

GAGFAH



## Interim Report

as of March 31, 2011

# Highlights

## GAGFAH at a Glance

GAGFAH S.A. is a joint stock corporation organized under the laws of the Grand Duchy of Luxembourg qualifying as a securitization company under the Luxembourg Securitization Law of March 22, 2004. The core business of GAGFAH S.A.'s operating subsidiaries is the ownership and management of a geographically diversified and well-maintained residential property portfolio located throughout Germany. With a portfolio of approximately 155,000 apartments, GAGFAH is the largest German listed residential property company.

## Highlights

- **FFO** for the first quarter of 2011 from the core rental business of €0.13 per share. Including the €0.11 contribution from sales, the Company delivered €0.24 of FFO per share for the quarter.
- **PROFIT FROM LEASING** was €105.1 million in the first quarter 2011 compared to €124.9 million in the first quarter 2010, on an average base of about 12,600 fewer units due to sales.
- **PROFIT MARGIN** for the first quarter of 2011 of 50.2%.
- **OPERATIONS** on track with 1.7% annualized same-store<sup>1)</sup> rent growth, turnover at 11% and a vacancy rate of 5.4%.
- **SALES:** We financially closed the sale of 3,259 units from the 2010 sales program for a total volume of €177.8 million. In addition, we also closed or contracted to sell 211 condo units for a total value of €22.5 million from our 2011 sales program.
- **COST TO MANAGE PER UNIT** was €379 annualized for the first quarter 2011 compared to €393 for the prior-year period.
- **NAV** of €12.19 per share and gross asset value of €857 per square meter as of March 31, 2011.
- **DIVIDEND:** In order to retain additional flexibility and financial resources within the business and to support the Company's property investment and financing objectives, the Board has made the decision not to pay an interim dividend for the first quarter of 2011.

## GAGFAH S.A. SHARES AS OF MARCH 31, 2011

ISIN	LU0269583422
Total market capitalization (€ million)	1,330.5
Industry group	Real Estate
No. of shares excl. treasury shares (million)	222.9
Listing	Frankfurt Stock Exchange
Major indices memberships	MDAX, EPRA, GPR

<sup>1)</sup> Same store basis: Residential units GAGFAH owned at both dates: As of December 31, 2010, and as of March 31, 2011.

# Key Financial Information

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

€ MILLION	Q1 2011	Q1 2010	Q4 2010
Income from the leasing of investment property	209.4	220.5	215.5
Profit from the leasing of investment property	105.1	124.9	108.0
Profit from the sale of investment property and assets held for sale	7.4	5.5	3.5
Loss from the fair value measurement of investment property	- 4.5	- 2.1	- 12.2
EBITDA	96.5	115.5	87.8
EBIT	94.6	107.9	80.2
EBT	32.0	26.8	17.8
FFO	54.1	46.6	42.0
FFO in € per share	0.24	0.21	0.19

## GROUP CAPITALIZATION

	03-31-2011 € million	03-31-2011 %	12-31-2010 € million	12-31-2010 %
Total equity	2,276.1	25.5	2,302.7	24.9
Financial liabilities	5,804.4	65.1	6,011.2	64.9
Other liabilities	838.3	9.4	947.8	10.2
<b>Total equity and liabilities</b>	<b>8,918.8</b>	<b>100.0</b>	<b>9,261.7</b>	<b>100.0</b>

## OPERATIONAL FIGURES

	03-31-2011	03-31-2010	12-31-2010
Group residential portfolio (core)			
Units	154,987	162,528	158,314
Sqm	9,411,570	9,821,193	9,597,660
Net cold rent / sqm (in €)	5.08	5.03	5.07
Vacancy rate (in %)	5.4	5.4	5.2
Sold units <sup>1)</sup>	3,382	3,075	7,521

<sup>1)</sup> Core portfolio only (financial closing).

The totals on this page and in other tables of this report may include rounding effects.

FFO is a non-IFRS financial measure used by our Group's management to report the funds generated from continued operations. FFO is an appropriate measure of underlying operating performance of real estate companies as it provides shareholders with information regarding the Group's ability to service debt, make capital expenditures or pay dividends.

The following is a reconciliation of EBIT to FFO for our Group:

<b>FUNDS FROM OPERATIONS – FFO</b>			
€ MILLION	<b>Q1 2011</b>	<b>Q1 2010</b>	<b>Q4 2010</b>
EBIT	94.6	107.9	80.2
Reorganization and restructuring expenses	1.0	6.6	6.2
Depreciation and amortization	0.9	1.0	1.4
EBITDA	96.5	115.5	87.8
Loss from the fair value measurement of investment property	4.5	2.1	12.2
Realized valuation gains through sales	19.5	1.0	3.7
Expenses for share-based remuneration	1.9	0.7	0.2
Net interest expenses	- 66.3	- 75.3	- 64.4
Current tax expenses	- 2.4	- 0.7	- 4.4
Property development business	0.3	0.2	0.2
Sales expenses (non-condo)	0.9	1.7	7.7
Other	- 0.8	1.4	- 1.0
FFO	54.1	46.6	42.0
FFO in € per share (weighted average, undiluted)	0.24	0.21	0.19

# Residential Property Portfolio

as of March 31, 2011

Our portfolio is located throughout Germany, with significant concentrations in Berlin and Dresden. The following table illustrates, inter alia, the geographic spread of our residential portfolio:

Top 20 cities	Units	In % of total sqm	Rental area per sqm	Average unit size per sqm	Net cold rent annualized (€ million) <sup>1)</sup>	In % of total	In-place rent per month and sqm (€)	Market rent per month and sqm (€) <sup>2)</sup>	Vacant % <sup>3)</sup>
Dresden	37,865	21.6	2,143,625	57	120.9	19.3	4.70	5.03	6.0
Berlin	21,906	13.4	1,326,801	61	79.9	12.8	5.02	5.41	2.9
Hamburg	9,368	6.1	603,163	64	39.6	6.3	5.47	6.68	0.7
Hannover	6,071	3.9	383,971	63	25.7	4.1	5.57	5.82	6.1
Heidenheim	4,682	2.9	291,485	62	18.9	3.0	5.39	5.44	12.5
Bielefeld	4,172	2.8	276,481	66	14.9	2.4	4.49	4.71	1.7
Osnabrück	3,491	2.2	215,833	62	13.3	2.1	5.12	5.36	2.7
Braunschweig	3,217	2.0	197,845	61	12.3	2.0	5.17	5.40	1.5
Zwickau	3,087	1.7	172,796	56	8.7	1.4	4.20	4.46	17.4
Essen	2,305	1.5	152,959	66	9.8	1.6	5.31	5.74	7.1
Köln	2,077	1.6	163,816	79	12.7	2.0	6.45	6.82	2.7
Freiburg	1,772	1.2	119,615	68	8.6	1.4	5.98	6.97	1.1
Iserlohn	1,677	1.1	106,004	63	5.7	0.9	4.46	4.70	5.2
Bocholt	1,581	1.0	94,556	60	5.7	0.9	4.99	5.33	4.2
Bremen	1,546	1.0	98,188	64	5.8	0.9	4.96	5.07	9.6
Duisburg	1,421	1.0	95,910	67	5.2	0.8	4.54	4.79	20.2
Leverkusen	1,404	0.9	89,835	64	5.9	0.9	5.46	5.85	4.4
Göttingen	1,356	0.8	77,434	57	4.8	0.8	5.16	5.34	0.6
Frankfurt am Main	1,345	0.8	75,206	56	6.6	1.0	7.28	8.17	0.5
Bonn	1,262	0.9	88,230	70	6.2	1.0	5.85	6.12	2.2
<b>Subtotal Top 20 cities</b>	<b>111,605</b>	<b>68.2</b>	<b>6,773,753</b>	<b>61</b>	<b>410.9</b>	<b>65.7</b>	<b>5.06</b>	<b>5.47</b>	<b>5.0</b>
Other cities	43,382	26.6	2,637,817	61	162.7	26.0	5.14	5.43	6.4
<b>Total core residential property portfolio</b>	<b>154,987</b>	<b>94.7</b>	<b>9,411,570</b>	<b>61</b>	<b>573.6</b>	<b>91.7</b>	<b>5.08</b>	<b>5.45</b>	<b>5.4</b>
Other <sup>4)</sup>	n/m	5.3	522,239	n/m	51.8	8.3	n/m	n/m	29.7
		100.0	9,933,808		625.5	100.0			

<sup>1)</sup> Annualized rent calculated as net cold rent per square meter as of March 31, 2011, multiplied by number of square meters and multiplied by 12 (before vacancy loss and rent reductions).

<sup>2)</sup> Market rents were determined by CB Richard Ellis GmbH (CBRE).

<sup>3)</sup> The vacancy rate was calculated on the basis of units.

<sup>4)</sup> Includes HB Funds, commercial properties, non-core properties, garages, senior homes and other properties.

# Consolidated Statement of Comprehensive Income

for the period from January 1 to March 31, 2011

€ MILLION	Q1 2011	Q1 2010	Q4 2010
Income from the leasing of investment property	209.4	220.5	215.5
Transferable leasehold land interest	- 0.5	- 0.6	- 0.3
Operating expenses for the generation of rental income (excluding share-based remuneration)	- 103.8	- 95.0	- 107.2
<b>Profit from the leasing of investment property</b>	<b>105.1</b>	<b>124.9</b>	<b>108.0</b>
Income from the sale of investment property and assets held for sale	191.9	137.2	156.8
Carrying amount of the sold investment property and assets held for sale	- 184.5	- 131.7	- 153.3
<b>Profit from the sale of investment property and assets held for sale</b>	<b>7.4</b>	<b>5.5</b>	<b>3.5</b>
<b>Loss from the fair value measurement of investment property</b>	<b>- 4.5</b>	<b>- 2.1</b>	<b>- 12.2</b>
Income from the sale of property development projects	1.3	1.7	6.0
Carrying amount of the property development projects sold	- 1.1	- 1.3	- 6.0
<b>Profit from the sale of property development projects</b>	<b>0.2</b>	<b>0.4</b>	<b>0.0</b>
Profit from other services	0.6	0.8	1.4
Selling expenses (excluding share-based remuneration)	- 3.7	- 3.7	- 11.8
General and administrative expenses (excluding share-based remuneration)	- 9.6	- 10.7	- 8.7
Expenses for share-based remuneration	- 1.9	- 0.7	- 0.2
Other operating income	5.0	1.2	9.8
Other operating expenses	- 3.0	- 1.1	- 3.4
<b>Profit from operations before reorganization and restructuring expenses</b>	<b>95.6</b>	<b>114.5</b>	<b>86.4</b>
Reorganization and restructuring expenses	- 1.0	- 6.6	- 6.2
<b>Earnings before interest and taxes (EBIT)</b>	<b>94.6</b>	<b>107.9</b>	<b>80.2</b>
Interest expenses	- 67.1	- 78.3	- 65.3
Interest income	0.8	0.2	0.9
Other financial expenses	0.0	- 0.5	- 0.1
Profit/loss from the fair value measurement of derivatives	3.7	- 2.5	2.3
Interest expenses (refinancing)	0.0	0.0	- 0.2
<b>Net financing expenses</b>	<b>- 62.6</b>	<b>- 81.1</b>	<b>- 62.4</b>
<b>Earnings before taxes (EBT)</b>	<b>32.0</b>	<b>26.8</b>	<b>17.8</b>
Income taxes	- 7.7	- 14.5	- 29.2
<b>Net profit/loss (Total comprehensive income)</b>	<b>24.3</b>	<b>12.3</b>	<b>- 11.4</b>
Net profit/loss (Total comprehensive income) attributable to:			
Non-controlling interests	0.3	0.8	2.4
Shareholders of the parent company	24.0	11.5	- 13.8
Weighted average number of shares, undiluted (in million)	224.2	225.9	225.9
Weighted average number of shares, diluted (in million)	225.8	228.6	228.6
Earnings per share (in €)	0.11	0.05	- 0.06
Diluted earnings per share (in €)	0.11	0.05	- 0.06

# GAGFAH Group – Operational Performance

## INCOME FROM THE LEASING OF INVESTMENT PROPERTY

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

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

€ MILLION	Q1 2011	Q1 2010	Q4 2010
Rental income, fees	148.9	160.0	155.9
Allocations charged	60.3	60.3	58.9
Other	0.2	0.2	0.7
<b>Total</b>	<b>209.4</b>	<b>220.5</b>	<b>215.5</b>

Income from the leasing of investment property mainly comprises rental income and allocations charged. In the first three months of 2011, our income from the leasing of investment property decreased by 5.0 % to €209.4 million from €220.5 million in the first three months of 2010. The decrease is mainly attributable to a smaller portfolio and, as a consequence, lower rental income in the first three months of 2011 compared to the prior-year period.

Approximately 71 %, or €148.9 million, of the income from leasing was attributable to rental income. The decrease between the first three months of 2010 and 2011 is mainly due to an average of 7.4 % or ca. 12,600 fewer units during that period. Rental income mainly consists of net cold rent, which grew on a same store basis by 0.4 % to €5.08 per square meter since December 31, 2010, or 1.7 % on an annualized basis. 0.4 % of the annualized rent increase was due to a one-off effect related to the increase of rents for subsidized apartments.

Approximately 29 %, or €60.3 million, of the income from the leasing of investment property was related to charges to tenants for recoverable operating expenses (allocations charged). On an annualized basis, allocations charged represent about one third of income from the leasing of investment property. On a quarterly basis, however, allocations charged can vary depending on the timing of recoverables billing.

Rental income is net of vacancy. Our overall vacancy rate as of March 31, 2011, was at 5.4 %. We estimate the stabilized occupancy rate for our current portfolio at around 95 %.

#### OPERATING EXPENSES FOR THE GENERATION OF RENTAL INCOME

In the first three months of 2011, our operating expenses for the generation of rental income totaled €103.8 million compared to €95.0 million for the first three months of 2010.

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

€ MILLION	Q1 2011	Q1 2010	Q4 2010
Real estate operating expenses	56.3	55.3	55.3
Real estate tax	4.9	5.1	3.7
<b>Operating expenses recoverable from tenants</b>	<b>61.2</b>	<b>60.4</b>	<b>59.0</b>
Repair and maintenance costs	17.4	9.9	18.6
Personnel expenses	15.0	15.6	16.1
Bad debt allowances	1.0	0.0	2.1
External costs for real estate management	1.9	1.6	3.1
Administrative expenses	1.6	1.8	1.9
Real estate operating expenses	1.1	1.0	1.6
Real estate tax	0.0	0.0	0.2
Amortization and depreciation on intangible assets and property, plant and equipment	0.6	0.5	0.7
Other	4.0	4.2	3.9
<b>Non-recoverable operating expenses</b>	<b>42.6</b>	<b>34.6</b>	<b>48.2</b>
<b>Operating expenses for the generation of rental income</b>	<b>103.8</b>	<b>95.0</b>	<b>107.2</b>

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

Recoverable operating expenses were €61.2 million in the first three months of 2011 compared to €60.4 million in the first three months of 2010. The increase was largely the result of increased heating costs.

Non-recoverable operating expenses were €42.6 million in the first three months of 2011 compared to €34.6 million in the prior-year period.

Repair and maintenance costs in the first three months of 2011 were €17.4 million, or €7.23 per square meter on an annualized basis, compared to €9.9 million in the first three months of 2010. On an unconsolidated basis, repair and maintenance spend in the first three months of 2011 was approximately €9.40 per square meter, annualized. While the repair and maintenance spend during the first quarter of 2010 was below average, the expenses during the first three months of 2011 are more representative of an appropriate volume for our current portfolio and broadly in line with our expectations for the full year.

Personnel expenses in the first three months of 2011 were €15.0 million, down 3.8% compared to €15.6 million in the first three months of 2010. This decline is mainly the result of a slightly lower headcount as a consequence of the smaller portfolio due to sales. We are continuing to do a large share of the repair and maintenance work in-house, as we believe that doing this type of work with our own resources enables us to respond to our tenants' needs more quickly and provide a better service.

#### PROFIT FROM THE LEASING OF INVESTMENT PROPERTY

The profit from the leasing of investment property was €105.1 million for the first three months of 2011 compared to €124.9 million for the first three months of 2010, on a basis of approximately 7.4% or ca. 12,600 fewer units on average. In addition to the smaller portfolio, the lower profit from leasing is largely attributable to the higher expenses for repairs and maintenance.

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

€ MILLION	Q1 2011	Q1 2010	Q4 2010
Rental income, fees	148.9	160.0	155.9
Allocations charged	60.3	60.3	58.9
Other	0.2	0.2	0.7
<b>Income from the leasing of investment property</b>	<b>209.4</b>	<b>220.5</b>	<b>215.5</b>
Transferable leasehold land interest	- 0.5	- 0.6	- 0.3
Operating expenses for the generation of rental income	- 103.8	- 95.0	- 107.2
<b>Profit from the leasing of investment property</b>	<b>105.1</b>	<b>124.9</b>	<b>108.0</b>

#### SALE OF INVESTMENT PROPERTY AND ASSETS HELD FOR SALE

During the first three months of 2011, we financially closed on 3,382 units for a total value of €191.9 million. Of that amount, €177.8 million related to our 2010 sales program and €14.1 million were associated with our 2011 sales program.

TOTAL SALES			
€ MILLION	Program 2010	Program 2011	Total
Closed in Q1 2011	177.8	14.1	191.9
Notarized	41.9	8.4	50.3
<b>Total</b>	<b>219.7</b>	<b>22.5</b>	<b>242.2</b>

The net profit from the sale of investment property and assets held for sale is the excess of income from the sale of investment property and assets held for sale over the carrying amounts of the sold investment property and assets held for sale. Recognizing disposition costs, such as external broker fees, capex (pro rata) and marketing costs, net profit from the 2010 and 2011 condo sales that financially closed in the first three months of 2011 was as follows:

CONDO SALES			
	Q1 2011	Q1 2010	Q4 2010
Sold units	1,719	305	320
Sold sqm	101,540	21,833	21,611
	Q1 2011 € million	Q1 2011 € per unit	Q1 2011 € per sqm
Gross disposition proceeds	133.2	77,496	1,312
Book value <sup>1)</sup>	- 106.4	- 61,877	- 1,048
Disposition costs <sup>2)</sup>	- 3.1	- 1,777	- 30
<b>Net profit</b>	<b>23.8</b>	<b>13,842</b>	<b>234</b>
<b>Net profit margin</b>	<b>21.7 %</b>	<b>21.7 %</b>	<b>21.7 %</b>

<sup>1)</sup> Net of revaluation gains.

<sup>2)</sup> Includes sales-related costs such as external broker fees, capex (pro rata), marketing costs, personnel costs and G&A.

#### LOSS FROM THE FAIR VALUE MEASUREMENT OF INVESTMENT PROPERTY

The value of our investment properties including assets held for sale amounts to €8,518.0 million or a net cold rent multiplier of 13.7 as of March 31, 2011. The IAS 40 valuations for our investment properties indicated a net loss from the fair value measurement of €4.5 million or 0.1% on the investment property value as of December 31, 2010.

As in prior quarters, the Q1 valuation was done by CB Richard Ellis GmbH, an independent appraiser. Their fair market valuation model is based on a discounted cash flow (DCF) model, which derives the present value from the properties' future cash flows. The valuation is computed on a property-by-property basis. The DCF model is based on a detailed planning period of ten years, within which the relevant real estate cash flow components are forecast for each period according to the risk assessment of each individual property. For example, the rental growth is calculated in line with legal provisions and forecast to grow to market level over time. After the detailed planning period of ten years, a net present value is calculated for the remaining useful life.

#### EBT CONTRIBUTION OF PROPERTY DEVELOPMENT BUSINESS

Property development projects are non-core operations, and GAGFAH is in the process of winding down this part of the business by selling the remaining property development projects. The earnings before taxes (EBT) contribution of the property development business was as follows:

€ MILLION	Q1 2011	Q1 2010	Q4 2010
Income from the sale of property development projects	1.3	1.7	6.0
Carrying amount of property development projects sold	- 1.1	- 1.3	- 6.0
<b>Profit from the sale of property development projects</b>	<b>0.2</b>	<b>0.4</b>	<b>0.0</b>
Selling expenses (excluding share-based remuneration)	0.0	0.0	- 0.1
Other operating income	0.1	0.2	0.9
Other operating expenses	- 0.6	- 0.7	- 1.0
<b>Earnings before interest and taxes (EBIT)</b>	<b>- 0.3</b>	<b>- 0.1</b>	<b>- 0.2</b>
Net interest expenses	0.0	- 0.1	0.0
<b>Earnings before taxes (EBT)</b>	<b>- 0.3</b>	<b>- 0.2</b>	<b>- 0.2</b>

#### OTHER INCOME AND EXPENSE ITEMS

Other income and expense items for our Group totaled a net expense of €12.6 million in the first three months of 2011, as compared to a net expense of €14.2 million in the first three months of 2010.

The development of our other income and expense items is shown in the table below:

€ MILLION	Q1 2011	Q1 2010	Q4 2010
Profit from other services	0.6	0.8	1.4
Selling expenses	- 3.7	- 3.7	- 11.8
General and administrative expenses	- 9.6	- 10.7	- 8.7
Expenses for share-based remuneration	- 1.9	- 0.7	- 0.2
Other operating income	5.0	1.2	9.8
Other operating expenses	- 3.0	- 1.1	- 3.4
<b>Total</b>	<b>- 12.6</b>	<b>- 14.2</b>	<b>- 12.9</b>

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

Selling expenses consist of personnel costs, costs for external brokers and marketing expenses for our sales business. In the first three months of 2011, selling expenses remained stable at €3.7 million.

General and administrative expenses mainly consist of personnel costs, IT costs, consulting fees, depreciation and office costs. These expenses declined to €9.6 million in the first three months of 2011 from €10.7 million in the first three months of 2010 as a result of our ongoing efforts to optimize our cost structure.

Expenses for share-based remuneration mainly relate to stock option plans for GAGFAH Management. These expenses were €1.9 million in the first three months of 2011 compared to €0.7 million in the first three months of 2010.

All income and expenses not directly allocable to the various categories of income or expenses according to the cost of sales method are disclosed under the line items other operating income and other operating expenses, respectively. In the first three months of 2011, other operating income increased to €5.0 million from €1.2 million in the prior year. The increase is largely attributable to the sale of cable network connections.

Other operating expenses increased to €3.0 million in the first three months of 2011 from €1.1 million in the prior-year period.

#### **MANAGEMENT COST PER UNIT**

As a result of our reorganization activities and focus on cost efficiencies, our annualized average management cost per unit declined to €379 in the first three months of 2011 compared to €393 in the same period of 2010, in spite of approximately 12,600 fewer units on average. The slight increase in the cost to manage compared to the fourth quarter of 2010 (€374 annualized) is due to the fact that there is a natural time lag between the decreasing number of units and the subsequent cost structure adjustments.

#### **REORGANIZATION AND RESTRUCTURING EXPENSES**

Reorganization and restructuring expenses relate to our Group's rationalization of costs and integration of processes as we continue to optimize our operations. In the first three months of 2011, reorganization and restructuring expenses were €1.0 million, which were mostly related to severance payments (prior year: €6.6 million, which were mainly the result of one-off compensation payments relating to an amendment of an outsourcing contract).

#### **EARNINGS BEFORE INTEREST AND TAXES (EBIT)**

In the first three months of 2011, our EBIT was €94.6 million, down 12 % from €107.9 million in the first three months of 2010. Adjusted for valuation effects, the EBIT for the first three months of 2011 was €99.1 million compared to €110.0 million for the first three months of 2010.

#### **NET FINANCING EXPENSES**

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

Net financing expenses decreased to €62.6 million in the first three months of 2011 compared to €81.1 million in the first three months of 2010.

Total interest expenses declined to €67.1 million in the first three months of 2011 from €78.3 million during the same period the year before. Of the total interest expenses, interest expenses related to loans decreased by 5.2 % to €60.2 million during the first three months of 2011 compared to €63.5 million during the first three months of 2010. The decrease of interest expenses results from the paydown of debt mainly related to sales.

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

€ MILLION	Q1 2011	Q1 2010	Q4 2010
Interest expenses related to loans	- 60.2	- 63.5	- 62.8
Prepayment fees	1.8	- 6.0	- 2.3
Other	- 8.7	- 8.8	- 0.2
<b>Total interest expenses</b>	<b>- 67.1</b>	<b>- 78.3</b>	<b>- 65.3</b>
Interest income	0.8	0.2	0.9
Other financial expenses	0.0	- 0.5	- 0.1
Profit/loss from the fair value measurement of derivatives	3.7	- 2.5	2.3
Interest expenses (refinancing)	0.0	0.0	- 0.2
<b>Net financing expenses</b>	<b>- 62.6</b>	<b>- 81.1</b>	<b>- 62.4</b>

#### EARNINGS BEFORE TAXES (EBT)

In the first three months of 2011, our Group's EBT was €32.0 million, as compared to €26.8 million in the first three months of 2010. Earnings before taxes are computed as earnings before interest and taxes (EBIT) of €94.6 million reduced by net financing expenses of €62.6 million.

#### INCOME TAXES

Income taxes comprise deferred income tax expenses of €5.3 million (prior year: €13.8 million) and effective income tax expenses of €2.4 million (prior year: €0.7 million).

#### NET ASSET VALUE (NAV)

NAV per share increased to €12.19 as of March 31, 2011. The lower shareholders' equity and the slight loss from the fair value measurement of investment property was offset by the effect of the share buyback that resulted in a slightly higher NAV per share.

€ MILLION	03-31-2011	12-31-2010
Shareholders' equity	2,223.8	2,240.8
Deferred taxes on investment property and assets held for sale	494.8	498.8
NAV	2,718.6	2,739.6
NAV per share (€)	12.19	12.17

## Financial Position

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

	03-31-2011 € million	03-31-2011 %	12-31-2010 € million	12-31-2010 %
Total equity	2,276.1	25.5	2,302.7	24.9
Financial liabilities	5,804.4	65.1	6,011.2	64.9
Other liabilities	838.3	9.4	947.8	10.2
<b>Total equity and liabilities</b>	<b>8,918.8</b>	<b>100.0</b>	<b>9,261.7</b>	<b>100.0</b>

As of March 31, 2011, the Group's financial liabilities primarily consisted of the following liabilities:

€ MILLION	Carrying amount as of 03-31-2011	Notional amount as of 03-31-2011	Weighted average maturity	Current interest rate	Fixed or floating rate
Term loans	5,052.9	5,040.4	2013	4.11 %	Fixed
Term loans	315.9	305.8	2012	2.11 %	Floating <sup>1)</sup>
Senior debt	369.8	447.7	2039	2.37 %	Fixed
Revolving credit facility	50.0	50.0	2011	6.01 %	Floating
Other	15.8	15.8			
<b>Total</b>	<b>5,804.4</b>	<b>5,859.7</b>	<b>2015</b>	<b>3.89 %</b>	

<sup>1)</sup> In order to reduce the risk of interest rate fluctuation during the lifetime of the loans, we have predominantly hedged the interest rate cost of the loans through interest rate swaps.

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

## Net Assets

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

€ MILLION	03-31-2011	12-31-2010
Non-current assets	8,528.5	8,572.4
Current assets	322.1	475.9
Assets held for sale	68.2	213.4
<b>Total assets</b>	<b>8,918.8</b>	<b>9,261.7</b>
Equity	2,276.1	2,302.7
Non-current liabilities	6,194.9	6,216.2
Current liabilities	447.8	742.8
<b>Total equity and liabilities</b>	<b>8,918.8</b>	<b>9,261.7</b>

Non-current assets amount to €8,528.5 million, of which 99.1 % relate to investment property of €8,449.8 million and 0.6 % to property, plant and equipment of €48.7 million. Non-current assets make up 95.6 % of total assets. The valuation of our investment property was done by CB Richard Ellis GmbH, an independent third-party appraiser.

Current assets amount to €322.1 million, of which 66.7 % are bank balances and cash on hand (€214.7 million) and 6.8 % are inventories (€21.8 million).

Non-current liabilities of €6,194.9 million make up 93.3 % of total liabilities and mainly comprise non-current financial liabilities of €5,622.5 million and deferred tax liabilities of €283.5 million.

## Significant Events after the Interim Reporting Date

There were no significant events after the reporting date.

### City of Dresden Litigation

On March 31, 2011, the City of Dresden has, as announced, filed substantially identical actions against WOBA HOLDING GMBH and certain subsidiaries of WOBA HOLDING GMBH based on alleged breaches of certain obligations under the privatization agreement entered into with the City of Dresden in 2006. The underlying claims amount to €1.08 billion. However, after reviewing the statements of claim, GAGFAH GROUP is convinced that the claims are abusive and unfounded and accordingly will strongly defend against the claims.

### Dividends

In order to retain additional flexibility and financial resources within the business and to support the Company's property investment and financing objectives, the Board has made the decision not to pay an interim dividend for the first quarter of 2011.

## Outlook

GAGFAH has started the new year with a stable performance in the first quarter. The core rental business performed well, with rent growth, vacancy rate and tenant turnover broadly in line with our expectations. Our efforts to further reduce costs are paying off. We see continued demand for our assets, as buyers of individual units as well as of smaller portfolios have access to financing their purchases at attractive conditions. With the underlying fundamental data in terms of rents, house prices and the general economy developing in the right direction, we are looking with confidence to the time ahead.

## Opportunity and Risk Report

With the exception of the City of Dresden Litigation (please refer to page 14 of this report for further details), there are no significant changes to the risks and opportunities reported in the presentation of Financial Risk Management in the 2010 Annual Report.

## Forward-looking Statements

This interim report contains statements that constitute forward-looking statements. These statements are gener-

ally identifiable by use of forward-looking terminology such as “may”, “will”, “should”, “potential”, “intend”, “expect”, “endeavor”, “seek”, “anticipate”, “estimate”, “overestimate”, “underestimate”, “believe”, “could”, “project”, “predict”, “continue”, “plan”, “forecast” or other similar words or expressions.

Forward-looking statements are based on certain assumptions, discuss future expectations, describe future plans and strategies, contain projections of results from operations or of financial conditions or state other forward-looking information. Our ability to predict results or the actual effect of future plans or strategies is limited. Although we believe that the expectations reflected in such forward-looking statements are based on reasonable assumptions, our actual results and performance may differ materially from those set forth in the forward-looking statements. These forward-looking statements are subject to risks, uncertainties and other factors that may cause our actual results in future periods to differ materially from forecast results or stated expectations, including the risk that GAGFAH S.A. will be unable to extend existing financing at suitable terms, be unable to increase rents and occupancy, to sell further units or further reduce management costs.

Luxembourg, May 19, 2011  
The Board of Directors of GAGFAH S.A.

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# Consolidated Statement of Financial Position

as of March 31, 2011

<b>ASSETS</b>			
€ MILLION	Notes	03-31-2011	12-31-2010
<b>Non-current assets</b>			
Intangible assets	E.1.	26.0	26.0
Investment property	E.2.	8,449.8	8,493.3
Property, plant and equipment		48.7	49.0
Other financial assets		3.9	4.0
Receivables	E.3.	0.1	0.1
		<b>8,528.5</b>	<b>8,572.4</b>
<b>Current assets</b>			
Inventories	E.4.	21.8	23.1
Receivables	E.3.	32.0	25.2
Other assets		41.6	35.9
Current tax claims	E.5.	12.0	16.2
Bank balances and cash on hand	E.6.	214.7	375.5
		<b>322.1</b>	<b>475.9</b>
<b>Assets held for sale</b>	<b>E.7.</b>	<b>68.2</b>	<b>213.4</b>
<b>Total assets</b>		<b>8,918.8</b>	<b>9,261.7</b>

<b>EQUITY AND LIABILITIES</b>			
€ MILLION	Notes	03-31-2011	12-31-2010
<b>Equity</b>	<b>E.8.</b>		
Subscribed capital		281.7	282.5
Share premium		1,173.8	1,179.2
Legal reserve		28.2	28.2
Revenue reserves		740.1	750.9
<b>Equity attributable to the shareholders of the parent company</b>		<b>2,223.8</b>	<b>2,240.8</b>
Non-controlling interests		52.3	61.9
<b>Total equity</b>		<b>2,276.1</b>	<b>2,302.7</b>
<b>Liabilities</b>			
<b>Non-current liabilities</b>			
Liabilities to non-controlling shareholders		4.9	4.9
Pension provisions		103.7	103.6
Other provisions		9.5	9.5
Deferred tax liabilities	E.9.	283.5	278.2
Liabilities from income tax	E.10.	79.3	78.3
Financial liabilities	E.11.	5,622.5	5,648.4
Other liabilities	E.12.	10.4	10.5
Deferred liabilities of government-granted loans		81.1	82.8
		<b>6,194.9</b>	<b>6,216.2</b>
<b>Current liabilities</b>			
Pension provisions		7.0	7.0
Other provisions		49.7	51.7
Liabilities from income tax	E.10.	51.3	55.9
Financial liabilities	E.11.	181.9	362.8
Other liabilities	E.12.	152.9	260.5
Deferred liabilities of government-granted loans		5.0	4.9
		<b>447.8</b>	<b>742.8</b>
<b>Total liabilities</b>		<b>6,642.7</b>	<b>6,959.0</b>
<b>Total equity and liabilities</b>		<b>8,918.8</b>	<b>9,261.7</b>

# Consolidated Statement of Comprehensive Income

for the period from January 1 to March 31, 2011

€ MILLION	Notes	Q1 2011	Q1 2010
Income from the leasing of investment property	F.1.	209.4	220.5
Transferable leasehold land interest		- 0.5	- 0.6
Operating expenses for the generation of rental income (excluding share-based remuneration)	F.2.	- 103.8	- 95.0
<b>Profit from the leasing of investment property</b>		<b>105.1</b>	<b>124.9</b>
Income from the sale of investment property and assets held for sale		191.9	137.2
Carrying amount of the sold investment property and assets held for sale		- 184.5	- 131.7
<b>Profit from the sale of investment property and assets held for sale</b>		<b>7.4</b>	<b>5.5</b>
<b>Loss from the fair value measurement of investment property</b>		<b>- 4.5</b>	<b>- 2.1</b>
Income from the sale of property development projects		1.3	1.7
Carrying amount of the property development projects sold		- 1.1	- 1.3
<b>Profit from the sale of property development projects</b>		<b>0.2</b>	<b>0.4</b>
Profit from other services	F.3.	0.6	0.8
Selling expenses (excluding share-based remuneration)	F.4.	- 3.7	- 3.7
General and administrative expenses (excluding share-based remuneration)	F.5.	- 9.6	- 10.7
Expenses for / income from share-based remuneration		- 1.9	- 0.7
Other operating income	F.6.	5.0	1.2
Other operating expenses	F.6.	- 3.0	- 1.1
<b>Profit from operations before reorganization and restructuring expenses</b>		<b>95.6</b>	<b>114.5</b>
Reorganization and restructuring expenses	F.7.	- 1.0	- 6.6
<b>Earnings before interest and taxes (EBIT)</b>		<b>94.6</b>	<b>107.9</b>
Interest expenses	F.8.	- 67.1	- 78.3
Interest income		0.8	0.2
Other financial expenses		0.0	- 0.5
Profit/loss from the fair value measurement of derivatives	H.1.	3.7	- 2.5
<b>Net financing expenses</b>		<b>- 62.6</b>	<b>- 81.1</b>
<b>Earnings before taxes (EBT)</b>		<b>32.0</b>	<b>26.8</b>
Income taxes	F.9.	- 7.7	- 14.5
<b>Net profit (Total comprehensive income)</b>		<b>24.3</b>	<b>12.3</b>
Net profit (Total comprehensive income) attributable to:			
Non-controlling interests		0.3	0.8
Shareholders of the parent company		24.0	11.5
Weighted average number of shares, undiluted (in million)		224.2	225.9
Weighted average number of shares, diluted (in million)		225.8	228.6
Earnings per share (in €)		0.11	0.05
Diluted earnings per share (in €)		0.11	0.05

# Consolidated Statement of Cash Flows<sup>1)</sup>

for the period from January 1 to March 31, 2011

€ MILLION	Q1 2011	Q1 2010
Net profit (Total comprehensive income)	24.3	12.3
Loss from the fair value measurement of investment property	4.5	2.1
Amortization, depreciation and impairment losses on intangible assets and property, plant and equipment	0.9	1.0
Profit from the sale of investment property and assets held for sale	- 7.4	- 5.5
Other non-cash income (-)/expenses (+)	- 0.4	13.1
Change in provisions, pension provisions and deferred liabilities of government-granted loans	- 4.7	- 4.9
Change in deferred taxes	5.3	13.8
Change in working capital	1.3	13.4
<b>Cash flows from operating activities<sup>2)</sup></b>	<b>23.8</b>	<b>45.3</b>
Cash received from the sale of investment property and assets held for sale	48.6	141.9
Cash paid for investment property – acquisition and modernization	- 0.2	- 0.1
Cash paid for investments in intangible assets and property, plant and equipment	- 0.5	- 0.3
<b>Cash flows from investing activities</b>	<b>47.9</b>	<b>141.5</b>
Cash received from equity contributions	4.8	0.0
Cash paid for share buyback	- 25.4	0.0
Cash paid to non-controlling shareholders / interests	- 9.9	- 1.2
Cash repayments of financial liabilities	- 201.9	- 211.4
Interest and cost paid for refinancing	- 0.1	- 0.1
<b>Cash flows from financing activities</b>	<b>- 232.5</b>	<b>- 212.7</b>
<b>Change in cash and cash equivalents</b>	<b>- 160.8</b>	<b>- 25.9</b>
Bank balances and cash on hand at the beginning of the year	375.5	236.2
<b>Bank balances and cash on hand as of the interim reporting date</b>	<b>214.7</b>	<b>210.3</b>

<sup>1)</sup> For further information, please refer to section G. “Notes to the Consolidated Statement of Cash Flows”.

<sup>2)</sup> Operating cash flow includes taxes paid of €4.7 million (prior year: €1.3 million), interest paid of €65.8 million (prior year: €68.2 million) and interest received of €0.8 million (prior year: €0.2 million).

# Statement of Changes in Consolidated Equity<sup>1)</sup>

for the period from January 1 to March 31, 2011

€ MILLION	Revenue reserves					Equity attributable to the shareholders of the parent company	Non-controlling interests	Total equity
	Subscribed capital	Share premium	Legal reserve	Treasury shares	Retained earnings			
<b>January 1, 2011</b>	<b>282.5</b>	<b>1,179.2</b>	<b>28.2</b>	<b>- 5.8</b>	<b>756.7</b>	<b>2,240.8</b>	<b>61.9</b>	<b>2,302.7</b>
Total comprehensive income for the period	0.0	0.0	0.0	0.0	24.0	24.0	0.3	24.3
Share-based remuneration	1.6	5.1	0.0	0.0	0.0	6.7	0.0	6.7
Dividends	0.0	0.0	0.0	0.0	- 22.3	- 22.3	- 9.9	- 32.2
Share buyback	- 2.4	- 10.5	0.0	- 12.5	0.0	- 25.4	0.0	- 25.4
<b>March 31, 2011</b>	<b>281.7</b>	<b>1,173.8</b>	<b>28.2</b>	<b>- 18.3</b>	<b>758.4</b>	<b>2,223.8</b>	<b>52.3</b>	<b>2,276.1</b>

<sup>1)</sup> For further information, please refer to section E.8. "Equity".

# Statement of Changes in Consolidated Equity

for the period from January 1 to March 31, 2010

€ MILLION							
	Subscribed capital	Share premium	Legal reserve	Revenue reserves	Equity attributable to the shareholders of the parent company	Non-controlling interests	Total equity
<b>January 1, 2010</b>	<b>282.4</b>	<b>1,358.4</b>	<b>28.2</b>	<b>704.1</b>	<b>2,373.1</b>	<b>84.6</b>	<b>2,457.7</b>
Total comprehensive income for the period	0.0	0.0	0.0	11.5	11.5	0.8	12.3
Share-based remuneration	0.0	0.5	0.0	0.0	0.5	0.0	0.5
Dividends	0.0	0.0	0.0	- 45.2	- 45.2	- 1.2	- 46.4
Share buyback	0.0	0.0	0.0	0.0	0.0	0.0	0.0
<b>March 31, 2010</b>	<b>282.4</b>	<b>1,358.9</b>	<b>28.2</b>	<b>670.4</b>	<b>2,339.9</b>	<b>84.2</b>	<b>2,424.1</b>

# Notes to the Unaudited Interim Consolidated Financial Statements

## A. General Information

These unaudited Interim Consolidated Financial Statements of GAGFAH S.A., Luxembourg, have been prepared in accordance with the provisions of International Accounting Standard (IAS) 34 “Interim Financial Reporting” as adopted in the European Union.

The unaudited condensed Interim Consolidated Financial Statements do not contain all the disclosures and explanations required in Annual Financial Statements and should be read in conjunction with the Consolidated Financial Statements as of December 31, 2010.

The explanations are substantially made for the period from January 1 until March 31, 2011.

Information that is labeled “prior year” in the Consolidated Statement of Comprehensive Income, the Consolidated Statement of Cash Flows, the Statement of Changes in Consolidated Equity and the Group Segment Report refers to the respective reporting period of the preceding financial year. In the Notes to the Consolidated Statement of Financial Position and the Other Notes, the comparative value is the value as of December 31 of the preceding financial year.

## B. Consolidated Group and Consolidation Principles

### **CONSOLIDATED GROUP**

There were no changes in the Consolidated Group within the first quarter of 2011.

The subsidiaries Instandhaltungs-Service GmbH (ISG) and Grünflächen-Service GmbH (GSG), founded on December 20, 2010, were entered into the commercial register on April 1, 2011.

### **CONSOLIDATION PRINCIPLES**

The consolidation principles applied were the same as those applied in the previous set of Consolidated Financial Statements. A more detailed description can be found in the Notes to the Consolidated Financial Statements as of December 31, 2010.

## C. Accounting Policies

The Interim Financial Statements of the entities included in the Consolidated Financial Statements have been drawn up on the basis of uniform accounting policies. The accounting policies applied were the same as those used in the Consolidated Financial Statements as of December 31, 2010.

## D. Segment Reporting

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

The implementation of the improvements to IFRS 8 Operating Segments as described in the Consolidated Financial Statements as of December 31, 2010, has resulted in a condensed disclosure of items in our Group Segment Reporting: GAGFAH GROUP decided not to disclose assets and liabilities in its Group Segment Reporting any longer from the fiscal year 2010 onwards. Accordingly, no assets and liabilities are reported for the prior year (first quarter of 2010).

GAGFAH's reporting format is based on its core business segments "Real estate management" and "Real estate sales", the latter of which only includes condo sales. These segments represent strategic business functions within the Group.

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

"Segment revenues" and "Segment EBITDA<sup>1)</sup>" are key performance indicators used by the Group for measuring segment performance. The primary differences between segment revenues and EBITDA on the one hand and Group revenues and EBITDA on the other hand are explained in footnotes (1) and (2) to the Group Segment Reports for the periods from January 1 to March 31, 2011 and 2010 on pages 26 and 27, respectively.

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

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

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

<sup>1)</sup> EBITDA = Earnings before interest, taxes, depreciation and amortization.

<sup>2)</sup> The large multi-family home sales program includes the sales of entire buildings to institutional or professional investors whereas the condo sales program includes the sale of individual apartments ("privatization") or small multi-family homes to tenants or small investors.

## Group Segment Report for the period from January 1 to March 31, 2011

€ MILLION	Real estate management	Real estate sales	Total segments	Other	Total Group
<b>Segment revenues</b>	<b>211.2</b>	<b>133.2</b>	<b>344.4</b>	<b>61.5 <sup>1)</sup></b>	<b>405.9</b>
<b>Segment EBITDA</b>	<b>97.0</b>	<b>4.7</b>	<b>101.7</b>	<b>- 5.2 <sup>2)</sup></b>	<b>96.5</b>
Reorganization and restructuring expenses	- 0.7	0.0	- 0.7	- 0.3	- 1.0
Depreciation/amortization	- 0.7	0.0	- 0.7	- 0.2	- 0.9
<b>Earnings before interest and taxes (EBIT)</b>	<b>95.6</b>	<b>4.7</b>	<b>100.3</b>	<b>- 5.7</b>	<b>94.6</b>
Interest expenses	- 64.1	1.1	- 63.0	- 0.4	- 63.4
Interest income	0.2	0.0	0.2	0.6	0.8
<b>Earnings before taxes (EBT)</b>	<b>31.7</b>	<b>5.8</b>	<b>37.5</b>	<b>- 5.5</b>	<b>32.0</b>
Income taxes	0.0	0.0	0.0	- 7.7	- 7.7
<b>Net profit/loss</b>	<b>31.7</b>	<b>5.8</b>	<b>37.5</b>	<b>- 13.2</b>	<b>24.3</b>
Segment investments	0.2	0.0	0.2	0.5	0.7
Significant non-cash expenses (-)/income (+)	- 5.2 <sup>3)</sup>	3.9 <sup>4)</sup>	- 1.3	0.8 <sup>5)</sup>	- 0.5

<sup>1)</sup> The income includes income from the sale of properties concerning the large multi-family home sales program (€58.7 million), income from the sale of property development projects (€1.3 million) and income from the amortization of deferred liabilities of government-granted loans (€1.5 million).

<sup>2)</sup> This item includes the loss from the fair value measurement of investment property (€- 4.5 million), the EBITDA contribution of the large multi-family home sales program and the HB Funds sales (€- 1.6 million), adjustments in connection with HB Funds (€- 0.5 million), the EBT attributable to the property development business (€- 0.3 million), income from the amortization of deferred liabilities of government-granted loans (€1.5 million) and income from the reversal of provisions recorded in other operating income (€0.8 million). Other adjustments amount to €- 0.6 million.

<sup>3)</sup> Significant non-cash expenses of real estate management contain additions to provisions concerning real estate management (€- 4.5 million), write-offs of rent receivables (€- 1.0 million) and income from the reversal of provisions concerning real estate management (€0.3 million).

<sup>4)</sup> Significant non-cash income of real estate sales mainly contains an IAS 39.AG8 valuation impact in connection with the prepayment fees.

<sup>5)</sup> Other significant non-cash expenses/income mainly consist of the loss from the fair value measurement of investment property (€- 4.5 million), the profit from the fair value measurement of derivatives (€3.7 million), income from the amortization of deferred liabilities of government-granted loans (€1.5 million), the present value of loans carried at amortized cost (€- 2.2 million), income from the reversal of provisions (€0.9 million), additions to other provisions (€- 1.9 million) and a positive IAS 39.AG8 valuation impact in connection with the prepayment fees (€3.1 million).

## Group Segment Report for the period from January 1 to March 31, 2010

€ MILLION	Real estate management	Real estate sales	Total segments	Other	Total Group
<b>Segment revenues</b>	<b>222.3</b>	<b>21.2</b>	<b>243.5</b>	<b>118.9 <sup>1)</sup></b>	<b>362.4</b>
<b>Segment EBITDA</b>	<b>110.1</b>	<b>3.4</b>	<b>113.5</b>	<b>2.0 <sup>2)</sup></b>	<b>115.5</b>
Reorganization and restructuring expenses	- 5.8	0.0	- 5.8	- 0.8	- 6.6
Depreciation / amortization	- 0.6	0.0	- 0.6	- 0.4	- 1.0
<b>Earnings before interest and taxes (EBIT)</b>	<b>103.7</b>	<b>3.4</b>	<b>107.1</b>	<b>0.8</b>	<b>107.9</b>
Interest expenses	- 67.9	- 5.3	- 73.2	- 8.1	- 81.3
Interest income	0.1	0.0	0.1	0.1	0.2
<b>Earnings before taxes (EBT)</b>	<b>35.9</b>	<b>- 1.9</b>	<b>34.0</b>	<b>- 7.2</b>	<b>26.8</b>
Income taxes	0.0	0.0	0.0	- 14.5	- 14.5
<b>Net profit / loss</b>	<b>35.9</b>	<b>- 1.9</b>	<b>34.0</b>	<b>- 21.7</b>	<b>12.3</b>
Segment investments	0.1	0.0	0.1	0.3	0.4
Significant non-cash segment expenses (-) / income (+)	- 1.8 <sup>3)</sup>	- 0.9	- 2.7	- 6.8 <sup>4)</sup>	- 9.5

<sup>1)</sup> The income includes income from the sale of properties concerning the large multi-family home sales program (€116.0 million), income from the sale of property development projects (€1.7 million) and income from the amortization of deferred liabilities of government-granted loans (€1.2 million).

<sup>2)</sup> This item includes the loss from the fair value measurement of investment property (€- 2.1 million), the EBITDA contribution of the large multi-family home sales program (€- 1.7 million), the EBIT attributable to property development projects (€- 0.2 million), income from the amortization of deferred liabilities of government-granted loans (€1.2 million) and income from the reversal of provisions recorded in other operating income (€0.1 million). Other adjustments amount to €4.7 million.

<sup>3)</sup> Significant non-cash expenses of real estate management contain additions to provisions concerning real estate management (€- 1.8 million).

<sup>4)</sup> Other significant non-cash expenses / income consist of the loss from the fair value measurement of investment property (€- 2.1 million), the loss from the fair value measurement of derivatives (€- 2.5 million), income from the amortization of deferred liabilities of government-granted loans (€1.2 million), the present value of loans carried at amortized cost (€- 1.7 million), income from the reversal of provisions (€0.1 million) and additions to other provisions (€- 1.8 million).

## E. Notes to the Consolidated Statement of Financial Position

### 1. INTANGIBLE ASSETS

Intangible assets with a finite lifespan mainly comprise software licenses for user programs amounting to €2.4 million (prior year: €2.4 million).

The intangible assets include the goodwill from the acquisitions of GAGFAH Pegasus GmbH of €21.5 million (prior year: €21.5 million) and NILEG subgroup of €2.1 million (prior year: €2.1 million).

### 2. INVESTMENT PROPERTY

The following overview shows the development of the real estate portfolio since January 1, 2011:

€ MILLION	03-31-2011	12-31-2010
<b>As of January 1</b>	<b>8,493.3</b>	<b>9,014.9</b>
Change of accounting policies	0.0	4.1
<b>As of January 1 (adjusted)</b>	<b>8,493.3</b>	<b>9,019.0</b>
Additions	0.2	5.1
Disposals and reclassifications to assets held for sale	- 39.3	- 455.8
Reclassifications to / from property, plant and equipment and inventories	0.1	- 5.5
Changes in value	- 4.5	- 69.5
<b>As of balance sheet date</b>	<b>8,449.8</b>	<b>8,493.3</b>

Of the additions, €0.2 million (prior year: €3.9 million) relate to modernization programs.

Regarding the reclassifications to assets held for sale, we refer to section E.7. "Assets held for sale".

The following tables show an overview of the net cold rent multiples and the valuation cluster:

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**OVERVIEW NET COLD RENT (NCR) MULTIPLES**

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GAGFAH Top 20 locations	Q1 2011 GAGFAH (average) <sup>1)</sup>	2010 Feri (average) <sup>2)</sup>
Dresden	13.6	14.0
Berlin	14.0	16.0
Hamburg	16.2	19.2
Hannover	14.0	14.7
Heidenheim	13.0	n.a.
Bielefeld	12.6	15.9
Osnabrück	13.9	16.7
Braunschweig	13.0	15.4
Zwickau	10.6	n.a.
Essen	12.5	17.1
Köln	15.9	18.0
Freiburg	16.1	17.8
Iserlohn	12.6	n.a.
Bocholt	14.4	n.a.
Bremen	11.9	14.3
Frankfurt	14.9	19.4
Duisburg	10.2	15.4
Leverkusen	14.4	n.a.
Göttingen	12.4	16.1
Bonn	14.9	n.a.
<b>Total</b>	<b>13.7</b>	<b>16.6</b>

<sup>1)</sup> Multiples based on total rental income (includes HB Funds, non-core units).

<sup>2)</sup> Source: Feri Research.

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**VALUATION CLUSTER AS OF MARCH 31, 2011**


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Range NCR multiple	Fair value total in € million	Fair value in %	Average NCR multiple
< 10	382.0	4.4	8.5
< 11	362.1	4.2	10.6
< 12	702.5	8.1	11.5
< 13	1,261.2	14.6	12.5
< 14	1,654.3	19.1	13.5
< 15	1,530.2	17.7	14.5
< 16	1,036.9	12.0	15.5
< 17	714.1	8.3	16.5
< 18	434.8	5.0	17.4
< 19	232.7	2.7	18.4
< 20	147.9	1.7	19.4
≥ 20	193.5	2.2	21.8
<b>Subtotal</b>	<b>8,652.2</b>	<b>100.0</b>	<b>13.7</b>
Disposals Q1	- 125.7		
Other	- 8.5		
<b>Total assets <sup>1)</sup></b>	<b>8,518.0</b>		

<sup>1)</sup> The total assets in the Consolidated Statement of Financial Position comprise of €8,449.8 million investment property and €68.2 million assets held for sale.

Sections F.1. and F.2. of this report contain notes relating to income of €209.4 million (prior year: €220.5 million) from the leasing of investment property and operating expenses of €103.8 million (prior year: €95.0 million) for the generation of rental income.

### 3. RECEIVABLES

Since December 31, 2010, total receivables increased by €6.8 million, mainly resulting from land sales completed in the first quarter of 2011.

#### 4. INVENTORIES

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

#### 5. CURRENT TAX CLAIMS

As of March 31, 2011, GAGFAH GROUP discloses current tax claims of €12.0 million (prior year: €16.2 million). These are mainly related to claims from capital yields tax and trade tax.

#### 6. BANK BALANCES AND CASH ON HAND

This item includes cash and cash equivalents in the form of cash on hand, checks and bank balances totaling €214.7 million (prior year: €375.5 million).

The time deposits of GAGFAH S.A. have terms between one and three months and accrue interest between 0.15 % and 1.00 % (weighted average: 0.65 %).

The weighted average of the interest rates from the Group's main banks amounted to 0.38 % for the first quarter of 2011. Bank deposits at all other banks have an average interest rate of 0.09 % for the first quarter of 2011.

Of €214.7 million (prior year: €375.5 million) total cash, €100.9 million (prior year: €288.7 million) are restricted and €113.8 million (prior year: €86.8 million) are unrestricted.

As of March 31, 2011, restricted cash includes an amount of €47.7 million (prior year: €199.7 million) relating to asset sales which can be either used for the repayment of term loans or for the reinvestment in the acquisition of new properties. Thereof, €27.8 million (prior year: €149.6 million) will be used to pay down related debt. For further information on restrictions on cash, please refer to section G. "Notes to the Consolidated Statement of Cash Flows".

#### **7. ASSETS HELD FOR SALE**

Assets held for sale amounting to €68.2 million (prior year: €213.4 million) contain the carrying amounts of real estate for which the sale is highly probable and management has declared its intention to sell.

The decrease since December 31, 2010, is mainly due to the sale of condos and large multi-family homes which financially closed in the first quarter of 2011.

Of the total proceeds concerning assets held for sale, €25.4 million (prior year: €80.9 million) related to large multi-family home sales and €29.0 million (prior year: €97.4 million) related to condo sales will be used to repay debt. Accordingly, the corresponding term loans were reclassified from non-current to current financial liabilities. Further €8.9 million in connection with HB Funds sales (prior year: €8.9 million) were reclassified from non-current financial liabilities to current financial liabilities. Please refer to section E.II. "Financial Liabilities" of this report.

#### **8. EQUITY**

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

Up to the balance sheet date, 4,289,988 shares were bought at an average price of €7.26. The acquisition costs amounting to €31,156,842.34 (including incidental acquisition costs in an amount of €25,329.37) were deducted in full from revenue reserves. After the balance sheet date up to May 18, 2011, an additional number of 325,472 shares was repurchased at an average price of €6.06.

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

As of March 31, 2011, the total number of treasury shares held by the Company was 2,377,593. This equals 1.06 % of the subscribed capital.

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

	Number of shares	Amount in €
<b>January 1, 2011</b>	<b>225,972,693</b>	<b>282,465,866.25</b>
Bonus shares issued	1,247,386	1,559,232.50
Remuneration of independent directors	15,000	18,750.00
Cancellation of shares	- 1,912,395	- 2,390,493.75
<b>March 31, 2011</b>	<b>225,322,684</b>	<b>281,653,355.00</b>

#### 9. DEFERRED TAX LIABILITIES

Deferred tax liabilities of €283.5 million (prior year: €278.2 million) result from temporary differences mainly in connection with differences from measurement of investment property and assets held for sale.

#### 10. LIABILITIES FROM INCOME TAX

The increase of non-current liabilities from income tax since December 31, 2010, is caused by the addition of accrued interest concerning liabilities from corporate income tax on EK 02 of €1.0 million.

The decrease of current liabilities from income tax of €4.6 million since December 31, 2010, is mainly due to the payment of income tax and trade tax.

#### 11. FINANCIAL LIABILITIES

The financial liabilities of €5,804.4 million (prior year: €6,011.2 million) break down as follows as of March 31, 2011:

Liabilities to banks amount to €5,757.5 million (prior year: €5,964.9 million) and liabilities to other lenders to €46.9 million (prior year: €46.3 million).

The value of the investment property portfolio (including assets held for sale) of €8,518.0 million (prior year: €8,706.7 million) is predominantly encumbered by charges on property for providing security for the current and non-current financial liabilities to banks and other lenders. The financial liabilities which are secured by charges on property amount to €5,725.9 million (prior year: €5,878.2 million). No collateral has been provided for the remaining €78.5 million (prior year: €133.0 million).

The decrease in unsecured financial liabilities results from the lower amount of the outstanding balance of the credit facility.

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

Of the total financial liabilities, €5,546.1 million (prior year: €5,755.4 million) relates to unsubsidized loans.

Overall, loans amounting to €201.9 million were repaid in the first quarter of 2011, as compared to €211.4 million in the first quarter of 2010. Thereof, loans amounting to €0.0 million (prior year: €2.8 million) were fully repaid in the first three months of 2011.

In the fiscal year 2010, GAGFAH S.A. negotiated a new revolving credit agreement. As of September 1, 2010, the former €300.0 million credit agreement was changed into a new €180.0 million credit agreement, of which €50.0 million were outstanding at the end of the reporting period (€100.0 million at the year-end 2010).

The revolving credit facility has to be partially amortized at fixed repayment dates during the credit period. The ultimate maturity date of the new credit agreement is December 31, 2011.

The interest rate currently charged on the new revolving credit facility is EURIBOR plus 5.0 %.

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

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

As of March 31, 2011, a total amount of €54.4 million (year-end 2010: €178.3 million) was reclassified from non-current to current financial liabilities due to the repayment expected to be prior to the contractual maturity of these liabilities, thereof €25.4 million (year-end 2010: €80.9 million) in connection with the large multi-family home sales program and €29.0 million (year-end 2010: €97.4 million) related to condo sales. The aforementioned reclassified term loans contain financial liabilities related to assets held for sale as shown in the Consolidated Statement of Financial Position as of March 31, 2011, as well as financial liabilities related to asset sales that were already recognized during the first quarter of 2011.

Further €8.9 million (year-end 2010: €8.9 million) in connection with HB Funds sales were reclassified from non-current financial liabilities to current financial liabilities.

Of the total reclassifications, loans amounting to €35.7 million (year-end 2010: €136.1 million) are directly related to assets held for sale of €68.2 million (year-end: €213.4 million) as shown in the Consolidated Statement of Financial Position. These loans are allocated to the Group's assets held for sale as follows:

	03-31-2011		12-31-2010	
	Assets held for sale	Directly related financial liabilities	Assets held for sale	Directly related financial liabilities
Large multi-family home sales	22.5	18.8	59.4	42.2
Condo sales	11.4	8.0	119.7	85.0
HB Funds sales (non-core)	34.3	8.9	34.3	8.9
<b>Total</b>	<b>68.2</b>	<b>35.7</b>	<b>213.4</b>	<b>136.1</b>

The total reclassified liabilities have been revalued according to IAS 39.AG8. The current financial liabilities decreased by an amount of €1.7 million (prior year: increase of €7.8 million) due to potential prepayment fees. For further information about the effect on the Consolidated Statement of Comprehensive Income please refer to section F.8. "Interest expenses".

For more information on the respective sales programs, we refer to section E.7. "Assets Held for Sale".

The Group is financed long term, but regularly considers the credit terms and is up to refinance at an early stage. As of March 31, 2011, the Group's financial liabilities primarily comprise of the following liabilities:

€ MILLION	Carrying amount as of 03-31-2011	Notional amount as of 03-31-2011	Weighted average maturity	Current interest rate	Fixed or floating rate	9 months ended December 2011	
						Required repayments	Interest payments
Term loans <sup>1)</sup>	5,052.9	5,040.4	2013	4.11 %	Fixed	53.4	157.5
Term loans <sup>1)</sup>	315.9	305.8	2012	2.11 %	Floating <sup>2)</sup>	1.0	4.9
Senior debt <sup>3)</sup>	369.8	447.7	2039	2.37 %	Fixed	29.5	7.8
Revolving credit facility	50.0	50.0	2011	6.01 %	Floating	50.0	2.3
Other	15.8	15.8					
<b>Total</b>	<b>5,804.4</b>	<b>5,859.7</b>	<b>2015</b>	<b>3.89 %</b>		<b>133.9</b>	<b>172.5</b>

<sup>1)</sup> The term loans attributable to assets held for sale and sold assets are €54.4 million (€26.8 million thereof relate to assets held for sale and €27.6 million relate to sold assets).

<sup>2)</sup> In order to reduce the risk of interest rate fluctuation during the lifetime of the loans, we have predominantly hedged the interest rate cost of the loans through interest rate swaps.

<sup>3)</sup> The repayments in 2011 include an amount of €8.9 million from assets held for sale.

€ MILLION	Carrying amount as of 12-31-2010	Notional amount as of 12-31-2010	Weighted average maturity	Current interest rate	Fixed or floating rate	2011	
						Required repayments	Interest payments
Term loans <sup>1)</sup>	5,206.0	5,189.2	2013	4.10 %	Fixed	177.5	215.5
Term loans <sup>1)</sup>	320.3	306.4	2012	2.09 %	Floating <sup>2)</sup>	0.8	6.5
Senior debt <sup>3)</sup>	368.4	449.5	2039	2.37 %	Fixed	30.4	10.4
Revolving credit facility	100.2	100.0	2011	5.94 %	Floating	100.0	3.9
NILEG other <sup>4)</sup>	0.0	0.0	2010	0.00 %	Floating	0.0	0.0
Other	16.3	16.3					
	<b>6,011.2</b>	<b>6,061.4</b>	<b>2015</b>	<b>3.90 %</b>		<b>308.7</b>	<b>236.3</b>

<sup>1)</sup> The term loans attributable to assets held for sale and sold assets are €178.3 million (€127.2 million thereof relate to assets held for sale and €51.1 million relate to sold assets).

<sup>2)</sup> In order to reduce the risk of interest rate fluctuation during the lifetime of the loans, we have predominantly hedged the interest rate cost of the loans through interest rate swaps.

<sup>3)</sup> The repayments in 2011 include an amount of €8.9 million from assets held for sale. Certain property-specific loans are assumed to fall due for repayment at the end of the fixed interest period. In the Notes to the Consolidated Financial Statements for the fiscal year 2009, information was presented based on the assumption that these loans would be prolonged and regularly repaid through annuity payments. Prior-year information has been adjusted to ensure comparability.

<sup>4)</sup> The close-out of the loan related to land development pre-sold to local municipalities is due to the settlement of the related development project in the fiscal year 2010.

	2012		2013		2014		2015		2016		≥ 2017	
	Required repayments	Interest payments	Required repayments	Interest payments	Required repayments	Interest payments	Required repayments	Interest payments	Required repayments	Interest payments	Required repayments	Interest payments
	0.0	212.3	3,393.7	162.0	1,593.3	47.0	0.0	0.0	0.0	0.0	0.0	0.0
	268.8	2.4	0.0	0.8	0.0	0.8	36.0	0.5	0.0	0.0	0.0	0.0
	23.1	9.6	25.1	8.4	26.8	7.5	24.7	6.9	12.2	6.3	306.3	78.0
	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
	<b>291.9</b>	<b>224.3</b>	<b>3,418.8</b>	<b>171.2</b>	<b>1,620.1</b>	<b>55.3</b>	<b>60.7</b>	<b>7.4</b>	<b>12.2</b>	<b>6.3</b>	<b>306.3</b>	<b>78.0</b>

	2012		2013		2014		2015		2016		≥ 2017	
	Required repayments	Interest payments	Required repayments	Interest payments	Required repayments	Interest payments	Required repayments	Interest payments	Required repayments	Interest payments	Required repayments	Interest payments
	0.0	217.3	3,418.1	163.5	1,593.6	47.0	0.0	0.0	0.0	0.0	0.0	0.0
	269.6	2.4	0.0	0.7	0.0	0.7	36.0	0.5	0.0	0.0	0.0	0.0
	23.1	9.6	25.1	8.4	26.8	7.5	24.7	6.9	12.2	6.3	307.2	78.5
	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
	<b>292.7</b>	<b>229.3</b>	<b>3,443.2</b>	<b>172.6</b>	<b>1,620.4</b>	<b>55.2</b>	<b>60.7</b>	<b>7.4</b>	<b>12.2</b>	<b>6.3</b>	<b>307.2</b>	<b>78.5</b>

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

#### 12. OTHER LIABILITIES

The decrease of current other liabilities compared to year-end 2010 mainly relates to a reduction of received prepayments from property sales resulting from the closing of the underlying transactions.

## F. Notes to the Consolidated Statement of Comprehensive Income

#### 1. INCOME FROM THE LEASING OF INVESTMENT PROPERTY

Income from the leasing of investment property breaks down as follows:

€ MILLION	Q1 2011	Q1 2010
Rental income, fees	148.9	160.0
Allocations charged	60.3	60.3
Rent, interest and expense subsidies	0.2	0.2
<b>Total</b>	<b>209.4</b>	<b>220.5</b>

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

Rental income includes non-cash income from the amortization of deferred liabilities of government-granted loans in the amount of €1.5 million (prior year: €1.2 million).

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

## 2. OPERATING EXPENSES FOR THE GENERATION OF RENTAL INCOME

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

€ MILLION	Q1 2011	Q1 2010
Real estate operating expenses	57.4	56.3
Repair and maintenance costs	17.4	9.9
Personnel expenses	15.0	15.6
Real estate tax	4.9	5.1
External costs for real estate management	1.9	1.6
Administrative expenses	1.6	1.8
Bad debt allowances	1.0	0.0
Amortization and depreciation on intangible assets and property, plant and equipment	0.6	0.5
Other expenses for real estate management	4.0	4.2
<b>Total</b>	<b>103.8</b>	<b>95.0</b>

Repair and maintenance costs in the first three months of 2011 were €17.4 million compared to €9.9 million in the first three months of 2010. While the repair and maintenance spend during the first quarter of 2010 was below average, the expenses during the first three months of 2011 are more representative of an appropriate volume for our current portfolio and in line with our expectations for the full year.

## 3. PROFIT FROM OTHER SERVICES

The profit from other services breaks down as follows:

€ MILLION	Q1 2011	Q1 2010
Revenues from other trade	2.0	1.7
Revenues from third-party real estate management	1.3	1.3
Personnel expenses	- 1.6	- 1.3
Expenses from other trade	- 1.0	- 0.6
Expenses from third-party real estate management	- 0.1	- 0.3
<b>Total</b>	<b>0.6</b>	<b>0.8</b>

#### 4. SELLING EXPENSES

Selling expenses break down as follows:

€ MILLION	Q1 2011	Q1 2010
Personnel expenses	1.0	1.1
External brokers	0.8	1.4
General and administrative expenses	0.8	0.1
Marketing and selling prearrangements	0.4	0.2
Notarial charges	0.0	0.4
Other	0.7	0.5
<b>Total</b>	<b>3.7</b>	<b>3.7</b>

The increase of general and administrative expenses to €0.8 million in the first quarter of 2011 from €0.1 million in the first quarter of 2010 results from consulting costs in connection with the sale of investment property related to HB Funds.

#### 5. GENERAL AND ADMINISTRATIVE EXPENSES

General and administrative expenses break down as follows:

€ MILLION	Q1 2011	Q1 2010
Personnel expenses for administrative staff	4.1	4.8
IT costs	1.7	1.7
Consulting costs	0.8	0.9
Audit fees	0.5	0.7
Insurances	0.5	0.5
Personnel-related costs	0.4	0.3
Costs of office equipment, postage and telephone	0.3	0.4
Occupancy costs	0.3	0.2
Amortization and depreciation on intangible assets and fixed assets	0.1	0.4
Travel expenses, expenses for cars	0.1	0.2
Other	0.8	0.6
<b>Total</b>	<b>9.6</b>	<b>10.7</b>

The decrease in total general and administrative expenses is mainly the result of our ongoing efforts to optimize our cost structure.

#### 6. OTHER OPERATING INCOME AND EXPENSES

All income and expenses not directly allocable to the various categories of income or expenses according to the cost of sales method are disclosed under the items other operating income and other operating expenses, respectively.

Other operating income breaks down as follows:

€ MILLION	Q1 2011	Q1 2010
Sale of cable network connections	3.4	0.3
Reversal of provisions	0.8	0.1
Transferable leasehold land interest	0.1	0.1
Other	0.6	0.5
<b>Subtotal</b>	<b>4.9</b>	<b>1.0</b>
Other operating income due to property development business	0.1	0.2
<b>Total</b>	<b>5.0</b>	<b>1.2</b>

Of other operating expenses totaling €3.0 million (prior year: €1.1 million), €2.0 million (prior year: €0.0 million) result from additions to provisions for litigation risks and €0.6 million (prior year: €0.7 million) relate to costs in connection with property development business.

#### 7. REORGANIZATION AND RESTRUCTURING EXPENSES

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

In the first quarter of 2011, reorganization and restructuring expenses were €1.0 million (prior year: €6.6 million). They split up into reorganization expenses of €0.9 million (prior year: €5.7 million) and restructuring expenses of €0.1 million (prior year: €0.9 million).

#### 8. INTEREST EXPENSES

Interest expenses break down as follows:

€ MILLION	Q1 2011	Q1 2010
Interest expenses related to loans	60.2	63.5
Amortization of transaction costs	3.0	3.2
Present value of loans carried at amortized cost	2.2	1.7
Interest share of pension obligations	1.4	1.3
Amortization of EK02 liability	1.0	1.1
Prepayment fees	-1.8	6.0
Other interest expenses	1.1	1.4
<b>Subtotal</b>	<b>67.1</b>	<b>78.2</b>
Interest due to property development business	0.0	0.1
<b>Total</b>	<b>67.1</b>	<b>78.3</b>

The income in connection with prepayment fees of €1.8 million (prior year: expenses of €6.0 million) results from the derecognition of residual liabilities.

The actual payments in connection with the early repayment of loans in the first quarter of 2011 of €4.3 million (prior year: €4.6 million) were below the corresponding value of €6.1 million that was calculated and recognized as of December 31, 2010. The deviation of €1.8 million results from the development of the underlying interest rates.

#### 9. INCOME TAXES

Income taxes comprise deferred income tax expenses of €5.3 million (prior year: €13.8 million) and effective income tax expenses of €2.4 million (prior year: €0.7 million).

### G. Notes to the Consolidated Statement of Cash Flows

Cash and cash equivalents comprise all cash and cash equivalents disclosed in the Consolidated Statement of Financial Position and break down as follows:

€ MILLION	03-31-2011	12-31-2010	03-31-2010
Cash on hand	0.1	0.1	0.1
Bank balances	94.1	64.8	21.5
Restricted cash	100.9	288.7	170.3
HB Funds balances	19.6	21.9	18.4
<b>Bank balances and cash on hand</b>	<b>214.7</b>	<b>375.5</b>	<b>210.3</b>

The comparative figures referred to as “prior year” in the text below are the amounts as of March 31, 2010.

Restricted cash is mainly composed of the following:

An amount of €28.1 million (prior year: €29.3 million) corresponds to the interests on term loans due but not yet payable until the end of the reporting period.

A further amount of €2.7 million (prior year: €2.6 million) is pledged for guarantee facilities.

As of March 31, 2011, restricted cash also includes an amount of €47.7 million (prior year: €136.1 million) relating to asset sales which can be either used for the repayment of term loans or for the reinvestment in the acquisition of new properties. Thereof, €27.8 million (prior year: €96.0 million) will be used to pay down related debt.

Furthermore, restricted cash includes an amount of €21.1 million (prior year: €0.0 million) from the sale of HB Funds assets from which €8.5 million (prior year: €0.0 million) have to be used for distributions to non-controlling interests.

As of the balance sheet date, there were no undrawn credit facilities (prior year: €135.0 million).

## H. Other Notes

### 1. FINANCIAL RISK MANAGEMENT

The methods of financial risk management have not changed since the last Consolidated Financial Statements. A detailed description of the interest rate, liquidity and credit risks as well as the financial risk management of GAGFAH S.A. is provided in the Notes to the Consolidated Financial Statements for the fiscal year 2010.

On March 31, 2011, the derivative financial instruments used by the Group were option agreements and interest rate swaps and caps to hedge future cash flows from variable-rate loans. Up to now, the remaining amounts have not been designated as being hedging instruments.

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

#### Changes of relevant valuation parameters of interest rate swaps and caps

Due to the valuation of the derivatives, interest rate swaps with a negative amount of €8.1 million (prior year: €11.8 million) are disclosed in the balance sheet item "Financial Liabilities".

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

€ MILLION	03-31-2011	12-31-2010
Nominal value of interest rate swaps	316.6	316.6
Fair value of interest rate swaps	- 8.1	- 11.8

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

€ MILLION	03-31-2011	12-31-2010
Nominal value of interest rate caps	50.0	100.0
Fair value of interest rate caps	0.0	0.0

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

	03-31-2011	12-31-2010
Interest rate for six months	1.546 %	1.227 %
Interest rate for one year	1.996 %	1.507 %
Interest rate for two years	2.345 %	1.555 %
Interest rate for five years	3.235 %	2.485 %

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

In the first quarter of 2011, a total profit of €3.7 million (prior year: a total loss of €2.5 million) from changes in the fair value of the interest rate swaps was recognized through profit or loss under the item “Profit / loss from the fair value measurement of derivatives”.

## 2. CONTINGENT LIABILITIES AND OTHER FINANCIAL OBLIGATIONS AND RECEIVABLES

On March 31, 2011, the City of Dresden has, as announced, filed substantially identical actions against WOBA HOLDING GMBH and certain subsidiaries of WOBA HOLDING GMBH based on alleged breaches of certain obligations under the privatization agreement entered into with the City of Dresden in 2006. The underlying claims amount to €1.08 billion. However, after reviewing the statements of claim, GAGFAH GROUP is convinced that the claims are abusive and unfounded and accordingly will strongly defend against the claims.

The further remaining obligations and receivables have not changed significantly since year-end 2010. A detailed description on the contingent liabilities and other financial obligations can be found in the Notes to the Consolidated Financial Statements as of December 31, 2010.

### 3. EMPLOYEES

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

	Q1 2011		Q1 2010	
	Heads	FTEs	Heads	FTEs
Real estate management	1,208	1,153	1,242	1,183
thereof facility management service	675	654	684	658
Real estate sales	28	28	36	34
Other	188	179	219	211
<b>Total</b>	<b>1,424</b>	<b>1,360</b>	<b>1,497</b>	<b>1,428</b>

Including 317 part-time employees (prior year: 325) and 102 trainees (prior year: 105), the total headcount was 1,843 (prior year: 1,927).

### 4. RELATED PARTY TRANSACTIONS

Major transactions with related parties have been commented on in the Notes to the Consolidated Financial Statements for the last fiscal year. There were no related party transactions within the first quarter of 2011.

### 5. MANAGEMENT

There were no changes within the composition of the Board of Directors and Senior Management since December 31, 2010.

### 6. CASH DIVIDEND

In the first quarter of 2011, no cash dividend was paid. The dividend for the fourth quarter of 2010 amounting to €22.3 million was paid on April 12, 2011, and is recognized as a current liability within the Consolidated Statement of Financial Position as of March 31, 2011.

### 7. SIGNIFICANT EVENTS AFTER THE INTERIM REPORTING DATE

There were no significant events after the reporting date.

# Glossary

## **CAPEX**

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

## **CBRE**

CB Richard Ellis GmbH (CBRE) is an independent appraiser that we use for the external valuation of our portfolio.

## **CONDO SALES PROGRAM**

Sale of individual apartments (“privatization”) or small multi-family homes to tenants or small investors.

## **FUNDS FROM OPERATIONS (FFO) PER SHARE**

FFO per share is calculated as total FFO divided by the undiluted weighted average number of shares for the respective period.

## **HB FUNDS**

The HB Funds comprise of 13 closed-end real estate funds with a total of 3,053 units, which are structured in a legal form of “economic fractional ownership” and in which GAGFAH holds the majority of shares. GAGFAH M, one of GAGFAH S.A.’s operating subsidiaries, acts as trustee and manager of the funds. The sale of the HB Funds assets

was initiated in 2010 and out of a total of initially 7,130 units, 4,077 have already been sold as of March 31, 2011. All HB Funds units are non-core and therefore not part of GAGFAH’s core residential portfolio.

## **LARGE MULTI-FAMILY HOME SALES PROGRAM**

Sale of entire buildings or clusters of buildings to institutional / professional investors.

## **MANAGEMENT COST PER UNIT / COST TO MANAGE**

The annualized average cost for managing one unit for one year. This number includes the costs directly associated with the management of our units, but does not include any repairs and maintenance costs.

## **NET ASSET VALUE (NAV) PER SHARE**

NAV per share is calculated as shareholders’ equity plus deferred taxes on investment properties and assets held for sale divided by the number of shares outstanding (excluding treasury shares) as of the balance sheet date.

## **NET COLD RENT**

Also called “in-place rent”. Net cold rent represents the amount of rent that could be produced assuming no vacancies or collection losses occur.

**RECOVERABLE OPERATING EXPENSES**

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

- real estate tax
- water supply / sewage
- drainage
- heating
- warm water
- maintenance of escalators
- street cleaning and garbage removal
- snow removal
- building cleaning
- gardening
- lighting
- chimney cleaning
- insurances
- caretakers

**REPAIRS AND MAINTENANCE**

The work that is done for fixing and / or upkeeping an apartment. Repairs and maintenance expenses are not capitalized.

**SAME STORE BASIS**

Residential units GAGFAH owned at both dates:  
As of December 31, 2010 and March 31, 2011.

**VACANCY**

A unit is considered vacant if there is no valid lease agreement in place as of the respective date. Not included are non-core units.



**IMPRINT:**

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