

GAGFAH



## Interim Report

as of June 30, 2010

# 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 160,000 apartments, GAGFAH is the largest German listed residential property company.

## Highlights

- **PROFIT FROM THE LEASING OF INVESTMENT PROPERTY** of €240.3 million in the first six months of 2010, compared to €246.1 million in the first six months of 2009, a decrease of 2.4 %, on a base of approximately 5.0 % or 8,500 fewer units on average. Adjusted for units sold, the profit from the leasing of investment property increased by 2.8 % y-o-y on an average per unit basis.
  - **NAV** of €12.44 per share and gross asset value of €848 per square meter as of June 30, 2010.
  - **FFO** of €0.38 per share or €84.9 million in the first six months of 2010, compared to €0.39 per share or €88.3 million in the first six months of 2009.
  - **DIVIDENDS** Quarterly dividend for the second quarter of 2010 of €0.10 per share. The Board of Directors has declared a revised quarterly dividend, in order to enhance the Company's financial flexibility. The second quarter dividend will be paid on September 9, 2010.
- RENTS**
- Our rental growth rate was 1.2 % annualized for the first six months of 2010 on a same store basis<sup>1)</sup>, in line with our target for the year.

<sup>1)</sup> Same store basis: Residential units GAGFAH owned at both dates: As of December 31, 2009, and as of June 30, 2010.

<sup>2)</sup> Privatization/small multi-family homes.

## GAGFAH S.A. SHARES AS OF JUNE 30, 2010

ISIN	LU0269583422
Total market cap. (€ million)	1,342.7
Industry group	Real Estate
Number of shares (million)	225.9
Listing	Frankfurt Stock Exchange
Major indices memberships	MDAX, EPRA, GPR

## PROPERTY SALES

- 2010 Sales Program: we sold 241 units for €21.5 million through our condo<sup>2)</sup> sales channel and 100 units for €5.2 million through our large multi-family home sales channel.
- Year to date in 2010, we have also contracted to sell another 2,501 units for a value of €92.9 million, bringing our YTD 2010 total to €119.6 million.
- Additionally, we financially closed (sold) 5,422 units for €226.3 million associated with the 2009 sales program.

## VACANCY

- Our vacancy rate decreased to 5.1 % at the end of Q2, in line with our target of ca. 5 % for midyear.
- Excluding units held for condo sales, our vacancy rate was at 5.0 %.

## COST

- Management cost per unit were €392, down from €401 for the same period in 2009 on a basis of approximately 8,500 fewer units.
- We intend to continue to focus on reducing our management cost per unit and overall SG&A expenses, focusing on headcount and overhead admin.

# Key Financial Information

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

€ MILLION	H1 2010	H1 2009	Q2 2010	Q2 2009	Q1 2010
Income from the leasing of investment property	458.4	495.9	237.9	251.6	220.5
Profit from the leasing of investment property	240.3	246.1	115.4	118.9	124.9
Profit from the sale of investment property and assets held for sale	8.9	10.5	3.4	5.4	5.5
Loss from fair value measurement of investment property	- 10.3	- 92.3	- 8.2	- 73.1	- 2.1
EBITDA	216.7	130.4	101.2	38.6	115.5
EBIT	208.1	124.7	100.2	35.0	107.9
EBT	50.8	- 33.7	24.0	- 38.5	26.8
FFO	84.9	88.3	38.3	39.6	46.6
FFO in € per share	0.38	0.39	0.17	0.18	0.21

## GROUP CAPITALIZATION

	06-30-2010 € million	06-30-2010 %	12-31-2009 € million	12-31-2009 %
Total equity	2,387.6	25.5	2,457.7	25.2
Financial liabilities	6,193.4	66.1	6,525.3	66.7
Other liabilities	786.5	8.4	794.3	8.1
<b>Total equity and liabilities</b>	<b>9,367.5</b>	<b>100.0</b>	<b>9,777.3</b>	<b>100.0</b>

## OPERATIONAL FIGURES

	H1 2010	H1 2009	Q1 2010
Group residential portfolio			
Units	159,850	169,534	162,528
Sqm	9,687,681	10,224,414	9,821,193
Net cold rent / sqm (in €)	5.05	4.99	5.03
Vacancy rate (in %)	5.1	4.6	5.4
Sold units	5,763	1,116	3,075

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	H1 2010	H1 2009	Q2 2010	Q2 2009	Q1 2010
EBIT	208.1	124.7	100.2	35.0	107.9
Reorganization and restructuring expenses	6.6	3.9	0.0	2.9	6.6
Depreciation and amortization	2.0	1.8	1.0	0.7	1.0
EBITDA	216.7	130.4	101.2	38.6	115.5
Loss from fair value measurement of investment property	10.3	92.3	8.2	73.1	2.1
Realized valuation gains through sales	2.2	6.0	1.2	4.1	1.0
Expenses for /income from share-based remuneration	1.1	- 1.5	0.4	- 2.1	0.7
Net interest expenses	- 155.6	- 148.2	- 77.5	- 75.4	- 78.1
Current tax expenses	- 1.0	- 2.1	- 0.3	- 1.7	- 0.7
Property development business	- 2.8	4.9	- 3.0	2.8	0.2
Sales expenses (large MFH and non-core)	12.2	n / a	7.7	n / a	4.5
Other	1.8	6.5	0.4	0.2	1.4
FFO	84.9	88.3	38.3	39.6	46.6
FFO in € per share	0.38	0.39	0.17	0.18	0.21

# Residential Property Portfolio<sup>1)</sup>

Our portfolio is located in over 350 towns and cities 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	Fully-let rent annualized (€ million)	In % of total	In-place rent per month and sqm (€)	Market rent per month and sqm (€) <sup>2)</sup>	Vacant %
Dresden	38,171	20.4 %	2,165,561	57	121.2	18.4 %	4.66	4.98	6.2 %
Berlin	23,703	13.4 %	1,426,712	60	84.8	12.8 %	4.95	5.37	2.7 %
Hamburg	9,414	5.7 %	606,205	64	39.3	6.0 %	5.40	6.38	0.5 %
Hannover	6,072	3.6 %	384,097	63	25.3	3.8 %	5.49	5.79	5.3 %
Heidenheim	4,701	2.8 %	293,145	62	18.9	2.9 %	5.36	5.76	12.0 %
Bielefeld	4,171	2.6 %	276,404	66	14.6	2.2 %	4.39	4.70	1.5 %
Osnabrück	3,502	2.0 %	216,635	62	13.2	2.0 %	5.07	5.46	3.2 %
Braunschweig	3,225	1.9 %	198,368	62	12.2	1.9 %	5.15	5.52	1.7 %
Zwickau	3,087	1.6 %	172,790	56	8.6	1.3 %	4.17	4.28	16.6 %
Essen	2,348	1.5 %	154,936	66	9.8	1.5 %	5.29	5.82	6.2 %
Köln	2,298	1.6 %	175,315	76	13.4	2.0 %	6.35	6.99	2.7 %
Freiburg	1,856	1.2 %	124,581	67	8.9	1.3 %	5.92	6.51	1.2 %
Düsseldorf	1,680	0.9 %	97,593	58	8.0	1.2 %	6.81	6.91	1.8 %
Iserlohn	1,677	1.0 %	106,004	63	5.7	0.9 %	4.45	4.78	4.5 %
Bocholt	1,588	0.9 %	95,060	60	5.6	0.8 %	4.88	5.46	3.4 %
Bremen	1,557	0.9 %	98,825	63	5.8	0.9 %	4.91	5.38	7.3 %
Frankfurt am Main	1,533	0.8 %	84,120	55	7.4	1.1 %	7.30	8.03	0.3 %
Leverkusen	1,404	0.8 %	89,835	64	5.8	0.9 %	5.42	5.82	2.8 %
Duisburg	1,401	0.9 %	95,056	68	5.1	0.8 %	4.44	4.89	19.3 %
Göttingen	1,356	0.7 %	77,434	57	4.8	0.7 %	5.13	5.16	0.2 %
<b>Subtotal</b>									
<b>Top 20 cities</b>	<b>114,744</b>	<b>65.2 %</b>	<b>6,938,674</b>	<b>60</b>	<b>418.1</b>	<b>63.3 %</b>	<b>5.02</b>	<b>5.50</b>	<b>4.8 %</b>
Other cities	45,106	25.9 %	2,749,007	61	169.0	25.6 %	5.12	5.54	5.7 %
<b>Total core residential property portfolio</b>	<b>159,850</b>	<b>91.1 %</b>	<b>9,687,681</b>	<b>61</b>	<b>587.1</b>	<b>88.9 %</b>	<b>5.05</b>	<b>5.52</b>	<b>5.1 %</b>
Other <sup>3)</sup>	n / m	8.9 %	946,445	n / m	73.1	11.1 %	n / m	n / m	27.6 %
		100.0 %	10,634,126		660.2	100.0 %			

<sup>1)</sup> GAGFAH property information as of June 30, 2010.

<sup>2)</sup> Market rents were determined by CBRE.

<sup>3)</sup> Includes HB Funds, commercial properties, garages and senior homes.

# Directors' Report

## Strategy

### **CONTINUE TO GROW RETURNS FROM CURRENT PORTFOLIO**

We plan to continue to increase returns from our current portfolio while maintaining or improving tenant occupancy and the quality of accommodation. Over time, we plan to continue to increase rents to market levels to the extent permitted by German law and existing rent restrictions. For the first six months of 2010, we increased rents by 1.2 % annualized on a same store basis. The vacancy rate declined to 5.1 % as of June 30, 2010. The profit from the leasing of investment property per average unit increased by 2.8 % for the first six months of 2010 as compared to the first six months of 2009.

### **INCREASE PROFITABILITY THROUGH OPERATING EFFICIENCIES**

We have continued to reduce general and administrative expenses and operating expenses through active cost management and review as well as through the optimization of operations and processes. Incremental savings are expected to come from headcount reductions, particularly in administrative overhead areas, and further selective outsourcing solutions. Our management cost per unit declined to €392 in the first six months of 2010, from €401 in the first six months of 2009.

### **REALIZE VALUE THROUGH ASSET SALES**

In the first six months of 2010, we sold 5,763 units. We continue to see strong demand from current tenants and investors for condos and multi-family homes. Our shares are currently trading at a substantial discount to their NAV, and so we have shifted our focus to incrementally realizing the value embedded in our assets. Net proceeds from sales can be used to optimize our capital structure, for example by repaying or repurchasing debt, paying dividends or repurchasing shares.

## Industry

### **OVERALL ECONOMIC DEVELOPMENT**

The German economy showed a stable development in the first half of 2010. According to the Federal Statistical Office, the German gross domestic product (GDP) increased by 0.2 % in the first quarter of 2010 over the last quarter of 2009. Leading economic research institutes forecast a GDP increase in a range between 1.4 % and 2.1 % for 2010. The unemployment rate in Germany decreased to 7.5 % in June 2010 from 8.1 % in June 2009.

#### **THE GERMAN RESIDENTIAL REAL ESTATE MARKET**

New construction of residential housing continues to decrease. The construction of apartments declined by 10 % to 159,000 in 2009 from 175,000 in 2008. The number of newly built apartments has dropped by 73 % since 1995, with a 14-year low in 2009, and at the same time the number of building permits increased only slightly between 2008 and 2009 by 1.9 % or by 3,300 permits to 178,000. The decline in the construction of new residential housing units is largely attributable to high construction costs. Construction costs for residential housing in Germany increased by approximately 1.0 % in May 2010 compared to May 2009, largely due to increased costs mainly for elevators, plumbing work and heating installations. In 2009, construction costs were up 0.9 % compared to 2008.

#### **DEVELOPMENT OF HOUSING SALES AND RENTAL PRICES**

Historically, the German residential market has been very stable, both in terms of rent and house price development. That is contrary to other countries such as Spain, Ireland and Great Britain that have seen strong value appreciations followed by severe contractions in the wake of the financial crisis. According to the Hypoport HPX Index as per June 2010, the prices for residential properties in Germany have remained stable in the first half of 2010.

Rents in Western Germany have shown stable and consistent growth through economic cycles and recessions since 1975. The only exception was in the early 1990s, when German reunification led to a significant increase in rents in Western Germany followed by a rent decrease as a result of the end of the reunification boom. The historical performance of rents underlines residential property as a stable asset class.

This was evident in 2009 as well: While GDP in Germany fell by a record high of 5.0 % and inflation was at its lowest level since reunification with 0.4 %, the average net cold rent for residential properties in Germany climbed by 1.1 % (Source: German Federal Statistical Office, 2010).

# Consolidated Statement of Comprehensive Income

€ MILLION	H1 2010	H1 2009	Q2 2010	Q2 2009	Q1 2010
Income from the leasing of investment property	458.4	495.9	237.9	251.6	220.5
Transferable leasehold land interest	- 1.2	- 1.1	- 0.6	- 0.6	- 0.6
Operating expenses for the generation of rental income (excluding share-based remuneration)	- 216.9	- 248.7	- 121.9	- 132.1	- 95.0
<b>Profit from the leasing of investment property</b>	<b>240.3</b>	<b>246.1</b>	<b>115.4</b>	<b>118.9</b>	<b>124.9</b>
Income from the sale of investment property and assets held for sale	253.0	54.0	115.8	35.1	137.2
Carrying amount of the sold investment property and assets held for sale	- 244.1	- 43.5	- 112.4	- 29.7	- 131.7
<b>Profit from the sale of investment property and assets held for sale</b>	<b>8.9</b>	<b>10.5</b>	<b>3.4</b>	<b>5.4</b>	<b>5.5</b>
<b>Loss from fair value measurement of investment property</b>	<b>- 10.3</b>	<b>- 92.3</b>	<b>- 8.2</b>	<b>- 73.1</b>	<b>- 2.1</b>
Income from the sale of property development projects	5.7	3.4	4.0	1.9	1.7
Carrying amount of property development projects sold	- 1.9	- 1.2	- 0.6	- 0.5	- 1.3
<b>Profit from the sale of property development projects</b>	<b>3.8</b>	<b>2.2</b>	<b>3.4</b>	<b>1.4</b>	<b>0.4</b>
Profit from other services	1.7	1.2	0.9	1.0	0.8
Selling expenses (excluding share-based remuneration)	- 9.0	- 6.8	- 5.3	- 3.9	- 3.7
General and administrative expenses (excluding share-based remuneration)	- 20.0	- 22.1	- 9.3	- 10.6	- 10.7
Expenses for /income from share-based remuneration	- 1.1	1.5	- 0.4	2.1	- 0.7
Other operating income	3.0	3.8	1.8	2.2	1.2
Other operating expenses	- 2.6	- 15.5	- 1.5	- 5.6	- 1.1
<b>Profit from operations before reorganization and restructuring expenses</b>	<b>214.7</b>	<b>128.6</b>	<b>100.2</b>	<b>37.8</b>	<b>114.5</b>
Reorganization and restructuring expenses	- 6.6	- 3.9	0.0	- 2.9	- 6.6
<b>Profit from operations</b>	<b>208.1</b>	<b>124.7</b>	<b>100.2</b>	<b>34.9</b>	<b>107.9</b>
Profit from other financial assets	0.0	0.0	0.0	0.1	0.0
<b>Earnings before interest and taxes (EBIT)</b>	<b>208.1</b>	<b>124.7</b>	<b>100.2</b>	<b>35.0</b>	<b>107.9</b>
Interest expenses	- 156.4	- 149.6	- 78.1	- 76.0	- 78.3
Interest income	0.6	1.0	0.4	0.4	0.2
Other financial expenses /income	- 0.6	0.2	- 0.1	0.3	- 0.5
Loss /profit from the fair value measurement of derivatives	- 0.9	- 10.0	1.6	1.8	- 2.5
<b>Net financing expenses</b>	<b>- 157.3</b>	<b>- 158.4</b>	<b>- 76.2</b>	<b>- 73.5</b>	<b>- 81.1</b>
<b>Earnings before taxes (EBT)</b>	<b>50.8</b>	<b>- 33.7</b>	<b>24.0</b>	<b>- 38.5</b>	<b>26.8</b>
Income taxes	- 28.7	- 9.2	- 14.2	3.8	- 14.5
<b>Net profit / loss (Total comprehensive income)</b>	<b>22.1</b>	<b>- 42.9</b>	<b>9.8</b>	<b>- 34.7</b>	<b>12.3</b>
Net profit / loss (Total comprehensive income) attributable to:					
Minority interests	- 6.9	- 2.6	- 7.7	1.1	0.8
Shareholders of the parent company	29.0	- 40.3	17.5	- 35.8	11.5
Weighted average number of shares (undiluted) in million	225.9	225.7	225.9	225.7	225.9
Weighted average number of shares (diluted) in million	228.6	226.3	228.6	226.3	228.6
Earnings per share (in €)	0.13	- 0.18	0.08	- 0.16	0.05
Diluted earnings per share (in €)	0.13	- 0.18	0.08	- 0.16	0.05

# 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 accom-

modation. Rents are continuously evaluated against market levels and adjusted over time.

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

€ MILLION	H1 2010	H1 2009	Q2 2010	Q2 2009	Q1 2010
Rental income, fees	317.0	333.4	157.0	165.1	160.0
Allocations charged	140.9	161.3	80.6	85.8	60.3
Other	0.5	1.2	0.3	0.7	0.2
<b>Total</b>	<b>458.4</b>	<b>495.9</b>	<b>237.9</b>	<b>251.6</b>	<b>220.5</b>

Income from the leasing of investment property includes rental income, allocations charged and rents from subsidized apartments. In the first six months of 2010, our income from the leasing of investment property decreased by 7.6% to €458.4 million from €495.9 million in the first six months of 2009. The decrease is mainly attributable to a smaller portfolio and as a consequence lower rental income and allocations charged in H1 2010 compared to H1 2009.

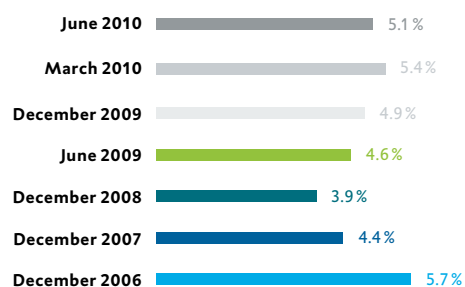
Approximately 69% of such income was attributable to rental income. The decrease in rental income between the first six months of 2009 and 2010 is mainly due to an average of 5.0% or 8,500 fewer units during that period. Rental income mainly consists of net cold rent, which grew on a same store basis by 0.6% to €5.05 per square meter since December 31, 2009, or 1.2% on an annualized basis.

Approximately 31%, or €140.9 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. The decline from H1 2009 to H1 2010 was primarily attributable to 8,500 fewer units on average and comparatively low allocations charged in Q1 2010.

Rental income is net of vacancy. Our overall vacancy rate as of June 30, 2010, was at 5.1%, down from 5.4% at the end of Q1 2010 and thus in line with our target of ca. 5% for midyear.

## VACANCY



## OPERATING EXPENSES FOR THE GENERATION OF RENTAL INCOME

In the first six months of 2010, our operating expenses for the generation of rental income totaled €216.9 million,

a decrease of 12.8% compared to €248.7 million for the first half of 2009.

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

€ MILLION	H1 2010	H1 2009	Q2 2010	Q2 2009	Q1 2010
Real estate operating expenses	128.6	146.4	73.3	79.7	55.3
Real estate tax	10.5	11.2	5.4	5.5	5.1
<b>Operating expenses recoverable from tenants</b>	<b>139.1</b>	<b>157.6</b>	<b>78.7</b>	<b>85.2</b>	<b>60.4</b>
Maintenance costs	26.3	34.9	16.4	19.2	9.9
Personnel expenses	30.4	31.6	14.8	16.2	15.6
Bad debt allowances	2.7	4.6	2.7	2.1	0.0
External costs for real estate management	3.6	5.2	2.0	2.4	1.6
Administrative expenses	3.6	3.6	1.8	1.7	1.8
Real estate operating expenses	2.2	1.9	1.2	0.7	1.0
Amortization and depreciation on intangible assets and property, plant and equipment	1.1	1.1	0.6	0.6	0.5
Other	7.9	8.2	3.7	4.0	4.2
<b>Non-recoverable operating expenses</b>	<b>77.8</b>	<b>91.1</b>	<b>43.2</b>	<b>46.9</b>	<b>34.6</b>
<b>Operating expenses for the generation of rental income</b>	<b>216.9</b>	<b>248.7</b>	<b>121.9</b>	<b>132.1</b>	<b>95.0</b>

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

Operating expenses recoverable from our tenants decreased to €139.1 million in the first six months of 2010, from €157.6 million in the first six months of 2009. The decrease is partly attributable to a smaller portfolio overall. The increase in Q2 2010 over Q1 2010 is mainly the result of annual insurance payments, which were mostly accounted for in Q2 2010. Non-recoverable operating expenses decreased to €77.8 million in the first six months of 2010 from €91.1 million in the first six months of 2009.

Maintenance costs in H1 2010 were at €26.3 million compared to €34.9 million in H1 2009, as a result of a smaller portfolio, a more focused spending approach including the optimization of our cost of re-letting vacant units, and the continued trend of doing more work in-house. By doing the same works, but with our own resources, we have significantly cut our average cost to re-let vacant flats.

Personnel expenses in the first six months of 2010 were at €30.4 million, down 3.8% compared to the first six months of 2009 (€31.6 million), even though we have increased our internal staff for maintenance and gardening work to be able to respond to our tenants' needs more quickly and to keep a higher share of that type of work in-house.

External costs for real estate management include marketing expenses in connection with GAGFAH's leasing of rental units and totaled €3.6 million in H1 2010, after €5.2 million in H1 2009.

Other operating expenses for the generation of rental income were at €7.9 million in the first six months of 2010 and thus broadly in line with the first six months of 2009.

## PROFIT FROM THE LEASING OF INVESTMENT PROPERTY

The profit from the leasing of investment property was €240.3 million for the first six months of 2010, compared to €246.1 million for the first six months of 2009, which represents a decrease of 2.4%, on a base of approximately 5% or 8,500 fewer units on average. The decline was partly compensated by lower non-recover-

able operating expenses in the first half of 2010. Per average unit, profit from the leasing of investment property increased by 2.8 % for the first six months of 2010 as compared to the first six months of 2009.

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	H1 2010	H1 2009	Q2 2010	Q2 2009	Q1 2010
Rental income, fees	317.0	333.4	157.0	165.1	160.0
Allocations charged	140.9	161.3	80.6	85.8	60.3
Other	0.5	1.2	0.3	0.7	0.2
<b>Income from the leasing of investment property</b>	<b>458.4</b>	<b>495.9</b>	<b>237.9</b>	<b>251.6</b>	<b>220.5</b>
Transferable leasehold land interest	- 1.2	- 1.1	- 0.6	- 0.6	- 0.6
Operating expenses recoverable from tenants	- 139.1	- 157.6	- 78.7	- 85.2	- 60.4
Non-recoverable operating expenses	- 77.8	- 91.1	- 43.2	- 46.9	- 34.6
<b>Profit from the leasing of investment property</b>	<b>240.3</b>	<b>246.1</b>	<b>115.4</b>	<b>118.9</b>	<b>124.9</b>

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

In the first half of 2010, we sold a total of 5,763 units for €253.0 million.

Through our condo sales channel, which excludes units of our large multi-family home sales program, we closed the sale of 495 units for a total of €35.3 million or €71,290 per unit at a net cold rent multiplier of 17.8 and a margin of 21.8 %.

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 condo sales program was as follows:

#### CONDO SALES

	H1 2010	H1 2009	Q2 2010	Q2 2009	Q1 2010
Sold units	495	1,116	190	899	305
Sold sqm	34,282	58,016	12,449	44,168	21,833

#### CONDO SALES

	H1 2010 € million	H1 2010 € per unit	H1 2010 € per sqm	Q2 2010 € million	Q1 2010 € million
Gross disposition proceeds	35.3	71,290	1,029	14.1	21.2
Book value <sup>1)</sup>	- 24.2	- 48,847	- 705	- 9.5	- 14.7
Disposition costs <sup>2)</sup>	- 4.8	- 9,675	- 140	- 2.3	- 2.5
<b>Net profit</b>	<b>6.3</b>	<b>12,769</b>	<b>184</b>	<b>2.3</b>	<b>4.0</b>
<b>Net profit margin</b>	<b>22 %</b>			<b>19 %</b>	<b>23 %</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. Does not include prepayment fees.

Through our large multi-family home sales program, we closed the sale of 5,268 units for a total value of €217.7 million and a net cold rent multiplier of 11.7 in the first six months of 2010.

In addition, we are reducing our non-core assets by initiating the sale of assets held by the “HB Funds”, of which GAGFAH is the majority owner. The HB Funds consist of various funds owning in total 7,130 units. All HB Funds units have been classified historically as non core and therefore are not counted as part of GAGFAH’s core residential portfolio. GAGFAH has already contracted to sell 2,048 units in the second quarter of 2010.

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

The value of our investment properties including assets held for sale amounts to €9,036.0 million or a net cold rent multiplier of 13.7 as of June 30, 2010. Our IAS 40 valuations for the investment properties indicated a net loss from fair value measurement of €10.3 million.

Our 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.

The cash flows for the detailed planning period are discounted with a weighted average discount rate of 5.53 % (5.45 % in H1 2009), which is determined on the basis of discount rates for each property. The present values of the individual property cash flows are then aggregated and the net present value is added, resulting in the total value. Given the large and diverse nature of our portfolio, our aim is to verify the value of each of our investment properties by an independent third-party appraiser on a rolling basis over a period of four years. In 2009, CB Richard Ellis GmbH confirmed the values of 45 % of GAGFAH’S portfolio.

#### EBT CONTRIBUTION OF PROPERTY DEVELOPMENT BUSINESS

Property development projects are discontinued 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	H1 2010	H1 2009	Q2 2010	Q2 2009	Q1 2010
Income from the sale of property development projects	5.7	3.4	4.0	1.9	1.7
Carrying amount of property development projects sold	- 1.9	- 1.2	- 0.6	- 0.5	- 1.3
<b>Profit from the sale of property development projects</b>	<b>3.8</b>	<b>2.2</b>	<b>3.4</b>	<b>1.4</b>	<b>0.4</b>
Selling expenses	0.0	- 0.1	0.0	- 0.1	0.0
Other operating income	0.8	0.6	0.6	0.5	0.2
Other operating expenses	- 1.7	- 7.1	- 1.0	- 4.4	- 0.7
<b>Earnings before interest and taxes (EBIT)</b>	<b>2.9</b>	<b>- 4.4</b>	<b>3.0</b>	<b>- 2.6</b>	<b>- 0.1</b>
Net interest expenses	- 0.1	- 0.5	0.0	- 0.2	- 0.1
<b>Earnings before taxes (EBT)</b>	<b>2.8</b>	<b>- 4.9</b>	<b>3.0</b>	<b>- 2.8</b>	<b>- 0.2</b>

### OTHER INCOME AND EXPENSE ITEMS

Other income and expense items for our Group totaled a net expense of €28.0 million in the first six months of 2010, as compared to a net expense of €37.9 million in the first six months of 2009.

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

€ MILLION	H1 2010	H1 2009	Q2 2010	Q2 2009	Q1 2010
Profit from other services	1.7	1.2	0.9	1.0	0.8
Selling expenses	- 9.0	- 6.8	- 5.3	- 3.9	- 3.7
General and administrative expenses	- 20.0	- 22.1	- 9.3	- 10.6	- 10.7
Expenses for / income from share-based remuneration	- 1.1	1.5	- 0.4	2.1	- 0.7
Other operating income	3.0	3.8	1.8	2.2	1.2
Other operating expenses	- 2.6	- 15.5	- 1.5	- 5.6	- 1.1
<b>Total</b>	<b>- 28.0</b>	<b>- 37.9</b>	<b>- 13.8</b>	<b>- 14.8</b>	<b>- 14.2</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 six months of 2010, selling expenses increased to €9.0 million, from €6.8 million in the first six months of 2009, which is attributable to the increased sales activities in connection with the large multi-family home sales program and the HB Funds sales. Expenses for external brokers, for example, increased to €3.9 million in H1 2010 from €1.7 million in H1 2009.

General and administrative expenses mainly consist of personnel costs, IT costs, consulting fees, depreciation and office costs. These expenses declined to €20.0 million in H1 2010 from €22.1 million in H1 2009 as a result of our ongoing efforts to optimize our cost structure.

Expenses for / income from share-based remuneration mainly relate to option programs for GAGFAH Management. These expenses were €1.1 million in the first six months of 2010, after an income of €1.5 million in H1 2009. The income in the first half of 2009 was the result of the forfeiture of options due to terminations.

All income not directly allocable to the various functional areas is disclosed under other operating income. In the first six months of 2010, other operating income decreased slightly to €3.0 million from €3.8 million in the prior year.

Other operating expenses declined significantly to €2.6 million in the first six months of 2010 from €15.5 million in the prior-year period, which included a one-off effect of €6.1 million relating to the deconsolidation of a disposal group and €7.1 million costs in connection with the property development business.

### MANAGEMENT COST PER UNIT

As a result of our reorganization activities and focus on cost efficiencies, our average management cost per unit declined to €392 in the first six months of 2010, compared to €401 in 2009, in spite of approximately 8,500 fewer units on average. Management cost include all costs associated with the management of our units, but do not include any repairs and maintenance costs. We aim to continue to reduce our cost through headcount reductions, in particular with respect to administrative overhead areas, as well as through selective outsourcing solutions.

**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 six months of 2010, reorganization and restructuring expenses were €6.6 million (prior year: €3.9 million), which were mainly one-off compensation payments relating to an amendment of an outsourcing contract.

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

In the first half of 2010, our EBIT was €208.1 million, up 66.9 % from €124.7 million in the first half of 2009.

**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 loss / profit from the fair value measurement of derivatives.

The increase of total interest expenses to €156.4 million in H1 2010 from €149.6 million in H1 2009 is primarily attributable to prepayment fees related to asset sales of €11.3 million (prior year: €1.8 million). The decrease of cash interest expenses results from the paydown of €457.3 million of debt mainly related to sales.

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

€ MILLION	H1 2010	H1 2009	Q2 2010	Q2 2009	Q1 2010
Interest expenses	- 145.1	- 147.8	- 72.8	- 74.2	- 72.3
Prepayment fees	- 11.3	- 1.8	- 5.3	- 1.8	- 6.0
<b>Total interest expenses</b>	<b>- 156.4</b>	<b>- 149.6</b>	<b>- 78.1</b>	<b>- 76.0</b>	<b>- 78.3</b>
Interest income	0.6	1.0	0.4	0.4	0.2
Other financial expenses / income	- 0.6	0.2	- 0.1	0.3	- 0.5
Loss / profit from the fair value measurement of derivatives	- 0.9	- 10.0	1.6	1.8	- 2.5
<b>Net financing expenses</b>	<b>- 157.3</b>	<b>- 158.4</b>	<b>- 76.2</b>	<b>- 73.5</b>	<b>- 81.1</b>

**EARNINGS BEFORE TAXES (EBT)**

In the first six months of 2010, our Group's EBT was €50.8 million, as compared to €-33.7 million in the first half of 2009. Earnings before taxes are computed as earnings before interest and taxes (EBIT) of €208.1 million reduced by net financing expenses of €157.3 million.

**INCOME TAXES**

Income taxes for the first six months of 2010 were at €28.7 million (prior year: €9.2 million) and included deferred tax expenses of €27.7 million (prior year: €7.1 million) and effective income tax expenses of €1.0 million (first six months of 2009: €2.1 million).

**NET ASSET VALUE (NAV)**

NAV per share decreased to €12.44 as of June 30, 2010. The loss from the fair value measurement of investment property was €10.3 million, or 0.1 % on a total value of €9,289.3 million as of December 31, 2009. The remaining decline results from lower shareholders' equity.

€ MILLION	06-30-2010	12-31-2009
Shareholders' equity	2,312.4	2,373.1
Deferred taxes on investment property and assets held for sale	497.3	473.2
NAV	2,809.7	2,846.3
NAV per share (€)	12.44	12.60

## Financial Position

As of June 30, 2010, and December 31, 2009, the Group's equity and liabilities were as follows:

	06-30-2010 € million	06-30-2010 %	12-31-2009 € million	12-31-2009 %
Total equity	2,387.6	25.5	2,457.7	25.2
Financial liabilities	6,193.4	66.1	6,525.3	66.7
Other liabilities	786.5	8.4	794.3	8.1
<b>Total equity and liabilities</b>	<b>9,367.5</b>	<b>100.0</b>	<b>9,777.3</b>	<b>100.0</b>

As of June 30, 2010, the Group's financial liabilities primarily consisted of the following liabilities:

€ MILLION	Carrying amount as of 06-30-2010	Notional amount as of 06-30-2010	Weighted average maturity	Current interest rate	Fixed or floating rate
Term loans	5,293.5	5,283.6	2013	4.09 %	Fixed
Term loans	329.3	310.7	2012	1.76 %	Floating <sup>1)</sup>
Senior debt	403.7	480.8	2036	2.41 %	Fixed
Revolving credit facility	149.3	149.0	2010	2.85 %	Floating
Other	17.6	16.9			
<b>Total</b>	<b>6,193.4</b>	<b>6,241.0</b>	<b>2014</b>	<b>3.81 %</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 balance sheet results from the fair value measurement of senior debts, amortized transaction costs and interest accruals.

## Net Assets

The balance sheet of the GAGFAH Group breaks down as follows:

€ MILLION	06-30-2010	12-31-2009
Non-current assets	8,966.0	9,089.2
Current assets	258.7	413.7
Assets held for sale	142.8	274.4
<b>Total assets</b>	<b>9,367.5</b>	<b>9,777.3</b>
Equity	2,387.6	2,457.7
Non-current liabilities	6,379.4	6,442.2
Current liabilities	600.5	877.4
<b>Total equity and liabilities</b>	<b>9,367.5</b>	<b>9,777.3</b>

Non-current assets amount to €8,966.0 million, of which 99.2 % relate to investment property. In 2009, independent third-party appraisers from CB Richard Ellis GmbH confirmed the values of 45 % of GAGFAH's portfolio.

Current assets amount to €258.7 million, of which 54.1 % are bank balances and cash on hand (€140.0 million) and 11.8 % are inventories (€30.4 million).

Non-current liabilities of €6,379.4 million make up 91.4 % of total liabilities and mainly comprise non-current financial liabilities of €5,812.0 million and deferred tax liabilities of €258.8 million.

## Significant Events after the Interim Reporting Date

There were no significant events after the reporting date.

## Dividends

GAGFAH has declared a dividend for the second quarter of 2010 of €0.10 per share in order to enhance the Company's financial flexibility. GAGFAH continues to generate solid operating cash flow and, by taking this action, will be better positioned to take advantage of potential attractive investment or refinancing opportunities as they may arise. The second quarter dividend will be payable on September 09, 2010, to holders of record of GAGFAH S.A. shares on August 27, 2010. The shares of GAGFAH S.A. will be ex-dividend for the second quarter 2010 dividend on August 30, 2010.

## Outlook

In Q2 2010, GAGFAH continued its stable development into the year and further built on a successful Q1 2010. Our core rental business continues to perform well, with rents and vacancies broadly in line with our expectations. The cost optimizations we have implemented are starting to yield good results. Demand for our assets continues to be strong as both buyers of individual units as well as of smaller portfolios have access to financing their purchases at attractive conditions. With more than 90 % of GAGFAH's financial debt contractually maturing in 2013 and beyond, our capital structure is solid.

## Opportunity and Risk Report

There are no significant changes to the risks and opportunities reported in the presentation of Financial Risk Management in the 2009 Annual Report.

## Forward-looking Statements

This interim report contains statements that constitute forward-looking statements. These statements are generally identifiable by use of forward-looking terminology such as “may”, “will”, “should”, “potential”, “intend”, “expect”, “endeavor”, “seek”, “anticipate”, “estimate”, “overestimate”, “underestimate”, “believe”, “could”, “project”, “predict”, “continue”, “plan”, “forecast” or other similar words or expressions.

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

Luxembourg, August 9, 2010  
The Board of Directors of GAGFAH S.A.

---

# Interim Consolidated Financial Statements and Notes

Consolidated Balance Sheet	20
Consolidated Statement of Comprehensive Income	22
Consolidated Cash Flow Statement	23
Statement of Changes in Consolidated Equity	24
Notes to the Interim unaudited Consolidated Financial Statements	26



# Consolidated Balance Sheet

as of June 30, 2010

<b>ASSETS</b>			
€ MILLION	Notes	06-30-2010	12-31-2009
<b>Non-current assets</b>			
Intangible assets	E.1.	26.6	27.1
Investment property	E.2.	8,893.2	9,014.9
Property, plant and equipment		40.7	41.5
Other financial assets		3.9	3.9
Receivables	E.3.	0.9	0.9
Other assets		0.7	0.9
		<b>8,966.0</b>	<b>9,089.2</b>
<b>Current assets</b>			
Inventories	E.4.	30.4	47.5
Receivables	E.3.	35.7	76.7
Other assets		43.5	44.7
Current tax claims	E.5.	9.1	8.6
Bank balances and cash on hand	E.6.	140.0	236.2
		<b>258.7</b>	<b>413.7</b>
<b>Assets held for sale</b>	<b>E.7.</b>	<b>142.8</b>	<b>274.4</b>
<b>Total assets</b>		<b>9,367.5</b>	<b>9,777.3</b>

<b>EQUITY AND LIABILITIES</b>			
€ MILLION	Notes	06-30-2010	12-31-2009
<b>Equity</b>	<b>E.8.</b>		
Subscribed capital		282.4	282.4
Share premium		1,178.4	1,358.4
Legal reserve		28.2	28.2
Revenue reserves		823.4	704.1
<b>Equity attributable to the shareholders of the parent company</b>		<b>2,312.4</b>	<b>2,373.1</b>
Minority interests		75.2	84.6
<b>Total equity</b>		<b>2,387.6</b>	<b>2,457.7</b>
<b>Liabilities</b>			
<b>Non-current liabilities</b>			
Liabilities to minority shareholders		4.9	4.3
Pension provisions		108.7	108.5
Other provisions	E.9.	9.3	9.0
Liabilities from income tax	E.10.	91.9	89.7
Deferred tax liabilities	E.11.	258.8	231.1
Financial liabilities	E.12.	5,812.0	5,906.2
Other liabilities	E.13.	6.6	4.0
Deferred liabilities of government-granted loans		87.2	89.4
		<b>6,379.4</b>	<b>6,442.2</b>
<b>Current liabilities</b>			
Pension provisions		6.5	6.5
Other provisions	E.9.	51.1	57.9
Liabilities from income tax	E.10.	46.2	47.3
Financial liabilities	E.12.	381.4	619.1
Other liabilities	E.13.	111.2	142.3
Deferred liabilities of government-granted loans		4.1	4.3
		<b>600.5</b>	<b>877.4</b>
<b>Total liabilities</b>		<b>6,979.9</b>	<b>7,319.6</b>
<b>Total equity and liabilities</b>		<b>9,367.5</b>	<b>9,777.3</b>

# Consolidated Statement of Comprehensive Income

for the period from January 1 to June 30, 2010

€ MILLION	Notes	H1 2010	H1 2009	Q2 2010	Q2 2009
Income from the leasing of investment property	F.1.	458.4	495.9	237.9	251.6
Transferable leasehold land interest		- 1.2	- 1.1	- 0.6	- 0.6
Operating expenses for the generation of rental income (excluding share-based remuneration)	F.2.	- 216.9	- 248.7	- 121.9	- 132.1
<b>Profit from the leasing of investment property</b>		<b>240.3</b>	<b>246.1</b>	<b>115.4</b>	<b>118.9</b>
Income from the sale of investment property and assets held for sale		253.0	54.0	115.8	35.1
Carrying amount of the sold investment property and assets held for sale		- 244.1	- 43.5	- 112.4	- 29.7
<b>Profit from the sale of investment property and assets held for sale</b>		<b>8.9</b>	<b>10.5</b>	<b>3.4</b>	<b>5.4</b>
<b>Loss from fair value measurement of investment property</b>		<b>- 10.3</b>	<b>- 92.3</b>	<b>- 8.2</b>	<b>- 73.1</b>
Income from the sale of property development projects		5.7	3.4	4.0	1.9
Carrying amount of property development projects sold		- 1.9	- 1.2	- 0.6	- 0.5
<b>Profit from the sale of property development projects</b>		<b>3.8</b>	<b>2.2</b>	<b>3.4</b>	<b>1.4</b>
Profit from other services	F.3.	1.7	1.2	0.9	1.0
Selling expenses (excluding share-based remuneration)	F.4.	- 9.0	- 6.8	- 5.3	- 3.9
General and administrative expenses (excluding share-based remuneration)	F.5.	- 20.0	- 22.1	- 9.3	- 10.6
Expenses for / income from share-based remuneration		- 1.1	1.5	- 0.4	2.1
Other operating income	F.6.	3.0	3.8	1.8	2.2
Other operating expenses	F.6.	- 2.6	- 15.5	- 1.5	- 5.6
<b>Profit from operations before reorganization and restructuring expenses</b>		<b>214.7</b>	<b>128.6</b>	<b>100.2</b>	<b>37.8</b>
Reorganization and restructuring expenses	F.7.	- 6.6	- 3.9	0.0	- 2.9
<b>Profit from operations</b>		<b>208.1</b>	<b>124.7</b>	<b>100.2</b>	<b>34.9</b>
Profit from other financial assets		0.0	0.0	0.0	0.1
<b>Earnings before interest and taxes (EBIT)</b>		<b>208.1</b>	<b>124.7</b>	<b>100.2</b>	<b>35.0</b>
Interest expenses	F.8.	- 156.4	- 149.6	- 78.1	- 76.0
Interest income		0.6	1.0	0.4	0.4
Other financial expenses / income		- 0.6	0.2	- 0.1	0.3
Loss / profit from the fair value measurement of derivatives	H.1.	- 0.9	- 10.0	1.6	1.8
<b>Net financing expenses</b>		<b>- 157.3</b>	<b>- 158.4</b>	<b>- 76.2</b>	<b>- 73.5</b>
<b>Earnings before taxes (EBT)</b>		<b>50.8</b>	<b>- 33.7</b>	<b>24.0</b>	<b>- 38.5</b>
Income taxes	F.9.	- 28.7	- 9.2	- 14.2	3.8
<b>Net profit / loss (Total comprehensive income)</b>		<b>22.1</b>	<b>- 42.9</b>	<b>9.8</b>	<b>- 34.7</b>
Net profit / loss (Total comprehensive income) attributable to:					
Minority interests		- 6.9	- 2.6	- 7.7	1.1
Shareholders of the parent company		29.0	- 40.3	17.5	- 35.8
Weighted average number of shares (undiluted) in million		225.9	225.7	225.9	225.7
Weighted average number of shares (diluted) in million		228.6	226.3	228.6	226.3
Earnings per share (in €)		0.13	- 0.18	0.08	- 0.16
Diluted earnings per share (in €)		0.13	- 0.18	0.08	- 0.16

# Consolidated Cash Flow Statement <sup>1)</sup>

for the period from January 1 to June 30, 2010

€ MILLION	H1 2010	H1 2009
Net profit / loss (Total comprehensive income)	22.1	- 42.9
Loss from fair value measurement of investment property	10.3	92.3
Amortization, depreciation and impairment losses on intangible assets and property, plant and equipment	2.0	1.8
Profit from the sale of investment property and assets held for sale	- 8.9	- 10.5
Other non-cash income / expenses	18.9	23.1
Change in provisions, pension provisions and deferred liabilities of government-granted loans	- 10.6	- 3.9
Change in deferred taxes	27.7	7.1
Change in working capital	24.8	- 2.4
<b>Cash flows from operating activities<sup>2)</sup></b>	<b>86.3</b>	<b>64.6</b>
Cash received from the sale of investment property and assets held for sale	257.8	135.5
Cash paid for investment property – acquisition and modernization	- 1.3	- 15.0
Cash paid for investments in intangible assets and property, plant and equipment	- 0.6	- 1.8
Cash received from disposals of property, plant and equipment	0.0	0.1
<b>Cash flows from investing activities</b>	<b>255.9</b>	<b>118.8</b>
Cash paid to stockholders of GAGFAH S.A.	- 90.4	- 90.4
Cash paid to minority interests	- 2.5	- 3.1
Cash repayments of financial liabilities	- 345.3	- 110.6
Interest and cost paid for refinancing	- 0.2	- 0.8
<b>Cash flows from financing activities</b>	<b>- 438.4</b>	<b>- 204.9</b>
<b>Change in cash and cash equivalents</b>	<b>- 96.2</b>	<b>- 21.5</b>
Bank balances and cash on hand at the beginning of the year	236.2	176.4
Change in cash and cash equivalents due to changes in the Consolidated Group	0.0	- 13.5
<b>Bank balances and cash on hand</b>	<b>140.0</b>	<b>141.4</b>

<sup>1)</sup> For further information, please refer to section G.

<sup>2)</sup> Operating cash flow includes taxes paid of €1.8 million (prior year: taxes paid €0.2 million), interest paid of €138.5 million (prior year: €134.5 million) and interest received of €0.3 million (prior year: €2.8 million).

# Statement of Changes in Consolidated Equity

for the period from January 1 to June 30, 2010

€ MILLION							
	Subscribed capital	Share premium	Legal reserve	Revenue reserves	Equity attributable to the shareholders of the parent company	Minority 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	29.0	29.0	- 6.9	22.1
Share-based remuneration	0.0	0.7	0.0	0.0	0.7	0.0	0.7
Change in shareholdings and the Consolidated Group	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Dividends	0.0	- 180.7	0.0	90.3	- 90.4	- 2.5	- 92.9
<b>June 30, 2010</b>	<b>282.4</b>	<b>1,178.4</b>	<b>28.2</b>	<b>823.4</b>	<b>2,312.4</b>	<b>75.2</b>	<b>2,387.6</b>

# Statement of Changes in Consolidated Equity

for the period from January 1 to June 30, 2009

€ MILLION							
	Subscribed capital	Share premium	Legal reserve	Revenue reserves	Equity attributable to the shareholders of the parent company	Minority interests	Total equity
<b>January 1, 2009</b>	<b>282.1</b>	<b>1,540.7</b>	<b>28.2</b>	<b>777.2</b>	<b>2,628.2</b>	<b>105.4</b>	<b>2,733.6</b>
Total comprehensive income for the period	0.0	0.0	0.0	- 40.3	- 40.3	- 2.6	- 42.9
Share-based remuneration	0.0	- 1.6	0.0	0.0	- 1.6	0.0	- 1.6
Change in shareholdings and the Consolidated Group	0.0	0.0	0.0	- 0.9	- 0.9	- 14.0	- 14.9
Dividends	0.0	- 180.5	0.0	90.1	- 90.4	- 3.1	- 93.5
<b>June 30, 2009</b>	<b>282.1</b>	<b>1,358.6</b>	<b>28.2</b>	<b>826.1</b>	<b>2,495.0</b>	<b>85.7</b>	<b>2,580.7</b>

# Notes to the Interim unaudited 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 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, 2009 and have not been audited.

The explanations are substantially made for the period from January 1 until June 30, 2010.

Information that is labeled “prior year” in the Consolidated Statement of Comprehensive Income, the Consolidated Cash Flow Statement, 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 Balance Sheet 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 second quarter of 2010.

### **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, 2009.

## 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, 2009.

## D. Segment Reporting

GAGFAH's reporting format is based on its core business segments "Real estate management" and "Real estate sales". These segments represent strategic business functions within the Group.

All other income and expenses that do not concern the real estate management and real estate sales segments are displayed 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 June 30, 2010 and 2009 on pages 28 and 29, respectively.

The segment revenues of the real estate management segment comprise the total income from the leasing of investment property as shown in the 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.<sup>2)</sup>

The segment assets of the real estate management are mainly comprised of investment properties. The segment assets of the real estate sales segment primarily contain assets held for sale (condo sales) and receivables from sales of land (non-current assets).

The segment liabilities of the real estate management segment mainly consist of term loans, senior debt and the revolving credit facility. Short-term financial liabilities and other liabilities in connection with condo sales are allocated to the real estate sales segment.

Assets held for sale, the respective short-term financial liabilities, other liabilities and all relating income and expenses concerning the large multi-family home sales program and the HB Funds sales 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 prior year segment revenues of the real estate management segment were additionally reduced by income from the leasing of investment property and income from other services totaling €2.4 million of the disposal group Baugesellschaft Frankenthal (Pfalz) GmbH ("BGF").

## Group Segment Report for the period from January 1 to June 30, 2010

€ MILLION	Real estate management	Real estate sales	Total segments	Other	Total Group
<b>Segment revenues</b>	<b>462.1</b>	<b>35.3</b>	<b>497.4</b>	<b>225.9<sup>1)</sup></b>	<b>723.3</b>
<b>Segment EBITDA</b>	<b>216.2</b>	<b>4.6</b>	<b>220.8</b>	<b>- 4.1<sup>2)</sup></b>	<b>216.7</b>
Reorganization and restructuring expenses	- 5.9	0.0	- 5.9	- 0.7	- 6.6
Depreciation / amortization	- 1.3	0.0	- 1.3	- 0.7	- 2.0
<b>Earnings before interest and taxes (EBIT)</b>	<b>209.0</b>	<b>4.6</b>	<b>213.6</b>	<b>- 5.5</b>	<b>208.1</b>
Interest expenses	- 136.2	- 4.3	- 140.5	- 17.4	- 157.9
Interest income	0.2	0.0	0.2	0.4	0.6
<b>Earnings before taxes (EBT)</b>	<b>73.0</b>	<b>0.3</b>	<b>73.3</b>	<b>- 22.5</b>	<b>50.8</b>
Income taxes	0.0	0.0	0.0	- 28.7	- 28.7
<b>Net profit / loss</b>	<b>73.0</b>	<b>0.3</b>	<b>73.3</b>	<b>- 51.2</b>	<b>22.1</b>
<b>Segment assets</b>	<b>8,933.9</b>	<b>34.7</b>	<b>8,968.6</b>	<b>398.9<sup>3)</sup></b>	<b>9,367.5</b>
<b>Segment liabilities</b>	<b>6,198.3</b>	<b>22.3</b>	<b>6,220.6</b>	<b>759.3<sup>4)</sup></b>	<b>6,979.9</b>
Segment investments	1.3	0.0	1.3	0.6	1.9
Significant non-cash expenses (-) / income (+)	- 6.0 <sup>5)</sup>	- 2.0	- 8.0	- 15.3 <sup>6)</sup>	- 23.3

<sup>1)</sup> The income includes income from the sale of properties concerning the large multi-family home sales program (€217.7 million), income from the sale of property development projects (€5.7 million) and income from the amortization of deferred liabilities of government-granted loans (€2.5 million).

<sup>2)</sup> This item includes the loss from fair value measurement of investment property (€- 10.3 million), the EBITDA contribution of the large multi-family home sales program (€- 3.2 million), the EBT attributable to the property development business (€2.8 million), income from the amortization of deferred liabilities of government-granted loans (€2.5 million) and income from the reversal of provisions (€0.2 million). Other adjustments amount to €3.9 million.

<sup>3)</sup> This item basically includes assets held for sale concerning the large multi-family home sales program and the HB Funds sales, cash, intangible assets, property, plant and equipment, inventories, other receivables and other assets, current tax claims and other financial assets.

<sup>4)</sup> This item basically includes deferred tax liabilities, liabilities from income taxes, pension provisions, financial liabilities concerning the large multi-family home sales program and the HB Funds sales, derivative financial instruments measured at fair value, other liabilities and other provisions.

<sup>5)</sup> Significant non-cash expenses of real estate management contain additions to provisions concerning real estate management (€- 4.0 million), write-offs of rent receivables (€- 2.7 million) and other receivables concerning real estate management (€- 0.1 million) and income from the reversal of provisions concerning real estate management (€0.8 million).

<sup>6)</sup> Other significant non-cash expenses / income consist of the loss from the fair value measurement of investment property (€- 10.3 million), the loss from the fair value measurement of derivatives (€- 0.9 million), income from the amortization of deferred liabilities of government-granted loans (€2.5 million), the present value of loans carried at amortized cost (€- 3.4 million), income from the reversal of provisions (€1.3 million), additions to other provisions (€- 3.2 million), expenses for compensation payments for the early redemption of financial liabilities in connection with the large multi-family home sales program (€- 0.7 million) and additions to liabilities from commissions concerning the large multi-family home sales program (€- 0.6 million).

## Group Segment Report for the period from January 1 to June 30, 2009

€ MILLION	Real estate management	Real estate sales	Total segments	Other	Total Group
<b>Segment revenues</b>	<b>496.7</b>	<b>54.0</b>	<b>550.7</b>	<b>8.4<sup>1)</sup></b>	<b>559.1</b>
<b>Segment EBITDA</b>	<b>222.1</b>	<b>0.0</b>	<b>222.1</b>	<b>- 91.7<sup>2)</sup></b>	<b>130.4</b>
Reorganization and restructuring expenses	- 1.2	0.0	- 1.2	- 2.7	- 3.9
Depreciation / amortization	- 1.1	0.0	- 1.1	- 0.7	- 1.8
<b>Earnings before interest and taxes (EBIT)</b>	<b>219.8</b>	<b>0.0</b>	<b>219.8</b>	<b>- 95.1</b>	<b>124.7</b>
Interest expenses	- 140.3	0.0	- 140.3	- 19.1	- 159.4
Interest income	0.6	0.2	0.8	0.2	1.0
<b>Earnings before taxes (EBT)</b>	<b>80.1</b>	<b>0.2</b>	<b>80.3</b>	<b>- 114.0</b>	<b>- 33.7</b>
Income taxes	0.0	0.0	0.0	- 9.2	- 9.2
<b>Net loss / profit</b>	<b>80.1</b>	<b>0.2</b>	<b>80.3</b>	<b>- 123.2</b>	<b>- 42.9</b>
<b>Segment assets</b>	<b>9,110.3</b>	<b>79.4</b>	<b>9,189.7</b>	<b>810.6<sup>3)</sup></b>	<b>10,000.3</b>
<b>Segment liabilities</b>	<b>6,726.0</b>	<b>3.8</b>	<b>6,729.8</b>	<b>689.8<sup>4)</sup></b>	<b>7,419.6</b>
Segment investments	15.0 <sup>5)</sup>	0.0	15.0	1.8	16.8
Significant non-cash segment expenses (-) / income (+)	- 21.3 <sup>6)</sup>	- 0.4	- 21.7	- 100.8 <sup>7)</sup>	- 122.5

<sup>1)</sup> The income includes income from the sale of property development projects (€3.4 million), income from the amortization of deferred liabilities of government-granted loans (€2.6 million), income from the leasing of investment property and revenues from other services of the disposal group Baugesellschaft Frankenthal (Pfalz) GmbH ("BGF") (€2.4 million).

<sup>2)</sup> The expenses include the loss from fair value measurement of investment property (€-92.3 million), income from the reversal of deferred liabilities of government-granted loans (€2.6 million), income from the reversal of provisions (€1.0 million) and the EBIT attributable to the property development business (€-4.4 million). Other adjustments amount to €1.4 million.

<sup>3)</sup> This item basically includes assets held for sale concerning the large multi-family home sales program, cash, intangible assets, property, plant and equipment, inventories, other receivables and other assets, current tax claims, other financial assets and deferred tax assets.

<sup>4)</sup> This item basically includes deferred tax liabilities, liabilities from income taxes, pension provisions and liabilities due to unfinished development on a trust basis, other liabilities and other provisions and financial liabilities concerning the large multi-family home sales program.

<sup>5)</sup> Segment investments of real estate management are mainly additions to investment property.

<sup>6)</sup> Significant non-cash expenses of real estate management contain additions to provisions concerning real estate management (€-17.6 million), income from the reversal of provisions concerning real estate management (€0.9 million) and write-offs of rent receivables (€-4.6 million).

<sup>7)</sup> Other significant non-cash income / expenses mainly consist of the loss from the fair value measurement of investment property (€-92.3 million), the loss from the fair value measurement of derivatives (€-10.0 million), income from the amortization of deferred liabilities of government-granted loans (€2.6 million), the present value of loans carried at amortized cost (€-3.3 million), income from the reversal of provisions (€2.3 million) and write-offs of other receivables (€-0.1 million).

## E. Notes to the Consolidated Balance Sheet

### 1. INTANGIBLE ASSETS

Intangible assets with a finite lifespan mainly comprise software licenses for user programs amounting to €3.0 million (prior year: €3.5 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, 2010:

€ MILLION	06-30-2010	12-31-2009
As of January 1	9,014.9	9,774.1
Changes in the Consolidated Group	0.0	- 77.6
Additions	1.3	23.1
Disposals and reclassifications to assets held for sale	- 112.5	- 508.8
Reclassifications to /from property, plant and equipment and inventories	- 0.2	1.1
Changes in value	- 10.3	- 197.0
<b>As of balance sheet date</b>	<b>8,893.2</b>	<b>9,014.9</b>

The changes in the Consolidated Group in the prior year relate to investment property of Baugesellschaft Frankenthal (Pfalz) GmbH of €77.6 million, which was disclosed as part of the disposal group as of March 31, 2009, and was deconsolidated as of April 1, 2009.

The additions of €1.3 million (prior year: €23.1 million) mainly relate to modernization programs.

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

Sections F.1. and F.2. of this report contain notes relating to income of €458.4 million (prior year: €495.9 million) from the leasing of investment property and operating expenses of €216.9 million (prior year: €248.7 million) for the generation of rental income.

**3. RECEIVABLES**

Since December 31, 2009, total receivables decreased by €41.0 million, mainly resulting from cash receipts related to land sales closed in 2009.

**4. INVENTORIES**

The decrease in inventories compared to December 31, 2009, mainly results from the settlement of a development project. The carrying amount of the related land amounted to €15.7 million.

**5. CURRENT TAX CLAIMS**

As of June 30, 2010, GAGFAH S.A. discloses current tax claims of €9.1 million (prior year: €8.6 million). These are mainly related to claims from capital yield tax and sales 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 €140.0 million (prior year: €236.2 million).

The time deposits of GAGFAH S.A. have terms between one and three months and accrue interest between 0.01 % and 0.69 % (weighted average: 0.29 %).

The weighted average of the interest rates from the Group's main banks amounted to 0.38 % for the second quarter of 2010. Bank deposits at all other banks have an average interest rate of 0.09 % for the second quarter of 2010.

Of €140.0 million (prior year: €236.2 million) total cash, €101.3 million (prior year: €182.6 million) are restricted and €38.7 million (prior year: €53.6 million) unrestricted. Of restricted cash, €53.4 million (prior year: €107.4 million) relate to asset sales and will be used to pay down related debt. For further information on restrictions on cash, please refer to section G. "Notes to the Consolidated Cash Flow Statement".

**7. ASSETS HELD FOR SALE**

Assets held for sale amounting to €142.8 million (prior year: €274.4 million) contain the carrying amounts of real estate for which the sale is highly probable and management has declared its intention to sell. Of the total amount, €59.4 million (prior year: €264.5 million) relate to the large multi-family home sales program whereas €13.3 million (prior year: €9.9 million) relate to the condo sales program. Another amount of €70.1 million (prior year: €0.0 million) relates to the sale of HB Funds properties.

Loans associated with assets that have been contracted for sale were reclassified from non-current to current financial liabilities. Please refer to section E.12. "Financial Liabilities" of this report.

The assets held for sale concerning the large multi-family home sales program and the HB Funds sales as well as the corresponding financial liabilities, other liabilities, income and expenses are displayed in the column “Other” within the segment report. Please refer to section D. “Segment Reporting”.

#### **8. EQUITY**

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

On April 21, 2010, the shareholders approved at the Annual General Meeting of shareholders the interim dividends paid for 2009. Since the shareholders approved payment of the dividends out of the share premium, the corresponding amount of €180.7 million was reclassified from the revenue reserves. The interim dividends paid for 2010 continue to be shown in the revenue reserves.

#### **9. OTHER PROVISIONS**

The decrease in current other provisions compared to December 31, 2009, mainly results from the utilization of restructuring provisions in connection with staff reduction.

#### **10. LIABILITIES FROM INCOME TAX**

The slight decrease of current liabilities from income tax since December 31, 2009, is caused by the payment of liabilities from corporate income tax and trade tax. The decrease is contrasted by the addition of accrued interest concerning non-current liabilities from corporate income tax on EK 02 of €2.2 million.

#### **11. DEFERRED TAX LIABILITIES**

Deferred tax liabilities of €258.8 million (prior year: €231.1 million) result from temporary differences mainly in connection with differences from measurement of investment property and assets held for sale.

#### **12. FINANCIAL LIABILITIES**

The financial liabilities of €6,193.4 million (prior year: €6,525.3 million) break down as follows as of June 30, 2010:

Liabilities to banks amount to €6,142.1 million (prior year: €6,472.3 million) and liabilities to other lenders to €51.3 million (prior year: €53.0 million).

The value of the investment property portfolio (including assets held for sale) of €9,036.0 million (prior year: €9,289.3 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 €6,004.4 million (prior year: €6,204.9 million). No collateral has been provided for the remaining €189.0 million (prior year: €320.4 million).

The decrease in unsecured financial liabilities results from the lower amount of the outstanding balance of the credit facility as well as the repayment of liabilities relating to unfinished development on behalf of cities and municipalities.

Overall, loans amounting to €345.3 million were repaid in the first half of 2010, as compared to €110.6 million in the first half of 2009.

As of June 30, 2010, the Group had a credit facility of €300.0 million, of which €149.0 million had been drawn at the end of the reporting period. The interest rate charged on the revolving credit facility is currently EURIBOR plus 2.5 %.

Loans associated with assets held for sale were reclassified from non-current to current financial liabilities and are allocated to the Group's assets held for sale as follows:

€ MILLION	06-30-2010		12-31-2009	
	Assets held for sale	Financial liabilities	Assets held for sale	Financial liabilities
Large multi-family home sales	59.4	43.3	264.5	219.4
Condo sales	13.3	9.5	9.9	8.4
HB Funds sales (non-core)	70.1	4.3	0.0	0.0
<b>Total</b>	<b>142.8</b>	<b>57.1</b>	<b>274.4</b>	<b>227.8</b>

The Group is financed long-term. As of June 30, 2010, the Group's financial liabilities primarily comprise the following liabilities:

€ MILLION	Carrying amount as of 06-30-2010	Notional amount as of 06-30-2010	Weighted avg. maturity	Current interest rate	Fixed or floating rate	6 months ended December 2010	
						Required repayments	Interest payments
Term loans <sup>1)</sup>	5,293.5	5,283.6	2013	4.09 %	Fixed	155.2	116.0
Term loans	329.3	310.7	2012	1.76 %	Floating <sup>2)</sup>	0.0	2.8
Senior debt <sup>3)</sup>	403.7	480.8	2036	2.41 %	Fixed	13.3	5.8
Revolving credit facility	149.3	149.0	2010	2.85 %	Floating	149.0	2.1
NILEG other	0.0	0.0		0.00 %	Floating	0.0	0.0
Other	17.6	16.9					
<b>Total</b>	<b>6,193.4</b>	<b>6,241.0</b>	<b>2014</b>	<b>3.81 %</b>		<b>317.5</b>	<b>126.7</b>

<sup>1)</sup> The fixed-rate term loans attributable to assets held for sale and sold assets are €155.2 million. Of this amount, €137.8 million result from the large multi-family home sales program (thereof €43.3 million relate to assets held for sale and €94.5 million to sold assets) and €17.4 million from the condo sales program (thereof €9.5 million relate to assets held for sale and €7.9 million to sold assets). Consistent with the plan to sell such assets, the term loans will be repaid by such amount in 2010, resulting in reduced interest payments on the fixed-rate term loans in fiscal years 2010 through 2013.

<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 2010 include an amount of €4.3 million from the HB Funds properties sales.

€ MILLION	Carrying amount as of 12-31-2009	Notional amount as of 12-31-2009	Weighted avg. maturity	Current interest rate	Fixed or floating rate	2010	
						Required repayments	Interest payments
Term loans <sup>1)</sup>	5,487.9	5,486.4	2013	4.07 %	Fixed	282.5	221.2
Term loans	329.4	311.8	2012	1.82 %	Floating <sup>2)</sup>	0.0	5.8
Senior debt	408.9	499.3	2037	2.40 %	Fixed	15.8	14.5
Revolving credit facility	265.3	265.0	2010	2.94 %	Floating	265.0	5.9
NILEG other <sup>3)</sup>	16.4	16.7	2011	1.46 %	Floating	0.0	0.2
Other	17.4	17.4					
<b>Total</b>	<b>6,525.3</b>	<b>6,596.6</b>	<b>2015</b>	<b>3.78 %</b>		<b>563.3</b>	<b>247.6</b>

<sup>1)</sup> The fixed-rate term loans attributable to assets held for sale are €227.8 million. Of this amount, €219.4 million relate to the large multi-family home sales program and €8.4 million relate to the condo sales program. Another amount of €54.7 million, mainly relating to other prepayments in connection with condo sales expected to be made prior to the contractual maturity, was reclassified from non-current to current financial liabilities.

<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> Relates mainly to land developments pre-sold to local municipalities.

The difference between the notional amount and the carrying amount as shown in the balance sheet mainly results from debt discount, amortized transaction costs and interest accruals.

2011		2012		2013		2014		2015		≥ 2016	
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	227.7	0.0	233.4	3,535.2	180.9	1,593.2	47.0	0.0	0.0	0.0	0.0
0.0	5.6	274.7	2.0	0.0	0.6	0.0	0.6	36.0	0.4	0.0	0.0
14.7	11.2	14.4	10.9	13.8	10.4	13.8	10.6	13.1	10.1	397.7	262.6
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>14.7</b>	<b>244.5</b>	<b>289.1</b>	<b>246.3</b>	<b>3,549.0</b>	<b>191.9</b>	<b>1,607.0</b>	<b>58.2</b>	<b>49.1</b>	<b>10.5</b>	<b>397.7</b>	<b>262.6</b>

2011		2012		2013		2014		2015		≥ 2016	
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	216.0	0.0	224.1	3,605.1	168.3	1,598.8	35.7	0.0	0.0	0.0	0.0
0.0	5.8	275.8	2.1	0.0	0.6	0.0	0.6	36.0	0.4	0.0	0.0
15.6	14.2	15.2	13.9	14.6	13.4	14.4	13.5	13.8	13.0	409.9	249.7
0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
16.7	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
<b>32.3</b>	<b>236.1</b>	<b>291.0</b>	<b>240.1</b>	<b>3,619.7</b>	<b>182.3</b>	<b>1,613.2</b>	<b>49.8</b>	<b>49.8</b>	<b>13.4</b>	<b>409.9</b>	<b>249.7</b>

### 13. OTHER LIABILITIES

The decrease of other current liabilities compared to year-end 2009 mainly relates to a reduction of received prepayments from sales of land of €34.3 million 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	H1 2010	H1 2009
Rental income, fees	317.0	333.4
Allocations charged	140.9	161.3
Rent, interest and expense subsidies	0.4	1.1
Risk of default on allocations	0.1	0.1
<b>Total</b>	<b>458.4</b>	<b>495.9</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 €2.5 million (prior year: €2.6 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	H1 2010	H1 2009
Operating expenses	130.8	148.3
Personnel expenses	30.4	31.6
Maintenance costs	26.3	34.9
Real estate tax	10.5	11.2
External costs for real estate management	3.6	5.2
Administrative expenses	3.6	3.6
Bad debt allowances	2.7	4.6
Amortization and depreciation on intangible assets and property, plant and equipment	1.1	1.1
Other expenses for real estate management	7.9	8.2
<b>Total</b>	<b>216.9</b>	<b>248.7</b>

Operating expenses decreased to €130.8 million in the first half of 2010 from €148.3 million in the first half of 2009. The decrease is primarily attributable to a smaller portfolio overall.

Maintenance costs in the first half of 2010 were €26.3 million, as compared to €34.9 million in the first half of 2009, as a result of a smaller portfolio and a more focused spending approach.

## 3. PROFIT FROM OTHER SERVICES

The profit from other services breaks down as follows:

€ MILLION	H1 2010	H1 2009
Revenues from other trade	3.6	3.0
Revenues from third-party real estate management	2.6	2.8
Personnel expenses	- 2.6	- 2.6
Expenses from other trade	- 1.5	- 1.7
Expenses from third-party real estate management	- 0.4	- 0.3
<b>Total</b>	<b>1.7</b>	<b>1.2</b>

#### 4. SELLING EXPENSES

Selling expenses break down as follows:

€ MILLION	H1 2010	H1 2009
External brokers	3.9	1.7
Personnel expenses	1.9	2.5
General and administrative expenses	1.3	0.4
Notarial charges	0.5	0.0
Marketing and selling prearrangements	0.5	0.6
Clearing from encumbrances	0.4	0.3
Maintenance on vacant flats and sample flats	0.4	0.3
Other	0.1	0.9
<b>Subtotal</b>	<b>9.0</b>	<b>6.7</b>
Selling expenses due to property development business	0.0	0.1
<b>Total</b>	<b>9.0</b>	<b>6.8</b>

Expenses for external brokers in the first half of 2010 were €3.9 million, as compared to €1.7 million in the first half of 2009, as a result of additions to provisions in connection with the sale of large multi-family homes and HB Funds properties.

The increase in general and administrative expenses from €0.4 million in the first half of 2009 to €1.3 million in the first half of 2010 results from consulting costs in connection with the sale of HB Funds properties in the fiscal year 2010.

#### 5. GENERAL AND ADMINISTRATIVE EXPENSES

General and administrative expenses break down as follows:

€ MILLION	H1 2010	H1 2009
Personnel expenses for administrative staff	9.4	10.0
Costs of office equipment, postage, telephone and IT	4.1	4.1
Consulting costs	1.1	1.9
Audit fees	1.5	1.5
Insurances	0.7	0.6
Amortization and depreciation on intangible assets and fixed assets	0.7	0.7
Occupancy costs	0.4	0.4
Travel expenses, expenses for cars	0.3	0.4
Court and lawyer's fees	0.3	0.4
Other	1.5	2.1
<b>Total</b>	<b>20.0</b>	<b>22.1</b>

## 6. OTHER OPERATING INCOME AND EXPENSES

All income and expenses not directly allocable to the various functional areas are disclosed under the items other operating income and other operating expenses, respectively.

Other operating income breaks down as follows:

€ MILLION	H1 2010	H1 2009
Sale of cable network	0.3	0.0
Cooperation agreement with a public service provider	0.3	0.3
Reversal of provisions	0.2	1.0
Transferable leasehold land interest	0.1	0.1
Transfer of consulting costs	0.0	0.4
Refund of expenses for tax advice	0.0	0.4
Other	1.3	1.0
<b>Subtotal</b>	<b>2.2</b>	<b>3.2</b>
Other operating income due to property development business	0.8	0.6
<b>Total</b>	<b>3.0</b>	<b>3.8</b>

Of other operating expenses totaling €2.6 million (prior year: €15.5 million), €1.7 million (prior year: €7.1 million) relate to costs in connection with the property development business.

The prior year amount included expenses of €6.1 million due to the impairment of components of the disposal group and €1.1 million due to additions to provisions.

## 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 half of 2010, reorganization and restructuring expenses amount to €6.6 million (prior year: €3.9 million). Thereof, €5.7 million are compensation payments relating to an amendment of an outsourcing contract with a maintenance provider allowing GAGFAH Group to increasingly insource maintenance services.

## 8. INTEREST EXPENSES

Interest expenses break down as follows:

€ MILLION	H1 2010	H1 2009
Interest expenses	127.1	130.3
Prepayment fees	11.3	1.8
Present value of loans carried at amortized cost	3.4	3.3
Interest share of pension obligations	2.6	2.8
Amortization of EK02 liability	2.2	2.4
Amortization of transaction costs	1.9	1.8
Interest expenses refinancing	0.2	0.4
Other interest expenses	7.6	6.3
<b>Subtotal</b>	<b>156.3</b>	<b>149.1</b>
Interest due to property development business	0.1	0.5
<b>Total</b>	<b>156.4</b>	<b>149.6</b>

The prepayment fees of €11.3 million (prior year: €1.8 million) include an amount of €9.8 million (prior year: €1.8 million) that was paid for the early repayment of loans in the first half of 2010. Further non-cash expenses of €1.5 million (prior year: €0.0 million) relate to expected prepayment fees for the early repayment of loans prior to maturity.

## 9. INCOME TAXES

Income taxes comprise deferred tax expenses of €27.7 million (prior year: €7.1 million) and effective income tax expenses of €1.0 million (prior year: €2.1 million).

## G. Notes to the Consolidated Cash Flow Statement

Cash and cash equivalents comprise all cash and cash equivalents disclosed in the balance sheet and break down as follows:

€ MILLION	06-30-2010	12-31-2009	06-30-2009
Cash on hand	0.1	0.1	0.1
Bank balances	22.4	38.3	37.1
Restricted cash	101.3	182.6	92.5
HB Funds balances	16.2	15.2	11.7
<b>Bank balances and cash on hand</b>	<b>140.0</b>	<b>236.2</b>	<b>141.4</b>

The comparative figures referred to as “prior year” in the text below are the amounts as of June 30, 2009.

Restricted cash is mainly composed of the following items: An amount of €30.1 million (prior year: €31.3 million) corresponds to the interests on term loans due but not yet payable until the end of the reporting period. A further amount of €3.5 million (prior year: €7.6 million) is pledged for guarantee facilities. Restricted cash also includes an amount of €66.0 million (prior year: €53.6 million) which can be either used for the repayment of term loans or the reinvestment for the acquisition of new properties.

## 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 fiscal year 2009.

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

Due to the valuation of the derivatives, interest rate swaps with a negative amount of €16.8 million (prior year: €15.9 million) are disclosed in the item “Financial Liabilities”.

As of June 30, 2010, the valuation was based on the following term structure:

	06-30-2010	12-31-2009
Interest rate for six months	1.041 %	0.993 %
Interest rate for one year	1.306 %	1.247 %
Interest rate for two years	1.355 %	1.860 %
Interest rate for five years	2.075 %	2.805 %

The residual terms of the interest rate swaps are between two and five years - the same as the residual terms of related term loans.

As of June 30, 2010, a total loss of €0.9 million (prior year: €10.0 million) from changes in the fair value of the interest rate swaps was recognized through profit or loss in the item "Loss / Profit from the Fair Value Measurement of Derivatives".

## 2. CONTINGENT LIABILITIES AND FINANCIAL OBLIGATIONS

There were no material changes within the second quarter of 2010.

## 3. EMPLOYEES

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

	H1 2010		H1 2009	
	Heads	FTEs	Heads	FTEs
Real estate management	1,222	1,166	1,265	1,221
thereof facility management service	689	663	663	644
Real estate sales	34	33	38	38
Other	214	205	247	238
<b>Total</b>	<b>1,470</b>	<b>1,404</b>	<b>1,550</b>	<b>1,497</b>

Including 331 part-time employees (prior year: 364) and 105 trainees (prior year: 83), the total headcount was 1,906 (prior year: 1,997).

#### 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 half of 2010.

#### 5. MANAGEMENT

Stefan de Greiff was appointed as Chief Investment and Sales Officer and Member of the Senior Management of the Company's major operational subsidiaries with effect from April 1, 2010.

#### 6. CASH DIVIDEND

In the first half of 2010, the following cash dividends were paid:

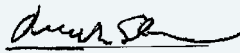
Respective period	Date of payment	€ million
Fourth quarter of 2009	April 13, 2010	45.2
First quarter of 2010	June 11, 2010	45.2

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

There were no significant events after the reporting date.

# Financial Statement Certification

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



Wesley R. Edens



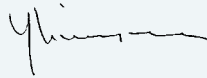
Robert I. Kauffman



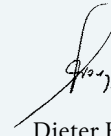
Randal A. Nardone



William J. Brennan



Yves Wagner, PhD



Dieter H. Ristau



Dr. Jürgen Allerkamp

Luxembourg, August 9, 2010

# Glossary

## **CAPEX**

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

## **CBRE**

CB Richard Ellis (CBRE) is the independent external company 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.

## **HB FUNDS**

The HB Funds comprise of 20 closed-end real estate funds with a total of 7,130 units, which are structured as a fractional co-ownership (“Bruchteilsgemeinschaft”) within the meaning of Section 741 of the German Civil Code 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 has been initiated. All HB Funds units are non-core and therefore not part of GAGFAH’s core residential portfolio.

## **LARGE MULTI-FAMILY HOME (LMFH) SALES PROGRAM**

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

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

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

## **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.

## **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, 2009, and June 30, 2010.

## **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:  
GAGFAH S.A.  
2-4, RUE BECK  
L-1222 LUXEMBOURG  
GRAND DUCHY OF LUXEMBOURG  
RCS LUXEMBOURG B109526

CONCEPT / DESIGN:  
3ST KOMMUNIKATION  
MAINZ  
GERMANY