ISARIA
Wohnbau AG

Annual Report 2015

ISARIA Wohnbau Group Key Parameters

Operating performance indicators in € million	01/01/ - 12/31/2015	01/01/ - 12/31/2014	Q4 2015	Q4 2014
Sales revenue	92.2	160.2	28.9	94.8
Total output	122.2	170.3	18.6	89.6
Gross profit	33.1	42.7	12.6	25.3
EBITDA	29.1	23.1	16.6	16.6
EBIT	27.8	21.6	16.2	16.2
Financial result	-15.4	-10.9	-3.9	-3.1
Consolidated result after taxes	8.1	9.2	8.1	11.0
Gross profit margin	36%	27%	44%	27%
EBIT margin	30%	14%	56%	17%
Profit-turnover-ratio	9%	6%	28%	12%

Balance sheet ratios in € million	12/31/2015	12/31/2014
Current assets	207.8	262.3
of which: Properties held for sale and other inventories	142.5	136.4
Equity	31.0	23.3
Equity ratio	11.1%	7.8%
Financial liabilities & compensation liabilities	205.6	189.6
of which: non-current	122.9	111.4
Balance sheet total	279.2	301.1

Key sales figures in € million	01/01/ - 12/31/2015	01/01/ - 12/31/2014
Notarized sales of the period	23	127
	12/31/2015	12/31/2014
Orders on hand*	20	84

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

Employees	12/31/2015	12/31/2014
Number of employees	62	60

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Milestones 2015

2015 | APRIL 2015 | MAY 2015 | JUNE 2015 | JULY 2015 | AUGUST 2015 | OCTOBER 2015 | DECEMBER 2015


Project *Tübinger Strasse* | Munich


Visualisation *Diamalt-Quartier* | Munich


Project *Tower* | Munich


Project *Kapstadtring* | Hamburg


nido – Visualisation of a Detached house | Karlsfeld


Office Hamburg

PROJECT DEVELOPMENTS

APRIL 2015
Acquisition of majority stakes in two project companies (Hansa and Tübingerstrasse)

ONGOING IN 2015
Successful completion of a further six construction phases in the large nido project in Karlsfeld (WA 1C, 8A, 10A, 11A1, 11B1, 11C1)

JULY 2015
Key data resolution for the Diamalt-Quartier project

OCTOBER 2015 | DECEMBER 2015
Key data resolution and opening decision for the Tower project

4TH QUARTER 2015
Announcement of the winning design for the urban development competition

for the Diamalt-Quartier project and for the Tower project

Filing of construction application for Kapstadtring 1 in Hamburg

DECEMBER 2015
Decision to reclassify project developments in Hansastrasse, Munich, and Kapstadtring, Hamburg, to investment properties

PERSONNEL

MAY 2015
Re-election of supervisory board

DECEMBER 2015
Reduction of the Executive Board to two people after Christian Dunkelberg left the board

FINANCING

APRIL 2015
Start of sales of ProReal Deutschland Fund 4

Conclusion of several bank loans, including for the Karlsfeld 2 | Karlsfeld 3 projects and the Tower project with various credit institutes

INFRASTRUCTURE

AUGUST 2015
Upgrade of virtually the entire server infrastructure to the latest technological hardware and software standard

Expansion of Hamburg office by three employees

SOCIAL COMMITMENT

Preparation of rooms for the temporary housing of about 350 refugees from July 2015 and support for various charitable organisations or support groups involved in this initiative

Dear Shareholders,

dear friends and business

partners of ISARIA Wohnbau AG,

The ISARIA Wohnbau group can look back on a successful 2015. The past financial year saw the highest sales revenue yet for nido, our major project in Karlsfeld, having handed over individual phases of the construction site since 2010.

We also made considerable progress with our project developments this year.

Operational forecasts confirmed

We completed and delivered 186 housing units to individual buyers in 2015, most of them as part of our major project in Karlsfeld, nido, on the city limits of Munich. This generated sales revenues totalling € 92.2 million in 2015 (2014: € 160.2 million), thus almost entirely achieving our forecast made at the start of 2015 of around € 100 million. The forecast figure for 2015 included € 7 million from the sale of a project development. This and one other project development were not sold as there are now better alternative concepts in place. Instead, we opted to reclassify them as investment properties in order to protect opportunities for future revenue.

Both the gross profit margin of 36% (2014: 27%) and the EBIT margin of 30% (2014: 13%) rose substantially in comparison with the previous year. As a result of the further reduction in interest rates, financing expenses remained virtually constant at EUR 15.9 million (previous year: EUR 15.6 million) despite the average increase over the year of almost 22% year-on-year in interest-bearing liabilities. The higher level of interest-bearing liabilities is a direct result of the corresponding higher volume of projects being financed. The disproportionately low rise in financing expenses reflects our significantly improved financing structure. As a result, we were able to further reduce the average interest rate in 2015 for all interest-bearing liabilities to the current level of 7.9% (previous year: 9.5%). The figure in 2012 was as high as 14.2%.

Overall, with consolidated earnings after taxes of € 8.1 million (previous year: € 9.2 million), the company once again achieved a result in the high single-digit million euro range and therefore met its forecast made at the beginning of the year 2015.

Further improvements in equity

The good result greatly contributed to the further strengthening of our equity (now at € 31.0 million compared with € 23.3 million in the previous year). At 11.1%, the equity ratio is now above 10% for the first time. In addition, the market value of our projects is approximately € 90 million higher than the capitalised construction costs.

Over 1,500 units under development in Munich

We also made substantial progress with our project developments in 2015. City council resolutions, the outcomes of competition results and preliminary decisions on construction enabled us to secure planning permission for more than 1,500 units to be built over the next five years. The two major projects *Diamalt-Quartier* in Munich-Allach and the conversion of the former high-rise Siemens building in Munich-Obersendling alone will create nearly a thousand homes.

Hamburg brunch under new management

Following the acquisition of the first two Hamburg projects in 2014, the branch has now been headed by Ulrike Wessel since autumn 2015. Ms. Wessel previously worked for NCC Germany for ten years, most recently as project manager and deputy regional head for the northern region. Thanks to Ms. Wessel and her team’s extensive knowledge of the market, we have now finally arrived in Hamburg and, over the next few years, intend to establish a position similar to the one we hold in Munich.

One Group launches regulated AIF

Our financing platform in Hamburg, One Group, has been active in the market since 2009 and now has links with over 5,000 satisfied investors. Following the introduction of new regulations under the German Investment Code (Kapitalanlagegesetzbuch – KAGB), our first regulated AIF (Alternative Investment Fund), ‘ProReal Deutschland Fonds 4’, was successfully launched in 2015. This is a new project development fund, and is already financing two of our Munich projects.

One Group and our ISARIA office are both located in an office building in Hamburg’s St. Pauli district.

Operational and strategic outlook for 2016

2016 will be a year of transition in terms of operations. Having made significant progress in the overall completion of our current major project in Karlsfeld, nido, during 2015, the remaining sales volume of around € 70 million from this construction project will be distributed over 2016 and 2017. Only from 2017 onwards, further developments will be added to the completions from construction planned to start in 2016.

With the forthcoming major projects in Munich and Hamburg, and a further targeted expansion of our project portfolio, we are seeking to increase the ISARIA Wohnbau group’s annual revenue to around € 300 million over the next five years.

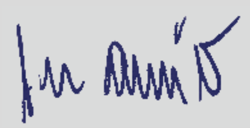
To optimally leverage our excellent market position in the unchanged good market environment, together with external consultants we are currently looking at various strategic options for the company. We hope to be able to give you an update on this soon.

Thanks to these growth prospects, we are confident that we have laid the foundations for further positive growth in the share price of your company, dear sharholders. We would like to take this opportunity to thank you for your support and the trust you have placed in us.

In particular, we are grateful to our employees for their outstanding commitment over the 2015 financial year, and for our productive relationships with our business partners and the confidence they have shown.

Munich, March 2016

Michael Haupt
Spokesman of the
Executive Board | CEO



Jan von Lewinski
Member of the
Executive Board | COO

Executive Board

Jan von Lewinski
Member of the Executive Board | COO

Michael Haupt
Spokesman of the Executive Board | CEO

Supervisory Board Report

pursuant to Article 171 II Sentence 1 German Stock Corporation Act (AktG)

Dear shareholders,

In the reporting year, the Supervisory Board performed the tasks assigned to it by law, the articles of incorporation and the company by-laws.

Supervisory Board Meetings

The Supervisory Board convened in person a total of 7 times in 2015. Numerous phone calls were also made among the members of the Supervisory Board. Every member attended all meetings. In 2015, too, due to the number of three Supervisory Board members, no committees were formed against the recommendations of the German Corporate Governance Code.

In 2015, the subject matter of the Supervisory Board meetings primarily focused on:

- monitoring the overall activities of the Executive Board,
- passing resolutions on transactions and measures requiring approval,
- overseeing the status of project developments and liquidity planning,
- overseeing measures regarding growth and boosting of the capital basis and for reducing financing costs,
- handling of and approval of company planning 2016,
- reporting by the Executive Board on the compliance management system, internal control system and risk management system,
- determining the targets for the proportion of women on the Supervisory Board and Executive Board based on the implementation of the 'Law on the Equal Participation of Women and Men in Leadership Positions in the Private Sector and in Public Service',
- ongoing exchanges with the appointed auditor for the audit of the 2014 financial statements and the 2014 management report as well as the 2014 consolidated financial statements and 2014 group management report according to Article 171 of the AktG [German Stock Corporation Act],
- Recommendations of the 'Government Commission on the German Corporate Governance Code'.

Supervision of the Executive Board

The Supervisory Board monitored and advised the Executive Board in accordance with legal guidelines and to the extent possible. The reports and documents provided by the Executive Board complied with the specifications of Article 90 of the AktG and the rules of procedure.

For important issues, the chairman of the Supervisory Board also received reports in addition to the regular reports pursuant to Article 90 of the AktG and the rules of procedure.

Furthermore, the chairman of the Supervisory Board was also in regular contact with the Executive Board between meetings to discuss questions relating to strategy, planning, business growth, the risk situation, risk management and the company's compliance.

The focus of activities by the Executive Board and the Supervisory Board was and remains strategic project development, expansion, financing, risk controlling and project work.

Corporate governance

In the reporting year, the Executive Board and the Supervisory Board most recently submitted a joint declaration of conformity in December in accordance with § 161 of the German Stock Corporation Act (AktG) regarding the recommendations of the 'Government Commission on the German Corporate Governance Code' The declaration of conformity is available on the company's website. The details of the corporate governance of ISARIA Wohnbau AG are described in the Corporate Governance Report, which is referred to (part of the annual report).

No conflicts of interest occurred for members of the Executive Board or Supervisory Board requiring immediate disclosure to the Supervisory Board during the reporting period.

The requirements for independent financial experts within the meaning of Article 100 paragraph 5 of the AktG continue to be met by the chairman of the Supervisory Board.

Personnel matters

Christian Dunkelberg left the Executive Board of ISARIA Wohnbau AG at the end of his term of office on 30 November 2015. A new appointment of this third position in the Executive Board did not take place and there are no plans to do so. The tasks of Christian Dunkelberg have been distributed among the other two members of the Executive Board.

At the annual shareholders' meeting on 8 May 2015, all three members of the Supervisory Board were re-elected in their office for an additional three years. In the constitutive meeting directly following the annual shareholders' meeting, Professor Dr Raimund Baumann was again elected Chairman of the Supervisory Board. Mr Robert Unger was elected Deputy Chairman of the Supervisory Board.

Apart from this, there were no changes to the Executive Board or Supervisory Board of the company during the reporting year.

Annual and consolidated financial statements 2015

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 the fiscal year 2015 and issued these with an unqualified auditor's opinion in each case.

The annual financial statements and management report were prepared in accordance with the provisions of the German Commercial Code (HGB). The consolidated financial statements and group management report were prepared on the basis of international accounting standards IFRS as they are applied in the EU in accordance with Directive (EU) No. 1606/2002 and Section 315a of the HGB.

The auditor performed the audit in compliance with the generally accepted German standards for the audit of financial statements established by the German Institute of Independent Auditors (Institut der Wirtschaftsprüfer – IDW).

The chairman of the Supervisory Board was in continual contact with the auditor and in the process, obtained information, among other things, on the jointly determined audit focuses and audit process.

The documents for the financial statements as well as the audit reports of the company were forwarded to all Supervisory Board members on time and discussed extensively at the meeting for the adoption of the financial statements on 29 February 2016.

The auditor participated in the meeting, explained his audit and was for questions by the board. In addition, the auditor confirmed that the early risk detection 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 system 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 ascertained that no objections are to be raised.

In particular, the Supervisory Board shares the assessment of the Executive Board in the management report and the group management report. The Supervisory Board required the Executive Board to closely monitor the risks described in the group management report and to continually report to the Supervisory Board in this regard.

At its meeting on 29 February 2016, the Supervisory Board approved the company's annual financial statements as at 31 December 2015 and the consolidated financial statements as at 31 December 2015.

The financial statements of ISARIA Wohnbau AG are thus adopted.

Expression of thanks

The Supervisory Board wishes to thank the members of the Executive Board and all employees for their high level of commitment and the successful 2015 fiscal year.

Final thanks go to Mr. Dunkelberg, who joined the Executive Board soon after the IPO and, over the following five years, made a major contribution to the company's development into a transparent and successful project developer.

Munich, March 2016

Prof. Dr. Raimund Baumann
Chairman

Supervisory Board

Michael Kranich
Excecutive Director
Switzerland

Prof. Dr.
Raimund Baumann
Attorney and
Tax Adviser
Stuttgart

Robert Unger
Attorney
Berlin

Business model

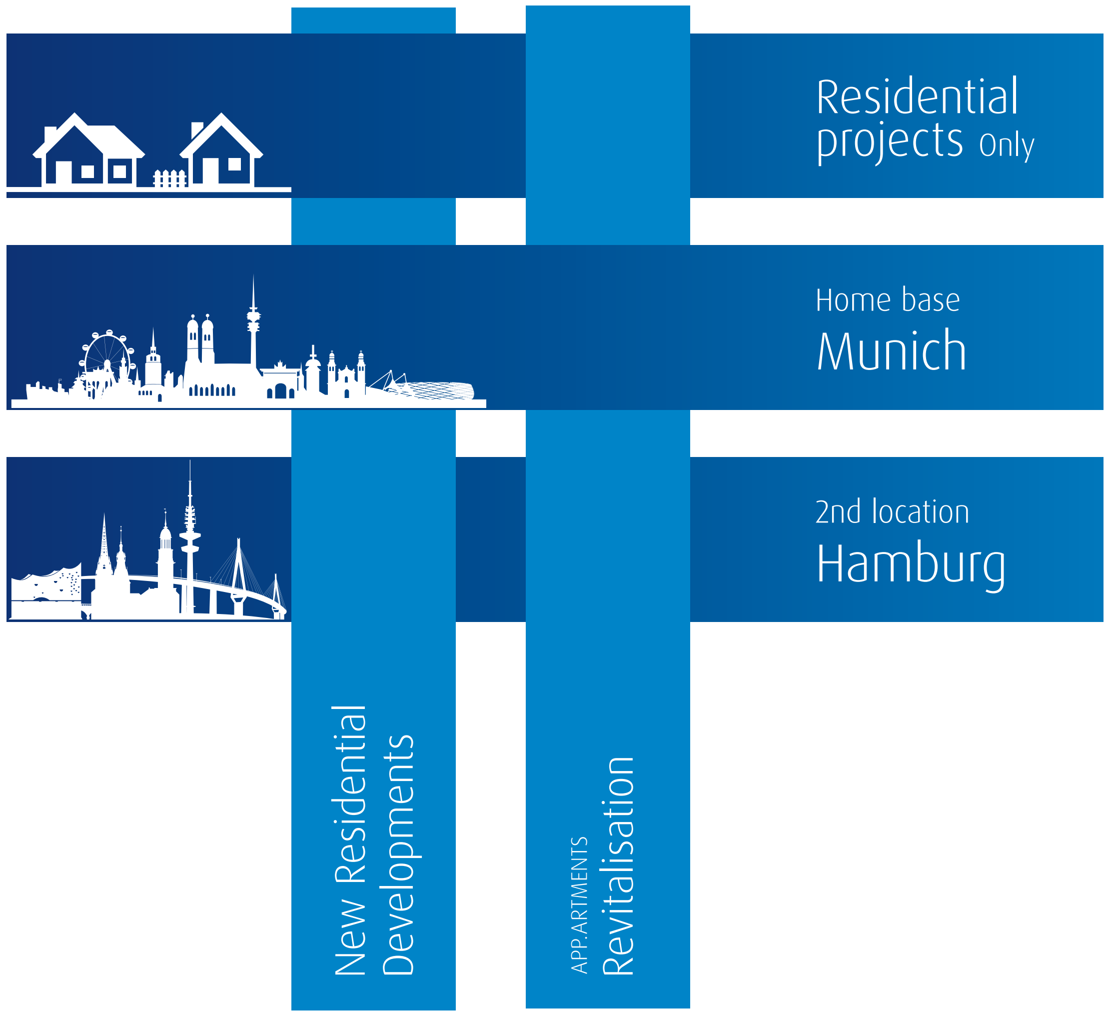
ISARIA Wohnbau AG is one of the leading project developers for residential property in Munich with over 20 years of experience in this high-growth market. We have built up a track record of over 2,900 sold and completed apartments with a sales volume of over € 900 million.

This position in our native market of Munich can be upheld by making ongoing acquisitions, but it cannot be expanded in a meaningful way. Given this background, in 2014 ISARIA Wohnbau took the strategic decision to expand its activities geographically and to include Hamburg as a second location. We acquired two projects in Hamburg in 2014 and have opened up an office. Although household income in Hamburg is almost on a par with that of Munich, house prices in the city are significantly lower. This means that as we move into the future, we have a broader base not only geographically, but also with respect to house prices. However, the company's headquarters, with all of the central departments, will continue to be in Munich.

We buy plots of land in attractive locations via independent special purpose entities / subsidiaries, plan residential properties in these locations, construct these and then sell them. In most cases, project development involves obtaining construction rights for residential properties for areas that were previously used commercially. In this process, we focus on locations in which at least one hundred apartments can be realised. As well as new-build projects on empty plots or plots to be cleared, we also revitalise existing property. The latter includes changing former commercial properties into residential properties under the *APP.ARTMENTS* brand specially created for this purpose.

We possess an excellent network of contacts, through which we receive offers for potential projects. Alongside this, we actively identify suitable properties through our own research. If no apartment construction rights are present, the project must stand a realistic chance of obtaining construction rights within a maximum of five years. In this way, we can implement our experience and competitive strength in a targeted fashion and already achieve a significant increase in value in the early stages of a project.

Our business model



Our business model is to sell all apartments and houses that we have constructed. In order to generate as strong a yield as possible on the funds invested in the projects, we are continually assessing which phase the best utilisation results can be achieved in from an optimised risk perspective. The normal case is the turnkey ready sale of single properties to private investors or owner-occupiers.

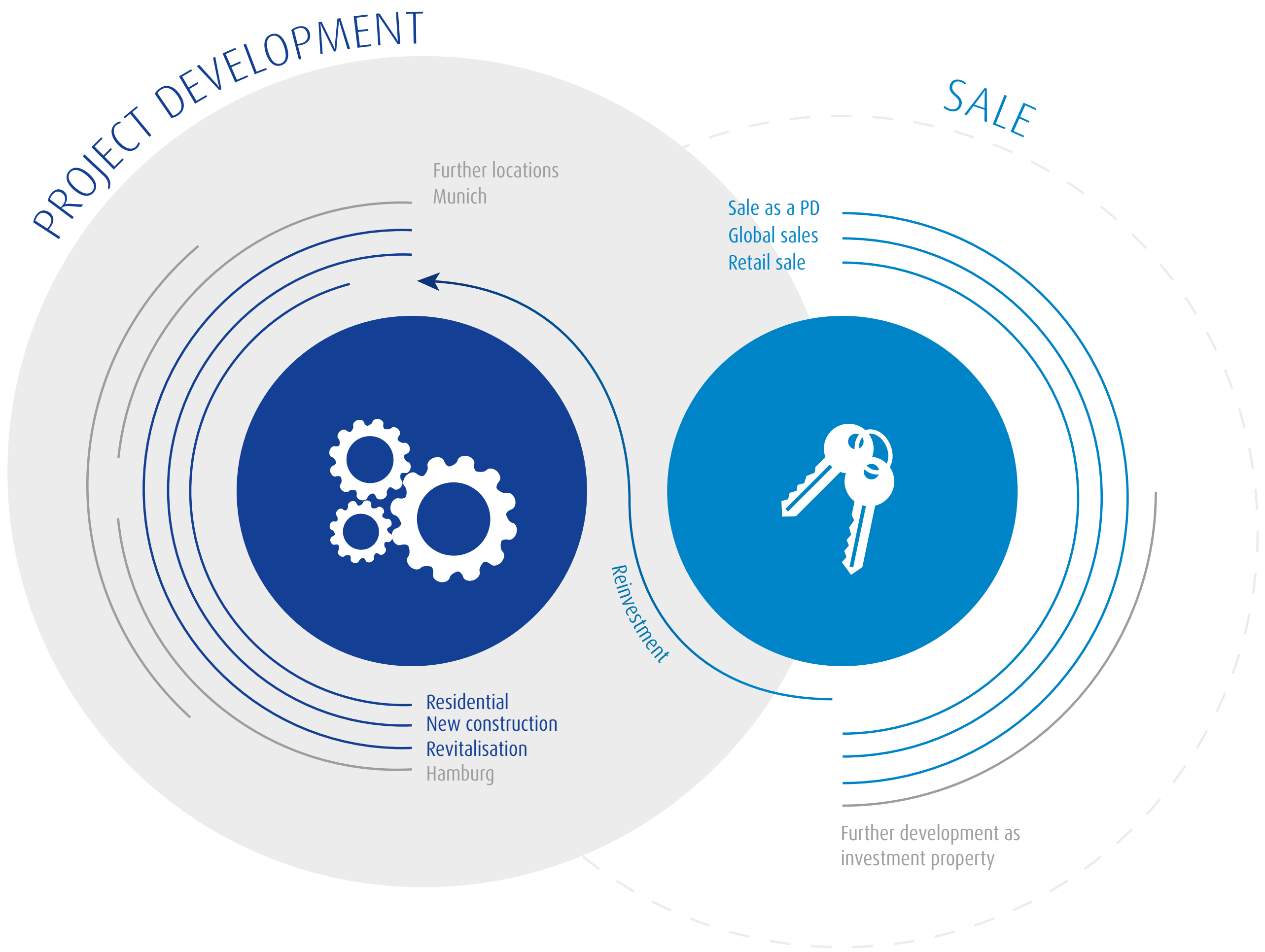
In certain cases, it may also be meaningful to sell the projects before or after completion of the construction rights development. During the review, it could also prove to be beneficial to retain the property as an investment property. For example, when holding obligatory subsidised residential building projects or commercial properties temporarily in the portfolio promises a better financial result in the future. The prerequisite for recognition as an investment property is that the presently favourable first-rate interest situation must allow for sufficient surpluses from the management of the property to provide a proper return on equity and that this equity is not necessarily required for current assets.

The prerequisite for recognition as an investment property is that the (currently favourable) primary interest rate situation must allow for sufficient surpluses from the management of the property to provide a proper return on equity and that this equity is not necessarily required for current assets. This can be ensured e.g. with financial products from the group's own financing platform – One Group. Overall, investment properties can generate rental income to offset the comparatively volatile project development business. Investment properties, basically, are also evaluated on an ongoing basis with respect to the options for restructuring and utilisation.

As a project developer, we cover the entire value creation chain of both the development process as well as the construction phase. We realise our projects with external architects, engineers and construction companies who are technically managed by a team of project developers and project managers and commercial controlling. Construction work is given to general contractors as well as via so-called single contract awards of service packages and groups of service packages.

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 on a commission basis. However, target group oriented product development, marketing and the provision of attractive sales offices and show apartments are central tasks carried out by ISARIA Wohnbau itself. Sales have been set up to also deal with the increasing number of investors as purchasers. Currently, the majority of purchasers learn of our products via the Internet. 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.

We have 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 right through to the property handover. The management of special requests, such as for sanitary and electrical equipment or flooring, plays an important role in this process.



In order to guarantee the required capital resources in the development and realisation phases of our projects, we have our own financing platform – One Group, located in Hamburg. One Group designs and sells project development funds for residential properties with a run time of approximately 3 years. We work confidentially with numerous local and interregional banks who accompany our project companies with outside capital. ISARIA Wohnbau AG itself is not financed.

As is customary for project development, revenue recognition only happens at the point of handover of the property. In the years of project development and realisation before this stage, we only activate investments or book the relevant expenditures. Adjustment of the project plots to market developments does not take place. In this way, significant hidden reserves are generated, particularly when prices are on the rise.

Track Record

More than 2,900 units built since 1994.

1994 | 2009 | 2010 | 2011 | 2012 | 2014 | 2015

selective compilation

Maistrasse
204 units
sales volume € 90 million
living space 60 – 220 sq m

Maistrasse / Waltherstrasse
54 units
sales volume € 35 million
living space 60 – 220 sq m

Hohenwaldeckstrasse
261 units
sales volume € 70 million
living space 34 – 162 sq m

Stahlstrasse
55 units
sales volume € 23 million
living space 50 – 200 sq m

Wilhelm-Hale-Strasse
310 units
sales volume € 130 million
living space 68 – 215 sq m

St.-Bonifatius-Strasse
45 units
sales volume € 9 million

Willy-Brandt-Allee
181 units
sales volume € 60 million
living space 49 – 120 sq m

Schillerstrasse
203 units
sales volume € 40 million
living space 20 – 94 sq m

Vogelweidestrasse
167 units
sales volume € 50 million

nido Karlsfeld
451 units
sales volume € 184 million

Strategy

Strategic aim: growth

ISARIA Wohnbau AG is today already one of the most well-established, large project development companies for residential building construction in Germany. We are also unique in our segment in that we are listed on the prime standard of the Frankfurt stock exchange. The company aims to strengthen its position on the market sustainably by 2020 and to establish itself as the capital market-oriented project developer for residential property in Germany.

ISARIA Wohnbau plans to realise a revenue volume of about € 1 billion from its ongoing project developments in the next five years. The ISARIA management board currently forecasts a gross profit margin of about 25% on average as achievable given prevailing market conditions. The existing pipeline should be further expanded with targeted acquisitions in order to realise further profit potential. In the long term, ISARIA Wohnbau plans to expand the pipeline so that within five years an average annual revenue of about € 300 million can be achieved.

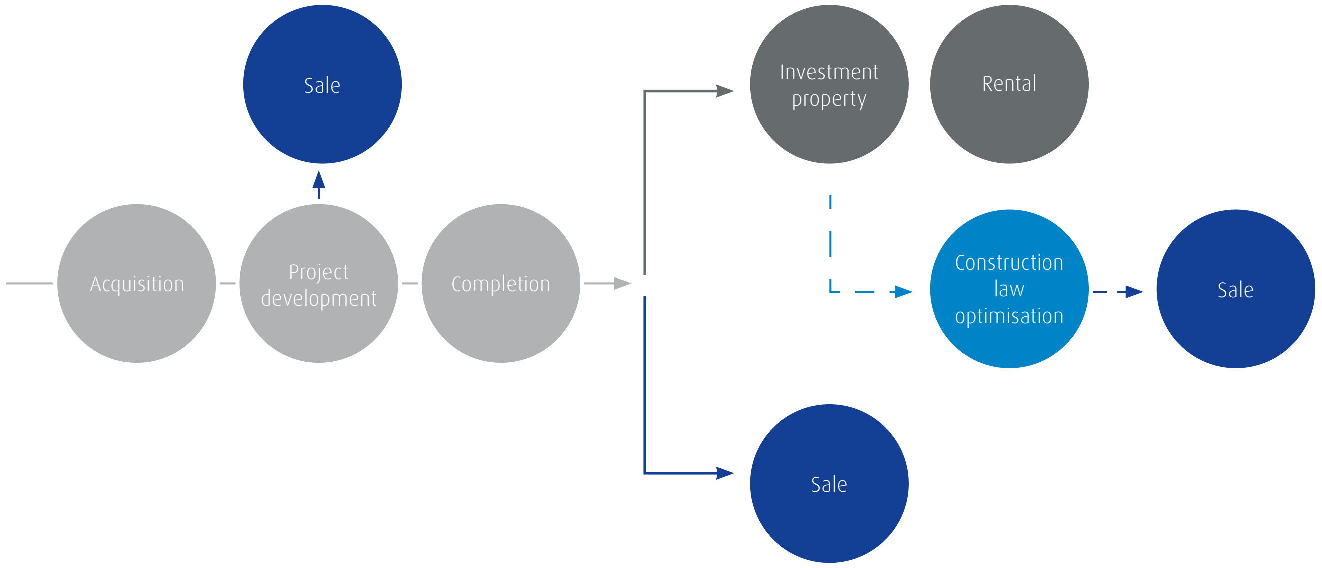
Regional expansion

The core expertise of ISARIA Wohnbau AG lies in developing and carrying out property projects for private buyers with more than one hundred residential units p.a. once construction rights have been secured – particularly in the area of converting commercial zoning into residential zoning. We intend to grow this expertise in a targeted manner in the coming years, and apply it to further target markets. With this in mind, the company is assessing a market start in additional large German cities, primarily in the top 7 major cities. These regions in particular are facing the challenge of constantly growing household figures but with virtually no rise in residential building construction and insufficient residential property stocks. As a long-standing, experienced property developer with proven expertise in acquiring construction rights and a yearly settling of hundreds of purchase agreements for new buildings, this situation offers us excellent prospects going forward.

This has enabled ISARIA Wohnbau to establish itself in Hamburg and acquire its first projects there as well as drive forward project development. It will begin with the implementation shortly. Our activities in Hamburg are to be strengthened with further acquisitions. Over a period of two years, ISARIA Wohnbau has created the template for further expansions, from the acquisition of the first property through to recruiting staff for the branch office with all the process interfaces to the group's main office. In addition to our own growth, the cooperation through to the purchase of other project developers or their existing projects will be assessed to exploit more target markets in the future.

An assessment of our home market of Munich with the intention of a greater regional expansion in this region will be undertaken in particular. So far ISARIA Wohnbau has only exceeded the city limits by a few hundred metres with the Karlsfeld project. All other locations are within the city. Owing to the steep rise in residency figures, the possibility of projects along city train lines or in cities such as Augsburg are being assessed.

Risk-optimised profit realisation



ISARIA Wohnbau often generates a major part of its added value by securing the necessary zoning rights. In order to generate as strong a yield as possible on the funds invested in the projects, the Executive Board is continually assessing in which phase the best utilisation result can be achieved from an optimised risk perspective.

The normal case is the turnkey ready sale of single properties to private investors or owner-occupiers. In certain cases, it may also be reasonable to sell the projects before or after completion of the zoning process / construction rights development. In other individual cases, it can be beneficial to retain the property as a financial investment, such as when obligatory subsidised residential building projects or commercial properties are held temporarily in the portfolio because there is better financial result likely in the future.

Depending on the opportunity-risk profile of the individual project, the resulting equity capital can be invested as ideally as possible and reinvested in subsequent follow-on projects.

Clear focus on residential property with stringent investment criteria

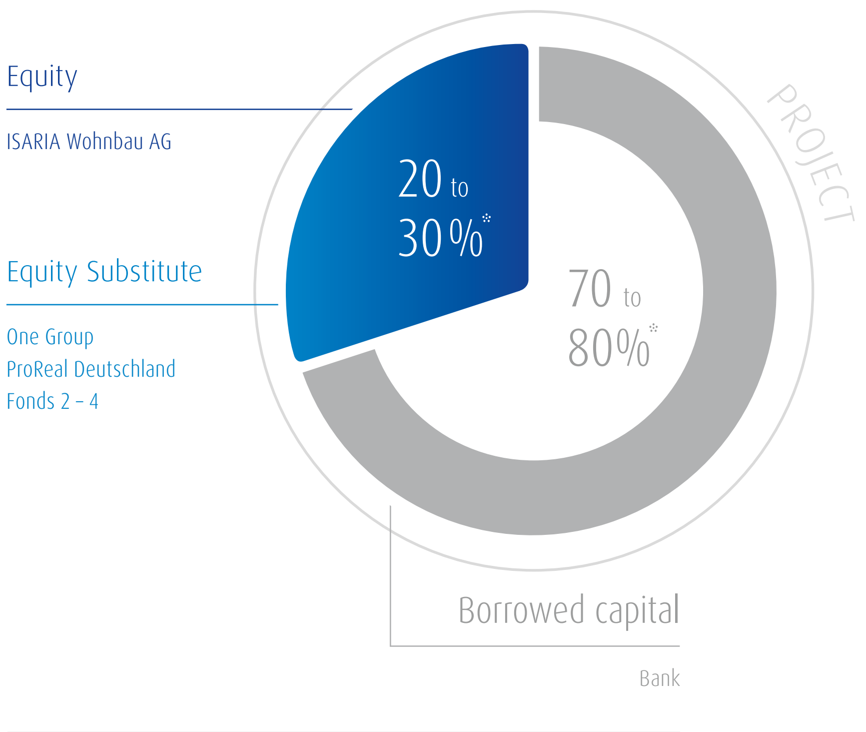
ISARIA Wohnbau intends to focus on the acquisition and implementation of residential construction projects also in the future. The company is aiming here for gross profit margins of at least 15% with project sizes of about 100 – 500 apartments per project and an investment volume of about € 15 million per plot of land. The total investment costs of these types of projects generally come in at € 50 million.

ISARIA Wohnbau concentrates on apartments with attractive styling in the mid-range price segment. When it comes to location, good local facilities and transport links into the centre of town are key criteria. ISARIA Wohnbau generates demand-oriented plans in close coordination with the local authorities, which also includes the mixed use (combination of residential and some commercial properties, such as retailers, for example) or the ISARIA Wohnbau concept *APP.ARTMENTS* (the conversion of office properties into apartments). The residential building projects are mainly on pre-sealed surfaces with existing properties or on conversion areas in order to create new living space with the minimum of resources. ISARIA Wohnbau targets a ratio of new buildings to revitalisation of existing buildings of 70% to 30%.

Further strengthening of the financing structure

Thanks to significantly improved creditworthiness rating over the past years, ISARIA Wohnbau can get vastly improved conditions for the financing of its projects. This means we can further reduce our average interest burden in the coming years and further grow our profitability. This also boosts our equity capital and creates further leeway for our planned operational growth. Further on, One Group, an integrated part of the group, which draws up project development funds and offers them to investors, represents a key financing platform. Here ISARIA Wohnbau receives the required equity capital for the project developments phase to invest in a profitable way.

Project financing



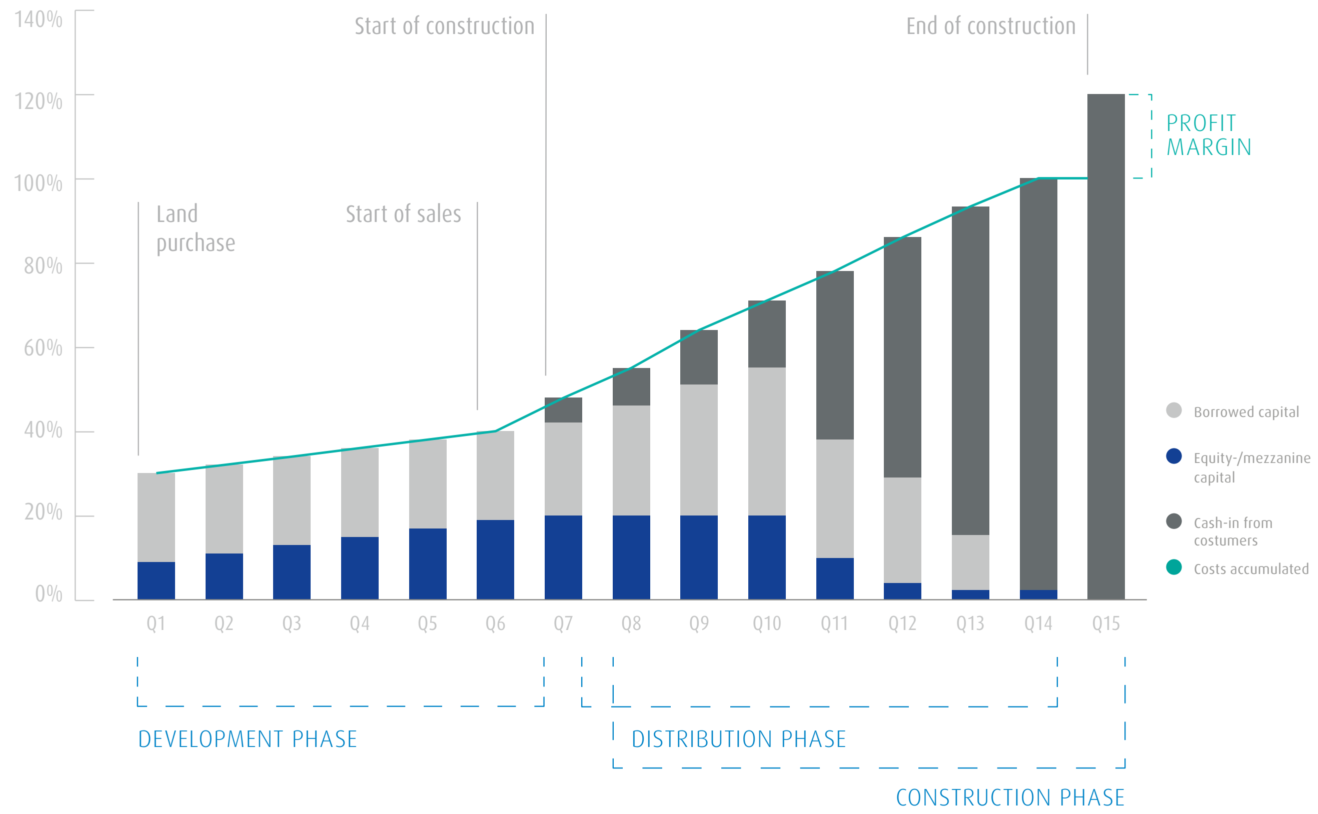
* ideal type source

Ideal type financing process of a project development

Generally, banks finance a plot of land or building purchase up to a value of 70% of the sale value. The remaining 30% have to be contributed to the project developers from equity. Expenses accrued during the development phase of the project through to the later start of construction are also mostly borne by the project developer from their own funds.

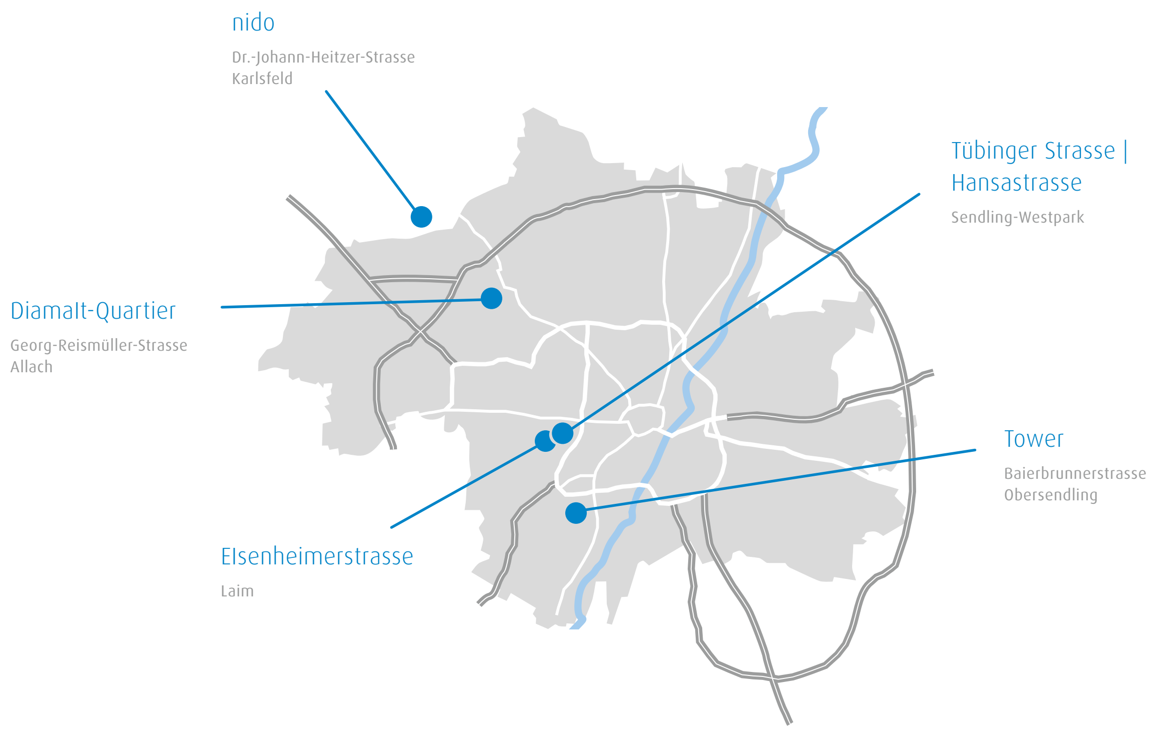
The building construction financing will be set in motion once the relevant approvals (generally the building permission), the compliance with prior obligations by banks, such as a sales level of 20 – 30% and the corresponding higher market value have been fulfilled.

According to the Estate Agent and Property Developer Act (MaBV), the property developer can demand the first instalment of the purchase price for the sold apartments when construction begins. This compensates for the need for borrowed capital and thereby reduces the interest costs of the project developer. After achieving certain milestones that had been pre-defined together with the bank, and a subsequent reduction in risk, the project developer receives their invested equity back in stages. Only once the project has been completed does the project developer receive their surplus purchase price inflows from their profit margin and therefore also liquidity for the business operations for the first time.



Munich project developments

Since receiving the key data and decisions regarding the *Diamalt-Quartier* and *Tower* project developments in 2015, there are now city council resolutions or preliminary building permits for each of the residential developments in our Munich project developments.



Overview of project developments

2016 | 2017 | 2018

nido Karlsfeld
553 units
sales volume € 146 million
planned completion of remaining phases ongoing in 2016 and 2017

Elsenheimerstrasse
350 units
sales volume € 73 million
start of construction 2016
planned completion 2017

Hansastrasse
163 units
start of construction 2016
planned completion 2019

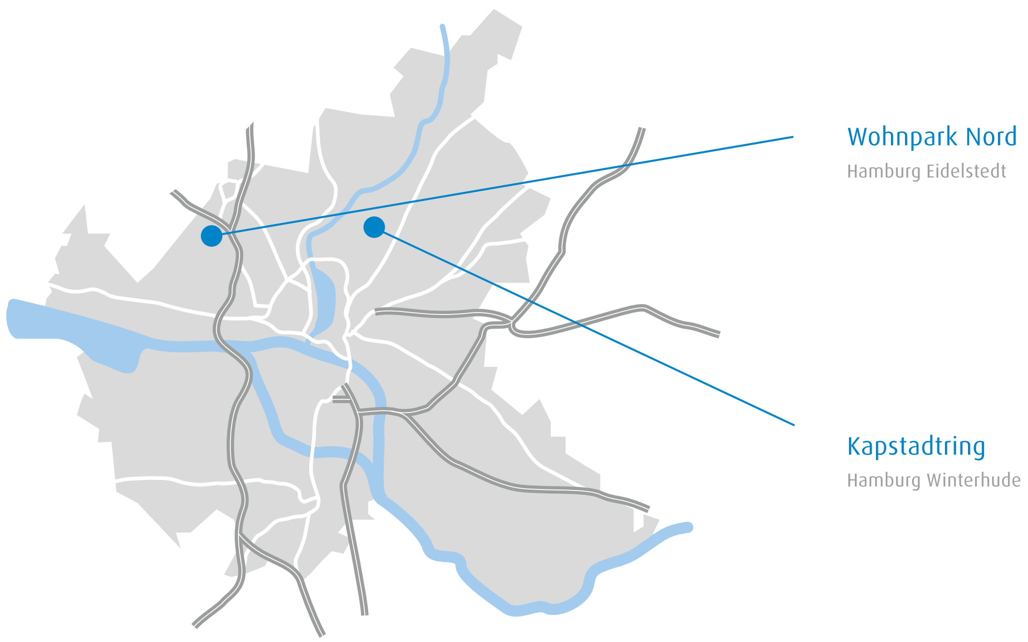
Tower
270 units
sales volume € 189 million
start of construction 2017
planned completion 2020

Diamalt-Quartier
615 units
sales volume € 270 million
start of construction 2017
planned completion 2020

Tübinger Strasse
218 units
sales volume € 135 million
start of construction 2017
planned completion 2019

Hamburg project developments

For the Kapstadtring property the construction application was filed in 2015. The listed office building in City-North was built in 1965 and is being converted into a boarding house (serviced apartments) with 143 apartments and ancillary functions. Here ISARIA Wohnbau will for the first time undertake a project also in Hamburg under its *APP.ARTMENTS* brand. The property was incorporated into the fixed assets of the ISARIA Wohnbau group and, in doing so, will generate ongoing profits through their own management by *APP.ARTMENTS*.



Our large plot of land in Eidelstedt in the district of Eimsbüttel was still completely in building law development in 2015. The plot of land is around eight hectares in size, and at one time was home to the largest garden centre in Northern Germany. The aim is now to get building permission for about 800 apartments for this plot by the end of 2017. The planning procedure B required for this was initiated by the district of Eimsbüttel in December 2015.

Overview of project developments

Kapstadtring

143 APP.ARTMENTS
start of construction 2016
planned completion 2017

Wohnpark Nord

800 units | sales volume € 179 million
start of construction 2016
planned completion 2019

Construction site Karlsfeld

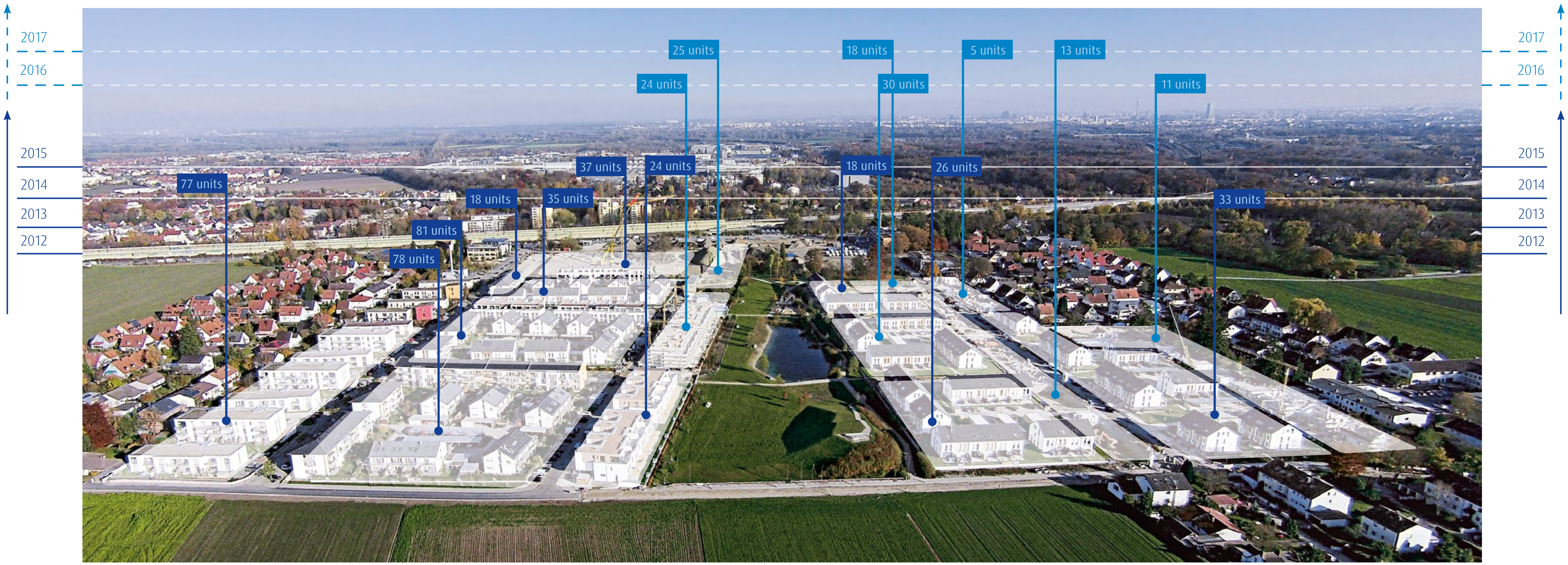
In 2015, a further six construction phases with a total of 159 residential units were carried out as part of project *nido* in Karlsfeld. Therefore the past financial year was the strongest from a handover and revenue perspective in relation to our current large project.

ISARIA Wohnbau has handed over a total of 553 residential units in 12 construction stages since 2010 on the large area (115,000 sq m), of which 450 units have been handed over as of 31st December 2015. On 1st January 2016, a total of 42 residential units (detached houses and apartments) were still under construction, which have all been sold except for one show house. The building applications for final construction phases, which have yet to begin, with a total of 61 units were all filed in December 2015.

Handover of housing units
sorted by year

2009	2012	2013	2014	2015	2016	2017
	78 units	81 units	132 units	159 units	42 units	61 units

Overview of hand-overs



A project develops

The steps ISARIA Wohnbau AG uses to plan and realise residental 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.

06 Selling phase

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.

07 Construction

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.

08 Hand-over of keys

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

ISARIA Wohnbau AG's share

Share price performance

Year on year, the German benchmark DAX index grew by almost 9% in 2015. However, by the end of 2015, the DAX was far from the records it set in the first part of the year. And the end-of-year rally that many investors had hoped for failed to materialise. The industry indexes which are relevant for ISARIA Wohnbau AG, EPRA Germany and EPRA Europe, performed better than the DAX last year, with 18.4% and 14.6% growth respectively.

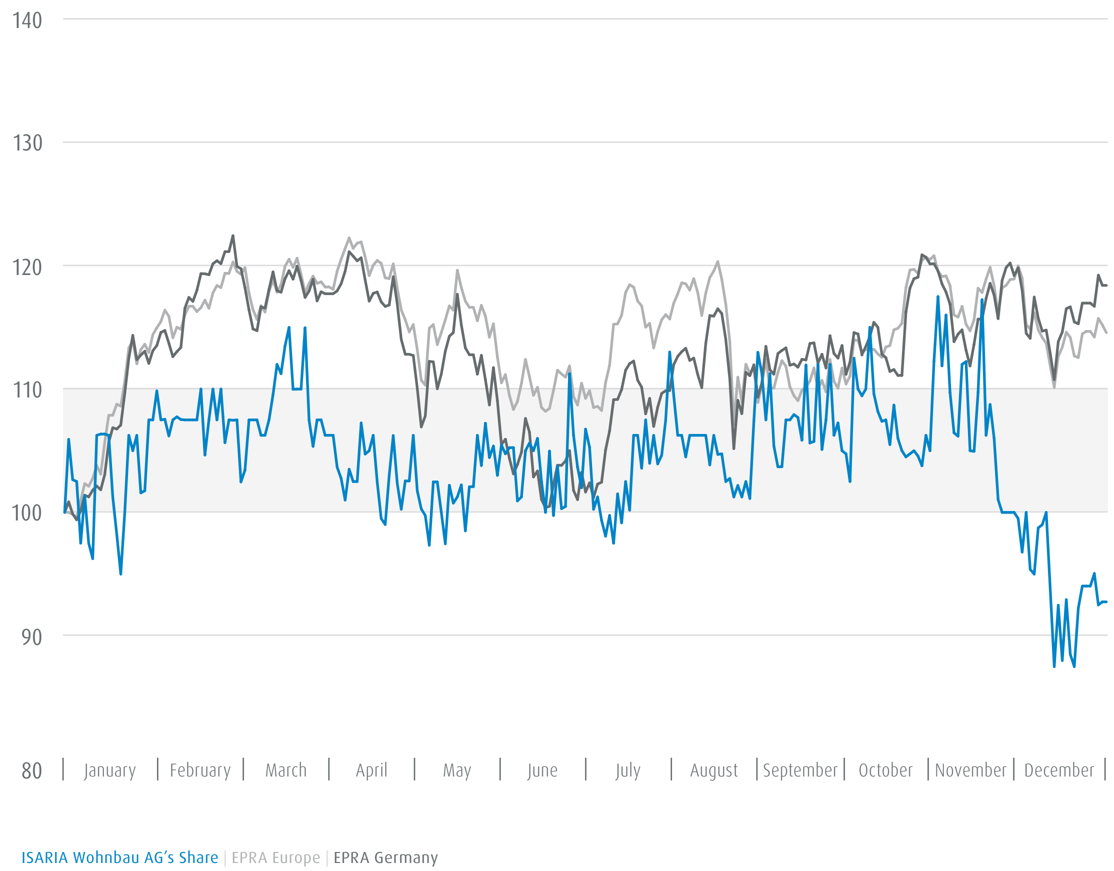
The ISARIA share began 2015 at a price of € 4.00 after the very positive price development of over 40% in 2014. In the first ten months of 2015, the share price essentially fluctuated laterally in a corridor between this starting price and € 4.40. During this period, the share hit a temporary year high of € 4.60 several times. At the beginning of November, the share price then rose sharply to a new high for the year of € 4.70, and remained at this level until the middle of the month in the face of larger fluctuations. The influence of larger sales orders drove the share price in December below that which had prevailed for most of the year, and even below the € 4.00 price seen at the start of the year. The final price for the ISARIA share in Xetra trading on December 31, 2015 was € 3.71, which represents a fall of 7.25% since the beginning of the year. The average daily trading volume also declined in 2015 year on year at around 6,500 share per day (2014: almost 11,000 per day).

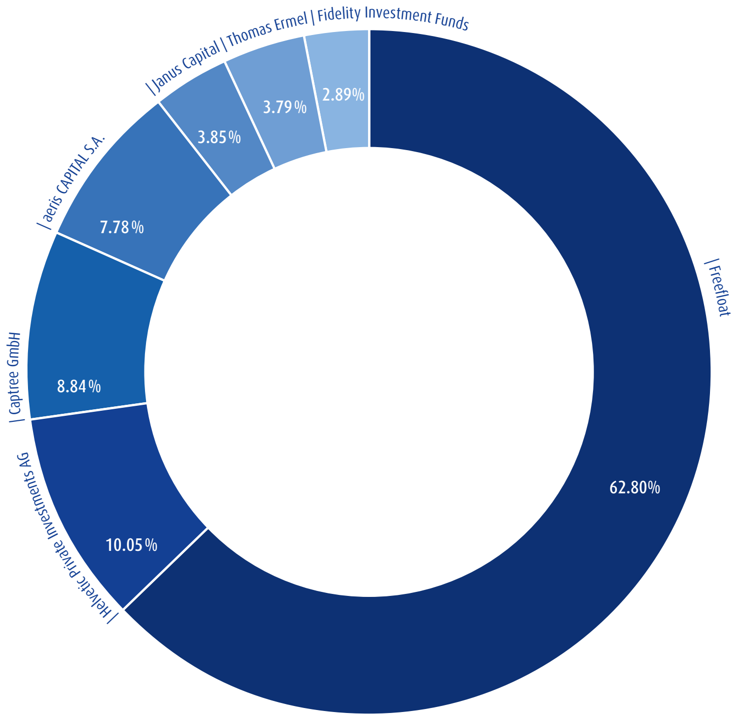
The disappointing share price development in 2015 is not based on fundamental reasons, in the Executive Board's opinion. The ISARIA Wohnbau AG Executive Board remains convinced that the current share price level does not reflect the true value of the ISARIA Wohnbau AG share. In light of the fourth consecutive positive annual profit after tax, as shown here in this financial statement for 2015, as well as the significant advancement in project developments from a building permission standpoint, the company is in a very good position to achieve its planned further growth. On this basis, the Executive Board sees a significant rise in the share price in the medium term.

Analysts estimates show substantial upside potential

Analysts evaluated the ISARIA Wohnbau group and the share of ISARIA Wohnbau AG in 2015. Analysts of M.M. Warburg & Co. and FIRST Berlin continue to be very confident with respect to the medium to long-term potential of our group. Both companies' quarterly reports include a 'Buy' recommendation for the share of ISARIA Wohnbau AG with a target price last amounting to € 5.80 (Warburg Research) and/or € 6.00 (FIRST Berlin).

Development of ISARIA shares in 2015 in comparison to sector indexes (indexed)





Shareholder structure
as of December 31, 2015

Since the end of March 2015 we have a further major international institutional investor as a shareholder in the form of Janus Capital Management LLC, Denver, USA. Furthermore, the shareholder structure continues to be characterised by institutional and private investors pursuing a predominantly long-term investment strategy.

Key data 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 ODDO Seydler, Frankfurt
Stock exchange	All German stock exchanges including Xetra

IPO	10 November 2010
Highest price 12 months (Xetra)	€ 4.70
Lowest price 12 months (Xetra)	€ 3.50
Closing price on 12/31/2015 (Xetra)	€ 3.71
Number of shares outstanding	23,764,000
Market capitalisation in million Euro	88.2

Notifications of voting rights published

In 2015 ISARIA Wohnbau AG published three notifications of voting rights in accordance with Section 21 (1) of the German Securities Trading Act (Wertpapierhandelsgesetz/WpHG). All notifications of voting rights received by the company can be found on the company's website in the section Investor Relations / financial news / notifications of voting rights.

Investor relations

The investor relations of ISARIA Wohnbau AG focus on achieving prompt, comprehensive communication with the financial community, continuity and the highest level of transparency and are implemented in continual dialogue with analysts as well as existing and potential investors.

In financial year 2015, we held presentations at a roadshow in London, at specific investment bank events and at the German Equity Forum in late November in Frankfurt, Germany.

We also maintained close contact with our analysts as well as existing and potential investors through a wide range of conversations. The management of ISARIA Wohnbau AG considers personal contact and regular interaction with capital market participants an integral part of capital market communication.

We also provide detailed information on the topic of investor relationships, our company and our share at www.isaria.ag, key word Investor Relations. In addition to up-to-date news and dates, you can also access presentations as well as our annual and quarterly reports here.

02 CORPORATE GOVERNANCE

Content

Corporate Governance

02

Report on Corporate Governance at ISARIA Wohnbau AG

Corporate governance stands for responsible business management and the supervision of companies with the objective of creating value over the long term. 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 the 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 of the German Commercial Code (HGB) has been made permanently available in the 'Investor Relations' area of the company website (www.isaria.ag).

Declaration of Conformity from the Executive Board and Supervisory Board pursuant to Section 161 of the German Stock Corporation Act (AktG)

Section 161 of the German Stock Corporation Act (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 recommendations have not been met and the reasons for this. The updated version of the Declaration of Conformity from December 2015 was the subject matter of the Supervisory Board meeting of 5 December 2015. 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.ag).

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 shareholders' meeting is the third body of the company.

Composition of 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.

The 'Law on Equal Participation of Women and Men in Leadership Positions in the Private Sector and in Public Service' came into force on 01 May 2015. This law obliges ISARIA Wohnbau AG to set a target, to be achieved no later than 30 June 2017, for the proportion of women on the Executive Board. However, as the Executive Board has consisted of only two members since December 2015, setting a fixed quota for the proportion of women might run counter to our endeavour to attract the most suitable person for the Executive Board. The Supervisory Board has therefore resolved to set the minimum quota for the proportion of women on the Executive Board to zero until 30 June 2017.

Remuneration of the Executive Board

The remuneration system for the Executive Board is subject at regular intervals to consultation and review by the Supervisory Board.

The total remuneration contains both fixed and variable components. The basic annual salary is based on the tasks and responsibilities of the respective member of the Executive Board. The Supervisory Board sets criteria for the variable remuneration which are linked to various milestones and company targets.

The detailed remuneration report for the fiscal year 2015 is presented in the group management report on page 101 et seq. of the present annual report.

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 within the meaning of item 5.4.2 of the Code, an age limit to be defined for members of the Supervisory Board as well as a limit for the maximum length of membership and matters of diversity. Moreover, as required by the 'Law on the Equal Participation of Women and Men in Leadership Positions in the Private Sector and in Public Service' which came into force on 01 May 2015, the Supervisory Board must also set targets for the proportion of women serving on the Supervisory Board itself.

On this last point, the Supervisory Board set by resolution on 25 September 2015 in accordance with the law to leave the minimum quota of women on the Supervisory Board unchanged at zero until 30 June 2017 for reasons analogous to those referred to in connection with the setting of a quota of women for the Executive Board.

The Supervisory Board disclosed a deviation from the remaining aspects of this recommendation for the reasons referred to in the Declaration of Conformity. 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, broad-scale and particularly legal experience and knowledge is necessary, and should be added to the Board, and
- already based on the specifications of Section 100 (5) of the German Stock Corporation Act (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 with 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 € 15,000.00 for each full fiscal year of their membership of the Supervisory Board, and an additional meeting fee of € 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.

In the fiscal year 2015, a total amount of gross remuneration was granted as shown in table 01.

T 01 | Supervisory Board members' compensation

	Supervisory Board members' compensation €	Travelling expenses and disbursements €	Total compensation €
Prof. Dr. Raimund Baumann (Chairman)	64,260.00	2,051.71	66,311.71
Robert Unger (Deputy Chairman)	48,195.00	3,200.16	51,395.16
Michael Kranich	32,130.00	0.00	32,130.00
Total	**144,585.00**	**5,251.87**	**149,836.87**

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 prevent 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 of the 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. No corresponding transactions were reported to the company during the reporting period.

Additional Information on Corporate Governance

Risk management

Risks must be taken 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.

Compliance Management System

The compliance management system serves to ensure the observance of and compliance with the legal provisions applicable to the business activities of ISARIA Wohnbau AG, the recommendation of the German Corporate Governance Code and internal policies and instructions. Alongside risk management, it is part of the internal control system of the company. These measures, such as the work of the compliance officer and regular staff training as well as the constant adaptation and improvement of the compliance management system and risk management, are essential management tasks at ISARIA Wohnbau AG.

Definition of targets for the management tier below the Executive Board

The Executive Boards of publicly listed companies are obliged within the framework of section 76 (4) of the German Stock Corporation Act (AktG), which came into force on 01 May 2015, to set targets for the proportion of women in the two tiers of management below the Executive Board and at the same time to set deadlines for the achievement of these targets.

There is only one tier of management below the Executive Board of ISARIA Wohnbau AG. The proportion of women in this management tier at the time of the adoption of the resolution on 25 September 2015 was 25%. With this resolution, the Executive Board set the target for the proportion of women on the management tier below the Executive Board, to be achieved by 30 June 2017, at the current level of 25%.

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 of the German Securities Trading Act (WpHG), the achieving, exceeding or falling below of 3, 5, 10, 15, 20, 25, 30, 50 or 75% 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 shareholders' meeting. The shareholders will either exercise their voting right at the shareholders' 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 shareholders' 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 shareholders' meeting is also responsible for changes to the statutes and decides on all significant business measures such as intercompany agreements and conversions. The agenda as well as proposed resolutions for the shareholders' meeting and the reports and documents required for the shareholders' 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/her that the Supervisory Board chairman will be advised of any grounds for exclusion or prejudice, which are 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, February 2016
Executive Board and Supervisory Board of ISARIA Wohnbau AG

03 GROUP MANAGEMENT REPORT

Content

Group Management Report

03

1. Basic principles of the group

I. Business activities and group organisation

Business model

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 since 20 years. 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. In most cases project development involves obtaining planning permission for residential properties for areas which were previously used commercially. In so doing, the company focuses on locations in which at least one hundred apartments can be realised. In order to realise the highest earnings potential the property might also be sold in an earlier phase of the project development. The business activities of ISARIA Wohnbau include the divisions New Construction of residential property and Revitalisation of existing properties. The latter includes changing former commercial properties into residential properties under the *APP.ARTMENTS* brand.

The company's business model is to sell all apartments and houses that it has constructed. In order to deploy the funds invested in the projects as profitably as possible, the Executive Board permanently reviews the phases in which the best, risk-optimised realisation result can be achieved. The normal case is the turnkey-ready sale of single properties to private investors or owner-occupiers. In certain cases, it may also be meaningful to sell the projects before or after completion of the construction rights development. During the review, it could also prove to be beneficial to retain the property as an investment property. For example, when holding obligatory subsidised residential building projects or commercial properties temporarily in the portfolio promises a better financial result in the future. The prerequisite for recognition as an investment property is that the (currently favourable) primary interest rate situation must allow for sufficient surpluses from the management of the property to provide a proper return on equity and that this equity is not necessarily required for current assets. This can be ensured, for example, with new financial products from the group's own financing platform. Overall, investment properties can continually generate rental income to offset the comparatively volatile project development business. In the case of investment properties, basically, these are also evaluated on an ongoing basis with respect to the options for restructuring and utilisation.

To date, the company, together with its SPEs, has exclusively operated on the high-growth greater Munich region where it has ranked among the market leaders for several years. However this position can only be upheld by making ongoing acquisitions and it cannot be expanded in a reasonable manner. Given this background, 2014 ISARIA Wohnbau took the strategic decision to expand its activities geographically and to include Hamburg as a second location. This is also in view of the fact that price levels in this city, which is next largest in terms of its size, are much lower than in Munich – while population growth is also strong and private households have comparable spending power. In 2014, the company acquired two projects and opened up an office in Hamburg. The company's headquarters, with all of the central departments, will continue to be in Munich.

ISARIA Wohnbau has its own financing platform within the group with One Group GmbH, Hamburg and its subsidiaries (hereinafter referred to as 'One Group'). The business activities of One Group mostly comprise conceiving, structuring and issuing project development funds for residential construction projects in Germany. In ISARIA Wohnbau's locations these funds invest exclusively in its projects. In other locations investments can also be made in external projects. One Group is run as a sub-group within the ISARIA Wohnbau group. The earnings of this sub-group are shown in the separate segment *One Group*.

T 01 | ISARIA Wohnbau's projects – New Developments

Project	Special purpose entity	Location	Total number of housing units	Intended completion	Status
nido	ISARIA Wohnbau Objekt Karlsfeld 2 GmbH; Section 10b	Karlsfeld am Prinzenpark	24	08/2016	construction started
	ISARIA Wohnbau Objekt Karlsfeld 2 GmbH; Section 10c		25	12/2017	preparation for start of construction
	ISARIA Wohnbau Objekt Karlsfeld 3 GmbH; Section 11c1 (RH)		7	02/2016	partly completed and handed over
	ISARIA Wohnbau Objekt Karlsfeld 3 GmbH; Section 12b		11	12/2016	construction started
	ISARIA Wohnbau Objekt Karlsfeld 3 GmbH; sections 11c1 (ETW) 11a2-c2, and 12a		36	12/2017	preparation for start of construction
Tübinger Strasse	Wohnbau Objekt Tübinger Strasse GmbH/ Wohnbau Objekt Hansastrasse GmbH	Munich-Sendling/ Westpark	381	2018 - 2019	Plan B developed
Diamalt-Quartier	ISARIA Wohnbau Objekt Am Münchfeld GmbH	Munich-Allach	615	2018 - 2020	Plan B development
Wohnpark Nord	ISARIA Holding GmbH & Co. Objekt Hörgensweg KG	Hamburg-Eidelstedt	800	2017 - 2019	Plan B development

T 02 | ISARIA Wohnbau's projects – Revitalisations

Project	Special purpose entity	Location	Total number of housing units	Intended completion	Status
Elsenheimerstrasse	ISARIA GmbH & Co. Objekt Metropolis KG	Munich-Westend	350	12/2017	Plan B developed
Kapstadtring	Objekt Kapstadtring 1 GmbH	Hamburg-Winterhude	143	12/2017	building application submitted
Tower	ISARIA Tower GmbH	Munich-Obersendling	270	06/2020	Plan B development

Legend | Project

- Plan B developed
- Plan B development
- preparation for start of construction
- construction started
- partly completed and handed over
- building application submitted

The projects listed in table T01 and T02 will allow ISARIA Wohnbau to generate its future revenue volume.

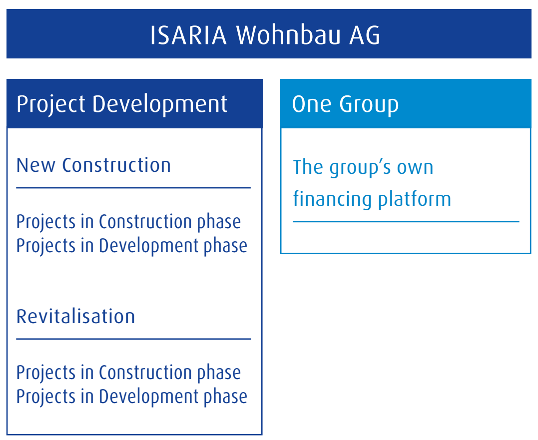
Products, sales and construction activities by ISARIA Wohnbau

The ISARIA Wohnbau group's claim is to offer top quality residences for purchase in attractive locations. The standard is set by the desires of typical owner-occupied households. Luxury properties are not part of the company's core business.

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 on a commission basis. However, target-group-oriented product development, marketing and the provision of attractive sales offices and show apartments are central functions carried out by ISARIA Wohnbau itself. Sales have been set up to also deal with the increasing number of investors as purchasers. Currently, buyers mainly learn of the company's products via the Internet. 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.

G 01 | Group structure



A full overview of all group companies can be found in the accompanying notes to the financial statements.

As a project developer, ISARIA Wohnbau covers the entire value creation chain of both the development process as well as the construction phase. 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. Construction work is given to general contractors as well as via so-called single contract awards of service packages and groups of service packages.

Organisational structure

The group is headed by ISARIA Wohnbau AG. This company acts as an operating holding company, and as such it performs tasks for the entire ISARIA group, in particular providing staff for the special purpose entities. These SPEs each own real estate projects (properties and unfinished properties held for sale). One Group GmbH and its subsidiaries form a separate sub-group within the ISARIA Wohnbau group. Within this sub-group, One Group GmbH also acts as an operating holding company, and as such it performs tasks for its subsidiaries.

Executive Board und Supervisory Board

ISARIA Wohnbau is run by its Executive Board based on statutory provisions and the bylaws issued by the Supervisory Board. According to its articles of incorporation, ISARIA Wohnbau AG's Executive Board comprises at least two members. The Supervisory Board appoints the members of the Executive Board. It advises and supervises the Executive Board in managing the company. Its permission is required for material transactions by the Executive Board. In addition, it can appoint the CEO or spokesman of the Executive Board and his deputy. According to ISARIA Wohnbau AG's articles of incorporation the Supervisory Board comprises three members who are elected by the General Meeting.

II. Group management

In order to manage our group successfully and geared to the long term, we have to keep an eye on all of our stakeholders.

- Our *shareholders* expect a reasonable increase in the value of their capital employed.
- Our *investors* and fund investors expect a reasonable return on their funds and our ability to repay debts.
- We have to offer our *employees* secure jobs with perspectives for the future.
- Our *customers* generally take one of the key investment decisions in their lives, and they look for quality of life and value retention.
- Our *business partners and suppliers* count on us being reliable.

ISARIA Wohnbau's planning and control system provides a wide range of instruments which can be used to evaluate current business growth and to derive future operating and strategic decisions. This aims to optimally exploit economic and entrepreneurial potential.

Financial key performance indicators

When managing the ISARIA Wohnbau group the Executive Board uses the following financial KPIs in particular:

- Financial key performance indicators
- Revenue
- Gross profit margin
- EBIT
- Financial expenses
- Earnings after tax
- Notarised sales
- Order book
- Cash inflow (One Group fund companies)

Notarised sales and the order book form the basis for our future revenues. This results in a high level of forecasting security.

At the One Group sub-group level, the capital acquired by the fund companies is the central financial KPI. It shows the group's internal financing potential for our existing and future project developments.

In addition, the Executive Board manages the group's operating business in its individual project developments and construction projects at an individual project level using the KPIs of construction progress and sales level. Several coordinated IT systems supply data updated daily in this regard. This data is then prepared by our controllers based on target/actual comparisons and is provided to our Executive Board on a regular basis. As a result, our Executive Board is always able to put countermeasures in place and review the causes using deviation analyses.

Principles and objectives of ISARIA Wohnbau's financial management

The ISARIA Wohnbau group finances real estate projects using equity as well as borrowing. This borrowing comprises bank loans and, in the majority of cases, participations by One Group for project development. As a rule, the real estate projects are held by the special purpose entities. As a rule, the SPEs receive the borrowing they require directly from the investors, or from the fund products issued by One Group.

The ISARIA Wohnbau group's financial management comprises capital structure management, cash and liquidity management, as well as managing interest rates and counterparty risks. It aims to secure the group's financial strength and thus to ensure that the group is financially independent by guaranteeing its liquidity. In addition, the costs of capital are to be optimised with an appropriate capital structure. Risks should be mostly avoided during this process. Regular liquidity forecasts are prepared in this regard. These are reviewed constantly based on target/actual comparisons, in order to be able to put corresponding activities in place if various scenarios occur.

III. Group strategy

Strategic aim: growth

ISARIA Wohnbau AG is today already one of the most well-established, large project development companies for residential building construction in Germany. It is also unique in the segment in that it is listed on the prime standard of the Frankfurt stock exchange. The company aims to strengthen its position on the market sustainably by 2020 and to establish itself as the capital market-oriented project developer for residential property in Germany.

ISARIA Wohnbau plans to realise a revenue volume of about € 1 billion from its ongoing project developments in the next five years. The ISARIA management board currently forecasts a gross profit margin of about 25% on average as achievable given prevailing market conditions. The existing pipeline should be further expanded with targeted acquisitions in order to realise further profit potential. In the long term, ISARIA plans to expand the pipeline so that within five years an average annual revenue of about € 300 million can be achieved.

Regional expansion

The core expertise of ISARIA Wohnbau AG lies in developing and carrying out property projects for private buyers with more than one hundred residential units p.a. once construction rights have been secured – particularly in the area of converting commercial zoning into residential zoning. We intend to grow this expertise in a targeted manner in the coming years, and apply it to further target markets. With this in mind, the company is assessing a market start in additional large German cities, primarily in the top 7 major cities. These regions in particular are facing the challenge of constantly growing household figures but with virtually no rise in residential building construction and insufficient residential property stocks. As a long-standing, experienced property developer with proven expertise in acquiring construction rights and a yearly settling of hundreds of purchase agreements for new buildings, this situation offers us excellent prospects going forward.

This has enabled ISARIA to establish itself in Hamburg and acquire its first projects there as well as drive forward project development. It will begin with the implementation shortly. Our activities in Hamburg are to be strengthened with further acquisitions. Over a period of two years, ISARIA has created the template for further expansions, from the acquisition of the first property through to recruiting staff for the branch office with all the process interfaces to the group's main office. In addition to our own growth, the cooperation through to the purchase of other project developers or their existing projects will be assessed to exploit more target markets in the future.

An assessment of our home market of Munich with the intention of a greater regional expansion in this region will be undertaken in particular. So far ISARIA has only exceeded the city limits by a few hundred metres with the Karlsfeld project. All other locations are within the city. Owing to the steep rise in residency figures, the possibility of projects along city train lines or in cities such as Augsburg are being assessed.

Risk-optimised profit realisation

ISARIA Wohnbau often generates a major part of its added value by securing the necessary zoning rights. In order to generate as strong a yield as possible on the funds invested in the projects, the Executive Board is continually assessing in which phase the best utilisation result can be achieved

from an optimised risk perspective. The normal case is the turnkey ready sale of single properties to private investors or owner-occupiers. In certain cases, it may also be reasonable to sell the projects before or after completion of the zoning process / construction rights development. In other individual cases, it can be beneficial to retain the property as a financial investment, such as when obligatory subsidised residential building projects or commercial properties are held temporarily in the portfolio because there is better financial result likely in the future. Depending on the opportunity-risk profile of the individual project, the resulting equity capital can be invested as ideally as possible and reinvested in subsequent follow-on projects.

Clear focus on residential property with stringent investment criteria

ISARIA intends to focus on the acquisition and implementation of residential construction projects also in the future. The company is aiming here for gross profit margins of at least 15% with project sizes of about 100 – 500 apartments per project and an investment volume of about € 15 million per plot of land. The total investment costs of these types of projects generally come in at € 50 million.

ISARIA concentrates on apartments with attractive styling in the mid-range price segment. When it comes to location, good local facilities and transport links into the centre of town are key criteria. ISARIA generates demand-oriented plans in close coordination with the local authorities, which also includes the mixed use (combination of residential and some commercial properties, such as retailers, for example) or the ISARIA concept *APP.ARTMENTS* (the conversion of office properties into apartments). The residential building projects are mainly on pre-sealed surfaces with existing properties or on conversion areas in order to create new living space with the minimum of resources. ISARIA targets a ratio of new buildings to revitalisation of existing buildings of 70:30.

Further strengthening of the financing structure

Thanks to significantly improved creditworthiness rating over the past years, ISARIA can get vastly improved conditions for the financing of its projects. This means we can further reduce our average interest burden in the coming years and further grow our profitability. This also boosts our equity capital and creates further leeway for our planned operational growth. Further on, One group, an integrated part of the group, which draws up project development funds and offers them to investors, represents a key financing platform. Here ISARIA receives the required equity capital for the project developments phase to invest in a profitable way.

IV. Research and development

Due to the nature of its business activities, ISARIA Wohnbau does not perform any research or development activities. Its business activities do not require any patents or licenses. However, the company is strongly research-oriented.

All of the key German residential markets are observed and compared in a top down view by our strategic project developers with regard to the opportunities these markets offer. In regional terms, opportunities for expansion are reviewed in urban regions and also in smaller districts. For eyample our product line *APP.ARTMENTS* as well as new floor layout types have been developed to meet new and changed residential requirements.

Our customer support employees and sales use a bottom up approach to observe our competitors products with regard to their quality, price and sales success and they provide information from discussions with customers, for example on fittings, floor plans and special requests to our project developers.

see G 02 Sustainability

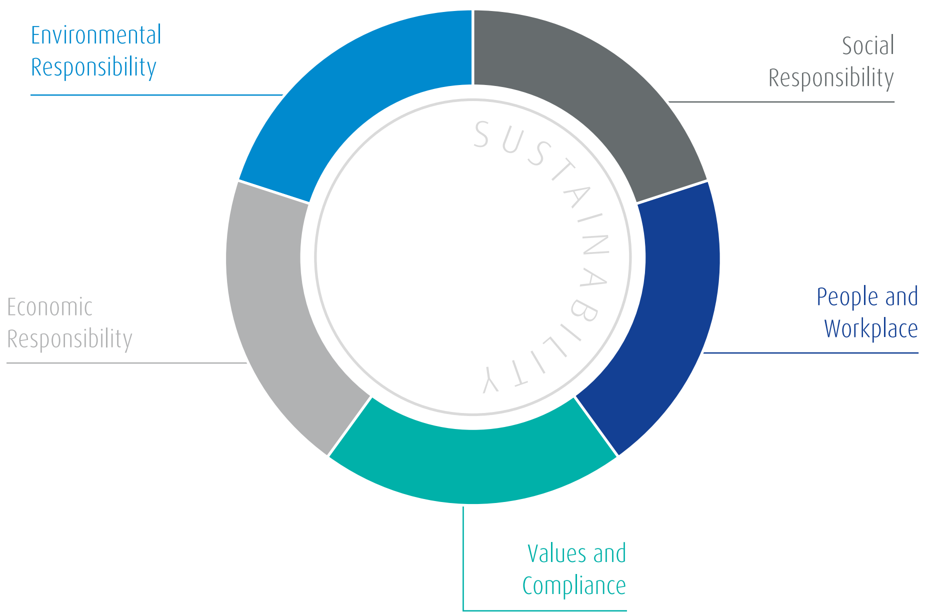
The group has protected key word marks and figurative marks for the companies, financial and real estate products.

V. Sustainability

ISARIA Wohnbau pledges to act sustainably, as our business activities have effects far beyond the limits of our company. That is why we are responsible for developing and implementing sustainable business practices that meet the needs of both our operating requirements and also our obligation to society and the environment. We are convinced that we can increase our image and also our enterprise value as a result of our socially and environmentally conscious activities. The integration of sustainability aspects in our management and corporate strategy is based on five key building blocks.

Our sustainability efforts focus on our core business of project development. As one of the leading project developers, ISARIA Wohnbau holds a key function in society in the city regions where we operate, as our projects are, quite literally, sustainable and have an 'impact that lasts for a long time'. Based on the German Construction Code (Section 1 (5) of the BauGB), our plans should ensure sustainable urban development which harmonises social, economic and environmental requirements. Our plans should help to guarantee an environment that ensures dignified human life, protects the natural foundations of life, and which maintains and develops urban development and the view of the city and the landscape in terms of building culture.

G 02 | Sustainability



Environmental responsibility

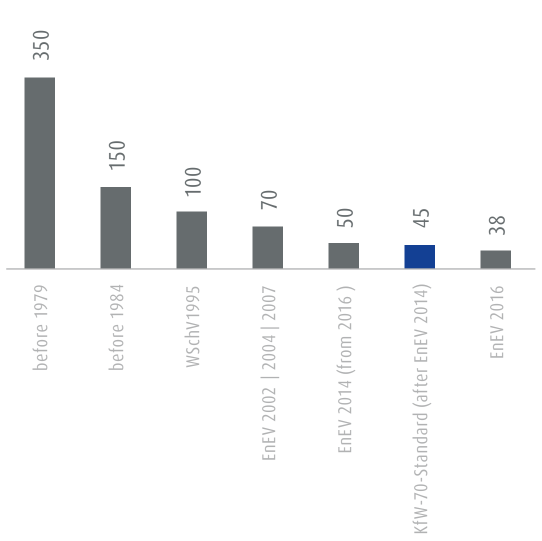
Sustainability in acquisitions and construction

In view of the fact that around 40% of energy, 30% of raw materials and 20% of water consumption worldwide are due to the construction, operation and demolition of real estate, sustainable project development goes without saying for us.

At ISARIA Wohnbau, sustainable development not only means focussing on low or the lowest possible energy consumption during use of the building. The energy-focussed consideration of properties in fact also includes 'grey energy' (for producing the required energy) as well as the induced mobility (local public transport) due to the building's location across the entire life cycle. In the past, new property construction, was increasingly subject to statutory regulation. At the same time, the energy requirements that a building had to meet during operation increased. When compared with the German building stock, ISARIA Wohnbau's projects demonstrate energy consumption values that are well below the average. In the current Karlsfeld project, our apartments are 30% lower than the statutory energy requirements in the German Energy Saving Directive 2014 (EneV 2014) and are thus in line with the KfW-70 standard.

Based on the statutory principles set out above, ISARIA Wohnbau's sustainable activities thus not only aim to reduce the energy consumed in operating the building. It is much rather the case that leveraging and identifying the potential associated with 'grey energy', 'sustainable mobility' and 'brownland' (using space that has already been used to build residential properties) is associated with sustainable activities for our company. The key management tool for sustainable action as part of ISARIA Wohnbau's project development activities is the acquisition of free spaces, plots and existing buildings using the following list of criteria.

G 03 | Specific annual heating energy requirements (in kWh / sq ma)



see G 03
Development of regulations for the permissible specific annual heating energy requirements for new residential properties in Germany.

Corporate sustainability – purchasing criteria

general

- excellent quality of connections to public transport (rail as far as possible)
- local supply of everyday requirements

in addition when developing a space

- preference for revitalisation and reuse of a space already used (brownland)
- greenland sites only used in exceptional cases

in addition when revitalising existing properties

- no further long-term demand for the previous use
- environment and building structure are suitable for residential use

The purchasing criteria listed above form the guardrails for our entrepreneurial activities and are in line with the social and political discussions on the 'Sustainable City', which are mindful of social, economic and ecological criteria during construction in equal measure. Sustainability is not a stagnant state here, but requires dynamic adjustments to changing circumstances.

Reducing space used by revitalising brownfield sites

When purchasing land and space, we pay attention to ensure that we do not buy greenfield sites, but that we use brownfield sites (sites that have already been used for construction). Using ground economically and treating it with care is a central issue for our projects, and can also be found in the Federal Government's '30 hectare objective' or the 'Ground protection clause' (Section 1a) in the German Construction Code. The Council for Sustainable Development (2004) concludes: 'Recycling [...] urban brownfield sites is a strategy which is already being successfully implemented to minimise the amount of space used and to revitalise our cities.' ISARIA Wohnbau has been operating in many major conversion sites for several years, such as in Munich-Riem (previously: airport), Arnulfpark (previously: container station) and Hirschgarten (railway and post-office site). The projects completed and in development in 2015 also prove that this is the case in the present and in the future:

Karlsfeld – nido project	New construction on a former transformer station
Diamalt Quartier	New construction and revitalisation of industrial monuments on the brownfield industrial site of the former Diamalt factories
Tower	Revitalisation of a vacant office block previously used by Siemens
Hansa-/Tübinger-strasse	New construction on a vacant former production site
Elsenheimer Strasse	Revitalisation of a vacant former office building
Kapstadtring	Revitalisation of a vacant former office building
Hamburg-Nord	New construction on the brownfield site previously used by a plant nursery (greenhouses)

Maintaining 'grey energy' by revitalising existing buildings

When purchasing existing buildings, we pay attention to ensure that the existing building structure can be flexibly adapted to new use. Our concepts are based on maintaining and continuing to use the building tied up in the existing building structure, for example, that was used to produce concrete and steel. Maintaining so-called 'grey energy' is a core element of our sustainable activities when revitalising existing buildings – in addition to creating urgently needed residential accommodation in Munich and Hamburg. Maintaining the former shell (in some cases with underground parking) when converting properties to apartments preserves the 'grey energy' already employed to a substantial extent, and it means that this no longer has to be expended – in contrast to new buildings. When carrying out extensive renovation work, it is often the case that a clean-up (e.g. of asbestos) is required, because the building materials used in the past are rated as harmful by today's standards. Furthermore, an infrastructure such as a media supply or road development is usually present.

Sustainability in the project development phase

When realising all of our projects, in-depth coordination discussions are held with politicians and representatives of public authorities. Involving the general public in the planning process is obligatory, and as part of this work, the public as well as public authorities are given the opportunity to add their input. Any concerns or ideas expressed are considered and weighed during the construction planning phase. During the construction planning stage, we commission expert opinions so that we can assess the impact that the plans will have on the 'objects of protection', namely people, flora and fauna, the land, water, air, the climate and landscape as well as cultural and physical goods. If indicators of damaging impact are ascertained as part of these investigations, these are subject to an in-depth review and opportunities for solutions are discussed. The impact on flora and fauna that is protected by European legal provisions is of particular importance. If habitats are impacted or impaired, extensive compensatory activities are required that are worked out together with the local nature conservation authority.

Corporate sustainability criteria in construction

The traditional construction business for building our homes is carried out by external general contractors and individual trades in accordance with our business model, with planning and acceptance remaining in our remit. Our sustainable approach is based on four principles, to which we require our contractors to contractually agree:

- Upholding and exceeding energy and material standards
- Security and health safety at work are more important than the price and time
- Adherence to the company's internal compliance guidelines, in particular for the prevention of corruption
- Obligation by contractor to comply with the statutory minimum wage

With these points, we particularly commit our contractors and their subcontractors to adhere to the statutory minimum wage, to pay taxes and social security contributions and to adhere to legal standards on nature protection. Our contracts also contain extensive rules on corruption avoidance and illegal work, which are checked upon regularly.

When we accept homes from our contractors, we check whether the building description specifications have been adhered to and that the homes meet the legal standards (e.g. energy-saving regulations, fire and noise protection) before we approve them for our buyers. The aim of our company is the transfer of essentially defect-free homes that meet our own understanding of quality.

Social responsibility

Reduction in energy consumption induced by the location by using sustainable forms of mobility

In our opinion, sustainable forms of mobility (public transport, bicycles and pedestrian traffic) in urban regions that can be used to get to work, school or shops form the backbone of the city of the future. As a result, well-connected local train stations (U-Bahn and S-Bahn) can generally be reached on foot in less than 15 minutes for our projects. Grocery stores can also be reached on foot, as can child day care centres and restaurants – this is a key element of our view of urbanism. Our view of sustainable activities is also in line with the fundamental resolution on 'local mobility' passed by the state capital of Munich in 2013 and the 'White Paper on Inner Cities' published by the German Federal Ministry for the Environment, Nature Protection, Construction and Reactor Safety in 2011. Sustainable forms of mobility include the well-known environmental components as well as economic components, which have not been paid quite as much attention in the past – these mean that mobility costs are lower for households over the long term, for example, thanks to a good public transport connection.

Involvement of cities in planning earnings and creating socially responsible living space

In Munich, ISARIA Wohnbau AG is bound by the 'Sozialgerechte Bodenordnung' (SoBoN – Socially Acceptable Ground Use Directive) in almost all of its projects. This means that part of the planning profits is paid to the City of Munich in line with its purpose for the construction of primary schools, child day care centres, public roads or green areas, and that apartments are built specifically for income brackets that are otherwise excluded from freely financed residential construction. The company's aim of achieving a socially diverse district is realised with help from the SoBoN. We welcome the fact that similar rules have since been introduced in other cities, such as at our new location in Hamburg.

Social commitment for refugees and orphans

The national responsibility to take in hundreds of thousands of refugees is a mammoth task at the local level, especially in strained housing markets such as Munich and Hamburg. As a large property owner, ISARIA Wohnbau was approached by the respective town authorities about whether properties could be put at their disposal for a limited period as accommodation for refugees. We are using the rental income from this to internally finance assistance that is lacking in the refugee sites, amongst other projects. In Munich, for example, we are offering German courses with the help of teachers, and providing suitable teaching areas for this. We are also providing financial support to a sports club to help them offer additional sporting activities.

In 2010, we began supporting the 'Furaha Phoenix Day Care Centre' in Kenya via our subsidiary One Group. The centre helps homeless children and AIDS orphans to have a better future by giving them a school education and the prospects of a job in the future.

People and workplace

Our employees are the most important asset of our company. Thanks to their committed actions and skills, we can look back on a positive development in our company.

In order to retain the skills and knowledge of our employees and enhance them, we are promoting projects such as further training so that staff can enjoy lifelong learnings. We assist with the entry into the world of work in our role as a apprenticing organisation, by cooperating with theses and through our trainee programme in order to foster up-and-coming managers at an early stage. To maintain the long-term health and productivity of our employees, we promote personal responsibility and a motivating work environment.

ISARIA Wohnbau quickly realised that diversity is the key to lasting success. In our company, more than 50% of employees are women. The share of female managers at a sub-board level is 25%, 13 percentage points more than in our construction industry peer group (12%). A good work-life balance is enabled through individual work and part-time models, as well as flexible working hours. Our employees, who bring a broad range of experience to the company with their seven different nationalities, are open-minded with high levels of intercultural sensitivity and respectful interaction.

For more information about our employees, please refer to chapter 2.V..

Values and compliance

Our compliance policy defines the values that determine the actions and orientation of ISARIA Wohnbau. We are convinced that ethical and economic values are interdependent. The business world must endeavour to achieve a fair interaction among one another and to deal within the given standards. The compliance guideline to avoid corruption involves internal standards for awarding contracts, accepting and giving gifts and invitations in particular, as well as information about avoiding conflicts of interest. We also distance ourselves clearly from any form of discrimination.

The actions of our staff and freelancers are always oriented towards our internal compliance guidelines. With clear guidelines, our employees are encouraged to treat colleagues, service providers, shareholders and our customers fairly, respectfully, professionally and with integrity.

Economic responsibility

Our economic responsibility is based on the model of the 'honourable businessman', who associates long-term economic success with his social responsibility. We therefore strive towards prices and quality with our business partners, but at the same time look back at existing partnerships and joint successes due to our principles of fairness and integrity. After all, our long-term economic success benefits our employees and shareholders, as we continue to increase the equity of the company. Because of this we shall remain functionally effective and able to identify opportunities for investment in the future as well.

2. Economic Report

I. Overall Economic Developments

According to the winter forecast of the Institute for World Economics (IfW) in Kiel, made in December 2015, Germany's economic upswing is set to continue. The driving force behind this is private consumption, which remains strong, as well as accelerating investment activity. The favourable employment market development as well as temporary factors, such as the low oil price, provided the strongest increase in gross domestic product in 15 years.

Residential construction will continue to benefit from these positive general conditions, in particular, from the continued extremely low financing costs but also from the lack of alternative investments and, in the opinion of the IfW, the sector will continue to grow considerebly.

II. Developments on the real estate markets in Germany and Munich

The market for residential project developers

2015 was an extremely positive year for the real estate sector. The real estate economy in Germany (which indicates the current situation) increased in 2015 by 14.4% and, thus, finished up at a new high in December. The real estate climate (which indicates the perspectives) initially had a very positive development, in the first quarter of 2015, with growth of 12.6%. However, in the second quarter of 2015, it fell for three consecutive months and, in the second half-year, increased significantly once again. In net terms, in December 2015 it was 13.1% above the level seen at the end of 2014 and, therefore, still at a high level. However, the decline in the second quarter is also an indication that the real estate boom of the past few months will not go on forever. The climate in the housing construction sector, at plus 6.4% in December 2015, was likewise clearly above the level seen at the end of 2014. This segment continues to be the most attractive asset class compared to other classes, and is thus a 'safe haven'. The underlying conditions in the real estate sector can thus continue to be regarded as being excellent. Residential project developers will thus continue to benefit from an excellent environment in all of Germany's high-growth regions.

In their plenary meeting on 27 March 2015, the German federal states approved rent cap legislation and reinforced the principle that the party ordering a service from an agency is the party that pays for it (Mietrechtsnovellierungsgesetz – German Rental Law Amendment Act – MietNovG). The introduction of a rent cap is intended to curb the increase in rents in tight housing markets. Under this act, however, new properties used and rented for the first time after 1 October 2014 are not covered by the rent cap. This could make new residential properties even more attractive for both private and also institutional investors. The rent cap provisions have been applied throughout Hamburg since 1 July 2015 and throughout the entire city area of Munich since 1 August 2015.

Their effect to-date has been the subject of controversial debate in the media. It remains to be seen whether or not there will be a lasting impact on the real estate market. Currently, no trend is discernible in either rent levels or property sales in the new construction sector. In Munich, rents increased by 1.5% within a period of just three months. Only in Hamburg have average rental prices risen somewhat more slowly, however, this was also evident in the months leading up to the introduction of the rent cap.

Developments on the housing market in Munich

Munich is one of Germany's top places to live. Its attractiveness has remained unchanged since 2014. Munich as a location continues to take first place in many national studies with regard to factors relevant for the real estate market, such as economic and structural indicators, location strength and future-proof locations. As a result, Munich is ranked first also in the HWWI/Berenberg city ranking 2015 introduced in October 2015. This study examined the 30 largest cities in terms of their future viability. Munich also continues to hold one of the top places in international rankings, for example it takes second place in the City Investment Intensity Index currently published by Jones Lang Lasalle (JLL). Munich's high-performance economic structure can be seen in factors including the largest number of company headquarters per resident. It is the most productive German city and is often called the 'City of the DAX groups'. As a consequence, Munich is also the highest-priced location for residential real estate in Germany.

These sustainable and very positive underlying conditions let to continued high demand on the Munich residential real estate market over the past few years, with a substantial increase in prices. The City of Munich's Committee of Experts ('Gutachterausschuss') have not yet published any full-year figures for 2015. However, in its most recent publication covering the first three quarters of 2015, it reported that purchase prices for apartments in new buildings in average locations were around € 6,000 per square metre, an increase of 6.2% when compared with the prices as at 30 September 2014, and in good locations prices were around € 6,750 per square metre, an increase of 4.7%. In its last annual report for 2014, the Committee reported an average increase in prices in 2014 of +11% for new apartments in average and good residential locations (new and existing properties). The distinction between residential locations shows that price elasticity is highest in average locations, i.e. the apartments are still relatively affordable there. This is the segment in which ISARIA Wohnbau AG is predominantly represented. In addition to need-driven demand, the demand for residential investment properties keeps on growing in significance. This is due to the still very low interest rates and the associated yield crisis.

Since the last year, the subject of a 'property bubble' has been increasingly discussed. If purchase prices increase significantly faster than rents over an extended period, points to the market overheating, as no sustainable returns can be expected any more. This price growth would also have to part company permanently from the underlying economic conditions. The gap between rents and purchase prices for residential properties has been increasing substantially. Based on a study by bulwiengesa, rents have increased by 24% since 2000, and purchase prices have increased by 73%. However, just looking at price changes alone is not totally meaningful. At least in Munich, there are mostly fundamental reasons for this development. Demand for residential accommodation in Munich continues to be high. An average of 80 people move to Munich every day. In theory that means 50 new apartments every day. More than 300,000 people have thus moved to Munich over the past 15 years. As such, the city of Munich reported in May this year that its number of residents had passed the 1.5 million mark. And according to the latest forecast, untils 2030 the city should grow to more than 1.7 million inhabitants. In addition, most of the apartments have been 'sensibly' financed – that means with a high proportion of equity and high repayments.

Munich is also far from having an oversupply of apartments. Quite the opposite in fact: the continued high demand for residential properties in Munich has now perceptibly thinned out the offering on the market. In the first nine months of 2015, the number of sales stagnated year-on-year. Previously, the Committee of Experts in Munich had reported two consecutive years of declines in the number of sales in the market for owner-occupied apartments. This development in the number of contracts documents the scarcity of supply. This in turn can only be overcome with a sustained and substantial increase in construction activity. In 2014, however, building completions did indeed fall again to around 6,300 apartments (down from 7,904 in 2013) and thus fell short of the 7,000 apartments that the City of Munich estimates is the number of new buildings that are required each year. In addition, other institutions assume that actual demand is at 11,500 to 12,000 apartments per year and, thus, much higher than the figure estimated by the City of Munich. Moreover, unlike in some other large German cities, the space available for construction in Munich continues to decrease. For example, in the metropolitan area, there are only enough sites for around 46,000 apartments, which would meet the demand for a maximum of five years. Therefore, closer cooperation between Munich and the surrounding regions will be of key importance for further development.

There is currently no indication that the market situation will ease over the medium term, nor that there will be substantial price declines, or for that matter, a price bubble in the Munich real estate market. Homebuyers are still prepared to buy properties, despite increasing or higher purchase prices – and this applies to both investors and also owner occupiers, with the properties on offer still being very limited.

Developments on the housing market in Hamburg

The Hamburg residential property market remains attractive for project developers. Hamburg unites strong spending power with a high number of residents, as is the case in Munich. The real estate market in this city with its 1.8 million residents is the third largest in Germany in terms of requirements for new properties, following Berlin and Munich. Real estate prices in Hamburg are among the highest in the country. Hamburg is also similar to Munich in that it ranks among the German cities in which the population is expected to grow substantially by 2030. According to a recent study by Postbank, Hamburg leads the top cities with the best future prospects for property development up to 2030, even beating Munich at 2nd place. In the 'Brandmeyer Stadtmarken-Monitor' 2015 (a 'city brand' survey), Hamburg actually has top ranking as the favourite city in Germany, even ahead of Munich. As a result, demand is also expected to outstrip supply over the long term in Hamburg. At present, there is a lack of around 30,000 residential units in order to cover requirements. This is clearly due to the relatively low construction activity in the previous years. Since 2013 the annual construction covers at least the target defined by the local 'Alliance for living in Hamburg' ('Bündnis für das Wohnen in Hamburg') of 6,000 apartments per year. According to a recent forecast by the Federal Institute for Building, Urban Affairs and Spatial Development (Bundesinstitut für Bau-, Stadt- und Raumforschung (BBSR)) the demand for 2015 is assumed to be close to 9,500 new apartments. After 2015, the demand is expected to gradually decline to 6,100 new apartments per year up to 2025.

In the first half of 2015, purchase prices for newly constructed apartments in Hamburg were around € 4,190 per square metre, which represents a slight decline of € 30 per square metre on the previous half-year. The days of major price jumps don't seem to be continuing unabated. Due to the price level that is lower compared to Munich, an increasing number of tenants are in search of freehold apartments for similar monthly costs.

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. bulwiengesa has identified a group of five leading residential property developers in Munich. All of the other companies in this group have been family-owned for decades and the 'second youngest' has already been operating on the market for 45 years. Based on a sufficiently large and strategic project pipeline, developing residential properties in Munich is thus clearly one of the least crisis-hit business models in the real estate industry. According to the 2015 project developer study published on 6 May 2015, ISARIA Wohnbau is currently the second largest project developer for residential properties in Munich.

Competitive position of ISARIA Wohnbau in Hamburg

The market for residential construction project developers in Hamburg is structured similarly to Munich. The ten largest residential project developers in Hamburg have a combined share of more than 30% of the total project volume in the *residential* segment. The largest Hamburg housing market player here is Behrendt Wohnungsbau. By a very close margin, it is followed by ECE, Otto Wulff, August Prien and NCC, which are all very close to one another.

With the properties secured in 2014, ISARIA Wohnbau has laid the foundations to also rank among the top ten residential project developers in Hamburg in future.

III. Key events in the period under review

Scheduled repayment of bonds

On 16 February 2015 the corporate bond 2014/2015 was repaid on schedule in the amount of € 10.0 million.

In the second half of 2015, the company repaid a subordinated bond of € 15.3 million to the STRATOS Mezzanine Fund. The repayment of this facility has helped to reduce the financing costs of the group even further. As a result, we no longer have mezzanine financing in the group, where the interest would exceed 10%.

Start of sales activities of ProReal Deutschland Fonds 4

On 23 April 2015 One Group received its approval and license to start sales of ProReal Deutschland Fond 4, its first regulated investment fund according to the Kapitalanlagegesetzbuch (KAGB – German Capital Investment Code). The planned issuing volume totals € 75 million. In 2015 € 20 million were already raised.

Acquisition of majority interests in two project developments

Already in December 2013 the company notarised the acquisition of a majority interest in the special purpose entities Wohnbau Objekt Hansastraße GmbH and Wohnbau Objekt Tübinger Straße GmbH by way of notarised purchase agreements. Various conditions precedent had to occur in order to execute these contracts. These conditions were fully met on 21 April 2015. Since this date, ISARIA Wohnbau AG has held an interest of 90% in each case in these companies, and will include these companies in its consolidated financial statements from this date. Jointly, both of the special purpose entities have a planned investment volume of around € 140 million.

Developments of construction projects

In 2015, the *nido* project in Dr. Johann-Heitzer-Straße, in Karlsfeld West, saw the completion of a total of six building phases with 159 residential units altogether. With respect to this large project, the last financial year was thus the strongest year in regards to handovers and sales. ISARIA Wohnbau is constructing a total of 553 residential units in 12 construction stages on the 115,000 sqm plot. Of these units, 450 had been handed over by the reporting date. As of 1 January 2016, a total of 42 housing units were under construction and, apart from one show home, they have already been completely sold. The planning applications for the final building phases that have not yet been started and which have a total of 61 units were all submitted in December 2015. The start of sales of additional construction zones currently depends on relevant planning permission being issued. Nevertheless, we expect this to be issued in due course.

In the *APP.ARTMENTS* revitalisation project in Vogelweidestraße 5 in Munich-Bogenhausen with a total of 167 apartments, 149 units had already been handed over at the end of 2014. In 2015 the remaining apartments are being sold and handed over on an ongoing basis. In 2015, a further 17 apartments were handed over with a sales volume (revenues) of € 6.7 million. All but one of the apartments had been sold by the reporting date.

We have handed over all units save one in the front building of the *St. Bonifatius* renovation project in 2015, now that this part of the building has also been completed. Construction work in the rear property was completed in the 2014 fiscal year and the apartments were handed over.

Project Developments Munich

At the end of December 2014, together with three teams of architects, the planning procedure for the *Tower* project in Munich-Obersendling was started and the urban planning and landscaping competition was launched on the basis of the key data resolution passed by the city council on 22 October 2014. On 8 May 2015, the jury and the advisory body made their decision and presented the results. The advisory committee's recommendation for the *Tower* was to use the design of the Munich-based architects Meili & Peter as a basis for the construction planning phase for the conversion of the multistorey building into a residential location. In the third quarter, after the completion of the competition and the planning procedure, an application was submitted for the initiation of a project-based development plan process. On 16 December 2015, the Munich City Council approved this application with an initiation resolution. With the passing of this resolution, the urban land use planning was officially initiated. This project development is therefore already at a legally effective stage with respect to the planned use, which will be mainly for residential purposes.

With respect to the *Diamalt-Quartier* project in Munich-Allach, the basic outline resolution was adopted by the city council on 29 July 2015. This marked yet another milestone for the construction of a further large residential district. The urban planning and landscaping competition coordinated with the state capital of Munich was taking place from September to December 2015. The winning design was determined and announced on 15 December 2015. This will now serve as a basis for the development plan process, which is scheduled to start in the first quarter of 2016.

For the building in Elsenheimer Strasse in Munich we already have a positive preliminary building application to convert this to a boarding house/living complex. A second preliminary building application regarding planning questions was answered 15 June 2015. The architect and technical planners have adjusted their planning in accordance with this and continue to prepare the draft plan for subsequent approval. Alternative concepts are also being explored and evaluated in this context.

The *Tübinger Strasse* property includes an abandoned production site in Munich-Westpark. This site, i.e. the properties on the parallel streets that border each other to the rear, is shared between the special purpose entities Wohnbau Objekt Hansastraße GmbH and Wohnbau Objekt Tübinger Straße GmbH. The land had previously been uniformly built over, and the redevelopment secured with the preliminary building permit from 21 May 2014 also provides for a uniform development predominantly focused on residential and to a lesser extent commercial (mainly retail). Since the takeover of the special purpose entities in the second quarter of 2015, the company has been looking into the feasibility of developing the two plots separately. Privately funded residential and retail space shall be allocated on the Tübinger Strasse plot. Part of the vacant production halls on these two plots have been rented out temporarily to the city of Munich since 15 August 2015 for the accommodation of refugees. The management of this accommodation is the sole responsibility only of the city of Munich and is designed not to interfere with the construction activities.

City council decisions or preliminary building permits are now available for all our Munich project developments, for the targeted residential development.

Project Developments Hamburg

In regards to the office building in Kapstadtring in Hamburg, a boarding house concept was selected after conducting an internal assessment of possible future use options. The plans for this boarding house were prepared accordingly and, in August 2015, the respective planning application was submitted. Construction work for this project should start by the middle of 2016 already.

In regards to the property in the north of Hamburg, there are currently ongoing negotiations with the district administration and Hamburg's Senate with respect to agreeing the contents for the construction plan that will be prepared. Accordingly, if the outcome of this negotiation process is positive, the construction work for this project, too, could commence in the second half-year of 2016.

Expansion of investment property portfolio

As part of its ongoing analysis of the risk-optimised realisation of income from project developments, and after a review of alternative strategies, the Executive Board decided in the past financial year 2015 to reclassify two previous development projects as well as a participating interest of the One Group into investment properties and continue to develop them within the portfolio. This applies to the project developments *Kapstadtring* in Hamburg and *Hansastrasse* in Munich as well as the participating interest of the One Group in a residential location in the greater area of Cologne with 78 rented housing units. The latter was originally intended for sale to investors, on an individual apartment basis. However, with the very favourable interest rate environment currently existing, it can now also form the basis for a portfolio-holding fund model.

Executive Board Membership Changes

In May, Christian Dunkelberg informed the Supervisory Board that he would not be available to serve for an additional period after the expiry of his contract in November 2015. There are no plans for a new appointment of this third position in the executive board. The tasks of Christian Dunkelberg have been distributed among the other two members of the executive board.

Re-election of the Supervisory Board

At the annual shareholder meeting on 8 May 2015, all three members of the Supervisory Board were re-elected in their office for an additional three years. In the constitutive meeting directly following the shareholder meeting, Professor Dr. Raimund Baumann was again elected chairman of the Supervisory Board. Mr Robert Unger was elected deputy chairman of the Supervisory Board.

IV. Financial position and results of operations

In the 2015 financial year, the primary focus was on the construction work in our ongoing large *nido* project in Karlsfeld, as well as on further enhancing our financing costs. Moreover, in 2015, it was possible to achieve significant progress in the area of project developments. However, these activities are basically not reflected in the current results due to the capitalisation of the costs associated with this. Nevertheless, they provide a foundation for success in future periods. One outcome of the progress in the project developments in 2015 was however the decision to add two projects to our own portfolio and to reclassify them into investment properties in order to maintain future earnings opportunities.

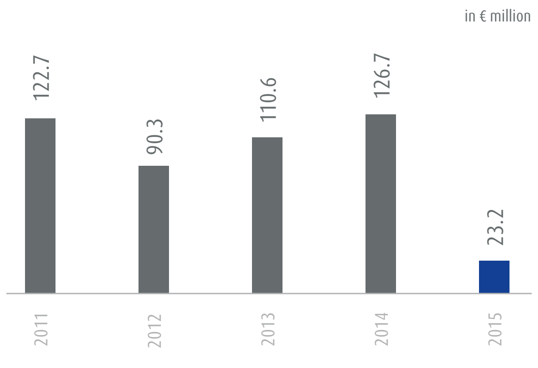
see G 04
Notarised sales

see G 05
Orders on hand

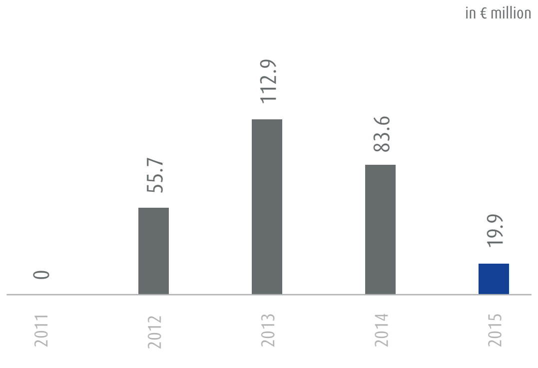
In 2015 notarised individual sales of € 23.2 million (previous year: € 75.2 million) were generated. In 2014 this is coupled with a further € 51.5 million from the sale of a completed property development to an investor. The amount of the individual sales continues to be mostly due to building permits for the major project *nido* in Karlsfeld not being issued quickly enough or to the required extent. As a result, it was not yet possible to increase the speed of sales in 2015.

Notarised sales less units already transferred resulted in an order volume of € 19.9 million, which was significantly below the previous year's level because of the considerable number of handovers in 2015. (31 December 2014: € 83.6 million). This order book secures future revenues. However, at the time of preparing this report, in March 2016, almost 80% of the revenues forecast for 2016 from the sale of individual property units have already been secured due to further notarised sales after the balance sheet date.

G 04 | Notarised sales (individual and global sales)



G 05 | Orders on hand



As our projects are realised over multiple years, the disclosure of revenues is subject to substantial accounting fluctuations, which affect the ability to compare these figures with previous years.

In 2015, despite a year-on-year decline in sales revenues from handing over projects of around 40%, ISARIA Wohnbau's earnings were characterised by a significant improvement in the profitability of these sales. The sales arose primarily from the current construction phases of the *nido* project in Karlsfeld and reflect the price increases in the Munich housing market over the past few years. This resulted in a substantial year-on-year improvement in the gross profit margin and the EBIT margin. Moreover, the result for the 2015 financial year was significantly affected by the result from the fair-value measurement of investment properties relating to the reclassification of three properties, which had been carried in the inventory and were previously intended for sale, into investment properties and, in this connection, recording them on the balance sheet at market values. This applied to two project developments as well as a participation interest held by the One Group. Retrospectively applying accounting principles relating to the market value of the investment properties also led to changes in the reporting of the previous year's figures. This applied to the items: result from the fair-value measurement of investment properties, depreciations and (deferred) tax charge on earnings. Furthermore, compensation payments in the amount of k€ 2,641 in particular, resulted in high other operating income. The overall consolidated result after taxes was k€ 8,130 following k€ 9,229 in the previous year.

see T 03
Results of operations

see G 06
Consolidated result after taxes

see G 07
Profit-turnover ratio

T 03 | Results of operations

	01/01/ - 12/31/2015 k€	01/01/ - 12/31/2014* k€	Change k€
Revenues	92,170	160,224	-68,054
Total output	122,216	170,329	-48,113
Cost of materials	-89,147	-127,635	38,488
Gross profit	**33,069**	**42,694**	**-9,625**
Gross profit margin	*36%*	*27%*	--
Personnel expenses	-6,644	-6,604	-40
Fair-value measurement of investment properties	11,022	-1,508	12,530
Other operating income	4,335	1,697	2,638
Other operating expenses	-12,637	-13,217	580
EBIT	**27,766**	**21,643**	**6,123**
Financial result	-15,362	-10,904	-4,458
EBT	12,404	10,739	1,665
Income tax expenses / gains	-4,274	-1,510	-2,764
Comprehensive income	**8,130**	**9,229**	**-1,099**

* adjusted prior-year figures due to a change in measurement methods for investment properties

The revenue volume (proceeds from the sale of residential units, from leasing as well as from other deliveries and services) amounts to k€ 92,170 in the fiscal year 2015 (previous year: k€ 160,224). 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.

see G 08
Consolidated result after taxes

Revenues are primarily governed by the income from the residential units handed over from individual sales in the respective period. In 2015, this mostly related to handovers of a total of 159 units from six construction phases in the *nido* construction project (ISARIA Wohnbau Objekt Karlsfeld 1 GmbH, ISARIA Wohnbau Objekt Karlsfeld 2 GmbH and ISARIA Wohnbau Objekt Karlsfeld 3), completed in 2015 as well as the handover of 17 housing units in the *APP.ARTMENTS* revitalisation project (Living Bogenhausen GmbH). In addition, to a lesser extent there were handovers from completions in the revitalisation project *St. Bonifatius*. In 2014, the sale of a completed project development at the end of 2014 contributed another k€ 51,450.

see G 09
Gross profit

see G 10
Gross profit margin

Total output includes revenues as well as the change in inventories of ongoing construction properties according to construction progress (increase in inventories) and handovers (decrease in inventories) in the current reporting period. In 2015 the ISARIA Wohnbau group had a net increase in inventories of k€ 30,046 (previous year: k€ 10,105).

The cost of materials decreased by k€ 38,488 from k€ 127,635 in 2014 to k€ 89,147 in 2015. Here, the costs for the financial year 2015 included expenses in the amount of k€ 47,276 that arose from the first-time inclusion of plots of land within the scope of the first-time consolidation of two project companies. The previous year's figures included the purchase price for two newly acquired plots totalling k€ 67,696. When these effects are eliminated, the cost of materials decreased by k€ 18,068. This decrease reflects the lower volume of construction, when compared with the same period in the previous year, subsequent to the high number of units completed and handed over in the course of the year.

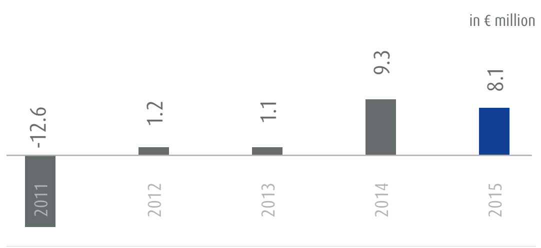
The gross profit margin (gross profit to revenues) was almost 36% in 2015 (previous year: 27%). This reflects the price increases on the Munich housing market over the past few years.

The earnings from the fair-value measurement of investment properties in the amount of k€ 11,022 (previous year: k€ -1,508) resulted from a revaluation relating to the reclassification of three properties, which had been carried in the inventory and were previously intended for sale, into investment properties as well as from the fair-value measurement of properties recorded under investment properties already last year. Earnings of k€ 5,152 were attributable to the New Development segment, k€ 4,942 to the Revitalisation segment, k€ 791 to the *One Group* segment and k€ 137 to the Other segment. These earnings were partially offset by deferred tax liabilities in the amount of k€ 3,812 in total.

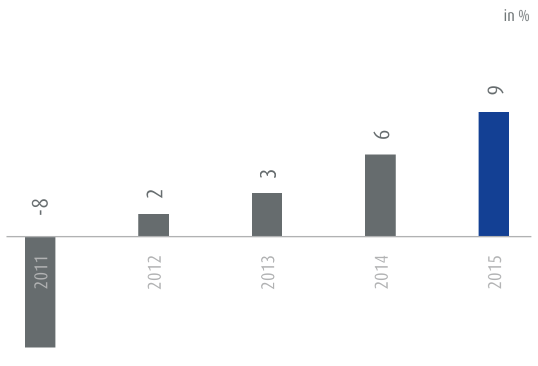
Other operating income for the period under review includes a claim for compensation payments in the amount of k€ 2,193 for downstream costs the company had already paid in previous years for a legacy property. In addition, this item basically also includes other compensation payments received in the amount of k€ 448, k€ 444 of earnings from the sale of a minority shareholding (previous year: k€ 0) as well as k€ 842 from the reversal of provisions (previous year: k€ 275). Furthermore, the previous year's figure included earnings in the amount of k€ 821 that arose from the derecognition of a liability.

Personnel expenses in the reporting period at k€ 6,644 were almost unchanged when compared with the previous year (k€ 6,604). In 2015, the ISARIA Wohnbau group had in average 59 employees (compared to 55 employees in average in 2014). Of this total, 11 employees were from the One Group (previous year: 14). The increase in the average workforce of around 9%, on balance, did not result in a notable increase in personnel expenses.

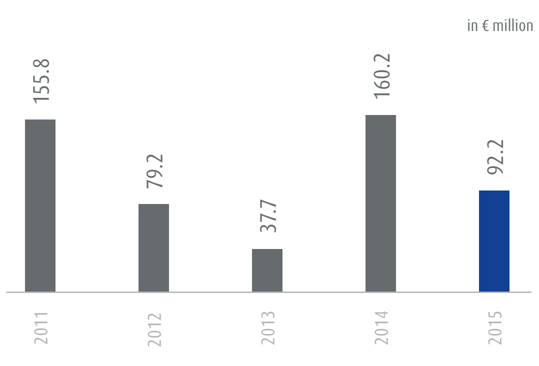
G 06 | Consolidated result after taxes



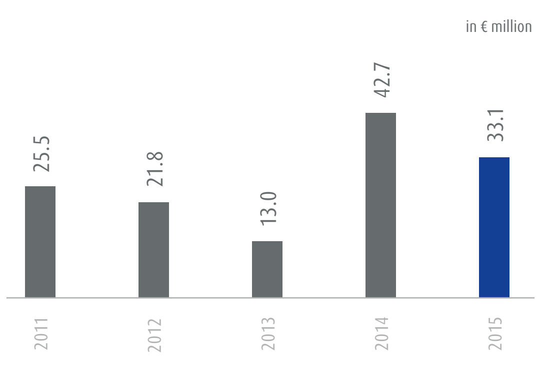
G 07 | Profit-turnover ratio



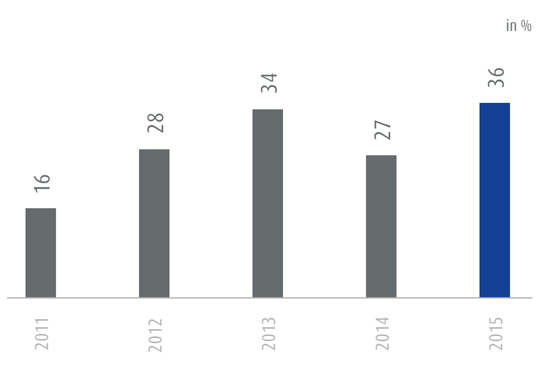
G 08 | Revenues



G 09 | Gross profit



G 10 | Gross profit margin



see G 11
EBIT

see G 12
EBIT margin

Other operating expenses at k€ 12,637 in 2015 fell by k€ 580 when compared with the previous year (k€ 13,217). Here, sales commissions were k€ 1,609 lower than in the same period of the previous year. This was largely offset by higher administrative costs of k€ 573 for One Group's ProReal Germany Fund that were due to the more stringent requirements of the German Capital Investment Code (Kapitalanlagegesetzbuch, KAGB), an adjustment of VAT for previous years, which was incurred in the period under review, in the amount of k€ 225 as well as a k€ 155 increase in loss-of-use compensation paid to buyers.

EBIT increased by k€ 6,123 or 28% to k€ 27,766 compared to the previous year (k€ 21,643). In terms of revenues, this gives an EBIT margin of 30% (previous year: almost 14%).

see G 13
Financial expenses

see G 14
Ø Interest rate on interest-bearing liabilities

The negative financial result increased in 2015 by k€ 4,458 or 40.9% to k€ -15,362 compared to k€ 10,904 in the previous year. Financial income was substantially lower compared to the previous year (k€ 4,028) at k€ 229 in 2015. This is due to one-off effects in the previous year from adjusting liabilities to their present values in the amount of k€ 3,216. Financial expenses increased in 2015 compared to the previous year (k€ 15,626) by 2% to k€ 15,930. These mostly relate to interest payments to banks in the amount of k€ 4,523 and k€ 9,790 of distributions to investors in the project development fund. The increase in financial expenses is directly connected to interest-bearing liabilities which are up by a good 22% year on year. These, in turn, are due directly to the corresponding higher project volumes to be financed. The fact that financing expenses have increased to a significantly lesser extent than this figure reflects the substantial improvement in the financing structure. In 2015, we were able to further reduce the average interest rate for all interest-bearing liabilities to the current level of 7.9% (previous year: 9.5%). The result from participating interests carried at equity totalled just k€ 339 in the period under review (previous year: k€ 693).

In 2015, consolidated earnings before taxes showed a slight year-on-year improvement. Year-on-year earnings rose by k€ 1,665, or around 15%, to k€ 12,404 from k€ 10,739. Taxes on earnings in the amount of k€ -4,274 (previous year: k€ -1,510) resulted largely from the creation of deferred tax liabilities in the amount of k€ 3,812 arising from the above-mentioned revaluations of investment properties. In the previous year, the taxes were largely due to the minimum taxation for corporation tax and trade tax at ISARIA Wohnbau AG in the amount of k€ -2,491 that was partly offset by a reversal of deferred tax liabilities in the amount of k€ 1,322. Earnings after taxes totalled k€ 8,130 (previous year: k€ 9,229).

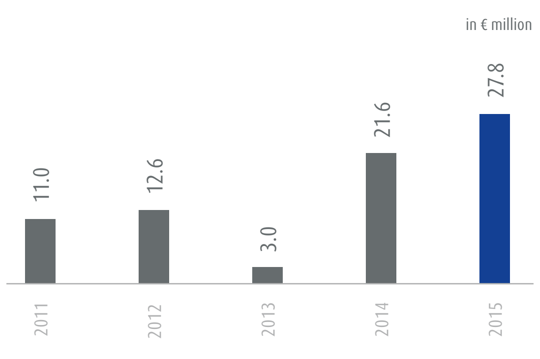
In 2015, the business performance for the group as a whole with respect to sales revenues, financing and overhead costs was in line with forecasts to a large extent. However, the gross profit margin came in below expectations due to the higher-than-expected cost of material. Ultimately, thanks to the earnings from the revaluation as well as to other operating income, the original forecast for a result after taxes in the single-digit million euro range was achieved. Therefore, in the financial year that has just ended, ISARIA Wohnbau's economic situation improved once again.

Earnings in the segments

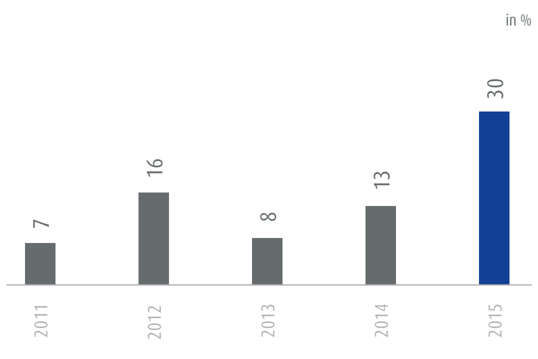
In terms of the segments, earnings in the ISARIA Wohnbau group were as follows:

Revenues in the largest segment *New Construction* decreased due to the situation described above with properties handed over and revenues being recognized by k€ 33,352 to k€ 79,076 (previous year: k€ 112,429). In 2014 this also included the sale of the completed project development already mentioned. Of the total result from the fair-value measurement of investment properties, k€ 5,151 are attributable to this segment (previous year: k€ 0). The other operating income allocated to this segment in 2015 rose to k€ 3,943 from k€ 1,396 in the previous year and is mostly due to the increase in claims for compensation payments recognised in income in the last financial year. Segment EBIT decreased as a result by k€ 2,598 to k€ 19,681 (previous year: k€ 22,279). Financing expenses increased slightly by k€ 378 or 4% to k€ 10,343 (previous year: k€ 9,569). The segment result before taxes was k€ 10,063 (previous year: k€ 13,328). Income tax of k€ 2,460 allocated to this segment arose mainly out of deferred taxes on the result from the fair-

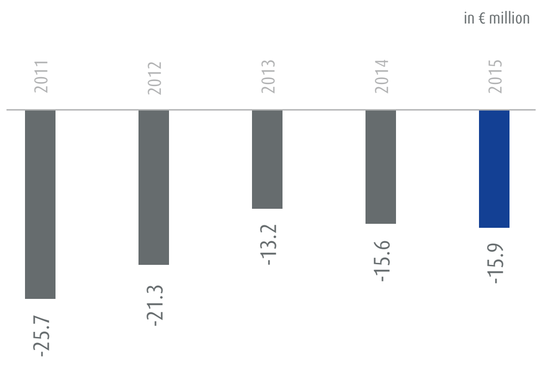
G 11 | EBIT



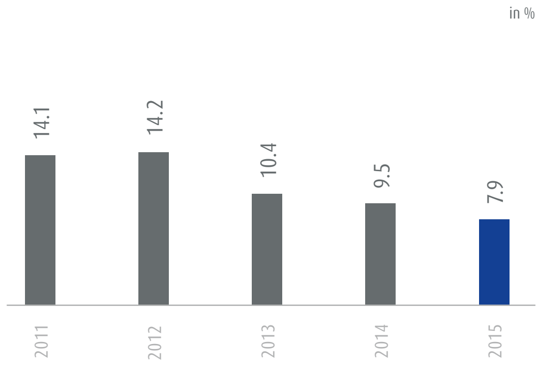
G 12 | EBIT margin



G 13 | Financial expenses



G 14 | Ø Interest rate on interest-bearing liabilities



value measurement of investment. In the previous year (k€ -2,915) they were largely the result of the minimum taxation at the level of ISARIA Wohnbau AG. Segment earnings after taxes were positive at k€ 7,603 (previous year: k€ 10,414).

Revenues in the *Revitalisation* segment totalled k€ 9,343 in 2015 (previous year: k€ 44,633). Of the total result from the fair-value measurement of investment, k€ 4,942 are attributable to this segment (previous year: k€ 0). The EBIT for the segment increased significantly to k€ 10,882 (previous year: k€ 5,061), as did the result before taxes which was k€ 4,963 (previous year: k€ 161). Income tax in the amount of k€ 1,686 that was allocated to this segment arose mostly from the deferred tax liability on the result from the fair-value measurement of investment. In the previous year, tax on earnings was positive due to a gain from the reversal of deferred tax liabilities. The segment result before taxes was k€ 3,277 (previous year: k€ 785).

Business activities in the *One Group* segment mostly comprise interest margin business. This is reflected in the financial result. One Group contributed a slightly positive financial result of k€ 323 in the period under review (previous year: k€ 3,362). The deviation to the previous year was due, to a large extent, to an advance profit distribution in the fourth quarter to unit holders in the fund. In previous years, this distribution had been paid out in each case only after the balance sheet date. This financial result was primarily offset mostly by overhead costs (personnel costs and other operating expenses minus other operating income). On a net basis, there was a decrease of k€ 625, which was due to a corresponding reduction in personnel costs. Furthermore, this segment accounted for a result from the fair-value measurement of investment in the amount of k€ 791 (previous year: k€ 0). Thus, in the period under review, the result before tax for the segment was negative in the amount of k€ -1,200 (previous year: k€ 112). Net taxes were k€ -555, mostly due to deferred tax liabilities on the revaluation earnings and also partly due to the reversal of deferred tax assets on tax loss carryforwards. In the previous year, net taxes were positive, at k€ 460, mostly the result of income from the increase in deferred tax assets on tax loss carryforwards. This has led to segment earnings after taxes of k€ -1,755 (previous year: k€ 572), however this is prior to the consideration of the amortisation of the intangible assets acquired as part of the acquisition of One Group GmbH. This corresponds to the economic segment earnings included in internal reporting. However, the intangible assets acquired as part of the acquisition of One Group GmbH are also to be allocated to the *One Group* segment at a group level. These were subject to scheduled amortisation in the past fiscal year in the amount of k€ 1,133 (previous year: k€ 1,133). This is offset by the resulting reversal of deferred tax liabilities in the amount of k€ 362 (previous year: k€ 362). In total this results in negative earnings after taxes for the *One Group* segment of k€ 2,526 (previous year: k€ -199).

Revenues in the *Other* segment totalled k€ 3,022 (previous year: k€ 2,987), and these resulted from income in connection with the rental of investment properties as well as k€ 2,355 (previous year: k€ 2,333) from the rental of an apartment building in Schillerstraße which is managed for a financial investor. Furthermore a result from the fair-value measurement of investment properties in the amount of k€ 137 (previous year: k€ -1,508) accounts to this segment. In 2015, the EBIT for the segment was k€ 163. In 2014, it was k€ -1,314 as it had been reduced by a one-off effect in the amount of k€ 1,218 of an extraordinary write-down on part of the investment properties to lower fair values. These are now recorded under the result from the fair-value measurement of investment because of the retrospective application of accounting principles relating to market values. After financial expenses for investment properties, the segment recorded segment earnings before taxes of k€ 15 (previous year: k€ -1,730). On account of a positive tax result, segment earnings after taxes were k€ 81 (previous year: k€ -1,771).

Fair values of properties held for sale

At a project developer such as ISARIA Wohnbau, central assets – properties held for sale and inventories under construction – are carried at cost. This is a fundamental difference between the balance sheet for the ISARIA Wohnbau group and that of a real estate holding company, where central assets are carried at their market values. In order to make these figures still comparable with those from real estate holding companies the company has identified the fair value of these stocks itself using residual value calculations that are standard on the market, and had these confirmed by an external expert. In this valuation method an expert estimates the income values in agreement with the project developers. The budgeted completion costs including a reasonable profit margin for the developer are deducted from the income values. The residual amount in this valuation method gives the market value of our project developments. The company then uses these market values to calculate the net asset value (NAV) according to EPRA standards, the figure used internationally to assess real estate companies, for reasons of comparison. When calculating the EPRA NAV, ISARIA Wohnbau uses its equity before minority interests, supplemented by hidden reserves from the calculation of the residual values of the inventories. In 2014, the recoverability of the market values was confirmed by a sale, which exceeded the book value as well as the residual value.

For a project developer NAV analysis is only useful for assessment of risk. It is used to determine the value above the book value at which the projects in the current stage of development can be sold to third parties. However, the enterprise value of a developer or its shares is also determined by future profits that can be generated from the realisation of these and other projects at present and in the future. As a result, the enterprise value will regulary be significantly higher than the NAV.

The company conducts these calculations considering the EPRA Best Practice Recommendations from December 2014. According to these recommendations, 'Trading Properties' are to be included at their market value without considering deferred taxes, as the EPRA NAV shall reflect the real estate value of the equity. According to this method, as of 31 December 2014 the EPRA NAV for the ISARIA Wohnbau group was k€ 112,763. On 31 December 2015, the EPRA NAV increased to k€ 120,944. This is mainly due to the increased equity.

see T 04 EPRA NAV

T 04 | EPRA NAV – ISARIA Wohnbau group

	12/31/2015 k€	12/31/2014 k€
Equity before non-controlling interests	30,955	23,349
Hidden reserves of inventories	89,989	89,414
EPRA NAV	**120,944**	**112,763**
Number of shares	**23,764**	**23,764**
NAV per share	**5.09**	**4.75**

Net assets

see T 05
Net assets

The company's net assets are mostly characterised by a strong decrease in current assets. Total assets decreased by a good 7% to k€ 279,174 on 31 December 2015 compared to k€ 301,053 on 31 December 2014.

Non-current assets increased significantly to k€ 71,310 on reporting date compared to 31 December 2014 (k€ 38,725). This is mainly due to the aforementioned reclassification of two project developments that were previously carried in the inventory as well as a participating interest of the One Group into investment properties in the amount of k€ 34,337 as well as the subsequent revaluation at fair value in the amount of k€ 11,022. This was offset mainly by amortisation of intangible assets.

Current assets decreased substantially 21% to k€ 207,833 on 31 December 2015 compared to 31 December 2014 (k€ 262,328). Here, there was a substantial decrease of k€ 53,742 in receivables from the sale of land due to the receipt of a payment in February 2015 for the purchase price which became due on this date from the sale of a project development that was concluded at the end of 2014. The funds received here were, for the most part, used to repay a corporate bond, liabilities to banks as well as trade payables. As a result, cash fell by k€ 10,080 from k€ 42,090 on 31 December 2014 to k€ 32,011 as at the balance sheet date. In contrast, on balance, properties held for sale and other inventories increased by k€ 6,056, despite the handovers during the period under review as well as the reclassification of three properties into investment properties. This was primarily due to the addition of two plots in the amount of k€ 46,562 as part of the first-time consolidation of two project companies, in the second quarter of 2015, that compensated for the derecognition of the properties that were handed over during the financial year.

Financial position

In 2015, equity increased by k€ 7,606 – mainly the amount of the consolidated result after taxes – to k€ 30,955 on the reporting date when compared with 31 December 2014 (k€ 23,349). The slight decrease in total assets, in contrast to the increase in equity, meant that the equity ratio increased disproportionately to 11.1% compared with 7.8% as at 31 December 2014.

Non-current liabilities increased by k€ 15,565 to k€ 131,328 on 31 December 2015 (previous year: k€ 115,763). This increase was essentially due to a rise in the non-current portion of compensation liabilities to shareholders in general partnerships. This increase was due to the k€ 19,392 of funds raised by the ProReal Germany Fund 4 during the period under review. This was in contrast to the development of long-term financial liabilities to banks. They decreased by k€ 7,912, on balance. The reclassification of a bank loan in the amount of k€ 14,500 to current financial liabilities as well as the repayment of various bank loans over the course of the year was offset by taking out other bank loans which came to an overall amount of k€ 11,186 on the reporting date.

Current liabilities fell by k€ 45,051 or 28% to k€ 116,890 on the balance sheet date compared to k€ 161,941 on 31 December 2014. In the first instance, the current portion of compensation liabilities to shareholders in general partnership fell on balance by k€ 2,981. This was due firstly to the profit entitlement for the investors in JK Fonds I being paid out. This legacy fund has thus been fully wound up. Secondly, the distribution to unit holders in the project development funds for the fourth quarter of 2015 was paid out in 2015, while in the previous year it was only paid out in the first quarter of the following year and that is why, on the balance sheet date, it was still included under liabilities. Current financial debt to non-banks fell by a total of k€ 25,318 in the period under review as a result of the repayment of the corporate bond in February 2015 as well as other bonds. Current financial debt to banks increased by k€ 32,779 in the period under review. In connection with the aforementioned first-time consolidation, bank liabilities in the amount of k€ 32,200 with a remaining term of over one year were taken over. Furthermore, the aforementioned reclassification of a bank loan from non-current to current also led to a rise of this position. This was basically offset by the repayment of a loan which was taken over in December 2014 as part of the first-time consolidation of a project development. In the course of the handover of completed housing units, the liabilities from advance payments were reduced by k€ 27,099.

see G 15
Capital raised by One Group Fonds

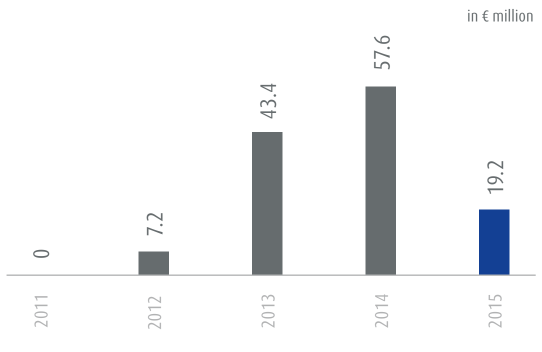
see G 16
Financial position – debt financing

T 05 | Net assets

	12/31/2015 k€	12/31/2014 k€	Change k€
Non-current assets	71,340	38,725	32,615
Current assets	207,833	262,328	-54,495
of which: Properties held for sale and other inventories	142,495	136,439	6,056
Equity	30,955	23,349	7,606
Equity ratio	*11.1%*	7.8%	–
Non-current liabilities	131,328	115,763	15,565
Current liabilities	116,890	161,941	-45,051
Balance sheet total	**279,174**	**301,053**	**-21,879**

* adjusted prior-year figures due to a change in measurement methods for investment properties

G 15 | Capital raised by One Group Fonds



see T 06
Financial position

Trade payables fell by k€ 21,401 as the result of payment. Other liabilities fell by k€ 4,964 as a result of the repayment of two loans, which were also taken over in December 2014 as part of the first-time consolidation of a project development. In contrast, other provisions increased by k€ 4,209. This was due to an increase of k€ 4,188 in provisions for risks arising from processes in completed construction projects. This was offset by the first-time capitalisation of the respective recourse claims in the amount of k€ 4,634 million (previous year: k€ 0).

Cash in the ISARIA Wohnbau group decreased compared to 31 December 2014 (k€ 42,090) by k€ 10,079 and totalled k€ 32,011 on the balance sheet date. The group can freely dispose of these funds in the amount of k€ 17,119 on 31 December 2015 (previous year: k€ 17,003).

The decrease in cash freely disposable is composed of the cash flow from operating activities in the amount of k€ 29,357 (previous year: k€ -34,452), the cash flow from investing activities in the amount of k€ 957 (previous year: k€ 62) and the cash flow from financing activities in the amount of k€ -30,198 (previous year: k€ 38,999).

The cash flow from operating activities totalled k€ 29,357 in the period under review after k€ -34,452 in the previous period and is mostly due to the consolidated earnings before income taxes in the amount of k€ 12,404 plus write downs (k€ 1,378) and the financial result (k€ 15,362) minus the result from the fair-value of investment properties (k€ 11,022), the increase in properties held for sale of k€ 6,420, the decrease of other receivables and financial assets of k€ 65,710, an decrease in non-interest bearing liabilities and provisions by k€ 71,787 as well as income taxes paid in the amount of k€ 561. The change in the cash flow from operating activities compared to the previous year is mostly due to the decrease in receivables as a result of the purchase price payment which was due in February 2015 from the sale of a completed project development at the end of 2014.

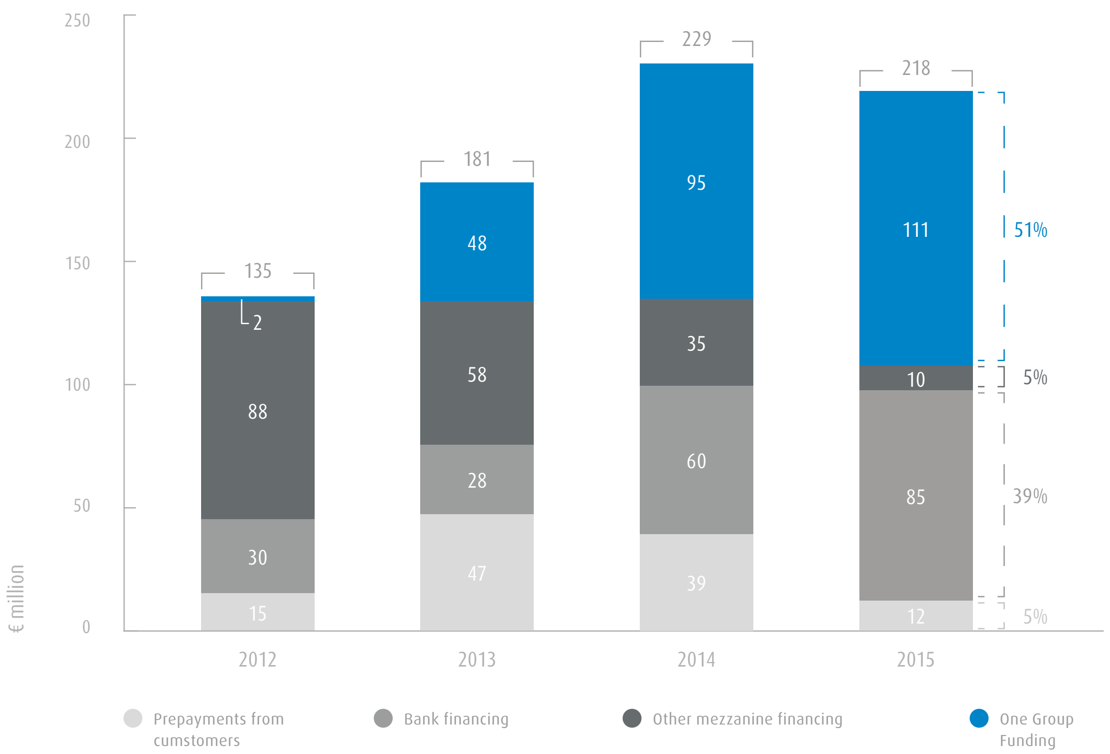
The cash flow from investing activities amount to k€ 957 in 2015 (previous year: k€ 62) and is mostly due to cash acquired as a result of first-time consolidation of two SPVs in the amount of k€ 1,510, less payments made for the acquisition of property, plant and equipment in the amount of k€ 519.

The cash flow from financing activities is negative and totalled k€ -30,198 after k€ 38,999 in the previous year. The redemption of financial debt in the amount of k€ 59,483 and interest payments of k€ 5,083 exceed the proceeds from taking out financing for ongoing construction activities in the amount of k€ 34,368. In 2015 the positive cash flow from operating activities allowed for a reduction of financing debts further to current interest payments. In the previous year the cash flow from financing activities served to finance the negative cash flow from operating activities.

Overall evaluation of ISARIA Wohnbau's financial position and results of operations

The positive market growth of the past few years was likewise reflected in our consolidated financial statements for 2015 in the form of higher revenues

G 16 | Financial position – debt financing



T 06 | Financial position

	12/31/2015 k€	12/31/2014 k€	Change k€
Cash	**17,119**	**17,003**	**117**
	01/01/ - 12/31/2015 k€	01/01/ - 12/31/2014 k€	Change k€
Cash flow from			
operating activities	29,357	-34,452	63,809
investing activities	957	62	895
financing activities	-30,198	38,999	-69,197

and a further increase in operating profitability. We were once again able to reduce our average financing costs. As a result, we were able to further increase ISARIA Wohnbau group's sustainable financial and earnings power in the 2015 financial year. Our net assets also improved again noticeably thanks to the substantial strengthening of the equity. The Executive Board believes that, together with the now very advanced project developments, these are excellent conditions for our company's targeted further growth.

V. Employees

ISARIA Wohnbau's employees are one of the key factors for our success. They have a wide range of competences and experience, and their performance and dedication help our gto grow further.

Development of employee numbers

Our staff increased by 3 (previous year: 10) employees during the year. This included 11 (previous year: 21) new hires, with 8 (previous year: 11) employees leaving our company. After the strong increase in personnel in the previous year, staff numbers also rose slightly in 2015. This increase expresses our company's growth to date and also its forecast continued growth.

On 31 December 2015 the ISARIA Wohnbau group had 62 employees (previous year: 60). Of this total, 22 were employed in Munich (previous year: 19) in management and administration, 14 (previous year: 15) were in project development (technology) and 15 (previous year: 14) were in sales, marketing and customer support. One Group in Hamburg had 11 (previous year: 12) employees. In addition the ISARIA Wohnbau group also employs freelance employees, primarily for sales and project management. ISARIA Wohnbau AG itself had an average of 49 (previous year: 41) in 2015.

We have a high proportion of women in our workforce at 60% (previous year: 57%). Women also account for 25% of our managers (previous year: 29%).

Training and Advancement of employees and managers

ISARIA specifically promotes and supports the further development of its employees and managers. Training activities in this regard are tailored to the individual employees' needs.

ISARIA Wohnbau is also socially responsible and promotes young employees. Our company also trains apprentices. We currently have one apprentice who is training as an industrial clerk. In addition we also have a few employees as student trainees and also as part of a trainee program.

3. Forecast

The forecast reported in the consolidated financial statements for 2014 as regards the 2015 business performance included statements relating to the amount of revenues, the gross profit margin, EBIT, the development of financing costs, operating earnings for the One Group sub-group, consolidated results after taxes as well as to notarised sales and the planned capital inflows due to the funds of the One Group. The degree to which targets have been reached for the individual financial indicators is shown in the table T07 'Comparison of group's expectations with actual figures'.

see T 07
Comparison of group's expectations with actual figures

The following statements on the future course of business and the factors which are regarded as having a relevant influence in this regard (market, industry and company) are based on the Executive Board's estimates. As a rule, forecasts run the risk

T 07 | Comparison of group's expectations with actual figures

Key Financial Figure	Actual 2014	Expectations 2015	Actual 2015	Reasons for deviations
Sales revenue	€ 160.2 million	€ 100.0 million	€ 92.2 million	In the forecasted figures, € 7 million was included from the sale of a project development. This project development was not sold but reclassified into investment properties as the result of a better alternative concept that would maintain future earnings opportunities.
Gross profit	27%	significantly above 30%	36%	
EBIT	€ 21.6 million	at least at level with 2014	€ 27.8 million	Actual value contains unplanned gains from the fair-value measurement of investment properties.
Financial expenses	€ 15.6 million	up to 20% higher than 2014	€ 15.9 million / + 2.0%	This increase was significantly lower despite a clear rise in the annual average financing volume due to further enhanced conditions.
operating result of segment One Group (EBT*)	€ 0.1 million	slightly positive result	€ -1.7 million	Due to the lower fund raising result (see below) earnings stayed behind plan.
Result after taxes	€ 9.3 million	high single-digit millions	€ 8.1 million	
Notarised sales	€ 127 million	depending on the speed at which planning permissions are granted / up to € 64 million	€ 23 million	The forecast included the start of sales for the project development Elsenheimer Strasse. This did not materialise due to alternative realisation szenarios being evaluated currently.
Orders on hand	€ 84 million	no forecast made	€ 20 million	This is a direct consequence of the lower notarised sales volume.
Cash inflow One Group Fonds	€ 58 million	at least € 36 million	€ 20 million	The longer than planned approval process by BaFin for the new product (AIF), which was developed in accordance with the newly introduces German Capital Investment Code, resulted in sales starting significantly later and consequently also in a lower fund raising result.

* before amortisation of intangible assets from the puchase price allocation

that this growth does not occur – in terms of its direction and also its extent. The material risks are discussed in the report on opportunities and risks.

General economic developments, and the Munich and Hamburg residential property markets

According to the Institute for World Economics (IfW) in Kiel, Germany's economic upswing will continue at the turn of the year (2015/2016). Not only employment, wages and private consumption but also investments are currently rising. Accordingly, the IfW is forecasting that Germany's economy will grow by 2.2% in 2016 compared with 1.8% in 2015. In the Eurozone, too, according to the IfW forecast, the economy will pick up gradually and will grow by 1.7% and 2.0% in 2016 and 2017, respectively.

The outlook continues to be promising for project developers in the housing markets in the seven largest German cities, and in particular in Munich and Hamburg. Leading analysts believe that the strong demand, the fact that not enough housing units are being built, and the continued very low interest rates point towards house prices continuing to rise. Increases in the number of inhabitants in the urban regions will ensure that demand remains high. Industry experts believe that construction activity will remain below demand in 2015, too. For 2015, throughout Germany, the 245,000 residential units completed in 2014, will still fall short of the annual requirement for new buildings of 306,000 apartments. Although, all the previous forecasts for immigration are now deemed to be obsolete due to the refugee issue. Therefore, the fundamental reasons for a large part of the price increases seen in many German cities remain unchanged.

Low interest rates for financing are keeping house-buying affordable despite the higher prices. The lack of alternative investments is also boosting the acquisition of residential properties. As a result, prices on the housing market in Germany's seven largest cities are set to increase further in 2016, albeit at a slightly slower pace. Experts believe that it is not possible to rule out overheating in some sub-markets, however, a property bubble is highly improbable at present.

This trend also continued unchanged in 2015 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.

In 2016, the influx of refugees will remain an important issue that will affect the housing markets. Accommodating them en masse can have a negative impact on the local situation. Overall, the pressure on the housing markets in the urban conurbations will increase. This means that, increasingly, state interventions can be expected and these could have both positive as well as negative effects on business activity. As it is generally necessary to stimulate new building activity, the company expects mainly new opportunities to arise from government measures. For example, this could take the form of enhanced depreciation options for newly built rental apartments.

Future orientation of business activities

The future focus of the company will result from the growth strategy described above in the chapter 'group strategy'. This means that there will continue to be a clear focus on residential property with strictly applied investment criteria. In accordance with the growth strategy that has been adopted, other large German cities as well as the regions surrounding Munich will form the basis for regional expansion in future.

In the next five years, ISARIA Wohnbau plans to realise revenue volume of about € 1 billion from its ongoing project developments in Munich and Hamburg. The ISARIA Executive Board currently forecasts a gross profit margin of about 25% on average as achievable under the current market conditions. The existing pipeline should be further expanded with targeted acquisitions in order to realise further profit potential. In the long term, ISARIA plans to expand the pipeline so that, viewed over a five-year period, an average annual revenue of about € 300 million can be achieved.

Since 2015, at the latest, all the Munich project developments have had secure residential building rights. In 2016, realisation will already begin in three of these project developments and likewise in one of the two project developments in Hamburg. Marketing and sales for these project developments are expected to commence in 2017. According to current plans, completions in the Munich project developments are expected in 2018 onwards. In Hamburg, currently it appears that the completion of, at least, individual construction phases could even be possible in 2017 already. The Executive Board therefore assumes that, as of 2017, sales revenues will rise steadily and the profitability ratios will improve significantly.

Development of the financial position and income in 2016

2016 will be a year of transition. In 2015, in our current large *nido* project in Karlsfeld, we achieved major progress in the completion of the overall project. The remaining sales volume from this construction project in the amount of approximately € 70 million will be spread over 2016 and 2017. Only as of 2017,

T 08 | Forecast 2016

Key Financial Figure	Actual 2015	Expectations 2016
Sales revenue	€ 92.2 million	Approximately € 110.0 million, thereof € 30.0 million from individual sales in the *nido* project
Gross profit	36%	29%
EBIT	€ 27.8 million	around € 23.0 million
Financial expenses	€ 15.9 million	€ 18.0 million to € 18.5 million
operating result of segment One Group (EBT*)	€ -1.7 million	slightly positive result < € 1.0 million
Result after taxes	€ 8.1 million	A mid single-digit million euro amount is planned. This includes, besides the completion of certain construction phases, as planned in the large *nido* project in Karlsfeld, various individual effects such as the sale of at least one project development. However, the earnins contributions that could be generated from this are difficult to predict at this point in time and, as a result, there is a relatively wide range of possible divergences in earnings.
Notarised sales	€ 23 million	Approximately € 30 million from individual sales in Karlsfeld
Orders on hand	€ 20 million	around € 12 million
Cash inflow One Group Fonds	€ 20 million	up to € 55 million

* before amortisation of intangible assets from the puchase price allocation

completions from the construction work, which are planned to start in 2016, for the new project developments described above will then be added to this.

With an order book of around € 20 million as at 31 December 2015, as well as other notarised sales already concluded after the balance sheet date, almost 80% of the revenues from individual sales that were forecasted for 2016 have already been secured. The construction work for all of these planned completions has already been fully, or to a large extent, contracted out.

Furthermore, in 2016 we plan to sell at least one of the existing project developments.

see T 08
Forecast 2016

Overall, in 2016, we expect the following developments in our key financial performance indicators as set out in table T 08.

The single entity ISARIA Wohnbau AG only has its own operating activities to a minor extent. It is closely linked to its subsidiaries and participating interests with a large number of corporate agreements and contingent liabilities. As a result, the economic growth of its subsidiaries and participating interests is of central importance for the company. These companies' results will also be a key factor for ISARIA Wohnbau AG's economic growth in 2016. Based on the 2016 forecast of positive contributions to earnings at the subsidiaries and participating interests, we expect ISARIA Wohnbau AG, as a single entity, to report a negative result after taxes in the mid single-digit million euros range in its annual financial statements, prepared according to German GAAP (HGB), for the 2016 financial year. Last year, the forecast for the single entity for the 2015 financial year included statements about the result after taxes based on the financial statements prepared according to German GAAP (HGB). This was forecast to be in the mid single-digit million euros range. The actual negative result after taxes in the amount of € -1.3 million means that we missed this forecast. Under German GAAP (HGB), single-entity financial statements do not take into account the results from the revaluation of investment properties; this only has an impact at the group level under IFRS. Specifically, in a variance analysis for the single entity, the same aspects apply that have already been applied for the variance analysis at group level. In ISARIA Wohnbau AG's single-entity financial statement, the income from participating interests is accordingly affected by these aspects.

Overall assessment

At present, there are no indicators that demand will fall over the short or medium term on the Munich and/or Hamburg housing market. The ISARIA Wohnbau group has long-standing knowledge of the market, a secure project pipeline, the group's own financing platform and a substantially improved level of equity, which means that it will benefit to an above average amount from the positive growth on the attractive real estate market in Munich.

The forecast population growth in Munich's population through to 2025 and the constant increase in the number of households are key indicators for the group that its sales are also secure over the medium term and that it will be able to reach its forecast growth targets.

In summary, the Executive Board believes that there are secure opportunities, even for the transitional year 2016. Based on the property units for which construction has started and which have been mostly sold as well as further measures, the Executive Board believes that it will be possible to generate a positive result. Moreover, as of 2017, on the basis of the project developments in the inventory that are largely already at an advanced stage, it will be possible to successfully realise the targeted growth for the group and to generate noticeable improvements in both the financial situation and earnings situation.

4. Opportunity and risk report

I. Risk management system

As part of its business activities, the ISARIA Wohnbau group is subject to numerous insecurities, changes and associated risks. In order to operate successfully in this environment and to further develop and reinforce its position as a successful provider of attractive residential property, the company must anticipate possible developments at an early stage and systematically identify, assess and manage the resulting risks. Recognising and using opportunities is also a crucial factor. As a result, a functional opportunity and risk management system constitutes a central element of value-oriented corporate governance.

In addition to business management requirements, a risk management system is also required due to regulations and statutory requirements (e.g. Section 91 (2) of the Aktiengesetz [German Public Limited Companies Act] and the Bilanzrechtsmodernisierungsgesetz [German Accounting Law Reform Act]).

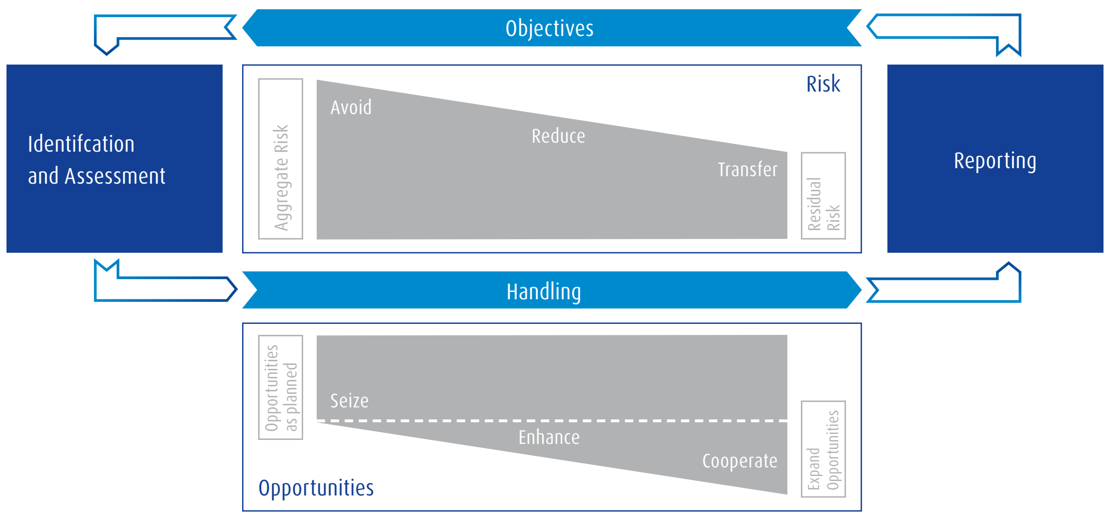
The group-wide risk management system covers external, strategic, operating, financial and reputation risks and opportunities for our fully consolidated entities. Risks with similar content are grouped together to form risk types, for example, regulatory environment risks, financial sector risks, technical risks or project risks. The risk officer then prepares and evaluates these risks, and then regularly communicates them to the decision-makers managing the risks. The internal control system focusses on monitoring and managing the identified risks. The Executive Board is responsible for this system at a group level. The internal control system is an integral component of risk management.

Risks are managed as an ongoing process. This process is broken down into the following phases: identification, assessment, management and reporting (see image).

see G 17
Continuous process of the risk and opportunity management system

The system was also constantly further developed and updated last year. This is an ongoing management task, which is pursued as a top priority.

G 17 | Continuous process of the risk and opportunity management system



As part of their statutory audit mandate for the audit of the consolidated and single-entity financial statements, the auditors review whether the early risk recognition system is suitable for identifying risks and developments which could endanger the company's continued existence at an early stage. The system complies with statutory requirements for an early risk recognition system and conforms to the German Corporate Governance Code.

II. Risk assessment and risk containment

Assessment method

In order to ensure that risks are evaluated in a uniform manner in the company, and thus to ensure that the results are comparable, the risks are evaluated according to a fixed scoring system, and then according to predefined criteria which are presented below.

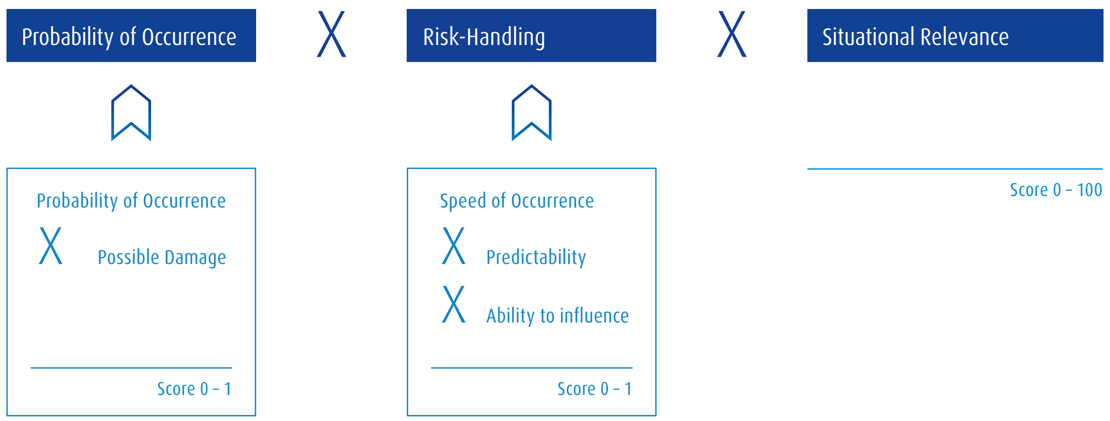
see G 18
Risk management

The anticipated value is the product of the possible damage and the probability of occurrence. The following assessment criteria apply:

	Probability of Occurance	Description	Score
1	> 0% to 5%	nearly excluded	0.05
2	> 5% to 20%	unlikely	0.2
3	> 20% to 60%	possible	0.6
4	> 60% to 100%	likely	1

	Level of Potential Damage	Description	Score
1	low	0 – 100 k€	0.01
2	medium	100 – 1,000 k€	0.1
3	high	more than 1,000 k€	1

G 18 | Risk management



The risk-specific opportunities of risk handling are assessed according to the following criteria: speed of occurrence, predictability and ability to influence the risk. These components are set as being 'low', 'medium' or 'high' in each specific case. The overall assessment of the opportunities of risk handling is the result of the respective constellation of the three components in the specific case and is set out in a so-called risk handling matrix.

The situational relevance considers the fact that risks which are fundamentally recognised and which are generally present in the current situation can be of greater or lesser relevance, depending on the respective current environment and the activities which have been put in place. As a result, risks which can be managed are less relevant than risks which are to be expected to occur in full. The situational relevance for one and the same risk may change over time.

	Situational Relevance	Score
1	low relevance	20
2	relevance below average	40
3	moderate relevance	60
4	relevance above average	80
5	fully relevant	100

Risk containment measures

To the extent possible and economically feasible, we transfer risks that can be insured to external risk bearers via corresponding insurance policies. This is subject to the possible risk extent reaching a level which is relevant for the group or for risks which are otherwise required to be bundled and managed at a group level to protect the group's interests (opportune reasons/cost optimisation/risks reduction).

The respective risk owners define other countermeasures for the remaining risks depending on their type and characteristics. A large number of activities can be used in this regard. The following list includes some examples:

- We meet market risks with end-to-end sales control and in-depth research.
- We minimise operating risks with a large number of activities:
  - Standardising due diligence when purchasing properties and land
  - Engaging top-quality construction companies/prime contractors according to predefined processes when placing orders
  - Using internal and external specialists to procure building rights
- We manage risks from the political and regulatory environment via in-depth, constructive dialogue with the authorities.
- We manage litigation-related risks with suitable support for the proceedings.

III. Relevant opportunities and risks

The following section details all the material opportunities and risks that have been identified for the group and which could impact the net assets, financial position and results of operations and/or the reputation of ISARIA Wohnbau and, via the results of its subsidiaries, the net assets, financial position and results of operations of ISARIA Wohnbau AG. If opportunities and risks can be clearly allocated to a specific operating segment, this is subsequently presented.

see T 09
Group's risks

At present, we have not identified any risks that, taken individually or collectively, could endanger our company's continued existence.

In order to make it easier to understand risks and their impact, we have allocated the individually assessed risks to the following categories:

T 09 | Group's risks

Risik category	Probabilitiy of occurrence	Level of potential damage	Risk level
Industry and market-related risks			
Economic risks	low	medium	medium
Risks from competition, diversification and acquisition	medium	high	medium
Regulatory Environment	please refer to page 90 et seq.		
Operational risks			
Project Risks	medium	medium	medium
Participation risks	low	low	low
Organisational risks	low	low	low
IT Risiks	low	low	low
HR risks	medium	low	low
Reputational risks			
Reporting in the media	medium	low	low
Sustainability	low	low	low
Legal risiks	please refer to page 94 et seq.		
Financial risks			
Interest rate risks	low	medium	medium
Credit risk	low	low	low
Liquidity risiks	low	high	medium
Tax Risiks	please refer to page 97 et seq.		
Other Risiks	please refer to page 97 et seq.		

Industry and market-related risks and opportunities

Economic risks and opportunities

The development of the residential property market depends on a wide variety of constantly changing factors which mutually influence each other and which the ISARIA Wohnbau group cannot influence. These include, for example, the market level of prices for properties and land, the relationship between supply and demand for real estate in specific locations and price classes, the underlying tax conditions, the development of the local labour market, the development of the overall economy, and the resulting cyclical fluctuations for the residential property market.

When taking decisions to purchase properties, economic factors are also often interpreted highly subjectively by private players on the market. They tend to ignore certain developments or to increase these. This is easy to understand, as buying a house is generally one of the most important economic decisions that a private household will have to take. The group can only anticipate economic risks and try to control these. 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 as a result of falling demand and the associated income risks. If demand increases, there is, in particular, a procurement risk in the acquisition of projects and for construction services.

In contrast, a significant recovery in the economic situation on our markets and the associated further increase in demand can offer the opportunity to increase selling prices even further.

Given this market environment, the residential real estate market in the greater Munich region and the other so-called ‘A’ cities (Germany’s seven largest cities) has been relatively crisis-resistant in the past few years and is characterised by a constant high level of demand. However, this means that there are frequent bottlenecks for highly qualified prime contractors or contract-based work when awarding tenders for construction services as part of individual projects. High demand for services by craftsmen leads to higher prices and problems with quality. As a result, in the future ISARIA Wohnbau may not be able to pass on these higher production costs for its projects to its customers via higher prices when selling properties, as it has been able to in the past. We try to minimise this risk with long-term or partner-like relationships with construction companies. In particular, we meet increasing quality problems with a higher level of vertical integration in production when monitoring construction by using state-of-the-art IT systems.

Risks from competition, diversification and acquisition

The market for project developers in Germany’s ‘A’ cities is characterised 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 who operate throughout Germany or internationally, and who are increasingly aiming to win residential construction projects in the greater Munich region. In order to minimise this risk, the group already formed its ‘Revitalisation’ division in 2008. As a result, the risk can also be spread over the renovation and conversion of existing properties, in particular former office properties, as a second product area, in addition to the new construction of residential properties.

In view of the unchanged, rigid market situation for land in the greater Munich region, the ISARIA Wohnbau group will have to constantly use its competence to identify suitable land and real estate in the future, developing these and then acquiring these plots of land at suitable conditions. At present, we can ascertain that competitors on the Munich market are making speculative purchases, i.e. they are basing their calculations on selling prices that are higher than current market prices, and that they thus expect the price developments in the past four years to continue. As a result, the ISARIA Wohnbau group was overbid by corresponding market players with secure construction rights in several auctions in 2015.

To date, the ISARIA Wohnbau group has focussed 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 city’s real estate market in the future, as it may not be possible for average groups of house-buyers to pay these prices in future.

The strategic decision that was taken in 2014 to expand the ISARIA Wohnbau group's business activities to include Hamburg as a second regional market is also reducing the risks discussed above. Households in Hamburg have comparable available income, and house prices there are around one-third lower than in Munich. In addition, the ISARIA Wohnbau group started to identify attractive markets in the Munich region in 2014.

If our Munich and Hamburg markets show a poor demand for residential property, then it may be necessary to expand our business activities even further in this region or to other locations. The associated barriers to market entry and costs could have a sustained impact on earnings for the ISARIA Wohnbau group, however, they also open up new opportunities.

Regulatory environment

ISARIA Wohnbau group's real estate business

The ISARIA Wohnbau group's business activities depend, to a great extent, on specific legal conditions. Turnkey sales of residential units to private individuals and the receipt of instalments is an activity which acquires a license under German commercial law, and is subject, in particular, to the regulations included in the *Makler- und Bauträgerverordnung* (Directive for Estate Agents and Construction Companies). No changes to these rules are expected in the foreseeable future.

However, other changes to national or European law, or changes to court rulings could have a negative impact on our business activities. Since the start of the 1990s, the German real estate market has relaxed significantly for more than twenty years and has thus not been a key political focus. However, during this period the legal and tax situation for real estate investments in Germany often deteriorated. Serious changes have been made in many areas (depreciation periods, deadlines for sale transactions, inheritance tax, land tax, 'Eigenheimzulage' [grant for home-buyers]).

Political discussions concerning the scarcity of residential real estate in urban conurbations started to heat up again in 2012, and various statutory initiatives were discussed in this regard.

In their plenary meeting of 27 March 2015, the German federal states approved the act to introduce a rental price block and to reinforce the principle of the ordering party for agency fees (Mietrechtsnovellierungsgesetz – German Rental Law Amendment Act – MietNovG). The introduction of a rental price block is aimed at curbing the increase in rental prices in tense housing markets. Under this act, however, new properties which are rented and occupied for the first time after 1 October 2014 are not covered by the rental price cap. This could make new residential properties even more attractive for both private and institutional investors. The rental price block provisions have applied throughout Hamburg since 1 July 2015 and across the entire metropolitan area of Munich since 1 August 2015.

Their effect up to now is being controversially debated by the media. A sustained impact remains to be seen on the property market. Rental prices in Munich have risen by 1.5% in just three months. Only in Hamburg have the average rental prices risen somewhat slower, which indeed was also evident in the months leading up to the introduction of the rent cap. At the end of the financial year, a second amendment to the German Rental Law is being discussed by the government, with further planned interventions regarding freedom of contract.

On the whole, there is an increased risk that various activities on all political levels could lead to increased regulation of the free construction of residential properties and on rental prices. However, this could also be a positive factor, for example, through new subsidy programmes for residential property ownership.

In general, higher statutory requirements for energy efficiency could also cause construction costs to increase significantly. And thus the new EnEV 2016 regulation came into effect on 1 January 2016, which provides for a 25% reduction in the energy requirement of the heating systems of newly built residential buildings and a 20% improvement in the building's thermal insulation in comparison with EnEV 2014.

The group can only anticipate these risks and try to control these. As these are statutory regulations that apply equally to all market participants, the group does not believe that it is subject to a particular risk in this regard.

One Group fund business

In Germany, initiating, managing and administering closed-end funds are regulated in a variety of ways:

The *Kapitalanlagegesetzbuch* (KAGB – German Capital Investment Code) came into force in Germany on 22 July 2013 for the national implementation of the Alternative Investment Fund Manager (AIFM) policy. According to the KAGB, closed-end funds for which units are newly issued after 22 July 2013, have to be issued, sold and managed by a *Kapitalverwaltungsgesellschaft* (KVG – Capital Management company). There are various requirements for KVGs with regard to their equity funding, the form and structure of their risk management and control system and ensuring end-to-end reporting. KVGs must be licensed by the German Financial Services Supervisory Authority (BaFin). Additional regulations in the KAGB also impact the future product design; for example, investments have to comply with the principle of risk diversification. In future, investment conditions have to be presented for each closed-end fund. These have to describe the investment strategy and limit its content. BaFin must approve the investment conditions. A sales license has been newly introduced. This has to be obtained from BaFin prior to the start of sales for the closed-end fund. As part of the issue of this sales license, BaFin will also review the prospectus which also has to be presented for publicly offered funds.

One Group is a member of the Bundesverband Sachwerte und Investmentvermögen e.V. (bsi) and is already equipped to deal with these amended statutory conditions. On 23 April 2015, One Group received its approval and license to start sales of ProReal Deutschland Fond 4, its first regulated investment fund based on the Kapitalanlagegesetzbuch (KAGB – German Capital Investment Code). ProReal Deutschland Fonds 2 and ProReal Deutschland Fonds 3 have already been fully placed and are covered by the transitional regulations contained in the AIFM Policy and the KAGB, and are therefore unaffected by the new regulatory requirements.

Operating risks

Project risks and project opportunities

As a traditional project developer for residential real estate, the ISARIA Wohnbau group does not keep its properties in its portfolio permanently, but often sells the residential units to customers already during the construction phase. As a result, in its 'New Construction and Revitalisation' divisions, 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 or delay it, reduce the value of the land, increase the construction costs, and have a material impact on marketing. This risk from the procurement of building rights is met via many years' experience in project planning.

Business activities are subject to fluctuations, which are mostly characterised by the respective current stage of construction for the respective multi-year project. The conclusion of notarised contracts for residential properties, which is reflected in the ISARIA Wohnbau group's so-called notarised sales, must thus be distinguished from the recognition of revenues as income in the income statement. Revenues are recognised when the special ownership is accepted by the purchaser of the property, and when it is (or the keys are) handed over to him/her. ISARIA Wohnbau group minimises this risk by having portfolio projects at different stages of construction.

Outdoor construction activities are subject to weather conditions. As a result, a cold, hard winter or an increase in the level of groundwater after extended periods of rain can lead to delays in the construction progress, and thereby to a loss of revenues at a later stage. Such delays can only be compensated for later on with a great deal of effort and additional expense. Any such weather-related effects could lead to a substantial downturn in earnings. It is only possible to reduce this to a very limited extent with countermeasures, such as corresponding scheduling while considering the winter period.

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 also lead to significantly higher costs.

ISARIA Wohnbau group is a project developer for top-quality residential real estate, and as such it must realise its construction and revitalisation projects within the planned timeframe and at the calculated cost. Upholding the forecast timetable, costs and sales plan depends on a large number of uncertainties and other factors. Unforeseen difficulties arising during the construction or revitalisation phase, such as the bankruptcy of a prime contractor or subcontractor, major deficiencies in these companies' performance, or restrictions placed on the construction sites, may result in substantial delays in the project's timing and additional costs that cannot be calculated. Similar risks may arise when developing existing properties. In addition, there is also the risk that the ISARIA Wohnbau group's products may not be fully accepted by the market, that planned standards are not met, and that there are thus vacancies or that the purchaser insists on changes, for example, because one of ISARIA Wohnbau group's properties was not accurately calculated with the result that the projected selling price for the residential units is not reached, not fully reached, or cannot be reached immediately. This may lead to changes to planning and implementation being required during construction or revitalisation, or it may also make new legal permits necessary, which in turn leads to substantially higher costs and delays in the timetable. In order to meet these risks, large numbers of the units are already sold during the planning phase before construction work starts or in an early phase of construction. This is possible because there is currently excess demand for affordable, top-quality newly built properties in Munich, and because the company can offer corresponding, attractive products.

Project development business is linked to investments, which are normally financed to a significant extent using borrowing. If banks were to heighten their credit conditions in future, or if interest rates rise significantly, this would have a negative impact on business activities. In addition, conditions on the capital market are a particular challenge for project development activities. Future project financing conditions will have a decisive impact on if and whether new projects can be realised.

In the fiscal year 2008, the 'Revitalisation' division was expanded with the acquisition of office properties which are suitable for conversion to residential properties, thereby reducing 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 'Revitalisation' 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 have an increased need for secure investments. In the case of residential construction projects, gross initial returns of approx. 3% to 4% can be realised 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 the value of apartments. However, the prices which can currently be obtained from individual sales, and also the pace of sales, are so attractive that global purchasers can hardly compete. The company has not sold any internally developed and realised properties to a global investor since 2012.

In the real estate project business, construction damage or building defects could result in buyers making damage compensation claims. In this case, the ISARIA Wohnbau group bears the risk of default if, in turn, it has no recourse. The ISARIA Wohnbau group minimises this risk by demanding and receiving warranty guarantees from the (prime) contractors it engages. In addition, the ISARIA Wohnbau group generally 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. The ISARIA Wohnbau group aims to reduce the risks of contaminated sites or other land risks with corresponding contractual regulations and by obtaining expert opinions prior to purchasing a property.

The ISARIA Wohnbau group forms provisions for anticipated litigation in connection with existing properties. These relate, in particular, to provisions for warranties amounting to around € 3.6 million (previous year: € 3.1 million) and provisions for litigation in connection with possible follow-on costs amounting to around € 6.5 million (previous year: € 2.3 million). This was offset by the capitalisation of the respective recourse claims in the amount of € 4.6 million (previous year € 0.0 million).

Participation risks

The individual construction projects are executed by special purpose entities in order to minimise 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 recognises risks in good time. As part of participation controlling, periodic checks for target/actual figures are performed for the respective special purpose entities for all costs, and the level of sales and income is also constantly monitored. All of the employees involved in project development are employed by ISARIA Wohnbau, and control the participations from there.

Organisational risks

The internal organisational structures within the ISARIA Wohnbau group, in particular risk management and the compliance system, must be further developed on an ongoing basis. One Group was successfully integrated into ISARIA Wohnbau's group structure in 2014.

In 2015, the Hamburg offices were built and new staff was appointed. The branch's integration with the ISARIA Wohnbau group in terms of its all-round interfaces and processes is still in its early stages.

Ensuring the development and advancement of suitable organisational, risk monitoring and risk management structures that respect planned further growth and which allow for incorrect developments, incorrect behaviour and risks to be recognised at an early stage is a constant challenge for the ISARIA Wohnbau group.

IT risks

The bulk of our business processes are supported by high-performance, state-of-the-art IT solutions. In most cases, standard, well-known software is used in order to map our processes with a high degree of reliability. The material IT components for forecasting and accounting and the management of our real estate properties are run on our own IT system. This system is serviced by a competent service provider. The availability of data and protection against unauthorised 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. There are corresponding emergency plans and scenarios for any unexpected IT system downtime. However, if any such downtime should result in spite of this, this could temporarily restrict our performance and cause costs to increase due to the requisite replacement activities.

HR risks

Competition for highly qualified specialists and executives continues to be high. The success of the ISARIA Wohnbau group depends, to a substantial degree, 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 ISARIA Wohnbau. 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. ISARIA Wohnbau is geared to the capital markets, and is particularly attractive for highly qualified employees in a non-transparent competitive environment. ISARIA Wohnbau is currently in a growth phase in which acquiring new employees is particularly important. If the company does not succeed in acquiring new specialists and executives to the requisite extent and with the necessary qualifications, this could endanger the company's forecast growth. Nevertheless, the company also managed to take on 11 new employees in 2015, thereby both compensating for staff departures and ensuring the continued growth of the business.

Reputation risk

Negative media reports

Unforeseeable negative media reports about our products and service or our entrepreneurial activities and responsibility could have a major impact on our company's reputation, our standing and the image of our products. The Internet and social networks mean that the dissemination of any such information or opinions could be even faster than was the case just a few years ago.

A negative report could impact revenues and thus our earnings. In order to avoid negative reports, we constantly seek in-depth, constructive dialogue – in particular with our customers, the media and the world of finance. Satisfying our stakeholders is a top priority.

Sustainability

Considering the risks and opportunities offered by Corporate Responsibility forms part of the extensive management of opportunities and risks for the ISARIA Wohnbau group. In this regard, ISARIA Wohnbau also started a project to systematically record sustainability topics within the group during the last fiscal year. We do report on the initiatives that ISARIA Wohnbau group has already put in place in this regard in Chapter 1.V. of this Management Report.

Legal risks

ISARIA Wohnbau is a party to court and out-of-court proceedings with the authorities, customers, residential real estate owners' associations, construction companies, neighbours and other participants. Project development business tends to be subject to disputes as this regularly deals with large amounts and one-off business relationships. The company works together with a large number of law firms, and it uses its contracts and a high level of transparency and quality to attempt to avoid future disputes. As a result of its particular importance, the following issue is presented separately.

Since 2014, the company has sued its former CEO, Josef Kastenberger, for damages totalling around € 3 million. This relates to various criminal actions prior to 2008 when he was the sole managing partner of ISARIA Wohnbau AG's predecessor company. We have also made repeated claims against other parties involved, some of whom were sued as being jointly and severally liable with Mr Kastenberger. The outcome of these lawsuits remains open. On 18 June 2015, insolvency proceedings were instigated against the assets of Mr Josef Kastenberger and the claims were rejected by the administrator. These claims are not capitalised and we consider them to be largely non-recoverable within the scope of the insolvency proceedings.

In the company's lawsuit against a former auditor (fiscal years up to 2009) which was launched due to subsequent corrections required to the balance sheet, the parties agreed to a settlement in March 2015. This resulted in other operating income in the low six-digit euro range. In 2010, an IPO shareholder also sued the company auditor (as well as the company, former board members and other stakeholders) for damages. Here, a settlement was reached without the company being involved and this resulted in all claims against the company being dropped. Therefore, from the company's perspective, there is no further risk of claims from IPO investors.

In order to further limit the risk of violations of existing regulations, acts of law and policies, the current compliance management system was further optimised in 2015 and a compliance manager was appointed. In the future, this system will also be adapted to suit the demands arising from the planned future growth of the company.

No donations were made to parties, politicians and associated institutions (including cash and non-cash donations).

The company has appointed a data protection officer who reports regularly to the Executive Board. During the past fiscal year, we did not become aware of any violations of the provisions of the German Data Protection Act.

There are no current, nor have there been any previous proceedings against the company, its executive bodies or any of its subsidiaries as a result of anti-competitive behaviour or the formation of cartels or monopolies.

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. The group's financial risk management aims to limit these risks as a result of the ongoing operating and financially oriented activities. This includes an ongoing, detailed liquidity forecast as well as the use of simulations while using worst-case scenarios.

Interest opportunities and risks

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. In contrast, a downturn in interest rates could provide a further boost to demand for residential real estate and also reduce own interest costs, and thus have a positive impact on the ISARIA Wohnbau group's net assets, financial position and operational results.

However, as the majority of financing agreements include fixed interest rates, the group does not use derivative financial instruments, for example, to hedge against interest rate risks.

One Group depends on the future growth in demand for closed-end alternative investment funds (AIF) and the economic attractiveness of the AIF that it sells. Placement success also depends on the success of the projects that One Group is invested in, and also their market communication. A downturn in the ability to place One Group's products could lead to increased financing expenses and restrictions on ISARIA Wohnbau's growth. In contrast, if placeability increases, this could reduce financing expenses and lead to further opportunities for the ISARIA Wohnbau group's growth.

Payment default risk

The group provides for 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 mostly include a large number of private purchasers of residential real estate, who verify their financing when purchasing a property.

Liquidity risk

A further financial risk for the ISARIA Wohnbau group is the fact that 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, alternative financing instruments (so-called mezzanine financing) have been concluded with additional investors in order to be able to verify the requisite equity to the banks or to fully finance the projects in this manner for a temporary period. 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.

In industry-specific terms, construction contract financing is generally only issued with short terms within the one-year range, although project developments and construction activities often take a substantially longer time. As a result, it is often necessary to prolong financing while an activity is taking place. The lenders decide to prolong loans based on factors including trust in the construction company and the projects being developed. In addition, the general situation on the market and the forecast developments also play a role when loans are prolonged. Our risk fell further in this area during the past fiscal year, as can be seen by the new bank financing successfully concluded in 2015.

The ISARIA Wohnbau now has its own financing platform as a result of the acquisition of One Group at the end of 2013. This means a substantial reduction in financial risks in many respects. It has allowed various complex financial instruments to be replaced by a uniform structure. Inflows are now reliable and can be calculated. To some extent, the costs are also substantially lower than for the previous loans. The company believes that the funds already available via this platform, together with the raising of additional funding from ProReal Deutschland Fond 4 in 2016, will enable the pending loan extensions and project developments to be fully financed and that the general level of liquidity will thus be secured. The current liquidity forecast assumes that the most recent loan of €10 million will be repaid by the end of January 2016 as planned. With this, all mezzanine financing with comparably high interest rates will also be paid back.

The funds taken out from One Group must be partially repaid to investors by 2017 at the latest. The liquidity forecast includes acquiring new revolving funds and thus keeping project financing at a certain level over the long term. There are associated risks posed by general market developments and interest rate trends.

The key liquidity outflows are represented by the ISARIA Wohnbau group's ongoing liabilities, financing costs and the scheduled disbursements to the limited partners of ProReal Deutschland Fonds. Liquidity inflows can be expected, in particular, from funding acquired from One Group (ProReal Deutschland Fonds series), and pending transfers by special purpose entities.

All bonds and loans maturing in the 2015 fiscal year and loans were redeemed or extended.

Tax risks

Material tax risks could result from changes to the local tax laws or legislation and different interpretations of existing regulations as part of ongoing or future external tax audits. At present, out-of-court redress proceedings are being held with regard to audit findings for previous years, which bear a tax risk of around €1.3 million (previous year around €1.3 million). No provisions have been formed in this regard as it is not expected that these will be used. Suspension of execution has been granted. At the same time, the outcome of this suit is still open.

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. These do not form part of our risk management system. Such developments could have a direct and indirect impact on the ISARIA Wohnbau group's business in future.

IV. Overall assessment by management on risks and opportunities

The assessment of the overall risk position results from a consolidated observation of all of the key risk areas and individual risks. The overall risk situation has further improved again in 2015 as compared to the previous year. In the ISARIA Wohnbau group's view, at present and based on the assumptions made, there are no further risks which could endanger the company's continued existence, neither from the past nor from developments which can currently be foreseen. The ISARIA Wohnbau group is currently able, and will also be able in future, to grow profitably on the market for residential property development and to use the opportunities and challenges which present themselves, without having to enter into disproportionately high risks.

V. Key features of the accounting-related internal control system

ISARIA Wohnbau's accounting-related internal control system serves to minimise risks as part of financial reporting and to avoid incorrect disclosures in the annual and interim reports which could have a material impact on decisions taken by the addressees for this information. The internal control system aims to identify possible sources of error and to limit risks in the ISARIA Wohnbau group's reporting. The structure of the accounting-related internal control system is closely linked to the internal accounting and financial reporting processes and the existing structures to control the business and central areas. This means that there is sufficient security for the preparation of the quarterly, annual and consolidated financial statements in line with statutory requirements.

The parts of the internal control system that are relevant for financial reporting, including the IT system, are audited regarding their effectiveness by the auditor as part of a risk-oriented audit approach. The auditor informs the Executive Board and the Supervisory Board of any weaknesses and opportunities for improvement.

The ISARIA Wohnbau group's accounting is centrally organised. The annual financial statements for all of the major group companies are prepared by the group's own employees at the headquarters in Munich. In the event that parts of the accounting, such as payroll accounting, are subcontracted to external service providers, ISARIA Wohnbau bears the final responsibility for its financial accounting.

In detail, the accounting process for the 2015 annual and consolidated financial statements was as follows: the annual financial statements prepared according to the German commercial code were compiled internally by the accounting department of ISARIA Wohnbau using the central accounting software of the DATEV eG. Taxes are then calculated by a firm of tax advisers. An external, independent surveyor identifies the fair values of our investment properties. The HGB annual financial statements form the foundations for inclusion in the database-based consolidation system of the 'LucaNet AG'. 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 audited by the auditor for the financial statements. As part of this 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 (HGB) of ISARIA Wohnbau AG and its subsidiaries, for which there is a statutory auditing requirement, were subject to an independent audit.

5. Information according to Section 315 (4) and Section 289(4) of the HGB (German Commercial Code)

Composition of subscribed capital

On 31 December 2015 ISARIA Wohnbau AG's share capital totalled k€ 23,764 and comprised 23,764,000 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

The Executive Board is not aware of the existence of 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 2015 there were participating interests in the capital of ISARIA Wohnbau AG in excess of 10% of voting rights held Helvetic Private Investments AG with 10.05%. 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.

Changes to the articles of incorporation are based on Sections 179 and 133 of the AktG and the rules of the articles of incorporation. All changes to the articles of incorporation must be passed by the General Meeting. However, according to Item 11 No. 4 of the articles of incorporation the company's Supervisory Board may resolve changes to the articles of incorporation which only affect its wording. In line with Section 179 (2) Sentence 2 of the AktG, Item 17 No. 3 of the articles of incorporation stipulates that a resolution by the General Meeting to change the articles of incorporation must, as a rule, be passed with a simple majority of votes cast and the share capital represented when the resolution is passed – if there are no mandatory statutory regulations to the contrary. The law requires a larger capital majority of three quarters of the share capital represented when the resolution is passed at several junctures. It is required, for example, for specific capitalization activities and the exclusion of subscription rights.

Authorisations for the Executive Board to issue or buy back shares

On the balance sheet date, by way of the resolution dated 23 May 2014, the Executive Board is authorised to increase the company's share capital, with the approval of the Supervisory Board, through to 22 May 2019 on one or several occasions by up to a total of k€ 11,882. This will be performed by issuing up to 11,882,000 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.

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. Michael Haupt has the right to terminate his 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, but a maximum of two years of compensation, which no longer resulted and was paid as a result of the premature end of their positions as member of the Executive Board.

On 31 December 2015 there were credit agreements in the ISARIA Wohnbau group which require the banks' approval for changes to the group of shareholders or which result in the loans becoming due. On 31 December 2015, this was the case for a loan agreement for ISARIA GmbH & Co. Objekt Metropolis KG in the amount of around € 15.0 million, a loan agreement for ISARIA Wohnbau Objekt Am Münchfeld GmbH for around € 14.5 million and a loan agreement for ISARIA Tower GmbH of around € 28.1 million.

While the loan agreement for ISARIA GmbH & Co. Objekt Metropolis KG includes this right if ISARIA's interest falls below 75%, the agreement with ISARIA Wohnbau Objekt am Münchfeld GmbH states that a change of more than 50.0% of voting rights in the borrower is a condition for the bank asserting its rights. The loan agreement for ISARIA Tower GmbH provides the bank the right to cancel the agreement in the event of any change to the company's shares, insofar as the bank has not approved this change in advance.

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. Declaration on Corporate Governance

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

7. Remuneration Report

Remuneration system for the Executive Board

The remuneration system for ISARIA Wohnbau AG's Executive Board is geared to creating an incentive for successfully growing and managing the company, gearing it to long-term values. The Supervisory Board defines the Executive Board's remuneration. When defining the remuneration for members of the Executive Board, the size and orientation, the economic position, the success and the future perspectives for the company are considered from the perspective of their suitability, as well as the reasonable nature of the remuneration considering the peer group and the remuneration structure which applies in the rest of the company. In addition, the tasks for and contributions made by the respective member of the Executive Board for the company's success, their individual performance and the performance of the Executive Board as a whole are considered when setting remuneration for the Executive Board. Particular performance is to be reasonably honoured, failing to meet targets leads to a reduction in total remuneration. This aims to ensure that the remuneration is reasonable.

Components of the Executive Board's remuneration

Total remuneration for the members of the Executive Board comprises fixed salary payments and incidental payments as well as a variable component which should not exceed the fixed annual remuneration without good cause.

The basic annual salary is based on the tasks and responsibilities of the respective member of the Executive Board. It is paid in twelve equal monthly instalments and remains constant during the term of the employment agreement for a period of three years.

The variable remuneration is linked to profitability indicators for the financial year and also to the realisation of projects with long-term strategic importance for the individual fields of responsibility of the Executive Board.

None of the remuneration components comprise stock options or comparable structures, and this is also not planned.

Incidental payments and other commitments

The members of the Executive Board receive incidental payments of a minor amount. They pay taxes on these payments individually if required. These mostly comprise costs, for example for the cash value of non-cash payments and other incidental benefits such as the provision of a company car. They do not receive any additional payments for taking on positions in group companies. The members of the Executive Board did not receive any loans or advances from ISARIA Wohnbau AG.

Pension commitments

The employment agreements with the members of the Executive Board do not include any pension entitlements.

Commitments in the event of a premature end to activities as a member of the Executive Board

The employment agreement with the Board member Mr. Haupt includes an extraordinary right to cancel the agreement in the event of a change of control. If this extraordinary cancellation right is used, the company will pay the Board member compensation in the amount of 80% of the remuneration which no longer arises and is due for payment for the period between the date of the premature end to the contract and the date on which the contract was scheduled to end. The compensation for this Board member totals, at most, two outstanding annual salaries.

Total remuneration for the Executive Board

T 10 | Income

in k€	Michael Haupt Spokesman of the Executive Board (CEO) Joined: 02/01/2012				Christian Dunkelberg Member of the Executive Board (CIO) Joined: 12/15/2010 Retired: 11/30/2015				Jan von Lewinski Member of the Executive Board (COO) Joined: 01/01/2014			
	2014	2015	2015 (Min)	2015 (Max)	2014	2015	2015 (Min)	2015 (Max)	2014	2015	2015 (Min)	2015 (Max)
Fixed remuneration	330	330	330	330	330	303	303	303	300	300	300	300
Fringe benefits	17	17	17	17	14	13	13	13	15	13	13	13
Total	**347**	**347**	**347**	**347**	**344**	**316**	**316**	**316**	**315**	**313**	**313**	**313**
Single-year variable remuneration	314	330	0	330	314	266	0	303	290	300	0	300
Multi-year variable remuneration	0	0	0	0	0	0	0	0	0	0	0	0
Total	**314**	**330**	**0**	**330**	**314**	**266**	**0**	**303**	**290**	**300**	**0**	**300**
Pension-related expenses	0	0	0	0	0	0	0	0	0	0	0	0
Total remuneration	**661**	**677**	**347**	**677**	**658**	**582**	**316**	**618**	**605**	**613**	**313**	**613**

T 11 | Inflow

in k€	Michael Haupt Spokesman of the Executive Board (CEO) Joined: 02/01/2012		Christian Dunkelberg Member of the Executive Board CIO) Joined: 12/15/2010 Retired: 11/30/2015		Jan von Lewinski Member of the Executive Board (COO) Joined: 01/01/2014	
	2015	2014	2015	2014	2015	2014
Fixed remuneration	330	330	303	330	300	300
Incidential payments	17	17	13	14	13	15
Total	**347**	**347**	**316**	**344**	**313**	**315**
Single-year variable remuneration	330	150	530	150	300	50
Multi-year variable remuneration	0	0	0	0	0	0
Other	0	0	0	0	0	0
Total	**330**	**150**	**530**	**150**	**300**	**50**
Pension-related expenses	0	0	0	0	0	0
Total remuneration	**677**	**497**	**846**	**494**	**613**	**365**

Remuneration for the Supervisory Board

Remuneration for members of the Supervisory Board is governed by the Articles of Incorporation. It is based on the company's size and the responsibility and scope of activities of the members of the Supervisory Board. The members receive fixed remuneration, set by the General Meeting, plus reimbursement of their out-of-pocket expenses. The General Meeting re-regulated remuneration most recently on 23 March 2012. Accordingly, members of the Supervisory Board also receive a meeting fee in addition to their fixed annual remuneration. The members of the Supervisory Board did not receive any loans or advances from ISARIA Wohnbau AG.

Additional details on the remuneration for the Executive and Supervisory Boards, in particular on the amount of remuneration for the past fiscal year, can be found in the notes.

8. Report on events after the balance sheet date

On 4 January 2016, upon payment of the final purchase price instalment, we assumed the benefits and obligations for the plot of land for the *Tower* project development. It will thus now be possible to commence the first construction operations for this large project development in Munich.

At the end of January 2016, as scheduled, the last bond of k€ 10,000 was repaid to the Stratos Fund. From now on, in the area of mezzanine capital, the group will finance itself solely via its inhouse financing platform, which consists of the One Group and its project development funds.

At the beginning of February 2016, the Federal Cabinet approved tax incentives for private investors to encourage the construction of rental apartments. The tax breaks are in the form of fixed-term and degressive special depreciation (referred to in German as 'Neubau-Afa', or 'depreciation of new buildings'). Our markets in Hamburg and Munich are among the regions that qualify for these tax incentives so that our future buyers would benefit significantly from them both as private landlords and also investors. It remains to be seen how the legislative process will progress.

Apart from this, on the date that the group 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.

Munich, 25 February 2016

Michael Haupt
Spokesman of the
Executive Board | CEO

Jan von Lewinski
Member of the
Executive Board | COO

04 CONSOLIDATED FINANCIAL STATEMENTS

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Consolidated Statement of Comprehensive Income

for the Financial Year 2015

	Notes	01/01/ - 12/31/2015 k€	01/01/ - 12/31/2014* k€
Sales revenue			
a) from the sale of property units	8	87,640	156,594
b) from the lease of property units	9	4,510	3,449
c) from other deliveries and services		20	180
		92,170	160,224
Change in inventories of properties held for sale with finished or unfinished buildings	10	30,046	10,105
Total output		**122,216**	**170,329**
Cost of materials	11		
a) Expenses for the sale of property units		-85,620	-124,813
b) Expenses for the lease of property units		-3,527	-2,822
		-89,147	**-127,635**
Gross profit		**33,069**	**42,694**
Personnel expenses	12	-6,644	-6,604
Depreciations / amortisation / impairment charges	19 | 21	-1,378	-1,419
Fair-value measurement of investment properties	20	11,022	-1,508
Other operating income	13	4,335	1,697
Other operating expenses	14	-12,637	-13,217
EBIT		**27,766**	**21,643**
Financial income	15	229	4,028
Financial expenses	16	-15,930	-15,626
Result of associates accounted for using the equity method	17	339	693
Financial result		**-15,362**	**-10,904**
Consolidated result before income taxes		**12,404**	**10,739**
Income tax expenses	18	-4,274	-1,510
Consolidated result after income taxes		**8,130**	**9,229**
of which attributable to the shareholders of ISARIA		7,812	9,252
of which attributable to non controlling interests		318	-23
Other Comprehensive income		0	0
Comprehensive income		**8,130**	**9,229**
of which attributable to the shareholders of ISARIA		7,812	9,252
of which attributable to non controlling interests		318	-23
Earnings per share in €			
Basic	44	0.33	0.39
Diluted	44	0.33	0.39

* adjusted prior-year figures due to a change in measurement methods for investment properties

Consolidated Balance Sheet

as of 31st December 2015

Assets	Notes	12/31/2015 k€	12/31/2014* k€
I. Non-current assets		71,340	38,725
1. Intangible assets	19	7,362	8,555
2. Investment properties	20	48,165	13,828
3. Property, plant and equipment	21	687	328
4. Financial assets			
a) Investments in associates accounted for using the equity method	22	779	1,040
b) Other investments	23	0	75
5. Deferred tax assets	18	14,247	14,758
6. Other accounts receivable	27	101	140
II. Current assets		207,833	262,327
1. Properties held for sale and other inventories			
a) Properties and equivalent rights with unfinished buildings	24	142,323	135,799
b) Properties and equivalent rights with finished buildings	25	172	640
2. Accounts receivable from the sale of property	26	6,207	59,948
3. Income tax receivables	18	3,317	1,707
4. Other accounts receivable and financial assets	27	23,804	22,143
5. Cash	28	32,011	42,090
Total assets		**279,174**	**301,052**

* adjusted prior-year figures due to a change in measurement methods for investment properties

Equity and liabilities	Notes	12/31/2015 k€	12/31/2014* k€
I. Equity and liabilities		30,955	23,349
1. Subscribed capital	29	23,764	23,764
2. Equity and Reserves	29	68,967	137,120
3. Balance sheet loss		-62,096	-137,532
Consolidated equity of the majority shareholders		30,635	23,352
4. Non controlling interests		320	-3
II. Non-current liabilities		131,328	115,763
1. Compensation liabilities to shareholders in general partnership	30	104,247	84,855
2. Financial liabilities to banks	32	18,650	26,562
3. Deferred tax liabilities	18	4,938	1,527
4. Other provisions	36	3,493	2,819
III. Current liabilities		116,890	161,941
1. Compensation liabilities to shareholders in general partnership	30	6,718	9,699
2. Financial liabilities from silent participations, shareholder loans and other forms of capital provision	31	10,000	35,318
3. Financial liabilities to banks	32	65,953	33,173
4. Trade accounts payable	34	7,043	28,445
5. Liabilities from payments made on account	35	12,072	39,171
6. Income tax liabilities	18	3,954	4,237
7. Other provisions	36	8,101	3,892
8. Other liabilities	33	3,050	8,006
Total equity and liabilities		**279,174**	**301,052**

Statement of Changes in Consolidated Equity

in the Financial Year 2015

	Subscribed capital k€	Deposits made to execute the resolved capital increase k€	Equity and Reserves k€	Balance sheet loss k€	Consolidated equity of the majority shareholders k€	Non controlling interests k€	Total consolidated equity k€
As of 1st January 2014	**20,764**	**8,700**	**131,472**	**-147,270**	**13,665**	**-59**	**13,605**
Adjustment according to IAS 8	0	0	0	487	487	0	487
Adjusted as of 1st January 2014	20,764	8,700	131,472	-146,783	14,152	-59	14,092
Comprehensive Income	0	0	0	9,294	9,294	-23	9,271
Capital increase	3,000	-8,700	5,700	0	0	0	0
Business combination without change of status	0	0	-52	0	-52	79	27
As of 31st December 2014*	23,764	0	137,120	-137,489	23,394	-3	23,391
Anpassung gem. IAS 8	0	0	0	-43	-43	0	-43
Adjusted as of 31st December 2014	**23,764**	**0**	**137,120**	**-137,532**	**23,351**	**-3**	**23,349**
As of 1st January 2014	**23,764**	**0**	**137,120**	**-137,532**	**23,352**	**-3**	**23,349**
Comprehensive Income	0	0	0	7,812	7,812	318	8,130
Changes in consolidated group	0	0	-529	0	-529	5	-524
Reversal and addition	0	0	-67,624	67,624	0	0	0
As of 31st December 2015	**23,764**	**0**	**68,967**	**-62,096**	**30,635**	**320**	**30,955**

* adjusted prior-year figures due to a change in measurement methods for investment properties

Consolidated Cash Flow Statement

for the Financial Year 2015

	Notes	01/01/ - 12/31/2015 k€	01/01/ - 12/31/2014* k€
Consolidated result before income taxes		**12,404**	**10,739**
Adjustments for the reconciliation from Consolidated result before income taxes to Cash flows from operating activities			
Depreciations / amortisation / impairment charges	19 | 21	1,378	1,418
Fair-value measurement of investment properties	20	-11,022	1,508
Valuation allowances (+) / write-ups (-)	24 | 25 | 26	-31	-544
Financial results	15 | 16 | 17	15,362	10,904
Other non-cash expenses / income	37	463	216
Decrease (+) and increase (-) in properties held for sale and other inventories	24 | 25	17,442	-9,586
Decrease (+) and increase (-) in accounts receivable from the sale of property and of other accounts receivable and financial assets		65,710	-58,368
Increase (+) and decrease (-) in trade accounts payable and other current liabilities	33 | 34 | 35	-77,325	8,503
Increase (+) and decrease (-) in other provisions	36	5,538	2,431
Income taxes paid (-) / refunded (+)	18	-561	-1,672
Cash flows from operating activities		**29,357**	**-34,452**
Acquisition of intangible assets	19	-24	-19
Acquisition of property, plant and equipment	21	-519	-96
Payments from the sale of property, plant and equipment		0	21
Acquisitions of subsidiaries and associates	3	1,485	0
Cash disposed off due to deconsolidation of subsidiaries	3	-51	0
Interest received	15	66	156
Cash flows from investing activities		**957**	**62**
Net payments from taking out of financial liabilities	30 | 31 | 32	34,368	96,927
Repayments of financial liabilities	30 | 31 | 32	-59,483	-44,675
Interest paid	16	-5,083	-13,253
Cash flows from financing activities		**-30,198**	**38,999**
Change in cash		**117**	**4,610**
Cash at the beginning of the accounting period	28	**17,003**	**12,393**
Cash at the end of the accounting period	28	**17,119**	**17,003**

* adjusted prior-year figures due to a change in measurement methods for investment properties

Notes to the Consolidated Financial Statements

1. General information

ISARIA Wohnbau AG (hereinafter also 'company', 'ISARIA' or in conjunction with its subsidiaries and joint ventures 'ISARIA Wohnbau group') is a listed corporation under German law. Shares of the company are listed on the Regulated Market of the Frankfurt Stock Exchange (Prime Standard). 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.

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.

The ISARIA Wohnbau group is a project developer for residential properties. 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 ISARIA Wohnbau group include the divisions New Construction of residential property and Revitalisation of existing properties. The latter includes changing former commercial properties into residential properties under the *APP.ARTMENTS* brand.

The company's business model is to sell all apartments and houses that it has constructed. In order to deploy the funds invested in the projects as profitably as possible, the Executive Board permanently reviews the phases in which the best, risk-optimised realisation result can be achieved. The normal case is the turnkey-ready sale of single properties to private investors or owner-occupiers. In certain cases, it may also be meaningful to sell the projects before or after completion of the construction rights development. During the review, it could also prove to be beneficial to retain the property as an investment property. For example, when holding obligatory subsidised residential building projects or commercial properties temporarily in the portfolio promises a better financial result in the future. The prerequisite for recognition as an investment property is that the (currently favourable) primary interest rate situation must allow for sufficient surpluses from the management of the property to provide a proper return on equity and that this equity is not necessarily required for current assets. This can be ensured, for example, with new financial products from the group's own financing platform. Overall, investment properties can continually generate rental income to offset the comparatively volatile project development business. In the case of investment properties, basically, these are also evaluated on an ongoing basis with respect to the options for restructuring and utilisation.

To date, the company, together with its SPEs, has exclusively operated on the high-growth greater Munich region where it has ranked among the market leaders for several years. However this position can only be upheld by making ongoing acquisitions and it cannot be expanded in a reasonable manner. Given this background, 2014 ISARIA Wohnbau took the strategic decision to expand its activities geographically and to include Hamburg as a second location. This is also in view of the fact that price levels in this city, which is next largest in terms of its size, are much lower than in Munich – while population growth is also strong and private households have comparable spending power. In 2014, the company acquired two projects and opened up an office in Hamburg. The company's headquarters, with all of the central departments, will continue to be in Munich.

ISARIA Wohnbau has its own financing platform within the group with One Group GmbH, Hamburg and its subsidiaries (hereinafter referred to as 'One Group'). The business activities of One Group mostly comprise conceiving, structuring and issuing project development funds for residential construction projects in Germany. In ISARIA Wohnbau's locations these funds invest exclusively in its projects. In other locations investments can also be made in external projects.

One Group is run as a sub-group within the ISARIA Wohnbau group. The earnings of this subgroup are shown in the separate segment *One Group*.

02 Principles for preparing the annual financial statements

The consolidated financial statements as of 31 December 2015 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 2015 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 25 February 2016 and, subject to approval by the supervisory board, released for publication.

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

T 01 | Newly applicable or amended and applicable interpretations and standards

Standard / Interpretation	Application mandatory from	Adoption by EU-Commission
IFRIC 21, Levies	01/01/2015	06/13/2014
Amendments to IAS 19, Defined Benefit Plans: Employee Contributions	01/01/2015	12/17/2014
Annual Improvements to IFRSs 2010–2012 Cycle	01/01/2015	12/17/2014
Annual Improvements to IFRSs 2011–2013 Cycle	01/01/2015	12/18/2014

T 02 | Standards and interpretations already published but not yet applied

Standard / Interpretation	Application mandatory from	Adoption by EU-Commission
Amendments to IAS 16 and IAS 41: Agriculture / Bearer Plants	01/01/2016	11/23/2015
Amendments to IFRS 11: Accounting for Acquisitions of Interests in Joint Operations	01/01/2016	11/24/2015
Amendments to IAS 16 and IAS 38: Clarification of Acceptable Methods of Depreciation and Amortisation	01/01/2016	12/02/2015
Annual Improvements to IFRSs 2012–2014 Cycle	01/01/2016	12/15/2015
Amendments to IAS 1, Disclosure Initiative	01/01/2016	12/18/2015
Amendments to IAS 27: Equity Method in Separate Financial Statements	01/01/2016	12/18/2015
IFRS 15, Revenue from contracts with customers	01/01/2018	open
Amendments to IFRS 10, IFRS 12 and IAS 28: Investment Entities – Applying the Consolidated Exception	01/01/2016	open
IFRS 9 Financial Instruments	01/01/2018	open
Amendments to IFRS 10 and IAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	open	open
IFRS 14, Regulatory Deferral Accounts	01/01/2016	No apotion into EU law

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. The first-time adoption of these standards shall take place on a mandatory date.

03 Consolidation

On the balance sheet date, the present consolidated financial statements comprise, in addition to ISARIA Wohnbau AG, 37 (previous year: 37) subsidiaries and three (previous year: three) joint ventures consolidated at equity. During financial year 2015, the scope of consolidation changed as follows:

Newly founded companies and/or acquisitions

The following new companies were founded and/or acquired in the fiscal year 2015:

- Wohnbau Objekt Hansastraße GmbH, Munich
- Wohnbau Objekt Tübinger Straße GmbH, Munich
- One Residential 1 GmbH, Hamburg

The company notarised the purchase of 84% of the shares of each of the project companies Wohnbau Objekt Hansastraße GmbH and Wohnbau Objekt Tübinger Straße GmbH by way of notarised purchase agreements in December 2013. The condition precedent for the execution of these agreements was consent from the financing partners. In April 2015, these prerequisites were fulfilled in both cases. As ISARIA Wohnbau AG already held 6% of the shares in each of the aforementioned companies, 90% of the shares of said companies have now been held since this point in time. The purchase price was k€ 42 in total. During the 2015 fiscal year, the companies were included in the consolidated financial statements of ISARIA Wohnbau AG for the first time by way of full consolidation.

The company ProReal Deutschland Fonds 4 GmbH & Co. geschlossene InvKG, Hamburg was already founded in the fiscal year 2014 in order to raise financing resources. This company first began operations in the reporting period and has been therefore fully consolidated upon approval to start sales activities by the Federal Financial Supervisory Authority (BaFin) on 23 April 2015.

Withdrawal due to accrual to non-consolidated subsidiaries

ISARIA Wohnbau AG assigned their shares in JK Wohnbau GmbH & Co. Objekt Waltherstraße KG on 30 November 2015. Within the framework of universal succession, all assets and liabilities of JK Wohnbau GmbH & Co. Objekt Waltherstraße KG have been accrued to their remaining partner Waltherstraße Komplementär GmbH. The shares of Waltherstraße Komplementär GmbH have been 100% held by ISARIA Holding GmbH since its sale on 30 November 2015. Waltherstraße Komplementär GmbH has been and remains immaterial from the perspective of ISARIA Wohnbau group and is therefore not included in the consolidated financial statement. A substantive earnings effect and a disposal of substantial assets and liabilities did not arise from the matter.

Deconsolidation owing to liquidation of subsidiaries

During the reporting period, ProReal Deutschland Fonds GmbH & Co. KG and ProReal Deutschland Projektfonds GmbH & Co. KG, which are in liquidation, have been deconsolidated as of 1 July. An earnings effect and a disposal of substantial assets and liabilities did not arise from this matter.

Deconsolidation due to immateriality

JK Wohnbau Fonds I Beteiligungs GmbH & Co. KG is no longer included in the consolidated financial statements after a complete return of all funds to investors in 2014 due to the immaterial impact to the assets, financial and results of operations of the group at the balance sheet date. An earnings effect and a disposal of substantial assets and liabilities did not arise from this matter.

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 31 December 2015:

T 03 | Fully consolidated subsidiaries ISARIA Wohnbau AG

Name	Registered office	12/31/2015 Share in voting rights	12/31/2014 Share in voting rights
App.artments GmbH	Munich	100%	100%
GINDIWO Gesellschaft für individuelle Wohnprivatisierung mbH	Munich	100%	100%
GINDIWO Gesellschaft für individuelle Wohnungsprivatisierung Objekt St. Bonifatius Straße mbH	Munich	100%	100%
ISARIA Bau GmbH	Munich	100%	100%
ISARIA GmbH & Co. Objekt Metropolis KG	Munich	100%	100%
ISARIA Holding GmbH	Munich	100%	100%
ISARIA Holding GmbH & Co. Objekt Hörgensweg KG	Munich	100%	100%
Isaria III Immobilienverwaltung GmbH & Co. KG	Munich	100%	100%
Isaria Immobilienverwaltung GmbH & Co. KG	Munich	100%	100%
ISARIA Tower GmbH	Munich	100%	100%
ISARIA Verwaltungs AG & Co. Objekt Viktoriastraße KG	Munich	100%	100%
ISARIA Wohnbau Objekt Am Münchfeld GmbH	Munich	100%	100%
ISARIA Wohnbau Objekt Karlsfeld 2 GmbH	Munich	100%	100%
ISARIA Wohnbau Objekt Karlsfeld 3 GmbH	Munich	100%	100%
ISARIA Wohnbau Objekt Willy-Brandt-Allee GmbH	Munich	100%	100%
J.K. Wohnbaugesellschaft mbH & Co. Objekt Hohenwaldeck KG	Munich	100%	100%
JK Wohnbau GmbH & Co. Objekt Maistraße KG	Munich	100%	100%
JK Wohnbau Objekt Karlsfeld 1 GmbH	Munich	100%	100%
JK Wohnbau Objekt Stahlstraße GmbH	Munich	100%	100%
Living Bogenhausen GmbH	Munich	100%	100%
Objekt Kapstadtring 1 GmbH	Munich	100%	100%
Wohnbau Objekt Hansastraße GmbH	Munich	90%	6%
Wohnbau Objekt Tübinger Straße GmbH	Munich	90%	6%

Name	Registered office	12/31/2015 Share in voting rights	12/31/2014 Share in voting rights
One Capital Emissionshaus GmbH	Hamburg	100%	100%
One Consulting GmbH	Hamburg	100%	100%
One Group GmbH	Hamburg	100%	100%
One Komplementär GmbH	Hamburg	100%	100%
One Komplementär 2 GmbH	Hamburg	100%	100%
One Project Development AIF 4 GmbH	Hamburg	100%	100%
One Project Development GmbH	Hamburg	100%	100%
One Real Estate GmbH	Hamburg	100%	100%
One Residential 1 GmbH	Hamburg	100%	–
OPD Objekt St. Augustin GmbH	Hamburg	100%	100%
One Group Objekt Herbartstraße 23 GmbH (formerly vRHV Verwaltung I GmbH)	Hamburg	94.8%	94.8%
ProReal Deutschland Fonds 2 GmbH & Co. KG	Hamburg	0.6%	0.6%
ProReal Deutschland Fonds 3 GmbH & Co. KG	Hamburg	< 0.01%	0.02%
ProReal Deutschland Fonds 4 GmbH & Co. geschlossene InvKG	Hamburg	0.02%	–

In case of ProReal Deutschland Fonds 2 GmbH & Co. KG, ProReal Deutschland Fonds 3 GmbH & Co. KG and ProReal Deutschland Fonds 4 GmbH & Co. KG, the share of voting rights is just 0.60%, less than 0.01% and 0.02%. However, these compa-nies 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:

T 04 | Joint ventures

Name	Registered office	12/31/2015 Share in voting rights	12/31/2014 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, so therefore ISARIA expects no major opportunities or risks from the joint ventures.

2. Accounting and measurement methods

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 (except for the subsequent measurement of investment property using the revaluation method at fair value).

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 apply.

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:

T 05 | 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

The amortisation of intangible assets is presented in combination with amortisation of fixed assets under depreciation and amortisation in the consolidated statement of comprehensive income.

Investment properties

ISARIA classifies properties on initial recognition according to the intended use as either investment property or as property, plant and equipment. Properties that are to be held over the long term, but do not meet the conditions of a financial property according to the criteria in IAS 40 are reported under property, plant and equipment. 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. They be kept in portfolio medium to long term and leased or held for appreciation purposes.

Investment properties are initially recognised at purchase or production costs, including additional costs. In subsequent measurement, they are measured at their fair values, which reflect the market conditions on reporting date. A gain or loss from the change in fair value is recognised in the profit and loss account. Subsequent costs for the expansion and conversion of these properties are recognised if they contribute to an increase in the fair value of the property. The evaluation will also be assigned to the best possible use of the respective object. Consequently, use changes in the evaluation are taken into account, provided that the technical feasibility, the legality and the financial feasibility are met.

The valuation of investment properties takes place annually during the second half of the year. If there have been substantial changes in the relevant input factors on the reporting date, an appropriate amendment shall be made. The determination of the fair value of investment property is based on detailed reports from independent, external experts using recognised valuation methods. The commissioned independent experts have appropriate professional qualifications and experience to conduct the review. The reports are based primarily on the information provided by the company, such as current rent, maintenance and administrative costs or the current vacancy and assumptions of the expert appraiser, which are based on market data and are judged on the basis of his professional qualifications, e.g. future market rents, typed maintenance and administrative costs, structural vacancy rates or discounting and capitalisation rates.

The information the appraiser was provided with and the assumptions made as well as the results of property valuation are analysed by the Board before they are accounted for.

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:

T 06 | Property, plant and equipment

	Depreciation method	Useful life
Furniture and fixtures	straight-line	3 to 23 years

Impairments of other intangible assets and property, plant and equipment, and investment properties

For intangible assets with a finite useful live, property, plant and equipment, 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. Recourse claims are capitalised if the claim is reasonably certain.

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. Compensation liabilities to shareholders in general partnerships are recognised at fair value on the addition date and then valuated as a financial liability measured at acquisition cost (FLAC) over the remaining term such that the repayment amount is reached on the settlement date through the effective interest rate. If the estimated amount of the liability to these shareholders in general partnerships changes, the anticipated cash flows are discounted by the original effective interest and a resulting profit or loss is collected in the reporting period with effect for the profit and loss statement.

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.

05
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.

06
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€ 7,362 on the balance sheet date (previous year: k€ 8,555), broken down into goodwill k€ 4,301 (previous year: k€ 4,301) and other intangible assets k€ 3,061 (previous year: k€ 4,254).

Investment properties

The fair values of the investment properties were calculated for the financial year 2015 in relation to rented apartments and shop units using the earnings value method and for the properties that are still in development using the residual value method by independent experts, and amount to k€ 48,165 (previous year: k€ 13,828). For measurement purposes, factors that have a direct and considerable effect on fair value, such as future rent revenues and applicable discount rates, or possible total sale yields and estimated costs for erecting the properties must be estimated.

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€ 142,495 (previous year: k€ 136,439).

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 2015, the carrying amount of the provisions was k€ 11,595 (previous year: k€ 6,711).

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€ 104,399 (previous year: k€ 84,855), the carrying amount of current compensation liabilities comes to k€ 6,718 (previous year: k€ 9,699).

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€ 0).

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 carried-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. The basis for this is a four-year, medium-term plan as it was in the previous year. As forecasting certainty decreases the further the date of realization is in the future, loss carried forwards that can only be used in the period after the first four years of the forecast are not applied. On the balance sheet date of 31 December 2015, the assets from current income taxes totalled k€ 3,317 (previous year: k€ 1,707) and liabilities from current income taxes totalled k€ 3,954 (previous year: k€ 4,237). Assets from deferred taxes totalled k€ 14,247 (previous year: k€ 14,758) and liabilities from deferred taxes totalled k€ 4,938 (previous year: k€ 1,527).

The investment properties in ISARIA Wohnbau group since the middle of this fiscal year are no longer estimated at acquisition or production cost less depreciation and impairment losses, but at their fair value (new valuation model according to IAS 40). The fair value method is now used for the accounting provides more reliable, more relevant information about the effects of transactions, other events or conditions on the entity's financial position, financial performance and cash flows to the cost method previously used. In this context, in the fiscal year a gain from the revaluation of investment property in the amount of k€ 11,022 was achieved. By contrast, deferred tax liabilities on the revaluation of investment properties in the amount of k€ 3,718 were accrued, affecting net income.

Due to the retrospective application of this voluntary change in the valuation policy for the financial properties, the previous year's figures were adjusted according to IAS 8. Due to the adjustment, the book values of investment properties increased as of 31 December 2014 from k€ 13,192 (reported in the previous year) by k€ 636 to k€ 13,828 and deferred tax liabilities as of 31 December 2014 from k€ 1,335 (reported in the previous year) by k€ 192 to k€ 1,527. In this context, the balance sheet total as of 31 December 2014 has increased from k€ 300,417 (reported in the previous year) to k€ 301,053.

In the consolidated statement of comprehensive income of the previous year, depreciation decreased due to the voluntary change in accounting policy from k€ 2,925 (previous year reported) by k€ 1,506 to k€ 1,419. The result from the revaluation of investment properties was now shown for the first time in the previous year and amounted to k€ -1,508. In addition, the income tax expense rose by k€ 1,468 higher (reported in the previous year) by k€ 42 to k€ -1,510. Because of these adjustments, the consolidated comprehensive income in fiscal year 2014 decreased from k€ 9,272 (reported in the previous year) by k€ 43 to k€ 9,229. Accordingly, the earnings per share (basic and diluted) of € 0.40 (reported in the previous year) were reduced by € 0.01 to € 0.39.

The retrospective adjustments are presented in accordance with the change in the group's equity.

3. Notes to the Consolidated Statement of Comprehensive Income

08
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:

T 07 | Sales revenue from the sale of property units

	2015 k€	2014 k€
Karlsfeld 3 property	39,358	17,179
Karlsfeld 2 property	27,392	24,026
Karlsfeld 1 property	11,492	18,847
Vogelweidestraße property	6,731	42,658
Prinzregentenstraße property	0	51,450
Other properties	2,667	2,435
Total	**87,640**	**156,594**

09
Sales revenue from the lease of property units

Sales revenues from the lease of property units in the amount of k€ 4,510 (previous year: k€ 3,449) mostly include income from the rental of investment properties in the amount of k€ 1,398 (previous year: k€ 642) and income from the sub-rental of properties in the amount of k€ 2,355 (previous year: k€ 2,333).

10
Change in inventories of properties held for sale with finished or unfinished buildings

T 08 | Change in inventories of properties held for sale with finished or unfinished buildings

	2015 k€	2014 k€
Increase in inventories due to construction progress	97,056	134,704
Decrease in inventories through sale	(67,010)	(124,598)
Total	**30,046**	**10,105**

11
Cost of materials

T 09 | Cost of materials

	2015 k€	2014 k€
Expenses for the sale of property units		
Purchase price plot	47,276	67,696
Ancillary costs plot	1,653	3,901
Construction costs and additional costs	36,692	53,216
	85,620	124,813
Expenses for the lease of property units	3,527	2,822
Total	**89,147**	**127,635**

12
Personnel expenses

Personnel expenses consist of the following:

T 10 | Personnel expenses

	2015 k€	2014 k€
Wages and salaries	6,061	6,016
Social security contributions and retirement pensions	583	588
Total	**6,644**	**6,604**

The retirement pension expense amounted to k€ 270 (previous year: k€ 238) and relates to services to government insurers. The payments to state-run pension funds are included in the social security contributions and retirement pensions.

13 Other operating income

Other operating income consists of the following:

T 11 | Other operating income

	2015 k€	2014 k€
Write-off of liabilities	0	821
Reversal of provisions	842	275
Compensation payments	2,641	152
Reversal of impairment adjustments to accounts receivables	70	45
Gains from the sale of non-current assets	488	15
Other income	294	389
Total	**4,335**	**1,697**

14 Other operating expenses

Other operating expenses consist of the following:

T 12 | Other operating expenses

	2015 k€	2014 k€
Legal, consulting and auditing expenses	3,457	3,444
Warranty and follow-up expenses	2,897	2,776
Expenses for premises	1,007	857
Advertising and travelling expenses	785	822
Real estate tax	442	198
Sales commissions and other selling expenses	439	2,048
Compensation for loss of use	436	263
Insurances, contributions and other charges	355	337
Vehicle expenses	145	222
Other	2,673	2,250
Total	**12,637**	**13,217**

15 Financial income

Financial income consists of the following:

T 13 | Financial Income

	2015 k€	2014 k€
Financial income of general partners	0	3,329
Financial income from financial assets	156	562
Other financial income	73	137
Total	**229**	**4,028**

Financial income from financial assets is mostly due to interest income from bank balances and loans. In the previous year the financial income from general partners related to income from the reversal of compensation liabilities to shareholders in general partnerships as well as one-off effects from fair value adjustments of compensation liabilities.

16 Financial expenses

T 14 | Financial expenses

	2015 k€	2014 k€
Interest and similar expenses from financial liabilities	14,795	14,031
Financing costs	826	1,366
Interest expenses from provisions and non-financial liabilities	162	113
Others	147	116
Total	**15,930**	**15,626**

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€ 15,930 (previous year: k€ 15,626), k€ 14,220 (previous year: k€ 14,543) have been capitalised as production costs under Properties and equivalent rights with unfinished or finished buildings. The capitalisation rate in each case was between 1.22% and 10.00% (previous year: between 2.52% and 15.00%).

17 Result of associates accounted for using the equity method

The result from companies accounted for at equity in the total amount of k€ 339 (previous year: k€ 693) is due in full (previous year: k€ 693) 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.

18 Income taxes

The companies included in the consolidated financial statements are subject to German corporation tax (including the solidarity surcharge) and trade tax depending on their legal form and activities. 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.

Deferred tax assets on tax loss carried forwards from previous years amounting to a total of k€ 14,637 (previous year: k€ 14,758) are recognised at the level of different companies. The company's forecast for the fiscal years from 2016 to 2019 provides positive results in this regard, which show that the loss 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 carried forwards of around € 24 million (previous year: around € 33 million) and trade tax loss carried forwards of around € 19 million (previous year: around € 19 million), as it is not possible to assume with sufficient certainty that these loss carried 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* the compound tax rate is 32.28% (previous year: 32.28%).

The deferred tax assets and liabilities are the result of differences for the following items:

T 15 | Allocation of deferred taxes

in k€	Deferred tax assets 12/31/2015	Deferred tax liabilities 12/31/2015
Non-current assets	**0**	**4,951**
Intangible assets	0	964
Investments in associates accounted for using the equity method	0	36
Investment properties	0	3,951
Current assets	**75**	**245**
Properties and equivalent rights with unfinished buildings	75	245
Accounts receivable from the sale of property	0	0
Other receivables	0	0
Non-current liabilities	**1**	**227**
Compensation liabilities to shareholders in general partnership	0	186
Warranty provisions	1	41
Current liabilities	**0**	**0**
Compensation liabilities to shareholders in general partnership	0	0
Other provisions	0	0
Other liabilities	0	0
Losses brought forward	**14,657**	**0**
Corporation tax losses brought forward	8,834	0
Trade tax losses brought forward	5,822	0
Sub-total	**14,732**	**5,423**
thereof non-current	14,658	5,178
Netting	(486)	(486)
Deferred taxes according to consolidated balance sheet	**14,247**	**4,938**

T 16 | Allocation of deferred taxes (previous year)

in k€	Deferred tax assets 12/31/2014	Deferred tax liabilities 12/31/2014*
Non-current assets	**0**	**1,844**
Intangible assets	0	1,327
Investments in associates accounted for using the equity method	0	325
Investment properties	0	192
Current assets	**77**	**343**
Properties and equivalent rights with unfinished buildings	77	343
Non-current liabilities	**0**	**256**
Compensation liabilities to shareholders in general partnership	0	186
Warranty provisions	0	70
Current liabilities	**0**	**3**
Other liabilities	0	3
Losses brought forward	**15,600**	**0**
Sub-total	**15,677**	**2,446**
thereof non-current	15,600	2,100
Netting	(919)	(919)
Deferred taxes according to consolidated balance sheet	**14,758**	**1,527**

* adjusted prior-year figures due to a change in measurement methods for investment properties

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

T 17 | Actual and deferred taxes

	2015 k€	2014* k€
Actual tax expenses (+) / tax income (-)	351	2,790
Deferred tax expenses (+) / tax income (-)	3,923	(1,281)
Total tax expenses (+) / income (-)	**4,274**	**1,510**

* adjusted prior-year figures due to a change in measurement methods for investment properties

Current taxes in the consolidated balance sheet are as follows:

T 18 | Actual taxes in the consolidated balance sheet

	12/31/2015 k€	12/31/2014 k€
Current income tax receivables	3,317	1,707
Current income tax liabilities	3,954	4,237

The income tax receivables result in the amount of k€ 3,158 (previous year: k€ 1,596) from withheld capital gains tax. Actual income tax liabilities particularly concern corporate tax liabilities in the amount of k€ 2,054 (previous year: k€ 2,020) and corporate tax liabilities in the amount of k€ 1,033 (previous year: k€ 1,230).

Table 19 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 2015 is multiplied by income before taxes.

T 19 | Tax rate reconciliation

in k€	2015	2014*
Profit/Loss before taxes	**12,404**	**10,739**
Group income tax rate (%)	32.98%	32.98%
Expected tax expenses (+)/ income (-)	**4,090**	**3,541**
Tax valuation allowance and use of loss carryforwards not yet recognised	910	(2,999)
Permanent differences	(637)	838
Taxes from previous accounting periods	(20)	127
Loss deduction	(206)	(0)
Result of associates accounted for using the equity method	0	(103)
Fiscal unit for corporate tax purposes	302	86
Tax rate differences	0	0
Other differences	(166)	20
Total tax expenses (+)/ revenue (-)	**4,273**	**1,510**
Effective income tax rate	34.45%	14.06%

* adjusted prior-year figures due to a change in measurement methods for investment properties

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% 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

T 20 | Development of intangible assets

in k€	Goodwill	Intangible assets acquired in conjunction with business combinations	Other intangible assets	Total
Costs of acquisition as of 1st January 2014	4,301	5,278	927	10,506
Additions	0	0	19	19
Additions as a result of business combinations	0	0	-189	-189
Disposals	0	0	0	0
As of 31st December	4,301	5,278	757	10,336
Depreciations as of 1st January 2014	0	0	504	504
Additions	0	1,133	144	1,277
Disposals	0	0	0	0
As of 31st December	0	1,133	648	1,781
Net carrying amount as of 31st December	**4,301**	**4,146**	**109**	**8,555**
Costs of acquisition as of 1st January 2015	4,301	5,278	757	10,336
Additions	0	0	24	24
Disposals	0	0	-330	-330
As of 31st December	4,301	5,278	452	10,031
Depreciations as of 1st January 2015	0	1,133	648	1,781
Additions	0	1,133	84	1,217
Disposals	0	0	-330	-330
As of 31st December	0	2,266	403	2,669
Net carrying amount as of 31st December	**4,301**	**3,012**	**49**	**7,362**

The intangible assets ‘customer relations’ are amortised over the expected useful life of 3.5 to 9 years.

Reported goodwill resulting from the merger with the One Group in the 2013 financial year, and has been assigned (as relevant cash-generating unit) for the purpose of impairment testing to the reportable segment *One Group*.

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 before tax was 10.60% (after tax 7.20%) for the detailed forecast phase as well as 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. On the reporting date, there was no impairment loss arising from the impairment test. The impairment test would also result in no impairment even with an increase or decrease in underlying net cash flows, discount rates or the growth rate by 0.5 percentage points.

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

20 Investment properties

The investment properties are recognised at fair value.

T 21 | Investment properties

in k€	2015	2014*
Costs of acquisition as of 1st January	**13,828**	**15,425**
Additions	0	0
Disposals	0	0
Transfers from inventories	23,315	0
Fair-value measurement of investment properties	11,022	(1,597)
As of 31st December	**48,165**	**13,828**

* adjusted prior-year figures due to a change in measurement methods for investment properties

Under the item 'Financial properties' rental apartments and shop units in the amount of k€ 24,165 (previous year: k€ 13,828) and properties still in development in the amount of k€ 24,000 (previous year: k€ 0) are shown. Under period result, rental income of k€ 1,397 (prev. k€ 642) were recorded in total. Expenses of k€ 846 (previous year: k€ 177) were incurred for maintenance for the rented properties. Expenses for the maintenance of properties still in development are of secondary importance in the financial year as in the previous year.

Revaluation result of k€ 5,151 (previous year: k€ 0) are attributable to the *New Development* segment, k€ 4,942 (previous year: k€ 0) to the *Revitalisation* segment, k€ 791 (previous year: k€ 0) to the *One Group* segment and k€ 137 (previous year: k€ -1,508) to the *Other* segment.

The input factors used in the determination of the fair values correspond to the fair value hierarchy evaluation based on the following valuation models in accordance with IFRS 13 Level 3. No financial properties are accounted for based on operating leasing relationships.

The determination of the fair value of investment properties is carried out for properties still in development using the residual value method. The residual value is obtained from the difference between the imputed total sales proceeds and the scheduled costs for construction of the Project. The imputed total sales proceeds were calculated on the basis of appropriate estimated net rents and yields. The accumulated total for the production costs of the property costs are appropriately calculated and valued by the company, the calculated are discounted accordingly for the period between the valuation date and the projected completion date. The significant assumptions used in the described valuation technique are illustrated in table 22. With an increase in the calculated sales revenue by 1%, the fair value would increase by around € 0.8 million, a reduction of the calculated sales revenue by 1% leads to a reduction of the same amount. An increase in the calculated costs by 1% would lead to a reduction in the fair value of around € 0.6 million, a reduction of the calculated costs by 1% to a corresponding increase.

T 22 | Properties currently in development – Residual value method

	2015	
Book value k€	24,000	
	Average	Spread
Calculated sales revenue		
Net basic rent in €/sq m	15.11	8.50 to 27.50
Car parking space in €/Parking space	100.00	100.00
Return in %	4.50	3.25 to 5.75
Calculated production costs		
Construction costs in €/sq m	1,250.00	700.00 to 1,800.00
Additional construction costs as a % of total construction costs and outdoor facilities	21.50	20 to 23
Calculated development and marketing costs		
Financing of the construction costs as a % of production costs	2.00	2.00
Distribution costs rate as a % of revenue	3.38	1.00 to 5.75
Exceptional items as a % of total of previous points	15.00	15.00
Discount rate	**4.00**	4.00
Incidental acquisition costs in %	**5.50**	**5.00 to 6.00**

For the rented apartment as well as shop fixtures and fittings, the determination of fair value is based on the earnings value method, or as a weighted average of the earnings value and the comparative value method according to ImmoWertV. The significant assumptions used in the described valuation technique are illustrated in table 23. With an increase in net rental income by 1%, the fair value would increase by around € 0.2 million, a reduction of the net rental income by 1% leads to a reduction in the fair value of a corresponding amount. In addition, there is an impact even with a change in the administrative, maintenance, operating and other costs to the valuation. An increase in these costs by 1% leads to a reduction in the fair value of around € 0.1 million, with reduction of 1% in a corresponding increase in the fair value.

T 23 | Leased Shop Units and Residential Properties – Capitalised earnings value method

	2015		2014	
Book value k€	24,165		13,828	
	Average	Spread	Average	Spread
Land value				
Ground value	4,535	45 to 8,300	5,475	45 to 9,900
Earnings value				
Net rental income in €/sq m (gross annual profit)	15.68	4.17 to 26.48	16.07	4.15 to 26.48
Property rate in %	3.45	2.50 to 4.50	3.32	2.30 to 4.50
Administration costs as a % of gross annual profit	4.47	4.00 to 5.00	3.99	1.97 to 5.00
Maintenance costs as a % of gross annual profit	7.58	4.50 to 15.86	6.06	4.50 to 8.00
Rental loss risk as a % of gross annual profit	4.55	2.00 to 6.00	4.26	2.14 to 6.00
Remaining useful life in years	57	45 to 71	60	54 to 72

The assumptions used in the evaluation of investment property have been taken by independent experts on the basis of their professional experience and are fundamentally uncertain.

21 Property, plant and equipment

T 24 | Furnitures and fittings

in k€	2015	2014
Costs of acquisition as of 1st January	**1,719**	**1,623**
Additions	517	96
Disposals	(2)	0
As of 31st December	**2,238**	**1,719**
Depreciations as of 1st January	**1,391**	**1,230**
Additions	160	140
Disposals	0	(21)
As of 31st December	**1,551**	**1,391**
Net carrying amount as of 01/01/	**328**	**393**
Net carrying amount as of 12/31/	**687**	**328**

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

22 Investments in associates

Because of its percentage share in joint ventures, the values shown in table 25 are allocable to the group:

T 25 | Attributable values of associates accounted for using the equity method

in k€	12/31/2015	12/31/2014
Non-current assets	0	58
Current assets	1,421	2,137
Current liabilities	796	1,909
Non-current liabilities	29	29
Sales revenue	0	521
Revenue	25	9
Expenses	-313	-165

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:

T 26 | Associates accounted for using the equity method

in k€	2015	2014
Costs of acquisition as of 1st January	**1,040**	**2,868**
Proportional annual profit	339	693
Distributions	600	2,521
As of 31st December	**779**	**1,040**
Carrying amount 01/01/	**1,040**	**2,868**
Carrying amount 12/31/	**779**	**1,040**

The proportional changes in equity in joint ventures measured at equity are recognised under proportional annual profit and distributions.

23
Other investments

December 31, 2015, no more investments are accounted for. Last year, the other investments in the amount of k€ 75 related 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 were carried at amortised cost, since a fair value cannot be reliably measured for the investments as of the balance sheet date.

In the current fiscal year, 6.0% of the voting rights in Wagenbauerstraße GmbH, Munich, were sold at a purchase price of k€ 445. The book value of the shares was k€ 1 in the previous year, the profit from the sale in the amount of k€ 444 is accounted for in other operating income.

24
Properties and equivalent rights with unfinished buildings

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

During the reporting period, no impairments were recognised (previous year: k€ 0); however, impairment reversals in the amount of k€ 768 (previous year: k€ 519) resulting from increased sales prices were performed and were each recognised under changes in inventories. The book value of these are recognised at fair value less costs to sell amounts to increase in value and further handovers to k€ 306 (previous year: k€ 1,827).

From the inventories, according to the company's estimates, expected carrying amounts of approximately € 117 million (previous year: approximately € 65 million) will be realised only after more than twelve months.

25
Properties and equivalent rights with finished buildings

The reported properties and equivalent rights with finished buildings pertain to several and motor vehicle parking spaces in the amount of k€ 172 (previous year: k€ 640). In the previous year an apartment was included in addition, which was sold in the fiscal year.

26
Accounts receivable from the sale of property

T 27 | Accounts receivable from the sale of property

in k€	12/31/2015	12/31/2014
Gross value of accounts receivable from property sales	6,507	60,279
Specific allowances	(300)	(331)
Total	**6,207**	**59,948**

The valuation allowances for receivables from the sale of properties and other deliveries and services have developed as follows:

T 28 | Development of value adjustments on accounts receivable from the sale of property

in k€	2015	2014
As of 1st January	**331**	**356**
Additions	42	20
Disposal	3	0
Release	70	45
As of 31st December	**300**	**331**

The book value of impaired receivables amounted on 31 December 2015 to k€ 0 as in the previous year.

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

T 29 | 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€
Accounts receivable from the sale of property	12/31/2015					
	6,207	6,060	60	61	17	9
Accounts receivable from the sale of property	12/31/2014					
	59,948	59,914	14	19	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.

As at 31 December 2014, an amount of k€ 6,000 was pledged as security for trade payables under recommendations for the sale of properties, which were repaid in February 2015.

27 Other accounts receivable and financial assets

T 30 | Other accounts receivable and financial assets

in k€	12/31/2015	12/31/2014
Prepayments for property purchases	14,476	14,523
Security deposits	1,420	3,153
Accounts receivable from the sale of shares	0	1,130
Creditors with debit balances	1,082	831
Accounts receivable from other investments	0	57
Recourse claims	4,633	0
Other	2,294	2,590
Total	**23,905**	**22,284**

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€ 7,135 (previous year: k€ 5,232).

28 Cash

T 31 | Cash

in k€	12/31/2015	12/31/2014
Bank	31,997	42,075
Cash in hand	14	15
Total	**32,011**	**42,090**

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€ 2,954 (previous year: k€ 2,287) is due to ProReal Deutschland Fonds GmbH & Co. KG, ProReal Deutschland Fonds 2 GmbH & Co. KG, ProReal Deutschland Fonds 3 GmbH & Co. KG and ProReal Deutschland Fonds 4 GmbH & Co. geschlossene InvKG

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€ 1,238 (previous year: k€ 2,061) was pledged to the lending banks on 31 December 2015 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€ 17,119 (previous year: k€ 17,003) in liquid funds.

29 Subscribed capital and reserves

Subscribed capital is as of 31 December 2015, amounts to k€ 23,764 (previous year: k€ 23,764). It is divided into 23,764,000 fully paid up shares of no-par value.

The regular annual General Meeting of ISARIA Wohnbau AG on 23 May 2014 ruled to dissolve existing authorised capital for 2012 and to permit the Executive Board of the company to increase the share capital by issuing up to 11,882,000 new bearer shares, on one or more occasions, against contributions in cash or in kind up to an amount of € 11,882,000 by 22 May 2019 with the approval of the Supervisory Board (authorised capital 2014).

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 shareholders generally have a subscription right. However, the Executive Board is authorised to exclude the subscription right of the shareholders with the consent of the Supervisory Board following further specification of the proposed resolution published in the German Federal Gazette under agenda item 6 along with the invitation to the General Meeting of the company on 15 April 2014.

The capital reserve of ISARIA Wohnbau group is mainly due to the agio from capital increases carried out in previous years. From the capital reserve on 31 December 2014 in the amount of k€ 137,120, an amount of k€ 67,624 was taken to compensate commercial law net losses.

Still existing participation rights in the amount of € 6,710.00 could not be cancelled and repaid during the fiscal year as the signatory could not be reached. The company does not expect to be taken out of these participating rights. Therefore, the company's existing participation rights in the amount of k€ 7 are recognised in income.

30 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:

T 32 | Compensation liabilities to shareholders in general partnership

in k€	12/31/2015	12/31/2014
Liabilities to general partners of the ProReal Deutschland Fonds	110,964	92,616
Liabilities to general partners of the JK Wohnbau Fonds I Beteiligungs GmbH & Co. KG	0	1,938
Total	**110,964**	**94,554**

The liabilities to the limited partners of ProReal Deutschland Fonds 2 GmbH & Co. KG, ProReal Deutschland Fonds 3 GmbH & Co. KG and ProReal Deutschland Fonds 4 GmbH & Co. geschlossene InvKG are limited partners interests by fund investors in the form of participating interests granted to project companies. The liabilities to the limited partners of JK Wohnbau Fonds I Beteiligungs GmbH & Co. KG that were no longer consolidated by 31 December 2015 concern the limited partners' interests of the fund investors in the previous year in the form of an atypical silent partnership holding in project companies. As at 30 June 2014, the last contributions were already repaid to the investors of JK Fonds I. Therewith JF Fonds I has been completely refunded as foreseen in the prospectus. The liability displayed as at 31 December 2014 concerned the profit distribution resolved by the General Meeting of 16 December 2014, which was paid out to the fund investors on 28 February 2015.

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

T 33 | Financial liabilities

in k€	12/31/2015	Remaining term < 1 year	Remaining term 1 - 5 years	Remaining term > 5 years
Compensation liabilities to shareholders in general partnership	110,964	6,718	104,247	0
	12/31/2014	Remaining term < 1 year	Remaining term 1 - 5 years	Remaining term > 5 years
Compensation liabilities to shareholders in general partnership	94,554	9,699	84,855	0

In this context, the remaining terms of the distributions to fund investors planned for the coming fiscal year are presented as a short-term financial liability.

31 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:

T 34 | Financial liabilities from silent participations, shareholder loans and other forms of capital provision

in k€	12/31/2015	12/31/2014
STRATOS Mezzanine Fonds der HANSAINVEST, Wollerau / Schweiz	10,000	25,300
Corporate bond	0	10,000
Other	0	18
Total	**10,000**	**35,318**

The recognised financial liabilities relate above all to property-related financing. All liabilities are allocated exclusively to the 'other financial liabilities' category. The interest rate for the recognised financial liabilities is 10.0% (previous year: between 8.0% and 15.0%).

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

T 35 | Financial liabilities

in k€	12/31/2015	Remaining term < 1 year	Remaining term 1 - 5 years	Remaining term > 5 years
Financial liabilities from silent participations, shareholder loans and other forms of capital provision	10,000	10,000	0	0
	12/31/2014	Remaining term < 1 year	Remaining term 1 - 5 years	Remaining term > 5 years
Financial liabilities from silent participations, shareholder loans and other forms of capital provision	35,318	35,318	0	0

32 Financial liabilities to banks

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

T 36 | Financial liabilities

in k€	12/31/2015	Remaining term < 1 year	Remaining term 1 - 5 years	Remaining term > 5 years
Financial liabilities to banks	84,603	65,953	4,455	14,195
	12/31/2014	Remaining term < 1 year	Remaining term 1 - 5 years	Remaining term > 5 years
Financial liabilities to banks	59,735	33,173	19,497	7,065

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, as well for financing investment properties as well as for property-based project development.

On the balance sheet date the group has access to unused credit lines in the amount of k€ 40,926 (previous year: k€ 7,709) earmarked for project development. The group pays no commitment fee for unused credit lines. The interest rate for credit lines when used is between 1.22% and 5.25% (previous year: between 2.71% and 6.00%) for the fixed-rate loans or, for one variable-rate loan, the Euribor reference interest rate plus 3.00% (previous year: Euribor plus 2.50%).

Assets with the following net carrying amounts with mortgages or the assignment of rental incomes were pledged as collateral for the group's existing financial liabilities to banks:

T 37 | Assets pledged as collateral

in k€	12/31/2015	12/31/2014
Secured financial liabilities to banks	76,605	41,530
Net carrying amount of the mortgaged inventories	124,310	51,422
Net carrying amount of the mortgaged investment properties	40,635	24,042

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.

33 Other liabilities

The other current liabilities comprise the following:

T 38 | Other liabilities

in k€	12/31/2015	12/31/2014
Taxes and duties	910	806
Liabilities to affiliated companies	710	14
Debtors with credit balances	386	19
Sales tax liabilities	87	38
Accrued interests	55	300
Loan to a project company	0	4,723
Other liabilities	901	2,105
Total	**3,050**	**8,006**

The other current liabilities include financial liabilities in the amount of k€ 1,152 (previous year: k€ 6,314). The remaining term of the other liabilities was less than one year, as was the case in the previous year.

34 Trade accounts payable

The trade payables due within one year amount to k€ 7,043 (previous year: k€ 28,445) as of the balance sheet date.

35 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 2015 there were liabilities in the amount of k€ 12,072 (previous year: k€ 39,171).

36
Other provisions

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

T 39 | Other provisions

in k€	Warranties	Other provisions	Total
As of 01/01/2015	**3,129**	**3,582**	**6,711**
Additions	874	7,489	8,362
Consumption	254	2,426	2,680
Reversal	185	657	842
Interest effects	31	11	42
As of 12/31/2015	**3,596**	**7,999**	**11,594**
Thereof current	102	7,999	8,101
Thereof non-current	3,493	0	3,493

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. Any valid refund claims were recognised in the amount of € 4.6 million in other accounts receivables and financial assets.

5. Notes to the consolidated cash flow statement

37
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€ 14,891 (previous year: k€ 25,087), this results in the cash disclosed on the balance sheet.

6. Segment reporting

At the balance sheet date the ISARIA Wohnbau group comprises three segments: *New Developments, Revitalisation, One Group* and *Other*. The segments differ in their service profiles and their target customer groups. Transactions between segments are recognised according to IFRS accounting principles. An aggregation of operating segments has not been undertaken. The activities of the ISARIA Wohnbau group are limited to 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 Construction 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 *Revitalisation* 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.

- One Group as a material part of the overall group is included in the *One Group* segment. This segment exclusively shows the success of the business activities for the One Group sub-group.

- The *Other* segment mostly includes rental income from investment properties.

The revenues and segment results for financial years 2015 and 2014 break down as follows:

T 40 | Segment reporting

in k€	New Construction	Revitalisation	One Group	Other	Consolidation/ Reconciliation	Group
Sales revenue – external						
01/01/ - 12/31/2015	79,076	9,343	729	3,022	0	92,170
01/01/ - 12/31/2014	112,429	44,633	176	2,987	0	160,224
Sales revenue – internal						
01/01/ - 12/31/2015	0	0	262	0	-262	0
01/01/ - 12/31/2014	0	0	272	0	-272	0
Change in inventories						
01/01/ - 12/31/2015	27,991	1,276	779	0	0	30,046
01/01/ - 12/31/2014	-166	875	9,396	0	0	10,105
Gross profit						
01/01/ - 12/31/2015	107,067	10,619	1,770	3,022	-262	122,216
01/01/ - 12/31/2014	112,263	45,507	9,843	2,987	-272	170,329
Depreciations						
01/01/ - 12/31/2015	-146	0	-1,223	-9	0	-1,378
01/01/ - 12/31/2014*	-125	0	-1,286	-8	0	-1,419
EBIT						
01/01/ - 12/31/2015	19,681	10,882	-2,656	163	-304	27,766
01/01/ - 12/31/2014*	22,279	5,061	-4,383	-1,314	0	21,643
Financial income						
01/01/ - 12/31/2015	386	96	10,867	2	-11,122	229
01/01/ - 12/31/2014	321	110	9,786	3	-6,191	4,028
Financial expenses						
01/01/ - 12/31/2015	-10,343	-6,015	-10,545	-150	11,122	-15,930
01/01/ - 12/31/2014	-9,965	-5,010	-6,424	-418	6,191	-15,626
Result of associates accounted for using the equity method						
01/01/ - 12/31/2015	339	0	0	0	0	339
01/01/ - 12/31/2014	693	0	0	0	0	693
Income tax expenses (-) / income (+)						
01/01/ - 12/31/2015	-2,460	-1,686	-193	65	0	-4,274
01/01/ - 12/31/2014*	-2,915	624	822	-41	0	-1,510
Result after taxes on income						
01/01/ - 12/31/2015	7,603	3,277	-2,526	81	-304	8,130
01/01/ - 12/31/2014*	10,414	785	-199	-1,771	0	9,229
Valuation allowances (-) / write-ups (+) on inventories and receivables						
01/01/ - 12/31/2015	31	0	0	0	0	31
01/01/ - 12/31/2014	-381	925	0	0	0	544

* adjusted prior-year figures due to a change in measurement methods for investment properties

In the *New Construction* segment, the group generated revenues of k€ 51,450 in the previous year with one customer, which was more than 10% of total revenues. In the financial year there was no such situation.

7. Other notes

38
Contingent liabilities and other financial liabilities

The Managing Board has formed provisions of a sufficient amount for risks from litigation and tax risks, to the extent that these can be recognised. In total, provisions for litigation risks were formed in the amount of around € 6.5 million (previous year: around € 2.3 million). Last year, for this additional € 0.7 million was included in the accounts payable trade.

At present, out-of-court redress proceedings are being held with regard to audit findings from tax audits, which bear a tax risk of around € 1.3 million (previous year: around € 1.3 million). No provisions have been formed in this regard as it is not expected that these will be used. Suspension of execution has been granted. At the same time, the outcome of this suit is still open.

As of 31 December 2015 there were significant financial obligations in connection with property acquisitions that had not yet been completed in the amount of k€ 25,650 (previous year: k€ 25,650). 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 next instalment of the purchase price in the amount of k€ 14,000 became due in January 2016. The remaining development stages are scheduled for mid 2016.

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 2016.

The financial liabilities resulting from purchase prices, which were displayed on the balance sheet date of 31 December 2014 and which amount to k€ 63, resulting from notarised but not yet executed acquisitions of real estate companies were paid in full in the 2015 fiscal year.

The group is in a dispute over the cancellation of an existing mortgage at the expense of a company's own plot in the amount of € 2.7 million. The group assumes that it will not be taken from this land charge as collateralisation and additional liabilities cannot be implemented.

39
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 41 and 42 presented below pertaining to the leasing agreements.

The group as lessee

The group's obligations from non-terminable leasing agreements mainly relate to rented offices 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€ 2.864 (previous year: k€ 2,670) in the year under review. Of this total k€ 2,091 (previous year: k€ 2,050) is due to a sub-rental (general rental agreement).

Non-terminable operating leasing agreements give rise to the future obligations shown in table 41:

T 41 | Minimum lease payments

in k€	12/31/2015	12/31/2014
Due date within one year	2,961	2,922
Due date in between one and five years	2,092	3,471
Due date after more than five years	0	0
Total	**5,053**	**6,393**

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€ 16,470. In this case, the group would have the right to sub-let for a further five years. An exercising of the option is expected.

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 payments shown in table 42 in the next years under non-terminable leasing and rental agreements:

T 42 | Minimum lease payments

in k€	12/31/2015	12/31/2014
Due date within one year	1,485	1,012
Due date in between one and five years	995	146
Due date after more than five years	0	0
Total	**2,480**	**1,158**

In addition, the group expects further payments from the extension of existing contracts well as follow-up agreements in the next years. Significant extension or purchase options and special termination rights do not exist.

40 Additional notes concerning financial instruments

Carrying amounts, fair values according to measurement category

The table 43 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:

T 43 | Carrying amounts and fair values

in k€	Assessment category as per IAS 39	12/31/2015 Carrying amount	12/31/2015 Fair Value	12/31/2014 Carrying amount	12/31/2014 Fair Value
Assets					
Financial assets – Other investments	AfS	0	n/a	75	n/a
Accounts receivable from the sale of property	LaR	6,207	6,207	59,948	59,948
Other accounts receivable and financial assets	LaR	7,135	7,135	5,232	5,232
Cash and cash equivalents	LaR	32,011	32,011	42,090	42,090
Liabilities					
Compensation liabilities to shareholders in general partnership	FLAC	110,964	118,753	94,554	100,266
Financial liabilities from silent participations, shareholder loans and other forms of capital provision	FLAC	10,000	10,000	35,318	35,318
Financial liabilities to banks	FLAC	84,603	84,737	59,735	59,873
Trade accounts payable	FLAC	7,043	7,043	28,445	28,445
Other financial liabilities	FLAC	1,152	1,152	5,037	5,037

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. In this context the fair value was determined as follows:

- 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.

- Compensation liabilities to shareholders in general partnerships primarily concern liabilities towards limited partners of the ProReal Deutschland Fonds 2, 3 and 4.

Net income from financial instrument

The net for each measurement category are presented in table 44:

T 44 | Net income from financial instruments per measurement category

	from interest		from subsequent assessment				from disposal		Net result	
			Changes in fair values		Impairment					
in k€	2015	2014	2015	2014	2015	2014	2015	2014	2015	2014
Financial assets available for sale (AfS)	0	0	0	0	0	0	445	0	445	0
Loans and accounts receivable (LaR)	156	562	0	0	-42	0	29	-44	143	518
Financial liabilities measured at amortised costs (FLAC)	-15,768	-15,513	0	3,216	0	0	0	0	-15,768	-12,297
Total	**-15,612**	**-14,951**	**0**	**3,216**	**-42**	**0**	**474**	**-44**	**-15,180**	**-11,779**

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. The results from interest for financial liabilities (FLAC) relate to the effective interest rate of compensation liabilities to shareholders of commercial partnerships in the amount of k€ 10,273 (previous year: k€ 6,798). Reversals of impairment loss with regard to financial instruments did not occur, as in the previous year. In the period under review, as in the previous year, no interest income was collected from written-down trade receivables.

41 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 and Hamburg 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.

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 behaviour 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.

With One Group, ISARIA Wohnbau now has its own financing platform. As a result, financial risks have been significantly reduced in many respects. This means a substantial reduction in financial risks in many respects. Different complex financial instruments have therefore been replaced by a uniform structure. Inflows are reliable and predictable. The company believes that the funds already available via this platform, together with the raising of additional funding in 2016, will enable the project developments to be fully financed and that the general level of liquidity will thus be secured. Furthermore, the complete repayment/restructuring of high interest mezzanine financing up to an amount of € 10.0 million is planned. Funds obtained from the One Group must be repaid, initially in part, to the investors no later than 2017. The liquidity forecast includes acquiring new revolving funds and thus keeping project financing at a certain level over the long term. The here are associated risks posed by general market developments and interest rate trends.

The primary outflows of liquidity are attributed to the current liabilities of the ISARIA Wohnbau group, costs of financing, the scheduled distributions to the shareholders of the ProReal Deutschland Fonds, the scheduled repayment of the mezzanine capital in the amount of € 10.0 million. Inflows of liquidity are, in particular, expected from funds raised by the One Group (ProReal Deutschland Fonds series), and scheduled handovers from the project companies. All bonds and loans maturing in the 2015 fiscal year and loans were redeemed or extended.

The tables 45 and 46 shows the contractually agreed or expected (undiscounted) interest and principal payments on the group's primary financial obligations. The figures in the table repre-

T 45 | Contractually agreed interest payments and repayments of the originary financial liabilities

in k€	12/31/2015 carrying amount	Cash flows 2016 Interest fix	Cash flows 2016 Interest variable	Cash flows 2016 Repayment	Cash flows 2017 - 2020 Interest fix	Cash flows 2017 - 2020 Interest variable	Cash flows 2017 - 2020 Repayment	Cash flows > 2021 Interest fix	Cash flows > 2021 Interest variable	Cash flows > 2021 Repayment
Compensation liabilities to shareholders in general partnership	110,964	0	0	6,718	0	0	136,260	0	0	0
Financial liabilities from silent participations, shareholder loans and other forms of capital provision	10,000	83	0	10,000	0	0	0	0	0	0
Financial liabilities to banks	84,603	2,872	3,644	68,484	1,284	0	1,923	3,377	0	14,195
Liabilities to related companies and associates	0	0	0	0	0	0	0	0	0	0
Other financial liabilities	1,152	0	0	1,152	0	0	0	0	0	0
Total	**206,719**	**2,955**	**3,644**	**86,354**	**1,284**	**0**	**138,183**	**3,377**	**0**	**14,195**

T 46 | Contractually agreed interest payments and repayments of the originary financial liabilities (previous year)

in k€	12/31/2014 carrying amount	Cash flows 2015 Interest fix	Cash flows 2015 Interest variable	Cash flows 2015 Repayment	Cash flows 2016 - 2019 Interest fix	Cash flows 2016 - 2019 Interest variable	Cash flows 2016 - 2019 Repayment	Cash flows > 2020 Interest fix	Cash flows > 2020 Interest variable	Cash flows > 2020 Repayment
Compensation liabilities to shareholders in general partnership	94,554	0	0	9,699	0	0	119,181	0	0	0
Financial liabilities from silent participations, shareholder loans and other forms of capital provision	35,318	3,484	0	35,318	0	0	0	0	0	0
Financial liabilities to banks	59,735	323	544	14,817	1,192	61	5,454	3,033	0	7,065
Liabilities to related companies and associates	0	0	0	0	0	0	0	0	0	0
Other financial liabilities	6,314	0	0	6,314	0	0	0	0	0	0
Total	**195,920**	**3,807**	**544**	**66,148**	**1,192**	**61**	**124,635**	**3,033**	**0**	**7,065**

sent 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 2015 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.

The shown cash flows from the repayment amounts of compensation liabilities to shareholders in general partnership concern the planned distributions over the term of the fund companies, as well as the end of the term of the limited forecasted repayment. 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. 38.

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 and liabilities 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 five (previous year: four) 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. 32, Financial liabilities to banks). A hypothetically resulting effect on the statement of comprehensive income would amount in each instance to k€ 681 (previous year: k€ 381). 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 are calculated as follows in table 47:

T 47 | Capital management

in k€	12/31/2015	12/31/2014*
Compensation liabilities to shareholders in general partnership	110,964	94,554
Financial liabilities	94,603	95,053
Trade accounts payable and other financial liabilities	8,195	33,482
Less cash funds	-32,011	-42,090
Net financial liabilities	181,751	180,997
Equity	30,955	23,349
Equity and net financial liabilities	212,706	204,347
Equity ratio	**11.1%**	**7.8%**

* adjusted prior-year figures due to a change in measurement methods for investment properties

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

Companies under the significant influence of a major shareholder

In the past fiscal year, no companies, which a major shareholder was able to significantly influence during the period under review, were identified as related parties.

Relates parties in key positions

The members of the Managing and Supervisory Boards are regarded as being related parties in key positions. They are shown in table 48 for fiscal year 2015:

T 48 | Relates parties in key positions

Executive Board	Supervisory Board
Michael Haupt, CEO	Prof. Dr. Raimund Baumann (Chairman)
Christian Dunkelberg, CIO (until 30 November 2015)	Robert Unger (Deputy Chairman)
Jan von Lewinski, COO	Michael Kranich

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 supervisory board, Sulzbach-Laufen
- LMT GmbH & Co. KG – chairman of the supervisory board, Oberkochen
- SEIBT + KAPP Maschinenfabrik GmbH & Co.KG – advisory board, Oppenweiler
- Jessen Verwaltung GmbH – advisory board, Heimsheim
- TESALYS Beteiligungs AG – chairman of the supervisory board, Stuttgart

Herr Robert Unger, lawyer, Berlin

- no further mandats

Herr Michael Kranich, Executive Director of aeris CAPITAL, Pfäffikon, Swiss

- Park & Bellheimer AG – chairman of the supervisory board, Bellheim
- ZetVisions AG – deputy chairman of the supervisory board, Heidelberg
- Leonardo Venture GmbH & KGaA – deputy chairman of the supervisory board, Mannheim
- Epple Holding GmbH – chairman of the advisory board, Heidelberg
- VRmagic Holding AG – supervisory board, Mannheim

Table 49 shows the transactions with related parties during the reporting period and the previous year:

T 49 | Transactions with related parties

in k€	Revenue 01/01/ - 12/31/2015	Expenses 01/01/ - 12/31/2015	Accounts receivable 12/31/2015	Liabilities 12/31/2015
JK-COR companies	339	0	0	81
Executive Board and Supervisory Board	2	2,023	0	0
Total	**341**	**2,023**	**0**	**81**
in k€	01/01/ - 12/31/2014	01/01/ - 12/31/2014	12/31/2014	12/31/2014
JK-COR companies	693	0	0	81
Executive Board and Supervisory Board	13	1,387	0	7
Total	**706**	**1,387**	**0**	**88**

JK-COR companies

Income with the JK-COR companies in the amount of k€ 339 (previous year: k€ 693) is related mainly to the share of net income contained in the financial results.

Executive board and supervisory board

Total remuneration for members of the Executive Board amounted to k€ 1,872 (previous year: k€ 1,924). Remuneration for the individual members of the Executive Board was in the respective years and is shown in tables 50 and 51:

T 50 | Income

in k€	Michael Haupt, Spokesman of the Executive Board (CEO), Joined: 02/01/2012				Christian Dunkelberg, Member of the Executive Board (CIO), Joined: 12/15/2010, Retired: 11/30/2015				Jan von Lewinski, Member of the Executive Board (COO), Joined: 01/01/2014			
	2014	2015	2015 (Min)	2015 (Max)	2014	2015	2015 (Min)	2015 (Max)	2014	2015	2015 (Min)	2015 (Max)
Fixed remuneration	330	330	330	330	330	303	303	303	300	300	300	300
Fringe benefits	17	17	17	17	14	13	13	13	15	13	13	13
Total	**347**	**347**	**347**	**347**	**344**	**316**	**316**	**316**	**315**	**313**	**313**	**313**
Single-year variable remuneration	314	330	0	330	314	266	0	303	290	300	0	300
Multi-year variable remuneration	0	0	0	0	0	0	0	0	0	0	0	0
Total	**314**	**330**	**0**	**330**	**314**	**266**	**0**	**303**	**290**	**300**	**0**	**300**
Pension-related expenses	0	0	0	0	0	0	0	0	0	0	0	0
Total remuneration	**661**	**677**	**347**	**677**	**658**	**582**	**316**	**618**	**605**	**613**	**313**	**613**

T 51 | Inflow

in k€	Michael Haupt, Spokesman of the Executive Board (CEO), Joined: 02/01/2012		Christian Dunkelberg, Member of the Executive Board (CIO), Joined: 12/15/2010, Retired: 11/30/2015		Jan von Lewinski, Member of the Executive Board (COO), Joined: 01/01/2014	
	2015	2014	2015	2014	2015	2014
Fixed remuneration	330	330	303	330	300	300
Incidential payments	17	17	13	14	13	15
Total	**347**	**347**	**316**	**344**	**313**	**315**
Single-year variable remuneration	330	150	530	150	300	50
Multi-year variable remuneration	0	0	0	0	0	0
Other	0	0	0	0	0	0
Total	**330**	**150**	**530**	**150**	**300**	**50**
Pension-related expenses	0	0	0	0	0	0
Total remuneration	**677**	**497**	**846**	**494**	**613**	**365**

Remuneration for the Supervisory Board totaled k€ 150 in the past fiscal year (previous year: k€ 134).

43 Personnel

On average, there were 59 employees in fiscal year 2015 (previous year: 55 employees).

	12/31/2015	12/31/2014
Number of employees	62	60

44 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.

T 52 | Weighted number of common shares outstanding

	Share capital and number of shares (thousands)	Weighted number of shares outstanding (thousands)
01/01/2015	23,764	23,764
12/31/2015	23,764	23,764
Weighted number of common shares outstanding in the financial year 2015 (in thousands)		23,764

Calculation of earnings per share	2015	2014*
Consolidated result after taxes on income attributable to the shareholders of JKW (in k€)	7,812	9,252
Weighted number of common shares outstanding (in thousands)	23,764	23,427
Basic earnings per share (in €)	0.33	0.39
Diluted earnings per share (in €)	0.33	0.39

* adjusted prior-year figures due to a change in measurement methods for investment properties

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Exemption under § 264(3) HGB or § 264 b HGB

The following subsidiaries have made use of the exemption under Section 264 (3) HGB (German Commercial Code) or Section 264 b HGB (German Commercial Code) for the financial year 2015:

- JK Wohnbau Objekt Karlsfeld 1 GmbH
- ISARIA Wohnbau Objekt Karlsfeld 2 GmbH
- ISARIA Wohnbau Objekt Karlsfeld 3 GmbH
- JK Wohnbau AG & Co. Objekt Maistraße KG
- ISARIA GmbH & Co. Objekt Metropolis KG
- ISARIA Verwaltungs AG & Co. Objekt Viktoriastraße KG
- App.artments GmbH
- ISARIA Tower GmbH
- ISARIA Wohnbau Objekt Willy-Brandt-Allee GmbH
- Living Bogenhausen GmbH

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Fees of the auditor of the consolidated financial statements

The auditor for fiscal year 2015, Nörenberg • Schröder GmbH Wirtschaftsprüfungsgesellschaft, Hamburg, charged fees totaling k€ 504 for fiscal year 2015 (previous year: k€ 446). Of this total, k€ 290 (previous year: k€ 290) related to auditing services for the audit of the annual and consolidated financial statements, and k€ 24 (previous year: k€ 52) related to other consulting services. In addition, fees of k€ 171 (previous year: k€ 93) were charged for tax advisory services and other services. In addition, expenses of k€ 19 (previous year: k€ 11) 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.

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Events after the balance sheet date

On 4 January 2016, upon payment of the final purchase price instalment, we assumed the benefits and obligations for the plot of land for the Tower project development. It will thus now be possible to commence the first construction operations for this large project development in Munich.

At the end of January 2016, as scheduled, the last bond of k€ 10,000 was repaid to the Stratos Fund. From now on, in the area of mezzanine capital, the group will finance itself solely via its in-house financing platform, which consists of the One Group and its project development funds.

At the beginning of February 2016, the Federal Cabinet approved tax incentives for private investors to encourage the construction of rental apartments. The tax breaks are in the form of fixed-term and degressive special depreciation (referred to in German as 'Neubau-Afa', or 'depreciation of new buildings'). Our markets in Hamburg and Munich are among

the regions that qualify for these tax incentives so that our future buyers would benefit significantly from them both as private landlords and also investors. It remains to be seen how the legislative process will progress.

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.

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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.ag) in the Investor Relations section.

Munich, 25 February 2016

Michael Haupt
Spokesman of the Executive Board | CEO

Jan von Lewinski
Member of the Executive Board | COO

Responsibility Statement of the Legal Representatives

To the best of our knowledge, and in accordance with the applicable reporting principles, the consolidated financial statements give a true and fair view of the net assets, financial position and financial results of the group, and the group Management Report includes a fair review of the development and performance of the business and the position group, together with a description of the principal opportunities and risks associated with the expected development of the group.

Munich, 25 February 2016

Michael Haupt
Spokesman of the
Executive Board | CEO

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 2015. 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, 26 February 2016
Nörenberg • Schröder
GmbH Wirtschaftsprüfungsgesellschaft

Tobias Röhrmann

Röhrmann
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B. Michels

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The German version of this annual report is legally binding.

Financial Calendar

April 21, 2016
Annual General Meeting

May 13, 2016
Publication of Q1 Report 2016

August 12, 2016
Publication of Q2 Report 2016

November 14, 2016
Publication of Q3 Report 2016

November 21 – 23, 2016
German Equity Forum, Frankfurt/Main

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 Executive 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.ag