

GAGFAH S.A.
ANNUAL ACCOUNTS
and
INDEPENDENT AUDITOR'S REPORT
as of
December 31, 2009

2-4, rue Beck
L-1222 Luxembourg
Grand Duchy of Luxembourg
R.C.S. Luxembourg B 109526

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Independent Auditor's Report

To the Shareholders of
GAGFAH S.A.
2-4, rue Beck
L- 1222 Luxembourg

Report on the annual accounts

Following our appointment by the Board of Directors, we have audited the accompanying annual accounts of GAGFAH S.A., which comprise the balance sheet as at December 31, 2009 and the profit and loss account for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Board of Directors' responsibility for the annual accounts

The Board of Directors is responsible for the preparation and fair presentation of these annual accounts in accordance with Luxembourg legal and regulatory requirements relating to the preparation of the annual accounts. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of 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 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 annual accounts are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the annual accounts. The procedures selected depend on the judgment of the "Réviseur d'Entreprises", including the assessment of the risks of material misstatement of the 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 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, 2009, and of the results of its operations for the year then ended in accordance with Luxembourg legal and regulatory requirements relating to the preparation and presentation of the annual accounts.

Report on other legal and regulatory requirements

The Directors' report, which is the responsibility of the Board of Directors, is consistent with the annual accounts.

ERNST & YOUNG
Société Anonyme
Réviseur d'entreprises

A handwritten signature in blue ink, appearing to read 'René ENSCH', with a long horizontal stroke extending to the right.

René ENSCH

Luxembourg, 9 March 2010

GAGFAH S.A.
Société anonyme – société de titrisation
Luxembourg

Directors' Report

Organizational and Legal Structure

GAGFAH S.A. (“the Company”) is a joint stock corporation incorporated in Luxembourg, with its registered office at 2-4, Rue Beck, 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 into a Société Anonyme and renamed GAGFAH S.A.

It is registered at the trade register under number B 109526 and has its registered office at 2-4, rue Beck, L-1222 Luxembourg, Grand Duchy of Luxembourg.

The Company is a securitization company governed by the law of March 22, 2004, on securitization.

GAGFAH S.A. is securitizing the risks relating to German real estate through the holding of interest and being the overall parent company of the GAGFAH Group. Neither the Company nor the Group perform any research and/or development activities.

Industry

Overall Economic Development

2009 saw the most severe GDP decline in the history of the Federal Republic of Germany with 5.0 %. Due to Germany’s high dependency on exports, the economy suffered more than most other Western European countries and the US. The EU 27 countries, for example, saw an average GDP decrease of 4.1 % and the United States suffered a GDP decline of 2.5 % in 2009. The economic recovery is underway, however, and the GDP forecasts for 2010 range between a growth of 1.2 % (EU Commission, Nov. 2009) and 2.1 % (German Institute for Economic Research, Jan. 2010).

The unemployment rate in Germany increased relatively modestly from 7.8 % in 2008 to 8.2 % in 2009. The expected impact of the economic crisis on the employment market has not been as severe yet as initially feared. It is generally believed that one of the main reasons is that many companies have utilized to short-term work (Kurzarbeit) or relied on flexible working hours as opposed to lay-offs.

The German Residential Real Estate Market

Germany has the largest residential property stock in Europe with 40.1 million dwelling units, of which approximately 80 % are located in the western German states including western Berlin (the former West Germany), and approximately 20 % in the eastern German states and in eastern Berlin (the former East Germany). The owners of rented units are mostly private investors, followed by municipal housing and other communal housing enterprises, private housing enterprises, building cooperatives, banks, insurance companies, corporations and other owners. We expect the German housing industry to continue to change over the medium term, with local governments and corporations selling more of their residential property stock. Given the severe financial constraints under which many local governments find themselves, we believe that this trend will become stronger again in the foreseeable future. We believe

that such market changes provide the potential for growth opportunities, as they play to our strengths as one of the most efficient owners and operators of residential housing.

Development of Housing Sales and Rental Prices

Historically, the German residential market has been very stable, both in terms of rent and house price development. In an otherwise difficult environment this was also demonstrated by our performance in 2009. That is contrary to other countries such as Spain, Ireland and Great Britain that have seen strong value appreciations followed by severe contractions in the wake of the financial crisis.

Rents in western Germany have shown stable and consistent growth through economic cycles and recessions since 1975. Only reunification in 1990 led to a significant increase in rents in western Germany followed by a rent decrease as a result of the end of the reunification boom. The historical performance of rents underlines residential property as a stable asset class. This was evident in 2009 as well: While GDP in Germany decreased by a record high of 5.0 % and inflation was at its lowest level since reunification with 0.4 %, the average net cold rent for residential properties in Germany climbed by 1.1 % (Source: German Federal Statistics Office 2010). Moderate net cold rent growth is expected for 2010 as well (Source: BulwienGesa 2009). This contrasts with more volatile asset classes such as office space, which decreased by about 5 % or retail space, which was down approximately 3 % in 2009 (Source: Deutsche Genossenschafts-Hypothekenbank AG).

Home Ownership Rate

The home ownership rate in Germany is the second- lowest in the European Union with only 43 % compared to the E.U. average of 65 %. By 2020, the home ownership rate for Germany is expected to have grown to about 49 % (Sources: German Federal Statistics Office; German Federal Office for Building and Regional Planning; Euroconstruct). Among the reasons for this expected growth are the increasing view that owning a home is a store of value and the continued availability of financing to purchase residential real estate. Furthermore, the German Ministry of Traffic, Construction and Urban Development recently declared that it intended to work to increase home ownership in Germany.

Change in Stock of Residential Housing Units in Germany

The construction industry as a whole has lost much ground over the past few years. While accounted for 6.0% of the German GDP in 1991, it only represented 4.6 % in 2009 (Source: German Federal Statistics Office 2010). From 2004 to 2008 alone, the number of building permits for new residential constructions fell by 35 % down to a record low of only 175,000 (Source: German Institute for Urban Construction 2009). 2009 saw less than 200,000 new residential constructions and according to forecasts, this number will be similarly low in 2010 as well (Source: German Federal Office for Building and Regional Planning). We believe that this decline in building permits and the low new construction of 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. We do not expect the economic stimulus package of the German government to give much boost to the construction of residential housing, as these government funds are largely tied to public projects, such as schools, roads etc.

Demographic Developments

Assuming a net migration balance of 200,000 people per year, the population in Germany is expected to decline slightly from 81.8 million in 2010 to 80.8 million by 2025. During the same period, however, the number of households is forecast to grow by 1.2 million or 3 % to 41.9 million, which should lead to an increase in the demand for residential units (Source: German Institute for Construction, Urban and Spatial Research 2010). We expect these trends to have a positive impact on residential property rents and house prices.

Business situation of the Company

Result situation

In 2009, GAGFAH S.A. realized a loss. The result of the year 2009 was basically influenced by interest expenses of M€ 28.8 and value adjustments in respect of financial assets of M€ 3.6 as well as other operating charges in the amount of M€ 3.6, which predominantly consist of M€ 1.6 for audit and publication expenses and M€ 0.7 for insurance expenses.

Since the change in the structure of the Group, GAGFAH S.A. does depend on profit distributions from its subsidiaries in order to realize profits from investments.

No such distributions were made in 2009.

Financial situation

The following table summarizes the capital structure of GAGFAH S.A. as of December 31, 2009:

	2009		2008	
	in M€	in %	in M€	in %
Equity	1,456.5	68.10	1,668.3	77.84
Liabilities to affiliated undertakings	415.6	19.43	159.5	7.44
Liabilities to credit institutions	265.3	12.40	289.5	13.51
Liabilities to shareholders	0.0	0.00	3.6	0.17
Other debt and provisions	1.4	0.07	22.3	1.04
Balance sheet total	2,138.8	100.00	2,143.2	100.00

The subscribed capital consists of 225,893,880 shares (225,700,384 shares as of December 31, 2008) with a nominal value of € 1.25 per share. All shares grant equal rights and obligations. The capital increase was due to exercised stock options in the amount of 193,496 shares with a nominal value of € 1.25 each.

The decrease in equity is explained by dividend payments and the loss of the financial year.

Compared to prior year's figures, liabilities to affiliated undertakings rose up to M€ 415.6. For the time being GAGFAH S.A. is financed by a loan from GAGFAH Holding GmbH instead of profit contribution of that company. The loan rose up in 2009 to cover the expenses of GAGFAH S.A.

In 2007, the Company entered into a revolving credit facility amounting to M€ 300.0, of which M€ 265.0 were drawn as of December 31, 2009. These financial liabilities bear interest of EURIBOR + 250 bp for the drawn amount and an interest rate of 0.75 % for the undrawn amount. The credit line expires in late September 2010.

Due to the expiring date of the revolving credit facility in late September 2010, the liabilities changed from long- to short-term. M€ 265.3 (including accrued interests) of the M€ 682.3 belong to the revolving credit facility. M€ 415.6 are amounts owed to affiliated undertakings, M€ 1,4 are other liabilities.

GAGFAH S.A. needs to refinance or repay its revolving credit facility until September 2010. Based on current discussions with the refinancing bank GAGFAH S.A. is confident to be able to refinance or repay this amount.

The financial situation of GAGFAH S.A. is sound and well-regulated. The Company's ability to fulfill its payment obligations was warranted at all times.

Net Asset situation

The balance sheet structure of GAGFAH S.A. complies with the character of the Company as securitization company securitizing the risks of German real estate through the holding of interest in the GAGFAH Group of companies.

The following table summarizes the balance sheet structure:

<u>ASSETS</u>	2009	2008	<u>EQUITY AND LIABILITIES</u>	2009	2008
	M€	M€		M€	M€
Fixed Assets	2,136.7	2,140.3	Equity	1,456.5	1,668.3
			Provisions and Long-Term Liabilities	0.0	309.5
Current Assets	2.1	2.9	Short-Term Liabilities	682.3	165.4
	2,138.8	2,143.2		2,138.8	2,143.2

Fixed assets amounting to M€ 2,136.7 consist basically of financial assets (shares in and loans to affiliated companies).

Current assets total M€ 2.1 and consist essentially of cash at banks amounting to M€ 0.1, receivables from affiliated companies amounting to M€ 1.2, and prepaid expenses amounting to M€ 0.8.

The following table summarizes the significant accounting ratios:

	2009	2008
	in M€	in M€
Total assets	2,138.8	2,143.2
Equity	1,456.5	1,668.3
Equity in % of total assets	68.10	77.84
Financial assets	2,136.6	2,140.1
Financial assets in % of total assets	99.90	99.86
Equity-to-fixed-assets ratio	68.17	77.95

Events after the balance sheet date

No significant events have occurred after the closing date.

Financial risk management system

The risk management system of the GAGFAH Group consists after the latest revision completed December 2009 of the following elements:

- internal monitoring system
- early warning system
- controlling system

The internal monitoring system consists of supervisory measures which are either part of processes (organizational safeguards, controls) or independent security measures mainly monitored by the internal audit department. A basic task of the internal audit department is also the supervision of the risk system. Organizational safeguards are designed to secure a set security level and are generally part of an ongoing, automatic process, including the prevention of failures in the operational and organizational structure (such as separation of function and Group directives).

The early warning system is the entirety of all activities relating to risk identification and risk control. The early warning system is based on the internal early warning directive that has been defined and communicated by the GAGFAH Group Management and which is mandatory for all employees. This directive lays out the basic principles of an early warning system, defining the parameters for assessing and controlling qualitative and quantitative risks. It furthermore defines potential risk categories as well as the responsibilities.

The quarterly reporting structure is based on the internal early warning directive. The risk owners report their risks using a standardized form to the risk coordinator who compiles all such information in a risk report. This risk report is presented to the GAGFAH Group Management on a quarterly basis. In addition to an overview of quantitative or qualitative risks of the departments / regions, the risk report also includes the descriptions on the measures to be taken.

As defined by the internal early warning directive the monitoring of risks and the related countermeasures have to be followed up by the respective risk owners, in some circumstances in coordination with the CEO.

Irrespective of the quarterly reporting, there is also an ad hoc-reporting system to the extent necessary as described in the internal early warning directive. In case of an ad hoc-reporting, the risk owners report immediately and informally.

A controlling system has been established and implemented for the delivery of all target figures, monitoring and possible countermeasures and also to serve as an indicator for entrepreneurial variances by target /actual analyses a controlling system has been implemented and established. The controlling system is positioned in the controlling department which prepares a monthly controlling report for the GAGFAH Group Management. This controlling system ensures a proactive control of financial risks.

The early warning system and the monthly controlling report ensure the measures are coordinated and adjusted to the current business environment as well as to the processes and functions.

Outlook

We believe that our financial and trading prospects remain favorable based on the stable characteristics of our residential property portfolio and continued improvements to the performance of our existing portfolio.

Disclosure regarding Article 11 of the Law on Takeover

- a) For information regarding the structure of capital reference is made to section “Financial situation” above.
- b) There are no restrictions on the transfer of securities.
- c) GAGFAH S.A.’s major shareholders are:

Shareholder	Number of shares	%
Fortress Residential Investment Deutschland (Fund A) LP	20,626,823	9.13
Fortress Investment Fund III (GAGACQ Subsidiary) LLC	16,539,554	7.32
Fortress Investment Fund III (Fund B) (GAGACQ Subsidiary) LLC	14,141,601	6.26
Fortress Residential Investment Deutschland (Fund B) LP	12,330,464	5.46
Fortress Subsidiary (GAGACQ) LLC	11,669,744	5.17

- d) There are no securities granting special control rights to their holders.
- e) The control rights of any shares issued in connection with employee share schemes are exercised directly by the respective employees.
- f) There are no restrictions on voting rights.
- g) There are no agreements with shareholders which are known to the Company and may result in restrictions on the transfer of securities or voting rights within the meaning of directive 2004/109/EC (Transparency Directive).
- h) Rules governing the appointment and replacement of board members and the amendment of the articles of association):

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 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 to 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 subjected 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 to 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.

i) Powers of the Board of Directors:

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

All powers not expressly reserved by the law or the Articles of Incorporation of the Company to the General Meeting shall be within the powers of the Board of Directors.

Except as otherwise provided in the Articles of Incorporation or by law, the Board of Directors of the Company is authorized to take such action (by resolution or otherwise) and to adopt such provisions as shall be necessary or convenient to implement the purpose of the Company.

The Board may delegate the daily management of the business of the Company, as well as the power to represent the Company in its day-to-day business, to individual Directors or other officers or agents of the Company, who need not be shareholders. Any such delegation of daily management in favor of one or more Directors requires the prior authorization of the General Meeting of shareholders.

The Board of Directors may set up committees including without limitation an audit committee, a compensation committee and a related party transaction committee. Each such committee shall be composed of at least three Directors, one of them at least being an independent Director. The Board of Directors may also appoint persons who are not Directors to the committees.

The Board of Directors may appoint a secretary of the Company, who need not be a member of the Board of Directors, and determine his responsibilities, powers and authorities.

GAGFAH S.A. has a total authorized un-issued share capital of € 9,999 million. The Board of Directors has been authorized by the General Meeting of shareholders to issue shares up to the total amount of 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.

- j) There are no significant agreements to which the Company is a party and which take effect, alter or terminate upon a change of control of the Company following a takeover bid.
- k) There are no agreements between the Company and its Board members or employees providing for compensation if they resign or are made redundant without valid reason or if their employment ceases because of a takeover bid.

Luxembourg, March 9, 2010

Board of Directors of GAGFAH S.A.

GAGFAH S.A.

BALANCE SHEET December 31, 2009 (expressed in EUR)

<u>ASSETS</u>	<u>Dec. 31, 2009</u>	<u>Dec. 31, 2008</u>
Fixed Assets		
Tangible assets		
Other fixtures and fittings, tools and equipment (Note 3)	91,504	213,782
Financial assets		
Shares in affiliated undertakings (Note 4)	1,996,820,726	2,000,453,726
Loans to affiliated undertakings (Note 5)	<u>139,785,283</u>	<u>139,644,598</u>
	2,136,697,513	2,140,312,106
Current assets		
Debtors		
Amounts owed by affiliated undertakings (Note 6)	1,162,667	1,212,668
Other debtors due within one year	39,188	173,870
Cash at bank, in CCP accounts and in hand	130,477	455,852
Prepayments (Note 7)	<u>766,060</u>	<u>1,075,767</u>
	<u>2,098,392</u>	<u>2,918,157</u>
	<u>2,138,795,905</u>	<u>2,143,230,263</u>

The accompanying notes form an integral part of the annual accounts.

GAGFAH S.A.

BALANCE SHEET

December 31, 2009

(expressed in EUR)

<u>LIABILITIES</u>	<u>Dec. 31, 2009</u>	<u>Dec. 31, 2008</u>
Capital and reserves		
Subscribed capital (Note 8)	282,367,350	282,125,480
Share premium account (Note 9)	1,353,551,740	1,533,410,450
Legal reserve (Note 10)	28,200,181	28,200,181
Loss / Profit brought forward	(40,001,004)	6,253,270
Interim Dividends (Note 11)	(135,473,421)	(135,398,086)
Loss for the financial year	<u>(32,137,006)</u>	<u>(46,254,274)</u>
	1,456,507,840	1,668,337,021
Other provisions (Note 12)	-	20,511,065
Creditors		
Long-term liabilities		
Amounts owed to credit institutions (Note 15)	-	289,000,000
Short-term liabilities		
Amounts owed to shareholders (Note 13)	-	3,600,337
Amounts owed to affiliated undertakings (Note 14)	415,600,644	159,531,486
Amounts owed to credit institutions (Note 15)	265,252,388	462,659
Other creditors	<u>1,435,033</u>	<u>1,787,695</u>
	<u>682,288,065</u>	<u>165,382,177</u>
	<u>2,138,795,905</u>	<u>2,143,230,263</u>

GAGFAH S.A.

PROFIT AND LOSS ACCOUNT
for the year ending December 31, 2009
(expressed in EUR)

	2009	2008
<u>EXPENSES</u>		
Personnel costs (Note 16)	454,833	337,683
Value adjustments in respect of tangible assets	122,278	122,278
Other operating charges (Note 18)	3,646,072	8,811,005
Value adjustments in respect of financial assets (Note 4)	3,633,000	-
Interest and similar expenses (Note 14 and 15)	28,824,629	37,527,961
	<u>36,680,812</u>	<u>46,798,927</u>
<u>INCOME</u>		
Other operating income	802,328	534,059
Interest income from third parties and similar income (Note 5)	141,141	10,594
Extraordinary income (Note 13)	3,600,337	-
Loss for the financial year	32,137,006	46,254,274
	<u>36,680,812</u>	<u>46,798,927</u>

NOTES TO THE ANNUAL ACCOUNTS
As of December 31, 2009

NOTE 1 - GENERAL INFORMATION

GAGFAH S.A. (“the Company”) is a joint stock corporation incorporated in Luxembourg, with its registered office at 2-4, Rue Beck, 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 into a Société Anonyme and renamed GAGFAH S.A.

It is registered at the trade register under number B 109526 and has its registered office at 2-4, rue Beck, L-1222 Luxembourg, Grand Duchy of Luxembourg.

The Company is a securitization company governed by the law of March 22, 2004, on securitization.

The corporate object of the Company is the acquisition and/or the assumption of risks resulting from the obligations assumed by third parties or relating to all or part of the activities of third parties, either directly or through intermediary entities, by issuing securities the value or return of which is dependent upon such risks.

The Company may provide any financial assistance to the undertakings forming part of the group of the Company such as, among others, the providing of loans and the granting of guarantees or securities in any kind or form.

The Company may borrow in any kind or form and issue bonds or notes. In a general fashion, the Company may carry out any commercial, industrial or financial operation, which it may deem useful in the accomplishment and development of its purpose, always remaining within the scope of activities authorized for securitization companies under the law of March 22, 2004, on securitization.

The Company also prepared consolidated financial statements according to IFRS, as adopted by the E.U., for the year ended December 31, 2009. These consolidated financial statements are available on the website <http://www.gagfah.com>.

NOTES TO THE ANNUAL ACCOUNTS
As of December 31, 2009

NOTE 2 - VALUATION PRINCIPLES AND METHODS

General principles

The Company maintains its books and records in Euro (“EUR”) and the annual accounts have been established in conformity with applicable legal and regulatory requirements in Luxembourg including the following significant accounting policies:

Currency translation

Current assets and liabilities stated in currencies other than EUR are translated at the exchange rates prevailing at the date of the balance sheet. Transactions denominated in currencies other than EUR are translated at the exchange rates prevailing at the date of transaction. Realized exchange gains and losses and unrealized exchange losses are recorded in the profit and loss account. Unrealized exchange gains are not recognized.

Tangible Assets

Tangible assets are accounted for at cost less accumulated depreciation on a straight-line basis according to their estimated useful life and any impairment recognized.

Financial assets

Financial assets, including participation and loans granted to group-related companies and shareholders, are stated at acquisition cost. Write-downs are recorded if, in the opinion of the Directors, there is a permanent impairment in value.

Receivables and Debts

Receivables and debts are recorded at their nominal value. Receivables are written down to their recoverable amount.

Comparative accounts

In accordance with the Luxembourg commercial law certain reclassifications have been made to the comparative balance sheet, presented within these annual accounts. These reclassifications were made for the purpose of comparability with the 2009 figures’ presentation. The reclassifications to the comparative information have no impact in the result of the year and equity of the Company as of December 31, 2008.

NOTES TO THE ANNUAL ACCOUNTS
As of December 31, 2009

NOTE 3 – TANGIBLE ASSETS

The following overview shows the development of tangible assets in 2009:

Other fixtures and fittings, tools and equipment in EUR	2009			2008
	Acquisition costs	Depreciation	Book Value	Book Value
As of January 1	361,987	(148,205)	213,782	270,292
Additions		(122,278)	(122,278)	(56,510)
Disposals				---
As of December 31	361,987	(270,483)	91,504	213,782

NOTE 4 – SHARES IN AFFILIATED UNDERTAKINGS

The investment structure of GAGFAH S.A. is listed below.

Company	share in %	investment in EUR
WOBA Holding GmbH	5.20	32,605,908
NILEG Immobilien Holding GmbH	5.20	13,619,105
GAGFAH Acquisition 3 GmbH	5.20	9,435,216
GBH Acquisition GmbH	5.20	3,985,702
GAGFAH Acquisition 1 GmbH	5.20	4,004,624
GAGFAH Acquisition 2 GmbH	5.20	739,493
GAG ACQ Ireland Limited	100.00	45,750
GAGFAH Holding GmbH	100.00	1,932,384,928
Total shares in affiliated undertakings		1,996,820,726

The investments in NILEG Immobilien Holding GmbH and GAGFAH Acquisition 3 GmbH have been written down by EUR 3,633,000 (EUR 2,881,000 for NILEG Immobilien Holding GmbH and EUR 752,000 for GAGFAH Acquisition 3 GmbH) due to a permanent impairment in value.

In the opinion of the Board of Directors there is no other permanent impairment in the value of investments as at December 31, 2009.

NOTE 5 – LOANS TO AFFILIATED UNDERTAKINGS

Loans to affiliated undertakings include transferrable notes issued in Euro by UC ACQ Ireland Ltd. and GAG ACQ Ireland Ltd. ("Eurobonds").

The Eurobonds issued by UC ACQ Ireland Ltd. (September 30, 2004) amount to EUR 138,209,779 (EUR 138,113,372 as of December 31, 2008) including an amount of EUR 801,593 (EUR 705,186 as of December 31, 2008) for accrued security interests. The terms of the Eurobonds set out that the

NOTES TO THE ANNUAL ACCOUNTS

As of December 31, 2009

income generated by UC ACQ Ireland Ltd. less administrative expenses must be transferred in full to GAGFAH S.A. except for a residual amount of EUR 4k. Maturity date is September 29, 2024.

In 2009 UC ACQ realized a profit of EUR 4.000 and EUR 96,407 could be drawn from this loan (prior year: loss of EUR 364,714).

The Eurobonds for GAG ACQ Ireland Ltd. amount to EUR 1,575,503 (EUR 1,531,226 as of December 31, 2008) including an amount of EUR 44,277 (EUR 0 as of December 31, 2008) for accrued security interests. The terms of the Eurobonds set out that the income generated by GAG ACQ Ireland Ltd. less administrative expenses must be transferred in full to GAGFAH S.A. except for a residual amount of EUR 5k. Maturity date is December 31, 2010.

In 2009 GAG ACQ realized a profit of EUR 5.000 and EUR 44,277 could be drawn from this loan (prior year: loss of EUR 404,768).

NOTE 6 – AMOUNTS OWED BY AFFILIATED UNDERTAKINGS

The following overview shows the development of amounts owed by affiliated undertakings in 2009:

Company	December 31, 2009	December 31, 2008
GAG ACQ Ireland Limited	1,162,667	1,162,668
GAGFAH Operation Advisors	-	50,000
Total amounts owed by affiliated undertakings	1,162,667	1,212,668

NOTE 7 – PREPAYMENTS

Prepaid expenses and deferred charges in the amount of EUR 766,060 (EUR 1,075,767 as of December 31, 2008) mainly comprise deferred insurance premiums.

NOTE 8 – SUBSCRIBED CAPITAL

As of December 31, 2009 the subscribed capital consists of 225,893,880 (225,700,384 as of December 31, 2008) shares with a nominal value of EUR 1.25 each. The capital increase was due to exercised stock options in the amount of 193,496 shares with a nominal value of EUR 1.25 each.

As of December 31, 2009 the authorized un-issued capital of the Company is set at EUR 9,998,882,650 (EUR 9,999,124,520 as of December 31, 2008) to be represented by 7,999,106,120 (7,999,299,616 as of December 31, 2008) shares with a nominal value of EUR 1.25 each.

NOTE 9 – SHARE PREMIUM ACCOUNT

As of December 31, 2009 the share premium account amounts to EUR 1,353,551,740 (EUR 1,533,410,450 as of December 31, 2008). The decrease in the amount of EUR 179,858,710 primarily originates from dividends paid out of the share premium account in 2008 and first quarter of 2009 which have been approved by the Annual General Meeting on April 21, 2009. The remaining effect results from the exercise of stock options (as mentioned in note 8).

NOTES TO THE ANNUAL ACCOUNTS

As of December 31, 2009

NOTE 10 – LEGAL RESERVE

Under Luxembourg law an amount equal to at least 5 percent of the profit of the year must be allocated to a legal reserve until such reserve equals 10 percent of the issued share capital. This reserve is not available for dividend distribution.

Due to the loss of the Company in 2008, no amount was allocated to the legal reserve by resolution of the shareholders at the Annual General Meeting on April 21, 2009.

NOTE 11 – INTERIM DIVIDENDS

In 2009, dividends in the total amount of EUR 180,613,498 were distributed. An interim dividend of EUR 45,140,077 paid out of the share premium account on April 7, 2009, was approved at the Annual General Meeting on April 21, 2009, and set-off with the share premium account accordingly. Further interim dividends of EUR 135,473,421 were paid in 2009 but have not yet been approved by the General Meeting. This amount is therefore shown under the caption of “Interim Dividends”.

NOTE 12 – OTHER PROVISIONS

Other provisions amount to EUR 0 (EUR 20,511,065 as of December 31, 2008).

In 2008, the amount of the provision related to a provision for pending losses from swap valuation. Due to the close-out of the swap this provision does not exist any longer.

NOTE 13 – AMOUNTS OWED TO SHAREHOLDERS

The amounts owed to shareholders were released in 2009 resulting in an extraordinary income of EUR 3,600,377.

NOTE 14 – AMOUNTS OWED TO AFFILIATED UNDERTAKINGS / INTEREST AND SIMILAR EXPENSES

As of December 31, 2009 the Company has an amount of EUR 415,600,644 (EUR 159,531,486 as of December 31, 2008) owed to GAGFAH Holding GmbH interests included.

The interest rate is variable and the loan is without fixed maturity date.

Interest for the loan from GAGFAH Holding amounted to EUR 16,389,083 (EUR 6,388,495 in the fiscal year 2008).

NOTE 15 – AMOUNTS OWED TO CREDIT INSTITUTIONS / INTEREST AND SIMILAR EXPENSES

As of December 31, 2009 the Company had a revolving credit facility amounting to EUR 300,000,000 of which EUR 265,000,000 were drawn. These financial liabilities bear interest of EURIBOR + 250 bp for the drawn amount and an interest rate of 0.75 % for the undrawn amount. The credit line expires in late September 2010.

NOTES TO THE ANNUAL ACCOUNTS

As of December 31, 2009

GAGFAH S.A. needs to refinance or repay its revolving credit facility until September 2010. Based on current discussions with the refinancing bank GAGFAH S.A. is confident to be able to refinance or repay this amount.

Interest for the revolving credit facility amounted to EUR 8,103,069 (EUR 14,959,460 in the fiscal year 2008), expenses for the closed-out swap amounted to 3,876,456 (EUR 15,664,157 in the fiscal year 2008) and other expenses related to the revolving credit facility amounted to EUR 456,021 (EUR 515,849 in the fiscal year 2008).

NOTE 16 – PERSONNEL COSTS

In the fiscal year 2009, personnel costs amounted to EUR 454,833 (EUR 337,683 in the fiscal year 2008) of which EUR 324,872 (EUR 210,852 in the fiscal year 2008) apply to salaries and wages for an average number of 3 (FTE) employees, EUR 35,721 (EUR 24,240 in the fiscal year 2008) for social security costs and EUR 94,240 (EUR 102,591 in the fiscal year 2008) for other personnel costs.

NOTE 17 – SHARE OPTION AGREEMENT

In 2009, the Company has granted the right to members of senior management of the Company to purchase and receive shares in the Company in the context of a share option agreement. The rights have been granted for a fixed number of shares and at fixed exercise prices between EUR 3.70 und EUR 6.31. The rights vest on December 31, 2010 and 2011 respectively. The exercise period runs until December 31, 2015.

The following table summarizes the Company’s stock grant activity.

Year ended December 31, 2009	Number of shares	Weighted average exercise price EUR
Outstanding at the beginning of the period	0	0
Granted	2,616,035	5,73
Outstanding at the end of the period	2,616,035	5.73

The following table summarizes information about rights outstanding at December 31, 2009.

Number of rights	Outstanding average life (1)
2,616,035	18

(1) Weighted average contractual life remaining in month

NOTES TO THE ANNUAL ACCOUNTS

As of December 31, 2009

NOTE 18 – OTHER OPERATING CHARGES

In the fiscal year 2009, other operating charges amounted to EUR 3,646,072 (EUR 8,811,005 in the fiscal year 2008), of which EUR 1,605,048 (EUR 1,614,863 in the fiscal year 2008) apply to audit and publication expenses and EUR 696,118 (EUR 670,910 in the fiscal year 2008) to insurance expenses.

NOTE 19 – TAXES

The Company qualifies as a securitization vehicle falling within the scope of the Securitization Law of March 22, 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.

NOTE 20 – COMMITMENTS

GAGFAH S.A. has entered into a non-cancellable rent contract until February 14, 2010 with the option for the reconduction of the contract for another period of three years. The contract has been extended until August 31, 2011 with an option of another two years by sending a registered letter to the landlord 6 months before the term of the two years. The future payments will be as follows:

in EUR	2010	2011
Rent contract	123,200	82,133

NOTE 21 – CONTINGENCIES

GAGFAH S.A. has issued letters of comfort for her subsidiaries Erste Grundbesitz GmbH (formerly: GAGFAH First Property Holding GmbH & Co. KG) and GAGFAH Acquisition 1 GmbH. In these letters GAGFAH S.A. guarantees to provide financial support to the extent necessary to repay all liabilities of the subsidiaries due to Wohnungsbauförderungsanstalt Nordrhein-Westfalen, Anstalt der NRW.BANK. The book value of the liabilities amounts to EUR 31,012,258 as of December 31, 2009.

GAGFAH S.A. has pledged its share in GBH Acquisition GmbH to secure liabilities of GBH Acquisition GmbH to banks. The corresponding liabilities amount to EUR 276,858,032 as of December 31, 2009.