest rate	Fixed or secured[4]	Scheduled repayments[1]	Scheduled maturity[2]	Scheduled repayments[1]	Scheduled maturity[2]
Term loans[3]	4,891.3	4,851.4	0.8	4.54 %	Fixed/ Secured	35.5	3,240.6	0.0	1,539.2
thereof fixed	4,845.1	4,805.4	0.8	4.54 %	Fixed	15.5	3,240.6	0.0	1,513.3
thereof floating with cap	46.2	46.0	0.7	3.71 %	Secured	20.0	0.0	0.0	26.0
Senior debt[5]	325.0	398.0	27.8	2.00 %	Fixed	10.4	6.0	9.8	12.8
Other	14.8	14.8	6.1	5.70 %	Fixed	0.8	0.0	0.8	0.0
Total	**5,231.1**	**5,264.2**	**2.9**	**4.35 %**		**46.7**	**3,246.6**	**10.6**	**1,552.1**

1 Regular repayments and releases from sales.
2 Loans which are due to repay 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 € 32.2 million (€ 24.5 million thereof relate to assets held for sale and € 8.7 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 PAYMENTS FIX[1]

€ million

			2013	2014	2015	2016	2017	2018	≥ 2019
	Carrying amount as of 12-31-2012	Notional amount as of 12-31-2012	Interest payments (fix)	Interest payments (fix)	Interest payments (fix)	Interest payments (fix)	Interest payments (fix)	Interest payments (fix)	Interest payments (fix)
Term loans	4,891.3	4,851.4	155.6	33.6	1.3	0.0	0.0	0.0	0.0
thereof fixed	4,845.1	4,805.4	152.0	31.2	0.0	0.0	0.0	0.0	0.0
thereof floating with cap	46.2	46.0	3.6	2.4	1.3	0.0	0.0	0.0	0.0
Senior debt	325.0	398.0	8.2	7.4	6.9	6.3	5.9	5.9	75.4
Other	14.8	14.8	0.8	0.8	0.7	0.7	0.6	0.5	0.2
Total	**5,231.1**	**5,264.2**	**164.6**	**41.8**	**8.9**	**7.0**	**6.5**	**6.4**	**75.6**

1 Calculated on the assumption that every ending contract would not be renewed or extended.

	2015		2016		2017		2018		≥ 2019	
	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	36.0	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	0.0	0.0
	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
	9.8	24.3	9.9	1.5	9.9	5.2	10.0	1.3	287.1	0.0
	0.8	0.0	0.8	0.0	0.9	0.0	4.3	0.0	6.4	0.0
	10.6	**60.3**	**10.7**	**1.5**	**10.8**	**5.2**	**14.3**	**1.3**	**293.5**	**0.0**

DEBT MATURITY PROFILE AS OF DECEMBER 31, 2011

€ million (unless stated otherwise)

						2012		2013	
	Carrying amount as of 12-31-2011	Notional amount as of 12-31-2011	Weighted avg. years to maturity	Current interest rate	Fixed or secured[4]	Scheduled repayments[1]	Scheduled maturity[2]	Scheduled repayments[1]	Scheduled maturity[2]
Term loans[3]	5,074.8	5,042.3	1.8	4.14 %	Fixed/ Secured	55.1	266.9	0.0	3,340.3
thereof fixed	5,074.8	5,042.3	1.8	4.14 %	Fixed	55.1	266.9	0.0	3,340.3
thereof floating with cap	0.0	0.0	0.0	0.00 %	Secured	0.0	0.0	0.0	0.0
Senior debt5	338.0	414.8	27.3	2.29 %	Fixed	12.1	10.8	11.4	15.2
Other	15.1	15.1	7.0	5.73 %	Fixed	0.8	0.0	0.8	0.0
Total	**5,427.9**	**5,472.2**	**3.7**	**4.01 %**		**68.0**	**277.7**	**12.2**	**3,355.5**

1 Regular repayments and releases from sales.

2 Loans which are due to repay 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 PAYMENTS FIX[1]

€ million

			2012	2013	2014	2015	2016	2017	≥ 2018
	Carrying amount as of 12-31-2011	Notional amount as of 12-31-2011	Interest payments (fix)	Interest payments (fix)	Interest payments (fix)	Interest payments (fix)	Interest payments (fix)	Interest payments (fix)	Interest payments (fix)
Term loans	5,074.8	5,042.3	204.2	150.6	30.9	1.3	0.0	0.0	0.0
thereof fixed	5,074.8	5,042.3	204.2	150.6	30.9	1.3	0.0	0.0	0.0
thereof floating with cap	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Senior debt	338.0	414.8	9.1	7.9	7.1	6.6	6.0	5.9	64.9
Other	15.1	15.1	0.9	0.8	0.8	0.7	0.7	0.6	0.7
Total	**5,427.9**	**5,472.2**	**214.2**	**159.3**	**38.8**	**8.6**	**6.7**	**6.5**	**65.6**

1 Calculated on the assumption that every ending contract would not be renewed or extended.

	2014		2015		2016		2017		> 2018	
	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	1,344.0	0.0	36.0	0.0	0.0	0.0	0.0	0.0	0.0
	0.0	1,344.0	0.0	36.0	0.0	0.0	0.0	0.0	0.0	0.0
	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
	11.1	13.5	11.1	12.7	11.1	0.2	11.1	3.9	290.6	0.0
	0.8	0.0	0.8	0.0	0.8	0.0	0.9	0.0	10.2	0.0
	11.9	**1,357.5**	**11.9**	**48.7**	**11.9**	**0.2**	**12.0**	**3.9**	**300.8**	**0.0**

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 € 4.8 million (prior year: negative amount of € 5.8 million) are disclosed in the financial liabilities. Due to the hedging strategy of GAGFAH GROUP, the effective part of the interest rate swap of € 1.1 million (prior year: € 0.0 million) is recognized directly in equity. For further information about the hedging strategy see chapter H.2. "Financial Risk Management", subsection "Interest Rate Derivatives".

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	12-31-2012	12-31-2011
Non-current		
Liabilities from settlement payments to the State Capital of Dresden	23.7	26.6
Liabilities from finance lease	4.2	4.2
Jubilee commitments	1.9	1.5
Liabilities from commission on bank guarantee	0.3	0.8
Liabilities from reorganization	0.0	1.1
Other liabilities	0.6	0.8
Total non-current	**30.7**	**35.0**
Current		
Trade payables	32.6	20.4
Liabilities from operating expenses not yet invoiced	30.3	30.0
Liabilities to tenants	15.1	16.0
Liabilities from bonus payments	10.6	9.4
Prepayments received	8.9	11.7
Liabilities from settlement payments to the State Capital of Dresden	3.9	3.9
Liabilities from basic / decorative repairs	3.6	3.6
Tax liabilities	2.7	2.2
Liabilities from construction management services not yet invoiced	1.8	2.2
Liabilities from commissions	0.9	0.9
Liabilities from reorganization	0.1	0.1
Other liabilities	12.0	11.4
Total current	**122.5**	**111.8**
Total	**153.2**	**146.8**

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. The settlement has been approved by the City Council of Dresden on March 15, 2012, and has been formally approved by the legal supervisory authority of Saxony on March 21, 2012.

Under the conditions of this settlement agreement, the State Capital of Dresden receives nine annual installments in the amount of € 4.0 million (€ 36.0 million in total) from 2012 through 2020. The discounted liability amounts to € 27.5 million (prior year: € 30.5 million), thereof € 3.9 million (prior year: € 3.9 million) current and € 23.6 million (prior year: € 26.6 million) non-current.

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

The higher amount of trade payables compared to the prior year represents a cut-off effect due to various smaller obligations accrued shortly before the reporting date.

With the exception of liabilities from settlement payments to the State Capital of Dresden, jubilee commitments, liabilities from finance lease and liabilities from reorganization, all items disclosed by GAGFAH 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

	2012	2011
Rental income, fees	566.6	594.1
Allocations charged	258.1	276.5
Other	1.2	1.6
Total	825.9	872.2

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 €7.1 million (prior year: €7.3 million).

The operating expenses arising from investment property that did not generate rental income during the financial year amounted to €13.2 million (prior year: €14.0 million). These expenses are recognized as revenue reduction within the allocations charged.

Other income includes, inter alia, rent, interest and expense subsidies, which primarily relate to government allowances to allow lower rent to be charged for subsidized housing.

GAGFAH GROUP expects to achieve minimum leasing payments of approximately €131.0 million within the first three months of 2013 (prior-year estimate for the first three months of the financial year 2012: €133.0 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

	2012	2011
Real estate operating expenses	233.3	252.2
Repair and maintenance costs	81.8	76.5
Personnel expenses	59.6	55.1
Real estate tax	24.7	26.7
External costs for real estate management	9.3	8.8
Bad debt allowances	7.4	7.9
Administrative expenses	7.4	6.9
Amortization and depreciation on intangible assets and property, plant and equipment	2.1	2.3
Other expenses for real estate management	12.8	14.2
Total	438.4	450.6

The decrease in operating expenses for the generation of rental income is largely attributable to a smaller portfolio as a result of sales.

The increase in personnel expenses compares to the prior year results from a comparatively higher number of employees in the area of facility management services (see section H.5. “Number of Employees and Personnel Expenses”).

3. RESULT FROM THE FAIR VALUE MEASUREMENT OF INVESTMENT PROPERTY

Changes in value from measurement of investment property in the financial year amount to a net loss of €13.4 million (prior year: a loss of €41.9 million). Of that amount, a loss of €15.5 million (prior year: a loss of €15.4 million) relates to the last-time fair value measurement of investment property before reclassification into assets held for sale and a gain of €2.1 million (prior year: a loss of €26.5 million) relates to the DCF valuation of investment property.

4. RESULT FROM OTHER SERVICES

The result from other services breaks down as follows:

€ million	2012	2011
Revenues from third-party real estate management	4.8	5.1
External costs for third-party real estate management	– 0.4	– 0.4
Personnel expenses	– 3.4	– 3.1
Subtotal third-party real estate management	**1.0**	**1.6**
Revenues from other trade	11.5	10.6
External costs for other trade	– 6.4	– 6.0
Personnel expenses	– 3.8	– 2.5
Subtotal results from other trade	**1.3**	**2.1**
Total	**2.3**	**3.7**

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	2012	2011
External brokers	3.9	4.2
Personnel expenses	2.8	3.5
Marketing and selling prearrangements	0.7	0.9
General and administrative expenses	1.1	2.6
Clearing of encumbrances	0.6	1.6
Additions to provisions for sales cost in connection with HB Funds	0.4	1.8
Maintenance on vacant flats and sample flats	0.3	0.4
Other	3.8	2.4
Subtotal	**13.6**	**17.4**
Selling expenses due to property development business	0.2	0.1
Total	**13.8**	**17.5**

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

The comparatively higher amount of selling expenses in the prior year had resulted from consulting costs in connection with the sale of investment property related to HB Funds.

6. GENERAL AND ADMINISTRATIVE EXPENSES

General and administrative expenses break down as follows:

€ million

	2012	2011
Personnel expenses for administrative staff	**16.6**	15.9
IT costs	**5.8**	5.8
Consulting fees	**1.8**	2.6
Audit fees	**1.8**	1.9
Costs of office equipment, postage and telephone	**1.4**	1.4
Insurances	**1.1**	1.1
Personnel-related costs	**1.1**	1.1
Occupancy costs	**0.8**	0.8
Travel expenses, expenses for cars	**0.8**	0.7
Amortization and depreciation on intangible assets and fixed assets	**0.5**	0.8
Court and lawyers' fees	**0.4**	0.4
Other	**3.0**	2.5
Total	**35.1**	**35.0**

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: € 6.5 million). The respective expenses are allocated equally over the vesting period. In the financial year 2012, expenses of € 1.2 million (prior year: € 3.8 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:

	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 is shown in the following table:

€ million	2012	2011
Equity-settled share-based payment (Stock Option Plan 2009)	0.0	– 2.2
Equity-settled share-based payment (Stock Option Plan 2011)	– 0.7	– 1.5
Equity-settled share-based payment (Remuneration of independent directors)	– 0.3	0.0
Cash-settled share-based payment	– 0.2	– 0.1
Total expenses (–) / income (+)	**– 1.2**	**– 3.8**

The equity-settled share-based payment as remuneration of independent directors results from the addition to a provision for the transfer of 30,000 shares in the financial year 2013.

As of December 31, 2012, the provision for cash-settled share-based payment amounted to €0.3 million (prior year: €0.3 million).

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

NUMBER OF STOCK OPTIONS

	2012		2011	
	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	**2,194,528**	**60,000**	**2,644,509**	**81,000**
Granted during the financial year	0	26,500	1,000,000	10,000
Forfeited during the financial year	– 186,450	0	– 202,595	– 6,000
Exercised during the financial year	0	– 32,000	– 1,247,386	– 25,000
Settled during the financial year	– 814,789	0	0	0
Outstanding as of December 31	**1,193,289**	**54,500**	**2,194,528**	**60,000**

During the financial year 2012, no shares relating to our equity-settled stock option plans were issued. During the prior year, 1,247,386 shares relating to our equity-settled stock option plans were issued at a weighted average share price of €6.73.

814,789 stock options (prior year: no stock options) were settled by severance payments to former members of the Senior Management who retired in the financial year 2012.

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 €6.36).

On the basis of our cash-settled stock option plan, 32,000 (prior year: 25,000) options were exercised at a weighted average share price of €6.80 (prior year: €4.66).

On the balance sheet date, 1,045,739 (prior year: 1,513,850) 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 € 11.8 million (prior year: € 34.3 million).

Other operating income breaks down as follows:

€ million

	2012	2011
Reversal of provisions	7.2	3.3
Derecognition of liabilities	0.4	0.0
Sale of cable network connections	0.3	4.3
Deconsolidation of subsidiaries	0.0	22.2
Other	3.2	2.4
Subtotal	11.1	32.2
Other operating income due to property development business	0.7	2.1
Total	11.8	34.3

Of the reversal of provisions, an amount of € 2.7 million (prior year: € 0.0 million) results from the reversal of provisions for sales cost in connection with HB Funds added in the prior year.

The income from the sale of cable network connections in the prior year contained income due to the sale of physical components of cable network connections to several cable network operators. The respective income in the financial year of € 0.3 million relates to the reversal of deferred income.

The income from the deconsolidation of subsidiaries of € 22.2 million in the prior year had related 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”.

An amount of € 0.7 million (prior year: € 2.1 million) results from property development business. Thereof, an amount of € 0.1 million (prior year: € 0.9 million) relates to the reversal of provisions concerning objects sold. Further € 0.2 million (prior year: € 0.5 million) relate to the reversal of other provisions, mainly provisions for litigation risks. Income of € 0.1 million (prior year: € 0.5 million) results from the derecognition 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 € 16.0 million (prior year: € 60.2 million).

These expenses break down as follows:

€ million	2012	2011
Consulting fees in connection with the examination of the corporate strategy for the WOBA subgroup	2.9	0.0
Amendment of an outsourcing contract for maintenance	1.7	0.0
Derecognition of goodwill	1.2	0.0
Addition to provision for restitution proceedings	1.0	2.6
Incidental costs	1.0	0.0
Donations	0.9	0.2
Consulting/audit fees in connection with portfolio optimization	0.4	1.0
Consulting fees in connection with Share Buy-back	0.1	1.2
Expenses in connection with WOBA lawsuits	0.0	44.9
Depreciation of the right to the name of Heidenheim soccer stadium	0.0	1.4
Expenses in connection with litigation risks	0.0	1.3
Other	3.0	2.9
Subtotal	12.2	55.5
Other operating expenses due to property development business	3.8	4.7
Total	16.0	60.2

The consulting fees in connection with the examination of the corporate strategy for the WOBA subgroup of € 2.9 million (prior year: € 0.0 million) mainly arose for pre-selling preparations, such as selling prospectus, in cooperation with external consulting companies.

The expenses from the amendment of an outsourcing contract for maintenance concern the renegotiation of an existing agreement with an outsourcing partner regarding service volume and contract term in the financial year 2012.

The derecognition of goodwill is due to sales within GAGFAH subgroup. We refer to section E.1. “Intangible Assets”.

The expenses in connection with portfolio optimization result from the assessment of a potential sale of subsidiaries (prior year: sale of the subsidiaries GAGFAH Acquisition 3 GmbH and GAGFAH Pegasus GmbH).

The expenses in connection with the WOBA lawsuits in the prior year included an amount of € 30.5 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 of the expenses in connection with the WOBA lawsuits were additions to provisions for procedural costs that the WOBA companies will bear for the State Capital of Dresden. Additional expenses of € 10.5 million, mainly for consulting fees in connection with the lawsuits, were also included. Of that amount, € 3.4 million were additions to provisions and € 7.1 million were current expenses. We also refer to section E.13.2. “Other Provisions”.

The depreciation of the right to the name of the Heidenheim soccer stadium in the financial year 2011 was recognized in the course of the sale of the right.

The prior-year expenses in connection with litigation risks of € 1.3 million related to compensation claims in connection with sales.

An amount of € 3.8 million (prior year: € 4.7 million) results from the property development business. Thereof, € 2.1 million (prior year: € 2.4 million) relate to prior-year expenses and additions to provisions concerning land sold properties.

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 2012, total reorganization and restructuring expenses were €4.5 million compared to €14.6 million in 2011, and break down as follows:

€ million

	2012			2011		
	Restructuring	**Reorganization**	**Total**	Restructuring	Reorganization	Total
Personnel-related expenses	**0.1**	**1.6**	**1.7**	0.4	2.7	3.1
Consulting fees	**0.0**	**2.2**	**2.2**	0.0	0.4	0.4
Non-personnel administrative costs	**0.1**	**0.5**	**0.6**	2.8	8.3	11.1
Total	**0.2**	**4.3**	**4.5**	**3.2**	**11.4**	**14.6**

The personnel-related restructuring expenses of €0.1 million (prior year: €0.4 million) mainly include additions to provisions for prior restructuring measures.

Non-personnel administrative restructuring costs of €0.1 million in the financial year 2012 mainly include expenses relating to a revaluation of existing long-term restructuring provisions for rental guarantees and rental payments (prior-year revaluation expenses: €2.7 million).

The personnel-related reorganization expenses of €1.6 million in the financial year 2012 mainly consist of compensation costs of €0.9 million, expenses for temporary work in connection with the optimization of processes and structures within the Group of €0.4 million and additions to provisions for prior restructuring measures of €0.2 million. Of the corresponding amount of €2.7 million in the prior year, €0.4 million related to expenses for phased retirement and €2.3 million related to severance payments. €1.3 million of the latter were net expenses from adjustments of corresponding reorganization provisions (additions of €3.1 million and reversals of €1.8 million), and €1.0 million were current expenses.

The consulting fees include expenses in connection with the optimization of processes and structures within the Group of €2.2 million, thereof €0.9 million relating to group reorganization measures in light of the refinancing process of GAGFAH subgroup. The prior-year consulting fees of €0.4 million mainly related to tax advice.

Non-personnel-related administrative reorganization costs of €0.5 million in the financial year 2012 mainly include audit fees in connection with the group reorganization measures in light of the refinancing process of GAGFAH subgroup and the accumulation of a liability in connection with the premature termination of an agreement with an external maintenance provider. Non-personnel administrative reorganization costs of €8.3 million in the prior year mainly included €6.1 million legal costs in connection with the premature termination of an 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.

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

11. INTEREST EXPENSES

Interest expenses break down as follows:

€ million	2012	2011
Interest expenses related to loans	222.0	238.1
Amortization of financial liabilities	19.3	21.3
Interest share of pension obligations	5.2	5.4
Prepayment fees	3.4	22.0
Amortization of EK02 liability	3.3	3.8
Finance lease interest	0.3	0.3
Revaluation of financial liabilities	– 6.5	0.0
Other interest expenses	2.3	2.3
Subtotal	249.3	293.2
Interest due to property development business	0.2	0.1
Total	249.5	293.3

The decrease of total interest expenses related to loans from € 238.1 million in the prior year to € 222.0 million in the financial year 2012 results from previous repayments in connection with sales. The total interest expenses related to loans of € 222.0 million (prior year: € 238.1 million) split up into expenses from term loans and the loan contract of GAGFAH S. A. of € 179.2 million (prior year: € 196.2 million) and expenses from other loans of € 9.6 million (prior year: € 10.3 million). Another € 33.2 million (prior year: € 31.6 million) relates to accrued interest.

In comparison to the prior year, the reversal of accrued swap costs is now disclosed in the line “Amortization of financial liabilities” (prior year: “Other interest expenses”).

The expenses for prepayment fees of € 3.4 million (prior year: € 22.0 million) primarily relate to the sale of investment property (€ 3.2 million; prior year: € 1.2 million) and to repayments due to the ongoing demolition program (€ 0.2 million; prior year: € 0.5 million). The prior-year amount included an amount of € 20.3 million in connection with the sale of the subsidiaries GAGFAH Acquisition 3 GmbH and GAGFAH Pegasus GmbH.

In the course of the transition of WfA-Bank into NRW.BANK, the procedure of determination of possible interest rate rises has been adjusted. In this context, GAGFAH GROUP, in agreement with NRW.BANK, assessed its assumptions on the future development of interest and repayment concerning the affected loans. The updated assessment required a recalculation of the loans leading to a positive effect of € 6.5 million. In accordance with IAS 8.36 (f) in conjunction with IAS 39.AG 8, this positive effect was recorded immediately in current earnings for the financial year 2012.

12. INTEREST EXPENSES (REFINANCING)

The interest expenses (refinancing) of € 3.9 million in the financial year 2012 mainly contain expenses in connection with the ongoing refinancing process of GAGFAH subgroup. Of that amount, € 1.9 million were additions to provisions (see section E.13.2."Other Provisions") and € 2.0 million were current expenses.

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

13. INCOME TAXES

Income taxes break down as follows:

€ million	2012	2011
Trade tax	– 6.4	– 9.6
Corporate income tax	– 3.7	– 7.3
Capital yields tax	– 1.1	– 0.1
Tax refunds (+) / payments (–) from / for prior years	0.1	– 2.9
Deferred taxes – temporary differences	– 49.4	– 7.7
Deferred taxes – loss carryforwards	17.4	– 13.5
Reversal of liabilities from income taxes	5.4	2.6
Total	– 37.7	– 38.5

In 2012 as well as in 2011, no remarkable tax law changes became effective. Nevertheless, on 25 October 2012, the German Bundestag passed the Business Tax Reform Act 2012 and the legislative approval vote for this Act is expected to be in 2013. The Act includes changes relating to the current German group taxation system ("Organschaft"). For the GAGFAH Group, especially changes relating to the profit and loss transfer agreement (PLTA) are relevant. PLTAs which do not fulfill the expected new requirements would have to be amended to comply with the new rule by December 31, 2014.

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 € – 27.4 million (prior year: € – 6.6 million).

The following table reconciles this anticipation to effective income taxes:

€ million	2012	2011
Profit before taxes	**85.4**	**20.6**
Anticipated income taxes	**– 27.4**	**– 6.6**
Income taxes not related to the period and other adjustments to current income taxes	5.5	– 0.3
Tax-free income	0.6	0.9
Tax portion for non-deductible expenses	– 13.2	– 42.6
Tax portion for non-deductible interest	– 12.9	– 16.9
Permanent trade tax effects	– 5.9	– 6.4
Effects of previously unrecognized deferred taxes on temporary differences	0.0	2.2
Effects of previously unrecognized deferred taxes on loss carryforwards	15.4	7.6
Corporate income tax dividend within profit and loss absorption agreement	– 0.2	– 0.2
Effect from deconsolidation of GAGFAH Pegasus GmbH	0.0	23.8
Other tax effects	1.5	0.1
Effective income taxes	**– 36.6**	**– 38.4**
Capital yields tax	**– 1.1**	**– 0.1**
Income taxes	**– 37.7**	**– 38.5**

As result of a tax audit, provisions for prior year's income taxes could be released in 2012. The respective effect is shown as "Income taxes not related to the period". The tax portion for non-deductible expenses mainly relates to non-deductible expenses for tax purposes in Luxembourg. In 2011, non-deductible expenses in connection with the disposal of GAGFAH Pegasus GmbH were recognized. 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 previously unrecognized deferred taxes on loss carryforwards". Additionally, effects from tax audits regarding prior year's loss carryforwards are shown. In 2011, 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 profit of € 4.5 million (prior year: loss of € 1.5 million) of net result relates to non-controlling interests.

The profit attributable to non-controlling interests splits up into a profit of € 0.9 million (prior year: a loss of € 4.2 million) relating to GAGFAH subgroup and a profit of € 3.6 million (prior year: a profit of € 2.7 million) relating to WOBA subgroup.

15. EARNINGS PER SHARE

Basic earnings per share (EPS) amount to € 0.22 (prior year: € – 0.07). They were calculated by dividing the net result for the year distributable to ordinary equity holders of the parent company (€ 43.2 million profit; prior year: € 16.4 million loss) by the weighted average number of undiluted ordinary shares outstanding during the year (199,238,654; prior year: 218,841,326).

Diluted earnings per share amount to € 0.22 (prior year: € – 0.07). These were calculated by dividing the net result for the year distributable to ordinary equity holders of the parent company (€ 44.0 million profit; prior year: € 14.2 million loss) by the weighted average number of diluted ordinary shares outstanding during the year (200,861,394; prior year: 221,125,428).

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:

€ million

	12-31-2012		12-31-2011	
	Weighted average number	**EPS**	Weighted average number	EPS
Undiluted ordinary shares	**199,238,654**	**0.22**	218,841,326	– 0.07
Weighted average number of share options	**1,622,740**	**0.00**	2,284,102	0.00
Diluted ordinary shares	**200,861,394**	**0.22**	**221,125,428**	**– 0.07**

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, 1,045,739 (prior year: 1,513,850) stock options were vested and exercisable.

The vesting schedule as of December 31, 2012, is:
2013: 340,839.

The vesting schedule as of December 31, 2011, was:
2012: 339,839
2013: 340,839.

The weighted average remaining contractual life for the share options outstanding as of December 31, 2012, is 0.98 years (prior year: 1.49 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.

Other non-cash expenses / income mainly include non-cash interest expenses of € 25.5 million (prior year: € 23.0 million). The prior-year amount additionally included prepayment fees in connection with the sale of subsidiaries of € 20.3 million.

The change in receivables and other assets of € 24.2 million (prior year: € – 0.3 million) mainly results from incoming payments of € 21.4 million from the sale of the subsidiaries GAGFAH Acquisition 3 GmbH and GAGFAH Pegasus GmbH that were deposited on a notary trust account in the prior year, representing the portion of the purchase price which had not yet been paid.

The change in provisions, pension provisions and deferred liabilities of government-granted loans splits up into a change in deferred liabilities of government-granted loans of € – 7.1 million (prior year: € – 7.3 million) and a change in provisions and pension provisions of € – 25.9 million (prior year: € – 6.2 million). The change in provisions and pension provisions in the financial year 2012 is mainly due to the utilization of provisions for restitution proceedings and provisions in connection with WOBA lawsuits.

The cash received from the sale of investment property and assets held for sale of € 215.4 million (prior year: € 235.9 million) is calculated as the aggregate of income from the sale of investment property and assets held for sale of € 213.1 million (prior year: € 388.8 million) and the cash-relevant changes in receivables from sales of land and buildings of € 2.3 million (prior year: € – 15.1 million). The prior-year amount also included the change in prepayments received of € – 137.8 million.

The amount of cash received from raising financial liabilities of € 141.2 million (prior year: € 20.5 million) as shown in the Consolidated Statement of Cash Flows is based on the resetting of several loans in accordance with IAS 39.AG62.

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

CASH AND CASH EQUIVALENTS 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

	12-31-2012	12-31-2011
Cash on hand	0.1	0.1
Bank balances	71.1	72.0
Restricted cash	104.8	128.0
Bank balances and cash on hand	**176.0**	**200.1**

Restricted cash breaks down as follows:

12-31-2012
€ million

	GAGFAH subgroup	GBH subgroup	Other	Total
From asset sales	21.9	3.3	4.2	**29.4**
thereof for either repayment or reinvest	10.9	0.0	4.2	**15.1**
thereof for a specific purpose	11.0	3.3	0.0	**14.3**
From regular business	7.1	0.9	0.0	**8.0**
Initial amount in accordance with credit agreement	21.3	7.1	0.0	**28.4**
Restrictions under company law	6.7 [1]	0.0	2.3 [2]	**9.0**
Accrued interests	8.0	2.1	16.5	**26.6**
Other	1.9	0.1	1.4	**3.4**
Total	**66.9**	**13.5**	**24.4**	**104.8**

1 Thereof HB Funds balances: € 6.4 million.
2 Thereof Striesen KG: € 2.0 million.

12-31-2011
€ million

	GAGFAH subgroup	GBH subgroup	Other	Total
From asset sales	36.7	1.3	32.0	**70.0**
thereof for either repayment or reinvest	36.7	1.3	32.0	**70.0**
thereof for a specific purpose	0.0	0.0	0.0	**0.0**
From regular business	0.0	0.0	0.0	**0.0**
Initial amount in accordance with credit agreement	0.0	0.0	0.0	**0.0**
Restrictions under company law	27.8 [1]	0.0	2.4 [2]	**30.2**
Accrued interests	6.0	1.3	17.3	**24.6**
Other	2.2	0.2	0.8	**3.2**
Total	**72.7**	**2.8**	**52.5**	**128.0**

1 Thereof HB Funds balances: € 27.4 million.
2 Thereof Striesen KG: € 2.0 million.

An amount of € 15.1 million (prior year: € 70.0 million) relating to asset sales 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 € 11.4 million (prior year: € 46.6 million) thereof. The residual amount of € 3.7 million (prior year: € 23.4 million) will be freely available after the aforementioned amount has been repaid.

According to the existing loan agreement, since October 19, 2012, GAGFAH I Invest GmbH & Co. KG and GAGFAH A Asset GmbH & Co. KG have to accumulate the following cash amounts on a separate account which is pledged in favor of the lender:

- An initial amount of € 21.3 million (prior year: € 0.0 million; see line "Initial amount in accordance with credit agreement")
- The monthly cash surplus from regular business after deducting all costs (€ 7.1 million as of December 31, 2012; prior year: € 0.0 million; see line "From regular business")
- Proceeds from property sales after deducting sales cost as far as they exceed the proportionate amount of the loan thereon (€ 11.0 million as of December 31, 2012; prior year: € 0.0 million; see line "thereof for a specific purpose").

According to the existing loan agreement, since April 20, 2012, GBH Acquisition GmbH has to accumulate the following cash amounts on a separate account in order to use it for additional loan repayments on the respective dates of interest payment:

- An amount of € 7.1 million (prior year: € 0.0 million), remaining from GBH's initial upfront cash reserve of € 10.0 million (see line "Initial amount in accordance with credit agreement" and section E.16.1. "Financial Liabilities").
- The monthly cash surplus from regular business after deducting all costs (€ 0.9 million as of December 31, 2012; prior year: € 0.0 million; see line "From regular business")
- Proceeds from property sales after deducting sales cost as far as they exceed the proportionate amount of the loan thereon (€ 3.3 million as of December 31, 2012; prior year: € 0.0 million; see line "thereof for a specific purpose").

A further amount of € 26.6 million (prior year: € 24.6 million) corresponds to the interests on term loans due but not yet payable until the end of the reporting period.

Other restricted cash mainly includes cash pledged for guarantee 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:

€ million

	Category in accordance with IAS 39[1]	Carrying amount 12-31-2012	Amortized cost	Fair value recognized in profit or loss	Fair value recognized in equity	Fair Value 12-31-2012
Assets						
Bank balances and cash on hand	LAR	176.0	176.0			176.0
Investments	AFS	0.9	0.9			0.9
Receivables from sales of land and buildings	LAR	20.2	20.2			20.2
Rent receivables	LAR	7.4	7.4			7.4
Other	LAR	26.9	26.9			26.9
Liabilities						
Global loans	FLAC	– 4,886.4	– 4,886.4			– 5,017.9
Government annuity loans	FLAC	– 245.1	– 245.1			– 276.1
Privately financed annuity loans	FLAC	– 82.4	– 82.4			– 75.8
Financial liabilities of the funds	FLAC	– 6.8	– 6.8			– 6.8
Derivative financial liabilities measured at fair value	AFVTPL	– 4.9		– 3.8	– 1.1	– 4.9
Other financial liabilities	FLAC	– 5.5	– 5,5			– 5.5
Trade payables	FLAC	– 32.6	– 32.6			– 32.6
Liabilities to tenants	FLAC	– 15.1	– 15.1			– 15.1
Liabilities from operating expenses not yet invoiced	FLAC	– 30.3	– 30.3			– 30.3
Other	FLAC	– 41.7	– 41.7			– 41.7

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

€ million

	Category in accordance with IAS 39[1]	Carrying amount 12-31-2011	Amortized cost	Fair value recognized in profit or loss	Fair value recognized in equity	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**
Derivative financial liabilities measured at fair value	AFVTPL	**– 5.8**		– 5.8		**– 5.8**
Other financial liabilities		**– 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**

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", subsection "Interest Rate Derivatives".

The net results per measurement category break down as follows:

€ million

		From subsequent measurement			
	From interest	At fair value	Impairment / Reversal of impairment	From derecognition	Net result 12-31-2012
Loans granted and Receivables (LaR)	1.7	0.0	– 7.2	0.5	**– 5.0**
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)	– 4.4	2.1	0.0	0.0	**– 2.3**
Financial Liabilities measured at Amortized Cost (FLAC)	– 240.6	0.0	0.0	0.0	**– 240.6**

€ million

		From subsequent measurement			
	From interest	At fair value	Impairment / Reversal of impairment	From derecognition	Net result 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**

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

€ million	12-31-2010	Utilization	Reversals	Additions	Changes due to the sale of subsidiaries	12-31-2011	Utilization	Reversals	Additions	Changes due to the sale of subsidiaries	12-31-2012
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	− 22.3	4.3	1.8	− 3.9	0.8	− 19.3	4.9	3.5	− 3.5	0.0	− 14.4
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	0.4	0.1	0.0	0.0	0.0
Insurance claims	− 0.4	0.0	0.3	− 1.1	0.0	− 1.2	0.0	0.9	− 0.9	0.0	− 1.2
Other	− 0.4	0.0	0.0	0.0	0.4	0.0	0.0	0.0	0.0	0.0	0.0
Total	− 23.9	4.3	2.1	− 5.0	1.2	− 21.3	5.3	4.5	− 4.4	0.0	− 15.9

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:

12-31-2012
€ million

			Of which: Past due on the reporting date in the following periods			
	Carrying amount	Of which: Neither impaired nor past due on the reporting date	0 – 90 days	91 – 180 days	181 – 360 days	> 360 days
Assets						
Receivables from sales of land and buildings	20.2	19.0	0.5	0.0	0.0	0.4
Rent receivables	7.5	0.2	7.3	0.0	0.0	0.0
Receivables from other trade	1.9	0.5	1.4	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	4.4	0.0	0.0	0.0	0.0
Insurance claims	5.1	3.8	0.0	0.0	0.0	0.0
Other	16.5	16.1	0.3	0.0	0.0	0.0

12-31-2011
€ million

			Of which: Past due on the reporting date in the following periods			
	Carrying amount	Of which: Neither impaired nor past due on the reporting date	0 – 90 days	91 – 180 days	181 – 360 days	> 360 days
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

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:

€ million

	Expenses for full write-off of receivables		Income from recoveries on receivables written off	
	12-31-2012	12-31-2011	**12-31-2012**	12-31-2011
Receivables from sales of land and buildings	**0.0**	– 0.1	**0.0**	0.0
Rent receivables	**– 12.3**	– 9.4	**0.0**	0.0
Other	**– 0.3**	– 1.4	**0.5**	0.3

In 2012, no financial assets were transferred in such a way that GAGFAH GROUP has retained substantially all the risks and rewards of ownership of the transferred assets.

2. FINANCIAL RISK MANAGEMENT

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, 2012, the derivative financial instruments used by the Group were interest rate swaps and caps.

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

In the financial year 2012, the swap and the cap negotiated in connection with the new loan of GBH Acquisition GmbH have been designated as being hedging instruments.

INTEREST RATE DERIVATIVES In the business year 2012, the Group used interest rate swaps and interest rate caps to hedge future cash flows from variable-rate loans.

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	12-31-2012	12-31-2011
Nominal value of interest rate swaps	212.2	316.6
Fair value of interest rate swaps	– 4.8	– 5.8

Due to the valuation of the derivatives, interest rate swaps with a negative amount of € 4.8 million (prior year: € 5.8 million) are disclosed in the balance sheet item "Financial liabilities". Due to the hedging strategy of GAGFAH GROUP, the effective part of the interest rate swap of € 1.1 million (prior year: € 0.0 million) is recognized directly in equity.

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

€ million	12-31-2012	12-31-2011
Nominal value of interest rate caps	71.5	0.0
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, 2012, the valuation was based on the following term structure:

%	12-31-2012	12-31-2011
Interest rate for six months	**0.320**	1.617
Interest rate for one year	**0.542**	1.947
Interest rate for two years	**0.375**	1.310
Interest rate for five years	**0.766**	1.736

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 € 2.1 million profit (prior year: € 6.0 million profit) were recognized through profit or loss under the item "Result from the fair value measurement of derivatives".

OPTION AGREEMENTS On August 28, 2012, subsidiaries of GAGFAH S. A. and MURSUK Grundstücks-Verwaltungsgesellschaft mbH (in the following also referred to as "MURSUK") signed a formal obligation. According to this agreement, MURSUK has the option to sell its limited partner's share in Opera Co-Acquisition GmbH & Co. KG and its share in Opera Co-Acquisition GP GmbH to GAGFAH Holding GmbH for a total sales price of at least € 2.9 million. As of the balance sheet date, the fair value of the option amounts to €3.5 million. A corresponding amount is recognized within the line item "Liabilities due to Non-controlling Shareholders". GAGFAH Holding GmbH will be bound to its offer until December 31, 2018.

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 The current situation shows that the main portion of term loans has fixed interest rates. However, an analysis of the current operating results shows that a variation of the interest yield curve has an impact on the interest result.

The floating interest rate is based on the 3M EURIBOR which was in average 0.196 % in Q4 2012. This low level of interest rate implies no material risk potential for further decrease. If market interest rates were 100 basis points higher by the next reporting date, the result would be € 2.6 million higher.

The increase of € 2.6 million in income results from valuation gains of € 3.0 million on interest rate derivatives and higher interest expenses of € 0.5 million related to variable-interest financial liabilities.

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.

Principally, the Group is financed long term. However, it regularly monitors credit terms and intends to refinance ahead of the respective loan maturities. In this context, the group is already working on the refinancing of all loans expiring in 2013. Based on the advanced status of the refinancing process, it is anticipated that these loans will be refinanced within this year and prior to their maturities. Moreover, the refinancing of WOBA was closed in Q1 2013, and term sheets have been signed for five of the six GRF sub-pools. For pool six, the Company plans to issue a commercial mortgage-backed security, so there will be no term sheet for this pool.

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 € 84.5 million (prior year: € 84.2 million) and amounts paid by contracting parties into notary trust accounts of € 9.9 million (prior year: € 45.8 million) serve as collateral securities mainly for the receivables from sales of land and buildings.

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

GAGFAH 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

	12-31-2012	12-31-2011
Current assets	2.5	2.3
Current liabilities	0.1	0.2
Net assets	2.4	2.1
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 provided 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 have residual terms of between 44 and 86 years. For further information, please refer to section C.2. “Leases”.

Future minimum lease payments under finance leases together with the present value of the net minimum lease payments are as follows:

12-31-2012
€ million

	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	14.3	15.6
Present value of payments	0.3	0.5	0.4	3.1	4.3

12-31-2011
€ million

	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

Commonly, 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.

The operating leases whereby the GROUP is the lessee, have residual terms of between 5 and 88 years. Future minimum rentals payable as of December 31 are as follows:

€ million

	Within one year	Between one and three years	Between three and five years	More than five years	Total
12-31-2012					
Minimum rentals payable	2.1	4.3	4.3	86.1	**96.8**
12-31-2011					
Minimum rentals payable	2.2	4.3	4.3	89.5	**100.3**

In the financial year 2012, lease payments of € 2.0 million (prior year: € 2.0 million) were recognized as an expense. There were no contingent rents or sublease payments.

The operating leases whereby the GROUP is the lessor, have residual terms of between 51 and 89 years . 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
12-31-2012					
Minimum rentals receivable	0.2	0.5	0.5	16.2	**17.4**
12-31-2011					
Minimum rentals receivable	0.2	0.5	0.5	16.2	**17.4**

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

12-31-2012
€ million

	Within one year	Between one and three years	Between three and five years	More than five years	Total
Outsourcing contracts (provider of maintenance activities)[1]	24.0	24.0	0.0	0.0	**48.0**
Rent obligations (buildings)	3.9	5.8	4.7	1.4	**15.8**
Hosting fees for computer center	5.0	0.1	0.0	0.0	**5.1**
Leasing obligations – automobile	1.3	1.4	0.3	0.0	**3.0**
Repair and maintenance of software	0.7	0.4	0.0	0.0	**1.1**
IT projects (facility management)	1.1	0.0	0.0	0.0	**1.1**
Other services from third parties	0.4	0.2	0.0	0.0	**0.6**
Basic fees for telephony and data network	0.3	0.1	0.0	0.0	**0.4**
Rent and leasing obligations – hardware	0.4	0.2	0.1	0.0	**0.7**
Repair and maintenance of hardware	0.1	0.2	0.0	0.0	**0.3**
Leasing obligations – copiers	0.1	0.1	0.0	0.0	**0.2**
Total	37.3	32.5	5.1	1.4	**76.3**

1 In addition, the contractor of the GAGFAH GROUP operates a call center to ensure timely and efficient processing of maintenance orders. Furthermore, the GAGFAH GROUP agreed, besides the issue of maintenance orders, to a fixed financial compensation to the outsourcing partner. The agreement with the outsourcing partners was renegotiated regarding service volume and contract term. In this context, it was contractually agreed that the future cost increases are linked to the building price indices published by the Federal Statistical Office.

12-31-2011
€ million

	Within one year	Between one and three years	Between three and five years	More than five years	Total
Outsourcing contracts (provider of maintenance activities)[1]	24.0	36.0	0.0	0.0	**60.0**
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	37.0	47.9	5.7	0.1	**90.7**

1 In addition, the contractor of the GAGFAH GROUP operates a call center to ensure timely and efficient processing of maintenance orders. Furthermore, the GAGFAH GROUP agreed, besides the issue of maintenance orders, to a fixed financial compensation to the outsourcing partner.

A significant proportion of the expected costs in connection with rent obligations (buildings) is covered by a long-term restructuring provision. Regarding the corresponding provisions, please refer to section E.13.2. “Other Provisions”.

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

There are no purchase options for the rental agreements, but some of the contracts include renewal clauses up to ten years.

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 2012, the total payments for operating leases within other financial obligations amounted to € 5.3 million (prior year: € 5.2 million).

Apart from the financial obligations disclosed in the tables above, GAGFAH GROUP is subject to minimum annual investments in its real estate as a result of privatization and loan contracts.

The Group's other financial obligations from purchase agreements concerning subgroups and subsidiaries break down as follows:

		12-31-2012		12-31-2011	
Single entity/Subgroup	Maturity date	**Minimum capital expenditure (in €/sqm)**	**Affected area (in sqm)**	Minimum capital expenditure (in €/sqm)	Affected area (in sqm)
GBH Acquisition GmbH	12-31-2017	**18.33**	**393,581**	–	–
WBN Asset GmbH & Co. KG	12-31-2013	**12.78**	**100,676**	12.78	117,627
WOBA subgroup	04-05-2021	**9.00**	**2,056,873**	5.95	2,444,344

Concerning the financial obligations from the buying contract of the WOBA subgroup, the respective lower obligation is fulfilled by observing the minimum threshold required by the respective higher obligation.

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

		12-31-2012		12-31-2011	
Single entity	Maturity date	**Minimum capital expenditure (in €/sqm)**	**Affected area (in sqm)**	Minimum capital expenditure (in €/sqm)	Affected area (in sqm)
GAGFAH Acquisition 1 GmbH	10-21-2013	**8.00**	**405,166**	8.00	405,170
GAGFAH Acquisition 2 GmbH	10-20-2014	**5.00**	**48,312**	5.00	48,312
GAGFAH Erste Grundbesitz GmbH	10-20-2014	**5.00**	**474,511**	5.00	474,544
GBH Acquisition GmbH	04-22-2014	**8.00**	**341,552**	8.00	413,786
GAGFAH I Invest GmbH & Co. KG	08-15-2013	**8.00**	**3,844,678**	8.00	3,976,603
GAGFAH A Asset GmbH & Co. KG	08-15-2013	**8.00**	**174,077**	8.00	185,529
OWG Asset GmbH & Co. KG	04-20-2014	**8.00**	**189,392**	8.00	189,392
WGNorden Asset GmbH & Co. KG	04-20-2014	**8.00**	**555,040**	8.00	557,610
WBN Asset GmbH & Co. KG	04-20-2014	**8.00**	**483,881**	8.00	484,864
NILEG Residential Asset GmbH & Co. KG	04-20-2014	**8.00**	**367,928**	8.00	370,138

The obligations from minimum capital expenditure totaled € 80.4 million (prior year: € 70.4 million). In the financial year 2012 and the previous year, those obligations have been fulfilled since € 98.3 million (prior year: € 97.4 million) have been paid for repair and maintenance, thereof € 81.8 million (prior year: € 76.5 million) recognized in the Consolidated Statement of Comprehensive Income, € 7.7 million (prior year: € 13.7 million) intercompany expenses (mainly personnel expenses), € 4.1 million (prior year: € 0.9 million) capitalized maintenance, € 3.7 million (prior year: € 4.4 million) expenses for damages covered by insurances and € 1.0 million (prior year: € 1.9 million) maintenance on properties for sale.

On April 20, 2012, GBH Acquisition GmbH signed a credit agreement with its current creditor for extending the term loan for a period of one year plus an option for another year. This option has already been drawn. Besides the extension of the credit agreement, an appendix to the purchase agreement has been signed, in which GBH Acquisition GmbH committed to spend at least € 18.33 yearly per square meter for repair and maintenance or modernization in the calendar years 2012 – 2017, which is € 10.33 per square more than demanded in the credit agreement. The latter shall be considered as fulfilled by observing the minimum threshold required by the additional agreement.

5. NUMBER OF EMPLOYEES AND PERSONNEL EXPENSES

The average number of employees is presented below, broken down according to GAGFAH's business segments:

	2012		2011	
	Heads	FTEs	Heads	FTEs
Real estate management	1,280	1,241	1,173	1,124
thereof facility management services	765	753	666	648
Real estate sales	29	29	33	32
Other	156	150	177	170
Total	1,465	1,420	1,383	1,326

In addition to the above-mentioned 1,465 (prior year: 1,383) employees, the Group employed 331 (prior year: 306) low-income workers and 100 (prior year: 101) trainees with the result that the total average headcount was 1,896 (prior year: 1,790).

Personnel expenses amounted to € 89.0 million (prior year: € 87.6 million) and break down as follows:

€ million	2012	2011
Wages and salaries	71.8	69.1
Social security	13.7	13.0
Pension costs	1.9	1.5
Other	1.6	4.0
Total	89.0	87.6

Other personnel expenses mainly contain expenses for share-based payment (equity-settled) amounting to € 1.0 million (prior year: € 3.8 million), expenses for share-based payment (cash-settled) amounting to €0.2 million (prior year: €0.1 million) and personnel expenses relating to the prior year of €0.4 million (prior year: €0.1 million).

€ 5.2 million (prior year: € 5.2 million) of the expenses for social security are recognized as an expense for defined contribution plans.

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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 2012. 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, 2012

	Number of Shares	%
Fortress Residential Investment Deutschland (Fund A) LP	20,626,823	9.99
Fortress Investment Fund III (GAGACQ Subsidiary) LLC	16,539,554	8.01
Fortress Investment Fund III (Fund B)(GAGACQ Subsidiary) LLC	14,141,601	6.85
Fortress Residential Investment Deutschland (Fund B) LP	12,330,464	5.97

MAJOR SHAREHOLDERS (EXCEEDING 5 %) AS OF DECEMBER 31, 2011

	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

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 of GAGFAH S. A.:

MEMBERS

Robert I. Kauffman	Chairman
William J. Brennan	Director (until March 31, 2012)
Stephen Charlton	Director (since April 1, 2012)
Wesley R. Edens	Director
Randal A. Nardone	Director
Dr. Jürgen Allerkamp	Independent Director
Dieter H. Ristau	Independent Director
Yves Wagner, Ph.D.	Independent Director

With effect of March 31, 2012, William J. Brennan resigned from his position as member of the Board of Directors of GAGFAH S. A.

His successor as new member of the Board of Directors of GAGFAH S. A. is Stephen Charlton.

TOTAL REMUNERATION AND LOANS GRANTED Robert I. Kauffman, Stephen Charlton, Wesley R. Edens and Randal A. Nardone are not parties to service agreements with the Company and receive no compensation as Board members. Stephen Charlton 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, Ph D., Dieter H. Ristau and Dr. Jürgen Allerkamp are party to service agreements with the Company. They receive compensation for their services as Board members and are reimbursed for their expenses on an annual basis. Such compensation consists (net) of € 25,000.00 plus 5,000 shares in the Company. The compensation for the financial year 2012, payable in 2013, was increased to € 40,000.00 plus 10,000 shares in the Company. The service agreements do not provide for the receipt of any benefits upon termination of such service agreements.

The total net compensation to members of the Board for the financial year 2011 was paid in 2012 and amounted to € 75,000.00 plus 15,000 shares in the Company. An amount of € 100,500.00, equaling to the aforementioned 15,000 shares with a (net) average price of € 6.70, was deducted from treasury shares for the first time (procedure of the previous years: issue of new shares). We refer to section E.11. “Equity”. The total net compensation for the financial year 2012 will be paid in 2013 and amounts to € 120,000.00 plus 30,000 shares in the Company. In addition, we provide all Board members with directors’ and officers’ insurance.

As of December 31, 2012, 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 Stephen Charlton, 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 Stephen Charlton 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) (until March 31, 2012)
Stephen Charlton	Chief Executive Officer (CEO) (since April 1, 2012) Chief Financial Officer (CFO) (until March 31, 2012)
Stefan de Greiff	Chief Investment and Sales Officer (CISO) (until July 31, 2012)
Nicolai Kuss	Chief Operating Officer (COO) Chief Investment and Sales Officer (CISO) (since August 1, 2012)
Gerald Klinck	Chief Financial Officer (CFO) (since November 16, 2012)

With effect of March 31, 2012, William J. Brennan resigned from his position as Chief Executive Officer of the GAGFAH GROUP.

His successor as new Chief Executive Officer of the GAGFAH GROUP is Stephen Charlton who has been Chief Financial Officer of the GAGFAH GROUP since January 2011.

With effect as of July 31, 2012, Stefan de Greiff resigned from his position as Chief Investment and Sales Officer. Since August 1, 2012, Nicolai Kuss (Chief Operating Officer) has been responsible for investments and sales as well.

With effect as of November 16, 2012, Gerald Klinck has been appointed Chief Financial Officer of the GAGFAH GROUP.

TOTAL REMUNERATION AND LOANS GRANTED Current management remuneration comprises a fixed, a variable and a share-based component. In the financial year 2012, the Senior Management received remuneration totaling € 5.4 million (prior year: € 5.9 million) for the performance of their duties within the Group.

Of total remuneration, € 1.3 million (prior year: € 1.0 million) relates to fixed remuneration, € 1.2 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 € 1.2 million (prior year: € 1.4 million) includes annually recurring components linked to the success of the Company.

Additionally, management received share-based remuneration amounting to € 1.0 million (prior year: € 3.5 million).

As of December 31, 2012, no advances or loans had been granted to managers.

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

Pensions totaling € 0.6 million (prior year: € 0.7 million) were paid to former managers and their dependents in the financial year.

JUBILEE COMMITMENTS There are no obligations to pay jubilee commitments to Senior Management.

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 2012, severance payments amounting to € 1.9 million (prior year: no severance payments) were made.

8. EVENTS AFTER THE BALANCE SHEET DATE

MANAGEMENT – BOARD OF DIRECTORS With effect as of January 15, 2013, Robert I. Kauffman resigned from his functions as member and chairman of the Board of Directors of GAGFAH S. A. Mr. Kauffman's resignation occurs in the context of his retirement from Fortress Investment Group LLC, the indirect majority shareholder of GAGFAH S. A.

With effect as of January 15, 2013, the board of directors of GAGFAH S. A. co-opted Mr. Jonathan Ashley as member of and to chair the Board of Directors of GAGFAH S. A.

REFINANCING GBH SUBGROUP On January 16, 2013, GBH subgroup requested that the final maturity date of the term loan with a nominal value of €221.0 million as of December 31, 2012, will be extended for a period of one year to April 22, 2014 according to the loan contract dated April 20, 2012 ("one-year extension option"). This request was consequently approved by the lender. Due to the fact that, already as of December 31, 2012, GBH fulfilled all qualifications for the extension of the final maturity date as defined the aforementioned loan contract, the term loan was reclassified from current into non-current financial liabilities as of the balance sheet date.

REFINANCING WOBA SUBGROUP Since the term of the old global loan of WOBA subgroup would have ended on May 15, 2013, a new loan agreement for refinancing purposes was signed and closed with an international lender on February 20, 2013.

The credit volume of € 1,060.5 million stated in this loan agreement has met the requirements of WOBA subgroup to replace the existing credit line.

The term is five years (plus an extension option for one year) at a fixed interest rate of 3.85 % p. a. The fixed repayments are at 1.0 % p. a. In addition, a partial repayment of loan amounts shall be provided through sales.

Furthermore, the credit agreement includes both customary covenants concerning debt service ability, loan-to-value ratios and minimum expenditure on maintenance. According to the latest plans, WOBA subgroup is able to achieve all ratios and the expenditure on maintenance out of the cash flow from the leasing of the affected part of real estate portfolio.

REFINANCING GAGFAH SUBGROUP In connection with the follow-up financing of the global loan raised by GAGFAH subgroup, the other lenders signed term sheets in the financial year 2013 for further amounts provisionally totaling approximately € 1.1 billion. The contracting parties are other insurance companies, mortgage bond banks as well as German and international investors. The loans are due in five to ten years.

The loan agreements underlying all term sheets, which are currently being negotiated and are awaiting finalization and signing, cover a lending value equivalent to the Company's requirements for repaying the respective portions of the current global loan.

Furthermore, the individual loan agreements are expected to set forth covenants with regard to debt servicing ability and lending value customary for the industry and cover minimum expenditure for maintenance.

According to the current forecast, the Company will be able to meet all intended covenants and generate sufficient property management income from the relevant sub-portfolios to cover the expenses for maintenance.

The following table shows the current status of refinancing for the sub-portfolios:

	Pool 1	Pool 2	Pool 3	Pool 4	Pool 5	Pool 6
Term sheet from year	2013	2013	2013	2012	2013	N/A
Loan amount in € million[1]	456.0[2]	221.8[2]	324.3[2]	138.4[2,3]	129.4[2]	708.8
Term in years	7	5	10	10	10	5

1 Anticipated loan amounts.
2 Term sheet already signed.
3 According to the term sheet, the lender will commit a loan amount of between € 130.0 million and € 140.0 million.

As part of the refinancing measures intended for Pool 6, the Company plans to securitize debts (commercial mortgage-backed securities) in order to raise capital totaling approximately € 708.8 million. As part of the securitization, notes are to be issued by an Irish special purpose vehicle.

These notes are to be admitted to trading on the Irish Stock Exchange.

Due to the different structure of this refinancing tranche compared to the other pools, there is currently no term sheet from a bank or a financial services provider for this part of the refinancing of Pool 6. Based on the assessment of a leading investment bank on the marketability of the relevant notes, we assume it highly probable that the refinancing will be successful.

With the purpose of taking over assets and liabilities of GAGFAH I Invest GmbH & Co. KG in the course of the refinancing of GAGFAH subgroup, GAGFAH Achte Wohnen GmbH & Co. KG was founded by GAGFAH M Immobilien-Management GmbH on January 22, 2013 and entered into the commercial register on January 24, 2013. The corporate purpose of this company is the management of residential and other buildings.

For further information on the refinancing, we refer to section E.16.1. “Financial Liabilities”, subsection “Refinancing”.

MANAGEMENT – SENIOR MANAGEMENT GAGFAH S. A. is considering a change in the position of the Chief Executive Officer (CEO) of the GAGFAH GROUP and is engaged in intensive discussions with Thomas Zinnöcker, currently CEO of GSW Immobilien AG, Berlin.

GAGFAH S. A. is expecting these discussions to come to a successful conclusion shortly. Stephen Charlton is prepared to resign from his positions once the question of his succession is properly solved for the benefit of GAGFAH. Stephen Charlton will support his successor in office for a transition period.

NEW MEMBER OF THE BOARD OF DIRECTORS AND CEO Thomas Zinnöcker has been appointed as member of the Board of Directors of GAGFAH S. A. and CEO of the GAGFAH GROUP, effective as of April 16, 2013. Stephen Charlton has resigned effective as of the same date and will continue to support the Company during the transition phase.

04

OTHER

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OTHER

LIST OF SHAREHOLDINGS

FORMATIONS IN THE FINANCIAL YEAR 2012

Fully consolidated subsidiaries

Parent company	Subsidiary	Date of formation	Date of entry into the commercial register
GAGFAH GmbH	GAGFAH Erste Wohnen GmbH & Co. KG	December 21, 2012	January 16, 2013
GAGFAH GmbH	GAGFAH Zweite Wohnen GmbH & Co. KG	December 21, 2012	January 16, 2013
GAGFAH GmbH	GAGFAH Dritte Wohnen GmbH & Co. KG	December 21, 2012	January 16, 2013
GAGFAH GmbH	GAGFAH Vierte Wohnen GmbH & Co. KG	December 21, 2012	January 17, 2013
GAGFAH GmbH	GAGFAH Fünfte Wohnen GmbH & Co. KG	December 21, 2012	January 16, 2013
GAGFAH GmbH	GAGFAH Sechste Wohnen GmbH & Co. KG	December 21, 2012	January 16, 2013
GAGFAH M Immobilien-Management GmbH	GAGFAH Siebte Wohnen GmbH & Co. KG	December 21, 2012	January 17, 2013

LIST OF SHAREHOLDINGS AS OF DECEMBER 31, 2012

Fully consolidated subsidiaries

	Company name	Registered office	Share in 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	51.00 % 48.60 %	4 12
15	GAGFAH A Asset GmbH & Co. KG	Essen, Germany	100.00 %	12
16	VHB Grundstücksverwaltungsgesellschaft “Haus- und Boden-Fonds” mbH	Essen, Germany	100.00 %	12

LIST OF SHAREHOLDINGS AS OF DECEMBER 31, 2012

Fully consolidated subsidiaries

	Company name	Registered office	Share in capital	Held by No.
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 %	12
20	HaBeGe Bau- und Projektentwicklungsgesellschaft mbH	Essen, Germany	94.90 %	12 4
21	Instandhaltungs-Service GmbH (ISG)	Essen, Germany	5.10 %	16
22	Grünflächen-Service GmbH (GSG)	Essen, Germany	100.00 %	16
23	GAGFAH Erste Wohnen GmbH & Co. KG	Mülheim an der Ruhr, Germany	100.00 %	11
24	GAGFAH Zweite Wohnen GmbH & Co. KG	Mülheim an der Ruhr, Germany	100.00 %	11
25	GAGFAH Dritte Wohnen GmbH & Co. KG	Mülheim an der Ruhr, Germany	100.00 %	11
26	GAGFAH Vierte Wohnen GmbH & Co. KG	Mülheim an der Ruhr, Germany	100.00 %	11
27	GAGFAH Fünfte Wohnen GmbH & Co. KG	Mülheim an der Ruhr, Germany	100.00 %	11
28	GAGFAH Sechste Wohnen GmbH & Co. KG	Mülheim an der Ruhr, Germany	100.00 %	11
29	GAGFAH Siebte Wohnen GmbH & Co. KG	Mülheim an der Ruhr, Germany	100.00 %	12
30	Haus- und Boden- Fonds 5	Essen, Germany	66.96 %	13
31	Haus- und Boden- Fonds 6	Essen, Germany	88.66 %	13
32	Haus- und Boden- Fonds 7	Essen, Germany	76.38 %	13
33	Haus- und Boden- Fonds 8	Essen, Germany	74.30 %	13
34	Haus- und Boden- Fonds 9	Essen, Germany	72.85 %	13
35	Haus- und Boden- Fonds 10	Essen, Germany	73.36 %	13
36	Haus- und Boden- Fonds 11	Essen, Germany	73.16 %	13
37	Haus- und Boden- Fonds 12	Essen, Germany	81.05 %	13
38	Haus- und Boden- Fonds 13	Essen, Germany	78.46 %	13
39	Haus- und Boden- Fonds 14	Essen, Germany	63.06 %	13
40	Haus- und Boden- Fonds 15	Essen, Germany	70.60 %	13
41	Haus- und Boden- Fonds 18	Essen, Germany	71.59 %	13
42	Haus- und Boden- Fonds 19	Essen, Germany	74.20 %	13
43	Haus- und Boden- Fonds 21	Essen, Germany	71.23 %	13
44	Haus- und Boden- Fonds 23	Essen, Germany	54.44 %	13
45	Haus- und Boden- Fonds 29	Essen, Germany	62.60 %	13
46	Haus- und Boden- Fonds 33	Essen, Germany	57.10 %	13
47	Haus- und Boden- Fonds 35	Essen, Germany	58.36 %	13
48	Haus- und Boden- Fonds 37	Essen, Germany	47.97 %	13
49	Haus- und Boden- Fonds 38	Essen, Germany	54.15 %	13
50	NILEG Immobilien Holding GmbH	Hanover, Germany	94.80 % 5.20 %	2 1
51	NILEG Real Estate GmbH	Hanover, Germany	94.81 % 5.19 %	50 4

LIST OF SHAREHOLDINGS AS OF DECEMBER 31, 2012

Fully consolidated subsidiaries

	Company name	Registered office	Share in capital	Held by No.
52	NILEG Real Estate GmbH & Co. Management KG	Hanover, Germany	94.90 % 5.10 %	50 4
53	NILEG Norddeutsche Immobiliengesellschaft mbH	Hanover, Germany	94.86 % 5.14 %	50 52
54	GAGFAH S Service GmbH	Essen, Germany	100.00 %	50
55	Osnabrücker Wohnungsbaugesellschaft mit beschränkter Haftung	Osnabruck, Germany	94.09 % 5.91 %	50 4
56	OWG Beteiligungs GmbH	Hanover, Germany	100.00 %	55
57	OWG Asset GmbH & Co. KG	Osnabruck, Germany	100.00 %	55
58	NILEG Norddeutsche Beteiligungs GmbH	Hanover, Germany	100.00 %	53
59	NILEG Commercial Asset GmbH & Co. KG	Hanover, Germany	100.00 %	53
60	NILEG Residential Asset GmbH & Co. KG	Hanover, Germany	100.00 %	53
61	Wohnungsgesellschaft Norden mbH	Hanover, Germany	94.88 %	53
62	WGNorden Beteiligungs GmbH	Hanover, Germany	100.00 %	61
63	WGNorden Asset GmbH & Co. KG	Hanover, Germany	100.00 %	61
64	Wohnungsbau Niedersachsen GmbH	Hanover, Germany	94.85 %	61
65	VHB FM GmbH	Essen, Germany	100.00 %	64
66	WBN Beteiligungs GmbH	Hanover, Germany	100.00 %	64
67	WBN Asset GmbH & Co. KG	Hanover, Germany	100.00 %	64
68	WOBA HOLDING GMBH	Dresden, Germany	94.80 % 5.20 %	2 1
69	Opera Co-Acquisition GP GmbH	Dresden, Germany	94.80 %	68
70	Opera Co-Acquisition GmbH & Co. KG	Dresden, Germany	94.90 %	68
71	WOBA DRESDEN GMBH	Dresden, Germany	100.00 %	68
72	Immo Service Dresden GmbH	Dresden, Germany	100.00 %	71
73	Dienstleistungs- und Bauhof Dresden GmbH	Dresden, Germany	100.00 %	72
74	Bau- und Siedlungsgesellschaft Dresden mbH	Dresden, Germany	94.73 % 5.27 %	71 70
75	Liegenschaften Weißig GmbH	Dresden, Germany	94.75 % 5.25 %	71 70
76	WOHNBAU NORDWEST GmbH	Dresden, Germany	94.90 % 5.10 %	71 70
77	SÜDOST WOBA DRESDEN GMBH	Dresden, Germany	94.90 % 5.10 %	71 70
78	Parkhaus Prohlis GmbH	Dresden, Germany	70.00 %	77
79	Immobilien-Vermietungsgesellschaft Knappertsbusch & Co. & SÜDOST WOBA Striesen KG	Leipzig, Germany	0.02 %	77
80	WOHNBAU NORDWEST Dienstleistungen GmbH	Dresden, Germany	100.00 %	2
81	GAGFAH Acquisition 1 GmbH	Essen, Germany	94.80 % 5.20 %	2 1

LIST OF SHAREHOLDINGS AS OF DECEMBER 31, 2012

Fully consolidated subsidiaries

	Company name	Registered office	Share in capital	Held by No.
			94.80 %	2
82	GAGFAH Acquisition 2 GmbH	Essen, Germany	5.20 %	1
			94.80 %	2
83	GAGFAH Erste Grundbesitz GmbH	Essen, Germany	5.20 %	4
			94.80 %	2
84	GBH Acquisition GmbH	Essen, Germany	5.20 %	1
85	GBH Service GmbH	Heidenheim an der Brenz, Germany	100.00 %	84
86	GBH Heidenheim Verwaltung GmbH	Heidenheim an der Brenz, Germany	100.00 %	84

Joint Ventures (as defined by IAS 31) included in the Consolidated Financial Statements on a Proportionate Basis

LIST OF SHAREHOLDINGS AS OF DECEMBER 31, 2012

	Company name	Registered office	Share in capital	Held by No.
87	Objekt Dresden GbR	Hanover, Germany	50.00 %	53
88	Grundstücksentwicklungsgesellschaft Oesselse “Langes Feld” GbR	Essen, Germany	50.00 %	53
89	Wolmirstedt GbR	Essen, Germany	50.00 %	53
90	Möser GbR	Essen, Germany	50.00 %	53

Other Financial Assets of 20 % or More

LIST OF SHAREHOLDINGS AS OF DECEMBER 31, 2012

	Company name	Registered office	Share in capital	Total equity € k	Net result € k	Held by No.
91	Hannover Region Grundstücksgesellschaft Verwaltung mbH & Co. Businesspark Hannover Nord KG	Hanover, Germany	33.33 %	664.0[1]	– 419.0[1]	53

1 As of December 31, 2011.

STATEMENT OF CHANGES IN CONSOLIDATED NON-CURRENT ASSETS

-- FOR THE PERIOD FROM JANUARY 1 TO DECEMBER 31, 2012 --

€ million

	Acquisition or production cost					
	January 1, 2012	Changes in the Consolidated Group	Additions	Disposals	Reclassifications	December 31, 2012
Intangible Assets						
Industrial rights	8.8	0.0	0.3	0.0	0.0	9.1
Goodwill	18.3	0.0	0.0	0.0	0.0	18.3
	27.1	**0.0**	**0.3**	**0.0**	**0.0**	**27.4**
Property, plant and equipment						
Land and buildings (owner-occupied)	47.0	0.0	0.0	0.0	1.0	48.0
Technical equipment and machines	4.7	0.0	0.0	0.0	0.0	4.7
Other equipment, furniture and fixtures	14.5	0.0	1.1	1.9	0.0	13.7
Assets under construction	0.1	0.0	0.2	0.0	0.0	0.3
	66.3	**0.0**	**1.3**	**1.9**	**0.0**	**66.7**
Other financial assets						
Investments	2.6	0.0	0.0	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
	6.0	**0.0**	**0.0**	**0.0**	**0.0**	**6.0**
Total	**99.4**	**0.0**	**1.6**	**1.9**	**1.0**	**100.1**

Accumulated depreciation					Book value
January 1, 2012	Changes in the Consolidated Group	Additions	Disposals	December 31, 2012	**December 31, 2012**
8.3	0.0	0.2	0.0	8.5	**0.6**
0.0	0.0	1.2	0.0	1.2	**17.1**
8.3	**0.0**	**1.4**	**0.0**	**9.7**	**17.7**
11.3	0.0	1.0	0.0	12.3	**35.7**
2.6	0.0	0.4	0.0	3.0	**1.7**
10.8	0.0	1.5	1.9	10.4	**3.3**
0.0	0.0	0.0	0.0	0.0	**0.3**
24.7	**0.0**	**2.9**	**1.9**	**25.7**	**41.0**
1.7	0.0	0.0	0.0	1.7	**0.9**
0.0	0.0	0.0	0.0	0.0	**0.2**
0.3	0.0	0.0	0.3	0.0	**3.2**
2.0	**0.0**	**0.0**	**0.3**	**1.7**	**4.3**
35.0	**0.0**	**4.3**	**2.2**	**37.1**	**63.0**

STATEMENT OF CHANGES IN CONSOLIDATED NON-CURRENT ASSETS 2011

-- FOR THE PERIOD FROM JANUARY 1 TO DECEMBER 31, 2011 --

€ million

	Acquisition or production cost					
	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**

FINANCIAL STATEMENT CERTIFICATION

To the best of our knowledge, we hereby confirm that, in accordance with the applicable generally accepted reporting standards, the Consolidated Financial Statements reflect the true asset, financial, and earnings situation of the Group and that the Directors' Report is a true and fair representation of the business development including the income and general situation of the Group and that the material risks and opportunities regarding the expected development of the Group have been described therein.

Jonathan Ashley

Dr. Jürgen Allerkamp

Stephen Charlton

Wesley R. Edens

Randal A. Nardone

Dieter H. Ristau

Yves Wagner, Ph.D.

Luxembourg, March 21, 2013

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 20, 2012, we have audited the accompanying consolidated financial statements of GAGFAH S. A., which comprise the consolidated statement of financial position as at December 31, 2012, 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, 2012, 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, including the corporate governance statement, which is the responsibility of the Board of Directors, is consistent with the consolidated financial statements and includes the information required by the law with respect to the corporate governance statement.

ERNST & YOUNG
Société Anonyme
Cabinet de révision agréé

René ENSCH

Luxembourg, March 21, 2013

GLOSSARY

BLOCK SALES

Block sales describe the sale of a larger number of units to institutional buyers. Among the reasons to sell properties by way of a block sale are location-related reasons, high vacancy levels, significant capex requirements, financing-related reasons or the fact that we believe an asset has reached its maturity and is fully valued.

CAPEX

Work on a building or an apartment that leads to value enhancements. Capex can be capitalized and does not impact the statement of comprehensive income.

CBRE

CBRE GmbH is an independent appraiser who carries out the external valuation of our portfolio.

CONDO SALES PROGRAM

Sale of individual apartments (single-unit sale) and of small multi-family homes to tenants or retail investors.

EBIT

Earnings before interest and taxes.

EBITDA

Earnings before interest, taxes, depreciation and amortization.

EBT

Earnings before taxes.

FUNDS FROM OPERATIONS (FFO) PER SHARE

FFO per share is calculated as total FFO divided by the undiluted weighted average number of shares (excluding treasury shares) for the respective period. We distinguish between FFO I ("recurring FFO"), which excludes earnings from sales, and FFO II, which includes earnings from sales.

HB FUNDS

The HB Funds are comprised of 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 have already been sold as of December 31, 2012. The remaining 344 units are held in two different HB Funds. The HB Funds are structured in a legal form of "economic fractional ownership" in which GAGFAH holds the majority of shares. GAGFAH M, one of GAGFAH S. A.'s operating subsidiaries, acts as trustee and manager of the funds.

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 repairs 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.

RECOVERABLE OPERATING EXPENSES

Recoverable operating expenses are expenses incurred in connection with managing our properties and can be charged back to our tenants. These expenses include public charges on the property, such as

- real estate tax
- water supply / sewage
- drainage
- heating
- warm water
- maintenance of elevators
- 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, 2011, and December 31, 2012.

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.

EXTERNAL SOURCES

The following external sources were used in the preparation of this annual report:

BBSR

Bundesinstitut für Bau-, Stadt- und Raumforschung (Federal Department for Construction and Urban Development): "Wohnungsmärkte im Wandel, Zentrale Ergebnisse der Wohnungsmarktprognose 2025" (Change on the Residential Markets. Key Findings of the Residential Market Forecast 2025). January 2010.

BMWI

Bundesministerium für Wirtschaft und Technologie (German Federal Ministry of Economics and Technology): "Jahreswirtschaftsbericht 2013" (2013 Annual Economic Report). January 2013.

CBRE

"Special Report Residential Market Germany 2010 / 2011."

COMMERZBANK

"German Residential Offers Further Upside."
November 8, 2012.

COSTAR NEWS

"Deutsche Annington closes €656m GRAND refi with Berlin Hyp." January 17, 2013.

EC

European Commission: "European Economic Forecast 2012." August 2012.

FLORENTIA LIMITED

CMBS Prospectus. September 26, 2012.

GDW

GdW Bundesverband deutscher Wohnungs- und Immobilienunternehmen e. V. (Federal Association of German Real Estate Companies). "Wohnungswirtschaftliche Daten und Trends 2012 / 2013" (Data and Trends for Residential Real Estate 2012 / 2013). November 2012.

GERMAN FEDERAL STATISTICAL OFFICE
"Verbraucherpreisindizes für Deutschland" (Consumer Price Indices for Germany). January 15, 2009.

"Demografischer Wandel in Deutschland" (Demographic Change in Germany). March 2011.

"Bevölkerung und Erwerbstätigkeit" (Population and Employment). March 30, 2011.

"Verbraucherpreisindizes für Deutschland" (Consumer Price Indices for Germany). January 12, 2012.

"Bautätigkeit und Wohnen" (Construction Activity and Living). July 30, 2012.

"Bauen und Wohnen" (Construction and Living). August 7, 2012.

Press Release "2012 erneut Bevölkerunganstieg erwartet" (2012 Expected to See Population Increase Again). January 14, 2013.

Press Release "Verbraucherpreise 2012" (Consumer Prices 2012). January 15, 2013.

HYPOPORT
Hypoport Index as published by Hypoport AG: www.europace.de/epx-hedonic.html.

JONES LANG LASALLE
Press Release "Deutscher Immobilienmarkt mit starkem Schlusssspurt" (German Real Estate Market with Strong Finish). January 4, 2013.

LBS
Landesbausparkassen (Home Financing Partner of the German Savings and Loan Association): "2012 Markt für Wohnimmobilien. Daten, Fakten, Trends" (2012 Market for Residential Properties. Data, Facts, Trends). April 2012.

SAVILLS
Press Release "Markt für Wohnungsportfolios 2012" (Market for Residential Portfolios 2012). January 4, 2013.

FINANCIAL CALENDAR

MARCH 22, 2013
Publication of 2012 Annual Report & Earnings Call

MAY 15, 2013
Publication of Interim Financial Report
as of March 31, 2013 & Earnings Call

JUNE 6, 2013
Warburg Highlights Conference (Hamburg)

JUNE 12, 2013
AGM / EGM

AUGUST 14, 2013
Publication of Interim Financial Report
as of June 30, 2013 & Earnings Call

SEPTEMBER 23, 2013
Berenberg / Goldman Sachs German Corporate
Conference (Munich)

SEPTEMBER 24, 2013
Baader Bank Investment Conference (Munich)

NOVEMBER 20, 2013
Publication of Interim Financial Report
as of September 30, 2013 & Earnings Call

IMPRINT

GAGFAH S. A.
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GRAND DUCHY OF LUXEMBOURG
RCS LUXEMBOURG B109526

CONCEPT/DESIGN

FIRST RABBIT GMBH
COLOGNE
GERMANY

PERCENTAGES AND FIGURES
IN THIS REPORT MAY INCLUDE
ROUNDING EFFECTS