



# GAGFAH Consolidated Annual Report

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2006

# Highlights

## GAGFAH at a Glance

GAGFAH S.A. is a joint stock corporation organised under the laws of the Grand Duchy of Luxembourg qualifying as a securitization company under the Luxembourg law of March 22, 2004 on Securitization. The core business of GAGFAH S.A.'s operating subsidiaries is the ownership, management and acquisition of a geographically diversified and well-maintained residential property portfolio located throughout Germany. With a portfolio of over 168,000 apartments as of March 2007, GAGFAH is the largest German listed residential property company.

## Key Performance Indicators

All per-share data is based on 225.5 million total shares outstanding.

### PRO FORMA FOURTH QUARTER 2006

- Profit from continued operations of €22.4 million for the fourth quarter of 2006.
- Funds from operations (FFO) (see Key Financial Information) of €48.2 million for the fourth quarter of 2006.
- FFO per share of €0.21 for the fourth quarter of 2006.
- Earnings per share of €0.02 for the fourth quarter of 2006.
- Declared dividend of €0.17 per share for the fourth quarter of 2006 and €0.17 per share for the first quarter of 2007.

### PRO FORMA FINANCIAL YEAR 2006

- Profit from continued operations of €177.2 million for 2006 increased from €-173.2 million since December 31, 2005.
- Earnings per share of €0.68 for 2006 compared to €-1.42 as of December 31, 2005.
- FFO increased from €1.8 million in 2005 to €165.4 million in 2006.
- FFO per share of €0.73 for 2006 compared to €0.01 per share in 2005.

## GAGFAH S.A. SHARES AS OF DECEMBER 31, 2006

ISIN	LU0269583422
Total Market Cap. (€ million)	5,419
Industry Group	Real Estate
Number of Shares (million)	225.5
Listing	Frankfurt Stock Exchange
Major Indices Memberships	MDAX, EPRA, GPR
Freefloat	20 %

## 2006 Highlights

**Net Cold Rent:** Increased by 1.2 % to €518 million since 2005 year end (residential rents on a same-store basis).

**Vacancy:** Reduced vacancy to 5.7 %, down from 6.6 % on December 31, 2005.

**Costs:** Reduced costs to manage per unit to €486 in 2006, down from €555 in 2005.

**Privatizations:** Privatized 1,073 units at a margin of 11.5 % in 2006; thereof 597 units in the fourth quarter of 2006.

**Acquisitions:** Since IPO, we have acquired or committed to acquire 17,007 units for a total consideration of approximately €1 billion.

# Key Financial Information

## FINANCIAL FIGURES PRO FORMA<sup>1</sup>

	2006	2005	Change in %
<b>INCOME STATEMENT (€ MILLION)</b>			
Income from the leasing of investment property	823.2	779.4	5.6
Profit from the leasing of investment property	386.5	340.4	13.6
Profit / loss from the sale of investment property	24.5	- 0.2	> 100.0
Profit from fair value measurement	65.5	41.1	59.4
EBIT	372.4	234.1	59.1
EBITDA	418.9	308.7	35.7
FFO	165.4	1.8	> 100.0
EPS (225.5 m shares outstanding / in €)	0.68	- 1.42	> 100.0
FFO per share (225.5 m shares outstanding / in €)	0.73	0.01	> 100.0

## BALANCE SHEET (€ MILLION)

	12-31-2006	12-31-2005	Change in %
Investment property	7,660	7,612	0.6
Financial liabilities	5,618	5,529	1.6

## OPERATIONAL FIGURES PRO FORMA<sup>1</sup>

	12-31-2006	12-31-2005	Change in %
<b>Group residential portfolio</b>			
units	151,366	151,223	0.1
sqm	9,072,423	9,070,734	0.02
Net cold rent / sqm on a same-store basis (in €)	4.81	4.76	1.2
Net cold rent / sqm (in €)	4.76	4.72	0.9
Vacancy (in %)	5.7	6.6	- 13.6
Number of employees (FTEs)	1,387	1,764	- 21.4
Privatized units	1,073	456	>100.0

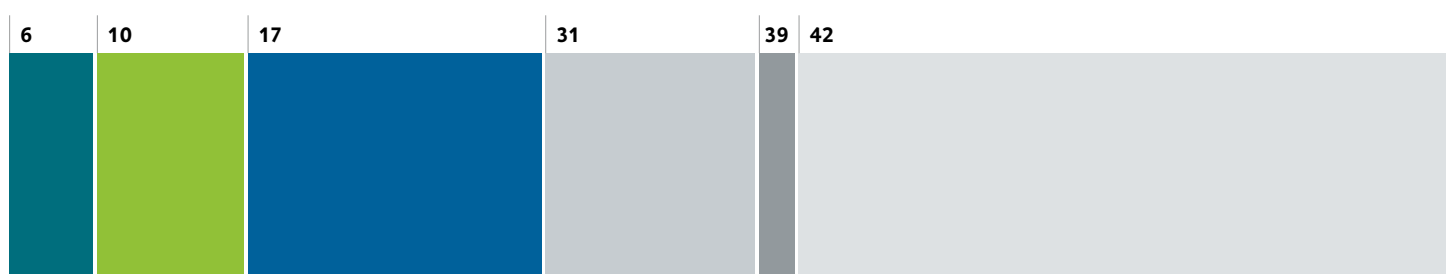
FFO is a non-IFRS financial measure that our Group's management uses to report the funds generated from continued operations. FFO is used as a measure of our Group's generation of funds for investment and the payment of dividends to shareholders. The following is a reconciliation of pro forma EBIT to pro forma FFO for our Group:

## FUNDS FROM OPERATIONS – FFO (€ MILLION) PRO FORMA<sup>1</sup>

	12-31-2006	12-31-2005	Change in %
EBIT	372.4	234.1	59.1
Restructuring expenses	39.8	67.5	- 41.0
Depreciation and amortization	6.7	7.1	- 5.7
EBITDA	418.9	308.7	35.7
Profit from fair value measurement	- 65.5	- 41.1	59.4
Realized valuation gains through sales	1.0		
Interest expenses (periodical) without pro forma adjustments	- 228.1	- 268.2	- 15.0
Interest income (periodical)	9.5	7.1	33.8
Taxes paid	2.0	- 4.7	>100.0
IPO costs	7.2		
Expenses for share-based remuneration	20.4		
FFO	165.4	1.8	>100.0
FFO per share (225.5 m shares outstanding / in €)	0.73	0.01	>100.0

<sup>1</sup> Since our Group is the result of acquisitions and corporate combinations occurring at various times since September 2004, with significant acquisitions in 2005 and 2006, comparisons of historical accounting results indicate the combined improvements to the Group from both capitalization and operations. Consequently, we use pro forma financial figures to provide comparable results from continuing operations. The pro forma financial figures illustrate comparable financial information of the affiliated companies, as if GAGFAH S.A. had existed in its current size and capitalization during the respective periods.

# Content



## 6 LETTERS

- 6 Letter to our Shareholders from the Chairman of the Board
- 8 Letter to our Shareholders from the CEO of the German Subsidiaries

## 10 MANAGEMENT

- 10 Management of GAGFAH S.A.
- 11 Board of Directors
- 14 Senior Management of our German Subsidiaries

## 17 DIRECTORS' REPORT

- 17 Overview
- 19 Operations
- 19 Our Portfolio

## 20 Our Operational Network

- 21 Residential Property Portfolio
- 23 Our Industry
- 25 Consolidated Report on Audited Accounts

## 31 PRO FORMA REPORT

- 38 Funds from Operations

## 39 SUPPLEMENTAL INFORMATION

- 39 Employee Report
- 40 GAGFAH Shares

<b>42</b>	<b>NOTES</b>	
42	Consolidated Balance Sheet	
44	Consolidated Income Statement	
45	Consolidated Cash Flow Statement	
46	Statement of Changes in Consolidated Equity	
48	A. General Information	
52	B. Consolidated Group and Consolidation Methods	
63	C. Accounting Policies	
80	D. Segment Reporting	
81	Group Segment Report	
83	E. Notes to the Consolidated Balance Sheet	
106	F. Notes to the Consolidated Income Statement	
115	G. Notes to the Consolidated Cash Flow Statement	
116	H. Other Notes	
129	Exhibits	
129	Exhibit (1) List of Shareholdings	
132	Exhibit (2) Statement of Changes in Consolidated Non-current Assets	
136	Independent Auditor's Report	
138	Glossary	
139	Financial Calendar	

# Letter to our Shareholders from the Chairman of the Board

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## Dear Shareholders,

The year 2006 was a very exciting year for all of us at GAGFAH. Since 2004, we have been building a first-class German residential property Group with a high-quality asset portfolio and an efficient and powerful operating platform. Today, the GAGFAH Group owns over 168,000 residential units located throughout Germany. In October 2006, we took GAGFAH S.A. public and listed its shares on the Frankfurt Stock Exchange under the ticker GFJ.

Our key objectives are to create long-term value for our shareholders and to increase earnings and dividends per share through organic and accretive growth. Our strategy is to increase returns from our current portfolio while preserving our tenant stability by maintaining the quality of services and accommodation, increase our profitability through operating efficiencies and accretively grow our residential property portfolio in Germany. Our size, geographic diversity across Germany and our reputation as a respected German trade buyer give us a competitive advantage in acquisitions.

Although it is early in GAGFAH's life as a publicly listed company, we are very proud of the results achieved thus far. In 2006, the Group has leased up 1,275 units, achieved rental growth of 1.2 % on a same-store basis and privatized over 1,000 units at a margin of 11.5 %. Since the IPO, over 17,000 units have been acquired for approximately €1.0 billion.

As the leading publicly listed owner of residential real estate in Germany, our goal is also to set standards in terms of earnings transparency. Our aim is to keep our investors informed about our business and to communicate with them on a quarterly basis. We use funds from operations (FFO) to measure GAGFAH's performance and the generation of funds for the payment of dividends to our shareholders. We believe that our policy of paying out a substantial portion of FFO on a quarterly basis provides investors with transparency of the operating performance of the GAGFAH Group. A high dividend payout also imposes a strict investment policy with respect to new acquisitions as we have to return to our shareholders to finance new acquisitions.

The year 2007 promises to be another exciting year for the residential real estate market in Germany and we are looking forward to a very successful year 2007.



**Robert I. Kauffman**  
Chairman





We are focused on providing our  
tenants with high quality of living.

Essen-Rüttenscheid

# Letter to our Shareholders from the CEO of the German Subsidiaries

## Dear Shareholders,

We are pleased to present our first consolidated annual report as a publicly listed company. In 2006, we continued to successfully grow our business through further acquisitions. As of March 2007, the German residential property portfolio consists of approximately 168,000 units and 94 % of our income is generated from rent operations. Our stock exchange listing on October 19, 2006, was extremely well received by investors. Just two months after our IPO, our shares were admitted to the MDAX index.

Our principal objective is to increase our earnings per share through organic and accretive growth and we are focused on consistently delivering our shareholders a stable and growing dividend per share. We intend to pay out a substantial portion of our FFO as quarterly dividends and have declared our first dividends of €0.17 per share for both the fourth quarter of 2006 and the first quarter of 2007.

The Group's key property management goals are to reduce and maintain low vacancy rates, achieve moderate rental growth, while maintaining the quality of living for our tenants, and optimizing costs by leveraging synergies. Our leasing team has reduced GAGFAH's vacancy rate from 6.6 % in 2005 to 5.7 % in the 12 months leading up to December 31, 2006. At the same time, we grew rents by 1.2 % on a same-store basis.

Accretive acquisitions are another important part of our growth strategy for GAGFAH. We aim to invest approximately €1.4 billion per year in acquiring residential properties to further grow our earnings and FFO per share. Since our IPO, the GAGFAH Group has signed contracts to acquire over 17,000 units for approximately €1 billion.

In November 2006, we signed an agreement to acquire 86.8 % of the shares of the listed Grundstücks- und Bau-gesellschaft AG, Heidenheim (GBH AG). The transaction closed on January 4, 2007, and we now already hold over 90 % of the outstanding shares. GBH is a successful resi-

dential property company with approximately 9,000 residential properties at various locations, primarily in southern Germany. The properties are an ideal addition to our portfolio. In addition, GAGFAH agreed to acquire a total of approximately 4,900 residential properties from the apellas Group shortly after the end of the fiscal year. The properties are mainly located in prime residential areas in Berlin.

We expect municipalities, cities and corporations to continue to sell their residential housing stock which will provide further attractive investment opportunities for us. We continue to see a strong deal flow and are currently looking at numerous potential acquisitions. Our acquisition history shows that our nationwide presence, our strategy of holding residential assets long-term, and our reputation as a professional and reliable landlord that we have built up over decades make GAGFAH a preferred partner for transactions of smaller as well as larger transactions. This applies to both public sector and private owners who wish to dispose of their residential property portfolios.

Another key element of our strategy is the sale of apartments to our existing tenants, also called privatization. The targeted sale of approximately 1–1.5 % units per year allows us to further grow our residential portfolio through the reinvestment of the proceeds. We have achieved our goal set for 2006 by selling 1,073 residential units at a margin of 11.5 %.

I would like to express my gratitude to the entire staff who has worked so hard to get us to where we are today.



**Burkhard Ulrich Drescher**

Member of the Board of Directors and CEO  
of the German Subsidiaries





Our portfolio is characterized by a stable tenant base with an average current tenant tenure of approximately twelve years and an occupancy rate of 94 %.

Duisburg-Duisern

# Management of GAGFAH S.A.

GAGFAH S.A. is managed by the Board of Directors. GAGFAH's operational subsidiaries in Germany are led by the senior management.

The Board of Directors is vested with the broadest powers to manage the business of the Company and to authorize and perform all acts of disposal and administration falling within the purposes of the Company.

The Board is supported by an Audit Committee, whose members are:

Dr. Jürgen Allerkamp  
Mr. Wesley R. Edens  
Mr. Robert I. Kauffman  
Mr. Randal A. Nardone

The primary tasks of the Company's Audit Committee are:

- to assist the Board in fulfilling its oversight responsibilities relating to the integrity of our financial statements, including periodically reporting to the Board on its activities; and
- to make recommendations for the appointment, compensation, retention and oversight of, and consider the independence of the Company's external auditor and perform such other duties imposed by applicable laws and regulations of the regulated market or markets in which the shares are listed, as well as any other duties entrusted to the Committee by the Board.

In addition to the Audit Committee, we have a Compensation Committee in place which consists of the following members:

Mr. Wesley R. Edens  
Mr. Robert I. Kauffman  
Mr. Randal A. Nardone  
Mr. Yves Wagner, Ph. D.

The Compensation Committee reviews the Company's compensation policy, determines the remuneration of executive directors and the senior management of the Company's subsidiaries and exercises discretion with regard to employee and management benefit plans.

The Directors are appointed at the General Meeting of Shareholders by a simple majority of the votes cast. Directors serve for a period not exceeding six years or until their successors are elected. Directors may be removed with or without cause at the General Meeting of Shareholders by a simple majority of the votes cast at such meeting. The Directors are eligible for re-election. As long as the shares are listed on one or more regulated stock exchanges, the Board of Directors must include three independent Directors. In the event of a vacancy in the office of a Director because of death, retirement, resignation, dismissal, removal or otherwise, the remaining Directors may fill such vacancy and appoint a successor to act until the next Meeting of Shareholders, without regard to the independence requirement.

Amendments of the Articles of Incorporation of GAGFAH S.A. are approved by resolution at an extraordinary General Meeting of shareholders. Extraordinary General Meetings of shareholders with the purpose of amending the Articles of GAGFAH S.A. are subject to a quorum of at least half of the issued and outstanding shares of GAGFAH S.A. If such quorum is not represented at a meeting, a second meeting may be convened with the same agenda. Such second meeting is not subject to a quorum. Amendments of the Articles of Incorporation of GAGFAH S.A., other than change of nationality which requires unanimous consent of all shareholders, are approved by resolution of a two-thirds majority of the votes cast at the extraordinary General Meeting.

GAGFAH S.A. has a total authorized share capital of €10 billion. The Board of Directors has been authorized by the General Meeting of Shareholders to issue shares up to the total amount of the authorized share capital without further approval of the shareholders. Shares may be issued within the authorized share capital of GAGFAH S.A. with or without reserving any pre-emptive subscription rights to existing shareholders at the discretion of the Board.

GAGFAH S.A., acting through its Board, has further been authorized by the General Meeting of Shareholders to purchase, acquire or receive its own shares in the Company up to 10 % of the issued share capital from time to time.

## Board of Directors

### **WESLEY R. EDENS**

Mr. Edens is the Chairman of the Board of Directors and the Chief Executive Officer of Fortress Investment Group LLC. Mr. Edens has been a principal and the Chairman of the Management Committee of Fortress since co-founding Fortress in May 1998. Mr. Edens is responsible for the Fortress private equity and publicly traded alternative investment businesses. He is also the Chairman of the board of directors of each of Aircastle Limited, Brookdale Senior Living Inc., Eurocastle Investment Limited, GateHouse Media, Inc., Mapeley Limited and Newcastle Investment Corp. and a director of Crown Castle International Corp. and GAGFAH S.A. Mr. Edens served as the Chief Executive Officer of Newcastle Investment Corp. since inception until February 2007. Mr. Edens was the Chief Executive Officer of Global Signal Inc. from February 2004 to April 2006 and the

Chairman of the board of directors from October 2002 to January 2007. Mr. Edens serves in various capacities in the following five registered investment companies: Chairman, Chief Executive Officer and Trustee of Fortress Registered Investment Trust and Fortress Investment Trust II; Chairman and Chief Executive Officer of Fortress Brookdale Investment Fund LLC and Fortress Pinnacle Investment Fund LLC and Chief Executive Officer of RIC Coinvestment Fund GP LLC. Prior to forming Fortress, Mr. Edens was a partner and a managing director of BlackRock Financial Management Inc., where he headed BlackRock Asset Investors, a private equity fund. In addition, Mr. Edens was formerly a partner and a managing director of Lehman Brothers. Mr. Edens received a B.S. in Finance from Oregon State University.

### **ROBERT I. KAUFFMAN**

Mr. Kauffman is the President (Europe) and a member of the Board of Directors of Fortress Investment Group LLC. Mr. Kauffman has been a principal and a member of the Management Committee of Fortress since co-founding Fortress in May 1998. Mr. Kauffman is responsible for the management of Fortress's European private equity investment operations. Mr. Kauffman is the Chairman of the Supervisory Board of GAGFAH S.A. Prior to joining Fortress, Mr. Kauffman was a managing director of UBS from May 1997 to May 1998, and prior to that, was a principal of BlackRock Financial Management Inc. Mr. Kauffman was with Lehman Brothers from 1986 to 1994 and served as an executive director of Lehman Brothers International in London beginning in 1992. Mr. Kauffman received a B.S. in Business Administration from Northeastern University.



**RANDAL A. NARDONE**

Mr. Nardone is the Chief Operating Officer and a member of the Board of Directors of Fortress Investment Group LLC. Mr. Nardone has been a principal and a member of the Management Committee of Fortress since co-founding Fortress in May 1998. Mr. Nardone oversees Fortress's structured finance and legal matters. Mr. Nardone is a director of GAGFAH S.A. and Eurocastle Investment Limited. Mr. Nardone was previously a managing director of UBS from May 1997 to May 1998. Prior to joining UBS in 1997, Mr. Nardone was a principal of BlackRock Financial Management, Inc. Prior to joining BlackRock, Mr. Nardone was a partner and a member of the executive committee at the law firm of Thacher Proffitt & Wood. Mr. Nardone received a B.A. in English and Biology from the University of Connecticut and a J.D. from Boston University School of Law.

**BURKHARD U. DRESCHER**

Burkhard Ulrich Drescher was appointed a member of the Board in October 2006. He graduated in business economics and chemistry and worked as city treasurer and municipal chief executive (Oberstadtdirektor) in leading administrative positions. As Lord Mayor of the city of Oberhausen, he ended his career in public administration and joined the Management Board of RAG Immobilien AG in 2004. On August 1, 2006, he was appointed CEO of the German subsidiaries.

**YVES WAGNER, PH.D.**

Yves Wagner, Ph.D., was appointed to the Board in October 2006. In addition, Mr. Wagner is an independent director of several management companies. He is co-founder and partner of The Directors' Office, a Luxembourg company supervised by the CSSF, providing substance and assistance in particular in risk management supervision of management companies and funds. Prior thereto, Mr. Wagner was Chief Executive Officer of Fortis Investment Luxembourg, after serving as a director for many years in the asset management division of Banque Générale du Luxembourg (Fortis Group). Mr. Wagner is also a lecturer at several universities and is President of the Luxembourg Society of Financial Analysts.

**DIETER H. RISTAU**

Dieter H. Ristau was appointed a member of the Board in October 2006. Prior to joining our Group, Dieter H. Ristau was Chief Executive Officer of Allianz Global Investors Luxembourg S.A. and Chairman of the boards of Dresdner International Management Services Ltd., Ireland, and Dresdner Fund Administration Ltd., Cayman Islands.

**DR. JÜRGEN ALLERKAMP**

Dr. Jürgen Allerkamp was appointed to the Board in October 2006. Dr. Allerkamp has degrees in law and political science. He began his career as a legal officer with Westdeutsche Landesbank. Prior to joining our Group, he was appointed a member of the management board of Stadtparkasse Dresden in 1993. In 1997, he became a member of the board of NORD / LB Norddeutsche Landesbank Girozentrale.



Our key objectives are to create long-term value for our shareholders and to increase earnings and dividends per share.

Essen-Freisenbruch



# Senior Management of our Subsidiaries

Members of the Senior Management of the Company's subsidiaries are integral to the management of the Company's subsidiaries. With the exception of Mr. Drescher, members of the Board are not members of the Senior Management of the Company's subsidiaries.

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**BURKHARD ULRICH DRESCHER – CEO CHIEF EXECUTIVE OFFICER**

Burkhard Ulrich Drescher, 55, graduated in business economics and chemistry and worked as city treasurer and municipal chief executive (Oberstadtdirektor) in leading administrative positions. As Lord Mayor of the city of Oberhausen, he ended his career in public administration and joined the Management Board of RAG Immobilien AG in 2004. On August 1, 2006, he was appointed CEO of the German subsidiaries. Burkhard Ulrich Drescher is responsible for the central departments Legal, Communications, Integration, Research, and Internal Audit.

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**JÖRG DEISEL – COO CHIEF OPERATING OFFICER**

Jörg Deisel, 53, is Chief Operating Officer of the GAGFAH subsidiaries. Mr. Deisel has 25 years of professional experience and joined our Group in August 2005. After obtaining a degree in electrical science, Mr. Deisel worked for several German and international companies as Chief Executive Officer with a focus on strategic repositioning. Before joining our Group, he was Chief Executive Officer of Dynamit Nobel AG where he was responsible for the restructuring of the company. Thereafter, Mr. Deisel also served as a consultant on international mergers and acquisitions. Mr. Deisel is responsible for Real Estate Management and Human Resources.

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**MARTIN E. LÖFFLER – CFO CHIEF FINANCIAL OFFICER**

Martin E. Löffler, 46, MBA, has had a career in various positions in financial departments at listed companies. In his previous position he was CFO at Thiel Logistik AG, Luxembourg. Martin Löffler is responsible for Controlling, Treasury, Accounting, Tax, and Investor Relations.

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**RAINER SEIFERT – CTO CHIEF TECHNICAL OFFICER**

Rainer Seifert, 47, is Chief Technical Officer of the GAGFAH subsidiaries. Mr. Seifert has 20 years of professional experience, and joined the WOBA GmbH in 1997. After obtaining a degree in business administration, Mr. Seifert worked for Arthur Andersen GmbH and Wohnbau Nordwest GmbH. Mr. Seifert is responsible for Modernization, Central Purchasing, and IT.



**DR. ULRICH WEBER – CIO CHIEF INVESTMENT OFFICER**

Dr. Ulrich Weber, 40, received his degree in business administration from the University of St. Gallen, Switzerland. In 1998, he founded Bauconcept Gesellschaft für Immobilien-Investitionen mbH, a property development company which operated successfully in the residential and office markets of Berlin and Dresden. In 2003, Dr. Ulrich Weber founded apellas Property Management GMBH together with Soros Real Estate Investors C.V., a real estate private equity fund. Dr. Ulrich Weber is responsible for Acquisitions.



**WORNA ZOHARI – CSO CHIEF SALES OFFICER**

Worna Zohari, 35, is Chief Sales Officer of the GAGFAH subsidiaries and joined our Group in July 2005. After completion of his studies of real estate economics, Mr. Zohari qualified as a professional member of the Royal Institution of Chartered Surveyors. Mr. Zohari worked for a brokerage company and was an authorized representative (*Prokurist*) for Viterra AG. Thereafter, he also served as a consultant on real estate portfolio purchases and privatization processes for international investors. Worna Zohari is responsible for Property Sales and Third Party Property Management.

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As the leading publicly listed owner of residential real estate in Germany, our goal is to set standards in terms of transparency.

GAGFAH Group Office, Essen

# Directors' Report

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## Overview

### OUR GROUP

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 law of March 22, 2004, on Securitization. GAGFAH S.A.'s business is the securitization of risks relating to a residential property portfolio.

The core business of GAGFAH S.A.'s operating subsidiaries is the ownership, management and acquisition of a geographically diversified and well maintained residential property portfolio throughout Germany. As of December 31, 2006, the portfolio was composed of 151,366 apartments totaling approximately 9.072 million square meters. The average building age of the portfolio is 46 years with a majority of the buildings constructed between 1952 and 1979.

### COMPETITIVE STRENGTHS

We believe that the combination of our size, geographic diversity across Germany, scale of operations and reputation as a respected German trade buyer makes us a strong player in the residential real estate market in Germany and positions us well to continue to successfully acquire and integrate both small and large residential property portfolios at accretive levels. Our most significant competitive strengths are:

#### **In-depth Local Market Knowledge and Focus on German Residential Real Estate**

Our significant nationwide market presence through our properties located in more than 300 cities and towns throughout Germany gives us a competitive advantage over smaller or less diversified property companies, funds or investors aiming to take advantage of the trend of cities, municipalities and corporate entities selling their residential housing stock. We have developed an

in-depth knowledge of regional residential markets which enables us to identify, evaluate, acquire and efficiently manage portfolios in all key markets throughout Germany. Our assets are directly managed through a streamlined operational network with six regional offices in Berlin, Dresden, Essen, Frankfurt am Main, Hamburg and Hanover.

#### **High-quality Asset Portfolio**

Our apartments have experienced substantial repairs and maintenance spending over the past several years and we believe our portfolio is among the highest-quality multi-family portfolios in Germany. For example, the WOBA GmbH spent approximately €1.2 billion in total or €25,000 per unit on property modernization over the past ten years.

#### **Proven Track Record of Successful Acquisitions**

We have developed significant acquisition experience and expertise through the successful acquisition of both large- as well as smaller-sized portfolio transactions in Germany. In April 2006, we have acquired WOBA GmbH with 43,285 units and since our IPO in October 2006, we have acquired 17,007 units for approximately €1 billion in small- to mid-sized transactions. Our acquisition experience positions us well to continue to successfully make accretive acquisitions of reasonably priced portfolios and to integrate such new portfolios into our operating platform without causing disruption to our operations.

#### **Efficient Operating Platform**

We have the operational capability and capacity to integrate and operate both large and small residential property acquisitions at low marginal costs and to realize sustainable ongoing cost savings. Our nationwide presence and the size of our business enables us to minimize incremental general and administrative expenses and provides us with cost savings in the purchasing of goods and services

and cost efficiencies with respect to our corporate functions. Our significant ongoing cost advantages allow us to acquire assets more efficiently and to better compete against other smaller or less geographically diversified investors.

#### **Access to Capital Resources**

In acquiring assets we have a competitive advantage over investors who do not have the same access to both debt and equity capital resources as we do. Access to low-cost debt capital on a long-term and fixed-rate basis is one of our key success criteria when making asset-based investments. We have significant experience and expertise in debt financing and have structured and raised over €5 billion at competitive terms to finance our acquisitions in Germany. Access to public equity and debt markets in combination with our financing expertise should allow us to purchase a substantial amount of residential property at a very attractive cost of capital.

#### **Skilled Management Team with Extensive Experience**

The senior management team that operates the Company's respective subsidiaries consists of very experienced senior managers with a broad spectrum of expertise. The Chief Executive Officer of the GAGFAH S.A. subsidiaries has served as the lord mayor of Oberhausen and consequently has valuable contacts with other mayors and politicians. The Chief Financial Officer of the GAGFAH S.A. subsidiaries has served in similar functions at Thiel Logistik AG, Luxembourg. The Chief Operating Officer of the GAGFAH S.A. subsidiaries has extensive experience in cost optimization and process control as a result of his experience as Chief Executive Officer of Dynamit Nobel AG.

#### **STRATEGY**

The Company's principle objectives are to pay out a substantial portion of our FFO in the form of quarterly dividends and to increase its earnings and dividends per share through organic growth and accretive acquisitions. Key elements of our strategy to achieve these objectives include:

#### **Continue to Increase Returns from Current Portfolio**

We plan to continue to increase returns from our current portfolio while maintaining or improving tenant stability and their quality of accommodation. Over time, we plan to continue to adjust rents to market levels to the extent permitted by German law and existing rent restrictions. We also plan to continue to lease-up vacant units and we have established a dedicated internal brokerage team, implemented economic incentives for management and introduced advertising and marketing campaigns to support our lease-up activities.

With particular focus on our portfolio in Dresden, we will pursue selected modernizations of units in disrepair to facilitate lease-up and rental growth.

#### **Increase Profitability through Operating Efficiencies**

Our size, geographic footprint and centralized corporate infrastructure should enable us to achieve significant ongoing cost savings upon the integration of new portfolios into our operational infrastructure. We intend to reduce general and administrative expenses of our Group by optimizing cost saving initiatives successfully implemented at the GAGFAH GmbH and NILEG GmbH Groups and through the replication of these cost saving initiatives at the WOBA GmbH Group and new acquisitions. In addition, we expect to achieve further cost reductions with regard to repairs, maintenance and capital expenditure by taking advantage of the purchasing power resulting from our size and centralized purchasing function, and through continuous active cost management and review.

#### **Accretively Grow our Residential**

##### **Real Estate Portfolio in Germany**

We plan to take advantage of the trend of cities, municipalities and corporations selling their residential housing stock by targeting both smaller-sized as well as large portfolio acquisitions in Germany. We will pursue acquisitions which will be earnings accretive and our acquisition strategy



will continue to focus on reasonably priced residential portfolios where we can improve cash flow and earnings through integration and realization of synergies. Our current goal is to acquire approximately €1.4 billion of residential real estate per year. We expect to finance our acquisitions by using cash available and, when required, the proceeds of equity issuances and long-term fixed-rate financing.

#### **Add Incremental Earnings through Reinvestment of Privatization Proceeds**

We will selectively sell individual apartments to current tenants and investors and reinvest the proceeds in new apartments where deemed economically advantageous, i. e., where the privatization of units and reinvestment of the proceeds generates higher returns than holding the assets. However, our business plan is not predicated on selling individual apartment units and we are currently targeting to sell approximately 1 % – 1.5 % of our stock to tenants or investors per year.

**Use Financial Leverage to Enhance our Return on Equity, our Earnings per Share and our Funds from Operations per Share**  
The stability of residential real estate as an asset class together with our access to low-cost long-term fixed-rate debt financing provides us with an attractive opportunity to use significant financial leverage to enhance our return on equity, our earnings per share and our FFO per share as the yield on our asset portfolio exceeds our cost of capital.

## **Operations**

### **REAL ESTATE MANAGEMENT**

Our operational network is structured to operate and manage our portfolio in an efficient manner. We operate through a streamlined operational network with six regional offices in Dresden, Essen, Berlin, Hamburg, Hanover and Frankfurt am Main, 33 local customer centers and approximately 490 on-site caretakers throughout Germany. Each customer center services approximately 5,000 apartments and is in close proximity to its dedicated portfolio and

tenants. Responsibilities include rent collection, maintenance contracting, new leases, lease resolutions and lease renewals and other property management tasks. On average, our customer centers conclude approximately 17,000 new leases per year. Our on-site caretakers are responsible for maintenance, small repairs and other smaller facility management tasks. Our network of customer centers and caretakers provides us with real-time information and direct knowledge of the needs and behavior of our tenants which supports our continuous efforts to retain existing tenants and attract new tenants. This level of market knowledge allows us to maintain an in-depth knowledge of the regional residential markets in Germany. All our corporate functions, such as information technology, human resources, accounting, controlling, finance and purchasing, have been centralized.

### **ACQUISITIONS**

Since IPO, we have acquired or committed to acquire 17,007 units for a total consideration of approximately €1 billion.

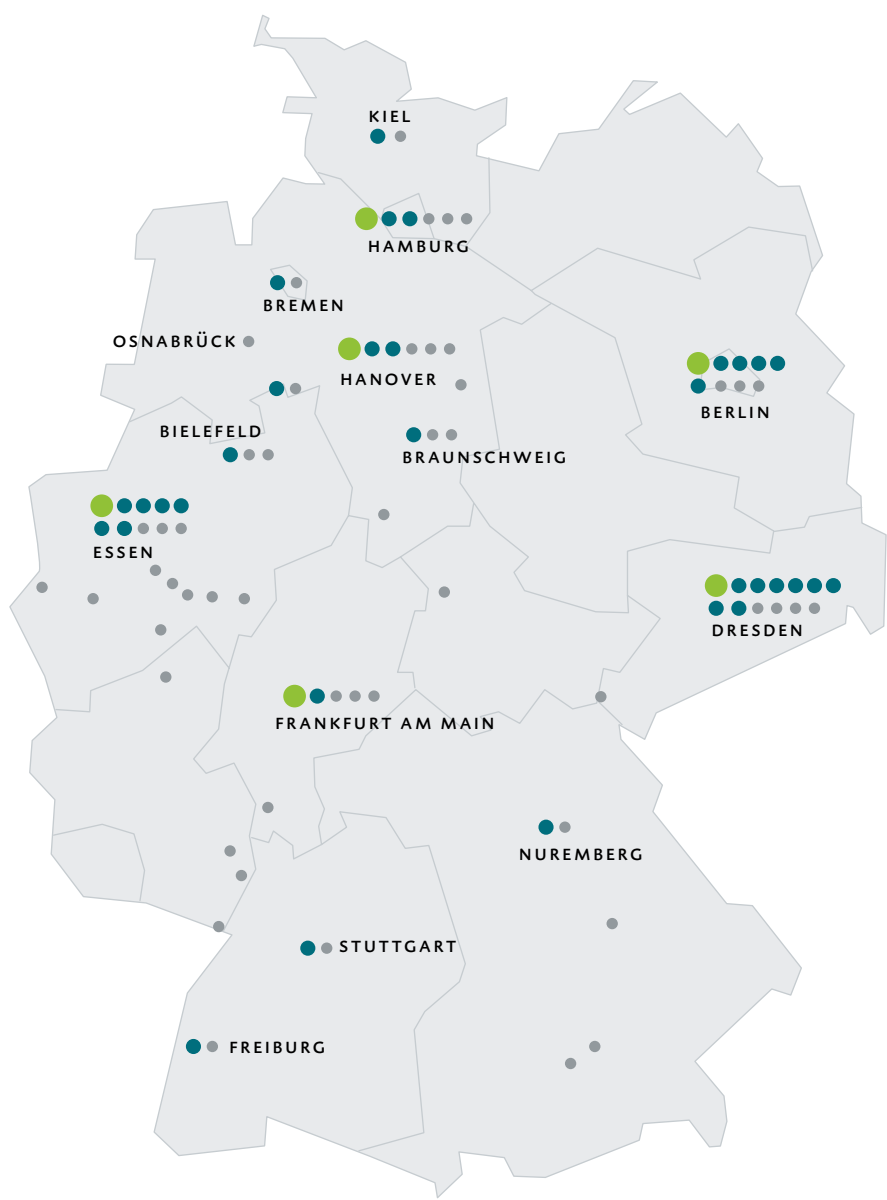
### **PRIVATIZATIONS**

In 2006, we privatized 1,073 units with the main focus in Berlin. Approximately 64 % of the units were sold to tenants, 10 % to investors and 26 % to new owner-occupiers. To facilitate the purchase of units by our customers, we cooperate with local banks for individual loan schemes.

## **Our Portfolio**

Our portfolio is characterized by a stable tenant base with an average current tenant tenure of approximately twelve years and an occupancy rate of 94 %. The average apartment size is 60 square meters with an average rent of €286 per month. Our residential property portfolio includes approximately 25,500 publicly subsidized rent restricted apartments.

# Our Operational Network



● REGIONAL OFFICES ● CUSTOMER CENTERS ● CARETAKERS

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

as of December 31, 2006

	Units	In % of Total	Rental Area sqm	Avg. Unit Size sqm	In-place Rent Annualized in € million	In % of Total	In-place Rent mo / sqm (€)	Vacancy %	Avg. Year Built
GAGFAH GmbH	75,756	50.0	4,621,579	61	278.4	54	5.02	2.3	1957
WOBA GmbH	42,875	28.3	2,421,669	56	126.8	24	4.36	11.8	1964
NILEG GmbH	26,246	17.3	1,608,894	61	91.5	18	4.74	4.5	1958
Acquisition 1 GmbH	6,489	4.3	420,281	65	21.1	4	4.19	10.1	1962
<b>Grand Total</b>	<b>151,366</b>	<b>100</b>	<b>9,072,423</b>	<b>60</b>	<b>517.9</b>	<b>100</b>	<b>4.76</b>	<b>5.7</b>	<b>1960</b>

Our portfolio is located in over 300 towns and cities across Germany, with significant concentrations only in Berlin and Dresden. The following table illustrates,

inter alia, the geographic spread of our residential portfolio as of December 31, 2006:

Top 20 Cities	Units	% of Total	Rental Area sqm	Avg. Unit Size sqm	In-place Rent Annualized	% of Total	In-place Rent mo / sqm (€)	Vacant %
Dresden	42,875	28.3	2,421,669	56	126.8	24.5	4.36	11.8
Berlin	22,593	14.9	1,319,070	58	69.3	13.4	4.38	1.4
Hamburg	10,171	6.7	640,549	63	39.0	7.5	5.08	1.1
Hanover	5,509	3.6	345,023	63	21.5	4.1	5.19	5.1
Bielefeld	4,175	2.8	276,718	66	13.9	2.7	4.20	1.1
Osnabrück	3,600	2.4	223,895	62	12.7	2.5	4.75	2.6
Braunschweig	2,816	1.9	168,319	60	9.9	1.9	4.89	2.9
Cologne	2,442	1.6	185,691	76	13.4	2.6	6.02	2.9
Essen	2,392	1.6	157,254	66	9.6	1.9	5.11	8.1
Freiburg	1,981	1.3	131,975	67	8.6	1.7	5.46	0.9
Frankfurt am Main	1,913	1.3	106,953	56	8.8	1.7	6.85	0.3
Düsseldorf	1,722	1.1	100,334	58	7.7	1.5	6.40	1.6
Iserlohn	1,669	1.1	105,675	63	5.5	1.1	4.36	4.1
Bonn	1,452	1.0	99,229	68	6.4	1.2	5.42	3.4
Duisburg	1,424	0.9	96,007	67	5.0	1.0	4.32	15.4
Leverkusen	1,404	0.9	89,835	64	5.7	1.1	5.29	1.3
Mannheim	1,345	0.9	80,890	60	5.2	1.0	5.37	0.8
Nuremberg	1,341	0.9	75,431	56	5.1	1.0	5.58	3.1
Göttingen	1,311	0.9	74,802	57	4.4	0.9	4.94	3.7
Dortmund	1,303	0.9	89,831	69	5.0	1.0	4.64	0.8
<b>Subtotal Top 20 Cities</b>	<b>113,438</b>	<b>74.9</b>	<b>6,789,151</b>	<b>60</b>	<b>383.8</b>	<b>74.1</b>	<b>4.71</b>	<b>5.9</b>
Other Cities	37,928	25.1	2,283,272	60	134.1	25.9	4.89	5.0
<b>Grand Total</b>	<b>151,366</b>	<b>100.0</b>	<b>9,072,423</b>	<b>60</b>	<b>517.9</b>	<b>100.0</b>	<b>4.76</b>	<b>5.7</b>

1) core units



With over 168,000 residential units,  
we are the largest pure-play residential  
housing company listed in Germany.

Duisburg-Duisern

## Our Industry

### FAVORABLE MACROECONOMIC CONDITIONS

The German economy has started to recover, evidenced by the GDP growth rate of 2.7 % in 2006, compared to 0.9 % in 2005. Gross domestic product of Germany is forecast to grow by 1.8 % in 2007. We believe our business will benefit from the recovery of the German economy.

### THE REAL ESTATE MARKET IN GERMANY

Germany has the largest residential property stock in Europe and is comprised of 39.4 million dwelling units of which 80.4 % are in the western German states and western Berlin, and 19.6 % in the former East Germany. Approximately 58 % are rented apartments and 42 % are owner-occupied. Our target market comprises municipal housing and other communal housing as well as corporations, banks, and insurance companies.

### OWNERSHIP OF RENTAL UNITS

Private investors	13.8 m	35.1 %
Municipal housing & other communal housing	3.7 m	9.4 %
Building cooperatives	2.3 m	5.8 %
Housing enterprises	2.6 m	6.6 %
Others	1.7 m	4.5 %
Owner-occupied	15.1 m	38.6 %
<b>Total</b>	<b>39.2 m</b>	<b>100.0 %</b>

Innova Research: Der Deutsche Wohnimmobilienmarkt – Status Quo und Ausblick – Initiative Immobilienaktie Oktober 2006;  
German Federal Statistics Office

Residential rental apartments in Germany are characterized by a stable tenant base with an average tenancy of almost ten years and a low vacancy rate of 4.3 %, partly due to the low supply of new housing.

Since 2004, the residential real estate market in Germany has experienced a large increase in transactions. We expect this trend to continue as local governments monetize their property portfolios as a result of budget constraints and German corporations continue seeking the release of capital concentrated in non-core businesses.

### DEVELOPMENT OF HOUSING SALES AND RENTAL PRICES

Since the mid-1990's, residential real estate prices in Germany have decreased slightly whereas most other European countries and the US have experienced substantial increases. Apartment rents in Germany as a national average increased only slightly from €6.00 per square meter in 1995 to €6.19 per square meter in 2006. Under corporate and public ownership, apartment rents are often below market levels as these owners are focusing on providing low-cost housing, and rents are often subject to rent restrictions.

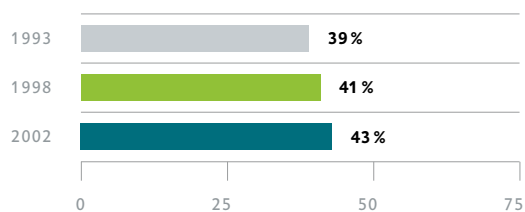
### LOW, BUT GROWING HOME OWNERSHIP RATE

The home ownership rate of approximately 43 % in Germany is one of the lowest in Western Europe and well below the EU average of 66 %.

We expect the structure of the German housing industry to change over the medium term with local governments and corporations selling more of their residential property stock and public subsidies running out. We believe that this will lead to an increase of rents to market levels and an increased investment in residential real estate by owner-occupiers.



#### GERMAN HOME OWNERSHIP

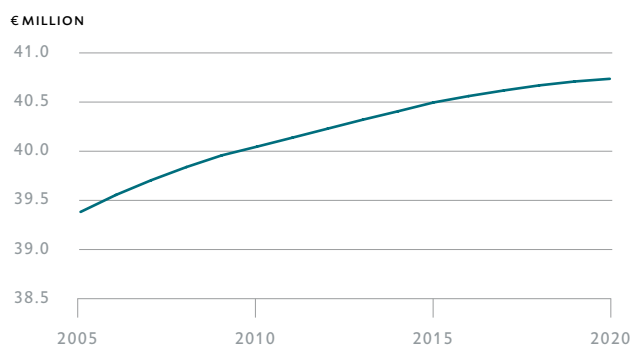


Source: German Federal Office for Building and Regional Planning

#### CHANGE IN STOCK OF RESIDENTIAL HOUSING UNITS IN GERMANY

Over the past ten years, the construction of units in buildings with three or more units (net of units becoming obsolete) decreased by 95 % from 275,862 units in 1994 to 14,451 units in 2005. The decline in the construction of new residential housing units is largely attributable to high construction costs, the scarcity of land available for construction, low risk-adjusted returns for developers and strict regulations, particularly regarding building construction.

#### GERMAN HOUSEHOLD INCREASES



Source: German Federal Office for Building and Regional Planning

#### NUMBER OF HOUSEHOLDS EXPECTED TO GROW

Germany has been and is facing substantial demographic changes. Although the German Federal Office for Building and Regional Planning projects that due to aging, the population of Germany will decline in the very long run, current projections do not anticipate a material decline of the German population until at least 2020. They do, however, anticipate an increase in the number of households in Germany by 1.3 million households or 3.4 % between 2005 and 2020 and therefore an increase in the demand for residential units. This is mainly due to a substantial reduction of household sizes and increased living space utilized per person as well as other social factors such as increasing divorce rates and people starting families later in life. We expect these trends to have a positive impact on residential property rents and unit price growth.

# Consolidated Report on Audited Accounts

For 2006, GAGFAH S.A. is reporting the comparative results of operations and financial position for 2006 and 2005 for both the audited annual accounts and the pro forma accounts.

The Report on the Consolidated Audited Accounts (beginning at page 25) reflects the Group's comparative results based upon the actual audited financial figures as the Group has grown through acquisitions, restructuring and operational improvements. As such, the comparison of actual audited financial figures results for 2006 indicates drastic improvements as compared to 2005 due to improvements

related to the one-time effects of the formation, combinations, integration and restructurings of the Group companies. The 2006 financial figures include most of the results of the Group's acquisitions, restructuring and operational improvements, while the 2005 financial figures include only partial year results for the NILEG Group and virtually no effect for the WOBA and Acquisition 1 Groups, which were acquired in 2006 or partially at the end of 2005 and many of the costs of the restructurings. The table below indicates the inclusions of operations of the Group's companies in the actual audited financial figures for 2006 and 2005, as follows:

	2006	2005
GAGFAH GmbH Group, GAG ACQ, UC ACQ	Full Year	Full Year
NILEG GmbH Group	Full Year	Aug-01–Dec-31
WOBA GmbH Group	Since April 5	
ACQUISITION 1 GmbH	Full Year	Dec-01–Dec-31
GAGFAH S.A.	Full Year	Jul-12–Dec-31

It should be noted that the income statement for 2005 has been restated to include the full year's income statement of the GAGFAH GmbH Group, which joined our Group in September 2006. The GAGFAH GmbH Group is the largest of the Group's affiliated companies and the 2005 income statement of the consolidated Group is required to be restated to include the full year results of the GAGFAH GmbH Group.

The Report on the Consolidated Pro Forma Accounts (beginning at page 29) reflects the comparative results for the Group, taking into account the financial figures as if the Group had existed in its present form during 2006 and 2005. As such, the pro forma financial figures are based upon a com-

parably sized and capitalized consolidated company for both years. The comparisons of the pro forma financial figures are therefore more indicative of the operational results of the continuing operations achieved during the periods.

This Report on the Consolidated Audited Accounts is a comparison of the actual audited financial figures for 2006 and 2005, including the effects of acquisitions, restructurings and operational changes. Management has also included the Report on the Consolidated Pro Forma Accounts (beginning at page 31) to isolate the results of changes to continuing operations for 2006 and 2005. Key financial figures from the audited accounts are as follows:

## KEY FIGURES FROM THE AUDITED REPORT

€ MILLION

	2006	2005 (restated)
<b>Profit from the leasing of investment property</b>	<b>366.7</b>	<b>229.8</b>
<b>Profit / loss from the sale of investment property</b>	<b>22.6</b>	<b>– 2.5</b>
<b>Profit from operations</b>	<b>336.8</b>	<b>193.4</b>
<b>EBIT</b>	<b>337.1</b>	<b>192.5</b>
<b>EBITDA</b>	<b>383.4</b>	<b>265.4</b>
<b>FFO</b>	<b>147.4</b>	<b>19.5</b>

# Comments on Consolidated Income Statement

## PROFIT FROM THE LEASING OF INVESTMENT PROPERTY INCREASED BY 60%

Profit from the leasing of investment property rose by 60 % compared to the previous year. For 2006, the result from the leasing of investment property is computed as follows:

€ MILLION	12-31-2006	12-31-2005 (restated)
Income from the leasing of investment property	774.9	502.9
Less:		
Transferable leasehold land interest	-2.1	-2.3
Operating expenses for the generation of rental income	-406.1	-270.8
<b>Profit from the lease of investment property</b>	<b>366.7</b>	<b>229.8</b>

The strong rise in the results is mainly due to a 54 % increase in rental income, whereas our operating expenses increased by 50 %. The major source for those increases is the acquisition of WOBA GmbH in April 2006 with a rental income of €138.6 million and operating expenses of €77.5 million for the period from April to December 2006. Similarly, the NILEG full year inclusion in 2006 also contributed to such increases.

## PRIVATIZATIONS PROVE SUCCESSFUL

In 2006, we sold 1,073 units as compared to 465 units in 2005. Privatization sales represent less than 1 % of our total portfolio.

In 2006, profit from the sale of investment property was approximately €22.6 million compared to a loss of €2.5 million in 2005.

In connection with portfolio optimization, we sold non core assets for a total consideration of €43.0 million and a margin of 4.2 %.

## SIGNIFICANT GROWTH FROM MEASUREMENT AT FAIR VALUE

As of December 31, 2006, our IAS 40 valuations for the investment properties indicated a net increase to the values of our investment properties of €57.5 million over the values of our investment properties as of December 31, 2005.

## OTHER NET OPERATING EXPENSE INCREASED

Other operating income and expense (net expense) for our Group was a net expense of €70.2 million in 2006 while the Group's other operating expenses were €33.8 million in 2005. The result from other services is mainly derived from third-party real estate management. The other operating income is mainly due to income of the reversal of provisions.

€ MILLION	12-31-2006	12-31-2005 (restated)
Profit / loss from other services	7.9	-0.4
Selling expenses	-14.1	-6.3
General and administrative expenses	-52.0	-51.6
Expenses for share-based remuneration	-20.4	
Other operating income	25.7	38.1
Other operating expenses	-17.3	-13.6
<b>Total</b>	<b>-70.2</b>	<b>-33.8</b>

## PROFIT FROM OPERATIONS BEFORE

## RESTRUCTURING EXPENSES INCREASED BY 44%

Our Group's profit from operations before restructuring expenses is the sum of the following items:

€ MILLION	12-31-2006	12-31-2005 (restated)
Profit from the leasing of investment property	366.7	229.8
Profit/loss from the sale of investment property	22.6	– 2.5
Profit from fair value measurement	57.5	67.4
Other operating income and expenses (net expense)	– 70.2	– 33.8
<b>Profit from operations before restructuring expenses</b>	<b>376.6</b>	<b>261.0</b>

#### RESTRUCTURING EXPENSES DOWN BY 41%

Restructuring expenses relate to our Group's rationalization of costs and integration of processes as we continue to combine operations of the acquired companies and portfolios. As the majority of the restructuring had been completed in 2005, we were able to reduce our restructuring costs in 2006 by 41 %, down to €39.8 million.

#### SIGNIFICANT GROWTH OF EARNINGS BEFORE INTEREST AND TAXES (EBIT)

In 2006, our EBIT was approximately €337.1 million, while we had an EBIT of €192.5 million in 2005.

#### NET FINANCING EXPENSE DOWN BY 50% BECAUSE OF DECREASED INTEREST EXPENSE

Net financing expense decreased by 50 % from €– 315.6 million to €–156.0 million, mainly as a result of a debt refinancing, which included one-time refinancing costs.

#### STRONG GROWTH IN NET PROFIT

In 2006, we had a net profit of €142.8 million compared to a net loss in 2005 of €193.1 million.

#### STRONG GROWTH IN EBITDA

EBITDA is earnings before interest, taxes, depreciation and amortization and non-recurring items, such as restructuring expenses. The following is a reconciliation of EBIT to EBITDA for our Group:

€ MILLION	12-31-2006	12-31-2005 (restated)
<b>EBIT</b>	<b>337.1</b>	<b>192.5</b>
Plus:		
Restructuring expenses	39.8	67.5
Depreciation and amortization	6.5	5.4
<b>EBITDA</b>	<b>383.4</b>	<b>265.4</b>

#### SIGNIFICANT GROWTH IN FUNDS FROM OPERATIONS (FFO)

Funds from operations, or FFO, is a non-IFRS financial measure that our Group's management uses to report the funds generated from continued operations. FFO is used as a measure of our Group's generation of funds for investment and the payment of dividends to shareholders. Our principle objectives are to grow our FFO and to pay out a substantial portion of our FFO in the form of quarterly dividends.



FFO is computed as EBITDA net of the profit from measurement of the investment properties at fair value, net interest paid to third parties and current income tax expense. The following is a reconciliation of EBITDA to FFO as of December 31, 2006, and 2005 for our Group:

€ MILLION	12-31-2006	12-31-2005 (restated)
<b>EBITDA</b>	<b>383.4</b>	<b>265.4</b>
Less:		
Profit from fair value measurement	– 57.5	– 67.4
Realized valuation through sales	1.0	0
Expenses for share-based remuneration	20.4	0
Interest income (periodical)	9.1	3.7
Interest expenses (periodical)	– 218.3	– 180.5
Taxes paid	2.1	– 1.7
IPO costs	7.2	0
<b>FFO</b>	<b>147.4</b>	<b>19.5</b>

## Discontinued Operations

The GAGFAH Group is pursuing a long-term investment strategy with a focus on residential housing in Germany.

We therefore decided to sell our commercial real estate and development segment.

In 2006, commercial properties were sold for a total price of approximately €156 million.

## Financial Position

### GROUP CAPITALIZATION

	12-31-2006 € MILLION	12-31-2006 %	12-31-2005 € MILLION (restated)	12-31-2005 %
Equity	2,396.5	27.74	1,562.7	23.74
Financial liabilities	5,617.5	65.04	4,353.0	66.11
Other liabilities	623.6	7.22	668.5	10.15
<b>Total equity and liabilities</b>	<b>8,637.6</b>	<b>100.00</b>	<b>6,584.2</b>	<b>100.00</b>

As of December 31, 2006 and 2005, the Group's equity and liabilities were as follows:

Financial liabilities total €5,617.5 million (prior year: €4,353.0 million). Of this, €5,508.3 million (prior year: €4,266.1 million) relates to non-current liabilities and €109.2 million (prior year: €86.9 million) to current liabilities.

Liabilities to banks total €5,531.4 million (prior year: €4,201.0 million) and mainly relate to liabilities from the financing of acquisitions. Related transaction costs of €21.2 million (prior year: €11.2 million) from raising financial liabilities are amortized.

In order to eliminate the risk of interest rate fluctuations during the loan terms, we have hedged the interest rate cost of the facilities through interest rate swaps. In order to measure these risks, GAGFAH Group has established a finance and risk management system. The instruments used for limiting the financial risks are described in the notes.

The Group was able to meet its payment obligations at all times. The full cash flow statements for the fiscal year 2006 are described in the notes.

## Net Assets

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

€ MILLION	12-31-2006	12-31-2005 (restated)
Non-current assets	7,879.1	5,986.6
Current assets	758.5	597.6
<b>Total assets</b>	<b>8,637.6</b>	<b>6,584.2</b>
Equity	2,396.5	1,562.7
Non-current liabilities	5,880.2	4,548.1
Current liabilities	360.9	473.4
<b>Total equity and liabilities</b>	<b>8,637.6</b>	<b>6,584.2</b>

Non-current assets amount to €7,879.1 million of which 97.2 % relate to investment property of €7,659.8 million and 0.8 % to property, plant and equipment of €63.0 million. Non-current assets make up 91.2 % of total assets (€8,637.6 million).

Current assets amount to €758.5 million, of which 16.8 % is comprised of inventories of €127.4 million and 48.4 % is cash and cash equivalents (€367.0 million). Assets of discontinued operations make up 2.1 % (€15.9 million) of current assets.

Non-current liabilities of €5,880.2 million as of the balance sheet date were mainly comprised of financial liabilities of €5,508.3 million and deferred tax liabilities of €130.1 million. Non-current provisions of €133.7 million had been recognized as of the balance sheet date, of which €103.0 million relates to pension obligations.

### EVENTS AFTER THE BALANCE SHEET DATE

On November 9, 2006, GBH Acquisition GmbH, a wholly owned subsidiary of GAGFAH S.A., signed five purchase agreements to acquire 6,248,902 shares of Grundstücks- und Baugesellschaft Aktiengesellschaft, Heidenheim (GBH AG), i.e. 86.8 % of the shares issued by GBH AG. The purchase price amounts to €48.0 per share. Furthermore, for the dividends payable for fiscal year 2006, the sellers of the shares receive a compensation payment of €0.35 per share. On January 4, 2007, all the preconditions of the purchase were fulfilled and the transfer of the shares to GBH Acquisition GmbH became effective.

On December 15, 2006, GBH Acquisition GmbH made a tender offer for the residual shares at a purchase price of €49.35 per share. As of February 23, 2007, the GBH Acquisition GmbH owned 6,658,232 shares or about 92.5 % of the shares issued by GBH AG.

As of the end of 2005, the GBH Group with its subsidiaries owned 9,019 residential units and 64 commercial units.

On December 22, 2006, the Blitz Bo6-615 GmbH (a wholly owned subsidiary of GAGFAH S.A., whose name will be changed to "GAGFAH Acquisition 3 GmbH") and the GAGFAH M Immobiliengesellschaft mbH ("GAGFAH M") submitted an offer to the shareholders of Apellas Property Holding GmbH ("APH") to purchase APH's shares as well as certain shareholder's loans. On January 9, 2007, the sellers accepted such offer. The purchase agreement contained several conditions precedent all of which were fulfilled on February 7, 2007. According to the purchase agreement, GAGFAH Acquisition 3 GmbH acquired 94.8 % of APH's shares as well as all shareholder's loans. GAGFAH M acquired the remaining 5.2 % of the shares. The GAGFAH S.A. subsidiaries acquired approximately 4,900 units from the apellas Group.

### Disclosure regarding Article 11 (3) of the Law of May 19, 2006, on Takeovers

Information regarding section a) of the law (structure of capital) can be found on pages 46 and 47 of this report.

Information regarding section c) of the law (significant direct and indirect shareholdings) can be found on pages 40 and 124 of this report.

Information regarding section h) of the law (rules governing the appointment and replacement of board members and the amendment of the Articles of Incorporation) can be found on pages 10 and 11 of this report.

Information regarding section i) of the law (issue and buy-back of shares) can be found on page 11 of this report.

The company is not aware of any issues regarding sections b), d), e), f), g), j) and k) of Article 11 of the Law on Takeovers.

## Outlook

We believe that our financial and trading prospects remain favorable based on our potential acquisition pipeline and continued improvements to the performance of the existing portfolio.

## Forward-looking Statements

This annual report contains statements and information pertaining to the future. These forward-looking statements can be identified through formulations such as "expect", "anticipate", "intend", "will" and other such terms. Such forecasts are based on our present expectations and specific assumptions. They thus harbor a number of risks and uncertainties. Should the underlying assumptions prove incorrect, the actual results could deviate positively or negatively from those projected in the forward-looking statements as expected, anticipated, intended, supposed, or estimated results.

Luxembourg, February 23, 2007

The Board of Directors of GAGFAH S.A.

# GAGFAH Group – Pro Forma Operational Performance

This Report on the Consolidated Pro Forma Accounts is based upon the consolidated pro forma income statements of the GAGFAH S.A. Group for the years ended December 31, 2006 and 2005. Since our Group is the result of acquisitions and corporate combinations occurring at various times since September 2004, with significant acquisitions of the NILEG GmbH Group in 2005, the WOBA GmbH Group in 2006 and the Acquisition I assets in 2005 and 2006, comparisons of historical accounting results (as in the Report on the Consolidated Audited Accounts beginning at page 25) indicate the combined improvements to the Group from both capitalization and operations. Consequently, we use pro forma financial figures to provide com-

parable results for continuing operations. This Report on the Consolidated Pro Forma Accounts (beginning at page 31) reflects the comparative results for the Group, taking into account the financial figures as if the Group had existed in its present form during 2006 and 2005. As such, the pro forma financial figures are based upon a comparably sized and capitalized consolidated company for both years. The comparisons of the pro forma financial figures are therefore more indicative of the operational results of the continuing operations achieved during the periods. The financial highlights and the pro forma consolidated income statement on the two following pages indicate the development of operations of the Group in 2006 and 2005.

## SUCCESSFUL BUSINESS DEVELOPMENT IN 2006

Costs per unit decreased from €555 in 2005 to

**€486**

Net cold rent up by

**€1.2 %** (residential same-store basis)

Vacancy reduced from 6.6 % to

**5.7 %** (residential)

Units privatized

**1,073**

Profit from the leasing of investment property increased by €46.2 million to

**€386.5 million**

Profit from the sale of investment property increased by €24.7 million to

**€24.5 million**

Profit from fair value measurement increased by €24.5 million to

**€65.5 million**

EBIT increased by €138.3 million to

**€372.4 million**

EBITDA increased by €110.1 million to

**€418.9 million**

EPS (225,5 million shares outstanding) increased by €2.10 to

**€0.68**

EPS (weighted average number of shares) increased by €2.18 to

**€0.74**

Funds from operations (FFO) increased by €163.6 million to

**€165.4 million**

FFO per share (225,5 million shares outstanding) increased by €0.72 to

**€0.73**



# Consolidated Income Statement

## Pro Forma

€ MILLION	2006	2005
Income from the leasing of investment property	823.2	779.4
Transferable leasehold land interest	– 2.1	– 2.5
Operating expenses for the generation of rental income	– 434.6	– 436.6
<b>Profit from the leasing of investment property</b>	<b>386.5</b>	<b>340.3</b>
Income from the sale of investment property	159.1	150.0
Carrying amount of the investment property sold	– 134.6	– 150.2
<b>Profit / loss from the sale of investment property</b>	<b>24.5</b>	<b>– 0.2</b>
Unrealized gains from fair value measurement	605.5	316.1
Unrealized losses from fair value measurement	– 540.0	– 275.1
<b>Profit from fair value measurement</b>	<b>65.5</b>	<b>41.0</b>
Profit / loss from other services	8.7	– 4.6
Selling expenses	– 14.2	– 8.5
General and administrative expenses	– 54.4	– 86.4
Expenses for share-based remuneration	– 20.4	0
Other operating income	33.2	44.9
Other operating expenses	– 17.5	– 19.2
<b>Profit from operations before restructuring</b>	<b>411.9</b>	<b>307.3</b>
Restructuring expenses	– 39.8	– 67.4
<b>Profit from operations</b>	<b>372.1</b>	<b>239.9</b>
Profit / loss from other financial assets	0.3	– 5.8
<b>Earnings before interest and taxes (EBIT)</b>	<b>372.4</b>	<b>234.1</b>
Interest expense (periodical)	– 231.2	– 268.2
Allocation to liabilities received from the shareholders	1.0	0
Interest income (periodical)	9.5	7.2
Interest (refinancing)	– 12.9	– 143.1
Profit from the fair value measurement of derivatives	74.7	0.4
<b>Profit / loss from continued operations before taxes</b>	<b>213.5</b>	<b>– 169.6</b>
Income taxes on continued operations	– 36.3	– 3.5
<b>Profit / loss from continued operations</b>	<b>177.2</b>	<b>– 173.1</b>
<b>Loss from discontinued operations before taxes</b>	<b>– 17.6</b>	<b>– 79.3</b>
Income taxes on discontinued operations	0.1	– 0.4
<b>Loss from discontinued operations</b>	<b>– 17.5</b>	<b>– 79.7</b>
<b>Profit / loss for the year</b>	<b>159.7</b>	<b>– 252.8</b>
Thereof attributable to:		
Minority interests	7.3	3.1
Shareholders of the parent company	152.4	– 255.9
Weighted average number of shares	206,871,679	177,985,467
<b>Earnings per share (in € per share – weighted average number of shares)</b>	<b>0.74</b>	<b>– 1.44</b>
<b>Earnings per share (in € per share – 225.5 million shares outstanding)</b>	<b>0.68</b>	<b>– 1.42</b>
<b>FFO (in € per share – weighted average number of shares)</b>	<b>0.80</b>	<b>0.01</b>
<b>FFO (in € per share – 225.5 million shares outstanding)</b>	<b>0.73</b>	<b>0.01</b>

**PROFIT FROM THE LEASING OF INVESTMENT  
PROPERTY INCREASED BY 14%**

The profit from the leasing of investment property rose by 14 % compared to the previous year on a pro forma basis. It represents the excess of income from the leasing of investment property over the related operating expenses for the generation of rental income. Our pro forma profit from the leasing of investment property is the primary component of our result from operations, since approximately 94 % of our income is derived from the leasing of investment property. Pro forma profit from the leasing of investment property is computed as follows for 2006:

€ MILLION (PRO FORMA)	12-31-2006	12-31-2005
Income from the leasing of investment property	823.2	779.4
Less:		
Transferable leasehold land interest	– 2.1	– 2.5
Operating expenses for the generation of rental income	– 434.6	– 436.6
<b>Profit from the leasing of investment property</b>	<b>386.5</b>	<b>340.3</b>

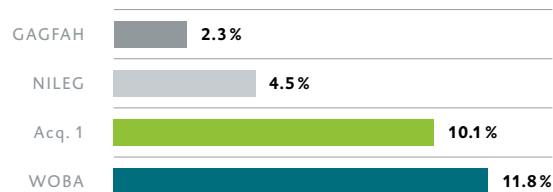
**INCOME FROM THE LEASING OF INVESTMENT  
PROPERTY UP BY 6%**

Our strategy is to raise rents to market levels while maintaining occupancy. Rents are continuously evaluated against market levels and adjusted over time.

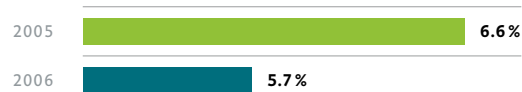
Income from the leasing of investment property includes net cold rent, income from recoverable expenses from tenants, and rent from subsidized apartments. In 2006,

our pro forma income from the leasing of investment property was €823.2 million, up 6 % over the previous year. Approximately 70 % of such income was attributable to net cold rent. Charges to tenants for recoverable expenses represented approximately 29 %. Growth of income from the leasing of investment property was mainly driven by raising rents closer to market levels, by acquisitions, by higher income from recoverable expenses and by the lease up of 1,275 residential units. Lease-up activities contributed to the reduction of vacancies of all Group companies as shown below:

**RESIDENTIAL VACANCY RATES AS OF DEC. 31, 2006**



**GROUP VACANCIES 2005 AND 2006**



Specific lease-up programs have been established at WOBA, including the implementation of a dedicated brokerage team, the introduction of an incentive compensation program to reward employees for vacancy reduction and aggressive advertising.

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

In 2006, our pro forma operating expenses for the generation of rental income totaled €434.6 million, a slight decrease from 2005. Operating expenses for the generation of rental income is composed of real estate operating expenses, maintenance costs, personnel expenses for operational staff (e.g. total staff of Property Management in Customer Centers), real estate taxes, real estate management expenses, write-offs of tenant receivables, administrative expenses, as well as amortization and depreciation of intangible and tangible operating assets.

Real estate operating expenses are primarily the costs for water, sewer and heating and in 2006 represented approximately 59 % of operating expenses for the generation of rental income. Maintenance costs, which in 2006 represented approximately 18 % of operating expenses for the generation of rental income, included small repairs and improvements to enhance and maintain the value of our portfolio.

Personnel costs, taxes and real estate management expenses in 2006 represented approximately 23 % of operating expenses for the generation of rental income.

54 % of the expenses for the generation of rental income is charged back to our tenants in the form of recoverables. This includes expenses such as heating, electricity, water, and sewage. Our cost base benefited from the reduced vacancy rate as we could allocate a larger proportion of our recoverable expenses to the newly leased apartments.

#### **SALE OF INVESTMENT PROPERTY REALIZED A MARGIN OF 11.5%**

In 2006, we sold 1,073 units in our privatization program. The privatized units in 2006 represent less than 1 % of our total portfolio. We sell apartments by dividing a rental building into residential units for sale. A dedicated internal team started in late 2005 to work on our target to sell 1 % – 1.5 % of our stock p. a. to existing tenants, new-owner occupiers and investors.

The result from the sale of investment property is the excess of income from the sale of investment property over the carrying amounts of the investment property sold. This is the primary income component of EBIT for real estate sales. In 2006, pro forma profit from the sale of investment property was €24.5 million (thereof €20.9 million from privatization), as compared to a loss of €0.2 million in 2005. We achieved a profit margin on IFRS book value plus sales and marketing costs and capital expenditure of 11.5 % for the year 2006. We intend to reinvest the proceeds from sales into new assets to increase the earnings base. The carrying amount of investment property sold is based upon fair value as a rental property.

#### OVERVIEW OF PRIVATIZATION RESULTS

	2006	2005
Privatized units	1,073	456
Privatized sqm	77,499	31,982

PRO FORMA 2006	€'000	€ per unit	€ per sqm
Gross disposition proceeds	112,558	104,900	1,452
Sales costs total (pro rata)	- 7,026	- 6,548	- 91
Book value	- 91,690	- 85,452	- 1,183
Realized revaluations	989	921	13
Capex new units (pro rata)	- 3,257	- 3,035	- 42
<b>Net profit</b>	<b>11,574</b>	<b>10,786</b>	<b>149</b>
<b>Net profit margin (pro rata)</b>		<b>11.5 %</b>	

#### INCREASED PROFIT FROM FAIR VALUE MEASUREMENT

The profit from fair value measurement is the net increase in the quarterly valuation of our investment properties. As of December 31, 2006, our IAS 40 valuations for the investment properties indicated a net increase of the pro forma values of our investment properties of €65.5 million over the values of our investment properties as of December 31, 2005.

Our fair market valuation module is based on a discounted cash flow valuation of each investment property. We calculate with an average discount rate of 5.69 %. The valuations of our investment properties are performed by us and are periodically verified by an independent third-party valuation.

#### RESULTS FROM OTHER OPERATING INCOME

##### AND EXPENSES (NET EXPENSE) IMPROVED

Other operating income and expenses (net expense) for our Group was a pro forma net expense of €64.6 million in 2006 compared to €73.8 million in 2005. The decrease of the net expense is mainly a result of the reduction of our general and administrative expenses of 37 % to €54.4 million. The profit from other services is mainly derived from third-party real estate management. Other operating income includes the reversal of provisions.

€ MILLION (PRO FORMA)	12-31-2006	12-31-2005
Profit / loss from other services	8.7	- 4.6
Selling expenses	- 14.2	- 8.5
General and administrative expenses	- 54.4	- 86.4
Expenses for share-based remuneration	- 20.4	0
Other operating income	33.2	44.9
Other operating expenses	- 17.5	- 19.2
<b>Total</b>	<b>- 64.6</b>	<b>- 73.8</b>

#### MANAGEMENT COSTS<sup>1)</sup> PER UNIT

2005	555 €
2006	486 €

1) G & A and personnel costs, excluding privatization and acquisition

We have reduced our management costs per unit from €555 in 2005 to €486 in 2006. Our costs to manage a unit are fully-loaded, including all managing costs except sales and acquisition costs.



#### PROFIT FROM OPERATIONS BEFORE RESTRUCTURING INCREASED BY 34%

Our Group's profit from operations before restructuring expenses is the sum of the following items:

€ MILLION (PRO FORMA)	12-31-2006	12-31-2005
Profit from the leasing of investment property	386.5	340.3
Profit/loss from the sale of investment property	24.5	-0.2
Profit from fair value measurement	65.5	41.0
Other operating income and expenses (net expense)	-64.6	-73.8
<b>Profit from operations before restructuring</b>	<b>411.9</b>	<b>307.3</b>

#### RESTRUCTURING EXPENSES DOWN BY 41%

Pro forma restructuring expenses relate to our Group's rationalization of costs and integration of processes as we continue to combine operations of the acquired companies and portfolios. In 2006, we integrated WOBA GmbH, GBH Garbsen, DAWAG, the LEG, FSB Freiburg and Öffentliche Versicherungen Braunschweig (ÖVB) portfolios. Restructuring costs comprise consulting fees, land register charges and severance and similar payments. In 2006, pro forma restructuring expenses were €39.8 million compared to €67.4 million in 2005. We expect the restructuring expenses to be less significant in 2007 unless we acquire large portfolios.

#### SIGNIFICANT GROWTH FOR EARNINGS BEFORE INTEREST AND TAXES (EBIT)

In 2006, our pro forma EBIT was approximately €372.4 million, while we had a pro forma EBIT of €234.1 million in 2005.

#### NET FINANCING EXPENSE DOWN BECAUSE OF DECREASED INTEREST EXPENSE

Net financing expense is the sum of interest expense on borrowings and the cost of refinancing of our Group's indebtedness, reduced by interest income and the profit from the fair value measurement of derivatives. The profit from the fair value measurement of derivatives is the mark-to-market of a portion of our interest rate swaps that are not considered to be hedges under IFRS. Our pro forma net financing expense for 2006 is the sum of the following items:

€ MILLION (PRO FORMA)	12-31-2006	12-31-2005
Interest expense (periodical)	-231.2	-268.2
Interest (refinancing)	-12.9	-143.1
Total interest expense	-244.1	-411.3
Interest income (periodical)	9.5	7.2
Allocation to liabilities received from shareholders	1.0	0
Result from the fair value measurement of derivatives	74.7	0.4
<b>Net financing expense</b>	<b>-158.9</b>	<b>-403.7</b>

In 2005, interest expenses were exceptionally high as a result of prepayment penalties for the restructuring of debt. The debt restructuring in 2005 has led to lower interest expense in 2006. Providing additional land charges as collateral for our financing has also contributed to lower interest expense.

#### **INCREASED PROFIT FROM CONTINUED OPERATIONS BEFORE TAXES**

In 2006, our Group's pro forma profit from continued operations before taxes was approximately €213.5 million, as compared to a loss of €169.6 million in 2005. The profit from continued operations before taxes is computed as EBIT of €372.4 million, reduced by net interest expense of €158.9 million.

#### **INCOME TAX EXPENSE FOR CONTINUED OPERATIONS**

Our pro forma income tax expense for continued operations was €36.3 million in 2006. Our current and deferred income tax expenses were as follows:

€ MILLION (PRO FORMA)	31-12-2006	31-12-2005
Current income tax expense	- 6.8	- 4.7
Deferred income tax benefit / (expense)	- 29.5	1.2
<b>Income tax expense</b>	<b>- 36.3</b>	<b>- 3.5</b>

Income tax expense for discontinued operations is reflected in the loss from discontinued operations.

#### **RESULT AFTER TAXES FROM CONTINUED OPERATIONS IMPROVED SIGNIFICANTLY**

In 2006, our pro forma result from continued operations was €177.2 million, computed as profit from continued operations before taxes of €213.5 million less income tax expense of €36.3 million in 2006. In 2005, our pro forma loss was €173.1 million.

#### **LOSS FROM DISCONTINUED OPERATIONS IMPROVED TO €17.5 MILLION**

Loss from discontinued operations is the net result after income taxes relating to our Group's discontinued property development business. In 2006, we had a pro forma loss from discontinued operations of €17.5 million.

#### **NET PROFIT SIGNIFICANTLY UP**

Our pro forma net profit is computed as the sum of the profit or loss from continued operations and the loss from discontinued operations. In 2006, we had a pro forma net profit of €159.7 million, as compared to a loss of €252.8 million in 2005.

#### **GROWTH IN NET ASSET VALUE**

Total NAV of €2.421 billion was impacted by deferred taxes from IAS 40 valuation of €91 million. NAV per share increased from €9.28 at the end of 2005 to €10.73 at the end of 2006.

	31-12-2006	31-12-2005
Shareholders equity (€million)	2,330.0	2,091.7
Deferred taxes – IAS 40 (€million)	91.0	2.8
<b>NAV (€million)</b>	<b>2,421.0</b>	<b>2,088.9</b>
<b>NAV per share (€)</b>	<b>10.73<sup>1</sup></b>	<b>9.25</b>

1) based on 225.5 million shares

#### **STRONG EBITDA GROWTH**

EBITDA is earnings before interest, taxes, depreciation and amortization and non-recurring items, such as restructuring expenses. The following is a reconciliation of pro forma EBIT to pro forma EBITDA for our Group:

€ MILLION (PRO FORMA)	31-12-2006	31-12-2005
<b>EBIT</b>	<b>372.4</b>	<b>234.1</b>
Plus:		
Restructuring expenses	39.8	67.5
Depreciation and amortization	6.7	7.1
<b>EBITDA</b>	<b>418.9</b>	<b>308.7</b>

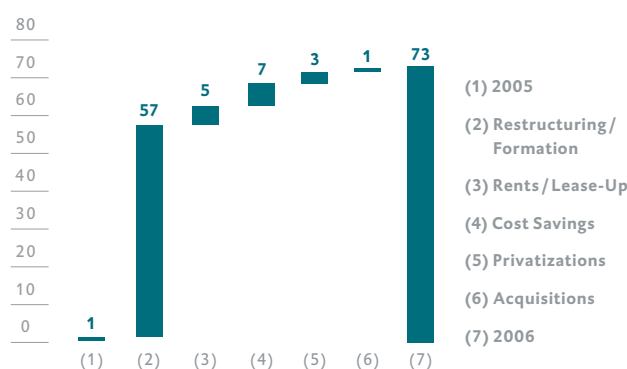
**SIGNIFICANT GROWTH IN****FUNDS FROM OPERATIONS (FFO)**

Funds from operations, or FFO, is a non-IFRS financial measure that our Group's management uses to report the funds generated from continued operations. FFO is used as a measure of our Group's generation of funds for investment and the payment of dividends to shareholders.

Our principle objectives are to grow our FFO and to pay out a substantial portion of our FFO in the form of quarterly dividends.

FFO is computed as EBITDA reduced by the profit from measurement of the investment properties at fair value, current interest income and expenses and current income tax expense and further non-recurring items, such as stock grants / options and IPO costs. The following is a reconciliation of pro forma EBIT to pro forma FFO as of December 31, 2006 and 2005 for our Group:

€ MILLION (PRO FORMA)	12-31-2006	12-31-2005
<b>EBITDA</b>	<b>418.9</b>	<b>308.7</b>
Less:		
Profit from fair value measurement	-65.5	-41.1
Realized valuation gain through sales	1.0	
Periodical net interest expense	-218.6	-261.1
Taxes paid	2.0	-4.7
IPO costs	7.2	0
Expenses for share-based remuneration	20.4	0
<b>FFO</b>	<b>165.4</b>	<b>1.8</b>
<b>FFO per share (in €)</b>	<b>0.73</b>	<b>0.01</b>

**SOURCES OF FFO PER SHARE (€ 0.01)**

Due to the restructuring / formation of our business in 2005, we benefitted in 2006 from a lower ongoing cost base.

**BREAKDOWN OF FFO DRIVERS**

Rents (same store)	Increased by 1.2 %
Vacancy	Decreased to 5.7 %
Cost savings <sup>1</sup>	Management costs per unit down by 12 %
Privatizations	Sold 1,073 units at a margin of 11.5 %
Acquisitions <sup>2</sup>	17,007 residential units

<sup>1</sup>) G & A and personnel costs, excluding privatization and acquisition

<sup>2</sup>) Acquisitions since IPO; income from acquisitions not fully reflected in 2006 financial statements.

# Employee Report

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The integration of GAGFAH and NILEG was implemented by far-reaching decisions and targeted change processes in fiscal year 2006. Our employees deliver customer-oriented services in five regions. The customer and service orientation of our employees is key to our successful operating business.

## **Management Structures**

All central administrative functions were combined at the headquarters in Essen during the integration of GAGFAH / NILEG. The assignment of central functions to our headquarters optimized our organizational and cost structures.

Key employees are incentivized by a performance-related remuneration system. A performance-related remuneration component based on agreed targets was introduced for senior executives in 2006. Its objective is to encourage a business-driven mindset and decisions, to increase responsibility, and to align the interests of our management with the interests of our shareholders. We believe that this modification of the remuneration system represents a significant contribution to reinforcing our performance-based culture, thus underpinning our business success for the long term. This is to be rolled out throughout the Company, i.e., to WOBA, and the employee level.

## **Employee and Executive Development**

We work to recruit qualified employees from our own workforce for new positions and new functions. The strong motivation of our employees and their interest in overarching issues are supported by professional development activities. In addition, we have also supported external study programs leading to the professional qualifications of Immobilienökonom (real estate economist) and Immobilienfachwirt (graduate in real estate management) so as to improve the career prospects and personal development of our employees. The goal and responsibility of our Human Resources department is to selectively further

expand human resources development so that our employees are excellently prepared to meet new challenges in the future.

## **Vocational Traineeships**

Commercial vocational traineeship programs have been systematically developed in the GAGFAH Group. The content of the new Immobilienkaufmann / -frau (real estate specialist) traineeship program, which was adapted to the needs of the market, has been successfully integrated into our internal traineeship process. The focus areas of real estate management and real estate sales were implemented nationwide in the regional territories. A total of 46 young people were employed as vocational trainees as of December 31, 2006. The GAGFAH Group successfully presented itself at the vocational training show in Essen in 2006 as an innovative company offering vocational training opportunities.

## **IPO**

We encouraged our employees to invest in our Company and offered a share grant to employees in conjunction with our IPO in 2006. This further reinforced their identification with the Company and its goals.

## **Our Thank You for Successful Cooperation**

We were only able to successfully shape 2006 by working together. We can be proud of this and would like to expressly thank all of our employees. It was their hard work and tremendous commitment that made this success possible in a rapidly changing environment.

The employee representative bodies supported this change and the integration of the companies in a process of open and critical dialog, thus contributing to our success. Management would like to thank the members of the Group and Central Works Council, the local Works Councils, the members of the Economic Committee, and the union workplace representatives for their hard work.



# GAGFAH Shares

## Share Development

The initial public offering of our shares was extremely well received by the market.

Shortly after the IPO, Deutsche Boerse, the German Stock exchange included our shares to the MDAX index, based on the fast-entry rule, as of December 18, 2006. Furthermore, the GAGFAH S.A. stock is now also a member of the EPRA, GPR, and other indexes.

On December 31, 2006, we had 225,515,377 shares issued and outstanding. Each share represents one vote and all shares are entitled to the same dividend.

### MAJOR SHAREHOLDERS

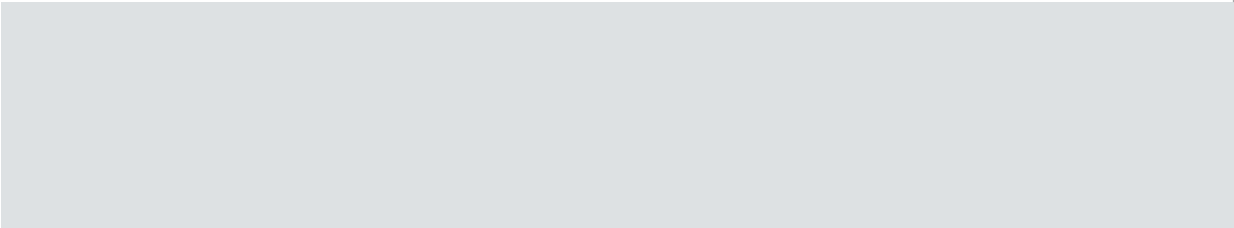
Shareholder	Number of Shares	%
Fortress Subsidiary (GAGACQ) LLC	26,060,607	11.58
Fortress Subsidiary (GAGACQ) Investors (Cayman) Ltd.	25,574,777	11.37
Fortress Subsidiary (GAGACQ) Co-Investors (Cayman) Ltd.	10,149,800	4.51
Fortress Residential Investment Deutschland (Fund A) LP	20,626,823	9.17
Fortress Residential Investment Deutschland (Fund B) LP	12,330,463	5.48
Fortress Residential Investment Deutschland (Fund C) LP	8,477,266	3.77
Fortress Investment Fund III (GAGACQ Subsidiary) LLC	10,984,118	4.88
Fortress Investment Fund III (Fund B) (GAGACQ Subsidiary) LLC	9,391,608	4.17
Entities affiliated with Cypress Grove International	8,226,117	3.66
ZG Holdings cv	11,315,984	5.03

The authorized unissued share capital of the Company amounts to €9,999,355,778.75, represented by 7,999,484,623 shares, each such share with a nominal value of €1.25.

### SHARES ON DECEMBER 31, 2006

ISIN	LU0269583422
Security identification number	A0LB DT
Reuters Symbol	GFJG.DE
Bloomberg Symbol	GFJ GR
Xetra share price in €	24.03
Number of shares in million	225.5
Registered capital in € million	281.9
Free float in %	20
Free float market capitalization in € million	1,091
Total market capitalization in € million	5,419
Average number of shares traded per day	547,000
Stock exchange	Frankfurt
Weighting in indexes in %	
MDAX	1.509
EPRA	0.705
GPR 250 Europe	0.84
IPO price on October 19, 2006 in €	19.00
Segment (Industry Group)	Real Estate
Accounting standard	IFRS
End of fiscal year	December 31

# Content



<b>42</b>	<b>NOTES</b>	
42	Consolidated Balance Sheet	
44	Consolidated Income Statement	
45	Consolidated Cash Flow Statement	
46	Statement of Changes in Consolidated Equity	
48	A. General Information	
52	B. Consolidated Group and Consolidation Methods	
63	C. Accounting Policies	
80	D. Segment Reporting	
81	Group Segment Report	
83	E. Notes to the Consolidated Balance Sheet	
106	F. Notes to the Consolidated Income Statement	
115	G. Notes to the Consolidated Cash Flow Statement	
116	H. Other Notes	
129	Exhibits	
129	Exhibit (1) List of Shareholdings	
132	Exhibit (2) Statement of Changes in Consolidated Non-current Assets	
136	Independent Auditor's Report	
138	Glossary	
139	Financial Calendar	

# Consolidated Balance Sheet

December 31, 2006

## ASSETS

€ MILLION	Notes	12-31-2006	12-31-2005 (restated)
<b>Non-current assets</b>			
Intangible assets	E.1.	5.1	4.6
Investment property	E.2.	7,659.8	5,790.1
Property, plant and equipment	E.3.	63.0	95.2
Other financial assets	E.4.	43.5	4.8
Other assets	E.7.	11.5	0.6
Deferred tax assets	E.9.	96.2	91.3
		<b>7,879.1</b>	<b>5,986.6</b>
<b>Current assets</b>			
Inventories	E.5.	127.4	178.6
Financial receivables and other financial assets	E.4.	56.0	4.3
Receivables	E.6.	151.7	68.1
Other assets	E.7.	22.5	17.3
Securities		3.5	0.0
Current tax claims	E.8.	10.0	3.9
Bank balances and cash on hand	E.10.	367.0	217.6
		<b>738.1</b>	<b>489.8</b>
<b>Assets held for sale</b>	<b>E.11.</b>	<b>4.5</b>	<b>0.0</b>
<b>Assets from discontinued operations</b>	<b>E.17.</b>	<b>15.9</b>	<b>107.8</b>
<b>Total assets</b>		<b>8,637.6</b>	<b>6,584.2</b>

## EQUITY AND LIABILITIES

€ MILLION	Notes	12-31-2006	12-31-2005 (restated)
<b>Equity</b>	<b>E.12.</b>		
Subscribed capital		281.9	224.9
Share premium		1,599.7	936.2
Revenue reserves		448.4	351.5
<b>Equity attributable to the shareholders of the parent company</b>		<b>2,330.0</b>	<b>1,512.6</b>
Minority interests		66.5	50.1
<b>Total equity</b>		<b>2,396.5</b>	<b>1,562.7</b>
<b>Liabilities</b>			
<b>Non-current liabilities</b>			
Long-term liabilities received from shareholders	E.13.	6.3	0.0
Pension provisions	E.14.1.	103.0	100.2
Other provisions	E.14.2.	30.7	9.1
Deferred tax liabilities	E.9.	130.1	66.7
Financial liabilities	E.16.1.	5,508.3	4,266.1
Other liabilities	E.16.2.	2.0	6.0
Deferred liabilities of government-granted loans		99.8	100.0
		<b>5,880.2</b>	<b>4,548.1</b>
<b>Current liabilities</b>			
Pension provisions	E.14.1.	6.3	6.2
Other provisions	E.14.2.	68.4	74.3
Liabilities from income taxes	E.15.	15.7	9.7
Financial liabilities	E.16.1.	109.2	86.9
Other liabilities	E.16.2.	155.3	292.1
Deferred liabilities of government-granted loans		6.0	3.5
		<b>360.9</b>	<b>472.7</b>
<b>Liabilities from discontinued operations</b>	<b>E.17.</b>	<b>0.0</b>	<b>0.7</b>
<b>Total liabilities</b>		<b>6,241.1</b>	<b>5,021.5</b>
<b>Total equity and liabilities</b>		<b>8,637.6</b>	<b>6,584.2</b>

# Consolidated Income Statement

for the period from January 1 to December 31, 2006

€ MILLION	Note	2006	2005 (restated)
Income from the leasing of investment property	F.1.	774.9	502.9
Transferable leasehold land interest		– 2.1	– 2.3
Operating expenses for the generation of rental income (excluding share-based remuneration)	F.2.	– 406.1	– 270.8
<b>Profit from the leasing of investment property</b>		<b>366.7</b>	<b>229.8</b>
Income from the sale of investment property		155.6	91.6
Carrying amount of the investment property sold		– 133.0	– 94.1
<b>Profit / loss from the sale of investment property</b>	<b>F.3.</b>	<b>22.6</b>	<b>– 2.5</b>
Unrealized gains from fair value measurement		573.2	188.8
Unrealized losses from fair value measurement		– 515.7	– 121.4
<b>Profit from fair value measurement</b>	<b>F.4.</b>	<b>57.5</b>	<b>67.4</b>
Profit / loss from other services	F.5.	7.9	– 0.4
Selling expenses (excluding share-based remuneration)	F.6.	– 14.1	– 6.3
General and administrative expenses (excluding share-based remuneration)	F.7.	– 52.0	– 51.6
Expenses for share-based remuneration	F.8.	– 20.4	0.0
Other operating income	F.9.	25.7	38.1
Other operating expenses	F.10.	– 17.3	– 13.6
<b>Profit from operations before restructuring</b>		<b>376.6</b>	<b>260.9</b>
Restructuring expenses	F.11.	– 39.8	– 67.5
<b>Profit from operations</b>		<b>336.8</b>	<b>193.4</b>
Result from other financial assets	F.12.	0.3	– 0.9
<b>Earnings before interest and taxes (EBIT)</b>		<b>337.1</b>	<b>192.5</b>
Interest expense (periodical)	F.13.	– 218.3	– 180.5
Allocation to liabilities received from shareholders		1.0	0.0
Interest income (periodical)		9.1	3.7
Profit from the fair value measurement of derivatives	F.13.	65.1	4.2
Interest (refinancing)		– 12.9	– 143.1
<b>Result from continued operations before taxes</b>		<b>181.1</b>	<b>– 123.2</b>
Income taxes on continued operations	F.14.	– 20.7	5.9
<b>Profit / loss from continued operations</b>		<b>160.4</b>	<b>– 117.3</b>
<b>Loss from discontinued operations before taxes</b>	<b>F.15.</b>	<b>– 17.7</b>	<b>– 75.4</b>
Income taxes on discontinued operations	F.14.	0.1	– 0.4
<b>Loss from discontinued operations</b>		<b>– 17.6</b>	<b>– 75.8</b>
<b>Net profit / loss for the year</b>		<b>142.8</b>	<b>– 193.1</b>
Thereof attributable to:			
Minority interests	F.16.	7.2	2.9
Shareholders of the parent company		135.6	– 196.0
Weighted average number of shares		206,871,679	177,985,467
<b>Basic and diluted earnings per share (in €)</b>	<b>F.17.</b>	<b>0.66</b>	<b>– 1.10</b>
<b>Basic and diluted earnings per share (in €) for continued operations</b>		<b>0.78</b>	<b>– 0.66</b>



# Consolidated Cash Flow Statement

for the period from January 1 to December 31, 2006

€ MILLION	2006	2005 (restated)
Earnings before interest and taxes (adjusted for the loss from discontinued operations)	319.4	117.1
Change in the value of investment property	-55.2	-66.2
Amortization, depreciation and impairment losses on intangible assets and property, plant and equipment	6.5	5.5
Dividends from associates	0.0	2.0
Gains/losses on the disposal of property, plant and equipment	-0.4	-9.2
Gains/losses on the disposal of investment property	-22.6	2.5
Other non-cash expenses	13.0	-15.0
Income taxes paid	-4.5	-0.5
Income taxes received	4.1	0.0
Change in deferred liabilities of government-granted loans	-8.3	-3.1
Interest received	8.9	4.2
Interest paid	-202.9	-192.9
Change in inventories	49.8	103.1
Change in receivables	-6.3	8.6
Change in provisions	-13.2	71.6
Change in liabilities	-2.1	12.2
<b>Cash flows from operating activities</b>	<b>86.2</b>	<b>39.9</b>
Cash received from the sale of investment property	75.6	52.7
Cash paid for investment property	-84.3	-192.6
	<b>77.5</b>	<b>-100.0</b>
Cash paid for investments in property, plant and equipment	-4.4	-65.5
Cash received from disposals of property, plant and equipment	1.0	9.9
Cash received from the sale of assets of discontinued operations	90.9	0.0
Cash received from the sale of associates	0.0	70.0
Cash received from the sale of subsidiaries	1.2	0.0
Cash paid for other financial assets	-12.6	0.0
Cash paid for the acquisition of subsidiaries	-935.3	-522.9
<b>Cash flows from investing activities</b>	<b>-867.9</b>	<b>-648.4</b>
Cash received from equity contributions	765.0	331.2
Cash paid to stockholders of GAGFAH S.A.	-57.0	0.0
Cash paid to minority interests	-0.4	-0.3
Cash paid to liabilities received from shareholders	-1.6	0.0
Cash received from raising financial liabilities	1,343.2	4,136.4
Cash repayments of financial liabilities	-1,054.0	-3,637.0
Interest and cost of refinancing	-60.7	-171.3
<b>Cash flows from financing activities</b>	<b>934.6</b>	<b>659.0</b>
<b>Change in cash and cash equivalents</b>	<b>152.9</b>	<b>50.5</b>
Cash and cash equivalents at the beginning of the year	217.6	152.1
Change in cash and cash equivalents due to changes in the consolidated Group	0.0	15.0
<b>Bank balances, cash on hand and securities</b>	<b>370.5</b>	<b>217.6</b>

# Statement of Changes in Consolidated Equity

€ MILLION	SHARE PREMIUM		
	Subscribed capital	Capital reserve	Legal reserve
<b>January 1, 2006 (restated)</b>	<b>224.9</b>	<b>913.7</b>	<b>22.5</b>
Loss from measurement of swaps	0.0	0.0	0.0
<b>Total income and expense for the year recognized directly in equity</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>
Net profit/loss for the year	0.0	0.0	0.0
<b>Total income and expenses for the year</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>
Capital increase	56.4	704.1	5.1
Share-based remuneration	0.6	11.2	0.0
Change in shareholdings and the consolidated Group	0.0	0.0	0.0
Dividends	0.0	– 56.9	0.0
<b>December 31, 2006</b>	<b>281.9</b>	<b>1,572.1</b>	<b>27.6</b>

€ MILLION	SHARE PREMIUM		
	Subscribed capital	Capital reserve	Legal reserve
<b>January 1, 2005</b>	<b>221.2</b>	<b>586.6</b>	<b>22.1</b>
Profit/loss from measurement of swaps	0.0	0.0	0.0
<b>Total income and expense for the year recognized directly in equity</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>
Net profit/loss for the year	0.0	0.0	0.0
<b>Total income and expenses for the year</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>
Capital increase	3.7	327.1	0.4
Change in shareholdings and the consolidated Group	0.0	0.0	0.0
Dividends	0.0	0.0	0.0
<b>December 31, 2005</b>	<b>224.9</b>	<b>913.7</b>	<b>22.5</b>

REVENUE RESERVES				
Unrealized gains / losses from derivative financial instruments	Retained earnings	Equity attributable to the shareholders of the parent company	Minority interests	Total equity
<b>0.0</b>	<b>351.5</b>	<b>1,512.6</b>	<b>50.1</b>	<b>1,562.7</b>
-0.6	0.0	-0.6	0.0	-0.6
<b>-0.6</b>	<b>0.0</b>	<b>-0.6</b>	<b>0.0</b>	<b>-0.6</b>
0.0	135.6	135.6	7.2	142.8
<b>-0.6</b>	<b>135.6</b>	<b>135.0</b>	<b>7.2</b>	<b>142.2</b>
0.0	0.0	765.6	0.0	765.6
0.0	0.0	11.8	0.0	11.8
0.0	0.3	0.3	11.6	11.9
0.0	-38.4	-95.3	-2.4	-97.7
<b>-0.6</b>	<b>449.0</b>	<b>2,330.0</b>	<b>66.5</b>	<b>2,396.5</b>

REVENUE RESERVES				
Unrealized gains / losses from derivative financial instruments	Retained earnings	Equity attributable to the shareholders of the parent company	Minority interests	Total equity
<b>0.0</b>	<b>546.6</b>	<b>1,376.5</b>	<b>40.4</b>	<b>1,416.9</b>
0.0	0.0	0.0	0.0	0.0
<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>
0.0	-196.0	-196.0	2.9	-193.1
<b>0.0</b>	<b>-196.0</b>	<b>-196.0</b>	<b>2.9</b>	<b>-193.1</b>
0.0	0.0	331.2	0.0	331.2
0.0	0.9	0.9	7.0	7.9
0.0	0.0	0.0	-0.2	-0.2
<b>0.0</b>	<b>351.5</b>	<b>1,512.6</b>	<b>50.1</b>	<b>1,562.7</b>

# A. General Information

## The Company

GAGFAH S.A. is a stock corporation incorporated in Luxembourg. The Company was formed on July 12, 2005, as NLG Acquisition Holdings S.C.A. and entered in the commercial register (Registre de Commerce et des Sociétés) of Luxembourg on July 27, 2005. On August 30, 2005, the Company changed its name to NLG Acquisition Investments S.C.A. and by shareholder resolution dated September 29, 2006, it was transformed and renamed GAGFAH S.A.

GAGFAH S.A. (in the following also named as “GAGFAH Group”) is the Group’s ultimate parent company. GAGFAH S.A.’s business is the securitization of risks relating to a geographically diversified residential property portfolio.

The core business of GAGFAH S.A.’s operating subsidiaries is the ownership, management and acquisition of a geographically diversified and maintained residential property portfolio throughout Germany. With a portfolio of over 150,000 apartments located throughout Germany, GAGFAH S.A. is the largest German listed residential property company. As of the balance sheet date, the Group managed a total of approximately 184,000 (prior year: 124,000) apartments and approximately 45,000 (prior year: 35,000) other units including 3 (prior year: 11) commercial properties from commercial property operations. Due to the planned sale of these operations, they are disclosed in the balance sheet under assets from discontinued operations. GAGFAH S.A.’s operating subsidiaries also operate in the area of real estate sales. Property construction / development operations were discontinued by management in December 2005.

## Consolidated Financial Statements

GAGFAH S.A. has prepared its consolidated financial statements in accordance with International Financial Reporting Standards (IFRSs) and the interpretations of the International Financial Reporting Interpretations Committee (IFRIC) – formerly Standards Interpretations Committee (SIC) – since its formation. All IFRSs that must be applied for the fiscal year were taken into account.

The fiscal year of GAGFAH S.A. is identical to the calendar year; it starts on January 1 and ends on December 31. If the fiscal year of any subsidiaries deviates from the calendar year, additional financial statements as of the fiscal year-end are prepared.

The consolidated financial statements have been prepared on a historical cost basis, except for investment properties, derivative financial instruments and available-for-sale financial investments that have been measured at fair value. The consolidated financial statements have been prepared in euros (€). Unless stated otherwise, all values are rounded to the nearest million euros (€million).

The prior-year financial statements were prepared using the same principles as the financial statements as of December 31, 2006.

In line with the recommendations of the European Public Real Estate Association (EPRA), the income statement was classified according to the cost of sales method.

The consolidated financial statements for the year ending December 31, 2006, have been completed and approved on February, 23 2007. The Board of Directors will formally authorize the consolidated financial statements on March 28, 2007.

## New Accounting Standards

In addition to the IFRSs whose application is mandatory for fiscal year 2006, the International Accounting Standards Board (IASB) and the International Financial Reporting Interpretations Committee (IFRIC) respectively have also published other IFRSs and IFRICs whereof IFRS 7, IFRIC 7, IFRIC 8 and IFRIC 9 have already received European endorsement. All new published standards and interpretations will become mandatory at a later date. Voluntary early application of the relevant standards and interpretations is explicitly permitted or encouraged. GAGFAH S.A. did not apply any of the voluntarily applicable standards and interpretations.

On August 18, 2005, the IASB published the standard IFRS 7 “Financial Instruments: Disclosures”. The standard replaces the disclosures currently required by IAS 30 and adds certain new disclosures about financial instruments to those currently required by IAS 32. The amendment to IAS 1 introduces requirements for disclosures about an entity’s capital. The standard completely restructures the disclosure requirements for financial instruments. Basically, the standard requires the disclosure of details of management’s objectives, methods, risks, guarantees and tasks. The disclosure requirements according to IFRS 7 as well as the changed disclosure requirements of IAS 1 apply to all entities, effective for annual periods beginning on or after January 1, 2007, with earlier application encouraged. The new regulations of IFRS 7 do not cause changes in valuation, however, more detailed disclosures and more extensive descriptions are required.

IFRS 8 covers disclosures on an entity’s operating segments, products and services, geographical areas and customer relationships. It supersedes IAS 14. In accordance with IFRS 8, segment reporting must be prepared in the same way as internal reports for the entity’s key decision makers (management approach). By contrast, IAS 14 stipulates that segment reporting must be structured in accordance with the source and nature of the entity’s risks and returns.



Potential impacts on segment reporting have not been finally agreed by management.

IFRIC 7 contains guidelines on how to apply IAS 29 when hyperinflation is first determined. According to IFRIC 7, IAS 29 is to be applied as if it had always been applied. This interpretation does not have any impact on the GAGFAH Group.

IFRIC 8 states that the scope of IFRS 2 also includes those transactions for which the reporting entity receives insufficient consideration or no consideration at all. This also applies to transactions in which the entity cannot clearly identify the goods received or services rendered. This interpretation does not have any impact on the GAGFAH Group.

IFRIC 9 addresses the accounting treatment of financial instruments with embedded derivatives following first-time recognition and specifies the timing of the reassessment of such instruments. The interpretation is currently not expected to have an effect on GAGFAH's consolidated financial statements.

IFRIC 10 refers to IAS 34, IAS 36 and IAS 39 and deals with the reversal of impairment losses on goodwill and specific financial assets. IFRIC 10 states that impairment losses may not be reversed even if an impairment loss was charged in an interim report preceding the consolidated financial statements and the grounds for it no longer apply as of the balance sheet date. This interpretation has not had any impact on the GAGFAH Group to date.

IFRIC 11 addresses issues such as how IFRS 2 should be applied to share-based payment arrangements involving an entity granting rights to its own equity instruments or equity instruments of another Group entity. The interpretation requires an entity's own equity instruments to be accounted for as equity-settled on being granted, regardless of how the equity instruments are acquired by the entity. The interpretation also sets forth when a share-based payment transaction by a Group entity granting equity instruments in return for the receipt of goods or services must be accounted for as cash- or equity-settled. At present, this interpretation is of no relevance to the GAGFAH Group.

#### **CHANGES IN ACCOUNTING POLICIES**

In the business year 2006, the accounting method regarding the provisions for distribution obligations was changed voluntarily. The modification was made in order to adapt the accounting to the real estate industry's benchmark accounting method and to enhance the transparency of the presentation.

Up to now, when the first of several individual units of a property was sold, a provision for the entire amount of expenses with respect to constructional activities still to be provided was recognized. From 2006 on, only the proportionate expenses allocable to the specific sale will be recognized.

Hence, the provisions were reduced by €7.7 million in 2006. The expenses relating to the allocation to the provisions were reduced by €6.7 million and the other operating income resulting from the release of provisions was increased by €1.0 million.

These changes result in an increase of €0.04 per share.

#### **RESTATEMENT OF PRIOR PERIOD FIGURES**

Based on the articles it has been identified that the share on profit or loss of minority interests (Bundeseisenbahnvermögen, Stadt Osnabrück) of NILEG subgroup is limited. In the prior year financial statements it was assumed that the minority interests participate on profit or loss based on its number of shares. Therefore the prior year allocation of profits and losses as well as the allocation of equity due to minority interests was restated on the face of the current financial statements. As a result, the equity attributable to the parent shareholders increased by €12.9 million as of December 31, 2005, and the total net income increased by €15.0 million. The impact on total net income results from the restatement of initial recognition of equity attributable to minority interests at acquisition date July 13 / 14, 2005. The fair value of net assets acquired exceeded the purchase price paid for the shares due to parent shareholders by €15.0 million. The net income attributable to minority interests decreased by €2.1 million and the equity attributable to minority interests decreased by €12.9 million as of December 31, 2005.

Due to an increase of €15.0 million in net income, earnings per share increased by €0.08 in 2005.

## B. Consolidated Group and Consolidation Methods

### 1. Consolidated Group

57 subsidiaries were included in the consolidated financial statements of GAGFAH S.A. on the basis of full consolidation since GAGFAH S.A. governs the financial and operating policies of these entities. Normally, control is possible if an entity holds the majority of voting rights, either directly or indirectly. In addition, 20 fractional ownership funds ("HB-Fonds") were included in the financial statements on the basis of full consolidation and four joint ventures on a proportionate consolidation basis.

The composition of the GAGFAH S.A. Group is presented in the list of shareholdings attached as Exhibit (1).

#### COMPANY FORMATIONS, ACQUISITIONS AND SALES IN 2006

##### Contribution in kind of Eurobonds issued by GAG ACQ Ltd. and UC ACQ Ltd.

In the extraordinary General Meeting of "NLG Acquisition Investments S.C.A." (on the same day converted and renamed GAGFAH S.A.) held on September 29, 2006, the share capital of the company was increased through the issue of 177,000,000 new shares with a nominal amount of in total €221,250,000. The new shares were issued in exchange for a contribution in kind of Eurobonds issued by GAG ACQ. Ireland Limited, Clonee, County Meath, Ireland (GAG ACQ Ltd.) and UC ACQ. Ireland Limited, Clonee, County Meath, Ireland (UC ACQ Ltd.) to their shareholders. The total value of the contribution in kind was approved by €830.0 million.

GAG ACQ Ltd. and UC ACQ Ltd. own 82.48 % and 17.52 % of the shares of GAGFAH GmbH. Since the shares of GAGFAH GmbH were – besides an investment portfolio of €1.6 million per company – the only assets of the two companies, the contribution in kind in substance was a contribution of shares of GAGFAH GmbH into GAGFAH S.A.

The contribution of shares of GAGFAH GmbH into GAGFAH S.A. represents a transaction under common control. The provisions of IFRSs (business combinations) do not apply. GAGFAH S.A. did elect to account this transaction using the pooling of interest method. Accordingly, the net assets were recognized at book values and the consolidated financial statements presented here are prepared as if the contribution had taken place on January 1, 2006. The figures for the year 2005 were restated accordingly. The difference between the fair value of contribution in kind (€830.0 million) and the net book value of net assets (€1,317.3 million) was booked against retained earnings.

#### RESTATEMENT OF PRIOR PERIOD FIGURES

GAGFAH S.A. included GAGFAH GmbH as well as GAG ACQ Ltd. and UC ACQ Ltd. as of the beginning of the fiscal year 2006 and has restated the comparative financial information of 2005. For 2005, the full year's income statement of GAGFAH GmbH is included although GAGFAH S.A. was founded on July 12, 2005.

The financial statements of GAGFAH GmbH, GAG ACQ Ltd. and UC ACQ Ltd. as of December 31, 2005, break down as follows:

	€ MILLION
<b>Assets</b>	
Intangible assets	2.1
Investment property	4,197.3
Other property, plant and equipment	62.0
Other financial assets	1.8
Deferred tax assets	89.8
Inventories	69.9
Receivables and other assets	70.6
Bank balances and cash on hand	137.8
<b>Total assets</b>	<b>4,631.3</b>
<b>Liabilities</b>	
Pension provisions	93.5
Other provisions	50.0
Financial liabilities	2,997.9
Other liabilities	91.8
Deferred government loans	80.8
<b>Total liabilities</b>	<b>3,314.0</b>
<b>Total net assets</b>	<b>1,317.3</b>
<b>Income statement</b>	
Profit from the lease of investment property	214.2
Loss from the sale of investment property	– 0.8
Profit from fair value measurement	60.5
Profit from operations before restructuring	234.4
Earnings before interest and taxes (EBIT)	198.7
Loss from interest	– 290.1
Loss from continued operations	– 55.8
Loss from discontinued operations	– 43.9
<b>Net loss</b>	<b>– 99.7</b>
Thereof attributable to minority interests	3.1
Thereof attributable to shareholders of the parent company	– 102.8

	€ MILLION	€ MILLION
<b>Reconciliation of impact of restatement on equity</b>		
Subscribed capital (capital increase)	221.3	
Capital reserve incl. legal reserve (capital increase)	608.7	830.0
Retained earnings	444.5	
Minority interests	42.8	487.3
<b>Total equity</b>		<b>1,317.3</b>

#### Acquisition of the WOBA Group

By share purchase agreement dated February 16 / March 10, 2006, WOBA Holding GmbH (formerly Blitz 06-652 GmbH) and Opera Co-Acquisition GmbH & Co. KG together acquired 100.0 % of the shares of

- WOBA GmbH
- Wohnbau Nordwest GmbH
- SÜDOST WOBA GmbH
- Bau- und Siedlungsgesellschaft Dresden mbH,
- Liegenschaften Weissig GmbH
- Immo Service Dresden GmbH as well as
- Dienstleistungs- und Bauhof Dresden GmbH.

Furthermore, WOBA Holding GmbH and Opera Co-Acquisition GmbH & Co. KG together acquired 70.0 % of the shares of Parkhaus Prohlis GmbH and 0.02 % of Immobilien-Vermietungsgesellschaft Knappertsbusch & Co. SÜDOST WOBA Striesen KG.

The purchase price including incidental acquisition costs amounts to €989.0 million. The transfer of the shares is effective from April 5, 2006. WOBA Holding GmbH und Opera Co-Acquisition GmbH & Co. KG are entitled to the whole profit of WOBA GmbH for fiscal year 2006.



The acquired net assets of WOBA Group break down as follows:

	€ MILLION
Intangible assets	0.7
Investment property	1,831.3
Other property, plant and equipment	3.6
Other financial assets	10.0
Deferred tax assets	37.5
Inventories	3.3
Receivables and other assets	30.4
Bank balances and cash on hand	50.1
<b>Assets</b>	<b>1,966.9</b>
Minority interests	12.9
Debt capital made available by the shareholders long term	6.3
Pension provisions	0.2
Other provisions	28.3
Deferred tax liabilities	80.8
Financial liabilities	823.6
Deferred government loans	5.9
Other liabilities	19.9
<b>Liabilities</b>	<b>977.9</b>
<b>Fair value of net assets</b>	<b>989.0</b>
<b>Cost of acquisition:</b>	
Acquisition costs	987.1
Incidental acquisition costs	1.9
	<b>989.0</b>
<b>Cash outflow due to acquisition:</b>	
Cash outflow in the fiscal year	989.0
Cash acquired with the subsidiaries	54.3
<b>Net cash outflow</b>	<b>934.7</b>

The acquisition had an impact on total profit or loss for the year. From January 1 to April 4, 2006, the WOBA Group generated revenues of €51.8 million, which split up into revenues of €48.3 million from the leasing of investment property and €3.5 million from the sale of investment property. The additional disclosures required by IFRS 3.67 and IFRS 3.70 have not been made as they are impracticable. The disclosures required by IFRS 3.67 have not been made since the acquired company prepared

its financial statements in accordance with the German Commercial Code<sup>1</sup> and the calculation of the IFRS carrying amounts would involve undue cost and effort. The additional disclosures pursuant to IFRS 3.70 have not been made since it would involve undue cost and effort to prepare interim financial statements pursuant to IFRSs for all Group companies for the period in question.

**Acquisition of GAGFAH Acquisition 2 GmbH,  
GAGFAH Acquisition 3 GmbH and GBH Acquisition GmbH**

In the fourth quarter of 2006, GAGFAH S.A. acquired the entities Blitz 06-608 GmbH, Blitz 06-615 GmbH and Blitz 06-610 GmbH, Berlin, Germany, by purchase and assignment. GAGFAH S.A. also took control of the acquired companies. The companies' names were changed to GAGFAH Acquisition 2 GmbH, GAGFAH Acquisition 3 GmbH and GBH Acquisition GmbH, and their registered office relocated to Essen by shareholder resolution.

The assets of Acquisition 2 GmbH, Acquisition 3 GmbH and GBH Acquisition GmbH break down as follows:

€'000	Acquisition 2 GmbH	Acquisition 3 GmbH	GBH Acquisition GmbH
Bank balances and cash on hand	24	24	24
<b>Assets</b>	<b>24</b>	<b>24</b>	<b>24</b>
<b>Liabilities</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Fair value of net assets</b>	<b>24</b>	<b>24</b>	<b>24</b>
<b>Cost of acquisition:</b>			
Acquisition costs	27	27	27
<b>Cash outflow due to acquisition:</b>			
Cash outflow in the fiscal year	27	27	27
Cash acquired with the subsidiaries	24	24	24
<b>Net cash outflow</b>	<b>3</b>	<b>3</b>	<b>3</b>

1) "Handelsgesetzbuch": HGB

The acquisition had an impact on overall profit or loss. The disclosures required by IFRS 3.67 and IFRS 3.70 have not been made as they are impracticable. The disclosures required by IFRS 3.67 have not been made since the acquired company prepared its financial statements in accordance with the HGB and the calculation of the IFRS carrying amounts would involve undue cost and effort. The disclosures required by IFRS 3.70 have not been made since, due to the length of the period of just one month, the preparation of interim financial statements for all the individual companies for the period would involve undue cost and effort.

**Sale of NILEG & cds Wohnbau Verwaltungsgesellschaft mbH  
and NILEG & cds Wohnbau GmbH & Co. KG**

By sales agreement dated September 20, 2006, NILEG Norddeutsche Immobiliengesellschaft mbH, Hanover, Germany, a fully consolidated subsidiary of GAGFAH S.A., sold all of its shares in NILEG & cds Wohnbau Verwaltungsgesellschaft mbH and NILEG & cds Wohnbau GmbH & Co. KG, both Hanover, Germany. The sale includes the entities' profit for the whole fiscal year 2006.

€'000	NILEG & cds GmbH	NILEG & cds GmbH & Co. KG
Bank balances and cash on hand	0	153
Land with unfinished buildings	0	7,829
Receivables	32	72
<b>Assets</b>	<b>32</b>	<b>8,054</b>
Provisions	1	1
Liabilities for income taxes	1	0
Financial liabilities	0	6,356
Other liabilities	0	15
<b>Fair value of net assets</b>	<b>30</b>	<b>1,682</b>
<b>Disposal consideration:</b>	<b>13</b>	<b>1,100</b>
<b>Cash inflow due to disposal:</b>		
Cash inflow in the fiscal year	13	1,100
Cash sold with the subsidiaries	0	153
<b>Net cash inflow</b>	<b>13</b>	<b>947</b>

**COMPANY FORMATIONS, ACQUISITIONS AND SALES IN 2005 (PRIOR YEAR)****Formation of GAGFAH I, GAGFAH A and GAGFAH B**

The following companies were formed in fiscal year 2005 and included in the consolidated financial statements for the first time:

- GAGFAH I Invest GmbH & Co. KG (hereinafter also referred to as “GAGFAH I”)
- GAGFAH A Asset GmbH & Co. KG (hereinafter also referred to as “GAGFAH A”)
- GAGFAH B Beteiligungs GmbH (hereinafter also referred to as “GAGFAH B”).

In addition, 44 % of the shares in GbR Essen, Stadtwaldplatz, Essen, Germany, were acquired by GAGFAH M Immobilien-Management GmbH (hereinafter also referred to as “GAGFAH M”) and 6 % by Neues Schweizer Viertel Betriebs + Service GmbH & Co. KG (hereinafter also referred to as “SVB”). With the 50 % share in GbR Essen, Stadtwaldplatz which GAGFAH M already held, this company is wholly owned by the GAGFAH Group since 2005.

**Sale of HEIMAG AG**

GAGFAH GmbH sold its 50 % investment in HEIMAG AG, Munich, Germany, which was measured using the equity method, for a purchase price of €70.0 million to GEWOFAG Gemeinnützige Wohnungsfürsorge AG, Munich, Germany, by share sale agreement dated December 28, 2005. The shares were transferred with economic effect as of December 30, 2005. The gain on the sale, which is disclosed under “other operating income”, amounts to €9.2 million. The shares were previously disclosed in the segment reporting in the area of real estate management.

**Acquisition of the NILEG Group**

GAGFAH S.A. – operating at that time as NLG Acquisition Holdings S.C.A. – acquired Magnet 101. V V GmbH, Frankfurt, Germany, by a purchase and assignment agreement dated July 13, 2005. GAGFAH S.A. (acquirer) also took control of the acquired company on this date. The company’s name was changed to NLG Acquisition GmbH by shareholder resolution on this date and entered in the commercial register on October 25, 2005.

The acquisition costs, which were paid in full in the fiscal year, came to €28k. NLG Acquisition GmbH's assets comprised cash and cash equivalents of €25k. The resulting positive difference of €3k was initially recognized as goodwill and then subsequently written down to its fair value (€0k) as of the balance sheet date.

NLG Acquisition GmbH in turn acquired all the shares in NILEG Immobilien Holding (old) and a 94.81 % investment in both NILEG Real Estate GmbH & Co. Management KG and NILEG Real Estate GmbH from Norddeutsche Landesbank Girozentrale, Land-schaftliche Brandkasse Hannover and Bremer Landesbank Kreditanstalt Oldenburg – Girozentrale – by purchase agreements dated July 13 / 14, 2005. NILEG Real Estate GmbH & Co. Management KG and NILEG Real Estate GmbH were already subsidiaries of NILEG Holding (old) prior to this acquisition. 14.81 % of the stakes acquired in both companies were held by minority interests. The minority interests were acquired directly in this acquisition transaction so that following the acquisition, NLG Acquisition GmbH had a direct interest of 14.81 % and, through NILEG Holding (old), an indirect interest of 80.00 % in NILEG Real Estate GmbH & Co. Management KG and NILEG Real Estate GmbH.

As part of the same transaction, NEPTUNO Verwaltungs- und Treuhand-Gesellschaft mbH (hereinafter also referred to as "NEPTUNO") acquired a 5.19 % stake in both NILEG Real Estate & Co. Management KG and NILEG Real Estate GmbH. At the same time, NLG Acquisition GmbH granted NEPTUNO a put option granting the latter the right to sell its investments in both aforementioned companies at a fixed purchase price of €9.7 million to a company named by NLG Acquisition GmbH at any time. NEPTUNO was also guaranteed a minimum return on its contribution to the capital account of NILEG Real Estate & Co. Management KG independent of corporate profits. Therefore, NEPTUNO does not participate in any losses incurred by this company. The minimum return is variable and linked to the 3-month EIBOR. Since the capital account of NEPTUNO is classified as debt under IFRSs due to the non-profit-linked return on the investment, no minority interests are disclosed under equity in the consolidated financial statements of NILEG in this regard. The shareholding is recorded on the liabilities side under other liabilities. The nominal value of the liability to minority interests corresponds to the price of the put option.



In the abovementioned purchase agreements, a transfer date of August 31, 2005, was agreed for all shares included in the transaction outlined above. As of September 1, 2005, NLG Acquisition GmbH (acquirer) took control of the acquired companies. The acquired net assets and goodwill of NILEG Group break down as follows:

	€ MILLION
Investment property	1,538.0
Intangible assets, property, plant and equipment and other financial assets	11.4
Deferred tax assets	12.1
Inventories	165.8
Receivables and other assets	23.7
Bank balances and cash on hand	46.9
<b>Assets</b>	<b>1,797.9</b>
Pension provisions	12.8
Deferred tax liabilities	50.4
Financial liabilities	1,005.2
Other liabilities	120.0
<b>Liabilities</b>	<b>1,188.4</b>
Goodwill	2.1
<b>Fair value of net assets</b>	<b>611.6</b>
<b>Cost of acquisition:</b>	
Acquisition costs	588.8
Incidental acquisition costs	0.2
<b>Total acquisition costs</b>	<b>589.0</b>
<b>Cash outflow due to acquisition:</b>	
Cash outflow in the fiscal year	569.8
Cash acquired with the subsidiaries	46.9
<b>Net cash outflow</b>	<b>522.9</b>

The goodwill relates to the assembled workforce and to expected synergy effects.

The acquisition had an impact on overall profit or loss. The disclosures required by IFRS 3.67 and IFRS 3.70 have not been made as they are impracticable. The disclosures required by IFRS 3.67 have not been made since the acquired company prepared its financial statements in accordance with the German Commercial Code and the calculation of the IFRS carrying amounts would involve undue cost and effort. The disclosures required by IFRS 3.70 have not been made since, due to the length of the period of just one month, the preparation of interim financial statements for all the individual companies for the period would involve undue cost and effort.

As of September 1, 2005, NILEG Immobilien Holding GmbH (old) was merged into NLG Acquisition GmbH as the absorbing company. The merger took legal effect through entry in the commercial register on December 19, 2005. On November 1, 2005, NLG Acquisition GmbH was renamed NILEG Immobilien Holding GmbH. The merger was treated as a transaction under common control. As the merger was performed on the acquisition date, it did not have any impact on equity.

#### **ACQUISITION OF GAGFAH ACQUISITION 1 GMBH**

NLG Acquisition Investments S.C.A. acquired Blitz 05-132 GmbH, Munich, Germany, by purchase and assignment agreement dated November 25, 2005. NLG Acquisition Investments S.C.A. (acquirer) also took control of the acquired company on this date. The company's name was changed to GAGFAH Acquisition 1 GmbH and its registered office relocated to Essen by shareholder resolution on this date. The changes were entered in the commercial register on February 12, 2006.

The acquisition costs came to € 27k and were recognized as a purchase price liability under other liabilities as of December 31, 2005. NLG Acquisition GmbH's assets comprised cash and cash equivalents of € 25k. The resulting positive difference of € 2k was initially recognized as goodwill and then subsequently written down to its fair value (€ 0k) as of the balance sheet date.

The fiscal year of GAGFAH Acquisition 1 GmbH runs from December 1 to November 30 of the following year. The period from the company's registration to November 30, 2005, constitutes an abbreviated fiscal year. For consolidation purposes, GAGFAH Acquisition 1 GmbH prepared additional financial statements as of December 31.

## **2. Consolidation Principles**

### **2.1. SUBSIDIARIES**

In addition to GAGFAH S.A., all major subsidiaries where control pursuant to IAS 27.13 exists are fully consolidated. Control exists when GAGFAH S.A. holds the majority of voting rights either directly or indirectly, may govern the financial and operating policies of the company, or is entitled to appoint the majority of supervisory board members.

The financial statements of the individual subsidiaries are included in the consolidated financial statements in accordance with IFRSs using the uniform accounting policies stipulated by GAGFAH S.A.

For the companies acquired in 2006, capital consolidation was performed using the purchase method in accordance with IFRS 3, under which the acquisition cost of the investment is offset against the respective share in the net assets (in line with the Group's interest), measured at fair value as of the acquisition date.

The assets and liabilities of the relevant subsidiaries are measured at fair value.

If the acquired share in the net assets of the subsidiary exceeds the cost of the investment, the amounts of the share in the net assets and the acquisition cost are reassessed as prescribed by IFRS 3.56. Any excess remaining after that reassessment is treated as a lucky buy and is recognized immediately in profit or loss.

All intercompany receivables and liabilities (and provisions), revenues, expenses and income, as well as gains and losses are eliminated.

Subsidiaries are fully consolidated from the date of acquisition, i.e. the date on which the Group obtains control. Inclusion in the consolidated financial statements ends as soon as the parent ceases to have control.

An adjustment item for minority interests is recognized for shares in fully consolidated subsidiaries that do not belong to the parent company. Pursuant to IAS 27.33, the adjustment item is disclosed under consolidated equity as a separate item from the equity of the parent company.

Minority interests in consolidated profit or loss are recorded separately in the consolidated income statement as a "thereof" item below profit or loss in accordance with IAS 27.33.

The shares in joint ventures are included in the consolidated financial statements on a proportionate consolidation basis. For proportionate consolidation, the same methods are generally applied as for the consolidation of subsidiaries. Required consolidation entries for relationships with proportionately consolidated companies are performed in accordance with the respective share in equity.

## **2.2. INCREASE IN MAJORITY INTEREST**

If a company is already a subsidiary and more of that company's shares are acquired, the carrying amounts of the company's assets and liabilities remain unchanged. Instead, there is an adjustment between majority shareholders and minorities within equity.

## **2.3. ASSOCIATES**

The subsidiaries over which GAGFAH has a significant influence in accordance with IAS 28.6, but which it neither controls nor jointly controls, are disclosed as associates. The Company is considered to have a significant influence when it holds at least 20 % of the voting rights.

Pursuant to IAS 28.13, shares in associates are accounted for using the equity method, i.e. at the Group's share in the net assets of the relevant associate, and increased or decreased in accordance with the Group's share in the associate's net profit or loss.

Profits from the disposal of associates are disclosed in other operating income.

## C. Accounting Policies

### 1. Intangible Assets

#### **ACQUIRED INTANGIBLE ASSETS**

Acquired intangible assets with a finite useful life are initially measured at cost and, if they are depreciable, amortized straight line over their expected useful lives in accordance with IAS 38.97.

The software licenses recorded under intangible assets are amortized over a useful life of three years.

#### **GOODWILL**

Goodwill arising upon capital consolidation represents the excess of the cost of a business acquisition over the acquirer's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of a subsidiary on the acquisition date.

Pursuant to IFRS 3.51, goodwill is recorded as an asset on the date of acquisition. In accordance with IFRS 3.55, it is not amortized, but subject to an annual impairment test pursuant to IAS 36. Following initial recognition, goodwill is measured in accordance with IFRS 3.54 at original cost less any accumulated impairment losses.

For the purpose of impairment testing, the acquired goodwill is allocated to each cash-generating unit expected to benefit from the synergies of the combination as of the acquisition date. Impairment is determined by assessing the recoverable amount of the cash-generating unit to which the goodwill relates. Where the recoverable amount of the cash-generating unit is less than the carrying amount, an impairment loss is recognized.

Where goodwill forms part of a cash-generating unit and part of the operation within that unit is disposed of, the goodwill linked to the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured on the basis of the relative values of the operation disposed of and the portion of the cash-generating unit retained.

When a subsidiary is disposed of, the allocable amount of goodwill is included in determining the gain or loss on disposal.

### 2. Interests in Joint Ventures

The Group has interests in joint ventures. A joint venture is defined as a contractual arrangement between two or more parties to undertake economic activities that are subject to joint control. A jointly controlled entity is a joint venture which entails the formation of a separate entity in which each venturer has an interest. The Group accounts for its interest in the joint venture on the basis of proportionate consolidation.

The Group combines its share in the assets, liabilities, income and expenses of the joint venture with the relevant items in the consolidated financial statements. The financial statements of the joint ventures are prepared as of the same balance sheet date of the parent company, using consistent accounting policies. Adjustments are made to bring into line any dissimilar accounting policies that may exist.

If contributions are made or assets sold to the joint ventures, recognition of the portion of a gain or loss from the transaction reflects the substance of the transaction. When the Group purchases assets from a joint venture, it does not recognize its share of the profits of the joint venture from the transaction until it resells the assets to an unrelated party.

### 3. Leases

Leases are assessed in accordance with their substance.

For finance leases, a Group company is the lessee provided it alone has the risks and rewards incidental to ownership of the leased item. The leased item is capitalized at the inception of the lease at the lower of the fair value and the present value of the minimum lease payments. The lease payments are divided into interest and principal payments; the lease liability thus bears interest on an ongoing basis. Finance costs are recorded directly as expenses. If it is not sufficiently certain that the ownership has been transferred, the leased items are amortized / depreciated over their remaining useful lives or over the remaining term of the lease using the shorter of the two periods.

Lease payments from operating leases are recognized as expenses straight line over the term of the agreement. The rental agreements concluded by the Group as part of their operating activities do not represent leases within the meaning of IAS 17 since the rental agreements were mostly concluded for an indefinite period rather than for a fixed term. The tenants have a unilateral right to termination within the statutory notice period.

If a Group company acts as lessor but all risks and rewards incidental to ownership of the leased asset remain with the Group, the lease is considered an operating lease. Initial direct costs are capitalized and recorded as an expense over the term of the lease in accordance with the rent received.

### 4. Investment Property

Investment property is defined as property held in the long term to earn rentals and / or for capital appreciation. This includes land without buildings, land and similar land rights with buildings as well as land with third-party heritable building rights. This balance sheet item does not include owner-occupied real estate (e.g. administrative buildings) or property held for short-term sale in the scope of ordinary activities.

Where buildings are both owner-occupied and leased to third parties, the relevant parts of the buildings are accounted for separately in accordance with IAS 40.10 only if the leased part of the property can be disposed of separately or leased separately in the scope of a finance lease transaction.

Investment property is measured at cost plus any incidental purchase costs or transaction costs at the time of addition in accordance with IAS 40.20.

Properties are allocated to the investment property portfolio if there is a change in their usage evidenced by the end of owner occupation, the beginning of a lease agreement with another party or the end of construction or development.

Investment property is stated at fair value upon subsequent measurement. The fair value reflects the market conditions as of the balance sheet date and are net of purchaser's cost.

All investment property is measured by GAGFAH S.A. itself at the end of each fiscal year.

The valuation module of GAGFAH S.A. uses market-oriented or typified (objective, non-entity-specific) figures where relevant (e. g. capitalization rate, administrative expenses, segment-specific rates of cost increase).

The cash flows are calculated over a detailed planning period of ten years. In the eleventh year, a residual value is included in the calculation. The net cash flows are calculated from the realizable rent less the risk relating to loss of rent, vacancy expenses, non-allocable operating expenses and administrative and maintenance costs.

Depending on the market rent and the individual adjustment options, the realizable rent is adjusted to the forecast market rent, based on the current rent level. Starting from the currently realizable rent, an adjustment of rentals to the market rent in a three-year cycle, considering the legal restrictions, is presumed.

The directly allocable management costs are calculated in line with the classification of the property in the central portfolio management system. With its central portfolio management system, GAGFAH S.A. is pursuing its objective of increasing the value of and return on its entire portfolio in the long term. Decisions relating to investments and divestments as well as larger-scale modernization measures within the real estate portfolio are therefore taken on the basis of the portfolio management system.

The cash flows are discounted at an interest rate adjusted to the specific property, which takes account of additional uncertainties in the cash flows.



Administrative expenses are calculated at a flat rate of €250.0 (2005: €240.0) per square meter of living or usable space. A rate of price inflation of 1.2 % (maintenance costs), 1.4 % (operating expenses) and 2.0 % (administrative expenses) per annum was applied to all cost figures.

Any gains or losses on a change in the fair value of the investment property are recognized in profit or loss in the period in which they arise.

Investment properties are derecognized when they have either been disposed of or when the investment property is permanently withdrawn from use and no future benefit is expected from its disposal. Any gains or losses from the discontinuation or disposal of the investment property are recognized in the year in which it was discontinued or disposed of.

Properties are taken out of the investment property portfolio if there is a change in their usage evidenced by the beginning of owner occupation or the beginning of development with a view to resale.

The results of intragroup valuation of the investment property portfolio underwent an external review in a fair value appraisal dated June 30, 2006, by CB Richard Ellis Deutschland GmbH in accordance with International Valuation Standards (IVS) constituted by the International Valuation Standards Committee (IVSC) without regard to any outside capital and portfolio additions or discounts that have to be considered when selling investment properties. The results of intragroup valuation were affirmed. An update of the figures was requested; at the date of financial statements preparation the results were still outstanding.

In the consolidated financial statements as of December 31, 2005, deviating from the published consolidated financial statements of GAGFAH S.A. as of December 31, 2005, the following adjustment was made. Properties held for short-term sale amounting to €18.3 million were reclassified from current assets (inventories) to investment property during the reporting period.

## 5. Property, Plant and Equipment

Other property, plant and equipment of GAGFAH S.A. is accounted for at cost less accumulated depreciation and impairment losses in accordance with the cost method of IAS 16.30.

If properties are owner-occupied within the scope of operating activities, they are disclosed under the balance sheet item property, plant and equipment.

An item of property, plant and equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the income statement in the year the item is derecognized.

The residual values of the items of property, plant and equipment, the useful lives and depreciation methods are reviewed at the end of each fiscal year and adjusted as necessary.

In the case of major renovations, the relevant components are recognized as replacement investments if the recognition criteria are met.

**Land and buildings** held for the provision of services or for administrative purposes are recognized in the balance sheet at cost less depreciation. Cost includes consideration paid for third-party services and, for qualifying assets, borrowing costs that were capitalized in accordance with Group accounting policies.

**Assets under construction** for lease or administrative purposes or for non-specified purposes are recognized at cost less any impairment losses charged. Cost includes consideration paid for third-party services and, for qualifying assets, borrowing costs that were capitalized in accordance with Group accounting policies.

**Furniture and fixtures** as well as **technical equipment and machines** are disclosed at cost less accumulated depreciation and any impairment losses recognized.

Depreciation on property, plant and equipment is generally based on the following useful lives:

	Useful life
Commercial and other buildings	50 years
Technical equipment and machines	20 to 25 years
Other equipment, furniture and fixtures	3 to 13 years

The residual carrying amounts and useful lives are reviewed and adjusted if required at every balance sheet date. Impairment losses are recognized on the basis of impairment tests pursuant to IAS 16.63 in conjunction with IAS 36.59 if the carrying amount exceeds the higher of the value in use and the net selling price. If the reasons for impairment cease to apply, the impairment is reversed in accordance with IAS 36.110.

## 6. Borrowing Costs

Borrowing costs are expensed as incurred, except for borrowing costs relating to qualifying assets, in accordance with IAS 23.10.

If borrowing costs can be allocated directly to the acquisition, construction or production of assets, they are capitalized as part of cost in accordance with the capitalization option of IAS 23.11 (allowed alternative treatment).

A further prerequisite for the capitalization of borrowing costs is that the amount can be measured reliably and the capitalized borrowing costs are matched by a probable future benefit.

As soon as costs including borrowing costs arise for the asset and preparations commence for the production of the asset, the borrowing costs are capitalized as part of cost in accordance with IAS 23.20.

Pursuant to IAS 23.25, capitalization ceases once all required actions have been performed in order to render the asset usable or saleable. For construction or renovation projects, this is the completion of construction date.

If the production process is interrupted for a long period, capitalization of the borrowing costs is suspended for this period in accordance with IAS 23.23.

In the normal course of business, (mortgage) loans are raised on a regular basis specifically for the production of an asset. Thus, only the interest actually incurred on that borrowing during the period less any investment income on the temporary investment of those borrowings is capitalized. The capitalized borrowing costs correspond to the specific borrowing costs of the relevant asset.

## 7. Impairment of Items of Property, Plant and Equipment and Intangible Assets

At every balance sheet date, GAGFAH S.A. reviews the carrying amounts of its items of property, plant and equipment and intangible assets (except for goodwill, see C.1) in order to ascertain whether there are any indications of impairment of these assets. If there are indications, the recoverable amount of the asset (or cash-generating unit) is estimated.

The recoverable amount is the higher of the fair value less costs to sell and the value in use.

If the estimated recoverable amount of an asset (or the cash-generating unit) is less than the carrying amount, the latter is reduced to the recoverable amount and the impairment loss is recognized immediately in profit or loss.

If the impairment is subsequently reversed, the carrying amount of the asset (or cash-generating unit) is increased to the newly estimated recoverable amount. This increased value may not exceed the carrying amount that would arise after taking account of amortization / depreciation if no impairment had been recognized in the prior periods. The amount of any reversal must be included immediately in profit or loss for the period. Once a reversal has been made, the amortization / depreciation charge must be adjusted in future reporting periods in order to allocate the adjusted carrying amount of the asset, less a residual carrying amount, systematically over its remaining useful life.

## 8. Financial Instruments

A financial instrument is any contract that gives rise to both a financial asset for one entity and a financial liability or equity instrument for another entity.

Gains and losses on the disposal of financial instruments are disclosed as other operating income or expenses. Impairment losses are disclosed as other operating expenses. Other results from financial instruments, mainly interest, are disclosed in the financial result.

The Group applies the following new provisions of IAS 39 “Financial Instruments”: Recognition and measurement (“IAS 39”) which are mandatory for all reporting periods beginning on or after January 1, 2006:

- Financial guarantees and credit commitments: this new regulation has expanded the scope of IAS 39. The amendment relates to the recognition of financial guarantees and credit commitments by the guarantor. According to the revised version of IAS 39, financial guarantees and credit commitments must be recognized at fair value on first-time recognition. Subsequent measurement requires revaluation at the higher of the amount which must be determined in accordance with IAS 37 “Provisions, Contingent Liabilities and Contingent Assets”, and the amount initially recognized, less, if required, the accumulated amortization recognized in profit and loss in accordance with IAS 18 “Revenue”.
- The hedging of planned internal Group transactions: this amendment to IAS 39 has made it possible to define the currency risk from highly probable intragroup transactions as a cash flow hedge. Such recognition requires the transaction to be denominated in a currency different to the functional currency of the company and the currency risk must have an effect on the financial statements.
- Fair value option: the possibility of valuing every financial asset or financial liability at fair value through profit and loss has been limited by the amendment.

However, the application of these amendments has no effect on these financial statements.

**A) PRIMARY FINANCIAL ASSETS**

IAS 39.9 divides financial assets into four categories for the purpose of subsequent measurement and recognition:

- Financial assets measured at fair value through profit or loss
- Held-to-maturity financial instruments
- Loans granted and receivables
- Available-for-sale financial assets.

The financial assets are classified in accordance with the respective purpose for which they were acquired.

If securities are purchased within the Group, these are treated as “available-for-sale financial assets”. Other investments in equity instruments are also classified as “available-for-sale financial assets”.

“Loans granted and receivables” and “available-for-sale financial assets” are initially measured at fair value plus transaction costs directly allocable to the acquisition of the financial asset in accordance with IAS 39.43. Transaction costs mainly include commissions, broker fees and notary fees.

Assets allocated to the category “available-for-sale financial assets” are measured at fair value with gains and losses being carried in a separate equity item. The loss or gain accumulated in equity is recognized in profit or loss when the financial investment is derecognized or impaired.

The fair value of available-for-sale financial assets traded on organized financial markets is determined by reference to the market price on the balance sheet date. If there is no active market, measurement methods that rely on recent market transactions on arm's length terms are used. If no fair value can be reliably measured, the asset is subsequently measured at amortized cost.

Regular way purchases or sales of financial assets are accounted for as of the settlement date, and thus as of the date the asset is delivered.

GAGFAH S.A. determines on every balance sheet date whether there are any objective indications of the impairment of a financial asset or Group of financial assets. Financial assets are derecognized when the contractual rights or obligations underlying the financial instrument no longer exist (elimination) or have been transferred to a third party (transfer).

Primary and acquired loans and receivables with fixed or determinable payments that are not traded on an active market are categorized as **loans granted and receivables**.

In this category, GAGFAH S.A. has trade receivables and long-term loans in particular. After initial recognition, loans granted and receivables are measured at amortized cost using the *effective interest method* in accordance with IAS 39.46 (a), provided the fair value is not lower.

Low-interest-bearing receivables due in more than one year are recognized at the discounted amount taking account of appropriate interest.

If there are objective indications of impairment, the asset is tested for impairment in accordance with IAS 39.58 in conjunction with IAS 39.63 et seq. If impairment is established, the expected cash flows are estimated and capitalized at the interest rate used for first-time recognition. If a loss arises as the difference as compared with the carrying amount, this amount is recorded in profit or loss.

For “rent receivables”, the receivables from current rental agreements and rental agreements which are no longer in place are grouped together in order to test them jointly for impairment and specific bad debt allowances are recognized on the basis of past experience. For other loans and receivables, appropriate allowances are charged on an item-by-item basis (if required) for uncollectible amounts.

Subsequent reversals in accordance with IAS 39.65 are recognized in profit and loss. For current trade receivables and other current receivables, the Company assumes that the carrying amount reflects a reasonable approximation of fair value.

The fair value of the non-current loans granted and receivables is determined by discounting the future cash flows at the market interest rate, as there is no active market for these assets.

#### **B) PRIMARY FINANCIAL LIABILITIES**

The primary financial liabilities within the GAGFAH Group comprise in particular financial liabilities, trade payables and rent liabilities.

Pursuant to IAS 39.14, financial liabilities are recognized on the date on which GAGFAH S.A. becomes a party to the contractual provisions governing the financial instruments.

Financial liabilities are initially recognized in accordance with IAS 39.43 at fair value plus transaction costs that are directly allocable to the raising of the financial liability. Following initial recognition, the financial liabilities are measured at amortized cost using the *effective interest method* (IAS 39.47).

The fair value of the financial liabilities normally equals the amount received.

Liabilities that bear no or low interest, for which the lenders receive occupancy rights for apartments at discounted rent in return, are recognized at amortized cost using the *effective interest method*. The liabilities are initially measured at fair value on the date the

government grant was granted using the market level of interest at that time. The difference between the collected amount and the fair value is disclosed separately as a deferred item and allocated in subsequent years on a proportionate basis over the term of the loan as “revenues from real estate management”; by contrast, the interest expense is recorded at amortized cost using the *effective interest method*.

Financial liabilities – or parts thereof – are derecognized as soon as the liability is extinguished, i. e. when the obligations stipulated in the agreement are settled or canceled.

Gains or losses from financial liabilities are recorded in profit or loss in accordance with IAS 39.56 when the financial liability is derecognized. The amortization of transaction costs is also recorded in the income statement.

For current trade payables and other current financial liabilities, the Company assumes that the carrying amount reflects a reasonable approximation of fair value.

The fair value of the non-current financial liabilities is determined using a mathematical method by discounting the future cash flows at the market interest rate, as there is no active market for these liabilities.

### **C) DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING RELATIONSHIPS**

The Group uses derivative financial instruments such as interest rate swaps to hedge its risks associated with interest rate fluctuations. Such derivative financial instruments are initially recognized at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

Any gains or losses arising from changes in fair value on derivatives during the year that do not qualify for hedge accounting are taken directly to the income statement.

At the inception of a hedge relationship, the Group formally designates and documents the hedge relationship to which the Group wishes to apply hedge accounting and the risk management objective and strategy for undertaking the hedge. The documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the entity will assess the hedging instrument's effectiveness in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk. Such hedges are expected to be highly effective in achieving offsetting changes in cash flows and are assessed on an ongoing basis to determine that they actually have been highly effective throughout the financial reporting periods for which they were designated.



Hedges which meet the strict criteria for hedge accounting are accounted for as follows:

The effective portion of the gain or loss on the hedging instrument is recognized directly in equity, while any ineffective portion is recognized immediately in the income statement.

Amounts taken to equity are transferred to the income statement when the hedged transaction affects the income statement, such as when the hedged financial income or financial expense is recognized. Where the hedged item is the cost of a non-financial asset or non-financial liability, the amounts taken to equity are transferred to the initial carrying amount of the non-financial asset or liability.

In fiscal year 2005, interest rate swaps were used for the first time within the GAGFAH Group for a short period to hedge interest rate risks. The hedges were initially measured at fair value with reference to the market values of similar financial instruments. On subsequent measurement, gains or losses from changes in the fair value were immediately recognized in profit or loss. Due to the short term of the hedge, no use was made of the hedge accounting option.

With acquisition of the Woba Group, interest swaps were taken into consolidated financial statements. For such swaps the criteria of IAS 39.88 have been met and the Group now also recognizes hedges in the balance sheet. The hedging instruments (mainly interest rate swaps) are used to hedge cash flows from floating-rate liabilities. The effective portion of profit or loss from the hedging instruments is recognized directly under equity and the ineffective portion under profit or loss.

## 9. Inventories

Inventories include land and buildings held for sale as well as other inventories.

Other inventories are initially measured at cost. Cost comprises all costs directly allocable to the production process and an appropriate share of overheads.

Financing costs are allocated to production costs if they are directly linked to financing within the meaning of IAS 23.11.

The inventories are measured at the lower of cost or net realizable value as of the balance sheet date in accordance with IAS 2.9. Net realizable value is the estimated selling price less all estimated costs of completion and marketing and selling expenses.

If inventories are sold, their carrying value is recognized as an expense in the year in which the related revenue is recognized in accordance with IAS 2.34.

In December 2005, the Company has abandoned its property construction / development business. No new projects will be undertaken and current projects will be sold in their current stage of completion. Where contractual obligations are in place, projects will be continued in individual cases.

Since the abandonment of construction / development operations, revenues have been disclosed in the result from discontinued operations in the income statement.

## 10. Assets Held for Sale

Assets are classified as “held for sale” in as much as the sale is likely and management has declared its intention to sell. At GAGFAH S.A., at present this only applies to investment property according to IAS 40 for which notarial sales agreements were signed as of balance sheet date with a passage of title at a later date.

The assets are measured at the lower of carrying amount and fair value less costs to sell. For owner-occupied property reclassified as assets held for sale, depreciation is suspended from the moment of reclassification.

## 11. Discontinued Operations

The result of the discontinued operations is disclosed as a separate item in the income statement. It includes the result of discontinued operations and the result of the disposal groups that meet the criteria of a discontinued operation. For more information on the composition of the item and the net cash flows attributable to the discontinued operations, please refer to section F.17.

## 12. Provisions for Pensions

GAGFAH S.A. offers its employees both defined benefit plans and defined contribution plans.

The provisions for pensions from **defined benefit plans** are calculated using the projected unit credit method stipulated under IAS 19.64 with an actuarial valuation performed at each balance sheet date. This method takes into account both the pensions known and expectancies acquired as of the balance sheet date and the increases in salaries and pensions to be expected in the future.

Actuarial gains and losses are incurred if, in the course of the fiscal year, the actual development deviates from assumptions made at the beginning of the fiscal year or if the parameters determined at the end of the fiscal year are different to those determined at the beginning of the fiscal year.

The total (accumulated) actuarial gains and losses existing at the end of the fiscal year develop from the gains or losses existing at the beginning of the fiscal year less amortization plus additions in the fiscal year.

In accordance with IAS 19.92, actuarial gains and losses accumulated as of the balance sheet date are first recognized when the net gains and losses at the end of the prior reporting period exceed the greater of 10 % of the present value of the defined benefit obligation at that date (before deducting plan assets) and 10 % of the fair value of any plan assets at that date.

Actuarial gains and losses exceeding the 10 % corridor of the obligation are, where appropriate, spread over the expected average residual number of years of service for each employee under the defined benefit plan.

### 13. Other Provisions

In accordance with IAS 37.14, other provisions are recognized if a legal or constructive obligation in respect of a third party exists that results from a past event and it is likely that the Company will be called on to meet this obligation and the anticipated amount of the provision can be reliably estimated.

In accordance with IAS 37.36, the provisions are measured at the amount of the best estimate of the expenditure required to meet the present obligation as of the balance sheet date.

Provisions expected to be utilized after more than one year are discounted in accordance with IAS 37.45 and recognized in the amount of the present value of the expected expenditure.

Provisions for restructuring expenses are recognized when the Group has prepared a detailed formal restructuring plan and made this plan available to the relevant parties.

### 14. Deferred Taxes

Deferred taxes are recognized using the liability method for all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax assets are recognized for all deductible temporary differences, the carryforward of unused tax assets and unused tax losses to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and the carryforward of unused tax assets and unused tax losses can be utilized. The following exceptions were taken into account:

- Deferred income tax assets which arise from the initial recognition of an asset or a liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit or loss nor taxable profit or loss, may not be recognized.
- In respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred income tax assets may only be recognized to the extent that it is probable that the temporary differences will reverse in the foreseeable future and sufficient taxable profit will be available against which the temporary differences can be utilized.

The carrying amount of deferred income tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available against which all or part of the deferred tax asset can be utilized.

Deferred tax assets and liabilities are measured using the tax rates expected to apply to the period when the asset is realized or the liability is settled based on tax rates (and tax laws) that have been enacted or substantively enacted by the balance sheet date.

Income tax relating to items recognized directly in equity is recognized in equity and not in the income statement.

Deferred tax assets and deferred tax liabilities are offset against each other when the Group has an enforceable right to set off the current tax assets against its tax liabilities and these assets and liabilities relate to income taxes levied by the same tax authority for the same taxable entity.

## 15. Income and Expenses

Income and expenses of the fiscal year are accounted for regardless of the date of payment. Revenues from leasing and sales are recognized when the owed service has been rendered or the risks of ownership have been transferred and the amount of expected consideration can be reliably estimated.

The **rental income** equal to the target rent less sales deductions is recognized monthly on rendering of the service. The prepayments for operating expenses factored into the rent are recognized as revenues in the amount in which allocable operating expenses were incurred in the fiscal year. Any remaining difference is either disclosed as a rent receivable or liability.

Revenue from the sale of land is recognized when:

- the entity has transferred to the buyer the significant risks and rewards of ownership of the goods;
- no rights of disposal or control over the sold items remain with GAGFAH S.A.;
- the amount of revenue can be measured reliably;
- it is sufficiently probable that the proceeds from the sale will flow to the entity;
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Management fees are only recognized as **revenues from third-party real estate management** if the agreed management services (including chargeable part-services) have been rendered.

**Other revenues** are recognized when the service has been rendered, the risks of ownership have been transferred, and the amount of expected consideration can be measured reliably.

## 16. Government Grants

Pursuant to IAS 20.12, government grants should be recognized as income over the periods necessary to match them with the related costs which they are intended to compensate, on a systematic basis.

GAGFAH S.A. companies receive government grants in the form of construction cost allowances, redemption subsidies, redemption loans and low-interest loans.

**Construction cost allowances** are, where they relate to construction work, deducted from cost and released over the useful life of the subsidized asset. If the allowances do not relate to capitalizable maintenance work, they are taken to income immediately.

**The redemption subsidies**, which are granted in the form of rent, interest and other redemption subsidies, are recognized as income. They are disclosed under income from the leasing of investment property.

With the exception of the loans secured by charges on property, for which a modified waiver of receivables was issued, the **redemption loans** have been recognized as liabilities.

The **low-interest loans** relate to government assistance. They are recognized at present value on the basis of the market interest rate prevailing at the date of issue. The difference is posted to a deferred item which is released to income from the leasing of investment property on a straight-line basis over the remaining term.

## 17. Share-based Remuneration

Senior management of GAGFAH S.A. is entitled to an equity-settled plan, based on the individual employment contracts. The cost of this plan is measured by reference to the fair value at the date on which the shares were granted. As the shares were granted prior to the initial public offering of the Company, the cost of the plan was measured at the share price of €19.00 offered in the initial public offering.

The cost is recognized, together with the corresponding increase in equity, over the period in which the service conditions are fulfilled, ending on the date on which the relevant managers become fully entitled to the award.

Shares granted to the staff of GAGFAH S.A. have been expensed immediately with a corresponding increase in equity when the respective shares were granted to the employees. This expense was determined on the share price at the date of the increase in equity. In addition, GAGFAH S.A. took over the taxes on the fringe benefit related to this award.

## 18. Cash Flow Statement

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

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

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

Financial liabilities are all liabilities to banks and other lenders.

Interest received and paid is disclosed separately in cash flows from operating activities.

Tax payments are disclosed separately in full under operating activities as they cannot be allocated to the individual business areas.

## 19. Estimates and the Exercise of Judgment by Management

### A) THE EXERCISE OF JUDGMENT

Management exercises its judgment in recognizing and measuring items; this can have a significant influence on the amounts disclosed in the financial statements. Major estimates requiring the exercise of judgment include the recognition of provisions, estimating useful lives of property, plant and equipment, or assessing the recoverability of trade receivables and deferred tax assets or the adequate valuation of inventories.

Furthermore, management has to exercise judgment with regard to the consolidation of special purpose entities (SPEs).

IAS 27 regulates the consolidation of companies controlled by other companies. Given that the standard does not explicitly govern the consolidation of SPEs, SIC 12.8 has to be applied. According to the latter, a special purpose entity has to be consolidated by another company when the SPE is controlled by that company from an economic perspective even if the company does not hold more than half of the SPE's shares.

The application of the control concept requires judgment in each individual case with consideration of all relevant factors (business operations for the benefit of the controlling company, power of decision of the controlling company, the right to profit from the SPE as well as the bearing of the majority of the risks immanent in the SPE).

### B) UNCERTAINTIES RELATING TO ESTIMATES

The preparation of the consolidated financial statements requires to a certain extent assumptions and estimates to be made which have an effect on the carrying amounts of recognized assets and liabilities, income and expenses and contingent liabilities. The assumptions and estimates relate mainly to the measurement of investment property, the uniform Group calculation of useful lives for property, plant and equipment and the recognition and measurement of provisions. The assumptions and estimates are based on parameters which are derived from the current knowledge at the time. In particular, the circumstances prevailing at the time of preparing the consolidated financial statements and the realistic future development of the global and industry environment were used to estimate cash flows. Where these conditions develop differently than assumed, and are beyond the sphere of influence of management, the actual figures may differ from those anticipated. If there are deviations between actual and anticipated development, the assumptions, and, where necessary, the carrying amounts of the relevant assets and liabilities are adjusted accordingly.

At the date of preparing the consolidated financial statements, the underlying assumptions and estimates were not subject to any significant risk such that from today's point of view, it is not likely that the carrying amounts of assets and liabilities will have to be adjusted significantly in the subsequent fiscal year.



## D. Segment Reporting

The Group's primary reporting format is based on its business segments. Each segment represents a strategic business area with unique products and services.

The Group's business segments are:

- Real estate management
- Real estate sales.

**Real estate management** comprises the management of own and third-party portfolios of rental apartments and other properties, management activities for condominium associations and special lease management.

Alongside the sale of existing properties of the Group companies, the **real estate sales** segment also comprises the acquisition, carving up and resale of housing portfolios.

There is also a segment **Group function / IFRS 5 / consolidation** including the subsegments acquisition, construction / development and commercial real estate.

The property construction / development was discontinued in 2005. Furthermore, the commercial real estate segment was discontinued in 2005 and a plan for its sale was prepared. As a result, the internal reporting department will in the future only provide management and the supervisory board with reports on the continued business segments real estate management and real estate sales.

The same accounting policies apply to the segments as to the consolidated financial statements. The overheads incurred by the Company's headquarters are not split between the segments.

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

The listed investments are additions to intangible assets, investment property, and property, plant and equipment.

Segment assets, except the segment **Group function / IFRS 5 / consolidation**, do not contain cash.

No reporting by geographical segment was prepared as all the activities relate to Germany.

The segment reporting for fiscal year 2005 is based on the restated consolidated financial statements as of December 31, 2005. For more information about the restatement we refer to section B.I. "Consolidated Group".

# Group Segment Report

GAGFAH S.A. as of December 31, 2006

€ MILLION	Real estate management	Real estate sales	Group function / IFRS 5 / consolidation	Group
Segment revenues from third parties	774.9	155.6	0.0	930.5
Transactions with other segments	0.3	0.0	– 0.3	0.0
Segment revenues	775.2	155.6	– 0.3	930.5
<b>EBITDA per segment</b>	<b>361.8</b>	<b>5.8</b>	<b>– 42.0</b>	<b>325.6</b>
Profit from fair value measurement	57.5	0.0	0.0	57.5
Segment write-downs	– 2.7	0.0	– 3.8	– 6.5
<b>EBIT (before restructuring)</b>	<b>416.6</b>	<b>5.8</b>	<b>– 45.8</b>	<b>376.6</b>
Restructuring expenses				– 39.8
Profit from equity investments				0.3
<b>EBIT</b>	<b>416.6</b>	<b>5.8</b>	<b>– 45.8</b>	<b>337.1</b>
Financial result / interest expense				– 156.0
Profit from continued operations before taxes				181.1
Income taxes for continued operations				– 20.7
Profit from continued operations				160.4
Loss from discontinued operations before taxes				– 17.7
Income taxes for discontinued operations				0.1
Loss from discontinued operations				– 17.6
<b>Profit for the year</b>				<b>142.8</b>
<b>Segment assets</b>	<b>7,732.4</b>	<b>137.5</b>	<b>767.7</b>	<b>8,637.6 *</b>
<b>Segment liabilities</b>	<b>43.7</b>	<b>3.2</b>	<b>6,194.2</b>	<b>6,241.1 *</b>
Segment investments (investments in property, plant and equipment or intangible assets)	84.3	0.0	4.4	88.7 *
Significant non-cash segment expenses	22.5	0.0	24.9	47.4 *

The items marked (\*) include effects from discontinued operations.

# Group Segment Report

GAGFAH S.A. as of December 31, 2005 (restated)

€ MILLION	Real estate management	Real estate sales	Group function / IFRS 5 / consolidation	Group
Segment revenues from third parties	502.9	91.6	0.0	594.5
Transactions with other segments	1.2	0.0	– 1.2	0.0
Segment revenues	504.1	91.6	– 1.2	594.5
<b>EBITDA per segment</b>	<b>232.1</b>	<b>– 8.7</b>	<b>– 24.5</b>	<b>198.9</b>
Profit from fair value measurement	67.4	0.0	0.0	67.4
Segment write-downs	– 1.1	– 0.1	– 4.2	– 5.4
<b>EBIT (before restructuring)</b>	<b>298.4</b>	<b>– 8.8</b>	<b>– 28.7</b>	<b>260.9</b>
Restructuring expenses				– 67.5
Loss from equity investments				– 0.9
<b>EBIT</b>	<b>298.4</b>	<b>– 8.8</b>	<b>– 28.7</b>	<b>192.5</b>
Financial result / interest expense				– 315.6
Loss from continued operations before taxes				– 123.1
Income taxes for continued operations				5.8
Loss from continued operations				– 117.3
Loss from discontinued operations before taxes				– 75.4
Income taxes for discontinued operations				– 0.4
Loss from discontinued operations				– 75.8
<b>Loss for the year</b>				<b>– 193.1</b>
<b>Segment assets</b>	<b>5,769.1</b>	<b>50.5</b>	<b>764.6</b>	<b>6,584.2<sup>*</sup></b>
<b>Segment liabilities</b>	<b>173.5</b>	<b>0.0</b>	<b>4,847.9</b>	<b>5,021.4<sup>*</sup></b>
Segment investments (investments in property, plant and equipment or intangible assets)	192.5	0.0	65.5	258.0 <sup>*</sup>
Significant non-cash segment expenses	7.4	2.5	37.7	47.6 <sup>*</sup>

The items marked (\*) include effects from discontinued operations.

In the above tables, the information on the discontinued “property construction / development” and “commercial real estate” subsegments were included in the column with Group functions and eliminations and is, for this reason, explained in more detail below.

The segment reporting for the discontinued operations breaks down as follows: the segment loss (EBITDA) amounted to €17.7 million (prior year: €75.4 million). Segment assets of €129.7 million (prior year: €197.7 million) and segment liabilities of €11.7 million (prior year: €39.7 million) are attributable to the property construction / development segment. Segment assets of €15.9 million (prior year: €107.8 million) but no (prior year: €0.7 million) liabilities are attributable to the commercial real estate segment. Segment expenses contain non-cash expenses of €1.3 million (prior year: €48.8 million). Tax expenses amounting to €0.1 million (prior year: €– 0.4 million) were incurred in the fiscal year.

# E. Notes to the Consolidated Balance Sheet

## 1. Intangible Assets

Intangible assets with a finite life mainly comprise software licenses for user programs amounting to € 3.0 million (prior year: € 2.5 million). Amortization of licenses is included in the income statement under the item “general and administrative expenses”.

For the purposes of testing for impairment, the goodwill was assigned to the real estate management segment as cash-generating unit. The recoverable amount of the cash-generating unit is determined based on a value-in-use calculation.

To determine the value in use, the present value of the Company’s future net cash flow is calculated using a discount rate of 3.7 %. The discount rate reflects management’s estimate of the risks specific to the cash-generating unit. A planning period of three years was used to determine future profits. The figures were not extrapolated. Within the terminal value calculation a growth rate of zero was assumed.

As of the balance sheet date, no impairment loss had to be recorded.

Please refer to the statement of changes in consolidated non-current assets, which is attached as Exhibit (2).

## 2. Investment Property

The following overview shows the development of the real estate portfolio since January 1, 2006.

€ MILLION	2006	2005
As of January 1	5,790.1	4,003.9
Changes to consolidated Group	1,833.8	1,603.9
Additions	68.8	192.6
Disposals	– 133.0	– 94.1
Reclassifications	42.6	16.4
Changes in value	57.5	67.4
<b>As of December 31</b>	<b>7,659.8</b>	<b>5,790.1</b>

In order to ensure comparability of the financial statements as of December 31, 2006, with the prior year financial statements, the reference value as of December 31, 2005, was adjusted for the reclassification amounting to €18.3 million from properties relating to current assets (inventories) into investment property. Reason for this reclassification was that, contrary the original utilization purpose, the Group decided to hold the concerning properties as non-current assets with the purpose to earn rentals and /or for capital appreciation.

Reclassifications to investment properties of €42.6 million were attributable to payments on account (€28.3 million) and to assets under construction (€18.8 million). They were reduced by reclassifications from investment properties to assets held for sale (€4.5 million).

Investment property by region breaks down as follows:

€ MILLION	12-31-2006	12-31-2005
Berlin	948.6	934.8
Dresden	1,856.1	0.0
Essen	1,400.9	1,421.8
Frankfurt am Main	1,148.1	1,062.0
Hamburg	1,135.0	1,172.2
Hanover	1,171.1	1,199.3
<b>Total</b>	<b>7,659.8</b>	<b>5,790.1</b>

Land with residential buildings is leased under agreements which are predominantly concluded for an indefinite period and are subject to statutory notice periods.

For investment property which did not generate any rental income during the fiscal year, reconstruction expenses totaling €5.2 million were incurred.

The shareholders of GAGFAH S.A. agreed in the share purchase agreements to observe extensive welfare conditions, which in addition to the regular rent control conditions safeguard the portfolio as follows. It should be noted that these welfare conditions only relate to part of the overall residential property stock of GAGFAH S.A. and that certain specifications differ from unit to unit.

After the date of property purchases a general right of continuance exists for ten years. Within this period, various regulations regarding residential property become effective. At the beginning of this period, leased residential property may not be sold to any parties other than the respective tenants or their close family members.

Thereafter, single property sales must first be offered to the tenants or their close family members before they can be offered to third parties. These offers may additionally be subject to predefined upper limits. Planned sales of condominium units or leased buildings with more than one rental apartment may only be undertaken if certain obligations are fulfilled, such as predefined tenant occupancy rates or vacancy rates.

Furthermore, rental agreements that already existed on the purchase date may still be effective today. These mainly comprise tenant protection clauses such as upper limits of rent increases as well as regulations regarding minimum maintenance expenses and required improvement works. For part of the portfolio the Company has committed itself to invest in maintenance and improvements a defined average amount per square meter.

There are also selling restrictions on the real estate held as investment property of the consolidated fund companies. Sales of this investment property are only possible with the approval of all fund shareholders or the appointed trustees.

### 3. Property, Plant and Equipment

As of the balance sheet date, property, plant and equipment amounted to €63.0 million (prior year: €95.2 million) and included land with commercial and other buildings amounting to €43.0 million (prior year: €44.0 million) and other equipment, furniture and fixtures amounting to €13.3 million (prior year: €14.3 million).

The breakdown of property, plant and equipment is presented in the statement of changes in consolidated non-current assets, which is attached as Exhibit (2).

The decrease in property, plant and equipment compared to December 31, 2005, is primarily due to reclassifications of €28.3 million from prepayments to investment property in connection with the acquisition of real estate in Freiburg.

Furthermore, reclassifications of €18.8 million were made from assets under construction to investment property, thereof €14.4 million from WOBA subgroup and €4.5 million from NILEG subgroup.

No contractual obligations were entered into in the reporting year for investments in property, plant and equipment in 2006 for subsequent years.

#### 4. Financial Receivables and Other Financial Assets

The financial receivables and other financial assets, summarized with securities, break down as follows:

€ MILLION	12-31-2006	12-31-2005
<b>Non-current</b>		
Derivative financial instruments measured at fair value	22.2	0.0
Investments	20.9	3.1
Other loans	0.4	1.7
	<b>43.5</b>	<b>4.8</b>
<b>Current</b>		
Derivative financial instruments measured at fair value	56.0	4.3
	<b>56.0</b>	<b>4.3</b>
<b>Total</b>	<b>99.5</b>	<b>9.1</b>

For more information on the derivatives measured at fair value, please refer to section H. 1.

#### 5. Inventories

The inventories of GAGFAH S.A. break down as follows:

€ MILLION	12-31-2006	12-31-2005
Land held for sale	80.5	113.2
Unfinished development	46.9	65.4
<b>Total</b>	<b>127.4</b>	<b>178.6</b>

The land held for sale is fully attributable to the discontinued property construction / development operations and breaks down as follows:

€ MILLION	12-31-2006	12-31-2005
Land and land rights without buildings	31.9	38.7
Land and land rights with unfinished buildings	35.8	51.7
Land and land rights with finished buildings	11.1	19.2
Pre-construction expenses	1.0	2.6
Land with hereditary building rights of third parties	0.7	1.0
<b>Total</b>	<b>80.5</b>	<b>113.2</b>



In the fiscal year, GAGFAH S.A. sold inventories totaling €95.5 million.

Impairment losses were charged on some of the inventories following measurement at the lower net realizable value, with costs yet to be incurred being deducted from the discounted sale price. Impairment losses totaling €9.6 million were posted to reflect the (lower) net realizable value. These impairment losses relate mainly to land and land rights with finished and unfinished buildings.

## 6. Receivables

Receivables break down as follows:

€ MILLION	12-31-2006	12-31-2005
<b>Current</b>		
Receivables from sales of land	133.1	59.8
Rent receivables	8.5	2.9
Receivables from other trade	6.5	1.7
Receivables from third-party real estate management	2.3	2.6
Receivables from operating expenses not yet invoiced	0.0	0.9
Receivables from affiliated companies	0.0	0.2
Other	1.3	0.0
<b>Total</b>	<b>151.7</b>	<b>68.1</b>

At the balance sheet date, the **receivables from sales of land** contain receivables from real estate trade amounting to €122.3 million (prior year: €41.2 million).

Receivables from sales of land do not represent a material **credit risk** due to their contractual structure. All other receivables are unsecured and therefore represent a theoretical maximum credit risk in the amount of their positive fair value.

Invoiced receivables contain no **interest rate risk** due to their short-term nature.

Overall, impairment losses of €9.9 million were recognized for bad debts. There are no restrictions on ownership or disposal for the disclosed receivables.

The date of payment averages 45 days.

## 7. Other Assets

Other assets break down as follows:

€ MILLION	12-31-2006	12-31-2005
<b>Non-current</b>		
Receivables referring to subsidies for costs of demolitions	10.5	0.0
Insurance claims	0.3	0.0
Other	0.7	0.6
<b>Total non-current</b>	<b>11.5</b>	<b>0.6</b>
<b>Current</b>		
Insurance claims	6.5	5.3
Claims for construction defects	4.3	1.6
Prepayments	5.7	1.2
Receivables from employees	0.3	0.2
Refund claims from the cost of clean-up operations	0.0	2.4
Other	5.7	6.6
<b>Total current</b>	<b>22.5</b>	<b>17.3</b>
<b>Total</b>	<b>34.0</b>	<b>17.9</b>

## 8. Current Tax Claims

As of December 31, 2006, GAGFAH S.A. discloses current tax claims of €10.0 million (prior year: €3.9 million).

These are mainly related to claims from sales tax, capital yields tax and corporate income tax.

## 9. Deferred Taxes

A uniform tax rate of 40.44 % is generally applied to all Group companies. This comprises a corporate income tax rate including solidarity surcharge of 26.38 %. Trade tax is charged at 14.06 % due to the deductibility of corporate income tax.

Deferred tax assets and liabilities are netted when there is a legally enforceable right to offset the current tax assets against the current tax liabilities, and when the deferred tax assets and liabilities relate to the same taxpayer.

Deferred taxes are attributable to differences from recognition and measurement of the individual balance sheet items and to tax loss carryforwards:

€ MILLION	12-31-2006	Additions resulting from acquisitions through business combinations	12-31-2005	Effect on income 2006	Effect on income 2005
<b>Balance sheet</b>					
Investment property	31.9	28.4	63.6	– 60.1	13.1
Other assets	13.4	– 0.2	2.5	11.1	1.6
Other provisions	9.4	– 0.1	8.5	1.0	6.8
Financial liabilities	6.2	8.9	3.9	– 6.6	2.8
Other liabilities	0.0	0.1	0.2	– 0.3	0.0
	<b>60.9</b>	<b>37.1</b>	<b>78.7</b>	<b>– 54.9</b>	<b>24.3</b>
Financial assets	0.0	0.0	– 0.1	0.1	– 0.1
Other assets	0.0	0.0	– 0.4	0.4	– 0.3
Other liabilities	0.0	0.0	0.0	0.0	– 5.4
	<b>0.0</b>	<b>0.0</b>	<b>– 0.5</b>	<b>0.5</b>	<b>– 5.8</b>
<b>Deferred tax assets (after netting) on temporary differences</b>	<b>60.9</b>	<b>37.1</b>	<b>78.2</b>	<b>– 54.4</b>	<b>18.5</b>
<b>Loss carryforwards</b>					
Corporate income tax	13.1	0.0	0.0	13.1	0.0
Trade tax	22.2	0.0	13.1	9.1	6.6
<b>Deferred tax assets on loss carry forwards</b>	<b>35.3</b>	<b>0.0</b>	<b>13.1</b>	<b>22.2</b>	<b>6.6</b>
<b>Deferred tax assets</b>	<b>96.2</b>	<b>37.1</b>	<b>91.3</b>	<b>– 32.2</b>	<b>25.1</b>

€ MILLION	12-31-2006	Additions resulting from acquisitions through business combinations	12-31-2005	Effect on income 2006	Effect on income 2005
<b>Balance sheet</b>					
Investment property	122.0	78.8	60.8	17.6	– 11.7
Financial assets	0.0	1.1	1.8	2.9	– 1.7
Other assets	0.7	0.5	0.0	– 0.2	0.0
Other provisions	2.1	1.1	0.0	– 1.0	0.0
Other liabilities	5.3	0.1	4.1	– 1.1	– 2.8
<b>Deferred tax liabilities</b>	<b>130.1</b>	<b>81.6</b>	<b>66.7</b>	<b>18.2</b>	<b>– 16.2</b>

Deferred tax liabilities resulted from investment property, partly also from deferred tax claims that resulted from the differences between the carrying values disclosed in the IFRS balance sheet and the tax balance sheet. The tax base values are based on the continued recognition of the property at fair value at the date on which former non-profit housing companies become taxable.

As of December 31, 2006, the Group had corporate income tax loss carryforwards of €1,478.0 million (prior year: €894.0 million) and trade tax loss carryforwards of €881.0 million (prior year: €546.0 million). These are based on information available at the time of preparing the financial statements and may be carried forward indefinitely pursuant to legislation in force as of December 31, 2006. Per period, tax gains of a maximum €1.0 million and 60.0 % of the amount above this figure may be netted with loss carryforwards.

The loss carryforwards were offset against the deferred tax liabilities from other assets.

No deferred taxes were recognized on temporary differences of €0.0 million (prior year: €37.7 million), corporate income tax loss carryforwards of €1,345.0 million (prior year: €894.0 million) as well as trade tax loss carryforwards of €672.0 million (prior year: €452.0 million), as these are not expected to be realized in subsequent years.

The temporary differences associated with investments in subsidiaries, for which deferred tax liability has not been recognized, aggregate to €5.0 million (prior year: €0.0 million).

## 10. Bank Balances and Cash on Hand

This item contains cash and cash equivalents in the form of cash on hand, checks and bank balances of totaling €367.0 million (prior year: €217.6 million).

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

The time deposits of GAGFAH S.A. have terms between one day and three months and accrue interest between 3.34 % and 3.60 %.

The balances in current accounts are demand deposits and mainly accrue interest at the interbank rate of 0.5 % p. a.

The Group holds no other short-term cash and cash equivalents with a term of more than three months or long-term bank balances.

Of the cash and cash equivalents, €66.7 million was pledged as collateral for bank guarantees as of December 31, 2006. The remaining cash and cash equivalents do not serve as collateral for bank loans and are available in the short term.

## 11. Assets Held for Sale

The assets held for sale amounting to €4.5 million contain the carrying amounts of real estate (mostly apartments) for which notarial sales agreements with a passage of title at a later date were signed as of December 31, 2006. The assets are clear of debt.

## 12. Equity

The development of equity of GAGFAH S.A. is presented in the statement of changes in consolidated equity.

**Subscribed capital** relates to the parent company's capital stock of €281.9 million and comprises 225,515,377 shares, each of a nominal value of €1.25.

In 2006, the shares were increased in four tranches, by 4.0 million shares on April 4, by 41.1 million on May 31, by 177.0 million on September 29 and by 0.5 million on December 11. Regarding the third capital increase, we refer to section B.1. of the notes to the consolidated financial statements. Transaction costs of equity transactions to be accounted for as a deduction from equity did not occur.

The share premium consists of the capital reserve and the legal reserve.

The **capital reserve** amounts to €1,572.1 million. The increase of €765.0 million results from payments into the capital reserve.

The **legal reserve** amounts to €27.6 million.

**Revenue reserves** contain the profits retained by the consolidated entities and amounted to €448.4 million as of December 31, 2006.

**Minority interests** of €66.5 million comprise adjustment items for minority interests in equity subject to mandatory consolidation and their share in profit and loss. Minority interests break down as follows among the subgroups:

- GAGFAH subgroup €46.0 million, thereof €45.5 million fractional ownership funds
- WOBA subgroup €13.8 million
- NILEG subgroup €6.7 million
- UG ACQ Ireland Ltd. €46k.

For more information on the minority interests in the net profit or loss for the year, please refer to our comments on the income statement (Section F.16. of the notes to the consolidated financial statements).

In the extraordinary Meeting of Shareholders as of September 29, 2006, it was resolved to create an authorized, un-issued share capital within the Company of an amount of €10.0 billion (€10,000,000,000), represented by eight billion (8,000,000,000) shares.

The General Meeting acknowledged the report pursuant to article 32-3(5) of Luxembourg Company law on the circumstances and prices of issues of shares against cash without pre-emptive subscription rights, waiver of, suppression and authorization to the Board of Directors to waive, suppress or limit, any pre-emptive subscription rights in the case of issues of shares within the authorized share capital and resolved to authorize the Board of Directors to proceed to further securitizations and to issue shares within the authorized un-issued share capital against contributions in cash, in kind or by way of incorporation of available premium or reserves or otherwise pursuant to the terms and conditions determined by the Board of Directors or its delegate(s) (including without limitation in relation to one or more public offerings of the shares of the Company and in particular, the Board of Directors may issue shares in favor of directors, executives and employees of the Company and the Group to which it belongs, directly or under the terms of one or more option plans approved by the Board of Directors) while preserving, suppressing or limiting pre-emptive subscription rights of existing shareholders.

The General Meeting resolved that the validity period of the authorized share capital of the Company shall start on the day of the present extraordinary General Meeting of Shareholders recording the present authorization and ending on the fifth anniversary of the day of publication of the deed recording the minutes of said General Meeting in the Mémorial, Luxembourg.

Dividends amounting to €56.9 million were paid to the shareholders in 2006. The next dividend was distributed in January 2007, amounting to €38.3 million, an amount of €0.17 per share. As of December 31, 2006, a liability was booked correspondingly. We refer to section E. 16.2. (other liabilities).

### 13. Long-term Liabilities Received from Shareholders

The long-term liabilities received from shareholders amounting to €6.3 million relate to the minority's share, which are financial liabilities.

€3.5 million thereof relate to Immobilien-Vermietungsgesellschaft Knappertsbusch & Co. SÜDOST WOBA Striesen KG, €2.8 million relate to Opera Co-Acquisition GmbH & Co. KG.

### 14. Provisions

#### 14.1. PROVISIONS FOR PENSIONS AND SIMILAR OBLIGATIONS

Company pensions at GAGFAH S.A. are granted by way of both defined contribution and defined benefit plans.

Under the **defined contribution plans**, the Company pays contributions to public or private pension insurance schemes on the basis of statutory or contractual requirements. GAGFAH S.A. does not have any other benefit obligations beyond payment of contributions. The current contribution payments are disclosed as an expense in the relevant year under personnel expenses of the functional areas.

The GAGFAH S.A. also manages **defined benefit plans** for its employees. There are various types of employer-funded pension plans for company pensions. The provisions are measured according to the projected unit credit method in accordance with IAS 19. The amount of the obligation is based on the present value of the earned and realistic pension entitlements on the measurement date, including probable future increases in pensions and salaries. The GAGFAH subgroup, for example, grants its employees company pensions under Pension Regulation 2002 (hereinafter referred to as "VO 2002"). In addition to its own pension scheme, the NILEG subgroup also participates in the pension scheme (hereinafter referred to as the "VBL") organized by the pension institution of the Federal Republic of Germany and the Federal States.



The VBL constitutes a multi-employer defined benefit plan which pursuant to IAS 19.30 (a) was accounted for as if it were a defined benefit plan as the VBL does not make available sufficient information to permit treatment as a defined contribution plan.

GAGFAH S.A. pays old-age pensions, early retirement pensions, invalidity pensions, widow's / widower's and orphan's pensions. The age limits for old-age pensions, invalidity pensions, survivor's and orphan's pensions are the same as those for statutory pension insurance. There is a waiting period of ten years until a vested claim can be secured.

GAGFAH S.A. is not aware of any specific information on any surpluses or deficits in the plan or any future effects that such surpluses or deficits may have. However, in prior year an external appraisal has valued NILEG subgroup's insufficiently financed pension obligations at € 24.9 million. It is assumed that those obligations still exist in the reporting period. This can be regarded as indicative of current deficits in the plan. This may result in NILEG subgroup having to pay higher future contribution payments to the VBL.

The following tables present an overview of the plans.

#### Number of Commitments

The following groups are entitled to employer-funded pension benefits:

NUMBER	12-31-2006	12-31-2005
Active employees		
Non-vested expectancies	423	249
Vested expectancies	589	615
	1,012	864
Vested expectancies of employees no longer with the Company	160	72
Current pensions	846	849
<b>Total</b>	<b>2,018</b>	<b>1,785</b>

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

	12-31-2006	12-31-2005
<b>In % p. a.:</b>		
Discount rate	4.50	3.75
Salary increase, pension increase in service	2.00	2.00
Cost of living adjustment	1.00 – 2.00	2.00
Turnover	4.00 – 5.00	4.00 – 5.00
<b>In years:</b>		
Actual retirement age		
Men	63	62 or 63
Women	60 to 63	62 or 60
Special cases	60 to 63	Not before 60

For death and disability, the 2005G mortality tables by Prof. Dr. Klaus Heubeck were used.

The salary trend accounts for the various reasons for salary increases, e. g. increases under collective wage agreements, promotions, etc.

The assumed turnover rate corresponds to the average turnover rate in Germany. Internal turnover tables provided by the actuary were used to factor this into the valuation.

If the actual development during the year deviates from the assumptions made at the beginning of the fiscal year or other parameters are set at the end of the fiscal year than at the beginning, (additional) actuarial gains or losses may arise.

Provisions are recognized for obligations to current and former employees from future and current benefit entitlements.

The pension provisions developed as follows in the fiscal year:

€ MILLION	2006	2005
Provisions as of January 1	106.4	91.3
Additions from the acquisition of subsidiaries / joint ventures	0.3	12.8
Pension expenses for the fiscal year	8.8	7.8
Direct pension payments	– 6.2	– 5.5
<b>Provisions as of December 31</b>	<b>109.3</b>	<b>106.4</b>

Reconciliation of liabilities from defined benefit obligations to the recognized pension provisions:

€ MILLION	31-12-2006	31-12-2005
Defined benefit obligations as of December 31	113.6	125.0
Unrecognized actuarial gains / losses	– 4.3	– 18.6
<b>Provisions as of December 31</b>	<b>109.3</b>	<b>106.4</b>

The pension obligation is calculated as follows:

€ MILLION	2006	2005
Obligation as of January 1	125.0	91.0
Additions from the acquisition of subsidiaries / joint ventures	0.3	12.8
Current service cost	2.5	1.7
Past service cost	0.0	1.7
Interest expense	4.8	4.4
Effect of plan amendments on DBO	1.1	0.0
Actuarial gains and losses	– 13.9	18.9
Direct pension payments	– 6.2	– 5.5
<b>Obligation as of December 31</b>	<b>113.6</b>	<b>125.0</b>

The total pension expense in the consolidated income statement breaks down as follows:

€ MILLION	2006	2005
Current service cost	2.5	1.7
Changes to the plan due to an increase of commitments	0.0	1.7
Interest expense	4.8	4.4
Effect of plan amendments on DBO	1.1	0.0
Actuarial gains (–) or losses recognized in the income statement	0.4	0.0
<b>Total</b>	<b>8.8</b>	<b>7.8</b>

The current service cost is disclosed under general and administrative expenses (salaries for administrative staff) and the interest expense under interest expense (periodical).

The experience adjustment on plan liabilities amounts to €0.7 million in 2006.

The expected pension expense for fiscal year 2007 amounts to €7.1 million.

**14.2. OTHER PROVISIONS**

The other provisions developed as follows in the fiscal year:

€ MILLION	As of January 1, 2006	Changes within the consolidated Group	Utilization	Reversals
Phased retirement	7.6	2.3	0.8	0.0
Warranty obligations and latent risks	10.1	0.3	0.6	5.9
Severance payments, liti- gation costs and similar risks	1.3	1.8	1.1	1.1
Provision for sales commissions	2.2	0.0	2.2	0.0
Provision for distribution obligations	17.1	0.0	7.4	4.8
Restructuring provisions	42.7	0.0	14.4	7.4
Provision for BfA obligation	2.1	0.0	2.1	0.0
Provision for demolition costs	0.0	11.8	0.0	0.0
Provision for restitution proceedings	0.0	10.3	0.6	1.4
Provision for share-based remuneration	0.0	0.0	0	0.0
Other provisions	0.3	2.3	0.2	0.1
<b>Total</b>	<b>83.4</b>	<b>28.8</b>	<b>29.4</b>	<b>20.7</b>

€ MILLION	As of January 1, 2005	Changes within the consolidated Group	Utilization	Reversals
Phased retirement	0.0	0.9	0.2	0.0
Warranty obligations and latent risks	3.3	2.5	0.9	2.2
Severance payments, liti- gation costs and similar risks	0.3	0.1	0.3	0.1
Provision for sales commissions	0.0	0.0	0.0	0.0
Provision for distribution obligations	0.0	0.0	0.0	0.0
Restructuring provisions	0.7	0.0	3.0	0.1
Provision for BfA obligation	0.0	0.0	0.0	0.0
Other provisions	0.1	0.0	0.0	0.0
<b>Total</b>	<b>4.4</b>	<b>3.5</b>	<b>4.4</b>	<b>2.4</b>

Additions	Interest effect	As of December 31, 2006	Thereof non- current	Thereof current
8.5	0.0	17.6	15.7	1.9
1.2	0.0	5.1	0.3	4.8
4.9	0.0	5.8	0.0	5.8
0.0	0.0	0.0	0.0	0.0
8.0	0.0	12.9	0.9	12
1.5	0.0	22.4	0.0	22.4
0.1	0.0	0.1	0.0	0.1
0.0	0.0	11.8	10.5	1.3
1.1	0.0	9.4	0.0	9.4
3.4	0.0	3.4	3.3	0.1
8.3	0.0	10.6	0.0	10.6
<b>37.0</b>	<b>0.0</b>	<b>99.1</b>	<b>30.7</b>	<b>68.4</b>

Additions	Interest effect	As of December 31, 2005	Thereof non- current	Thereof current
6.9	0.0	7.6	7.6	0.0
7.3	0.1	10.1	1.4	8.7
1.3	0.0	1.3	0.0	1.3
2.2	0.0	2.2	0.0	2.2
17.1	0.0	17.1	0.0	17.1
45.1	0.0	42.7	0.0	42.7
2.1	0.0	2.1	0.0	2.1
0.2	0.0	0.3	0.1	0.2
<b>82.2</b>	<b>0.1</b>	<b>83.4</b>	<b>9.1</b>	<b>74.3</b>

All of the provisions recognized as of the balance sheet date meet the recognition criteria of IAS 37.14. Accordingly, provisions were only set up for current obligations to third parties as a result of a past event which are highly likely to lead to a future outflow of resources and whose amount can be reliably estimated.

The GAGFAH S.A. concluded a collective agreement (GAGFAH subgroup) and works agreements (NILEG and WOBA subgroup) respectively on **phased retirement**. These models allow employees above the age of 55 to make a smooth transition into retirement and ensures employment for younger employees. In the reporting period, 67 new agreements were concluded.

The favored model of phased retirement is the “block model”, whereby the phased retirement period may not be longer than six years and is spread over a work phase (first phase, full-time employment) and a release phase (second phase).

The relevant employees receive gross monthly pay based on the agreed working time pursuant to the arrangements under the collective agreement and the works agreements in place. The employees receive this pay for the entire duration of phased retirement.

Capital-forming payments are granted in line with the agreed part-time work, i. e. also in the release phase.

The provisions for phased retirement totaling €17.6 million (prior year: €7.6 million) recognized as of December 31, 2006, are mainly classified as non-current long-term benefits.

**Warranty provisions** totaling €5.1 million (prior year: €10.1 million) were mainly set up for known cases of liability from project business. The majority of the warranty obligations are current.

The provisions for **severance payments, litigation costs and similar risks** relate to estimated costs in connection with employees leaving the Company and litigation relating to project business. As of the balance sheet date, provisions of €5.8 million (prior year: €1.3 million) had been recognized.

The **provision for distribution obligations** serves to fulfill notarized commitments to buyers of individual apartments to renovate parts of fractionally-owned buildings.

The **provision for restructuring** relates to employee severance payments and other costs related to the strategic repositioning of the subgroups. As of January 1, 2006, the provision amounted to €42.7 million. €14.4 million thereof was used during the fiscal year. Provisions are allocated through restructuring expenses. The provisions are entirely current.



The provision is mainly based on various restructuring plans which have been concluded for the entities in all subgroups in November and December 2005. In 2006 a restructuring plan for the WOBA subgroup was concluded. These plans comprise the relocation of the central commercial and administrative operations to Essen, joint customer centers to optimize real estate management and the integration and harmonization of the IT systems. In addition, various individual agreements with employees about severance payments are covered through this provision.

The **provision for BfA obligations** ["BfA": Federal Insurance Office for Salaried Employees] covers the risk that the Company fails to let the agreed number of apartments to BfA employees.

The **provision for demolition costs** amounting to €11.8 million was recognized for the fulfillment of contractual obligations to demolish certain buildings within a certain period of time. €10.5 million thereof is long-term, €1.3 short-term.

The **provision for restitution proceedings** amounting to €9.4 million concerns restitution requirements subject to the German Act on the Clarification of Property Claims ["Vermögensgesetz": VermG], for example, the return of properties to their former owners and requirements to reimburse sales proceeds or rentals generated in this connection. The provisions are entirely current.

The **provision for share-based remuneration** amounting to €3.4 million results from contractual obligations to managers.

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

No major refunds are expected. No asset items have been recognized for refunds.

## 15. Liabilities for Income Taxes

As of December 31, 2006, the Group had obligations from corporate income tax and trade tax totaling €15.7 million (prior year: €9.7 million). They broke down as follows:

€ MILLION	12-31-2006	12-31-2005
Corporate income tax	5.0	6.8
Trade tax	10.2	2.7
Other	0.5	0.2
<b>Total</b>	<b>15.7</b>	<b>9.7</b>

## 16. Liabilities

### 16.1. FINANCIAL LIABILITIES

Financial liabilities total €5,617.5 million (prior year: €4,353.0 million). Of this, €5,508.3 million (prior year: €4,266.1 million) relates to non-current liabilities and €109.2 million (prior year: €86.9 million) to current liabilities. These broke down as follows in the fiscal year:

Liabilities to banks total €5,531.4 million (prior year: €4,201.0 million) and mainly relate to liabilities from investment properties.

Liabilities to other lenders amount to €86.1 million (prior year: €152.0 million) and mainly relate to liabilities from investment properties.

Non-interest-bearing or low-interest loans in return for which occupancy rights have been granted at conditions below market rent are carried at amortized cost. Cost is determined on the basis of the market interest on the date of raising the loan.

Of the current and non-current liabilities to banks and other lenders, a total of €5,243.4 million (prior year: €3,525.7 million) is secured by charges on property. €364.0 million (prior year: €0.0 million) are secured by pledging of shares and €2.8 million (prior year: €3.2 million) by a bank guarantee. No collateral has been provided for the remaining €7.3 million (prior year: €824.1 million).

For presentation purposes and in accordance with IAS 32.74 in conjunction with IAS 32.67, 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, €5,365.0 million (prior year: €4,107.5 million) relates to privately financed loans.

Additionally, an amount of €30.7 million was repaid. This payment was made in order to achieve lower interest in the future.

The freely financed loans and government annuity loans break down according to interest rate and due date as follows:

DUE DATE	12-31-2006		12-31-2005	
	€ MILLION	Average weighted interest rate in %	€ MILLION	Average weighted interest rate in %
Less than one year	9.0	2.38	36.9	4.18
Between one and five years	37.6	2.36	119.3	3.54
More than five years	312.6	1.70	312.0	1.75
<b>Total</b>	<b>359.2</b>	<b>1.79</b>	<b>468.2</b>	<b>2.24</b>

Breakdown of due dates and interest rates for each maturity grouping (financial liabilities of the funds):

DUE DATE	12-31-2006		12-31-2005	
	€ MILLION	Average weighted interest rate in %	€ MILLION	Average weighted interest rate in %
Less than one year	4.9	5.42	5.7	6.51
Between one and five years	14.9	5.60	23.0	5.90
More than five years	50.4	2.49	47.0	2.32
<b>Total</b>	<b>70.2</b>	<b>4.10</b>	<b>75.7</b>	<b>4.11</b>

Non-interest-bearing or low-interest loans in return for which occupancy rights have been granted at conditions below market rent are carried at amortized cost. In accounting for the acquisition of subsidiaries, acquisition cost was determined on the basis of the fair values of the loans as of the acquisition date.

The refinancing WOBA carried out during the fiscal year involved the repayment of numerous small loans using a variable-rate global loan.

Overall, 761 loans totaling €774.7 million were repaid in the fiscal year.

**16.2. OTHER LIABILITIES**

Other liabilities mainly include trade payables, rent liabilities and liabilities from operating expenses not yet invoiced. As of the balance sheet date, this item broke down as follows:

**A) NON-CURRENT**

€ MILLION	12-31-2006	12-31-2005
Jubilee commitments	1.3	1.6
Trade payables	0.7	1.5
Other liabilities	0.0	2.9
	<b>2.0</b>	<b>6.0</b>

**B) CURRENT**

€ MILLION	12-31-2006	12-31-2005
Distributable dividend	38.3	0.0
Trade payables	23.3	21.7
Rent liabilities	10.7	47.0
Liabilities from operating expenses not yet invoiced	10.4	7.6
Prepayments received	9.8	14.5
Liabilities from construction management services not yet invoiced	6.2	0.5
Liabilities from the purchase of land	3.0	117.3
Tax liabilities	9.1	4.8
Jubilee commitments	0.1	0.1
Liabilities to shareholders not included in the tax Group	0.0	36.4
Liabilities to investees	0.0	0.3
Other liabilities	44.4	41.9
	<b>155.3</b>	<b>292.1</b>

The distributable dividend was paid to the shareholders in January 2007.

Trade payables contain liabilities from supply and service dealings, thereof €4.0 million (prior year: €6.6 million) from property management and €4.5 million (prior year: €11.1 million) from project business. The remaining liabilities amounting to €14.8 million (prior year: €4.0 million) relate to various other services like, for example, insurance services (€2.3 million) or due diligence consulting services (€1.8 million).

Liabilities from operating expenses not yet invoiced relate to refund claims of tenants from incidental expenses.

Prepayments received are mainly attributable to the project business.

**Other liabilities** mainly comprise deferred liabilities of €33.8 million (prior year: €41.4 million). This amount consists of liabilities due to construction costs not yet accrued amounting to €6.2 million (prior year: €14.1 million), liabilities from own development arrangements not yet invoiced amounting to €5.2 million (prior year: €0.0 million) and personnel liabilities amounting to €9.5 million (prior year: €6.5 million).

The **jubilee commitments** of GAGFAH S.A., as is the case with the pension commitments, are made by way of a direct commitment. Corresponding liabilities are determined on the basis of actuarial principles.

In fiscal year 2006, 56 employees of GAGFAH S.A. received jubilee commitments, thereof one for 40 years, five for 25 years, four for 15 years and 46 for ten years of service.

As of December 31, 2006, jubilee benefits of €1.4 million (prior year: €1.7 million) had been recognized for employees.

All items disclosed by GAGFAH S.A. as other liabilities are non interest bearing. There is no interest rate risk.

## 17. Assets and Liabilities from Discontinued Operations

The primary objective of GAGFAH S.A. is to expand its residential real estate portfolio in Germany. In line with the current strategy of focusing on the management of and trade in residential real estate, a decision was made in 2005 to sell the commercial real estate operations and the development business.

The result attributable to the discontinued operations and the net cash flow are presented in section F. 15.

The assets of disposal Groups and the liabilities related to these assets break down as follows:

€ MILLION	12-31-2006	12-31-2005
<b>Assets</b>		
Property, plant and equipment	15.9	107.8
	<b>15.9</b>	<b>107.8</b>
<b>Liabilities</b>		
Other provisions	0.0	0.7
	<b>0.0</b>	<b>0.7</b>
<b>Net assets</b>	<b>15.9</b>	<b>107.1</b>

## F. Notes to the Consolidated Income Statement

### 1. Income from the Leasing of Investment Property

Income from the leasing of investment property of GAGFAH S.A. breaks down as follows:

€ MILLION	2006	2005
Rental income, fees	550.9	355.5
Allocations charged	220.8	141.1
Rent, interest and expense subsidies	2.4	5.1
Risk of default on allocations	0.6	0.8
Lease income	0.2	0.4
<b>Total</b>	<b>774.9</b>	<b>502.9</b>

The rental income is mainly attributable to the leasing of land with residential buildings.

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	2006	2005
Operating expenses	211.4	130.2
Maintenance costs	67.4	78.2
Personnel expenses	50.3	29.2
Other taxes	22.9	12.7
Bad debt allowances	9.2	4.2
Administrative expenses	9.0	4.1
Amortization and depreciation on intangible assets and property, plant and equipment	1.9	0.8
Other expenses for real estate management	34.0	11.4
<b>Total</b>	<b>406.1</b>	<b>270.8</b>

**Other taxes** mainly contain real estate tax of €22.9 million (prior year: €12.5 million).

**Other expenses** for real estate management contain third-party property costs amounting to €5.4 million, thereof €3.3 million mainly for advertisement, Creditreform and SCHUFA<sup>1</sup> fees

<sup>1)</sup> SCHUFA = Schutzgemeinschaft für allgemeine Kreditsicherung. Creditreform and SCHUFA are German credit bureaus that supply information about the customers' payment history and save their members from granting risky loans.

and tenant care and €1.8 million for a call center handling the calls by customers. Furthermore, the other expenses contain third-party caretaker services amounting to €5.8 million, occupancy costs amounting to €1.3 million and travel expenses amounting to €1.3 million.

### 3. Profit from the Sale of Investment Property

Profit from the sale of investment property of €155.6 million (prior year: €91.6 million) is attributable to the sale of investment property. After the disposal of the investment properties' carrying amount of €133.0 million, the profit is €22.6 million.

### 4. Profit from Fair Value Measurement

Income totaling €57.5 million (prior year: €67.4 million) from changes in value arose in connection with the measurement of investment property in the fiscal year.

The profit from fair value measurement breaks down as follows:

€ MILLION	2006	2005
Land with leased residential and commercial buildings	55.3	62.7
Land without buildings	– 0.1	– 1.2
Transferable leasehold land	– 1.6	– 0.1
Property of the fully consolidated fractional ownership real estate funds	3.9	6.0
<b>Total</b>	<b>57.5</b>	<b>67.4</b>

### 5. Profit / loss from Other Services

The profit from other services breaks down as follows:

€ MILLION	2006	2005
Revenues from third-party real estate management	5.9	7.9
Revenues from other trade	12.0	2.2
Personnel expenses	– 4.1	– 3.8
Third-party expenses from third-party real estate management	– 1.8	– 3.3
Third-party expenses from other trade	– 4.1	– 3.4
<b>Total</b>	<b>7.9</b>	<b>– 0.4</b>



## 6. Selling Expenses

Expenses that are directly related to the sales success of GAGFAH S.A. are recorded under this item. They are primarily attributable to sales, advertising and public relations.

The selling expenses of €14.1 million contain marketing expenses and expenses for selling prearrangements totaling €2.4 million. For external selling partners there were accrued expenses of €4.3 million.

The remaining selling expenses concern personnel expenses of €4.2 million and various expenses such as costs for office premises and IT totaling €0.3 million and travel expenses of €0.2 million.

## 7. General and Administrative Expenses

€ MILLION	2006	2005
Salaries for administrative staff	23.8	20.5
Costs of office equipment, postage, telephone and IT	6.3	2.6
Amortization and depreciation on intangible assets and property, plant and equipment	4.2	5.5
Audit fees	3.7	1.1
Court and lawyer's fees	3.0	2.3
Costs of owner-occupied commercial buildings	1.7	1.8
Insurance costs	0.7	2.8
Travel expenses	0.7	1.2
Expenses for temporary labor	0.3	0.8
Non-deductible input tax	0.0	1.8
Repair and maintenance of furniture and fixtures	0.0	1.2
Other administrative expenses	7.6	10.0
<b>Total</b>	<b>52.0</b>	<b>51.6</b>

The salaries for administrative staff contain current service cost of €2.5 million (prior year: €1.6 million) due to provisions and similar obligations.

## 8. Expenses for Share-based Remuneration

The expenses for share-based remuneration amounting to €20.4 million result from grants of shares to GAGFAH S.A. staff of €14.2 million and share-based remuneration of €6.2 million to the management. The expenses are allocated to the Group's segments as follows:

€ MILLION	Share-based remuneration	Grant of shares	Total
Real estate management	2.1	5.8	7.9
Real estate sales	1.5	1.2	2.7
Group function	2.6	7.2	9.8
<b>Total</b>	<b>6.2</b>	<b>14.2</b>	<b>20.4</b>

The share-based remuneration to management is an equity-settled plan, which is based on the individual employment contracts of six members of senior management. The managers are entitled to receive a total number of 808,685 shares in individual tranches up to September 30, 2011, provided that they are still employed with the Company. No payments of the managers for these shares are required. In the last quarter of 2006, a total number of 140,872 new shares was granted. Accordingly, a number of 667,813 shares is still outstanding. The value of the shares which have been granted and the value of the shares earned until December 31, 2006, amounted to € 6.2 million.

In addition, a total number of 359,501 new shares was granted to the staff of GAGFAH S.A. These shares can not be sold by the employees prior to April 19, 2007. GAGFAH S.A. also took over the taxes on the fringe benefit associated with this grant. The total expense related to this grant amounted to € 14.2 million.

## 9. Other Operating Income

All income not directly allocable to the various functional areas is disclosed under other operating income totaling €25.7 million (prior year: €38.1 million).

Other operating income breaks down as follows:

€ MILLION	2006	2005
Income of the reversal of provisions	14.2	0.7
Income from asset disposal	1.0	0.0
Transferable leasehold land interest	0.2	0.8
Elimination of liabilities	0.2	1.5
Income from recognition of goodwill	0.0	15.0
Income from the sale of associates / other financial assets	0.0	9.9
Reimbursement of processing fees	0.0	1.5
Receipt of receivables written off in prior years	0.0	1.3
Other	10.1	7.4
<b>Total</b>	<b>25.7</b>	<b>38.1</b>

The income of the reversal of provisions contains mainly income from reversal of restructuring provisions (€6.4 million) and legal proceedings (€4.0 million). The conditions for those provisions were no longer met. The reversal of restructuring provisions results from changes in plan. The changes in plan were necessary as a consequence of external circumstances. The provision for legal proceedings was released after settlement out of court.

The income from recognition of goodwill in 2005 resulted from a restatement of the minority interests. Please refer to section A. for a description of the restatement.

## 10. Other Operating Expenses

All expenses not directly allocable to the various functional areas are disclosed under other operating expenses totaling €17.3 million (prior year: €13.6 million). These include IPO costs of €7.2 million (prior year: €0.0 million), administrative expenses of €2.4 million (prior year: €1.9 million), losses on the disposal of non-current assets of €0.5 million (prior year: €0.5 million) and bad debt allowances of €0.3 million (prior year: 0.1 million). The prior year's expenses included a contribution of €5.0 million to a non-profit association for tenants in arrears.

## 11. Restructuring Expenses

The restructuring expenses break down as follows:

€ MILLION	2006	2005
Severance payments and release expenses	19.0	30.9
Consulting fees	15.4	20.9
Costs of staff borrowing, personnel costs	2.0	0.0
Modification / closing customer centers	0.0	9.4
Cost of land register entries	0.0	5.4
Other	3.4	0.9
<b>Total</b>	<b>39.8</b>	<b>67.5</b>

We refer to section E. 14.2 (Other Provisions).

## 12. Profit / Loss from Other Financial Assets

The profit / loss from other financial assets comprises income from profit distribution of €0.3 million (prior year: €0.6 million). Impairment losses (prior year: €1.5 million) did not occur.

### 13. Interest Expense (Periodical) and Profit from the Fair Value Measurement of Derivatives

The current interest expense of €218.3 million (prior year: €180.5 million) mainly relates to interest on liabilities to banks. The item includes expenses from term loans of €154.6 million and expenses from loans left in place of €27.6 million. Another €12.4 million relates to accrued interest.

The interest expenses from term loans mainly concern expenses from global loans, thereof €87.6 million relating to a global loan for the GAGFAH subgroup, €27.6 million attributable to a global loan granted to the WOBA subgroup and €39.4 million relating to a global loan granted to the NILEG subgroup.

Furthermore, there are interest expenses of €6.1 million (prior year: €8.1 million) from the amortization of the present value of the government loans, €4.6 million (prior year: €4.4 million) from the interest component of the pension obligations and €3.2 million (prior year: €0.0 million) from the HB-Fonds.

The remaining expenses from the interest component of the pension obligations of €0.2 million are recognized under the result from discontinued operations.

Measurement of the derivatives at fair value resulted in a profit of €65.1 million (prior year: €4.2 million). We refer to section H.1 (Financial Risk Management).

### 14. Income Taxes

Income taxes for continued operations break down as follows:

€ MILLION	2006	2005
Trade tax	- 5.9	- 2.0
Corporate income tax	- 1.2	- 1.4
Tax payments (+)/refunds (-) for /from prior years	0.4	0.5
Deferred taxes	- 14.0	8.8
<b>Total</b>	<b>-20.7</b>	<b>5.9</b>

Income taxes for discontinued operations break down as follows:

€ MILLION	2006	2005
Tax payments (+)/refunds (-) for /from prior years	0.1	0.0
Corporate income tax	0.0	- 0.2
Trade tax	0.0	- 0.2
<b>Total</b>	<b>0.1</b>	<b>- 0.4</b>

Based on consolidated net profit / loss before taxes, anticipated income taxes of €66.1 million (prior year: €–80.3 million) were calculated for the fiscal year. This contrasts with effective income taxes of –€20.6 million (prior year: €5.5 million). The anticipated income taxes were calculated on the basis of a tax rate for the Group of 40.44 % (prior year: 40.44 %).

€ MILLION	2006	2005
Result from continued operations before taxes	181.1	– 123.2
Result from discontinued operations before taxes	– 17.7	– 75.4
<b>Net profit / loss before taxes</b>	<b>163.4</b>	<b>– 198.6</b>
<b>Anticipated tax income</b>	<b>– 66.1</b>	<b>80.3</b>
Income taxes not related to the period and other adjustments to current income taxes	0.5	– 1.7
Tax-free income	50.3	45.3
Tax portion for non-deductible expenses	– 12.7	– 7.3
Permanent trade tax effects	– 16.8	– 31.7
Effects of unrecognized deferred taxes on temporary differences	50.5	130.3
Effects of unrecognized deferred taxes on loss carryforwards	– 25.6	– 207.9
Corporate income tax on dividend within profit and loss absorption agreement	– 0.7	0.0
Other tax effects	0.0	– 1.8
<b>Effective income taxes</b>	<b>– 20.6</b>	<b>5.5</b>

Income taxes relating to the period prior to January 1, 2006, are disclosed under income taxes not related to the period and result from intercompany trade. The tax portion for non-deductible expenses mainly relates to non-deductible interest expenses from intercompany loans. The effects in particular of the addition of half of the interest on permanent debt are disclosed under permanent trade tax effects. The effects from the measurement of deferred tax assets that result from the expected realization of deferred taxes are disclosed under the items “change in unrecognized deferred taxes on temporary differences” and “change in unrecognized deferred taxes on loss carryforwards”. The Company qualifies as a securitization vehicle falling within the scope of the Securitisation Law of March 24, 2004. The Company is therefore fully liable to corporate income tax and municipal business tax. However, it is not subject to net worth tax (paragraph 3 of the Net Worth Tax Law of October 16, 1934). Any commitments to investors (i. e. profit distributions) and commitments to other creditors of the Company will be deductible and will not be subject to Luxembourg withholding tax.

## 15. Loss from Discontinued Operations before Taxes

The loss from discontinued operations splits up as follows:

€ MILLION	2006		2005	
	Property construction / development	Commercial real estate	Property construction / development	Commercial real estate
Income from the sale of development properties	90.9	90.9	121.2	0.0
Income from third-party real estate management	1.0	0.0	3.0	0.0
Income from real estate management	0.9	9.5	0.0	2.7
Carrying amount of the development properties sold	– 95.5	– 89.9	– 101.2	0.0
Expenses for development properties	– 0.2	0.0	– 17.1	0.0
Write-downs on development properties	– 9.6	0.0	– 73.9	0.0
Result from fair value measurement	0.0	– 2.3	0.0	– 1.3
Other expenses from the sale of development properties	0.0	0.0	– 0.7	0.0
Expenses from real estate management	– 0.6	– 2.0	0.0	– 1.0
Expenses from third-party real estate management (outside service costs)	– 0.5	0.0	– 0.8	0.0
General and administrative expenses	– 2.3	0.0	– 1.2	– 0.7
Selling expenses	– 6.4	– 0.4	– 2.9	0.0
Other operating income	4.4	0.0	1.0	0.0
Other operating expenses	– 2.1	– 3.5	– 2.5	0.0
<b>Total</b>	<b>– 20.0</b>	<b>2.3</b>	<b>– 75.1</b>	<b>– 0.3</b>

This loss from discontinued operations amounts to €– 0.08 per share (prior year: €– 0.42 per share).

The cash flows from discontinued operations break down as follows:

€ MILLION	2006			2005		
	Property construction / development	Commercial real estate	Total	Property construction / development	Commercial real estate	Total
Operations	17.2	4.6	21.8	– 13.6	1.6	– 12.0
<b>Net cash inflow</b>	<b>17.2</b>	<b>4.6</b>	<b>21.8</b>	<b>– 13.6</b>	<b>1.6</b>	<b>– 12.0</b>

## 16. Result from Minority Interests

€7.2 million (prior year: €2.9 million) of profit / loss relates to minority interests.

<b>MINORITY INTERESTS IN PROFIT / LOSS</b>		
€ MILLION	2006	2005
Minority interests in profit	7.2	2.9
<b>Total</b>	<b>7.2</b>	<b>2.9</b>

The profits and losses attributable to minority interests are allocated to the subgroups as follows: GAGFAH subgroup €4.4 million profit (prior year: €3.1 million profit), NILEG subgroup €2.0 million profit (prior year: €0.2 million loss) and WOBA €0.8 million profit.

The €0.8 million profit from WOBA subgroup consists in a loss of €0.2 million which is contrasted by a profit of €1.0 million due to liabilities received from shareholders.

The net income attributable to minority interests decreased by €2.1 million as of December 31, 2005. For more information about the restatement we refer to section E.12. "Equity".

## 17. Earnings per Share

The earnings per share come to €0.66 (prior year: loss of €1.10). Basic earnings per share are calculated by dividing the net profit for the year distributable to ordinary equity holders of the parent company by the weighted average number of ordinary shares outstanding during the year. The basic earnings per share are equal to the diluted earnings per share.

The calculation is based on an average number of shares of 206,871,679 (prior year: 177,985,467), including the restatement effect of 177 million shares (we refer to Section A). The calculation of earnings per share of 2005 is based on the restated profit figure.

The number of shares as of December 31, 2006, amounted to 225,515,377 (prior year: 0).

## G. Notes to the Consolidated Cash Flow Statement

The consolidated cash flow statement provides additional information on liquidity as part of GAGFAH S.A.'s consolidated financial statements and thus serves to present the Group's financial position. The cash flow statement shows how cash and cash equivalents changed at GAGFAH S.A. over the course of the fiscal year. Cash flows are explained in accordance with IAS 7 and are split up into inflows and outflows of funds from operating activities, investing activities and financing activities.

The cash flows only contain cash and cash equivalents with terms of up to three months in accordance with IAS 7.7. They comprise all cash and cash equivalents disclosed in the balance sheet and break down as follows:

€ MILLION	12-31-2006	12-31-2005
Cash on hand	0.1	0.1
Bank balances		
Time deposits	26.2	44.6
In current accounts	251.4	163.7
Blocked accounts	79.3	2.8
Fund balances	10.0	6.4
<b>Bank balances and cash on hand</b>	<b>367.0</b>	<b>217.6</b>
Trade securities	3.5	0.0
<b>Bank balances, cash on hand and securities</b>	<b>370.5</b>	<b>217.6</b>

Cash and cash equivalents as of the balance sheet date included cash from HB-Fonds of €10.0 million (prior year: €6.4 million) and balances on blocked accounts of €79.3 million (prior year: €2.8 million) to which the GAGFAH S.A. has direct access. The funds result from the sale of investment and development properties. GAGFAH S.A. is committed to use these account balances for reinvestments in investment property.

The cash flows from financing activities include interest paid and costs of procuring money of €60.7 million (prior year: €171.3 million).



## H. Other Notes

### 1. Financial Risk Management

The main financial instruments used by the Group – apart from derivative financial instruments – comprise bank loans, overdrafts, cash and short-term deposits. The primary purpose of these financial instruments is the financing of the Group's continuing operations. Furthermore, the Group has other financial assets and liabilities such as trade receivables and trade payables that directly arise from the Group's operations.

The Group also makes use of derivative financial instruments mainly regarding interest rate swaps. The purpose of these derivatives is the management of interest rate risks resulting from the Group's operating business and financing. The Group's policy states that derivative financial instruments are not used for speculation purposes.

The Group's significant risks arising from financial instruments are interest-rate-based cash flow risks, liquidity risks and credit risk. The Group is not exposed to currency risks.

The following table shows carrying amounts and fair values of all financial instruments included in the Group's financial statements, also including the financial instruments assigned to discontinued operations:

€ MILLION	12-31-2006		12-31-2005	
	Carrying amount	Fair value	Carrying amount	Fair value
<b>Financial assets</b>				
Financial receivables and other operating assets	56.0	56.0	4.3	4.3
Other financial assets	43.5	43.5	4.8	4.8
Bank balances and cash on hand	367.0	367.0	217.6	217.6
<b>Total</b>	<b>466.5</b>	<b>466.5</b>	<b>226.7</b>	<b>226.7</b>
<b>Financial liabilities</b>				
Global loans	5,074.5	4,928.3	3,764.8	3,704.4
Government annuity loans	252.5	257.9	245.5	267.2
Privately financed annuity loans	106.7	103.8	222.7	226.1
Financial liabilities of the funds	70.2	70.2	75.7	75.7
Other financial liabilities	113.6	113.6	44.3	44.3
<b>Total</b>	<b>5,617.5</b>	<b>5,473.8</b>	<b>4,353.0</b>	<b>4,317.7</b>

The market value of the financial liabilities was determined using mathematical methods on the basis of the market information available on the balance sheet date.

The global loans that are contained in the financial liabilities break down as follows (description including transaction costs):

	12-31-2006		12-31-2005	
	€ MILLION	effective interest rate in %	€ MILLION	effective interest rate in %
GAGFAH term loan	2,631.3	3.46	2,610.9	3.89
NILEG term loan	1,156.6	5.63	1,153.9	4.77
Acquisition 1 term loan	139.2	4.42	0.0	0.00
WOBA term loan	1,147.4	4.82	0.0	0.00
<b>Total</b>	<b>5,074.5</b>	<b>4.34</b>	<b>3,764.8</b>	<b>4.11</b>

#### HEDGING POLICIES AND FINANCIAL DERIVATIVES

On December 31, 2006, the derivative financial instruments of GAGFAH S.A. comprised option agreements and interest rate swaps.

The method used for recording gains or losses depends on whether the derivative was a designated hedge and whether hedge accounting was used in the financial statements.

The fair value of derivative financial instruments depends on fluctuations in the underlying interest rates and other variable market factors.

The fair value of these derivatives is disclosed in the balance sheet on the assets side under the item "Other financial assets" or on the liabilities side under the item "Other liabilities".

#### INTEREST RATE SWAPS

In the business year 2006, GAGFAH S.A. used partial amounts of interest rate swaps to hedge future cash flows from variable-rate loans. Up to now, the remaining amounts are not designated to be hedging instruments. Because of a violation of the hedging efficiency limits, partial amounts of the swaps were taken out of the hedge accounting.

All swap agreements were concluded exclusively with reputable financial institutions in accordance with specific Group guidelines as regards approval, restriction and management.

Interest rate swaps are accounted for at fair value and disclosed under the balance sheet items "Other financial assets" or "Financial receivables and other financial assets" depending on their maturity. The effective portion of profit or loss from the hedging instruments is recognized directly under equity.

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

€ MILLION	12-31-2006	12-31-2005
Nominal value of interest rate swaps	2,301.0	1,100.0
Fair value of interest rate swaps	72.4	4.3
Revaluation reserve	- 0.6	0.0

As of December 31, 2006, a loan amount of €740.3 million meets the criteria of effective hedge accounting according to IAS 39.88.

The market values of the interest rate swaps are determined and monitored at regular intervals on the basis of the market data available on the balance sheet date and suitable valuation methods. The calculations as of December 31, 2006, were based on the following term structures:

Interest rate for six months	3.8600 %
Interest rate for one year	4.0290 %
Interest rate for five years	4.0945 %
Interest rate for ten years	4.1695 %

The residual term of the interest rate swaps is more than five years – the same as the residual term of the underlying global loan.

As of December 31, 2006, a total of €65.1 million from the change in the fair value of the interest rate swap was recognized through profit or loss in the item “Result from the fair value measurement of derivatives”.

#### OPTION AGREEMENTS

At the end of the fiscal year, GAGFAH S.A. Group entities had two option agreements on shares in German limited liability companies.

The assets linked to the option agreements do not have a quoted market price in an active market. Furthermore, the fair value cannot be measured using a recognized method due to the lack of measurement parameters.

For this reason, the existing option agreements are recognized at (historical) cost in line with IAS 39.46c and IAS 39 AG80.

The (historical) cost of all option agreements amounted to €0k.

The first option agreement contains a call option of NBN Norddeutsche Beteiligungsgesellschaft für Immobilien in Niedersachsen m.b.H. (buyer), who, at any time until December 31, 2008, has the right to acquire the shares in Städtische Wohnungsbau GmbH Göttingen, Wohnungsgesellschaft m.b.H für den Landkreis Goslar, Lehrter Wohnungsbau GmbH, Lehrte, and Wohnungsbaugesellschaft mit beschränkter Haftung, Salzgitter, at a fixed price as defined in the agreement. However, NILEG Norddeutsche Immobilien-gesellschaft m.b.H. (seller) has the opportunity to prevent the buyer from exercising this option by paying the buyer a fixed amount.

Furthermore, this option agreement contains a put option for the seller, who, at any time between October 1, 2010, and December 31, 2011, has the right to sell the above-mentioned shares at the same fixed price.

The second option agreement contains a put option which entitles NEPTUNO to sell its shares in NILEG Real Estate GmbH and NILEG Real Estate GmbH & Co. Management KG at the fixed price of €10.1 million at any time to a company to be named by NILEG. This option right is not subject to any time limit. The corresponding liability is included in financial liabilities (we refer to E. 16.1).

The options existing as of the balance sheet date break down as follows:

€ MILLION	12-31-2006	12-31-2005
<b>Put option (writer):</b>		
Nominal volumes	10.1	9.7
(Historical) cost	0.0	0.0
<b>Call option (writer):</b>		
Nominal volumes	9.5	9.5
(Historical) cost	0.0	0.0
<b>Put option:</b>		
Nominal volumes	9.5	9.5
(Historical) cost	0.0	0.0

Financial risks comprise one of the main risk categories of the GAGFAH S.A. Group entities. For this reason, the future success of the Company depends heavily on the systematic handling of financial risks through recognition, analysis and action.

The monitoring, control and proper analysis of the business opportunities available to the GAGFAH S.A. Group entities and the risks they face form an important part of the Company culture.

The risk management system of GAGFAH S.A. covers the following areas

- Risk policies and guidelines
- Risk inventory
- Risk analysis / assessment
- Risk management
- Risk monitoring.

Risks are managed in a qualified and timely manner in accordance with the risk management policies defined by management. The guidelines define roles and responsibilities, lay the foundation of the risk management system and provide the framework for the assessment and management of risks. Risks are managed in a proactive manner using the early warning system. The internal audit function monitors compliance with the guidelines.

The risk management procedures applied to the key categories of financial risk of the GAGFAH S.A. Group entities are described below:

#### **INTEREST RATE RISK**

Interest rate risks include the risk that future expected cash flows from a financial instrument could fluctuate due to changes in the market interest rate.

In particular, GAGFAH S.A. faces the risk of interest rate fluctuations in the area of financing. It is company policy to mitigate these risks using financial derivatives. Derivatives are only used to manage interest rate risks and exclusively serve hedging purposes. Pure trading transactions without an underlying transaction (speculative transactions) are not entered into.

The Group is mainly financed by a variable-interest long-term loan ("global loan"). The resulting interest rate risks could have an effect on cash flow. To mitigate or avoid these interest rate risks, GAGFAH S.A. has entered into a corresponding interest rate swap.

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

When entering into hedging transactions, the Group only selects as partners reputable national and international banks whose credit rating is reviewed regularly by rating agencies.

Management receives regular reports on interest rate risk factors for GAGFAH S.A. The strategies pursued by the Company allow the use of derivatives if there are underlying assets or liabilities, contractual claims or obligations or planned operating transactions.

**LIQUIDITY RISK**

Liquidity risk is the risk that an entity may not be in a position to raise funds to meet commitments associated with a contract. Liquidity risk arises from the possibility that tenants may not be able to settle obligations to the Company under the terms of the lease agreements.

Furthermore, liquidity risk also comprises the risk that financial assets cannot be sold quickly at fair value due to market bottlenecks (market liquidity risk).

A liquidity plan based on a fixed planning horizon ensures that the GAGFAH S.A. Group entities have sufficient liquidity at all times.

GAGFAH S.A. helps its subsidiaries with certain financing arrangements by providing guarantees. These guarantees pose a risk in as much as they could be utilized. GAGFAH S.A. monitors these risks in close collaboration with its subsidiaries and takes appropriate measures where necessary.

**CREDIT RISK**

Credit risk from financial assets comprises the danger that a contractual partner defaults and therefore amounts at most to the positive fair value of the asset vis-à-vis the relevant counterparty.

With regard to primary financial instruments, credit risk is accounted for by the recognition of bad debt allowances.

Derivative financial instruments are only entered into with reputable banks. This helps to limit the actual credit risk of these instruments.

**RISKS FROM EQUITY INVESTMENTS**

Financial risks from equity investments result from a negative deviation from planned income or possible expenses from equity investments.

The risks are managed with the support of the central functions of GAGFAH S.A., which influences the equity investments and offers them administrative support.

**CURRENCY RISK**

Currency risk results from the fact that the value of a financial instrument can change due to exchange rate fluctuations.

The GAGFAH S.A. Group entities do not currently generate cash flows in foreign currencies. As a result, they are not exposed to exchange rate risks.

## 2. Joint Ventures

The joint ventures serve the development and subsequent sale of property. Per year-end, the following entities were consolidated with a 50 % share in their net assets, liabilities, income and expenses: Objekt Kassel GbR, Objekt Dresden GbR, Lühnde IHG, NILEG GbR and Grundstücksentwicklungsgesellschaft Oesselse "Langes Feld" GbR.

The Group's share breaks down as follows:

€ MILLION	2006	2005
Current assets	0.3	15.0
Current liabilities	0.3	1.2
Non-current liabilities	0.0	12.8
	<b>0.0</b>	<b>1.0</b>
Income	7.0	0.3
Expenses	6.2	0.3

The Group's share in the prior year also included the NILEG & cds Wohnbau Verwaltungsgesellschaft mbH and the NILEG & cds Wohnbau GmbH & Co. KG. The companies were sold in 2006. We refer to section B.1.

## 3. Contingent Liabilities and Other Financial Obligations

### CONTINGENT LIABILITIES

At the balance sheet date there were contingent liabilities not evident from the balance sheet amounting to €3.0 million (prior year: €8.4 million). The contingent liabilities mainly contain guarantees for construction projects (detached houses) not yet realized according to the MaBV<sup>3</sup>.

Furthermore, there were contingent liabilities amounting to €4.2 million relating to restructuring expenses for employees which have not yet subscribed their leaving contract.

### OTHER FINANCIAL OBLIGATIONS

At the balance sheet date there were outstanding obligations due to tenancies totaling €1.7 million that are payable within one year.

The leasing contracts are short-term. Neither renewal and rent adjustment clauses nor purchase options exist.

<sup>3</sup>) MaBV = Makler- und Bauträgerverordnung; German Brokers' and Commercial Developers' Ordinance.

## 4. Number of Employees and Personnel Expenses

An average of 1,455 employees was employed by the Group in the fiscal year. The average number of employees is presented below, broken down by business area and function:

	2006		2005	
	Full-time employees	Part-time employees	Full-time employees	Part-time employee
Authorized signatories / authorized agents	60	0	40	0
Salaried employees	836	70	816	124
Wage earners	413	31	336	29
	<b>1,309</b>	<b>101</b>	<b>1,192</b>	<b>153</b>

Furthermore, the Group had an average of 45 (prior year: 46) trainees and 307 (prior year: 143) other part-time staff in the fiscal year.

Personnel expenses came to €128.6 million (prior year: €80.1 million) and break down as follows:

€ MILLION	2006	2005
Wages and salaries	92.5	66.8
Social security	27.6	8.7
Pension costs	4.5	4.4
Other benefit costs	4.0	0.2
<b>Total</b>	<b>128.6</b>	<b>80.1</b>

Wages and salaries contain share bonuses amounting to €20.5 million (prior year: €0.0 million).

## 5. Related Party Transactions

**Natural persons** related to GAGFAH S.A. within the meaning of IAS 24.9 are the management of GAGFAH S.A. and close family members (e. g. spouses, children) of the aforementioned persons.

**Related parties** of GAGFAH S.A. within the meaning of IAS 24.9 include the ultimate parent company, all subsidiaries and associates as well as certain companies not included in the consolidated financial statements.

Related parties that are controlled by GAGFAH S.A. or over which GAGFAH S.A. may exercise significant influence are included in the consolidated financial statements and recorded in the list of shareholdings showing the relevant share capital in Exhibit 1.



GAGFAH S.A., Luxembourg, is majority-owned by various investment funds which are managed by Fortress Investment Group LLC. Fortress Investment Group LLC exercises common control over the following entities:

- Fortress Subsidiary (GAGACQ) LLC
- FABP Subsidiary (GAGACQ) LLC
- Fortress Investment Fund III LP
- Fortress Investment Fund III (Fund B) LP
- Fortress Investment Fund III (Fund C) LP
- Fortress Investment Fund III (Fund D) LP
- Fortress Investment Fund III (Fund E) LP
- Fortress Subsidiary (GAGACQ) Investors LP
- Fortress Subsidiary (GAGACQ) Co-Investor (Cayman) LP
- Fortress Investment Fund III (Coinvestment Fund A) LP
- Fortress Investment Fund III (Coinvestment Fund B) LP
- Fortress Investment Fund III (Coinvestment Fund C) LP
- Fortress Investment Fund III (Coinvestment Fund D) LP
- Fortress Residential Investment Deutschland (Fund A) LP
- Fortress Residential Investment Deutschland (Fund B) LP
- Fortress Residential Investment Deutschland (Fund C) LP
- Fortress Residential Investment Deutschland (Fund D) LP
- Drawbridge Special Opportunities Fund LP
- Drawbridge Special Opportunities Fund Ltd.

Accordingly, these entities are also related parties to GAGFAH S.A. In addition, Fortress Investment Group LLC controls a multitude of other entities which, however, are not relevant for the business of GAGFAH S.A.

All transactions with related parties are executed at arm's length on the basis of international methods of price comparison in accordance with IAS 24.

## 6. Management

### 6.1. BOARD OF DIRECTORS

#### MEMBERS

Wesley R. Edens	Director	(since September 29, 2006)
Robert I. Kauffman	Director	(since September 29, 2006)
Randal A. Nardone	Director	(since September 29, 2006)
Burkhard U. Drescher	Director	(since October 5, 2006)
Dr. Jürgen Allerkamp	Independent Director	(since October 5, 2006)
Dieter H. Ristau	Independent Director	(since October 5, 2006)
Yves Wagner	Independent Director	(since October 5, 2006)

#### Total Remuneration and Loans Granted

Wesley R. Edens, Robert I. Kauffman, Randal A. Nardone and Burkhard U. Drescher are not party to service agreements with the Company and receive no compensation as Board members. They are reimbursed for expenses associated with the attendance of Board meetings.

Yves Wagner, Dieter H. Ristau and Dr. Jürgen Allerkamp are party to service agreements with the Company and receive compensation for their services as Board members and are reimbursed for their expenses. Such compensation consists of, on an annual basis, €25,000 plus 5,000 shares in the Company. The service agreements do not provide for the receipt of any benefits upon termination of such service agreements.

We provide all Board members with directors' and officers' insurance. The total compensation paid to members of the Board in 2006 is expected to be €75,000 plus 15,000 shares in the Company.

As of December 31, 2006, no advances or loans had been granted to members of the Board.

### 6.2. SENIOR MANAGEMENT

#### Members

Members of the senior management of the Company's subsidiaries are integral to the management of the Company's subsidiaries. With the exception of Burkhard U. Drescher, members of the Board are not members of the senior management of the Company's subsidiaries. As a result, of the members of the Board, only Mr. Drescher is active in the day-to-day management of the subsidiaries.

The following individuals are members of the senior management of the Company's respective subsidiaries GAGFAH, NILEG and WOBA subgroup:

Burkhard U. Drescher	Managing Director (Chief Executive Officer)	since September 1, <sup>2</sup> / September 14, <sup>1</sup> / December 13, 2006 <sup>3</sup>
Jörg Deisel	Managing Director (Chief Operating Officer)	since December 13, 2006 <sup>3</sup>
Worna Zohari	Managing Director (Chief Sales Officer)	since December 13, 2006 <sup>3</sup>
Martin E. Löffler	Managing Director (Chief Financial Officer)	since January 19, <sup>1</sup> / February 14, <sup>2</sup> / December 13, 2006 <sup>3</sup>
Dr. Ulrich Weber	Managing Director (Chief Investment Officer)	since October 17, <sup>1</sup> / November 29, <sup>2</sup> / December 13, 2006 <sup>3</sup>
Rainer Seifert	Managing Director (Chief Technical Officer)	since November 29, <sup>2</sup> / December 7, <sup>1</sup> / December 13, 2006 <sup>3</sup>
A. Udo Bachmann	Managing Director	until July 31, 2006 <sup>1,2</sup>
Wilhelm Gehrke	Managing Director	until April 30, 2006 <sup>1,2</sup>
Matthias Moser	Managing Director	until August 29, <sup>1</sup> / December 13, 2006 <sup>3</sup>
Robert I. Kauffman		until December 13, 2006 <sup>3</sup>

1) concerns GAGFAH subgroup

2) concerns NILEG subgroup

3) concerns WOBA subgroup

#### TOTAL REMUNERATION AND LOANS GRANTED

Current management remuneration comprises a fixed, a variable as well as a share-based component. In fiscal year 2006, the managers of the subgroups received remuneration totaling €5.5 million (prior year: €1.6 million) for the performance of their duties within the Group.

Of total remuneration, €1.6 million (prior year: €0.9 million) relate to fixed remuneration, €1.5 million (prior year: €0.9 million) to basic remuneration and €0.1 million (prior year: €0.1 million) to fixed benefits in kind, which mainly comprise the provision of company cars.

The variable component (management bonuses) totaling €1.0 million (prior year: €0 million) includes annually recurring components linked to the success of the Company.

Additionally, management received share-based remuneration amounting to €2.7 million (prior year: €0 million).

As of December 31, 2006, no advances or loans had been granted to managers.

#### **PENSION OBLIGATIONS AND OTHER PENSION BENEFITS**

Under certain circumstances, members of management are entitled to pension payments. The pension entitlement is calculated as a percentage from part of the employee's fixed salary. The percentage is dependent on the employee's function on the management board and the length of office.

Pensions totaling € 0.3 million (prior year: € 0.3 million) were paid to former managers and their dependents in the fiscal year. The provision for this Group of people amounts to € 3.8 million (prior year: € 4.9 million).

#### **JUBILEE COMMITMENTS**

Obligations to pay jubilee commitments do not exist.

#### **SEVERANCE PAYMENTS**

The subgroups have contractual arrangements with the members of management that regulate the granting of severance payments in the event of early retirement.

In fiscal year, severance payments amounting to € 1.7 million (prior year: € 0 million) were made.

## **7. Events After the Balance Sheet Date**

#### **ACQUISITION OF GBH GROUP**

On November 9, 2006, GBH Acquisition GmbH, a wholly-owned subsidiary of GAGFAH S.A., signed five purchase agreements to acquire 6,248,902 shares of Grundstücks- und Baugesellschaft Aktiengesellschaft, Heidenheim (GBH AG), i. e. 86.8 % of the shares issued by GBH AG. The purchase price amounts to € 48.00 per share. Furthermore, for the dividends payable for fiscal year 2006, the vendors of the shares receive a compensation payment of € 0.35 per share. On January 4, 2007, all the preconditions were fulfilled and the transfer of the shares to GBH Acquisition GmbH became effective.

On December 15, 2006, GBH Acquisition GmbH published a tender offer for the remaining shares at a purchase price of € 49.35 per share. As of February 23, 2007, GBH Acquisition GmbH's investment in GBH AG amounts to 6,658,232 shares or about 92.48 % of the shares issued.

As of year-end 2005, the GBH Group with its subsidiaries owned 9,019 residential units and 64 commercial units.

#### **ACQUISITION OF APH**

On December 22, 2006, Blitz Bo6-615 GmbH (change of name to "GAGFAH Acquisition 3 GmbH" and office relocation to Essen resolved but not yet entered in the

commercial register) and GAGFAH M Immobiliengesellschaft mbH ("GAGFAH M") submitted an offer to the shareholders of Apellas Property Holding GmbH ("APH") to purchase APH's shares as well as certain shareholder loans. On January 9, 2007, the sellers accepted that offer. The purchase agreement contained several conditions precedent, which were all fulfilled on January 7, 2007. According to the purchase agreement, GAGFAH Acquisition 3 GmbH acquired 94.8 % of APH's shares as well as all shareholder loans. GAGFAH M acquired the remaining 5.2 % of the shares.

Both acquisitions probably will have an impact on overall profit or loss. The disclosures required by IFRS 3.67 and IFRS 3.70 have not been made as they are impracticable. The disclosures required by IFRS 3.67 have not been made since the acquired company prepared its financial statements in accordance with the German Commercial Code ["Handelsgesetzbuch": HGB] and the calculation of the IFRS carrying amounts would involve undue cost and effort. The disclosures required by IFRS 3.70 have not been made since, due to the length of the period of less than one month, the preparation of interim financial statements for all the individual companies for the period would involve undue cost and effort.

## 8. Declaration of the Board of Directors

GAGFAH S.A.'s Board of Directors assumes responsibility for the preparation, completeness and accuracy of the consolidated financial statements and Group management report as well as for other information contained in the annual report.

These consolidated financial statements have been drawn up in compliance with International Financial Reporting Standards (IFRSs) as adopted by the EU.

An effective internal monitoring and control system ensures that data used for preparing the consolidated financial statements are complete and reliable. The system is based on uniform Group guidelines on accounting, risk management, an integrated control concept as part of value-based management, and reviews performed by the internal audit function. This allows the Board of Directors to identify significant risks at an early stage and implement the necessary countermeasures.

Luxembourg, February 23, 2007

GAGFAH S.A.

The Board of Directors

Drescher  
Allerkamp

Edens  
Ristau

Kauffman  
Wagner

Nardone

(1) List of Shareholdings

Company name	Registered office	Share in capital	Held by
<b>Subsidiaries Included in the Consolidated Financial Statements</b>			
1. GAGFAH S.A. Luxembourg	Luxembourg,		
2. GAGFAH GmbH Germany	Essen, 83 %	17 % 71	72
3. GAGFAH I Invest GmbH & Co.KG (GAGFAH I)	Essen, Germany	100 %	2
4. GAGFAH M Immobilien Management GmbH (GAGFAH M)	Essen, Germany 94 %	6 % 3	2
5. GAGFAH A Asset GmbH & Co. KG (GAGFAH A)	Essen, Germany	100 %	4
6. GAGFAH Projektentwicklungs- und Projektsteuerungsgesellschaft mbH (GAGFAH P)	Essen, Germany	100 %	4
7. VHB Grundstücksverwaltungsgesellschaft "Haus- und Bodenfonds" mbH (VHB)	Essen, Germany	100 %	4
8. Neues Schweitzer Viertel Betriebs- + Service GmbH & Co. KG (SVB)	Berlin, Germany	94.99 %	4
9. GSW Wohnbau GmbH (GSW)	Freiburg, Germany	94.90 %	4
10. Schweitzer Viertel Grundstücks GmbH (SV)	Berlin, Germany 5.26 %	94.74 % 8	4
11. IVS Schrömgens & Stephan Immobilienversicherungsservice GmbH (IVS)	Düsseldorf, Germany	100 %	4
12. HaBeGe Bau- und Projektentwicklungsgesellschaft mbH (HaBeGe)	Cologne, Germany 5.10 %	94.90 % 9	4
13. GAGFAH B Beteiligungs GmbH (GAGFAH B)	Essen, Germany	100 %	4
14. Media Home GmbH & Co. KG (MH)	Essen, Germany	51 %	4
15. Media Home Verwaltung GmbH (MHV)	Essen, Germany	51 %	4
16. GbR Essen, Stadtwaldplatz	Essen, Germany 6 %	94 % 8	4
17. Haus- und Boden- Fonds 5	Essen, Germany	66.83 %	3
18. Haus- und Boden- Fonds 6	Essen, Germany	88.19 %	3
19. Haus- und Boden- Fonds 7	Essen, Germany	75.75 %	3
20. Haus- und Boden- Fonds 8	Essen, Germany	73.50 %	3
21. Haus- und Boden- Fonds 9	Essen, Germany	72.79 %	3
22. Haus- und Boden- Fonds 10	Essen, Germany	73.36 %	3
23. Haus- und Boden- Fonds 11	Essen, Germany	72.69 %	3
24. Haus- und Boden- Fonds 12	Essen, Germany	81.05 %	3
25. Haus- und Boden- Fonds 13	Essen, Germany	77.04 %	3
26. Haus- und Boden- Fonds 14	Essen, Germany	61.81 %	3
27. Haus- und Boden- Fonds 15	Essen, Germany	71.37 %	3
28. Haus- und Boden- Fonds 18	Essen, Germany	71.54 %	3
29. Haus- und Boden- Fonds 19	Essen, Germany	74.11 %	3
30. Haus- und Boden- Fonds 21	Essen, Germany	70.30 %	3
31. Haus- und Boden- Fonds 23	Essen, Germany	53.93 %	3
32. Haus- und Boden- Fonds 29	Essen, Germany	62.27 %	3
33. Haus- und Boden- Fonds 33	Essen, Germany	56.90 %	3
34. Haus- und Boden- Fonds 35	Essen, Germany	57.61 %	3
35. Haus- und Boden- Fonds 37	Essen, Germany	47.79 %	3
36. Haus- und Boden- Fonds 38	Essen, Germany	53.94 %	3
37. NILEG Immobilien Holding GmbH (NILEG)	Hanover, Germany	100 %	1
38. WTCH-World Trade Center Hannover GmbH (WTCH)	Hanover, Germany	100 %	37

Company name	Registered office	Share in capital	Held by
<b>Subsidiaries Included in the Consolidated Financial Statements</b>			
39. NORD / LB-Immobilien-gesellschaft für Mecklenburg-Vorpommern mbH (NORD / IMG)	Schwerin, Germany	100 %	37
40. Norddeutsche Wohnungsbau-Beteiligungs GmbH & Co. KG (NWB)	Hanover, Germany	100 %	37
41. Osnabrücker Wohnungsbau GmbH (OWG)	Osnabrück, Germany	94.10 %	40
42. OWG Asset GmbH & Co. KG	Osnabrück, Germany	100 %	41
43. NILEG Real Estate GmbH	Hanover, Germany	94.81 %	37
44. NILEG Real Estate GmbH & Co. Management KG	Hanover, Germany	94.81 %	37
45. NILEG Norddeutsche Immobilien-gesellschaft mbH (NILEG GmbH)	Hanover, Germany	94 % 5.685 %	43 37
46. NILEG Commercial Asset GmbH & Co. KG	Hanover, Germany	100 %	45
47. NILEG Resident. Asset GmbH & Co. KG	Hanover, Germany	100 %	45
48. WG Norden Beteiligungsgesellschaft GmbH	Hanover, Germany	100 %	53
49. WBN Beteiligungs GmbH	Hanover, Germany	100 %	55
50. OWG Beteiligungs GmbH	Hanover, Germany	100 %	40
51. NILEG Beteiligungs GmbH	Hanover, Germany	100 %	45
52. Scholz-Hofheim GmbH & Co. KG	Wetzlar, Germany	100 %	45
53. Wohnungsgesellschaft Norden GmbH (WG Norden)	Hanover, Germany	94.88 %	45
54. WGNorden Asset GmbH & KG	Hanover, Germany	100 %	53
55. Wohnungsbau Niedersachsen GmbH (WBN)	Hanover, Germany	94.85 %	53
56. WBN Asset GmbH & Co. KG	Hanover, Germany	100 %	55
57. NILEG Immobilienservice GmbH (NILEG IS)	Hanover, Germany	100 %	55
58. WBO GmbH	Hanover, Germany	100 %	37
59. WOBA Holding GmbH	Munich, Germany	100 %	1
60. Blitz 05-661 GmbH	Munich, Germany	94.9 %	59
61. Opera Co-Acquisition GmbH & Co. KG	Munich, Germany	94.9 %	59
62. WOBA GmbH	Dresden, Germany	100 %	59
63. Immo Service Dresden GmbH	Dresden, Germany	100 %	62
64. Dienstleistungs- und Bauhof Dresden GmbH	Dresden, Germany	100 %	63
65. Bau- und Siedlungsgesellschaft Dresden mbH	Dresden, Germany	94.73 % 5.27 %	62 61
66. Liegenschaften Weissig GmbH	Dresden, Germany	94.73 % 5.27 %	62 61
67. Wohnbau Nordwest GmbH	Dresden, Germany	94.9 % 5.1 %	62 61
68. SÜDOST WOBA GmbH	Dresden, Germany	94.9 % 5.1 %	62 61
69. PARKHAUS PROHLIS GmbH	Dresden, Germany	70 %	68
70. Immobilien-Vermietungsgesellschaft Knappertsbusch & Co & SÜD OST WOBA Striesen KG	Leipzig, Germany	0.02 %	68
71. GAG ACQ Ireland	Clonee, Ireland	100 %	1
72. UC ACQ Ireland	Clonee, Ireland	<sup>5</sup>	<sup>5</sup>
73. GAGFAH Operations Advisors GmbH Germany	Frankfurt / Main, Germany	17 % 83 %	72 71
74. GAGFAH Acquisition 1 GmbH	Essen, Germany	100 %	1
75. GAGFAH Acquisition 2 GmbH	Berlin, Germany	100 %	1
76. GAGFAH Acquisition 3 GmbH	Berlin, Germany	100 %	1
77. GBH Acquisition GmbH	Essen, Germany	100 %	1

Joint Ventures (as defined by IAS 31) Included in the Consolidated Financial Statements  
on a Proportionate Basis

Company name	Registered office	Share in capital	Held by
78. Objekt Kassel GbR	Hanover, Germany	50 %	45
79. Objekt Dresden GbR	Hanover, Germany	50 %	45
80. Lühnde IHG und NILEG GbR	Hildesheim, Germany	50 %	45
81. Grundstücksgesellschaft Oesselse "Langes Feld" GbR	Hildesheim, Germany	50 %	45

Other Financial Assets of 20 % or More

Company name		Share in capital	Total equity €'000	Net profit / loss €'000	Held by
82. S-Immobilienmanagement GmbH & Co. KG	Göttingen, Germany	50 %	104 <sup>1</sup>	69 <sup>1</sup>	45
83. Hannover Region Grundstücksgesellschaft Verwaltung mbH & Co. Businesspark Hannover Nord KG	Hanover, Germany	33.33 %	848 <sup>3</sup>	– 81 <sup>3</sup>	45
84. IDB Königsdamm GmbH & Co. KG	Tostedt, Germany	33.33 %	1560 <sup>2</sup>	244 <sup>2</sup>	45
85. Wohnungsbaugesellschaft mbH Salzgitter	Braunschweig, Germany	25.05 %	34,664 <sup>4</sup>	1,045 <sup>4</sup>	45
86. Lehrter Wohnungsbau GmbH	Hildesheim, Germany	28.44 %	10,322 <sup>4</sup>	471 <sup>4</sup>	45
87. Wohnstätten Wohnungsgesellschaft mbH	Hanover, Germany	20 %	1,196 <sup>3</sup>	167 <sup>3</sup>	45
88. WBV Wohnbau Betreuungs- & Verwaltungs GmbH	Salzgitter, Germany	100 %	26 <sup>4</sup>	0 <sup>4</sup>	85
89. Dreisam Wohn und Gewerbebau GmbH	Freiburg, Germany	52 %	0 <sup>1</sup>	– 20 <sup>1</sup>	9

1) As of December 31, 2005

2) As of December 31, 2006

3) As of December 31, 2003

4) As of December 31, 2004

5) The Company is fully consolidated due to a domination agreement in place.



# Statement of Changes in Consolidated Non-current Assets

€ MILLION	ACQUISITION OR PRODUCTION COSTS					Dec. 31, 2006
	Jan. 1, 2006 (restated)	Change in the consolidated Group	Additions	Disposals	Reclassifications	
<b>Intangible assets</b>						
Industrial rights	5.2	0.6	1.4	0.0	0.0	7.2
Goodwill	2.1	0.0	0.0	0.0	0.0	2.1
	<b>7.3</b>	<b>0.6</b>	<b>1.4</b>	<b>0.0</b>	<b>0.0</b>	<b>9.3</b>
<b>Property, plant and equipment</b>						
Land and buildings (owner-occupied)	59.1	0.0	0.1	0.0	0.0	59.2
Technical equipment and machines	19.4	0.0	0.9	0.0	0.1	20.4
Other equipment, furniture and fixtures	19.2	1.5	2.0	1.6	0.0	21.1
Assets under construction	7.3	2.1	15.5	4.9	– 19.7	0.3
Pre-construction expenses	0.4	0.0	0.0	0.4	0.0	0.0
Payments on account	28.3	0.0	0.0	0.0	– 28.3	0.0
	<b>133.7</b>	<b>3.6</b>	<b>18.5</b>	<b>6.9</b>	<b>– 47.9</b>	<b>101.0</b>
<b>Equity investments measured using the equity method</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>
<b>Other financial assets</b>						
Investments	4.5	0.0	15.0	1.0	0.0	18.5
other loan receivables	1.7	0.0	0.0	1.4	0.0	0.3
other financial assets	0.0	0.0	25.5	0.0	0.0	25.5
	<b>6.2</b>	<b>0.0</b>	<b>40.5</b>	<b>2.4</b>	<b>0.0</b>	<b>44.3</b>
<b>Total</b>	<b>147.2</b>	<b>4.2</b>	<b>60.4</b>	<b>9.3</b>	<b>– 47.9</b>	<b>154.6</b>

	ACCUMULATED DEPRECIATION						BOOK VALUE
	Jan. 1, 2006 (restated)	Change in the consolidated Group	Additions	Disposals	Reclassifications	Dec. 31, 2006	Dec. 31, 2006
	2.7	0.0	1.5	0.0	0.0	4.2	3.0
	0.0	0.0	0.0	0.0	0.0	0.0	2.1
	<b>2.7</b>	<b>0.0</b>	<b>1.5</b>	<b>0.0</b>	<b>0.0</b>	<b>4.2</b>	<b>5.1</b>
	15.1	0.0	1.0	0.0	0.0	16.1	43.1
	5.1	0.0	1.9	0.0	0.0	7.0	13.4
	13.5	0.0	2.1	0.7	0.0	14.9	6.2
	4.4	0.0	0.0	4.4	0.0	0.0	0.3
	0.4	0.0	0.0	0.4	0.0	0.0	0.0
	0.0	0.0	0.0	0.0	0.0	0.0	0.0
	<b>38.5</b>	<b>0.0</b>	<b>5.0</b>	<b>5.5</b>	<b>0.0</b>	<b>38.0</b>	<b>63.0</b>
	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>
	1.4	0.0	0.0	0.6	0.0	0.8	17.7
	0.0	0.0	0.0	0.0	0.0	0.0	0.3
	0.0	0.0	0.0	0.0	0.0	0.0	25.5
	<b>1.4</b>	<b>0.0</b>	<b>0.0</b>	<b>0.6</b>	<b>0.0</b>	<b>0.8</b>	<b>43.5</b>
	<b>42.6</b>	<b>0.0</b>	<b>6.5</b>	<b>6.1</b>	<b>0.0</b>	<b>43.0</b>	<b>111.6</b>

# Statement of Changes in Consolidated Non-current Assets

€ MILLION (restated)	ACQUISITION OR PRODUCTION COSTS					Dec. 31, 2005
	Jan. 1, 2005	Change in the consolidated Group	Additions	Disposals	Reclassifications	
<b>Intangible assets</b>						
Industrial rights	3.0	0.5	2.0	0.3	0.0	5.2
Goodwill	0.0	2.1	0.0	0.0	0.0	2.1
	<b>3.0</b>	<b>2.6</b>	<b>2.0</b>	<b>0.3</b>	<b>0.0</b>	<b>7.3</b>
<b>Property, plant and equipment</b>						
Land and buildings (owner-occupied)	59.0	0.0	0.1	0.0	0.0	59.1
Technical equipment and machines	17.2	0.0	3.3	0.1	– 1.0	19.4
Other equipment, furniture and fixtures	15.3	2.2	1.7	1.0	1.0	19.2
Assets under construction	59.2	0.0	27.4	12.0	– 67.3	7.3
Pre-construction expenses	0.0	4.2	2.8	0.6	– 6.0	0.4
Payments on account	0.0	0.0	28.3	0.0	0.0	28.3
	<b>150.7</b>	<b>6.4</b>	<b>63.6</b>	<b>13.7</b>	<b>– 73.3</b>	<b>133.7</b>
<b>Equity investments measured using the equity method</b>	<b>62.8</b>	<b>0.0</b>	<b>0.0</b>	<b>62.8</b>	<b>0.0</b>	<b>0.0</b>
<b>Other financial assets</b>						
Investments	0.3	4.2	0.0	0.0	0.0	4.5
other loan receivables	1.6	0.1	0.1	0.1	0.0	1.7
other financial assets	0.0	0.0	0.0	0.0	0.0	0.0
	<b>1.9</b>	<b>4.3</b>	<b>0.1</b>	<b>0.1</b>	<b>0.0</b>	<b>6.2</b>
<b>Total</b>	<b>218.4</b>	<b>13.3</b>	<b>65.7</b>	<b>76.9</b>	<b>– 73.3</b>	<b>147.2</b>

	ACCUMULATED DEPRECIATION						BOOK VALUE
	Jan. 1, 2005	Change in the consolidated Group	Additions	Disposals	Reclassifications	Dec. 31, 2005	Dec. 31, 2005
	2.4	0.0	0.7	0.4	0.0	2.7	2.5
	0.0	0.0	0.0	0.0	0.0	0.0	2.1
	<b>2.4</b>	<b>0.0</b>	<b>0.7</b>	<b>0.4</b>	<b>0.0</b>	<b>2.7</b>	<b>4.6</b>
	14.8	0.0	0.3	0.0	0.0	15.1	44.0
	3.9	0.0	1.9	0.0	-0.7	5.1	14.3
	12.1	0.0	1.6	0.9	0.7	13.5	5.7
	6.9	0.0	0.0	2.5	0.0	4.4	2.9
	0.0	0.0	1.0	0.6	0.0	0.4	0.0
	0.0	0.0	0.0	0.0	0.0	0.0	28.3
	<b>37.7</b>	<b>0.0</b>	<b>4.8</b>	<b>4.0</b>	<b>0.0</b>	<b>38.5</b>	<b>95.2</b>
	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>
	0.0	0.0	1.4	0.0	0.0	1.4	3.1
	0.0	0.0	0.0	0.0	0.0	0.0	1.7
	0.0	0.0	0.0	0.0	0.0	0.0	0.0
	<b>0.0</b>	<b>0.0</b>	<b>1.4</b>	<b>0.0</b>	<b>0.0</b>	<b>1.4</b>	<b>4.8</b>
	<b>40.1</b>	<b>0.0</b>	<b>6.9</b>	<b>4.4</b>	<b>0.0</b>	<b>42.6</b>	<b>104.6</b>

# Independent Auditor's Report

To the Board of GAGFAH S.A. 14a, rue des Bains, Luxembourg, Grand Duchy of Luxembourg

## **REPORT ON THE CONSOLIDATED ANNUAL ACCOUNTS**

At your request, we have audited the accompanying consolidated annual accounts of GAGFAH S.A., which comprise the balance sheet as at December 31, 2006, and the income statement, statement of changes in equity and cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory notes to the consolidated annual accounts.

## **BOARD OF DIRECTORS'S RESPONSIBILITY FOR THE CONSOLIDATED ANNUAL ACCOUNTS**

The Board of Directors is responsible for the preparation and fair presentation of these consolidated annual accounts in accordance with International Financial Reporting Standards as adopted by the European Union. This responsibility includes: designing; implementing and maintaining internal control relevant to the preparation and fair presentation of consolidated annual accounts that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

## **RESPONSIBILITY OF THE "RÉVISEUR D'ENTREPRISES"**

Our responsibility is to express an opinion on these consolidated annual accounts based on our audit. We conducted our audit in accordance with International Standards on Auditing as adopted by the "Institut des Réviseurs d'Entreprises". Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the consolidated annual accounts are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated annual accounts. The procedures selected depend on the judgement of the "Réviseur d'Entreprises", including the assessment of the risks of material misstatement of the consolidated annual accounts, whether due to fraud or error. In making those risk assessments, the "Réviseur d'Entreprises" considers internal control relevant to the entity's preparation and fair presentation of the consolidated annual accounts in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.

An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Board of Directors, as well as evaluating the overall presentation of the annual accounts. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

**OPINION**

In our opinion, the annual accounts give a true and fair view of the financial position of GAGFAH S.A. as of December 31, 2006, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

**REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS**

The annual report, which is the responsibility of the Board of Directors, is in accordance with the consolidated annual accounts.

ERNST & YOUNG  
Société Anonyme  
Réviseur d'Entreprises

Michael Hornsby

Luxembourg, February 23, 2007

# Glossary

## **CBRE**

CB Richard Ellis, independent external company that performs regular valuation of our portfolio.

## **FFO**

Funds from Operations, a non-IFRS financial measure that our Group's management uses to report the funds generated from continuing operations. It is used of our Group's generation of funds for investment and the payment of dividends to shareholders: FFO is computed as EBITDA, reduced by the profit from measurement at fair value, net interest to third parties and current income tax expense.

## **Pro Forma EBIT**

Plus:

Restructuring Expenses

Depreciation and Amortization

= Pro Forma **EBITDA**

Less:

Profit/loss from fair value measurement

Realized valuation gains through sales

Interest expenses (periodical) without pro forma adjustments

Interest income (periodical)

Taxes paid

IPO costs

Expenses for share-based remuneration

= Pro Forma **FFO**

## **MODERNIZATION**

means the activities in an apartment that lead to enhancements. Goes beyond repairs and maintenance efforts and is normally capitalized and has therefore no P&L-effect.

## **NET COLD RENT**

Also called in-place rent: rent payment without recoverables.

## **RECOVERABLES**

Besides net cold rent, the tenant has to pay recoverable expenses to the owner of the apartment.

Recoverables that are charged to tenants are among others:

- ongoing public costs of the property, e.g. property tax;
- costs for water supply / sewage
- costs for drainage
- heating costs
- costs for warm water
- costs for maintaining escalators
- costs for street cleaning and garbage removal
- costs for building cleaning
- costs for gardening
- illumination costs
- costs for chimney cleaning
- costs for insurances
- costs for caretakers:

Recoverables that can not be charged to tenants are especially costs for caretakers as far as activities as maintenance or administration are concerned. Also, recoverables that apply to vacant units cannot be charged to tenants and thus have to be paid by the owner of the property.

## **REPAIRS & MAINTENANCE**

means only the repair of an apartment or elements thereof, no enhancements.

## **SAME STORE**

A statistic to compare the performance of units historically.

## **SUBSIDIZATION**

Subsidization = Publicly subsidized housing is subject to two material requirements: the tenant occupying the subsidized apartment must provide a housing eligibility certificate of the relevant authority; and the landlord may not charge more than a certain rent.

For publicly subsidized housing, the subsidy recipient may only charge "cost-based" rent during the subsidy period specified by law. It is initially calculated taking into account the costs at the time of the construction of the apartment and is adjusted over time.

In a few cases, in addition to public subsidies from the Federal Government or a state, there is also a subsidy from the respective municipality that, as a result of such subsidies, grants occupancy rights by which the municipality has the right to designate the respective tenant.

## **THIRD-PARTY MANAGEMENT**

Besides managing our own units, we also offer those services to condominium owners. When we sell individual units to tenants, we offer to manage these units through our third-party management team. Our experience in managing residential units simplifies any management activity and helps us to reduce costs in maintenance and operating expenses for the owners of the apartments.

## **VACANCIES**

We define vacancies as units with no tenant contract at the respective date. Not included are non-core empty units.

# Financial Calendar

**MARCH 29, 2007**

Publication of Annual Report – FY 2006

**APRIL 23, 2007**

Annual General Meeting, Luxembourg

**MAY 16, 2007**

Publication of Interim Report – Q1 2007

**AUGUST 15, 2007**

Publication of Interim Report – H1 2007

**NOVEMBER 14, 2007**

Publication of Interim Report – Q3 2007

**IMPRINT:**

**GAGFAH S.A.**

**14A, RUE DES BAINS**

**L-1212 LUXEMBOURG**

**GRAND DUCHY OF LUXEMBOURG**

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**PRINT:**

**MWW DRUCK, MAINZ-KASTEL**



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