ANNUAL REPORT

AS OF 31 DECEMBER 2013
ISARIA WOHNBAU AG

ISARIA Wohnbau Group Key Parameters

OPERATING PERFORMANCE INDICATORS IN € MILLION	01/01/ – 12/31/2013	01/01/ – 12/31/2012	Q4 2013	Q4 2012
Sales revenue	37.7	79.2	18.1	39.2
Total output	42.4	61.5	16.0	19.0
Gross profit	13.0	21.8	2.4	7.6
EBIT	3.0	12.6	-0.7	2.0
Consolidated result after taxes	1.1	1.2	4.5	3.7
Gross profit margin	34 %	28 %	14 %	19 %
EBIT margin	8 %	16 %	-4 %	5 %
Profit-turnover-ratio	3 %	2 %	25 %	9 %
Cashflow from operating activities	0.7	40.4		
Cashflow from investing activities	2.9	2.6		
Cashflow from financing activities	-2.9	-48.7		

BALANCE SHEET RATIOS IN € MILLION	12/31/2013	12/31/2012
Current assets	185.1	139.1
of which: Properties held for sale and other inventories	126.3	84.1
Equity	13.6	3.0
Financial liabilities	75.1	78.2
of which: non-current	15.4	9.3
Balance sheet total	226.9	162.7

KEY SALES FIGURES IN € MILLION	01/01/ – 12/31/2013	01/01/ – 12/31/2012
Notarized sales of the period	111	90
	31.12.2013	31.12.2012
Orders on hand*	113	53

* Amount of notarized sales of units not yet transferred to the customers

Employees	12/31/2013	12/31/2012
Number of employees	50	31

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The English version of the annual report is a translation of the German version of the annual report. The German version of this annual report is legally binding.


ISAR
BAVARIA
=
ISARIA
Wohnbau AG

To our shareholders and business partners

With this annual report we are able to report on our second successive year of positive earnings. That is a key milestone for our company's further development, which you, our shareholders, gave your full support in 2013 with your unanimous vote to rename our company. In spite of this, however, 2013 was a year of transition and we still had to face some major challenges. As a result, a look at the financials for the past year does not yet show the full extent of the progress that ISARIA Wohnbau AG made in 2013. Yet the structures for future success can already be clearly seen in the figures in the consolidated financial statements as of 31 December 2013.

PROJECT PIPELINE SECURED AND EXPANDED

As a result, in the last quarter of 2013, as already announced in the interim report on the third quarter of 2013, we were able to fully acquire one project, in which we were only involved as a minority shareholder since last year. As a result, we will be able to revitalise a vacant office building, transforming it into a state-of-the-art apartment building under the APP.ARTMENTS brand. However, it was no longer possible to complete this project and hand it over to customers in December 2013, as had been anticipated. The planned handovers have been shifted to the first quarter of 2014, and on the date this report was published they had already been performed. Unfortunately, this shift means that our forecast for revenues and earnings in 2013 was not met. In 2013 we were able to agree additional majority acquisitions for SPEs, which will allow us to expand our business activities substantially in future.

OPERATING BUSINESS LOWER

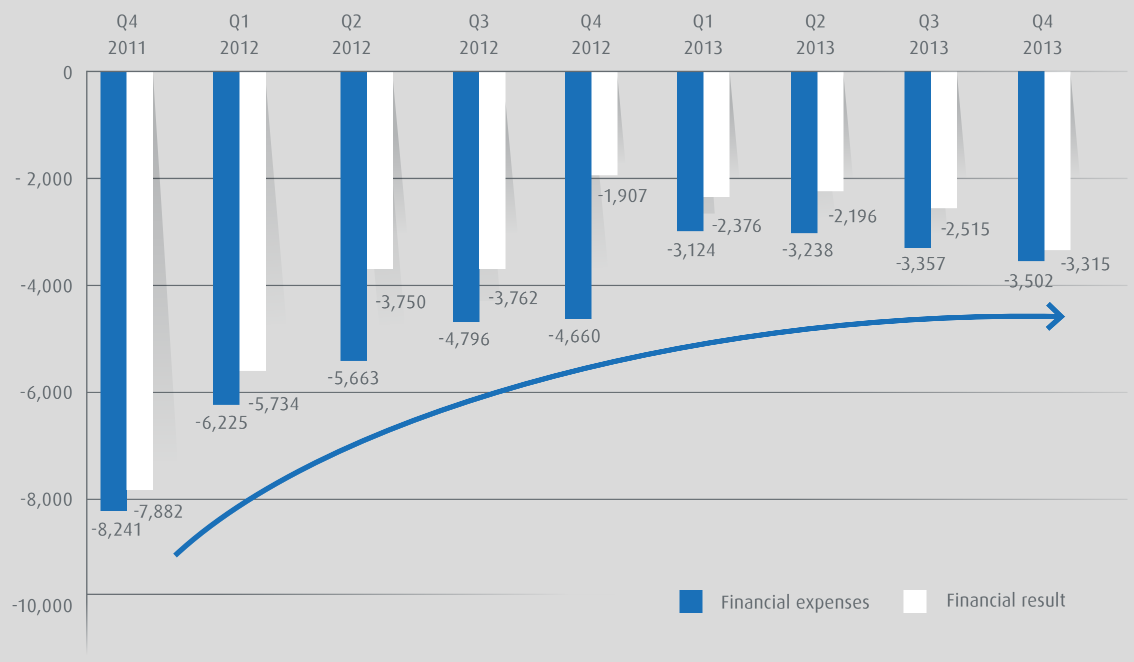
During the second half of 2013, for the first time in two years, we once again handed over a stage with 74 units in our major "nido" project in Karlsfeld to the purchasers. As a result of the long winter at the start of the year, and the subsequent extremely wet spring, we had to accept perceptible construction delays. This also made itself felt in lower revenues in these annual financial statements. In utter contrast, we are now experiencing a very mild winter at the start of 2014, and we have been able to work practically without interruption.

OWN FINANCING STRUCTURE FROM INTEGRATION OF HAMBURG-BASED ONE GROUP

The strategic focus in 2013 was on securing a reliable financing structure to supply our projects with capital at fair conditions. As a result, and in order to reduce dependency on external financing partners, on 31 December 2013, we acquired a 100 % interest in One Group GmbH with its registered office in Hamburg via a non-cash capital increase, and this was included in ISARIA Wohnbau AG's consolidated financial statements for the first time. One Group was formed in 2009 and its core business is an issuing company for project development funds and will invest in Munich in ISARIA Wohnbau's project pipeline via its ProReal Deutschland Funds. As a result, the company now has its own financing platform. From this relationship, which benefits both parties, we already received participating interests of € 33.5 million in the past fiscal year. The integration of One Group into the ISARIA Group's organisational structure has already progressed well. However, One Group will continue to have its own independent presence in organisational terms, and will invest in other markets in non-group developments.

For the fourth successive quarter, and thus for the whole of 2013, financing expenses themselves have been stable at a substantially lower level than in previous years. This impressively shows the comparison between the quarterly financial expenses over the past nine quarters. The activities put in place in the financing structure to improve earnings totalled a good € 8 million in the past fiscal year 2013 compared to the previous year.

FINANCIAL RESULT in k€



EQUITY REINFORCED

As a result of the non-cash capital increase and other activities we were able to substantially improve our company's equity in 2013 by € 10.6 million to a current total of € 13.6 million. The equity ratio totalled 6.0 % on 31 December 2013 compared to just 1.8 % at the start of the year.

RECORD-BREAKING SALES

Notarised sales of individual apartments and houses passed the € 100 million mark in 2013, and at € 111 million they not only surpassed the previous year by around € 20 million, but also set a new record. As we have regularly reported at this juncture, we are currently continuing to sell "from the drawing board to the green field" in Karlsfeld, i.e. houses for which construction has not yet even started. At present, we have not only already got almost 100 % of the sales planned for 2014 for this construction project in our books via the sales already concluded with a notary, but already have almost 50 % of the sales forecast for next year (2015) on our books. This means that our earnings are very easy to forecast. As a result, we had a notarised order book of € 113 million at the end of 2013.

UNCHANGED EXCELLENT MARKET ENVIRONMENT

The market environment also continues to be excellent. This is confirmed time and time again by various quarterly reports. ISARIA Wohnbau's position for individual sales to private buyers continues to be strong, and demand for affordable apartments in Munich is unrelenting. ISARIA Wohnbau has a well-filled project pipeline in this regard for several years' revenues, and in the coming years it continues to have attractive offerings, in contrast to some of its competitors. This potential will also be reflected in the coming years in ISARIA Wohnbau's results.

Construction progress on the “Nido” project in Karlsfeld

OUTLOOK

The terraced houses handed over in our “nido” project in 2013 were certified in 2011 and 2012 with purchase prices of around € 400,000. We are currently selling the same type of house in additional construction stages in this project for € 569,000 as a result of the enormous price increases in Munich. You, our shareholders, can see from this example that we will be able to realise totally different margins for the 380 hand-overs that are still pending for 2014 and 2015 than was the case in the past fiscal year. This applies for all of the projects we acquired before the end of 2011 when the strong price increases started in Munich. Given this basis, we are utterly convinced that we will be able to substantially increase our annual earnings in both 2014 and 2015. Thank you for continuing to place your trust in us, and supporting us as we move along this path.

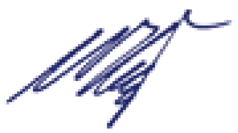
Munich, March 2014
– The Executive Board –

Michael Haupt | Christian Dunkelberg | Jan von Lewinski

Construction phase WA 9
(terraced housing) in July 2013

View of the WA 9 construction phase
(terraced housing) in February 2014

Executive Board



MICHAEL HAUPT
Spokesman of the Executive Board (CEO)

Michael Haupt (54) has been Chairman of the Executive Board and the company's CEO since 2012.

He studied law in Munich and has worked in the real estate sector since then. He was admitted to the bar in 1990, and became a member of the Executive Board with a project development company in Berlin in 1992. He worked for TAG Immobilien AG as COO from 2001 to 2005. From 2006 to January 2012 Michael built up the German activities of Bouwfonds Investment Management.

CHRISTIAN DUNKELBERG
(CIO)

Christian Dunkelberg (55) joined ISARIA Wohnbau AG's Executive board after the company's IPO 2010 as Chief Operating Officer (COO). He became responsible for the company's strategic expansion in January 2014 as Chief Investment Officer (CIO).

JAN VON LEWINSKI
(COO)

Jan von Lewinski (54) joined the company in January 2014 to become its new COO (Chief Operating Officer), and is thus responsible for its operating real estate business.

Born in Munich, he is a bank merchant and for the last six years he was managing director/COO with ANTAN Group in Frankfurt, which bundles all of the German and foreign activities of a Frankfurt-based family of entrepreneurs. Prior to this, he was a member of the Executive Board and the managing director of companies in the TAG Immobilien AG group.

Supervisory Board

PROF. DR. RAIMUND BAUMANN
(Chairman)
+ Attorney and Tax Adviser, Stuttgart

ROBERT UNGER
(Deputy Chairman)
+ Attorney, Berlin

MICHAEL KRANICH
+ Executive Director aeris CAPITAL, Pfäffikon, Switzerland

From left to right: Michael Kranich, Prof. Dr. Raimund Baumann, Robert Unger

ISARIA Wohnbau AG's share

SHARE PRICE PERFORMANCE SIDEWAYS TO FALLING, WITH VERY LOW TURNOVER

In 2013 the international stock markets continued the dynamic performance exhibited in the previous year, and lifted substantially. The promise of long-term low interest rates from global central banks, the recovery in the US economy and the stabilisation of the economy in the euro zone resulted in very positive market performance during the entire year. Discussions on a possible reduction to the US Fed's bond-buying program, weak reporting seasons and the threatened shutdown of the US government as well as geopolitical risk factors in some regions only put the stock markets under temporary pressure. As a result, the DAX and MDAX lifted by 20 % and 35 % respectively in 2013.

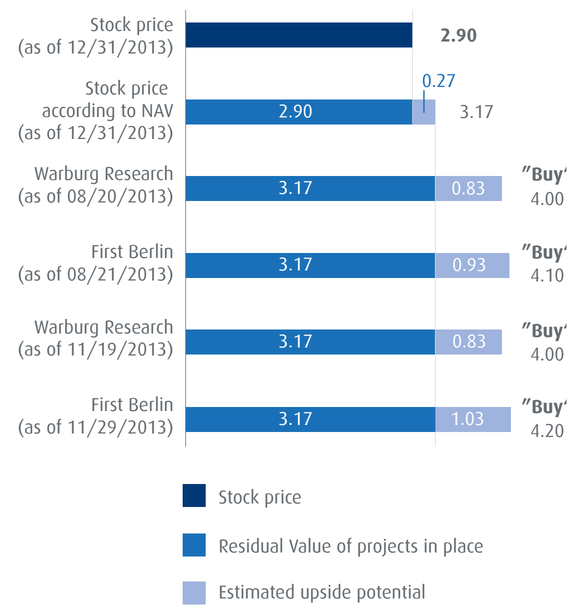
In contrast, ISARIA Wohnbau AG's shares tended to fall in 2013, bottoming out at EUR 2.25, through to the announcement of the acquisition of Hamburg-based One Group. This acquisition is very important, excellent news for the future of ISARIA Wohnbau AG, and caused the share price to lift to € 3.10 for a short while, and then to move sideways or decrease very slightly again with very low turnover. The share price on 31 December 2013 was € 2.90.

ISARIA Wohnbau AG's Executive Board is convinced that this does not reflect the true value of ISARIA Wohnbau AG's shares. However, it totally understands that despite this good news in 2013, the market is continuing to wait for sustained excellent financials for the company. As a result, the average trade volume in 2013 was just 5,200 shares per day. The 2013 financial statements presented in this report, and the second positive annual earnings figures after taxes that they include, have now confirmed the company's successful turnaround. On this basis, and based on the anticipated business growth in the first quarters of 2014, the Executive Board believes that the share price will lift in 2014.

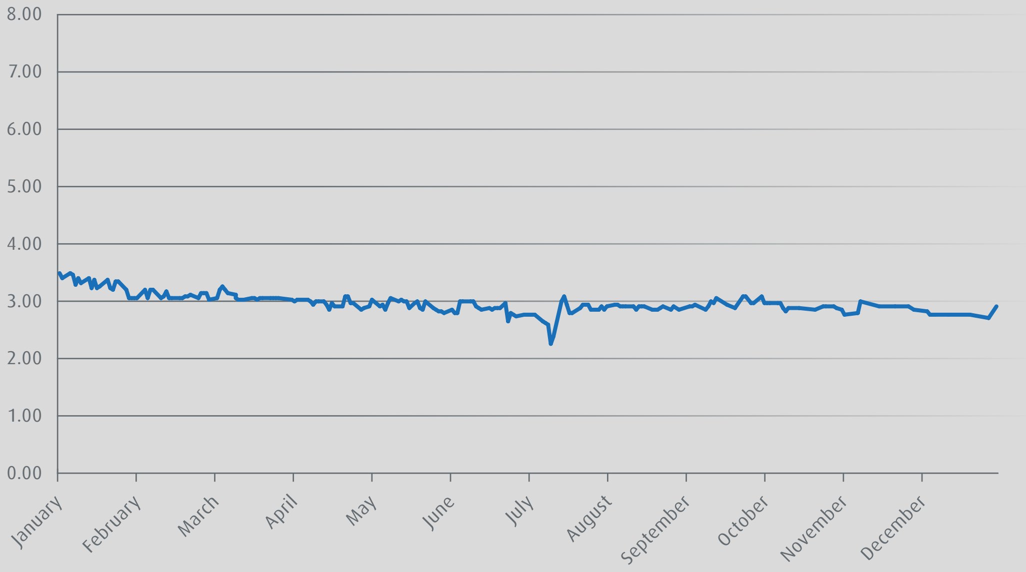
ANALYSTS ESTIMATES SHOW SUBSTANTIAL UPSIDE POTENTIAL

The ISARIA Wohnbau group and ISARIA Wohnbau AG's shares were valued by analysts in 2013. Analysts at M.M.Warburg&Co. and FIRST Berlin are very confident of our group's medium and long-term potential. Both companies' quarterly reports include a "Buy" recommendation" for shares of ISARIA Wohnbau AG, with the most recent price target being EUR 4.00. In addition, the net asset value (NAV) to EPRA, which was calculated for the first time as of 31 December 2013, results in a share price of € 3.17.

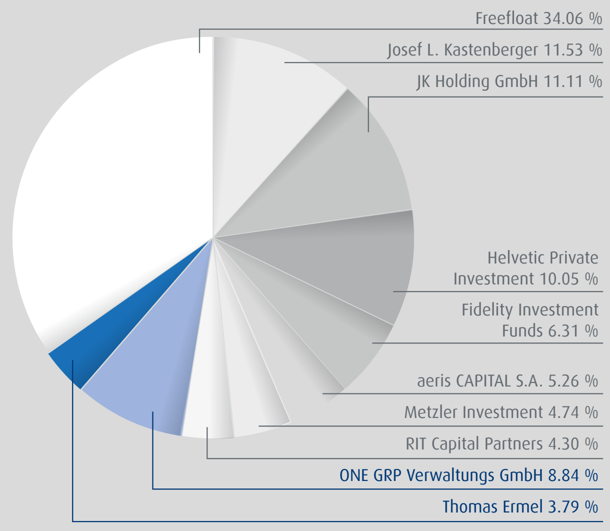
SHARE PRICE AND UPSIDE POTENTIAL



SHARE PRICE PERFORMANCE IN 2013



SHAREHOLDER STRUCTURE ON 18 FEBRUARY 2014 (AFTER NON-CASH CAPITAL INCREASE)



SHAREHOLDER STRUCTURE

After the capital increase, the shareholder structure continues to be characterised by institutional and retail investors, mostly with a long-term investment horizon.

A PROJECT DEVELOPER'S NET ASSET VALUE (NAV)

In the case of public limited companies which hold property stocks, the identification of the NAV is mostly based on a valuation of non-current real-estate assets. ISARIA Wohnbau AG only has a minor amount of non-current assets at almost € 15 million. In contrast, as a rule development projects are valued at cost. These values thus reflect the situation on the market when projects are bought. This period was between 2008 and 2011 for the company. In the mean time, prices for plots for residential development have increased significantly in Munich. According to information from the City of Munich's committee of experts, they increased by 14 % in 2013 alone. As a result, the company had an expert identify what a project developer would pay for our projects based on the current sales and building prices. This expert opinion identified hidden reserves of around € 77 million (NAV is thus € 3.17 per share). Current purchasing prices are actually even higher, because developers in Munich can now mostly only make speculative purchases, i.e. in anticipation of additional substantial price increases.

We must also note that a project developer's intrinsic value is not only to be found in the hidden reserves for its properties, but is expressed in its expertise, access to the market, future acquisition strength, and the calculated surplus funds from project developments.

NOTIFICATIONS OF VOTING RIGHTS PUBLISHED

In 2013, ISARIA Wohnbau AG published 2 notifications of voting rights according to Section 21 (1) of the Wertpapierhandelsgesetz (WpHG – German Securities Trading Act) All notifications of voting rights that were issued in 2013 and thereafter can be found on the company's Web site in the Investor Relations section.

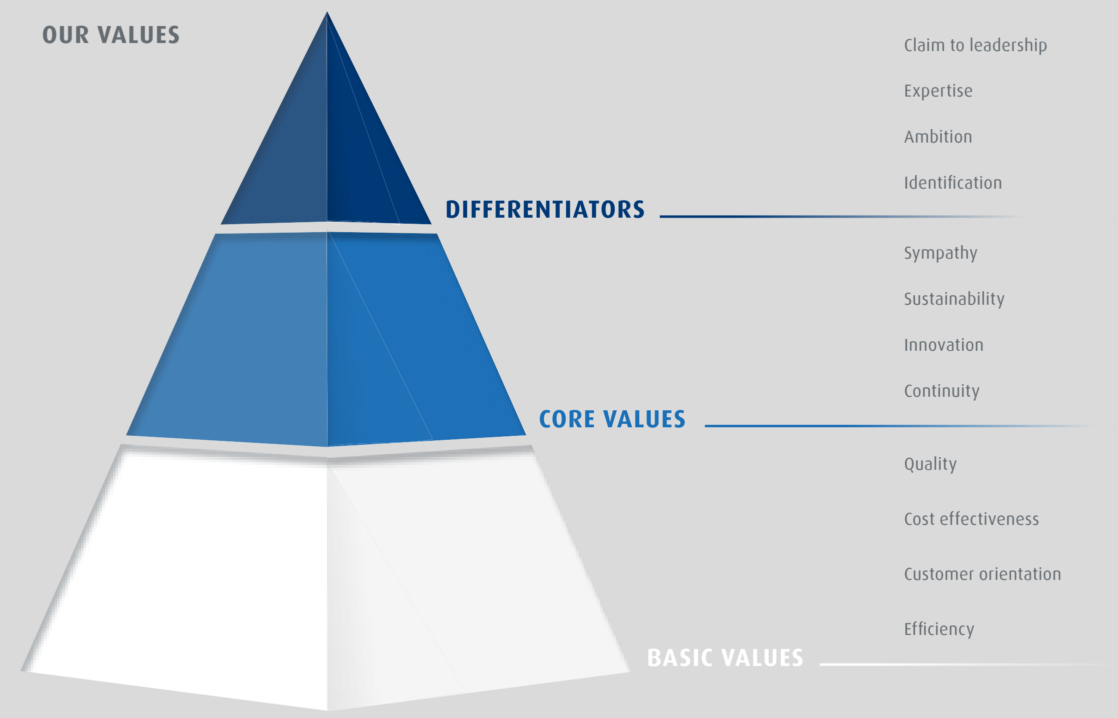
KEY FIGURES FOR ISARIA WOHNBAU AG'S SHARE

Stock market ticker	IWB
Type of stock	No-par value transferable shares
ISIN	DE000A1E8H38
WKN	A1E8H3
Market segment	Regulated market, Prime Standard
DESIGNATED SPONSOR	M.M. Warburg & Co., Hamburg
Stock exchange	All German stock exchanges including Xetra
IPO	10 November 2010
Highest price 12 months (Xetra)	€ 3.50
Lowest price 12 months (Xetra)	€ 2.25
Closing price on 12/31/2013 (Xetra)	€ 2.90

A **NEW CHAPTER** IS BEGUN

Tradition, experience and high aspirations have since been defining characteristics of our company. They are values that we take with us into the future focused and with conviction.

ISARIA Wohnbau AG
Our new name



With profound experience we have been consistently and efficiently working on our claim to leadership on the real estate market in Munich for several years. We face our current and future challenges with our knowledge, and also the abilities of a mature and experienced company. Our company will be measured by its success in the coming years.

In order to meet our own high requirements, and to create a sustainable, new basis for the future, we renamed our company to become ISARIA Wohnbau AG in July 2013. This thus marks the start of a new chapter in our company's history, and presents our new, contemporary understanding of our home region, while upholding Munich's traditions.

The new name upholds our company's individuality. It is made up of the two key words "Isar" and "Bavaria" and shows our roots. This was a key factor in choosing our new name. At the same time, the very sound of the name adds its own dynamism.

We will use this dynamism in pursuing our targets, and of course we will also live it. This thus boosts our company's presence. We are a key player on Munich's vibrant, wide-ranging real estate market, and this is a key factor in differentiating ourselves from the competition – and providing our customers with orientation. We want to be perceived as a reliable and effective partner, thus creating sustainable foundations for the success of our company.

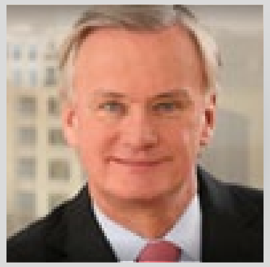
ISARIA Wohnbau is ready for the future. We will continue our on-track success with the energy our new appearance has given us, and will be able to meet all eventualities with confidence.

Munich and Hamburg together
One Group's integration

"Synergy. This term for „cooperation" is used ad nauseum every time there is talk of a merger.

We do it too. But we do so out of complete and utter conviction. That's because we believe that the integration of One Group GmbH in the ISARIA Wohnbau AG Group is a prime example of mutual benefit. The One Group has exclusive access to high-quality, unparalled real-estate projects in Munich – Germany's real-estate centre. ISARIA Wohnbau AG in turn has gained a financing partner, who has recently demonstrated the strength of its sales activities.

The consistently positive sales figures will guarantee a steady influx of capital for ISARIA Wohnbau AG not to mention the assurance that all projects with the required equity can be structured within the group".



Michael Haupt, Spokesman of the Executive Board of ISARIA Wohnbau

ONE GROUP – LEADING PROVIDER OF PROJECT DEVELOPMENT FUNDS

One Group designs and structures project development funds for residential properties in Germany. In 2013 the Hamburg-based company with its own issuing business placed around EUR 50 million and acquired more than 2,100 new investors in retail sales.

With its innovative fund products and clear investment strategies the Hamburg-based company has been established as one of the leading provider for project development funds in Germany. For 2014 it is planning a positive result from placements that is on a par with the previous year.

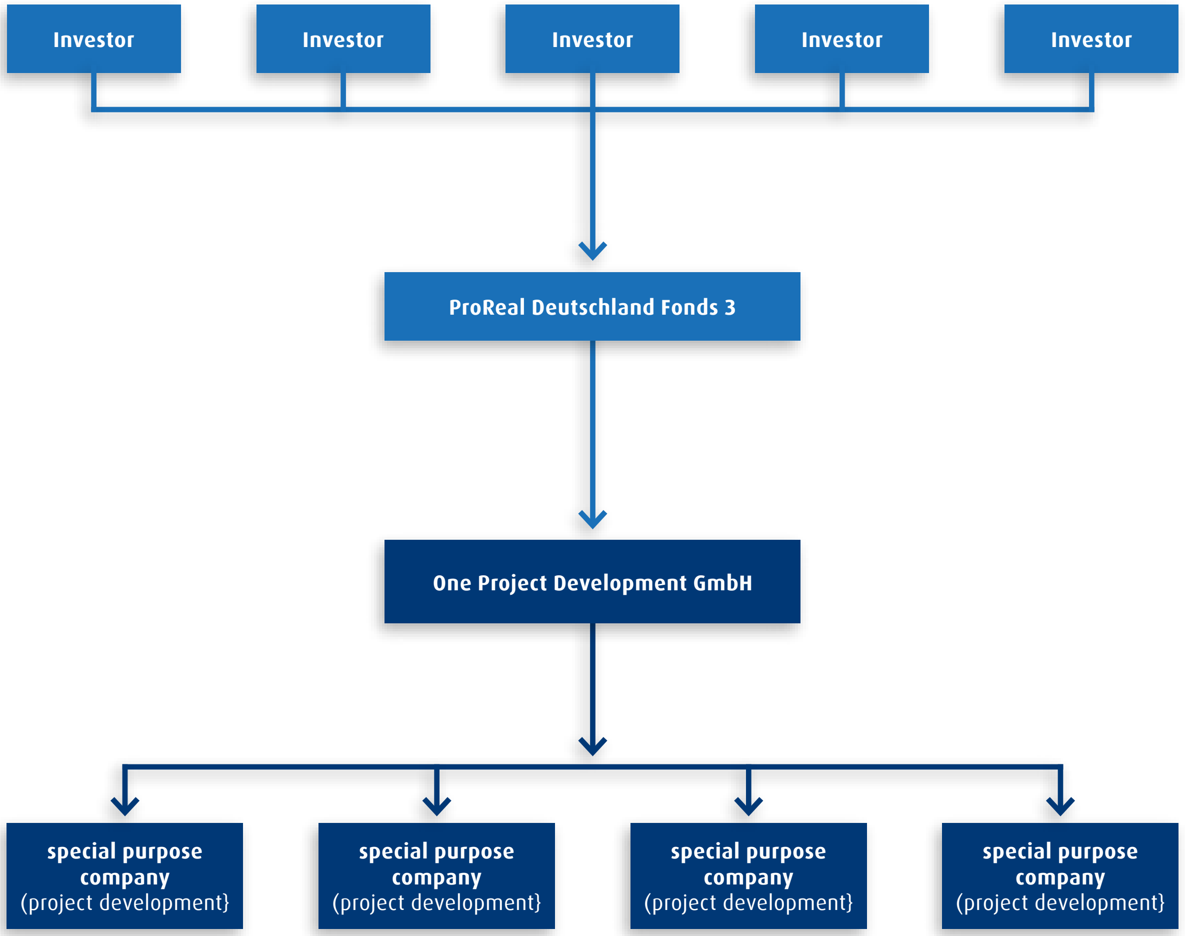
The One Group team has many years of experience in the issuing business. It has business relationships with more than 2,500 asset managers and financial service providers.

The corporate group has 18 employees in Sales, Marketing, Back Office, Controlling, Administration and Consulting.

"We look forward to working together with ISARIA Wohnbau AG. Our integration into the AG will secure us exclusive access to a unique project pipeline in Munich."

Thomas Ermel, One Group's Managing Director

FUND STRUCTURE FOR THE CURRENT PRODUCT PROREAL DEUTSCHLAND FONDS 3



FUND DATA:

Fund name:	ProReal Deutschland Fonds 3
Minimum participation:	€ 10.000 plus 5 % premium
Issue volume:	€ 75.000,000
Return:	7,5 % p.a. from date of deposit
Pay-outs:	Quarterly
Fund term:	3 years planned from 03/31/2014
Closing date:	12/31/2014 (planned)

Terraced houses in section WA 6, handed over in the third quarter of 2013

REGULATION OF FUND MARKET

On 22 July 2013, the Kapitalanlagegesetzbuch (KAGB - German Capital Investment Act) came into effect in Germany. This implements the AIFM guideline. In reaction to the crisis on the financial markets in 2009, since the first draft of the guideline the European Commission has been pursuing the ambitious target of subjecting all of the players, activities and financial investment products – including closed-end participations – to suitable regulation.

From 22 July 2013 each fund which is covered by the KAGB must have a so-called Kapitalverwaltungsgesellschaft (KVG - Capital management company). The KVG must be licensed by the German Financial Services Supervisory Authority (BaFin). This license demands the reliability and suitability of the managers, verification of sufficient funding for business operations, and the presentation of a business plan together with the organisational structure, and leads to extensive organisational requirements such as risk and liquidity management, compliance and BaFin reporting.

As a member of the Bundesverband Sachwerte und Investmentvermögen e.V. (bsi), in future One Group will offer regulated AIF products.

One Group's current fund, ProReal Deutschland Fonds 3, falls under the transitional phase for AIFM implementation, and is thus not affected by the new regulations.

INTEGRATION OF ONE GROUP OFFERS LONG-TERM ADVANTAGES

The integration of One Group GmbH into the ISARIA Wohnbau AG group offers long-term, strategic advantages for both companies.

ISARIA Wohnbau has found a strong partner to finance its real estate projects independently from banks in the form of One Group.

In addition, the use of alternative, high-cost financing instruments, such as mezzanine financing, is no longer required.

As a result of its collaboration with ISARIA Wohnbau, One Group receives exclusive access to high-quality and unique residential real estate projects in Munich. In addition, its real estate and project development competence has been sustainably expanded.

One Group's integration is an excellent solution to the challenges faced by both companies – namely financing opportunities for ISARIA Wohnbau, and the availability of top-quality projects for One Group.

ADDITIONAL SYNERGY EFFECTS

ISARIA Wohnbau and One Group intend to work closely together in additional areas of business, over and above financing residential real estate projects.

For example, One Group with its network of more than 2,500 asset managers and financial services providers will actively support the sale of owner-occupied apartments.

In addition, they plan to cooperate on real-estate financing.

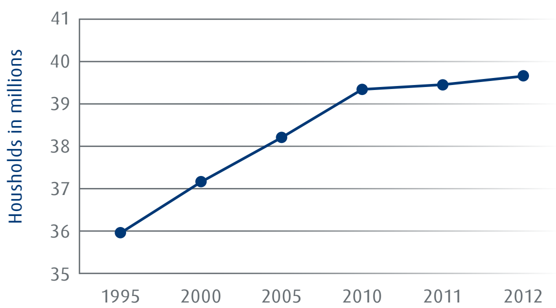
German residential real estate market

A smaller number of people are living in a greater number of households, and they need more space - that is the trend that has been seen over the past few years on the German residential real estate market. An ideal environment for project developers. The number of households nationwide increased between 1990 and 2012 by around 55 percent. The number of single-person households increased during this period from 35 to 40.5 percent, and the number of two-person households increased from 30.2 to 34.5 percent. In contrast, the percentage of households with three or more people fell. The growth in the amount of residential space per person is also remarkable: In 1998 this was still 39 m² on average, and had already reached 45 m² per person in 2013.

The German residential real estate market is characterized by its regional differentiation. Germany is the exception to the rule compared to countries such as the UK or France, in which the respective capital is the hub. Many of Germany's rural regions are having to face a fall in population numbers; this due to factors including many people moving into the cities. Germany's top 7 cities in particular are growing, in contrast to the nationwide trend. For many years they have been recording increases in the number of households and population, and that means demand exceeds supply on the real estate markets.

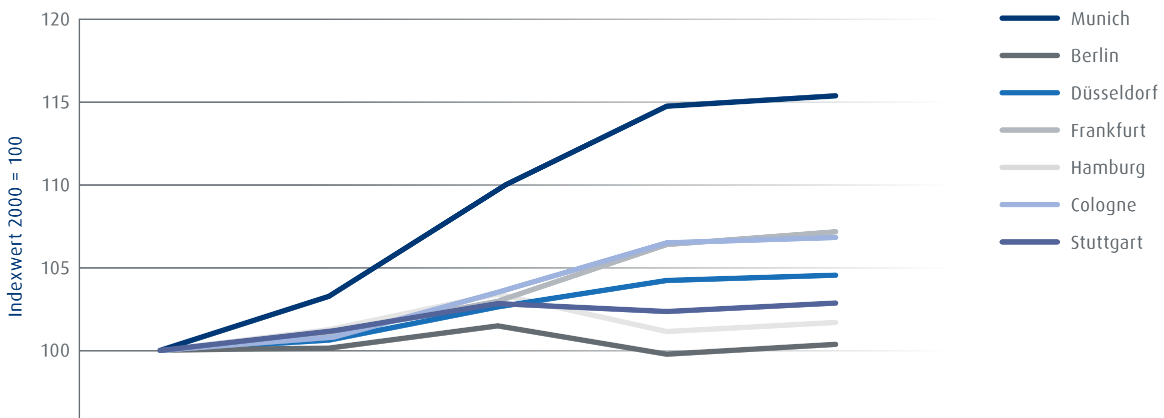
The population of Munich in particular is growing: 2012 by around 23,300 residents, and in 2011 by 28,700. At the end of December 2013 Munich had more than 1.46 million residents. In addition, the number of households in the Bavarian capital increased by more than 12 percent between 2002 and 2011, and Hamburg fell far behind with the second highest growth in the top 7 of around 6.7 percent.

HOUSEHOLDS 1995-2012



Source: German Federal Statistics Office

POPULATION GROWTH TOP 7 CITIES 2000-2013



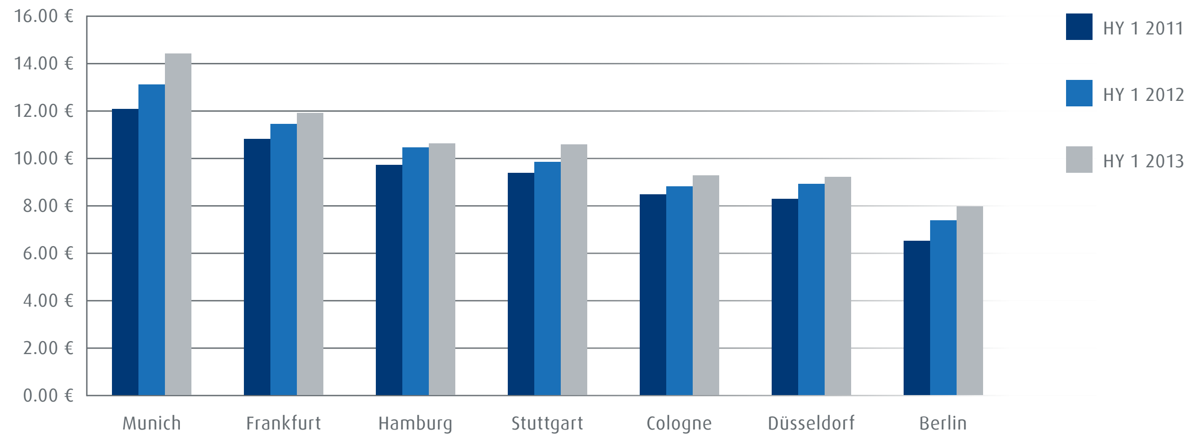
Source: State Statistics Offices

MUNICH LEADS LIST OF GERMANY'S TOP LOCATIONS

Munich is still the undisputed leader among Germany's top 7 cities when it comes to rent and purchase prices. As shown in the Residential City Profiles study from Jones Lang LaSalle (JLL), the rents offered in the first half of 2013 were EUR 14.45 per square meter, up 9.8 percent compared to the previous year. As a result, the upswing which has been continuing since 2005 has continued – rents have increased by 35 percent since then.

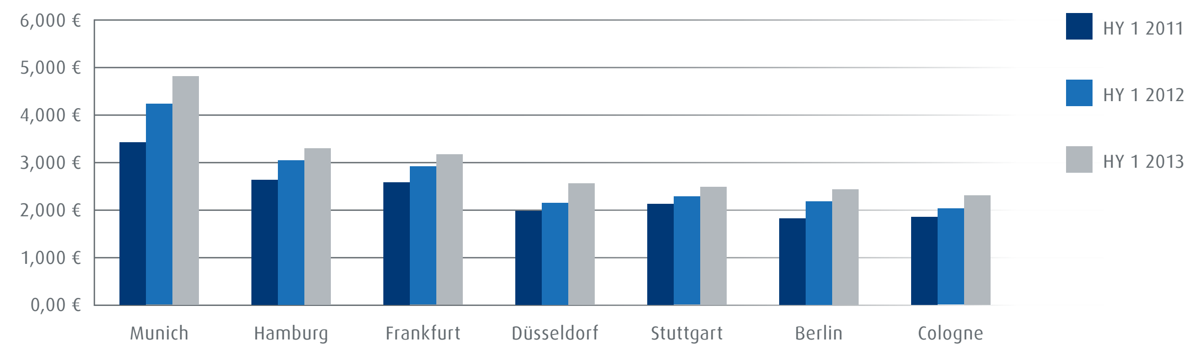
The purchase price for owner-occupied apartments is only just below the EUR 5000 mark: Buyers had to pay an average of EUR 4830 per square meter, around 14.1 percent more than in 2012. Newly built apartments, built in 2009 or later, were even offered for EUR 5,810 on average. In the previous year, this figure was still less than EUR 5000.

RENTS OFFERED IN TOP 7 CITIES



Source: Residential City Profiles 2013, Jones Lang LaSalle

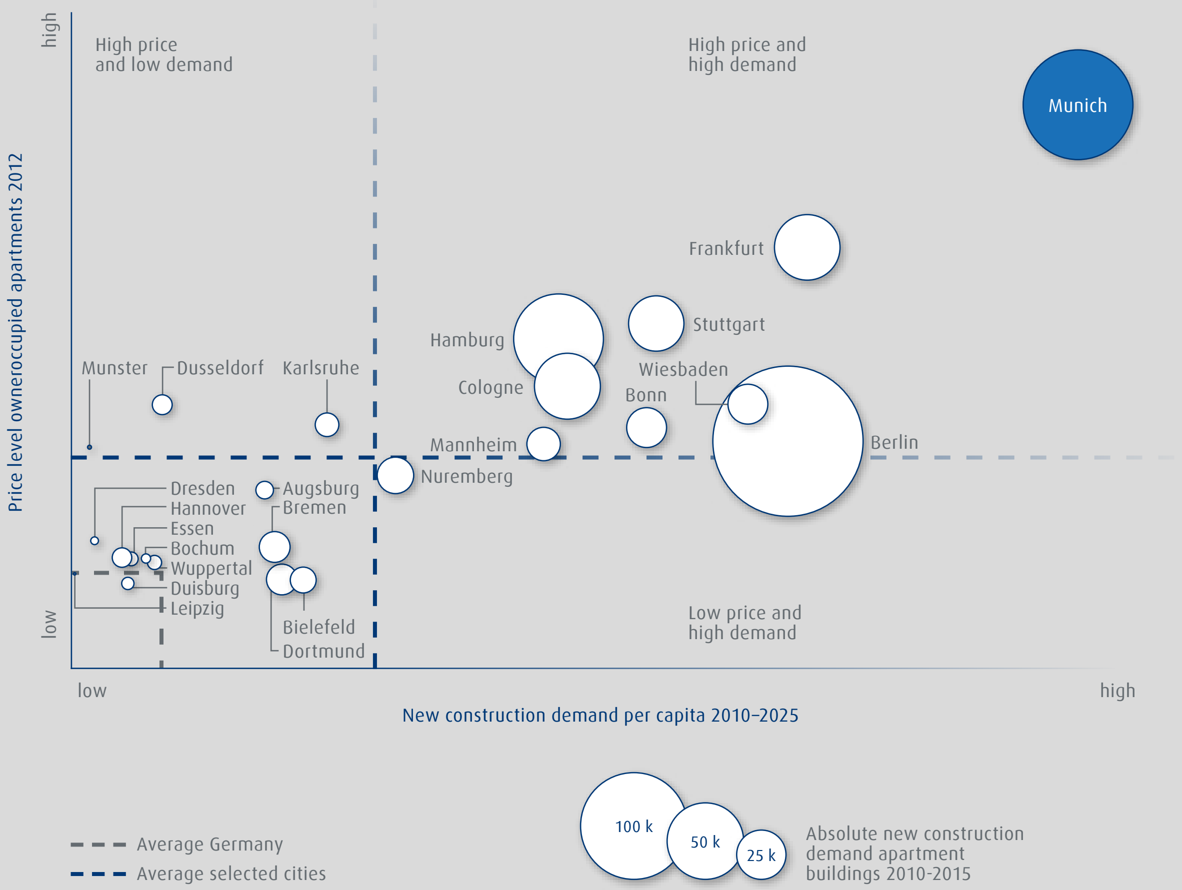
PURCHASE PRICES OFFERED IN TOP 7 CITIES



Source: Residential City Profiles 2013, Jones Lang LaSalle

In view of the ratio of demand for apartments and the current price level in Germany's big cities, we can see that Munich is by far the most attractive market in Germany for new apartment construction.

PRICE LEVEL VS. NEW CONSTRUCTION DEMAND PER MAJOR CITY



Source: RIWIS BulwienGesa, BBSR Wohnungsmarktprognose 2025

NEW CONSTRUCTION GAINS PACE

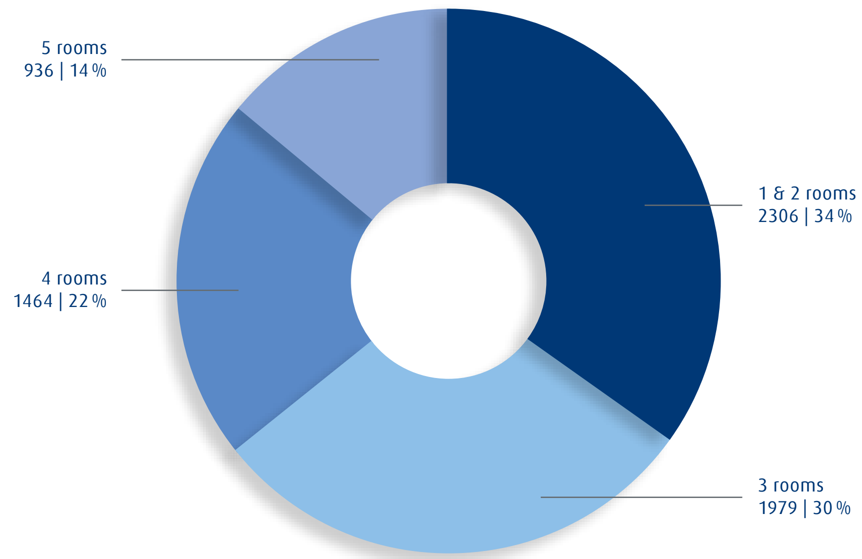
Munich is not only the most attractive residential market in Germany, but in terms of the value of project volumes it is also Germany's largest residential market: More than EUR 11.1 billion was invested there in 2013. Berlin takes second place with approx. EUR 10.9 billion, and Hamburg comes in third with EUR 10.3 billion. However, the figures for new construction have lagged requirements for quite some time. Nevertheless, the urgently required construction of residential properties is increasingly gaining pace. Around 6,700 apartments were built in Munich in 2012, around 80 percent more than in 2010. As a result, the number of apartments in the Bavarian capital has grown by around 43,000 units from 2005 to the end of 2012 – from more than 719,500 to almost 762,500 apartments. However, the target the city has set itself of completing 7,000 new apartments each year has not been reached in the past few years.

FORECAST: RENTS AND PURCHASE PRICES TO INCREASE FURTHER IN MUNICH

Over the past few years, the number of planning permissions granted for apartments in Munich has increased again, after having fallen far below 6,000 apartments per year from 2007 to 2010. The number of apartments is growing constantly, however this by no means meets the high demand. This means that purchase prices and rent on Munich's residential real estate market will continue to soar.

COMPLETED APARTMENTS BY NUMBER OF ROOMS – 2012

Number | Percent



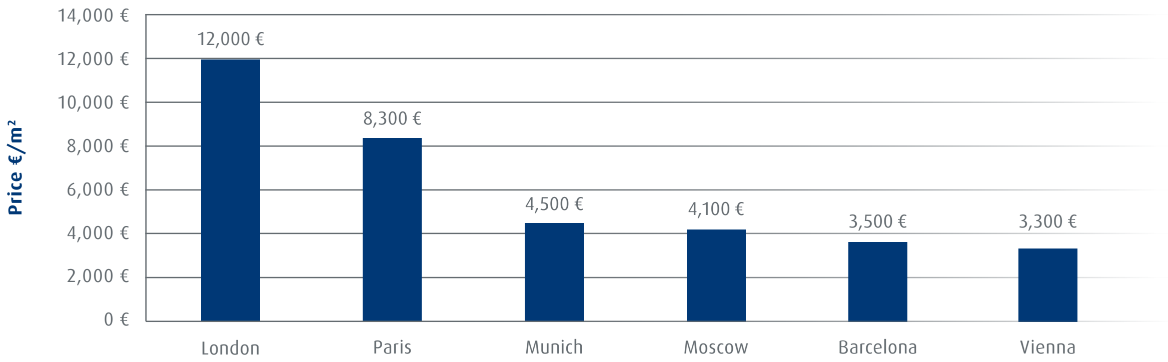
Although 54 % of Munich's residents live alone, only 34 % of the new apartments are small one- or two-room apartments.

Source: Munich Statistics Office

MUNICH IN AN INTERNATIONAL COMPARISON

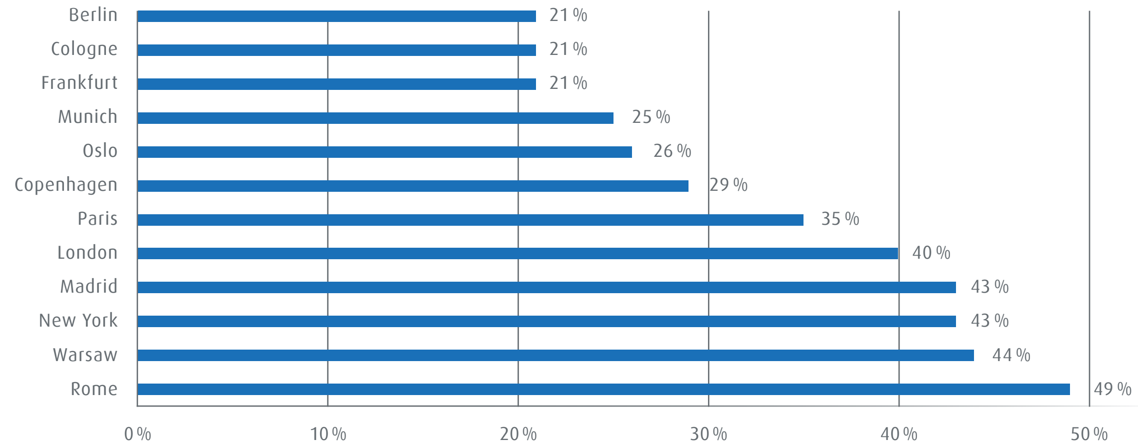
Although Munich has the highest comparative rents and real estate prices of Germany's cities, the price level is still moderate in an international comparison. Here too, Germany's regional differentiation plays a key role. London and Paris are the central business locations in their respective countries. As a result, many people move there, which in turn causes the demand for residential space and real estate prices to rise. In London, people spend an average of 40 percent of their income on rent, in Rome this figure even totals 49 percent. Munich residents spend around 25 percent of their income on rent, and residents of Frankfurt, Cologne and Berlin all spend 21 percent.

REAL ESTATE PRICES , SELECT CITIES – 2012



Source: ECA International, Accomodation Survey, Deloitte – Overview of European Residential Markets 2013

RENT TO INCOME IN EUROPEAN CITIES – 2012

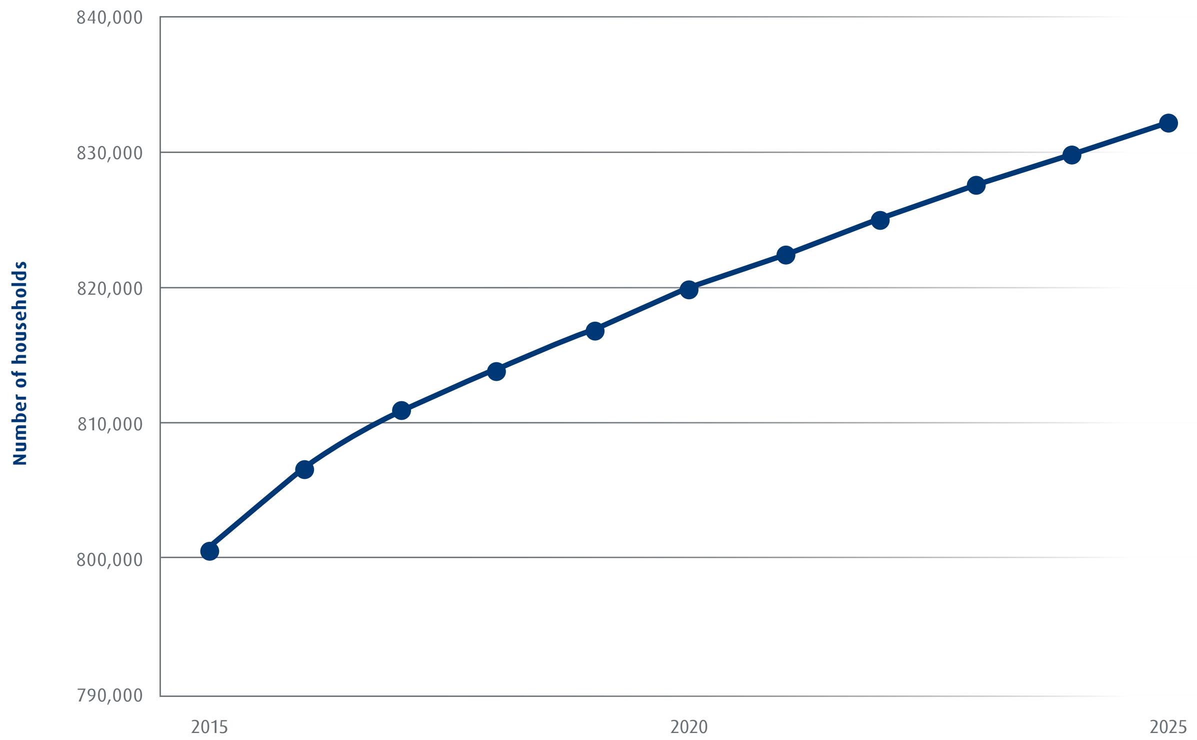


Source: Bulwiengesa AG, German Cities, Residential Market, Project Development, Capital Market, 2013

CONCLUSION: MUNICH IS A HIGH-GROWTH LOCATION

Munich is not only attracting new residents – an increasing number of companies are enjoying their location on the Isar river. They create jobs, and secure the income of long-standing residents and new arrivals. According to an analysis by GfK, in 2013 Munich was the metropolitan region with the strongest spending power: This totalled EUR 28,247 per resident, whereas in all other cities it was less than EUR 26,000. In view of the excellent growth forecast, the Bavarian capital offers ideal conditions for residential construction.

HOUSEHOLD FORECAST MUNICH – 2030



Source: BBSR Space Forecast 2030

A project develops

THE STEPS ISARIA WOHNBAU AG USES TO PLAN AND REALIZE RESIDENTIAL REAL ESTATE PROJECTS

It's a long journey from identifying a suitable building plot to handing over the completed apartments to the new owner. The important milestones in this process are shown in the diagram below.

01 IDENTIFICATION

Careful observation of city developments, offers from plot sellers/groups of heirs/real estate agents, personal network.

02 TECHNICAL AND LEGAL FEASIBILITY (DUE DILIGENCE)

In inner-city locations in particular, a building's foundations are also the foundations for its success. What good is a 1A location, if the ground is contaminated with pollutants, or if it is not possible to construct proper foundations on this site? It is rare to be able to provide clear answers to all of the questions construction rights raise. In most cases, construction rights have to be obtained after the property is purchased. This demands a careful review and profound experience.

03 PURCHASE

Of course ISARIA Wohnbau AG is not without its competitors when buying a real gem, or what would appear to be a gem. Many real estate companies want to join in the fray. However, profound experience and a large network help us to find excellent sites and properties, and avoid awkward bidding.

04 ARCHITECTURAL PLANNING

ISARIA Wohnbau AG supplies select architects with concrete ideas, who then have a period of three to six months to plan everything in detail.

05 PLANNING PERMISSION PROCESS

While the architects are still involved in preparing the plans for the building, initial discussions already start with the authorities to prepare the application for planning permission. This all has to be thoroughly prepared. This is the only way to avoid disagreeable surprises or interdictions by the responsible authorities.

Elements of the planning permission process

Preparation

- Preparation to obtain general allowance for construction ("Aufstellungsbeschluss")
- Essential activities that are being conducted during that phase are
  - Neighborhood hearings ("Nachbarschaftsanhörungen")
  - Habitat investigations
  - Traffic censuses
- Findings are submitted to city council to receive general approval/rejection for requested project

Development plan

Development plan specifies type of use, e.g. regarding

- Building law for housing/commercial units
- Share of social housing
- Establishment of schools/kindergardens
- Permitted floor space and sqm
- Type of housing (e.g. pitched vs. flat roofs)
- Etc.

Construction license

- Official application to receive approval for construction project
- Submission of official and detailed plan specifying the construction project, e.g. regarding
  - Scope
  - Number of accommodation units
  - Timeline
  - Etc.
- Start of sales process – right of withdrawal for buyer
- As soon as construction license has been granted, project developer can officially start building project

In parallel to the planning permission phase, ISARIA Wohnbau AG already starts to prepare the sales documents. Only excellent sales and marketing management ensures rapid sales.

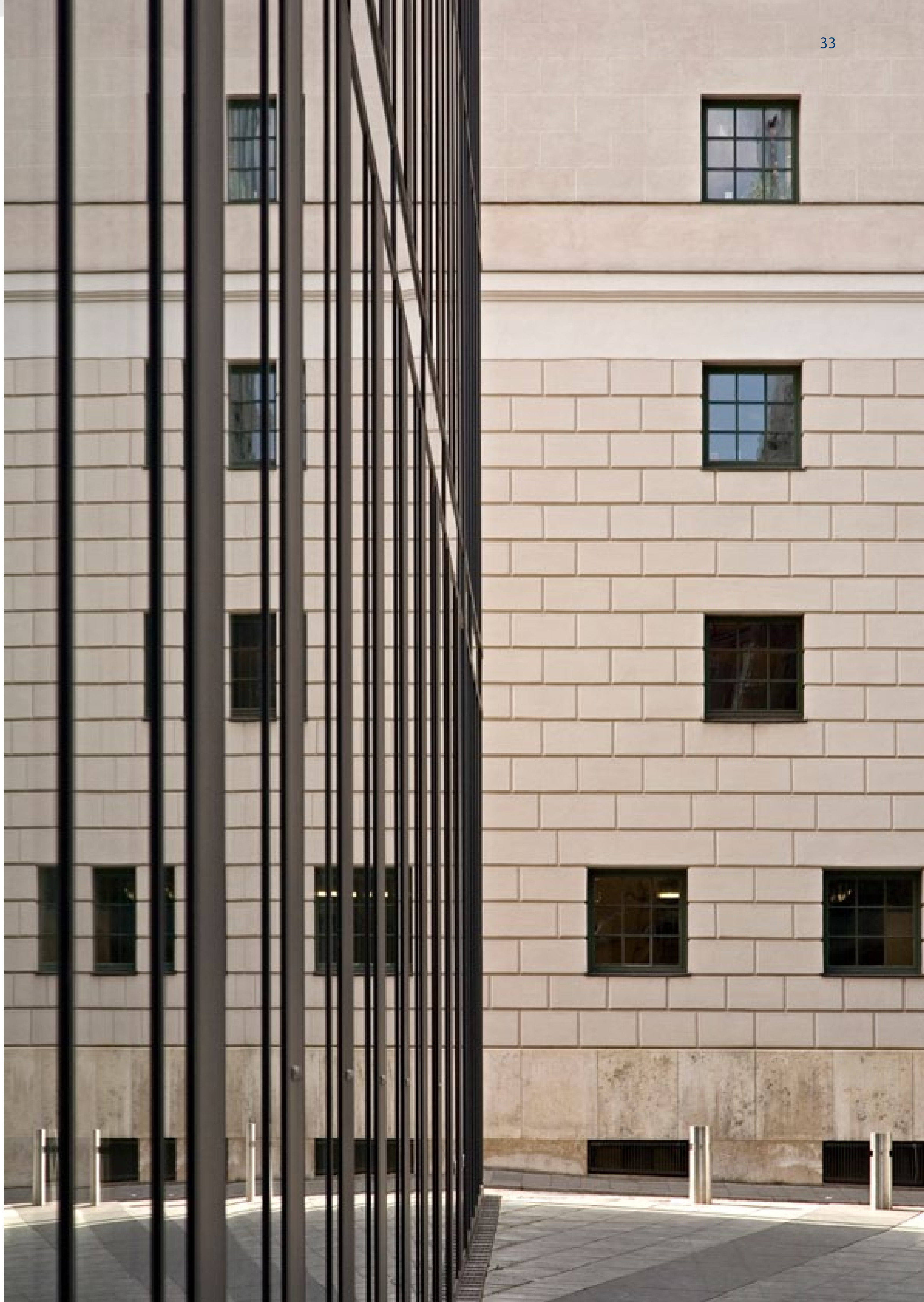
06 SELLING PHASE

Actual building work can only start once the approval has been issued. ISARIA Wohnbau AG's projects generally take 14-16 months to build, depending on the construction project and its scope. Our construction partners are key to everything going smoothly. Here too, ISARIA Wohnbau AG's long-standing experience and major importance on the market play a key role.

07 CONSTRUCTION

After many months of hard work, we have done it: ISARIA Wohnbau AG hands over the new, top-quality apartments to its customers.

08 HAND-OVER OF KEYS



MAJOR PROJECTS IN 2013

1. "Nido" project Karlsfeld

DR.-JOHANN-HEITZER-STRASSE, START OF CONSTRUCTION 2009-2015

Project:
New construction of terraced houses, houses with garden courtyards and owner-occupied apartments with penthouses

Location:
Munich-Karlsfeld. S-Bahn, Kindergarden, Schools, banks and shops are easy to reach by foot or bicycle. Urban area with park and a lot of free space.

Number of apartments:
544 residential units

Sales volume:
Around € 245 million.


Row houses


Garden court houses

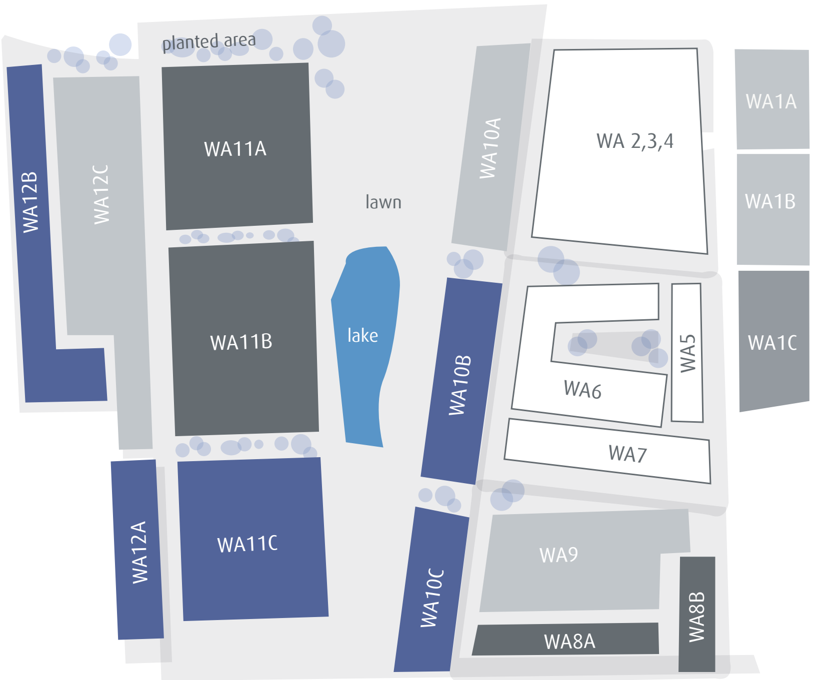

Lake view


Terrace houses


Penthouses


Apartment buildings

OVERVIEW



Completed

fully sold and under construction

under sale and not yet built

under sale and under construction

project planning

As of Jan. 2014

Apartment building in section WA 5

View of penthouses and terraced houses in Kastanienquartier, July 2013

Current buildings as of February 2014: All units in image transferred to owner.

2. "APP.ARTMENTS" project Munich Bogenhausen

The property in Vogelweidestraße 5 is the second revitalisation project for the APP.ARTMENTS brand. It comprises three building sections that are joined together in the shape of a T.

There is also an underground parking garage with space for 138 cars with the 167 apartments. The city apartments were created by converting the office building, which was originally built in 1975, and which was the head office for ERV Versicherung, into a state-of-the-art apartment building.

During this conversion, the original building was extensively modernised, including totally renewing the building's technology, and a new facade was added, in line with the German Energy Saving Directive ENEV 2009.

NEW LOOK WITH FRESH INTERIORS

The APP.ARTMENTS building adds a new flair to Vogelweidestraße with its confident, clean-cut facade. Floor-to-ceiling windows with slatted applications add structure, almost all of the apartments have a balcony, a terrace or a conservatory. Nothing shows that this is a building that has always stood here.

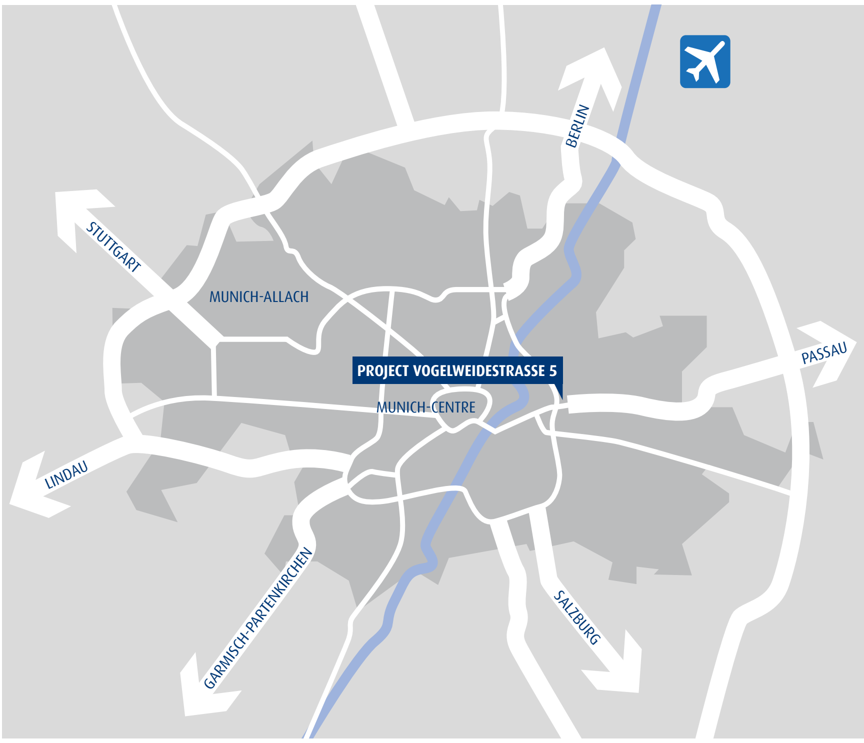
MORE VALUE FROM BUILDING

The APP.ARTMENTS are located in a building that was constructed in the 1970s. The renovation has ensured that the building's technology – from the water and energy supply through to the elevators – is state-of-the-art. The facade and roof were renovated to conserve energy, and now meet the requirements in the German Energy Saving Directive (ENEV 2009), permanently cutting the property's operating costs. In addition to the renovation and heat insulation for the building itself, we also installed comprehensive noise protection, so that all of the tenants can live side by side without disturbing each other.

BENEFITS FOR OWNERS AND RESIDENTS

The concept for the building's space, use and fittings has been well thought through from start to finish, and creates the maximum of comfort in small spaces. The compact size allows the residential units to be offered at high rents, however on the whole they are still affordable. There is a perfect combination of space and furnishing. The balconies or conservatories vastly increase the perceived value. Newly designed green spaces in the interior courtyard provide an inspiring eye-catcher, and offer a place to stop and relax in the heart of Munich.

Top left: Front view
Right: Photo of show apartment



Bottom left: Interior courtyard before conversion
Right: Interior courtyard after conversion

FUTURE PROJECTS

An example: Project “Tower“

MUNICH-OBERSENDLING

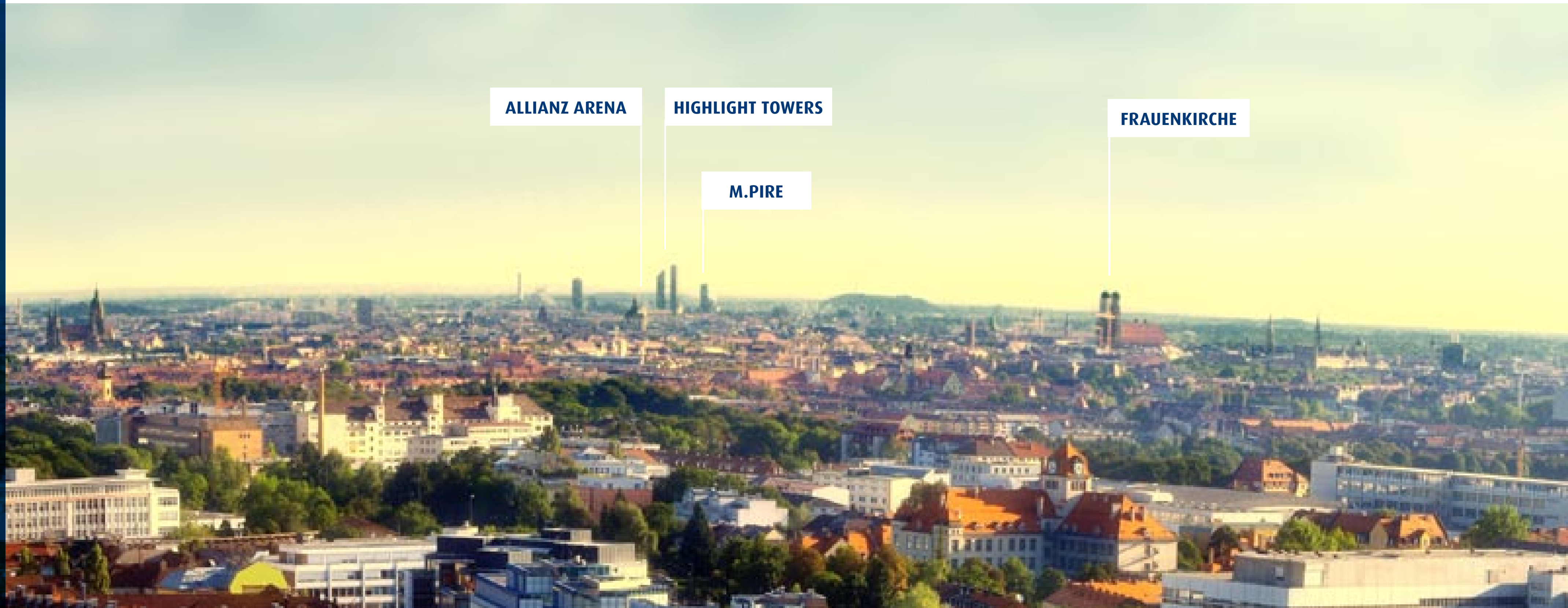
Project:
Revitalization

Location:
In the south-west of Obersendling. As a result of its proximity to the Isar and the city centre this region is one of Munich’s preferred residential areas, and the S-Bahn and U-Bahn train stations are within easy reach by foot from the property.

Number of apartments:
300 residential units

Sales volume:
Around € 150 million.

Illustration of living room with a view to the south



CORPORATE GOVERNANCE & SUPERVISORY BOARD REPORT

CORPORATE GOVERNANCE

CORPORATE GOVERNANCE

REPORT ON CORPORATE GOVERNANCE AT ISARIA WOHNBAU AG

„Corporate Governance“ stands for responsible business management and supervision of companies with the objective of long-term creation of value. The Executive Board and Supervisory Board of ISARIA Wohnbau AG consider it to be an essential prerequisite for sustainable business success as it strengthens trust on the part of shareholders, employees, business partners and the public with respect to the company's leadership and management. In their corporate governance the Executive Board and Supervisory Board observe the latest valid version of German Corporate Governance Code (hereinafter also referred to as the 'Code'). According to item 3.10 of the Code, the Executive Board and Supervisory Board are issuing the following report on Corporate Governance at ISARIA Wohnbau AG. The Corporate Governance Statement pursuant to Section 289a German Commercial Code [HGB] has been made permanently available in the Investor Relations area of the company website (www.isaria-wohnbau .de).

DECLARATION OF CONFORMITY FROM THE EXECUTIVE BOARD AND SUPERVISORY BOARD PURSUANT TO ARTICLE 161 GERMAN STOCK CORPORATION ACT [AKTG]

Article 161 AktG stipulates that the Executive Board and the Supervisory Board shall issue annual declarations stating that the recommendations of the Code have been or will be met as well as which have not and the reasons for this. The updated version of the Declaration of Conformity from April 2013 was the subject matter of the Supervisory Board meeting of 20 April 2013. At this point, reference is made to the Declaration of Conformity with respect to the reasons for divergences from the recommendations of the Code, which has been made permanently available to the shareholders in the Investor Relations area of the company website (www.isaria-wohnbau.de).

EXECUTIVE BOARD AND SUPERVISORY BOARD

Management structure

ISARIA Wohnbau AG is a stock corporation under German law. The company's administration is subject to the regulations of German Stock Corporation law, capital market provisions and the provisions of the company statutes and rules of procedure for the Executive Board and Supervisory Board. The Executive Board and Supervisory Board of ISARIA Wohnbau AG provide a split management and supervisory structure. The shareholder's meeting is the third body of the company.

Compliance as a management function

The Executive Board must ensure that legal provisions and internal company guidelines are complied with and observed by the group companies (compliance). These measures for complying with the law and internal guidelines are essential management functions at ISARIA Wohnbau AG.

Composition of and remuneration for positions on the Executive Board

Together with the Executive Board, the Supervisory Board ensures that there is long-term succession planning, and takes into account the fact that ongoing contracts may possibly end in different periods. The Supervisory Board will, in the event of upcoming changes within the Executive Board, also take steps in the interest of diversity and in particular endeavour to consider women for filling positions on the board accordingly.

Composition of the Supervisory Board and diversity

Pursuant to 5.4.1 (2) of the Code, the Supervisory Board is to define specific goals with respect to its composition, which account for the activities of the company, potential conflicts of interest, the number of independent members in the sense of item 5.4.2 of the code, an age limit to be defined for members of the Supervisory Board and diversity where steps are taken to ensure adequate participation of women in consideration of the specific situation of the company. For the reasons provided in the Declaration of Conformity, the Supervisory Board has disclosed a variation from this recommendation. However, it addressed the question as to which special knowledge and skills should be represented on the Supervisory Board:

- In addition to the knowledge, skills and professional qualities of the members of the Supervisory Board, which are already required, expertise and experience with the German real-estate and capital market should also be contributed in order to critically evaluate the decisions of the Executive Board;
- as a result of the great importance of litigation and legal risks, in particular from the company's time before going public, broad-scale and particularly legal experience and knowledge is necessary, and should be added to the board, and
- already based on the specifications of Article 100 (5) AktG, special expertise in the fields of accounting and auditing should also be present on the board particularly in order to critically evaluate the annual financial statements to be complied by the company.

Remuneration of the Supervisory Board

The remuneration set by the general meeting for the members of the Supervisory Board is regulated in Article 13 (1) of the Articles of incorporation of ISARIA Wohnbau AG. This is based on the company's size and the responsibility and scope of activities of the members of the Supervisory Board. The members of the Supervisory Board receive remuneration of EUR 15,000.00 for each full fiscal year of their membership of the Supervisory Board, and an additional meeting fee of EUR 2,000 for each meeting of the Supervisory Board. The Chairman of the Supervisory Board receives twice this remuneration, and his deputy receives 1.5 times this remuneration. Members who were not members of the Supervisory Board for the full fiscal year receive proportionate remuneration.

Prevention of conflicts of interest and „directors' dealings“

The disclosure and transparency of transactions, which could lead to a conflict of interest, are an integral part of our Corporate Governance.

The Supervisory Board believes that it has a sufficient number of independent members serving on it in order to preventing any conflicts of interest; these members have neither a business or personal relationship to the company or the Executive Board. No former members of the Executive Board serve on the Supervisory Board.

Pursuant to Section 15a German Securities Trading Act (WpHG), the members of the Executive Board, Supervisory Board and persons with close relations to either of these boards are required by law to disclose the acquisition and the sale of company shares or financial instruments based on such transactions if the value of the transactions conducted within a calendar year reaches or exceeds an amount of 5,000 Euros. No corresponding transactions were reported to the company during the reporting period.

ADDITIONAL INFORMATION ON CORPORATE GOVERNANCE

Risk management

Risks must be taken on in order to take advantage of opportunities for the company and reach targets. The responsible management of business risks falls under the principles of good Corporate Governance. It must be ensured that risks are recognised in time, properly evaluated and properly managed. The company endeavours to define provisions for the identification, evaluation and management of risks, which are also subject to critical examination by the auditor. Details on the risk management process are provided in the risk report, which is part of the management report.

Transparency
Important information is available in German and English on the company's website.

Furthermore, immediately after receipt of a relevant notification pursuant to Section 21 German Securities Trading Act (WpHG), the achieving, exceeding or falling below of 3, 5, 10, 15, 20, 25, 30, 50 or 75 per cent of the voting rights in the company is published in an information system that is distributed throughout Europe.

Shareholders' meeting
The shareholders will exercise their rights, including their voting right, at the shareholder's meeting. The shareholders will either exercise their voting right at the shareholder's meeting themselves or have it exercised by an authorised representative of their choice or a company proxy, who is bound by instructions. Each share grants one vote.

The shareholder's meeting decides on all tasks assigned to it by law. This includes in particular deliberating on the appropriation of profit, the discharge of the Executive Board and Supervisory Board as well as the election of auditors and Supervisory Board members. The shareholder's meeting is also responsible for changes to the statutes and decides on all significant business measures such as inter-company agreements and conversions. The agenda as well as proposed resolutions for the shareholder's meeting and the reports and documents required for the shareholder's meeting as well as the voting results will be published on the company's website.

Accounting and auditing
The Supervisory Board will retrieve a declaration of independence from the auditor before calling the vote. In particular, it shall agree with him that the Supervisory Board chairman will be advised of any grounds for exclusion or prejudice, which encountered while performing the audit, to the extent they are not immediately rectified and such that the auditor reports on all findings and events, which are significant for the functions of the Supervisory Board and encountered while performing the audit.

Munich, March 2014

Executive Board and Supervisory Board of ISARIA Wohnbau AG

SUPERVISORY BOARD REPORT

PURSUANT TO ARTICLE 171 II SENTENCE 1 GERMAN STOCK CORPORATION ACT (AKTG)

Dear shareholders,

In the year under review, the Supervisory Board performed the tasks that were required of it by law, the articles of incorporation and the company by-laws.

SUPERVISORY BOARD MEETINGS

In 2013 the Supervisory Board met for a total of 13 meetings, either face to face or by phone. In addition, there were a large number of telephone discussions between members of the Supervisory Board. No member of the Supervisory Board was present for less than half the meetings. No committees were formed in 2013.

The subjects of the Supervisory Board meetings in 2013 were mostly:

- supervising the management,
- resolutions on transactions requiring approval,
- supervising project status and the liquidity forecast,
- ongoing exchanges with the appointed auditor for the audit of the 2012 financial statements and the 2012 management report as well as the 2012 consolidated financial statements and 2012 group management report according to Article 171 of the AktG,
- Support for the company's acquisition of One Group GmbH, Hamburg,
- Appointing a further member of the Executive Board;
- Recommendations of the "Government Comission on the German Corporate Governance Code".

SUPERVISION OF THE EXECUTIVE BOARD

During the period under review, the Supervisory Board supervised and advised the Executive Board in line with statutory requirements and the possibilities available. The reports and documents presented by the Executive Board were in line with the requirements of Article 90 of the AktG.

For important issues, the Chairman of the Supervisory Board also received reports outside the regular reports according to Article 90 of the AktG. In addition, the Chairman of the Supervisory Board was also in regular contact with the Executive Board between the meetings, and advised it on questions of strategy, forecasting, business growth, risks, risk management and the company's compliance.

A major focus of the activities of the Executive and Supervisory Boards in 2013 was also to further pursue the company's restructuring process started in 2011 for financing, corporate forecasting and reporting. Significant improvements were ascertained in this regard.

CORPORATE GOVERNANCE

The Executive Board and Supervisory Board issued a declaration of conformity in April 2013 and most recently in March 2014 according to Article 161 of the AktG with regard to the recommendations of the Government Commission on the German Corporate Governance Code. The declaration of conformity is available on the company's Web site. The details of corporate governance at ISARIA Wohnbau AG were discussed as part of the corporate governance report, to which we refer (part of the annual report).

No conflicts of interests occurred for members of the Executive Board or the Supervisory Board which had to be disclosed to the Supervisory Board immediately in the period under review.

The requirements for independent financial experts within the meaning of Article 100 (5) of the AktG continue to be met by Prof. Raimund Baumann.

PERSONNEL MATTERS

During the year under review, Jan-Christoph von Lewinski was appointed as a further member of the Executive Board. Mr. von Lewinski started his work with the company on 1 January 2014. As COO (Chief Operating Officer) he is responsible, in particular, for project management and operating project development, and has taken over these tasks from the member of the Executive Board Christian Dunkelberg, whose contract has been extended through to the end of 2015 and who will act as CIO (Chief Investment Officer) in future. Michael Haupt continues to be Chairman of the Board and CEO (Chief Executive Officer).

Mr. Andreas Epple, a member of the Supervisory Board, resigned from his office with a letter dated 28 January 2013, and has left the company's Supervisory Board. Mr. Robert Unger was thus appointed as a member of the company's Supervisory Board by Munich Local Court on 17 April 2013, and this position was confirmed by the company's ordinary general meeting on 8 June 2013.

ANNUAL AND CONSOLIDATED FINANCIAL STATEMENTS 2013

Nörenberg • Schröder GmbH Wirtschaftsprüfungsgesellschaft, Hamburg, audited the annual financial statements and management report of ISARIA Wohnbau AG as well as the consolidated financial statements and group management report for fiscal year 2013 and issued these with an unqualified auditor's opinion in each case.

The annual financial statements and management report were prepared according to the provisions of the HGB. The consolidated financial statements and group management report were prepared on the basis of IFRS, as are to be applied in the EU, according to Directive (EU) No. 1606/2002 and Section 315a of the HGB.

The auditor performed the audit in observance of German accepted auditing principles established by the German Institute of Independent Auditors (IDW).

The documents for the financial statements and the audit reports for the company were sent to all members of the Supervisory Board in good time, and discussed in depth in the Supervisory Board meeting on the financial statements on 20 March 2014. The auditor participated in the meeting, discussed his audit, and was available for questions by the board. In addition, the auditor confirmed that the risk early warning system set up by the Executive Board is suitable, on the whole, for recognising developments at an early stage that could endanger the company's continued existence, and that there are no material weaknesses in the internal control and risk management systems with regard to the accounting process.

The Supervisory Board concurs with the auditor's results, and as a result of its own review of the annual and consolidated financial statements and the respective management reports, it has ascertained that no objections are to be raised. In particular, the Supervisory Board shares the assessment by the Executive Board in the management report and the group management report. The Supervisory Board urged the Executive Board to closely monitor the risks shown in the group management report, and to keep the Supervisory Board updated on these on an ongoing basis. In its meeting on 20 March 2014, the Supervisory Board approved the company's annual financial statements as of 31 December 2013 and the consolidated financial statements as of 31 December 2013. The financial statements of ISARIA Wohnbau AG are thus adopted.

EXPRESSION OF THANKS

The Supervisory Board would like to thank the Executive Board and all of the company's employees for their great dedication in fiscal year 2013.

Munich, March 2014

For the Supervisory Board

Prof. Raimund Baumann
Chairman

GROUP MANAGEMENT REPORT FOR THE FINANCIAL YEAR 2013 & CONSOLIDATED FINANCIAL STATEMENTS AS OF 31 DECEMBER 2013

GROUP MANAGEMENT REPORT FOR THE FINANCIAL YEAR 2013

1. BUSINESS ACTIVITIES AND ECONOMIC ENVIRONMENT

I. BUSINESS ACTIVITIES AND GROWTH

ISARIA Wohnbau AG (hereinafter also referred to as the "Company" or, in connection with its subsidiaries and participating interests the "ISARIA Wohnbau group" or only "ISARIA Wohnbau") is a project developer for residential properties in the greater Munich region. The Group buys plots of land in attractive locations via independent special purpose entities/subsidiaries, plans residential properties in these locations, constructs these and then sells them. The business activities of the ISARIA Wohnbau are divided into the business areas of new residential real estate construction and the revitalization of existing properties. The latter includes also converting former commercial properties to turn them into residential properties under the brand "APP.ARTMENTS" created for this purpose.

The company's business model is to sell all apartments and houses that it has constructed. ISARIA Wohnbau does not aim to rent or hold apartments or houses within a portfolio. With its project companies, the company operates exclusively in the high-growth greater metropolitan region of Munich.

PRODUCTS, SALES AND CONSTRUCTION ACTIVITIES BY ISARIA WOHNBAU

The ISARIA Wohnbau Group's claim is to offer top quality residences for purchase in attractive locations in the Munich region. The highest standards are set with regard to architecture, style, design and also construction materials and construction technology. The standard is set by the desires of typical owner-occupier households in Munich. The Company's core business is not with luxury properties.

Owner-occupied apartments and houses are sold on behalf of the company by freelance employees who have been working for the Company for many years and who are paid purely on a commission basis. In addition, there are project-specific sales offices and sample apartments and houses. Sales have been set up to deal with the increasing number of investors as purchasers. For the first time, experience has also been gained with a nationwide real-estate sales organisation. Support for investors who take over entire projects as rental properties, is provided directly by members of the Executive Board, who have long-standing links to the world of institutional investors.

The company has a highly competent, experienced team of technical customer advisers and commercial employees, who support hundreds of customers each year from "sale from a plan" or during the construction phase through to the property handover.

ISARIA Wohnbau realises its projects with external architects, engineers and construction companies, who are technically managed by a team of project developers and project managers and commercial controlling.

The projects listed in the table and majority acquisitions of project companies that have already been certified will allow ISARIA Wohnbau to generate its future revenue volume. The project not included in the table "Neue Hirschpark Terrassen" (104 residential units) is being executed in cooperation with Corpus Sireo Projektentwicklung Wohnen GmbH and is carried at equity by the joint ventures included in the consolidated financial statements. For this company no revenues are recorded at a consolidated level. Instead, the proportionate result is absorbed. On the balance sheet date this project had mostly been completed.

ISARIA WOHNBAU'S PROJECTS

Project	Special purpose entity	Location	Total number of housing units	Scheduled completion	Status
driem	JK Wohnbau Objekt Willy-Brandt-Allee GmbH; House C	Munich-Riem	64	03/2013	completed
Nido	JK Wohnbau Objekt Karlsfeld 1 GmbH; Section 6	Karlsfeld am Prinzenpark	31	08/2013	completed
	JK Wohnbau Objekt Karlsfeld 1 GmbH; Sections 5,7		50	12/2013	completed
	JK Wohnbau Objekt Karlsfeld 1 GmbH; Section 1		77	12/2015	construction started
	JK Wohnbau AG & Co. Objekt Karlsfeld 2 KG; Section 9		35	06/2014	construction started
	JK Wohnbau AG & Co. Objekt Karlsfeld 2 KG; Section 8		55	03/2015	construction started
	JK Wohnbau AG & Co. Objekt Karlsfeld 2 KG; Section 10		73	06/2016	Preparation for start of construction
	JK Wohnbau AG & Co. Objekt Karlsfeld 3 KG; Section 12c		33	12/2014	construction started
	JK Wohnbau AG & Co. Objekt Karlsfeld 3 KG; remaining sections		112	03/2016	Preparation for start of construction
APP. ART-MENTS	Living Bogenhausen GmbH	Munich-Bogenhausen	167	03/2014	Being completed
St. Bonifatius	gindiwo Gesellschaft für individuelle Wohnungsprivatisierung Objekt St. Bonifatius Straße mbH – rear building	Munich-Giesing	21	03/2014	Being completed
	gindiwo Gesellschaft für individuelle Wohnungsprivatisierung Objekt St. Bonifatius Straße mbH – front building		22	10/2014	construction in progress
Tower	JK Tower GmbH	Munich-Obersendling	328	12/2018	Plan B development
Am Münchfeld	JK Wohnbau Objekt Am Münchfeld GmbH	Munich-Allach	458	2017 – 2018	Plan B development

KEY EVENTS IN THE PERIOD UNDER REVIEW

Change of company name
In its general meeting on 6 June 2013, the Company changed its name to ISARIA Wohnbau AG (formerly JK Wohnbau AG). This was entered in the commercial register on 13 June 2013.

Further improvements to the financing structure
In order to reduce dependency on external financing partners, on 31 December 2013, ISARIA acquired a 100 % interest in One Group GmbH (One Group) with its registered office in Hamburg via a non-cash capital increase. One Group was formed in 2009 and is an issuing company for project development funds and will invest in Munich in ISARIA Wohnbau's project pipeline via its ProReal Deutschland Funds. On 31 December 2013 ISARIA Wohnbau had already received financial participations with a volume of k€ 33,501 from this source. In structural terms, it has thus significantly reduced its dependency on external financing sources, and the company has its own financing platform.

Acquisition of equity interests for subsidiaries which were already previously fully consolidated
During the course of the fiscal year, ISARIA Wohnbau acquired additional interests in various subsidiaries that were already controlled by the group. In detail this concerns the acquisition of minority interests in JK Wohnbau AG & Co. Objekt Maistraße KG, J.K. Wohnbaugesellschaft mbH & Co. Objekt Hohenwaldeck KG, JK Wohnbau Objekt Karlsfeld 1 GmbH, JK Wohnbau AG & Co. Objekt Karlsfeld 2 KG, JK Wohnbau AG & Co. Objekt Karlsfeld 3 KG, JK Wohnbau GmbH & Co. Objekt Waltherstraße KG and JK Wohnbau Objekt Stahlstraße GmbH.

To the extent that the subsidiaries are corporations, the acquisition was carried as an acquisition of an interest without a change of status directly under consolidated equity. A comparison of the acquisition costs with the carrying amounts of the minority interests disposed of resulted in a difference of k€ -2,855 (previous year: k€ 0).

In the case of the subsidiaries with the legal form of a partnership, in contrast the minority interests were not previously carried under equity, but under liabilities. As a result, the acquisition of the minority interests led to these liabilities being derecognised. In connection with the acquisition of a minority interest, one shareholder waived his claim to a purchase price in this regard. This resulted in a reduction of liabilities in the consolidated financial statements by k€ 3,301 and is reflected as a contribution from shareholders to reserves. The remaining acquisition of interest resulted in financial income of k€ 325 (previous year: k€ 0).

As a result of the acquisition of these interests, the company's founder, Mr. Josef L. Kastenberger exited all of the subsidiaries.

Acquisition of Living Bogenhausen GmbH
With effect from 29 November 2013 (date of first-time consolidation), the Company acquired a 94 % interest in the project company Living Bogenhausen GmbH (formerly JK Wohnbau Objekt Vogelweidestraße GmbH). As ISARIA Wohnbau AG already held a 6 % interest, from this date it has held a 100 % interest. Living Bogenhausen GmbH is developing a revitalization property in Vogelweidstraße 5 in Munich-Bogenhausen, which is converting a former office property into a state-of-the-art apartment building. The acquisition of the majority interests in this project company means that ISARIA Wohnbau can realise its second revitalisation project under the APP.ARTMENTS brand.

Developments of projects
During the past fiscal year 2013, it was only possible to re-commence building work very late at the start of the year as a result of the very long winter. However, work went without disruption and on schedule during the second half of the year. The projects in detail:

The last unit in the Hohenwaldeck building was handed over in March 2013, marking the completion of the project.

All units from the "driem" project in Munich-Riem, which were still left as of 31 December 2012, were handed over in the first three months of 2013. The property has therefore been completely sold, handed over and occupied.

The project "Neue Hirschpark Terrassen" was completed in 2013 when the North building was fully completed with a total of 19 units and completion of the exterior areas. A total of 28 units were handed over in 2013. One last apartment was handed over at the start of 2014. The total of 104 apartments have thus all been sold, handed over and moved into on the reporting date, and the project has been fully completed. The project is being carried out in cooperation with Corpus Sireo Projektentwicklung Wohnen GmbH and is included in the consolidated financial statements at equity via the investment result.

In the renovation project St. Bonifatius, the construction activities in the building to the rear have been completed, apart from a few remaining tasks. Most of the apartments have been handed over. From the building to the front the core has already been fully removed and the rebuilding work is continuing at a rapid pace. The reinforcement of the ceilings, which is required due to the construction, is running on schedule, which means that we believe that this will be completed and the buyers will move back in in the fourth quarter of 2014.

In the "nido" project in Dr. Johann-Heitzer-Straße in Karlsfeld West, after the long winter at the start of the year, for a further two months we had to battle extreme rainfall and the resulting high ground water levels. This led to weather-related delays in the continued course of construction. In spite of this, however, it was possible to complete 81 units in 2013, of which 71 units were also handed over in 2013, with corresponding recognition in revenues and earnings. As of 1 January 2014 a total of 193 residential units were still under construction. 90 % of these have already been sold. Construction work on these units is progressing on schedule. As a result of the major sales success, in addition a further 96 residential units in subsequent sites have been put up for sale, and a good 60 % of these had already been sold by the end of September. All of the 78 residential units in the first construction stage have already been sold, finished and transferred since 2012. ISARIA Wohnbau is realising a total of 547 residential units on this 115,000 m² site.

In the "APP.ARTMENTS" revitalisation project in Vogelweidstraße 5 in Munich-Bogenhausen, it was only possible to re-commence construction work in April 2013 after the long winter. By then, the core had been fully removed from this building, and it was rebuilt successively from the second basement floor through to the fifth upper floor. The complex construction project was performed with individual handovers from a large number of different craftsmen using state-of-the-art technology. The apartments, the so-called individual ownership, were mostly finished by the end of the year, and kitchens and fitted cupboards were added as finishing touches. However, as the city utilities company was not able to connect the district heating on time, and as construction work still had to be finished in the jointly-owned sections (hallways, stairwells and external areas), the Management Board has decided to move back the transfers for the individual and joint ownership to the first quarter of 2014.

In the two developments Am Münchfeld and Tower, obtaining building rights is being further driven. The political will to create more residential construction rights that has been clearly expressed is faced with bureaucratic implementation, as a large number of public-sector players are involved in type of process. This makes it difficult to set out an exact timetable in practice. In the project "Am Münchfeld" in Allach, in 2013 the test drafts for town planning were completed in 2013, and the structural-physical survey was completed. We now expect the resolution on the key data ("Eckdatenbeschluss") to be issued in the second quarter of 2014. In the Tower project in Munich Obersendling, in 2013 the focus was on the urban planning development of the entire area in which the property is located. In its last meeting on 18 December

2013, the city council initiated the corresponding land development planning. The results from a discussion forum with interested citizens in February 2014 will be included in a resolution on key data ("Eckdatenbeschluss") by the City of Munich, which will be followed by an urban planning and landscape planning competition in the second half of 2014.

Acquisition of majority interests in additional project developments

In December 2013, notarised purchase agreements for the acquisition of an 84 % interest in each case in three project development companies were certified. To date ISARIA Wohnbau has only held a minority interest of 6 % in these companies. Execution of these agreements is subject to the condition precedent that the financing partners approve. The Executive Board believes that this will be implemented during the course of 2014. The conclusions of these agreements means that ISARIA Wohnbau has taken a further key step in its efforts to secure its future project pipeline.

Executive Board and Supervisory Board Membership Changes

Mr. Andreas Epple resigned from his office on 28 January 2013. The district court of Munich then appointed Mr. Robert Unger, attorney at law, Berlin, as a new member of the supervisory board with the resolution of 17 April 2013. Mr. Unger was elected deputy chairman of the supervisory board at the meeting of the supervisory board on 19 April 2013. On 6 June 2013, the general meeting elected Mr. Unger as a member of the supervisory board.

Mr. Jan von Lewinski was appointed as a new, additional member of the Executive Board from 1 January 2014, in a resolution by the Supervisory Board on 20 October 2013.

II. OVERALL ECONOMIC DEVELOPMENTS

According to estimates by the Institut für Weltwirtschaft (IfW) in Kiel, at the end of December 2013 the perspectives for the global economy lifted at the end of 2013/start of 2014. Factors that perceptibly depressed the global economy in the past two years have thus become less important. The IfW also believes that in 2014 the economy in Germany will grow, driven by an upswing in the investment cycle. The gross domestic product in Germany is expected to lift by 1.7 % in 2014, and even by 2.5 % in 2015. Employment figures will also continue to increase slightly, however the IfW puts the unemployment rate in 2014 at a constant 6.9 %. This is due to an increased return to work, in particular by women and older people, and also as a result of increased immigration.

Residential construction will continue to benefit from these positive underlying conditions, in particular from the continued extremely low financing costs, and also from the lack of alternative investments and from the continued insecurity.

III. DEVELOPMENTS ON THE REAL ESTATE MARKETS IN GERMANY AND MUNICH

THE MARKET FOR RESIDENTIAL PROJECT DEVELOPERS

Both the real estate economy in Germany (as an indicator for the current situation) and also the real estate climate (as an indicator for the future perspectives) showed a further increase in the fourth quarter of 2013 according to the Hypo-Immobilienkonjunktur-Index in December 2013, and are thus higher than the respective figures at the end of 2012 by 13.6 % or 8.9 %. The climate for residential construction has thus fallen by a total of 7.7 % during the course of 2013 compared to the record-breaking figure in December 2013, however compared to other asset classes it is still the most attractive and is thus a "safe harbour". The fundamental mood on the German real estate market thus continues to be high on the whole. Residential project developers continue to enjoy an excellent environment in all of Germany's high-growth regions.

DEVELOPMENTS ON THE HOUSING MARKET IN MUNICH

The real estate market in Munich continues to be highly attractive – this situation has not changed since the end of 2012. Munich as a location takes first place in many current national studies with regard to factors relevant for the real estate market, such as economic and structural indicators, location strength and future-proof locations. Most recently stated in the 2013 City Ranking by DekaBank and Immobilienmanger. Here, the Bavarian state capital recorded the highest number of points in the weighted sections of affluence, job market and quality of life. Munich is also the highest-priced location for residential real estate in Germany.

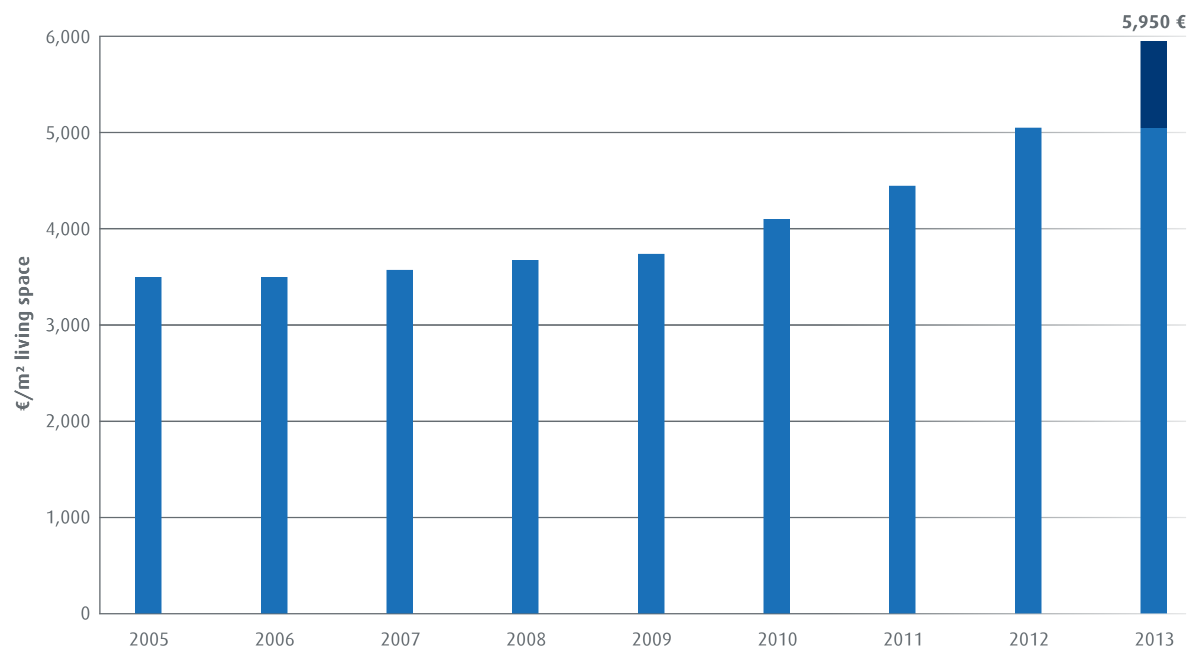
The price increase in the past few years also continued in 2013. The prices for owner-occupied apartments in Munich increased by a further 13.7 % year on year through to the end of September 2013. As a result, the pace of price growth has fallen slightly compared to the increase in 2012, however this is far from being a turnaround.

This strong increase is due to the exceptionally high and constant demand, which, in turn is due to the strong growth in the population of the city and its surrounding areas. Munich has grown by around 100,000 inhabitants in the last four years alone. This is now not only due to strong numbers of newcomers but also a higher birth rate, as many of the new residents are the right age to be starting families.

In addition to the strong demand, however, the low supply is also ensuring that the situation on the Munich market remains tense. There are not yet any concrete fig-

PRICES FOR NEW RESIDENTIAL UNITS IN MUNICH, PRICES FOR 2005 TO 2012 FROM ANNUAL REPORTS, 2013 IN Q1-Q3

AVERAGE AND EXCELLENT RESIDENTIAL LOCATIONS



Source: Expert Committee Munich, Quarterly Report 3/2013 ures available for 2013, however the number of planning permissions granted and the number of apartments completed each year are not enough to cover requirements, which the City of Munich puts at around 7,000 apartments each year. In 2012 almost 6,700 apartments were completed, however this was by no means enough to compensate for the insufficient construction activities in the past few years. In contrast, the low number of completions is now causing supply to be so scarce that the Munich Committee of Experts, in its current quarterly report 3/2013, has ascertained a 13 % downturn in the number of sales on the market for owner-occupied apartments in the first nine months of 2013. According to the preliminary market analysis, this trend has also been confirmed for the year as a whole, and the city's Committee of Experts has ascertained: "The growing demand for residential properties has thinned out the offering, and at the same time prices have continued to increase." With regard to price developments, in its current quarterly report the Munich Committee of Experts reports a further substantial increase in prices for newly built apartments in average and excellent residential locations from approx. € 5,000/m² in 2012 to an average figure of € 5,950/m² in the first nine months of 2013. As a result, the average price in Munich in 2013 increased by an average of approx. € 300/m² per quarter. In excellent residential locations, the average prices were even around € 6,650/m².

In the IVD Institute's opinion, there are currently no indicators that the situation on the Munich real estate market will relax over the medium term. There is still a great appetite to make purchasers among both investors and owner-occupiers despite these higher purchase prices given the highly limited offering.

In the new demography report dated December 2012, the city of Munich is already forecasting that the 1.5 million inhabitants mark will be passed in 2014. By 2030 the city is forecast to grow to between 1.65 million and 1.8 million inhabitants, depending on the scenario. This would be at least 190,000 more inhabitants than at present, and would correspond to average growth of a good 11,000 to 20,000 inhabitants per year, which is substantially lower than the current growth rate. That also means that residential accommodation of around the size of a small town has to be created in Munich every year. That goes far beyond the current offering.

The underlying economic conditions and the demographic trends in Munich have a positive impact on the opportunity/risk profile for this location. A study by Savills, a real estate agent and consulting company, which deals with current developments, perspectives and potential on the German market for residential real estate, comes to the conclusion that the macro location risk in Munich is the lowest of all of the locations it surveyed.

COMPETITIVE POSITION OF ISARIA WOHNBAU IN MUNICH

Competition for project developers for residential construction is mostly fragmented throughout Germany. There are many smaller providers on the market, who develop a few, small-scale properties in the traditional housing estate structures. As a result of the strong growth in the population of Munich, which has been the case for decades, however, some major companies have become established, who mostly ensure urban development growth. ISARIA Wohnbau has ranked among these companies for several years. Im Kreis der von Bulwien-Gesa ermittelten fünf führenden Münchner Wohnungsentwickler sind alle anderen Unternehmen seit Jahrzehnten im Familienbesitz und das „zweitjüngste" ist auch schon 45 Jahre am Markt erfolgreich. Auf Basis einer ausreichend großen und strategischen Projektpipeline gehört damit die Entwicklung von Wohnungsbau in München offenbar zu den am wenigsten krisenanfälligen Geschäftsmodellen der Immobilienindustrie.

ISARIA Wohnbau continues to be the most important German residential property developer which only operates in a single location.

2. ORGANIZATION OF ISARIA WOHNBAU

I. EXECUTIVE BODIES OF ISARIA WOHNBAU AG

EXECUTIVE AND SUPERVISORY BOARDS

The statutory management and representative body is the Executive Board of ISARIA Wohnbau AG. According to the articles of association this board comprises at least two members. The Supervisory Board advises and monitors the Executive Board in its management of the company. In addition, it may appoint a CEO or Chairman of the Executive Board and a Deputy. According to the articles of association of ISARIA Wohnbau AG, the Supervisory Board has three members, elected by the General Meeting. On the balance sheet date, the Supervisory Board comprised Prof. Raimund Baumann (Chairman), Robert Unger (Deputy Chairman) and Michael Kranich.

REMUNERATION SYSTEM

The Supervisory Board defines the Executive Board's remuneration. The remuneration system for the members of the Executive Board in the past fiscal year comprised fixed salary payments and incidental payments, and also the following variable components: Variable compensation for members of the Executive Board was included for 2013, which can account for up to 60 % of their fixed annual basic salary, and which is linked to reaching specific pre-defined milestones. These milestones set for 2013 were only partially reached. A provision of k€ 200 was formed in these financial statements for this eventuality. The final amount will be determined by the Supervisory Board after the balance sheet has been prepared. In addition, the Supervisory Board has defined the criteria for variable remuneration in 2014, which is linked to various corporate targets in fiscal year 2014. Slightly less than half of the variable remuneration is linked to concrete financial indicators, and the majority is linked to targets which aim to ensure the medium to long-term success of the company. Remuneration for members of the Supervisory Board is governed by the Articles of Association. The members of the Supervisory Board receive fixed remuneration, set by the General Meeting, plus reimbursement of their out-of-pocket expenses. The General Meeting re-regulated remuneration on March 23, 2012. Accordingly, members of the Supervisory Board also receive a meeting fee in addition to their fixed annual remuneration.

Further details of the remuneration for the Executive and Supervisory Boards, in particular the amount of remuneration for the past financial year, can be found in the notes to the consolidated financial statements.

II. GROUP MANAGEMENT

The ISARIA Wohnbau Group is managed by the Executive Board of ISARIA Wohnbau AG, which gears its management, in particular, to indicators for sales and construction progress. Several coordinated IT systems provide up-to-date information, which controlling prepares by comparing target to actual figures, and provides this to the Executive Board on a regular basis. As a result, the Executive Board is always able to put countermeasures in place if there are any differences, and to analyse the reasons.

III. EMPLOYEES

On 31 December 2013 the ISARIA Wohnbau Group (taking the acquisition of One Group into account) had 50 employees (previous year: 31). Of this total, 16 (previous year: 16) were employed in management and administration, 10 (previous year: 8) in project development (technology) and 8 (previous year: 7) in sales, marketing and the customer centres in Munich, One Group in Hamburg had 16 employees. In addition, the ISARIA Wohnbau Group also has freelance employees on a commission-bases, mostly in sales and customer support. ISARIA Wohnbau itself had an average of 29 employees (previous year: 28) in 2013.

3. FINANCIAL POSITION AND RESULTS OF OPERATIONS

2013 was a year of transition for ISARIA Wohnbau, and was also depressed by poor weather conditions at the start of the year. As a result of this and for other reasons key handovers had to be put back to 2014. This can be seen very clearly in the low revenues during the fiscal year. With regard to profitability, in 2013 ISARIA was not yet able to benefit from the increase in sales prices in the last two years, as these will only be recognised as revenues and thus as earnings in 2014.

In contrast, 2013 was a record-breaking year for sales. It was possible to record notarised sales of € 110.6 million (previous year: € 90.3 million), and as was the case in the previous year all of these were individual sales. The volume thus recorded is 22.5 % higher than the previous year's figure and has passed the 100 million euro mark for the first time. Notarized sales less units already transferred resulted in an order book of € 113 million (previous year: € 53 million) on 31 December 2013. This order book secures future revenues, and a large proportion of this will already be in 2014.

I. RESULTS OF OPERATIONS

ISARIA Wohnbau's income was characterized by sales revenues – which were low, but with high margins. The gross margin increased from 28 % in the previous year to a good 34 %. The lower absolute gross profit is mostly due to two aspects. It was possible to record operating cost savings totalling millions, even when considering the extraordinary factors detailed below, which depressed the other operating expenses at the end of 2013. However, in particular, it was possible to increase the financial result by more than 30 % year-on-year. This is the clear result of the constant and sustained improvement in financing structure already started in 2012. At the same time, EBIT in fiscal year 2013 is clearly lower as a result of the lower revenues compared to the previous year of k€ 2,970 (k€ 12,586). As was the case in the previous year, the capitalisation of deferred taxes on losses carried forward had a substantially positive effect on consolidated earnings, with profits of k€ 1,084 (previous year: k€ 1,195) being realised.

The revenue volume (revenues from the sale of property units and from rentals) totaled k€ 37,705 in fiscal year 2013 (previous year: k€ 79,247). As revenues are generally only recognized upon completion (handover) in the accounts, and not continuously in line with the percentage of completion, the amount of revenues disclosed every year depends on the respective completion dates of the individual construction properties and is thus subject to strong fluctuations.

Revenues are primarily governed by the income from the residential units handed over from individual sales in the respective period. In 2013 these related to handovers from remaining units in the "driem" project (JK Wohnbau Objekt Willy-Brandt-Allee GmbH), which had not yet taken place as of 31 December 2012, and the hand-over of two final units from projects already completed in previous years. In addition, in the third and fourth quarters of 2013 several completed construction stages in the "nido" project (JK Wohnbau Objekt Karlsfeld 1 GmbH) were transferred. This does not take into account revenues of k€ 22,182 (previous year: k€ 43,749) from a joint venture carried at equity. The earnings from this joint venture are only included in consolidated earnings via the financial result.

Total output includes revenues as well as the change in inventories of ongoing construction properties according to construction progress and handovers in the current reporting period. As a result of the lower number of hand-overs compared to 2012, the ISARIA Wohnbau Group recorded a slight increase in stocks in 2013 in the amount of k€ 4,694 (previous year: k€ reduction in stocks of k€ 17,741).

RESULTS OF OPERATIONS	01/01/ - 12/31/2013 k€	01/01/ - 12/31/2012 k€	Change k€
Revenues	37,705	79,247	-41,542
Total output	42,400	61,506	-19,106
Cost of materials	-29,424	-39,658	10,234
Gross profit	12,976	21,847	-8,871
Personnel expenses	-3,005	-2,811	-194
Other operating income	3,543	7,525	-3,982
Other operating expenses	-10,086	-13,060	2,974
EBIT	2,970	12,586	-9,616
Financial result	-10,402	-15,153	4,751
Income tax expenses/ gains	8,516	3,762	4,754
COMPREHENSIVE INCOME	**1,084**	**1,195**	**-111**

The cost of materials fell by k€ 10,235 from k€ 39,658 in 2012 to k€ 29,424. This downturn reflects the lower number of projects in construction compared to the same period of the previous year.

Other operating income in 2013 mostly includes compensation payments from Mr. Josef L. Kastenberger for a sale below value of k€ 611 (previous year: k€ 0) which took place back in 2009, various items of non-cash income in the amount of k€ 1,035 (previous year: k€ 0), income from the sale of investment property in the total amount of k€ 649 (previous year: k€ 0) and income from the reversal of provisions in the amount of k€ 349 (previous year: k€ 1,276). In the previous year, other operating income also included income from the sale of interests in previously fully consolidated special purpose entities (SPEs) in the amount of k€ 5,268.

Personnel expenses increased slightly in the reporting period to k€ 3,005 compared to k€ 2,811 in the same period of the previous year, in line with the increase in staff numbers. As of 31 December 2013, the ISARIA Wohnbau Group had 31 employees (31 December 2012: 29 employees).

Other operating expenses fell by almost 23 % year-on-year to k€ 10,086 (previous year: k€ 13,060). Of this downturn, k€ 994 thousand is due to lower sales commission. The record-breaking figures for notarised sales in 2013 described above are not reflected in the corresponding expenses in the consolidated financial statements, as these were partially recorded by a SPE which was only consolidated for the first time on 30 November 2013. Expenses in this SPE prior to the date of first-time consolidation are not included in the figures in the consolidated financial statements. In addition, mostly guarantee and follow-up costs for existing projects were lower than the previous year by k€ 1,142, and it was possible to reduce legal and consulting costs by k€ 1,114. The expenses from extraordinary factors had a contradictory effect. These were in the form of individual write-downs for receivables from Mr. Josef L. Kastenberger in the amount of k€ 803. These were necessary in connection with the settlement with Mr. Kastenberger reached at the end of 2013 with regard to the settlement and netting of all of ISARIA Wohnbau's receivables from and liabilities to him, as well as his exit from all of the SPEs in which he held a minority interest.

EBIT fell in both absolute and relative terms in the period under review to k€ 2,970 compared to 2012 (k€ 12,586). However, the results from the same period of the previous year include other operating income from the sale of units in two previously fully consolidated SPEs in the amount of k€ 5,268. If we eliminate this one-off income, the downturn is just k€ 4,348.

It was possible to substantially improve the financial result by almost one third (31%) in 2013 to k€ -10,402 compared to k€ -15,153 in the previous year. Financial income was lower at k€ 829 in 2013 compared to the same period of the previous year (k€ 1,652). In contrast, financial expenses fell in 2013 to k€ 13,221 (previous year: k€ 21,345). Here, the improvements to the financing structure and the reduction in liabilities from the repayment of borrowing from completed construction projects that were already recorded in 2013 paid off to their full extent. The result of at-equity investments amounted to k€ 1,990 during the reporting period (same period last year: k€ 4,539).

The result from income taxes in 2013 was positive once again, as was also the case in the previous year, as a result of the capitalisation of deferred taxes on losses carried forward at k€ 8,516 thousand (previous year: k€ 3,762).

In terms of the segments, earnings in the ISARIA Wohnbau Group were as follows:

Revenues in the largest segment of "New Developments" fell due to the factors described above with successful hand-overs and revenue recognition fell by k€ 35,175 to k€ 32,912 (previous year: k€ 68,087). However, this low volume of revenues was still sufficient to cover operating costs. As a result, EBIT was still positive at k€ 673 (previous year: k€ 9.158). It was possible to cut financing expenses substantially by k€ 5,900 or 38% to k€ 9,569 (previous year: k€ 15,469). Considering the slight downturn in financial income and the results from companies carried at equity included in this segment in the amount of k€ 1,990 (previous year: k€ 4,539) this results in negative segment earnings before taxes of k€ -5,927 (previous year: k€ -507). The segment earnings after taxes are positive as a result the capitalisation of deferred taxes on losses carried forwards of k€ 2,119 (previous year: k€ 3,568).

Revenues in the "Revitalisation" segment totalled k€ 1,914 after k€ 9,493 in the previous year. Revenues from the previous year mostly stemmed from the global sale of the apartment house in Schillerstraße, which was recognised in revenues in 2011 and 2012. As a result of renewed cost increases in the apartment modernisation business, which has now been discontinued, the segment result is once again negative in 2013 at k€ -1,440 (previous year: k€ -1,284).

Revenues in the "Other" segment of k€ 2,879 (previous year: k€ 1,667) were due to income in connection with the rental of portfolio properties, and also to the rental of an apartment building managed for a financial investor in Schillerstraße in the amount of k€ 2,138 (previous year: k€ 881). EBIT in this segment was positive in 2013 in the amount of k€ 926 (previous year: k€ -308) due to one-off effects totalling k€ 1,782 (previous year: k€ 334) from the sale of investment properties, compensation for damages and income from the write-up of investment properties. As a result of the higher financial expenses for existing properties, the segment recorded very slightly negative earnings before taxes of k€ -2 (previous year: k€ -688). As a result of the positive income tax result, the segment result after taxes is positive at k€ 405 (previous year: k€ -1,065).

In view of the weather-related delays in construction progress in the first half of 2013, the course of business was satisfactory in 2013 and was in line with expectations, with the following exception: in 2013 it was not possible to realise the hand-over of major parts of the second APP.ARTMENT building that was scheduled until recently for the end of 2013, with the resulting recognition of revenues and earnings, and this has resulted in a corresponding shift in revenues and earnings from 2013 to 2014. Nevertheless, as a result of the substantial improvements in the financing structure initiated in 2012 and which came to full fruition in 2013 for the first time, the economic position of ISARIA Wohnbau has improved sustainably, and now forms a solid and healthy base for future success.

NET-ASSET-VALUE (NAV)

Net asset value, the international indicator used to assess real estate companies, and which is calculated according to EPRA standards, was calculated for ISARIA Wohnbau for the first time as of 31 December 2013. The calculation of EPRA NAV for ISARIA Wohnbau includes equity before non-controlling interests according to the balance sheet, adjusted for deferred taxes and divided by the number of shares. In the case of a project developer such as ISARIA Wohnbau, the central assets, the inventories under construction held for sale are, however, carried at cost. As a result, in order to ensure comparability with property holders, the company thus identified the fair value of these inventories itself using standard market residual value calculations, and this was confirmed by an external expert.

EPRA NAV – ISARIA WOHNBAU GROUP	**12/31/2013** **k€**
Equity before non-controlling interests	13,606
Hidden reserves of invetories*	77,425
Correction for deferred taxes	
Deferred tax assets	-14,112
Deferred tax liabilities	-1,684
EPRA NAV	**75,236**
Number of shares (after execution of share capital increase)	23,764
NAV PER SHARE	**3.17**

* Of these hidden reserves k€ 28,072 is due to companies in which ISARIA Wohnbau has already secured a majority interest by way of a notarised agreement, however for which execution is still subject to conditions precedent, however ISARIA Wohnbau believes that these conditions will be fulfilled during the course of 2014.

NET ASSETS	12/31/2013	12/31/2012	CHANGE
	k€	k€	k€
Non-current assets	41,817	23,647	18,170
Current assets	185,123	139,062	46,061
Equity	13,606	3,009	10,597
Non-current liabilities	66,697	27,811	38,886
Current liabilities	146,636	131,889	14,747
Balance sheet total	**226,939**	**162,710**	**64,229**

II. NET ASSETS

Net assets are primarily characterised by the first-time consolidation of One Group as of 31 December 2013. As a result of this inclusion as of the end of December 2013, the assets and liabilities but not the income and expenses from One Group are included in the consolidated financial statements as of 31 December 2013.

Total assets increased to k€ 226,939 on 31 December 2013 compared to k€ 162,710 on 31 December 2012. Of this total, k€ 21,845 is due to the first time inclusion of One Group in ISARIA Wohnbau's consolidated financial statements.

Non-current assets increased by k€ 18,710 or 77 % to k€ 41,817 on 31 December 2013 compared to 31 December 2012 (k€ 23,647). A major driver in this regard was the goodwill of k€ 4,936 and the intangible assets acquired at a fee in the amount of k€ 4,344, each from the first-time consolidation of One Group. In addition, the deferred tax assets carried on losses carried forward increased by k€ 9,268.

Current assets increased by 33 % to k€ 185,123 as of 31 December 2013 compared to 31 December 2012 (k€ 139,062). The properties designated for sale increased by k€ 42,224. Of this total, k€ 36,375 is due to Living Bogenhausen GmbH, which was consolidated for the first time as of 29 November 2013. The remaining increase corresponds to the ongoing construction progress for the other construction projects. In addition, cash increased by k€ 7,584 from k€ 24,719 on 31 December 2012 to k€ 32,303 on the balance sheet date. Of this increase, k€ 7,384 is due to One Group. Other receivables and financial assets fell by k€ 4,780 from k€ 26,914 to k€ 22,134 on the balance sheet date. Here, the receivables from participating interests in the amount of k€ 5,722 carried in the previous year no longer applied in 2013 as a result of the full consolidation of Living Bogenhausen GmbH, and in addition the receivables from Mr. Kastenberger and the companies allocable to him fell by k€ 4,783 as a result of netting with the purchase prices to acquire the minority interests he had held to date. As a result of the first time inclusion of One Group in the consolidated financial statements for 2013, other receivables increased by k€ 3,889.

III. FINANCIAL POSITION

In spite of the fact that consolidated earnings after taxes were low at k€ 1,084, it was possible to significantly improve equity three-fold in 2013 by k€ 10,597 to k€ 13,606 on the reporting date compared to 31 December 2012 (k€ 3,009). The capital increase for the acquisition of One Group in the amount of k€ 8,700 contributed here. In addition, reserves and thus equity increased, mostly from the waiver of receivables described above under I.1. and an addition to reserves from a corporate acquisition in the total amount of k€ 3,737. The acquisition costs netted directly with equity as part of the acquisition of non-controlling interests had a contradictory impact in the amount of k€ 2,855. The equity ratio is now 6.0 % compared to 1.8 % on 31 December 2012.

	12/31/2013	12/31/2012	Change
	k€	k€	k€
Cash	**12,393**	**11,762**	**631**

	01/01/ – 12/31/2013	01/01/ – 12/31/2012	Change
	k€	k€	k€
Cash flow from			
operating activities	679	40,374	-39,695
investing activities	2,861	2,600	261
financing activities	-2,910	-48,671	45,761

Non-current liabilities increased by k€ 38,886 to k€ 66,697 on 31 December 2013 compared to k€ 27,811 on 31 December 2012. This increase is mostly due to the compensation liabilities to investors in the ProReal Deutschland funds in the amount of k€ 47,712 carried as a result of the first-time inclusion of One Group in the consolidated financial statements as of 31 December 2013. In addition, non-current liabilities to banks increased as a result of the new issue of a loan in October 2013 to finance a construction project in the amount of k€ 6,860. The non-current portion of other compensation liabilities to shareholders in partnerships had a contradictory effect. A downturn of k€ 7,216 was due to the exit of non-controlling shareholders from the SPEs held as partnerships, the remaining k€ 9,346 was due to a change in maturities.

Current liabilities increased by k€ 14,747 to k€ 146,636 on 31 December 2013 compared to k€ 131,889 on 31 December 2012. This increase was due to an increase in liabilities from advance payments of k€ 31,530. These are due to the construction progress in the projects and purchase price instalments being called up, and k€ 21,502 of this total is due to Living Bogenhausen GmbH, which was consolidated for the first time as of 29 November 2013. In addition, trade payables also increased, mostly due to correspondingly higher liabilities or provisions for construction costs not yet invoiced of k€ 5,013. The compensation liabilities to shareholders in partnership developed in the opposite direction as a result of repayments totalling k€ 14,226. In addition, current financial debt to banks also fell as a result of repayments by k€ 8,340.

Cash in the ISARIA Wohnbau Group increased compared to 31 December 2012 (k€ 24,719) by k€ 7,584 and totalled k€ 32,303 on the balance sheet date. The Group can freely dispose of these funds in the amount of k€ 12,393 on 31 December 2012 (previous year: k€ 11,762).

The increase in cash freely disposable is composed of the cash flow from operating activities in the amount of k€ 679 (previous year: k€ 40,374), the cash flow from investing activities in the amount of k€ 2,861 (previous year: k€ 2,600) and the cash flow from financing activities in the amount of k€ -2,910 (previous year: k€ -48,671).

The cash flow from operating activities totalled k€ 679 in the year under review after k€ 40,374 in the previous year and is mostly due to the negative consolidated earnings before income taxes in the amount of k€ 7,433 plus the financial result (k€ 10,402), the increase in properties designated for sale by k€ 3,103, the reversal of write-downs and other non-cash income in the total amount of k€ 2,508, the downturn in receivables from the sale of properties and other receivables and financial assets of k€ 3,337, an increase in non-interest bearing liabilities and provisions of k€ 901 and from income taxes paid in the amount of k€ 726. The change in cash flow from operating activities compared to the prior year results largely from a purchase price for a global sale received in H1 2012.

The cash flow from investing activities in the amount of k€ 2,861 in 2013 (previous year: k€ 2,600) is mostly due to the cash received as part of business combinations after deduction of the purchase price in the amount of k€ 2,861, from purchase price payments for non-controlling interests acquired in the amount of k€ 2,855 and from purchase prices received for the sale of investment properties in the amount of k€ 1,155.

The cash flow from financing activities totaled k€ -2,910 in 2013 after k€ -48,671 in the previous year. The repayment of financial liabilities in the amount of k€ 33,240 and interest payments in the amount of k€ 9,009 exceeded the income from drawing down financial liabilities for the current construction activities in the amount of k€ 39,338. The change in cash flow from financing activities compared to the prior year period results largely from the repayment of a bank loan in H1 2012 after the purchase price for the global sale already mentioned was received.

IV. OVERALL EVALUATION OF ISARIA WOHNBAU'S FINANCIAL POSITION AND RESULTS OF OPERATIONS

As a result of various structural activities in 2013 (acquisition and contribution of One Group as an issuing company to secure the financing, acquisition of non-controlling interests in SPEs, sustainable reductions in receivables from Mr. Kastenberger), it was possible to further and sustainably improve the ISARIA Wohnbau group's financial position and profitability in 2013. The Executive Board believes that the group's continued existence has been fundamentally secured, and is confident that the improvement in profitability will gain pace in 2014.

V. FUNDAMENTALS AND OBJECTIVES OF FINANCIAL MANAGEMENT OF ISARIA WOHNBAU

The ISARIA Wohnbau Group finances real estate projects partially using equity and partially using borrowing. In the case of the latter besides bank loans, currently mostly mezzanine financing instruments, and also increasingly participating interests by One Group are used for project development. As a rule the real estate projects are held by individual SPEs. The SPEs mostly receive the funds required directly from lenders or, alternatively, from the parent company in the form of shareholder loans.

The financial management of the ISARIA Wohnbau Group spans capital structure management, cash and liquidity management as well as the management of interest rate and credit default risks. The aim is to secure the group's financing strength and thus the company's financial independence by securing liquidity. In addition, the capital costs are to be optimized via an adequate capital structure. In so doing, risks are mostly to be avoided. In this regard, liquidity forecasts are prepared on a regular basis. These are constantly reviewed for differences between target/actual figures, in order to be able to put corresponding activities in place in the event of various scenarios occurring.

4. OPPORTUNITY AND RISK REPORT

I. RISK MANAGEMENT SYSTEM

In addition to the opportunities that present themselves from the ISARIA Wohnbau Group's business activities, risks may also result that endanger the company's continued existence. Early recognition of risks and active risk management aim to reduce these dangers.

A central risk management system supports the organizational units in identifying, recording in a structured manner, and managing possible risks. It spans all of the organizational processes at the various levels and all types of risk. Business forecasting and controlling processes are a major component. All organizational units perform risk identification and evaluation tasks. Jour fixe meetings, controlling discussions, department meetings, individual discussions and enquiries are also used regularly to ascertain risks. Risks with similar content are grouped together to form risk types, for example risks in the regulatory environment, financial risks, technical risks, or project risks. These are then prepared by the risk officer, who evaluates these and communicates them regularly to the responsible decision-maker, who controls the risks.

This system gives the management an up-to-date overview of all of the group's development, the individual projects and the relevant data at any time. The system was also constantly further developed and updated in the past fiscal year. In this regard, the Company aims to ensure that the reasons for any differences can be checked in good time and activities put in place by constantly comparing the forecast with actual figures.

For example, individual indicators that are used include the ratio of property to sales levels, notarized sales or the percentage of completion. This allows the ISARIA Wohnbau Group to ensure that it always have a picture of the actual circumstances at all times, and allows errors in the single-entity and consolidated financial statements to be avoided.

II. KEY CHARACTERISTICS OF THE INTERNAL CONTROL SYSTEM OF RELEVANCE FOR ACCOUNTING

ISARIA Wohnbau AG' internal control system (ICS) of relevance for accounting serves to minimize risks as part of the financial reporting and to avoid incorrect presentation in the annual and interim reports that could have a material influence on decisions taken by the addressees for the information. The ICS aims to identify possible sources of error and to limit the risks in the ISARIA Wohnbau Group's reporting. The structure of the accounting-based ICS is closely linked to the internal processes for accounting and financial reporting and the existing structures to control the business and central areas. This ensures that the quarterly, annual and consolidated financial statements in line with statutory requirements are prepared with sufficient security.

Accounting in the ISARIA Wohnbau Group is organized centrally. The financial statements of all of the major group companies are prepared by in-house employees in the group's headquarters in Munich. In the event that parts of accounting, such as payroll accounting are outsourced to external service providers, ISARIA Wohnbau has the final responsibility for financial accounting. The ongoing accounting and the financial statements for One Group companies including the sub-group consolidated financial statements for One Group were prepared by an external firm of auditors. The sub-group consolidated financial statements for One Group were audited independently. One Group's accounting will be taken over by the group's parent company in Munich from 1 January 2014.

In the first step, all of the accounting transactions are allocated to the respective projects. The first recognition of project-related items and general items is performed using the controlling software "ALLbudget". This information is then passed on to the responsible departments and project managers, and is subject to a professional and objective review. In so doing, attention is paid to ensure that intra-group regulations, deadlines and security are met. If this review is positively confirmed, this is released and recorded in a central accounting system (DATEV software).

In order to prepare the accrued and correct (consolidated) financial statements according to national and international accounting standards, the single-entity financial statements of the subsidiaries are supplemented by additional information and summarized to form standardized reports. The high complexity and frequency are characteristic of the accounting process (quarterly, six-month and annual financial statements).

In detail, the accounting process for the 2012 annual and consolidated financial statements was as follows: The annual financial statements prepared according to the German commercial code were prepared internally by the accounting department of ISARIA Wohnbau AG using DATEV software. Calculations for taxes are performed by a firm of tax consultants. The fair values of our investment properties are identified by an external, independent surveyor. As part of the audit of the consolidated financial statements, the financial statements of the subsidiaries included were checked to ensure that these are correct. The annual financial statements of ISARIA Wohnbau AG and its subsidiaries, for which there is a statutory auditing requirement, were subject to an independent audit.

The annual financial statements prepared according to the German Commercial Code form the basis for the information included in the database-based consolidation system “LucaNet”. All of the adjustment bookings and consolidation activities for preparation of the IFRS consolidated financial statements are mapped in this system. The IFRS consolidated financial statements are also audited by the auditor for the financial statements. The final stage is the release of the financials by ISARIA Wohnbau AG’s Executive Board and their approval and adoption by the Supervisory Board.

III. RELEVANT OPPORTUNITIES AND RISKS

GENERAL ECONOMIC OPPORTUNITIES AND RISKS

The market for residential real estate is subject to a wide variety of fluctuations and depends on the general economic environment, in particular the economy and the estimates of future economic growth and the associated demand for real estate. If major discrepancies emerge between the anticipated figures and the actual demand caused by the economy, this could lead to associated risks. The most major risks include sales risks and the associated income risks. However, general economic developments in fiscal year 2013 and the still prevailing insecurity from the financial and euro crisis led to exactly the opposite effect in 2013: real estate, in Munich in particular, is regarded as being a safe harbor in turbulent period, and is currently experiencing a corresponding increase in demand.

In terms of demand for real estate, the positive trend remained unchecked. Both private and also institutional demand did not slow in pace in 2013. As a result, the overall economic risk has not changed substantially year-on-year for the ISARIA Wohnbau Group, as the Group has constantly broad base of purchaser groups.

However, the excellent economy for residential construction means that there are offer bottlenecks for individual sections of work and also at qualified prime contractors. Highly demanded companies are increasingly able to increase their prices, and to select the customers to whom they will even make an offer. In this regard, ISARIA Wohnbau has long-standing, well-established business relationships and is now known as being a reliable client. However, the turbulence in the past and a comparatively weak level of equity still raise concerns for new contractors, which we still have to overcome.

The development of overall economic risks is, on the whole, depending from a wide variety of constantly changing factors which mutually influence each other. The group cannot impact economic risks and the follow-on effects of the international crisis on the financial markets, but can only anticipate the effects and try to control these.

POLITICAL RISKS AND OPPORTUNITIES

From the start of the 1990s, the German residential real estate market has relaxed to a great extent over the past 20 years, which was why it was not focused on by politicians. However, the legal and tax situation for real estate investors in Germany deteriorated on several occasions during this period. Major changes were made in many areas (depreciation periods, deadlines for sales transactions, inheritance tax, land tax).

2012 saw the start of greater political discussions on the scarcity of residential accommodation in urban conurbations such as Munich. Various legal initiatives have been discussed, and for the first time these became a central issue again during the Bundestag elections and the subsequent coalition negotiations in 2013. For example, a so-called “brake on rent prices” is to be expected for new rentals. This is expected to only affect the company to the extent that capital investors will have difficulties in implementing rent increases when subsequently letting a newly constructed property. However, on the whole there is an increased risk that there will be increased regulation of free residential construction and of rent as a result of various political activities and on all levels of politics. This may also be positive, for example with new programs to subsidise home ownership, and the attractive construction of welfare housing for investors.

On the whole, we can see increased insecurity concerning the possible consequences of political activities in particular in Munich, one of the most tense, and most expensive markets for residential properties in Germany.

In general, higher statutory requirements for energy efficiency could also push construction costs up substantially. The statutory energy efficiency requirements in the new EnEV 2014 include a moderate increase in requirements for new properties, and as a rule these are also taken into account in calculations. The Group does not believe that it is exposed to any particular risk in this regard as these are statutory provisions that apply equally to all market participants.

DIVERSIFICATION AND ACQUISITION RISK

The ISARIA Wohnbau Group focuses its business activities on the greater Munich region. As a result, it depends to a great extent on local market developments. Residential real estate prices in Munich are already the highest in the whole of Germany. In spite of the favourable conditions, this fact could restrict the further development of the real estate market in the city in future. If demand for residential real estate develops weakly, it could be necessary to expand business activities to include other locations. The associated barriers to market entry and market entry costs could have a sustainable impact on the ISARIA Wohnbau Group’s profitability, but they could open up opportunities as well.

The market for project developers is characterized by intense competition and a large number of well-established medium-sized and large companies, which primarily operate in specific regions, as is the case for the ISARIA Wohnbau Group. In addition the ISARIA Wohnbau Group is increasingly faced by competitors which operate throughout Germany or internationally, and which are increasingly aiming to win residential construction projects in the greater Munich region. In order to combat this risk, the Group already formed its Revitalization division in 2008. As a result, not only construction of new residential properties, but also the renovation and conversion of existing properties, in particular former office properties can be used as a basis. In view of the unchanged tight situation on the market for land, in future the ISARIA Wohnbau Group will have to constantly use its competence in identifying suitable land and real estate in the greater Munich region, developing these and then acquiring these plots of land at suitable conditions. At present we must ascertain that competitors make speculative purchases, i.e. they calculate using selling prices that are higher than the current market prices, and thus they expect a continuation of the price growth of the past three years. If this does not occur, there could be substantial risks for the entire market.

FINANCIAL RISKS

The ISARIA Wohnbau Group is exposed to various financial risks as a result of its business activities. These also include, in particular, the risk of changes to liquidity or interest rates as well as the risk of business partners defaulting on payments. Some contracts include a variable interest rate, which is adjusted regularly to current interest rate developments. Risks from changes to interest rates result from fluctuations in interest rates caused by the market. An increase in the general level of interest rates could increase the Group's financing costs in future or make it more difficult to obtain financing in future. In addition, a higher level of interest rates could also result in a deterioration in demand for residential real estate and thus the possibilities to sell this, as purchasers generally finance at least part of the purchase price using borrowing, and if financing costs are higher they could put off purchasing a property, elect to buy a less expensive property, or even not buy a property at all and use an alternative investment. As a result, an increase in interest rates could thus have a negative impact on the ISARIA Wohnbau Group's financial position and results of operations. The Group does not use derivative financial instruments, for example to hedge against interest rate risks.

The Group combats the risk of payment defaults with corresponding management of open items and by forming valuation allowances. These risks are recorded and reported by corresponding reporting units in the ISARIA Wohnbau Group. The company's debtors are mostly a large number of private apartment buyers, who verify their financing when making the purchase.

A further financial risk for the ISARIA Wohnbau Group is the fact that residential real estate project development is capital intensive. To date it has used a wide variety of forms of financing. Part of the capital required for developing the respective projects is provided by loans from banks. In addition and to a greater extent, what are in some cases complex financing agreements, have been concluded with other lenders, in order to be able to prove the requisite equity to banks or to be able to entirely finance the projects in this manner for temporary periods. In this connection, so-called mezzanine capital is provided, for example as subordinate loans, typical or atypical silent partnerships or based on profit-participation rights. In addition, the group has issued promissory note bonds. Remuneration takes the form of interest payments or the disbursement of fixed, non-repayable advance profits from the respective projects. As a result of the risk profile, remuneration for these funds is higher than interest on loans with first-ranking collateral for real estate construction.

In industry-specific terms, property developer financing is generally only granted with short terms of a few months, although the terms of the project developments and construction activities are substantially longer. As a result of this risk-averse behavior by lenders, financing generally has to be prolonged during an activity. Lenders use factors such as industry experience by the project developer and trust in the projects under development when making their decisions to extend this financing. The general situation on the market and the forecast development continue to play a role in prolonging the financing.

In 2014 major loans for the ISARIA Wohnbau Group will again have to be prolonged, and these are also pertinent with regard to liquidity. The current liquidity forecast includes bonds of around € 44 million having to be prolonged. In addition, a bank loan of around € 8 million has to be prolonged in September 2014, as has already been the case on several occasions in the past. In addition, it is still planned to fully repay JK Fonds I by the middle of 2014 for a total amount of almost € 11 million and to repay/reschedule the expensive mezzanine financing of up to € 44 million.

The key liquidity outflows are thus the ongoing liabilities of ISARIA Wohnbau AG, the financing costs and the planned repayment of the mezzanine and fund capital. Liquidity inflows are expected in particular from participations by One Group, a new corporate bond and the pending handovers from project companies.

It was possible to repay or extend all of the bonds and loans due in fiscal year 2013.

The acquisition of One Group at the end of the year means a significant reduction in financial risks in many respects for ISARIA Wohnbau. Various financial instruments, which are all complex, will be replaced by a uniform structure. Inflows are now reliable and can be calculated. The costs are, in some cases, significantly lower than the previous exposure.

As it has been possible to successfully extend financing in the past and as the group's own financing platform is available, the company believes that it will be possible to finance the pending extensions and project developments and that general liquidity is secure. No risks classified as endangering the company's continued existence have emerged, and show that risk management is intact.

BALANCE-SHEET RISKS

On the balance sheet date, the consolidated balance sheet include deferred tax assets on losses carried forwards in the amount of k€ 14,112 (previous year: k€ 4,843) and intangible assets including goodwill from the first-time consolidation of One Group totalling k€ 9,704 (previous year: k€ 95). The impairment of these items mostly depends on their being sufficient taxable income available in future, or that there is a sufficient level of profits at One Group. The above forecasts justify the carrying amounts on the balance sheet date, however by their very nature they are based on future estimates that include uncertainties. Any (even partial) non-occurrence of the anticipated results could result in material write-downs or impairment expenses on the balance sheet in future.

PARTICIPATION RISKS

The individual construction projects are executed by special purpose entities in order to minimize risks. This results in a participation risk for companies for which no control is exercised. Central controlling for participating interests monitors the development of the participating interests and thus recognizes risks in good time. With the exception of rental management, all of the staff are employed by ISARIA Wohnbau AG, and they control the participating interests from here.

PROJECT RISKS AND PROJECT OPPORTUNITIES

The ISARIA Wohnbau Group is a traditional project developer for residential properties and as a rule it does not keep its properties on its books permanently, but rather it sells the residential units to customers, often during the construction phase. As a result, the Group relies on constantly receiving new planning permission required for its projects. If this permission under public law is not granted, not granted on time, or only subject to material conditions or incidental provisions, this can preclude the planned construction and development, negatively impact this, or delay it, reduce the value of the land, push up the construction costs, and have a material impact on marketing. This risk is combatted via many years' experience in project planning.

In real estate project business, construction damage or building defects could result in damage compensation claims from buyers. In this case, the ISARIA Wohnbau Group bears the risk of default if it, in turn, has no recourse. The ISARIA Wohnbau Group combats this risk by demanding and receiving warranty guarantees from the prime contractors it engages. In addition, as a rule the ISARIA Wohnbau Group bears the risk of claims being made against it as a result of contaminated sites or other ground risks, and also due to hazardous materials in buildings.

Business activities are subject to fluctuations, which are mostly characterized by the respective construction status for the respective project. The ISARIA Wohnbau Group minimizes this risk in that it has projects with various construction statuses in its portfolio.

Sales of residential units that are not in line with forecasts, as well as disruptions to construction progress, in particular preparatory and construction activities that take longer than planned, and other erroneous developments when executing projects could lead to significantly higher costs. In order to combat these risks, large numbers of the units are sold during the planning phase before construction work starts, or in an early stage of construction. It is possible to take this approach as there is currently excess demand in Munich for affordable, top quality newly built units, and the company can accordingly offer attractive products.

The project development business is linked to investments, which can generally be financed to a major extent using borrowing. If the banks should heighten their credit conditions in future, or if the level of interest should increase significantly, this would have a negative impact on business activities. In addition, the conditions on the capital market are a particular challenge for project development activities. The future project financing conditions will have a decisive impact on if and when new projects can be realised.

In fiscal year 2011, the Revitalization division was expanded once again by acquiring office buildings, which are suitable for conversion into residential accommodation. This has reduced dependency on new construction. The Group believes that this diversification of its business model offers a competitive advantage. As a result, it will continue to grow the Revitalization division in future, in particular with the APP.ARTMENTS brand.

Low returns in other forms of investment offer opportunities for real estate as an interesting investment opportunity. After the financial crisis, major investors are increasingly showing that they need secure investments. In the case of residential construction projects, gross initial returns of approx. 4 % can be realized in the greater Munich region, which is an attractive return for investors in view of the low interest rates combined with the sustained opportunities for increases in value for the apartments. However, the prices that can be realized in individual sales and the pace of sales are so attractive that global purchasers are hardly competitive. The company did not sell any properties globally to an investor in 2012 and 2013.

IT RISKS

The key IT components for forecasting and accounting and the real estate management of properties are run on the Group's own IT system. This system is serviced by a competent service provider. The availability of data and protection against unauthorized access is ensured by using state-of-the-art hardware and software technology. All of the relevant data is backed up on a regular basis.

HR RISKS

Competition for highly qualified specialists and executives continues to be high. The success of the ISARIA Wohnbau Group depends, to a substantial extent, on the extent to which the Group succeeds in hiring corresponding employees, integrating them and ensuring their long-term loyalty. Employees' knowledge and abilities are also key factors influencing the positive growth of the ISARIA Wohnbau Group. Hiring qualified employees and ensuring their long-term loyalty to the Group will also be of central importance in future. As a result, particular attention is paid to succession planning, employee motivation and fluctuation. Als kapitalmarktorientiertes Unternehmen ist ISARIA Wohnbau in einem intransparentem Wettbewerbsumfeld für qualifizierte Mitarbeiter besonders attraktiv.

LEGAL AND TAX RISKS

Business activities depend, to a great extent, on specific legal conditions. These include, in particular, the regulations in the Makler- und Bauträgerverordnung (Real Estate Agent and Commercial Construction Industry Ordinance). Changes to national or European law, or changes to court rulings could have a negative impact on business activities. As a result, a change to the maturity regulations in the Makler- und Bauträgerverordnung could have a negative impact on business operations. This regulation stipulates that the purchase price is due for payment successively from the acquiring party before completion and handover, in line with construction progress, against registration of a priority means of conveyance securing the acquisition entitlement. Any warranty claims by the purchaser are to be compensated by the ISARIA Wohnbau Group. In order to combat this risk, the ISARIA Wohnbau Group receives warranty guarantees from banks from its prime contractors. In addition, provisions are formed on the balance sheet date for anticipated litigation in connection with existing properties. These relate, in particular, to provisions for warranties in the amount of around € 2.4 million (previous year: around € 2.3 million) and additional provisions for litigation in connection with possible follow-on costs in the amount of around € 1.5 million (previous year: around € 2.0 million).

By way of a final ruling dated 11 October 2013, the previous CEO Josef Kastenberger, who was in office through to the end of 2011, was sentenced to a prison sentence of three and a half years by Munich I Regional Court for breaching trust and fraud. He admitted to having misappropriated funds from SPEs of k€ 160 for his own purposes and to having defrauded a private creditor. The crimes were committed in 2007 and 2008. At that time, Mr. Kastenberger was the sole shareholder of JK Wohnbau GmbH (now ISARIA Wohnbau AG). Proceedings with regard to other accusations from the period prior to the IPO in November 2010 were provisionally discontinued upon application by the public prosecutors according to Section 154 (2) of the STPO in view of the crimes already judged. The company has engaged a law firm to pursue all of the accusations under civil law against Mr. Kastenberger and the third parties involved. In the company's view, this issue results only in risks for the costs of legal action, however it also bears substantial opportunities for damage compensation payments, however these will not have a material impact on future earnings.

Material tax risks could result from ongoing or future external tax audits. At present, out-of-court appeal proceedings are underway in view of audit findings for previous years, with a tax risk of around € 1.3 million (previous year: around € 1.3 million) for which no provisions has been formed, as it is not expected that these will be used. At the same time, the outcome of these proceedings is uncertain.

EVENTS IN CONNECTION WITH THE ANNUAL AND CONSOLIDATED FINANCIAL STATEMENTS FOR 2009 AND THE IPO IN 2010

The audit firm Linner, in cooperation with Luther Rechtsanwaltsgesellschaft mbH presented an expert opinion in May 2013 with regard to a possible violation of obligations by consultants and executive bodies of JK Wohnbau GmbH (now ISARIA Wohnbau AG) in preparing the annual financial statements for JK Wohnbau GmbH and the consolidated financial statements for the JK Wohnbau Group as of 31 December 2009.

In so doing, the responsibilities were investigated with regard to the 21 issues that caused the adjustments to prior-year figures made in the consolidated financial statements as of 31 December 2010 stated in the notes to these statements according to IAS 8. The company's annual and consolidated financial statements for fiscal year 2009 were included in the securities issuing prospectus for the IPO on 26 October 2010 as part of the historical financial statements.

Based on the findings in this expert opinion, ISARIA Wohnbau AG sued AGP GmbH Wirtschaftsprüfungsgesellschaft in 2013 for the refund of the damage which has already occurred and which may still occur. This company was, at that time, the auditor for fiscal year 2009. The former CEO Josef L. Kastenberger and the CFO Johann Haberstock, who was in office until the start of fiscal year 2011, were called to these judicial proceedings. In order to preserve its own legal position, the company can thus not report here in detail on the findings in the expert opinion.

The expert opinion was not able to prove that former members of the company's executive bodies wilfully made incorrect statements in the financial statements or to the auditor at that time. There was also no judgement due to investment fraud in the penal proceedings against Mr. Josef L. Kastenberger in the ruling issued on 11 October 2013. The corresponding claims were provisionally shelved upon application by the public prosecutors. However, it cannot be entirely ruled out that investigations will still be made against other parties involved in the preparation and audit of the 2009 financial statements and the IPO due to investment fraud. However, on the whole the company is confident that the shareholders will only be able to take action as a result of possible errors in the securities offering prospectus due to the special standards in Sections 44 to 47 of the Börsengesetz. According to these sections, claims from prospectus liability are limited to one year from the date on which the acquiring party became aware of the incorrect or incomplete nature of the information in the prospectus, however at the latest three years from publication of the prospectus. As a result, prospectus liability claims were thus limited to October 2013.

By that date, only one shareholder, who is also subject to a reporting requirement due to the amount of the interest held, took action against the company and other parties involved in the IPO that could have led to a suspension of the statute of limitations for the company. The resulting theoretical risk, and in the event that this dispute is contested, the financial risk even after several years, is in the mid-single digit million euros range based on the current share price. As a result, even if we assume the greatest possible damage from the IPO, this will no longer endanger the company's continued existence. In practical terms, the company is convinced that the risk is reduced to practically zero as a result of opportunities for recourse against other participants and the ongoing settlement negotiations.

OTHER RISKS

In addition to the risks already described, there are general factors which are difficult to predict or which cannot be predicted at all, and which are thus practically impossible to influence. These risks include unforeseen political changes, civic unrest, major natural catastrophes or terrorist attacks. Such developments could have a direct and indirect impact on the ISARIA Wohnbau Group's business in future.

IV. OVERALL ASSESSMENT

In the ISARIA Wohnbau group's view, at present, based on the assumptions made, no risks are visible which could endanger the company's continued existence, neither from past risks, nor from currently foreseeable developments. If it is possible to implement the financing activities presented under financial risks, the ISARIA Wohnbau Group currently and in future will also be able to continue to grow profitably on the market for residential real estate in Munich, and to fulfill the payment obligations due.

5. INFORMATION ACCORDING TO SECTION 315 (4) OF THE HGB

COMPOSITION OF SUBSCRIBED CAPITAL

On 31 December 2013 ISARIA Wohnbau AG's share capital totalled k€ 20,764 and comprised 20,764,000 no-par value shares. Each share grants the holder one vote at the General Meeting.

RESTRICTIONS WHICH RELATE TO THE VOTING RIGHTS OR TRANSFER OF SHARES

An agreement was reached with Josef L. Kastenberger in financial year 2011. According to this agreement, 3,310,000 shares he holds directly and indirectly in ISARIA Wohnbau AG have been pledged to secure receivables in favour of the group.

The Executive Board is not aware of the existence of additional restrictions within the meaning of Section 289 (4) NO. 2 of the HGB due to agreements between the Company and shareholders or due to agreements between shareholders with regard to voting rights or the transfer of shares of the Company.

PARTICIPATING INTERESTS EXCEEDING 10 % OF VOTING RIGHTS

As far as the Company was aware, on 31 December 2013 there were participating interests in the capital of ISARIA Wohnbau AG in excess of 10 % of voting rights held by Josef L. Kastenberger (around 13.2 %), JK Holding GmbH (around 12.7 %, sole shareholder is Josef L. Kastenberger) and Helvetic Private Investments AG (around 10.9 %). There are no shares with extraordinary rights that grant the holders controlling powers. In addition, there is no type of control of voting rights by shareholders who hold a participating interest in the capital and who do not directly exercise their control rights.

STATUTORY REGULATIONS AND PROVISIONS IN THE ARTICLES OF ASSOCIATION ON THE APPOINTMENT AND DISMISSAL OF MEMBERS OF THE EXECUTIVE BOARD AND CHANGES TO THE ARTICLES OF ASSOCIATION

Members of the Executive Board are appointed and dismissed in accordance with Sections 84 and 85 of the AktG. There are no extraordinary regulations in the Company's articles of association. Appointments and dismissals are at the sole discretion of the Supervisory Board of ISARIA Wohnbau AG. Repeat appointments or extensions to periods of office for members of the Executive Board are permitted.

According to Article 5 of the articles of association, the Executive Board can comprise two or more persons; the Supervisory Board takes the decision in this regard. The General Meeting makes changes to the articles of association according to Sections 119 (1) No. 5, 113 of the AktG. According to Section 179 (1) and (2) of the AktG, the articles of association can only be changed by a resolution passed by at least 75 % of the share capital present when the resolution is passed.

AUTHORIZATIONS FOR THE EXECUTIVE BOARD TO ISSUE OR BUY BACK SHARES

On the balance sheet date, by way of the resolution dated 23 March 2012, the Executive Board is authorised to increase the company's share capital, with the approval of the Supervisory Board, through to 22 March 2017 on one or several occasions by up to a total of k€ 10,382. This will be performed by issuing up to 10,382,000 new bearer shares against cash and/or non-cash contributions. As a rule, the new shares must be offered to shareholders for subscription. The Executive Board is authorized, with the approval of the Supervisory Board, to exclude shareholders' statutory subscription rights in one or several specific cases. The authorisation was used after the balance sheet date in the amount of the capital increase against non-cash contributions performed in order to acquire One

Group against the issue of 3,000,000 new shares of ISARIA Wohnbau AG from authorised capital, with the result that on the date of these financial statements there is still authorised capital of k€ 7,382.

In addition, the Company's share capital has been conditionally increased by way of a resolution by the General Meeting on 23 March 2012 by up to k€ 10,382. The Executive Board is authorized, with the approval of the Supervisory Board, to issue bearer convertible bonds or bonds with warrants or a combination of these instruments up to 22 March 2017, with a total amount of up to k€ 100,000 with or without a limited term, for a total of up to 10,382,000 bearer shares of ISARIA Wohnbau AG (Conditional Capital 2012).

AGREEMENTS IN THE EVENT OF A CHANGE OF CONTROL OF THE COMPANY

If the ownership situation for ISARIA Wohnbau AG changes such that a private individual or legal entity or group of persons controls ISARIA Wohnbau AG within the meaning of Section 17 of the AktG (change of control), Mr. Christian Dunkelberg and Mr. Michael Haupt have the right to terminate their employment agreements within eight weeks of becoming aware of this circumstance with notice of two weeks to the end of the month, and as compensation for the loss of their jobs they will receive compensation of 80 % of the remuneration which no longer resulted and was paid as a result of the premature end of their positions as member of the Executive Board. In addition, ISARIA Wohnbau AG has not concluded any key agreements for the parent company that are subject to the condition of a change in control as a result of an acquisition offer or a corresponding compensation agreement with the members of the Executive Board or employees.

6. CORPORATE GOVERNANCE REPORT

The Declaration on Corporate Governance required according to Section 289a of the HGB is published on ISARIA Wohnbau AG's Web Site (www.isaria-wohnbau.de) in the Investor Relations section. This is permanently accessible there.

7. REPORT ON EVENTS AFTER THE BALANCE SHEET DATE

With effect from 1 January 2014 Mr Jan von Lewinski joined ISARIA Wohnbau AG's Executive Board as the new COO (Chief Operating Officer). He takes over this position from the former COO Christian Dunkelberg, whose contract, which has been in place since 2010 has been extended to the end of 2015 and who will be responsible for the CIO's tasks (Chief Investment Officer) in future. As a result, the company will be run by a three-member Executive Board in future. Michael Haupt's appointment as CEO and Chairman of the Executive Bord was extended to the end of 2017 in February 2014.

By creating the new position of CIO, the Supervisory Board has signalled that the company is to be geared, once again, to expansion and acquisitions in future. The acquisition of One Group in Hamburg, and the possible acquisition in Munich, which is currently mostly only possible at speculative prices, led to the decision to include one of the largest potential residential developments in Hamburg in January 2014. During the course of the next few months, a decision will be taken on whether ISARIA Wohnbau will thus establish a second strategic location, or if the project will be considered as a pure financial investment for One Group. As a result of the agreed confidentiality, it is not possible to provide any further details on the property.

In February 2014 the company issued a new corporate bond for € 10.0 million with a term to February 2015 and an interest rate of 8.0 % p.a. This was fully subscribed.

The capital increase from the contribution by One Group was entered into the commercial register on 11 February 2014.

In addition, on the date that the consolidated management report was prepared, the company was not aware of any material events that occurred after the balance sheet date and which have a material impact on the group's business growth. The mild winter means that all of the construction projects are on schedule and are making substantial progress.

8. FORECAST

The forecast reported in the 2012 consolidated financial statements for the course of business in 2013 included statements on the amount of revenues, the development of financing costs, the EBIT margin and earnings after taxes. As a result of the shift in material, high-margin handovers from the end of 2013 to the first quarter of 2014, only around half of the forecast revenues were recorded, and the EBIT margin also fell. However, as the forecast reduction in financing costs of 38 % was substantial, and as future income led to income from income taxes, on the whole positive earnings were recorded. The low-single digit million euro region, forecast in the consolidated financial statements, was thus reached. In the quarterly report as of 30 September 2013, the threatened shifts in revenues, impacting earnings in the amount of up to € 5.0 million were stated. The ISARIA Wohnbau group enjoyed stable business in 2013, so that even a 50 % reduction in forecast revenues still led to positive earnings. In addition, in the forecast in the 2012 consolidated financial statements, it was not possible to foresee that the company would be able to increase its equity three-fold in 2013 as a result of various activities, and thus now has a relevant capitalisation.

The following statements on the future course of business and the factors which are expected to have a material impact on this with regard to developments on the market, in the industry and the company, are based on assessments by the Executive Board. As a rule, forecasts bear the risk that developments may not occur, both with regard to the general trend nor the specific extent. The material risks are described in the Opportunity and Risk Report.

FUTURE ORIENTATION OF BUSINESS ACTIVITIES

The ISARIA Wohnbau Group has been established in the greater Munich region for more than 15 years as a project developer for high-quality residential properties. According to a current study by BulwienGesa, the ISARIA Wohnbau Group is one of the three largest project developers for residential property in Munich. However, as it is very difficult to differentiate the company from the other top players, growth in the company's traditional core business is expected to be limited. In addition to the division for the new construction of residential properties, the Group also revitalizes existing vacant commercial properties. Starting with the Schillerstraße property, which was handed over in 2012, the property in Vogelweidestraße is now the second property about to be completed, which means that more than 350 APP.ARTMENTS have been realised. A parallel orientation as a commercial property developer is still not intended in future. Commercial use is only conceivable for ISARIA Wohnbau as part of urban planning in residential locations.

In the report on events after the balance sheet date, we have already mentioned that the company is currently investigating expanding outside of Munich, and that it is focusing on Germany's next largest city, Hamburg. This is based on the significantly improved financing structure as a result of the acquisition of One Group.

GENERAL ECONOMIC DEVELOPMENTS, AND THE MUNICH RESIDENTIAL PROPERTY MARKET AS THE COMPANY'S HOME

In the view of the Institut für Weltwirtschaft in Kiel (IfW), there are excellent indicators that Germany's economy is set to grow in 2014, driven in particular by an increase in investments. The global economy is also recovering substantially. Factors which perceptibly depressed the global economy in the past two years have become less important in the IfW's opinion. However, the sovereign debt crisis in the Eurozone has still not been resolved; a recent wave of uncertainty on the future of the Eurozone unsettled the financial markets during the forecast period, and also impacted demand.

In terms of the residential market in Munich, the outlook for project developers continues to be promising. The annual requirements for new residential properties in Munich is currently around 7,000 apartments per year, and over the past few years this was only offset by around 5,500 completed apartments per year. In studies by well-known companies, Munich has been named as Germany's number one real estate market for several years. The number of new inhabitants has totalled between almost 20,000 to almost 30,000 per year since 2010.

This trend also continued unchanged in 2013 and coupled with the trend to have more households compared to population numbers, led to an increase in demand for residential space. No material change is to be anticipated on the market for mortgage interest rates. As a result, there is also positive support for the acquisition of residential real estate in future. Given this background, we can assume higher rent and purchase prices, and the ISARIA Wohnbau Group will participate in this thanks to its business model.

DEVELOPMENT OF THE FINANCIAL POSITION AND INCOME

The ISARIA Wohnbau group was able to once again substantially increase its notarised sales in 2013. These are often sales "from the drawing board", i.e., prior to the start of a minimum one-year construction phase. With an order book of € 113 million on 31 December 2013, the company has a large part of its revenues forecast for 2014 on its books, and already has the first secure revenues for 2015 on its books. In addition, the construction services for all of the completions scheduled for 2014 have already been fully or mostly issued. The acquisition of One Group also means that it is much easier to forecast financing, and the company's equity of € 13.6 million means that it has a relevant capitalisation. In addition, from 2014 the substantial increase in selling prices in Munich and the high current sales figures will have a significantly positive impact on the gross profit margin and EBIT for ISARIA Wohnbau.

In 2014 the company is forecasting revenues of around € 100 million from construction activities and handovers.

In 2014 the company plans to complete additional acquisitions of majority interests in SPEs that have already been certified. These projects are all currently still in the development phase, however construction is expected to start in 2014 in some cases. Financing for these companies will lead to an increase in the group's financing costs compared to 2013 by approx. 20-25 %.

Slightly positive operating results are forecast for One Group in 2014. On the whole, our current forecast for 2014 is for positive earnings after taxes in the low single-digit millions.

As a result of land that we have already purchased, the project pipeline is also secure for the coming years after 2014, and is forecast to lead to further increases in earnings.

We are also forecasting earnings after taxes of mid-single digit million euros for ISARIA Wohnbau AG as a single entity for 2014 (HGB financial statements). In the previous year the forecast for the single entity included statements on contributions to earnings from subsidiaries and participating interests and on the earnings after taxes in fiscal year 2013. This is forecast at a single-digit million amount. The forecast was also reached with earnings after taxes of € 5.6 million. The same individual aspects apply for an analysis of differences for the single entity company that have already been stated above for an analysis of differences at group level.

OVERALL ASSESSMENT

At present, there are no indicators for a short or medium-term downturn in demand on the Munich market for residential real estate. Its long-standing knowledge of the market, its secure project pipeline and what is now the group's own financing platform as well as the substantial improvement in equity means that the ISARIA Wohnbau group will be able to participate to an above-average extent in the positive developments on the attractive real estate market in Munich. The forecast increase in the population of Munich through to 2025 and the constant increase in the number of households are key indicators for the Group that sales are also secure over the medium term and that it will be possible to achieve its forecast growth targets.

In summary, the Executive Board believes that there are clearly secure opportunities to successfully implement the group's growth and significantly improve its financial position and profitability with the property units that are under construction and have mostly been completed, and with the projects already acquired or planned.

Munich, 19 March 2014

Michael Haupt
Spokesman of the
Executive Board/CEO

Christian Dunkelberg
Member of the
Executive Board/CIO

Jan von Lewinski
Member of the
Executive Board/COO

Consolidated Financial Statements as of 31 December 2013

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE FINANCIAL YEAR 2013

	Notes	2013 T€	2012 T€
Sales revenue			
a) from the sale of property units	(7)	34,577	77,328
b) from the lease of property units	(8)	3,129	1,918
Change in inventories of properties held for sale with finished or unfinished buildings	(9)	4,694	-17,741
Total output		**42,400**	**61,506**
Cost of materials	(10)		
a) Expenses for the sale of property units		-26,567	-37,931
b) Expenses for the lease of property units		-2,857	-1,727
Gross profit		**12,976**	**21,847**
Personnel expenses	(11)	-3,005	-2,811
Depreciations/amortisation/impairment charges	(18) (19) (20)	-458	-916
Other operating income	(12)	3,543	7,525
Other operating expenses	(13)	-10,086	-13,060
EBIT		**2,970**	**12,586**
Financial income	(14)	829	1,652
Financial expenses	(15)	-13,221	-21,345
Result of associates accounted for using the equity method	(16)	1,990	4,539
Financial result		**-10,402**	**-15,153**
Consolidated result before income taxes		**-7,433**	**-2,567**
Income tax gains	(17)	8,516	3,762
Consolidated result after taxes on income		**1,084**	**1,195**
of which attributable to the shareholders of ISARIA		1,046	1,279
of which attributable to non controlling interests		38	-84
Other Comprehensive income		0	0
Comprehensive income		**1,084**	**1,195**
of which attributable to the shareholders of ISARIA		1,046	1,279
of which attributable to non controlling interests		38	-84
Earnings per share in €			
Basic	(43)	0.05	0.06
Diluted	(43)	0.05	0.06

CONSOLIDATED BALANCE SHEET AS OF 31ST DECEMBER 2013

Assets	Notes	12/31/2013 k€	12/31/2012 k€
I. Non-current assets		**41,817**	**23,647**
1. Intangible assets	(18)	9,704	95
2. Investment properties	(19)	14,699	14,872
3. Property, plant and equipment	(20)	393	285
4. Financial assets			
a) Investments in associates accounted for using the equity method	(21)	2,868	2,807
b) Other investments	(22)	37	38
5. Deferred tax assets	(17)	14,112	4,843
6. Other accounts receivable	(26)	5	707
II. Current assets		**185,123**	**139,062**
1. Properties held for sales and other inventories			
a) Properties and equivalent rights with unfinished buildings	(23)	125,694	83,470
b) Properties and equivalent rights with finished buildings	(24)	640	640
2. Accounts receivable from the sale of property	(25)	4,316	3,270
3. Income tax receivables	(17)	77	49
4. Other accounts receivable and financial assets	(26)	22,093	26,914
5. Cash and cash equivalents	(27)	32,303	24,719
Total assets		**226,939**	**162,710**

Equity and liabilities	Notes	12/31/2013 k€	12/31/2012 k€
I. Equity		**13,606**	**3,009**
1. Subscribed capital	(28)	20,764	20,764
2. Equity and Reserves	(28)	131,472	130,517
3. Balance sheet loss		-147,270	-148,316
4. Deposits made to execute the resolved capital increase		8,700	0
Consolidated equity of the majority shareholders		13,665	2,965
5. Non controlling interests		-59	45
II. Non-current liabilities		**66,697**	**27,811**
1. Compensation liabilities to shareholders in general partnership	(29)	47,712	16,562
2. Financial liabilities to banks	(31)	15,355	9,318
3. Deferred tax liabilities	(17)	1,453	480
4. Other provisions	(35)	2,177	1,451
III. Current liabilities		**146,636**	**131,889**
1. Compensation liabilities to shareholders in general partnership	(29)	10,983	25,209
2. Financial liabilities from silent participations, shareholder loans and other forms of capital provision	(30)	47,447	48,225
3. Financial liabilities to banks	(31)	12,282	20,622
4. Trade accounts payable	(33)	15,127	10,113
5. Liabilities from payments made on account	(34)	46,988	15,458
6. Income tax liabilities	(17)	1,748	1,015
7. Other provisions	(35)	2,143	3,071
8. Other liabilities	(32)	9,919	8,176
Total equity and liabilities		**226,939**	**162,710**

STATEMENT OF CHANGES IN CONSOLIDATED EQUITY IN THE FINANCIAL YEAR 2013

	Notes	Subscribed capital	Deposits made to execute the resolved capital increase	Equity and Reserves	Balance sheet loss	Consolidated equity of the majority shareholders	Non controlling interests	Total consolidated equity
		k€	k€	k€	k€	k€	k€	k€
As of 1st January 2012		**20,764**	**0**	**129,773**	**-149,595**	**942**	**129**	**1,071**
Comprehensive Income		0	0	0	1,279	**1,279**	-84	**1,195**
Financial guarantees by Josef L. Kastenberger/ JK Holding GmbH	(28)	0	0	744	0	**744**	0	**744**
As of 31st December 2012		**20,764**	**0**	**130,517**	**-148,316**	**2,965**	**45**	**3,009**
Comprehensive Income		0	0	0	1,046	**1,046**	38	**1,084**
Deposits made to execute the resolved capital increase		0	8,700	0	0	**8,700**	0	**8,700**
Transaction costs		0	0	-18	0	**-18**	0	**-18**
Contribution from shareholders		0	0	3,737	0	**3,737**	0	**3,737**
Financial guarantees by Josef L. Kastenberger/ JK Holding GmbH	(28)	0	0	91	0	**91**	0	**91**
Business combination without change of status		0	0	-2,855	0	**-2,855**	-134	**-2,989**
First-time consolidation One Group		0	0	0	0	**0**	-7	**-7**
As of 31st December 2013		**20,764**	**8,700**	**131,472**	**-147,270**	**13,665**	**-59**	**13,606**

CONSOLIDATED CASH FLOW STATEMENT FOR THE FINANCIAL YEAR 2013

	Notes	2013 k€	2012* k€
Consolidated result before income taxes		**-7,433**	**-2,567**
Adjustments for the reconciliation from Consolidated result before income taxes to Cash flows from operating activities			
Depreciations/amortisation/impairment charges	(18) (19) (20)	458	916
Valuation allowances (+)/write-ups (-)	(23) (24) (25)	-1,883	2,820
Financial results	(14) (15) (16)	10,402	15,153
Results from the sale of investment properties		-649	0
Other non-cash expenses/income	(36)	-624	-4,366
Decrease (+) and increase (–) in properties held for sale and other inventories	(23) (24)	-3,103	15,047
Decrease (+) and increase (–) in accounts receivable from the sale of property and of other accounts receivable and financial assets		3,337	18,555
Increase (+) and decrease (–) in trade accounts payable and other current liabilities	(32) (33) (34)	1,127	-406
Increase (+) and decrease (–) in other provisions	(35)	-227	-1,577
Income taxes paid/refunded	(17)	-726	-3,200
Cash flows from operating activities		**679**	**40,374**
Acquisition of intangible assets	(18)	-18	-72
Acquisition of investment properties	(19)	0	-7
Acquisition of property, plant and equipment	(20)	-83	-66
Payments for the acquisition of financial assets	(26)	-2,855	0
Payments from the sale of investment properties	(19)	1,155	400
Corporate acquisitions according to IFRS 3 less cash acquired	(3)	4,633	0
Sale of shares of subsidiaries with loss of control less cash disposed	(3)	0	2.320
Interest received	(14)	30	25
Cash flows from investing activities		**2,861**	**2,600**
Payments from taking out of financial liabilities	(30) (31)	39,338	40,091
Repayments of financial liabilities	(30) (31)	-33,240	-75,285
Interest paid	(15)	-9,009	-13,477
Cash flows from financing activities		**-2,910**	**-48,671**
Change in cash		**631**	**-5,697**
Cash at the beginning of the accounting period	(27)	**11,762**	**17,459**
Cash at the end of the accounting period	(27)	**12,393**	**11,762**

* adjusted

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR 2013

1. GENERAL INFORMATION

ISARIA Wohnbau AG (formerly JK Wohnbau AG, hereinafter also referred to as the "Company", „ISARIA", or, in connection with its subsidiaries and affiliated companies as "ISARIA Wohnbau group" or the "Group") is an Aktiengesellschaft (public limited company) under German law. Shares of the company are listed on the Regulated Market of the Frankfurt Stock Exchange. ISARIA Wohnbau AG is the Group's parent company. It is registered with Local Court of Munich under registration number HRB 187909. The Company's registered office is Leopoldstraße 8, 80802 Munich, Germany.

In its general meeting on 6 June 2013, the Company changed its name to ISARIA Wohnbau AG. This was entered in the commercial register on 13 June 2013.

The consolidated financial statements are presented in euros (€), as all of the Group's transactions are based on this currency and the euro is thus the Group's functional currency. Unless other-wise indicated, all figures are expressed in thousands of euros (k€). We wish to point out that commercial rounding may result in slight discrepancies when rounded sums and percentages are used. This applies also to the totals and subtotals reported in the consolidated financial statements as well as within separate tables.

The consolidated statement of comprehensive income is prepared according to the aggregate cost method. The fiscal year used by ISARIA Wohnbau AG and its subsidiaries and joint venture companies included in the consolidated interim financial statements corresponds to the calendar year.

(1) BUSINESS OPERATIONS

The ISARIA Wohnbau Group is a project developer for residential properties in the greater Munich area. The Group buys plots of land in attractive locations via independent special purpose entities/subsidiaries, plans residential properties in these locations, constructs these and then sells them. The business activities of the ISARIA Wohnbau Group include the divisions New Construction of Residential Property and Revitalization of Existing Properties. The latter includes changing former commercial properties into residential properties under the newly created brand "APP.ARTMENTS".

The company's business model is geared to sell the apartments and houses built in full. ISARIA Wohnbau does not aim to rent or hold its stocks of apartments or houses. The company exclusively operates in the high-growth greater Munich area with its project companies.

On 31 December 2013, ISARIA acquired a 100 % interest in One Group GmbH with its registered office in Hamburg. The business activities of One Group GmbH and its subsidiaries (hereinafter also referred to as "One Group") mostly comprises the issue of project development funds for residential construction projects.

(2) PRINCIPLES FOR PREPARING THE ANNUAL FINANCIAL STATEMENTS

The consolidated financial statements as of 31 December 2013 were prepared in conformance with the International Financial Reporting Standards (IFRS), as supplemented by the provisions of § 315a HGB [Handelsgesetzbuch, German Commercial Code], and the relevant interpretations of the International Accounting Standards Board (IASB) as they are to be applied according to Directive No. 1606/2002 of the European Parliament and the European Council on the application of international accounting principles in the European Union (EU).

The financial reporting for financial year 2012 has been prepared according to the applicable mandatory standards and presents a true and fair view of the Group's net assets, financial positions, and results of operations.

The present consolidated financial statements were prepared by the executive board of ISARIA Wohnbau AG on 19 March 2014 and, subject to approval by the supervisory board, released for publication.

Newly applicable or amended and applicable interpretations and standards

During the fiscal year, the following new or revised IFRSs and interpretations were applied:

Standard/Interpretation	Application mandatory from	Adoption by EU-Commission
Amendments to IAS 1 Presentation of Items of Other Comprehensive Income	01/01/2013	06/06/2012
Amendments to IAS 19 Employee Benefits	01/01/2013	06/06/2012
Amendments to IFRS 1 Severe Hyperinflation	01/01/2013	12/11/2012
Amendments to IAS 12 Deferred tax: Recovery of Underlying Assets	01/01/2013	12/11/2012
IFRS 13 Fair Value Measurement	01/01/2013	12/11/2012
IFRIC 20 Stripping Costs in the Production Phase of a Surface Mine	01/01/2013	12/11/2012
Amendments to IFRS 7 Disclosures – Offsetting Financial Assets and Financial Liabilities	01/01/2013	12/13/2012
Improvements of International Reporting Standards (2009-2011)	01/01/2013	03/27/2013
Amendments to IFRS 1 Government Loans	01/01/2013	03/04/2013
Amendments to IAS 27 Separate Financial Statements	01/01/2014	12/11/2012
Amendments to IAS 28 Investments in Associates and Joint Ventures	01/01/2014	12/11/2012
IFRS 10 Consolidated Financial Statements	01/01/2014	12/11/2012
IFRS 11 Joint Arrangements	01/01/2014	12/11/2012
IFRS 12 Disclosures of Interests in Other Entities	01/01/2014	12/11/2012

In view of the acquisition of One Group, on the balance sheet date the new standards IFRS 10, IFRS 11 and IFRS 12 as well as the revised standards IAS 27 and IAS 28 were voluntarily applied ahead of time. These standards, for which application is generally only mandatory from 1 January 2014, include new rules on consolidation, in particular on the scope of the group of consolidated companies. However, there were no changes as a result of this first time application, and also from the other regulations which had to be applied for the first time. Given this background, no comparable figures have been prepared in the consolidated balance sheet as of 1 January 2012, as would be required when an accounting method is applied for the first time.

STANDARDS AND INTERPRETATIONS ALREADY PUBLISHED BUT NOT YET APPLIED

Standard/Interpretation	Application mandatory from	Adoption by EU-Commission
Amendments to IAS 32 Offsetting Financial Assets and Financial Liabilities	01/01/2014	12/13/2012
Amendments to IAS 36, Impairment of assets – Recoverable Amount Disclosures for Non-Financial Assets	01/01/2014	11/20/2013
Amendmends to IAS 39, Novation of Derivatives and Continuation of Hedge Accounting	01/01/2014	11/20/2013
IFRIC 21, Levies	01/01/2014	open
Amendments to IAS 19, Defined Benefit Plans: Employee Contributions	01/01/2015	open
IFRS 14, Regulatory Deferral Accounts	01/01/2016	open
IFRS 9 Financial Instruments and amendments to IFRS 9 and IFRS 7 Disclosures	01/01/2018	open

The Company does not at this time expect future application of the new accounting principles to have any significant effects on the consolidated financial statements. Die Erstanwendung dieser Standards soll zum verpflichtenden Termin erfolgen.

(3) CONSOLIDATION

On the balance sheet date, the present consolidated financial statements comprise, in addition to ISARIA Wohnbau AG, 33 (previous year: 21) subsidiaries and three (previous year: three) joint ventures consolidated at equity. During financial year 2013, the scope of consolidation changed as follows:

BUSINESS COMBINATIONS

Acquisition of One Group
In order to secure access to the equity required to develop and realize its current and future project pipeline, ISARIA Wohnbau AG acquired a 100 % interest in One Group GmbH, Hamburg, and its subsidiaries with effect from 31 December 2013 (acquisition date). The acquired group is an issuing company for project development funds for residential construction. The purchase price was paid by issuing 3,000,000 shares from authorized capital. Based on a stock market price of € 2.90 for ISARIA Wohnbau AG on the acquisition date, this resulted in a purchase price for the business combination of k€ 8.700. The incidental acquisition costs incurred in the amount of k€ 50 are carried as other operating expenses.

The following table shows the fair values of the identifiable assets and liabilities in the business combination on the acquisition date.

Major classes of assets acquired and liabilities assumed in k€	Carrying amounts at date of acquisition	Revaluation of assets and liabilities	Carrying amounts at date of first-time consolidation
Other intangible assets	372	4,344	4.716
Property, plant and equipment	129	0	129
Investments in subsidiaries and affiliated companies	28,501	0	28.501
Deferred tax assets	1,795	0	1.795
Properties and equivalent rights with unfinished buildings	1,768	0	1.768
Accounts receivable from the sale of property	3,506	0	3.506
Other accounts receivable and financial assets	7,378	0	7.378
Cash and cash equivalents	7,384	0	7.384
Total assets	**50,833**	**4,344**	**55.177**
Compensation liabilities to shareholders in general partnership	47,712	0	47.712
Trade accounts payable	860	0	860
Other liabilities	1,458	0	1.458
Deferred tax liabilities	0	1,390	1.390
Total liabilities	**50,030**	**1,390**	**51.420**
Net assets	**803**	**2,954**	**3.757**
Non controlling interests	**-7**	**0**	**-7**
Purchase price according to IFRS 3			**8.700**
Goodwill			**4.936**

The goodwill resulting from the difference between the purchase price and the net assets mostly represents the value of the anticipated income and cost synergies from the acquisition of One Group.

The receivables recorded on the acquisition date mostly comprise other receivables and financial assets with fair values of k€ 7,378, and it is expected that these will be collected in full.

The following table shows the revenues and earnings since the acquisition date and the amounts that would have resulted if One Group had been fully consolidated since 1 January 2013.

Revenue and profit or loss in k€	One Group
Since acquisiton date	
Revenue	0
Profit or loss	0
Since 1st January 2013	
Revenue	508
Profit or loss	355

Acquisition of Living Bogenhausen GmbH

With effect from 29 November 2013 (date of first-time consolidation), the Company acquired a 94 % interest in the project company Living Bogenhausen GmbH (formerly JK Wohnbau Objekt Vogelweidestraße GmbH) in two stages. As ISARIA Wohnbau AG already held a 6 % interest, from this date it has held a 100 % interest. Living Bogenhausen GmbH was acquired in order to reinforce business in the Revitalisation segment under the "APP.ARTMENTS" brand.

The purchase price for the newly acquired 94 % interest totalled k€ 360 and exclusively comprises a cash component. The incidental acquisition costs incurred in the amount of k€ 35 are carried as other operating expenses. As part of the second transfer of interests, land tax of k€ 708 was incurred.

The following table shows the fair values of the identifiable assets and liabilities in the business combination on the acquisition date.

Major classes of assets acquired and liabilities assumed **in k€**	**Carrying amounts at date of acquisition**	**Revaluation of assets and liabilities**	**Carrying amounts at date of first-time consolidation**
Properties and equivalent rights with unfinished buildings	29,973	5,791	35,763
Other accounts receivable and financial assets	20	0	20
Cash and cash equivalents	1,023	0	1,023
Total assets	**31,016**	**5,791**	**36,807**
Compensation liabilities to shareholders in general partnership	181	0	181
Financial liabilities from silent participations, shareholder loans and other forms of capital provision	6,222	0	6,222
Liabilities from payments made on account	18,152	0	18,152
Trade accounts payable	2,970	0	2,970
Other liabilities	6,998	753	7,751
Total liabilities	**34,523**	**753**	**35,276**
Net assets	**-3,507**	**5,037**	**1,530**
Purchase price according to IFRS 3			**1,095**
Gain from first-time consolidation/ Contribution from shareholders			**-435**

The difference between the purchase price and the net assets is not recognized in income, but taken directly to income as a shareholder contribution, as the acquisition of the interests was made from a company which is majority-owned by a shareholder.

The receivables recorded on the acquisition date mostly comprise other receivables and financial assets with fair values of k€ 20, and it is expected that these will be collected in full.

The following table shows the revenues and earnings since the acquisition date and the amounts that would have resulted if the company had been fully consolidated since 1 January 2013.

Revenue and profit or loss **in k€**	**Living Bogenhausen GmbH**
Since acquisiton date	
Revenue	0
Profit or loss	-170
Since 1st January 2013	
Revenue	0
Profit or loss	-3.406

Sale of subsidiaries

No subsidiaries were sold in fiscal year 2013. In 2012, interests (94.0 % in each case) in several real estate companies were sold. This included JK Wohnbau Objekt Prinzregentenstraße GmbH, JK Wohnbau Objekt Wagenbauerstraße GmbH and JK Wohnbau Objekt Vogelweidestraße GmbH. The remaining interest of 6.0 % in each case in these companies have since been carried as participating interests. JK Wohnbau Objekt Landsberger Straße GmbH was fully (100 %) sold in 2012. The following table shows the carrying amounts of the assets and liabilities which have been disposed of by sale on the respective date of deconsolidation, according to primary category:

Disposal of assets and liabilities through deconsolidation	**Carrying amount at date of deconsolidation** **2012** **k€**
Current Assets	
Properties and equivalent rights with unfinished buildings	17,570
Accounts receivable from the sale of property	1
Other accounts receivable and financial assets	28
Cash and cash equivalents	67
Current liabilities	
Compensation liabilities to shareholders in general partnership	2,739
Financial liabilities to banks	9,926
Trade accounts payable	1,630
Other liabilities	3,244
NET ASSETS	126
Proceeds from the disposal	5,388
Fair values of the r emaining shares	6
INCOME FROM DECONSOLIDATION	**5,268**

In the previous year, the income from deconsolidation was carried under other operating income.

Acquisition of equity interests for subsidiaries which were already previously fully consolidated
During the course of the fiscal year, ISARIA acquired further interests in various subsidiaries which the group already previously controlled. This concerns the acquisition of minority interests in JK Wohnbau AG & Co. Objekt Maistraße KG, J.K. Wohnbaugesellschaft mbH & Co. Objekt Hohenwaldeck KG, JK Wohnbau Objekt Karlsfeld 1 GmbH, JK Wohnbau AG & Co. Objekt Karlsfeld 2 KG, JK Wohnbau AG & Co. Objekt Karlsfeld 3 KG, JK Wohnbau GmbH & Co. Objekt Waltherstraße KG and JK Wohnbau Objekt Stahlstraße GmbH.

To the extent that the subsidiaries are corporations, the acquisition was carried as an acquisition of an interest without a change of status directly under consolidated equity. A comparison of the acquisition costs with the carrying amounts of the minority interests disposed of resulted in a difference of k€ -2,855 (previous year: k€ 0).

In the case of the subsidiaries with the legal form of a partnership, in contrast the minority interests were not previously carried under equity, but under liabilities. As a result, the acquisition of the minority interests led to these liabilities being derecognised. As a rule, this difference has to be recognised in income and carried as financial income or financial expense. However, in connection with the acquisition of a minority interest, one shareholder waived his claim to a purchase price in this regard. This resulted in liabilities of k€ 3,301 not being applied, and these are disclosed as a shareholder deposit under reserves, directly under equity. The remaining acquisition of interest resulted in financial income of k€ 325 (previous year: k€ 0).

Intra-group consolidations and mergers
JK Vertriebs AG & Co. KG was merged with ISARIA Wohnbau AG by way of an agreement dated 7 February 2013. The effects resulting from the consolidation were eliminated as an intra-group transaction.

By way of an agreement dated 4 December 2013, Living Bogenhausen GmbH was merged with its sister copany JK Wohnbau Projektgesellschaft mbH. The effects resulting from the merger were eliminated as an intra-group transaction.

In the previosu year, gindiwo Gesellschaft für individuelle Wohnungsprivatisierung Objekt Schillerstraße mbH was merged wtih JK Wohnbau Projektgesellschaft mbH by way of an agreement dated 13 February 2012. Gindiwo Holding GmbH was merged wtih ISARIA Wohnbau AG by way of an agreement dated 6 March 2012. The effects resulting from the mergers were eliminated as an intra-group transaction.

Summary of fully-consolidated subsidiaries
All subsidiaries controlled by ISARIA Wohnbau AG are fully consolidated to the extent that these are of importance for the Group's financial position and results of operations. The Group is not expecting any material risks or any material impact on its net assets, financial position and results of operations and future cash flows from non-consolidated companies. Accordingly, the following companies were fully consolidated in the consolidated financial statements as of December 31, 2013:

Fully consolidated subsidiaries Name	Registered office	12/31/2013 Share in voting rights	12/31/2012 Share in voting rights
App.artments GmbH (formerly JK Management GmbH)	Munich	100 %	100 %
gindiwo Gesellschaft für individuelle Wohnungsprivatisierung Objekt St. Bonifatius Straße mbH	Munich	100 %	100 %
ISARIA Holding GmbH (formerly JK Wohnbau Objekt Boschetsrieder Straße GmbH)	Munich	100 %	100 %
Isaria III Immobilienverwaltung GmbH & Co. KG	Munich	100 %	100 %
Isaria Immobilienverwaltung GmbH & Co. KG	Munich	100 %	100 %
J.K. Wohnbaugesellschaft mbH & Co. Objekt Hohenwaldeck KG	Munich	100 %	47 %
JK Tower GmbH	Munich	100 %	100 %
JK Wohnbau AG & Co. Objekt Karlsfeld 2 KG	Munich	100 %	94 %
JK Wohnbau AG & Co. Objekt Karlsfeld 3 KG	Munich	100 %	94 %
JK Wohnbau GmbH & Co. Objekt Maistraße KG	Munich	100 %	70 %
JK Wohnbau GmbH & Co. Objekt Waltherstraße KG	Munich	100 %	25 %
JK Wohnbau Objekt Am Münchfeld GmbH	Munich	100 %	100 %
JK Wohnbau Objekt Karlsfeld 1 GmbH	Munich	100 %	95 %
JK Wohnbau Objekt Stahlstraße GmbH	Munich	100 %	70 %
JK Wohnbau Objekt Willy-Brandt-Allee GmbH	Munich	100 %	100 %
Living Bogenhausen GmbH (ehem. JK Wohnbau Projektgesellschaft mbH)	Munich	100 %	100 %
One Capital Emissionshaus GmbH	Hamburg	100 %	-
One Consulting GmbH	Hamburg	100 %	-
One Group GmbH	Hamburg	100 %	-
One Komplementär GmbH	Hamburg	100 %	-
One Project Development GmbH	Hamburg	100 %	-
One Real Estate GmbH	Hamburg	100 %	-
J.K. Wohnbaugesellschaft mbH & Co. Objekt Defreggerstraße KG	Munich	99 %	99 %
GINDIWO Gesellschaft für individuelle Wohnprivatisierung mbH	Munich	94.9 %	94.9 %
J.K. Verwaltungs GmbH & Co. Objekt Viktoriastraße KG	Munich	94.9 %	94.9 %
vRHV Verwaltung I GmbH	Berlin	94.8 %	-
One Finance OFC GmbH	Hamburg	66.7 %	-
JK Vertriebs AG & Co. KG	Munich	-	0 %
JK Wohnbau Fonds I Beteiligungs GmbH & Co. KG	Munich	0 %	0 %
ProReal Deutschland Fonds GmbH & Co. KG	Hamburg	0.13 %	-
ProReal Deutschland Projektfonds GmbH & Co. KG	Hamburg	0.01 %	-
ProReal Deutschland Fonds 2 GmbH & Co. KG	Hamburg	0.60 %	-
ProReal Deutschland Fonds 3 GmbH & Co. KG	Hamburg	0.02 %	-

In the case of JK Wohnbau Fonds I Beteiligungs GmbH & Co. KG, ProReal Deutschland Fonds 2 GmbH & Co. KG and ProReal Deutschland Fonds 3 GmbH & Co. KG the share of voting rights is 0 % or just 0.60 % and 0.02 %, and for ProReal Deutschland Fonds GmbH & Co. KG 0.13 % and ProReal Deutschland Projektfonds GmbH & Co. KG 0.01 %. However, these companies are fully consolidated in the consolidated financial statements, as the group controls these companies even without holding a majority of voting rights, there are risk charges or claims to fluctuating returns, and the group has the ability to exercise its control to determine the amount of the returns.

Joint Ventures

A joint venture company is a joint agreement in which the participants (partner companies) which exercise the joint control of the agreement have rights to the net assets in the agreement. Joint ventures are included in the consolidated financial statements at equity. The consolidated financial statements include three (previous year: three) joint ventures:

Joint ventures Name	Registered office	12/31/2013 Share in voting rights	12/31/2013 Share in voting rights
JK-COR Wohnbauentwicklung GmbH	Munich	50 %	50 %
JK-COR Wohnbauentwicklung GmbH & Co. Wilhelm-Hale-Straße 35 KG	Munich	50 %	50 %
JK-COR Wohnbauentwicklung GmbH & Co. Wilhelm-Hale-Straße 45 KG	Munich	50 %	50 %

In the joint venture companies, real estate projects in Munich are developed, constructed and sold together with a project partner. On the balance sheet date these projects had mostly been completed.

2. ACCOUNTING AND MEASUREMENT METHODS

(4) ACCOUNTING AND VALUATION POLICIES

The accounting and valuation policies applied in the consolidated financial statements are outlined below. Further information on individual items in the consolidated statement of comprehensive income and the consolidated balance sheet is provided, along with the associated figures, in the notes below. The consolidated financial statements have been prepared in accordance with the going-concern principle and applying the cost-of-acquisition principle.

REVENUE RECOGNITION AND REPORTING OF SALES

Sales revenue comprises all revenue resulting from the typical business operations of the Group. Sales revenue is disclosed without sales tax. As a rule, sales revenue is recognised at the time at which the products or goods were delivered or the services were performed and at which the transfer of risk to the customer occurred. The amount of sales revenue must be reliably measurable, and it must be possible to assume that the accounts receivable can be collected. Price reductions that are granted reduce sales revenue. Revenue is recognised at the time at which the estate in severalty is accepted by the apartment buyer. In the process, sales are recorded proportionately for the collective property as well. The Company justifies this by the fact that it is mandatory that the principal parts of the collective property be inspected by an appropriately engaged authority (e.g. TÜV Süd) before acceptance of the estate in severalty by the apartment buyer. Recording sales for the estate in severalty and the proportional joint property at the time the estate in severalty is accepted is common practice in this business sector in Germany and does not conflict with the provisions of IFRIC 15 if the essential parts of the joint property have already been completed by such time.

If the Group enters into a commitment to sell goods or perform services in addition to constructing real estate (for example, selling a parcel of land or buildings still under construction or providing management services), the provisions of IFRIC 15 prescribe a test to determine whether such a contract must be divided into individually identifiable parts for which, independently of one another, revenue must then be recognised. Revenue is then recognised by allocating total revenue among the individual parts according to the fair value to be assigned to each of these parts individually.

Currently within the Group no construction contracts within the meaning of IAS 11 exist. Only in the exceptional event that, with increasing progress in construction, the power of disposition and the material opportunities and risks associated with the sold real estate are transferred to the buyer, there is nevertheless, in accordance with the provisions of IFRIC 15, current recognition of revenue according to the percentage-of-completion method, and that according to the ratio between costs already incurred and the total costs.

RECOGNITION OF OTHER INCOME AND INTEREST INCOME

Other income is recognised as it is realised. Interest income is recognised according to the effective interest rate.

RECOGNITION OF EXPENSES

Expenditures are recognised as expenses when use is made of the service or at the time at which it is occasioned. Interest is recognised as an expense according to the effective interest rate.

GOODWILL

Upon initial recognition, goodwill from a merger is carried at cost. Cost is the excess of the compensation paid (acquisition costs) compared to the identifiable assets and acquired liabilities. After first-time recognition, goodwill is carried at cost less accumulated impairment.

Goodwill is not subject to scheduled amortisation, but is tested for impairment at least once per year, and also during the year if there are any impairment indicators, in line with the regulations of IAS 36 at a cash-generating unit level. Newly created goodwill is allocated in each case to the cash-generating unit, which is expected to benefit from the merger. As a rule, the cash-generating units correspond to the operating segments, as goodwill can only be managed at this level.

In order to identify possible impairment, the recoverable amount of a cash-generating unit is compared with its carrying amount. The recoverable amount of an asset is the greater of its value in use and its fair value less costs to sell. Impairment is only recorded when the carrying amount of an asset exceeds its recoverable amount. No write-ups are performed if the reasons for impairment recognised in previous years no longer applies.

OTHER INTANGIBLE ASSETS

Other intangible assets are measured at cost, less depreciation and impairment. At present, there are no internally generated intangible assets and intangible assets with indefinite useful lives, with the exception of goodwill. The Company applies the following depreciation methods and useful lives:

Intangible assets	Depreciation method	Useful life
Software	Straight-line	3 to 5 years
Other purchased intangible assets	Straight-line	3.5 to 10 years
Other property rights	Straight-line	6 years

INVESTMENT PROPERTIES

Investment properties comprise all real estate that is held to generate rental income or for long-term appreciation and is not used by the Group itself. There are no active marketing activities for these properties. The properties are recognised at cost at the time of addition. The investment properties are depreciated on a straight-line basis. Depreciation in the year of addition is on a "pro rata temporis" basis. The Company applies the following depreciation methods and useful lives:

Investment properties	Depreciation method	Useful life
Investment properties	Straight-line	33.3 to 50 years

PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are measured at cost, less depreciation and impairment. Disposals are recognised at historical costs and with accumulated depreciation. Profits or losses from the disposal of property, plant and equipment are reported under other operating income or expenses. The Company applies the following depreciation methods and useful lives:

Property, plant and equipment	Depreciation method	Useful life
Furniture and fixtures	Straight-line	3 to 10 years

IMPAIRMENTS OF OTHER INTANGIBLE ASSETS, PROPERTY, PLANT AND EQUIPMENT, AND INVESTMENT PROPERTIES

For intangible assets with a finite useful live, property, plant and equipment, and investment properties, an impairment test is conducted if concrete indications of impairment are present. An impairment is recognised in profit or loss if the recoverable amount of the asset is less than the carrying amount. The recoverable amount is always measured for each asset individually. When this is not possible, it is measured on the basis of a group of assets that largely generate independent cash flows. The recoverable amount is the higher of fair value less costs to sell and value in use. Every impairment is immediately recognised in profit or loss. If the reason for impairment recorded in previous years no longer applies, the value is written up to at most the amount of amortised cost.

INVESTMENTS IN ASSOCIATES ACCOUNTED FOR USING THE EQUITY METHOD

Shares in joint ventures are disclosed in the balance sheet according to the equity method. The shares are recognised in the balance sheet at cost plus the changes in the Group's share in net assets after acquisition. The goodwill associated with a company included at equity is included in the carrying amount of the share and is not depreciated. When applying the equity method, the Group determines whether an additional impairment loss must be accounted for with regard to the Group's net investment. The statement of comprehensive income contains the Group's share in the companies' profit under "Result of associates accounted for using the equity method".

PROPERTIES HELD FOR SALE AND OTHER INVENTORIES

Properties held for sale and other inventories are recognised at cost or the lower net realisable value. The acquisition costs in this case comprise the directly attributable acquisition and preparation costs, i.e., particularly costs for the parcel of land and incidental acquisition costs. The development costs comprise costs directly attributable to the real estate development process and such borrowing costs as are apportionable to the period of development. The expected net realisable value is the recoverable sales revenue expected in the normal course of business less selling or development costs still to be incurred.

BORROWING COSTS

Borrowing costs that are directly attributable to the acquisition, construction, or development of a qualified asset are capitalised as part of the acquisition or development costs. All other borrowing costs are recognised in the period in which they are incurred.

PROVISIONS

Provisions are formed when there is a current liability towards a third party arising from a past event, the liability is likely to result in a future outflow of resources, and the amount of the liability can be reliably estimated. The probability that the outflow of resources will occur must be greater than 50 %. Provisions are formed only for legal or actual liabilities towards third parties. Provisions are recognised at their probable payment amount and not netted with claims for reimbursement. Provisions based on a large number of similar events are reported in the balance sheet at their expected value.

INCOME TAXES (CURRENT AND DEFERRED TAXES)

Income tax expense represents the sum of current (actual) tax expense and deferred taxes. The current tax expense is measured on the basis of taxable income for the year. The Group's current tax expense liability is calculated on the basis of the tax rates in effect.

Deferred taxes are measured by the "liability method" according to IAS 12, "Income Taxes". This means that, with the exception of goodwill arising on consolidation and the initial measurement of assets and liabilities not resulting from a business combination and which, at the time of the transaction, affect neither the balance sheet result nor the income to be taxed, deferred taxes are formed for all temporary differences between the carrying amounts of assets and liabilities in the IFRS and tax accounts, irrespective of the period within which these differences balance. Deferred tax claims and liabilities are measured using the tax rates that are expected to be valid in the period in which an asset is to be realised or a debt is to be satisfied. The tax rates (and tax rules) that apply as of the balance sheet date, or that will soon apply, are taken as the basis.

Deferred taxes relating to items recognised directly in equity are likewise recognised in equity. Deferred tax assets are formed for accumulated losses brought forward if their realisability is probable.

CONTINGENCIES (CONTINGENT LIABILITIES AND ASSETS)

Contingencies are potential liabilities or assets arising from past events and whose existence will be confirmed by the occurrence or non-occurrence of one or more uncertain future events that are not entirely within the Group's control. Contingent liabilities can also be present obligations arising from past events and for which an outflow of resources embodying economic benefits is not probable or for which the amount of the obligation cannot be measured reliably. Contingent liabilities are recognised at their fair value if they were assumed in the course of a business acquisition. Contingent assets are not recognised. If an outflow of economic benefit is not improbable, information on contingent liabilities is disclosed in the notes to the consolidated financial statements. The same applies to contingent assets when an inflow is probable.

FINANCIAL INSTRUMENTS

According to IAS 39, financial instruments are contracts that result in a financial asset for one company and a financial liability or an equity instrument for another. If the trading and settlement dates are different for a financial asset, it is first recognised as of the settlement date. A financial instrument is initially measured at fair value. For measurement purposes, IAS 39 divides financial assets into these categories:

- Financial instruments recognised at fair value through profit or loss
- Financial investments held-to-maturity
- Loans and receivables
- Financial assets available for sale

The group's financial assets include cash and cash equivalents, trade receivables, receivables from loans issued, receivables from affiliated companies and other financial assets as well as financial assets. The Group defines how its financial assets are classified when they are first recognised. The Group has not recognised any financial asset at fair value in profit or loss. The Group does not at present use any derivative financial instruments as a hedge against, for example, interest rate risks.

Financial liabilities, on the other hand, are attributable to both categories:

- Financial instruments designated at fair value in profit or loss and financial instruments held for trade purposes
- Other financial liabilities

The Group defines how its financial liabilities are classified when they are first recognised. The Group's financial liabilities comprise trade accounts payable and other liabilities, bank overdrafts, compensation liabilities to shareholders in general partnerships, financial liabilities from silent participations, shareholder loans and other forms of capital provision, loans and financial guarantees. The Group has not recognised any financial liabilities at fair value in profit or loss.

Depending on how financial instruments are categorised, they are subsequently measured either at fair value or at amortised cost using the effective interest rate method. Fair value is determined according to the following measurement steps:

- Step 1: prices quoted on active markets (and adopted without change) for identical assets or liabilities
- Step 2: input factors that are not the quoted prices considered in Step 1 but which can be observed either directly or indirectly (i.e., as derived from prices) for the asset or liability
- Step 3: factors for measuring the asset or liability not based on observable market data (non-observable input factors)

At present, all fair values measured for financial instruments are based on information factors and input factors as described for Step 2 above.

The amortised costs are acquisition costs less repayments, impairments, and the reversal of differences between acquisition costs and the amount repayable at maturity.

At present, only the categories "loans and receivables" (abbreviation: "LaR") and "available for sale (abbreviation: "AfS") are used for asset-side financial instruments, while only the category "financial liabilities measured at amortised costs (abbreviation: "FLAC") is used for liability-side financial instruments. Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After their initial recognition, loans and receivables are measured at amortised costs using the effective interest rate method less any impairments. Gains and losses are included in the net income/loss for the period if the loans and receivables are derecognised or impaired, or through the amortisation process.

Financial assets available for sale are assets that are classified neither as financial assets to be held for trading nor as financial assets to be held to maturity and that are not loans or receivables. After initial recognition, the asset is measured at fair value – if it can be determined reliably – and gains and losses are recognised in a separate item within equity. If fair value cannot be determined reliably (e.g., for unlisted shares in corporations or partnerships), the asset is recognised at historical costs. When the asset is disposed of, or in the event that an impairment loss is identified, the amount previously recognised in equity is recognised in the profit and loss statement.

Financial assets available for sale exist at present exclusively in the form of unlisted shares in corporations or partnerships. There are no concrete plans at this time to sell these investments. No reliable market prices were available for these interests on the balance sheet date.

Impairment tests are conducted regularly for financial assets if indications of an impairment loss are apparent. If the Group determines that there is no objective indication of impairment for an individually evaluated financial asset, whether it is important or not, it will include the asset in a group of financial assets with comparable default risk profiles and evaluate them collectively for impairment. Assets that are evaluated individually for impairment and for which a valuation allowance is or continues to be recognised are not included in a collective impairment evaluation. If there are objective indications that an impairment has occurred, the amount of impairment loss is the difference between the carrying value of the asset and the present value of the expected future cash flow (with the exception of expected future loan defaults that have not yet occurred). The present value of expected future cash flows is discounted with the original interest rate in effect for the financial asset. If a loan has a variable interest rate, the discount rate used to measure an impairment loss is the current effective interest rate. Unless stated otherwise, the fair value of all current financial instruments is, because they are current, the carrying amounts.

A financial asset (or a part of a financial asset or a part of a group of similar financial assets) is derecognised if one of the following conditions is satisfied:

- The contractual rights to receive cash flows from a financial asset have expired.
- The Group has transferred its contractual rights to receive cash flows from the financial asset to third parties, or has assumed a contractual obligation for immediate payment of the cash flow to a third party under an agreement that satisfies the requirements of IAS 39.19 (pass-through arrangement) and, in so doing, has either (a) transferred mainly all opportunities and risks associated with ownership of the financial asset or, (b), though it has neither transferred nor retained mainly all opportunities and risks associated with ownership of the financial asset, has transferred the power of disposition over the asset.

A financial liability is derecognised if the obligation underlying this liability has been fulfilled, terminated, or has expired. If an existing financial liability financial liability is exchanged for another financial liability from the same lender on substantially different contractual terms or the terms of an existing liability are substantially modified, such and exchange or modification is treated as the derecognition of the original liability and the recognition of a new liability. The difference between the carrying amounts is recognised in profit or loss.

Financial assets and liabilities are offset and the net amount recognised in the balance sheet only if there is at the present time a legal right to set off the reported amounts against one another and the intention is to settle on a net basis or, with the realization of the asset concerned, to settle the associated liability. Bank overdrafts are offset against receivables from the same bank if the receivables serve as security for the liabilities by assignment and the maturity dates for the receivables and liabilities are virtually identical.

LEASES

Leases in which essentially all risks and opportunities associated with ownership of an asset are borne by the lessor are classified as operating leases. The leasing payments made are recognised directly in profit or loss as expenses in the statement of comprehensive income. At present there are no finance leases within the Group.

CLASSIFICATION OF SHARE CAPITAL IN GENERAL PARTNERSHIPS

Financial instruments that entitle the holder to repayment of the capital made available to the company must, according to IAS 32, be classified as borrowed capital. The subsidiaries of ISARIA Wohnbau AG are organised in part in the legal form of a general partnership whose articles of association cannot bar the partners from terminating and thereby obliging the company to disburse settlement balances. The settlement liabilities are measured by means of a discounted cash flow model using measurement parameters derived from market data. Changes in the carrying amount of the settlement liabilities are recognised in profit or loss under financial expense or financial income.

EMPLOYEE BENEFITS

Contributions to state-run pension funds for defined-benefit plans for pension insurance are recognised as personnel expenses. At present there are no such defined-benefit plans at the ISARIA Wohnbau Group.

(5) CONSOLIDATION PRINCIPLES

Business combinations (within the meaning of IFRS 3) were accounted for using the acquisition method. Accordingly, the acquisition costs for the acquisition of the company were distributed over the acquired, individually identifiable assets and liabilities and contingent liabilities in line with their fair values on the date of acquisition. A remaining positive difference is recognised as goodwill, while a negative difference remaining after further review is recognised in profit or loss. Incidental acquisition costs are recognised as an expense. If shares in businesses fully consolidated before or afterwards are acquired or sold (business acquisition with a change of status), the differences between the purchase price and the carrying amount of the net asset acquired or sold are recognised directly in equity. The purchase and sale of property companies that do not constitute businesses within the meaning of IFRS 3 are usually recognised as a direct acquisition or sale of properties (asset deals). In the case of step acquisitions, e.g. when there is a transition from an associated company to full consolidation as a subsidiary, the previously recognised carrying value of the company is re-measured as part of the business acquisition costs at fair value, and any resulting gain or loss is recognised in profit or loss.

Revenues, expenses, and income, along with receivables and liabilities between the included companies, are eliminated. Significant provisional results are eliminated.

(6) USE OF ESTIMATES AND ASSUMPTIONS

As the consolidated financial statements are drawn up, the executive board must make estimates and assumptions that have an effect on the items in the consolidated financial statements and the notes to the consolidated financial statements. Actual developments may diverge from the estimates and assumptions made. The important estimates and assumptions are further explained below.

GOODWILL AND OTHER INTANGIBLE ASSETS

With regard to goodwill and other intangible assets, assumptions and estimates are required, in particular with regard to the future cash flows, returns and capitalisation rates.

The carrying amount for all of the intangible assets, including goodwill, totalled k€ 9,704 on the balance sheet date (previous year: k€ 95).

PROPERTIES HELD FOR SALE AND OTHER INVENTORIES

Properties held for sale and other inventories are recognised at cost or the lower net realisable value. Production-related overheads are included in production costs. The amortisation of production-related overheads attributable to the development process for individual projects is subject to estimates and assumptions that affect the amount of production costs to be included.

Likewise, when net realisable value is determined for the purpose of inventory valuation without loss, estimates and assumptions must be made with regard to the sales revenues that can be achieved in the normal course of business and the production and sales costs still expected as of the accounting date. The carrying value of the properties held for sale and other inventories is, as of the balance sheet date, k€ 126,334 (previous year: k€ 84,110).

INVESTMENT PROPERTIES

The fair values of the investment properties were calculated in 2013 using the income method by an independent expert, and total k€ 15,425 (previous year: k€ 15,875). For measurement purposes, factors that have a direct and considerable effect on fair value, such as future rent revenues and applicable discount rates, must be estimated.

Significant measurement parameters were, as in the previous year, rates of return on property [Liegenschaftszinsen, net annual income in relation to the sales price of the property] between 3.0 % and 4.0 %, maintenance costs between 5.0 % and 12.0 %, management costs between 3.0 % and 4.0 %, and a rent default risk between 3.0 % and 6.0 %, each in relation to net rents. As of the balance sheet date, the carrying value of the investment properties amounted to k€ 14,699 (previous year: k€ 14,872).
Even impairment tests for investment properties measured at amortised costs make use of estimates of future cash flows resulting from the course of business, estimates that affect the recognition and measurement of these facts. Moreover, fair values and costs to sell also are based on estimates and assumptions.

Based on these assumptions and estimates, in the fiscal year a write-up of k€ 521 (previous year: write-down of k€ 210) was carried for investment properties, as the fair value, which was also ascertained in an expert opinion, exceeded the carrying amount by the corresponding figure. The income from the write-up (previous year: write-down) is carried under other operating income (previous year: amortisation and depreciation) in the statement of other comprehensive income. Segment reporting includes both the income from the write-up as well as the impairment losses in the “Other” segment.

PROVISIONS

The process of determining provisions involves considerable use of estimates. The Group forms provisions for follow-up costs from orders already billed. These estimates may change as a result of new information. The Group forms provisions for payments under guarantees if the amount or date of such payments is uncertain. Other provisions are formed for individual risks for which payment dates or amounts are uncertain. Estimates are necessary for the formation of provisions. This applies especially to provisions formed for litigation risks. The outcome of litigation is uncertain in many cases. The actual amounts and dates of payment may differ from the original estimates. As of the balance sheet date of 31 December 2013, the carrying amount of the provisions was k€ 4,320 (previous year: k€ 4,522).

COMPENSATION LIABILITIES TO SHAREHOLDERS IN GENERAL PARTNERSHIPS

Compensation liabilities for limited partnership interests are measured at fair value by means of a discounted cash flow model using measurement parameters derived from market data. For this purpose, estimates of and assumptions are made regarding future repayment obligations.

The actual amounts and dates of payment may differ from the original estimates. The carrying amount of non-current compensation liabilities as of the balance sheet date is k€ 47,712 (previous year: k€ 16,562), the carrying amount of current compensation liabilities comes to k€ 10,983 (previous year: k€ 25,209).

REVENUE RECOGNITION

If the Group enters into a commitment to sell goods or perform services in addition to constructing real estate (for example, selling a parcel of land or buildings still under construction or providing management services), a test is performed to determine whether such a contract must be divided into individually identifiable parts for which, independently of one another, revenue must then be recognised. Revenue is then recognised by allocating total revenue among the individual parts according to the fair value to be assigned to each of these parts individually. These fair values must be estimated by the Group. No revenues were recognised on this basis during the fiscal year (previous year: k€ 9.203).

INCOME TAXES

To form tax provisions, estimates must be made. It also must be determined whether a valuation allowance or non-recognition is necessary for deferred taxes. One must assess the probability that deferred taxes resulting from time differences and losses brought forward can be set off in the future against taxable profits. There are uncertainties regarding the interpretation of complex tax rules and the amount and time of future taxable income. To assess the issue of whether deferred taxes from tax loss carry-forwards can be used, i.e., if these are not impaired, the company's earnings forecasts and tax strategies that can be concretely implemented are used. This is based on the three-year medium-term forecast. As forecasting certainty decreases the further the date of realization is in the future, loss carry-forwards that can only be used in the period after the first three years of the forecast are not applied. On the balance sheet date of 31 December 2013, the assets from current income taxes totaled k€ 77 (previous year: k€ 49) and liabilities from current income taxes totaled k€ 1,748 (previous year: k€ 1,015). Assets from deferred taxes totaled k€ 14,112 (previous year: k€ 4,843), and liabilities from deferred taxes totaled k€ 1,453 (previous year: k€ 480).

3. NOTES TO THE CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

(7) SALES REVENUE FROM THE SALE OF PROPERTY UNITS

Sales revenue from the sale of property units can be apportioned among the individual properties as follows:

Sales revenue from the sale of property units	2013	2012
	k€	k€
Karlsfeld 1 property	28,058	2,566
Willy-Brandt-Allee property	3,163	54,252
Hohenwaldeck property	901	5,239
Maistraße property	447	780
Waltherstraße property	97	2,061
Schillerstraße property	0	9,203
Defreggerstraße property	0	2,600
Stahlstraße property	0	344
Other properties	1,911	284
Total	**34,577**	**77,328**

(8) SALES REVENUE FROM THE LEASE OF PROPERTY UNITS

Sales revenues from the lease of property units in the amount of k€ 3,129 (previous year: k€ 1,918) mostly include income from the rental of investment properties in the amount of k€ 741 (previous year: k€ 785) and income from the sub-rental of properties in the amount of k€ 2,138 (previous year: k€ 881).

(9) CHANGE IN INVENTORIES OF PROPERTIES HELD FOR SALE WITH FINISHED OR UNFINISHED BUILDINGS

Change in inventories of properties held for sale with finished or unfinished buildings	2013	2012
	k€	k€
Increase in inventories	35,367	48,257
Decrease in inventories through sale	(30,673)	(65,998)
Total	**4,694**	**(17,741)**

(10) COST OF MATERIALS

Cost of materials relates to purchased materials and services for the operating project companies in the amount of k€ 26,567 (previous year: k€ 37,931) as well as expenses from generating rental income in the amount of k€ 2,857 (previous year: k€ 1,727).

(11) PERSONNEL EXPENSES

Personnel expense consists of the following:

Personnel expenses	2013	2012
	k€	k€
Wages and salaries	2,708	2,513
Social security contributions	297	298
Total	**3,005**	**2,811**

The payments to state-run pension funds during the financial year 2013 amount to k€ 129 (previous year: k€ 131) and are included in the social security contributions and retirement pensions.

(12) OTHER OPERATING INCOME

Other operating income consists of the following:

Other operating income	2013	2012
	k€	k€
Compensation payments	842	33
Gains from the sale of non-current assets	649	0
Reversal of provisions	349	1,276
Reversal of impairment adjustments to accounts receivables	106	103
Income from deconsolidation of property companies	0	5,268
Other income	1,596	845
Total	**3,543**	**7,525**

With regard to the income in the previous year from the deconsolidation of real-estate companies, pleas refer to Note 3.

(13) OTHER OPERATING EXPENSES

Other operating expenses consist of the following:

Other operating expenses	2013 k€	2012 k€
Legal, consulting and auditing expenses	2,895	4,000
Sales commissions and other selling expenses	2,434	3,428
Warranty and follow-up expenses	1,336	2,487
Expenses from allowances for doubtful accounts	803	0
Advertising and travelling expenses	791	782
Expenses for premises	569	608
Other	1,258	1,755
Total	**10,086**	**13,060**

(14) FINANCIAL INCOME

Financial income consists of the following:

Financial Income	2013 k€	2012 k€
Financial income of general partners in property companies	705	526
Financial income from financial assets	80	1,024
Other financial income	44	102
Total	**829**	**1,652**

Financial income from financial assets is mostly due to interest income from bank balances and loans. The financial income from general partners in property companies relates to income from the reversal of compensation liabilities to shareholders in general partnerships.

(15) FINANCIAL EXPENSES

Financial expenses	2013 k€	2012 k€
Interest and similar expenses from financial liabilities	10,717	16,000
Financing costs	1,985	3,590
Interest expenses from provisions and non-financial liabilities	324	861
Financial guarantees by Josef L. Kastenberger/ JK Holding GmbH	91	744
Others	104	150
Total	**13,221**	**21,345**

Interest and similar expenses from financial liabilities and financing costs mostly include interest paid on financial debt and the effects of using the effective interest rate method.

Interest expenses from provisions and non-financial liabilities mostly include the effects from valuing long-term provisions at their present value, and interest on non-financial liabilities, such as tax liabilities.

Of the total financial expenses in the amount of k€ 13,221 (previous year: k€ 21,345), k€ 11,083 (previous year: k€ 17,143) have been capitalised as production costs under Properties and equivalent rights with unfinished or finished buildings. The capitalisation rate in each case lies between 1.87 % and 23.0 % (previous year: between 2.7 % and 23.0 %).

(16) RESULT OF ASSOCIATES ACCOUNTED FOR USING THE EQUITY METHOD

The result from companies accounted for at equity in the total amount of k€ 1,990 (previous year: k€ 4,539) is due in full (previous year: k€ 3,109) to the proportionate changes in equity recognised in income during the fiscal year for the joint venture companies included at equity in the consolidated financial statements. In the previous year, earnings in the amount of k€ 1,430 related to the reversal of liabilities which were carried as such in previous years for the excess share of losses from equity-accounted companies with contingent liabilities according to IAS 28.30.

(17) INCOME TAXES

The companies included in the consolidated financial statements are all subject to German corporation tax (including the solidarity surcharge) and trade tax, to the extent that these do not operate as asset managers as fund companies. When identifying the tax assessment basis, there are regularly additions and reductions for certain items of income and expense. The amount of the income taxes is measured based on the taxable income thus measured, or on the trade income thus identified. Deferred taxes are calculated based on temporary differences between the tax base and the carrying amount in the IFRS balance sheet. If it is improbable that deferred taxes will be realized, these are written down up to the amount of the deferred tax liabilities formed for the respective tax subject.

In fiscal year 2013, deferred tax liabilities on tax losses carried forwards of k€ 8,238 (previous year. k€ 4,843) were additionally capitalized for ISARIA Wohnbau AG. The company's forecast for the fiscal years from 2014 to 2016 provides positive results in this regard, which show that the losses carried forwards will be used. The company thus believes that it is probable that it will realize its tax entitlement. No deferred tax assets will be formed on corporation tax loss carry-forwards of around € 55 million (previous year: around € 62 million) and trade tax loss-carryforwards of around € 36 million (previous year: around € 71 million), as it is not possible to assume with sufficient certainty that these loss carry-forwards can be used as a result of the long forecasting period for the respective forecasts.

When calculating deferred taxes, as a rule the valid, compound tax rate of 32.98 % (previous year: 32.98 %) was applied. With regard to One Group, which was acquired as of 31 December 2013, the compound tax rate is 32.28 %. The deferred tax assets and liabilities are the result of differences for the following items:

Allocation of deferred taxes in k€	Deferred tax assets 12/31/2013	Deferred tax liabilities 12/31/2013
Non-current assets	**0**	**1,818**
Intangible assets	0	1,390
Investments in associates accounted for using the equity method	0	428
Current assets	**103**	**1,667**
Properties and equivalent rights with unfinished buildings	91	1,667
Other receivables	12	0
Non-current liabilities	**206**	**365**
Compensation liabilities to shareholders in general partnership	206	285
Warranty provisions	0	80
Losses brought forward	**16,201**	**0**
Sub-total	**16,509**	**3,850**
thereof non-current	16,407	2,183
Netting*	(2,398)	(2,398)
Deferred taxes according to consolidated balance sheet	**14,112**	**1,453**

* According to IAS 12, deferred tax assets and deferred tax liabilities relating to the same tax authority are to be netted if they meet certain other conditions.

Allocation of deferred taxes	Deferred tax assets	Deferred tax liabilities
k€	12/31/2012	12/31/2012
Non-current assets	**0**	**645**
Investments in associates accounted for using the equity method	0	645
Current assets	**245**	**1,218**
Properties and equivalent rights with unfinished buildings	50	1,218
Other receivables	195	0
Non-current liabilities	**332**	**285**
Compensation liabilities to shareholders in general partnership	332	170
Warranty provisions	0	115
Current liabilities	**0**	**330**
Compensation liabilities to shareholders in general partnership	0	330
Losses brought forward	**6,265**	**0**
Sub-total	**6,842**	**2,479**
thereof non-current	6,597	931
Netting*	(1,999)	(1,999)
Deferred taxes according to consolidated balance sheet	**4,843**	**480**

* According to IAS 12, deferred tax assets and deferred tax liabilities relating to the same tax authority are to be netted if they meet certain other conditions.

The deferred taxes and current expenses for taxes on income are as follows for the financial year:

Actual and deferred taxes	2013	2012
	k€	k€
Actual tax expenses	(179)	1,462
Deferred tax expenses (+)/ tax income (-)	(8,338)	(5,224)
Total tax expenses (+)/ income (-)	**(8,516)**	**(3,762)**

Current taxes in the consolidated balance sheet are as follows:

Actual taxes in the consolidated balance sheet	12/31/2013	12/31/2012
	k€	k€
Current income tax receivables	77	49
Current income tax liabilities	1,748	1,015

The following table shows the reconciliation of the income tax expense expected in the financial year to the tax income or tax expense actually recognised. To determine the expected tax income, the 32.98 % Group tax rate in effect in financial year 2013 is multiplied by income before taxes.

Tax rate reconciliation	2013	2012
	k€	k€
Profit/Loss before taxes	**(7,433)**	**(2,567)**
Group income tax rate (%)	32.98 %	32.98 %
Expected tax expenses/income	**(2,451)**	**(847)**
Non-recognition of deferred taxes	(3,020)	3
Permanent differences	(2,341)	(708)
Taxes from previous accounting periods	(41)	(152)
Loss deduction	(90)	(40)
Result of associates accounted for using the equity method	(217)	(806)
Fiscal unit for corporate tax purposes	(97)	(501)
Tax rate differences	(25)	0
Other differences	(235)	(711)
Total tax expenses/revenue	**(8,516)**	**(3,762)**
Effective income tax rate	114.58 %	146.55 %

Tax losses can be carried forward indefinitely.

No deferred taxes were formed in connection with shares in subsidiaries. These would normally accrue at the rate of 5 %, owing to the 95 per cent exemption, when shares in corporations are sold. At this time the Group does not expect a deferred tax liability from the sale of shares in subsidiaries.

4. NOTES TO THE CONSOLIDATED BALANCE SHEET

(18) INTANGIBLE ASSETS

in k€	Goodwill	Intangible assets acquired in conjunction with business combinations	Other intangible assets	Total
Costs of acquisition as of 1st January 2012	**0**	**0**	**465**	**465**
Additions	0	0	72	72
Disposals	0	0	0	0
As of 31st December	**0**	**0**	**537**	**537**
Depreciations as of 1st January 2012	**0**	**0**	**357**	**357**
Additions	0	0	85	85
Disposals	0	0	0	0
As of 31st December	**0**	**0**	**442**	**442**
Net carrying amount as of 12/31/2012	**0**	**0**	**95**	**95**
Costs of acquisition as of 1st January 2013	**0**	**0**	**537**	**537**
Additions	0	0	18	18
Additions as a result of business combinations	4,936	4,344	372	9,652
Disposals	0		0	0
As of 31st December	**4,936**	**4,344**	**927**	**10,207**
Depreciations as of 1st January 2013	**0**	**0**	**442**	**442**
Additions	0	0	62	62
Additions as a result of business combinations	0	0	0	0
Disposals	0	0	0	0
As of 31st December	**0**	**0**	**504**	**504**
Net carrying amount as of 12/31/2013	**4,936**	**4,344**	**424**	**9,704**

The goodwill disclosed results from the merger with One Group, see also Note 3, and from 1 January 2014 it has been allocated to the "One Group" reporting segment for the purposes of impairment testing (as the relevant cash-generating unit).

As part of impairment testing, the value in use determined for this segment was higher than the carrying amount. This calculation is based on forecast cash flows, which have been derived from the forecast approved by management for the next five years, and also the empirical figures previously available for One Group. The discount rate is 12 % for the detailed forecast phase, and 11 % (after considering a growth discount of 1 %) for the long-term planning phase, and reflects the specific risks of this cash-generating unit. The discount rate was identified using the CAPM model based on current market data and estimates. Impairment testing did not result in any impairment as of the balance sheet date.

The intangible assets shown are not subject to any property restrictions or restraints on disposal.

(19) INVESTMENT PROPERTIES

Investment properties	2013	2012
	k€	k€
Costs of acquisition as of 1st January	**18,235**	**18,535**
Additions	(0)	7
Disposals	760	306
As of 31st December	**17,475**	**18,235**
Depreciations and impairments as of 1st January	**3,363**	**3,079**
Additions	(587)	284
As of 31st December	**2,776**	**3,363**
Net carrying amount as of 01/01/	**14,872**	**15,456**
Net carrying amount as of 12/31/	**14,699**	**14,872**

Rented apartments and shop units are disclosed in the item "Investment properties". Total rental income of k€ 741 (previous year: k€ 785) was recorded in the income for the period. Expenses of k€ 205 (previous year: k€ 210) were incurred for maintenance for the rented property. Expenses for vacant properties were of minor importance, as was also the case in the previous year.

There are several land charges for the loans to finance the investment properties and in connection with loan liabilities assumed by Dr. Josef L. Kastenberger. Further, claims arising from leases on these properties were assigned to various banks as security. We refer to subs. 31, "Financial liabilities to banks", in these Notes and to subs. 41, "Transactions with related parties".

(20) PROPERTY, PLANT AND EQUIPMENT

Furnitures and fittings	2013	2012
	k€	k€
Costs of acquisition as of 1st January	**1,411**	**1,345**
Additions	83	66
Additions as a result of business combinations	129	0
Disposals	0	0
As of 31st December	**1,623**	**1,411**
Depreciations as of 1st January	**1,125**	**997**
Additions	105	128
Disposals	0	0
As of 31st December	**1,230**	**1,125**
Net carrying amount as of 01/01/	**285**	**348**
Net carrying amount as of 12/31/	**393**	**285**

The property, plant and equipment shown are not subject to any property restrictions or restraints on disposal.

(21) INVESTMENTS IN ASSOCIATES

Because of its percentage share in joint ventures, the following values are allocable to the Group:

Attributable values of associates accounted for using the equity method	12/31/2013 k€	12/31/2012 k€
Non-current assets	34	297
Current assets	6,039	23,777
Current liabilities	5,755	20,949
Non-current liabilities	38	26
Sales revenue	11,091	21,874
Revenue	76	23
Expenses	9,177	17,710

As in the previous year, there are no unrecognised proportional losses in the financial year from joint ventures carried under equity method accounting. As of the balance sheet date, as in the previous year, there are also no accumulated unrecognised losses.

The changes in the carrying amounts for joint ventures are as follows:

Associates accounted for using the equity method	2013 k€	2012 k€
Costs of acquisition as of 01/01/	**2,807**	**2,966**
Additions	1,990	2,757
Disposals	1,929	2,916
As of 12/31/	**2,868**	**2,807**
Carrying amount 01/01/	**2,807**	**2,966**
Carrying amount 12/31/	**2,868**	**2,807**

The proportional changes in equity in joint ventures measured at equity are recognised under additions and disposals.

(22) OTHER INVESTMENTS

The other investments in the amount of k€ 37 (previous year: k€ 38) relate to shares in non-listed real estate companies, generally of 6.0 % of voting rights, for which the fair value cannot be reliably determined due to the lack of an active market or other information which indicates a market value. The investments are carried at amortised cost, since a fair value cannot be reliably measured for the investments as of the balance sheet date.

(23) PROPERTIES AND EQUIVALENT RIGHTS WITH UNFINISHED BUILDINGS

The disclosure relates to the group's projects under construction in the greater Munich region and one project in Berlin for One Group.

During the period under review, impairment in the amount of k€ 380 (previous year: k€ 2,693) and write-ups in the amount of k€ 1,970 (previous year: k€ 0) were performed, which are recorded in each case under changes in inventories. The carrying amount of these inventories recognised at fair value less costs to sell comes to k€ 6,437 (previous year: k€ 2,960) after impairment.

From the inventories, according to the Company's estimates, expected carrying amounts of approximately € 52 million (31 December 2012: approximately € 53 million) will be realised only after more than twelve months.

(24) PROPERTIES AND EQUIVALENT RIGHTS WITH FINISHED BUILDINGS

The reported properties and equivalent rights with finished buildings pertain to a flat and motor vehicle parking spaces in the amount of k€ 640 (previous year: k€ 640).

(25) ACCOUNTS RECEIVABLE FROM THE SALE OF PROPERTY

Accounts receivable from the sale of property	12/31/2013 k€	12/31/2012 k€
Gross value of accounts receivable from property sales	4,672	3,919
Specific allowances	(356)	(649)
Total	**4,316**	**3,270**

The valuation allowances for receivables from the sale of property have developed as follows:

Development of value adjustments on accounts receivable from the sale of property	2013 k€	2012 k€
As of 01/01/	**649**	**4**
Additions	29	645
Disposal	0	0
Release	322	0
As of 12/31/	**356**	**649**

The age structure of the receivables from the sale of property is as follows:

Analysis of the nonimpaired accounts receivable from the sale of property	carrying amount	neither impaired nor overdue	of which overdue and non-impaired			
			< 90 days	90 - 180 days	180 - 360 days	> 360 days
	k€	k€	k€	k€	k€	k€
	as of 12/31/2013	as of 12/31/2013	as of 12/31/2013	as of 12/31/2013	as of 12/31/2013	as of 12/31/2013
Accounts receivable from the sale of property	4,316	4,275	38	0	2	0
	as of 12/31/2012	as of 12/31/2012	as of 12/31/2012	as of 12/31/2012	as of 12/31/2012	as of 12/31/2012
Accounts receivable from the sale of property	3,270	3,268	0	1	1	0

As regards receivables from the sale of property that are neither impaired nor in default of payment, there are as of the balance sheet date no signs indicating that the debtors will fail to meet their payment obligations. The receivables from the sale of property are to some extent secured through bank guarantees. The Group is not permitted to sell them without a payment default by their owners or to pass them on as security.

(26) OTHER ACCOUNTS RECEIVABLE AND FINANCIAL ASSETS

Other accounts receivable and financial assets	12/31/2013	12/31/2012
	k€	k€
Prepayments for property purchases	7,000	7,000
Accounts receivable from the sale of shares	6,311	2,707
Security deposits	3,042	3,038
Creditors with debit balances	1,732	967
Accounts receivable from related parties	1,502	6,284
Accounts receivable from other investments	517	6,239
Other	1,995	1,386
Total	**22,098**	**27,621**

Deposits mostly comprise cash deposits provided for rental agreements and warranty guarantees.

Other receivables and financial assets include financial assets with a total amount of k€ 13,103 (previous year: k€ 19,235).

(27) CASH

Cash	12/31/2013	12/31/2012
	k€	k€
Bank	32,299	24,718
Cash in hand	4	1
Total	**32,303**	**24,719**

The cash comprise bank balances with a remaining maturity of no more than three months together with cash on hand.

Cash in the amount of k€ 2,039 (previous year: k€ 806) is due to JK Wohnbau Fonds I Beteiligungs GmbH & Co. KG, ProReal Deutschland Fonds GmbH & Co. KG, ProReal Deutschland Fonds 2 GmbH & Co. KG and ProReal Deutschland Fonds 3 GmbH & Co. KG and the group can only avail of these funds for specific projects, as these funds were exclusively provided for investments in project developments for these fund companies.

In connection with the financing of existing real estate holdings and project companies, a credit balance in the amount of k€ 3,756 (previous year: k€ 2,245) was pledged to the lending banks on 31 December 2013 for the duration of the loan agreement. In addition, there are further access restrictions for the purpose of securing guarantees. As of the balance sheet date, the Group had free access to k€ 12,393 (previous year: k€ 11,762) in liquid funds.

(28) SUBSCRIBED CAPITAL

Subscribed capital as of 31 December 2013 amounts to k€ 20,764, unchanged from last year's balance sheet date. It is divided into 20,764,000 no-par-value, fully paid-up shares.

The acquisition of One Group as of 31 December 2013 was performed as part of a non-cash capital increase against the issue of 3,000,000 new shares of ISARIA Wohnbau AG from authorised capital. It was entered into the commercial register on 11 February 2014. The capital increase only becomes legally effective from this date. Given this background, the non-cash capital increase (in the amount of the total acquisition costs for One Group of k€ 8,700) was disclosed under a separate item under equity on the balance sheet date "Deposits made to execute the resolved capital increase". Transaction costs for this non-cash capital increase were already deducted directly from equity in the amount of k€ 18 in fiscal year 2013. With regard to these transaction costs, income tax advantages of k€ 0 had to be considered, which means that a total amount of k€ 18 is carried in the statement of changes in shareholders' equity.

As of the balance sheet date, the Managing Board had been authorized until to 22 March 2017, by way of a resolution by the General Meeting on 23 March 2012, to increase the share capital with Supervisory Board's approval, one or more times by up to k€ 10,382 against cash and/or non-cash contributions, including the possibility to exclude shareholders' subscription rights (Authorized Capital 2012). The authorisation was used after the balance sheet date in the amount of the capital increase against non-cash contributions performed in order to acquire One Group, with the result that on the date of these financial statements there is still authorised capital of k€ 7,382.

In addition, the Company's share capital has been conditionally increased by way of a resolution by the General Meeting on 23 March 2012 by up to k€ 10,382. The Managing Board is authorized, with the approval of the Supervisory Board, to issue bearer convertible bonds or bonds with warrants or a combination of these instruments up to 22 March 2017, with a total amount of up to k€ 100,000 with or without a limited term, for a total of up to 10,382,000 bearer shares of ISARIA Wohnbau AG (Conditional Capital 2012.

The additions to reserves in fiscal year 2013 resulted from the assumption of guarantees by Josef L. Kastenberger and JK Holding GmbH to benefit the group, in addition to the waiver of receivables already mentioned under Note 3 and the addition to reserves from a corporate acquisition also mentioned under Note 3. The transferred sums in the amount of k€ 91 (previous year: k€ 744) are aligned to such risk-adequate compensation as should be paid to outside third parties in return for assuming guarantees. A contradictory effect had the difference also described under Note 3 from the comparison of acquisition costs with the carrying amounts of the minority interests disposed of from the acquisition of an interest without a change of status in the amount of k€ -2,855 (previous year: 0).

(29) COMPENSATION LIABILITIES TO SHAREHOLDERS IN GENERAL PARTNERSHIPS

Altogether, short- and long-term compensation liabilities to shareholders in general partnerships comprise the following as of the balance sheet date:

Compensation liabilities to shareholders in general partnership	12/31/2013	12/31/2012
	k€	k€
Liabilities to general partners of the ProReal Deutschland Fonds	47,712	0
Liabilities to general partners of the JK Wohnbau Fonds I Beteiligungs GmbH & Co. KG	10,976	31,232
Partnerfonds "Kapital für den Mittelstand" Anlage GmbH & Co.KG	0	3,324
HFS Helvetic Financial Services AG	0	3,967
Josef L. Kastenberger	0	2,712
Other	8	538
Total	**58,696**	**41,772**

The liabilities to the limited partners of ProReal Deutschland Fonds GmbH & Co. KG, ProReal Deutschland Fonds 2 GmbH & Co. KG and ProReal Deutschland Fonds 3 GmbH & Co. KG are limited partners' interests by fund investors in the form of participating interests and loans granted to project companies.

The liabilities to limited partners in JK Wohnbau Fonds I Beteiligungs GmbH & Co. KG are the limited partnership interests of the fund's investors in the form of atypical silent participations in project companies.

The liability to the Partnerfonds Kapital für den Mittelstand Anlage GmbH & Co. KG in the previous year is the allocable share from JK Vertriebs AG & Co. KG, which was fully settled during the year under review by exercising a call option for the limited partners' shares.

HFS Helvetic Financial Services AG has sold its limited partner's shares held in various project companies, including the resulting profit entitlements in ISARIA Wohnbau AG due to it as a result and previously carried under compensation liabilities to shareholders in partnerships (see also the comments under Note 3).

The residual maturities of the compensation liabilities to shareholders in general partnerships are as follows:

Financial liabilities		Remaining term < 1 year	Remaining term 1 - 5 years	Remaining term > 5 years
	k€	k€	k€	k€
	12/31/2013			
Compensation liabilities to shareholders in general partnership	58,696	10,983	47,712	0
	12/31/2012			
Compensation liabilities to shareholders in general partnership	41,772	25,209	16,562	0

(30) FINANCIAL LIABILITIES FROM SILENT PARTICIPATIONS, SHAREHOLDER LOANS AND OTHER FORMS OF CAPITAL PROVISION

Altogether, current and non-current financial liabilities from silent participations, shareholder loans, and other forms of capital provision comprise the following:

Financial liabilities from silent participations, shareholder loans and other forms of capital provision	12/31/2013	12/31/2012
	k€	k€
STRATOS Mezzanine Fonds der HANSAINVEST, Wollerau/Schweiz	43,929	43,929
Little Rock Business Corp., Panama City/Republic of Panama	3,500	0
One Project Development GmbH (ProReal Deutschland Fonds), Hamburg	0	2,278
Corporate bond	0	2,000
Other	18	18
Total	**47,447**	**48,225**

The recognised financial liabilities relate above all to property-related financing. All liabilities are allocated exclusively to the "other financial liabilities" category. The interest rates for the recognised financial liabilities lie between 8.0 % and 23.0 % (previous year: between 8.0 % and 23.0 %).

The residual maturity of the financial liabilities from silent participations, shareholder loans, and other forms of capital provision is as follows:

Financial liabilities		Remaining term < 1 year	Remaining term 1 - 5 years	Remaining term > 5 years
	k€	k€	k€	k€
	12/31/2013			
Financial liabilities from silent participations, shareholder loans and other forms of capital provision	47,447	47,447	0	0
	12/31/2012			
Financial liabilities from silent participations, shareholder loans and other forms of capital provision	48,225	48,225	0	0

(31) FINANCIAL LIABILITIES TO BANKS

Altogether, the current and non-current financial liabilities to banks have the following residual maturities:

Financial liabilities		Remaining term < 1 year	Remaining term 1 - 5 years	Remaining term > 5 years
	k€	k€	k€	k€
	12/31/2013			
Financial liabilities to banks	27,637	12,282	7,199	8,156
	12/31/2012			
Financial liabilities to banks	29,940	20,622	1,162	8,156

The current financial liabilities to banks are mainly for property-related project development plans. The non-current financial liabilities are, as of the balance sheet date, largely for financing investment properties.

On the balance sheet date the Group has access to unused credit lines in the amount of k€ 1,874 (previous year: k€ 221) earmarked for project development. The Group pays no commitment fee for unused credit lines. The interest rate for credit lines when used is between 2.71 % and 6.0 % (previous year: between 3.3 % and 6.0 %) for the fixed-rate loans or, for one variable-rate loan, the Euribor reference interest rate plus 2.6 % (previous year: Euribor plus 2.6 %).

Assets with the following net carrying amounts were pledged as collateral for the Group's existing financial liabilities to banks:

	12/31/2013	12/31/2012
	k€	k€
Secured financial liabilities to banks	22,152	24,185
Net carrying amount of the mortgaged inventories	45,050	37,746
Net carrying amount of the mortgaged investment properties	14,699	14,872

The assets pledged as collateral can be realised by the lenders if the Group fails to meet its interest and principal obligations on its financial liabilities.

(32) OTHER LIABILITIES

The other current liabilities comprise the following:

Other liabilities	12/31/2013	12/31/2012
	k€	k€
Accrued interests	5,572	2,797
Taxes and duties	1,972	1,816
Sales tax liabilities	710	1,842
Liabilities to related parties	0	766
Other liabilities	1,665	955
Total	**9,919**	**8,176**

The other current liabilities include financial liabilities in the amount of k€ 5,572 (previous year: k€ 4,313). The remaining term of the other liabilities was less than one year, as was the case in the previous year.

(33) TRADE ACCOUNTS PAYABLE

The trade payables due within one year amount to k€ 15,127 (previous year: k€ 10,113) as of the balance sheet date.

(34) LIABILITIES FROM PAYMENTS MADE ON ACCOUNT

The liabilities from payments made on account pertain to down payments by buyers for residential units not yet handed over. As of 31 December 2013 there were liabilities in the amount of k€ 46,988 (previous year: k€ 15,458).

(35) OTHER PROVISIONS

Altogether, other short- and long-term provisions have developed as follows:

Other provisions	Warranties	Other provisions	Total
k€			
As of 01/01/2013	**2,296**	**2,226**	**4,522**
Additions	348	651	999
Consumption	0	1,014	1,014
Reversal	346	3	349
Interest effects	80	82	162
As of 31/12/2013	**2,378**	**1,943**	**4,320**
Thereof current	201	1,942	2,143
Thereof non-current	2,177	0	2,177

Provisions for warranty claims are formed on the basis of past loss experience or estimated future losses. There are no guarantee or warranty liabilities that exceed customary guarantee or warranty liabilities. The other provisions include for the most part provisions for litigation risks.

5. NOTES ON THE CONSOLIDATED CASH FLOW STATEMENT

(36) CONSOLIDATED CASH FLOW STATEMENT

The cash flow statement shows how the Group's cash has changed in the course of the year under review through inflows and outflows of funds. In conformance with IAS 7, "Statement of cash flows", a distinction is made between cash flows from current business activities, investment activities, and financing activities. The cash in the cash flow statement exclusively comprises the freely available cash. If this is added to the cash with restricted availability in the amount of k€ 19,910 (previous year: k€ 12,957), this results in the cash disclosed on the balance sheet. This basis of presentation has been changed compared to the previous year. As a result, compared to the previous year the cash flow from operating activities and the downturn in receivables from the sale of land and other trade receivables and current receivables has fallen by k€ 4,425.

The other non-cash income in the amount of k€ 624 (previous year: k€ 4,366) relates to an adjustment to assets at fair value (step-up). In the previous year, this income mostly stemmed from the deconsolidation of property companies (see also Note 12, other operating income).

The acquisition of One Group, performed on 31 December 2013, does not impact the consolidated cash flow statement, as this merger was exclusively financed by issuing 3,000,000 shares of ISARIA Wohnbau AG. The item cash forms the sole exception. This item is included under business combinations according to IFRS 3 less cash received, in the amount of k€ 5,728.

6. SEGMENT REPORTING

At the balance sheet date the ISARIA Wohnbau Group comprises three segments: "New Developments", "Revitalisation" and "Other". The segments differ in their service profiles and their target customer groups. Transactions between segments are recognised according to IFRS accounting principles. The activities of the JK Wohnbau Group are limited to Germany or the greater Munich area, and geographical segmentation is considered unnecessary for that reason. The business activities of the segments may be summarised as follows:

- The service profile of the "New Developments" segment ranges from acquiring, purchasing and, if necessary, clearing land to the subsequent planning and development of the project and its realisation through construction to dividing up the structure in accordance with the German Condominium Act (Wohnungseigentumsgesetz) and selling the apartments and buildings to private and institutional buyers. This segment is the typical property development business for new properties.

- The "Revitalization segment" includes spans acquisitions of existing properties, the subsequent planning and realization, and in some cases expansion if required (e.g., by adding additional stories) for these properties, through to breaking up and selling the apartments to private buyers as owner-occupiers or as a capital investment, and also to institutional investors. In this segment, so-called "privatization", or the break-up of existing residential properties into residential units with the renovated or existing units then being sold, is not further pursued. Instead, now only existing vacant commercial properties are converted to residential properties, preferentially using the "APP.ARTMENTS" brand.
- The "Other" segment mostly includes rental income from real estate.

The acquisition of One Group performed as of 31 December 2013 does not yet impact segment reporting on the balance sheet date, as this only includes income and expenses during the period under review and no assets and liabilities. However, the income and expenses from One Group are not included in the consolidated financial statements as of 31 December 2013, as the date of first time consolidation is the same as the balance sheet date.

The revenues and segment results for financial years 2013 and 2012 break down as follows:

in k€	New Developments	Revitalisation	Other	Consolidation/ Reconciliation	Group
SALES REVENUE - EXTERNAL					
01/01 - 12/31/2013	**32,912**	**1,914**	**2,879**	**0**	**37,705**
01/01 - 12/31/2012	68,087	9,493	1,667	0	79,247
SALES REVENUE - INTERNAL					
01/01 - 12/31/2013	**0**	**0**	**0**	**0**	**0**
01/01 - 12/31/2012	0	0	0	0	0
CHANGE IN INVENTORIES					
01/01 - 12/31/2013	**-345**	**5,039**	**0**	**0**	**4,694**
01/01 - 12/31/2012	-18,470	729	0	0	-17,741
GROSS PROFIT					
01/01 - 12/31/2013	**32,567**	**6,953**	**2,879**	**0**	**42,400**
01/01 - 12/31/2012	49,617	10,222	1,667	0	61,506
DEPRECIATIONS					
01/01 - 12/31/2013	**-160**	**0**	**-298**	**0**	**-458**
01/01 - 12/31/2012	-376	-1	-539	0	-916
EBIT					
01/01 - 12/31/2013	**673**	**1,370**	**926**	**0**	**2,970**
01/01 - 12/31/2012	9,158	3,760	-308	-24	12,586
FINANCIAL INCOME					
01/01 - 12/31/2013	**979**	**5**	**2**	**-158**	**829**
01/01 - 12/31/2012	1,265	34	568	-216	1,652
FINANCIAL EXPENSES					
01/01 - 12/31/2013	**-9,569**	**-2,879**	**-931**	**158**	**-13,221**
01/01 - 12/31/2012	-15,469	-5,143	-948	216	-21,345
RESULT OF ASSOCIATES ACCOUNTED FOR USING THE EQUITY METHOD					
01/01 - 12/31/2013	**1,990**	**0**	**0**	**0**	**1,990**
01/01 - 12/31/2012	4,539	0	0	0	4,539
INCOME TAX EXPENSES/INCOME					
01/01 - 12/31/2013	**8,046**	**63**	**407**	**0**	**8,516**
01/01 - 12/31/2012	4,075	64	-377	0	3,762
RESULT AFTER TAXES ON INCOME					
01/01 - 12/31/2013	**2,119**	**-1,440**	**405**	**0**	**1,084**
01/01 - 12/31/2012	3,568	-1,284	-1,065	-24	1,195
VALUATION ALLOWANCES (-) / WRITE-UPS (+) ON INVENTORIES AND RECEIVABLES					
01/01 - 12/31/2013	**-86**	**1,970**	**0**	**0**	**1,883**
01/01 - 12/31/2012	603	-3,423	0	0	-2,820

Of the external revenues in the previous year, k€ 9,203 is due to an institutional investor in connection with a global sale. This corresponds to around 12 % of total revenues in the previous year. These sales are attributable to the Revitalisation segment.

7. OTHER NOTES

(37) CONTINGENT LIABILITIES AND OTHER FINANCIAL LIABILITIES

As of December 31, 2012 there was a contingent liability in connection with a guarantee by ISARIA Wohnbau AG in favor of a joint venture company in the amount of k€ 3,071 for a loan that has already been redeemed but not yet settled. Settlement of this loan as of 30 June 2013 also means that this contingent liability no longer applies. In addition, as of 31 December 2013, as was also the case in the previous year, there are contingent liabilities from investment properties in the total amount of k€ 4,700 as collateral for liabilities from loans, which Mr. Josef L. Kastenberger took over as part of a non-cash capital increase from ISARIA Wohnbau Group. The Group does not believe that these contingent liabilities will be used.

The Managing Board has formed provisions of a sufficient amount for risks from litigation and tax risks, to the extent that these can be recognized. In total, provisions for litigation risks were formed in the amount of around € 1.5 million (previous year: around € 2.0 million). A further € 1.5 million (previous year 1.9 million) were already considered in this regard in trade payables. The maximum expected risk is around € 9.7 million (previous year: around € 7.2 million). However, the company does not expect to be held liable for an amount in excess of the amount of the provisions formed.

As of 31 December 2013 there were significant financial obligations in connection with property acquisitions that had not yet been completed in the amount of k€ 21,000 (previous year: k€ 21,000). The due dates for these remaining purchase price instalments depend on conditions for which their occurrence depends on reaching certain development stages under construction law. The Company believes that the next development stage will be reached in the summer of 2014, causing the next purchase price instalment of k€ 7,000 to become due, however that the remaining development stages will not occur before the fall of 2015.

In addition, there is a financial liability from a purchase price increase for a plot of land already acquired in the amount of k€ 2,500 (previous year: k€ 2,500), which will become due when the new development plan is presented. This is not expected to become due before the end of 2014.

Further, there are financial liabilities from acquisitions of real estate companies which have already been certified but have not yet been completed on the balance sheet date. The purchase prices in this regard total k€ 63. On the date of the acquisition of the real estate companies, which is expected during the course of 2014, real estate financing of around € 49 million (carrying amounts on 31 December 2013) will be taken over.

(38) NOTES ON LEASING AGREEMENTS

SALE-AND-LEASE-BACK TRANSACTIONS

Under a contract dated 21 December 2011, the Schillerstrasse property was sold to an institutional investor. Under the terms of the sale, the ISARIA Wohnbau Group agreed to lease back the property for a period of five years at a contractually agreed rent and to sublease it itself. The buyer also has the option to extend this blanket lease by another five years. The ISARIA Wohnbau Group lets the property on its own account through a project company set up for the purpose, thus acting under this arrangement as both lessee and lessor. The blanket lease entered into on usual market terms is classifiable as an operating leasing agreement. The resulting fixed lease obligations and rental income are included in the tables presented below pertaining to the leasing agreements.

THE GROUP AS LESSEE

The group's obligations from non-terminable leasing agreements relate to rented office premises and other operating and office equipment, in addition to the general rental agreement already mentioned. The expenses from operating leases recognized in income through profit and loss totaled k€ 2,608 (previous year: k€ 1,807) in the year under review. Of this total k€ 2,010 (previous year: k€ 1,173) is due to a sub-rental (general rental agreement)

Non-terminable operating leasing agreements give rise to the following future obligations:

Minimum lease payments	12/31/2013	12/31/2012
	k€	k€
Due date within one year	2,672	2,605
Due date in between one and five years	5,866	8,502
Due date after more than five years	0	0
Total	**8,538**	**11,108**

If the purchaser of the Schillerstraße property uses his extension option for the general rental agreement for a further five years, the total minimum leasing payments will increase by k€ 11,417 to k€ 19,955. In this case, the group would have the right to sub-let for a further five years.

THE GROUP AS LESSOR

The Group acts as lessor in operating leasing arrangements. Such action consists mainly in letting residential and retail units in rented real estate held for investment purposes. The Group expects the following payments in the next years under non-terminable leasing and lease agreements:

Minimum lease payments	12/31/2013	12/31/2012
	k€	k€
Due date within one year	1,113	1,051
Due date in between one and five years	246	721
Due date after more than five years	0	0
Summe	**1,359**	**1,772**

(39) ADDITIONAL NOTES CONCERNING FINANCIAL INSTRUMENTS

CARRYING AMOUNTS, FAIR VALUES ACCORDING TO MEASUREMENT CATEGORY

The following table shows by measurement category according to IAS 39 the carrying amounts and fair values for the financial assets and liabilities recognised in the consolidated financial statements:

	Assessment category as per IAS 39	12/31/2013 Carrying amount	12/31/2013 Fair Value	12/31/2012 Carrying amount	12/31/2012 Fair Value
Assets in k€					
Financial assets – Other investments	AfS	37	n/a	38	n/a
Accounts receivable from the sale of property	LaR	4,316	4,316	3,270	3,270
Other accounts receivable and financial assets	LaR	13,103	13,103	19,235	19,235
Cash and cash equivalents	LaR	32,303	32,303	24,719	24,719
Liabilities in k€					
Compensation liabilities to shareholders in general partnership	FLAC	58,696	58,696	41,772	41,772
Financial liabilities from silent participations, shareholder loans and other forms of capital provision	FLAC	47,447	48,149	48,225	49,404
Financial liabilities to banks	FLAC	27,637	27,797	29,940	30,122
Trade accounts payable	FLAC	15,127	15,127	10,113	10,113
Other financial liabilities	FLAC	5,572	5,572	4,313	4,313

IFRS 7.25 requires that, for each class of financial instrument, a fair value be disclosed in way that allows comparison with the corresponding carrying amount. The following notes deal with, in particular, how fair values are measured for financial instruments that are not to be recognised in the balance sheet at fair value but for which, according to IFRS 7, a fair value must be stated in addition.

- Cash and cash equivalents, trade accounts receivable and payable, and other receivables and liabilities have for the most part short maturities, for which reason their carrying amounts as of the balance sheet date are approximately equal to their fair values
- For variable interest rate loans, assuming no change in creditworthiness, market value comparisons are omitted because of the regular adjusting of the interest rate on the loan to market values. An explicit disclosure is omitted also in the case of fixed interest rate loans with short-term maturities, since in this case the carrying amount represents an approximation of the market value. For fixed interest rate loans with long-term maturities, if there are significant differences from the carrying amount, a fair value is calculated for comparison. The current interest parameters and individual credit standings are accounted for in the form of prevailing creditworthiness or liquidity spreads.
- The financial liabilities from silent participations, shareholder loans and other forms of capital provision consist primarily of liabilities from atypically silent and typically silent participations, of debentures in the form of subordinate notes, and of loans for individual property companies. For these liabilities the Company prepared a market value comparison and calculated differences to the carrying amount on this basis.

NET INCOME FROM FINANCIAL INSTRUMENTS

Net income by measurement category is as follows:

Net income from financial instruments per assessment category	from interest		from subsequent assessment				from disposal		Net result	
			Changes in fair values		Impairment					
	2013 k€	2012 k€	2013 k€	2012 k€	2013 k€	2012 k€	2013 k€	2012 k€	2013 k€	2012 k€
Financial assets available for sale (AfS)	0	0	0	0	0	0	0	0	**0**	0
Loans and accounts receivable (LaR)	80	1,024	0	0	-803	0	106	103	**-616**	1,128
Financial liabilities measured at amortised costs (FLAC)	-12,807	-19,740	0	0	0	0	0	0	**-12,807**	-19,740
Total	**-12,727**	**-18,716**	**0**	**0**	**-803**	**0**	**106**	**103**	**-13,423**	**-18,612**

Net income or net losses from loans and accounts receivable comprise changes in valuation allowances, profits or losses from derecognition, cash receipts, and reversals of impairment losses from loans and receivables originally written off. In the period under review, as in the previous year, no interest income was collected from written-down trade receivables.

(40) GROUP RISK MANAGEMENT

The risk management system for the ISARIA Wohnbau Group is an integral component of the ISARIA Wohnbau Group's business practice, and spans the individual organisational workflows at various levels and all types of risk. Business forecasting and controlling processes are a major component. All organizational units perform risk identification and evaluation tasks. Risks with similar content are grouped together to form risk types, for example risks in the regulatory environment, financial risks, technical risks, or project risks. These are then communicated regularly to the responsible decision-maker, who controls the risks.

MACROECONOMIC RISKS

Given the regional focus of the Group's business operations, the economic situation in Germany and in the real estate market in Munich are extremely important for the Group. Inherent in the domestic economy are risks resulting from the legal and tax regimes, interest rate levels, the general direction of prices, and supply and demand trends in the rental and real estate market. The Group has no control over these factors. It can only anticipate and adjust to them.

FINANCIAL RISK MANAGEMENT

The Group is exposed to various financial risks, which result from the group's operating and financial activities. The most important financial risks result from the creditworthiness and ability to pay on the part of the group's counterparties, from the liquidity risk and from changes in interest rates. The Managing Board defines the basic features of the financial policy and these are monitored by the Supervisory Board. The Group's Controlling Department is responsible for implementing the financial policy and ongoing risk management. Certain transactions require the prior approval of the Managing or Supervisory Board, who are also informed on a regular basis of the scope and amount of the current risks..

CREDIT RISK (DEFAULT RISK)

Credit risks arise from the possibility that counterparties to a transaction are unable to satisfy their obligations and that the Group will incur a financial loss as a result. The maximum credit risk (default risk), disregarding netting agreements and any additional security or other credit enhancements, is equivalent to no more than the carrying amount of the Group's financial assets plus the contingent liabilities already described. The Group allows for credit risk by recognising impairments accordingly. As a rule, credit risk is reduced through diversification, which is achieved through a large number of debtors. Credit risk is further lessened by collecting down payments from buyers.

On a historical basis, the Company does not consider the risk of bad debt loss to be great. Impairment provisions are recognised for doubtful debts. In the case of uncollectible accounts, they are written off completely. Trade receivables, which, within the Group, relate mainly to receivables from property sales, are subject to active risk management with a focus on current receivables. The objective of receivables management is to improve the Group's liquidity through an optimised use of assets while an acceptable risk level is maintained. The danger of risk concentrations may be considered low, since, as a rule, most of the trade receivables are from buyers of residential units. These receivables are characterised by a larger number of distinct debtors. An exception in this regard is given by the group's receivables from Josef L. Kastenberger, which totaled k€ 1,502 on the balance sheet date (prior to considering contradictory liabilities) (previous year: k€ 5,971). The group believes that these receivables are not impaired as a result of the collateral provided, as was also the case in the previous year. For further details please see Note 41 Related party transactions.

LIQUIDITY RISKS

Liquidity risks occur when short-term financial liabilities exceed short-term financial assets. Liquidity risk is controlled with the use of Group-wide financial planning tools and is tracked continuously.

In industry-specific terms, property developer financing is generally only granted with short terms of a few months, although the terms of the project developments and construction activities are substantially longer. As a result of this risk-averse behavior by lenders, financing generally has to be prolonged during an activity. Lenders use factors such as industry experience by the project developer and trust in the projects under development when making their decisions to extend this financing. The general situation on the market and the forecast development continue to play a role in prolonging the financing.

In 2014 further key loans will become due for extension in the ISARIA Wohnbau Group, and these play a key role from a liquidity perspective. The current liquidity forecast includes bonds of around € 44 million having to be prolonged. In addition, a bank loan of around € 8 million has to be prolonged in September 2014, as has already been the case on several occasions in the past. In addition, it is still planned to fully repay JK Fonds I by the middle of 2014 for a total mount of almost € 11 million and to repay/reschedule the expensive mezzanine financing of up to € 44 million.

The key liquidity outflows are thus the ongoing liabilities of ISARIA Wohnbau AG, the financing costs and the planned repayment of the mezzanine and fund capital. Liquidity inflows are expected in particular from participations by One Group, a new corporate bond and the pending handovers from project companies.

It was possible to repay or extend all of the bonds and loans due in fiscal year 2013.

The acquisition of One Group at the end of the year means a significant reduction in financial risks in many respects for ISARIA Wohnbau. Various financial instruments, which are all complex, will be replaced by a uniform structure. Inflows are now reliable and can be calculated. The costs are, in some cases, significantly lower than the previous exposure.

As it has been possible to successfully extend financing in the past and as the group's own financing platform is available, the company believes that it will be possible to finance the pending extensions and project developments and that general liquidity is secure. No risks classified as endangering the company's continued existence have emerged, and show that risk management is intact.

The following table shows the contractually agreed or expected (undiscounted) interest and principal payments on the Group's primary financial obligations. The figures in the table represent undiscounted payment flows. The interest payments on financial instruments with variable interest rates are based on the current interest rate as of the balance sheet date. Included were all instruments held as of 31 December 2012 and for which payments had already been contractually agreed. Not included are projected figures for new, future liabilities. Financial liabilities that are repayable at any time are always allocated to the earliest time period.

Contractually agreed interest payments and repayments of the originary financial liabilities		Cash flows 2014			Cash flows 2015–2018			Cash flows > 2019		
	carrying amount	Interest fix	Interest variable	Repayment	Interest fix	Interest variable	Repayment	Interest fix	Interest variable	Repayment
in k€	12/31/2013									
Compensation liabilities to shareholders in general partnership	58,696	5,695	0	13,178	10,492	0	31,422	2,185	0	17,563
Financial liabilities from silent participations, shareholder loans and other forms of capital provision	47,447	6,600	0	47,446	0	0	0	0	0	0
Financial liabilities to banks	27,637	344	540	9,530	1,233	145	11,632	3,317	0	6,475
Liabilities to related companies and associates	0	0	0	0	0	0	0	0	0	0
Other financial liabilities	5,572	0	0	5,572	0	0	0	0	0	0
Total	**139,351**	**12,638**	**540**	**75,727**	**11,725**	**145**	**43,054**	**5,502**	**0**	**24,038**

Contractually agreed interest payments and repayments of the originary financial liabilities		Cash flows 2013			Cash flows 2014–2017			Cash flows > 2018		
	carrying amount	Interest fix	Interest variable	Repayment	Interest fix	Interest variable	Repayment	Interest fix	Interest variable	Repayment
in k€	12/31/2012									
Compensation liabilities to shareholders in general partnership	41,772	1,882	0	25,947	3,783	0	13,268	0	0	0
Financial liabilities from silent participations, shareholder loans and other forms of capital provision	48,225	6,582	0	48,224	0	0	0	0	0	0
Financial liabilities to banks	29,940	372	372	20,625	1,374	0	1,159	3,819	0	8,156
Liabilities to related companies and associates	766	0	0	766	0	0	0	0	0	0
Other financial liabilities	3,547	0	0	3,547	0	0	0	0	0	0
Total	**124,250**	**8,836**	**372**	**99,109**	**5,157**	**0**	**14,428**	**3,819**	**0**	**8,156**

In addition to the interest and principal payments shown here for the primary financial liabilities, there are also the potential payment obligations resulting from contingent liabilities as described above in subs. 37.

MARKET RISK (INTEREST RATE RISK)

A market risk results from changes in the market price of the Group's financial assets and liabilities. A market risk can have an impact on both the Group's financial results and its equity. To disclose market risks, IFRS 7 calls for sensitivity analyses that show the effects of hypothetical changes in relevant risk variables on income and equity.

The Group is not subject to any foreign exchange risks, since all of the Group's business is transacted in euros. The Group is subject, however, to the risks inherent in changing interest rates. The periodic effects are determined by applying the hypothetical changes in risk variables to the financial instruments held as of the balance sheet date. It is assumed that the financial instruments held as of the balance sheet date are representative of the entire year.

Interest rate risks result from interest rate changes, which can have negative effects on the Group's financial results and its equity. Interest rate fluctuations may result in changes in interest income and interest expense. Moreover, the market prices of certain financial assets, liabilities and hedging instruments can be affected.

The company is not exposed to market price changes resulting from interest risks, as these normally occur only in the case of fixed-rate loans, which are not measured at fair value. For fixed-rate financial instruments that are not recognised at fair value, the Company therefore omits a disclosure of market price sensitivity.

Sensitivity analyses disclose the effects that changes in market interest rates have on interest payments, interest income and expense, other components of profit or loss, or, as the case may be, on equity. The interest sensitivity analyses are based on the following underlying assumptions:

- Changes in market interest rates for primary fixed-rate financial instruments affect income only when those instruments are measured at fair value. Accordingly, no fixed-rate financial instruments measured at amortised costs are subject to any interest rate change risks within the meaning of IFRS 7.
- Changes in market interest rates affect interest income on primary, variable-rate financial instruments; accordingly, they also are factored in when income-related sensitivities are calculated.

A substantial portion of the ISARIA Wohnbau Group's loans are fixed-rate. For fixed-rate loans, banks can contractually grant the option of adjusting the interest rate to changes in general conditions, in which case the interest rate is not to be understood as a variable rate, since that would constitute a change in the terms of the loan and not a regular, non-contingent, immediate, prime-rate dependant interest rate change. A change in the market interest level therefore affects only variable-rate loans. Taking into account the one (previous year: eight) loan contractually defined as variable-rate, a basis point shift of ± 100 basis points per annum was calculated in relation the carrying amount (cf. subs. 31, Financial liabilities to banks). A hypothetically resulting effect on the statement of comprehensive income would amount in each instance to k€ 102 (previous year: k€ 86). Loans to associate companies recognised at equity were not considered.

CAPITAL

As a joint stock corporation, the Company is subject to the minimum capital requirements according to German stock corporation law. The Group is subject also to the customary and industry-specific minimum capital requirements for the banking industry, particularly when it comes to financing specific real properties. These minimum capital requirements are regularly monitored, and they were met during the financial year, as they were in the previous year.

The Group defines its managed capital as group equity. The objectives of its capital management are:

- The ability to ensure the Group's continued operation so that it may continue to offer residential properties to customers and income to investors.
- To have the financial resources that enable the Group to invest in areas that can generate income for investors that is commensurate with the risks incurred.

Capital is monitored with the help of the equity ratio and net financial liabilities. These measure as follows:

	12/31/2013	12/31/2012
	k€	k€
Compensation liabilities to shareholders in general partnership	58,696	41,772
Financial liabilities	75,083	78,165
Trade accounts payable and other financial liabilities	20,699	14,427
Less cash funds	-32,303	-24,719
Net financial liabilities	122,175	109,644
Equity	13,606	3,009
Equity and net financial liabilities	135,781	112,653
Equity ratio	**6.0 %**	**1.8 %**

(41) TRANSACTIONS WITH RELATED COMPANIES AND PERSONS

Companies and persons are "related parties" within the meaning of IAS 24 when one of the parties has, directly or indirectly, the ability to control or significantly influence the other party.

JOINT VENTURES

Identified as related parties were, first, the following joint ventures included in the consolidated financial statements according to the equity method (appearing as "JK COR" companies in the following list):

- JK-COR Wohnbauentwicklung GmbH
- JK-COR Wohnbauentwicklung GmbH & Co. Wilhelm-Hale-Strasse 35 KG
- JK-COR Wohnbauentwicklung GmbH & Co. Wilhelm-Hale-Strasse 45 KG

COMPANIES UNDER THE SIGNIFICANT INFLUENCE OF A MAJOR SHAREHOLDER

The following companies were subsequently identified as related parties on which Dr. Josef L. Kastenberger was able to exert a significant influence in the period under review (called "JK Holding" companies in the following list):

- JK Holding GmbH
- JK Verwaltungs GmbH
- Hohenwaldeck Vermögensverwaltungs GmbH

RELATES PARTIES IN KEY POSITIONS

The members of the Managing and Supervisory Boards are regarded as being related parties. These were as follows in fiscal year 2013:

Related Persons in Key Positions

Management board
Michael Haupt, CEO
Christian Dunkelberg, COO
Supervisory board
Prof. Dr. Raimund Baumann (Chairman)
Robert Unger (Deputy Chairman, from 17. April 2013)
Michael Kranich
Andreas Epple (until 28 January 2013)

On 28 January 2013, supervisory board member Andreas Epple resigned from his office. Mr. Robert Unger, attorney at low, Berlin, was appointed by the court as a new member of the supervisory board on 17 April, and was elected by the general meeting on 6 June 2013. Mr. Unger was elected deputy chairman of the supervisory board at the meeting of the supervisory board on 19 April 2013.

The executive board members belong to no other controlling bodies. The supervisory board members are members in the following other controlling bodies:

Herr Prof. Dr. Raimund Baumann, lawyer and Tax Adviser, Stuttgart
- MBS AG – chairman of the executive board
- LMT GmbH & Co. KG – chairman of the executive board
- Seibt &Kapp Maschinenfabrik GmbH & Co.KG - advisory board
- Jessen Holding GmbH&Co KG - advisory board

Herr Robert Unger, lawyer, Berlin (from 17 April 2013)
- no further mandats

Herr Michael Kranich, Executive Director of aeris CAPITAL, Pfäffikon, Swiss
- Park & Bellheimer AG – chairman of the executive board
- ZetVisons AG – deputy chairman of the supervisory board
- Leonardo Venture GmbH & KGaA – deputy chairman of the supervisory board
- Epple Holding GmbH – chairman of the advisory council
- VRmagic Holding AG – supervisory board

Herr Andreas Epple, lawyer, Heidelberg (until 28 January 2013)
- MAG Mainzer Aufbaugesellschaft mbH - supervisory board

The following tables show the transactions with related parties:

Transactions with related parties	Revenue	Expenses	Accounts receivable	Liabilities
in k€	01/01 – 12/31/2013	01/01 – 12/31/2013	12/31/2013	12/31/2013
JK-COR companies	1,990	0	0	0
JK Holding companies	70	2	0	0
Executive and Supervisory Board	13	976	0	85
Josef L. Kastenberger	372	847	1,502	0
Total	**2,445**	**1,824**	**1,502**	**85**
in k€	01/01 – 12/31/2012	01/01 – 12/31/2012	12/31/2012	12/31/2012
JK-COR companies	4,539	12	0	569
JK Holding companies	78	3	313	596
Executive and Supervisory Board	10	812	0	7
Josef L. Kastenberger	1,221	757	5,971	2,712
Total	**5,848**	**1,584**	**6,284**	**3,884**

JK-COR COMPANIES

Income with the JK-COR companies in the amount of k€ 1,990 (previous year: k€ 4,539) is related mainly to the share of net income contained in the financial results. The expenses amounting to k€ 0 (previous year: k€ 12) are related mainly to interest expenses. As of the balance sheet date there were no liabilities to the JK-COR companies (previous year: k€ 569).

JK HOLDING COMPANIES

Income from the JK Holding companies in the amount of k€ 70 (previous year: k€ 78) relates to financial income, the expenses of k€ 2 (previous year: k€ 3) relate to financial expenses. There are no longer any receivables (previous year: k€ 313) and liabilities (previous year: k€ 596).

EXECUTIVE BOARD AND SUPERVISORY BOARD

Total remuneration for the members of the Executive Board amounted to k€ 746 (previous year: k€ 698). Remuneration for the individual members of the Executive board was as follows in the respective fiscal years:

2013 in k€	Fixed component	Variable component	Fringe benefits	Total compensation
Michael Haupt	248	100	36	384
Christian Dunkelberg	248	100	14	362
Total	**495**	**200**	**51**	**746**

2012 in k€	Fixed component	Variable component	Fringe benefits	Total compensation
Michael Haupt	220	50	34	304
Christian Dunkelberg	240	130	24	394
Total	**460**	**180**	**58**	**698**

Remuneration for the Supervisory Board totaled k€ 208 in the past fiscal year (previous year: k€ 142).

In fiscal years 2012 and 2013 Mr. Michael Haupt rented two apartments from the company through to 31 March 2013, and then to 31 December 2013 one apartment in a property managed by the company at a rent also paid by other tenants. The resulting income is carried under the item revenues from rental.

JOSEF L. KASTENBERGER

The income carried under this position in the amount of k€ 372 (previous year: k€ 1,221) is mostly due to rental payments from Mr. Josef L. Kastenberger and financial income from the reversal of liabilities for compensation that resulted from Mr. Kastenberger.

Josef L. Kastenberger has assumed joint and several guarantees and provided other security for various financing agreements for the Group. As of 31 December 2013, Josef L. Kastenberger or JK Holding GmbH, which is allocable to him, acted as guarantors for a total volume of k€ 6,177 of liabilities from the group (previous year: k€ 9,443). In the consolidated financial statements, liability remuneration in line with the risk profile for the respective financing was assumed. This resulted in financial expenses in the amount of k€ 91 (previous year: k€ 744) which were carried as deposits for expenses under reserves. In an agreement dated 19 December 2013, ISARIA Wohnbau AG waived all of the remaining guarantee liabilities for Mr. Kastenberger. The remaining portion of the expenses shown in the table totalling k€ 847 (previous year: k€ 757) relates to expenses from the redefinition of interest receivables from Mr. Kastenberger. In the previous year, the expenses disclosed mostly comprised financial expenses in connection with compensation liabilities from Mr. Josef L. Kastenberger as a result of his position as a limited partner in real estate companies.

The receivables of k€ 1,502 (previous year: k€ 5,971) result from the agreement reached at the end of 2013 with Mr. Kastenberger for dealing with and settlement of all of the obligations due from him, in particular from purchase prices from the acquisition of the minority interests he previously held in various project companies. These receivables are secured via share pledges. The liabilities disclosed in the previous year in the amount of k€ 2,712 mostly comprised financial expenses in connection with compensation liabilities from Mr. Josef L. Kastenberger as a result of his position as a limited partner in real estate companies.

(42) PERSONNEL

	12/31/2013	12/31/2012
Number of employees	50	31

On average, there were 31 employees in fiscal year 2013 (previous year: 29 employees). This increase is due to an increase in personnel in both Technology/Project Development and also in commercial departments. The first-time inclusion of One Group in the consolidated financial statements as of 31 December 2013 resulted in the addition of 16 employees.

(43) EARNINGS PER SHARE

Earnings per share is calculated as the ratio between the consolidated earnings due to the shareholders of ISARIA Wohnbau AG and the weighted average number of shares in circulation in the year under review. As was the case in the previous year, there were no instruments outstanding that could dilute the earnings. As a result, the diluted earnings per share is identical to the basic earnings per share.

Weighted number of common shares outstanding (thousands)	Share capital and number of shares	Weighted number of shares outstanding
01/01/2013	20,764	20,764
12/31/2013	20,764	20,764
Weighted number of common shares outstanding in the financial year 2013 (in thousands)		**20,764**

Calculation of earnings per share	2013	2012
Consolidated result after taxes on income attributable to the shareholders of JKW (in k€)	1,046	1,279
Weighted number of common shares outstanding (in thousands)	20,764	20,764
Basic earnings per share (in €)	0.05	0.06
Diluted earnings per share (in €)	0.05	0.06

After the balance sheet date, the number of shares in circulation increased by 3,000,000 to 23,764,000 as a result of the effective non-cash capital increase from the acquisition of One Group. If this number of shares is fictitiously used to calculate the earnings per share, this results in earnings per share of € 0.04 for fiscal year 2013 and € 0.05 for the previous year.

(44) EXEMPTION UNDER § 264(3) HGB OR § 264 B HGB

The following subsidiaries have made use of the exemption under § 264(3) HGB or § 264 b HGB:

- JK Wohnbau AG & Co. Objekt Karlsfeld 2 KG
- JK Wohnbau AG & Co. Objekt Karlsfeld 3 KG
- JK Wohnbau AG & Co. Objekt Maistraße KG
- J.K. Wohnbaugesellschaft mbH & Co. Objekt Defreggerstraße KG
- J.K. Verwaltungs AG & Co. Objekt Viktoriastraße KG
- App.artments GmbH (formerly JK Management GmbH)
- JK Tower GmbH
- JK Wohnbau Objekt Am Münchfeld GmbH
- JK Wohnbau Objekt Willy-Brandt-Allee GmbH
- Living Bogenhausen GmbH (formerly JK Wohnbau Projektgesellschaft mbH)

(45) FEES OF THE AUDITOR OF THE CONSOLIDATED FINANCIAL STATEMENTS

The auditor for fiscal year 2013, Nörenberg • Schröder GmbH Wirtschaftsprüfungsgesellschaft, Hamburg, charged fees totaling k€ 462 for fiscal year 2013 (previous year: k€ 293). Of this total, k€ 405 (previous year: k€ 250) related to auditing services for the audit of the annual and consolidated financial statements, and k€ 15 (previous year: k€ 30) related to other consulting services for the MaBV audit. In addition, fees of k€ 42 (previous year: k€ 13) were charged for other services (consulting services). In addition, expenses of k€ 28 (previous year: k€ 31) were charged.

All of the stated fees and expenses are net of statutory VAT of 19 %. The ISARIA Wohnbau Group cannot deduct the VAT invoiced, and it thus has to be recognized as an expense.

(46) EVENTS AFTER THE BALANCE SHEET DATE

With effect from 1 January 2014 Mr Jan von Lewinski joined ISARIA Wohnbau AG's Executive Board as the new COO (Chief Operating Officer). He takes over this position from the former COO Christian Dunkelberg, whose contract, which has been in place since 2010 has been extended to the end of 2015 and who will be responsible for the CIO's tasks (Chief Investment Officer) in future. As a result, the company will be run by a three-member Executive Board in future. Michael Haupt's appointment as CEO and Chairman of the Executive Bord was extended to the end of 2017 in February 2014.

By creating the new position of CIO, the Supervisory Board has signalled that the company is to be geared, once again, to expansion and acquisitions in future. The acquisition of One Group in Hamburg, and the possible acquisition in Munich, which is currently mostly only possible at speculative prices, led to the decision to include one of the largest potential residential developments in Hamburg in January 2014. During the course of the next few months, a decision will be taken on whether ISARIA Wohnbau will thus establish a second strategic location, or if the project will be considered as a pure financial investment for One Group. As a result of the agreed confidentiality, it is not possible to provide any further details on the property.

In February 2014 the company issued a new corporate bond for € 10.0 million with a term to February 2015 and an interest rate of 8.0 % p.a. This was fully subscribed.

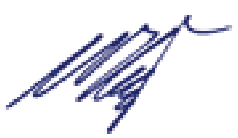
The capital increase from the contribution by One Group was entered into the commercial register on 11 February 2014.

Apart from this, on the date that these consolidated financial statements were prepared, the company was not aware of any material events that occurred after the balance sheet date and which have a material impact on the group's business growth. The mild winter means that all of the construction projects are on schedule and are making substantial progress.

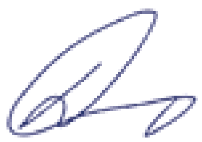
(47) DECLARATION OF CONFORMITY WITH THE GERMAN CORPORATE GOVERNANCE CODE

The declaration of conformity with the German Corporate Governance Code prescribed under § 161 AktG [Aktiengesetz, German Stock Corporation Act] was issued by the Executive Board and the Supervisory Board of ISARIA Wohnbau AG and has been made permanently available to the shareholders on the Company's Internet page (www.isaria-wohnbau.de) in the Investor Relations section.

Munich, 19 March 2014



Michael Haupt
Spokesman of the
Executive Board/CEO



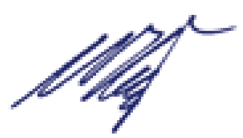
Christian Dunkelberg
Member of the
Executive Board/CIO

Jan von Lewinski
Member of the
Executive Board/COO

RESPONSIBILITY STATEMENT OF THE LEGAL REPRESENTATIVES

We assure to the best of our knowledge that the consolidated financial statements give a true and fair view of the net assets, financial position and results of the Group, and the Group Management Report, includes a fair review of the development and performance of the business and the position of the Group, together with a description of the material opportunities and risks associated with the expected development of the Group.

Munich, 19 March 2014



Michael Haupt
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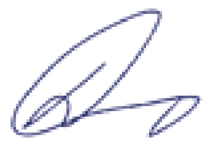

Christian Dunkelberg
Member of the
Executive Board/CIO

Jan von Lewinski
Member of the
Executive Board/COO

INDEPENDENT AUDITOR'S REPORT

We have audited the consolidated financial statements prepared by ISARIA Wohnbau AG, Munich, comprising the statement of financial position, statement of comprehensive income, statement of changes in equity, statement of cash flows and the notes to the financial statements, together with the Group management report for the financial year from 1 January to 31 December 2013. The preparation of the consolidated financial statements and the Group management report in accordance with the IFRS, as adopted by the EU and the additional requirements of German commercial law pursuant to §315a (1) HGB (Handelsgesetzbuch - "German Commercial Code") is, the responsibility of the parent Company's legal representatives. Our responsibility is to express an opinion on the consolidated financial statements and on the Group management report based on our audit.

We conducted our audit of the consolidated financial statements in accordance with §317 HGB and German generally accepted standards for the audit of financial statements promulgated by the Institute of Public Auditors in Germany (Institut der Wirtschaftsprüfer IDW). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the consolidated financial statements in accordance with the applicable financial reporting framework and in the Group management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Group and expectations as to possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the consolidated financial statements and the Group management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the annual financial statements of the entities included in consolidation, the determination of the entities to be included in consolidation, the accounting and consolidation principles used and significant estimates made by the Company's legal representatives, as well as evaluating the overall presentation of the consolidated financial statements and the Group management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion, based on our findings of the audit, the consolidated financial statements comply with the IFRS, as adopted by the EU, and the additional requirements of German commercial law pursuant to § 315a (1) HGB and give a true and fair view of the net assets, financial position and results of operations of the Group in accordance with these requirements. The Group management report is consistent with the consolidated financial statements and as a whole provides a suitable view of the Group's position and suitably presents the opportunities and risks of future development.

Hamburg, 19 March 2014
Nörenberg • Schröder
GmbH Wirtschaftsprüfungsgesellschaft

B. Michels M. Thiel

Michels
Auditor

Thiel
Auditor

Imprint

PUBLISHED BY
ISARIA Wohnbau AG
Leopoldstraße 8
80802 Munich
Germany

Telephone: +49 89 – 38 99 84 - 0
Telefax: +49 89 – 38 99 84 - 790

E-Mail: info@isaria-wohnbau.de
www.isaria-wohnbau.de

LAYOUT & TYPESETTING:
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PHOTOGRAPHY:
Fotostudio Black Box, Tommy Lösch, agencies

Financial Calendar 2014

May 15, 2014: Publication of Q1 Report
May 23, 2014: Annual General Meeting
Aug 14, 2014: Publication of Q2 Report
Nov 14, 2014: Publication of Q3 Report

FORWARD-LOOKING STATEMENTS AND FORECASTS

This annual report contains statements referring to the future. Forward-looking statements are statements which are not based on historical events and facts. These statements are based on assumptions, forecasts and evaluations of future developments by the management board. These assumptions, forecasts and evaluations were made on the basis of all the information which is available at the current time. If the assumptions of future developments used in the statements and evaluations do not materialise, the actual results might deviate from the current expectations. The Executive Board and the Company do not accept any liability with regard to the actual materialisation of the forward-looking statements. The Executive Board and the Company do not accept any obligation to continue any statements or adjust such to future events and developments over and above the legal requirements. This annual report and the information contained herein do not form an offer for the sale or an offer to buy or subscribe securities of ISARIA Wohnbau AG within the Federal Republic of Germany or in any other country. In the United States, the shares of ISARIA Wohnbau AG may only be sold or offered for sale after prior registration or, without prior registration, on the basis of an exemption from the registration requirement according to the provisions of the 1933 US Securities Act in its currently valid version. ISARIA Wohnbau AG does not intend to carry out a public offer of shares in the United States.

www.isaria-wohnbau.de