CONSOLIDATED ANNUAL REPORT

WE HAVE LAID THE FOUNDATION FOR A SUSTAINABLE FUTURE

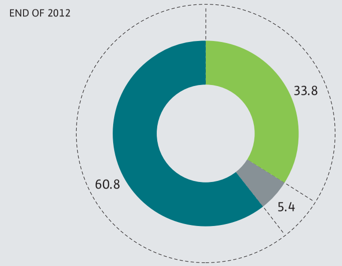
2013

AFTER LAYING THE KEY FOUNDATION STONES IN 2013, WE ARE NOW LOOKING AT SUBSTANTIAL EARNINGS GROWTH IN 2014 AND BEYOND

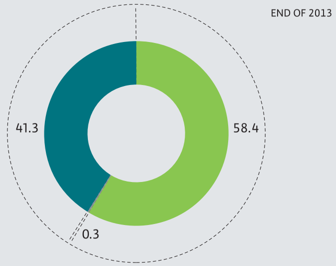
STRATEGY

INCREASED FREE FLOAT

%



free float
Fortress funds
treasury shares



FOCUSED PORTFOLIO STRATEGY – CITY PLAYER GAGFAH

91 % of total asset value in top 30 cities and their commuter belts

HIGHER LEVEL OF TRANSPARENCY & COMMUNICATION

Pro-active dialogue with all stakeholders

OPERATIONS

SALES

Clean-up sales with a view towards overall portfolio quality, not on short-term cash generation

Definition of a regional non-core portfolio to be sold over the next five years

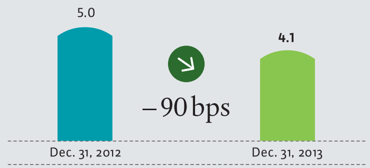
KICK-OFF FOR € 250M VALUE-ENHANCING INVESTMENT PROGRAM

Target yield on investment of 7.5 % (unlevered)

Ca. € 30 million already invested in 2013

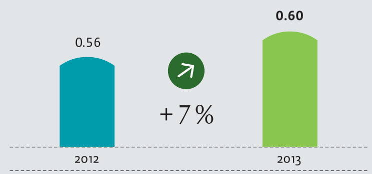
STRONG VACANCY REDUCTION

%



RECURRING FFO IN LINE WITH GUIDANCE

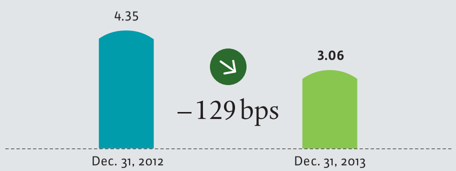
€ / share



CAPITAL STRUCTURE

AVERAGE INTEREST RATE

%



SUBSTANTIALLY LOWER INTEREST RATE GOING FORWARD

Successful refinancing creates financial headroom to improve total shareholder return

Refinanced more than € 4 billion in 9 months

Significantly lower interest rate will result in more than € 40 million lower interest payments in 2014

2013

GAGFAH

NEARLY 100 YEARS OF GERMAN RESIDENTIAL REAL ESTATE

GAGFAH'S HISTORY BEGAN IN 1918, a time of severe housing shortage, catastrophic living conditions and economic turmoil. Supported by the Federal Insurance Fund for Salaried Employees, the guiding principle behind the foundation of GAGFAH almost 100 years ago was "…the procurement of healthy apartments at affordable prices." For nearly 70 years, GAGFAH operated as a not-for-profit organization until legislative changes transformed its status into a commercial company in 1990. GAGFAH gave itself a new organizational structure, ventured into new lines of business and continued to strive as a leading housing company in Germany.

IN THE BEGINNING OF THE NEW MILLENNIUM, the Federal Insurance Fund for Salaried Employees made the decision to sell its ownership stake in GAGFAH by way of a structured bidding process, and in 2004, the original GAGFAH entity was sold to an investment firm and manager of private equity funds. The new owner more than doubled the size of the portfolio within two years by acquiring the housing portfolio of Lower Saxony's State-owned bank NordLB ("NILEG portfolio"), the entire housing stock of the City of Dresden ("WOBA portfolio") as well as a number of smaller portfolios, mostly from public owners.

IN THE FALL OF 2006, GAGFAH was listed at the Frankfurt stock exchange and quickly became a member of the MDAX Index. With the majority of shares held by private equity funds, GAGFAH was primarily driven from a financial-engineering point of view, and while the years 2006 to 2012 saw a number of successful developments, there were also tremendous setbacks. All the while, GAGFAH has offered affordable apartments largely to low- and medium-income households. Today, we provide a home to about 300,000 people in Germany.

THE PAST YEAR marked the turnaround primarily through an increased free float, the capital structure optimization, the implementation of a clear portfolio strategy, the installation of an experienced and dedicated management team and the focus back on the asset side of the business. After successfully bringing the Company back on track in 2013 we are now looking ahead with a great sense of optimism. We are completing the transition from a largely financial-investor-controlled entity with a focus on financial engineering to an independent real estate group with a long-term focus on its assets and an adequate shareholder return based on sustainable and growing dividends and NAV accretion.

THE FOUNDATION FOR THIS TURNAROUND HAS BEEN SUCCESSFULLY LAID, and on this basis we are continuing our work towards building a sustainable future for GAGFAH and all of its stakeholders, in which GAGFAH recaptures the prominent role it has held for almost 100 years – as a hallmark of the German real estate industry.

TRANSPARENCY

TRANSPARENCY

“

THE BASIS FOR SUCCESSFUL MANAGEMENT IS ECONOMIC SUCCESS. ECONOMIC SUCCESS REQUIRES A TRANSPARENT BUSINESS MODEL THAT CLEARLY SHOWS THE SOURCES AND USES OF CASH FLOWS AND HOW MUCH FREE CASH IS REALLY AVAILABLE TO SUPPORT INVESTORS’ NEEDS.

”

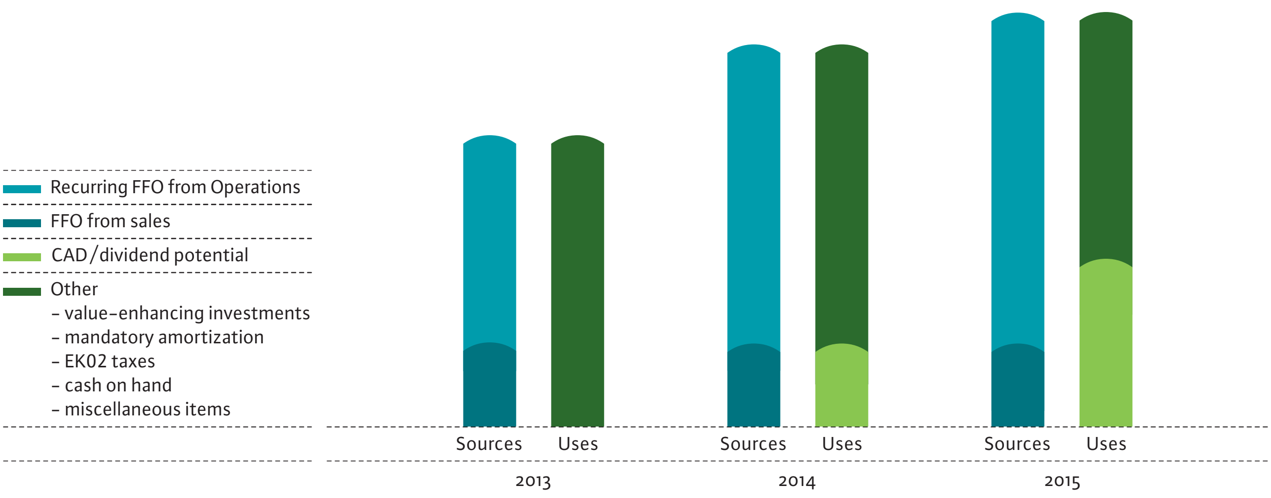
STRAIGHT VIEW ON CASH

SOURCES AND USES OF CASH FLOWS – OUR CAD PHILOSOPHY

Operating in a comparatively stable and predictable environment, GAGFAH's objective is to generate a sustainable dividend, to be paid out of cash available for distribution (CAD). The refinancing of more than € 4 billion in the course of 2013 led to substantial one-off expenses that needed to be paid out of FFO and prohibit a dividend for the year 2013. Starting in 2014, GAGFAH expects a substantially improved operating performance, significantly lower interest expenses and much lower one-off expenses, and intends to pay a starting dividend for the year 2014. For subsequent years, GAGFAH targets sustainable dividends and a dividend yield of 3 – 4 % on NAV. In addition to the dividend yield, GAGFAH expects an annual NAV growth of around 2 – 3 %, resulting in a targeted total annual shareholder return of 5 % to 7 %.

INCREASING DIVIDEND POTENTIAL

Illustrative Example



EBIT – FFO BRIDGE

Recurring FFO, or FFO I, is the industry benchmark figure for recurring earnings from operations. Customary practice for listed German real estate companies is to also define a payout ratio from the recurring FFO for dividend purposes. While FFO definitions of the different companies may differ slightly, the recurring FFO usually does not account for certain cash elements; truly free cash flow, however, should take all cash items into account.

Towards that end, GAGFAH has introduced a new key figure, cash available for distribution (CAD), as the yardstick for defining dividend payments. The tables EBIT-FFO Bridge and FFO-CAD Bridge are a reconciliation of EBIT as stated in the income statement, first to the Adjusted EBITDA (cash EBITDA), then to FFO excluding and including sales, and finally to CAD, reflecting the truly free cash generated by the Company during the reporting period.

EBIT – FFO BRIDGE
€ million, unless stated otherwise

	2013	2012
EBIT	**335.1**	335.1
Depreciation and amortization	**2.9**	4.2
EBITDA	**338.0**	339.3
Reorganization and restructuring expenses [1]	**6.9**	4.5
Result from the fair value measurement of investment property	**– 5.4**	13.4
Other operating income / expenses (w / o property development business)	**– 5.6**	1.2
Non-cash rental income	**– 4.0**	– 7.1
Property development business	**3.8**	2.0
Result from other services and result from HB Funds [1]	**– 2.5**	– 1.9
Expenses for share-based remuneration	**7.0**	1.2
Profit from the sale of investment property	**– 15.5**	– 18.2
Sales expenses	**12.6**	17.4
Adjusted EBITDA	**335.3**	351.8
Adjusted EBITDA (in € per share)	**1.64**	1.77
Net interest expenses	**– 203.9**	– 237.2
Current tax expenses	**– 7.7**	– 5.7
Recurring FFO before sales	**123.7**	108.9
Recurring FFO before sales (in € per share)	**0.60**	0.56
Weighted average number of shares (in million, undiluted, excluding treasury shares)	**204.8**	199.2

1 without depreciation and amortization

FFO – CAD BRIDGE

FFO – CAD BRIDGE

€ million, unless stated otherwise

	2013	2012	
Recurring FFO before sales	123.7	108.9	1
Recurring FFO before sales (in € per share)	0.60	0.56	
Sales proceeds	144.1	213.1	2
Sales expenses	– 12.6	– 17.4	
Debt repayment	– 85.0	– 138.9	
FFO including sales	170.2	165.7	
FFO including sales (in € per share)	0.83	0.83	
Capex	– 26.3	– 4.1	3
Adjusted FFO (AFFO)	143.9	161.6	
Adjusted FFO (AFFO) (in € per share)	0.70	0.81	
Mandatory amortization	– 23.1	– 11.5	4
EK 02 payment	– 15.6	– 15.6	
Reorganization and restructuring expenses [1]	– 6.9	– 4.5	
Result from other services and result from HB Funds (incl. interest expenses) [1]	2.4	1.8	
Capital structure related payments	– 173.2	– 23.2	5
Other	– 4.0	– 4.0	
Cash available for distribution (CAD)	– 76.5	104.6	6
Cash available for distribution (CAD) (in € per share)	– 0.37	0.53	
Weighted average number of shares (in million, undiluted, excluding treasury shares)	204.8	199.2	7

1 without depreciation and amortization

1. Improved operating performance and initial interest savings reflected in FFO increase
2. Lower sales volume – focus on portfolio quality instead of short-term cash generation
3. Increased value-enhancing property investments
4. Higher mandatory amortization built into new financings
5. Consists of € 176.0 million equity raised, € 214.2 million net debt repayment, € 60.6 million compensation payments, € 41.6 million arrangement fees and € 32.9 million other costs.
6. 2013 was influenced by a lower sales volume and material one-offs for refinancing. Cash balance as of Dec. 31, 2013, was € 101.9 million. 2014 is expected to benefit from better operating performance, lower interest expenses and the absence of material one-off refinancing expenses, leading to a target CAD that is expected to cover a € 0.20 – € 0.25 dividend per share for 2014.
7. Higher share count from equity event in July 2013

POSITIVE OUTLOOK

WE EXPECT SUBSTANTIAL IMPROVEMENTS ON OUR OPERATIONS AND OVERALL PERFORMANCE FOR THE BENEFIT OF OUR SHAREHOLDERS

GOALS 2013	RESULTS 2013	GUIDANCE 2014	OUTLOOK 2015[1]
RENT GROWTH: ca. 1 %	RENT GROWTH: 1.1 %	RENT GROWTH: 2 %	RENT GROWTH: > 2 %
VACANCY RATE: 4.8 %	VACANCY RATE: 4.1 %	VACANCY RATE: 3.5 %	VACANCY RATE: 3.0 %
RECURRING FFO: + 5 – 10 %	RECURRING FFO: €0.60 per share + 7 % (€123.7 m)	RECURRING FFO: €0.80 – €0.82 per share + ca. 35 % (€172 m – €177 m)	RECURRING FFO: €0.88 – €0.90 per share + ca. 10 % (€189 m – €194 m)
		DIVIDEND PER SHARE: €0.20 – €0.25	DIVIDEND PER SHARE: €0.40 – €0.50

1 Outlook based on reasonable assumptions and subject to review in the case of material adverse changes.

HIGHLIGHTS 2013

MILESTONES OF A TURNAROUND YEAR

CAPITAL STRUCTURE – DEBT

WOBA PORTFOLIO New ~€ 1.1 billion facility loan arranged by Bank of America Merrill Lynch with a coupon of 3.34 %, 99 basis points lower than the previous loan. The loan has a five-year maturity and a one-year extension option. The scheduled amortization rate is 1.0 % p. a.

GRF PORTFOLIO New ~€ 2.0 billion CMBS (GRF-1) with a coupon of 2.76 %, 156 basis points lower than the previous loan. The loan has a five-year maturity and a one-year extension option. The scheduled amortization rate is 0.5 % p. a.

NILEG PORTFOLIO New ~ € 700 million CMBS (GRF-2) with a coupon of 2.71 %, 246 basis points lower than the previous loan. The loan has a five-year maturity and a one-year extension option. The scheduled amortization rate is 0.5 % p. a.

ACQUISITION 1 PORTFOLIO In July, GAGFAH repaid the outstanding loan amount and in October closed a new € 144 million loan with a coupon of 2.87 %, 157 basis points lower than the previous loan. The maturity is three years plus a one-year extension option. The scheduled amortization rate for the core portfolio is 1.0 %.

OWG PORTFOLIO New € 91 million loan with a blended coupon of 3.54 %, 96 basis points lower than the previous loan. The maturity is seven years. The scheduled amortization rate for the core portfolio is 1.0 %.

GBH PORTFOLIO Two-year extension in October, when the loan had a volume of € 197.5 million and a coupon of 4.37 %.

All in all, GAGFAH successfully refinanced more than € 4 billion in only nine months and at significantly better rates. The overall average interest rate of 4.35 % as of December 31, 2012, had come down by 129 basis points to 3.06 % at the end of 2013. At the same time, the LTV was reduced from 65 % to 62 % during the same period and the weighted average maturity of the debt more than doubled from less than three years to almost six years.

CAPITAL STRUCTURE – EQUITY

There were two equity events in the reporting year, substantially increasing GAGFAH's free float from about one third to almost 60 %.

On July 10, Fortress Investment Group placed 20 million shares with qualified investors in an accelerated bookbuilding process, which led to a reduction of their stake in GAGFAH from more than 60 % to less than 50 %. At the same time, GAGFAH sold another 20 million shares, of which 10.5 million were treasury shares and 9.5 million were newly issued shares, for net proceeds of approximately € 176 million.

On December 4, Fortress Investment Group placed 15 million shares with qualified investors in an accelerated bookbuilding process, reducing their stake in GAGFAH to about 41 %.

Osnabrück,
Am Vogelsang 2 – 4

PORTFOLIO

PORTFOLIO STRATEGY GAGFAH has developed a detailed portfolio strategy and clustered its portfolio into a core and a regional non-core portfolio. The core portfolio comprises about 91 % of the total portfolio value, which is located in the 30 largest cities of our portfolio and their respective commuter belts. The remaining 9 % of the total portfolio value represent the regional non-core portfolio, which is spread over approximately 230 locations. The main focus going forward will be on developing the core portfolio with value-enhancing investments and increased operational performance. GAGFAH intends to sell the regional non-core portfolio in the medium term.

VALUE-ENHANCING INVESTMENTS GAGFAH has identified and started implementing a € 250 million value-enhancing investment program over the next five years on (i) a targeted vacancy reduction program, (ii) the reletting process, and (iii) large modernization projects.

OPERATIONS

Driven by the focused vacancy reduction program and the sale of higher-than-average vacancy assets, GAGFAH has brought down the vacancy rate from 5.3 % in the first quarter of 2013 to 4.1 % at the end of 2013.

SENIOR MANAGEMENT

In April, Thomas Zinnöcker, former CEO of GSW Immobilien AG in Berlin, was appointed as member of the Board of Directors of GAGFAH S. A. and CEO of GAGFAH GROUP for a period of five years. In December, the service agreements with the CFO and the COO were extended until 2017. There is now an experienced and dedicated senior management team in place to lead GAGFAH into the next phase.

REVIEW 2013

CHRONOLOGY OF MAJOR EVENTS & ACCOMPLISHMENTS

1 Refinancing € ~1.1 billion WOBA loan at 99 bps lower coupon

2 Initiation of portfolio analysis

3 Block sale in Heidenheim marks kick-off for portfolio optimization

4 FY 2012 results

5 Thomas Zinnöcker appointed as member of the Board of Directors of GAGFAH S. A. and CEO of GAGFAH GROUP

6 3M 2013 results

7 AGM and EGM of shareholders

8 Refinancing of € ~2.0 billion GRF loan at 156 bps lower coupon

9 Continuation of portfolio analysis with definition of a core portfolio and a regional non-core portfolio

10

Sale of senior homes in the context of portfolio optimization

11

Equity event with placement of 20 million GAGFAH shares by Fortress and 20 million shares by GAGFAH

12

Definition and roll-out of €250 million value-enhancing investment program over five years

13

6M 2013 results

14

Finalization of portfolio analysis and implementation of portfolio strategy with focus on GAGFAH's largest 30 cities plus their respective commuter belts

15

Refinancing of €~700 million NILEG loan at 246 bps lower coupon

16

Refinancing of €~430 million additional loans completes debt restructuring. More than €4 billion refinanced in nine months. Overall coupon reduced by 129 bps from 4.35 % to 3.06 %

17

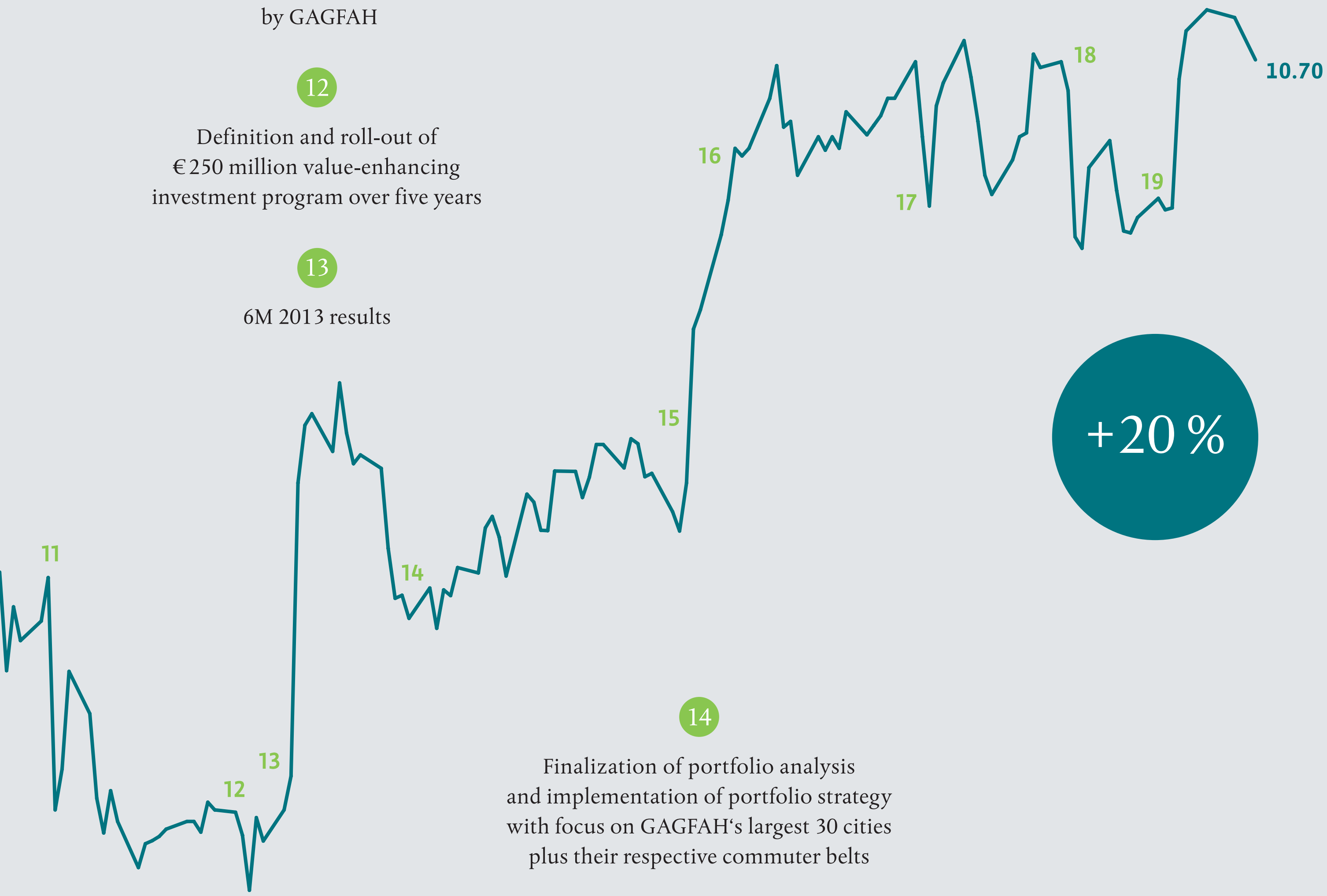
9M 2013 results

18

Fortress placement of 15 million GAGFAH shares

19

Extension of service agreements with CFO and COO until 2017.



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GAGFAH
Foundation 2013

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LETTER TO OUR SHAREHOLDERS

SUCCESSFULLY STEERING THE COMPANY THROUGH CHALLENGING TIMES

Dear Shareholders,

2013 was a very exciting year for GAGFAH. It all started with the decision not to sell the WOBA Dresden GmbH and to refinance the assets instead of selling the entity. The loan provided by Bank of America Merrill Lynch, who eventually securitized the loan in the capital markets, was the door opener for refinancing the remaining debt in 2013.

SUCCESSFUL REFINANCINGS AS KEY EVENTS Learning our lesson from the WOBA financing in that the CMBS market had reopened, we refinanced the ca. € 2 billion GAGFAH facility and the ca. € 700 million NILEG facility directly by way of CMBS without prior underwriting from financial institutions. The decision for the GAGFAH CMBS came after we had changed our original plans to refinance the debt in various tranches by obtaining secured direct loans from domestic German and international banks and insurance companies for more than half of the debt volume and the remainder through CMBS. At the time, we had negotiated and signed term sheets for all tranches except the CMBS. In the end, however, the terms for CMBS financing were so attractive that in the interest of financial headroom going forward we opted for a CMBS financing of the entire debt volume. All in all, the refinancing of more than € 4 billion in 2013 at substantially lower interest expenses has brought material financial headroom that will allow the Company to resume dividend payments from the year 2014 onwards.

PORTFOLIO STRATEGY One of the major achievements on the operations side was the development and implementation of a clear portfolio strategy as a city player with a core portfolio in 30 cities including their commuter belts and a regional non-core portfolio in remote locations across Germany. Our condo and regional non-core asset sales over the next five years will fund the € 250 million value-enhancing investment program that we have implemented to secure long-term organic growth.

OPERATIONAL IMPROVEMENTS The operations side is clearly improving with significantly lower vacancy rates in the course of the previous twelve months and increasing dynamics in reletting rents. We are confident that the change program initiated on the level of the operating subsidiaries will go a long way towards creating the best-in-class operating platform. By integrating property management, asset management and facility management more closely and by taking a fresh look for what parts of the business we want to be even closer to our assets and tenants and what parts of the business we can centralize and standardize even more, we are preparing the operational business of the Group for future growth.

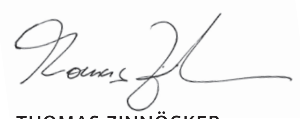
INCREASED FREEFLOAT In July, the Board resolved to place 20 million GAGFAH shares: 10.5 million treasury shares and 9.5 million newly issued shares. Even though the equity raise took place at a discount to net asset value, the Board was convinced at the time and is still convinced today that it was the right decision to take, as it had five positive impacts: (i) increasing the free float to more than 50 %; (ii) allowing a headstart on our value-enhancing investment program; (iii) supporting our refinancing efforts; (iv) increasing our ranking within the MDAX to secure membership; and (v) selling shares that had previously been bought back at a lower price to generate a profit of around € 20 million. While there was a slight dilutionary NAV effect from the equity raise, we were able to maintain our original guidance of € 0.60 recurring FFO per share, also on the higher total number of shares.

Together with the placing by GAGFAH in July, Fortress Investment Group also placed 20 million GAGFAH shares and another 15 million shares in December. Going into the year 2013, Fortress started with a stake in GAGFAH of more than 60 % and after the two placings they hold about 41 %, substantially increasing the freefloat and the appeal of GAGFAH's shares to a wider shareholder base.

CORPORATE GOVERNANCE Against the background of the increased freefloat and the strategic repositioning of the Company, the composition of the Board of Directors has also changed. Gerhard Zeiler was coopted as new Member and Chairman of the Board of Directors, effective as of March 25, 2014. He succeeded one of the three Fortress-affiliated Directors, Jonathan Ashley, who resigned from his position as Member and Chairman of the Board on the same date. Mr. Ashley played an important role in the Company's turnaround, most namely through his support and expertise in the 2013 refinancings. Austrian-native Gerhard Zeiler is an internationally renowned media manager and currently serves as President of Turner Broadcasting System International, a Time Warner Company. Prior to his current position at Turner Broadcasting, Mr. Zeiler held leading positions within the RTL Group, Europe's leading entertainment network, and between 2003 and 2012 was the CEO of RTL Group and Member of the Executive Board of the Bertelsmann Group. Mr. Zeiler's joining the Board increases the number of Independent Directors from three to four, with two other Directors being Fortress affiliates and the seventh Director being the CEO of the Senior Management Team of GAGFAH GROUP. The Board of Directors is confident that a more balanced composition of the Board is in the best interest of the Company and its shareholders.

WHAT'S NEXT? In the previous twelve months, the Company has experienced a tremendous amount of change. We have laid the building blocks for a positive and independent future. On these building blocks, we want to take the next steps, which will primarily focus on sustainable increases of the Group's operational performance, continuous improvements to our capital structure and reinstating a dividend starting in 2014. We are confident to be on the right track and see attractive opportunities ahead for the benefit of our shareholders. We thank our staff for their hard work and dedication, and we thank you as our shareholders for your continued support.

Sincerely yours,



THOMAS ZINNÖCKER
DIRECTOR AND CEO OF THE SENIOR MANAGEMENT

MANAGEMENT OF GAGFAH S. A.

GAGFAH S. A. IS MANAGED BY THE BOARD OF DIRECTORS

BOARD OF DIRECTORS

The Board of Directors is responsible for managing the Company and is vested with the broadest powers to manage the business and to authorize and perform all acts of acquisition, 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 General Meeting of Shareholders by a simple majority of the votes cast. Directors serve for a period not exceeding six years or until their successors are elected. Directors may be removed with or without cause at the General Meeting of Shareholders by a simple majority of the votes cast at such meeting. The Directors are eligible for re-election.

The Company's Articles of Association provide for the Board of Directors to include no more than twelve members and no less than three members. 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.

Meetings of the Board of Directors require a quorum of at least the majority of all Directors present or represented. Decisions are taken by a majority of votes cast by the Directors present or represented at the meetings. In the course of 2013, the Board of Directors held 14 meetings, each with all seven Directors present or represented. Board meetings are usually convened with at least one week's prior notice.

The Board of Directors currently includes the following seven members. Four of them are Independent Directors, two are affiliated with the major shareholder and one is the Chief Executive Officer of the Operating Subsidiaries.

BOARD OF DIRECTORS

GERHARD ZEILER
(Chairman, Independent Director)

DR. JÜRGEN ALLERKAMP
(Vice-Chairman, Independent Director)

WESLEY R. EDENS
(Affiliated with major shareholder)

RANDAL A. NARDONE
(Affiliated with major shareholder)

DIETER H. RISTAU
(Independent Director)

YVES WAGNER, PH.D.
(Independent Director)

THOMAS ZINNÖCKER
(CEO of Operating Subsidiaries)

GERHARD ZEILER (CHAIRMAN) Gerhard Zeiler was coopted as Member and appointed as Chairman of the Board of Directors of GAGFAH S. A. on March 25, 2014. Austrian-native Gerhard Zeiler is an internationally renowned media manager and currently serves as President of Turner Broadcasting System International, a Time Warner Company. Prior to his current position at Turner Broadcasting, Mr. Zeiler held leading positions within the RTL Group, Europe's leading entertainment network, and between 2003 and 2012, he was the CEO of RTL Group and Member of the Executive Board of Bertelsmann Group.

DR. JÜRGEN ALLERKAMP (VICE-CHAIRMAN) Dr. Jürgen Allerkamp was appointed member of the Board of Directors in October 2006. Until recently, Dr. Allerkamp was Chairman of the Board of Deutsche Hypothekenbank AG, a subsidiary of NORD / LB. Prior to that position, Dr. Allerkamp was a member of the management board of NORD / LB for 12 years, where he served as CFO and was responsible for commercial real estate. Before joining NORD / LB, Dr. Allerkamp was an attorney at WestLB and later worked for the Savings and Loan Bank of Dresden, where he was appointed to the management board in 1993. He has degrees in legal and political science.

WESLEY R. EDENS Wesley R. Edens is a principal and Co-Chairman of the Board of Directors of Fortress Investment Group LLC. Mr. Edens has been Co-Chairman of the Board of Directors since August 2009 and a member of the Board of Directors of Fortress since November 2006. He has been a member of the Management Committee of Fortress since 1998. Mr. Edens is responsible for the Company's private equity and publicly traded alternative investment businesses. Prior to co-founding Fortress in 1998, he was a partner and managing director of BlackRock Financial Management Inc., where he headed BlackRock Asset Investors, a private equity fund. Mr. Edens received a B. S. in Finance from Oregon State University.

RANDAL A. NARDONE Randal A. Nardone is a principal and has been a member of the Board of Directors of Fortress Investment Group LLC since November 2006. Mr. Nardone has been a member of the Management Committee of Fortress since 1998. Prior to co-founding Fortress in 1998, Mr. Nardone was a managing director of UBS from May 1997 to May 1998. Before joining UBS in 1997, he was a principal of BlackRock Financial Management, Inc. Prior to joining BlackRock, Mr. Nardone was a partner and a member of the executive committee at the law firm of Thacher Proffitt & Wood.

DIETER H. RISTAU Dieter H. Ristau was appointed member of the Board in October 2006. Before his appointment as an Independent Director, Dieter H. Ristau was Chief Executive Officer of Allianz Global Investors Luxembourg S. A. and Chairman of the Board of Dresdner International Management Services Ltd., Ireland, and Dresdner Fund Administration Ltd., Cayman Islands.

YVES WAGNER, PH.D. Yves Wagner, Ph.D., was appointed member of the Board in October 2006. He is an Associate of The Directors' Office, the leading practice of independent Directors in Luxembourg. He has both an academic and professional career. He is Doctor of Economic Science and a university professor. After a career within the Fortis Group, he co-founded "The Directors' Office". He still teaches and holds chairs at different Universities and Business Schools, such as the University of Luxembourg, the Institut de Formation Bancaire, the Agence pour le Transfert de Technologies Financières and the Académie Bancaire Européenne. He is an advisor in research to the Luxembourg School of Finance. Mr. Wagner is also the President of the Luxembourg Society of Financial Analysts.

THOMAS ZINNÖCKER Thomas Zinnöcker was appointed as member of the Board of Directors of GAGFAH S. A., effective as of April 16, 2013. Prior to his GAGFAH appointment, Mr. Zinnöcker served as the Chief Executive Officer of GSW Immobilien AG, which he took public in May 2011 and during his tenure turned into one of the leading listed property companies in Germany. Before his work for GSW, Mr. Zinnöcker served in leading positions especially in the real estate industry, including Chief Restructuring Officer for Deutsche Telekom Immobilien und Service GmbH, Chief Financial Officer and then Chief Executive Officer for Krantz TKT GmbH, Head of Strategic Controlling at Deutsche Babcock AG and various senior positions within the AEG Group.

STEPHEN CHARLTON resigned as member of the Board of Directors with effect as of April 16, 2013. He was succeeded by Thomas Zinnöcker.

JONATHAN ASHLEY resigned as member of the Board of Directors with effect as of March 25, 2014. He was succeeded by Gerhard Zeiler.

COMMITTEES

The Board of Directors may set up committees. Currently, there are four committees in place: Audit Committee, Nomination and Compensation Committee, Securities Dealings Committee and Related Party Transaction 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

AUDIT COMMITTEE	NOMINATION AND COMPENSATION COMMITTEE
DR. JÜRGEN ALLERKAMP (Chairman)	GERHARD ZEILER (Chairman)
GERHARD ZEILER	DR. JÜRGEN ALLERKAMP
RANDAL A. NARDONE	RANDAL A. NARDONE

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. Audit Committee meetings are usually convened with at least one week's prior notice.

The purpose of the Nomination and 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. It shall further assist the Board with respect to matters relating to the nomination of Board candidates and Committee members. The committee shall decide on the qualifications of potential candidates for Director positions, evaluate qualified candidates, recommend candidates to the Board for election as Directors and propose qualified individuals for election as Directors by the Annual General Meeting of Shareholders, as required. The Committee meetings are usually convened with at least one week's prior notice.

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 of contact in connection with questions and comments relating to potential inside information and corresponding duties. Securities Dealings Committee meetings are usually convened with at least one week's prior notice.

The purpose of the Related Party Transaction Committee is to assist the Board in the review of material related party transactions (as defined in the International Accounting Standards) to be entered into by the Company and / or its subsidiaries (as relevant) to determine whether their terms are consistent with market conditions or are otherwise fair to the Company and / or its subsidiaries (as the case may be), and perform such other duties as may be entrusted to it by decision of the Board of Directors from time to time. This committee was set up on March 25, 2014.

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

SECURITIES DEALINGS COMMITTEE

GERHARD ZEILER (Chairman)

DIETER H. RISTAU

YVES WAGNER, PH.D.

RELATED PARTY TRANSACTION COMMITTEE

GERHARD ZEILER (Chairman)

DIETER H. RISTAU

YVES WAGNER, PH.D.

SENIOR MANAGEMENT TEAM

THE SENIOR MANAGEMENT TEAM IS FULLY RESPONSIBLE FOR THE OPERATING BUSINESS OF THE COMPANY

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

THOMAS ZINNÖCKER (CEO) Thomas Zinnöcker was appointed as CEO of the GAGFAH GROUP effective on April 16, 2013. Prior to joining GAGFAH, Mr. Zinnöcker was CEO of GSW Immobilien AG, which he took public in 2011 and during his tenure turned into one of the leading listed property companies in Germany. Before his work for GSW, Mr. Zinnöcker served in leading positions especially in the real estate industry, including Chief Restructuring Officer for Deutsche Telekom Immobilien und Service GmbH, Chief Financial Officer and then Chief Executive Officer for Krantz TKT GmbH, Head of Strategic Controlling at Deutsche Babcock AG and various senior positions within AEG Group.

GERALD KLINCK (CFO) Gerald Klinck has been with GAGFAH GROUP since April 2011 and started out as Head of Treasury. On April 1, 2012, he was appointed as CFO of GAGFAH GROUP. Gerald Klinck has held various positions in the real estate industry for many years. He started his career at HSH Nordbank AG in June 1997, where he was part of the project management of the GEHAG and LEG Schleswig-Holstein joint venture. In 2003, he was appointed CFO of HSH REAL ESTATE CONSULTING GMBH. From 2006, Gerald Klinck was employed at GEHAG GmbH (wholly-owned subsidiary of DEUTSCHE WOHNEN AG). He was subsequently appointed Head of Corporate Controlling and Planning at DEUTSCHE WOHNEN AG. In the summer of 2009, he became a member of the Executive Board of DEUTSCHE WOHNEN AG. Mr. Klinck has a degree in Business Administration (Diplom-Kaufmann).

NICOLAI KUSS (COO) Nicolai Kuss has been working in various positions in real estate business for almost 15 years. After working as senior consultant for Arthur Andersen and Ernst & Young Real Estate for four years, he was responsible for asset and investment management of residential property investments in the Fortress Investment Group in Germany from 2004 to 2009. On March 20, 2009, he was appointed to the management of GAGFAH as Chief Operating Officer. Nicolai Kuss manages the operational business of GAGFAH. Since August 1, 2012, he has also been responsible for acquisitions and sales. Nicolai Kuss studied Business Administration at the European Business School (ebs) in Oestrich-Winkel, the Ecole Supérieure de Commerce in Clermont-Ferrand, France, and at the James Madison University in Harrisonburg, Virginia, USA, and graduated as a Diplom-Kaufmann (Business Administration degree).

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

“ TO ME, REAL ESTATE IS ALL ABOUT SUSTAINABILITY AND THE RECONCILIATION OF DIFFERENT STAKE-HOLDER INTERESTS. INCREASING SHAREHOLDER VALUE WHILE AT THE SAME TIME SERVING THE INTERESTS OF ALL OTHER STAKEHOLDERS IS MY FIRST AND FOREMOST PRIORITY. ”

Thomas Zinnöcker, CEO

“ THE RIGHT CAPITAL STRUCTURE IS A CORNERSTONE OF A STRONG REAL ESTATE COMPANY. BY SUCCESS-FULLY REFINANCING MORE THAN € 4 BILLION IN 2013, WE HAVE MADE GOOD PROGRESS. BUT THERE IS MORE TO DO, ESPECIALLY IN TERMS OF OUR LTV, MATURITY PROFILE, DEBT DIVERSIFICATION AND THE UTILIZATION OF INTEREST CURVE CYCLES. ”

Gerald Klinck, CFO

“ RUNNING ONE OF THE LARGEST REAL ESTATE PORT-FOLIOS IN GERMANY REQUIRES AN EFFICIENT PLAT-FORM. WE ARE CONSTANTLY SEEKING TO IMPROVE OUR OPERATING PROCESSES – FOR THE BENEFIT OF OUR TENANTS THROUGH BETTER SERVICES AND IN THE INTEREST OF OUR INVESTORS THROUGH INCREASED EFFICIENCY. OUR FOCUS ON THE TOP 30 CITIES AND OUR OPERATIONAL IMPROVEMENT PROGRAM WILL GO A LONG WAY TOWARDS ACHIEVING JUST THAT. ”

Nicolai Kuss, COO

INTERVIEW

BUILDING THE FUTURE

MR ZINNÖCKER, YOU HAVE NOW BEEN THE CEO FOR ONE YEAR. WHAT CAN YOU REPORT?

ZINNÖCKER: When I assumed the position of CEO, an above-average portfolio quality, a qualified and motivated workforce, a traditional residential sector organization and a long company history awaited me. Those are good starting conditions, on which we intend to draw. In order to be able to open the door to the future, we still needed two strategic keys: We needed to refinance the Company on favorable terms and widen the owner structure. We succeeded in both. The Company now has sufficient air to breathe again and management has more room to manoeuver. We have created new spaces and intend to fill them. To this end, we are repositioning ourselves internally: reversion to the sustainable management concept, but within modern structures. We are also carrying out external repositioning, with a qualitative growth strategy.

QUOTE

“THE COMPANY NOW HAS SUFFICIENT AIR TO BREATHE AGAIN AND MANAGEMENT HAS MORE ROOM TO MANOEUVER.”

Thomas Zinnöcker, CEO

WHAT DO THE NEW STRUCTURE AND THE FUTURE STRATEGY LOOK LIKE AND WHAT DOES IT MEAN FOR THE WORKFORCE AND TENANTS?

ZINNÖCKER: We are not planning any radical cutbacks or an abrupt departure from strategy. What we are intending to do has long been planned in GAGFAH: the sustainable, responsible, value-enhancing management of our portfolios. The internal focus is on how we go about this. In order to be able to grow organically, we ourselves need to become better every day, which means, for example, analyzing traditional procedures and giving them future viability. To this end, we have created a new organizational model, which combines process responsibility and budget responsibility and grants a degree of entrepreneurial freedom to the individual member of staff. The core strategy continues to be founded on a solid management strategy with selective purchases or sales, wherever this makes long-term sense or is opportunistically appropriate. GAGFAH has always had special expertise in the large conurbation areas as a provider of affordable urban living space for broad sections of the population. The effect of demography and migration movements is to increase demand in the long term. We therefore intend to further develop our expertise in the context of a focused urban strategy. In order to be able to grow qualitatively, we will make considerable investments in our portfolio, which will benefit tenants first and foremost. We see modernization, however, both as a driver of returns and an engine for growth: financial benefit through customer benefit.

QUOTE

“WHY CAD? BECAUSE WE THINK THAT A HIGH DEGREE OF TRANSPARENCY IS VERY IMPORTANT IN FINANCIAL COMMUNICATION.”

Gerald Klinck, CFO

MR. KLINCK, HOW IMPORTANT IS THE NEW FINANCING FOR GAGFAH?

KLINCK: Refinancing more than € 4 billion in one year had seemed to be an almost insurmountable challenge. But we did it and we did it successfully. What is more, we found new lenders who believe in GAGFAH's asset quality and operational capabilities. The € 1 billion WOBA loan from Bank of America Merrill Lynch was the door opener. For the other two large refinancings we approached the capital markets directly without underwriting from financial institutions and achieved better terms yet again. All in all we managed to bring down our interest rate by almost 130 basis points in only one year. This gives us the headroom we need for a sustainable business model.

DO YOU INTEND TO REDUCE THE LTV FURTHER?

KLINCK: The LTV is the ratio between debt and gross asset value. At the end of 2013, we were at 62 %, which is more towards the upper end of the range of what the market is looking for. Mandatory amortization and release payments from condo and non-core asset sales will help to reduce the overall debt volume. At the same time, we are investing €250 million in value-enhancing capex over five years and expect an improved operational performance. This will allow us to reduce our LTV to about 53 % by 2018.

QUOTE

“GAGFAH OFFERS AFFORDABLE URBAN LIVING SPACE TO BROAD SECTIONS OF THE POPULATION. WE WANT TO GIVE PEOPLE NOT ONLY A PLACE TO LIVE, BUT A HOME.”

Nicolai Kuss, COO

YOU HAVE INTRODUCED A NEW FIGURE, CAD. WHAT WAS THE REASON?

KLINCK: We think that a high degree of transparency is very important in financial communication. The recurring FFO is a good yardstick to measure sustainable earnings from the operating business. But there are certain one-offs for real estate companies that are usually not included in FFO, such as scheduled amortization, capex investments, EK 02 taxes or financing-related one-off expenses. Our calculation from FFO to CAD takes exactly that into account. So CAD shows the free cash that is really available for a given period and that can then be distributed in the form of dividends.

HOW IMPORTANT IS POLITICS?

KLINCK: Energy-efficient modernization, sewer rehabilitation, rental cap, modernization levy, amortization limits, rent index, urban development subsidy, areas designated as eligible for assistance, co-operation between municipalities: All these can ultimately have an impact on earnings. A number of things need to change – but what precisely and how and when is unclear. As a CFO, you could sometimes wish for more planning certainty, but GAGFAH has sufficient flexibility. In so far as they can be identified, the major lines of development give us measured confidence, even if regulation details are likely to be decisive in the end.

MR KUSS, AS THE COO, WHERE WILL YOU SET PRIORITIES IN THE OPERATING BUSINESS?

KUSS: We intend to extend our urban strategy, develop our efficient platform for this, manage it from a portfolio point of view and thereby further increase operating efficiency. Our employees are being given more individual responsibility and decision-making autonomy. The aim is to facilitate customer relationships through leaner processes and even more local presence. We are relying on employees that are best acquainted with the properties in question and are closest to the tenants. To this end, we will set up 45 local customer service points across Germany. We want to increase the portfolio quality, grow returns through modernization and, of course, continue to improve our operating performance.

WHAT DOES THAT MEAN FOR THE REAL ESTATE PORTFOLIO?

KUSS: Modernization, portfolio optimization, lowering the vacancy rate, all under the umbrella of an urban strategy. Where we are already strong, in our 30 largest cities, we intend to become even stronger. We intend to continue to sell our regional non-core assets. We will use considerable modernization investments to maintain and increase our portfolio quality. Urban and modernization strategies will lower the vacancy rate even further. We are not planning luxury renovations: GAGFAH offers a home to around 300,000 people, including many young and old people and families with many children, to whom we have given a service commitment. We will keep to this; anti-social upgrading strategies do not fit here. Housing must remain affordable.

WHAT CAN TENANTS EXPECT?

KUSS: GAGFAH offers affordable urban living space to broad sections of the population. This is what we are good at and what we intend to focus on to make things even better in future. In urban areas, that means paying attention to social factors in addition to financial benefit, maintaining green spaces, proceeding with ecological sensitivity and attending to cases of hardship when they occur. We want to give people not only a place to live, but a home, to be able to focus less on the dwelling unit and more on the human being in his or her social relationships. Examples include joint neighbourhood management schemes and housing for the elderly. This is possible in urban areas, particularly if collaboration with social associations, local authorities and other stakeholders works well.

WHAT ARE THE CHALLENGES FOR 2014?

ZINNÖCKER: We intend to reinforce our long-term revenue prospects and restructure the organization at the same time. This requires all those involved to have a dual management focus this year in order, ultimately, to be closer to the customer and still generate more from every euro of rent for value-enhancing investments, loan repayments and dividend payments. However, I am confident that we will get this right, because we are a strong company again with good portfolio quality and motivated employees.

GENERAL MEETINGS OF SHAREHOLDERS

SHAREHOLDER MEETINGS ARE THE PRIMARY FORUM FOR SHAREHOLDERS TO EXPRESS THEIR VIEW AND SHARE THEIR CONCERNS

AGM venue

The 2013 Annual General Meeting of Shareholders (AGM) and an Extraordinary General Meeting of Shareholders (EGM) took place on June 12, 2013, in Luxembourg. All resolutions were approved as proposed with results well above 90 %.

The resolutions of the AGM included the approval of the financial statements, the allocation of results, the discharge of Directors, the confirmation of the appointment of Mr. Jonathan Ashley and Mr. Thomas Zinnöcker as Directors as well as the extension of the authorization of the Company to purchase, acquire, receive or hold shares in the Company, as further detailed in the Directors' Report on page 69.

The EGM resolved to authorize the Board of Directors to repurchase and cancel shares in the Company during a period ending on March 31, 2014, as further detailed in the Directors' Report on page 69.

The next General Meeting of Shareholders is scheduled to take place on June 12, 2014, at the Chambre de Commerce Luxembourg, 7, Rue Alcide de Gasperi, Luxembourg Kirchberg. An AGM invitation will be sent to our 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 2013 AGM and EGM as well as for the Articles of Association (→ Company).

GAGFAH S. A. SHARES

STRONG PERFORMANCE IN 2013

SUCCESSFUL CAPITAL INCREASE IN 2013

On December 31, 2013, the number of shares of GAGFAH S. A. totaled 215,952,555, of which 648,507 shares were held as treasury shares.

CAPITAL INCREASE IN 2013

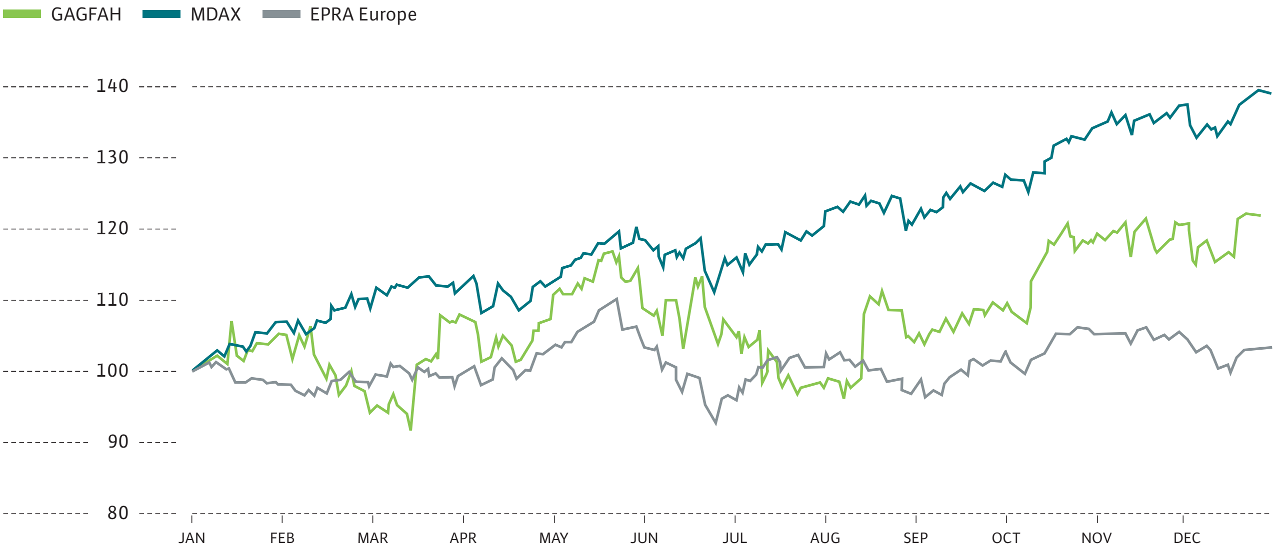
	Number of shares	
December 31, 2012	**206,452,555**	of which 11,148,507 were treasury shares
Capital increase July 10, 2013	**+ 9,500,000**	
December 31, 2013	**215,952,555**	of which 648,507 were treasury shares

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

2013: A GOOD YEAR FOR MOST STOCKS

Supported by low interest rates and positive economic outlooks, most share prices in the US, Europe and Asia increased in the course of 2013. The leading Wall Street index, Dow Jones, grew the strongest in almost ten years, Japan's Nikkei Index even increased by more than 50 % and recorded the best performance in more than 40 years. The German DAX reached new highs in 2013 and closed 25 % higher year on year. The MDAX performed even better in 2013 and grew almost 40 %, driven mostly by the strong performance of service providers such as Sky Deutschland and manufacturers such as Dürr and Leoni.

SHARE PRICE UP 20 % IN 2013



Source: Reuters (normalized at 100)

GAGFAH OUTPERFORMED PEERS & EPRA EUROPE

After a record performance in 2012, where the GAGFAH stock outperformed not only most European and global real estate stocks but also the general indices by growing 123 %, the performance in 2013 was still very positive, albeit not as strong as the year before. Closing at € 10.70 at the end of 2013, GAGFAH's shares had risen by more than 20 %, outperforming both the peer group and the EPRA Europe index, but falling short of the MDAX development.

During the year, the share price fluctuated between a low of € 8.16 on March 12 and a high of € 10.83 on December 12. The average trading volume on Xetra alone increased from 221k shares in the first half to 284k shares in the second half of the year. Including all trades on Xetra, trading floors, block sales and the two equity events, about 100 million shares found a new owner between July and December alone. This represents almost 50 % of the total number of shares and made GAGFAH a highly liquid stock in the second half of 2013.

GAGFAH S. A. SHARES AS OF DECEMBER 31, 2013 / FOR THE FULL YEAR 2013

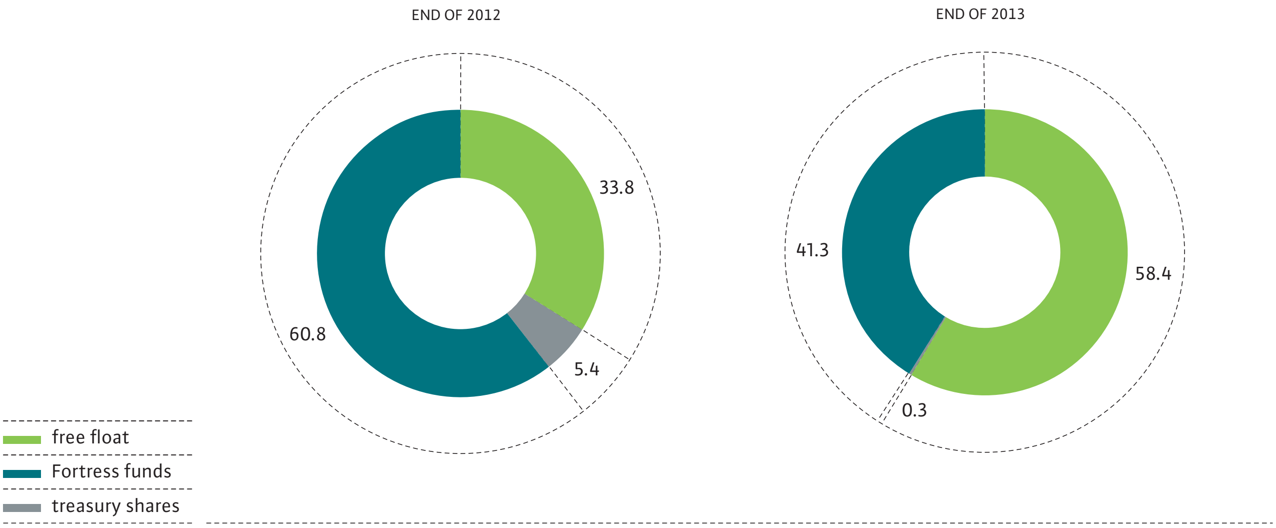
ISIN	LU0269583422
German Security Identification Code	A0LBDT
Reuters Symbol	GFJ.DE
Bloomberg Symbol	GFJ.GR
Xetra share price on Dec. 31, 2013	€ 10.70
Highest share price in 2013 (Xetra)	€ 10.83
Lowest share price in 2013 (Xetra)	€ 8.16
Average daily trading volume in '000 (only Xetra)	254
Number of issued shares	215,952,555
Number of treasury shares	648,507
Freefloat market capitalization (€ million)	1,349.4
Total market capitalization (€ million)	2,310.7
Stock exchange listing	Frankfurt Stock Exchange, Regulated Market (Prime Standard)
Segment (Industry Group)	Real Estate
Major indices membership	MDAX, EPRA, GPR indices

BROADER SHAREHOLDER BASE

GAGFAH started the year with a freefloat of about one third of all outstanding shares. Following the two equity events in July, where Fortress Investment Group and GAGFAH placed 20 million shares each, and in December, where Fortress Investment Group placed 15 million GAGFAH shares, the freefloat increased to almost 60 % by the end of 2013. The new shareholders are mostly long-term dedicated real estate specialists from the US and various European countries.

INCREASED FREE FLOAT

in %



INVESTOR RELATIONS

IN TOUCH WITH THE FINANCIAL COMMUNITY

STEPPING UP COMMUNICATION WITH THE FINANCIAL COMMUNITY

We are confident that our substantially increased engagement with the financial community alongside our day-to-day investor relations work go a long way towards explaining the business and enhancing investors' awareness and understanding of the Company. We are firmly convinced that a continuous and open dialogue with the capital markets and all stakeholders as well as a large degree of transparency in the financial disclosures and investor relations work will ultimately support the capital market's perception of GAGFAH and contribute to a positive share price performance.

GAGFAH significantly stepped up its investor relations activities in 2013. All in all, Management and Investor Relations presented during 13 roadshows, attended eight investor conferences, conducted more than a dozen property tours and hosted numerous of bilateral investor meetings and calls.

GAGFAH TURNAROUND REFLECTED IN BROKER COVERAGE

The estimates of the various brokers covering the stock of GAGFAH S. A. were substantially more positive at the end of 2013 as compared to the prior year. While at the end of 2012, only four of the 15 covering analysts had had a positive rating, seven had had a neutral rating and four a negative rating. The average target price had been € 8.57.

As of December 31, 2013, the view had clearly been more optimistic. Of the 16 covering analysts, 13 recommended the GAGFAH stock with a "buy" rating with target price ranges between € 11.00 and € 13.00, and the remaining three had a neutral rating with target price ranges between € 10.00 and € 11.00. The average target price was € 11.74.

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Please see the Company's website www.gagfah.com (→ Investor Relations → Share → Analysts) for the most recent overview of broker recommendations.

CONTACT DETAILS

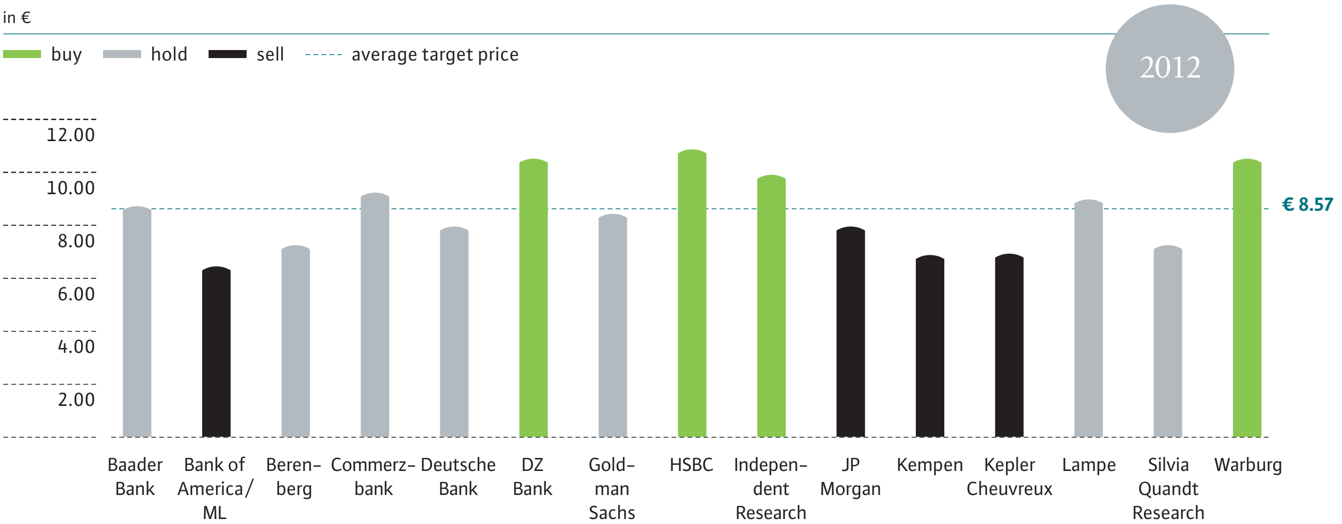
Rene Hoffmann, Head of Investor Relations,
phone: + 352 266 366 21, rhoffmann@gagfah.com

QUOTE

“ OUR GOAL IS TO PROMOTE THE APPEAL OF AN INVESTMENT IN GAGFAH AND THE CONFIDENCE IN THE COMPANY THROUGH AN OPEN AND TIMELY DIALOGUE WITH OUR INVESTORS, ANALYSTS AND OTHER CAPITAL MARKET PARTICIPANTS. ”

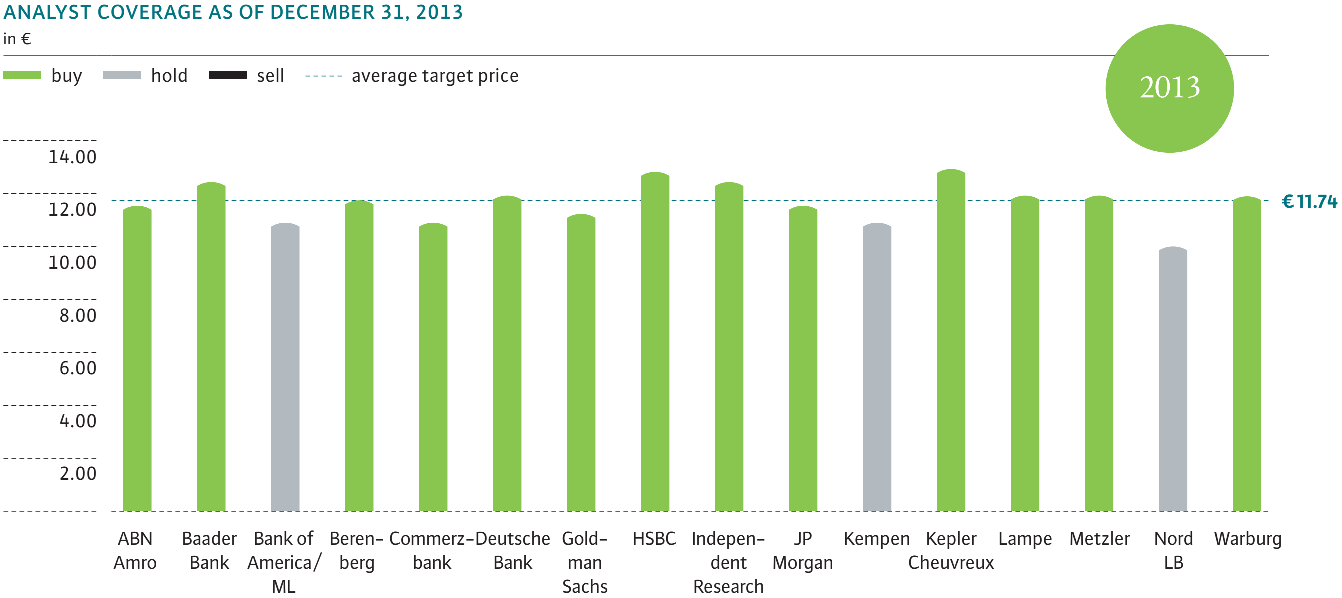
ANALYST COVERAGE AS OF DECEMBER 31, 2012

in €



ANALYST COVERAGE AS OF DECEMBER 31, 2013

in €



STATEMENT

PORTFOLIO STRATEGY

PORTFOLIO STRATEGY

“

A REAL ESTATE COMPANY MUST
HAVE A CLEAR PORTFOLIO STRATEGY
THAT GUIDES ITS DECISION-MAKING
WHEN IT COMES TO THE PROPERTIES AND
THE DIFFERENT LOCAL MARKETS.

”

PROPERTY PORTFOLIO

CA. 91 % IN THE 30 BIGGEST CITIES AND THEIR COMMUTER BELTS

Top 30 cities	GAGFAH Fair value (€ million)	Residential units	Net cold rent multiple (target rent)
Dresden	1,805.2	37,263	13.2
Berlin	826.1	15,260	13.7
Hamburg	676.8	9,129	15.7
Hanover	369.2	5,864	13.7
Heidenheim	227.6	4,139	12.7
Cologne	193.1	1,854	15.4
Osnabrück	190.8	3,484	13.5
Bielefeld	182.9	4,169	11.9
Braunschweig	155.7	3,144	12.5
Essen	142.6	2,258	11.9
Freiburg	139.1	1,772	14.8
Zwickau	98.9	3,086	10.8
Frankfurt	93.1	1,218	14.4
Bonn	83.4	1,119	14.1
Leverkusen	80.0	1,404	13.3
Nuremberg	70.8	1,040	14.3
Stuttgart	70.1	830	15.5
Iserlohn	69.0	1,676	11.7
Bremen	68.4	1,499	11.7
Dortmund	64.3	1,221	13.0
Göttingen	62.8	1,356	12.5
Düsseldorf	62.1	485	19.2
Duisburg	53.1	1,430	9.6
Wuppertal	49.7	1,108	11.3
Erfurt	46.4	889	13.1
Munich	45.0	398	20.3
Mannheim	42.0	724	13.0
Karlsruhe	30.4	457	14.1
Kiel	30.2	713	11.8
Lübeck	29.0	685	13.0
Subtotal Top 30 Cities	6,057.9	109,674	13.5
Remaining core	954.7	17,829	13.2
Regional Non-core	669.7	15,693	11.5
Total	7,682.3	143,196	13.3

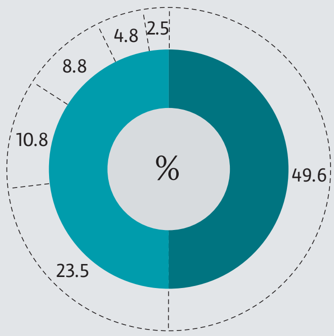
1 Dec. 2013 compared to Dec. 2012

2 Source: Federal Department of Construction and Urban Development (estimated one- and two-person household growth between 2010 and 2030)

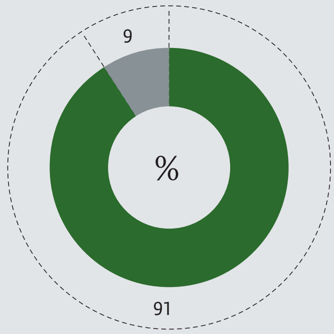
3 Source: CBRE

GAGFAH			Market	
Net cold rent (€/sqm)	Vacancy rate residential	Vacancy rate change y-o-y[1]	Small household growth[2]	Market rent (€/sqm)[3]
4.92	3.6 %	– 1.4 %	7.1 %	5.03
5.14	1.6 %	– 0.8 %	4.0 %	5.26
5.70	0.9 %	0.0 %	8.4 %	6.67
5.69	4.7 %	– 1.1 %	7.6 %	5.84
5.48	9.9 %	– 3.9 %	11.1 %	5.53
6.69	2.6 %	0.1 %	12.2 %	6.92
5.27	2.8 %	0.2 %	13.1 %	5.41
4.58	1.2 %	– 0.8 %	9.0 %	4.69
5.26	0.8 %	– 0.4 %	6.1 %	5.37
5.36	7.8 %	0.5 %	4.9 %	5.71
6.35	0.7 %	– 0.6 %	13.4 %	6.92
4.13	12.6 %	– 1.2 %	– 11.7 %	4.38
7.66	0.8 %	– 0.4 %	8.5 %	8.20
5.97	3.5 %	0.1 %	9.9 %	6.28
5.54	2.0 %	– 2.1 %	6.9 %	5.76
6.31	0.3 %	– 1.3 %	10.9 %	6.28
7.89	0.1 %	– 0.4 %	13.1 %	7.76
4.55	5.3 %	– 2.7 %	2.0 %	4.69
4.96	5.6 %	– 1.9 %	3.6 %	4.92
4.81	2.0 %	0.0 %	6.1 %	5.10
5.21	0.7 %	0.3 %	2.3 %	5.35
6.99	2.5 %	– 0.6 %	13.5 %	7.20
4.65	22.3 %	0.2 %	1.5 %	4.81
5.22	9.7 %	– 2.0 %	0.9 %	5.27
5.29	0.2 %	– 0.1 %	– 1.0 %	5.38
6.23	0.0 %	0.0 %	13.5 %	9.33
5.95	1.5 %	– 0.8 %	9.8 %	5.97
6.78	0.4 %	– 2.1 %	9.6 %	6.66
5.10	2.7 %	– 0.1 %	4.7 %	5.23
5.37	3.9 %	– 0.4 %	3.9 %	5.47
5.26	**3.6 %**	**– 1.0 %**		
5.25	5.0 %	– 1.2 %		
4.78	**8.3 %**	**0.4 %**		
5.21	**4.1 %**	**– 0.9 %**		

CITY PLAYER



Dresden	23.5 %
Berlin	10.8 %
Hamburg	8.8 %
Hanover	4.8 %
Cologne	2.5 %
Other	49.6 %



- Top 30 Cities and Commuter Belts
- Remaining Portfolio

FACT

THE AVERAGE SCORE OF OUR TOP 30 CITIES IS IN THE TOP THIRD OF THE RANKING ON THE OVERALL OUTLOOK FOR 402 GERMAN CITIES AND COUNTIES.

Source: “Prognos Zukunftsatlas 2013”, a research report that analyzes 402 German cities and counties in terms of demographics, labor market, socio economics and competition / innovation

PROPERTY INVESTMENTS

SUSTAINABLE INVESTMENTS FOR LONG-TERM GROWTH

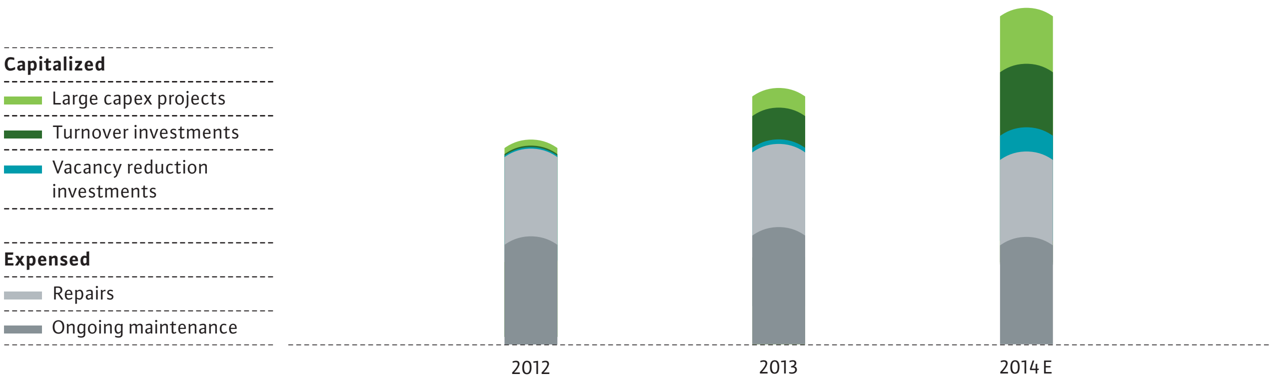
Recent years had been characterized by investing mostly what was necessary on repairs and maintenance to preserve the status quo. This allowed the Company to keep the vacancy rate at approximately 5 % and grow rents more or less in line with rent tables ("Mietspiegel") during a period that was largely impacted by the refinancing requirements in 2013 which we have now resolved.

This allows us to now return to developing the assets through value-enhancing investments. Towards that end, we have defined a € 250 million investment program over a period of about five years. We started the program in 2013 by investing ca. € 30 million, and we expect to invest approximately € 70 million in 2014. The years 2015 – 2017 are expected to see about € 50 million of value-enhancing investments per year.

The investments basically fall into these three categories:

- LARGE CAPEX PROJECTS: This includes the repositioning of entire buildings through extensive refurbishments, often including energy efficient renovation of the façade, modernization of roofs, heating systems, entrance areas and balconies etc.
- TURNOVER INVESTMENTS: We are investing in individual flats in order to benefit from the positive rent dynamics in various local markets. By upgrading the apartment to a higher standard (new bathroom etc.), we are able to offer a better product for which we can then charge a higher rent. This will also be a main driver behind the expected performance improvements on rent growth.
- VACANCY REDUCTION INVESTMENTS: During the period of careful property spending we built up a pool of vacant units in good locations. These vacancies are usually not the result of insufficient market demand but rather of the below-average quality of the product in a given location. We have focused on this category first and seen very positive results as indicated by the substantially lower vacancy rate at the end of 2013.

INCREASING AMOUNT OF VALUE-ENHANCING INVESTMENTS
Illustrative Chart



STATEMENT

TRUST

TRUST

“TRUST AND RELIABILITY ARE KEY VALUES FOR SUCCESSFUL MANAGEMENT. IT IS OUR RESPONSIBILITY TO PRESERVE THESE VALUES EVERY DAY.”

WHERE WE WANT TO GO

In its long history, one of the key success factors of GAGFAH GROUP has always been the ability to adapt to an ever changing environment. This includes a permanent reflection about what we do, how we do it, what our customer's expectations are and how we align the interests of our shareholders, our employees and our customers.

We believe that our size, our significant presence in the key residential markets and our scalable operating platform make us one of the leading providers of affordable housing for low- to medium-income households in Germany. Our operating subsidiaries are full-scale service providers for a broad range of property and facility management services.

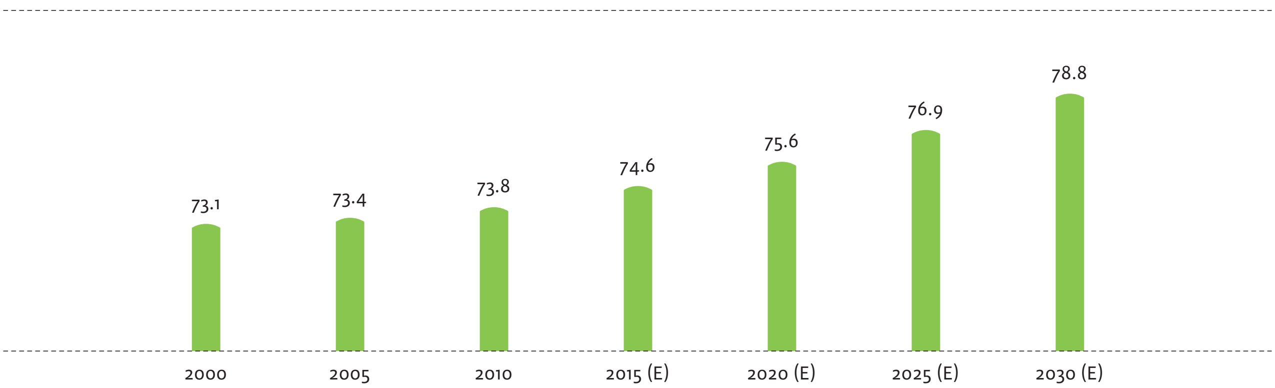
We consider our significant nationwide market presence as a competitive advantage over less diversified property companies.

CITY PLAYER

Our focus is on Germany's metropolitan and urban centers. More than 90 % of our portfolio is located in our 30 largest cities and their respective commuter belts. Given the continuous urbanization trend in Germany, we believe that the biggest potential for the residential industry lies in the cities.

CONTINUOUS TREND OF MIGRATION TO CITIES

% of people living in German cities



Source: Federal Statistics Office (2014)

QUOTE

"OUR OBJECTIVE IS TO IMPLEMENT THE BEST-IN-CLASS OPERATING PLATFORM AND PROCESSES TO RECAPTURE A LEADING ROLE IN THE GERMAN RESIDENTIAL INDUSTRY."

GAGFAH 2015 CHANGE PROCESS

We want to generate shareholder value through sustainable and growing cash flows, increasing net asset value and sustainable dividends. In the course of the third quarter 2013, with the major refinancings largely completed or well underway and with a less financial-engineering-driven and more real-estate-based, strategic view on the business, GAGFAH initiated a change program for growth, named GAGFAH 2015. The objective is to implement the best-in-class operating platform and processes to help the company recapture a leading role in the Germany residential industry. At the heart of the change program is the fundamental question "For what parts of the business do we want to be even closer to the tenants and what parts of the business should we standardize and centralize even more."

Essentially, the key targets of the change program are as follows:

- Take 360-degree focus on our assets with asset, property and facility management teams working hand in hand
- Focus on property management services and quality improvements by moving closer to our tenants and assets
- Centralization of all standardized processes and efficiency improvements for the different core, support and service processes

Our portfolio strategy is subject to continuous development and supplemented by a property strategy to ensure the sustainable management of our real estate portfolio. This forms the basis on which we take our decisions on sales, investments and acquisitions. We see modernization as a driver for growth, and we will invest € 250 million in value-enhancing modernization measures over the next five years. At the same time, we are divesting regional non-core properties to increase the efficiency of our operating platform. These units are managed by a separate group of real estate managers with a view towards selling the properties.

Going forward, our focus will be on a sustainable management concept. GAGFAH 2015 will enable us to create the efficient structures we need by streamlining processes and procedures. This will be of benefit to our customers and will lower our costs at the same time. We are alredy very well positioned in terms of overhead costs. When it comes to management costs, we have considerable room for improvement. The GAGFAH 2015 change process, which is being implemented step by step, will allow us to lift this potential. The first steps have been made and we expect the final implementation of all processes in 2015.

SUSTAINABILITY

GROWING FOCUS ON AN INCREASINGLY RELEVANT SUBJECT

As a listed residential company in Germany, GAGFAH is well advised to reconcile the needs of all stakeholders even if these needs may appear to compete against each other at times. Successful companies are able to deliver shareholder value in combination with high customer satisfaction, highly engaged employees, well-balanced business partnerships and good reputation in the political and public arena. When one adds to this the ability to adjust to social changes and a sense of responsibility regarding the impact of one's actions on the environment, then the result is a sustainable company. It is far more than just another project, it is a major challenge and a major opportunity for a management team. Creating a sustainability culture needs a clear vision, a well-defined decision process, extraordinary communication and participation behavior and last but not least the power to hold on even in tough times. GAGFAH's new management team intends to follow this path. While we are still at an early stage, there is no doubt that you cannot reach your goal if you do not move in the right direction.

That is why GAGFAH acknowledges its responsibility in terms of sustainability. Investors, tenants, employees and all other stakeholders rightfully expect GAGFAH to live up to the high expectations, and long-term success requires a good track record in all aspects. There is already a multitude of good examples for sustainable and responsible behavior of GAGFAH in many different areas. So sustainability is by no means a new subject for GAGFAH . The next step will be to get to a clear definition of a detailed sustainability concept and a more systematic approach. This will also include the definition of specific goals for the future and a system for tracking and measuring our success in a clear and transparent form.

Below is an overview of certain initiatives that are underway and largely have been underway for quite some time.

RESPONSIBILITY FOR OUR EMPLOYEES

A motivated and qualified team is key for achieving the Company's goals. The challenges of previous years have shown that our employees have a great sense of commitment and perseverance. The picture below is from the 2013 GAGFAH Cup in Berlin, an annual event that brings employees from the different locations together.

GAGFAH GROUP is an attractive employer in the competition for talented and highly-qualified personnel. Employees of GAGFAH are members of a nationwide team of specialists, mainly in the field of real estate but also in many other areas, and as the employer it is GAGFAH GROUP's responsibility to support the different professional needs to make sure that each employee can develop and contribute his or her skills and capabilities to each other's mutual benefit.

PROFESSIONAL TRAINING, APPRENTICESHIPS AND CONTINUED EDUCATION Investments in talent are investments in the future, and the training programs and apprenticeships are designed to make sure GAGFAH GROUP will continue to enjoy the support from motivated and highly-skilled personnel across all hierarchy levels.

Offering a broad spectrum of career opportunities is a key element in securing today's up-and-coming generation, and there are currently 93 apprentices in the various different job programs for commercial and technical real estate professions. High-quality training programs as well as the opportunity to start work within the organization after completion of the training are cornerstones of successful apprenticeships.

Among the specific examples of our success in this field, and proof that an apprenticeship at GAGFAH is both a challenge and an opportunity, is the award that one of our apprentices received as one of the best apprentices within the real estate profession in the Federal State of Saxony and the fact that the Chamber of Industry and Commerce in Dresden recognized the WOBA Dresden subsidiary as having an "Apprenticeship Program of Excellence" for 2013.

In addition to the apprenticeships, GAGFAH also actively supports more experienced employees who choose to enhance their qualifications. This usually happens through the GAGFAH Academy, which was set up in 2009 to offer our workforce a very diverse development program. It includes a number of training programs for further education and study programs that allow employees to continue their regular job at GAGFAH. Pursuing additional qualifications alongside one's day job is a particular burden, and GAGFAH GROUP offers flexible solutions to enable employees to manage both challenges. An average of 10 to 15 employees choose to enroll in further training programs per year.

FLEXIBLE WORKING TIMES GAGFAH GROUP has been offering its employees different solutions for flexible working times, in which the Company tries to reconcile the employee's wishes and the Company's needs as best as possible. Furthermore, GAGFAH GROUP is working on intelligent part-time models to support especially working mothers and fathers but also other employees who are struggling to balance their working life and their families.

REMUNERATION STRUCTURE AND PROPORTION OF MALE AND FEMALE EMPLOYEES The employees of GAGFAH GROUP are paid on the basis of their qualification and performance. There is no discrimination on the basis of sex, age, ethnic background, religious beliefs or sexual orientation. GAGFAH GROUP and its subsidiaries act in accordance with applicable collective bargaining agreements and company agreements, including their pay structures as well as minimum wage agreements.

Equal opportunities for men and women are important to GAGFAH. As of December 31, 2013, the breakdown across the entire Group was as follows:

HEADCOUNT GAGFAH GROUP

Headcount GAGFAH GROUP	1,567
Men	65 %
Women	35 %
Women in leadership positions	28 %

Excluding the facility management employees, the majority of whom are men, the total headcount is 724. Of that number, 39 % are men and 61 % are women.

INTERNATIONAL INTERNS For a number of years, GAGFAH GROUP has been successfully cooperating with the IS Düsseldorf, a language institute that is associated with the Swedish Training Institute "Folksuniversitetet" and works closely with large Swedish universities, offering internships in Germany to Swedish students learning German. An intern program includes a three-month language course at the language institute and a three-month internship at a German company. GAGFAH GROUP's experience with Swedish students has been very positive, which is why in past years, the Company has been offering one or two internships twice a year. Given the academic background of most students, the majority of them spend most of their internship time in corporate finance, controlling and accounting.

LTIP FOR ALL EMPLOYEES IN LEADERSHIP POSITIONS We view the alignment of the Company's leaders' targets with the interests and expectations of the shareholder community as a crucial element of success. Making sure all parties share the same goals will most likely lead to a better outcome for the mutual benefit of both groups. That is the reason why at the end of 2013, against the background of the "GAGFAH 2015" change program, the Senior Management team developed a long-term incentive plan (LTIP) for employees in leadership positions below the Senior Management. This group includes department heads and employees with managerial responsibilities in operations as well as in the headquarter. All in all, 40 employees are beneficiaries under the new LTIP. The program is laid out for a three-year period between the financial years 2014 to 2016.

Depending on the leadership role of the individual employee, a certain number of phantom stock options are granted each year during the LTIP period and based on meeting specific targets. The Senior Management will set these targets for each year of the program during the budget process for that year. For each of the three installments, there will be a three-year waiting period before the phantom stocks vest. Once they have vested, beneficiaries will have 12 months to exercise the options they have earned. Due to administrative and tax reasons, options will be settled on a net cash basis. The LTIP, therefore, will not have an impact on the total share count of the Company. The total volume of the LTIP is up to 364,500 phantom stocks. The vesting of the options hinges on two criteria immediately linked to the total shareholder return: NAV per share growth and dividend yield on NAV.

INTERNAL COMMUNICATION We consider an open communication among employees and across all hierarchies as crucial for our success. Communication is key in making sure everybody works towards the same goals and pulls in the same direction. GAGFAH encourages its employees to actively communicate both horizontally on the same hierarchy levels and vertically with superiors and directs. Only when employees feel that they can make their voice heard and contribute to the dialogue and development of the business will the Company be able to unlock its full potential. The central departments and the regional offices have regular meeting sessions within the organizational units and also across different departments to ensure a regular flow of information.

In 2013, the GAGFAH GROUP implemented a full relaunch of the Intranet. The main objectives were to make relevant information more swiftly available for everybody within the organization and to store important documents and information in a more readily available form. The re-launch also included a new design and more user-friendly navigation to substantially enhance the Intranet as a meaningful means of communication. Analyses of traffic on the new Intranet pages clearly shows a higher degree of acceptance among the staff.

We also conducted an employee survey in 2013 in order to gain a comprehensive understanding as to how our staff views their role and situation within the Company and how they perceive GAGFAH as an employer. Almost two thirds of all employees responded to this voluntary and anonymous survey. Among the main results on the positive side were the high level of staff motivation, good cooperation between teams, and the adequate work-life-balance. Negative responses included primarily a perceived lack of career opportunities and insufficient vertical communication. The management views these results as important indicators of the sentiment within the organization and has developed an action plan to address the shortcomings that resulted from the survey. GAGFAH intends to conduct regular employee surveys going forward to continuously measure the track record of the steps that have been implemented as a result to the responses and the sentiment within the organization. All results of the survey and all results of future surveys have been and will be communicated extensively within GAGFAH in order to further strengthen the staff's confidence.

GAGFAH 2015 Having learned from other change management processes in- and outside the industry, we have decided to carefully integrate the views, ideas and manpower of the employees into the GAGFAH 2015 change program. The program is being managed and driven by our own staff rather than external consultants. Key personnel from GAGFAH has developed the architecture of the change program and more than 200 volunteers from all departments and hierarchy levels are contributing to the process. The challenge is to synchronize 40 different work streams within the change program while ensuring improving operational performance. Driven by a clear perspective for the future of GAGFAH and the opportunity to make personal contributions, the team is highly motivated and right on track.

The change management process is supported by comprehensive regular and event-driven communication between the senior management, the change management core team and the overall staff. By way of meetings, e-mail newsletters and postings on the Intranet, the timely internal communication guarantees that the entire organization is not only informed but involved in the process.

CODE OF CONDUCT In its meeting on March 25, 2014, the Board of Directors asked the Senior Management to implement a Code of Conduct for GAGFAH S. A.'s operating

“WE ARE GLAD ABOUT GAGFAH LIVING UP TO ITS SOCIAL RESPONSIBILITY IN THE DIFFERENT NEIGHBORHOODS. THEIR SUPPORT ENABLED US TO OFFER ADVICE AND HANDS-ON ASSISTANCE TO THOSE IN NEED RIGHT WHERE THEY LIVE. THAT IS AND CONTINUES TO BE ONE OF THE MOST IMPORTANT CORNERSTONES FOR THE PEACEFUL COEXISTENCE OF PEOPLE.”

Ute Schlothauer,
Managing Directors of Trägerwerk
Soziale Dienste in Sachsen GmbH

subsidiaries. This Code of Conduct will reflect GAGFAH’s awareness of its responsibility to shareholders, employees, customers, business associates and to the public.

It shall clearly demonstrate the Company’s conviction that the strict compliance and conformity with legal and ethical norms are an elementary part of this responsibility and the system of values.

The Code of Conduct shall summarize essential legal and ethical principles of GAGFAH GROUP’s actions and provide employees with a guide to support them in dealing with the legal and ethical challenges of their day-to-day work. The Code of Conduct shall represent a guideline that applies to everyone and is valid throughout the whole Group.

SOCIAL RESPONSIBILITY

GAGFAH FOUNDATION “MENSCH UND WOHNEN” First and foremost the GAGFAH foundation strives to improve the relations and coexistence between different generations in the dwellings of the GAGFAH GROUP. The foundation funds community centers, playgrounds and institutions with a focus on social activities.

The GAGFAH foundation only supports non-profit activities. Its work aims to support younger and older generations and their living together, mostly in dwellings of the GAGFAH GROUP.

The GAGFAH GROUP has equipped the foundation with a capital stock of € 5 million. Among the projects the foundation has been supporting and continues to support are the following:

PROJECT WOHLERS EICHEN IN BREMEN In cooperation with the "Täter-Opfer-Ausgleich Bremen e. V." (Aggressor Victim Reconciliation) and the Community Center Wohlers Eichen, the foundation has supported the organization of a sail boat trip as well as various vacation activities for school children, such as making musical instruments from vegetables and jewelry manufacturing. Future projects include an upgrade of the bike repair shop and a journey of the youth parliament to the German capital.

PROJECT BERGMANNSFELD IN ESSEN In cooperation with the "Sozialdienst katholischer Frauen" (Local Chapter of Catholic Women Organization), the foundation has been financially supporting the position of a social worker for the local chapter. The Bergmannsfeld properties are characterized by a comparatively large share of immigrant families, and the Sozialdienst katholischer Frauen offers assistance in various ways, such as grocery shopping, support in dealing with the authorities, language courses for non-German-speaking people, etc.

PROJECT CANARISWEG IN HANOVER In cooperation with "Miteinander für ein schöneres Viertel" (Together for a Better Neighborhood), the foundation has set up and supports the maintenance of an internet café including computer training, the Kids Club daycare facility and a weightlifting room.

PROJECT LEUBEN IN DRESDEN The foundation supports the "Trägerwerk Soziale Dienste" (TWSD) in Sachsen GmbH (non-profit social organization), mainly by providing office space within the Leuben district to help the TWSD meet its goal of allowing the elderly and people with disabilities to live a self-determined life within their familiar environment. The TWSD supports senior citizens in dealing with the authorities, organizing care services, grocery shopping or transfer services for doctors' visits.

SPONSORING In the course of 2013, GAGFAH supported a number of social, athletic and cultural projects with donations totaling more than € 600,000, which is in line with the amount of prior years. Among the beneficiaries were a community center, the debt consulting services of a nation-wide operating social agency, initiatives to improve relations among our tenants, different sports clubs and a social institution that provides homework assistance to school children.

ENVIRONMENTAL AWARENESS

ENERGY EFFICIENCY BY FINE-TUNING HEATING SYSTEMS

GAGFAH has started several pilot projects with ennovatis GmbH, an energy management systems provider, with the objective of reducing the energy consumption of heating systems. Ennovatis installs remotely-operated, digital measuring devices that permanently monitor the water temperature of the heating system. The data is analyzed by ennovatis, who then suggest adjustments to the heating system's set-up to make it run more efficiently. Many heating systems run at substantially more than the 60 degrees Celsius, which are required by law to make sure all bacteria and germs are killed. By reducing the temperature to the required 60 degrees Celcius, energy savings of 5 % to 10 % are usually possible. One third of the savings is for the benefit of the tenants, another third finances ennovatis' investment into the undertaking and the remaining third flows to GAGFAH.

INTELLIGENT WASTE MANAGEMENT GAGFAH has implemented waste management projects in several of its dwellings in different cities. The general idea behind the waste management projects is to separate different types of waste more effectively, thereby reducing CO_2 emissions and saving waste disposal fees. By disposing recyclable waste in the dedicated waste bins and not in the residual waste bin, more recyclable material remains in the recycling loop. An external partner advises tenants, helps with the right allocation of different wastes into different bins and regularly checks the bins to make sure they contain the right types of waste. The positive effect is twofold: On the one hand, it helps to reduce the residual waste volume and therefore reduces the CO_2 emission. One kilogram of plastic or other recyclable material that is kept in the recycling loop and not disposed in the general waste bin equals about 1 kilogram reduced CO_2 emission. The property in Essen Freisenbruch with 354 apartments managed to reduce its residual waste volume by about 22,000 kilograms year-on-year, equalling 62 kilograms per household. On the other hand, it lowers the overall waste fees, as recycling bins are usually free of charge.

COLLECTING AND RECYCLING USED CLOTHES In cooperation with different partners focused on the recycling of used clothes, GAGFAH has set up almost 150 dedicated containers on its properties in different cities. The partners regularly collect used clothes and make sure the sites remain clean. The clothes are then sorted by hand and sold usually to countries in Eastern Europe or Africa, where they are often a welcome and comparatively inexpensive way to obtain clothing. This form of recycling minimizes the burden on the environment and its resources. According to the Bureau of International Recycling, collecting 1 kilogram of used clothing can reduce 3.6 kilogram of CO_2 emissions, 6,000 liters of water consumption, 0.3 kilogram of fertilizers and 0.2 kilograms of pesticides.

“OUR RELATIONS WITH GAGFAH HAVE NOT ALWAYS BEEN EASY. DURING THE LAST TWO YEARS, HOWEVER, WE HAVE REBUILT THE TRUST AND TODAY THERE IS GREAT COOPERATION BETWEEN US. THIS INCLUDES MANY ASPECTS, ESPECIALLY THE NEIGHBORHOOD PROJECT IN LEUBEN, THE INTEGRATION OF IMMIGRANTS AND THE TERMINATION OF THE DISMANTLING PROGRAM ON WHICH WE HAVE AGREED TOGETHER.”

Helma Orosz,
Lord Mayor of Dresden and Deputy President
of the German Association of Cities

GAGFAH: A RELIABLE LOCAL PARTNER

As a large landlord in many cities across the country, GAGFAH has a viable interest in maintaining good relations with different political parties, municipal administrations and social groups. A continuous dialogue with the different stakeholders is essential in making sure that the interests of our tenants and our interest as the landlord are reconciled with the demands of the other parties in a given city or micro location.

Among the specific examples for such partnerships is Dresden, where for more than two years now there have been continuous consultations on various levels, and the Lord Mayor of Dresden, Helma Orosz, emphasizes the good relations between GAGFAH and the City of Dresden. A case in point leading to tangible results is the discontinuation of the demolition program ahead of its completion. Originally and as part of the purchase agreement, GAGFAH had agreed to dismantle close to 4,000 units in light of what was then perceived to be a supply overhang. The supply-demand balance has severely changed in the meantime as a result of Dresden’s population growth so that the City had approached GAGFAH with the request to not dismantle the remaining units in the demolition program.

Another example is Hamburg, GAGFAH’s third largest location. Constructive talks with different stakeholders in the city have led to specific action plans for the mutual benefit of everyone involved through hands-on progress in neighborhoods that have been facing various social challenges for many years. Together with the authorities and other landlords in the vicinity, GAGFAH has supported and developed various initiatives for improving the neighborhood and relations among tenants. Concrete action plans for a neighborhood improvement program are currently being worked out together with the municipality and local lenders and are scheduled to be implemented starting in 2014.

Other examples include Heidenheim, where the City administration and GAGFAH GROUP are jointly working to further improve the Oststadt district and to have it included in the “Soziale Stadt” program. Potential funds from this program would allow additional investments in the neighborhood to further add to the appeal of the location. In Freiburg, GAGFAH has been working with the city administration, tenant representatives, churches and other parties to promote the coexistence in a multiethnic neighborhood, and the energy-efficient modernization of a larger property in the neighborhood was made possible with additional funds that came from the Federal State and the City of Freiburg.

“BEING A TENANT ASSOCIATION, WE ARE AGAINST THE PRIVATIZATION OF PUBLICLY OWNED REAL ESTATE. HOWEVER, SINCE THE HISTORY IN DRESDEN CANNOT BE REWRITTEN, WE ARE MAKING THE BEST OF IT. WHEN IT COMES TO REPRESENTING OUR MEMBERS, GAGFAH IS A RELIABLE PARTNER WITH WHOM PROBLEMS CAN BE DISCUSSED IN A CONSTRUCTIVE MANNER.”

Peter Bartels,
Chairman Of Dresden Tenant Association

RESPONSIBILITY FOR OUR TENANTS

SOCIAL CHARTERS In the context of acquiring the various subportfolios and entities, GAGFAH agreed on social charters for several of these subportfolios and entities, as is customary practice when public owners sell real estate to commercial organizations. While the individual obligations, specific details and periods during which the regulations apply vary between different social charters, some elements are similar and may include amongst others:

- Limitations on rent increases;
- Restrictions on the right to terminate lease agreements;
- Minimum property investment amounts per square meter and year;
- Preemptive rights for tenants to buy the flat in which they live in the case we make the decision to sell it. If a tenant decides to buy, in these cases usually a discount to the market price must be offered;
- Protection from termination for some staff to the extent it had already been employed at the time of the acquisition;
- Sales restrictions, e. g. a maximum annual sales volume or a minimum portfolio size that must be maintained.

We appreciate the rationale and the relevance of the social charters. Under some social charters, we prepare annual compliance reports for our social charter counter parties, and there is ample opportunity for them to request additional information, others are reviewed by an external auditor annually.

At the same time, there is no material conflict between our internal business plans and the social charters, as our business plans are often in line or even go above and beyond what is required by the economic hurdles in the social charters. For example, the minimum property investment requirements stipulated in the different charters are lower than what we have factored into our business case. Hence, we feel the social charters are an important element of our business environment but they do not present an obstacle for us on our path towards achieving our goals.

DGS

INDEPENDENT AND IN ONE’S OWN HOME GAGFAH has entered a cooperation agreement with the “Deutsche Gesellschaft für Seniorenbetreuung” (DGS), who offers free-of-charge advice to our tenants when it comes to assisted living in their own flat, 24 / 7 emergency availability, consulting on senior-adequate housing equipment, or information on special offers for senior citizens. Our tenants can call a toll-free number and make an appointment with a DGS representative in their own flat to discuss their individual needs.

02

DIRECTORS' REPORT

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02

DIRECTORS' REPORT

DIRECTORS' REPORT

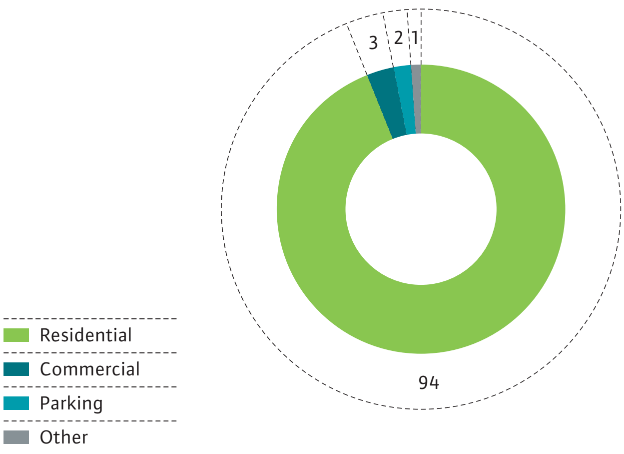
GAGFAH AT A GLANCE

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

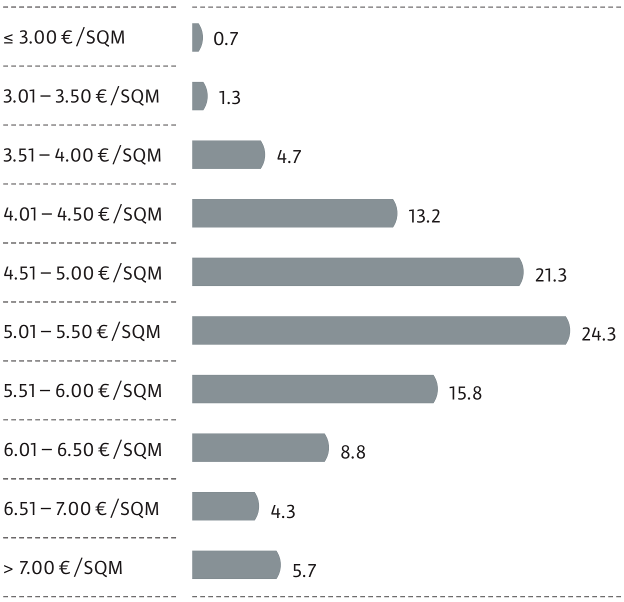
GAGFAH is a large owner and operator of residential real estate in Germany. Our portfolio includes more than 143,000 own residential units that are mostly located in large German cities and their respective commuter belts. We believe that our size, our significant presence in the key residential markets and our scalable operating platform make us one of the leading providers of affordable housing for low- to medium-income households in Germany. Our operating subsidiaries are full-scale service providers for a broad range of property and facility management services.

Our objective is to generate shareholder value through sustainable and growing cash flows, increasing net asset value and sustainable dividends by efficiently managing our portfolio, carrying out value-enhancing property investments, pursuing accretive growth opportunities, and realizing value through selected asset sales.

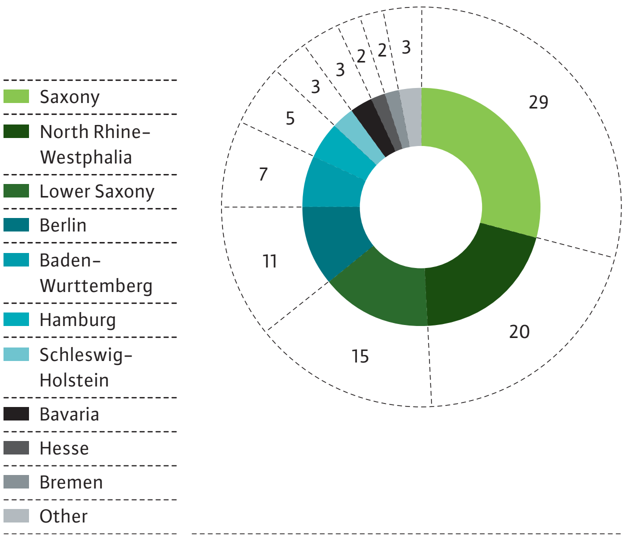
ANNUALIZED NET COLD RENT
in %



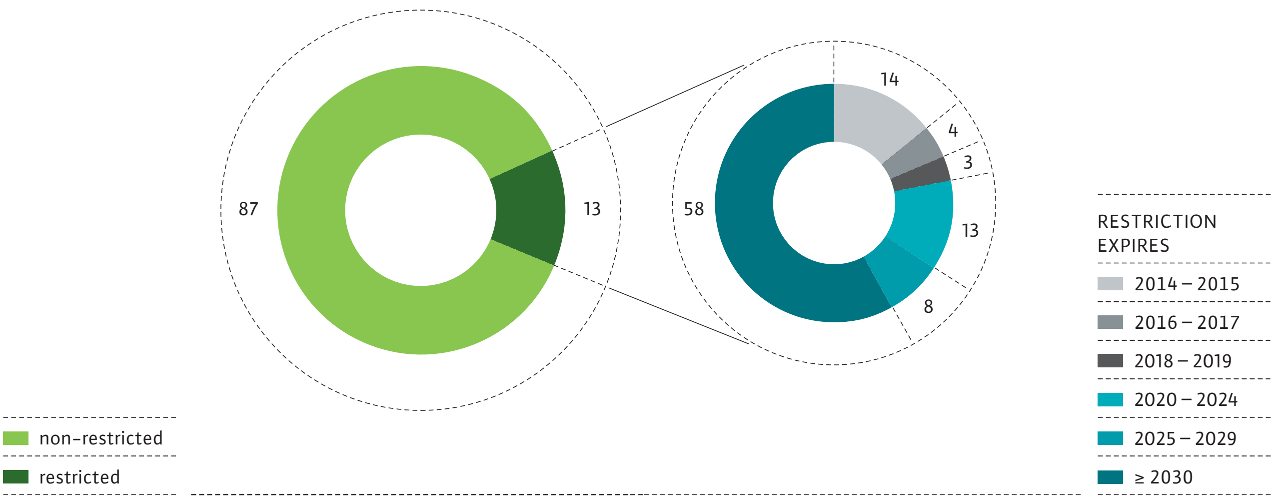
RESIDENTIAL PORTFOLIO CLUSTERED BY NET COLD RENT, EXCLUDING VACANT UNITS
in %



RESIDENTIAL PORTFOLIO CLUSTERED BY FEDERAL STATE
in %



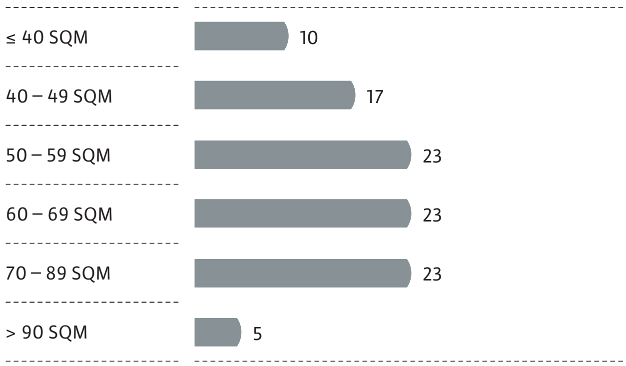
NON-RESTRICTED VS. RESTRICTED RESIDENTIAL PORTFOLIO
in %



WHAT WE OWN We own residential properties, mostly located in 30 of our largest cities and urban concentrations. Our total portfolio comprises more than 143,000 apartments with a total of 8.7 million square meters. The average apartment size is 61 square meters. Approximately 18,500 units (ca. 13 %) are publicly subsidized, rent-restricted apartments. The average construction year for our portfolio is 1965, 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 approximately eleven years and a fluctuation rate of 10.9 %.

In addition to our core residential portfolio, we own approximately 1,600 commercial units, primarily retail stores located on the ground floor of our residential apartment buildings, and approximately 30,000 parking spaces, which typically belong to our residential apartment buildings.

RESIDENTIAL PORTFOLIO CLUSTERED BY UNIT SIZE
in %



INDUSTRY

OVERALL ECONOMIC ENVIRONMENT After growing 3.2 % in 2012, the world economy is expected to have grown at a slightly lower pace in 2013 (2.9 %). According to the International Monetary Fund (IMF), there is an increasing shift in growth rates among the industrialized countries on the one hand and the threshold and developing countries on the other. While the latter have been losing some of their pace, the industrialized countries, which had been clearly lagging the developing world with respect to growth momentum, are increasingly gaining ground. In spite of this trend, however, the absolute growth rate in the developing world is still substantially higher with an estimated 4.5 % (2013) and 5.0 % (2014) as compared to an estimated 1.6 % (2013) and 2.6 % (2014) for the USA, for example (Source: Deutsche Bundesbank 2013).

For the Eurozone, still ridden by financial uncertainty and fiscal challenges of some of its members, the IMF expects a decline in the overall growth rate of 0.4 % for 2013 and a moderate growth of 1.0 % in 2014. Germany, which is continuously perceived as the driving engine on the continent, is forecast to grow at 0.5 % in 2013 and 1.4 % in 2014, hence clearly above the expectation for the Eurozone as a whole (Source: Deutsche Bundesbank 2013).

As in prior years, the German labor market was robust in 2013. After a seasonal increase in unemployment in the beginning of the year, the unemployment rate declined to 6.7 % at the end of 2013, essentially exhibiting a sideways trend for 2013 (Source: Federal Statistics Office 2013b).

The consumer price index in Germany in 2013 was 1.5 % overall (2012: 2.0 %), reflecting the lowest increase since 2010 (1.1 %). Main drivers for the inflation rate were food products with an average of 4.4 % compared to 2012. In contrast to prior years, energy prices grew more slowly at a moderate 1.4 % and therefore below overall inflation. Among the different sources of energy, the picture was very heterogeneous: while electricity prices increased by almost 12 %, prices for heating oil (– 6.0 %) and fuel (– 3.4 %) were below the 2012 levels (Source: Federal Statistics Office 2014a).

GERMAN RESIDENTIAL REAL ESTATE MARKET The real estate industry, as in most other countries, is a major contributor to the economy. In 2011, the brokerage, management, trade and letting of real estate contributed € 264 billion of gross value to the German economy, representing 12 % of the total gross value added. This compares to € 226 billion (10 %) for the trading industry, € 164 billion (7 %) for the health sector, and € 81 billion (4 %) for the automotive industry. Including third-party services, such as architects, lenders, consultants or construction companies, the real estate industry employs more than 2.8 million people (Source: DV and gif 2013).

The residential market is an important submarket within the overall real estate industry, and Germany's housing market is the largest in Europe with more than 41 million units. Of that amount, approximately 42 % are inhabited by owner-occupiers, 37 % are owned and let by retail investors and the remaining 21 % are in the hands of professional owners (Source: BMVBS 2013).

In terms of new supply, new construction activity has significantly cooled off since its peak with about 500,000 newly constructed units annually during the 1990s. The first five years of the new millennium had still seen an annual average of 275,000 new units, while the second half of this millennium's first decade recorded only 182,000 new units per year (Source: Federal Statistics Office 2012). Since then, construction activity has slightly picked up to more than 200,000 per year, but this is still substantially below what most researchers consider as sufficient supply in the context of an increasing demand, which is driven by a growing number of households (Sources: Federal Statistics Office 2014b; empirica 2014; ifo Institut 2013). This is exacerbated by the fact that an estimated 0.3 % to 0.5 % of the housing stock are taken off the market each year (Source: GdW 2013).

Accommodation represents the largest expense item in a household's budget. Based on 2012 data, rent and utility expenses make up about 24 % of a household's consumer expenses in Germany, followed by transportation and communication (16 %) and food, beverages and tobacco products (15 %). In an international context, the share of rent-related expenses in Germany is lower than the EU average and lower than in countries such as France, Italy, Finland, Sweden or the United Kingdom (Source: Federal Statistics Office 2013a).

With regards to the political and legal environment, the new government has announced that it intends to implement new legislation that aims to curb rent growth in certain strained markets. Accordingly, several guidelines towards that end have been included in the coalition agreement and are currently going through the legislative process. It is not clear yet what the outcome is going to be and when a new law may be passed.

Based on the current status and the intentions communicated thus far, it appears that rent levels for new lettings might be capped at 10 % above the previous rent level, and rent growth as a result of modernization expenses might be rolled back once the investment has been amortized. It is widely expected within the real estate industry that the implementation of additional rent growth caps on top of the rent legislation already in place, particularly the plans referring to the reversal of rent increases after the amortization period of an investment, would bring much needed investment in the real estate stock virtually to almost a complete halt.

GAGFAH, alongside most other players in the real estate industry, will be monitoring the developments very closely. Absent of specific legislation, it is impossible to forecast specific impacts on our business, but we remain optimistic that final legislation should not have a material impact.

REAL ESTATE PRICES Since 2004, the German residential market has been largely moving sideways with a slight upward trend during the past three years. Based on the real estate price index prepared by empirica, the overall index is up 8 % since 2008, with the rent level index up 11 % and the purchase price index up 5 %. For both indices, the growth in urban centers has been substantially stronger than in rural areas. Between 2012 and 2013, the purchase price index went up 4 % while the rent level index went up 3 % (Source: empirica 2014).

DEMOGRAPHIC DEVELOPMENT While the population in Germany is expected to decline to below 80 million by 2025, the total number of households is forecast to grow until at least 2025 (Sources: Demografieportal 2012; Federal Statistics Office 2011a and 2011b). This growth is fueled by an increasing number of one- and two-person households, which is expected to overcompensate the decline in households with three or more persons. The Federal Statistics Office expects the number of one- and two-person households to grow by 12 % from less than 30 million in 2009 to more than 33 million in 2030 (Source: Federal Statistics Office 2011a). Furthermore, the average square meter space per person is continuously growing. In 2009, the average person in Germany inhabited 42.5 square meters. By 2012, this number had already increased to 46.7 square meters (+ 10 %) (Source: Federal Statistics Office 2014c).

In terms of regional development within Germany, there is an increasing trend towards urbanization, as more and more people are moving from the more rural areas to the country's urban centers. Approximately 73 % of the population lived in cities at the beginning of this century, and this number is forecast to increase to more than 78 % by 2030 (Source: Federal Statistics Office 2010). The population of cities such as Dresden, Berlin and Hamburg is forecast to grow by up to 5 % and more between 2009 and 2025, while the more rural areas especially in the eastern part of Germany are expected to see a population decline of up to 15 % and more (Source: Demografieportal 2012).

ANALYSIS OF RESULTS OF OPERATIONS, NET WORTH AND FINANCIAL POSITION

CONDENSED CONSOLIDATED INCOME STATEMENT
for the period from January 1 to December 31, 2013

€ million

	2013	2012 (adjusted)
Income from the leasing of investment property	829.8	825.9
Transferable leasehold land interest	− 2.2	− 2.0
Operating expenses for the generation of rental income (excluding share-based remuneration)	− 455.0	− 438.4
Profit from the leasing of investment property	**372.6**	**385.5**
Income from the sale of investment property and assets held for sale	144.1	213.1
Carrying amount of the sold investment property and assets held for sale	− 128.6	− 194.9
Profit from the sale of investment property and assets held for sale	**15.5**	**18.2**
Result from the fair value measurement of investment property	**5.4**	**− 13.4**
Income from the sale of property development projects	1.1	4.7
Carrying amount of property development projects sold	− 1.0	− 3.4
Profit from the sale of property development projects	**0.1**	**1.3**
Result from other services	1.0	2.3
Selling expenses (excluding share-based remuneration)	− 12.1	− 13.8
General and administrative expenses (excluding share-based remuneration)	− 34.9	− 35.1
Expenses for share-based remuneration	− 7.0	− 1.2
Other operating income	8.8	11.8
Other operating expenses	− 7.1	− 16.0
Profit from operations before reorganization and restructuring expenses	**342.3**	**339.6**
Reorganization and restructuring expenses	− 7.2	− 4.5
Earnings before interest and taxes (EBIT)	**335.1**	**335.1**
Interest expenses	− 220.6	− 249.5
Interest income	0.8	1.7
Other financial expenses	− 0.1	− 0.1
Result from the fair value measurement of derivatives	1.5	2.1
Refinancing expenses	− 67.9	− 3.9
Net financing expenses	**− 286.3**	**− 249.7**
Earnings before taxes (EBT)	**48.8**	**85.4**
Income taxes	− 45.5	− 37.7
Net result	**3.3**	**47.7**
Net result attributable to:		
Non-controlling interests	**3.5**	**4.5**
Shareholders of the parent company	**− 0.2**	**43.2**

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 in 2013 was € 829.8 million after € 825.9 million in 2012 and is composed of:

€ million

	2013	2012
Rental income, fees	554.6	566.6
Allocations charged	274.1	258.1
Other	1.1	1.2
Total	**829.8**	**825.9**

Approximately 67 % (€ 554.6 million) of the income from leasing was attributable to rental income and fees. The average portfolio in 2013 was about 2.4 % (ca. 3,700 units) smaller than in 2012, and as a result, the rental income declined by 2.1 % year on year. Excluding the impact from sales, the net cold rent grew by € 6.0 million or about 1.1 % in 2013.

Approximately 33 % (€ 274.1 million) of the income from leasing was related to charges to tenants for recoverable operating expenses (allocations charged). The increase in allocations charged, mainly due to extraordinary high heating expenses in the first months of 2013, overcompensated the decrease in rental income and fees and led to an increase of income from the leasing of investment property overall.

Rental income is net of vacancy. Due to the continuation of our successful vacancy reduction program, our vacancy rate continued to decline and was 4.1 % at the end of 2013 (prior year: 5.0 %), equaling an occupancy rate of 95.9 %.

OPERATING EXPENSES FOR THE GENERATION OF RENTAL INCOME Operating expenses in 2013 increased to € 455.0 million after € 438.4 million in the prior year and consist of the following items:

€ million

	2013	2012
Real estate operating expenses	243.4	227.7
Real estate tax	23.5	24.2
Operating expenses recoverable from tenants	**266.9**	**251.9**
Repair and maintenance costs	78.0	81.8
Personnel expenses	63.7	59.6
Bad debt allowances	8.0	7.4
External costs for real estate management	6.9	6.8
Administrative expenses	11.5	9.9
Real estate operating expenses	4.7	5.6
Real estate tax	0.4	0.5
Amortization and depreciation on intangible assets and property, plant and equipment	1.6	2.1
Other	13.3	12.8
Non-recoverable operating expenses	**188.1**	**186.5**
Total	**455.0**	**438.4**

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. We are expanding the services of our facility management companies to reduce external costs and to gain more independence from third party services. This led to a shift between some of the cost types (see table above).

Recoverable operating expenses were € 266.9 million in 2013 compared to € 251.9 million in 2012. The increase is the result of higher heating expenses during the last winter as well as new cable TV contracts in the context of expanding our multimedia services for our tenants.

Non-recoverable operating expenses were € 188.1 million in 2013 compared to € 186.5 million in the prior year.

The consolidated repair and maintenance costs were € 78.0 million in 2013 after € 81.8 million in 2012 (– 4.6 %). The amount of work carried out by our 100 % affiliated facility management companies was significantly increased, while the external costs could be reduced. The repair and maintenance expenses are accompanied by a higher amount of capex of € 26.3 million (prior year: € 4.1 million).

Therefore, with a view on the per square meter figures, an increase from € 10.68 per square meter in the prior-year period to € 13.84 per square meter in 2013 can be noted.

The following table illustrates our repair and maintenance expenses and our capital expenditures:

€ million (unless stated otherwise)

	2013	2012
Repairs and maintenance expenses [1]	95.0	91.5
Capex	26.3	4.1
Total investment volume	121.3	95.6
Residential square meters (in thousand sqm)	8,762	8,947
Average investment volume (€ / sqm)	13.84	10.68

1 Including work carried out by affiliated companies.

We are continuing to increase our 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. Therefore, personnel expenses in 2013 increased to € 63.7 million after € 59.6 million in the prior-year period, largely as a result of a growing number of caretakers responsible for the facility management of our own properties.

The increase of administrative expenses to € 11.5 million during 2013 after € 9.9 million during the prior year is mostly attributable to expenses in connection with our facility management services caused by a higher number of employees.

PROFIT FROM THE LEASING OF INVESTMENT PROPERTY (NOI)

The profit from the leasing of investment property was € 372.6 million for 2013 compared to € 385.5 million for 2012, on the basis of approximately 2.4 % or about 3,700 fewer units on average and higher real estate operating expenses.

The profit from the leasing of investment property (NOI) 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

	2013	2012
Rental income, fees	554.6	566.6
Allocations charged	274.1	258.1
Other	1.1	1.2
Income from the leasing of investment property	829.8	825.9
Transferable leasehold land interest	– 2.2	– 2.0
Operating expenses	– 455.0	– 438.4
Profit from the leasing of investment property (NOI)	372.6	385.5

The profit from the leasing of investment property (NOI) decreased to € 372.6 million from € 385.5 million. This effect is mainly attributable to the sales-related decline of rental income. The increase in allocations charged corresponds with a simultaneous effect in the operating expenses. The individual effects have been explained above.

SALE OF INVESTMENT PROPERTY AND ASSETS HELD FOR SALE We closed the sale of 2,001 units for a total consideration of € 144.1 million in 2013. Of that amount, 613 units for € 58.0 million came from our condo sales program and the remaining 1,388 units for € 86.1 million were block sales. The block sales included the sale of land, a larger asset in Heidenheim with high vacancy rates as well as the sale of five senior homes, all of which occurred in the context of our ongoing efforts to optimize our portfolio.

Our condo sales break down as follows:

CONDO SALES

	FY 2013	FY 2012
Sold units	**613**	937
Gross proceeds (€ million)	**58.0**	82.0
Carrying value (€ million)	**– 47.0**	– 65.5
Gross margin in %	**23.4**	25.1
NCR multiple	**19.6**	19.2

Although the number of sold units and the gross proceeds in 2013 were considerably lower than in the prior year, we accomplished a slightly better NCR multiple.

RESULT FROM THE FAIR VALUE MEASUREMENT OF INVESTMENT PROPERTY The value of our investment property including assets held for sale amounts to € 7,682.3 million and represents a stable net cold rent multiple of 13.3 as of December 31, 2013. The result from the fair value measurement in 2013 was a small gain of € 5.4 million after a loss of € 13.4 million in the prior year.

The valuation relating to the block sale assets, which have been reclassified as assets held for sale, led to a loss of € 1.0 million for the full year. For the remaining properties, the valuation resulted in a gain of € 6.4 million for 2013.

As in prior years, the fair value measurement was conducted by CBRE, an independent external appraiser and confirmed by our auditor through the review of a representative sample.

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. Detailed information on the valuation of our investment property can be found in section E.2. "Investment Property" in the Notes to the Consolidated Statement of Financial Position.

OTHER INCOME AND EXPENSE ITEMS Other income and expense items for our Group totaled a net expense of € 51.3 million in 2013, as compared to a net expense of € 52.0 million in 2012. The development of our other income and expense items is shown in the table below:

€ million

	2013	2012
Result from other services	**1.0**	2.3
Selling expenses	**– 12.1**	– 13.8
General and administrative expenses	**– 34.9**	– 35.1
Expenses for share-based remuneration	**– 7.0**	– 1.2
Other operating income	**8.8**	11.8
Other operating expenses	**– 7.1**	– 16.0
Total	**– 51.3**	**– 52.0**

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

In 2013, selling expenses were € 12.1 million and mainly included external broker fees, personnel expenses, as well as sales-related general and administrative expenses in connection with our sales operations.

General and administrative expenses mainly consist of personnel costs, IT costs, consulting fees, audit fees and office costs. These expenses remained nearly stable at € 34.9 million in 2013.

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 other operating income or other operating expenses, respectively. In 2013, other operating income was € 8.8 million and decreased slightly due to a lower volume of provisions that we had to reverse in the financial year.

The decrease in other operating expenses to € 7.1 million in 2013 after € 16.0 million in the prior year is mainly due to one-off consulting fees in connection with the examination of the corporate strategy for the WOBA subgroup and an one-off amendment of an outsourcing contract for maintenance in the prior-year period.

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 2013, reorganization and restructuring expenses were € 7.2 million, up from € 4.5 million in the prior year, mainly resulting from our new reorganization measure "GAGFAH 2015". For further information on this program, we refer to page 39 et seq.

EARNINGS BEFORE INTEREST AND TAXES (EBIT) In 2013, our EBIT was € 335.1 million, exactly the same as in 2012. A better portfolio valuation result could compensate a 1.4 % smaller asset portfolio, a smaller sales volume and increased maintenance costs.

NET FINANCING EXPENSES Our net financing expenses are the sum of the following items:

€ million

	2013	2012
Interest expenses related to loans	**– 198.1**	– 222.0
Prepayment fees	**0.0**	– 3.4
Other	**– 22.5**	– 24.1
Total interest expenses	**– 220.6**	**– 249.5**
Interest income	**0.8**	1.7
Other financial expenses	**– 0.1**	– 0.1
Result from the fair value measurement of derivatives	**1.5**	2.1
Refinancing expenses	**– 67.9**	– 3.9
Net financing expenses	**– 286.3**	**– 249.7**

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 result from the fair value measurement of derivatives.

Net financing expenses increased to € 286.3 million in 2013 compared to € 249.7 million in the prior year.

This increase was driven by refinancing expenses in connection with our completed refinancing processes in 2013. The expenses in the financial year 2013 split up into prepayment fees of € 43.6 million (prior year: € 0.0 million), court and lawyer's fees of € 12.6 million (prior year: € 0.2 million), consulting fees of € 11.6 million (prior year: € 3.6 million) and other costs of € 0.1 million (prior year: € 0.1 million).

Total interest expenses decreased to € 220.6 million in 2013 from € 249.5 million during the previous year. Among the main reasons for this decline are lower interest rates due to the refinancing of the GAGFAH, WOBA and NILEG subgroups and lower prepayment penalties relating to asset sales in 2013 as well as a high amortization of financial liabilities in the prior-year period.

EARNINGS BEFORE TAXES (EBT) In 2013, our Group's EBT was € 48.8 million, as compared to € 85.4 million in 2012. Earnings before taxes are computed as earnings before interest and taxes (EBIT) of € 335.1 million reduced by net financing expenses of € 286.3 million. The decrease of EBT in 2013 is mainly due to the increased refinancing expenses.

INCOME TAXES Income taxes for 2013 of € 45.5 million (prior year: € 37.7 million) comprise deferred income tax expenses of € 37.8 million (prior year: € 32.0 million) and current income tax expenses of € 7.7 million (prior year: € 5.7 million).

EPRA NET ASSET VALUE (NAV) Since December 31, 2012 (adjusted), the undiluted EPRA NAV per share decreased by 1.5 % to € 13.07 and the diluted EPRA NAV per share decreased by 1.7 % to € 12.96, in both cases largely as a result of the higher number of shares due to the capital increase in the financial year.

Below is the NAV calculation as supported by EPRA Best Practices Recommendations:

€ million (unless stated otherwise)

	12-31-2013	12-31-2012 (adjusted)
Shareholders' equity	2,235.2	2,069.8
Change of accounting policies	0.0	− 11.0
Shareholders' equity (adjusted)	2,235.2	2,058.8
Effect of exercise of options, convertibles and other equity interests	0.0	0.0
Deferred taxes on investment property and assets held for sale	581.9	528.9
Fair value of financial derivatives	− 5.6	4.8
Deferred taxes on financial derivatives	1.8	− 1.6
Goodwill (as a result from deferred taxes)	0.0	0.0
EPRA NAV	2,813.3	2,590.9
EPRA NAV per share (€, undiluted)	13.07	13.27
EPRA NAV per share (€, diluted)	12.96	13.19
Number of shares (excl. treasury shares, undiluted)	215.3	195.3
Number of shares (excl. treasury shares, diluted)	217.1	196.5

The prior-year shareholders' equity had to be adjusted as a consequence of changes in IFRS accounting policies, which require a different accounting treatment of pensions and joint ventures. Please see sections A., B. and E. in the Notes to this report for further details on the IFRS changes and their impact on our prior-year numbers.

FINANCIAL POSITION As of December 31, 2013, and December 31, 2012, the Group's equity and liabilities were as follows:

	12-31-2013 € million	12-31-2013 %	12-31-2012 (adjusted) € million	12-31-2012 (adjusted) %
Total equity	2,272.3	28.6	2,089.4	25.7
Financial liabilities	4,874.3	61.2	5,231.1	64.5
Other liabilities	813.2	10.2	791.1	9.8
Total equity and liabilities	7,959.8	100.0	8,111.6	100.0

Due to the successful refinancing and the capital increase, in 2013, the equity ratio could be enhanced to 28.6 % (prior year: 25.7 %).

As of December 31, 2013, the Group's financial liabilities primarily consisted of the following liabilities:

€ million (unless stated otherwise)	Carrying amount as of 12-31-2013	Notional amount as of 12-31-2013	Weighted average years to maturity	Current average interest rate (%)
Commercial mortgage-backed floating rate notes	2,671.1	2,688.6	4.7	2.75
thereof fixed [1]	2,464.1	2,480.7	4.7	2.82
thereof floating	207.0	207.9	4.8	1.94
Loans granted by institutional lenders	1,873.5	1,896.0	3.4	3.70
thereof fixed [1]	1,639.9	1,661.1	3.3	3.86
thereof floating, secured with cap	164.0	163.5	4.7	2.57
thereof floating	69.6	71.4	4.5	2.45
Senior debt	296.3	362.2	27.5	2.03
Other	33.4	33.4	2.1	3.66
thereof fixed	13.4	13.4	5.0	5.75
thereof floating	20.0	20.0	0.2	2.25
Total	4,874.3	4,980.2	5.9	3.06

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

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.

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

€ million	12-31-2013	12-31-2012 (adjusted)
Non-current assets	**7,703.0**	7,808.5
Current assets	**208.2**	272.1
Assets held for sale	**48.6**	31.0
Total assets	**7,959.8**	8,111.6
Equity	**2,272.3**	2,089.4
Non-current liabilities	**4,952.2**	2,465.4
Current liabilities	**735.3**	3,556.8
Total equity and liabilities	**7,959.8**	8,111.6

Non-current assets of € 7,703.0 million mainly include investment property of € 7,633.7 million (99.1 % of all non-current assets) and € 32.9 million (0.4 %) property, plant and equipment. Non-current assets make up 96.8 % of total assets. The valuation of our investment property was done by CBRE, an independent third-party appraiser.

Current assets of € 208.2 million include bank balances and cash on hand of € 101.9 million (48.9 % of all current assets), inventories of € 12.0 million (5.8 %) and other assets of € 94.3 million (45.3 %).

Non-current liabilities of € 4,952.2 million mainly comprise € 4,347.8 million financial liabilities (87.8 % of all non-current liabilities), € 340.1 million deferred tax liabilities (6.9 %) and € 120.9 million pension provisions (2.4 %).

Current liabilities of € 735.3 million mainly include financial liabilities of € 526.5 million (71.6 % of all current liabilities).

DIVIDENDS

The refinancing of more than € 4.0 billion in the course of 2013 led to substantial one-off expenses that need to be paid out of FFO and prohibit a dividend for the year 2013. For the financial year 2014, the Company targets a dividend of € 0.20 – € 0.25 per share.

SIGNIFICANT EVENTS AFTER THE REPORTING DATE

NEW CHAIRMAN OF GAGFAH S. A. In its meeting on March 25, 2014, the Board of Directors of GAGFAH S. A. coopted Gerhard Zeiler as new Board Member and appointed him as Chairman. Mr. Zeiler succeeded Jonathan Ashley, who resigned from the Board as of the same date. This change results in reducing the number of Fortress-affiliated Board Members from three to two.

Austrian-native Gerhard Zeiler is an internationally renowned media manager and currently serves as President of Turner Broadcasting System International, a Time Warner company. Prior to his current position at Turner Broadcasting System International, Mr. Zeiler held leading positions within the RTL Group, Europe's leading entertainment network, and between 2003 and 2012, he was the CEO of RTL Group and Member of the Executive Board of Bertelsmann Group.

In the months prior to this decision, several important strategic decisions had helped to sharpen GAGFAH GROUP's strategy back more onto the operating business and to reposition the GAGFAH GROUP as an independent, leading listed player in the German residential sector. These milestones included the portfolio strategy with a focus on GAGFAH's 30 largest cities, the development of a € 250 million value-enhancing investment program, the initiation of an operational improvement program and the selling of a total of 35 million GAGFAH shares by Fortress Investment Group in the second half of 2013, reducing their stake from more than 60 % down to about 41 %. In light of these developments, the Board of Directors felt it was the right time to make a change within the Board.

CORPORATE GOVERNANCE

VOLUNTARY DECLARATION ON THE GERMAN CORPORATE GOVERNANCE CODE WITHIN THE MEANING OF § 161 AKTG

INTRODUCTION GAGFAH S. A., Luxembourg, is a joint stock corporation (Société Anonyme – S. A.) organized under the laws of the Grand Duchy of Luxembourg qualifying as a securitization company under the Luxembourg Securitization Law of March 22, 2004, whose shares are admitted for trading solely on the Frankfurt Stock Exchange.

As GAGFAH S. A. is not listed on the Luxembourg Stock Exchange, the Luxembourg Code of Corporate Governance which is only relevant for companies listed in Luxembourg, is not applicable to GAGFAH S. A. Furthermore, also the corresponding German corporate governance system which refers to German stock corporations within the meaning of Section 161 of the German Stock Corporation Act (Aktiengesetz – "AktG") is not applicable.

Although GAGFAH S. A. is not subject to Section 161 para 1 AktG, the Board of Directors of GAGFAH S. A. decided on March 25, 2014, to make – for the first time – a voluntary declaration in relation with the "German Corporate Governance Code" in the version of May 13, 2013 (the "Code") within the meaning of Section 161 AktG, since the Code is in the opinion of the Board of Directors of GAGFAH S. A. a key element for responsible corporate governance.

APPLICABILITY OF THE RECOMMENDATIONS BASED ON THE PECULIARITY OF THE LUXEMBOURG COMPANY LAW AND THE GOVERNANCE STRUCTURE OF GAGFAH S. A.

The Code presents essential statutory regulations for the management and supervision (governance) of German listed companies and contains internationally and nationally recognized standards for good and responsible governance. The Code aims to make the German Corporate Governance system transparent and understandable. Its purpose is to promote the trust of international and national investors, customers, employees and the general public in the management and supervision of listed German stock corporations.

The individual recommendations of the Code are only relevant for GAGFAH S. A. to the extent they are in conformity with the Luxembourg securitization and corporate law as well as GAGFAH S. A.'s governance structure. In particular, GAGFAH S. A.'s governance structure does not follow the two-tier system with an Executive Board (Vorstand) and a Supervisory Board (Aufsichtsrat) but the one-tier system with a Board of Directors (Verwaltungsrat). The Code is however based on the two-tier system for German stock corporations that distinguishes between the Management Board and the Supervisory Board of a company.

The corporate purpose of GAGFAH S. A. as a securitization company is the securitization of risks, especially risks associated with (German) property owned by GAGFAH S. A.'s German subsidiaries. This results in the particularity that the company's purpose at the level of GAGFAH S. A. is limited to the securitization of risks, while GAGFAH S. A.'s subsidiaries are operating in the housing industry. At the top level of the companies operating in the housing industry stands GAGFAH Holding GmbH, Essen, as a holding company. GAGFAH Holding GmbH is led by the senior management (CEO, CFO and COO of the GAGFAH GROUP). The implementation of an advisory board (Beirat) at the level of GAGFAH Holding GmbH has been simultaneously decided with this voluntary declaration on the German Corporate Governance Code; the relevant company law regulations contain regulatory elements at the level of GAGFAH S. A.'s subsidiaries operating in the housing industry.

In line with the foregoing description, where the Code refers to 'Executive Board' or 'Supervisory Board', such references are replaced by reference to GAGFAH's Board of Directors to the extent that such reference seems adequate in view of the two-tier system which is the underlying principle of the Code. Further, GAFGAH S. A.'s Board of Directors is of the opinion that the following exceptions apply due to the governance structure of the one-tier system and the Luxembourg securitization and corporate law:

- Contrary to Section 2.2.1 of the Code, the approved statutory auditor is not appointed by the company's annual general meeting, but, in accordance with the Luxembourg Securitization Law of March 22, 2004, it is for the Board of Directors to decide on the appointment of the approved statutory auditor.
- Contrary to Section 5.4.3 sentence 2 of the Code, Luxembourg law does not provide for the judicial appointment of a member of the Board of Directors which is limited in time by means of an application. Luxembourg law provides for a so-called co-optation of new board members by the other members of the Board of Directors and the co-opted member must then be confirmed by the next general meeting of shareholders.
- Contrary to Section 5.5.3 of the Code, only the general meeting of shareholders of GAGFAH S. A. has the authority to dismiss members of the Board of Directors and is therefore the only competent body to decide if significant and non-temporary conflicts of interest in the person of a Director shall lead to a termination of the Director's mandate.

Despite the above-mentioned legal and structural specific characteristics of GAGFAH S. A. being a Luxembourg securitization company with a one-tier governance structure, GAGFAH S. A. mainly complies with the recommendations of the Code. In particular, the recommendations to Cipher 2 (Shareholders and General Meeting), 6 (Transparency) and 7 (Accounting and Auditing) are fully complied with. In light of the foregoing reasons, the Board of Directors is of the opinion that only the following recommendations of the Code cannot be taken into consideration: Cipher 3.1 to 3.4, 3.6, 3.8 para. 2 (recommendations relating to the interaction of the Executive Board and the Supervisory Board), 4.2.1 to 4.2.4, 4.3 (recommendations relating to the Executive Board), 5.1.1 to 5.1.2, 5.2 para. 3, 5.4.1 para. 2 and para. 3 sentence 3, 5.4.2, 5.4.3 sentence 2, 5.4.4, 5.4.5 sentence 2 (recommendations relating to the Supervisory Board).

VOLUNTARY DECLARATION OF COMPLIANCE In consideration of the above specific characteristics of the Luxembourg securitization and corporate law and the governance structure, GAGFAH S. A. voluntarily complies with the recommendations of the Code in the version of May 13, 2013, with the deviations listed below, and it will in future comply with the recommendations of the Code in the version of May 13, 2013 with the deviations listed below.
Contrary to Section 3.8, para. 3 of the Code, the D & O (directors' and officers' liability insurance) policy for the Board of Directors does not contain a deductible. As GAGFAH S. A. is a Luxembourg stock company it does not fall within the scope of Section 93 para. 2 sentence 3 AktG. Further, the Board of Directors is of the opinion that a deductible for members of the Board of Directors is not necessary because the D & O policy is a group insurance for individuals both domestically and abroad, and, providing for a deductible in D & O policies is unusual outside the Federal Republic of Germany.

Contrary to Section 5.1.3 of the Code, the Board of Directors has not adopted rules of procedure. Currently, the Company's articles of association contain appropriate rules of procedure of the Board of Directors, which is why the Board of Directors does not see any need to create separate rules of procedure.

Luxembourg, March 25, 2014

The Board of Directors of GAGFAH S. A.

COMPENSATION OF DIRECTORS While neither the directors nor the CEO of the operating subsidiaries receive compensation for their work as Directors and / or Committee Members, the Independent Directors receive compensation for their services as Board Members as approved by the Annual General Meeting of Shareholders of the Company of June 12, 2012.

In its meeting on March 25, 2014, the Board resolved to propose to the next Annual General Meeting of Shareholders on June 12, 2014 a new compensation scheme. As all three non-independent directors waived their rights to receive a compensation, only the independent board members are to receive the compensation subject to the approval by the AGM 2014. The following table shows the current compensation scheme and the proposed new scheme applicable to all independent board members. The respective compensation shall be granted pro rata temporis on the basis of meetings actually attended.

PROPOSED COMPENSATION OF INDEPENDENT BOARD MEMBERS

	Current scheme		Proposed new scheme	
Position	Cash component (€ per annum)	Shares component (shares per annum)	Cash Component (€)	Share Component (shares)
Board Chairman	—	—	80,000 (p.a.)	7,500 (p.a.)
Board Member	40,000	10,000	40,000 (p.a.)	5,000 (p.a.)
Committee Chairman	—	—	5,000 per meeting, capped at 10,000 p.a.	—
Committee Member	—	—	2,500 per meeting, capped at 5,000 p.a.	—

COMPENSATION OF SENIOR MANAGEMENT The total management remuneration in the 2013 financial accounts was €2,465,861 (excluding long-term incentive plans), consisting of €1,165,861 for fixed remuneration and €1,300,000 for annual bonuses for the year 2012. There was no bonus paid in 2013 for the current CEO Thomas Zinnöcker, as he joined the Company in the course of 2013.

FIXED REMUNERATION AND ANNUAL BONUSES RELATING TO 2013

in €

	Thomas Zinnöcker Chief Executive Officer (CEO)	Gerald Klinck Chief Financial Officer (CFO)	Nicolai Kuss Chief Operating Officer (COO)	Stephen Charlton Chief Executive Officer (CEO)	Total
	Entry date: April 16, 2013	Entry date: September 1, 2012	Entry date: March 20, 2009	Entry date: January 1, 2011 Exit date: May 2, 2013	
Basic remuneration	532,738	200,000	200,000	150,038	**1,082,776**
Fixed benefits in kind	8,046	42,080	30,013	2,946	**83,085**
Subtotal fixed remuneration	**540,784**	**242,080**	**230,013**	**152,983**	**1,165,861**
Annual bonus	0	300,000	400,000	600,000	**1,300,000**
Subtotal fixed remuneration + annual bonus	**540,784**	**542,080**	**630,013**	**752,983**	**2,465,861**

In addition to the fixed remuneration and the annual bonuses, claims from former equity-settled share based remuneration plans were settled in cash to Mr. Kuss (€ 1,267,860) and to the former CEO Mr. Charlton (€ 4,040,000).

In 2013, the share premium was increased by pro rata values for future commitments resulting from old and new LTIP plans. They include € 5,907,612 for Mr. Zinnöcker and € 11,772 each for Mr. Klinck and Mr. Kuss, both of whom signed new service agreements with the Company in mid December 2013. A further amount of € 330,387 in 2013 resulted from the final tranche of an old LTIP plan for Mr. Charlton.

FIXED REMUNERATION, ANNUAL BONUSES AND LTIP FOR 2014 AND FOLLOWING YEARS

€, unless stated otherwise

	Thomas Zinnöcker (CEO)	Gerald Klinck (CFO)	Nicolai Kuss (COO)
Basic remuneration	750,000	300,000	300,000
Fixed benefits in kind	10,728	18,000	13,132
Subtotal fixed remuneration	**760,728**	**318,000**	**313,132**
Annual bonus	375,000	300,000	300,000
Subtotal fixed remuneration + annual bonus	**1,135,728**	**618,000**	**613,132**
Average annual number of shares under LTIP (gross amount)	300,000	50,000	50,000

A new long-term incentive plan has been set up to further align the interests of shareholders with the goals of the senior management and all other employees in leadership positions.

Senior management benefits from the LTIP will be settled with real shares, while benefits for all other employees will be settled via phantom stocks. Please see the section "Responsibility for Our Employees" for further details relating to the LTIP for employees in leadership positions.

LUXEMBOURG CORPORATE GOVERNANCE REGIME As a société anonyme – société de titrisation of Luxembourg law, the Company is subject to, and complies with, the corporate governance regime as set forth in particular in the law of August 10, 1915, on commercial companies. As a company whose shares are listed on a regulated stock exchange, the Company is further subject, and complies with, the law of May 24, 2011, on the exercise of certain shareholder rights in listed companies.

The Articles of Incorporation of the Company provide for the requirement of three Independent Directors, for as long as the stock is listed. The Company has set up the following committees: Audit Committee, Nomination and Compensation Committee, Securities Dealings Committee and Related Party Transactions 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 under Article 11 of the Law on Takeovers of May 19, 2006".

DISCLOSURE UNDER ARTICLE 11 OF THE LAW ON TAKEOVERS OF MAY 19, 2006

A) For information regarding the structure of capital, reference is made to sections "Statement of Financial Positions" and "Assets and Liabilities".

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 H.5. "Related Party Transactions".

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

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

I) Powers of the Board of Directors:
- The Company shall be managed by a Board of Directors.
- The Board of Directors is vested with the broadest powers to manage the business of the Company and to authorize and / or perform all acts of acquisition, disposal and administration falling within the purposes of the Company.
- All powers not expressly reserved by law or by the Articles of Incorporation of the Company to the General Meeting are within the competence of the Board of Directors.
- Except as otherwise provided in the Articles of Incorporation or by law, the Board of Directors of the Company is authorized to take such action (by resolution or otherwise) and to adopt such provisions as shall be necessary or convenient to implement the purpose of the Company.
- The Board may delegate the daily management of the business of the Company, as well as the power to represent the Company in its day-to-day business, to individual Directors or other officers or agents of the Company, who need not be shareholders. Any such delegation of daily management in favor of one or more Directors requires the prior authorization of the General Meeting of Shareholders.
- The Board of Directors may set up committees including without limitation an Audit Committee, Nomination and Compensation Committee, Securities Dealings Committee and a Related Party Transactions Committee. If such four committees are set up, they 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 almost € 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 further resolved to reduce the issued share capital of the Company by a maximum amount of € 64,516,250 by the repurchase and cancellation of a maximum of 51,613,000 shares from existing shareholders during a period ending on March 31, 2014, 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, 2013, 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, 2013, such authorization being for a period of five years from June 12, 2013.

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

2013 was a turnaround year for GAGFAH, in which the Company not only managed to reach its goals but also to lay the foundation for a successful future. Building on this solid basis, GAGFAH is looking ahead with optimism.

GAGFAH's focus on its 30 largest locations reflects a general trend towards urbanization in Germany. The forecast for household growth in our key markets is positive, and while the political debate on rent growth caps and a slightly increasing construction activity are factors all housing companies need to keep an eye on, GAGFAH does not expect to feel material impacts from these developments.

Against the backdrop of a continuously favorable supply-and-demand balance, GAGFAH expects higher rents and lower vacancy rates in the course of 2014 as compared to the prior year. The financing structure with very low interest expenses is locked in until at least 2018, and thanks to the interest savings, we have comparatively strong visibility with regards to the 2014 earnings growth.

There is only one loan (Malibu with approximately € 360 million of debt) that needs to be refinanced in the course of 2014. We are currently reviewing several options. Given the current interest rate environment and our ongoing negotiations with potential lenders we are highly confident to resolve this refinancing ahead of the scheduled maturity of the current loan.

Overall, we expect to grow our recurring FFO by around 35 % in 2014. Approximately two thirds should come from lower interest expenses and the remaining one third from operational improvements. GAGFAH intends to resume its dividend payments this year and targets a dividend of € 0.20 to € 0.25 per share for 2014. Combined with the expected NAV growth, GAGFAH believes it can deliver an annual total shareholder return from dividend yield and NAV growth of 5 % to 7 %.

Luxembourg, March 25, 2014
The Board of Directors of GAGFAH S. A.

03

CONSOLIDATED FINANCIAL STATEMENTS

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CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS OF DECEMBER 31, 2013

ASSETS

€ million

	Notes	12-31-2013	12-31-2012 (adjusted)	01-01-2012 (adjusted)
Non-current assets				
Intangible assets	E.1.	17.8	17.7	18.8
Investment property	E.2.	7,633.7	7,741.5	7,953.3
Property, plant and equipment	E.3.	32.9	41.0	41.6
Other financial assets	E.4.	18.6	8.3	8.0
		7,703.0	7,808.5	8,021.7
Current assets				
Inventories	E.5.	12.0	12.8	19.7
Receivables	E.6.	42.6	31.1	38.4
Other assets	E.7.	39.9	37.3	57.1
Current tax claims	E.8.	11.8	15.0	8.1
Bank balances and cash on hand	E.9./G.	101.9	175.9	200.0
		208.2	272.1	323.3
Assets held for sale	E.10.	48.6	31.0	21.7
Total assets		7,959.8	8,111.6	8,366.7

EQUITY AND LIABILITIES

€ million

	Notes	12-31-2013	12-31-2012 (adjusted)	01-01-2012 (adjusted)
Equity	E.11.			
Subscribed capital		269.9	258.1	277.0
Share premium		1,083.2	985.8	1,042.4
Legal reserve		28.2	28.2	28.2
Revenue reserves		853.9	786.7	756.8
Equity attributable to the shareholders of the parent company		2,235.2	2,058.8	2,104.4
Non-controlling interests		37.1	30.6	33.8
Total equity		2,272.3	2,089.4	2,138.2
Liabilities				
Non-current liabilities				
Liabilities due to non-controlling shareholders	E.12.	3.1	4.3	4.5
Pension provisions	E.13.1./E.11.	120.9	119.5	101.5
Other provisions	E.13.2.	8.2	8.7	10.6
Deferred tax liabilities	E.14./E.11.	340.1	299.8	273.9
Liabilities from income tax	E.15.	41.4	54.2	66.5
Financial liabilities	E.16.1.	4,347.8	1,880.7	5,006.4
Other liabilities	E.16.2.	29.6	30.7	35.0
Deferred liabilities of government-granted loans		61.1	67.5	77.5
		4,952.2	2,465.4	5,575.9
Current liabilities				
Pension provisions	E.13.1./E.11.	6.8	7.3	7.0
Other provisions	E.13.2.	35.1	36.3	55.6
Liabilities from income tax	E.15.	38.0	36.6	52.1
Financial liabilities	E.16.1.	526.5	3,350.4	421.5
Other liabilities	E.16.2.	126.1	122.8	112.1
Deferred liabilities of government-granted loans		2.8	3.4	4.3
		735.3	3,556.8	652.6
Total liabilities		5,687.5	6,022.2	6,228.5
Total equity and liabilities		7,959.8	8,111.6	8,366.7

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE PERIOD FROM JANUARY 1 TO DECEMBER 31, 2013

€ million

	Notes	2013	2012 (adjusted)
Income from the leasing of investment property	F.1.	829.8	825.9
Transferable leasehold land interest		– 2.2	– 2.0
Operating expenses for the generation of rental income (excluding share-based remuneration)	F.2.	– 455.0	– 438.4
Profit from the leasing of investment property		372.6	385.5
Income from the sale of investment property and assets held for sale	E.10.	144.1	213.1
Carrying amount of the sold investment property and assets held for sale	E.10.	– 128.6	– 194.9
Profit from the sale of investment property and assets held for sale	E.10.	15.5	18.2
Result from the fair value measurement of investment property	F.3.	5.4	– 13.4
Income from the sale of property development projects		1.1	4.7
Carrying amount of property development projects sold		– 1.0	– 3.4
Profit from the sale of property development projects		0.1	1.3
Result from other services	F.4.	1.0	2.3
Selling expenses (excluding share-based remuneration)	F.5.	– 12.1	– 13.8
General and administrative expenses (excluding share-based remuneration)	F.6.	– 34.9	– 35.1
Expenses for share-based remuneration	F.7.	– 7.0	– 1.2
Other operating income	F.8.	8.8	11.8
Other operating expenses	F.9.	– 7.1	– 16.0
Profit from operations before reorganization and restructuring expenses		342.3	339.6
Reorganization and restructuring expenses	F.10.	– 7.2	– 4.5
Earnings before interest and taxes (EBIT)		335.1	335.1
Interest expenses	F.11.	– 220.6	– 249.5
Interest income		0.8	1.7
Other financial expenses		– 0.1	– 0.1
Result from the fair value measurement of derivatives	H.2.	1.5	2.1
Refinancing expenses	F.12.	– 67.9	– 3.9
Net financing expenses		– 286.3	– 249.7
Earnings before taxes (EBT)		48.8	85.4
Income taxes	F.13.	– 45.5	– 37.7
Net result		3.3	47.7
Net result attributable to:			
Non-controlling interests	F.14.	3.5	4.5
Shareholders of the parent company		– 0.2	43.2
Weighted average number of shares, undiluted (in million)		204.8	199.2
Weighted average number of shares, diluted (in million)		207.3	200.9
Basic earnings per share (in €)	F.15.	0.00	0.22
Diluted earnings per share (in €)	F.15.	0.03	0.22
Net result		3.3	47.7
Net movement on cash flow hedges	E.11 / H.2.	8.9	– 1.1
Income tax effect	E.11 / H.2.	– 2.8	0.4
Other comprehensive income, net of tax (recyclable)		6.1	– 0.7
Actuarial gains / losses on defined benefit plans	E.11.	– 1.1	– 18.0
Income tax effect	E.11.	0.3	5.7
Other comprehensive income, net of tax (non-recyclable)		– 0.8	– 12.3
Other comprehensive income, net of tax		5.3	– 13.0
Total comprehensive income, net of tax		8.6	34.7
Total comprehensive income, net of tax, attributable to:			
Non-controlling interests		9.7	4.5
Shareholders of the parent company		– 1.1	30.2

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE PERIOD FROM JANUARY 1 TO DECEMBER 31, 2013

€ million

	Notes	2013	2012 (adjusted)
Net result		3.3	47.7
Change in deferred taxes	E.14.	37.8	32.0
Result from the fair value measurement of investment property	F.3.	– 5.4	13.4
Amortization, depreciation and impairment losses on intangible assets and property, plant and equipment		2.9	4.3
Profit from the sale of investment property and assets held for sale	E.10.	– 15.5	– 18.2
Profit from the deconsolidation of subsidiaries	B.	– 0.1	0.0
Other non-cash expenses (+) / income (–)		4.8	24.8
Change in provisions, pension provisions and deferred liabilities of government-granted loans		– 7.4	– 33.0
Change in inventories	E.5.	0.8	5.3
Change in receivables and other assets		– 8.1	23.9
Change in other liabilities		– 6.9	– 36.5
Reclassification of interest and other cost paid for refinancing into "Cash flows from financing activities"		65.3	1.6
Cash flows from operating activities[1]		**71.5**	**65.3**
Cash received from the sale of investment property and assets held for sale	G.	130.1	215.4
Cash paid for investment property – acquisition and modernization	E.2.	– 26.3	– 4.1
Cash paid for investments in intangible assets, property, plant and equipment and financial assets		– 1.8	– 1.6
Cash paid for the acquisition of non-controlling shares in subsidiaries		0.0	– 0.1
Cash flows from investing activities		**102.0**	**209.6**
Cash received from capital increase	E.11.	178.0	0.0
Transaction costs paid for equity contributions	E.11.	– 2.0	0.0
Cash paid for share buy-back	E.11.	0.0	– 75.3
Cash paid to non-controlling shareholders / interests	E.11.	– 3.1	– 7.8
Cash paid for liabilities to non-controlling shareholders / interests		– 1.3	– 0.3
Cash flows from equity capital measures		**171.6**	**– 83.4**
Cash received from raising financial liabilities	E.16.1. / G.	4,130.8	141.2
Cash repayments of financial liabilities	E.16.1. / G.	– 4,414.9	– 352.4
Transaction costs paid for refinancing	E.16.1.	– 69.7	– 2.8
Interest and other cost paid for refinancing	F.12.	– 65.3	– 1.6
Cash flows from debt capital measures		**– 419.1**	**– 215.6**
Cash flows from financing activities		**– 247.5**	**– 299.0**
Change in cash and cash equivalents		**– 74.0**	**– 24.1**
Bank balances and cash on hand at the beginning of the financial year	E.9. / G.	175.9	200.0
Bank balances and cash on hand as of the end of the financial year	E.9. / G.	**101.9**	**175.9**

1 Operating cash flow includes taxes paid of € 18.3 million (prior year: € 47.1 million), interest paid of € 212.5 million (prior year: € 224.0 million) and interest received of € 0.7 million (prior year: € 1.5 million).

STATEMENT OF CHANGES IN CONSOLIDATED EQUITY

FOR THE PERIOD FROM JANUARY 1 TO DECEMBER 31, 2013

€ million

				Revenue reserves						
	Subscribed capital	Share premium	Legal reserve	Unrealized losses / gains from derivative financial instruments	Unrealized losses / gains from pension provisions	Treasury shares	Retained earnings	**Equity attributable to the shareholders of the parent company**	Non-controlling interests	**Total equity**
January 1, 2013	258.1	985.8	28.2	− 0.7	0.0	− 75.2	873.6	**2,069.8**	30.6	**2,100.4**
Change of accounting policies	0.0	0.0	0.0	0.0	− 11.0	0.0	0.0	**− 11.0**	0.0	**− 11.0**
January 1, 2013 (adjusted)	258.1	985.8	28.2	− 0.7	− 11.0	− 75.2	873.6	**2,058.8**	30.6	**2,089.4**
Net result	0.0	0.0	0.0	0.0	0.0	0.0	− 0.2	**− 0.2**	3.5	**3.3**
Other comprehensive income, net of tax	0.0	0.0	0.0	− 0.1	− 0.8	0.0	0.0	**− 0.9**	6.2	**5.3**
Total comprehensive income, net of tax	0.0	0.0	0.0	− 0.1	− 0.8	0.0	− 0.2	**− 1.1**	9.7	**8.6**
Capital increase	11.8	93.6	0.0	0.0	0.0	70.6	0.0	**176.0**	0.0	**176.0**
Share-based remuneration	0.0	3.8	0.0	0.0	0.0	0.2	− 2.5	**1.5**	0.0	**1.5**
Changes in shareholdings and the Consolidated Group	0.0	0.0	0.0	0.0	0.0	0.0	0.0	**0.0**	− 0.1	**− 0.1**
Dividends	0.0	0.0	0.0	0.0	0.0	0.0	0.0	**0.0**	− 3.1	**− 3.1**
Share Buy-back and cancellation of shares	0.0	0.0	0.0	0.0	0.0	0.0	0.0	**0.0**	0.0	**0.0**
December 31, 2013	269.9	1,083.2	28.2	− 0.8	− 11.8	− 4.4	870.9	**2,235.2**	37.1	**2,272.3**

STATEMENT OF CHANGES IN CONSOLIDATED EQUITY

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	Unrealized losses / gains from pension provisions	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	0.0	– 75.0	830.5	**2,103.1**	33.8	**2,136.9**
Change of accounting policies	0.0	0.0	0.0	0.0	1.3	0.0	0.0	**1.3**	0.0	**1.3**
January 1, 2012 (adjusted)	277.0	1,042.4	28.2	0.0	1.3	– 75.0	830.5	**2,104.4**	33.8	**2,138.2**
Net result	0.0	0.0	0.0	0.0	0.0	0.0	43.2	**43.2**	4.5	**47.7**
Other comprehensive income, net of tax	0.0	0.0	0.0	– 0.7	– 12.3	0.0	0.0	**– 13.0**	0.0	**– 13.0**
Total comprehensive income, net of tax	0.0	0.0	0.0	– 0.7	– 12.3	0.0	43.2	**30.2**	4.5	**34.7**
Capital increase	0.0	0.0	0.0	0.0	0.0	0.0	0.0	**0.0**	0.0	**0.0**
Share-based remuneration	0.0	– 0.5	0.0	0.0	0.0	0.0	0.0	**– 0.5**	0.0	**– 0.5**
Changes in shareholdings and the Consolidated Group	0.0	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	**0.0**	– 7.8	**– 7.8**
Share Buy-back and cancellation of shares	– 18.9	– 56.1	0.0	0.0	0.0	– 0.2	0.0	**– 75.2**	0.0	**– 75.2**
December 31, 2012 (adjusted)	258.1	985.8	28.2	– 0.7	– 11.0	– 75.2	873.6	**2,058.8**	30.6	**2,089.4**

04

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 Sociétés under number B109.526. GAGFAH S. A. and its subsidiaries form the GAGFAH GROUP. GAGFAH S. A. is the Group's ultimate parent company. GAGFAH GROUP's business is the securitization of risks relating to a geographically diversified residential property portfolio.

The business of GAGFAH GROUP's operating subsidiaries is the ownership and management of a geographically diversified and well-maintained residential property portfolio. As of the balance sheet date, the Group owned a total of more than 143,000 units. An additional 35,000 units of third parties are managed by the Group or maintained by the Group's facility management companies. GAGFAH GROUP's operating subsidiaries also operate in the area of real estate sales.

CONSOLIDATED FINANCIAL STATEMENTS

GAGFAH GROUP has prepared its Consolidated Financial Statements in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU and the interpretations of the International Financial Reporting Standards Interpretations Committee (IFRS IC) – formerly Standing Interpretations Committee (SIC) – since its formation. All IFRS that must be applied for the financial year were taken into account.

The financial year of GAGFAH S. A. and all subsidiaries is identical to the calendar year.

The Consolidated Financial Statements have been prepared on a historical cost basis, except for especially investment properties and derivative financial instruments 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 Consolidated Financial Statements as of December 31, 2013, were prepared using the same principles as prior year's Consolidated Financial Statements with the following exceptions:

Some new accounting standards which became effective for annual periods beginning on or after January 1, 2013, have been applied retrospectively, resulting in restatements in the comparative period. In the Consolidated Statement of Financial Position the following two comparison columns have been added: January 1, 2012 (adjusted), and December 31, 2012 (adjusted). The comparison column in the Consolidated Statement of Comprehensive Income has been adjusted as well. The adjustments concern the non-recyclable other comprehensive income. Corresponding adjustments are also shown in the Consolidated Statement of Cash Flows and in the Statements of Changes in Consolidated Equity for the financial year and the prior year. For further information, we refer to sections B. "Consolidated Group and Consolidation Principles" and C. "Accounting Policies".

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

The Consolidated Financial Statements for the year ended December 31, 2013, were formally approved by the Board of Directors on March 25, 2014, and will be presented to the Annual General Meeting of Shareholders for approval on June 12, 2014.

NEW ACCOUNTING STANDARDS

CHANGES IN ACCOUNTING POLICY AND DISCLOSURE IN 2013

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

The Group adopted the following new and amended IFRS and IFRIC interpretations which are relevant for the operations of the Group during the year.

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" (which was previously applied by GAGFAH) and instead mandates that all remeasurement impacts have to be recognized in other comprehensive income ("OCI") (with the remainder in profit or loss). 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 came into effect for financial years beginning on or after January 1, 2013. The revised standard had 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 was made. If companies in the past have used the so-called "corridor method" and therefore have not yet recognized actuarial losses, these accumulated losses increase pension provisions and reduce the retained earnings and thus equity (or vice versa on actuarial gains). The effects of the implementation of these amendments on GAGFAH GROUP are described in the chapter E.13.1. "Pension Provisions".

Furthermore, the calculation of net interest expense / income replaces the current IAS 19 concepts of expected return on plan assets and interest expense on the defined benefit obligation that were previously recognized in profit or loss. From January 1, 2013, onwards, net interest expense / income are 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 resulted in a decrease in profit or loss (ignoring other changes in IAS 19R). In the Consolidated Financial Statements of GAGFAH GROUP, this did not have a material impact.

IFRS 10 Consolidated Financial Statements, IFRS 11 Joint Arrangements, IFRS 12 Disclosure of Interests in Other Entities, IAS 27 Separate Financial Statements (revised 2011) and IAS 28 Investments in Associates and Joint Ventures (revised 2011) including the Transaction Guidance (Amendments to IFRS 10, IFRS 11 and IFRS 12) became effective for annual periods beginning on or after January 1, 2013. However, the EU effective date is January 1, 2014. GAGFAH GROUP applied the aforementioned standards voluntarily earlier in the financial year 2013.

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 require management to exercise significant judgment to determine which entities are controlled and, therefore, are required to be consolidated by a parent. The effects of the implementation of this new standard on GAGFAH GROUP are described in the chapter B.2.1. “Subsidiaries”.

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 had no material impact on the financial position of the Group, although it led to a change of the consolidation method regarding our four Joint Ventures as described in the chapter “Changes in the Consolidated Group in 2013”. The effects of the implementation of this new standard on GAGFAH are described in the chapter B.2.1. “Subsidiaries” and E.4. “Other Financial Assets”.

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 28 and IAS 31. These disclosures relate to an entity’s interests in subsidiaries, joint arrangements, associates and structured entities. A number of new disclosures are also required and correspondingly implemented in these financial statements. The extended disclosures can be found in the chapters B. “Consolidated Group and Consolidation Principles”, C.17. “Uncertainties relating to Estimates”, E.4. “Other Financial Assets”, E.11. “Equity” and Exhibit (1) “List of Shareholdings”.

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 effects of the implementation of this amendment on GAGFAH GROUP are described in the chapter B.2.1. “Subsidiaries”.

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. GAGFAH GROUP applied the aforementioned standards voluntarily earlier in the financial year 2013. The amendments had no effects on the Consolidated Financial Statements of GAGFAH GROUP.

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. This standard became effective for annual periods beginning on or after January 1, 2013. This standard had an impact on the extent of the disclosures provided by GAGFAH GROUP.

On May 17, 2012, the IASB issued Improvements to IFRS 2009-2011, a collection of amendments to IFRS, 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. The amendments have no impact on the Group.

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 the IFRS, also provides a broad exception which permits entities to present derivative assets and derivative liabilities subject to master netting arrangements net in the statement of financial position even if an entity 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 in US GAAP, to allow investors to better compare financial statements prepared in accordance with the IFRS 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. The adoption of these amendments did not have any impact on the financial performance of GAGFAH GROUP.

On June 27, 2013, the IASB issued Novation of Derivatives and Continuation of Hedge Accounting (Amendments to IAS 39). The objective is to provide an exception to the requirement for the discontinuation of hedge accounting in IAS 39 and IFRS 9 in circumstances when a hedging instrument is required to be novated to a central counterparty as a result of laws or regulations. The amendments are to be applied retrospectively for annual periods beginning on or after January 1, 2014. GAGFAH

GROUP applied the aforementioned standards voluntarily earlier in the financial year 2013. The amendments had no effects on the Consolidated Financial Statements of GAGFAH GROUP.

NEW ACCOUNTING STANDARDS NOT YET ADOPTED The following IFRS and IFRIC, that might have an impact on the future Consolidated Financial Statements of GAGFAH GROUP, are not yet adopted at the date of this report:

- 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)
- Investment Entities (Amendments to IFRS 10, IFRS 12 and IAS 27) (issued on October 31, 2012, endorsed in November 2013)
- Recoverable Amount Disclosures for Non-financial Assets (Amendments to IAS 36) (issued on May 29, 2013, endorsed in December 2013)
- Novation of Derivatives and Continuation of Hedge Accounting (Amendments to IAS 39) (issued on June 27, 2013, endorsed in December 2013)
- IFRIC Interpretation 21 Levies (issued on May 20, 2013, endorsement expected in Q1 2014)
- Defined Benefit Plans: Employee Contributions (Amendments to IAS 19) (issued on November 21, 2013, not yet endorsed)
- IFRS 14 Regulatory Deferral Accounts (issued on January 30, 2014, not yet endorsed)

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 impairment phase of the IFRS 9 has 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. In November 2013, the IASB removed the January 1, 2015, mandatory effective date of IFRS 9, to provide sufficient time for preparers of financial statements to make the transition to the new requirements. The endorsement of the standard has been postponed.

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

On May 29, 2013, the IASB issued Recoverable Amount Disclosures for Non-financial Assets (Amendments to IAS 36). The objective of the project is to amend the disclosure requirements in IAS 36 Impairment of Assets with regard to the measurement of the recoverable amount of impaired assets that were made as a consequence of issuing IFRS 13 Fair Value Measurement in May 2011. It has come to the IASB's attention that some of the amendments made to IAS 36 resulted in the requirement being more broadly applied than the IASB had intended. In particular, instead of requiring an entity to disclose the recoverable amount of an asset (including goodwill) or a cash-generating unit for which a material impairment loss was recognized or reversed during the reporting period, the amendment made to IAS 36 required an entity to disclose the recoverable amount of each cash-generating unit for which the carrying amount of goodwill or intangible assets with indefinite useful lives allocated to that unit is significant in comparison with the entity's total carrying amount of goodwill or of intangible assets with indefinite useful lives. This project aims to amend IAS 36 so that those disclosure requirements better represent the IASB's intention. The amendments are effective for annual periods beginning on or after January 1, 2014. The amendments will have no effect on the Consolidated Financial Statements of GAGFAH GROUP.

On May 20, 2013, the IASB issued IFRIC Interpretation 21 Levies, an interpretation on the accounting for levies imposed by governments. The Interpretations Committee was asked to consider how an entity should account for liabilities to pay levies imposed by governments, other than income taxes, in its financial statements. The principal question raised was about when the entity should recognize a liability to pay a levy. IFRIC 21 is an interpretation of IAS 37 Provisions, Contingent Liabilities and Contingent Assets. IAS 37 sets out criteria for the recognition of a liability, one of which is the requirement for the entity to have a present obligation as a result of a past event (known as an obligating event). The interpretation clarifies that the obligating event that gives rise to a liability to pay a levy is the activity described in the relevant legislation that triggers the payment of the levy. The analysis includes guidance illustrating how the interpretation should be applied. IFRIC 21 is effective for annual periods beginning on or after 1 January 2014. The amendments will have no effect on the Consolidated Financial Statements of GAGFAH GROUP.

On November 21, 2013, the IASB issued Defined Benefit Plans: Employee Contributions (Amendments to IAS 19 Employee Benefits). The amendments clarify the requirements that relate to how contributions from employees or third parties that are linked to service should be attributed to periods of service. In addition, it permits a practical expedient of the amount of the contributions is independent of the number of years of service. The amendments are effective for annual periods beginning on or after July 1, 2014, with earlier application permitted. The effect of the amendments on the Consolidated Financial Statements of GAGFAH GROUP is currently under consideration.

On January 30, 2014, the IASB issued IFRS 14 Regulatory Deferral Accounts. IFRS 14 Regulatory Deferral Accounts permits an entity which is a first-time adopter of International Financial Reporting Standards to continue to account, with some limited changes, for 'regulatory deferral account balances' in accordance with its previous GAAP, both on initial adoption of IFRS and in subsequent financial statements. Regulatory deferral account balances, and movements in them, are presented separately in the statement of financial position and statement of profit or loss and other comprehensive income, and specific disclosures are required. The standard applies to an entity's first annual IFRS financial statements for a period beginning on or after January 1, 2016, and will have no effects on the Consolidated Financial Statements of GAGFAH GROUP.

B. CONSOLIDATED GROUP AND CONSOLIDATION PRINCIPLES

1. CONSOLIDATED GROUP

In total, 60 subsidiaries were included in the Consolidated Financial Statements of GAGFAH S. A. on a 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.

For four of these companies (No. 8, No. 37, No. 56 and No. 68 in the List of Shareholdings) GAGFAH determined that is has control over these entities (without having a majority of voting rights) based on other factors due to their nature as structured entities. Please refer to section B.2.1. “Subsidiaries”.

In addition, 14 fractional ownership funds (“HB Funds”) were included in the Consolidated Financial Statements on a fully consolidated basis, thereof one HB Fund (No. 35 in the List of Shareholdings) without the majority of shares (see section B.2.1. “Subsidiaries”).

The number of Group companies, that have been included in the Consolidated Financial Statements on a fully consolidated basis, has developed as follows:

	Number of Group companies (including GAGFAH S. A.)
As of January 1, 2012	**79**
Formations	7
As of December 31, 2012/January 1, 2013	**86**
Formations	3
Merger by way of accretion	– 8
Deconsolidations	– 6
As of December 31, 2013	**75**

COMPOSITION OF THE GROUP STRUCTURED BY ACTIVITIES AND LOCATION OF THE COMPANIES Information about the activities and location of GAGFAH GROUP's subsidiaries at the end of the reporting period and in the prior year is as follows:

Principal activity	Registered office	Number of wholly-owned subsidiaries (including GAGFAH S. A.)	
		12-31-2013	12-31-2012
Leasing of investment property	Germany	**15**	22
Facility management	Germany	**7**	7
Holding/staff	Germany	**15**	15
Holding/staff	Ireland	**1**	1
Holding/staff	Luxembourg	**1**	1
Other	Germany	**8**	8
Total		**47**	54

Principal activity	Registered office	Number of non-wholly-owned subsidiaries	
		12-31-2013	12-31-2012
Leasing of investment property	Germany	**16**	22
Holding/staff	Germany	**7**	7
Holding/staff	Ireland	**1**	1
Financing	Ireland	**2**	0
Other	Germany	**2**	2
Total		**28**	32

The composition of the GAGFAH GROUP and further information on changes in the Consolidated Group are presented in the List of Shareholdings attached as Exhibit (1) "List of Shareholdings".

CHANGES IN THE CONSOLIDATED GROUP IN 2013

FORMATIONS/MERGERS BY WAY OF ACCRETION In addition to the existing seven companies founded in 2012 (see "Changes in the Consolidated Group in 2012 – Formations"), the following additional company was founded in the course of the refinancing of GAGFAH subgroup and with the purpose of taking over assets and liabilities of GAGFAH A Asset GmbH & Co. KG:

- GAGFAH Achte Wohnen GmbH & Co. KG (founded on January 21, 2013)

Due to the ultimate refinancing situation based on a Commercial Mortgage Backed Security (CMBS) (see section E.16.1. "Financial Liabilities"), there was no further use for the above-mentioned eight companies. Therefore, they have been merged by way of accretion as of May 31, 2013, and all assets and liabilities which were not material were retransferred to GAGFAH I Invest GmbH & Co. KG and GAGFAH A Asset GmbH & Co. KG.

In the course of the refinancing of GAGFAH subgroup via a CMBS, on April 26, 2013, GERMAN RESIDENTIAL FUNDING 2013-1 LIMITED was founded under Irish law with registered office in Dublin. Purpose of the company is to entering into various financing agreements and making loans to GAGFAH I Invest GmbH & Co. KG and GAGFAH A Asset GmbH & Co. KG. As GAGFAH GROUP has control according to IFRS 10.7 over the company, GAGFAH GROUP has to include GERMAN RESIDENTIAL FUNDING 2013-1 LIMITED as a fully consolidated subsidiary according to IFRS 10.

In the course of the refinancing of NILEG subgroup via a CMBS, on October 21, 2013, GERMAN RESIDENTIAL FUNDING 2013-2 LIMITED was founded under Irish law with registered office in Dublin. Purpose of the company is to entering into various financing agreements and making loans to NILEG Residential Asset GmbH & Co. KG, WG Norden Asset GmbH & Co. KG and WBN Asset GmbH & Co. KG. As GAGFAH GROUP has control according to IFRS 10.7 over the company, GAGFAH GROUP has to include GERMAN RESIDENTIAL FUNDING 2013-2 LIMITED as a fully consolidated subsidiary according to IFRS 10.

DECONSOLIDATIONS After the sale of all their assets initiated in 2010, the following six HB Funds were liquidated and therefore deconsolidated in the financial year 2013. The liquidation surpluses amounting to €0.4 million were transferred as dividend to the remaining shareholders in 2013:

- Haus- und Boden-Fonds 5
- Haus- und Boden-Fonds 7
- Haus- und Boden-Fonds 8
- Haus- und Boden-Fonds 10
- Haus- und Boden-Fonds 13
- Haus- und Boden-Fonds 35

There was no material result from the deconsolidation of the aforementioned HB Funds.

(INTERCOMPANY) TRANSFER
On January 31, 2013, GAGFAH I Invest GmbH & Co. KG divided its share of capital in GAGFAH M Immobilienmanagement GmbH in the notional amount of € 65,800,000 (94 %) into two shares in the nominal amount of € 61,600,000 (88.00 %) and € 4,200,000 (6.00 %) and transferred the 88.00 % share to GAGFAH GmbH.

CHANGE OF NAME With effect as of June 14, 2013, VHB Grundstücksverwaltungsgesellschaft "Haus- und Boden-Fonds" mbH was renamed into VHB Facility Management GmbH.

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 was the management of residential and other buildings.

(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.

2. CONSOLIDATION PRINCIPLES

2.1. SUBSIDIARIES As set out above, in 2013, GAGFAH S. A. has applied for the first time IFRS 10, IFRS 11, IFRS 12 and IAS 28 (as revised in 2011) together with the Amendments to IFRS 10, IFRS 11 and IFRS 12 regarding the transitional guidance.

Management has to exercise judgment with regard to the consolidation of all entities. IFRS 10 regulates the consolidation of companies controlled by other companies. Every entity has to be consolidated by another company when it is controlled by that company from an economic perspective even if the company does not hold more than half of the entity's shares. The application of the control concept requires judgment in each individual case with consideration of all relevant factors.

All subsidiaries over which control is exercised pursuant to IFRS 10.7 are fully consolidated. GAGFAH S. A. controls the subsidiaries if and only if it has:

- power over the investee
- exposure or rights to variable returns from its involvement with the investee and
- the ability to use its power over the investee to affect the amount of the investor's returns.

In the light of the aforementioned factors, five of the Group companies (UC ACQ Ireland Limited, 12. CR Immobilien-Vermietungsgesellschaft mbH & Co. SÜDOST WOBA Striesen KG, Haus- und Boden-Fonds 37 and the two newly established companies GERMAN RESIDENTIAL FUNDING 2013-1 LIMITED and GERMAN RESIDENTIAL FUNDING 2013-2 LIMITED) were included in the Consolidated Financial Statements according to IFRS 10, although GAGFAH has not the majority of shares.

Due to the narrow purpose of the GERMAN RESIDENTIAL FUNDING 2013-1 LIMITED and GERMAN RESIDENTIAL FUNDING 2013-2 LIMITED, the underlying CMBS structure and the corresponding contracts, GAGFAH GROUP has the ability to control the variable cash flows and the repayment of the junior tranche by own activities and bears substantial risks. Furthermore, GAGFAH GROUP had a significant role in the formation of the companies and the conclusion of the corresponding contracts. This leads to the assumption, that GAGFAH GROUP has control according to IFRS 10.5 ff. and GAGFAH GROUP had to fully consolidate the companies according to IFRS 10.

GAGFAH GROUP bears all risks and variable returns of 12. CR Immobilien-Vermietungsgesellschaft mbH & Co. SÜDOST WOBA Striesen KG due to an existing long-term leasing contract and therefore has control over this subsidiary as well.
Due to diverse cross connections within the combined business activities with UC ACQ Ireland Limited, GAGFAH GROUP also has control over this subsidiary.

Through the exercise of the fiduciary management, GAGFAH GROUP controls Haus- und Boden-Fonds 37 as a principal. Moreover, with one exception, GAGFAH GROUP has the majority of shares in the remaining 13 HB Funds.

The financial statements of the individual subsidiaries are included in the Consolidated Financial Statements in accordance with the IFRS using the uniform accounting policies stipulated by GAGFAH GROUP.

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 IFRS 10.B86.

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 (IFRS 10.25).

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 IFRS 10.22, the adjustment item is disclosed under consolidated equity as a separate item from the equity of the parent company.

In accordance with IFRS 10.B94, 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. Profit or loss and other comprehensive income are attributed to the non-controlling interests even if this results in a deficit balance of the non-controlling interests.

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 According to IFRS 11.5, a joint arrangement is defined as a contractual arrangement between two or more parties to undertake economic activities that are subject to joint control. A joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement, is called "joint venture". The Group has interests in the following four joint ventures:

- Objekt Dresden GbR
- Grundstücksentwicklungsgesellschaft Oesselse "Langes Feld" GbR
- Wolmirstedt GbR
- Möser GbR

IFRS 11 Joint Arrangements, which became effective for annual periods beginning on or after January 1, 2013, replaced IAS 31 Interests in Joint Ventures and SIC-13 Jointly-controlled Entities - Non-monetary Contributions by Venturers. IFRS 11 removed 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.

Due to the fact that the Group's four joint arrangements (prior years: JCEs according to IAS 31) qualify as joint ventures, GAGFAH had to change its consolidation method from proportionate consolidation to the equity method according to IAS 28 Investments in Associates. For further information on the aggregate amounts of assets, liabilities, income and expenses related to the Group's interests in the four joint ventures, we refer to section E.4. "Other Financial Assets".

C. ACCOUNTING POLICIES

The following table summarizes GAGFAH GROUP's material valuation methods:

SUMMARY OF SELECTED MATERIAL VALUATION METHODS

Acquired intangible assets	Initially measured at cost and amortized straight-line over the expected useful lives.
Goodwill	Initially recognized as 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 less any accumulated impairment losses, subsequently remeasured by impairment test.
Finance leases (Lessee)	Initially recognized at amounts equal to the lower of the fair value of the leased property and the present value of the minimum lease payments. Subsequently, the minimum lease payments are divided into interest and principal payments; the lease liability thus bears interest on an ongoing basis.
Investment Property	Initially measured at cost plus transaction costs, subsequently remeasured at fair value.
Property, plant and equipment	Initially measured at cost, subsequently recognized at cost less accumulated depreciation and impairment losses.
Loans granted, receivables and available-for-sale financial assets	Initially measured at fair value plus transaction costs, subsequently remeasured at amortized cost using the effective interest method.
Primary financial liabilites	Initially recognized at fair value plus transaction costs, subsequently remeasured at amortized cost using the effective interest method.
Derivative financial instruments and hedging relationships	Initially recognized at fair value on the date on which a derivative contract is entered into and subsequently remeasured at fair value. The result is either shown as profit or loss or in the other operating income.
Inventories	Initially measured at cost, subsequently remeasured at the lower of cost and net realizable value.
Pension provisions	Projected unit credit method
Other provisions	Current: settlement amount Non-current: at present value if material.

A more detailed description of these methods can be found in the following sections.

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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 GROUP 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 GROUP 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 GROUP (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 GAGFAH GROUP concern several transferable leasehold land contracts. In the corresponding contracts, GAGFAH GROUP is lessee and the conditions for a recognition as finance lease are fulfilled. These leases have residual terms of between 44 and 89 years. For further information, please refer to section H.3. “Contingent Liabilities and Other Financial Obligations and Receivables”.

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.

Further operating leases are transferable leasehold land contracts in which GAGFAH GROUP is lessee and lessor respectively and the conditions for a recognition as operating lease are fulfilled. These leases have residual terms of between 4 and 88 years. For further information, please refer to section H.3. “Contingent Liabilities and Other Financial Obligations and Receivables”.

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 from 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 Group's valuation policies and procedures are decided by the management. The valuation process is coordinated by the accounting department and carried out quarterly by independent external appraisers from CBRE GmbH (hereinafter abbreviated to "CBRE") 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 GROUP for disposals by sale and carried forward to the balance sheet value of the current quarter. The changes in the fair value from quarter to quarter are analyzed by the accounting department in cooperation with CBRE. The valuation results and the aforementioned analyses are discussed with the management.

The valuation of investment property has been prepared in accordance with the RICS Valuation – Professional 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).

FAIR VALUE The properties have been valued at fair value in accordance with IFRS 13 and IAS 40 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 price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date" (IAS 40.5 and IFRS 13.9).

The definition of "fair value" corresponds with the definition of "market value" in accordance with Valuation Statement (VS) 3.2. of the RICS Valuation – Professional

Standards (Eighth Edition (Red Book)), 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."

The fair value measurement of investment property takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use. The highest and best use of investment property takes into account the use of an asset that is physically possible, legally permissible and financially feasible (IFRS 13.27 et. seqq.).

IFRS 13 requires that the classification of investment properties 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, investment property is not actively traded, but was valued by using a model with inputs that are not based on observable market data (Level 3).

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.

Of the three valuation techniques mentioned in IFRS 13.62 (market approach, cost approach and income approach), GAGFAH GROUP applies the income approach that converts future amounts (e. g. income and expenses) to a single current (discounted) amount. A more detailed description on the valuation technique applied can be found below:

DCF (DISCOUNTED CASH FLOW) The model designed by CBRE for the IFRS appraisal of the GAGFAH GROUP's 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 IFRS 13 and 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.

The following guidelines have been complied with when implementing 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, usually 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 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. From the eleventh year onwards, the net income from the tenth year is capitalized in perpetuity as a constant income. The resulting terminal value is discounted at the discount rate to the date of valuation.

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 capitalization rate used to assess the residual value.

Only an insignificant portion of investment properties (amounting to approximately 0.4 % (prior year: 0.3 %) 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).

DETERMINATION OF THE DISCOUNT RATE AND CAPITALIZATION 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 GROUP in Germany is 6.00 % (prior year: 6.00 %). Specific risks in the cash flow of a property are reflected by appropriate additions or deductions from the average discount rate. The average discount rate after these adjustments is 5.99 % (prior year: 5.99 %).

The capitalization rate used is calculated by deducting the location-related growth component from the discount rate.

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 As of the balance sheet date, the demolition program is entirely completed. Only remaining stocks of real estate were dismantled in the financial year.

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.

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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 ("recoverable amount") (please refer to the following section C.5. "Impairment of Items of Property, Plant and Equipment and Intangible Assets"). If the reasons for impairment cease to apply, the impairment is reversed in accordance with IAS 36.110.

5. IMPAIRMENT OF ITEMS OF PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE ASSETS

At every balance sheet date, GAGFAH GROUP 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.

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 GROUP in particular has trade receivables and other non-current loans granted by institutional lenders.

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 GROUP 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 GROUP 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 GROUP 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 GROUP 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 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 use of cash flow hedges in the form of interest rate swaps as well as interest rate caps to hedge the interest rate risk arising from variable-interest loans. These interest hedging instruments 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.

In accordance with IAS 39.74(a), the option contract is separated into the intrinsic value and the time value of the designated interest rate caps. Only the change in the intrinsic value of the corresponding interest rate cap is designated as the hedging instrument. The change in its time value is accounted for as a separate derivate.

Derivative 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 portion 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. Any write-downs of inventories to net realizable value and all losses of inventories are recognized as an expense in the corresponding period. Any reversal of any write-down of inventories (due to an increase in net realizable value) is shown as a reduction in the amount of inventories recognized as an expense in the period in which the reversal occurs.

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). The fair value is deducted from sales prices already known or reasonably certain at balance sheet date. These sales prices meet the definition of level 2 inputs according to IFRS 13 ("inputs other than quoted market prices that are directly observable for the asset").

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 (IFRS 5.26).

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 current repayment obligation. The respective financial liabilities need to be disclosed as current 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" usually occur in the context of selling our regional non-core portfolio. GAGFAH GROUP has identified approximately 10 % of its portfolio as regional non-core. These assets are in geographically remote locations compared to the core portfolio in GAGFAH GROUP's 30 largest locations plus their respective commuter belts.

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 39.95(a), 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 GROUP offers its employees both defined contribution plans and defined benefit plans.

Under the defined contribution plans, GAGFAH GROUP pays contributions to public or private pension insurance schemes on the basis of statutory or contractual requirements. GAGFAH GROUP 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.

Regarding the Group's expenses for defined contribution plans we refer to section H.4. "Number of Employees and Personnel Expenses".

In conjunction with the defined benefit plans, there are various types of employer-funded pension plans for company pensions, e. g. old-age pensions, early retirement pensions, invalidity pensions, widow's / widower's and orphan's pensions. The GAGFAH subgroup, for example, grants its employees company pensions under Pension Regulation 2002 (hereinafter referred to as "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 abovementioned 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.

Payment of old-age pensions are subject to the ending of employment relationship after the age of 65. The old-age pension is calculated as the sum of the individual benefit modules which accumulate during the pensionable working life. Benefit modules are measured as a fixed percentage of pensionable earnings in September of each year. The future cash flows arising from this pension scheme are covered by means of pension provisions which are calculated using the projected unit credit method.

Current pension benefits and legally vested rights to pension benefits are protected against the effects of an insolvency in accordance with the Act to Improve Occupational Pensions (Gesetz zur Verbesserung der betrieblichen Altersversorgung). For this purpose, the Company pays contributions to a pension assurance association (Pensions-Sicherungs-Verein Versicherungsverein auf Gegenseitigkeit (PSVaG), Cologne), the institution of statutory insolvency insurance for occupational pensions.

The obligations from company pensions are fully provided for pension provisions which in turn are backed by sound assets and are partially covered by individual contracts for the reinsurance of pension benefits.

The pension provisions from defined benefit plans are calculated using the projected unit credit method stipulated under IAS 19.67 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 assumptions are the best estimates of the variables that will determine the ultimate cost of providing post-employment benefits. Actuarial assumptions comprise demographic assumptions (e. g. mortality, rates of employee turnover) and financial assumptions (e. g. discount rate or future salary increases). Actuarial gains and losses result from increases or decreases in the present value of the defined benefit obligation because of changes in actuarial assumptions and experience adjustments. Actuarial gains and losses do not include changes in the present value of the defined benefit obligation because of introduction, amendment, curtailment or settlement of the defined benefit plan.

Remeasurements arising from defined benefit plans comprise actuarial gains and losses, the return on plan assets (excluding interest). Effects from remeasurements are recognized immediately in other comprehensive income (OCI). All other expenses related to defined benefit plans (e.g. service cost, net interest on the net defined benefit liability / asset) are recognized in profit or loss.

Past service costs are recognized in profit or loss at the earlier of either the date when the plan amendment or curtailment occurs or the date when the entity recognizes related restructuring costs or termination benefits.

Gains or losses on the settlement of a defined benefit plan are recognized in profit or loss when the settlement occurs.

The net defined benefit liability as shown in the Consolidated Statement of Financial Position is calculated as the balance of the defined benefit obligation and the fair value of plan assets.

Plan assets are assets that are held by a long-term employee benefit fund or qualifying insurance policies. All plan assets are not available to the creditors of the Group, nor can they be paid directly to the Group.

The pension plans expose GAGFAH GROUP to actuarial risks, mainly in the form of interest rate risks, furthermore inflation risks (future salary and pension increases) and longevity risks. A sensitivity analysis containing the impacts of a change in the significant actuarial assumptions on the defined benefit obligation can be found in chapter E.13.1. “Pension Provisions”.

In addition to their own pension schemes, NILEG subgroup and GBH subgroup are members of supplementary pension funds which qualify as multi-employer defined benefit plans. The NILEG subgroup participates in the pension scheme organized by the pension institution of the Federal Republic of Germany and the Federal States (“Versorgungsanstalt des Bundes und der Länder”; hereinafter referred to as “VBL”). The GBH subgroup is involved in the pension scheme of the public corporation “Kommunaler Versorgungsverband Baden-Württemberg” (“Zusatzversorgungskasse des Kommunalen Versorgungsverbandes Baden-Württemberg”; hereinafter referred to as “ZVK-KVBW”). The services of those supplementary pension funds are funded by levies of the employers and contributions of the employees, each based on certain percentage of the employee’s remuneration. In addition, the supplementary pension funds raise recapitalization payments (“Sanierungsgelder”) from the participating employers in order to cover any additional financing requirements. A joint liability for other participating companies is not apparent from the statutes of the supplementary pension funds. The proportion of the subgroups NILEG and GBH of the total contributions to the plan is less than 1 %.

Due to the fact that the aforementioned supplementary pension funds are public-law institutions, a future wind-up of the plans is considered unlikely. In the unlikely event of a wind-up, first all liabilities of the supplementary pension funds against third-parties (non-insured) must be met. Then the remaining assets shall be used exclusively for the insured beneficiaries.

As the VBL and the ZVK-KVBW do not provide available sufficient information to permit treatment as defined benefit plans, the multi-employer defined benefit plans constituted by them are pursuant to IAS 19.34 (a) accounted for as if they were defined contribution plans. GAGFAH GROUP 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. The respective countervalue amounts to € 30.0 million. Regarding the Group’s current contributions to the supplementary pension funds we refer to section H.4. “Number of Employees and Personnel Expenses”.

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 GROUP 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 if the effect is material and recognized in the amount of the present value of the expected expenditure.

In accordance with IAS 37.71 et seqq., provisions for restructuring and reorganization 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 same period. 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 GROUP 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 GROUP.

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.

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

In 2011, a further stock option plan 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.

The fair value of the options of stock option plan 2009 and stock option plan 2011 was estimated at the respective grant dates in accordance with IFRS 2 using the Black & Scholes option pricing model.

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.

All remaining claims from the stock option plans 2009 and 2011 were settled in the financial year 2013.

In 2013, two long-term incentive plans containing stock awards with exercise prices of € 0.00 each were established, the first of these with the following conditions: The stock awards entitle the beneficiary to GAGFAH S. A. shares without payment. Each 20.0 % of the stock awards vest on April 1 of the years 2014 to 2018. Vesting condition is the beneficiaries' continued service or employment with GAGFAH GROUP on the respective vesting dates. Some of the grants are subject to an immediate retransfer obligation to GAGFAH S. A. in case of a claw-back event (e. g. resignation from office or termination by GAGFAH GROUP). The fair value of these stock awards is estimated on the basis of the share price net of expected dividends to be paid during the vesting period at the grant date in accordance with IFRS 2 and amounts to € 15.0 million.

The second long-term incentive plan set up in 2013 is based on the following conditions: The stock awards entitle the beneficiary to GAGFAH S. A. shares without payment. The vesting schedule of these stock awards is as follows:

- 20 % on April 1, 2015
- 30 % on April 1, 2016
- 50 % on April 1, 2017

Vesting condition is the beneficiaries' continued service or employment with GAGFAH GROUP on the respective vesting dates and the reaching of a certain stock yield. The fair value of these stock awards is estimated on the basis of the share price net of expected dividends to be paid during the vesting period at the grant date in accordance with IFRS 2 and amounts to € 1.6 million.

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 GROUP are entitled to a cash-settled remuneration plan (phantom stocks) 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.

16. STATEMENT OF CASH FLOWS

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

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

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

Financial liabilities are all liabilities to banks and other lenders.

17. UNCERTAINTIES RELATING TO ESTIMATES

The preparation of the Consolidated Financial Statements requires to a certain extent assumptions and estimates to be made which have an effect on the carrying amounts of recognized assets and liabilities, income and expenses and contingent liabilities. The assumptions and estimates relate mainly to

- the measurement of investment property,
- the 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 investment property and a quantitative sensitivity analysis are disclosed in sections C.3. “Investment Property” (Accounting Policies) and E.2. “Investment Property” (Notes).

PENSION PROVISIONS 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. 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. A detailed sensitivity analysis regarding the impact of the discount rate and other parameters on the defined benefit obligation can be found in section E.13.1. “Pension Provisions”.

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.

For valuation purposes concerning senior debts, Senior Management estimates the future interest rate adjustments on an annual basis. For the valuation in the financial year 2013, Senior Management assumed that the state-owned banks will exercise all possible future interest rate adjustment options. In the financial year 2013, these estimates did not change compared to the prior year.

Further information on financial liabilities can be found in section E.16.1. “Financial Liabilities”. A sensitivity analysis regarding financial instruments can be found in section H.2. “Financial Risk Management”.

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 GROUP'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, 2013, and 2012 on the following two pages. Due to changes in the internal management reporting system, EBITDA includes reorganization and restructuring expenses since June 2013. The Group Segment Report for the prior year has been adjusted correspondingly.

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 investment property of HB Funds) are allocated to the column "Other". Income from the leasing of assets held for sale continues to be shown within the segment revenues of the real estate management segment.

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

GROUP SEGMENT REPORT

FOR THE PERIOD FROM JANUARY 1 TO DECEMBER 31, 2013

€ million

	Real estate management	Real estate sales	**Total segments**	Other	**Total Group**	Notes
Segment revenues	840.3	58.0	**898.3**	91.2[1]	**989.5**	
Segment EBITDA	338.5	7.0	**345.5**	– 7.5[2]	**338.0**	
Depreciation/amortization	– 2.0	0.0	**– 2.0**	– 0.9	**– 2.9**	
Earnings before interest and taxes (EBIT)	336.5	7.0	**343.5**	– 8.4	**335.1**	
Interest expenses	– 209.1	0.0	**– 209.1**	– 11.5	**– 220.6**	F.11.
Refinancing expenses	– 67.9	0.0	**– 67.9**	0.0	**– 67.9**	F.12.
Result from the fair value measurement of derivatives	0.0	0.0	**0.0**	1.5	**1.5**	H.2.
Other financial expenses	0.0	0.0	**0.0**	– 0.1	**– 0.1**	
Interest income	0.6	0.0	**0.6**	0.2	**0.8**	
Earnings before taxes (EBT)	60.1	7.0	**67.1**	– 18.3	**48.8**	
Income taxes	0.0	0.0	**0.0**	– 45.5	**– 45.5**	F.13.
Net result	60.1	7.0	**67.1**	– 63.8	**3.3**	
Segment investments	26.3	0.0	**26.3**	1.8	**28.1**	
Significant non-cash expenses (–)/income (+)	– 20.4[3]	– 2.3[4]	**– 22.7**	4.7[5]	**– 18.0**	

1 This item includes the income from block sales (€86.1 million) (see section E.10.), income from the amortization of deferred liabilities of government-granted loans (€ 4.0 million) (see section F.1.) and income from the sale of property development projects (€ 1.1 million).

2 This item mainly includes the result from the fair value measurement of investment property (€ 5.4 million) (see section F.3.), the EBITDA contribution of the block sales (€ – 3.6 million), adjustments in connection with HB Funds (€ – 2.2 million), the EBT attributable to the property development business (€ – 3.9 million), income from the amortization of deferred liabilities of government-granted loans (€ 4.0 million) (see section F.1.), reorganization and restructuring expenses (€ – 4.8) (see section F.10.) and income from the reversal of provisions recorded in other operating income (€ 4.9 million) (see section F.8.)

3 Significant non-cash expenses of real estate management mainly contain additions to provisions concerning real estate management (€ – 9.2 million), bad debt allowances (rent receivables) (€ – 8.0 million) (see section F.2.) and refinancing expenses (€ – 2.6 million).

4 Significant non-cash expenses of real estate sales contain additions to sales provisions and reversals of sales provisions (€ – 1.7 million) and write-offs of receivables (€– 0.6 million).

5 Other significant non-cash expenses/income mainly consist of the result from fair value measurement of investment property (€ 5.4 million) (see section F.3.), of the result from fair value measurement of derivatives (€ 1.5 million) (see section H.2.), income from the amortization of deferred liabilities of government-granted loans (€ 4.0 million), the present value of loans carried at amortized cost (€ – 3.8 million), income from the reversal of provisions/liabilities (€ 4.9 million) and additions to other provisions (€ – 6.5 million).

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	82.0	**917.1**	142.9[1]	**1,060.0**	
Segment EBITDA	352.9	7.9	**360.8**	– 21.5[2]	**339.3**	
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.
Refinancing expenses	– 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 (€ 131.1 million) (see section E.10.), income from the amortization of deferred liabilities of government-granted loans (€ 7.1 million) (see section F.1.) and income from the sale of property development projects (€ 4.7 million (adjusted due to the adoption of IFRS 11)).

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 block sales (€ – 5.0 million), reorganization and restructuring expenses (€ – 3.2 million) (see section F.10.), 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) (see section F.3.), 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).

E. NOTES TO THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION

1. INTANGIBLE ASSETS

A part of goodwill amounting to € 15.0 million (prior year: € 15.0 million) relates to our operations in the Region Berlin, originally resulting from the acquisition of GAGFAH Pegasus GmbH. As in the prior year, the annual impairment test did not lead to a remeasurement result. Nevertheless, in the prior year, a remeasurement loss of € 1.2 million had occurred due to sales in the Region Berlin.

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 5.50 % (prior year: 5.13 %). 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 0.80 (prior year: 0.81) and a risk-free interest rate of 3.28 % (prior year: 3.59 %).

The value of an asset or a 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 2014 and are modeled for the period 2015 through 2023 (prior year: budget values for 2013; modeled for the period 2014 through 2022). 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 (2.00 % per annum in 2014, 2.25 % per annum in 2015, 2.50 % per annum for the period 2016 through 2018, 2.00 % per annum for the period through 2023; prior year: 1.76 % per annum) and vacancy loss (3.54 % per annum; prior year: 4.45 % per annum) are based on the 2014 budget (prior year: 2013 budget) and / or past experience and are held constant throughout the period in which the cash flows are extrapolated. The costs in the model are subject 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 € 0.7 million (prior year: € 0.6 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 2013, the valuation of the real estate portfolio was provided by CBRE. For more information on the valuation procedures and techniques, please refer to section C.3. "Investment Property". Due to the prospective appliance of IFRS 13, prior-period values need not to be stated.

The valuation as at December 31, 2013, has been carried out by independent external appraisers from CBRE. CBRE confirms that it has no conflict of interest in carrying out the subject valuation.

IFRS 13 requires that the classification of investment property 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).

The total property assets of GAGFAH GROUP are categorized as level 3 investment property.

Due to the fact that potential rent increases are a material key driver in the DCF valuation, the classification of investment property according to IFRS 13.94 was made on the basis of potential rent increases, leading to the following seven risk clusters:

Risk cluster	Potential rent increase (in %)
Risk cluster 1	1.50
Risk cluster 2	1.25
Risk cluster 3	1.00
Risk cluster 4	0.75
Risk cluster 5	0.50
Risk cluster 6	0.25
Risk cluster 7	0.00

Each town and district is allocated to one of the above-mentioned seven risk clusters. As part of the valuation the regional base value is adjusted by the individual object and location properties again.

Each risk cluster is again divided into the following three sub-risk clusters:

Sub-risk cluster	Description of the property's condition
Sub-risk cluster 1	good property quality
Sub-risk cluster 2	average property quality
Sub-risk cluster 3	below-average property quality

UNOBSERVABLE INPUT 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 significant unobservable input parameters:

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		Input parameters											
		Discount rate (%)			Capitalization rate (%)			Market rent growth (%)			Structural vacancy [1] (%)		
Level		3			3			2			3		
Risk cluster	**Sub-risk cluster**	Minimum	Weight. av. (10 y)	Maximum	Minimum	Weight. av. (10 y)	Maximum	Minimum	Weight. av. (10 y)	Maximum	Minimum	Weight. av. (10 y)	Maximum [1]
1	1	5.38	5.98	6.50	4.00	4.54	5.20	1.35	1.51	1.65	0.00	0.34	0.75
	2	5.63	5.90	6.25	4.13	4.43	5.00	1.50	1.50	1.50	0.50	0.50	0.50
	3	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
2	1	5.13	5.95	6.95	4.00	4.70	5.95	1.13	1.27	1.38	0.00	0.65	2.25
	2	5.38	6.15	7.25	4.13	4.95	6.00	1.00	1.24	1.25	0.00	0.92	1.50
	3	5.63	6.06	6.88	4.50	4.99	5.70	0.88	1.13	1.25	0.50	1.14	1.38
3	1	5.00	6.07	8.30	4.00	5.07	7.30	0.90	1.01	1.10	0.00	1.35	5.00
	2	5.38	6.14	9.38	4.38	5.16	8.38	0.80	0.99	1.00	0.00	1.87	20.00
	3	5.38	6.18	8.70	4.38	5.30	7.80	0.70	0.89	1.00	0.00	2.45	7.50
4	1	5.25	6.00	7.38	4.43	5.26	6.70	0.68	0.75	0.83	0.00	1.40	10.00
	2	5.38	6.08	7.88	4.63	5.36	7.28	0.60	0.73	0.83	0.00	1.92	5.00
	3	5.63	6.07	6.75	4.88	5.41	6.23	0.53	0.66	0.75	0.00	3.49	10.00
5	1	5.00	6.05	8.10	4.50	5.54	7.60	0.45	0.51	0.55	0.00	2.09	5.25
	2	5.38	6.50	7.50	4.88	5.96	7.00	0.40	0.50	0.50	0.00	3.32	20.00
	3	5.88	6.28	8.00	5.38	5.87	7.50	0.35	0.41	0.50	2.48	5.24	10.00
6	1	5.63	6.13	8.38	5.38	5.88	8.15	0.23	0.25	0.28	0.00	6.71	20.00
	2	5.75	6.02	7.88	5.50	5.77	7.63	0.20	0.25	0.28	0.00	6.01	20.00
	3	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
7	1	5.88	5.88	5.88	5.88	5.88	5.88	0.00	0.00	0.00	5.25	5.25	5.25
	2	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
	3	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A

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 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.

										Other key information					
	Repairs and maintenance (€/sqm)			Tenant improvements [2] (€/sqm)			Management costs (€/unit)			Year of construction			Net cold rent (€/sqm)		
	3			3			3			3			3		
	Minimum	Weight. av. (10 y)	Maximum	Minimum	Weight. av. (10 y)	Maximum	Minimum	Weight. av. (10 y)	Maximum	Minimum	Weight. av. (10 y)	Maximum	Minimum	Weight. av. (10 y)	Maximum
	6.50	7.26	8.00	30	64	80	230	250	255	1929	1982	2002	4.42	6.88	10.42
	8.50	9.35	11.00	70	73	80	255	255	255	1931	1969	1993	5.36	7.28	8.62
	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
	6.50	7.33	10.00	5	70	105	205	249	255	1898	1965	2005	3.38	6.38	10.82
	7.00	8.63	11.00	40	71	95	180	247	255	1898	1962	1999	3.45	5.69	9.23
	10.00	10.90	12.00	40	70	95	205	247	255	1924	1960	1978	2.93	5.44	6.95
	6.50	7.26	10.00	5	56	95	180	234	255	1800	1965	2007	2.28	5.22	11.88
	7.50	8.69	12.00	5	65	100	180	236	255	1800	1964	2006	0.77	4.79	7.33
	10.00	10.67	13.20	35	63	100	230	248	255	1839	1955	1990	2.12	4.78	6.55
	6.50	7.30	10.00	10	62	95	205	250	255	1855	1965	2006	3.13	5.01	8.96
	7.50	8.67	11.00	35	61	70	205	251	255	1900	1959	2000	1.37	4.83	6.50
	10.00	11.53	13.00	45	48	70	230	252	255	1900	1957	1983	3.14	4.19	5.73
	6.50	7.29	8.50	5	55	80	205	239	255	1880	1963	2005	2.56	4.91	11.25
	7.50	8.87	11.00	5	49	70	205	245	255	1888	1968	2004	2.68	3.99	6.42
	10.00	10.74	13.20	40	50	70	205	232	255	1913	1972	1995	3.50	4.19	5.14
	6.50	7.25	8.25	35	53	70	230	230	230	1887	1938	1974	2.57	4.13	5.21
	7.50	7.92	10.00	40	47	70	230	230	230	1898	1959	2000	2.25	4.19	5.24
	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
	7.00	7.00	7.00	45	45	45	230	230	230	1906	1940	1958	4.19	4.43	4.60
	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A

DISCOUNT RATE AND CAPITALIZATION 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 GROUP in Germany is 6.00 % (prior year: 6.00 %). Specific risks in the cash flow of a property are reflected by appropriate additions or deductions from the average discount rate. The average discount rate after these adjustments is 5.99 % (prior year: 5.99 %).

The capitalization rate used is calculated by deducting the location-related growth component from the discount rate.

MARKET RENT GROWTH 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.

STRUCTURAL VACANCY 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.

REPAIRS AND MAINTENANCE 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.

TENANT IMPROVEMENTS 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.

MANAGEMENT COSTS Management costs have been modelled at € 225 / unit p. a. (prior year: € 225 / unit p. a. on the basis of the 2nd cost calculation regulation ("Zweite Berechnungsverordnung").

YEAR OF CONSTRUCTION The year of construction basically describes the original year of construction. In the case of comprehensive basic renovations, the year of the basic renovation is defined as the year of construction.

NET COLD RENT Net cold rent represents the amount of rent that could be produced assuming no vacancies or collection losses occur.

INDEXATION OF COSTS 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).

SENSITIVITY ANALYSIS The following table shows a quantitative sensitivity analysis regarding the aforementioned input parameters:

12-31-2013
€million

Input parameters			Discount and capitalization rate		Market rent growth		Structural vacancy	
Sensitivity level		Carrying amount	– 0.1 %	+ 0.1 %	– 0.5 %	+ 0.5 %	– 0.1 %	+ 0.1 %
Risk cluster	Sub-risk cluster							
1	1	142.7	145.8	139.7	127.7	158.5	142.8	142.6
	2	41.7	42.6	40.7	37.1	46.2	41.7	41.6
	3	0.0	N/A	N/A	N/A	N/A	N/A	N/A
2	1	1,385.2	1,413.7	1,357.5	1,248.9	1,543.3	1,386.3	1,384.1
	2	512.9	523.5	502.8	462.9	573.5	513.5	512.3
	3	84.6	86.3	83.0	76.9	93.8	84.7	84.4
3	1	3,163.8	3,227.1	3,103.0	2,854.8	3,540.0	3,166.7	3,161.0
	2	699.6	713.5	686.1	631.4	782.5	700.5	698.7
	3	76.6	78.1	75.1	69.5	85.1	76.7	76.5
4	1	701.1	714.6	688.1	633.9	782.9	701.7	700.5
	2	254.7	259.5	250.0	230.6	284.0	255.0	254.4
	3	29.6	30.1	29.1	27.1	32.5	29.6	29.5
5	1	420.5	428.4	413.0	382.0	467.8	420.9	420.2
	2	71.7	72.8	70.7	66.4	78.2	71.8	71.7
	3	9.5	9.7	9.4	8.6	10.6	9.6	9.5
6	1	19.7	20.0	19.3	18.8	21.8	19.7	19.6
	2	19.1	19.4	18.8	18.2	21.4	19.1	19.1
	3	0.0	N/A	N/A	N/A	N/A	N/A	N/A
7	1	0.7	0.7	0.7	0.7	0.8	0.7	0.7
	2	0.0	N/A	N/A	N/A	N/A	N/A	N/A
	3	0.0	N/A	N/A	N/A	N/A	N/A	N/A
Total		**7,633.7**	**7,785.8**	**7,487.0**	**6,895.5**	**8,522.9**	**7,641.0**	**7,626.4**
Deviation		N/A	1.99 %	– 1.92 %	– 9.67 %	11.65 %	0.10 %	– 0.10 %

A change in the assumptions made for the estimated discount rate is accompanied by a similar change in the capitalization rate.

	Repairs and maintenance		**Tenant improvements**		**Management costs**		**Indexation of costs (10-year period)**	
	– € 1.00 / sqm	+ € 1.00 / sqm	– € 5.00 / sqm	+ € 5.00 / sqm	– € 10.00 / unit	+ € 10.00 / unit	– 0.1 %	+ 0.1 %
	144.5	141.0	143.1	142.4	143.0	142.4	142.9	142.5
	42.2	41.1	41.8	41.6	41.7	41.6	41.7	41.6
	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
	1,406.8	1,363.7	1,389.6	1,380.8	1,388.6	1,381.9	1,387.2	1,383.3
	521.8	504.0	514.7	511.1	514.3	511.5	513.9	511.9
	86.3	82.9	85.0	84.2	84.9	84.3	84.8	84.4
	3,231.5	3,096.2	3,178.0	3,149.7	3,175.2	3,152.4	3,170.1	3,157.7
	716.9	681.6	703.1	695.9	703.1	696.8	701.4	697.7
	79.1	74.0	77.1	75.9	76.9	76.2	76.9	76.2
	719.5	684.0	705.4	697.2	703.9	698.3	702.9	699.3
	260.7	248.7	256.1	253.3	255.8	253.6	255.5	253.9
	30.9	28.2	29.8	29.2	29.8	29.4	29.7	29.4
	431.3	409.8	423.1	418.0	422.3	418.8	421.6	419.5
	73.3	70.2	72.1	71.3	72.0	71.5	71.9	71.5
	9.9	9.1	9.6	9.4	9.6	9.4	9.6	9.5
	20.3	19.0	19.8	19.5	19.8	19.5	19.7	19.6
	19.8	18.4	19.3	18.9	19.2	19.0	19.2	19.0
	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
	0.7	0.7	0.7	0.7	0.7	0.7	0.7	0.7
	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
	7,795.5	**7,472.6**	**7,668.3**	**7,599.1**	**7,660.8**	**7,607.3**	**7,649.7**	**7,617.7**
	2.12 %	– 2.11 %	0.45 %	– 0.45 %	0.36 %	– 0.35 %	0.21 %	– 0.21 %

DEVELOPMENT OF INVESTMENT PROPERTY The following overview shows a reconciliation from the opening balances to the closing balances of the fair value for each class of investment property:

12-31-2013
€ million

Risk cluster	1			2			3		
Sub-risk cluster	1	2	3	1	2	3	1	2	3
As of January 1	**141.1**	**44.0**	**0.0**	**1,167.0**	**696.9**	**126.8**	**2,982.6**	**907.2**	**84.7**
Additions	0.0	0.0	0.0	1.4	1.2	0.3	9.9	7.4	2.4
Disposals and reclassifications to assets held for sale	− 0.8	− 0.3	0.0	− 23.9	− 6.5	− 1.8	− 22.0	− 28.7	− 9.6
Reclassifications to / from property, plant and equipment and inventories	0.0	0.0	0.0	6.9	0.0	0.0	0.0	0.0	0.0
Changes in value recorded in profit or loss	0.5	− 0.2	0.0	− 1.3	11.0	4.8	− 1.2	2.2	5.2
Reclassifications between (sub-) risk clusters	1.9	− 1.8	0.0	235.1	− 189.7	− 45.5	194.5	− 188.5	− 6.1
As of December 31	142.7	41.7	0.0	1,385.2	512.9	84.6	3,163.8	699.6	76.6

The total amount of additions of € 26.3 million (prior year: € 4.1 million) related to value-enhancing maintenance measures for vacant flats and modernization programs due to our efforts to focus more on the real estate side of the business. The value-enhancing measures relate to large modernization measures (extensive renovation works in a single unit) as well as single unit modernization measures (works in single flats in a unit). These modernization measures increase the standard of the corresponding flats and the future economic use as well as the fair value of the unit. If the modernization measure leads to a permanent increase in value (usually value increasement higher than investment costs), the corresponding expenses are capitalized.

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

The reclassifications to investment property mainly concern a former own-used office building with a carrying amount of € 6.9 million that was reclassified from property, plant and equipment.

All changes in value recorded in profit or loss are attributable to changes in unrealized gains or losses relating to investment property held at the end of the reporting period and are shown in the line item “Result from the fair value measurement of investment property” in the Consolidated Statement of Comprehensive Income.

	2013													2012
	4			5			6			7				
	1	2	3	1	2	3	1	2	3	1	2	3	**Total**	Total
	725.2	**266.1**	**42.4**	**394.4**	**106.3**	**15.6**	**28.6**	**11.9**	**0.0**	**0.7**	**0.0**	**0.0**	**7,741.5**	**7,953.3**
	1.2	1.0	0.2	1.2	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	**26.3**	4.1
	− 31.6	− 2.7	− 5.6	− 1.2	− 7.4	− 4.3	0.0	0.0	0.0	0.0	0.0	0.0	**− 146.4**	− 201.5
	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	**6.9**	− 1.0
	− 11.4	− 1.9	2.3	− 4.4	1.1	0.4	− 1.4	− 0.3	0.0	0.0	0.0	0.0	**5.4**	− 13.4
	17.7	− 7.8	− 9.7	30.5	− 28.4	− 2.2	− 7.5	7.5	0.0	0.0	0.0	0.0	**0.0**	0.0
	701.1	254.7	29.6	420.5	71.7	9.5	19.7	19.1	0.0	0.7	0.0	0.0	**7,633.7**	7,741.5

BRIDGE OF UNITS The following table shows a bridge from the total units recognized as investment property to our total core residential property portfolio:

	1			2			3		
Sub-Risk Cluster	1	2	3	1	2	3	1	2	3
Total units recognized as investment property	**1,447**	**566**	**0**	**17,894**	**8,440**	**1,735**	**62,726**	**16,958**	**2,101**
Commercial units	– 6	– 6	0	– 238	– 65	– 11	– 839	– 189	– 14
Garages [1]	– 5	– 210	0	– 165	– 1,134	– 15	– 719	– 1,671	– 10
Senior homes	0	0	0	– 1	0	0	– 1	0	0
Other units [1]	– 5	– 8	0	– 89	– 28	– 5	– 336	– 160	– 11
Residential units recognized as investment property	**1,431**	**342**	**0**	**17,401**	**7,213**	**1,704**	**60,831**	**14,938**	**2,066**
Assets held for sale – condo sales	– 2	0	0	– 44	– 23	0	– 29	– 2	0
Assets held for sale – block sales	0	0	0	0	– 149	0	– 16	– 12	– 89
Other units	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**– 2**	**0**
Total residential property portfolio	1,429	342	0	17,357	7,041	1,704	60,786	14,922	1,977

1 Garages and other units are counted as 1/6 residential unit.

	4			5			6			7			
	1	2	3	1	2	3	1	2	3	1	2	3	**Total**
	16,113	**6,871**	**1,441**	**10,190**	**2,036**	**659**	**657**	**697**	**13**	**20**	**0**	**0**	**150,564**
	− 35	− 42	− 4	− 80	− 44	− 7	− 1	− 6	0	0	0	0	**− 1,587**
	− 61	− 569	− 8	− 18	− 336	0	− 8	− 42	0	0	0	0	**− 4,971**
	0	0	0	− 1	− 1	0	0	0	0	0	0	0	**− 4**
	− 97	− 21	− 5	− 26	− 9	− 1	− 2	− 3	0	0	0	0	**− 806**
	15,920	**6,239**	**1,424**	**10,065**	**1,646**	**651**	**646**	**646**	**13**	**20**	**0**	**0**	**143,196**
	− 7	0	0	− 3	0	0	0	0	0	0	0	0	**− 110**
	− 420	− 233	− 126	0	− 152	− 184	0	0	0	0	0	0	**− 1,381**
	0	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**− 2**
	15,493	6,006	1,298	10,062	1,494	467	646	646	13	20	0	0	**141,703**

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).

The reclassifications from property, plant and equipment concern a former own-used office building with a carrying amount of €6.9 million that was reclassified to investment property.

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 JOINT VENTURES GAGFAH GROUP has a 50 % interest in each of the following four joint ventures, which serve the purpose of the development and subsequent sale of property:

- Wolmirstedt GbR
- Objekt Dresden GbR
- Grundstücksentwicklungsgesellschaft Oesselse "Langes Feld" GbR
- Möser GbR

The aforementioned joint ventures are joint arrangements whereby GAGFAH GROUP and a third party have joint control of the arrangements and have rights to the net assets of the arrangements. Under IAS 31 Investments in Joint Ventures (prior to the adoption of IFRS 11), the Group's interests in the four joint ventures were classified as jointly controlled entities, and the Group's shares of the assets, liabilities, income and expenses were proportionately consolidated. Upon adoption of IFRS 11 Joint Arrangements, which became effective for annual periods beginning on or after January 1, 2013, the Group has determined its interests to be joint ventures and was therefore required to change the consolidation method from proportionate consolidation to the equity method according to IAS 28 (as amended in 2011).

As none of the corresponding companies is individually material for the Group, the following financial information concerning joint ventures is made in aggregate:

The effect of applying IFRS 11 is as follows:

€ million

	12-31-2012 (adjusted)	01-01-2012 (adjusted)
Increase in equity investments (Other financial assets, non-current) [1]	4.0	4.0
Decrease in inventories	− 2.4	− 2.1
Increase in receivables against joint ventures (Receivables, current) [2]	1.4	0.8
Decrease in receivables against co-partner of joint ventures (Other assets, current)	− 2.6	− 2.3
Decrease in bank balances and cash on hand	− 0.1	− 0.1
Decrease in liabilities against co-partner of joint ventures (Other liabilities, current)	0.2	0.2
Increase in liabilities against joint ventures (Other liabilities, current) [2]	− 0.5	− 0.5
Net impact on equity	**0.0**	**0.0**

1 For three joint ventures, the change from proportionate consolidation to the equity method resulted in positive net assets and therefore an equity investment of € 4.0 million. For one joint venture, the change from proportionate consolidation to the equity method resulted in negative net assets of € 0.4 million that are disclosed, together with operating liabilities, within "liabilities against joint ventures".

2 Prior to the adoption of IFRS 11, those receivables and liabilities were consolidated as receivables and liabilities against affiliated companies.

There was no material impact on the Consolidated Statement of Comprehensive Income, the Consolidated Statement of Cash Flows or the basic and diluted earnings per share, neither in the current financial year nor in the previous financial year.

The book value of the equity investments of the four joint ventures as of December 31, 2013, amounts to €4.0 million (prior year (adjusted): €4.0 million).

The results from equity investments were not material in the financial year 2013 and the prior year.

The aggregate amount of the Group's share of total comprehensive income is not material as well.

There are no unrecognized shares of losses of the above-mentioned joint ventures and no significant restrictions on the ability of the joint ventures to transfer funds to the Group in form of cash dividends or to repay loans or advances made by the entity.

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).

OTHER INVESTMENTS The line item "Other Financial Assets" also includes other investments in the amount of €0.9 million (prior year: €0.9 million) which primarily include investments in which GAGFAH GROUP holds less than 20 % of capital and only one investment in which GAGFAH GROUP holds more than 20 % of capital:

Although its respective share is more than 20 %, GAGFAH GROUP has no significant influence on the business activities of Hannover Region Grundstücksgesellschaft Verwaltung mbH & Co. Businesspark Hannover Nord KG (No. 80 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.

DERIVATIVE FINANCIAL INSTRUMENTS MEASURED AT FAIR VALUE Interest rate swaps and caps accounted for at fair value and amounting to €9.2 million (prior year €0.0 million) are disclosed on the assets side under the items "Other financial assets". For further information see section H.2. "Financial Risk Management".

5. INVENTORIES

The inventories of GAGFAH GROUP break down as follows:

€ million	12-31-2013	12-31-2012 (adjusted)
Prepayments to insurance companies	5.9	5.2
Land and land rights without buildings	3.3	3.8
Repair material	2.5	3.5
Land and land rights with finished buildings	0.3	0.3
Total	**12.0**	**12.8**

Due to the adoption of IFRS 11 Joint Arrangements (see section E.4. "Other Financial Assets") and thus the derecognition of inventories relating to the four joint ventures, the amount as of December 31, 2012, was reduced by €2.4 million to €12.8 million.

The decrease in total inventories compared to December 31, 2012, mainly results from sales of land without buildings and from the reduction of repair material. The increase in other inventories results from the addition of accrued insurance claims (€0.7 million).

In the financial year 2013, inventories (repair material) with an amount of €0.9 million (prior year: €0.1 million) were recognized as an expense.

Land and land rights with finished buildings amounting to €0.3 million (prior year: €0.3 million) are measured at the lower net realizable value, with costs yet to be incurred being deducted from the discounted sales price. Corresponding write-downs to the net realizable value will be recorded if necessary. In the financial year 2013, no write-downs (prior year: no write-downs) 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

	12-31-2013	12-31-2012 (adjusted)
Receivables from sales of land and buildings	**32.5**	20.2
Rent receivables	**7.6**	7.5
Receivables against joint ventures	**1.4**	1.4
Receivables from other trade	**1.1**	1.9
Receivables from third-party real estate and construction management	**0.0**	0.1
Total	**42.6**	31.1

Due to the adoption of IFRS 11 Joint Arrangements (see section E.4. "Other Financial Assets") and thus the recognition of receivables against joint ventures, the amount as of December 31, 2012, was increased by € 1.4 million to € 31.1 million.

Receivables from sales of land and buildings do not represent a material credit risk due to their contractual structure. They are mainly pledged in the form of deposits on interest-bearing notary trust accounts in the amount of € 30.8 million (prior year: € 15.4 million). The increase in receivables from sales of land and buildings is mainly attributable to condo sales and portfolio-adjustment units in December.

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 € 10.8 million (prior year: € 8.4 million) were recognized for bad debts, thereof € 8.1 million (prior year: € 7.4 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

	12-31-2013	12-31-2012 (adjusted)
Payments on account concerning maintenance services	**20.0**	16.5
Insurance claims	**6.0**	3.8
Payments on notary trust accounts	**2.3**	2.3
Prepayments	**0.3**	0.6
Claims for reimbursement	**0.1**	4.4
Receivables referring to subsidies for costs of demolition	**0.0**	1.1
Other	**11.2**	8.6
Total	**39.9**	37.3

Due to the adoption of IFRS 11 Joint Arrangements (see section E.4. "Other Financial Assets") and the recognition of receivables against joint ventures in section E.6 "Current receivables", the amount as of December 31, 2012, was decreased by € 2.6 million to € 37.3 million.

The increase in insurance claims partly results from several minor damages occurred in the financial year 2013.

The payments on a notary trust account resulted from the sale of the subsidiaries GAGFAH Acquisition 3 GmbH and GAGFAH Pegasus GmbH in 2011 and represent the portion of the purchase price which has not yet been paid.

Due to incoming payments during the financial year 2013, the remaining receivables referring to subsidies for costs of demolition have been settled. As of the balance sheet date, the demolition program is completed entirely.

The remaining stocks of real estate were dismantled in the financial year 2013.

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, 2013, GAGFAH GROUP disclosed current tax claims of € 11.8 million (prior year: € 15.0 million). These claims break down as follows:

€ million	12-31-2013	12-31-2012
Trade tax	**2.9**	5.6
Capital yields tax	**2.6**	1.0
Corporate income tax	**2.4**	5.0
Value added tax	**0.7**	0.5
Other	**3.2**	2.9
Total	**11.8**	**15.0**

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 € 101.9 million (prior year (adjusted): € 175.9 million). Due to the adoption of IFRS 11 Joint Arrangements (see section E.4. "Other Financial Assets") and thus the derecognition of bank balances relating to the four joint ventures, the amount as of December 31, 2012, was reduced by € 0.1 million from € 176.0 million to € 175.9 million.

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

The time deposits of GAGFAH GROUP have terms between three weeks and three months and accrue key date interest rates between 0.00 % and 0.29 % (prior year: between 0.00 % and 0.39 %). The weighted average is 0.18 % (prior year: 0.16 %).

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 0.75 % (prior year: 0.00 % 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 0.41 % for the financial year 2013 (prior year: 0.52 % for the financial year 2012). Bank deposits at all other banks have an average interest rate of 0.12 % for the financial year 2013 (prior year: 0.15 % for the financial year 2012).

Of € 101.9 million (prior year (adjusted): € 175.9 million) total cash, € 62.4 million (prior year: € 104.8 million) are restricted cash and € 39.5 million (prior year (adjusted): € 71.1 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 € 48.6 million (prior year: € 31.0 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 € 40.6 million (prior year: € 20.3 million) from block sales, primarily concerning assets from our portfolio in North Rhine-Westphalia (in the prior year primarily concerning assets from our portfolios in Heidenheim and Bocholt).

Additionally, the assets held for sale contain € 8.0 million (prior year: € 10.7 million) related to the sale of individual apartments and small multi-family homes ("condo sales program").

The profit from the sale of investment property and assets held for sale and the balances of assets held for sale split up as follows:

€ million

	12M 2013			12-31-2013	12M 2012			12-31-2012
	Income from the sale	Carrying amount	Profit	Assets held for sale	Income from the sale	Carrying amount	Profit	Assets held for sale
Block sales	86.1	– 81.6	4.5	40.6	131.1	– 129.4	1.7	20.3
Condo sales	58.0	– 47.0	11.0	8.0	82.0	– 65.5	16.5	10.7
Total	**144.1**	**– 128.6**	**15.5**	**48.6**	**213.1**	**– 194.9**	**18.2**	**31.0**

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

Gains or losses from the last-time fair value measurement of investment property before reclassification into assets held for sale are shown in the line item "Result from the fair value measurement of investment property" (see section F.3. "Result from the Fair Value Measurement of Investment Property").

11. EQUITY

The development of equity of GAGFAH GROUP is presented in the Statement of Changes in Consolidated Equity.

Subscribed capital relates to the parent company's capital stock of € 269.9 million (prior year: € 258.1 million) and comprises 215,952,555 (prior year: 206,452,555) shares, each with a nominal value of € 1.25 (prior year: € 1.25).

The increase in subscribed capital of € 11.8 million since year-end 2012 is due to the capital increase carried out on July 11, 2013, in which GAGFAH S. A. placed 10,500,000 treasury shares and 9,500,000 new shares by way of an accelerated bookbuilding. The proceeds from the sale of the shares amounted to € 178.0 million and were reduced by transaction costs of approximately € 2.0 million, leading to net proceeds of approximately € 176.0 million.

The following table shows the development of the issued and fully-paid share capital from January 1, 2012, to December 31, 2013:

	Number of shares	Nominal value in €
January 1, 2012	221,602,832	277,003,540
Cancellation of shares	– 15,150,277	– 18,937,846
December 31, 2012 / January 1, 2013	206,452,555	258,065,694
Issue of new shares	9,500,000	11,875,000
December 31, 2013	215,952,555	269,940,694

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.6.1. "Board of Directors".

As of December 31, 2013, the authorized unissued capital is set at 7,990,500,000 shares (prior year: 8,000,000,000 shares) which represent € 9,988,125,000 (prior year: € 10,000,000,000).

SHARE PREMIUM The increase in the financial year is mainly caused by € 93.6 million premium from the capital increase carried out on July 11, 2013. A further increase of € 3.8 million (prior year: a decrease of € 0.5 million) results from equity-settled share-based remuneration of senior management. We also refer to section F. 7. "Expenses for Share-based Remuneration".

LEGAL RESERVE Under Luxembourg law, an amount equal to at least 5 % of the profit of the year must be allocated to a legal reserve until such reserve equals 10 % of the issued share capital. This reserve is not available for dividend distribution and amounts to € 28.2 million (prior year: € 28.2 million).

REVENUE RESERVES – UNREALIZED GAINS / LOSSES FROM DERIVATIVE FINANCIAL INSTRUMENTS Revenue reserves in connection with unrealized gains / losses from derivative financial instruments result from several swap agreements negotiated in order to hedge the cash flow risk from interest fluctuations and include the net valuation movements on the aforementioned cash flow hedges of € – 0.2 million (prior year: € – 1.1 million) and the corresponding income tax effect of € 0.1 million (prior year: € 0.4 million). We also refer to section H. 2. "Financial Risk Management".

REVENUE RESERVES – UNREALIZED GAINS / LOSSES ON DEFINED BENEFIT PLANS Total revenue reserves in connection with unrealized gains / losses on defined benefit plans result from actuarial gains / losses. Due to the abolition of the so-called "corridor method" according to IAS 19 Employee Benefits (revised 2011), actuarial gains / losses and the corresponding income tax effect now have to be recognized directly in equity (see section C. "Accounting Policies"). Consequently, the opening balance of revenue reserves from unrealized gains / losses on defined benefit plans as of January 1, 2012, was increased by € 1.3 million, thereof € 1.9 million relating to pension provisions and opposite € 0.6 million relating to the corresponding deferred taxes. The opening balance as of January 1, 2013, was reduced by € 11.0 million, thereof € 16.1 million relating to pension provisions and opposite € 5.1 million relating to the corresponding deferred taxes. We also refer to section E.13.1. "Pension Provisions". The increase in actuarial losses compared to January 1, 2012, mainly resulted from the decrease of the discount rate from 4.90 % to 3.60 %.

The movement in the current year splits up into an effect on other comprehensive income of € 1.1 million, reduced by an income tax effect of € 0.3 million.

REVENUE RESERVES – TREASURY SHARES In the financial years 2010 to 2012, GAGFAH GROUP initiated three Share Buy-back Programs.

As of December 31, 2013, the total number of treasury shares held by the Company was 648,507. This equals approximately 0.30 % of the subscribed capital.

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

TREASURY SHARES

	Number of treasury shares	Nominal amount of shares in €	Portion of subscribed capital in %	Average price in €	Cost of acquisition / disposal in €
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 [1]
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 / January 1, 2013	**11,178,507**	**13,973,134**	**5.41**	**6.70**	**75,145,997**
Transfer of bonus shares as part of remuneration of independent directors on July 1, 2013	– 30,000	– 37,500	0.01	6.70	– 201,000
Sale of treasury shares on July 12, 2013	– 10,500,000	– 13,125,000	4.86	6.70	– 70,585,516 [2]
December 31, 2013	**648,507**	**810,634**	**0.30**	**6.70**	**4,359,481**

1 Includes incidental acquisition costs of € 250,000.
2 Includes a write-off of incidental acquisition costs of € – 235,516.

After the first Share Buy-back Program which had commenced in 2010 and had ended in 2011, GAGFAH GROUP initiated two further Share Buy-back Programs which are described below:

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. 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.

In the financial year 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.

In the financial year 2013, an amount of € 201,000, equaling to 30,000 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 2012.

On July 12, 2013, an amount of € 70,585,516 was deducted from treasury shares due to the placement of treasury shares in the course of the capital increase.

RETAINED EARNINGS In addition to the net result attributable to the shareholders of the parent company of € – 0.2 million, this column also includes an effect of € – 2.5 million without impact on net result from the conversion of stock options from equity-settled into cash-settled.

Non-controlling interests of € 37.1 million (prior year: € 30.6 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 and subsidiaries:

€ million (unless stated otherwise)

	12-31-2013	12-31-2012
WOBA subgroup [1]	24.3	23.2
GAGFAH subgroup [2]	11.5	6.1
NILEG subgroup [3]	1.3	1.2
UC ACQ Ireland Ltd. (k€)	46	46
Total	**37.1**	**30.6**

1 Mainly 12. CR Immobilien-Vermietungsgesellschaft mbH & Co. SÜDOST WOBA Striesen KG (No. 68 in the list of shareholdings).
2 Including GERMAN RESIDENTIAL FUNDING 2013-1 LIMITED (No. 37 in the list of shareholdings; for details see table below).
3 Including GERMAN RESIDENTIAL FUNDING 2013-2 LIMITED (No. 56 in the list of shareholdings; for details see table below).

The following table shows details of non-wholly owned subsidiaries that have material non-controlling interests:

€ million

Company name	Registered office	Proportion of interests and voting rights held by non-controlling interests		Result allocated to non-controlling interests		Accumulated non-controlling interests	
		2013	2012	**2013**	2012	**2013**	2012
GERMAN RESIDENTIAL FUNDING 2013-1 LIMITED	Dublin, Ireland	**100 %**	—	**– 0.2**	—	**5.8**	—
GERMAN RESIDENTIAL FUNDING 2013-2 LIMITED	Dublin, Ireland	**100 %**	—	**– 0.1**	—	**0.1**	—
Individually immaterial subsidiaries with non-controlling interests [1]				**3.7**	– 4.5	**31.2**	30.6
Total				**3.4**	– 4.5	**37.1**	30.6

1 No. 8, 17, 18, 23–39, 49, 52, 58, 59, 67 and 68 of the list of shareholdings.

No subsidiary of GAGFAH GROUP owns any equity shares of GERMAN RESIDENTIAL FUNDING 2013-1 LIMITED and GERMAN RESIDENTIAL FUNDING 2013-2 LIMITED.

Summarized financial information in respect of each of the above-mentioned subsidiaries that has material non-controlling interests is set out below. The summarized financial information below represents amounts before intragroup eliminations.

€ million

	GERMAN RESIDENTIAL FUNDING 2013-1 LIMITED (Formation in 2013)		GERMAN RESIDENTIAL FUNDING 2013-2 LIMITED (Formation in 2013)	
	2013	2012	**2013**	2012
Current assets [1]	**1,997.7**	—	**704.1**	—
Non-current assets [1]	**114.2**	—	**37.1**	—
Current liabilities [1]	**– 124.3**	—	**– 44.9**	—
Non-current liabilities	**– 1,981.8**	—	**– 696.3**	—
Equity attributable to shareholders of the parent company	**0.0**	—	**0.0**	—
Non-controlling interests	**– 5.8**	—	**– 0.1**	—
Income [1]	**33.3**	—	**4.4**	—
Expenses [1]	**– 33.6**	—	**– 4.4**	—
Net result	**– 0.3**	—	**0.0**	—
Net result attributable to shareholders of the parent company	**0.0**	—	**0.0**	—
Net result attributable to non-controlling interests	**– 0.3**	—	**0.0**	—
Net result	**– 0.3**	—	**0.0**	—
Other comprehensive income, net of tax, attributable to shareholders of the parent company	**0.0**	—	**0.0**	—
Other comprehensive income, net of tax, attributable to non-controlling interests	**6.1**	—	**0.1**	—
Other comprehensive income, net of tax	**6.1**	—	**0.1**	—
Total comprehensive income, net of tax, attributable to shareholders of the parent company	**0.0**	—	**0.0**	—
Total comprehensive income, net of tax, attributable to non-controlling interests	**6.1**	—	**0.1**	—
Total comprehensive income, net of tax	**6.1**	—	**0.1**	—
Dividends paid to non-controlling interests	**0.0**	—	**0.0**	—
Cash flows from operating activities	**0.0**	—	**0.0**	—
Cash flows from investing activities	**– 2,094.1**	—	**– 736.6**	—
Cash flows from financing activities	**2,094.1**	—	**736.6**	—
Change in cash and cash equivalents	**0.0**	—	**0.0**	—

1 This line item includes intercompany relations.

The development of non-controlling interests in 2013 contains, inter alia, other comprehensive income of € 6.2 million (prior year: € 0.0 million) resulting from unrealized gains / losses from derivative financial instruments in connection with swap agreements negotiated in order to hedge the cash flow risk from interest fluctuations of the new loans (GAGFAH and NILEG subgroup refinancing). This item includes the net valuation movements on the aforementioned cash flow hedges of € 9.1 million (prior year: € 0.0 million) and the corresponding income tax effect of € – 2.9 million (prior year: € 0.0 million). We also refer to section H.2. “Financial Risk Management”.

The dividends to non-controlling interests include dividends of € 2.0 million (prior year: € 2.0 million) relating to non-controlling interests of WOBA subgroup (12. CR Immobilien-Vermietungsgesellschaft mbH & Co. SÜDOST WOBA Striesen KG) and € 1.1 million (prior year: € 5.8 million) relating to non-controlling interests of HB-Funds, thereof € 0.4 million in connection with the liquidation of six HB Funds that were transferred as dividend to the outstanding shareholders in 2013.

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 The refinancing of more than € 4.0 billion in the course of 2013 led to substantial one-off expenses that need to be paid out of Funds From Operations (FFO) and prohibit a dividend for the year 2013.

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.

EQUITY CAPITAL MEASURES

SHARE BUY-BACK PROGRAMS IN THE FINANCIAL YEARS 2010 TO 2012 The objective of the Share 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 € 10.70 as of December 31, 2013 (prior year: € 8.86), was € 2.26 (prior year: € 4.33) lower than the comparable EPRA NAV of € 12.96 (prior year (adjusted): € 13.19) per share (diluted). A detailed description of the Share Buy-back Programs can be found in subsection “Revenue Reserves – Treasury Shares”.

At the Extraordinary General Meeting of Shareholders held on April 21, 2011, the General Meeting resolved to amend the Articles of Incorporation so as to change the date of the Annual General Meeting of Shareholders to June 12 of each year. At the same meeting, it was resolved to renew and extend the authorized issued share capital to € 10 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.

At the Extraordinary General Meeting of Shareholders held on June 12, 2013, the General Meeting resolved to reduce the issued share capital of the Company by a maximum amount of € 64,516,250 by the repurchase and cancellation of a maximum of 51,613,000 shares from existing shareholders during a period ending March 31, 2014, midnight, 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.

According to the latest Company's Articles of Incorporation dated as of July 11, 2013, the authorized unissued share capital of the Company is set at € 9,988,125,000 to be represented by 7,990,500,000 shares.

CAPITAL INCREASE IN THE FINANCIAL YEAR 2013 On July 10, 2013, GAGFAH S. A. placed 9,500,000 new shares that were issued on July 11, 2013 under the authorized capital of the Company and 10,500,000 existing treasury shares of the Company by way of an accelerated bookbuilding. The placement price for the accelerated bookbuilding was fixed at € 8.85 per share. The net proceeds from the sale of the shares amount to approximately € 176.0 million. Due to the fact that GAGFAH S. A. estimates no income tax expenses for the next years, the transaction costs cannot be used as an income tax benefit. Following the consummation of the capital increase, the aggregate number of shares of GAGFAH S. A. outstanding is 215,952,555.

Fortress Investment Group LLC ("Fortress") and its affiliates sold 20,000,000 shares in GAGFAH S. A. as part of the transaction. The sale reduces the Fortress-managed shareholding in the Company from ca. 60.8 % to ca. 48.8 % (on a diluted basis following consummation of the capital increase).

GAGFAH S. A. used two-thirds of the net proceeds from the offering of the new shares and treasury shares towards optimizing its capital structure through, among other things, the repayment of certain higher interest-bearing loans and the remaining one-third of the net proceeds for value-enhancing capex projects. GAGFAH GROUP did not receive any proceeds from the sale of shares by Fortress.

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

LOAN-TO-VALUE (LTV) The Loan-to-value (LTV) ratio is generally used by lenders to express the ratio of the property's value that is mortgaged. The amount of loans to the value of the properties is given as a ratio in percentage. Typically, assessments with high LTV ratios are generally seen as a higher risk.

There are different lender requirements used to determine whether a loan will be granted with a certain LTV. As defined in some financing contracts, GAGFAH GROUP is subject to certain LTV covenants at individual levels. Following these requirements, the LTV must not be over the agreed percentage.

The Group LTV ratio as of December 31, 2013, amounts to 61.9 % (prior year: 64.7 %).

EPRA NET ASSET VALUE (NAV) GAGFAH GROUP discloses EPRA NAV, which provides a measure of the fair value of a company on a long-term basis. EPRA NAV is a measure of the fair value of net assets assuming a normal investment property company business model. Accordingly, there is an assumption of owning and operating investment property for the long term. For this reason, deferred taxes on property revaluations are excluded as the investment property is not expected to be sold and the tax liability is not expected to materialize. In addition, the fair value of financial instruments which the Company intends to hold to maturity is excluded as these will cancel out on settlement. All other assets including trading property, finance leases, and investments reported at cost are adjusted to fair value. The diluted EPRA NAV as of December 31, 2013, amounts to € 2,813.3 million (prior year (adjusted): € 2,509.9 million). The diluted EPRA NAV per share as of December 31, 2013, amounts to € 12.96 (prior year (adjusted): € 13.19). The decrease in the diluted EPRA NAV per share predominantly results from the higher number of shares due to the capital increase in the financial year 2013.

12. LIABILITIES DUE TO NON-CONTROLLING SHAREHOLDERS

Liabilities due to non-controlling shareholders amount to € 3.1 million (prior year: € 4.3 million).

Thereof, € 2.8 million (prior year: € 4.0 million) relate to WOBA subgroup and € 0.3 million (prior year: € 0.3 million) to KALIRA Grundstücksgesellschaft mbH & Co. KG.

The decrease of liabilities due to non-controlling shareholders relating to WOBA subgroup is due to the reduction of the contribution of MURSUK Grundstücks-Verwaltungsgesellschaft mbH concerning Opera Co-Acquisition GmbH & Co. KG.

13. PROVISIONS

13.1. PENSION PROVISIONS Company pensions at GAGFAH GROUP 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

	12-31-2013	12-31-2012
Active employees		
Vested expectancies	673	656
Non-vested expectancies	21	81
	694	737
Vested expectancies of employees no longer with the Company	355	335
Current pensions	851	862
Total	1,900	1,934

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

in % p. a.

	12-31-2013	12-31-2012
Discount rate	**3.50**	3.60
Turnover rate	**3.50**	4.50
Future salary increases	**2.50**	2.50
Future inflation rate	**2.00**	2.00
Future pension increases	**2.00**	2.00
in years		
Average longevity for current pensioners		
Males	**20.5**	20.3
Females	**24.8**	24.6
Average longevity for current employees (future pensioners)		
Males	**23.3**	23.1
Females	**27.4**	27.3

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, actuarial gains or losses arise.

In the financial year 2013 and the prior year, there were no plan amendments, curtailments and settlements.

As the requirements for plan assets specified in IAS 19.8 are fulfilled, the net defined benefit liability as shown in the Consolidated Statement of Financial Position is calculated as the balance of the defined benefit obligation and the fair value of plan assets:

€ million

	12-31-2013	12-31-2012
Defined benefit obligation	**132.3**	131.3
Less fair value of plan assets	**– 4.6**	– 4.5
Net defined benefit liability	**127.7**	**126.8**

As of December 31, 2012, GAGFAH GROUP's (net) pension provisions under previous IAS 19 did not include actuarial losses of €16.1 million. In the course of the retrospective application of IAS 19 (revised 2011), (net) pension provisions increased by this amount from €110.7 million to €126.8 million.

As of the beginning of the comparative period, on January 1, 2012, GAGFAH GROUP's (net) pension provisions under previous 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 decreased by this amount from €110.4 million to €108.5 million.

The defined benefit obligation developed as follows:

€ million

	2013	2012
Defined benefit obligation as of January 1	131.3	113.4
Current service cost	2.2	1.6
Interest expense	4.6	5.4
Remeasurements: Actuarial gains (–) or losses (+) from changes in financial assumptions	1.8	20.5
Remeasurements: Actuarial gains (–) or losses (+) from experience adjustments	– 0.7	– 2.2
Direct pension payments	– 6.9	– 7.4
Defined benefit obligation as of December 31	132.3	131.3

The decrease in actuarial losses from changes in financial assumptions compared to the prior year mainly results from the decrease of the discount rate from 3.60 % to 3.50 %.

The effects on the defined benefit obligation under theoretical application of IAS 19 (revised 2008) would have been similar to the previous financial year.

The calculation of the defined benefit obligation is sensitive to the actuarial assumptions set out above.

The following table summarizes how the impact on the defined benefit obligation at the end of the reporting period would have increased (+) /decreased (–) as a result of a change in significant assumptions:

DEFINED BENEFIT OBLIGATION
Effects in € million

	12-31-2013	
	0.5 % increase	0.5 % decrease
Discount rate	– 8.8	+ 9.9
Future salary increases	+ 0.4	– 0.4
	0.25 % increase	0.25 % decrease
Future pension increases	+ 3.3	– 3.2
	1 year increase	
Longevity	+ 6.7	

The change in the other actuarial assumptions would not lead to a comparable high impact on the defined benefit obligation. The above sensitivities are based on the defined benefit obligation as of December 31, 2013, and are applied to adjust the defined benefit obligation at the end of the reporting period for the assumptions concerned.

GAGFAH GROUP concluded liability insurances to hedge a part of the pension obligations. They are similar to life insurances including specified performance and profit participation and are measured at fair value equaling to the present value of the related obligations.

Plan assets exclusively consist of the aforementioned liability insurances. The movements in the fair value of these plan assets were as follows:

€ million	2013	2012
Fair value of plan assets as of January 1	**4.5**	4.9
Interest income on plan assets	**0.2**	0.2
Benefits paid	**– 0.1**	– 0.6
Fair value of plan assets as of December 31	**4.6**	4.5

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

€ million	2013	2012
Current service cost	**2.2**	1.6
(Net) Interest expense	**4.4**	5.2
Net pension expenses	**6.6**	6.8

Current service cost 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.

As in the prior year, there are no expected contributions to the plan for the financial year 2014.

The weighted average duration of the defined benefit obligation as of December 31, 2013, is 14.6 years (prior year: 14.5 years).

The distribution of the timing of benefit payments is as follows:

- IN 2014: € 6.8 million
- IN 2015: € 6.9 million
- IN 2016: € 6.9 million
- IN 2017: € 6.9 million
- IN 2018: € 6.8 million
- FROM 2019 UNTIL 2023 (INCLUSIVE): € 34.1 million

13.2. OTHER PROVISIONS

The other provisions developed as follows in the financial year:

€ million

	As of January 1, 2013	Utilization
Reorganization and restructuring provisions	6.8	– 1.8
Provisions for costs concerning sold properties	7.9	– 0.6
Provisions for severance payments, litigation costs and similar risks	4.3	– 0.8
Provisions for refinancing	2.9	– 2.5
Provision for restitution proceedings	4.4	0.0
Provisions for phased retirement	5.3	– 2.3
Warranty obligations and latent risks	3.4	– 0.1
Provision for demolition costs	0.2	– 0.1
Provision for distribution obligations	0.2	– 0.1
Provisions in connection with WOBA lawsuits	0.4	0.0
Other provisions	9.2	– 2.6
Total	**45.0**	**– 10.9**

€ million

	As of January 1, 2012	Utilization
Reorganization and restructuring provisions	9.8	– 3.5
Provisions for costs concerning sold properties	9.5	– 0.5
Provisions for severance payments, litigation costs and similar risks	1.5	– 0.1
Provisions for refinancing	1.0	0.0
Provision for restitution proceedings	10.6	– 6.8
Provisions for phased retirement	6.6	– 2.3
Warranty obligations and latent risks	4.3	– 2.3
Provision for demolition costs	2.5	– 1.8
Provision for distribution obligations	1.3	– 0.1
Provisions in connection with WOBA lawsuits	7.3	– 5.2
Other provisions	11.8	– 1.8
Total	**66.2**	**– 24.4**

Reversals	Additions	Reclassifications	**As of December 31, 2013**	Thereof non-current	Thereof current
0.0	2.4	0.0	**7.4**	3.4	4.0
– 1.9	0.8	0.0	**6.2**	0.0	6.2
– 0.4	1.5	0.0	**4.6**	0.0	4.6
– 0.4	4.5	0.0	**4.5**	0.0	4.5
– 0.4	0.0	0.0	**4.0**	0.0	4.0
0.0	0.4	0.0	**3.4**	1.5	1.9
0.0	0.0	0.0	**3.3**	0.0	3.3
0.0	0.0	0.0	**0.1**	0.0	0.1
0.0	0.0	0.0	**0.1**	0.0	0.1
– 0.4	0.0	0.0	**0.0**	0.0	0.0
– 0.7	3.8	0.0	**9.7**	3.3	6.4
– 4.2	**13.4**	**0.0**	**43.3**	**8.2**	**35.1**

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

The reorganization and restructuring provisions relate to employee severance payments and other costs related to the strategic repositioning of the Group. 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 reorganization and restructuring projects we refer to section F.10. “Reorganization and Restructuring Expenses”.

As of December 31, 2013, the provision amounted to €7.4 million (prior year: €6.8 million). Provisions of €2.1 million are allocated through reorganization and restructuring expenses, €1.2 million thereof were allocated for the reorganization program GAGFAH 2015. Further €0.8 million are related to a recalculation of existing non-current restructuring provisions for rental guarantees and rental payments. €0.1 million were allocated for prior restructuring measures. In the prior year, provisions of €0.5 million are allocated through reorganization and restructuring expenses, €0.3 million thereof are related to a recalculation of existing non-current restructuring provisions for rental guarantees and rental payments as well as €0.1 million relating to personnel-related expenses for severance payments. Further €0.2 million were allocated for prior restructuring measures.

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

The provisions for severance payments, litigation costs and similar risks relate to estimated costs in connection with litigation relating to GAGFAH GROUP’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 €4.6 million (prior year: €4.3 million) had been recognized.

The additions to provisions for refinancing of €4.5 million mainly relate to expenses in connection with subsequent costs concerning the refinancing process of GAGFAH subgroup (see section F.12. “Refinancing Expenses”).
The provision for restitution proceedings amounting to €4.0 million (prior year: €4.4 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 2013, an amount of €0.4 million was reversed in order to reflect our expectations as of the balance sheet date regarding the amount that will become payable in the short term.

GAGFAH GROUP 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.

Warranty obligations and latent risks totaling €3.3 million (prior year: €3.4 million) were mainly set up for cases of liability from sales activities and property development business.

The provision for demolition costs amounting to €0.1 million (prior year: €0.2 million) was recognized for the fulfillment of contractual obligations to demolish certain buildings in the City of Dresden within a certain period of time. As of the balance sheet date, the demolition program is completed entirely. Only remaining stocks of real estate were dismantled in the financial year 2013.

The remaining provisions in connection with WOBA lawsuits with an amount of €0.4 million (prior year: €7.3 million) at the beginning of the year were reversed and allocated through other operating income during the financial year 2013. We also refer to section F.8. "Other Operating Income".

Other provisions amounting to €9.7 (prior year €9.2 million) comprise various smaller amounts.

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

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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

	12-31-2013	12-31-2012 (adjusted)	Effect on profit or loss 2013	Effect on OCI 2013	Effect on profit or loss 2012	Effect on OCI 2012
Consolidated Statement of Financial Position						
Investment property	**0.4**	4.9	**– 4.5**	**0.0**	– 0.1	0.0
Financial assets	**1.7**	0.3	**1.4**	**0.0**	0.1	0.0
Other assets	**5.7**	2.6	**3.1**	**0.0**	– 1.9	0.0
Provisions	**18.8**	20.5	**– 2.0**	**0.3**	1.1	5.6
Liabilities	**14.6**	20.4	**– 5.7**	**– 0.1**	– 2.1	0.0
Assets held for sale	**3.4**	2.5	**0.9**	**0.0**	2.5	0.0
Deferred tax assets on temporary differences	**44.6**	**51.2**	**– 6.8**	**0.2**	**– 0.4**	**5.6**
Loss carryforwards						
Corporate income tax	**171.5**	151.2	**20.3**	**0.0**	18.8	0.0
Trade tax	**66.6**	55.7	**10.9**	**0.0**	– 1.4	0.0
Deferred tax assets on loss carryforwards	**238.1**	**206.9**	**31.1**	**0.0**	**17.4**	**0.0**
Deferred tax assets	**282.7**	**258.1**	**24.3**	**0.2**	**17.0**	**5.6**

€ million

	12-31-2013	12-31-2012 (adjusted)	Effect on profit or loss 2013	Effect on OCI 2013	Effect on profit or loss 2012	Effect on OCI 2012
Consolidated Statement of Financial Position						
Investment property	585.1	536.0	– 49.1	0.0	– 49.5	0.0
Financial assets	0.2	0.3	0.1	0.0	0.7	0.0
Other assets	3.0	0.1	0.0	– 2.9	0.1	0.4
Provisions	0.6	0.6	0.0	0.0	– 0.5	0.1
Liabilities	15.4	3.6	– 12.0	0.2	– 0.4	0.0
Assets held for sale	0.5	0.3	– 0.2	0.0	1.1	0.0
Untaxed special reserve	17.9	17.0	– 0.9	0.0	– 0.5	0.0
Deferred tax liabilities	**622.8**	**557.9**	**– 62.1**	**– 2.7**	**– 49.0**	**0.5**

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 € 282.7 million (prior year (adjusted): € 258.1 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, 2013, the Group had corporate income tax loss carryforwards of € 1,761.7 million (prior year: € 1,640.2 million) and trade tax loss carryforwards of € 831.0 million (prior year: € 716.5 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, 2013. 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 € 678.4 million (prior year: € 684.9 million) as well as trade tax loss carryforwards of € 419.4 million (prior year: € 372.1 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 € 294.6 million (prior year: € 239.0 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 € 12.7 million (prior year: € 14.3 million).

15. LIABILITIES FROM INCOME TAX

As of December 31, 2013, the Group had obligations from corporate income tax, trade tax and capital yields tax totaling € 79.4 million (prior year: € 90.8 million). They break down as follows:

€ million

	12-31-2013	12-31-2012
Non-current		
Corporate income tax on EK02	41.4	54.2
Total non-current	**41.4**	**54.2**
Current		
Corporate income tax on EK02	15.6	15.6
Trade tax	14.0	13.6
Corporate income tax	8.4	7.4
Total current	**38.0**	**36.6**
Total	**79.4**	**90.8**

In November 2007, the German Annual Tax Act 2007 (Jahressteuergesetz) was adopted with a final taxation of EK 02 which is payable in ten equal installments from 2008 onwards. The decrease of corporate income tax on EK 02 since December 31, 2012, 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 € 2.8 million (prior year: € 3.3 million).

16. LIABILITIES

16.1. FINANCIAL LIABILITIES Financial liabilities total €4,874.3 million (prior year: €5,231.1 million) and relate mainly to the financing of residential real estate assets. Unlike the previous year and due to the refinancings closed in 2013, the largest part of the financial liabilities is non-current.

Of the total financial liabilities, €4,652.0 million (prior year: €4,986.0 million) relate to unsubsidized loans.

Overall, loans amounting to €4,414.9 million (prior year: €352.4 million) were repaid in the financial year. Thereof, 142 (prior year: 41) loans totaling €4,221.7 million (prior year: €5.9 million) were fully repaid in the financial year in the course of the refinancings, thereof €2,037.3 million relating to the refinancing of the GAGFAH subgroup loan granted by institutional lenders, €1,037.3 million relating to the refinancing of the WOBA subgroup loan granted by institutional lenders, €976.2 million relating to the NILEG subgroup and €146.7 million relating to GAGFAH Acquisition 1 GmbH and additional €24.2 million from senior debts.

The aforementioned full repayments were made in the course of the respective refinancing processes which are described below. These transactions complete the refinancing of almost all of GAGFAH GROUP's near-term maturities, except for €358.0 million due in October 2014.

The financial liabilities also include derivative financial instruments with a total fair value of €3.6 million (prior year: €4.8 million). Further disclosures on this item can be found in section H.2. "Financial Risk Management".

GAGFAH SUBGROUP REFINANCING On June 20, 2013, GAGFAH subgroup closed the refinancing of its GRF loans with a new credit volume of €1,998.1 million and a maturity of five years until August 20, 2018. The amortization is 0.5 % p. a.

Given the favorable terms and the increased investor demand, the loans were refinanced through a commercial mortgage-backed securities (CMBS) structure with a maturity of five years plus one year extension option. As part of the securitization, notes were issued by GERMAN RESIDENTIAL FUNDING 2013-1 LIMITED, a special purpose vehicle under the laws of Ireland. Purpose of the company is to enter into various financing agreements and to make loans to GAGFAH GROUP. These notes are admitted to trading on the Irish Stock Exchange. See also section B. "Consolidated Group and Consolidation Principles" (founding of GERMAN RESIDENTIAL FUNDING 2013-1 Limited).

The interest on the above-mentioned new GRF loan is completely variable, with an interest rate aligned to EURIBOR. To hedge the interest rate risk out of the CMBS, the issuer entered into a swap agreement in the total amount of €1,898.2 million. Due to this financing structure, GAGFAH subgroup is financed at a coupon of 2.76 %. For more details, please refer to section H. 2. "Financial Risk Management". The latest interest rate of the replaced former GRF loan, which would have ended on August 15, 2013, was 4.32 % p. a.

The credit agreement contains cash trap covenants: If the interest coverage ratio (ICR) falls below 1.50x or the debt service coverage ratio (DSCR) falls below 1.25x, the surplus cash flow (after reimbursement of senior costs, interest, principal and required maintenance and management reserves) will be trapped in an account, and if not cured will be used to repay the loan.

Furthermore, the credit agreement includes both customary covenants concerning debt service ability, loan-to value ratios and minimum expenditure on maintenance. According to the current budget and forecast, GAGFAH subgroup will be able to generate all ratios and the expenditure on maintenance out of the cash flow from the leasing of the underlying real estate portfolio. For further information on this issue, we refer to section H.3. "Contingent Liabilities and Other Financial Obligations and Receivables".

Accrued transaction costs of € 17.7 million related to the GAGFAH subgroup refinancing were paid in the first nine months of 2013. Further expenses of € 26.7 million are recognized in the line item "Interest expenses (refinancing)" (see section F. 12. "Refinancing expenses").

WOBA SUBGROUP REFINANCING Since the term of the old loan granted by institutional lenders of WOBA subgroup would have ended on May 15, 2013, a new loan agreement for refinancing purposes was signed and closed with Bank of America Merrill Lynch 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.

On May 13, 2013, WOBA subgroup and Bank of America Merrill Lynch agreed to increase the total loan amount by € 17.0 million to € 1,077.5 million in exchange for a reduction in the coupon rate from 3.85 % to 3.34 %. By reducing the cash interest rate by 51 basis points, we expect interest savings of approximately € 4.4 million per year.

The credit agreement includes both customary covenants concerning debt service ability, loan-to-value ratios and minimum expenditure on maintenance. According to the current budget and forecast, WOBA subgroup will be able to generate all ratios and the expenditure on maintenance out of the cash flow from the leasing of the underlying real estate portfolio. For further information on this issue, we refer to section H.3. "Contingent Liabilities and Other Financial Obligations and Receivables".
In the course of the WOBA subgroup refinancing, accrued transaction costs of € 44.8 million were paid in the first nine months of 2013. Further expenses of € 9.9 million are recognized in the line item "Interest expenses (refinancing)" (see section F. 12. "Refinancing expenses").

NILEG SUBGROUP AND ACQ1 REFINANCING On July 22, 2013, the Company repaid the full amount of € 146.7 million on the loan granted by institutional lenders of GAGFAH Acquisition 1 GmbH.

On October 17, 2013, NILEG subgroup has closed the financing of the five-year € 699.7 million CMBS for the WBN Asset GmbH & Co. KG, WGNorden Asset GmbH & Co. KG and NILEG Residential Asset GmbH & Co. KG portfolios ('NILEG'). The coupon on the new CMBS is 2.71 %, almost 250 basis points lower than the 5.17 % on the previous loan. The CMBS has a five-year maturity plus a one-year extension option. The scheduled amortization will be 0.5 % per annum. The LTV of the portfolio is 65 %. The paydown of the former loan granted by institutional lenders took place on the last IPD date on October 21, 2013.

In connection with the CMBS, GERMAN RESIDENTIAL FUNDING 2013-2 LIMITED, a Special Purpose Company under the laws of Ireland, has been established. Purpose of the company is to enter into various financing agreements and to make loans to NILEG. See also section B. "Consolidated Group and Consolidation Principles" (founding of GERMAN RESIDENTIAL FUNDING 2013-2 LIMITED).

In connection with the aforementioned refinancing, GAGFAH Holding GmbH has signed two assignable loans, each in an amount of € 10.0 million with maturities until January 20, 2014, and April 22, 2014, respectively.

In addition, GAGFAH Acquisition 1 GmbH has signed and closed a new three-year loan agreement plus a one-year extension option on October 8, 2013, for the Acquisition 1 portfolio of € 144.6 million with a coupon of 2.87 %. The previous loan for this portfolio, which had a coupon of 4.44 %, had been fully repaid with the proceeds from the July equity event. The proceeds from the new loan plus additional cash from the operating business will be used to repay € 190.0 million of the old NILEG loan granted by institutional lenders and bring the remaining loan amount from € 889.7 million down to € 699.7 million.

On October 11, 2013, NILEG subgroup also closed a new € 91.0 million loan for the OWG portfolio with a coupon of 3.54 % and a seven-year maturity, which was increased to € 91.7 million in November 29, 2013.

GBH SUBGROUP REFINANCING In October 2013, GBH Acquisition GmbH also agreed on a two-year extension for the € 197.5 million GBH loan. The Company plans to reduce the LTV of this portfolio and to invest additional capex in order to further improve the operational performance before securing a longer-term financing.

SECURITIES FOR FINANCIAL LIABILITIES The value of the investment property portfolio (including assets held for sale) of € 7,682.3 million (prior year: € 7,772.5 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 € 4,834.0 million (prior year: € 5,211.4 million). No collateral has been provided for the remaining € 40.3 million (prior year: € 19.7 million).

LOANS IN CONNECTION WITH ASSETS HELD FOR SALE In the financial year 2013, several reclassifications of loans granted by institutional lenders 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, 2013, a total amount of € 11.8 million (prior year: € 16.2 million) related to condo sales was reclassified from non-current to current financial liabilities (loans granted by institutional lenders) due to the repayment expected to be prior to the contractual maturity of these liabilities. Part of further loans of € 47.7 million (prior year: € 25.6 million) in connection with block sales were reclassified into current financial liabilities.

The aforementioned reclassified loans granted by institutional lenders 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 2013.

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 € 45.9 million (prior year: € 23.9 million) are directly related to assets held for sale of € 48.6 million (prior year: € 31.0 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

	12-31-2013		12-31-2012	
	Assets held for sale	**Related financial liabilities**	Assets held for sale	Related financial liabilities
Block sales	**40.6**	**40.2**	20.3	16.4
Condo sales	**8.0**	**5.7**	10.7	7.5
Total	**48.6**	**45.9**	31.0	23.9

The total reclassified liabilities have been revalued according to IAS 39.AG8. The current financial liabilities do not include potential prepayment fees (prior year: € 0.4 million). 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 finalization of the demolition program in 2012 and the repayment of the corresponding loans in the course of the financial year 2013, no loans were reclassified from non-current to current financial liabilities (prior year: € 8.8 million).

DEBT MATURITY PROFILE AND INTEREST PAYMENT The Group monitors credit terms very closely in light of its refinancing needs. As of December 31, 2013, the Group's financial liabilities primarily comprise of the following liabilities: The tables include both interest and principal cash flows. To the extent that interest flows are floating rate, the undiscounted amount is derived from interest rate as of the last IPD. The contractual maturity is based on the earliest date on which the Group may be required to pay. We also refer to section H. 2. "Financial Risk Management".

DEBT MATURITY PROFILE AS OF DECEMBER 31, 2013

€ million (unless stated otherwise)

					2014		2015	
	Carrying amount as of 12-31-2013	Notional amount as of 12-31-2013	Weighted avg. years to maturity	Current average interest rate (in %)	Scheduled repayments[1]	Scheduled maturity[2]	Scheduled repayments[1]	Scheduled maturity[2]
Commercial mortgage-backed floating rate notes	**2,671.1**	**2,688.6**	**4.7**	**2.75**	**22.1**	**0.0**	**13.5**	**0.0**
thereof fixed[4]	2,464.1	2,480.7	4.7	2.82	13.7	0.0	13.3	0.0
thereof floating	207.0	207.9	4.8	1.94	8.4	0.0	0.2	0.0
Loans granted by institutional lenders[3]	**1,873.5**	**1,896.0**	**3.4**	**3.70**	**73.1**	**358.0**	**13.5**	**36.0**
thereof fixed[4,6]	1,639.9	1,661.1	3.3	3.86	10.3	358.0	11.0	36.0
thereof floating secured with cap[6]	164.0	163.5	4.7	2.57	45.5	0.0	1.9	0.0
thereof floating	69.6	71.4	4.5	2.45	17.3	0.0	0.6	0.0
Senior debt[5]	**296.3**	**362.2**	**27.5**	**2.03**	**9.6**	**13.4**	**9.4**	**19.0**
Other	**33.4**	**33.4**	**2.1**	**3.66**	**0.8**	**20.0**	**0.8**	**0.0**
thereof fixed	13.4	13.4	5.0	5.75	0.8	0.0	0.8	0.0
thereof floating	20.0	20.0	0.2	2.25	0.0	20.0	0.0	0.0
Total	**4,874.3**	**4,980.2**	**5.9**	**3.06**	**105.6**	**391.4**	**37.2**	**55.0**

1 Regulary repayments and releases from sales.

2 Loans which are due for repayment or loans for which a new interest rate needs to be fixed, including scheduled repayments till maturity.

3 The Loans granted by institutional lenders attributable to assets held for sale and sold assets are € 59.5 million (€ 45.9 million thereof relate to assets held for sale and € 13.6 million relate to sold assets).

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

5 The repayments in 2013 include an amount of € 0.0 million from assets held for sale.

6 Currently, the interest rate of the full amount of the GBH Acquisition GmbH loan is secured as follows: € 175.0 million are secured by an interest rate swap and € 21.4 million by an interest rate cap. From April 2014 onwards, an amount of € 173.0 million will be secured by a cap. The remaining amount will be floating.

	2016		2017		2018		2019		> 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]
	13.5	**0.0**	**13.5**	**0.0**	**7.6**	**2,618.4**	**0.0**	**0.0**	**0.0**	**0.0**
	13.3	0.0	13.3	0.0	7.5	2,419.6	0.0	0.0	0.0	0.0
	0.2	0.0	0.2	0.0	0.1	198.8	0.0	0.0	0.0	0.0
	13.3	**284.7**	**11.6**	**0.0**	**3.6**	**1,015.4**	**0.9**	**0.0**	**0.7**	**85.2**
	10.8	250.0	10.2	0.0	2.6	972.2	0.0	0.0	0.0	0.0
	1.9	34.7	0.8	0.0	0.8	0.0	0.8	0.0	0.6	76.5
	0.6	0.0	0.6	0.0	0.2	43.2	0.1	0.0	0.1	8.7
	9.3	**4.5**	**9.4**	**4.6**	**9.5**	**0.9**	**9.6**	**3.7**	**259.3**	**0.0**
	0.8	**0.0**	**0.9**	**0.0**	**0.5**	**3.9**	**0.0**	**5.7**	**0.0**	**0.0**
	0.8	0.0	0.9	0.0	0.5	3.9	0.0	5.7	0.0	0.0
	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
	36.9	**289.2**	**35.4**	**4.6**	**21.2**	**3,638.6**	**10.5**	**9.4**	**260.0**	**85.2**

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 average interest rate (in %)	Scheduled repayments [1]	Scheduled maturity [2]	Scheduled repayments [1]	Scheduled maturity [2]
Commercial mortgage-backed floating rate notes	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
thereof fixed [3]	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
thereof floating	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Loans granted by institutional lenders [4]	**4,891.3**	**4,851.4**	**0.8**	**4.54**	**35.5**	**3,240.6**	**0.0**	**1,539.3**
thereof fixed [3]	4,845.1	4,805.4	0.8	4.54	15.5	3,240.6	0.0	1,513.3
thereof floating, secured with cap	46.2	46.0	0.7	3.71	20.0	0.0	0.0	26.0
thereof floating	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Senior debts [5]	**325.0**	**398.0**	**27.8**	**2.00**	**10.4**	**6.0**	**9.8**	**12.8**
thereof fixed	325.0	398.0	27.8	2.00	10.4	6.0	9.8	12.8
Other	**14.8**	**14.8**	**6.1**	**5.70**	**0.8**	**0.0**	**0.8**	**0.0**
thereof fixed	14.8	14.8	6.1	5.70	0.8	0.0	0.8	0.0
thereof floating	0.0	0.0	0.0	0.0	0.0	0.0	0.0	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 that are due for repayment or loans for which a new interest rate needs to be fixed, including scheduled repayments until maturity.

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

4 The loans granted by institutional lenders attributable to assets held for sale and sold assets are € 32.2 million (€ 23.5 million thereof relate to assets held for sale and € 8.7 million relate to sold assets).

5 The repayments in 2012 include an amount of € 0.4 million from assets held for sale.

	2015		2016		2017		2018		> 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	**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	0.0
	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
	0.0	**36.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**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
	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**
	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**
	0.8	0.0	0.8	0.0	0.9	0.0	4.3	0.0	6.4	0.0
	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
	10.6	**60.3**	**10.7**	**1.5**	**10.8**	**5.2**	**14.3**	**1.3**	**293.5**	**0.0**

INTEREST PAYMENTS FIX [1]

€ million

			2014	2015	2016	2017	2018	2019	> 2019
	Carrying amount as of 12-31-2013	Notional amount as of 12-31-2013	Interest payments	Interest payments	Interest payments	Interest payments	Interest payments	Interest payments	Interest payments
Commercial mortgage-backed floating rate notes	**2,671.1**	**2,688.6**	**76.7**	**74.2**	**74.0**	**73.4**	**59.4**	**0.0**	**0.0**
thereof fixed [2]	2,464.1	2,480.7	72.4	70.3	70.1	69.5	55.9	0.0	0.0
thereof floating	207.0	207.9	4.3	3.9	3.9	3.9	3.5	0.0	0.0
Loans granted by institutional lenders	**1,873.5**	**1,896.0**	**66.6**	**50.9**	**43.5**	**36.8**	**19.1**	**1.9**	**1.9**
thereof fixed [2]	1,639.9	1,661.1	61.4	46.0	40.3	33.7	16.6	0.0	0.0
thereof floating with cap	164.0	163.5	3.6	2.9	1.9	1.8	1.8	1.7	1.7
thereof floating	69.6	71.4	1.6	2.0	1.3	1.3	0.7	0.2	0.2
Senior debt	**296.3**	**362.2**	**8.5**	**8.0**	**7.5**	**6.9**	**6.7**	**6.6**	**68.3**
Other	**33.4**	**33.4**	**0.9**	**0.7**	**0.7**	**0.6**	**0.5**	**0.2**	**0.0**
thereof fixed	13.4	13.4	0.7	0.7	0.7	0.6	0.5	0.2	0.0
thereof floating	20.0	20.0	0.2	0.0	0.0	0.0	0.0	0.0	0.0
Total	**4.874.3**	**4.980.2**	**152.7**	**133.8**	**125.7**	**117.7**	**85.7**	**8.7**	**70.2**

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

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

INTEREST PAYMENTS FIX [1]

€ million

	Carrying amount as of 12-31-2012	Notional amount as of 12-31-2012	2013	2014	2015	2016	2017	2018	> 2018
Commercial mortgage-backed rate note	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
thereof fixed [2]	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
thereof floating	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Loans granted by institutional lenders	**4,891.3**	**4,851.4**	**155.6**	**33.6**	**1.3**	**0.0**	**0.0**	**0.0**	**0.0**
thereof fixed [2]	4,845.1	4,805.4	152.0	31.2	0.0	0.0	0.0	0.0	0.0
thereof floating, secured with cap	46.2	46.0	3.6	2.4	1.3	0.0	0.0	0.0	0.0
thereof floating	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Senior debts	**325.0**	**398.0**	**8.2**	**7.4**	**6.9**	**6.3**	**5.9**	**5.9**	**75.4**
thereof fixed	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**
thereof fixed	14.8	14.8	0.8	0.8	0.7	0.7	0.6	0.5	0.2
thereof floating	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
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 no ending contract will be renewed or extended.

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

The amounts included above for variable interest rate instruments for both non derivative financial assets and liabilities are subject to change if changes in variable interest rates differ to those estimates of interest rates determined at the end of the reporting period.

To reduce the exposure to changes in interest rates, GAGFAH GROUP has concluded interest rate swap agreements. Due to the valuation of the derivatives, interest rate swaps with a positive amount of €9.2 million (prior year: €0.0 million) are disclosed in other financial assets and interest rate swaps with a negative amount of €3.6 million (prior year: negative amount of €4.8 million) are disclosed in the financial liabilities. Due to the hedging strategy of GAGFAH GROUP, the effective part of the interest rate swaps of €8.9 million (prior year: €–1.1 million) is recognized directly in equity. The ineffective part of the interest rate swaps of €1.5 million (prior year: €2.1 million) is recognized in profit or loss. For further information about the hedging strategy see chapter H.2 “Financial Risk Management”, subsection “Interest Rate Risk”.

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.

As of the reporting date, there were undrawn credit facilities in the amount of €66.2 million (prior year: €0.0 million) resulting from liquidity facility agreements between Goldman Sachs Bank USA and GERMAN RESIDENTIAL FUNDING 2013-1 LIMITED of €48.9 million and between Bank of America N. A., London Branch, and GERMAN RESIDENTIAL FUNDING 2013-2 LIMITED of €17.3 million.

16.2. OTHER LIABILITIES As of the balance sheet date, other liabilities break down as follows:

€ million

	12-31-2013	12-31-2012 (adjusted)
Non-current		
Liabilities from settlement payments to the State Capital of Dresden	**20.7**	23.7
Liabilities from finance lease	**4.2**	4.2
Liabilities from commission on bank guarantee	**3.3**	0.3
Jubilee commitments	**0.6**	1.9
Other liabilities	**0.8**	0.6
Total non-current	**29.6**	**30.7**
Current		
Trade payables	**37.2**	32.6
Liabilities from operating expenses not yet invoiced	**22.4**	30.3
Liabilities to tenants	**16.9**	15.1
Liabilities from bonus payments	**12.6**	10.6
Prepayments received	**7.2**	8.9
Liabilities from settlement payments to the State Capital of Dresden	**3.9**	3.9
Liabilities from basic / decorative repairs	**3.6**	3.6
Liabilities from construction management services not yet invoices	**2.0**	1.8
Tax liabilities	**1.6**	2.7
Liabilities from commissions	**1.6**	0.9
Liabilities to joint ventures	**0.7**	0.3
Liabilities from reorganization and restructuring	**0.2**	0.1
Other liabilities	**16.2**	12.0
Total current	**126.1**	**122.8**
Total	**155.7**	**153.5**

Due to the adoption of IFRS 11 Joint Arrangements (see section E.4. “Other Financial Assets”) and thus the recognition of liabilities to joint ventures, the amount as of December 31, 2012, was increased by € 0.3 million to € 153.5 million.

The WOBA companies and the State Capital of Dresden agreed to fully resolve all their disputes by mutual agreement that had 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 each (€ 36.0 million in total) from 2012 through 2020. The discounted liability amounts to € 24.6 million (prior year: € 27.5 million), thereof € 3.9 million (prior year: € 3.9 million) current and € 20.7 million (prior year: € 23.6 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 GROUP as other liabilities, are non-interest-bearing. There is no interest rate risk.

Current other liabilities include liabilities arising from share-based payment transactions of € 4.9 million (prior year: € 0.0 million).

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 GROUP breaks down as follows:

€ million

	2013	2012
Rental income, fees	554.6	566.6
Allocations charged	274.1	258.1
Other	1.1	1.2
Total	**829.8**	**825.9**

Income from the leasing of investment property is mainly attributable to the leasing of apartments.

Rental income includes non-cash income from the amortization of deferred liabilities of government-granted loans in the amount of €4.0 million (prior year: €7.1 million). The decrease compared to the prior year is a result of a comparatively smaller portfolio.

The increase in allocations charged, which leads to an increase of income from the leasing of investment property overall, is mainly due to extraordinary high heating expenses in 2013.

The operating expenses arising from investment property that did not generate rental income during the financial year amounted to €12.7 million (prior year: €13.2 million).

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.

The rental agreements for residential property concluded by GAGFAH GROUP have notice periods of three months. GAGFAH GROUP expects to achieve minimum leasing payments of approximately €128.4 million within the first three months of 2014 (prior-year estimate for the first three months of the financial year 2013: €127.9 million).

GAGFAH GROUP also concluded long-term rental agreements for commercial property. Based on the rental agreements for commercial property existing as of the respective balance sheet dates, the following minimum lease payments are expected to be due over the coming years:

€ million

	≤ one year	> one year ≤ five years	> five years	Total
12-31-2013	13.4	22.8	5.9	**42.1**
12-31-2012	13.8	26.5	9.2	**49.5**

The leases are unlimited with a legal period of notice or have notice periods between 3 and 15 months. For the unlimited contracts, the basis for the determination of the minimum lease payments was the legal period of notice.

2. OPERATING EXPENSES FOR THE GENERATION OF RENTAL INCOME

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

€ million

	2013	2012
Real estate operating expenses	**248.1**	233.3
Repair and maintenance costs	**78.0**	81.8
Personnel expenses	**63.7**	59.6
Real estate tax	**23.9**	24.7
Administrative expenses	**11.5**	9.9
Bad debt allowances	**8.0**	7.4
External costs for real estate management	**6.9**	6.8
Amortization and depreciation on intangible assets and property, plant and equipment	**1.6**	2.1
Other expenses for real estate management	**13.3**	12.8
Total	**455.0**	438.4

The increase in operating expenses for the generation of rental income is largely attributable to an increase in real estate operating expenses, mainly due to extraordinary high heating expenses in the first months of 2013. Due to the fact that those expenses are chargeable to our tenants, the increase is mirrored in the line item “Allocations charged” in section F. 1. “Income from the Leasing of Investment Property”.

The slight decrease in repair and maintenance costs recognized in profit or loss is accompanied by a higher amount of capex of €26.3 million (prior year: €4.1 million (see section E.2. “Investment Property”).

The increase in personnel expenses compared to the prior year results from a comparatively higher number of employees in the area of facility management services (see section H.4. “Number of Employees and Personnel Expenses”).

Administrative expenses are influenced by the higher number of employees in the facility management companies as well.

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 positive net result of € 5.4 million (prior year: a negative net result of € 13.4 million). Thereof, a profit of € 6.4 million (prior year: a profit of € 2.1 million) relates to the regular DCF-valuation of investment property and an opposing loss of € 1.0 million (prior year: a loss of € 15.5 million) relates to the last-time fair value measurement of investment property before reclassification into assets held for sale.

4. RESULT FROM OTHER SERVICES

The result from other services breaks down as follows:

€ million

	2013	2012
Revenues from third-party real estate management	**4.5**	4.8
External costs for third-party real estate management	**− 0.8**	− 0.4
Personnel expenses	**− 3.4**	− 3.4
Subtotal third-party real estate management	**0.3**	1.0
Revenues from other trade	**10.0**	11.5
External costs for other trade	**− 5.4**	− 6.4
Personnel expenses	**− 3.9**	− 3.8
Subtotal results from other trade	**0.7**	1.3
Total	**1.0**	2.3

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

	2013	2012
External brokers	3.5	3.9
Personnel expenses	2.8	2.8
Marketing and selling prearrangements	1.2	0.7
Expenses and additions to provisions for sales cost in connection with HB Funds	1.0	0.4
General and administrative expenses	0.7	1.1
Clearing of encumbrances	0.4	0.6
Maintenance on vacant flats and sample flats	0.2	0.3
Other	2.2	3.8
Subtotal	12.0	13.6
Selling expenses due to property development business	0.1	0.2
Total	12.1	13.8

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

6. GENERAL AND ADMINISTRATIVE EXPENSES

General and administrative expenses break down as follows:

€ million

	2013	2012
Personnel expenses for administrative staff	15.7	16.6
IT costs	5.7	5.8
Consulting fees	2.1	1.8
Audit fees	1.4	1.8
Costs of office equipment, postage and telephone	1.0	1.4
Personnel-related costs	0.9	1.1
Insurances	0.8	1.1
Travel expenses, expenses for cars	0.8	0.8
Amortization and depreciation on intangible assets and fixed assets	0.6	0.5
Occupancy costs	0.5	0.8
Court and lawyers' fees	0.3	0.4
Other	5.1	3.0
Total	34.9	35.1

7. EXPENSES FOR SHARE-BASED REMUNERATION

GAGFAH GROUP offers its employees both equity-settled stock option plans (long-term incentive plans) and cash-settled stock option plans (phantom stocks). A description of the stock option plans can be found in the Accounting Policies, section C.15. “Share-based Remuneration”.

In the financial year 2013, expenses of €7.0 million (prior year: €1.2 million) were recognized in the Consolidated Statement of Comprehensive Income. This amount splits up as follows:

€ million	2013	2012
Equity-settled share-based remuneration	6.6	1.0
Cash-settled share-based remuneration	0.4	0.2
Total expenses	**7.0**	**1.2**

The equity-settled share-based remuneration (remuneration of senior management and independent directors) of €6.6 million (prior year: €1.0 million) led to a corresponding increase of share premium. This increase of share premium was partially compensated by €2.8 million from the cash-settlement of originally equity-settled stock options (not recognized in profit or loss). The prior-year increase of share premium of €0.8 million was overcompensated by a decrease of €1.3 million from the forfeiture and settlement of stock options.

The cash-settled share-based remuneration totaling €0.4 million (prior year: €0.2 million) led to an increase in the corresponding provisions.

As of December 31, 2013, the provision for cash-settled share-based payment amounted to €0.5 million (prior year: €0.3 million).

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

NUMBER OF STOCK OPTIONS

	2013		2012	
	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	1,193,289	54,500	2,194,528	60,000
Granted during the financial year	2,100,000	43,500	0	26,500
Forfeited during the financial year	0	0	– 186,450	0
Exercised during the financial year	0	– 13,000	0	– 32,000
Settled during the financial year	– 1,193,289	0	– 814,789	0
Outstanding as of December 31	2,100,000	85,000	1,193,289	54,500

As in the prior year, no shares relating to our equity-settled stock option plans were issued.

186,450 originally equity-settled stock options (prior year: no stock options) were settled in cash to current members of the Senior Management.

1,006,839 originally equity-settled stock options and stock awards (prior year: 814,789 stock options) were settled in cash to former members of the Senior Management who retired in the respective financial year.

With the aforementioned settlements, all remaining claims from former long-term incentive plans and stock option plans were balanced out. The outstanding number of stock options as of December 31, 2013, only refers to the two new long-term incentive plans established in the financial year 2013.

As of the balance sheet date, there were no outstanding equity-settled stock options with contractually agreed exercise prices. The range of exercise prices for equity-settled stock options outstanding at the end of the prior year was €0.00 to €6.36.

On the basis of our cash-settled stock option plan, 13,000 (prior year: 32,000) options were exercised at a weighted average share price of €9.33 (prior year: €6.80).

On the balance sheet date, 300,000 stock awards (prior year: 852,450 stock options) were vested and exercisable.

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 €8.8 million (prior year: €11.8 million).

Other operating income breaks down as follows:

€ million	2013	2012
Reversal of provisions for sales cost in connection with HB Funds added in the prior year	1.4	2.7
Reversal of provisions for phased retirement	1.2	0.0
Reversal of provisions inconnection with WOBA lawsuits	0.4	1.7
Reversal of provisions for restitution objects	0.4	0.0
Reversal of provisions for litigation	0.4	0.3
Reversal of provisions for refinancing	0.3	0.0
Reversal of various other provisions	0.8	2.5
Subtotal reversal of provisions	**4.9**	**7.2**
Sale of cable network connections	0.7	0.3
Revaluation of non-current assets	0.4	0.3
Transferable leasehold land interest	0.2	0.3
Derecognition of liabilities	0.0	0.4
Other	2.1	2.6
Subtotal	**8.3**	**11.1**
Other operating income due to property development business	0.5	0.7
Total	**8.8**	**11.8**

The income from the sale of cable network connections relates to the reversal of deferred income in connection with the sale of physical components of cable network connections in prior periods.

The remaining other operating income amounting to €2.1 million (prior year: €2.6 million) comprises various smaller amounts.

An amount of €0.5 million (prior year: €0.7 million) results from property development business. Thereof an amount of €0.3 million (prior year: €0.3 million) relates to the reversal of provisions.

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 €7.1 million (prior year: €16.0 million).

These expenses break down as follows:

€ million	2013	2012
Consulting fees in connection with DRV settlement	0.7	0.0
Consulting fees in connection with capital increase	0.6	0.0
Consulting fees in connection with the examination of the corporate strategy for the WOBA subgroup	0.3	2.9
Amendment of an outsourcing contract for maintenance	0.0	1.7
Derecognition of goodwill	0.0	1.2
Addition to provision for restitution proceedings	0.0	1.0
Incidental costs	0.0	1.0
Donations	0.0	0.9
Consulting/audit fees in connection with portfolio optimization	0.1	0.4
Consulting fees in connection with Share Buy-back	0.0	0.1
Other	1.0	3.0
Subtotal	2.7	12.2
Other operating expenses due to property development business	4.4	3.8
Total	7.1	16.0

The consulting fees in connection with the DRV settlement of €0.7 million (prior year: €0.0 million) mainly arose for legal advice by external consulting companies. For further information on the DRV (Deutsche Rentenversicherung Bund; German statutory Pension Insurance Scheme) settlement, please refer to section H.3. “Contingent Liabilities and Other Financial Obligations and Receivables”.

The consulting fees in connection with the examination of the corporate strategy for the WOBA subgroup of €0.3 million (prior year: €2.9 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 in the prior year concerned 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 in the prior year was due to sales within the 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.

An amount of €4.4 million (prior year: €3.8 million) results from the property development business. Thereof, €2.3 million (prior year: €2.1 million) relate to prior-year expenses and additions to provisions concerning sold properties.

The remaining other operating expenses amounting to €1.0 million (prior year €3.0 million) comprise various smaller amounts.

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 our Group companies and portfolios.

In 2013, total reorganization and restructuring expenses were €7.2 million, compared to €4.5 million in 2012. The overall increase is mainly due to the new reorganization program "GAGFAH 2015".

In the course of the third quarter of 2013, GAGFAH initiated a change program coined "GAGFAH 2015". The objective is to implement the best-in-class operating platform and processes to help the Company recapture the leading role in the Germany residential industry.

Essentially, the key targets of the change program are as follows:

- Take 360-degree focus on our assets with asset, property and facility management teams working hand in hand
- Focus on property management services and quality improvements by moving closer to our tenants and assets
- Centralization of all standardized processes and efficiency improvements for the different core, support and service processes

The targeted organizational structure shall result in a much closer integration of asset management, property management and facility management.

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

The expenses break down as follows:

€ million

	2013			2012		
	Reorganization	Restructuring	Total	Reorganization	Restructuring	Total
Personnel-related expenses	3.5	0.0	3.5	1.6	0.1	1.7
Consulting fees	2.5	0.0	2.5	2.2	0.0	2.2
Non-personnel administrative costs	0.5	0.7	1.2	0.5	0.1	0.6
Total	6.5	0.7	7.2	4.3	0.2	4.5

Non-personnel administrative restructuring costs of €0.7 million in the financial year 2013 mainly include expenses relating to a revaluation of existing non-current restructuring provisions for rental guarantees and rental payments (prior-year revaluation expenses: €0.1million).

The personnel-related reorganization expenses of €3.5 million in the financial year 2013 mainly consist of compensation payments of €0.7 million and expenses for the new program GAGFAH 2015 amounting to €2.7 million. Of the corresponding amount of €1.6 million in the prior year, €0.9 million related to compensation payments, €0.4 million related to expenses for temporary work in connection with the optimization of processes and structures within the group and €0.2 million related to additions to provisions for prior reorganization measures.

The consulting fees amounting to €2.5 mainly include expenses in connection with group reorganization measures in light of the refinancing process of GAGFAH subgroup of €1.8 million and €0.3 consulting fees in connection with the new program GAGFAH 2015. The prior year consulting fees of €2.2 million included expenses in connection with the optimization of processes and structures within the Group, thereof €0.9 million relating to Group reorganization measures in light of the refinancing process of GAGFAH subgroup.

Non-personnel-related administrative reorganization costs of €0.5 million in the financial year 2013 mainly include scheduled depreciation in connection with prior reorganization measures amounting to €0.3 million and €0.2 million expenses in connection with the new program GAGFAH 2015. Non-personnel-related administrative reorganization costs of €0.5 million in the prior year mainly included 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.

11. INTEREST EXPENSES

Interest expenses break down as follows:

€ million

	2013	2012
Interest expenses related to loans	198.1	222.0
Amortization of financial liabilities	8.6	19.3
(Net) Interest share of pension obligations	4.4	5.2
Guarantee facility	4.4	0.0
Amortization of EK02 liability	2.8	3.3
Finance lease interest	0.3	0.3
Prepayment fees	0.0	3.4
Revaluation of financial liabilities	0.0	– 6.5
Other interest expenses	2.0	2.3
Subtotal	220.6	249.3
Interest due to property development business	0.0	0.2
Total	220.6	249.5

The total interest expenses related to loans of €198.1million (prior year: €222.0 million) split up into expenses from loans granted by institutional lenders and commercial mortgage-backed floating rate notes of €169.3 million (prior year: €178.8 million) and expenses from other loans of €8.5 million (prior year: €9.6 million). Another €17.2 million (prior year: €33.2 million) relate to accrued interest of loans granted by institutional lenders and senior debts and €3.1 million (prior year: €0.4 million) to accrued interest of swaps. The overall decrease and the decrease of the accrued interest reflect the lower interest rates due to the new loans granted by institutional lenders of GAGFAH, NILEG and WOBA subgroups.

The decrease in interest expenses related to loans is partly compensated by expenses in connection with the margin step-up in the former GAGFAH loan granted by institutional lenders. These expenses were again compensated by an income of €12.0 million due to the complete reversal of the remaining accrual in the course of the GAGFAH refinancing in June 2013 (line item “Amortization of financial liabilities”).

In connection with the DRV settlement (see section H.3. “Contingent Liabilities and Other Financial Obligations and Receivables”), the bank guarantee has been prolongated and the corresponding liability from commissions has
been recalculated. Due to the recalculation, expenses for guarantee facilities of €4.4 million have been accrued. Non-current other liabilities increased correspondingly.

The expenses in the prior year for prepayment fees of €3.4 million primarily related to the sale of investment property €3.2 million and to repayments due to the finished demolition program €0.2 million.

In the year 2012, in the course of 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 in 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. REFINANCING EXPENSES

The increase of refinancing expenses from € 3.9 million in the prior year to € 67.9 million in 2013 results from the refinancing processes.

Refinancing expenses break down as follows:

2013
€ million

	GAGFAH	WOBA	NILEG	ACQ 1	GAGFAH HOLDING	GBH	Total
Compensation payments in connection with the early redemption of the former loans	14.1	8.9	19.2	1.4	0.0	0.0	**43.6**
Court and lawyers' fees	7.9	0.4	2.7	0.7	0.7	0.2	**12.6**
Consulting fees	5.9	0.7	3.9	1.1	0.0	0.0	**11.6**
Other	0.0	0.0	0.0	0.1	0.0	0.0	**0.1**
Total	**27.9**	**10.0**	**25.8**	**3.3**	**0.7**	**0.2**	**67.9**

2012
€ million

	GAGFAH	WOBA	NILEG	ACQ 1	GAGFAH HOLDING	GBH	Total
Compensation payments in connection with the early redemption of the former loans	0.0	0.0	0.0	0.0	0.0	0.0	**0.0**
Court and lawyers' fees	0.2	0.0	0.0	0.0	0.0	0.0	**0.2**
Consulting fees	3.2	0.0	0.0	0.0	0.2	0.2	**3.6**
Other	0.0	0.0	0.0	0.0	0.0	0.1	**0.1**
Total	**3.4**	**0.0**	**0.0**	**0.0**	**0.2**	**0.3**	**3.9**

An amount of €0.7 million (prior year: €0.0 million) relates to the credit agreement of GAGFAH Holding and concerns a loan basing on a credit agreement of June 19, 2013, that has already been repaid on the balance sheet date.

The prepayment fees relate to the early redemption of the former GAGFAH, WOBA, NILEG and GAGFAH Acquisition 1 GmbH loans that would have ended in the financial years 2013 and 2014.

For further information on the refinancing processes, please refer to section E.16.1. “Financial Liabilities”.

13. INCOME TAXES

Income taxes break down as follows:

€ million

	2013	2012
Trade tax	– 5.8	– 6.4
Corporate income tax	– 1.8	– 3.7
Capital yields tax	0.0	– 1.1
Tax refunds (+) / payments (–) from / for prior years	– 0.4	0.1
Deferred taxes – temporary differences	– 69.0	– 49.4
Deferred taxes – loss carryforwards	31.2	17.4
Reversal of liabilities from income taxes	0.3	5.4
Total	**– 45.5**	**– 37.7**

In 2013 as well as in 2012, no remarkable tax law changes took place. Nevertheless, in 2013, changes relating to the current German group taxation system ("Organschaft") became effective. For the GAGFAH GROUP, especially changes relating to the profit and loss transfer agreement (PLTA) are relevant. PLTAs which do not fulfill the new requirements would have to be amended to comply with the new rule by January 1, 2015. GAGFAH renewed all affected PLTAs in 2013.

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 €– 15.6 million (prior year: €– 27.4 million).

The following table reconciles this anticipation to effective income taxes:

€ million

	2013	2012
Profit before taxes	**48.8**	**85.4**
Anticipated income taxes	**– 15.6**	**– 27.4**
Income taxes not related to the period and other adjustments to current income taxes	– 0.1	5.5
Tax-free income	0.5	0.6
Tax portion for non-deductible expenses	– 3.5	– 13.2
Tax portion for non-deductible interest	– 18.1	– 12.9
Permanent trade tax effects	– 6.1	– 5.9
Effects of previously unrecognized deferred taxes on loss carryforwards	– 2.5	15.4
Corporate income tax dividend within profit and loss transfer agreement	– 0.1	– 0.2
Other tax effects	0.0	1.5
Effective income taxes	**– 45.5**	**– 36.6**
Capital yields tax	**0.0**	**– 1.1**
Income taxes	**– 45.5**	**– 37.7**

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 in Luxembourg. The tax portion of non-deductible interest relates to the German interest barrier rule (Zinsschranke). The effects in particular of the addition of a quarter of the interest are disclosed under "Permanent trade tax effects".

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 € 3.5 million (prior year: profit of € 4.5 million) of net result relates to non-controlling interests.

The profit attributable to non-controlling interests splits up into a profit of € 0.4 million (prior year: a profit of € 0.9 million) relating to GAGFAH subgroup (thereof a loss of € 0.2 million (prior year: a loss of € 0.0 million) concerning GERMAN RESIDENTIAL FUNDING 2013-1), a loss of € 0.1 million (prior year: a loss of € 0.0 million) relating to NILEG subgroup (GERMAN RESIDENTIAL FUNDING 2013-2) and a profit of € 3.2 million (prior year: a profit of € 3.6 million) relating to WOBA subgroup.

15. EARNINGS PER SHARE

Basic earnings per share (EPS) amount to € 0.00 (prior year: € 0.22). They were calculated by dividing the net result for the year distributable to ordinary equity holders of the parent company (€ 0.2 million loss; prior year: € 43.2 million profit) by the weighted average number of undiluted ordinary shares outstanding during the year (204,823,336; prior year: 199,238,654).

Diluted earnings per share amount to € 0.03 (prior year: € 0.22). These were calculated by dividing the diluted net result for the year distributable to ordinary equity holders of the parent company (€ 6.4 million profit; prior year: € 44.2 million profit) by the weighted average number of diluted ordinary shares outstanding during the year (207,271,662; prior year: 200,861,394). The diluted net result is calculated as the net loss of € 0.2 million (prior year: net profit of € 43.2 million), adjusted by expenses for equity-settled share-based remuneration of € 6.6 million (prior year: € 1.0 million).

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 income and share data used in the basic and diluted EPS computations:

€ million

	12-31-2013			12-31-2012		
	Net result (€ million)	Weighted average number of shares	EPS (€)	Net result (€ million)	Weighted average number of shares	EPS (€)
Undiluted	− 0.2	204,823,336	0.00	43.2	199,238,654	0.22
Diluted	6.4	207,271,662	0.03	44.2	200,861,394	0.22

Dilutive instruments exclusively comprise stock awards 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, 300,000 stock awards (prior year: 852,450 stock options) were vested and exercisable.

The vesting schedule as of December 31, 2013, is:
-- IN 2014: 300,000
-- IN 2015: 360,000
-- IN 2016: 390,000
-- IN 2017: 450,000
-- IN 2018: 300,000

The vesting schedule as of December 31, 2012, was:
-- IN 2013: 340,839

The weighted average remaining contractual life for the share options outstanding as of December 31, 2013, is 2.30 years (prior year: 0.98 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 GROUP'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 GROUP 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.

The line item "Other non-cash expenses / income" contains expenses of € 4.8 million (prior year (adjusted): € 24.8 million) and mainly includes non-cash interest expenses and non-cash expenses for share-based remuneration. We refer to section F.11. "Interest Expenses".

The change in receivables and other assets of € – 8.1 million (prior year (adjusted): € 23.9 million) results from various items. In the financial year 2012, the result had been mainly influenced by incoming payments of € 21.4 million from the sale of the subsidiaries GAGFAH Acquisition 3 GmbH and GAGFAH Pegasus GmbH in 2011.

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 € – 4.0 million (prior year: € – 7.1 million) and a change in provisions and pension provisions of € – 3.4 million (prior year: € – 25.9 million).

The cash received from the sale of investment property and assets held for sale of € 130.1 million (prior year: € 215.4 million) is calculated as the aggregate of income from the sale of investment property and assets held for sale of € 144.1 million (prior year: € 213.1 million) and the cash-relevant changes in the corresponding receivables of € – 14.1 million (prior year: € 2.3 million) and prepayments received of € 0.1 million (prior year: € 0.0 million).

In addition to the cash paid for the modernization of investment property representing increases in operating capacity and shown as a separate line in the Consolidated Statement of Cash Flows in the amount of € 26.3 million (prior year: € 4.1 million), the Group had expenses in connection with the maintenance of operating capacity of € 78.0 million (prior year: € 81.8 million). We also refer to section F.2. "Operating Expenses for the Generation of Rental Income".

The amount of cash received from raising financial liabilities of € 4,130.8 million (prior year: € 141.2 million) mainly relates to the refinancing of subgroup loans granted by institutional lenders of € 1,998.1 million (GAGFAH), € 1,077.5 million (WOBA), € 791.4 million (NILEG) and € 144.6 million (GAGFAH Acquisition 1 GmbH), respectively. Overall, loans amounting to € 4,414.9 million were repaid in 2013 (prior year: € 352.4 million, thereof € 2,037.3 million relating to the refinancing of the GAGFAH subgroup loan granted by institutional lenders, € 1,037.3 million relating to the refinancing of the WOBA subgroup loan granted by institutional lenders, € 976.2 million relating to the refinancing of the NILEG subgroup loan granted by institutional lenders and € 146.7 million relating to GAGFAH Acquisition 1 GmbH loan granted by institutional lenders). We refer to section E.16.1. "Financial Liabilities".

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

	12-31-2013	12-31-2012 (adjusted)
Cash on hand	**0.1**	0.1
Bank balances	**39.4**	71.0
Restricted cash	**62.4**	104.8
Bank balances and cash on hand	**101.9**	**175.9**

Due to the adoption of IFRS 11 Joint Arrangements (see section E.4. "Other Financial Assets") and thus the derecognition of bank balances relating to the four joint ventures, the amount as of December 31, 2012, was reduced by €0.1 million from €176.0 million to €175.9 million.

Restricted cash breaks down as follows:

12-31-2013
€ million

	GAGFAH subgroup	GBH subgroup	Other	Total
From asset sales	4.1	2.2	2.6	**8.9**
thereof for either repayment or reinvest	4.1	0.0	2.6	**6.7**
thereof for a specific purpose [1, 2]	0.0	2.2	0.0	**2.2**
From regular business [2, 3]	0.0	1.0	0.0	**1.0**
Initial amount in accordance with credit agreement [2]	20.0	2.8	0.0	**22.8**
Restrictions under company law	5.3 [5]	0.0	2.5 [6]	**7.8**
Accrued interests [4]	5.5	1.9	11.5	**18.9**
Other	1.7	0.1	1.2	**3.0**
Total	**36.6**	**8.0**	**17.8**	**62.4**

1 Proceeds from property sales after deducting sales costs as far as they exceed the proportionate amount of the loan thereon.
2 According to the existing loan agreements, certain contractually defined cash amounts have to be accumulated on separate accounts which are pledged in favor of the lenders.
3 Monthly cash surplus from regular business after deducting all costs.
4 Interests on financial liabilities due but not yet payable.
5 Thereof HB Funds balances of € 4.9 million.
6 Thereof 12. CR Immobilien-Vermietungsgesellschaft mbH & Co. SÜDOST WOBA Striesen KG of € 2.2 million.

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 [1,2]	11.0	3.3	0.0	**14.3**
From regular business [2,3]	7.1	0.9	0.0	**8.0**
Initial amount in accordance with credit agreement [2]	21.3	7.1	0.0	**28.4**
Restrictions under company law	6.7 [5]	0.0	2.3 [6]	**9.0**
Accrued interests[4]	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 Proceeds from property sales after deducting sales costs as far as they exceed the proportionate amount of the loan thereon.
2 According to the existing loan agreements, certain contractually defined cash amounts have to be accumulated on separate accounts which are pledged in favor of the lenders.
3 Monthly cash surplus from regular business after deducting all costs.
4 Interests on financial liabilities due but not yet payable.
5 Thereof HB Funds balances of € 6.4 million.
6 Thereof 12. CR Immobilien-Vermietungsgesellschaft mbH & Co. SÜDOST WOBA Striesen KG of € 2.0 million.

A further amount of € 18.9 million (prior year: € 26.6 million) corresponds to the interests and scheduled amortizations on loans granted by institutional lenders due but not yet payable until the end of the reporting period. Also included is an amount of € 2.8 million (prior year: € 7.1 million) as deposited for the financing of capex tasks for properties of GBH Acquisition GmbH.

Due to the successful refinancing GAGFAH subgroup has no further obligation (prior year: € 7.1 million) to pledge amounts from its regular business.

Out of the total restricted cash from asset sales of € 8.9 million (prior year: € 15.1 million), € 8.7 million (prior year: € 11.4 million) will be used for the repayment of loans granted by institutional lenders.

In the GAGFAH GmbH € 20.0 million (prior year: € 0.0 million) are pledged for guarantee facilities. The initial amount includes an additional collateral of € 50.0 million (prior year: € 0.0 million) which had to be pledged for extending the bank guarantee assuring restrictions from the 2004 purchase agreement with Federal Insurance Office for Salaried Employees (Bundesversicherungsanstalt für Angestellte) as the legal predecessor of the German Statutory Pension Insurance Scheme (Deutsche Rentenversicherung Bund, "DRV") (please refer to section H. 3. "Contingent Liabilities and other financial obligations and receivables"). The pledge agreement concerning the additional collateral of € 50.0 million has been reduced to € 20.0 million on October 11, 2013, partially against the granting of several land charges.

H. OTHER NOTES

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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 12-31-2013**	Amortized cost	Fair value recognized in profit or loss	Fair value recognized in equity	**Fair Value 12-31-2013**
Assets						
Bank balances and cash on hand	LaR	**101.9**	101.9	0.0	0.0	**101.9**
Investments	AfS	**0.9**	0.9	0.0	0.0	**0.9**
Receivables from sales of land and buildings	LaR	**32.5**	32.5	0.0	0.0	**32.5**
Rent receivables	LaR	**7.6**	7.6	0.0	0.0	**7.6**
Derivative financial assets measured at fair value	aFVtOCI[2]	**9.2**	0.0	0.0	9.2	**9.2**
Other	LaR	**26.6**	26.6	0.0	0.0	**26.6**
Liabilities						
Commercial mortgage-backed floating rate note	FLAC	**– 2,695.1**	– 2,695.1	0.0	0.0	**– 2,902.2**
Loans granted by institutional lenders	FLAC	**– 1,862.8**	– 1,862.8	0.0	0.0	**– 1,860.7**
Government annuity loans	FLAC	**– 221.4**	– 221.4	0.0	0.0	**– 266.1**
Privately financed annuity loans	FLAC	**– 81.3**	– 81.3	0.0	0.0	**– 86.9**
Financial liabilities of the funds	FLAC	**– 6.0**	– 6.0	0.0	0.0	**– 6.0**
Derivative financial liabilities measured at fair value	aFVtpl	**– 2.3**	0.0	– 2.3	0.0	**– 2.3**
Derivative financial liabilities measured at fair value	aFVtOCI[2]	**– 1.3**	0.0	0.0	– 1.3	**– 1.3**
Other financial liabilities	FLAC	**– 4.1**	– 4.1	0.0	0.0	**– 4.1**
Trade payables	FLAC	**– 37.2**	– 37.2	0.0	0.0	**– 37.2**
Liabilities to tenants	FLAC	**– 16.9**	– 16.9	0.0	0.0	**– 16.9**
Liabilities from operating expenses not yet invoiced	FLAC	**– 22.4**	– 22.4	0.0	0.0	**– 22.4**
Other	FLAC	**– 42.4**	– 42.4	0.0	0.0	**– 42.4**

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

2 Modified category in accordance with IFRS 7.8
aFVtOCI: at Fair Value through OCI

€ 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 (adjusted)						
Bank balances and cash on hand	LaR	175.9	175.9	0.0	0.0	175.9
Investments	AfS	0.9	0.9	0.0	0.0	0.9
Receivables from sales of land and buildings	LaR	20.2	20.2	0.0	0.0	20.2
Rent receivables	LaR	7.5	7.5	0.0	0.0	7.5
Derivative financial assets measured at fair value	aFVtOCI[2]	0.0	0.0	0.0	0.0	0.0
Other	LaR	26.9	26.9	0.0	0.0	26.9
Liabilities						
Commercial mortgage-backed floating rate note	FLAC	0.0	0.0	0.0	0.0	0.0
Loans granted by institutional lenders	FLAC	– 4,886.4	– 4,886.4	0.0	0.0	–5,017.9
Government annuity loans	FLAC	– 245.1	– 245.1	0.0	0.0	– 276.1
Privately financed annuity loans	FLAC	– 82.4	– 82.4	0.0	0.0	– 75.8
Financial liabilities of the funds	FLAC	– 6.8	– 6.8	0.0	0.0	– 6.8
Derivative financial liabilities measured at fair value	aFVtpl	– 3.8	0.0	– 3.8	0.0	– 3.8
Derivative financial liabilities measured at fair value	aFVtOCI[2]	– 1.1	0.0	0.0	– 1.1	– 1.1
Other financial liabilities	FLAC	– 5.6	– 5.6	0.0	0.0	– 5.6
Trade payables	FLAC	– 32.6	– 32.6	0.0	0.0	– 32.6
Liabilities to tenants	FLAC	– 15.1	– 15.1	0.0	0.0	– 15.1
Liabilities from operating expenses not yet invoiced	FLAC	– 30.3	– 30.3	0.0	0.0	30.3
Other	FLAC	– 41.7	– 41.7	0.0	0.0	– 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

2 Modified category in accordance with IFRS 7.8
aFVtOCI: at Fair Value through OCI

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.

Due to the adoption of IFRS 11 Joint Arrangements (see section E.4. “Other financial Assets”) and thus the derecognition of bank balances relating to the four joint ventures, the amount of bank balances as of December 31, 2012, was reduced by € 0.1 million from € 176.0 million to € 175.9 million.

IFRS 13 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 Risk”.

Financial liabilities are not measured at fair value in the Consolidated Statement of Financial Position, but the fair value is disclosed in the table above. These liabilities are also valued by using a model with inputs that are directly or indirectly observable market data (Level 2).

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 12-31-2013**
Loans granted and Receivables (LaR)	0.8	0.0	– 12.0	0.4	**– 10.8**
Financial Assets / Liabilities at fair value through profit or loss (AFVtpl)	– 12.7	1.5	0.0	0.0	**– 11.2**
Financial Liabilities measured at Amortized Cost (FLAC)	– 268.5	0.0	0.0	0.0	**– 268.5**

€ 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**
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**

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

€ million

	12-31-2011	Utilization	Reversals	Additions	Changes due to the sale of subsidiaries	12-31-2012	Utilization	Reversals	Additions	Changes due to the sale of subsidiaries	12-31-2013
Receivables from sales of land and buildings	**– 0.3**	0.0	0.0	0.0	0.0	**– 0.3**	0.0	0.0	– 0.1	0.0	**– 0.4**
Rent receivables	**– 19.3**	4.9	3.5	– 3.5	0.0	**– 14.4**	9.0	5.5	– 11.8	0.0	**– 11.7**
Claims for reimbursement	**– 0.5**	0.4	0.1	0.0	0.0	**0.0**	0.0	0.0	0.0	0.0	**0.0**
Insurance claims	**– 1.2**	0.0	0.9	– 0.9	0.0	**– 1.2**	0.0	0.8	– 0.6	0.0	**– 1.0**
Other	**0.0**	0.0	0.0	0.0	0.0	**0.0**	0.0	0.0	– 0.8	0.0	**– 0.8**
Total	**– 21.3**	**5.3**	**4.5**	**– 4.4**	**0.0**	**– 15.9**	**9.0**	**6.3**	**– 13.3**	**0.0**	**– 13.9**

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:

12-31-2013
€ 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	**32.9**	29.1	2.7	0.0	0.0	0.7
Rent receivables	**7.7**	0.0	7.7	0.0	0.0	0.0
Receivables from other trade	**1.0**	0.3	0.7	0.0	0.0	0.0
Receivables from third-party real estate and construction management	**0.0**	0.0	0.0	0.0	0.0	0.0
Claims for reimbursement	**0.1**	0.1	0.0	0.0	0.0	0.0
Insurance claims	**7.0**	6.0	0.0	0.0	0.0	0.0
Other	**17.6**	16.4	0.4	0.0	0.0	0.0

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

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	
	12-31-2013	12-31-2012	**12-31-2013**	12-31-2012
Rent receivables	**– 10.8**	– 12.3	**0.0**	0.0
Receivables from other trade	**– 0.4**	– 0.1	**0.0**	0.0
Other	**– 2.7**	– 0.2	**0.4**	0.5

The line item “Other” mainly includes the expenses for full write-off in connection with the sale of HB Funds with an amount of € 1.4 million. Further € 1.0 million had been written off in connection with a residual claim in connection with the reimbursement of expenses for preparation of land for construction.

In 2013, 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

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 based on a risk-oriented audit plan. One further basic task of the internal audit department is also the supervision of the risk management 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 GAGFAH 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 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. The risk management procedures applied to the key categories of financial risk of the GAGFAH GROUP entities are described below.

INTEREST RATE RISK 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 used to manage interest rate risks and serve hedging purposes.

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

The current situation shows that the main portion of loans granted by institutional lenders has no interest risk due to the existing interest rate swaps. A further portion of the loans granted by institutional lenders is hedged by interest rate caps. 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 0.2420 % in Q4 2013. 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 € 100.6 million higher.

The increase of € 100.6 million in income results from valuation gains of € 104.4 million on interest rate derivatives and higher interest expenses of € 3.8 million related to variable-interest financial liabilities.

The total effect of € 100.6 million would split up into a positive effect of € 103.8 million from interest rate swaps that would have to be recognized in other comprehensive income and a negative effect of € 3.2 million that would have to be recognized in profit or loss (thereof € 3.8 million resulting from variable-interest financial liabilities, partly compensated by € 0.6 million from interest rate swaps).

HEDGING POLICIES AND FINANCIAL DERIVATIVES 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 applies derivative financial instruments (interest rate swaps and caps) to manage interest rate risks resulting from the Group's operating business and financing.

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).

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.

The effective portion of the gain or loss on the hedging instrument is recognized in equity (other comprehensive income) as "unrealized gains / losses from derivative financial instruments", while any ineffective portion is recognized immediately in the income statement in the line item "Result from the fair value measurement of derivatives".

On December 31, 2013, the derivative financial instruments used by the Group were interest rate swaps and caps in order to hedge future cash flows from variable-rate loans. Interest rate swap contracts enable the Group to exchange the difference between the fixed and floating rate interest amounts calculated on the agreed notional amounts.

The following tables detail the terms of our interest rate swap and cap agreements outstanding at the end of the reporting period:

Swap agreements

Subsidiary / portfolio	Hedging strategy	Fixed rate	Reference rate	Starting date	Maturity
Schweizer Viertel Grundstücks GmbH	Variable into fixed	4.250 %	3M EURIBOR	19-Sep-2008	31-Aug-2015
GBH Acquisition GmbH	Variable into fixed	0.958 %	3M EURIBOR	20-Apr-2012	21-Apr-2014
GERMAN RESIDENTIAL FUNDING 2013-1 LIMITED	Fixed into variable	1.058 %	3M EURIBOR	20-Jun-2013	27-Aug-2018
GERMAN RESIDENTIAL FUNDING 2013-2 LIMITED (A1)	Fixed into variable	1.220 %	3M EURIBOR	21-Oct-2013	27-Nov-2018
GERMAN RESIDENTIAL FUNDING 2013-2 LIMITED (A2) [2]	Fixed into variable	1.220 %	3M EURIBOR	21-Oct-2013	27-Nov-2018
GAGFAH Holding GmbH [2]	Variable into fixed	1.220 %	3M EURIBOR	21-Oct-2013	27-Nov-2018
GAGFAH Acquisition 1 GmbH	Variable into fixed	0.684 %	3M EURIBOR	14-Nov-2013	14-Oct-2016
OWG Asset GmbH & Co. KG	Variable into fixed	1.925 %	3M EURIBOR	21-Oct-2014	21-Oct-2020
Total					

Cap agreements

Subsidiary / portfolio	Hedging strategy	Caprate	Reference rate	Starting date	Maturity
GBH Acquisition GmbH	Variable into fixed	1.500 %	3M EURIBOR	20-Apr-2012	20-Apr-2014
GAGFAH Acquisition 1 GmbH	Variable into fixed	3.250 %	3M EURIBOR	14-Nov-2013	14-Oct-2016
OWG Asset GmbH & Co. KG	Variable into fixed	1.800 %	3M EURIBOR	21-Oct-2103	21-Oct-2014
Total					

1 Positive amounts are recognized in the line item “Other financial assets” and negative amounts are recognized in the line item “Financial liabilities” respectively.

2 These two swaps have the same conditions but the respective hedging strategies move in opposite directions. The swaps and any related effects are therefore offset against each other on Group level.

(in € million)

		Outstanding nominal value			Fair value[1]				
	Initial nominal value	12-31-2013	12-31-2012	Deviation	12-31-2013	12-31-2012	Deviation	Deviation recognized in profit or loss	Deviation recognized in OCI
	37.2	**37.2**	37.2	0.0	**– 2.3**	– 3.8	1.5	1.5	0.0
	175.0	**175.0**	175.0	0.0	**– 0.8**	– 1.0	0.2	0.0	0.2
	1,898.2	**1,892.5**	0.0	1,892.5	**9.0**	0.0	9.0	0.0	9.0
	588.2	**588.2**	0.0	588.2	**0.2**	0.0	0.2	0.0	0.2
	76.5	**76.5**	0.0	76.5	**0.0**	0.0	0.0	0.0	0.0
	76.5	**76.5**	0.0	76.5	**0.0**	0.0	0.0	0.0	0.0
	76.2	**76.2**	0.0	76.2	**0.0**	0.0	0.0	0.0	0.0
	81.1	**0.0**	0.0	0.0	**– 0.5**	0.0	– 0.5	0.0	– 0.5
	3,008.9	**2,922.1**	212.2	2,709.9	**5.6**	– 4.8	10.4	1.5	8.9

(in € million)

		Outstanding nominal value			Fair value[1]				
	Initial nominal value	12-31-2013	12-31-2012	Deviation	12-31-2013	12-31-2012	Deviation	Deviation recognized in profit or loss	Deviation recognized in OCI
	91.5	**31.5**	71.5	– 40.0	**0.0**	0.0	0.0	0.0	0.0
	80.0	**60.2**	0.0	60.2	**0.0**	0.0	0.0	0.0	0.0
	81.9	**81.9**	0.0	81.9	**0.0**	0.0	0.0	0.0	0.0
	253.4	**173.6**	71.5	102.1	**0.0**	0.0	0.0	0.0	0.0

With the exception of the interest rate swaps of Schweizer Viertel Grundstücks GmbH and GAGFAH Holding GmbH, all of the above-mentioned derivative financial instruments have been designated as being hedging instruments.

The increase in the nominal and fair value of swaps and caps mainly results from the following new agreements concluded in 2013.

- In connection with the 2013 refinancing of GAGFAH subgroup and NILEG subgroup via a CMBS, GERMAN RESIDENTIAL FUNDING 2013-1 LIMITED and GERMAN RESIDENTIAL FUNDING 2013-2 LIMITED, special purpose vehicles under the laws of Ireland, have been established (see section B. “Consolidated Group and Consolidation Principles”, subchapter “Consolidated Group”). Purpose of the companies is to enter into various financing agreements with external lenders (“noteholders”) and to make loans to GAGFAH and NILEG. These notes are admitted to trading on the Irish Stock Exchange. The interest payable to the noteholders are variable, with an interest rate aligned to EURIBOR, whereas the intercompany interest received from GAGFAH and NILEG are fixed. To hedge the interest rate risk out of the CMBS, the group entered into three swap agreements which convert fixed intercompany interest rates into variable interest rates and one swap agreement (GAGFAH Holding GmbH) that converts part of the variable intercompany interest rates back into fixed interest rates.
- The new three-year loan agreement of GAGFAH Acquisition 1 GmbH is largely secured by an interest rate swap that converts variable interest rates into fixed interest rates. The remaining part of the loan is secured by an interest rate cap.
- The new seven-year loan agreement for the OWG portfolio is, in the first year, secured by an interest rate cap. From the second year until the end of maturity, the loan is secured by an interest rate swap that converts the variable interest rates into fixed interest rates.

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, 2013, the valuation was based on the following term structure:

in %

	12-31-2013	12-31-2012
Interest rate for six months	**0.389**	0.320
Interest rate for one year	**0.556**	0.542
Interest rate for two years	**0.537**	0.375
Interest rate for five years	**1.261**	0.766

Due to the fact that the cap rates are higher than the current EURIBOR, the estimated fair values of the interest rate caps amount to €0.0 million.

The ineffective part of the interest rate swaps of €1.5 million profit (prior year: €2.1 million profit) is recognized through profit or loss under the line item “Result from the fair value measurement of derivatives”.

The effective part of the interest rate swaps of €8.9 million (prior year: €–1.1 million) and the corresponding income tax effect of €–2.8 million (prior year: €0.4 million) is recognized directly in equity (other comprehensive income).

The effective part of the interest rate swaps of €8.9 million (prior year: €–1.1 million) splits up into €–0.2 million (prior year: €1.1 million) attributable to the shareholders of the parent company and €9.1 million (prior year: €0.0 million) attributable to non-controlling interests. The corresponding income tax effect of €–2.8 million (prior year: €–0.4 million) splits up into €0.1 million (prior year: €0.4 million) attributable to the shareholders of the parent company and €–2.9 million (prior year: €0.0 million) attributable to non-controlling interests.

The following table shows the development of the cash flow hedging reserve:

€ million	2013		2012	
	Shareholders of the parent company	Non-controlling interests	Shareholders of the parent company	Non-controlling interests
January 1	**– 0.7**	**0.0**	**0.0**	**0.0**
Gains (+) / losses (–) arising from changes in the fair value of interest rate swaps	– 0.2	9.1	– 1.1	0.0
Income taxes related to gains (+) / losses (–) arising from changes in the fair value of interest rate swaps	0.1	– 2.9	0.4	0.0
December 31	**– 0.8**	**6.2**	**– 0.7**	**0.0**

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

The Group is financed long term. However, it regularly monitors credit terms and intends to refinance ahead of the respective loan maturities. Certain subsidiaries of GAGFAH S. A. have bank debt expiring in October 2014, with a nominal value of approximately € 358.0 million as of December 31, 2013. With a view towards refinancing this amount, GAGFAH GROUP has already started preliminary refinancing discussions with banks.

A liquidity plan based on a fixed planning horizon endeavors to ensure that GAGFAH GROUP entities have sufficient liquidity at all times. To ensure continuing liquidity, GAGFAH GROUP negotiated a working capital line in an amount of € 25.0 million after the balance sheet date. For further information, please refer to section H.7 “Events after the Balance Sheet Date”.

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 € 88.3 million (prior year: € 84.6 million) and amounts paid by contracting parties into notary trust accounts of € 33.1 million (prior year: € 17.7 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 GROUP entities do not currently generate cash flows in foreign currencies. As a result, they are not exposed to exchange rate risk.

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 € 3.4 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.

3. CONTINGENT LIABILITIES AND OTHER FINANCIAL OBLIGATIONS AND RECEIVABLES

CONTINGENT LIABILITIES There were no material contingent liabilities in the financial year.

The securities in terms of land charges provided by GAGFAH GROUP in favor of Grundstücksgesellschaft Klinik-Teltow GbR do no longer exist. The nominal value as of December 31, 2012, amounted to € 16.4 million.

The guarantee provided by GAGFAH GROUP for financial liabilities of Grundstücksgesellschaft Klinik-Teltow GbR does no longer exist. The nominal value as of December 31, 2012, amounted to € 4.8 million.

OTHER FINANCIAL OBLIGATIONS AND RECEIVABLES

TRANSFERABLE LEASEHOLD LAND AGREEMENTS
GAGFAH GROUP has financial obligations in connection with finance leases concerning transferable leasehold land with a carrying amount of € 3.7 million (prior year: € 3.8 million). These leases have residual terms of between 44 and 89 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:

12-31-2013
€ million

	≤ one year	> one year ≤ three years	> three ≤ five years	> five years	Total
Minimum lease payments	0.3	0.6	0.6	15.9	**17.4**
Discount	0.0	0.1	0.1	12.0	**12.2**
Present value of payments	0.3	0.5	0.5	3.9	**5.2**

12-31-2012
€ million

	≤ one year	> one year ≤ three years	> three ≤ five years	> five years	Total
Minimum lease payments	0.3	0.5	0.5	14.3	**15.6**
Discount	0.0	0.0	0.1	11.2	**11.3**
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.

The adjustment of lease payments and updating of the discount rates led to an increase of the minimum lease payments and the present value of payments.

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 4 and 87 years. Future minimum rentals payable as of December 31 are as follows:

€ million

	≤ one year	> one year ≤ three years	> three ≤ five years	> five years	Total
12-31-2013					
Minimum rentals payable	2.2	4.3	4.3	85.8	**96.6**
12-31-2012					
Minimum rentals payable	2.1	4.3	4.3	86.1	**96.8**

In the financial year 2013, lease payments of €2.2 million (prior year: €2.0 million) were recognized as an expense. There were no sublease payments.

The operating leases whereby the GROUP is the lessor, have residual terms of between 50 and 88 years. Future minimum rentals receivable as of December 31 are as follows:

€ million

	≤ one year	> one year ≤ three years	> three ≤ five years	> five years	Total
12-31-2013					
Minimum rentals receivable	0.1	0.1	0.1	4.4	**4.7**
12-31-2012					
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:

12-31-2013
€ million

	≤ one year	> one year ≤ three years	> three ≤ five years	> five years	Total
Outsourcing contracts (provider of maintenance activities) [1]	24.0	0.0	0.0	0.0	24.0
Rent obligations (buildings)	3.9	5.9	3.9	1.2	14.9
Hosting fees for computer center	4.8	0.0	0.0	0.0	4.8
Leasing obligations – automobile	1.8	2.8	1.0	0.0	5.6
Repair and maintenance of software	0.7	0.0	0.0	0.0	0.7
IT projects (facility management)	0.0	0.0	0.0	0.0	0.0
Other services from third parties	0.2	0.0	0.0	0.0	0.2
Basic fees for telephony and data network	0.5	0.0	0.0	0.0	0.5
Rent and leasing obligations – hardware	0.4	0.1	0.0	0.0	0.5
Repair and maintenance of hardware	0.2	0.1	0.0	0.0	0.3
Leasing obligations – copiers	0.1	0.0	0.0	0.0	0.1
Total	36.6	8.9	4.9	1.2	51.6

1 GAGFAH GROUP agreed, besides the issue of maintenance orders, to a fixed financial compensation to the outsourcing partner. The agreement with the outsourcing partner 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.

12-31-2012
€ million

	≤ one year	> one year ≤ three years	> three ≤ five years	> 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 GAGFAH GROUP agreed, besides the issue of maintenance orders, to a fixed financial compensation to the outsourcing partner. The agreement with the outsourcing partner 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.

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 2013, the total payments for operating leases within other financial obligations amounted to € 5.7 million (prior year: € 5.3 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:

		12-31-2013		12-31-2012	
Single entity/Subgroup	Maturity date	**Minimum capital expenditure (in €/sqm)**	**Affected area (in sqm)**	Minimum capital expenditure (in €/sqm)	Affected area (in sqm)
GAGFAH A Asset GmbH & Co. KG	09-30-2018	**11.00**	**63,636**	0.00	0
GAGFAH I Invest GmbH & Co. KG	09-30-2018	**11.00**	**3,758,020**	0.00	0
GAGFAH M Immobilien-Management GmbH	09-30-2018	**11.00**	**10,534**	0.00	0
GBH Acquisition GmbH	12-31-2017	**18.33**	**289,439**	18.33	393,581
Schweizer Viertel Grundstücks GmbH	09-30-2018	**11.00**	**30,207**	0.00	0
VHB Grundstücksverwaltungsgesellschaft "Haus- und Boden-Fonds" mbH	09-30-2018	**11.00**	**13,017**	0.00	0
WBN Asset GmbH & Co. KG	12-31-2013	**12.78**	**94,055**	12.78	100,676
WOBA subgroup	04-05-2021	**9.00**	**2,023,658**	9.00	2,056,873

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:

		12-31-2013		12-31-2012	
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	10-14-2016	**11.65**	**404,421**	8.00	405,166
GAGFAH Acquisition 2 GmbH	10-20-2014	**5.00**	**48,312**	5.00	48,312
GAGFAH Erste Grundbesitz GmbH	10-20-2014	**5.00**	**471,234**	5.00	474,511
GBH Acquisition GmbH	04-22-2014	**8.00**	**295,521**	8.00	341,552
GAGFAH I Invest GmbH & Co. KG	08-20-2018	**10.00**	**3,773,449**	8.00	3,844,678
GAGFAH A Asset GmbH & Co. KG	08-20-2018	**10.00**	**109,012**	8.00	174,077
OWG Asset GmbH & Co. KG	11-20-2018	**10.00**	**189,124**	8.00	189,392
WGNorden Asset GmbH & Co. KG	11-20-2018	**10.00**	**554,038**	8.00	555,040
WBN Asset GmbH & Co. KG	11-20-2018	**10.00**	**483,355**	8.00	483,881
NILEG Residential Asset GmbH & Co. KG	11-20-2018	**10.00**	**367,076**	8.00	367,928
WOBA subgroup	05-15-2018	**10.50**	**2,157,127**	0.00	0

The obligations from minimum capex totaled € 96.4 million (prior year: € 80.4 million). In the financial year 2013 and the previous year, those obligations have been fulfilled since € 121.3 million (prior year: € 98.3 million) have been paid for repair and maintenance, thereof € 78.0 million (prior year: € 81.8 million) recognized in the line "Operating expenses for the generation of rental income" in the Consolidated Statement of Comprehensive Income, € 10.9 million (prior year: € 7.7 million) intercompany expenses (mainly personnel expenses), € 26.3 million (prior year: € 4.1 million) capitalized maintenance, € 6.1 million (prior year: € 3.7 million) expenses for damages covered by insurances and € 0.0 million (prior year: € 1.0 million) maintenance on properties for sale.

On April 20, 2012, GBH Acquisition GmbH signed a credit agreement with its current creditor for extending the loan granted by institutional lenders 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 more than demanded in the credit agreement. The latter shall be considered as fulfilled by observing the minimum threshold required by the additional agreement.

Since the term of the old loan granted by institutional lenders 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 agreement includes the commitment to spend a minimum expenditure on maintenance with an amount of € 10.50 yearly per square meter. For further information on the WOBA subgroup refinancing, we refer to section E.16.1. "Financial Liabilities".

Other financial obligations result from the GAGFAH purchase agreement concluded on September 30, 2004, between the Federal Insurance Office for Salaried Employees (Bundesversicherungsanstalt für Angestellte) (as the legal predecessor of the German Statutory Pension Insurance Scheme (Deutsche Rentenversicherung Bund), hereinafter also referred to as "DRV"), Berlin, and GAG ACQ Beteiligungs mbH, UC ACQ Beteiligungs GmbH (both as the legal predecessors of GAGFAH GmbH), GAG ACQ Ireland Limited as well as UC ACQ Ireland Limited on the acquisition of the former GAGFAH Gemeinnützige Aktien-Gesellschaft für Angestellten-Heimstätten (now GAGFAH GmbH) on the one hand and from an amendment agreement to the GAGFAH purchase agreement on the other hand that has been concluded on May 31, 2013, with effect on the above-mentioned parties, GAGFAH GmbH, various subsidiaries of GAGFAH GmbH as well as GAGFAH Holding GmbH. The main purpose of the amendment agreement is to create a clear contractual basis for the contracting parties by clarifying a number of open questions relating to the GAGFAH purchase agreement. Furthermore, the validity of certain protective clauses has been extended until September 30, 2018.

The agreement stipulates amongst others that residential property owning subsidiaries of GAGFAH GmbH invest a minimum annual average of € 11.00 per square meter of residential space for each residential unit during the period from January 1, 2013, to September 30, 2018 (pro rata temporis for 2018).

4. NUMBER OF EMPLOYEES AND PERSONNEL EXPENSES

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

	2013		2012	
	Heads	FTEs	Heads	FTEs
Real estate management	1,370	1,338	1,280	1,241
thereof facility management services	843	833	765	753
Real estate sales	32	31	29	29
Other	165	158	156	150
Total	1,567	1,527	1,465	1,420

In addition to the above-mentioned 1,567 (prior year: 1,465) employees, the Group employed 286 (prior year: 331) low-income workers and 93 (prior year: 100) trainees with the result that the total average headcount was 1,946 (prior year: 1,896).

Personnel expenses amounted to €99.4 million (prior year: €89.0 million) and break down as follows:

€ million	2013	2012
Wages and salaries	77.0	71.8
Social security	13.7	13.7
Pension costs	2.1	1.9
Other	6.6	1.6
Total	99.4	89.0

Other personnel expenses mainly contain expenses for share-based payment (equity-settled) amounting to € 6.3 million (prior year: € 1.0 million) and expenses for share-based payment (cash-settled) amounting to € 0.4 million (prior year: € 0.2 million).

Of the expenses for social security, € 5.4 million (prior year: € 5.2 million) are recognized as an expense for defined contribution plans.

The Group's contributions to the supplementary pension funds amounted to € 1.4 million (prior year: € 2.0 million). Due to the fluctuating recapitalization payments ("Sanierungsgelder"), the expected contributions for the next financial year cannot be estimated reliably.

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5. RELATED PARTY TRANSACTIONS

NATURAL PERSONS related to GAGFAH GROUP 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.

In the financial year, significant related party transactions concerned share-based remuneration and the sale of shares by members of the board of directors. Regarding the share-based remuneration of our management we refer to section F.7. "Expenses for Share-based Remuneration". The sales of shares are immediately published on our website "www.gagfah.com" under "Directors' Dealings". In the financial year 2013, 4 transactions took place in July and December, in which 280,396 shares with an equivalent of € 2.6 million were sold. In the financial year 2012, there were no sales of shares.

RELATED PARTIES of GAGFAH GROUP 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 GROUP or over which GAGFAH GROUP 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.

Of GAGFAH S. A. shares, 58.4 % are in the free float, 41.3 % are owned by investment funds controlled by Fortress Investment Group LLC and the remaining 0.3 % are treasury shares. The following two (prior year: four) of the aforementioned investment funds controlled by Fortress Investment Group LLC have shares of more than 5 %:

SHAREHOLDERS (EXCEEDING 5 %) AS OF DECEMBER 31, 2013

Shareholder	Number of Shares	%
Fortress Residential Investment Deutschland (Fund A) LP	**15,179,633**	7.03
Fortress Investment Fund III LP [1]	**12,171,742**	5.64

1 In prior year reports, the same entity was named "Fortress Investment Fund III (GAGACQ Subsidiary) LLC".

SHAREHOLDERS (EXCEEDING 5 %) 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 LP [1]	**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

1 In prior-year reports, the same entity was named "Fortress Investment Fund III (GAGACQ Subsidiary) LLC".

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.

6. MANAGEMENT

6.1. 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 acquisition, 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

Jonathan Ashley	Chairman (since January 15, 2013)
Robert I. Kauffman	Chairman (until January 15, 2013)
Thomas Zinnöcker	Director (since April 16, 2013)
Stephen Charlton	Director (until April 16, 2013)
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 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 occured in the context of his retirement from Fortress Investment Group LLC, the indirect majority shareholder of GAGFAH S. A at that time.

With effect as of January 15, 2013, the Board of Directors of GAGFAH S. A. elected Mr. Jonathan Ashley as member of and to chair the Board of Directors of GAGFAH S. A.

With effect as of April 16, 2013, the Board of Directors of GAGFAH S. A. appointed Thomas Zinnöcker as new member and successor of Stephen Charlton, who resigned from his functions as member of the Board of Directors of GAGFAH S. A. with effect on the same date.

Changes within the composition of the Board of Directors that occurred after the balance sheet date are described in section H.7. "Events after the Balance Sheet Date".

TOTAL REMUNERATION AND LOANS GRANTED Jonathan Ashley, Wesley R. Edens and Randal A. Nardone are not parties to service agreements with the Company and receive no compensation as Board members. Robert I. Kauffman and Stephen Charlton were not parties to service agreements with the Company and received no compensation as Board members. Thomas Zinnöcker serves as member of the Board of Directors and the Senior Management, Stephen Charlton served as member of the Board of Directors and the Senior Management. For details regarding the remuneration of Senior Management see below (section H.6.2. "Senior Management"). The members of the Board of Directors are reimbursed for expenses incurred through their attendances of Board meetings.

Yves Wagner, Dieter H. Ristau and Dr. Jürgen Allerkamp are party to service agreements with the Company. They receive compensation for their services as Board members and are reimbursed for their expenses on an annual basis. Such compensation consists for 2013 (net) of € 40,000.00 plus 10,000 shares in the Company. The compensation for the financial year 2012, paid in 2013, was € 25,000.00 plus 5,000 shares in the Company. The service agreements do not provide for the receipt of any benefits upon termination of such service agreements.

The total net compensation to members of the Board for the financial year 2012 was paid in 2013 and amounted to € 120,000.00 plus 30,000 shares in the Company. An amount of € 201,000.00, equaling to the aforementioned 30,000 shares with a (net) average price of € 6.70, was deducted from treasury shares. We refer to section E.11. "Equity". In addition, we provide all Board members with directors' and officers' insurance.

As of December 31, 2013, no advances or loans had been granted to members of the Board.

6.2. 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 Thomas Zinnöcker, 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 Thomas Zinnöcker 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

Thomas Zinnöcker	Chief Executive Officer (CEO) (since April 16, 2013)
Stephen Charlton	Chief Executive Officer (CEO) (until April 16, 2013) Member of Senior Management (until May 2, 2013)
Gerald Klinck	Chief Financial Officer (CFO)
Nicolai Kuss	Chief Operating Officer (COO)

Thomas Zinnöcker has been appointed Chief Executive Officer (CEO) of the GAGFAH GROUP with effect as of April 16, 2013, and Stephen Charlton has resigned as Chief Executive Officer (CEO) with effect as of April 16, 2013 and from his position as member of the management of GAGFAH GROUP with effect as of May 2, 2013.

TOTAL REMUNERATION AND LOANS GRANTED Current management remuneration comprises a fixed, a variable and a share-based component. In the financial year 2013, the Senior Management received fixed and variable remuneration totaling € 2.5 million (prior year: € 2.5 million) for the performance of their duties within the Group.

Of this amount, € 1.2 million (prior year: € 1.3 million) relate to fixed remuneration, € 1.1 million (prior year: € 1.2 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 € 1.3 million (prior year: € 1.2 million) includes annually recurring components linked to the success of the Company.

Non-cash expenses for share-based remuneration amounted to € 6.3 million (prior year: € 1.0 million).

Furthermore, claims from former equity-settled share based remuneration plans amounting to € 5.3 million (prior year: € 1.9 million) were settled in cash in the financial year 2013.

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. Severance payments in the financial year amounted to € 0.3 million (prior year: € 1.9 million).

As of December 31, 2013, no advances or loans had been granted to managers.

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

Pensions totaling € 0.7 million (prior year: € 0.6 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.

7. EVENTS AFTER THE BALANCE SHEET DATE

NEW CHAIRMAN OF GAGFAH S. A. In its meeting on March 25, 2014, the Board of Directors of GAGFAH S. A. coopted Gerhard Zeiler as new Board Member and appointed him as Chairman. Mr. Zeiler succeeded Jonathan Ashley, who resigned from the Board as of the same date. This change results in reducing the number of Fortress-affiliated Board Members from three to two.

Austrian-native Gerhard Zeiler is an internationally renowned media manager and currently serves as President of Turner Broadcasting System International, a Time Warner company. Prior to his current position at Turner Broadcasting System International, Mr. Zeiler held leading positions within the RTL Group, Europe's leading entertainment network, and between 2003 and 2012, he was the CEO of RTL Group and Member of the Executive Board of Bertelsmann Group.

In the months prior to this decision, several important strategic decisions had helped to sharpen GAGFAH GROUP's strategy back more onto the operating business and to reposition the GAGFAH GROUP as an independent, leading listed player in the German residential sector. These milestones included the portfolio strategy with a focus on the 30 largest cities, the development of a €250 million value-enhancing investment program, the initiation of an operational improvement program and the selling of a total of 35 million GAGFAH shares by Fortress Investment Group in the second half of 2013, reducing their stake from more than 60 % down to about 41 %. In light of these developments, the Board of Directors felt it was the right time to make a change within the Board.

REVOLVING LOAN FACILITY For working capital purposes, on March 21, 2014, GAGFAH Holding GmbH negotiated a revolving loan facility in the amount of € 25.0 million.

This revolving loan facility has a maturity of one year until March 21, 2015, and can be utilized in tranches of at least € 2.5 million.

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OTHER

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LIST OF SHAREHOLDINGS

FORMATIONS IN THE FINANCIAL YEAR 2013

Fully consolidated subsidiaries

Parent company	Subsidiary	Date of formation	Date of entry into the commercial register
Stichting GRF 2013-1[1]	GERMAN RESIDENTIAL FUNDING 2013-1 LIMITED	April 26, 2013	April 26, 2013
Stichting GRF 2013-2[1]	GERMAN RESIDENTIAL FUNDING 2013-2 LIMITED	September 26, 2013	October 4, 2013
GAGFAH M Immobilien-Management GmbH	GAGFAH Achte Wohnen GmbH & Co. KG	January 21, 2013	January 24, 2013

1 Stichting GRF 2013-1 and Stichting GRF 2013-2 are no subsidiaries of GAGFAH GROUP. GAGFAH GROUP has to consolidate GERMAN RESIDENTIAL FUNDING 2013-1 LIMITED and GERMAN RESIDENTIAL FUNDING 2013-2 LIMITED acc. to IFRS 10 (see section B.2.1. “Subsidiaries”).

DECONSOLIDATIONS IN THE FINANCIAL YEAR 2013

Fully consolidated subsidiaries

Parent company	Subsidiary	Date of liquidation	Date of deconsolidation
GAGFAH I Invest GmbH & Co. KG	Haus- und Boden-Fonds 5	April 30, 2013	June 30, 2013
GAGFAH I Invest GmbH & Co. KG	Haus- und Boden-Fonds 7	June 30, 2013	August 31, 2013
GAGFAH I Invest GmbH & Co. KG	Haus- und Boden-Fonds 8	April 30, 2013	June 30, 2013
GAGFAH I Invest GmbH & Co. KG	Haus- und Boden-Fonds 10	April 30, 2013	June 30, 2013
GAGFAH I Invest GmbH & Co. KG	Haus- und Boden-Fonds 13	April 30, 2013	June 30, 2013
GAGFAH I Invest GmbH & Co. KG	Haus- und Boden-Fonds 35	April 30, 2013	June 30, 2013

MERGER BY WAY OF ACCRETION IN THE FINANCIAL YEAR 2013

Fully consolidated subsidiaries

Parent company	Subsidiary	Date of merger by way of accretion
GAGFAH GmbH	GAGFAH Erste Wohnen GmbH & Co. KG	May 31, 2013
GAGFAH GmbH	GAGFAH Zweite Wohnen GmbH & Co. KG	May 31, 2013
GAGFAH GmbH	GAGFAH Dritte Wohnen GmbH & Co. KG	May 31, 2013
GAGFAH GmbH	GAGFAH Vierte Wohnen GmbH & Co. KG	May 31, 2013
GAGFAH GmbH	GAGFAH Fünfte Wohnen GmbH & Co. KG	May 31, 2013
GAGFAH GmbH	GAGFAH Sechste Wohnen GmbH & Co. KG	May 31, 2013
GAGFAH M Immobilien-Management GmbH	GAGFAH Siebte Wohnen GmbH & Co. KG	May 31, 2013
GAGFAH M Immobilien-Management GmbH	GAGFAH Achte Wohnen GmbH & Co. KG	May 31, 2013

LIST OF SHAREHOLDINGS AS OF DECEMBER 31, 2013

Fully consolidated subsidiaries

	Company name	Registered office	Activity	Share in capital 2013	Share in capital 2012	Held by No.[1]
1	GAGFAH S. A.	Luxembourg, Luxembourg	Holding / Staff			
2	GAGFAH Holding GmbH	Essen, Germany	Holding / Staff	100.00 %	100.00 %	1
3	KALIRA Grundstücks-Verwaltungs-gesellschaft mbH	Gruenwald, Germany	Holding / Staff	94.80 %	94.80 %	2
4	KALIRA Grundstücksgesellschaft mbH & Co. KG	Gruenwald, Germany	Holding / Staff	94.90 %	94.90 %	2
5	GAGFAH Verwaltung GmbH	Essen, Germany	Holding / Staff	100.00 %	100.00 %	2
6	DW Management GmbH	Essen, Germany	Facility Management	100.00 %	100.00 %	5
7	GAG ACQ Ireland Limited	Clonee, Ireland	Holding / Staff	100.00 %	100.00 %	1
8	UC ACQ Ireland Limited	Clonee, Ireland	Holding / Staff	0.00 %	0.00 %	N/A
9	GAGFAH Operations Advisor GmbH	Essen, Germany	Other	83.00 % 17.00 %	83.00 % 17.00 %	7 8
10	Fortalis GmbH	Essen, Germany	Other	100.00 %	100.00 %	2
11	GAGFAH GmbH	Essen, Germany	Holding / Staff	82.48 % 17.52 %	82.48 % 17.52 %	2 8
12	GAGFAH M Immobilien-Management GmbH	Essen, Germany	Holding / Staff	94.00 % 6.00 %	94.00 % 6.00 %	13 (11) 11 (13)
13	GAGFAH I Invest GmbH & Co. KG	Essen, Germany	Leasing of invest-ment properties	100.00 %	100.00 %	11
14	GAGFAH B Beteiligungs GmbH	Essen, Germany	Holding / Staff	51.00 % 48.60 %	51.00 % 48.60 %	4 12
15	GAGFAH A Asset GmbH & Co. KG	Essen, Germany	Leasing of invest-ment properties	100.00 %	100.00 %	12
16	VHB Facility Management GmbH	Essen, Germany	Facility Management	100.00 %	100.00 %	12
17	Neues Schweizer Viertel Betriebs+Service GmbH & Co. KG	Berlin, Germany	Other	94.99 %	94.99 %	12
18	Schweizer Viertel Grundstücks GmbH	Berlin, Germany	Leasing of invest-ment properties	94.74 % 5.26 %	94.74 % 5.26 %	12 17
19	IVS Immobilienversicherungsservice GmbH	Muelheim an der Ruhr, Germany	Other	100.00 %	100.00 %	12
20	HaBeGe Bau- und Projektentwicklungsgesellschaft mbH	Essen, Germany	Other	94.90 % 5.10 %	94.90 % 5.10 %	12 4
21	Instandhaltungs-Service GmbH (ISG)	Essen, Germany	Facility Management	100.00 %	100.00 %	16
22	Grünflächen-Service GmbH (GSG)	Essen, Germany	Facility Management	100.00 %	100.00 %	16
23	Haus- und Boden-Fonds 6	Essen, Germany	Leasing of invest-ment properties	88.66 %	88.66 %	13
24	Haus- und Boden-Fonds 9	Essen, Germany	Leasing of invest-ment properties	72.85 %	72.85 %	13
25	Haus- und Boden-Fonds 11	Essen, Germany	Leasing of invest-ment properties	73.16 %	73.16 %	13

1 Different percentage per shareholder, prior year in brackets

LIST OF SHAREHOLDINGS AS OF DECEMBER 31, 2013

Fully consolidated subsidiaries

	Company name	Registered office	Activity	Share in capital 2013	Share in capital 2012	Held by No.[1]
26	Haus- und Boden-Fonds 12	Essen, Germany	Leasing of investment properties	81.05 %	81.05 %	13
27	Haus- und Boden-Fonds 14	Essen, Germany	Leasing of investment properties	63.06 %	63.06 %	13
28	Haus- und Boden-Fonds 15	Essen, Germany	Leasing of investment properties	70.60 %	70.60 %	13
29	Haus- und Boden-Fonds 18	Essen, Germany	Leasing of investment properties	71.59 %	71.59 %	13
30	Haus- und Boden-Fonds 19	Essen, Germany	Leasing of investment properties	74.20 %	74.20 %	13
31	Haus- und Boden-Fonds 21	Essen, Germany	Leasing of investment properties	71.23 %	71.23 %	13
32	Haus- und Boden-Fonds 23	Essen, Germany	Leasing of investment properties	54.44 %	54.44 %	13
33	Haus- und Boden-Fonds 29	Essen, Germany	Leasing of investment properties	62.60 %	62.60 %	13
34	Haus- und Boden-Fonds 33	Essen, Germany	Leasing of investment properties	57.10 %	57.10 %	13
35	Haus- und Boden-Fonds 37	Essen, Germany	Leasing of investment properties	47.97 %	47.97 %	13
36	Haus- und Boden-Fonds 38	Essen, Germany	Leasing of investment properties	54.15 %	54.15 %	13
37	GERMAN RESIDENTIAL FUNDING 2013-1 LIMITED	Dublin, Ireland	Financing	0.00 %	—	N/A
38	NILEG Immobilien Holding GmbH	Hanover, Germany	Holding/Staff	94.80 % 5.20 %	94.80 % 5.20 %	2 1
39	NILEG Real Estate GmbH	Hanover, Germany	Holding/Staff	94.81 % 5.19 %	94.81 % 5.19 %	38 4
40	NILEG Real Estate GmbH & Co. Management KG	Hanover, Germany	Holding/Staff	94.90 % 5.10 %	94.90 % 5.10 %	38 4
41	NILEG Norddeutsche Immobiliengesellschaft mbH	Hanover, Germany	Holding/Staff	94.86 % 5.14 %	94.86 % 5.14 %	38 40
42	GAGFAH S Service GmbH	Essen, Germany	Other	100.00 %	100.00 %	38
43	Osnabrücker Wohnungsbaugesellschaft mit beschränkter Haftung	Osnabruck, Germany	Holding/Staff	94.09 % 5.91 %	94.09 % 5.91 %	38 4
44	OWG Beteiligungs GmbH	Hanover, Germany	Holding/Staff	100.00 %	100.00 %	43
45	OWG Asset GmbH & Co. KG	Osnabruck, Germany	Leasing of investment properties	100.00 %	100.00 %	43
46	NILEG Norddeutsche Beteiligungs GmbH	Hanover, Germany	Holding/Staff	100.00 %	100.00 %	41
47	NILEG Commercial Asset GmbH & Co. KG	Hanover, Germany	Leasing of investment properties	100.00 %	100.00 %	41
48	NILEG Residential Asset GmbH & Co. KG	Hanover, Germany	Leasing of investment properties	100.00 %	100.00 %	41
49	Wohnungsgesellschaft Norden mbH	Hanover, Germany	Holding/Staff	94.88 %	94.88 %	41
50	WGNorden Beteiligungs GmbH	Hanover, Germany	Holding/Staff	100.00 %	100.00 %	49

1 Different percentage per shareholder, prior year in brackets

LIST OF SHAREHOLDINGS AS OF DECEMBER 31, 2013

Fully consolidated subsidiaries

	Company name	Registered office	Activity	Share in capital 2013	Share in capital 2012	Held by No.[1]
51	WGNorden Asset GmbH & Co. KG	Hanover, Germany	Leasing of investment properties	100.00 %	100.00 %	49
52	Wohnungsbau Niedersachsen GmbH	Hanover, Germany	Holding/Staff	94.85 %	94.85 %	49
53	VHB FM GmbH	Essen, Germany	Facility Management	100.00 %	100.00 %	52
54	WBN Beteiligungs GmbH	Hanover, Germany	Holding/Staff	100.00 %	100.00 %	52
55	WBN Asset GmbH & Co. KG	Hanover, Germany	Leasing of investment properties	100.00 %	100.00 %	52
56	GERMAN RESIDENTIAL FUNDING 2013-2 LIMITED	Dublin, Ireland	Financing	0.00 %	—	N/A
57	WOBA HOLDING GMBH	Dresden, Germany	Holding/Staff	94.80 % 5.20 %	94.80 % 5.20 %	2 1
58	Opera Co-Acquisition GP GmbH	Dresden, Germany	Holding/Staff	94.80 %	94.80 %	57
59	Opera Co-Acquisition GmbH & Co. KG	Dresden, Germany	Holding/Staff	94.90 %	94.90 %	57
60	WOBA DRESDEN GMBH	Dresden, Germany	Holding/Staff	100.00 %	100.00 %	57
61	Immo Service Dresden GmbH	Dresden, Germany	Facility Management	100.00 %	100.00 %	60
62	Dienstleistungs- und Bauhof Dresden GmbH	Dresden, Germany	Facility Management	100.00 %	100.00 %	61
63	Bau- und Siedlungsgesellschaft Dresden mbH	Dresden, Germany	Leasing of investment properties	94.73 % 5.27 %	94.73 % 5.27 %	60 59
64	Liegenschaften Weißig GmbH	Dresden, Germany	Leasing of investment properties	94.75 % 5.25 %	94.75 % 5.25 %	60 59
65	WOHNBAU NORDWEST GmbH	Dresden, Germany	Leasing of investment properties	94.90 % 5.10 %	94.90 % 5.10 %	60 59
66	SÜDOST WOBA DRESDEN GMBH	Dresden, Germany	Leasing of investment properties	94.90 % 5.10 %	94.90 % 5.10 %	60 59
67	Parkhaus Prohlis GmbH	Dresden, Germany	Other	70.00 %	70.00 %	66
68	12. CR Immobilien-Vermietungsgesellschaft mbH & Co. SÜDOST WOBA Striesen KG	Leipzig, Germany	Other	0.02 %	0.02 %	66
69	WOHNBAU NORDWEST Dienstleistungen GmbH	Dresden, Germany	Other	100.00 %	100.00 %	2
70	GAGFAH Acquisition 1 GmbH	Essen, Germany	Leasing of investment properties	94.80 % 5.20 %	94.80 % 5.20 %	2 1
71	GAGFAH Acquisition 2 GmbH	Essen, Germany	Leasing of investment properties	94.80 % 5.20 %	94.80 % 5.20 %	2 1
72	GAGFAH Erste Grundbesitz GmbH	Essen, Germany	Leasing of investment properties	94.80 % 5.20 %	94.80 % 5.20 %	2 4
73	GBH Acquisition GmbH	Essen, Germany	Leasing of investment properties	94.80 % 5.20 %	94.80 % 5.20 %	2 1
74	GBH Service GmbH	Heidenheim an der Brenz, Germany	Other	100.00 %	100.00 %	73
75	GBH Heidenheim Verwaltung GmbH	Heidenheim an der Brenz, Germany	Other	100.00 %	100.00 %	73

1 Different percentage per shareholder, prior year in brackets

LIST OF SHAREHOLDINGS AS OF DECEMBER 31, 2013

Joint Ventures consolidated at equity

	Company name	Registered office	Share in capital 2013	Share in capital 2012	Held by No.
76	Objekt Dresden GbR	Hanover, Germany	50.00 %	50.00 %	41
77	Grundstücksentwicklungsgesellschaft Oesselse "Langes Feld" GbR	Essen, Germany	50.00 %	50.00 %	41
78	Wolmirstedt GbR	Essen, Germany	50.00 %	50.00 %	41
79	Möser GbR	Essen, Germany	50.00 %	50.00 %	41

Purpose of the above listed joint ventures are all activities in connection with the development and marketing of precisely defined sites.

LIST OF SHAREHOLDINGS AS OF DECEMBER 31, 2013

Other financial assets of 20 % or more

	Company name	Registered office	Share in capital	Total equity € k	Net result € k	Held by No.
80	Hannover Region Grundstücksgesellschaft Verwaltung mbH & Co. Businesspark Hannover Nord KG	Hanover, Germany	33.33 %	574[1]	– 590[1]	41

1 As of December 31, 2012 (last available published financial statements).

STATEMENT OF CHANGES IN CONSOLIDATED NON-CURRENT ASSETS

FOR THE PERIOD FROM JANUARY 1 TO DECEMBER 31, 2013

€ million

	Acquisition or production cost				
	January 1, 2013	Additions	Disposals	Reclassifications	December 31, 2013
Intangible Assets					
Industrial rights	9.1	0.5	− 0.1	0.0	9.5
Goodwill	18.3	0.0	0.0	0.0	18.3
	27.4	**0.5**	**− 0.1**	**0.0**	**27.8**
Property, plant and equipment					
Land and buildings (owner-occupied)	48.0	0.0	− 3.9	− 6.9	37.2
Technical equipment and machines	4.7	0.0	0.0	0.5	5.2
Other equipment, furniture and fixtures	13.7	1.1	− 1.4	0.0	13.4
Assets under construction	0.3	0.2	0.0	− 0.5	0.0
	66.7	**1.3**	**− 5.3**	**− 6.9**	**55.8**
Other financial assets					
Investments in associates and joint ventures	4.0	0.0	0.0	0.0	4.0
Investments	2.6	0.0	0.0	0.0	2.6
Other loan receivables	0.2	0.0	− 0.1	0.0	0.1
Other financial assets	3.2	0.0	0.0	0.0	3.2
Derivative financial instruments measured at fair value	0.0	9.2	0.0	0.0	9.2
Financial receivables	0.0	0.8	0.0	0.0	0.8
	10.0	**10.0**	**− 0.1**	**0.0**	**19.9**
Total	**104.1**	**11.8**	**− 5.5**	**− 6.9**	**103.5**

Accumulated depreciation				Book value
January 1, 2013	Additions	Disposals	December 31, 2013	**December 31, 2013**
– 8.5	– 0.4	0.1	– 8.8	**0.7**
– 1.2	0.0	0.0	– 1.2	**17.1**
– 9.7	**– 0.4**	**0.1**	**– 10.0**	**17.8**
– 12.3	– 0.7	3.9	– 9.1	**28.1**
– 3.0	– 0.5	0.0	– 3.5	**1.7**
– 10.4	– 1.3	1.4	– 10.3	**3.1**
0.0	0.0	0.0	0.0	**0.0**
– 25.7	**– 2.5**	**5.3**	**– 22.9**	**32.9**
0.0	0.0	0.0	0.0	**4.0**
– 1.7	0.0	0.0	– 1.7	**0.9**
0.0	0.0	0.0	0.0	**0.1**
0.0	0.4	0.0	0.4	**3.6**
0.0	0.0	0.0	0.0	**9.2**
0.0	0.0	0.0	0.0	**0.8**
– 1.7	**0.4**	**0.0**	**– 1.3**	**18.6**
– 37.1	**– 2.5**	**5.4**	**– 34.2**	**69.3**

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	Change of accounting policies	January 1, 2012 (adjusted)	Additions	Disposals	Reclassi-fications	December 31, 2012 (adjusted)
Intangible Assets							
Industrial rights	8.8	0.0	8.8	0.3	0.0	0.0	9.1
Goodwill	18.3	0.0	18.3	0.0	0.0	0.0	18.3
	27.1	**0.0**	**27.1**	**0.3**	**0.0**	**0.0**	**27.4**
Property, plant and equipment							
Land and buildings (owner-occupied)	47.0	0.0	47.0	0.0	0.0	1.0	48.0
Technical equipment and machines	4.7	0.0	4.7	0.0	0.0	0.0	4.7
Other equipment, furniture and fixtures	14.5	0.0	14.5	1.1	– 1.9	0.0	13.7
Assets under construction	0.1	0.0	0.1	0.2	0.0	0.0	0.3
	66.3	**0.0**	**66.3**	**1.3**	**– 1.9**	**1.0**	**66.7**
Other financial assets							
Investments in associates and joint ventures [1]	0.0	4.0	4.0	0.0	0.0	0.0	4.0
Investments	2.6	0.0	2.6	0.0	0.0	0.0	2.6
Other loan receivables	0.2	0.0	0.2	0.0	0.0	0.0	0.2
Other financial assets	3.2	0.0	3.2	0.0	0.0	0.0	3.2
Derivative financial instruments measured at fair value	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financial receivables	0.0	0.0	0.0	0.0	0.0	0.0	0.0
	6.0	**4.0**	**10.0**	**0.0**	**0.0**	**0.0**	**10.0**
Total	**99.4**	**4.0**	**103.4**	**1.6**	**– 1.9**	**1.0**	**104.1**

1 For the joint ventures, the change from proportionate consolidation to equity method acc. to IFRS 11 resulted in positive net assets and therefore in an equity investment of € 4.0 million. For further information see section E.4. "Other Financial Assets".

	Accumulated depreciation						**Book value**
	January 1, 2012	Change of accounting policies	January 1, 2012 (adjusted)	Additions	Disposals	December 31, 2012 (adjusted)	**December 31, 2012 (adjusted)**
	– 8.3	0.0	– 8.3	– 0.2	0.0	– 8.5	**0.6**
	0.0	0.0	0.0	– 1.2	0.0	– 1.2	**17.1**
	– 8.3	**0.0**	**– 8.3**	**– 1.4**	**0.0**	**– 9.7**	**17.7**
	– 11.3	0.0	– 11.3	– 1.0	0.0	– 12.3	**35.7**
	– 2.6	0.0	– 2.6	– 0.4	0.0	– 3.0	**1.7**
	– 10.8	0.0	– 10.8	– 1.5	1.9	– 10.4	**3.3**
	0.0	0.0	0.0	0.0	0.0	0.0	**0.3**
	– 24.7	**0.0**	**– 24.7**	**– 2.9**	**1.9**	**– 25.7**	**41.0**
	0.0	0.0	0.0	0.0	0.0	0.0	**4.0**
	– 1.7	0.0	– 1.7	0.0	0.0	– 1.7	**0.9**
	0.0	0.0	0.0	0.0	0.0	0.0	**0.2**
	– 0.3	0.0	– 0.3	0.0	0.3	0.0	**3.2**
	0.0	0.0	0.0	0.0	0.0	0.0	**0.0**
	0.0	0.0	0.0	0.0	0.0	0.0	**0.0**
	– 2.0	**0.0**	**– 2.0**	**0.0**	**0.3**	**– 1.7**	**8.3**
	– 35.0	**0.0**	**– 35.0**	**– 4.3**	**2.2**	**– 37.1**	**67.0**

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.

Gerhard Zeiler

Dr. Jürgen Allerkamp

Wesley R. Edens

Randal A. Nardone

Dieter H. Ristau

Yves Wagner, Ph.D.

Thomas Zinnöcker

Luxembourg, March 25, 2014

INDEPENDENT AUDITOR'S REPORT

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

REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS We have audited the accompanying consolidated financial statements of GAGFAH S. A., which comprise the consolidated statement of financial position as at December 31, 2013, the consolidated statement of comprehensive income, the consolidated statement of cash flows and the statement of changes in consolidated equity 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, 2013, 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 25, 2014

GLOSSARY

ADJUSTED EBITDA
Adjusted EBITDA is the EBITDA as reported in the statement of comprehensive income adjusted for certain non-cash and non-recurring items.

ADJUSTED PRIOR-YEAR NUMBERS
Certain prior-year numbers had to be adjusted as a consequence of changes in IFRS accounting policies, which require a different accounting treatment of pensions and joint ventures. Please see sections A., B. and E. in the Notes to this report for further details on the IFRS changes and their impact on our prior-year numbers.

BLOCK SALES
Block sales describe the sale of a larger number of units and are usually made in the context of the disposal of our regional non-core assets.

CAD
Cash available for distribution is calculated as Adjusted FFO minus additional cash items not included in the Adjusted FFO, such as mandatory amortization, EK 02 payments or refinancing fees.

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 external appraiser who carries out the external valuation of our portfolio.

CMBS
Commercial Mortgage-backed Securities are Asset-backed Securities (ABS) which are backed by commercial mortgage loans. Asset-backed Securities: Particular type of securitized payment receivables in the form of tradable securities. These securities are created by the repackaging of certain financial assets securitization.

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.

EOP
End of period.

EPRA
European Real Estate Association. Founded in 1999, EPRA is one of the real estate industry's leading organizations. Please see www.epra.com for further details.

FUNDS FROM OPERATIONS (FFO)

Recurring FFO before sales is calculated as EBITDA, adjusted for non-cash interest expenses and current tax expenses.

FFO including sales is calculated as recurring FFO before sales plus gross sales proceeds and minus sales expenses and debt repaid as a consequence of those sales.

Adjusted FFO is calculated as FFO including sales adjusted by capex investments.

FFO per share figures are calculated by dividing the nominal amount by the undiluted weighted average number of shares (excluding treasury shares) for the respective period.

GRF

German Residential Funding (GRF) refers to the commercial mortgage-backed security debt on the original GAGFAH portfolio.

HB FUNDS

The HB Funds are comprised of 14 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 held in 20 different funds, 6,814 have already been sold as of the reporting date and six funds have been liquidated. The remaining 316 units are held in one HB Fund. 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.

LIKE-FOR-LIKE BASIS

Residential units GAGFAH owned at both dates: as of the current reporting date and as of the comparable prior-year reporting date.

LOAN-TO-VALUE (LTV)

The loan-to-value is calculated as the net debt (financial liabilities minus cash) divided by the total asset value including owner-occupied properties.

NET OPERATING INCOME (NOI)

Net operating income (also referred to as 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.

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

REPAIRS AND MAINTENANCE (R & M)

The work that is done for fixing or upkeeping an apartment. R & M expenses are not capitalized.

VACANCY

A unit is considered vacant if there is no valid lease agreement in place as of the respective date.

EXTERNAL SOURCES

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

BMVBS
(Bundesministerium für Verkehr, Bau und Stadtentwicklung) 2013: Wohnen und Bauen in Zahlen 2012 / 2013.

BUREAU OF INTERNATIONAL RECYCLING 2014
online via http://www.bir.org/industry/textiles

DEMOGRAFIEPORTAL DES BUNDES UND DER LÄNDER (2012)
Regionale Bevölkerungsentwicklung bis 2030: Ballungsräume wachsen noch.

DEUTSCHE BUNDESBANK (2013)
IWF zeichnet verhaltenes Bild der Weltwirtschaft. October 10, 2013.

DV AND GIF (DEUTSCHER VERBAND FÜR WOHNUNGSWESEN, STÄDTEBAU UND RAUMORDNUNG E. V. UND GESELLSCHAFT FÜR IMMOBILIENWIRTSCHAFTLICHE FORSCHUNG E. V.) (2013)
Wirtschaftsfaktor Immobilien 2013 – Gesamtwirtschaftliche Bedeutung der Immobilienwirtschaft.

EMPIRICA (2014)
empirica-Immobilienpreisindex IV / 2013. January 2014

FEDERAL STATISTICS OFFICE (2010)
Anteil der in Städten lebenden Bevölkerung von 1950 bis 2030 in Deutschland und weltweit. March 2010.

FEDERAL STATISTICS OFFICE (2011A)
Bevölkerung und Erwerbstätigkeit – Entwicklung der Privathaushalte bis 2030. March 30, 2011.

FEDERAL STATISTICS OFFICE (2011B)
Demografischer Wandel in Deutschland – Bevölkerungs- und Haushaltsentwicklung im Bund und in den Ländern. March 30, 2011.

FEDERAL STATISTICS OFFICE (2012)
Bauen und Wohnen 2011. Baugenehmigungen / Baufertigstellungen nach Bauweise. August 7, 2012.

FEDERAL STATISTICS OFFICE (2013A)
Volkswirtschaftliche Gesamtrechnung. Beiheft zur Fachserie 18. November 28, 2013.

FEDERAL STATISTICS OFFICE (2013B)
Arbeitslosenquote in Deutschland.
online via http://de.statista.com

FEDERAL STATISTICS OFFICE (2014A)
Verbraucherpreise 2013: + 1,5 % gegenüber dem Vorjahr 2012. Press Release January 16, 2014.

FEDERAL STATISTICS OFFICE (2014B)
Bautätigkeit – Baugenehmigungen im Hochbau.
online via http://de.statista.com

FEDERAL STATISTICS OFFICE (2014C)
Bautätigkeit – Wohnungsbestand in Deutschland.
online via http://de.statista.com

FEDERAL STATISTICS OFFICE (2014D)
Anteil der in Städten lebenden Bevölkerung von 1950 bis 2030 in Deutschland und weltweit.
online via http://de.statista.com

GDW (BUNDESVERBAND DEUTSCHER WOHNUNGS- UND IMMOBILIENUNTERNEHMEN E. V.) 201
Wohnungswirtschaftliche Daten und Trends 2013 / 2014.

IFO INSTITUT (2013)
Entwicklung des Wohnungsbaus in Deutschland bis 2016. February 2013.

KEY FIGURES

PORTFOLIO

		Dec. 31, 2013	Dec. 31, 2012	please see also page(s)
Residential units	units	**143,196**	145,035	32, 33
Total units [1]	units	**152,996**	155,669	32, 33
Residential sqm	'000	**8,698,913**	8,815,946	32, 33, 53
Total sqm [1]	'000	**8,866,802**	9,146,553	32, 33, 53

1 Including all income-generating units. Garages and other properties included with a factor of 1/6

OPERATIONAL FIGURES (RESIDENTIAL PORTFOLIO)

		Dec. 31, 2013	Dec. 31, 2012	please see also page(s)
Net cold rent	€/sqm	**5.21**	5.15	52, 32–33
Vacancy rate	%	**4.1**	5.0	57, 32–33
Fluctuation	%	**10.9**	11.7	53

SALES

		2013	2012	please see also page(s)
Single-unit sales				
Units sold	units	**613**	937	59
Gross proceeds	€ million	**58.0**	82.0	59
FFO contribution	€ million	**21.7**	24.8	59
Other sales				
Units sold	units	**1,388**	2,750	59
Gross proceeds	€ million	**86.1**	131.1	59
FFO contribution	€ million	**24.8**	31.8	59

INCOME STATEMENT

		2013	2012	please see also page(s)
Rental income, fees, other	€ million	**555.7**	567.8	57, 58
NOI	€ million	**372.6**	385.5	58
Profit from sales	€ million	**15.5**	18.2	59
EBIT	€ million	**335.1**	335.1	60
Result from the fair value measurement of investment property	€ million	**5.4**	– 13.4	59

STATEMENT OF FINANCIAL POSITION

		Dec. 31, 2013	Dec. 31, 2012 (adjusted)	please see also page(s)
Investment property	€ million	**7,633.7**	7,741.5	117
Assets held for sale	€ million	**48.6**	31.0	132
Bank balances and cash on hand	€ million	**101.9**	175.9	131
Total assets	€ million	**7,959.8**	8,111.6	74
Total equity	€ million	**2,272.3**	2,089.4	133
Financial liabilities	€ million	**4,874.3**	5,231.1	150
Total equity and liabilities	€ million	**7,959.8**	8,111.6	74

KPIs

		2013	2012	please see also page(s)
Adjusted EBITDA	€ million	**335.3**	351.8	3
Recurring FFO before sales	€ million	**123.7**	108.9	3
FFO including sales	€ million	**170.2**	165.7	4
Adjusted FFO (AFFO)	€ million	**143.9**	161.6	4
Cash available for distribution (CAD)	€ million	**– 76.5**	104.6	4
No. of shares (weighted average, undiluted, excluding treasury shares)	million	**204.8**	199.2	4
Adjusted EBITDA	€ / share	**1.64**	1.77	3
Recurring FFO before sales	€ / share	**0.60**	0.56	3
FFO including sales	€ / share	**0.83**	0.83	4
Adjusted FFO (AFFO)	€ / share	**0.70**	0.81	4
Cash available for distribution (CAD)	€ / share	**– 0.37**	0.53	4
EPRA NAV (undiluted)	€ / share	**13.07**	13.27	61
NCR multiple (target rent)	factor	**13.3**	13.3	32
NCR multiple (in-place rent)	factor	**14.0**	13.9	N / A

LTV

		Dec. 31, 2013	Dec. 31, 2012 (adjusted)
Net debt [1]	€ million	**4,722.4**	5,055.3
Asset value (incl. owner-occupied properties)	€ million	**7,710.4**	7,808.2
LTV	%	**61.9**	64.7

1 Financial liabilities minus bank balances and cash on hand

5-YEAR OVERVIEW

5-YEAR OVERVIEW

		2013	2012	2011	2010	2009
Rental Income, fees, other	€ million	**555.7**	567.8	595.7	631.8	667.3
NOI	€ million	**372.6**	385.5	419.6	460.1	486.3
Recurring FFO before sales [1]	€ million	**123.7**	108.9	113.6	157.4	166.1
Recurring FFO before sales [1]	€ / share	**0.60**	0.56	0.52	0.70	0.74
Investment property and assets held for sale	€ million	**7,682.3**	7,772.5	7,975.0	8,706.7	9,289.3
Total assets	€ million	**7,959.8**	8,111.6	8,365.4	9,261.7	9,777.3
Total equity	€ million	**2,272.3**	2,100.4	2,136.9	2,302.7	2,457.7
Financial liabilities	€ million	**4,874.3**	5,231.1	5,427.9	6,011.2	6,525.3
EPRA NAV	€ / share	**13.07**	13.27	12.53	12.17	12.60
No of shares (eop)	million	**215.3**	195.3	206.5	225.1	225.9
No of shares (weighted average)	million	**204.8**	199.2	218.8	225.9	225.8

1 2009–2011 based on prior FFO definition

FINANCIAL CALENDAR

APRIL 1, 2014
Commerzbank Real Estate Day (London)

APRIL 3, 2014
HSBC Real Estate Conference (Frankfurt am Main)

APRIL 7-10, 2014
Management Roadshow (USA)

MAY 7, 2014
Publication of Interim Financial Report as of March 31, 2014, and Earnings Call

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MAY 19-20, 2014
Management Roadshow (London)

MAY 22, 2014
Warburg Highlights (Hamburg)

MAY 23, 2014
Management Roadshow (Zurich)

JUNE 4, 2014
Kempen Conference (Amsterdam)

JUNE 12, 2014
Annual General Meeting

AUGUST 13, 2014
Publication of Interim Financial Report as of June 30, 2014, and Earnings Call

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SEPTEMBER 10-11, 2014
Bank of America Merrill Lynch Conference (New York)

SEPTEMBER 22, 2014
Goldman Sachs / Berenberg German Corporate Conference (Munich)

SEPTEMBER 23, 2014
Baader Bank Investment Conference (Munich)

SEPTEMBER 24–25, 2014
EPRA Conference (London)

NOVEMBER 13, 2014
Publication of Interim Financial Report as of September 30, 2014, and Earnings Call

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Please see the Company's website www.gagfah.com (→ Investor Relations → Financial Calendar) for the most recent overview of upcoming events.

DISCLAIMER

FORWARD-LOOKING STATEMENTS

This Interim 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.

ROUNDING EFFECTS

Percentages and figures in this report may include rounding effects.

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GAGFAH S. A. is a joint stock corporation organized under the laws of the Grand Duchy of Luxembourg qualifying as a securitization company under the Luxembourg Securitization Law of March 22, 2004. The core business of GAGFAH S.A.'s operating subsidiaries is the ownership and management of a residential property portfolio located in Germany.