



## GAGFAH Consolidated Annual Report

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2010

# Highlights

## 2010

- **FFO** for 2010 from the core rental business of €0.70 per share. Including the contribution from sales, the Company delivered €0.76 of FFO for 2010. Fourth quarter 2010 FFO per share was €0.19 including sales.
- **PROFIT FROM LEASING** was €460.1 million in 2010 compared to €486.3 million in 2009, on an average base of ca. 9,700 fewer units due to sales.
- **PROFIT MARGIN** for 2010 of 50.5 % from 49.8 % in 2009.
- **OPERATIONS ON TRACK** with 1.2 % same-store rent growth<sup>1)</sup>, turnover at 12 % and vacancy rate of 5.2 %, all in line with targets.
- **SALES:** Closed or contracted to sell 9,948 units for a total value of €473.2 million, exceeding our target of €450 million for the year.
- **COST TO MANAGE** per unit was €374, a historical low, and down 4.3 % from €391 for 2009, reflecting the ongoing focus we have been placing on overhead and management costs.
- **NAV** of €12.17 per share and gross asset value of €852 per square meter as of December 31, 2010.
- **QUARTERLY DIVIDEND** for the fourth quarter of 2010 of €0.10 per share. The fourth quarter dividend will be paid on April 12, 2011.

### GAGFAH S.A. SHARES AS OF DECEMBER 31, 2010

ISIN	LU0269583422
Total Market Capitalization (€ million)	1,511
Industry Group	Real Estate
Number of Shares excl. Treasury Shares (million)	225.1
Listing	Frankfurt Stock Exchange
Major Indices Memberships	MDAX, EPRA, GPR

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

# Key Financial Information

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

€ MILLION	2010	2009	Q4 2010	Q4 2009
Income from the leasing of investment property	911.5	976.8	215.5	227.1
Profit from the leasing of investment property	460.1	486.3	108.0	114.4
Profit from the sale of investment property and assets held for sale	16.2	22.8	3.5	9.4
Loss from fair value measurement of investment property	- 69.5	- 197.0	- 12.2	- 51.2
EBITDA	365.8	262.7	87.8	73.5
EBIT	348.3	237.1	80.2	55.8
EBT	51.2	- 92.3	17.8	- 20.7
FFO	170.6	190.0	42.0	55.5
FFO in € per share (weighted average, undiluted)	0.76	0.84	0.19	0.25

## GROUP CAPITALIZATION

	12-31-2010 € million	12-31-2010 %	12-31-2009 € million	12-31-2009 %
Total equity	2,302.7	24.9	2,457.7	25.2
Financial liabilities	6,011.2	64.9	6,525.3	66.7
Other liabilities	947.8	10.2	794.3	8.1
<b>Total equity and liabilities</b>	<b>9,261.7</b>	<b>100.0</b>	<b>9,777.3</b>	<b>100.0</b>

## OPERATIONAL FIGURES

	12-31-2010	12-31-2009
Group residential portfolio (core)		
Units	158,314	165,789
Sqm	9,597,660	10,008,818
Net cold rent / sqm (in €)	5.07	5.02
Vacancy rate (in %)	5.2	4.9
Sold units <sup>1)</sup>	7,521	5,329

<sup>1)</sup> core portfolio only (financial closing)

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

<b>FUNDS FROM OPERATIONS – FFO</b>				
€ MILLION	2010	2009	Q4 2010	Q4 2009
EBIT	348.3	237.1	80.2	55.8
Reorganization and restructuring expenses	12.8	21.4	6.2	16.6
Depreciation and amortization	4.7	4.2	1.4	1.1
EBITDA	365.8	262.7	87.8	73.5
Loss from fair value measurement of investment property	69.5	197.0	12.2	51.2
Realized valuation gains through sales	7.3	21.2	3.7	12.8
Expenses for / income from share-based remuneration	1.8	- 1.4	0.2	- 0.6
Net interest expenses	- 296.4	- 301.4	- 64.4	- 79.3
Current tax expenses	- 4.7	- 10.8	- 4.4	- 7.7
Property development business	- 2.4	4.4	0.2	- 1.5
Sales expenses (non-condo)	26.9	5.8	7.7	2.3
Other	2.8	12.5	- 1.0	4.8
FFO	170.6	190.0	42.0	55.5
FFO in € per share (weighted average, undiluted)	0.76	0.84	0.19	0.25

## Stable performance in 2010

**1.2 %**

Net cold rent growth (residential same-store basis), in line with our target.

**5.2 %**

Overall vacancy.

**€374**

Cost per unit, 4.3 % reduction after €391 in 2009.

**7,521**

Units financially closed through our condo and multi-family home sales programs in 2010.

**€12.17**

Net Asset Value per share.

**€348.3 MILLION**

EBIT up by 46.9 % compared to 2009.

**€365.8 MILLION**

EBITDA up by 39.2 % compared to 2009.

**€170.6 MILLION**

Funds from Operations (FFO).

**€0.76**

FFO per share.

**€852**

Gross Asset Value per sqm.

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# Letter to our Shareholders

Dear Fellow Shareholders:

The German economy recovered strongly in 2010, with GDP growing by 3.6 % and unemployment declining from 8.2 % to 7.7 %. In the German residential real estate market, rents grew on average by 1.2 %, and we saw increasing interest from investors seeking the steady and consistent performance that German residential housing has historically offered.

Against that background, GAGFAH had a solid performance, with improvements in operations, additional progress towards cost optimization, and asset sales in line with our targets.

GAGFAH's main objective is to maximize earnings and cash flow from the leasing and sale of residential apartments. We own approximately 160,000 units, and manage more than 18,000 units for third parties, with an asset value of about €8.7 billion, spread across Germany. Our cash flow is stable and largely predictable, with rent growth of 1.2 % this year. Our tenants have remained with us for an average of almost 12 years and our annual tenant turnover is approximately 12 %.

Our goals for 2010 were to continue to generate steady cash flows, improve the efficiency of our operations, and continue to monetize selected assets. Results for 2010 are in line with these goals. Profit from leasing was stable on a per-unit basis, with a portfolio of 9,700 fewer units on average, due to sales. We made further strides in streamlining our unit turnover processes and operations. Specifically, on a per-unit basis we were able to reduce our cost to manage, (which



exclude the funds we invest in repairs and maintenance), to €374 per unit, a decrease of 4.3 % year on year. Our plan is to reduce this further in 2011, in part by internalizing much of our repairs and maintenance work.

In the past three years, we have sold over €1.2 billion of assets at an average of 8 % over our carrying values, of which approximately €470 million were sold or contracted to sell this year. Our sales program is important for two reasons. Firstly, it allows us to capitalize on the gap between our share price and the underlying value of our assets. Secondly, the significant liquidity generated by the asset sale program gives GAGFAH more financial flexibility, allowing the Company to potentially retire or repurchase debt, reinvest in other assets, or return cash to shareholders through dividends or share buybacks.

As an example, in early December 2010, we initiated a share buyback program of up to €125 million with the objective of helping narrow the discount to Net Asset Value (NAV). By acquiring shares at prices below NAV in the market we thus reduce the total number of shares outstanding. As of year end we had acquired almost 0.9 million shares for a total of about €5.8 million and thru mid-March 2011, we had bought back almost 4 million shares for a gross value of more than €29 million.

We intend to continue with our asset sales initiative, with a shift in focus more toward our successful privatization (condo) sales program as well as selectively selling additional multi-family assets to adjust our overall portfolio composition.

Our outlook for the business performance in 2011 is to continue to deliver solid results. For revenues, we believe we can increase rents in line with the overall market or better, while keeping occupancy stable at approximately 95 %. We intend to focus on growing our recurring cash flow and pursue new revenue opportunities. In particular, we see opportunities to invest further in our portfolio, by initiating selected capital improvement projects in targeted markets with higher income potential, thereby increasing recurring cash flow. Another focus is to expand our residential facilities management business, in areas where we already have a large presence, through our subsidiary, VHB. We have already begun providing services on new third-party management contracts we were awarded this year. Additionally we have begun to consider selected potential acquisition opportunities, with a particular focus on distressed assets that can be repositioned utilizing our existing experienced team and management skills.

Regarding our capital structure, the vast majority of our debt is long term, non-recourse financing, locked in at attractive low rates. While the vast majority of these loans do not mature in the near term, the general improvement in the capital markets is positive for our refinancing efforts. In 2010, we extended our nearest maturing debt facility

and are well on our way to retiring it entirely. Overall, we are taking a proactive approach to extending our debt maturities, and plan to take advantage of incremental refinancing opportunities as liquidity returns to the markets. We believe the substantial cash generated by our asset sales program plus increased run rate cash flow will go a long way toward addressing these issues.

In sum, we are broadly satisfied with the operating performance of our company in 2010. We further strengthened the management team, appointing Stephen Charlton as our new CFO. We intend to continue to focus on cash flow growth and improving both our balance sheet and property portfolio through selected asset sales. However, there is much work yet to be done to reach our goal: becoming the most efficient and cost-effective owner and manager of residential real estate in Germany.

We thank our staff for their hard work in providing high quality, safe and affordable housing for our tenants, and thank our shareholders for your continued support.

A handwritten signature in blue ink, reading "Robert Kauffman", followed by a horizontal line.

**Robert I. Kauffman**  
Chairman

# Management of GAGFAH S.A.

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

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## Board of Directors

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 of Directors is composed of the following members:

**ROBERT I. KAUFFMAN**

Chairman of the Board of Directors of GAGFAH S.A.

**WESLEY R. EDENS**

**RANDAL A. NARDONE**

**WILLIAM J. BRENNAN**

**YVES WAGNER, PH.D.**

**DIETER H. RISTAU**

**DR. JÜRGEN ALLERKAMP**

## COMMITTEES

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

Dr. Jürgen Allerkamp

Wesley R. Edens

Robert I. Kauffman

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 Consolidated 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:

Wesley R. Edens

Robert I. Kauffman

Randal A. Nardone

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.

#### **OTHER INFORMATION**

The Directors are appointed at the Annual 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 Annual 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 Incorporation 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 validly cast at the Extraordinary General Meeting of Shareholders.

As of December 31, 2010, GAGFAH S.A. had a total authorized share capital of approximately €9.999 billion. The Board of Directors had been authorized by the Annual 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 preemptive subscription rights to existing shareholders at the discretion of the Board.

GAGFAH S.A., acting through its Board, had been authorized by the Annual General Meeting of Shareholders to purchase, acquire or receive own shares in the Company up to 25 % of the issued share capital from time to time for a period of five years from April 21, 2010. In addition, share repurchases with capital reductions had been authorized for up to €70,600,000 for a period of nine months from April 21, 2010.

# Management of our Subsidiaries

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Members of the Senior Management of the Company's subsidiaries are integral to the management of the Company's subsidiaries.

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GAGFAH's operational subsidiaries in Germany are led by the Senior Management. The Members of the Senior Management are:

**WILLIAM J. BRENNAN**

CEO Chief Executive Officer

**STEPHEN CHARLTON**

CFO Chief Financial Officer (since January 25, 2011)

**NICOLAI KUSS**

COO Chief Operations Officer

**STEFAN DE GREIFF**

CISO Chief Investment and Sales Officer

## GAGFAH S.A. Shares

On December 31, 2010, the number of shares of GAGFAH S.A. totaled 225,972,693, of which 881,128 shares were held as treasury shares. As of February 21, 2011, the total number of outstanding shares amounted to 225,322,684, of which 1,348,436 shares were held as treasury shares.

With the exception of treasury shares, each share represents one vote and all non-treasury shares are entitled to the same dividend.

### MAJOR SHAREHOLDERS

Shareholder	Number of shares	%
Fortress Residential Investment Deutschland (Fund A) LP	20,626,823	9.16
Fortress Investment Fund III (GAGACQ Subsidiary) LLC	16,539,554	7.35
Fortress Investment Fund III (Fund B) (GAGACQ Subsidiary) LLC	14,141,601	6.28
Fortress Residential Investment Deutschland (Fund B) LP	12,330,464	5.48

On December 7, 2010, GAGFAH S.A. announced a share buyback program to repurchase a number of shares equivalent to an overall purchase price of up to €125 million. The program commenced on December 8, 2010. The main parameters of the program are that the respective purchase price cannot be above or below 20 % of the volume-weighted average share price for the three trading days preceding the buyback. Similarly, the maximum daily buyback volume should not exceed 25 % of the daily trading volume in the month preceding the month in which the buyback program was announced. The objective of the buyback program is to reduce the Company's share capital and to reduce the stock's discount to NAV.

On December 31, 2010, the authorized unissued share capital of GAGFAH S.A. amounted to €9,998,784,133.75, represented by 7,999,027,307 shares, each such share with a nominal value of €1.25. As of February 21, 2011, the authorized unissued share capital of GAGFAH S.A. amounted to €9,997,206,151.25, represented by 7,997,764,921 shares, each such share with a nominal value of €1.25.

### SHARES ON DECEMBER 31, 2010

ISIN	LU0269583422
Security Identification Number	A0LBDT
Reuters Symbol	GFJ.DE
Bloomberg Symbol	GFJ.GR
Xetra share price (€)	6.71
Number of shares excl. treasury shares (million)	225.1
Total market capitalization (€ million)	1,511
Stock exchange	Frankfurt a. M.
Segment (Industry Group)	Real Estate
Accounting standard	IFRS
End of fiscal year	December 31

As of March 21, 2011, the Company had bought back 4,030,988 million shares at an average purchase price of €7.33 for a total investment volume of ca. €29.6 million. Of that amount, 1,912,395 shares had been bought back until and including January 21, 2011 under the resolution passed by the shareholders at the Extraordinary General Meeting of Shareholders on April 21, 2010. These 1,912,395 shares were cancelled on February 16, 2011. The remaining 2,118,593 shares that have been bought back between January 24 and March 21, 2011, are held as treasury shares by the Company.

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# Directors' Report

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## GAGFAH at a Glance

GAGFAH S.A. is a joint stock corporation organized under the laws of the Grand Duchy of Luxembourg qualifying as a securitization company under the Luxembourg Securitization Law of March 22, 2004. The core business of our operating subsidiaries is the ownership and management of a geographically diversified and well-maintained residential property portfolio located throughout Germany. With a portfolio of more than 158,000 apartments, we are the largest German listed residential property company.

## Competitive Strengths

### LARGE AND DIVERSE ASSET PORTFOLIO

We believe that the combination of our size, geographic diversity across Germany and scale of operations makes us a strong player in the residential real estate market in Germany. We currently own more than 158,000 apartments totaling approximately 9.6 million square meters with significant concentrations in Dresden and Berlin alone.

### EFFICIENT OPERATING PLATFORM

Our nationwide presence and the size of our business provide us with cost efficiencies with respect to our corporate functions and purchasing goods and services. However, we constantly seek to further optimize general and administrative expenses, and our aim is to continue to reduce our management cost per unit. We believe that we are among the most efficient property managers in Germany.

### IN-DEPTH LOCAL MARKET KNOWLEDGE AND FOCUS ON GERMAN RESIDENTIAL REAL ESTATE

We have developed an in-depth knowledge of regional residential markets which enables us to efficiently manage, evaluate and acquire portfolios in all key markets throughout Germany. Our assets are directly managed through a streamlined operational network with 19 customer centers in two regions (as of January 2011). Our significant nationwide market presence through our properties located in approximately 350 towns and cities across Germany gives us a competitive advantage over smaller or less diversified property companies.

## Strategy

### CONTINUE TO INCREASE RETURNS FROM CURRENT PORTFOLIO

We plan to continue to increase returns from our current portfolio while maintaining tenant stability and improving tenants' quality of accommodation. We intend to keep our occupancy at a high level and to increase rents to market levels to the extent permitted by German law and existing rent restrictions over time. As of December 31, 2010, our overall vacancy rate for our core residential portfolio was 5.2 %, in line with our target. The rental growth rate for 2010 was 1.2 % (on a same-store basis).

### INCREASE PROFITABILITY THROUGH OPERATING EFFICIENCIES

We continuously review our cost structure in an effort to further improve our profitability.

Our Operational Network

- REGIONAL OFFICES
- CUSTOMER CENTERS



We have further reduced our management cost per unit (which includes general and administrative expenses and personnel costs and excludes repairs and maintenance expenses) by 4.3 % to €374 in 2010 from €391 in 2009. We intend to continue to improve our operating efficiencies and, as a result, reduce our SG&A expenses and our cost to manage.

Furthermore, we have optimized our cost of re-letting vacant units while maintaining our assets in good condition. On the one hand, we are now doing almost half of all repair and maintenance work through our cost-efficient, in-house staff. On the other hand, we are using a nationwide operating external service provider for the more complex refurbishment projects, which require different qualifications.

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

After selling or contracting to sell assets for a total of €519.9 million in 2009, we continued to selectively sell assets in 2010 as well. In total, we sold or contracted to sell €473.2 million worth of assets through our condo, large multi-family home and non-core sales programs. Of that amount, €259.8 million were closed in 2010, and the remaining €213.4 million have their financial closing in 2011.

As our shares are still trading at a discount to our net asset value, we intend to continue to focus on incrementally realizing the value embedded in our assets. The net proceeds from sales can be used, for example, to repay or repurchase debt, pay dividends or repurchase shares.

#### **OPTIMIZE OUR CAPITAL STRUCTURE**

Our properties are financed in eleven separate, ring-fenced, non-recourse facilities with a weighted average interest rate of 3.90 %. Approximately 90 % of the Company's debt will mature in 2013 and beyond. We believe that the overall improving capital markets environment and the general economic recovery should increase our refinancing alternatives.

### **Business Overview**

#### **PORTFOLIO**

We own a geographically diversified and well-maintained residential property portfolio located throughout Germany, comprising more than 158,000 apartments totaling approximately 9.6 million square meters. Approximately 23,000 units are publicly subsidized, rent-restricted apartments. The majority of our buildings were built between 1950 and 1979. Our portfolio is characterized by a stable tenant base with an average tenant tenure of more than eleven years and a fluctuation rate of 11.7 %, which represents about 19,000 re-lettings per year. Our occupancy level is at roughly 95 %.

In addition to our residential apartment portfolio, we own approximately 1,800 commercial units, primarily retail stores located on the ground floor of our residential apartment buildings, and approximately 33,000 parking spaces, which typically belong to our residential apartment buildings.

## Residential Property Portfolio as of December 31, 2010

Our portfolio is located in approximately 350 towns and cities across Germany, with significant concentrations in Berlin and Dresden alone. The following table illustrates, inter alia, the geographic spread of our residential portfolio:

Top 20 Cities	Units	In % of total sqm	Rental area per sqm	Average unit size per sqm	Net cold rent (annu- alized) in € million <sup>1)</sup>	In % of total	In-place rent per month and sqm (€)	Market rent per month and sqm (€) <sup>2)</sup>	Vacant % <sup>3)</sup>
Dresden	37,867	21.0	2,143,756	57	120.6	19.0	4.69	5.03	5.9
Berlin	23,623	13.9	1,421,770	60	84.9	13.4	4.98	5.41	2.6
Hamburg	9,375	5.9	603,591	64	39.4	6.2	5.44	6.68	0.6
Hannover	6,072	3.8	384,073	63	25.4	4.0	5.51	5.82	5.6
Heidenheim	4,687	2.8	291,947	62	18.9	3.0	5.38	5.44	12.3
Bielefeld	4,172	2.7	276,481	66	14.8	2.3	4.45	4.71	2.3
Osnabrück	3,492	2.1	215,947	62	13.2	2.1	5.11	5.36	3.0
Braunschweig	3,217	1.9	197,862	62	12.3	1.9	5.17	5.40	1.8
Zwickau	3,087	1.7	172,796	56	8.7	1.4	4.18	4.46	17.3
Essen	2,321	1.5	153,644	66	9.8	1.5	5.29	5.74	7.0
Köln	2,098	1.6	165,635	79	12.7	2.0	6.38	6.82	2.9
Freiburg	1,773	1.2	119,658	67	8.5	1.3	5.95	6.96	1.0
Iserlohn	1,677	1.0	106,004	63	5.7	0.9	4.45	4.70	5.0
Bocholt	1,582	0.9	94,627	60	5.6	0.9	4.93	5.33	3.8
Bremen	1,550	1.0	98,407	63	5.9	0.9	4.96	5.07	8.8
Frankfurt am Main	1,522	0.8	83,574	55	7.4	1.2	7.34	8.17	0.3
Duisburg	1,416	0.9	95,697	68	5.1	0.8	4.47	4.79	20.2
Leverkusen	1,404	0.9	89,835	64	5.9	0.9	5.43	5.85	3.7
Göttingen	1,356	0.8	77,434	57	4.8	0.8	5.15	5.35	0.4
Dortmund	1,288	0.9	88,921	69	5.1	0.8	4.77	5.24	1.7
<b>Subtotal Top 20 Cities</b>	<b>113,579</b>	<b>67.3</b>	<b>6,881,659</b>	<b>61</b>	<b>414.7</b>	<b>65.2</b>	<b>5.02</b>	<b>5.47</b>	<b>4.9</b>
Other Cities	44,735	26.6	2,716,001	61	169.5	26.7	5.20	5.41	6.2
<b>Total Core Residential Property Portfolio</b>	<b>158,314</b>	<b>93.9</b>	<b>9,597,660</b>	<b>61</b>	<b>584.2</b>	<b>91.9</b>	<b>5.07</b>	<b>5.45</b>	<b>5.2</b>
<b>Other <sup>4)</sup></b>	<b>n/m</b>	<b>6.1</b>	<b>619,240</b>	<b>n/m</b>	<b>51.6</b>	<b>8.1</b>	<b>n/m</b>	<b>n/m</b>	<b>28.9</b>
		100.0	10,216,900		635.8	100.0			

<sup>1)</sup> Annualized rent calculated as net cold rent per square meter as of December 31, 2010, multiplied by number of square meters and by 12 (before vacancy loss and rent reductions).

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

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

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

## Operations

### REAL ESTATE MANAGEMENT

Our scalable operating platform is structured to manage our portfolio in an efficient manner. We operate through a streamlined operational network of 19 customer centers in two regions (as of January 2011). Each customer center is in close proximity to its dedicated portfolio and tenants. Responsibilities include rent collection, new leases, lease renewals and other tenant issues as well as property management tasks. Our customer centers conclude approximately 19,000 new leases per year (fluctuation: 11.7 %). Our on-site caretakers now perform almost half of the repair and maintenance work as well as the typical facility management tasks, such as gardening, snow removal, etc. Our nationwide network of customer centers and caretakers provides us with real-time information and direct knowledge of the needs of our tenants, supporting our continuous efforts to retain existing tenants and attract new ones. This 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 and treasury, are centralized.

### SALES

In 2010, we financially closed on €531.5 million in asset sales, of which €259.8 million related to sales from our 2010 sales program, and €271.7 million represent the financial closings on assets contracted last year. In addition to the €259.8 million already closed for the current year program, we have also notarized another €213.4 million in sales in 2010, bringing the total for the 2010 sales program to €473.2 million, exceeding our target of €450 million.

For sales made from certain parts of our portfolio, we have agreed to comply with certain obligations, mainly for the benefit and protection of our tenants. We are confident in our compliance with all obligations. In connection with sales made from the WOBA portfolio, the City of Dresden informed GAGFAH S.A. on March 4,

2011, that the City of Dresden was contemplating taking legal action against certain subsidiaries of GAGFAH S.A. The contemplated legal action relates to alleged breaches of certain obligations under the privatization agreement entered into with the City of Dresden in 2006 under which a subsidiary of GAGFAH S.A. has acquired the WOBA companies in Dresden. No final decision on the filing of the legal action has been taken by the City of Dresden and would require a separate resolution by the City Council (Stadtrat). The City of Dresden has not specified the amount of any such claims, but has indicated that the claims could be material. GAGFAH GROUP is confident in its adherence to the privatization agreement and is of the opinion that its interpretation of the agreement is appropriate and will, therefore, defend against any such claims.

## Industry

### OVERALL ECONOMIC DEVELOPMENT

Germany is the largest economy of the eurozone, contributing 27 % to the member states' total gross domestic product (GDP) in 2010. After the strongest GDP contraction in the history of the Federal Republic of Germany in 2009, the German economy rebounded in 2010 and grew by 3.6 % (Source: German Federal Statistics Office). Support for this growth came from the fact that the world economy grew by more than 4 % in 2010 after it had declined by almost 1 % in 2009 and from the expansive monetary and fiscal policy of many nations during the financial crisis (Source: Deutsche Bank).

Compared to most of its European neighbors, Germany seems to have recovered both sooner and stronger than others, most notably Greece, Ireland, Portugal and Spain, who find themselves under severe financial constraints. In a globalized world and within the European Union, of course, no country can act independently, and economic difficulties of one country may have negative impacts on others. It remains to be seen, for example, what the consequences of the sovereign debt crisis in Europe will

eventually mean for Germany. By and large, however, the German economy is strong and healthy with better-than-expected GDP growth in 2010 and forecasts of robust growth between 2.3 % (Source: German government) and 2.7 % (Goldman Sachs) for 2011 as well.

This positive development is also reflected in the ifo Business Climate Index, one of the country's most renowned indices for assessing the sentiment within the economy. After declining sharply in the wake of the global recession, the index is back to pre-crisis levels, performing strongly in 2010. Similarly, the labor market has been developing positively as well. It had been impacted less severely than widely anticipated during the financial crisis with an unemployment rate that increased from 7.8 % in 2008 to 8.2 % in 2009. In 2010, this number dropped to 7.7 % (Source: German Federal Statistics Office). Most forecasts for 2011 see the unemployment rate in Germany between 7.0 % (Source: German government) and 7.2 % (Goldman Sachs).

#### GERMAN RESIDENTIAL REAL ESTATE MARKET

With a total of approximately 40.2 million residential units (Source: German Federal Statistics Office), the German housing market is the largest in Europe. About 78 % of those units are located in the western German states including Berlin (the former West Germany) and the remaining 22 % are located in the eastern German states (the former East Germany). More than 40 % of the residential units are inhabited by owner-occupiers. The remaining units are owned by small private investors, followed by professional housing companies, municipal authorities, cooperatives and other owners such as churches, banks, insurance companies and public authorities (Source: Jones Lang LaSalle).

We expect the ownership structure to continue to change over the medium term, as both corporations and public owners on the local and regional level may decide to sell all or parts of their residential real estate to focus on their core business and/or to generate liquidity. In light of the financial constraints especially of government-

owned entities, we believe that more portfolios will be coming to the market. We are confident that such market changes can provide growth opportunities for GAGFAH, as they play to our strengths of being one of the most efficient owners and operators of residential real estate in Germany.

#### DEVELOPMENT OF HOUSING AND RENTAL PRICES

While other countries in Europe and around the world have seen strong value appreciations followed by severe declines of property values, real estate prices in Germany have proved to be stable even during the financial crisis, in line with their sideways development in earlier years. Prices neither soared until 2007 nor did they plummet as a result of the crisis. Against the backdrop of a strong economy, low interest rates and increased demand for German real estate, residential prices increased from January 2010 to January 2011 by 3.3 % (Source: Hypoport Index). Going forward, prices are expected to grow by approximately 1.5 % per year over the next two years (Source: Deutsche Bank). The steady development of prices is evident in residential rent levels as well. Throughout economic cycles and recessions there was only one brief period after the German reunification, where residential rents in Germany significantly increased and then decreased as a result of the end of the reunification boom. After an average rent growth of 1.1 % in 2009, the German Federal Statistics Office calculated 1.2 % for 2010.

#### HOME OWNERSHIP RATE

With a home ownership rate of approximately 43 %, Germany finds itself at the lower end of the international spectrum. While some German Federal States show home ownership rates of more than 50 %, others have rates as low as 11 %. Hence, on average, less than half of all German households live in their own home compared to an average of 65 % in the European Union (Sources: CB Richard Ellis; Jones Lang LaSalle). In light of the continued availability of financing for potential home owners and the widespread belief that owning one's own home is a cornerstone of one's old age provi-





sion, the home ownership rate is likely to increase. Forecasts prepared by the Federal Institute for Construction and Urban Research see the home ownership rate in Germany growing to about 47 % by 2020.

#### **RESIDENTIAL CONSTRUCTION ACTIVITY IN GERMANY**

The construction industry as a whole has lost much ground in Germany over the last two decades. While it contributed 6.0 % to Germany's GDP in 1991, this number declined to 4.1 % in 2010. Residential constructions have not performed any better than the industry as a whole: After peaking in the 1990s, the number of new residential constructions and building permits has been steadily declining. A record low had been reached in 2008 with

only 175,000 new permits. While the number of building permits increased to 178,000 in 2009 and 187,700 in 2010 (Source: Federal Statistics Office), it is expected that the total volume going forward will be at the lower end of what researchers consider to be the required completion volume for the next ten years (Source: Deutsche Bank, Landesbausparkasse (subsidiary of German Savings and Loan Association)). In terms of actual completions, the German Federal Office for Building and Regional Planning forecasts an average of 183,000 new residential constructions annually until 2025.

We believe that comparatively high construction costs, the scarcity of land available for new constructions, low





risk-adjusted returns for developers and strict regulations are among the main reasons for the continued low level of new supply.

#### DEMOGRAPHIC DEVELOPMENT

In its “medium scenario”, the German Federal Statistics Office forecasts the population in Germany to decline from 81.5 million in 2010 to between 79.9 million and 80.4 million by 2020. During the same period, however, the number of households is expected to increase by 1.3 % to then 40.5 million. According to this estimate, it is especially one- and two-person households that will grow by 4.3 % and 7.7 %, respectively. This would underline an ongoing trend: Today, nearly three quarters of all

households comprise no more than one or two persons; in 1960, less than half of all households were home to only one or two persons (Source: Deutsche Bank).

Given the limited new supply of housing, this development should lead to an increase in the demand of residential units. We expect these trends to have a positive impact on residential rents and prices.

# Consolidated Statement of Comprehensive Income

for the period from January 1 to December 31, 2010

€ MILLION	2010	2009	Q4 2010	Q4 2009
Income from the leasing of investment property	911.5	976.8	215.5	227.1
Transferable leasehold land interest	- 2.1	- 2.3	- 0.3	- 0.6
Operating expenses for the generation of rental income (excluding share-based remuneration)	- 449.3	- 488.2	- 107.2	- 112.1
<b>Profit from the leasing of investment property</b>	<b>460.1</b>	<b>486.3</b>	<b>108.0</b>	<b>114.4</b>
Income from the sale of investment property and assets held for sale	531.5	262.5	156.8	192.9
Carrying amount of the sold investment property and assets held for sale	- 515.3	- 239.7	- 153.3	- 183.5
<b>Profit from the sale of investment property and assets held for sale</b>	<b>16.2</b>	<b>22.8</b>	<b>3.5</b>	<b>9.4</b>
<b>Loss from fair value measurement of investment property</b>	<b>- 69.5</b>	<b>- 197.0</b>	<b>- 12.2</b>	<b>- 51.2</b>
Income from the sale of property development projects	11.8	5.8	6.0	0.5
Carrying amount of the property development projects sold	- 8.0	- 2.8	- 6.0	- 0.4
<b>Profit from the sale of property development projects</b>	<b>3.8</b>	<b>3.0</b>	<b>0.0</b>	<b>0.1</b>
Profit from other services	5.0	4.4	1.4	1.8
Selling expenses (excluding share-based remuneration)	- 26.7	- 23.0	- 11.8	- 4.9
General and administrative expenses (excluding share-based remuneration)	- 37.9	- 41.9	- 8.7	- 10.4
Expenses for / income from share-based remuneration	- 1.8	1.4	- 0.2	0.6
Other operating income	20.2	27.2	9.8	18.3
Other operating expenses	- 8.3	- 24.8	- 3.4	- 5.7
<b>Profit from operations before reorganization and restructuring expenses</b>	<b>361.1</b>	<b>258.4</b>	<b>86.4</b>	<b>72.4</b>
Reorganization and restructuring expenses	- 12.8	- 21.4	- 6.2	- 16.6
<b>Profit from operations</b>	<b>348.3</b>	<b>237.0</b>	<b>80.2</b>	<b>55.8</b>
Profit from other financial assets	0.0	0.1	0.0	0.0
<b>Earnings before interest and taxes (EBIT)</b>	<b>348.3</b>	<b>237.1</b>	<b>80.2</b>	<b>55.8</b>
Interest expenses	- 298.0	- 321.0	- 65.3	- 78.1
Interest income	1.6	1.3	0.9	0.1
Other financial expenses	- 0.7	- 0.2	- 0.1	- 0.4
Profit / loss from the fair value measurement of derivatives	4.1	- 8.6	2.3	2.3
Interest expenses (refinancing)	- 4.1	- 0.9	- 0.2	- 0.4
<b>Net financing expenses</b>	<b>- 297.1</b>	<b>- 329.4</b>	<b>- 62.4</b>	<b>- 76.5</b>
<b>Earnings before taxes (EBT)</b>	<b>51.2</b>	<b>- 92.3</b>	<b>17.8</b>	<b>- 20.7</b>
Income taxes	- 51.8	17.2	- 29.2	13.2
<b>Net loss (Total comprehensive income)</b>	<b>- 0.6</b>	<b>- 75.1</b>	<b>- 11.4</b>	<b>- 7.5</b>
Net loss / profit (Total comprehensive income) attributable to:				
Non-controlling interests	- 8.3	- 4.0	2.4	- 3.0
Shareholders of the parent company	7.7	- 71.1	- 13.8	- 4.5
Weighted average number of shares, undiluted (in million)	225.9	225.8	225.9	225.8
Weighted average number of shares, diluted (in million)	228.6	228.0	228.6	228.0
Earnings per share (in €)	0.03	- 0.31	- 0.06	- 0.02
Diluted earnings per share (in €)	0.03	- 0.32	- 0.06	- 0.02

# Results of Operations, Net Worth and Financial Position

## Consolidated Statement of Comprehensive Income

### INCOME FROM THE LEASING OF INVESTMENT PROPERTY

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

The income from the leasing of investment property breaks down as follows:

€ MILLION	2010	2009	Q4 2010	Q4 2009
Rental income, fees	630.1	664.3	155.9	166.2
Allocations charged	279.7	309.5	58.9	59.7
Other	1.7	3.0	0.7	1.2
<b>Total</b>	<b>911.5</b>	<b>976.8</b>	<b>215.5</b>	<b>227.1</b>

Income from the leasing of investment property includes rental income, allocations charged and rents from subsidized apartments. In 2010, our income from the leasing of investment property was €911.5 million, compared to €976.8 million in 2009.

Approximately 69 %, or €630.1 million, of income from leasing was attributable to rental income. The decrease

in rental income is mainly due to an average of 5.5 % fewer units, as our average number of properties decreased by approximately 9,700 units in 2010. Rental income mainly consists of net cold rent, which grew on a same-store basis by 1.2 % to €5.07 per square meter since the end of 2009, in line with our 2010 target.

Approximately 31 %, or €279.7 million, of income from leasing was related to charges to tenants for recoverable expenses (allocations charged). This approximates a stable ratio on an annual basis. On a quarterly basis, however, allocations charged can vary depending on the timing of recoverables billing.

Rental income is net of vacancy. Our overall vacancy rate for our core residential portfolio was at 5.2 % at the end of 2010, in line with our target and slightly better than at the end of Q3 2010. We estimate the stabilized occupancy rate for our current portfolio at around 95 %.

### OPERATING EXPENSES FOR THE GENERATION OF RENTAL INCOME

In 2010, our operating expenses for the generation of rental income totaled €449.3 million, a reduction of 8.0 % as compared to 2009. The decline is mainly the result of cost efficiencies, a more focused spending approach and a smaller portfolio overall. Quarter on quarter, our operating expenses decreased by 4.4 % to €107.2 million in Q4 2010, from €112.1 million in Q4 2009.

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

€ MILLION	2010	2009	Q4 2010	Q4 2009
Real estate operating expenses	252.4	278.7	55.3	60.4
Real estate tax	27.6	29.0	3.7	5.0
<b>Operating expenses recoverable from tenants</b>	<b>280.0</b>	<b>307.7</b>	<b>59.0</b>	<b>65.4</b>
Repair and maintenance costs	61.0	66.2	18.6	16.9
Personnel expenses	61.0	61.9	16.1	15.4
Bad debt allowances	8.4	10.5	2.1	4.4
External costs for real estate management	9.0	10.0	3.1	1.8
Administrative expenses	7.1	7.6	1.9	2.2
Real estate operating expenses	5.1	4.5	1.6	1.8
Real estate tax	0.4	0.4	0.2	0.1
Amortization and depreciation on intangible assets and property, plant and equipment	2.4	2.1	0.7	0.5
Other	14.9	17.3	3.9	3.6
<b>Non-recoverable operating expenses</b>	<b>169.3</b>	<b>180.5</b>	<b>48.2</b>	<b>46.7</b>
<b>Operating expenses for the generation of rental income</b>	<b>449.3</b>	<b>488.2</b>	<b>107.2</b>	<b>112.1</b>

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

Operating expenses recoverable from our tenants decreased to €280.0 million in 2010, compared to €307.7 million in 2009, mainly as a result of a smaller portfolio. Non-

recoverable operating expenses decreased to €169.3 million in 2010 from €180.5 million in 2009.

Repair and maintenance costs in 2010 were at €61.0 million, compared to €66.2 million in 2009. The decline is largely attributable to a smaller portfolio, a more focused spending approach including the optimization of our costs of re-letting vacant units and the continued trend of doing more work in-house. By increasingly carrying out our repairs and maintenance with our own resources, we have significantly reduced our average cost to relet vacant flats.

Personnel expenses were €61.0 million in 2010 after €61.9 million in 2009, even though we have increased our internal staff for maintenance and gardening work and insourced our call center services. We believe that doing this type of work with our own resources enables us to respond to our tenants' needs more quickly and provide a better service.

External costs for real estate management include marketing expenses in connection with GAGFAH's leasing of rental units. In 2010, these costs were €9.0 million and thus broadly in line with the previous year.

#### PROFIT FROM THE LEASING OF INVESTMENT PROPERTY

The profit from the leasing of investment property was €460.1 million in 2010 compared to €486.3 million in the previous year. The decline is mainly the result of approximately 9,700 fewer average units in 2010. Per average unit, profit from the leasing of investment property was stable in 2010 compared to 2009. The profit margin, calculated as profit from the leasing over income from the leasing grew from 49.8 % in 2009 to 50.5 % in 2010.

The profit from the leasing of investment property represents the excess of income from the leasing of investment property over land rent expenses and the related

operating expenses for the generation of rental income and is computed as follows:

€ MILLION	2010	2009	Q4 2010	Q4 2009
Rental income, fees	630.1	664.3	155.9	166.2
Allocations charged	279.7	309.5	58.9	59.7
Other	1.7	3.0	0.7	1.2
<b>Income from the leasing of investment property</b>	<b>911.5</b>	<b>976.8</b>	<b>215.5</b>	<b>227.1</b>
Transferable leasehold land interest	- 2.1	- 2.3	- 0.3	- 0.6
Operating expenses for the generation of rental income	- 449.3	- 488.2	- 107.2	- 112.1
<b>Profit from the leasing of investment property</b>	<b>460.1</b>	<b>486.3</b>	<b>108.0</b>	<b>114.4</b>

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

In 2010, we have financially closed on €531.5 million in asset sales, of which €259.8 million related to sales from our 2010 sales program, and €271.7 million represent the financial closings on assets contracted last year. Of the assets closed in 2010, €72.7 million (984 units) related to condo sales. In addition to the €259.8 million already closed for the current year program, we have also notarized another €213.4 million in sales in 2010, bringing the total for the 2010 sales program to €473.2 million, exceeding our target of €450 million.

#### TOTAL SALES IN 2010

€ MILLION	From 2009 Program	From 2010 Program	Total 2010
Closed	271.7	259.8	531.5
Notarized	-	213.4	
<b>Total closed and notarized in 2010</b>		<b>473.2</b>	

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

#### CONDO SALES

	2010	2009	Q4 2010	Q4 2009
Units	984	2,394	320	1,143
Average price per unit (€)	73,844	57,226	68,862	62,730
	<b>2010 € million</b>	<b>2010 € per unit</b>	<b>2010 € per sqm</b>	<b>Q4 2010 € million</b>
Gross disposition proceeds	72.7	73,844	1,095	22.0
Book value <sup>1)</sup>	- 49.1	- 49,927	- 741	- 14.8
Disposition costs <sup>2)</sup>	- 11.7	- 11,920	- 177	- 4.6
<b>Net profit</b>	<b>11.8</b>	<b>11,997</b>	<b>178</b>	<b>2.6</b>
<b>Net profit margin</b>	<b>19.4 %</b>			<b>13.1 %</b>

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

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

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

The value of our investment properties including assets held for sale amounts to €8,706.7 million or a net cold rent multiplier of 13.7 as of December 31, 2010. The IAS 40 valuations for the investment properties indicated a net loss from fair value measurement of €69.5 million or 0.7 % over the values of our investment properties as of December 31, 2009.

The Q4 valuation was done by CB Richard Ellis GmbH, an independent appraiser. Their fair market valuation module is based on a discounted cash flow (DCF) model, which derives the present value from the properties' future cash flows. The valuation is computed on a property-by-property basis.

The DCF model is based on a detailed planning period of ten years, within which the relevant real estate cash flow components are forecast for each period according to the risk assessment of each individual property. For example, the rental growth is calculated in line with legal provisions and forecast to grow to market level over time. After the detailed planning period of ten years, a net present value is calculated for the remaining useful life. For more information on the valuation please see the Notes section C.3. "Investment Property" (Accounting Policies) and section E.2. "Investment Property" (Notes to the Consolidated Statement of Financial Position).

#### EBT CONTRIBUTION OF PROPERTY DEVELOPMENT BUSINESS

The earnings before taxes (EBT) contribution of the property development business was as follows:

€ MILLION	2010	2009	Q4 2010	Q4 2009
Income from the sale of property development projects	11.8	5.8	6.0	0.5
Carrying amount of property development projects sold	- 8.0	- 2.8	- 6.0	- 0.4
<b>Profit from the sale of property development projects</b>	<b>3.8</b>	<b>3.0</b>	<b>0.0</b>	<b>0.1</b>
Selling expenses (excluding share-based remuneration)	- 0.1	- 0.1	- 0.1	0.0
Other operating income	2.2	5.3	0.9	4.5
Other operating expenses	- 3.3	- 11.5	- 1.0	- 2.6
<b>Earnings before interest and taxes (EBIT)</b>	<b>2.6</b>	<b>- 3.3</b>	<b>- 0.2</b>	<b>2.0</b>
Net interest expenses	- 0.2	- 1.1	0.0	- 0.5
<b>Earnings before taxes (EBT)</b>	<b>2.4</b>	<b>- 4.4</b>	<b>- 0.2</b>	<b>1.5</b>

#### OTHER INCOME AND EXPENSE ITEMS

€ MILLION	2010	2009	Q4 2010	Q4 2009
Profit from other services	5.0	4.4	1.4	1.8
Selling expenses	- 26.7	- 23.0	- 11.8	- 4.9
General and administrative expenses	- 37.9	- 41.9	- 8.7	- 10.4
Expenses for / income from share-based remuneration	- 1.8	1.4	- 0.2	0.6
Other operating income	20.2	27.2	9.8	18.3
Other operating expenses	- 8.3	- 24.8	- 3.4	- 5.7
<b>Total</b>	<b>- 49.5</b>	<b>- 56.7</b>	<b>- 12.9</b>	<b>- 0.3</b>

Other income and expense items for our Group decreased by 12.7 % to a net expense of €49.5 million in 2010 compared to €56.7 million in 2009.

Profit from other services mainly contains revenues from caretaker services for third parties and insurance brokerage fees. With €5.0 million in 2010, profit from other services was up 13.6 % compared to €4.4 million in 2009.

Selling expenses consist of personnel costs, costs for external brokers and marketing expenses for our sales business. In 2010, selling expenses were €26.7 million, reflecting the increased sales activities in connection with the multi-family home sales program.

General and administrative expenses mainly consist of personnel costs, IT costs, consulting fees, depreciation and office costs. In 2010, general and administrative expenses were down 9.5 % to €37.9 million compared to €41.9 million in 2009. The reduction is mainly the result of our ongoing efforts to optimize our cost structure.



Expenses for / income from share-based remuneration mainly relate to option programs for GAGFAH management and amounted to expenses of €1.8 million in 2010. The income of €1.4 million in 2009 had resulted from the forfeiture of options in 2009, which had been partly offset by expenses for share-based remuneration related to new commitments.

All income not directly allocable to the various categories of income according to the cost of sales method is disclosed under other operating income. In 2010, other operating income amounted to €20.2 million. The decline from €27.2 million is largely attributable to the fact that 2009 was impacted by higher reversal of provisions and comparatively high other operating income from property development business.

Other operating expenses totaled €8.3 million in 2010 after €24.8 million in 2009, which had included a one-off effect of €6.1 million relating to the deconsolidation of a disposal group and €11.5 million in connection with the property development business.

#### MANAGEMENT COST PER UNIT

As a result of our reorganization activities and focus on cost efficiencies, we were able to reduce our management cost per unit by 4.3 % to €374 in 2010, down from €391 per unit in 2009.

#### MANAGEMENT COST PER UNIT

2006	€486
2007	€448
2008	€407
2009	€391
2010	€374

#### REORGANIZATION AND RESTRUCTURING EXPENSES

Reorganization and restructuring expenses relate to our Group's rationalization of costs and integration of processes as we continue to combine and optimize our existing operations. In 2010, reorganization and restructuring expenses were €12.8 million, as compared to €21.4 million in 2009. The main part of the reorganization expenses in 2010 were attributable to severance payments and one-off compensation payments relating to an amendment of an outsourcing contract.

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

In 2010, our EBIT was €348.3 million, compared to €237.1 million in 2009. Adjusted for valuation effects, the EBIT was €417.8 million in 2010 after €434.1 million in 2009.

**NET FINANCING EXPENSES**

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

Net financing expenses decreased to €297.1 million in 2010 after €329.4 million in 2009. Total interest expenses declined to €298.0 million from €321.0 million during the same period the year before. Of the total interest expenses, cash interest expenses related to term loans decreased by 2.7 % to €253.3 million in 2010 after €260.4 million in 2009. The decrease of cash interest expense results from the paydown of debt mainly related to sales. Our net financing expenses are the sum of the following items:

€ MILLION	2010	2009	Q4 2010	Q4 2009
Cash interest expenses	- 253.3	- 260.4	- 62.8	- 64.5
Prepayment fees	- 18.0	- 10.5	- 2.3	- 2.5
Other	- 26.7	- 50.1	- 0.2	- 11.1
<b>Total interest expenses</b>	<b>- 298.0</b>	<b>- 321.0</b>	<b>- 65.3</b>	<b>- 78.1</b>
Interest income	1.6	1.3	0.9	0.1
Other financial expenses	- 0.7	- 0.2	- 0.1	- 0.4
Profit / loss from the fair value measurement of derivatives	4.1	- 8.6	2.3	2.3
Interest expenses (refinancing)	- 4.1	- 0.9	- 0.2	- 0.4
<b>Net financing expenses</b>	<b>-297.1</b>	<b>- 329.4</b>	<b>- 62.4</b>	<b>- 76.5</b>

**EARNINGS BEFORE TAXES (EBT)**

In 2010, our Group's EBT was €51.2 million, compared to €- 92.3 million in 2009. Earnings before taxes are computed as earnings before interest and taxes (EBIT) of €348.3 million reduced by net financing expenses of €297.1 million.

**INCOME TAXES**

Income tax expenses for 2010 were at €51.8 million (2009: income of €17.2 million) and included deferred tax expenses of €47.1 million (2009: deferred tax income of €32.6 million) and effective income tax expenses of €4.7 million (2009: expenses of €15.4 million).

**NET ASSET VALUE**

NAV per share decreased to €12.17 at the end of 2010. The loss from fair value measurement of investment property was €69.5 million, or 0.7 % on a total value of €9,289.3 million as of December 31, 2009. The remaining decline results from the lower shareholders' equity.

€ MILLION	12-31-2010	12-31-2009
Shareholders' equity	2,240.8	2,373.1
Deferred taxes on investment properties and assets held for sale	498.8	473.2
NAV	2,739.6	2,846.3
NAV per share (€)	12.17	12.60



## Financial Position

### GROUP CAPITALIZATION

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

	12-31-2010 € million	12-31-2010 %	12-31-2009 € million	12-31-2009 %
Total equity	2,302.7	24.9	2,457.7	25.2
Financial liabilities	6,011.2	64.9	6,525.3	66.7
Other liabilities	947.8	10.2	794.3	8.1
<b>Total equity and liabilities</b>	<b>9,261.7</b>	<b>100.0</b>	<b>9,777.3</b>	<b>100.0</b>

As of December 31, 2010, the Group's financial liabilities primarily comprised of the following liabilities:

	Carrying amount as of 12-31-2010	Notional amount as of 12-31-2010	Weighted average maturity	Current interest rate	Fixed or floating rate
Term loans	5,206.0	5,189.2	2013	4.10 %	Fixed
Term loans	320.3	306.4	2012	2.09 %	Floating <sup>1)</sup>
Senior debt	368.4	449.5	2039	2.37 %	Fixed
Revolving credit facility	100.2	100.0	2011	5.94 %	Floating
Other	16.3	16.3			
<b>Total</b>	<b>6,011.2</b>	<b>6,061.4</b>	<b>2015</b>	<b>3.90 %</b>	

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

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

## Net Assets

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

€ MILLION	12-31-2010	12-31-2009
Non-current assets	8,572.4	9,089.2
Current assets	475.9	413.7
Assets held for sale	213.4	274.4
<b>Total assets</b>	<b>9,261.7</b>	<b>9,777.3</b>
Equity	2,302.7	2,457.7
Non-current liabilities	6,216.2	6,442.2
Current liabilities	742.8	877.4
<b>Total equity and liabilities</b>	<b>9,261.7</b>	<b>9,777.3</b>

Non-current assets amount to €8,572.4 million, of which 99.1 % relate to investment property of €8,493.3 million and 0.6 % to property, plant and equipment of €49.0 million. Non-current assets make up 92.6 % of total assets (€9,261.7 million).

Current assets amount to €475.9 million, of which 4.9 % is comprised of inventories of €23.1 million and 78.9 % is cash and cash equivalents (€375.5 million).

Non-current liabilities of €6,216.2 million as of the balance sheet date were mainly comprised of financial liabilities of €5,648.4 million and deferred tax liabilities of €278.2 million.

## Significant Events after the Reporting Date

On January 25, 2011, Stephen Charlton was appointed member of the Senior Management of the Company's subsidiaries as Chief Financial Officer (CFO).

## Dividends

GAGFAH has declared a dividend for the fourth quarter 2010 of €0.10 per share, payable on April 12, 2011, to holders of record of GAGFAH S.A. shares on March 30, 2011. The shares will be ex-dividend for the fourth quarter 2010 dividend on March 31, 2011.

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

- Information regarding section a) of the law (structure of capital) can be found on pages 29 to 30 of this report.
- There are no restrictions on the transfer of securities in the Articles of Incorporation of the Company.
- Information regarding section c) of the law (significant direct and indirect shareholdings) can be found on page 11 of this report.

- 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) Information regarding section h) of the law (rules governing the appointment and replacement of board members and the amendment of the Articles of Incorporation) are as follows: The Directors are appointed at the Annual 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 Annual 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 Annual General 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. Ex-

traordinary 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 validly cast at the Extraordinary General Meeting of Shareholders.

- i) Information regarding section i) of the law (issue and buyback of shares and powers of the Board of Directors) are as follows: GAGFAH S.A. has a total authorized share capital of approximately €9.999 billion (as of December 31, 2010). 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 pre-emptive subscription rights to existing shareholders at the discretion of the Board. GAGFAH S.A., acting through its Board, had been authorized by the General Meeting of Shareholders to purchase, acquire or receive own shares in the Company up to 25 % of the issued share capital from time to time for a period of five years from April 21, 2010. In addition, share repurchases with capital reductions had been authorized for up to €70,600,000 for a period of nine months from April 21, 2010.

- 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.

ties, including assets from our non-core portfolio, generating liquidity that we have mostly used to repay debt. We continue to see strong demand for both condos and smaller portfolios with sufficient opportunities for buyers to finance their purchase at attractive conditions. Our strong operating business combined with the positive sentiment within the German economy and the positive underlying fundamental data of the residential real estate sector make us optimistic that 2011 will be a successful year for the Company.

## Outlook

GAGFAH has delivered another solid year with rent growth and vacancy in line with expectations and further progress in terms of cost reductions. We are confident that going forward we will continue to see steady rent increase and stable occupancy and fluctuation levels. We also believe that there is additional potential for cost savings. 2010 was the second year in which we successfully sold a larger amount of proper-

## Forward-looking Statements

This Annual Report contains statements that constitute forward-looking statements. Such forward-looking statements relate to, among other things, future commitments to acquire real estate and achievement of acquisition targets, timing of completion of acquisitions and the operating performance of our investments. Forward-looking statements are generally identifiable by use of



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

Forward-looking statements are based on certain assumptions, discuss future expectations, describe future plans and strategies, contain projections of results from operations or of financial conditions or state other forward-looking information. Our ability to predict results or the actual effect of future plans or strategies is limited. Although we believe that the expectations reflected in such forward-looking statements are based on reasonable assumptions, our actual results and performance may differ materially from those set forth in the forward-looking statements. These forward-looking statements are subject to risks, uncertainties and other factors that may cause our actual results in future periods to differ materially from forecast results or stated expectations,

including the risk that GAGFAH S.A. will be unable to increase rents, sell or privatize further units or further reduce management costs.

Luxembourg, March 22, 2011

The Board of Directors of GAGFAH S.A.





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#### CONSOLIDATED FINANCIAL STATEMENTS

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# Consolidated Statement of Financial Position

as of December 31, 2010

<b>ASSETS</b>			
€ MILLION	Notes	12-31-2010	12-31-2009
<b>Non-current assets</b>			
Intangible assets	E.1.	26.0	27.1
Investment property	E.2.	8,493.3	9,014.9
Property, plant and equipment	E.3.	49.0	41.5
Other financial assets	E.4.	4.0	3.9
Receivables	E.6.	0.1	0.9
Other assets	E.7.	0.0	0.9
		<b>8,572.4</b>	<b>9,089.2</b>
<b>Current assets</b>			
Inventories	E.5.	23.1	47.5
Receivables	E.6.	25.2	76.7
Other assets	E.7.	35.9	44.7
Current tax claims	E.8.	16.2	8.6
Bank balances and cash on hand	E.9.	375.5	236.2
		<b>475.9</b>	<b>413.7</b>
<b>Assets held for sale</b>	<b>E.10.</b>	<b>213.4</b>	<b>274.4</b>
<b>Total assets</b>		<b>9,261.7</b>	<b>9,777.3</b>



**EQUITY AND LIABILITIES**

€ MILLION	Notes	12-31-2010	12-31-2009
<b>Equity</b>	<b>E.11.</b>		
Subscribed capital		282.5	282.4
Share premium		1,179.2	1,358.4
Legal reserve		28.2	28.2
Revenue reserves		750.9	704.1
<b>Equity attributable to the shareholders of the parent company</b>		<b>2,240.8</b>	<b>2,373.1</b>
Non-controlling interests		61.9	84.6
<b>Total equity</b>		<b>2,302.7</b>	<b>2,457.7</b>
<b>Liabilities</b>			
<b>Non-current liabilities</b>			
Liabilities to non-controlling shareholders	E.12.	4.9	4.3
Pension provisions	E.13.1.	103.6	108.5
Other provisions	E.13.2.	9.5	9.0
Deferred tax liabilities	E.14.	278.2	231.1
Liabilities from income tax	E.15.	78.3	89.7
Financial liabilities	E.16.1.	5,648.4	5,906.2
Other liabilities	E.16.2.	10.5	4.0
Deferred liabilities of government-granted loans		82.8	89.4
		<b>6,216.2</b>	<b>6,442.2</b>
<b>Current liabilities</b>			
Pension provisions	E.13.1.	7.0	6.5
Other provisions	E.13.2.	51.7	57.9
Liabilities from income tax	E.15.	55.9	47.3
Financial liabilities	E.16.1.	362.8	619.1
Other liabilities	E.16.2.	260.5	142.3
Deferred liabilities of government-granted loans		4.9	4.3
		<b>742.8</b>	<b>877.4</b>
<b>Total liabilities</b>		<b>6,959.0</b>	<b>7,319.6</b>
<b>Total equity and liabilities</b>		<b>9,261.7</b>	<b>9,777.3</b>

# Consolidated Statement of Comprehensive Income

for the period from January 1 to December 31, 2010

€ MILLION	Notes	2010	2009
Income from the leasing of investment property	F.1.	911.5	976.8
Transferable leasehold land interest		- 2.1	- 2.3
Operating expenses for the generation of rental income (excluding share-based remuneration)	F.2.	- 449.3	- 488.2
<b>Profit from the leasing of investment property</b>		<b>460.1</b>	<b>486.3</b>
Income from the sale of investment property and assets held for sale		531.5	262.5
Carrying amount of the sold investment property and assets held for sale		- 515.3	- 239.7
<b>Profit from the sale of investment property and assets held for sale</b>		<b>16.2</b>	<b>22.8</b>
<b>Loss from fair value measurement of investment property</b>	<b>F.3.</b>	<b>- 69.5</b>	<b>- 197.0</b>
Income from the sale of property development projects		11.8	5.8
Carrying amount of the property development projects sold		- 8.0	- 2.8
<b>Profit from the sale of property development projects</b>		<b>3.8</b>	<b>3.0</b>
Profit from other services	F.4.	5.0	4.4
Selling expenses (excluding share-based remuneration)	F.5.	- 26.7	- 23.0
General and administrative expenses (excluding share-based remuneration)	F.6.	- 37.9	- 41.9
Expenses for / income from share-based remuneration	F.7.	- 1.8	1.4
Other operating income	F.8.	20.2	27.2
Other operating expenses	F.9.	- 8.3	- 24.8
<b>Profit from operations before reorganization and restructuring expenses</b>		<b>361.1</b>	<b>258.4</b>
Reorganization and restructuring expenses	F.10.	- 12.8	- 21.4
<b>Profit from operations</b>		<b>348.3</b>	<b>237.0</b>
Profit from other financial assets		0.0	0.1
<b>Earnings before interest and taxes (EBIT)</b>		<b>348.3</b>	<b>237.1</b>
Interest expenses	F.11.	- 298.0	- 321.0
Interest income		1.6	1.3
Other financial expenses		- 0.7	- 0.2
Profit / loss from the fair value measurement of derivatives	H.2.	4.1	- 8.6
Interest expenses (refinancing)	F.12.	- 4.1	- 0.9
<b>Net financing expenses</b>		<b>- 297.1</b>	<b>- 329.4</b>
<b>Earnings before taxes (EBT)</b>		<b>51.2</b>	<b>- 92.3</b>
Income taxes	F.13.	- 51.8	17.2
<b>Net loss (Total comprehensive income)</b>		<b>- 0.6</b>	<b>- 75.1</b>
Net loss (Total comprehensive income) attributable to:			
Non-controlling interests	F.14.	- 8.3	- 4.0
Shareholders of the parent company		7.7	- 71.1
Weighted average number of shares, undiluted (in million)		225.9	225.8
Weighted average number of shares, diluted (in million)		228.6	228.0
Earnings per share (in €)	F.15.	0.03	- 0.31
Diluted earnings per share (in €)	F.15.	0.03	- 0.32

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

for the period from January 1 to December 31, 2010

€ MILLION	2010	2009
Net loss (Total comprehensive income)	- 0.6	- 75.1
Loss from fair value measurement of investment property	69.5	197.0
Amortization, depreciation and impairment losses on intangible assets and property, plant and equipment	4.8	3.9
Profit from the sale of investment property and assets held for sale	- 16.2	- 22.8
Other non-cash income (-) / expenses (+)	25.5	58.0
Change in provisions, pension provisions and deferred liabilities of government-granted loans	- 19.6	- 16.7
Change in deferred taxes	47.1	- 32.6
Change in working capital	33.7	3.9
<b>Cash flows from operating activities<sup>2)</sup></b>	<b>144.2</b>	<b>115.6</b>
Cash received from the sale of investment property and assets held for sale	686.7	394.0
Cash paid for investment property – acquisition and modernization	- 5.1	- 24.4
Cash paid for investments in intangible assets and property, plant and equipment	- 2.8	- 2.7
Cash received from disposals of property, plant and equipment	0.0	0.1
Cash paid for the acquisition of subsidiaries and non-controlling shares in subsidiaries	0.0	- 1.7
<b>Cash flows from investing activities</b>	<b>678.8</b>	<b>365.3</b>
Cash paid to stockholders of GAGFAH S.A.	- 135.6	- 180.6
Cash paid for share buyback	- 5.8	0.0
Cash paid to non-controlling shareholders / interests	- 14.4	- 3.1
Cash received from raising financial liabilities	175.1	0.0
Cash repayments of financial liabilities	- 698.9	- 222.6
Interest and cost paid for refinancing	- 4.1	- 1.3
<b>Cash flows from financing activities</b>	<b>- 683.7</b>	<b>- 407.6</b>
<b>Change in cash and cash equivalents</b>	<b>139.3</b>	<b>73.3</b>
Bank balances, cash on hand and securities at the beginning of the year	236.2	176.4
Change in cash and cash equivalents due to changes in the Consolidated Group	0.0	- 13.5
<b>Bank balances and cash on hand as of balance sheet date</b>	<b>375.5</b>	<b>236.2</b>

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

<sup>2)</sup> Operating cash flow includes taxes paid of €18.9 million (prior year: taxes paid €17.2 million), interest paid of €272.6 million (prior year: €269.3 million) and interest received of €1.5 million (prior year: €3.2 million).

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

for the period from January 1 to December 31, 2010

€ MILLION	Revenue reserves					Equity attributable to the shareholders of the parent company	Non-controlling interests	Total equity
	Subscribed capital	Share premium	Legal reserve	Treasury shares	Retained earnings			
<b>January 1, 2010</b>	<b>282.4</b>	<b>1,358.4</b>	<b>28.2</b>	<b>0.0</b>	<b>704.1</b>	<b>2,373.1</b>	<b>84.6</b>	<b>2,457.7</b>
Change of accounting policies	0.0	0.0	0.0	0.0	- 0.2	- 0.2	0.0	- 0.2
<b>January 1, 2010 (adjusted)</b>	<b>282.4</b>	<b>1,358.4</b>	<b>28.2</b>	<b>0.0</b>	<b>703.9</b>	<b>2,372.9</b>	<b>84.6</b>	<b>2,457.5</b>
Total comprehensive income for the period	0.0	0.0	0.0	0.0	7.7	7.7	- 8.3	- 0.6
Share-based remuneration	0.1	1.5	0.0	0.0	0.0	1.6	0.0	1.6
Change in shareholdings and the Consolidated Group	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Dividends	0.0	- 180.7	0.0	0.0	45.1	- 135.6	- 14.4	- 150.0
Share buyback	0.0	0.0	0.0	- 5.8	0.0	- 5.8	0.0	- 5.8
<b>December 31, 2010</b>	<b>282.5</b>	<b>1,179.2</b>	<b>28.2</b>	<b>- 5.8</b>	<b>756.7</b>	<b>2,240.8</b>	<b>61.9</b>	<b>2,302.7</b>

<sup>1)</sup> For further information, please refer to section E.11. "Equity".

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

for the period from January 1 to December 31, 2009

€ MILLION							
	Subscribed capital	Share premium	Legal reserve	Revenue reserves	Equity attributable to the shareholders of the parent company	Non-controlling interests	Total equity
<b>January 1, 2009</b>	<b>282.1</b>	<b>1,540.7</b>	<b>28.2</b>	<b>777.2</b>	<b>2,628.2</b>	<b>105.4</b>	<b>2,733.6</b>
Total comprehensive income for the period	0.0	0.0	0.0	- 71.1	- 71.1	- 4.0	- 75.1
Share-based remuneration	0.3	- 1.8	0.0	0.0	- 1.5	0.0	- 1.5
Change in shareholdings and the consolidated Group	0.0	0.0	0.0	- 1.9	- 1.9	- 13.7	- 15.6
Dividends	0.0	- 180.5	0.0	- 0.1	- 180.6	- 3.1	- 183.7
<b>December 31, 2009</b>	<b>282.4</b>	<b>1,358.4</b>	<b>28.2</b>	<b>704.1</b>	<b>2,373.1</b>	<b>84.6</b>	<b>2,457.7</b>

<sup>1)</sup> For further information, please refer to section E.11. "Equity".

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## A. General Information

### The Company

GAGFAH S.A. is a joint stock corporation incorporated in Luxembourg, having its registered office at 2-4, Rue Beck, Luxembourg L-1222 Luxembourg, registered with the Registre de Commerce et des Sociétés under number B109.526. GAGFAH S.A. and its subsidiaries form the GAGFAH GROUP (in the following also referred to as “GAGFAH”). GAGFAH S.A. 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 and management of a geographically diversified and well-maintained residential property portfolio of more than 158,000 apartments throughout Germany. As of the balance sheet date, the Group was managing a total of more than 180,000 apartments. GAGFAH S.A.’s operating subsidiaries also operate in the area of real estate sales.

In addition, GAGFAH S.A.’s operating subsidiaries work in the area of property development business, which will be closed down over time.

### Consolidated Financial Statements

GAGFAH S.A. has prepared its Consolidated Financial Statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the EU 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 subsidiary deviates from the calendar year, additional Financial Statements as of calendar 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 Consolidated Financial Statements were prepared using the same principles as the Consolidated Financial Statements as of December 31, 2010.

In line with the recommendations of the European Public Real Estate Association (EPRA), the Consolidated Statement of Comprehensive Income was classified according to the cost of sales method.



The Consolidated Financial Statements for the year ending December 31, 2010, were formally approved by the Board of Directors on March 22, 2011, and will be presented to the Annual General Meeting of Shareholders for approval on April 21, 2011.

## New Accounting Standards

### CHANGES IN ACCOUNTING POLICIES AND DISCLOSURE

The accounting policies adopted are consistent with those of the previous financial year except as follows:

The Group adopted the following new and amended IFRSs and IFRICs interpretations which are relevant for the operations of the Group during the year. Adoption of these revised standards and interpretations did not have any effect on the financial performance or position of the Group. They did, however, give rise to additional disclosures, including in some cases revisions to accounting policies.

On June 18, 2009, the International Accounting Standards Board (IASB) issued amendments to **IFRS 2 Group Cash-settled Share-based Payment Transactions** that clarify how an individual subsidiary in a group should account for some share-based payment arrangements in its own financial statements. The amended Standard prescribes that an entity that receives goods or services in a share-based payment arrangement must account for those goods or services no matter which entity in the group settles the transaction, and no matter whether the transaction is settled in shares or cash. The amendments to IFRS 2 also contain guidance previously included in IFRIC 8: Scope of IFRS 2 and IFRIC 11: IFRS 2 Group and treasury share transactions, so IASB has withdrawn IFRIC 8 and IFRIC 11. The amendments are effective for annual periods beginning on or after January 1, 2010. The new rules have had no implications for GAGFAH GROUP.

The revised **IFRS 3 Business Combinations** was issued in January 2008 in connection with **IAS 27 Consolidated and Separate Financial Statements** and became effective for financial years beginning on or after July 1, 2009. The revised standard is the result of a joint project with the US Financial Accounting Standards Board. The main changes comprise e.g. the recognition of acquisition-related costs, the treatment of step acquisitions and the measurement of goodwill and non-controlling interests and will therefore have impacts on business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after July 1, 2009. In the case of GAGFAH GROUP it is January 1, 2010.

There were no acquisitions or sales of shareholdings during that year.

The amended **IAS 27 Consolidated and Separate Financial Statements** was issued in January and May 2008 in connection with **IFRS 3 Business Combinations** and became

effective for financial years beginning on or after July 1, 2009. The amendments deal with increases or decreases in a parent's ownership interest that do not result in a loss of control, attributions of acquired entity's losses to non-controlling interest and loss of control of a subsidiary. GAGFAH GROUP already accounts changes in ownership interests of a subsidiary (without loss of control) as equity transactions as required by the amended standard.

On April 16, 2009, the IASB issued "**Improvements to IFRSs**", an omnibus standard of amendments to its standards, primarily with a view to removing inconsistencies and clarifying wording.

There are separate transitional provisions for each standard and unless otherwise specified the most amendments are effective for annual periods beginning on or after January 1, 2010. Involving a total of ten standards and two interpretations, they are of subordinate importance and had no significant implications for GAGFAH GROUP except for IAS 17 Leases and IFRS 8 Operating Segments.

The amendments to IAS 17 deleted specific guidance regarding classification of leases of land, so as to eliminate inconsistency with the general guidance on lease classification. As a result, leases of land should be classified as either finance or operating lease using the general principles of IAS 17.7-13. The amendment has resulted in additional disclosures in the Notes and a modified disclosure of items in our Consolidated Statement of Financial Position. The realization of the amended standard as of January 1, 2010, resulted in the recognition of leasehold land at its fair value of €4.1 million, the recognition of liabilities from finance lease of €4.3 million and, equal to the difference, the recognition of an equity effect of €0.2 million. For a detailed description of the amendments to IAS 17, please refer to section C.2. "Leases". A more detailed disclosure on the balance sheet items can be found in sections E.16.2. "Other Liabilities" and H.4. "Contingent Liabilities and Other Financial Obligations and Receivables".

Pursuant to the previous version of IFRS 8 Operating Segments, a company had to disclose a measure of the result and total assets for each reportable segment. A measure of liabilities was only required if such an amount is regularly reported to the chief operating decision maker. According to the Annual Improvements Project 2009, a measure of total assets shall, analogous to the liabilities, only be reported if such a measure is reported to the chief operating decision maker. The purpose of this amendment is an adaptation to SFAS 131. The implementation of the improvements to IFRS 8 Operating Segments has resulted in a condensed disclosure of items in our segment reporting: GAGFAH GROUP decided not to disclose assets and liabilities in its Group Segment Reports any longer from the fiscal year 2010 onwards.

On May 6, 2010, the IASB issued "**Improvements to IFRSs**", the third collection of amendments issued under the annual improvements process, primarily with a view

to removing inconsistencies and clarifying wording. There are separate transitional provisions for each standard and unless otherwise, specified the most amendments are effective for annual periods beginning on or after January 1, 2011. The omnibus standard contains nine amendments to five standards and one interpretation.

GAGFAH GROUP has concluded that the amendments have no material impact on the Consolidated Financial Statements.

Besides those new and amended IFRSs and IFRICs interpretations which are explained below, the following IFRSs and IFRICs interpretations also got effective for the fiscal year 2010 but did not have any relevance for the Group:

- Amendment to IAS 39 Financial Instruments: Recognition and Measurement – Reclassification of Financial Assets: Effective Date and Transition
- Amendment to IAS 39 Financial Instruments: Recognition and Measurement – Eligible Hedged Items
- IFRIC 18 Transfers of Assets from Customers
- IFRIC 17 Distributions of Non-cash Assets to Owners
- Amendment to IAS 32 Financial Instruments: Presentation – Classification of Rights Issues
- Amendments to IAS 39 and IFRIC 9 Embedded Derivatives

#### **NEW ACCOUNTING STANDARDS ISSUED BUT NOT YET EFFECTIVE**

In addition to the IFRSs, whose application is mandatory for fiscal year 2010, the International Accounting Standards Board (IASB) and the International Financial Reporting Interpretations Committee (IFRIC) respectively, have also published other IFRSs and IFRICs, which will become effective at a later date and are explained below. Of these new Accounting Standards and Interpretations, the following IFRSs and IFRICs have already received European endorsement:

- Revised IAS 24 Related Party Disclosures
- Amendment to IFRIC 14 Prepayment of a Minimum Funding Requirement
- IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments

On November 4, 2009, the IASB issued amendments to **IAS 24 Related Party Disclosures**. The revised Standard provides a partial exemption from the disclosure requirements of IAS 24 for entities that are controlled, jointly controlled or significantly influenced by a government (“government-related entities”) and clarifies the definition of a related party. The revised Standard is effective for annual periods beginning on or after January 1, 2011, but earlier application is permitted. The revised Standard requires retrospective application. Therefore, in the year of initial application, disclosures for the comparative period will need to be restated. There will be no impact on the Consolidated Financial Statements of GAGFAH GROUP due to this amendment.

All newly published standards and interpretations will become mandatory at a later date. Voluntary early application of the relevant standards and interpretations are

explicitly permitted and encouraged. GAGFAH GROUP did not apply any of the voluntarily applicable Accounting Standards and Interpretations as of December 31, 2010.

The following IFRSs and IFRICs are not yet endorsed by the EU:

- IFRS 9 Financial Instruments
- Amendments to IFRS 7 Financial Instruments: Disclosures (issued on October 7, 2010)
- Amendments to IAS 12 Income taxes: Recovery of Underlying Assets

On October 28, 2010, the IASB issued requirements on the accounting for financial liabilities. These requirements will be added to **IFRS 9 Financial Instruments** and complete the classification and measurement phase of the IASB's project to replace IAS 39 Financial Instruments: Recognition and Measurement. The guidance on the classification and measurement of financial liabilities is unchanged from the classification criteria for financial liabilities currently contained in IAS 39. There are the following two differences compared to IAS 39: The presentation of the effects of changes in fair value attributable to a liability's credit risk and the elimination of the cost exemption for derivative liabilities to be settled by delivery of unquoted equity instruments. The latest requirements follow the IASB's November 2009 issue of IFRS 9, which prescribed the classification and measurement of financial assets. IFRS 9 uses a simple approach to determine whether a financial asset is measured at amortized cost or fair value. This approach is based on how an entity manages its financial instruments (its business model) and the contractual cash flow characteristics of the financial assets. The standard is effective for annual periods beginning on or after January 1, 2013, but may be applied earlier.

The second and third phases of IFRS 9 are concerned with accounting for the impairment of financial assets and hedge accounting. The IASB is aiming to complete those phases by 2011. The implications of the new standard as a whole will be assessed when all phases are finalized.

On December 20, 2010, the IASB issued **Amendments to IAS 12 Income Taxes**: The amendments provide an exception to the general principles of IAS 12 for investment property measured using the fair value model in IAS 40 Investment Property. It can be difficult and subjective to assess whether recovery of deferred taxes will be through use or through sale. The amendments introduce a rebuttable presumption that the carrying amount of such an asset will be recovered entirely through sale. The effective date of the amendments is for annual periods beginning on or after January 1, 2012. Earlier application is permitted.

The amendments will have no material impact on the Consolidated Financial Statements of GAGFAH GROUP.

## B. Consolidated Group and Consolidation Principles

### 1. Consolidated Group

In total, 59 subsidiaries were included in the Consolidated Financial Statements of GAGFAH S.A. on the fully consolidated basis 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.

Two of these companies (No. 8 and No. 71 in the list of shareholdings) were included in the Consolidated Financial Statements due to their nature as special purpose entities (SPEs) according to SIC 12.

In addition, 20 fractional ownership funds ("HB Funds") were included in the Consolidated Financial Statements on a fully consolidated basis and four joint ventures on a proportionate consolidation basis.

Year on year, the number of Group companies has changed as follows:

	Number of Group companies
<b>As of January 1, 2010</b>	<b>76</b>
Formations	4
<b>As of December 31, 2010</b>	<b>80</b>

The composition of the GAGFAH GROUP as well as further information on formations are presented in the list of shareholdings attached as Exhibit (1).

#### CHANGES IN THE CONSOLIDATED GROUP IN 2010

##### Formation of WOHNBAU NORDWEST Dienstleistungen GmbH

WOHNBAU NORDWEST Dienstleistungen GmbH was founded by GAGFAH Holding GmbH on January 14, 2010, and entered into the commercial register on February 5, 2010. The corporate purpose of the company is real estate management and to provide concierge services.

##### Formation of DW Management GmbH

DW Management GmbH was founded by GAGFAH Verwaltung GmbH on November 12, 2010, and entered into the commercial register on January 25, 2011. The corporate purpose of the newly established company is to provide real estate management services.

##### Formation of Instandhaltungs-Service GmbH (ISG)

Instandhaltungs-Service GmbH (ISG) was founded by VHB Grundstücksverwaltungs-gesellschaft "Haus und Bodenfonds" mbH on December 20, 2010. As of the balance sheet date, the entry into the commercial register is still being processed. The corporate

purpose of the newly established company is to provide real estate management services, in particular maintenance services.

#### **Formation of Grünflächen-Service GmbH (GSG)**

Grünflächen-Service GmbH (GSG) was founded by VHB Grundstücksverwaltungsgesellschaft "Haus und Bodenfonds" mbH on December 20, 2010. As of the balance sheet date, the entry into the commercial register is still being processed. The corporate purpose of the newly established company is to provide real estate management services, in particular gardening services.

#### **CHANGES IN THE CONSOLIDATED GROUP IN 2009**

##### **Upstream mergers and accretions in the prior year**

In the second quarter of 2009, GAGFAH First Property Holding GP GmbH and GAGFAH Pegasus Verwaltungs GmbH transferred their net assets as a whole to GAGFAH Acquisition 3 GmbH by upstream merger.

In the fourth quarter of 2009, GAGFAH Operations Advisor GmbH (general partner), sold its share in NILEG Hofheim GmbH & Co. KG to NILEG Norddeutsche Immobilien-gesellschaft mbH (exclusive limited partner). NILEG Hofheim GmbH & Co. KG transferred its net assets as a whole to NILEG Norddeutsche Immobiliengesellschaft mbH.

##### **Liquidations in the prior year**

In the second half of 2009, the Group's joint ventures Lühnde IGH und NILEG GbR and Danndorf GbR were liquidated. The companies transferred their net assets as a whole to NILEG Norddeutsche Immobiliengesellschaft mbH.

##### **Sales in the prior year**

In the context of the acquisition of the GBH Group, an option agreement was purchased. This option agreement contained a put option which entitled the GAGFAH GROUP to sell its 74.9 % shares in Baugesellschaft Frankenthal (Pfalz) GmbH ("BGF") at a fixed price of €47.8 million. The corporate purposes of BGF are the management of residential and other buildings in the region of Frankenthal (Pfalz), Germany, as well as construction and development activities.

In line with the Group's continuous portfolio optimization, the Senior Management of the GAGFAH GROUP resolved to exercise the put option for BGF on January 7, 2009. In the course of the classification of BGF as a disposal group, an impairment loss was allocated to investment property (€5.9 million) and property, plant and equipment (€0.2 million) in the first quarter of 2009.

Upon the exercise of the put option, the company was deconsolidated on April 1, 2009. The net assets of BGF as of April 1, 2009, break down as follows:

€ MILLION	04-01-2009
<b>Assets</b>	
<b>Non-current assets</b>	
Investment property	71.7
	<b>71.7</b>
<b>Current assets</b>	
Inventories	0.2
Receivables	2.2
Other assets	0.1
Current tax claims	0.1
Bank balances and cash on hand	13.5
	<b>16.1</b>
<b>Assets of disposal group</b>	<b>87.8</b>
<b>Liabilities</b>	
<b>Non-current liabilities</b>	
Non-controlling interests	13.9
Liabilities from income tax	1.3
Financial liabilities	17.3
Other liabilities	0.3
Deferred liabilities of government-granted loans	0.7
	<b>33.5</b>
<b>Current liabilities</b>	
Other provisions	0.2
Liabilities from income tax	1.7
Financial liabilities	3.5
Other liabilities	1.1
	<b>6.5</b>
<b>Liabilities of disposal group</b>	<b>40.0</b>
Net assets	47.8
Purchase price	- 47.8
<b>Effect from the deconsolidation</b>	<b>0.0</b>
<b>Cash inflow due to sale</b>	
Sales price	0.0
Cash and cash equivalents disposed	- 13.5
<b>Net cash inflow</b>	<b>- 13.5</b>

Until the deconsolidation of BGF, the deferred purchase price of €47.8 million, which corresponds to the exercise price of the put option, was included in the Consolidated Statement of Financial Position of GAGFAH GROUP. With the deconsolidation of BGF, the purchase price was deconsolidated and therefore netted out.

## 2. Consolidation Principles

### 2.1. SUBSIDIARIES

In addition to GAGFAH S.A., all subsidiaries over which control is exercised pursuant to IAS 27.13 are fully consolidated. Control is deemed to be present 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.

All business combinations reflected in the Consolidated Financial Statements took place before January 1, 2010, and had been recorded according to IFRS 3 as applicable at the acquisition date.

For the companies acquired, capital consolidation was performed using the purchase method in accordance with IFRS 3, under which the acquisition costs 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 were remeasured at fair value as of the respective acquisition dates.

If the acquired share of the net assets of the subsidiary exceeds the cost of the investment, the share of the net assets and the acquisition costs are reassessed as prescribed by IFRS 3.32. Any excess remaining after this reassessment is recognized immediately as profit or loss.

All intercompany receivables and liabilities (and provisions), revenues, expenses and income as well as gains and losses are eliminated in accordance with IAS 27.20.



Subsidiaries are fully consolidated from the date of acquisition, i.e. the date on which the Group obtains control (IFRS 3.8 in conjunction with IFRS 3.15). Inclusion in the Consolidated Financial Statements ends as soon as the parent ceases to have control (IAS 27.34).

An adjustment item for non-controlling interests is recognized for shares in fully consolidated subsidiaries that do not belong to the parent company. Pursuant to IAS 27.27, the adjustment item is disclosed under consolidated equity as a separate item from the equity of the parent company.

Non-controlling interests in consolidated profit or loss are recorded separately in the Consolidated Statement of Comprehensive Income as a "thereof" item below net profit or loss in accordance with IAS 27.27.

#### **2.2. CHANGE IN CONTROLLING INTEREST**

A change in ownership interest of a subsidiary without a change of control is accounted for as an equity transaction.

#### **2.3. JOINT VENTURES**

The Group has interests in joint ventures. According to IAS 31.3, 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 party has an interest. The Group accounts for its interest in the joint venture on the basis of proportionate consolidation. For proportionate consolidation, the same methods are generally applied as for the full consolidation of subsidiaries. Required consolidation entries for relationships with proportionately consolidated companies are performed in accordance with the respective share in equity. 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.

## C. Accounting Policies

### 1. Intangible Assets

#### **ACQUIRED INTANGIBLE ASSETS**

Acquired intangible assets with a finite lifespan are initially measured at cost and 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 to ten 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.

All business combinations reflected in the Consolidated Financial Statements took place before January 1, 2010, and had been recorded according to IFRS 3 as applicable at the acquisition date.

Pursuant to IFRS 3.32, goodwill is recorded as an asset on the date of acquisition. It is not amortized, but subject to an annual impairment test pursuant to IAS 36. Following initial recognition, goodwill is measured at original cost less any accumulated impairment losses.

Basically, GAGFAH distinguishes whether the goodwill relates to a real estate portfolio or whether the goodwill relates to a service provider without a real estate portfolio.

In the case of a real estate portfolio, cash flows from the real estate are included in the calculation of the fair value of the real estate. For the calculation of the fair value of the real estate, GAGFAH uses certain parameters based on valuation standards used for calculation of market prices. An additional amount can result from the fact that the individual parameters for GAGFAH (e.g. administrative expenses) turn out more favorable than the general estimation used in the valuation of the real estate. These cost advantages can result in an incremental value in use which justifies the goodwill for the underlying real estate.

In the case of a service provider without a real estate portfolio, the prospective discounted cash flows of that company are used for the impairment test of the goodwill. Future cash flows are projected in detail for one year. After this detailed planning horizon, no increase in future cash flows is planned.

For the purpose of impairment testing, the acquired goodwill is allocated to the group of cash generating units expected to benefit from the synergies of the combination as of the acquisition date. GAGFAH GROUP performs the impairment test on the level of

groups of cash generating units corresponding with the particular regional divisions. Impairment is determined by assessing the recoverable amount of the cash generating unit to which the goodwill relates. The recoverable amount is the higher amount of the fair value in use and the fair value less costs to sell. 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 sold, the allocable amount of goodwill is included in determining the gain or loss on disposal.

## 2. Leases

Leases are assessed in accordance with their substance. A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership of an asset. All other leases are classified as operating leases (IAS 17.4). According to IAS 17.13, classification is made at the inception of the lease.

In the course of the Annual Improvements Project 2009, IAS 17 Leases was amended. The guidance stating that a lease of land with an indefinite economic life normally is classified as an operating lease, unless at the end of the lease term title is expected to pass to the lessee was deleted.

Under the amendments, a land lease with a lease term of several decades or longer may be classified as a finance lease, even if at the end of the lease term title will not pass to the lessee, because in such arrangements substantially all risks and rewards are transferred to the lessee and the present value of the residual value of the leased asset is considered negligible.

Prior to amendment, IAS 17 Leases generally required a lease of land with an indefinite useful life to be classified as an operating lease. This was inconsistent with the general principles of the Standard, and the relevant guidance has been removed due to concerns that it could lead to accounting not reflecting the substance of arrangements. Following the amendment, leases of land are classified as either "finance lease" or "operating lease" using the general principles of IAS 17.7-13.

## **FINANCE LEASES**

### **Finance leases in the Financial Statements of lessees**

For finance leases, a company is deemed to be the lessee provided it alone has the risks and rewards incidental to ownership of the leased item. At initial recognition, lessees recognize assets and liabilities in their Statement of Financial Position at amounts equal to the lower of the fair value of the leased property and the present value of the minimum lease payments (IAS 17.20).

For subsequent measurement, the minimum lease payments are divided into interest and principal payments; the lease liability thus bears interest on an ongoing basis.

A finance lease gives rise to depreciation expense for depreciable assets as well as finance expenses for each accounting period. 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.

In the course of the reassessment of existing leases, some transferable leasehold land properties had to be recognized as a finance lease.

### **Finance leases in the Financial Statements of lessors**

At initial recognition, lessors recognize assets held under finance lease in their Statement of Financial Position and present them as a receivable at an amount equal to the net investment in the lease (IAS 17.36).

For subsequent measurement, the recognition of finance income is based on a pattern reflecting a constant periodic rate of return on the lessor's net investment in the finance lease.

## **OPERATING LEASES**

### **Operating leases in the Financial Statements of lessees**

According to IAS 17.33, lease payments under an operating lease are recognized as an expense on a straight-line basis over the lease term unless another systematic basis is more representative of the time pattern of the user's benefit.

### **Operating leases in the Financial Statements of lessors**

Lessors present assets subject to operating leases in their Statement of Financial Position according to the nature of the asset (IAS 17.49). Lease income from operating leases are recognized in income on a straight-line basis over the lease term unless another systematic basis is more representative of the time pattern in which user's benefit derived from the leased asset is diminished (IAS 17.50).

According to IAS 17.52, initial direct costs are capitalized and recorded as an expense over the term of the lease in accordance with the rent received.

All existing rental leases related to the Group's investment properties have been assessed as operational leases. The tenants have a unilateral right to terminate within the statutory notice period.

### 3. Investment Property

#### RECOGNITION

Investment property is defined as property held in the long term to earn rentals and / or for capital appreciation (IAS 40.5 et seqq.). This includes land without buildings, land and similar land rights with buildings as well as land with third-party inheritable building rights. This balance sheet item does not include owner-occupied real estate (e.g. administrative buildings) or property held for short-term sale within the scope of ordinary activities.

Where buildings are partly owner-occupied and partly 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 within the scope of a finance lease transaction.

Properties are allocated to the investment property portfolio if there is a change in their usage evidenced by the end of owner occupation or the beginning of a lease agreement with another party (IAS 40.57 (c)).

Properties are taken out of the investment property portfolio if there is a change in their usage evidenced by the beginning of owner occupation (IAS 40.57 (a)).

According to IAS 40.66, 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 (IAS 40.69).

Any gains or losses that result from a change in the fair value of the investment property are recognized as profit or loss for the period in which they arise (IAS 40.35).

#### VALUATION

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

sequent annual accounts the portfolios are valued at their fair value. The valuation results are shown on the line “Loss from fair value measurement of Investment Property” of the Consolidated Statement of Comprehensive Income.

Investment property is stated at net capital value (i.e. capital value less purchasers’ cost) upon subsequent measurement.

The valuation of the investment property has been performed by an external appraiser, CB Richard Ellis GmbH (prior year: internally by GAGFAH S.A.). As in prior years, a discounted cash flow model was used to determine fair value. However, having the valuation performed by an external appraiser means that a different valuation model was used. Although the former internal valuation and the current external valuation were both based on a DCF model, the property-specific risks and opportunities in the cash flow forecast are based on somewhat different assumptions. These different assumptions are also taken into account in the risks and opportunities related to the discount rate. It is evident from the valuation of the portfolio that there has been no material change in the overall value of our properties in aggregate. Hence, the increase in the weighted average discount rate (2010: 6.01%; 2009: 5.54%) does not reflect a higher risk but is instead merely the result of a change in the particulars in each of the valuation models.

#### **Fair Value**

The properties have been valued at the fair value in accordance with IAS 40.5.

No allowances have been made for any expenses of realization nor taxation, which might arise in the event of a disposal.

No account has been taken of any intercompany lease arrangements, or of any mortgages, debentures or other charges.

The fair value is reported as the net capital value.

#### **DCF (Discounted Cash Flow)**

In arriving at the market value for GAGFAH GROUP’s residential or mixed-used properties, CB Richard Ellis GmbH applied the DCF approach, based on a 10-year time horizon. The DCF model involves a period-by-period estimation of gross income and expenditure to calculate the net income (cash flow) for each period, explicitly taking into account a range of variables including changes in rent due to legally permissible rent increases and growth in market rents, expenditure in repairs and maintenance, vacancies etc. over the period of the time horizon.

The resulting net cash flows are discounted at a selected discount rate, normally set by considering money market rates and allowing for a risk premium derived from net

initial yields observed in the market, in order to arrive at the gross capital value. The terminal value of the properties at the end of the time horizon is estimated using forecasts of the rental income and appropriate capitalization rates (income capitalization method). After allowing for purchasing costs (notary's fees, land transfers tax, agent fees) the result is the fair value.

#### Market-oriented Figures

The net cash flows are based on the current asset-specific operating income less non-recoverable expenses such as vacancy loss, non-recoverable operating expenses, administrative costs, repair and maintenance costs and other operating costs such as real estate tax.

Depending on the prevailing market rent and the asset-specific rent adjustment options, the current in-place rent is forecasted to reach the market level over time and grow in line with the market rent thereafter. The market rent grows at a property-by-property level, reflecting the regional basis with adjustments for the quality of situation and building condition and is assumed to increase between 0.00 % and 1.65 % per year (prior year: between 0.00 % and 1.50 % per year). The net in-place rent is calculated by subtracting vacancy losses as well as rent reductions.

The general structural vacancy rate is determined depending on the location of the assets in a range between 0.5 % and 7.0 %. For commercial units structural vacancy is reflected in the valuation by considering the expected period of vacancy of the individual property. The period of vacancy ends with the expected re-letting of the property.

For valuation units with a current vacancy rate above the structural vacancy rate, the vacancy rate is reduced between 1 and 10 percentage points p.a. until the structural vacancy rate is reached. For valuation units with a current vacancy rate below the structural vacancy rate, the vacancy rate is increased between 0.25 and 2 percentage points p.a. until the structural vacancy rate is reached.

#### WELFARE CONDITIONS AND CONTRACTUAL OBLIGATIONS

Several direct and indirect subsidiaries of GAGFAH S.A. agreed in certain share and asset purchase agreements by which the property portfolio of the GAGFAH GROUP was acquired to comply with welfare conditions, which in addition to the regular rent control conditions safeguard the relevant parts of the portfolio. It must be noted that these welfare conditions only relate to certain parts of the overall residential property stock of the GAGFAH GROUP and that certain specifications differ from unit to unit. Such welfare conditions include, but are not limited to, the following obligations in particular.

After the date of property purchases a general right of continuance usually exists for several years. Within this period, various regulations regarding the property apply:

In the event of planned single-property sales, for example, the respective properties may have to be offered first to the tenants or their immediate family members before they can be offered to third parties (pre-emption right). For certain parts of the portfolio, these offers may additionally be subject to predefined upper limits. In the event of planned sales of condominium units or leased buildings with more than one rental apartment, such sales may only be permitted if certain obligations are fulfilled, such as predefined tenant occupancy rates or vacancy rates.

Furthermore, the welfare conditions may comprise clauses defining upper limits of rent increases as well as regulations regarding minimum maintenance expenses and required improvement works. For certain parts of the portfolio, the respective subsidiaries moreover have committed themselves to invest a defined average amount per square meter in maintenance and improvements.

Additionally, there are absolute selling restrictions for certain parts of the portfolio. Sales of individual properties from this portfolio are only possible with the approval of existing non-controlling shareholders.

#### 4. Property, Plant and Equipment

If properties are owner-occupied within the scope of operating activities, they are disclosed under the balance sheet item property, plant and equipment (IAS 40.7).

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 model of IAS 16.30.

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 Statement of Comprehensive Income for the year the item is derecognized (IAS 16.67 et seq.).

The residual values of the items of property, plant and equipment, 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 Statement of Financial Position at cost less depreciation. Cost includes



consideration paid for third-party services and, with respect to qualifying assets, borrowing costs that were capitalized in accordance with Group accounting policies.

**Assets under construction** for 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, with respect to 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.

Technical equipment and machines and other equipment, furniture and fixtures are depreciated on a straight-line basis with the residual book value serving as assessment base. Owner-occupied buildings are depreciated on a straight-line basis with the acquisition and production costs serving as assessment base.

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

	Useful life
Owner-occupied buildings	50 years
Technical equipment and machines	10 to 25 years
Other equipment, furniture and fixtures	3 to 13 years

The residual carrying amounts and useful lives are reviewed at every balance sheet date and adjusted if required.

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 (please refer to section C.6. "Impairment of Items of Property, Plant and Equipment and Intangible Assets"). If the reasons for impairment cease to apply, the impairment is reversed in accordance with IAS 36.110.

## 5. Borrowing Costs

Except for borrowing costs relating to qualifying assets, borrowing costs are expensed as incurred in accordance with IAS 23.8.

If borrowing costs can be allocated directly to the acquisition, construction or production of qualifying assets, they are capitalized as part of cost in accordance with IAS 23.8 et seqq.

A further prerequisite for the capitalization of borrowing costs is that the amount can be measured reliably and that the capitalized borrowing costs are matched by a probable future benefit (IAS 23.9).

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 23.17.

Pursuant to IAS 23.22, 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 23.20.

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 accruing on this borrowing during the period less any investment income on the temporary investment of these borrowings is capitalized (IAS 23.12). The capitalized borrowing costs correspond to the specific borrowing costs of the relevant asset.

## 6. 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. “Intangible Assets”) in order to ascertain whether there are any indications of impairment of these assets. If there are indications of such, the recoverable amount of the asset (or cash-generating unit) is estimated (IAS 36.9).

The recoverable amount is the higher of the fair value less costs to sell and the value in use (IAS 36.6).

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 (IAS 36.59 et seq.).

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 have arisen after

taking into account amortization / depreciation if no impairment had been recognized in the prior periods. The amount of any reversal is included immediately in profit or loss for the period. Once a reversal has been made, the amortization / depreciation charge is adjusted in future reporting periods in order to systematically allocate the adjusted carrying amount of the asset less a residual carrying amount over its remaining useful life.

## 7. 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 (IAS 32.11).

Gains and losses on the disposal of financial instruments are disclosed as other operating income or expenses in the Statement of Comprehensive Income (IAS 39.26). Impairment losses are disclosed as other operating expenses. Other results from financial instruments, mainly interest, are disclosed in the financial result.

### 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, notary fees and swaps which have been subject to novation.

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.

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

On every balance sheet date, GAGFAH S.A. determines 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. in particular has trade receivables and other long-term loans.

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 into account 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 from the difference of the present value of estimated future cash flows as compared with the carrying amount, this amount is recorded as 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 as profit or loss.

For current trade receivables and other current receivables, GAGFAH 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.

#### **PRIMARY FINANCIAL LIABILITIES**

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 liabilities.

Following initial recognition, the financial liabilities are measured at amortized cost using the effective interest method (IAS 39.47). Amortized cost is calculated by taking into account over the expected life of the financial liability any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. If the Group revises its estimates of payments or receipts, the carrying amount of the financial asset or financial liability (or group of financial instruments) will be adjusted in accordance with IAS 39.AG8 to reflect actual and revised estimated cash flows. The carrying amount is recalculated by computing the present value of estimated future cash flows at the financial instrument's original effective interest rate or, if applicable, the revised effective interest rate calculated in accordance with IAS 39.92. The adjustment is recognized in profit or loss as interest income or interest expenses.

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 issued using the market level of interest at that time. 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 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.

According to IAS 39.40, an exchange between an existing borrower and lender of debt instruments with substantially different terms is accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability. Similarly, a substantial modification of the terms of an existing financial liability or part of it (whether or not attributable to the financial difficulty of the debtor) is accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability.

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 Statement of Comprehensive Income.

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

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

#### **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 recalculated at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

At present, GAGFAH GROUP makes no use of the hedge accounting option as described by IAS 39.

Therefore, any gains or losses arising from changes in fair value on derivatives during the year are taken directly to the Statement of Comprehensive Income.

## **8. 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 23.8.

The inventories are measured at the lower of cost and 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 (IAS 2.6).

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.

## 9. Assets Held for Sale

Investment properties and owner-occupied property are classified as “held for sale” if the following requirements are fulfilled:

- The asset must be available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such assets,
- the sale of the asset must be highly probable and
- the asset must not be in the process of being abandoned.

Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

Investment properties classified as “assets held for sale” are measured in accordance with the fair value model in IAS 40. For owner-occupied property classified as “assets held for sale”, depreciation is suspended from the moment of reclassification. These assets are measured at the lower of carrying amount and fair value less costs to sell.

In case of a later decision not to sell the asset, a reclassification from assets held for sale into investment properties has to be made. The recoverable amount at the date the decision was made is taken as a basis for the reclassification. The valuation of the investment property has to be made in accordance with IAS 40 on the next quarterly reporting date.

In case of a classification of properties as “held for sale”, a decision about the use of the sales profit has to be made. If no reinvestment is intended, it is assumed that the Group has got a short-term repayment obligation. The respective financial liabilities need to be disclosed as short-term financial liabilities.

## 10. Equity

Equity is the residual interest in the assets of the entity after deducting all its liabilities. An equity instrument is any contract that evidences a residual interest in the assets of an entity after all of its liabilities.

Own equity instruments which are repurchased (treasury shares) are recognized at cost and deducted from equity. No gain or loss is recognized in the Statement of Comprehensive Income on the purchase, sale, issue or cancellation of the entity's own equity instruments. Treasury shares may be acquired and held by GAGFAH S.A. or by other members of the Consolidated Group. Any difference between the carrying amount and the consideration is recognized directly in equity.

## 11. Provisions for Pensions

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

In conjunction with the **defined benefit plans**, 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 "VBL") organized by the pension institution of the Federal Republic of Germany and the Federal States. The GBH subgroup is involved in the pension scheme of the public corporation "Kommunaler Versorgungverband Baden-Württemberg" (hereinafter referred to as "ZVK-KVBW").

Under the **defined contribution plans**, GAGFAH 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 for the various categories of expenses according to the cost of sales method.

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



The GAGFAH subgroup pays old-age pensions, early retirement pensions, invalidity pensions, widow's / widower's and orphan's pensions according to VO 2002. Payments to recipients are made if the requirements under the workplace agreement are fulfilled and if payments from the pension insurance are made. The above-mentioned criteria have to be proved by presentation of a notice of a German pension insurance institution and a professional pension fund, respectively. The compliance with the waiting period, which in this case equals the legal vesting terms, is regarded as a general requirement.

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 than those determined at the beginning of the fiscal year.

The total (accumulated) actuarial gains and losses existing at the end of the fiscal year derive 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, wherever appropriate, spread over the expected average residual number of years of service for each employee under the defined benefit plan.

The defined benefit asset or liability comprises the present value of the defined benefit obligation, less past service costs and actuarial gains and losses not yet recognized and less the fair value of plan assets out of which the obligations are to be settled. Plan assets are assets that are held by a long-term employee benefit fund or qualifying insurance policies. Plan assets are not available to the creditors of the Group, nor can they be paid directly to the Group. Fair value is based on market price information and in the case of quoted securities it is the published bid price. The value of any defined benefit asset recognized is restricted to the sum of any past service costs and actuarial gains and losses not yet recognized and the present value of any economic benefits available in the form of refunds from the plan or reductions in the future contributions to the plan.

## 12. 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 GAGFAH will be called on to settle 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 settle the present obligation at 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.

In accordance with IAS 37.71 et seqq., 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.

## 13. 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 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 be reversed 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 (IAS 12.47).

Income tax relating to items recognized directly in equity is recognized in equity and not in the Statement of Comprehensive Income.

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 (IAS 12.71).

## 14. Income and Expenses

Income and expenses in 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** is recognized monthly on the 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 disclosed either as a rent receivable or liability.

Revenues from the **sale of land** are 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. or its subsidiaries;
- 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.

Sales of goods and services sometimes involve the provision of **multiple elements**. In these cases, GAGFAH determines whether the contract or arrangement contains more than one unit of accounting. An arrangement is separated if

- (1) the delivered element(s) has (have) value to the customer on a stand-alone basis,
- (2) there is reliable evidence of the fair value of the undelivered element(s) and
- (3) if the arrangement includes a general right of return relative to the delivered element(s), delivery or performance of the undelivered element(s) is (are) considered probable and substantially in the control of GAGFAH.

If all three criteria are fulfilled, the appropriate revenue recognition convention is then applied to each separate unit of accounting. Generally, the total arrangement consideration is allocated to the separate units of accounting based on their relative fair values. The hierarchy of fair value evidence is as follows:

- (a) sales prices for the component when it is regularly sold on a stand-alone basis,
- (b) third-party prices for similar components or, under certain circumstances,
- (c) cost plus an adequate business-specific profit margin related to the relevant element.

By this means, reliable fair values are generally available. However, there might be cases when fair value evidence according to (a) and (b) is not available and the application of the cost-plus method (c) does not create reasonable results because the costs incurred are not an appropriate base for the determination of the fair value of an element. In such cases the residual method is used, if fair value evidence is available for the undelivered but not for one or more of the delivered elements, i.e. the amount allocated to the delivered elements equals the total arrangement consideration less the aggregate fair value of the undelivered elements. If the three separation criteria (1) to (3) are not met, revenue is deferred until such criteria are met or until the period in which the last undelivered element is delivered. The amount allocable to the delivered elements is limited to the amount that is not contingent upon delivery of additional elements or meeting other specified performance obligations.

## 15. 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 GROUP companies receive government grants in the form of construction cost allowances, redemption subsidies, redemption loans and low-interest loans.

**Construction cost allowances** are, wherever 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 listed as income immediately.

**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, **redemption loans** have been recognized as liabilities.

**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.

## 16. Share-based Remuneration

Senior Management of GAGFAH GROUP is entitled to different equity-settled remuneration plans based on the individual employment contracts.

The conditions of the first equity-settled remuneration plan are as follows: When shares were granted prior to the initial public offering of GAGFAH S.A., the cost of the plan was measured at the share price of €19.00 offered in the initial public offering. All other costs of this plan are measured by reference to the fair value at the date on which the shares were granted.

In 2009, new stock options were granted to members of Senior Management and other levels of management. 50 % of the stock options vest on December 31, 2010; another 50 % vest on December 31, 2011. The exercise period ends on December 31, 2015.

The fair value of the options is estimated at the respective grant dates in accordance with IFRS 2 using the Black & Scholes option pricing model. The individual parameters taken as a basis for the calculation of the fair value are shown in the Notes to the Consolidated Statement of Comprehensive Income (see section F.7. "Expenses for/Income from Share-based Remuneration").

Together with a corresponding increase in equity, the costs of equity-settled transactions are recognized equally over the period in which the service conditions are fulfilled (IFRS 2.15 (a)), ending on the date on which the relevant managers become fully entitled to the award. The cumulative expense recognized for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest.

The middle management of GAGFAH S.A.'s subsidiaries is entitled to a cash-settled remuneration plan based on a standardized additional agreement. The plan is running for three years starting on July 1, 2008. Costs of this plan are measured initially at fair value at the grant date. Subsequent measurement until the vesting date takes place by reference to the fair value at the respective balance sheet date.

The costs are recognized together with the corresponding increase in liabilities over the period in which the service conditions are fulfilled, ending on July 1, 2011. Changes in the provision are recognized in the Statement of Comprehensive Income.

## 17. Consolidated Statement of Cash Flows

The Consolidated Statement of Cash Flows 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.

Pursuant to IAS 7.18 (b), 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 up to 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.

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

### 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 Consolidated Financial Statements. Major estimates requiring the exercise of judgment include the recognition of provisions, estimating useful lives of property, plant and equipment, assessing the recoverability of trade receivables and deferred tax assets as well as the adequate valuation of inventories.

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).

### 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 current knowledge at that time. In particular, the circumstances prevailing at the time of preparation of 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 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, wherever necessary, the carrying amounts of the relevant assets and liabilities are adjusted accordingly.

Currently, there are considerable risks for the valuation of real estate due to the aftermath of the financial market crisis. The crisis in the global financial system and in particular the failure of major investment banks have created a significant degree of uncertainty in the European real estate market. Despite the measures taken for recapitalizing banks and regulating financial markets by the EU in 2010, a lack of clarity as to the market drivers remains. In this environment, prices and values go through a period of heightened volatility whilst the market absorbs the various issues and draw its conclusions.

The average discount rate of 6.00 % (prior year: 5.64 %) used for the valuation of investment properties is derived from prices paid for assets comparable to the real estate portfolio of GAGFAH in Germany. The rise of the discount rate does not reflect higher risk but is due to an evaluator change. The discount rate used by CBRE incorporates risk factors which had been directly addressed in the prior year cash flow valuation model. Overall, this change in methodology does not have an impact on the valuation results. For further information please refer to section E.2. "Investment Property".

A potential change in the discount rate by 10 basis points, for example, changes the total value of the GAGFAH GROUP portfolio by approximately €138.8 million (prior year: €140.0 million).

Pensions were discounted at a rate of 5.30 %, compared to 5.50 % as of December 31, 2009. Reference is made to section E.13.1. "Pension Provisions".

Regarding the senior debts estimates in respect of the future cash flows are necessary. For the fiscal year 2010, those estimates have been reassessed. The reassessment resulted in a positive effect on the Consolidated Statement of Comprehensive Income of €9.8 million. Some loans granted by state-owned banks include an option for the bank to increase the interest rate over a specific period up to a maximum level. Due to the special organization of the lenders as state-owned banks, the respective state parliaments have the option to cancel the interest increase by an act of parliament. For valuation purposes concerning senior debts, Senior Management estimates the future interest rate adjustments on an annual basis. The revised estimates for the fiscal year 2010 concerning the grant by state-owned banks did not have a material impact on the Consolidated Financial Statements.



## D. Group Segment Reporting

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

The implementation of the improvements to IFRS 8 Operating Segments as described in section A. "General Information", subchapter "New Accounting Standards", has resulted in a condensed disclosure of items in our Group Segment Reporting: GAGFAH GROUP decided not to disclose assets and liabilities in its Group Segment Reporting any longer from the fiscal year 2010 onwards. Accordingly, no assets and liabilities are reported for the year 2009.

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

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

"Segment revenues" and "Segment EBITDA<sup>1)</sup>" are key performance indicators used by the Group for measuring segment performance. The primary differences between segment revenues and EBITDA on the one hand and Group revenues and EBITDA on the other hand are explained in footnotes (1) and (2) to the Group Segment Reports for the periods from January 1 to December 31, 2010 and 2009 on pages 78 and 79, respectively.

The segment revenues of the real estate management segment comprise the total income from the leasing of investment property as shown in the Consolidated Statement of Comprehensive Income plus revenues from third-party real estate management and other trade, reduced by non-cash income from the amortization of deferred liabilities of government-granted loans.<sup>2)</sup>

Income and expenses concerning the large multi-family home sales program<sup>3)</sup> are allocated to the column "Other". Income from the leasing of assets held for sale continues to be shown within the segment revenues of the real estate management segment.

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

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

<sup>2)</sup> The prior-year segment revenues of the real estate management segment were additionally reduced by income from the leasing of investment property and income from other trade totaling €2.4 million of the disposal group BGF.

<sup>3)</sup> The large multi-family home sales program includes the sales of entire buildings to institutional or professional investors whereas the condo sales program includes the sale of individual apartments ("privatization") or small multi-family homes to tenants or small investors.

# Group Segment Report

for the period from January 1 to December 31, 2010

€ MILLION	Real estate management	Real estate sales	Total segments	Other	Total Group
<b>Segment revenues</b>	<b>920.3</b>	<b>72.7</b>	<b>993.0</b>	<b>476.6<sup>1)</sup></b>	<b>1,469.6</b>
<b>Segment EBITDA</b>	<b>416.2</b>	<b>8.2</b>	<b>424.4</b>	<b>- 58.6<sup>2)</sup></b>	<b>365.8</b>
Reorganization and restructuring expenses	- 10.1	0.0	- 10.1	- 2.7	- 12.8
Depreciation/ amortization	- 2.7	0.0	- 2.7	- 2.0	- 4.7
<b>Earnings before interest and taxes (EBIT)</b>	<b>403.4</b>	<b>8.2</b>	<b>411.6</b>	<b>- 63.3</b>	<b>348.3</b>
Interest expenses	- 275.6	- 8.0	- 283.6	- 15.1	- 298.7
Interest income	0.3	0.1	0.4	1.2	1.6
<b>Earnings before taxes (EBT)</b>	<b>128.1</b>	<b>0.3</b>	<b>128.4</b>	<b>- 77.2</b>	<b>51.2</b>
Income taxes	0.0	0.0	0.0	- 51.8	- 51.8
<b>Net loss / profit</b>	<b>128.1</b>	<b>0.3</b>	<b>128.4</b>	<b>- 129.0</b>	<b>- 0.6</b>
Segment investments	5.1	0,0	5.1	2.8	7.9
Significant non-cash segment income (+) / expenses (-)	- 24.5 <sup>3)</sup>	- 7.2	- 31.7	- 59.2 <sup>4)</sup>	- 90.9

<sup>1)</sup> The revenues include income from the sale of properties concerning the large multi-family home sales program (€321.5 million), income from the sale of investment properties of HB-Funds (€137.3 million), income from the sale of property development projects (€11.8 million) and income from the amortization of deferred liabilities of government-granted loans (€6.0 million).

<sup>2)</sup> This item includes loss from the fair value measurement of investment property (€- 69.5 million), the EBITDA contribution of the large multi-family home sales program and the HB Funds sales (€- 16.8 million), adjustments in connection with HB Funds (€11.2 million), EBT attributable to the property development business (€2.4 million), income from the amortization of deferred liabilities of government-granted loans (€6.0 million) and income from the reversal of provisions (€7.0 million). Other adjustments amount to €1.1 million.

<sup>3)</sup> Significant non-cash expenses of real estate management contain additions to provisions concerning real estate management (€-16.8 million), write-offs of rent receivables (€- 8.4 million) and other receivables concerning real estate management (€-0.5 million) and income from the reversal of provisions concerning real estate management (€1.2 million).

<sup>4)</sup> Other significant non-cash expenses / income mainly consist of the loss from the fair value measurement of investment property (€- 69.5 million), the profit from the fair value measurement of derivatives (€4.1 million), income from the amortization of deferred liabilities of government-granted loans (€6.0 million), the present value of loans carried at amortized cost (€2.8 million), income from the reversal of provisions (€10.5 million), additions to other provisions (€- 15.4 million) and expenses for compensation payments for the early redemption of financial liabilities in connection with the large multi-family home sales program and HB Funds sales (€2.0 million).

# Group Segment Report

for the period from January 1 to December 31, 2009

€ MILLION	Real estate management	Real estate sales	Total segments	Other	Total Group
<b>Segment revenues</b>	<b>980.1</b>	<b>137.0</b>	<b>1,117.1</b>	<b>141.2<sup>1)</sup></b>	<b>1,258.3</b>
<b>Segment EBITDA</b>	<b>443.0</b>	<b>6.5</b>	<b>449.5</b>	<b>- 186.8<sup>2)</sup></b>	<b>262.7</b>
Reorganization and restructuring expenses	- 13.9	0.0	- 13.9	- 7.5	- 21.4
Depreciation / amortization	- 2.5	0.0	- 2.5	- 1.7	- 4.2
<b>Earnings before interest and taxes (EBIT)</b>	<b>426.6</b>	<b>6.5</b>	<b>433.1</b>	<b>- 196.0</b>	<b>237.1</b>
Interest expenses	- 292.2	0.0	- 292.2	- 38.5	- 330.7
Interest income	0.8	0.2	1.0	0.3	1.3
<b>Earnings before taxes (EBT)</b>	<b>135.2</b>	<b>6.7</b>	<b>141.9</b>	<b>- 234.2</b>	<b>- 92.3</b>
Income taxes	0.0	0.0	0.0	17.2	17.2
<b>Net loss / profit</b>	<b>135.2</b>	<b>6.7</b>	<b>141.9</b>	<b>- 217.0</b>	<b>- 75.1</b>
Segment investments	24.4	0.0	24.4	2.7	27.1
Significant non-cash segment income (+) / expenses (-)	- 47.8 <sup>3)</sup>	- 2.1	- 49.9	- 207.3 <sup>4)</sup>	- 257.2

<sup>1)</sup> The revenues include income from the sale of properties from the large multi-family home sales program (€125.5 million), income from the sale of property development projects (€5.3 million), income from the amortization of deferred liabilities of government-granted loans (€8.0 million) and income from the leasing of investment property and revenues from other services of BGF (€2.4 million).

<sup>2)</sup> This item includes loss from fair value measurement of investment property (€- 197.0 million), EBIT attributable to property development projects (€- 3.3 million), the EBITDA contribution from the large multi-family home sales program (€- 5.8 million), income from the amortization of deferred liabilities of government-granted loans (€8.0 million) and income from the reversal of provisions (€14.8 million). Other adjustments amount to €- 3.5 million.

<sup>3)</sup> Significant non-cash expenses of real estate management contain additions to provisions in relation to real estate management (€- 37.0 million), write-offs of rent receivables (€- 10.5 million) and write-offs of other receivables concerning real estate management (€- 0.3 million).

<sup>4)</sup> Other significant non-cash income / expenses mainly consist of the loss from the fair value measurement of investment property (€- 197.0 million), the loss from the fair value measurement of derivatives (€- 8.6 million), expenses for compensation payments for the early redemption of financial liabilities in connection with the large multi-family home sales program (€- 6.3 million), income from the amortization of deferred liabilities of government-granted loans (€8.0 million), the present value of loans carried at amortized cost (€- 8.8 million), income from the reversal of provisions (€14.8 million) and additions to other provisions (€- 7.6 million).

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

### 1. Intangible Assets

Intangible assets with a finite lifespan mainly comprise software licenses for user programs amounting to €2.4 million (prior year: €3.5 million). The decrease in software licenses for user programs is mainly due to amortization.

With the exception of the goodwills from the acquisitions of GAGFAH Pegasus GmbH of €21.5 million (prior year: €21.5 million) and NILEG subgroup of €2.1 million (prior year: €2.1 million) relating to the service provider VHB FM GmbH, there are no intangible assets with an indefinite lifespan.

For the purposes of testing for impairment, the goodwills were assigned according to the policies laid out in section C.1. "Intangible Assets". The impairment test was carried out using a weighted average cost of capital (WACC) of 4.39 % (prior year: 5.39 %). Due to a decrease in the beta factor from 1.31 to 0.89 and a decrease in the risk-free interest rate from 4.00 % to 2.45 %, the underlying WACC decreased compared to the prior year. This weighted discount rate reflects management's estimate of the risks specific to the cash generating unit.

While these factors have led to a decreased WACC, there have also been efforts to improve operational efficiencies and / or expand the service offerings. On a regional level, operational efficiencies continued to be improved through a reorganization of the overhead and customer center functions.

No impairment loss was recorded in the reporting period.

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:

€ MILLION	2010	2009
<b>As of January 1</b>	<b>9,014.9</b>	<b>9,774.1</b>
Change of accounting policies	4.1	0.0
<b>As of January 1 (adjusted)</b>	<b>9,019.0</b>	<b>9,774.1</b>
Changes in the Consolidated Group	0.0	- 77.6
Additions	5.1	23.1
Disposals and reclassifications to assets held for sale	- 455.8	- 508.8
Reclassifications to / from property, plant and equipment and inventories	- 5.5	1.1
Changes in value	- 69.5	- 197.0
<b>As of December 31</b>	<b>8,493.3</b>	<b>9,014.9</b>

The adjustment of the value of the real estate portfolio of €4.1 million as of January 1, 2010, is due to the amendments to IAS 17 "Leases". The change of accounting policies resulted in the first-time recognition of land in connection with hereditary building rights, at which GAGFAH GROUP is lessee. We also refer to section A. "General Information", subchapter "New Accounting Standards", and section C.2. "Leases".

The changes in the Consolidated Group in the prior year relate to investment property of the former subsidiary BGF of €77.6 million, which was disclosed as part of the disposal group as of March 31, 2009, and was deconsolidated as of April 1, 2009. In the course of the classification of BGF as a disposal group, the investment property of BGF was reduced to €71.7 million by allocation of an impairment loss of €5.9 million.

Of the additions, €3.9 million (prior year: €13.5 million) relate to modernization programs.

Regarding the reclassifications to assets held for sale we refer to section E.10. “Assets Held for Sale”.

Investment property by region breaks down as follows:

12-31-2010				
	Units <sup>1)</sup>	Rental area <sup>2)</sup> (sqm)	Net cold rent annualized (€ million) <sup>1)</sup>	Fair value (€ million) <sup>1)</sup>
Region Berlin	25,920	1,544,345	94.5	1,308.5
Region North	47,423	2,882,102	179.5	2,470.5
Region East	47,395	2,765,700	154.4	2,045.7
Region Southwest	47,791	2,962,659	200.2	2,668.6
<b>Total</b>	<b>168,529</b>	<b>10,154,806</b>	<b>628.6</b>	<b>8,493.3</b>

12-31-2009				
	Units <sup>1)</sup>	Rental area <sup>2)</sup> (sqm)	Net cold rent annualized (€ million) <sup>1)</sup>	Fair value (€ million) <sup>1)</sup>
Region Berlin	27,557	1,631,137	97.8	1,361.6
Region North	50,434	3,080,937	189.0	2,583.9
Region East	48,009	2,836,471	157.7	2,097.5
Region Southwest	51,629	3,211,864	211.5	2,971.9
<b>Total</b>	<b>177,629</b>	<b>10,760,409</b>	<b>656.0</b>	<b>9,014.9</b>

<sup>1)</sup> Including residential and commercial properties, garages, senior homes and other units. Garages and other properties are counted as 1/6 residential unit.

<sup>2)</sup> For the garages, no rental area is included.

**RESIDENTIAL PROPERTY PORTFOLIO AS OF DECEMBER 31, 2010**

	Units	In % of total sqm	Rental area per sqm	Average unit size per sqm	Net cold rent (an- nualized) in € million <sup>1)</sup>	In % of total	In-place rent per month and sqm (€)	Market rent per month and sqm (€) <sup>2)</sup>	Vacant % <sup>3)</sup>
<b>Top 20 Cities</b>									
Dresden	37,867	21.0	2,143,756	57	120.6	19.0	4.69	5.03	5.9
Berlin	23,623	13.9	1,421,770	60	84.9	13.4	4.98	5.41	2.6
Hamburg	9,375	5.9	603,591	64	39.4	6.2	5.44	6.68	0.6
Hannover	6,072	3.8	384,073	63	25.4	4.0	5.51	5.82	5.6
Heidenheim	4,687	2.8	291,947	62	18.9	3.0	5.38	5.44	12.3
Bielefeld	4,172	2.7	276,481	66	14.8	2.3	4.45	4.71	2.3
Osnabrück	3,492	2.1	215,947	62	13.2	2.1	5.11	5.36	3.0
Braunschweig	3,217	1.9	197,862	62	12.3	1.9	5.17	5.40	1.8
Zwickau	3,087	1.7	172,796	56	8.7	1.4	4.18	4.46	17.3
Essen	2,321	1.5	153,644	66	9.8	1.5	5.29	5.74	7.0
Köln	2,098	1.6	165,635	79	12.7	2.0	6.38	6.82	2.9
Freiburg	1,773	1.2	119,658	67	8.5	1.3	5.95	6.96	1.0
Iserlohn	1,677	1.0	106,004	63	5.7	0.9	4.45	4.70	5.0
Bocholt	1,582	0.9	94,627	60	5.6	0.9	4.93	5.33	3.8
Bremen	1,550	1.0	98,407	63	5.9	0.9	4.96	5.07	8.8
Frankfurt am Main	1,522	0.8	83,574	55	7.4	1.2	7.34	8.17	0.3
Duisburg	1,416	0.9	95,697	68	5.1	0.8	4.47	4.79	20.2
Leverkusen	1,404	0.9	89,835	64	5.9	0.9	5.43	5.85	3.7
Göttingen	1,356	0.8	77,434	57	4.8	0.8	5.15	5.35	0.4
Dortmund	1,288	0.9	88,921	69	5.1	0.8	4.77	5.24	1.7
<b>Subtotal</b>									
<b>Top 20 Cities</b>	<b>113,579</b>	<b>67.3</b>	<b>6,881,659</b>	<b>61</b>	<b>414.7</b>	<b>65.2</b>	<b>5.02</b>	<b>5.47</b>	<b>4.9</b>
Other Cities	44,735	26.6	2,716,001	61	169.5	26.7	5.20	5.41	6.2
<b>Total Core</b>									
<b>Residential</b>									
<b>Property Portfolio</b>	<b>158,314</b>	<b>93.9</b>	<b>9,597,660</b>	<b>61</b>	<b>584.2</b>	<b>91.9</b>	<b>5.07</b>	<b>5.45</b>	<b>5.2</b>
<b>Other <sup>4)</sup></b>	<b>n/m</b>	<b>6.1</b>	<b>619,240</b>	<b>n/m</b>	<b>51.6</b>	<b>8.1</b>	<b>n/m</b>	<b>n/m</b>	<b>28.9</b>
		100.0	10,216,900		635.8	100.0			

<sup>1)</sup> Annualized rent calculated as net cold rent per square meter as of December 31, 2010, multiplied by number of square meters and by 12 (before vacancy loss and rent reductions).

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

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

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

## RESIDENTIAL PROPERTY PORTFOLIO AS OF DECEMBER 31, 2009

Top 20 Cities	Units	In % of total sqm	Rental area per sqm	Average unit size per sqm	Net cold rent (an- nualized) in € million <sup>1)</sup>	In % of total	In-place rent per month and sqm (€)	Market rent per month and sqm (€) <sup>2)</sup>	Vacant % <sup>3)</sup>
Dresden	40,636	20.9	2,291,939	56	128.6	19.0	4.68	4.98	5.7
Berlin	26,158	14.3	1,562,408	60	91.4	13.5	4.88	5.37	2.6
Hamburg	9,433	5.5	606,838	64	38.9	5.7	5.35	6.38	0.6
Hannover	6,207	3.6	391,547	63	25.7	3.8	5.47	5.79	5.4
Heidenheim	4,780	2.7	297,724	62	18.8	2.8	5.26	5.76	12.2
Bielefeld	4,171	2.5	276,404	66	14.5	2.1	4.36	4.70	2.1
Osnabrück	3,501	2.0	216,646	62	13.1	1.9	5.05	5.46	3.0
Braunschweig	3,233	1.8	198,857	62	12.2	1.8	5.11	5.52	2.5
Zwickau	3,087	1.6	172,790	56	8.5	1.3	4.11	4.28	16.8
Essen	2,355	1.4	155,242	66	9.8	1.4	5.27	5.82	6.2
Köln	2,309	1.6	176,066	76	13.4	2.0	6.33	6.99	2.8
Freiburg	1,867	1.1	125,485	67	8.8	1.3	5.87	6.51	1.8
Düsseldorf	1,684	0.9	97,910	58	7.9	1.2	6.76	6.91	1.8
Iserlohn	1,678	1.0	106,085	63	5.6	0.8	4.43	4.79	4.5
Frankfurt am Main	1,666	0.8	92,893	56	8.1	1.2	7.23	8.03	0.5
Bocholt	1,590	0.9	95,178	60	5.5	0.8	4.83	5.46	4.1
Bremen	1,563	0.9	99,178	63	5.8	0.9	4.91	5.38	6.8
Duisburg	1,431	0.9	96,333	67	5.0	0.7	4.37	4.89	18.5
Leverkusen	1,404	0.8	89,835	64	5.8	0.9	5.40	5.82	2.8
Göttingen	1,356	0.7	77,434	57	4.8	0.7	5.11	5.16	0.5
<b>Subtotal</b>									
<b>Top 20 Cities</b>	<b>120,109</b>	<b>66.0</b>	<b>7,226,790</b>	<b>60</b>	<b>432.5</b>	<b>63.9</b>	<b>4.99</b>	<b>5.50</b>	<b>4.7</b>
Other Cities	45,680	25.4	2,782,028	61	170.0	25.1	5.09	5.54	5.6
<b>Total Core</b>									
<b>Residential</b>									
<b>Property Portfolio</b>	<b>165,789</b>	<b>91.4</b>	<b>10,008,818</b>	<b>60</b>	<b>602.5</b>	<b>89.0</b>	<b>5.02</b>	<b>5.52</b>	<b>4.9</b>
Other <sup>4)</sup>	n/m	8.6	944,415	n/m	74.7	11.0	n/m	n/m	25.6
		100.0	10,953,233		677.2	100.0			

<sup>1)</sup> Annualized rent calculated as net cold rent per square meter as of December 31, 2009, multiplied by number of square meters and by 12 (before vacancy loss and rent reductions).

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

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

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



Bridge from the units recognized as investment property to our total core residential property portfolio:

	12-31-2010	12-31-2009
<b>Total units investment property</b>	<b>168,529</b>	<b>177,629</b>
Commercial units	- 1,849	- 2,010
Garages <sup>1)</sup>	- 5,665	- 5,986
Senior homes	- 10	- 10
Other units <sup>1)</sup>	- 736	- 716
<b>Residential units investment property</b>	<b>160,269</b>	<b>168,907</b>
Assets held for sale	2,980	6,264
HB Funds units	- 3,044	- 7,068
Other non-core units <sup>2)</sup>	- 1,891	- 2,314
<b>Total core residential property portfolio</b>	<b>158,314</b>	<b>165,789</b>

<sup>1)</sup> Garages and other units are counted as 1/6 residential unit.

<sup>2)</sup> Mainly WOBA units set aside for demolition.

#### EXTERNAL VALUATION

For the annual accounts 2010, the valuation of the real estate portfolio was performed by CB Richard Ellis GmbH. For more information, please refer to section C.3. "Investment Property".

The average discount rate of 6.00 % (prior year: 5.64 %) is derived from prices paid for assets comparable to the real estate portfolio of GAGFAH GROUP in Germany.

Based on the processes described in the Accounting Policies, the property-specific discount rate weighted by the fair value for the GAGFAH GROUP is 6.01 % (prior year: 5.54 %).

The rise of the discount rate does not reflect higher risk but is due to the evaluator change described section C. The discount rate used by CBRE incorporates risk factors which had been directly addressed in the prior year cash flow valuation model. Overall, this change in methodology does not have an impact on the valuation results.

The cash flows of the detailed planning period were discounted with the property-specific discount rate. The individual cash flows are then aggregated and the net present value is added, resulting in the total value.

Administrative expenses are calculated at a flat rate of €255.00 (prior year: €250.00) per unit.

The costs for repairs and maintenance as well as other operational costs are determined at a property-by-property level.

### 3. Property, Plant and Equipment

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).

### 4. Other Financial Assets

The breakdown of other financial assets is presented in the Statement of Changes in Consolidated Non-Current Assets, which is attached as Exhibit (2).

### 5. Inventories

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

€ MILLION	12-31-2010	12-31-2009
Land and land rights without buildings	11.0	35.1
Land and land rights with finished buildings	0.7	1.1
Land with inheritable building rights of third parties	0.7	0.7
Land and land rights with unfinished buildings	0.0	0.8
Other	10.7	9.8
<b>Total</b>	<b>23.1</b>	<b>47.5</b>

The decrease in total inventories compared to December 31, 2009, mainly results from the settlement of a development project. The carrying amount of the related land amounted to €15.7 million. Furthermore, GAGFAH S.A. sold inventories totaling €8.0 million (prior year: €2.5 million) in the fiscal year.

Impairment losses were recorded on some of the inventories following measurement at the lower net realizable value, with costs yet to be incurred being deducted from the discounted sales price. Impairment losses totaling €0.1 million (prior year: €0.8 million) were posted to reflect the (lower) net realizable value. These impairment losses relate mainly to land and land rights without buildings. A gain of €0.2 million was recorded for one site sold in 2010 due to a higher realized sales price.

## 6. Receivables

Receivables break down as follows:

€ MILLION	12-31-2010	12-31-2009
<b>Non-current</b>		
Receivables from other trade	0.1	0.9
<b>Total non-current</b>	<b>0.1</b>	<b>0.9</b>
<b>Current</b>		
Rent receivables	11.8	14.4
Receivables from sales of land and buildings	9.2	58.5
Receivables from other trade	3.3	3.7
Receivables from construction management	0.8	0.0
Receivables from third-party real estate management	0.1	0.1
<b>Total current</b>	<b>25.2</b>	<b>76.7</b>
<b>Total</b>	<b>25.3</b>	<b>77.6</b>

Receivables from sales of land and buildings do not represent a material credit risk due to their contractual structure. They are pledged in the form of deposits on interest-bearing notary trust accounts in the amount of €5.9 million (prior year: €50.8 million). The decrease in receivables from sales of land and buildings is mainly attributable to the – compared to the prior year – earlier occurrence of payment initiating conditions.

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.

Overall, impairment losses of €9.3 million (prior year: €11.6 million) were recognized for bad debts. There are no restrictions on ownership or disposal for the disclosed receivables.

The development of the Group's valuation allowances is shown in section H.1. "Additional Disclosures on Financial Instruments" of this report.

## 7. Other Assets

Other assets break down as follows:

€ MILLION	12-31-2010	12-31-2009
<b>Non-current</b>		
Receivables referring to subsidies for costs of demolition	0.0	0.9
<b>Total non-current</b>	<b>0.0</b>	<b>0.9</b>
<b>Current</b>		
Payments on account concerning maintenance services	11.3	14.4
Claims for reimbursement	4.5	4.8
Receivables referring to subsidies for costs of demolition	4.4	5.5
Insurance claims	3.0	2.0
Prepayments	2.6	3.1
Receivables from joint venture partners	2.4	2.5
Other	7.7	12.4
<b>Total current</b>	<b>35.9</b>	<b>44.7</b>
<b>Total</b>	<b>35.9</b>	<b>45.6</b>

The development of the Group's valuation allowances is shown in section H.1. "Additional Disclosures on Financial Instruments" of this report.

## 8. Current Tax Claims

As of December 31, 2010, GAGFAH S.A. disclosed current tax claims of €16.2 million (prior year: €8.6 million).

These are mainly related to claims from trade tax, corporate income tax, capital yields tax and value-added tax.

## 9. Bank Balances and Cash on Hand

This item contains cash and cash equivalents in the form of cash on hand, checks and bank balances totaling €375.5 million (prior year: €236.2 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 and three months and accrue interest between 0.06 % and 1.00 % (prior year: between 0.05 % and 0.68 %). The weighted average is 0.52 % (prior year: 0.34 %).

The bank deposits have no maturity and are daily disposable. The balances in current accounts mainly accrue interest of 0.00 % to 0.75 % (prior year: 0.00 % to 0.75 %). The weighted average of the interest rates from the Group's main banks amounted to 0.38 % for the fourth quarter and 0.40 % for the fiscal year 2010 (prior year: 0.38 % for the fourth quarter and 0.48 % for the fiscal year 2009). Bank deposits at all other banks have an interest rate of 0.11 % for the fourth quarter and 0.11 % for the fiscal year 2010 (prior year: 0.12 % for the fourth quarter and 0.31 % for the fiscal year 2009).

Of €375.5 million (prior year: €236.2 million) total cash, €288.7 million (prior year: €182.6 million) are restricted cash and €86.8 million (prior year: €53.6 million) unrestricted. As of December 31, 2010, restricted cash includes an amount of €199.7 million (prior year: €147.4 million) relating to asset sales which can be either used for the repayment of term loans or for the reinvestment in the acquisition of new properties. Thereof, €149.6 million (prior year: €107.4 million) will be used to pay down related debt. For further information on restrictions on cash, please refer to section G. "Notes to the Consolidated Statement of Cash Flows".

## 10. Assets Held for Sale

Assets held for sale amounting to €213.4 million (prior year: €274.4 million) contain the carrying amounts of real estate for which the sale is highly probable and management has declared its intention to sell. The decrease since December 31, 2009, is mainly due to the sale of large multi-family homes which financially closed in 2010. The large multi-family home sales program includes the sales of entire buildings to institutional or professional investors whereas the condo sales program includes the sale of individual apartments (“privatization”) or small multi-family homes to tenants or small investors.

In the fiscal year 2010, GAGFAH focused on the sale of investment property related to HB Funds. The HB Funds comprise of 20 closed-end real estate funds, which are structured as a fractional co-ownership (“Bruchteilsgemeinschaft”).

Of the total proceeds concerning assets held for sale, €80.9 million (prior year: €219.4 million) related to large multi-family home sales and €97.4 million (prior year: €63.1 million) related to condo sales will be used to repay debt. Accordingly, the corresponding term loans were reclassified from non-current to current financial liabilities. Further €8.9 million in connection with HB Funds sales (prior year: €0.0 million) were reclassified from non-current financial liabilities to current financial liabilities. Please refer to section E.16.1. “Financial Liabilities” of this report.

## 11. 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 approximately €282.5 million as of December 31, 2010 (prior year: €282.4 million) and comprises 225,972,693 as of December 31, 2010 (prior year: 225,893,880) shares, each with a nominal value of €1.25 (prior year: €1.25).

On December 7, 2010, the Board of GAGFAH S.A. resolved to exercise the authorization granted by its Shareholders Meeting on April 21, 2010, to repurchase its **own shares**.

In total, GAGFAH GROUP intends, subject to market and other conditions, to repurchase a number of shares equivalent to an overall purchase price of up to €125,000,000. Based on the closing share price on Xetra of December 6, 2010, the volume of the buy-back would amount to 20,525,452 shares. This number may vary depending on the development of the share price. The repurchase of shares via stock exchange was started on December 8, 2010. The purpose of the buyback is to reduce the share capital of GAGFAH GROUP.

Up to the balance sheet date, 881,128 shares were bought at an average price of €6.58. The acquisition costs amounting to €5,802,174.50 were deducted in full from revenue reserves. After the balance sheet date up to March 21, 2011, an additional number of 3,149,860 shares was repurchased at an average price of €7.54.

As of December 31, 2010, the total number of treasury shares held by GAGFAH S.A. was 881,128. This equals 0.4 % of the subscribed capital.

**Retained earnings** as of January 1, 2010, were reduced by an amount of €0.2 million (prior year: €0.0 million) due to the change of accounting policies. The realization of the amended IAS 17 "Leases" as of January 1, 2010, resulted in the recognition of leasehold land at its fair value of €4.1 million, the recognition of liabilities from finance lease of €4.3 million and, equal to the difference, the recognition of a negative equity effect of €0.2 million.

**Non-controlling interests** of €61.9 million (prior year: €84.6 million) comprise adjustment items for non-controlling interests in equity subject to mandatory consolidation and their share in profit or loss. They break down as follows among the subgroups:

- GAGFAH subgroup: €39.7 million for fractional ownership funds (prior year: €63.3 million)
- WOBA subgroup: €21.0 million (prior year: €20.1 million)
- NILEG subgroup: €1.2 million (prior year: €1.2 million)
- UC ACQ Ireland Ltd.: €46 k (prior year: €46 k).

The decrease in the non-controlling interests relating to GAGFAH subgroup of €23.6 million in the fiscal year 2010 is caused by the higher net loss attributable to non-controlling interests as a result of expenses in connection with the sale of HB Funds properties and the consequent dividend payment to non-controlling shareholders.

For more information on the non-controlling interests in the net loss for the year, please refer to our comments on the Consolidated Statement of Comprehensive Income (Section F.14. “Result from Non-controlling Interests”).

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

In the fiscal year 2010, the following cash dividends were paid:

Respective period	Date of payment	€ million	€ per share
Fourth quarter of 2009	April 13, 2010	45.2	0.20
First quarter of 2010	June 11, 2010	45.2	0.20
Second quarter of 2010	September 9, 2010	22.6	0.10
Third quarter of 2010	December 30, 2010	22.6	0.10
		<b>135.6</b>	

The following table shows the development of the issued and fully-paid share capital from January 1, 2009 to December 31, 2010:

	Number of shares	Amount in €
<b>January 1, 2009</b>	<b>225,700,384</b>	<b>282,125,480.00</b>
Exercise of stock options	160,896	201,120.00
Issue of bonus shares as part of remuneration of independent directors and other employees	32,600	40,750.00
<b>December 31, 2009 / January 1, 2010</b>	<b>225,893,880</b>	<b>282,367,350.00</b>
Exercise of stock options	76,213	95,266.25
Issue of bonus shares as part of remuneration of independent directors and other employees	2,600	3,250.00
<b>December 31, 2010</b>	<b>225,972,693</b>	<b>282,465,866.25</b>



As of December 31, 2010, the number of authorized and unissued shares is 7,999,027,307 (prior year: 7,999,106,120) with a corresponding nominal value of €9,998,784,133.75 (prior year: €9,998,882,650.00).

#### **CAPITAL MANAGEMENT**

The primary objective of the Group's capital management is to ensure that it maintains healthy capital ratios in order to support its business and maximize shareholder value. This implicates generation of a sound capital base for the purposes of servicing its debt obligations and paying dividends to its shareholders.

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares.

The following key financial figures are used in conjunction with the Group's capital management:

The Earnings before Interest, Taxes, Depreciation and Amortization (EBITDA) before results from fair value measurement of investment property, adjusted by certain one-off income and expenses, were chosen as the key performance figure for the Group and are used as an indicator for the Group's ability to service its debt obligations. This figure corresponds to the "Segment EBITDA" for the two core business segments "Real estate management" and "Real estate sales" as shown in the Group Segment Report.

The Net Asset Value (NAV) is a term used to describe the fundamental value of an entity. The Group's NAV is calculated as the shareholders' equity plus the deferred taxes on investment property and assets held for sale.

In the fiscal year 2010, the Segment EBITDA of €424.4 million (prior year: €449.5 million) and the NAV of €2,739.6 million (prior year: €2,846.3 million) were within the range that was expected by the management.

During the fiscal year 2010, the following changes were made in the objectives, policies or processes of capital management: GAGFAH S.A., acting through its Board, had been authorized by the Annual General Meeting of Shareholders on April 21, 2010,

to purchase, acquire or receive own shares in the Company up to 25 % of the issued share capital from time to time for a period of five years from April 21, 2010. In addition, share repurchases with capital reductions had been authorized for up to €70,600,000 for a period of nine months from April 21, 2010.

On December 7, 2010, the Board of GAGFAH S.A. resolved to exercise the authorization granted by its Annual General Meeting of Shareholders to repurchase a number of shares equivalent to an overall purchase price of up to €125,000,000. The program commenced on December 8, 2010. The main parameters of the program are that the respective purchase price cannot be above or below 20 % of the volume-weighted average share price for the three days preceding the buyback. Similarly, the maximum daily buyback should not exceed 25 % of the daily trading volume in the month preceding the month in which the buyback program was announced. The objective of the buyback program is to reduce GAGFAH S.A.'s share capital and to reduce the stock's discount to NAV.

1,912,395 shares had been bought back up until January 21, 2011, under the resolution passed by the shareholders at the Extraordinary General Meeting of Shareholders on April 21, 2010. These 1,912,395 shares were cancelled on February 16, 2011, in line with the shareholder resolution.

Furthermore, the GAGFAH GROUP is subject to certain customary financial covenants under the conditions of its loan agreements. These covenants include debt service cover ratios, and in certain circumstances minimum capital expenditure per square meter and minimum average disposal price requirements.

The debt service cover ratio which is calculated monthly gives an indication of the ability of the Group to make its future interest payments with its main business, represented by EBITDA. The future interest payments are calculated as a forecast for the next four quarters.

During the period, GAGFAH GROUP complied with all externally imposed capital requirements to which it is subject.

## 12. Liabilities to Non-Controlling Shareholders

Liabilities to non-controlling shareholders amounting to €4.9 million (prior year: €4.3 million) relate to the non-controlling shares.

Thereof, €4.0 million (prior year: €3.5 million) relate to WOBA subgroup and €0.9 million (prior year: €0.8 million) to KALIRA Grundstücksgesellschaft mbH & Co. KG.

## 13. Provisions

### 13.1. PENSION PROVISIONS

Company pensions at GAGFAH S.A. are granted both by way of defined contribution and defined benefit plans. For a detailed description on these plans, please refer to section C.11. "Provisions for Pensions". The following tables present an overview of the plans.

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

NUMBER OF COMMITMENTS		
	12-31-2010	12-31-2009
Active employees		
Non-vested expectancies	588	524
Vested expectancies	323	488
	<b>911</b>	<b>1,012</b>
Non-vested expectancies of employees no longer with the Company	249	242
Current pensions	874	868
<b>Total</b>	<b>2,034</b>	<b>2,122</b>

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

	12-31-2010	12-31-2009
<b>In % p.a.:</b>		
Discount rate	5.30	5.50
Salary increase in service	2.50	2.50
Pension increases	2.00	2.00
Turnover	4.50	4.50
Inflation	2.00	2.00

The calculation is based on a flexible retirement age in the German pension insurance.

The adjusted 2005G mortality tables by Prof. Dr. Klaus Heubeck were used for death and disability.

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 if differing parameters are set at the end of the fiscal year than at the beginning, (additional) actuarial gains or losses arise.

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

The defined benefit obligation is calculated as follows:

€ MILLION	2010	2009
Defined benefit obligation as of January 1	100.3	102.2
Current service cost	2.2	1.8
Adjustment for past service cost	0.0	1.1
Interest expense	5.3	5.5
Actuarial gains and losses	8.9	- 3.8
Direct pension payments	- 6.9	- 6.5
<b>Defined benefit obligation as of December 31</b>	<b>109.8</b>	<b>100.3</b>

The changes in the fair value of plan assets are as follows:

€ MILLION	2010	2009
Fair value of plan assets as of January 1	0.0	0.0
Contributions by employer	4.8	0.0
Expected return	0.2	0.0
Benefits paid	- 0.2	0.0
Actuarial gains and losses	0.0	0.0
<b>Fair value of plan assets as of December 31</b>	<b>4.8</b>	<b>0.0</b>

The plan assets consist of liability insurances similar to life insurances including specified performance and profit participation.

The reconciliation of the present value of the defined benefit obligation and the fair value of plan assets to the assets or liabilities recognized in the Consolidated Statement of Financial Position is presented below.

€ MILLION	12-31-2010	12-31-2009
Defined benefit obligation	109.8	100.3
Less fair value of plan assets	- 4.8	0.0
	<b>105.0</b>	<b>100.3</b>
Unrecognized actuarial gains (+) or losses (-)	5.6	14.7
<b>Provisions as of December 31</b>	<b>110.6</b>	<b>115.0</b>

The pension provisions developed as follows in the fiscal year:

€ MILLION	2010	2009
Provisions as of January 1	115.0	113.4
Total pension expenses for the fiscal year	7.3	8.1
Direct pension payments	- 6.9	- 6.5
Fair value of plan assets	- 4.8	0.0
<b>Provisions as of December 31</b>	<b>110.6</b>	<b>115.0</b>

The total pension expenses recognized in the Consolidated Statement of Comprehensive Income break down as follows:

€ MILLION	2010	2009
Current service cost	2.2	1.8
Adjustment for past service cost	0.0	1.1
(Net) Interest expense	5.1	5.5
Actuarial gains (-) or losses (+) recognized in the Consolidated Statement of Comprehensive Income	- 0.2	- 0.3
<b>Total pension expenses</b>	<b>7.1</b>	<b>8.1</b>

Current service cost, past service cost and actuarial gains or losses recognized in the Consolidated Statement of Comprehensive Income are disclosed under personnel expenses that are allocated to various categories of expenses according to the cost of sales method. The interest expense is disclosed under interest expenses.

The expected pension expenses for the fiscal year 2011 amount to €7.3 million (prior year estimate for the fiscal year 2010: €6.8 million).

The actual return on plan assets equals the expected return and amounts to €0.2 million (prior year: €0.0 million). It was netted with interest expenses of €5.3 million (prior year: €5.5 million).

The supplementary pension funds VBL ("Versorgungsanstalt des Bundes und der Länder"; concerning NILEG subgroup) and ZVK-KVBW ("Zusatzversorgungskasse des Kommunalen Versorgungsverbandes Baden-Württemberg"; concerning GBH subgroup) constitute multi-employer defined benefit plans which pursuant to IAS 19.30 (a) were accounted for as if they were defined contribution plans, as the VBL / ZVK do not make available sufficient information to permit treatment as a defined benefit plan. 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 2005, an external appraisal valued NILEG subgroup's insufficiently financed pension obligations at €24.9 million. The potential impact of the insufficiently financed pension obligation is an increase in the future contribution to the VBL.

### 13.2. OTHER PROVISIONS

The other provisions developed as follows in the fiscal year:

€ MILLION	As of January 1, 2010	Changes within the Consolidated Group	Utilization
Restructuring and reorganization provisions	21.7	0.0	12.1
Provisions for costs concerning sold properties	3.0	0.0	0.3
Provision for restitution proceedings	9.5	0.0	0.0
Phased retirement	4.4	0.0	2.0
Warranty obligations and latent risks	8.3	0.0	2.4
Provision for demolition costs	7.2	0.0	2.1
Severance payments, litigation costs and similar risks	4.1	0.0	0.8
Provision for distribution obligations	1.6	0.0	0.3
Provision for refinancing	2.4	0.0	0.2
Other provisions	4.7	0.0	2.1
<b>Total</b>	<b>66.9</b>	<b>0.0</b>	<b>22.3</b>

€ MILLION	As of January 1, 2009	Changes within the Consolidated Group	Utilization
Restructuring and reorganization provisions	14.4	0.0	6.3
Provisions for costs concerning sold properties	5.4	0.0	2.5
Provision for restitution proceedings	8.8	0.0	0.0
Phased retirement	15.2	0.0	2.3
Warranty obligations and latent risks	6.3	0.0	1.2
Provision for demolition costs	7.5	0.0	1.3
Severance payments, litigation costs and similar risks	4.3	-0.2	0.3
Provision for distribution obligations	1.2	0.0	0.4
Provision for refinancing	3.3	0.0	0.6
Other provisions	7.2	0.0	5.5
<b>Total</b>	<b>73.6</b>	<b>-0.2</b>	<b>20.4</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 past events which are highly likely to lead to a future outflow of resources and whose amount can be reliably estimated.

The additions to provision for costs concerning sold properties mainly concern sales cost in connection with HB Funds and compensation for damages in connection with sold properties.



E. Notes to the Consolidated Statement  
of Financial Position

Reversals	Additions	As of December 31, 2010	Thereof non-current	Thereof current
4.4	6.7	11.9	2.5	9.4
0.3	7.8	10.2	0.0	10.2
1.3	0.4	8.6	0.0	8.6
0.1	5.2	7.5	5.3	2.2
1.7	0.9	5.1	0.0	5.1
0.4	0.3	5.0	0.0	5.0
0.8	0.6	3.1	0.0	3.1
0.8	0.7	1.2	0.0	1.2
1.3	0.2	1.1	0.0	1.1
0.7	5.6	7.5	1.7	5.8
<b>11.8</b>	<b>28.4</b>	<b>61.2</b>	<b>9.5</b>	<b>51.7</b>

Reversals	Additions	As of December 31, 2009	Thereof non-current	Thereof current
2.0	15.6	21.7	4.4	17.3
0.9	1.0	3.0	0.0	3.0
0.1	0.8	9.5	0.0	9.5
10.0	1.5	4.4	2.9	1.5
1.5	4.7	8.3	0.0	8.3
0.0	1.0	7.2	1.0	6.2
0.7	1.0	4.1	0.0	4.1
0.0	0.8	1.6	0.0	1.6
0.3	0.0	2.4	0.4	2.0
0.5	3.5	4.7	0.3	4.4
<b>16.0</b>	<b>29.9</b>	<b>66.9</b>	<b>9.0</b>	<b>57.9</b>

The **restructuring and reorganization provisions** relate to employee severance payments and other costs related to the strategic repositioning of the subgroups. These provisions include obligations from prior-year restructuring projects recognized under the special criteria for restructuring provisions of IAS 37.71 et seqq. in connection with IAS 37.14 as well as obligations from ongoing reorganization projects which meet the general recognition criteria of IAS 37.14.

In 2009, a restructuring plan was set up to optimize the processes in the Group's regions and thereby enable the regions to reduce the number of customer centers. €12.3 million were allocated through restructuring expenses. Please refer to section F.10. "Reorganization and Restructuring Expenses". Thereof, an amount of €12.1 million (prior year: €6.3 million) was used during the fiscal year.

As of December 31, 2010, the provision amounted to €11.9 million (prior year: €21.7 million). Provisions of €6.7 million (prior year: €15.6 million) are allocated through reorganization and restructuring expenses, thereof €4.8 million relating to personnel-related expenses for severance payments and €1.2 million relating to personnel-related expenses in connection with an IT-outsourcing project. Please refer to section F.10. "Reorganization and Restructuring Expenses". Further €0.7 million were allocated for prior reorganization measures.

The **provision for restitution proceedings** amounting to €8.6 million (prior year: €9.5 million) concerns restitution requirements subject to the German Act on the Clarification of Property Claims ("Gesetz zur Regelung offener Vermögensfragen"- "Vermögensgesetz"; VermG), for example the return of properties to their former owners and requirements to reimburse sales proceeds or rentals generated in this context. The provisions are entirely current.

**Warranty obligations and latent risks** totaling €5.1 million (prior year: €8.3 million) were mainly set up for cases of liability from property development business.

The **provision for demolition costs** amounting to €5.0 million (prior year: €7.2 million) was recognized for the fulfillment of contractual obligations to demolish certain buildings within a certain period of time.

GAGFAH S.A. concluded a collective agreement (GAGFAH and GBH subgroup) and workplace 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 ensure employment for younger employees. In the reporting period and in the prior year, no new agreements were concluded. All arrangements that were concluded in the past have already started as of the balance sheet date.

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 workplace 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 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 €3.1 million (prior year: €4.1 million) had been recognized.

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

The provision for demolition costs is covered by claims against the municipality of Dresden. Concerning the other provisions, no asset items have been recognized for refunds.

## 14. Deferred Tax Liabilities

A uniform tax rate of 32.00 % (prior year: 32.00 %) is generally applied to all Group companies. This comprises a corporate income tax rate including solidarity surcharge of 15.83 % (prior year: 15.83 %). Trade tax is charged at 16.17 % (prior year: 16.17 %).

Deferred tax assets and liabilities are netted when there is a legally enforceable right to offset current tax assets against 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:

€ MILLION	12-31-2010	12-31-2009	Effect on income 2010	Effect on income 2009
<b>Consolidated Statement of Financial Position</b>				
Investment property	7.4	8.4	- 1.0	- 4.4
Financial assets	0.5	1.7	- 1.2	1.7
Other assets	6.7	7.1	- 0.4	- 2.5
Other provisions	16.4	13.3	3.1	3.7
Financial liabilities	22.2	6.1	16.1	- 3.8
Assets held for sale	0.0	0.2	- 0.2	0.2
<b>Deferred tax assets on temporary differences</b>	<b>53.2</b>	<b>36.8</b>	<b>16.4</b>	<b>- 5.1</b>
<b>Loss carryforwards</b>				
Corporate income tax	137.0	150.0	- 13.0	23.7
Trade tax	68.3	75.1	- 6.8	11.6
<b>Deferred tax assets on loss carryforwards</b>	<b>205.3</b>	<b>225.1</b>	<b>- 19.8</b>	<b>35.3</b>
<b>Deferred tax assets</b>	<b>258.5</b>	<b>261.9</b>	<b>- 3.4</b>	<b>30.2</b>

€ MILLION	12-31-2010	12-31-2009	Effect on income 2010	Effect on income 2009
<b>Consolidated Statement of Financial Position</b>				
Investment property	488.2	476.9	- 11.3	5.4
Financial assets	1.9	0.5	- 1.4	2.3
Other assets	0.0	0.2	0.2	0.7
Other provisions	0.2	2.0	1.8	0.1
Other liabilities	7.8	8.5	0.7	- 1.2
Assets held for sale	18.0	4.9	- 13.1	- 4.9
Other	20.6	0.0	- 20.6	0.0
<b>Deferred tax liabilities</b>	<b>536.7</b>	<b>493.0</b>	<b>- 43.7</b>	<b>2.4</b>

Deferred tax liabilities resulted from investment property and also partly from deferred tax claims that resulted from the differences between the carrying values disclosed in the IFRS Statement of Financial Position and the Tax Statement. 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 became taxable.

In the Consolidated Statement of Financial Position, deferred tax assets of €258.5 million (prior year: €261.9 million) were offset against deferred tax liabilities because the relevant entities have the legally enforceable right to set off current tax assets against current tax liabilities and the deferred tax assets and the deferred tax liabilities relate to income taxes levied by the same taxation authority on the same taxable entity.

As of December 31, 2010, the Group had corporate income tax loss carryforwards of €1,671.8 million (prior year: €1,742.2 million) and trade tax loss carryforwards of €818.6 million (prior year: €924.2 million). These are based on information available at the time of preparation of the Consolidated Financial Statements and may be carried forward indefinitely pursuant to legislation in force as of December 31, 2010. Per period, tax gains of a maximum of €1.0 million and 60.0 % of the amount above this figure may be netted with loss carryforwards.

Deferred tax assets on tax loss carryforwards are recognized to the extent that deferred tax liabilities on temporary differences exist. Net deferred tax assets on loss carryforwards are recognized only to the extent that they will be utilized in the near future, leading to residual corporate income tax loss carryforwards of €806.2 million (prior year: €794.5 million) as well as trade tax loss carryforwards of €396.6 million (prior year: €459.5 million), on which no deferred tax assets have been recognized.

Interest expenses are deductible up to the amount of the interest earnings. Beyond this amount, the deductibility is limited to 30 % of the fiscal year's EBITDA. Interest expenses which may not be deducted in the current year are carried forward to the following fiscal years (interest carryforward). Deferred tax assets shall be recognized for the interest carryforward to the extent that it is probable that the interest expenses can be used in following years. Due to the Group's capital structure, the use of the interest carryforward is not probable in the foreseeable future. According to this, no deferred taxes were recognized on interest carryforwards of €146.1 million (prior year: €99.7 million) as these interest expenses are not expected to be realized in subsequent years.

Temporary differences associated with investments in subsidiaries, for which deferred tax liabilities have not been recognized, aggregate to €8.9 million (prior year: €9.2 million).

## 15. Liabilities from Income Tax

As of December 31, 2010, the Group had obligations from corporate income tax, trade tax and capital yields tax totaling €134.2 million (prior year: €137.0 million).

They break down as follows:

€ MILLION	12-31-2010	12-31-2009
Corporate income tax on EK 02	99.2	110.3
Corporate income tax	12.3	11.6
Trade tax	19.3	11.7
Capital yields tax	3.4	3.4
<b>Total</b>	<b>134.2</b>	<b>137.0</b>

The decrease of corporate income tax on EK 02 is due to payments of €15.6 million (prior year: €16.6 million). These effects are contrasted by an increase due to the addition of accrued interest of €4.2 million (prior year: €4.7 million) and the addition of a further provision for EK02 risks of €0.3 million (prior year: €5.0 million).

## 16. Liabilities

### 16.1. FINANCIAL LIABILITIES

Financial liabilities total €6,011.2 million (prior year: €6,525.3 million). Of this, €5,648.4 million (prior year: €5,906.2 million) relate to non-current liabilities and €362.8 million (prior year: €619.1 million) to current liabilities. These broke down as follows in the fiscal year:

Liabilities to banks total €5,964.9 million (prior year: €6,472.3 million) and mainly relate to the financing of residential real estate assets.

Liabilities to other lenders amount to €46.3 million (prior year: €53.0 million) and mainly relate to the financing of residential real estate assets.

The value of the investment property portfolio (including assets held for sale) of €8,706.7 million (prior year: €9,289.3 million) is predominantly encumbered by charges on property for the securization of the current and non-current financial liabilities to banks and other lenders. The financial liabilities which are secured by charges on property amount to €5,878.2 million (prior year: €6,204.9 million). No collateral has been provided for the remaining €133.0 million (prior year: €320.4 million).

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

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

Of the total financial liabilities, €5,755.4 million (prior year: €6,272.6 million) relates to unsubsidized loans.

Overall, loans amounting to €698.9 million (prior year: €222.6 million) were repaid in the fiscal year. Thereof, 140 (prior year: 74) loans totaling €30.6 million (prior year: €14.1 million) were fully repaid in the fiscal year.

In the fiscal year 2010, GAGFAH S.A. has negotiated a new loan agreement. As of September 1, 2010, the former €300.0 million credit agreement was changed into a new €180.0 million loan agreement, of which €100.0 million are outstanding at the year end. Thereof, €75.0 million relate to a term loan with a fixed interest period and €25.0 million relate to a revolving credit facility.

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

The interest rate currently charged on the new loan agreement is EURIBOR plus 5.0 %.

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

In the fiscal year 2010, several reclassifications of term loans from non-current to current financial liabilities were made in connection with assets held for sale and sold assets because the proceeds of the sale of large multi-family homes, condos and HB Funds were partly used to repay debt.

As of December 31, 2010, a total amount of €178.3 million (prior year: €282.5 million) was reclassified from non-current to current financial liabilities due to the repayment expected to be prior to the contractual maturity of these liabilities, thereof €80.9 million (prior year: €219.4 million) in connection with the large multi-family home sales program and €97.4 million (prior year: €63.1 million) related to condo sales. The aforementioned reclassified term loans contain financial liabilities related to assets held for sale as shown in the Consolidated Statement of Financial Position at the end of the fiscal year as well as financial liabilities related to asset sales that have already been recognized during the fiscal year 2010.



Further €8.9 million (prior year: €0.0 million) in connection with HB Funds sales were reclassified from non-current financial liabilities to current financial liabilities.

Of the total reclassifications, loans amounting to €136.1 million (prior year: €227.8 million) are directly related to assets held for sale of €213.4 million (prior year: €274.4 million) as shown in the Consolidated Statement of Financial Position. These loans are allocated to the Group's assets held for sale as follows:

€ MILLION	12-31-2010		12-31-2009	
	Assets held for sale	Directly re-related financial liabilities	Assets held for sale	Directly re-related financial liabilities
Large multi-family home sales	59.4	42.2	264.5	219.4
Condo sales	119.7	85.0	9.9	8.4
HB Funds sales (non-core)	34.3	8.9	0.0	0.0
<b>Total</b>	<b>213.4</b>	<b>136.1</b>	<b>274.4</b>	<b>227.8</b>

The total reclassified liabilities have been revalued according to IAS 39.AG8. The current financial liabilities also increased by an amount of €7.8 million (prior year: €6.3 million) due to potential prepayment fees.

For more information on the respective sales programs, we refer to section E.10. "Assets Held for Sale".

The Group is financed long term, but regularly considers the credit terms and is up to refinance at an early stage. As of December 31, 2010, the Group's financial liabilities primarily comprise of the following liabilities:

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

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

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

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

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

2010							
€ MILLION	Carrying amount as of 12-31-2009	Notional amount as of 12-31-2009	Weighted avg. maturity	Current interest rate	Fixed or floating rate	Required repayments	Interest payments
Term loans <sup>1)</sup>	5,487.9	5,486.4	2013	4.07 %	Fixed	282.5	221.2
Term loans	329.4	311.8	2012	1.82 %	Floating <sup>2)</sup>	0.0	5.8
Senior debt <sup>3)</sup>	408.9	499.3	2037	2.40 %	Fixed	49.8	12.0
Revolving credit facility	265.3	265.0	2010	2.94 %	Floating	265.0	5.9
NILEG other <sup>4)</sup>	16.4	16.7	2011	1.46 %	Floating	0.0	0.2
Other	17.4	17.4					
	<b>6,525.3</b>	<b>6,596.6</b>		<b>3.78 %</b>		<b>597.3</b>	<b>245.1</b>

<sup>1)</sup> The term loans attributable to the assets held for sale are €219.4 million. Consistent with the plan to sell such assets, the term loans will be repaid by such amount in 2010, resulting in reduced interest payments on the fixed-rate term loans in fiscal years 2010 through 2013. Another amount of €63.1 million mainly relating to other prepayments in connection with condo sales expected to be prior to the contractual maturity was reclassified from non-current to current financial liabilities.

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

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

<sup>4)</sup> Relates mainly to land developments pre-sold to local municipalities.

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

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

	2011		2012		2013		2014		2015		≥ 2016	
	Required repayments	Interest payments	Required repayments	Interest payments	Required repayments	Interest payments	Required repayments	Interest payments	Required repayments	Interest payments	Required repayments	Interest payments
	0.0	216.0	0.0	224.1	3,605.1	168.3	1,598.8	35.7	0.0	0.0	0.0	0.0
	0.0	5.8	275.8	2.1	0.0	0.6	0.0	0.6	36.0	0.4	0.0	0.0
	22.5	11.6	23.1	10.7	25.1	9.5	26.8	8.5	24.7	7.8	327.3	101.8
	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
	16.7	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
	39.2	233.5	298.9	236.9	3,630.2	178.4	1,625.6	44.8	60.7	8.2	327.3	101.8

To reduce the exposure to changes in interest rates, GAGFAH has concluded interest swap agreements. Due to the valuation of the derivatives, interest rate swaps with a negative amount of €11.8 million (prior year: negative amount of €15.9 million) are disclosed in the financial liabilities.

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

#### 16.2. OTHER LIABILITIES

As of the balance sheet date, other liabilities break down as follows:

€ MILLION	12-31-2010	12-31-2009
<b>Non-current</b>		
Liabilities from finance lease	4.3	0.0
Liabilities from reorganization	3.2	0.0
Jubilee commitments	1.6	1.7
Liabilities from commission on bank guarantee	1.4	1.9
Trade payables	0.0	0.4
<b>Total non-current</b>	<b>10.5</b>	<b>4.0</b>
<b>Current</b>		
Prepayments received	152.1	42.5
Liabilities from operating expenses not yet invoiced	30.6	15.7
Trade payables	22.1	30.7
Liabilities to tenants	17.4	19.9
Liabilities from bonus payments	9.4	10.4
Tax liabilities	7.6	2.6
Liabilities from basic / decorative repairs	3.6	3.7
Liabilities from construction management services not yet invoiced	2.0	2.2
Liabilities from commissions	2.0	2.2
Liabilities from reorganization	1.5	0.5
Other liabilities	12.2	11.9
<b>Total current</b>	<b>260.5</b>	<b>142.3</b>
<b>Total</b>	<b>271.0</b>	<b>146.3</b>

The non-current liabilities from finance lease of €4.3 million (prior year: €0.0 million) result from the reassessment of existing leases as a result of the amendments to IAS 17. For further information, please refer to section C.2. "Leases". Some transferable leasehold land properties were reclassified as a finance lease and accordingly were recognized in the Consolidated Statement of Financial Position. Corresponding liabilities from finance leases were recognized in the amount of the present value of the minimum lease payments calculated as of January 1, 2010. For subsequent measurement, minimum lease payments are apportioned between finance charge and reduction of the outstanding liability.

The non-current liabilities from reorganization include obligations in connection with a compensation payment to an external maintenance provider. The compensation was paid because the service agreement was renegotiated mainly with respect to a reduction of the contract duration. The original discounted liability recognized via reorganization expenses amounted to €6.8 million and was payable in four installments, two of which were already paid in 2010. For further information on this issue, please refer to section F.10. "Reorganization and Restructuring Expenses".

Jubilee commitments are granted for 40 years, 25 years, 15 years and 10 years of service. The jubilee commitments of GAGFAH GROUP are made by way of direct commitment. Corresponding liabilities are determined on the basis of actuarial principles.

Compared to year-end 2009, the prepayments received increased by €109.6 million, mainly due to the sale of properties in connection with the large multi-family home sales program and the condo sales program.

With the exception of jubilee commitments (discount rate: 4.7 %), all items disclosed by GAGFAH S.A. as other liabilities are non-interest-bearing. There is no interest rate risk.

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

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

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

€ MILLION	2010	2009
Rental income, fees	630.1	664.3
Allocations charged	279.7	309.5
Rent, interest and expense subsidies	0.7	2.1
Risk of default on allocations	0.9	0.9
Lease income	0.1	0.0
<b>Total</b>	<b>911.5</b>	<b>976.8</b>

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

Rental income includes non-cash income from the amortization of deferred liabilities of government-granted loans in the amount of €6.0 million (prior year: €8.0 million).

The operating expenses arising from investment property that did not generate rental income during the fiscal year amounted to €17.7 million (prior year: €14.1 million). These expenses are recognized as revenue reduction within the allocations charged.

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

Within the first three months of 2011, GAGFAH GROUP will achieve minimum leasing payments of approximately €137.5 million (prior year estimate for the first three months of the fiscal year 2010: €147.4 million) from the present real estate portfolio and the existing operating lease contracts with third parties.

## 2. Operating Expenses for the Generation of Rental Income

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

€ MILLION	2010	2009
Operating expenses	257.5	283.2
Repair and maintenance costs	61.0	66.2
Personnel expenses	61.0	61.9
Real estate tax	28.0	29.4
Bad debt allowances	8.4	10.5
External costs for real estate management	9.0	10.0
Administrative expenses	7.1	7.6
Amortization and depreciation on intangible assets and property, plant and equipment	2.4	2.1
Other expenses for real estate management	14.9	17.3
<b>Total</b>	<b>449.3</b>	<b>488.2</b>

Operating expenses decreased to €257.5 million in the fiscal year 2010 from €283.2 million in the fiscal year 2009. The decrease is primarily attributable to an overall smaller portfolio.

Repair and maintenance costs in the fiscal year 2010 were €61.0 million compared to €66.2 million in the fiscal year 2009 as a result of a smaller portfolio and a more focused spending approach including the optimization of our cost of re-letting vacant units, and the continued trend of doing more work in-house.

For investment property that was vacant either for a short time within the fiscal year, due to tenant fluctuation, or during the entire fiscal year, refurbishment expenses of €9.9 million (prior year: €14.5 million) in connection with modernizations, which cannot be capitalized, were incurred.

### 3. Loss from Fair Value Measurement of Investment Property

Changes in value from measurement of investment property in the fiscal year amount to a net loss of €69.5 million (prior year: net loss of €197.0 million).

The loss from fair value measurement breaks down as follows:

€ MILLION	2010	2009
Land with leased residential buildings	69.4	196.9
Land without buildings	- 0.1	0.4
Transferable leasehold land	0.1	0.0
Buildings on third-party land	0.1	- 0.3
<b>Total</b>	<b>69.5</b>	<b>197.0</b>

### 4. Profit from Other Services

The profit from other services breaks down as follows:

€ MILLION	2010	2009
Revenues from third-party real estate management	5.5	5.7
External costs for third-party real estate management	- 0.4	- 0.7
Personnel expenses	- 3.3	- 3.6
<b>Subtotal third-party real estate management</b>	<b>1.8</b>	<b>1.4</b>
Revenues from other trade	9.3	8.0
External costs for other trade	- 4.0	- 3.6
Personnel expenses	- 2.1	- 1.4
<b>Subtotal results from other trade</b>	<b>3.2</b>	<b>3.0</b>
<b>Total</b>	<b>5.0</b>	<b>4.4</b>



## 5. Selling Expenses

Expenses that are directly related to the sales activities of GAGFAH GROUP are recorded under this item. They are primarily attributable to sales and advertising.

Selling expenses break down as follows:

€ MILLION	2010	2009
External brokers	7.5	5.7
Additions to provisions for sales cost in connection with HB Funds	5.2	0.0
Personnel expenses	3.8	5.5
Clearing from encumbrances	3.7	0.7
General and administrative expenses	2.6	0.9
Marketing and selling prearrangements	0.8	2.5
Maintenance on vacant flats and sample flats	0.6	0.7
Reversal of a sales transaction	0.0	5.5
Other	2.4	1.4
<b>Subtotal</b>	<b>26.6</b>	<b>22.9</b>
Selling expenses due to property development business	0.1	0.1
<b>Total</b>	<b>26.7</b>	<b>23.0</b>

The increase in expenses for clearing from encumbrances from €0.7 million in the prior year to €3.7 million in the fiscal year 2010 mainly results from the intensified sales activities primarily in connection with large multi-family homes.

The increase in general and administrative expenses from €0.9 million in the prior year to €2.6 million in the fiscal year 2010 results from consulting costs in connection with the sale of HB Funds properties in the fiscal year 2010.

## 6. General and Administrative Expenses

General and administrative expenses break down as follows:

€ MILLION	2010	2009
Personnel expenses for administrative staff	17.5	19.3
IT costs	6.3	6.2
Consulting costs	2.4	2.7
Audit fees	2.1	2.5
Amortization and depreciation on intangible assets and fixed assets	2.0	1.5
Costs of office equipment, postage and telephone	1.4	1.6
Insurances	1.1	1.1
Occupancy costs	0.8	0.9
Travel expenses, expenses for cars	0.7	0.7
Court and lawyers' fees	0.5	0.9
Other	3.1	4.5
<b>Total</b>	<b>37.9</b>	<b>41.9</b>

## 7. Expenses for / Income from Share-based Remuneration

In 2009, a new stock option plan for members of the Senior Management and other levels of management was issued. A description of this plan can be found in the Accounting Policies, section C.16. "Share-based Remuneration".

The total fair value of the options, estimated at the respective grant dates using the Black & Scholes option pricing model, amounts to €3.9 million. The respective expenses are allocated equally over the vesting period. In the fiscal year 2010, expenses of €1.8 million (prior year: €1.3 million) were recognized in the Consolidated Statement of Comprehensive Income.

The following table lists the inputs to the Black & Scholes option pricing model used for the calculation of the fair value of the stock options granted in the prior year:

Weighted average share price (€)	5.23
Exercise price (€)	3.70 – 6.31
Expected volatility (%)	59.83 – 61.12
Expected life of the option (years)	2.58 – 3.75
Expected dividends / dividend yield (%)	12.68 – 21.62
Risk-free interest rate (%)	3.35 – 3.49

The underlying exercise prices of the options are equal to the respective closing prices of one share at the Frankfurt Stock Exchange on the trading day immediately preceding the individual grant dates.

The expected volatility reflects the assumption that the historical volatility over a period similar to the life of the options is indicative of future trends, which may also not necessarily be the actual outcome. The expected volatility used for the Black & Scholes option pricing model is based on a historical volatility calculated over 710 trading days.

The expected life of the share options is based on historical data and current expectations and is not necessarily indicative of exercise patterns that may occur.

The total expenses for / income from share-based remuneration recognized in the Consolidated Statement of Comprehensive Income are shown in the following table:

€ MILLION	2010	2009
Equity-settled share-based payment (Stock Option Plan 2006)	0.2	2.8
Equity-settled share-based payment (Stock Option Plan 2009)	- 1.8	- 1.3
Cash-settled share-based payment	- 0.2	- 0.1
<b>Total expenses (-) / income (+)</b>	<b>- 1.8</b>	<b>1.4</b>

The expenses exclusively relate to share-based payment plans for management and executive staff.

The following table illustrates the movements in share options during the fiscal year:

Number of stock options	2010	2009
<b>Outstanding as of January 1</b>	<b>2,720,722</b>	<b>575,513</b>
Granted during the fiscal year	0	2,616,035
Forfeited during the fiscal year	0	- 309,930
Exercised during the fiscal year	- 76,213	- 160,896
<b>Outstanding as of December 31</b>	<b>2,644,509</b>	<b>2,720,722</b>

During the fiscal year, 76,213 (prior year: 160,896) shares were issued at a weighted average share price of €6.22 (prior year: €5.73).

The range of exercise prices for options outstanding at the end of the year was €0.00 to €6.31 (prior year: €0.00 to €6.31).

On January 21, 2011, further 1,247,386 options were exercised.

## 8. Other Operating Income

All income not directly allocable to the various categories of income according to the cost of sales method is disclosed under other operating income totaling €20.2 million (prior year: €27.2 million).

Other operating income breaks down as follows:

€ MILLION	2010	2009
Reversal of provisions	7.0	14.8
Sale of cable network connections	6.2	0.0
Write-off of liabilities	0.3	3.0
Other	4.5	4.1
<b>Subtotal</b>	<b>18.0</b>	<b>21.9</b>
Other operating income due to property development business	2.2	5.3
<b>Total</b>	<b>20.2</b>	<b>27.2</b>

The income from the reversal of provisions in the prior year mainly contained income from the reversal of provisions for phased retirement (€10.0 million) due to the maturing phased retirement law and the maturing company agreement as of December 31, 2009.

In the fiscal year, the income from the sale of cable network connections contains income due to the sale of physical components of cable network connections to several cable network operators.

An amount of €2.2 million (prior year: €5.3 million) results from property development business. Thereof, an amount of €1.0 million (prior year: €0.9 million) relates to the reversal of provisions and liabilities. Further €0.2 million (prior year: €0.1 million) relate to the reversal of other provisions, mainly provisions for litigation risks.

The prior-year income from property development business included €1.9 million related to claims for reimbursements against the Federal Republic of Germany due to building projects in prior years and €1.7 million related to the write-off of liabilities due to lapse of time.

## 9. Other Operating Expenses

All expenses not directly allocable to the various categories of expenses according to the cost of sales method are disclosed under other operating expenses totaling €8.3 million (prior year: €24.8 million).

These expenses break down as follows:

€ MILLION	2010	2009
Additions to provisions	1.4	1.2
Write-off of receivables	0.5	0.0
Impairment of components of the disposal group (BGF)	0.0	6.1
Incidental costs	0.0	4.9
Other	3.1	1.1
<b>Subtotal</b>	<b>5.0</b>	<b>13.3</b>
Other operating expenses due to property development business	3.3	11.5
<b>Total</b>	<b>8.3</b>	<b>24.8</b>

The additions to provisions in the fiscal year 2010 of €1.4 million (prior year: €1.2 million) concern compensation payments to external maintenance providers of €0.7 million (prior year: €0.8 million) and warranty obligations of €0.7 million (prior year: €0.0 million).

An amount of €3.3 million (prior year: €11.5 million) results from property development business. Thereof, €1.2 million (prior year: €5.3 million) relate to prior-year expenses and additions to provisions concerning land sold, while €0.1 million (prior year: €2.3 million) relate to additions to provisions for costs concerning objects sold.

## 10. Reorganization and Restructuring Expenses

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

In 2010, reorganization and restructuring expenses were €12.8 million compared to €21.4 million in 2009, and break down as follows:

€ MILLION	2010			2009		
	Restructuring	Reorganization	Total	Restructuring	Reorganization	Total
Personnel-related expenses	- 0.3	6.0	5.7	16.7	0.2	16.9
Consulting fees	0.0	0.3	0.3	2.1	0.4	2.5
Non-personnel administrative costs	0.0	6.8	6.8	1.9	0.1	2.0
<b>Total</b>	<b>- 0.3</b>	<b>13.1</b>	<b>12.8</b>	<b>20.7</b>	<b>0.7</b>	<b>21.4</b>

The personnel-related expenses concerning restructuring of €-0.3 million in the column "Restructuring" in the fiscal year 2010 include expenses of €1.5 million that were compensated by income of €1.8 million from the reversal of provisions in connection with a restructuring project started in 2009 which is described below.

### Restructuring projects in 2009

In 2009, we started a restructuring project in our regions with the aim of increasing our operational efficiency and reducing our costs and number of FTEs. An agreement on the reconciliation of interests was concluded with the works council in Berlin in 2009. Informative meetings have been held with both the works councils and the employees in the other three regions, and the Company concluded agreements on the reconciliation of interests with the other works councils. Thereupon, individual agreements with the employees affected by the restructuring were concluded. The reduction potential had been identified and was included in the agreements on the reconciliation of interests.

The main part of the personnel-related restructuring expenses in 2009 resulted from additions to provisions (€11.3 million) in connection with the aforementioned restructuring plan. Further non-personnel-related provisions of €1.0 million were allocated through non-personnel administrative costs. The expenses are shown in the column "Restructuring" in the prior year. In the fiscal year 2010, an amount of €1.8 million of the aforementioned provisions has been reversed.

Regarding the corresponding provision, please refer to section E.13.2. "Other Provisions".

#### Reorganization projects in 2010

The aforementioned project was adjusted as follows in 2010: The main objective was to interlink the operating processes between the companies with a real estate portfolio and the service providers without real estate portfolio considerably closer. The technical skills in-house have been strengthened and the service providing companies increasingly serve as technical service providers within the GAGFAH GROUP.

As a consequence, the main part of the maintenance services that were outsourced in 2008 by closing a service agreement with external maintenance providers have been assigned back to the three affiliated service providers. The agreement with the outsourcing partners was renegotiated accordingly regarding service volume and contract term.

Hence, in the fiscal year 2010, corresponding non-personnel expenses include an amount of €6.8 million for compensation payments relating to the amendment of the aforementioned outsourcing contract allowing GAGFAH to increasingly perform maintenance services in-house again. These expenses are shown in the column "Reorganization" in the fiscal year 2010.

The corresponding liability less the first two rates already paid in 2010 is disclosed as an accrual under the term "Liabilities from reorganization (non-current)". Please refer to section E.16.2. "Other Liabilities".

A further reorganization project was started toward year-end 2010 with the objective of increasing services for third parties in the future. Against this background, three legal entities were already founded in 2010. Please refer to section B.1. "Consolidated Group".

In addition, GAGFAH GROUP expects to raise its competitiveness by the generation and utilization of system interfaces caused by the planned implementation of application software for the three service providers.

Personnel-related expenses for severance payments of €4.8 million and personnel-related expenses for the outsourcing of parts of the IT-department of €1.2 million relating to this reorganization project are shown in the column "Reorganization" in the fiscal year 2010.

Regarding the corresponding provisions, please refer to section E.13.2. "Other Provisions".

## 11. Interest Expenses

Interest expenses break down as follows:

€ MILLION	2010	2009
Interest expenses	253.3	260.4
Prepayment fees	18.0	10.5
Amortization of financial liabilities	17.9	20.2
Interest share of pension obligations	5.1	5.5
Amortization of EK02 liability	4.2	4.7
Finance lease interest	0.3	0.0
Revaluation of financial liabilities	- 9.8	9.4
Other interest expenses	8.8	9.2
<b>Subtotal</b>	<b>297.8</b>	<b>319.9</b>
Interest due to property development business	0.2	1.1
<b>Total</b>	<b>298.0</b>	<b>321.0</b>

The interest expenses of €253.3 million (prior year: €260.4 million) mainly relate to interest on liabilities to banks. The item includes expenses from term loans and the loan contract of GAGFAH S.A. of €208.4 million (prior year: €214.9 million) and expenses from other loans of €10.3 million (prior year: €10.3 million). Another €34.6 million (prior year: €35.2 million) relates to accrued interest.

The prepayment fees of €18.0 million (prior year: €10.5 million) include an amount of €16.5 million (prior year: €4.2 million) that was paid for the early repayment of loans in the corresponding fiscal year. Further non-cash expenses of €1.5 million (prior year: €6.3 million) relate to expected prepayment fees for the early repayment of loans prior to maturity. Please refer to section E.16.1. "Financial Liabilities".

Regarding the positive revaluation of financial liabilities of €9.8 million in the fiscal year 2010, we refer to section C.18. "Estimates and the Exercise of Judgment by Management", subchapter "Uncertainties relating to Estimates".

## 12. Interest Expenses (Refinancing)

The interest expenses (refinancing) of €4.1 million (prior year: €0.9 million) include an amount of €3.6 million (prior year: €0.0 million) which relates to arrangement fees in connection with the new loan agreement. Please refer to section E.16.1. "Financial Liabilities".



### 13. Income Taxes

Income taxes break down as follows:

€ MILLION	2010	2009
Trade tax	- 9.5	- 5.3
Corporate income tax	- 5.1	- 3.4
Capital yields tax	- 0.1	- 0.3
Tax refunds (+) / payments (-) for / from prior years	4.7	- 6.4
Deferred taxes – temporary differences	- 27.3	- 2.7
Deferred taxes – loss carryforwards	- 19.8	35.3
Reversal of liabilities from income taxes	5.3	0.0
<b>Total</b>	<b>- 51.8</b>	<b>17.2</b>

In 2010, the Citizen Relief Act (Bürgerentlastungsgesetz) and the Act to Accelerate Economic Growth (Wachstumsbeschleunigungsgesetz) became effective. The following changes were made:

- Several changes to interest cap rules, especially:
  - enduring increase of the threshold from €1.0 million to €3.0 million of the net interest expenses (interest expenses less interest income),
  - increase of the annual volatility margin for the equity compensation from 1 % to 2 % and
  - introduction of a five-year excess EBITDA carryforward within the interest barrier rules.
- Changes in the add back for trade tax purposes,
- Implementation of a recapitalization exemption regarding tax loss carryforwards in the case of company transfers,
- Implementation of group restructuring exemptions for real estate transfer tax and the use of loss carryforwards,
- Modification of the use of loss carryforwards after company transfers.

Additionally, with the 2010 annual tax act restrictions regarding the sale of assets and the use of tax losses for former non-profit housing companies (section 13 paragraph 3 sentences 2 to 11 KStG) were eliminated from German corporate income tax law.

Consolidated profit before taxes, multiplied with the tax rate for the Group of 32.0 % (prior year: 32.0 %) leads to anticipated income taxes of €-16.4 million (prior year: €29.5 million).

The following table reconciles this anticipation to effective income taxes:

€ MILLION	2010	2009
<b>Profit (+) / Loss (-) before taxes</b>	<b>51.2</b>	<b>- 92.3</b>
<b>Anticipated income taxes</b>	<b>- 16.4</b>	<b>29.5</b>
Income taxes not related to the period and other adjustments to current income taxes	10.0	- 6.4
Tax-free income	1.5	0.0
Tax portion for non-deductible expenses	- 18.5	- 19.1
Tax portion for non-deductible interest	- 14.2	- 14.3
Permanent trade tax effects	- 5.4	- 3.9
Effects of unrecognized deferred taxes on temporary differences	1.9	27.5
Effects of unrecognized deferred taxes on loss carryforwards	- 11.0	4.2
Corporate income tax on dividend within profit and loss absorption agreement	- 0.3	- 0.2
Other tax effects	0.7	0.2
<b>Effective income taxes</b>	<b>- 51.7</b>	<b>17.5</b>
<b>Capital yields tax</b>	<b>- 0.1</b>	<b>- 0.3</b>
<b>Income taxes</b>	<b>- 51.8</b>	<b>17.2</b>

The tax portion for non-deductible expenses mainly relates to non-deductible expenses for tax purposes in Luxembourg. The tax portion of non-deductible interest relates to the interest barrier rule (Zinsschranke). The effects in particular of the addition of a quarter of the interest are disclosed under “permanent trade tax effects”.

In 2009, the Company agreed with the tax authority to increase the tax base of the investment properties of one subsidiary. The resulting tax benefits are reflected in a decrease of deferred tax liabilities. This affects 2010’s deferred taxes as well.

Effects from the measurement of deferred tax assets that result from the expected realization of loss carryforwards are disclosed under the item “effects of unrecognized deferred taxes on loss carryforwards”.

The Company qualifies as a securitization vehicle falling within the scope of the Luxembourg Law on Securitization of March 22, 2004. The Company is therefore fully liable for corporate income tax and municipal business tax. However, it is not subject to net worth tax (section 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 are deductible and will not be subject to Luxembourg withholding tax.

## 14. Result from Non-controlling Interests

A loss of €8.3 million (prior year: loss of €4.0 million) of net loss relates to non-controlling interests.

The losses attributable to non-controlling interests are allocated to the subgroups as follows: GAGFAH subgroup €10.5 million loss (prior year: €2.6 million loss) and WOBA subgroup €2.2 million profit (prior year: €0.8 million profit). In the prior year, a loss of €2.2 million was additionally allocated to GBH subgroup.

## 15. Earnings per Share

Basic earnings per share amount to €0.03 (prior year: €-0.31). They were calculated by dividing the net profit for the year distributable to ordinary equity holders of the parent company (€7.7 million; prior year: net loss of €71.1 million) by the weighted average number of undiluted ordinary shares outstanding during the year (225,903,717; prior year: 225,773,814).

Diluted earnings per share amount to €0.03 (prior year: €-0.32). These were calculated by dividing the net profit for the year distributable to ordinary equity holders of the parent company (€7.7 million; prior year: net loss of €71.1 million) by the weighted average number of diluted ordinary shares outstanding during the year (228,582,033; prior year: 228,019,111).

The weighted average number of ordinary shares outstanding is defined as the number of ordinary shares outstanding at the beginning of the period, adjusted by the number of ordinary shares bought back or issued during the period multiplied by a time-weighted factor.

Dilutive instruments exclusively comprise bonus shares and stock options in connection with share-based remuneration. For details please refer to section F.7. "Expenses for / Income from Share-based Remuneration".

On the balance sheet date, 1,305,150 stock options were vested.

The vesting schedule as of December 31, 2010, is:

- 2011: 1,325,681
- 2012: 6,839
- 2013: 6,839

The weighted average remaining contractual life for the share options outstanding as of December 31, 2010, is 1.02 years (prior year: 1.50 years).

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

The Consolidated Statement of Cash Flows 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 Consolidated Statement of Cash Flows 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.

Cash flows only contain cash and cash equivalents with terms of up to three months in accordance with IAS 7.7. These comprise all cash and cash equivalents disclosed in the Consolidated Statement of Financial Position and break down as follows:

€ MILLION	12-31-2010	12-31-2009
Cash on hand	0.1	0.1
Bank balances	64.8	38.3
Restricted cash	288.7	182.6
"HB Funds" balances	21.9	15.2
<b>Bank balances and cash on hand</b>	<b>375.5</b>	<b>236.2</b>

Restricted cash mainly comprises the following:

An amount of €29.6 million (prior year: €30.4 million) corresponds to the interests on term loans due but not yet payable until the end of the reporting period.

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

As of December 31, 2010, restricted cash also includes an amount of €199.7 million (prior year: €147.4 million) relating to asset sales which can be either used for the repayment of term loans or for the reinvestment in the acquisition of new properties. Thereof, €149.6 million (prior year: €107.4 million) will be used to pay down related debt.

Furthermore, restricted cash includes an amount of €55.3 million from the sale of HB Funds assets from which €17.0 million have to be used for distributions to non-controlling interests.

The change in working capital as shown in the Consolidated Statement of Cash Flows is as follows:

€ MILLION	2010	2009
Change in inventories	21.1	11.3
Change in receivables / other assets	10.4	- 8.8
Change in other liabilities	2.2	1.4
<b>Change in working capital</b>	<b>33.7</b>	<b>3.9</b>

The amount of cash received from raising financial liabilities of €175.1 million (prior year: €0.0 million) as shown in the Consolidated Statement of Cash Flows mainly results from the new loan agreement, of which €100.0 million are outstanding at the end of the reporting period. For further information we refer to section E.16.1. "Financial Liabilities".

As of the balance sheet date, there were no undrawn credit facilities (prior year: €35.0 million).

## H. Other Notes

### 1. Additional Disclosures on Financial Instruments

The following table shows carrying amounts and fair values of all financial instruments included in the Consolidated Financial Statements:

**TABLE 1**

€ MILLION	Category in accordance with IAS 39 <sup>1)</sup>	Carrying amount 12-31-2010	Amortized cost	Fair value recognized in profit or loss	Fair value 12-31-2010
<b>Assets</b>					
Bank balances and cash on hand	LaR	375.5	375.5		375.5
Investments	AfS	0.8	0.8		0.8
Receivables from sales of land and buildings	LaR	9.2	9.2		9.2
Rent receivables	LaR	11.8	11.8		11.8
Other	LaR	21.4	21.4		21.4
<b>Liabilities</b>					
Global loans	FLAC	- 5,512.6	- 5,512.6		- 5,857.5
Government annuity loans	FLAC	- 255.8	- 255.8		- 291.5
Privately financed annuity loans	FLAC	- 76.4	- 76.4		- 88.7
Financial liabilities of the funds	FLAC	- 28.6	- 28.6		- 28.6
Loan contract of GAGFAH S.A.	FLAC	- 100.2	- 100.2		- 100.2
Derivative financial liabilities measured at fair value	AFVtpl	- 11.8		- 11.8	- 11.8
Other financial liabilities	FLAC	- 25.8	- 25.8		- 25.8
Trade payables	FLAC	- 22.1	- 22.1		- 22.1
Liabilities to tenants	FLAC	- 17.4	- 17.4		- 17.4
Liabilities from operating expenses not yet invoiced	FLAC	- 30.6	- 30.6		- 30.6
Other	FLAC	- 17.9	- 17.9		- 17.9

<sup>1)</sup> LaR: Loans granted and Receivables  
AfS: Available-for-Sale Financial Assets  
AFVtpl: At Fair Value through profit or loss  
FLAC: Financial Liabilities measured at Amortized Cost

TABLE 1

€ MILLION	Category in accordance with IAS 39 <sup>1)</sup>	Carrying amount 12-31-2009	Amortized cost	Fair value recognized in profit or loss	Fair value 12-31-2009
<b>Assets</b>					
Bank balances and cash on hand	LaR	236.2	236.2		236.2
Investments	AfS	0.8	0.8		0.8
Receivables from sales of land and buildings	LaR	58.5	58.5		58.5
Rent receivables	LaR	14.4	14.4		14.4
Other	LaR	21.8	21.8		21.8
<b>Liabilities</b>					
Global loans	FLAC	- 5,799.3	- 5,799.3		- 6,167.4
Government annuity loans	FLAC	- 252.7	- 252.7		- 269.4
Privately financed annuity loans	FLAC	- 79.7	- 79.7		- 81.3
Financial liabilities of the funds	FLAC	- 53.5	- 53.5		- 53.5
Revolving credit facility	FLAC	- 265.3	- 265.3		- 265.3
Derivative financial liabilities measured at fair value	AFVtpl	- 15.9		- 15.9	- 15.9
Other financial liabilities	FLAC	- 58.9	- 58.9		- 58.9
Trade payables	FLAC	- 31.1	- 31.1		- 31.1
Liabilities to tenants	FLAC	- 19.9	- 19.9		- 19.9
Liabilities from operating expenses not yet invoiced	FLAC	- 15.7	- 15.7		- 15.7
Other	FLAC	- 19.5	- 19.5		- 19.5

<sup>1)</sup> LaR: Loans granted and Receivables  
 AfS: Available-for-Sale Financial Assets  
 AFVtpl: At Fair Value through profit or loss  
 FLAC: Financial Liabilities measured at Amortized Cost

Financial assets from the category "Loans granted and Receivables (LaR)" have short-term maturities. For this reason, their carrying amounts approximate their fair values. Trade payables break down into current liabilities of €22.1 million (prior year: €30.7 million) and non-current liabilities of €0.0 million (prior year: €0.4 million).

Bank balances and cash on hand, receivables and other liabilities are predominantly short term. Therefore, their carrying amounts (book values) correspond approximately to their fair values.

The fair value for financial liabilities disclosed above was determined using mathematical methods on the basis of the market information available on the balance sheet date. In order to determine the fair value of financial liabilities, the mark-to-market calculation works with the actual cash value method. Therefore, a yield curve was created and the liabilities were discounted from the maturity date back to the current accounting date. All relevant and known market data as of the accounting date were used for the calculation of the values.

IFRS 7 requires that the classification of financial instruments at fair value be determined by reference to the source of inputs used to derive the fair value. This classification uses the following three-level hierarchy:

- **Level 1:** quoted prices (unadjusted) in active markets for identical assets or liabilities;
- **Level 2:** inputs other than quoted prices included within level 1 that are observable for the asset or liability either directly (i.e., as prices) or indirectly (i.e., derived from prices);
- **Level 3:** inputs for the asset or liability that are not based on observable market data (unobservable inputs).

In the Group's Consolidated Financial Statements, derivatives are the only financial instruments measured at fair value as shown in Table 1. These derivatives themselves are not actively traded, but were valued by using a model with inputs that are directly or indirectly observable market data (Level 2). For further details, please refer to section H.2. "Financial Risk Management", subchapter "Interest Rate Derivatives".

The net results per measurement categories break down as follows:

TABLE 2	From subsequent measurement				Net gain (loss) 12-31-2010
	From interest	At fair value	Impairment/ reversal of impairment	From derecognition	
€ MILLION					
Loans granted and Receivables (LaR)	1.6	0.0	- 8.7	0.4	- 6.7
Available-for-Sale Financial Assets (AfS)	0.0	0.0	0.0	0.0	0.0
Financial Assets / Liabilities at Fair Value through profit or loss (AFVtpl)	- 10.7	4.1	0.0	0.0	- 6.6
Financial Liabilities measured at Amortized Cost (FLAC)	- 282.0	0.0	0.0	0.0	- 282.0



TABLE 2

€ MILLION	From subsequent measurement				Net gain (loss) 12-31-2009
	From interest	At fair value	Impairment/ reversal of impairment	From derecognition	
Loans granted and Receivables (LaR)	1.3	0.0	- 8.2	0.5	- 6.4
Available-for-Sale Financial Assets (AfS)	0.1	0.0	0.0	0.0	0.1
Financial Assets / Liabilities at Fair Value through profit or loss (AFVtpl)	- 8.0	- 8.6	0.0	0.0	- 16.6
Financial Liabilities measured at Amortized Cost (FLAC)	- 303.7	0.0	0.0	0.0	- 303.7

The following table shows the development of the Group's valuation allowances during the fiscal year and the prior year:

TABLE 3

€ MILLION	12-31-2008	Utili- zation	Rever- sals	Addi- tions	Reclas- sifi- cations	12-31-2009	Utili- zation	Rever- sals	Addi- tions	Reclas- sifi- cations	12-31-2010
Receivables from sales of land and buildings	- 0.3	0.0	0.0	0.0	0.0	- 0.3	0.0	0.0	0.0	0.0	- 0.3
Rent receivables	- 22.7	0.9	3.9	- 4.8	0.1	- 22.6	3.8	1.1	- 4.6	0.0	- 22.3
Receivables from third-party real estate management	- 0.1	0.0	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Claims for reimbursement	- 1.9	0.0	1.4	0.0	0.0	- 0.5	0.0	0.0	0.0	0.0	- 0.5
Other	0.0	0.0	0.0	- 0.6	0.0	- 0.6	0.1	0.1	0.0	0.0	- 0.4
<b>Total</b>	<b>- 25.0</b>	<b>0.9</b>	<b>5.4</b>	<b>- 5.4</b>	<b>0.1</b>	<b>- 24.0</b>	<b>3.9</b>	<b>1.2</b>	<b>- 4.6</b>	<b>0.0</b>	<b>- 23.5</b>

#### CRITERIA FOR THE EVALUATION / IDENTIFICATION OF NEED FOR BAD DEBT ALLOWANCES

##### Receivables from sales of land and buildings

Receivables from sales of land and buildings are recorded with their maturity date. This is applicable in the case of an existing deposit in a notary trust account as at the date of conveyance of title. Subsequent to unsuccessful dunning procedure, the recoverability of overdue receivables is determined by the operating department (sales department, development department) as well as the need for and amount of a valuation allowance, which is then realized.

##### Rent receivables

Rent receivables are carried at amortized costs. The dunning procedure includes reminders, demand for payment by legal counsel and ultimately the court order. Subsequent to unsuccessful dunning procedure, rent receivables from ongoing contracts are subject to bad debt allowance and rent receivables from terminated contracts are written off.

**Trade receivables, receivables from third-party real estate management and claims for reimbursement**

Trade receivables, receivables from third-party real estate management and claims for reimbursement are recorded at their maturity date. Subsequent to unsuccessful dunning procedure, the recoverability of overdue receivables is determined by the operating department as well as the need for and amount of a valuation allowance, which is then realized.

The following table shows the age structure of assets that are not impaired:

**TABLE 4**

€ MILLION	Carrying amount	Of which: Neither impaired nor past due on the reporting date	Of which: Not impaired and past due on the reporting date in the following periods			
			0–90 days	91–180 days	181–360 days	> 360 days
12-31-2010						
Assets						
Receivables from sales of land and buildings	9.2	6.8	1.6	0.1	0.0	0.5
Rent receivables	11.8	0.4	11.4	0.0	0.0	0.0
Receivables from other trade	3.4	0.1	3.2	0.0	0.0	0.1
Receivables from third-party real estate and construction management	0.9	0.8	0.0	0.0	0.0	0.0
Claims from reimbursement	4.5	4.0	0.0	0.0	0.0	0.0
Other	12.6	11.8	0.4	0.0	0.0	0.0

**TABLE 4**

€ MILLION	Carrying amount	Of which: Neither impaired nor past due on the reporting date	Of which: Not impaired and past due on the reporting date in the following periods			
			0–90 days	91–180 days	181–360 days	> 360 days
12-31-2009						
Assets						
Receivables from sales of land and buildings	58.5	56.3	1.5	0.0	0.0	0.5
Rent receivables	14.4	4.6	9.8	0.0	0.0	0.0
Receivables from other trade	4.6	2.8	1.8	0.0	0.0	0.0
Receivables from third-party real estate and construction management	0.1	0.1	0.0	0.0	0.0	0.0
Claims from reimbursement	4.8	4.3	0.0	0.0	0.0	0.0
Other	12.3	11.1	0.6	0.0	0.0	0.0

Regarding the financial assets that are neither impaired nor in delay of payment, there were no indications as of the balance sheet date that the debtors will not discharge all payment obligations.

The following table shows the expenses for full write-off of receivables and the corresponding income from recoveries on receivables written off per financial asset:

TABLE 5	Expenses for full write-off of receivables		Income from recoveries on receivables written off	
	12-31-2010	12-31-2009	12-31-2010	12-31-2009
€ MILLION				
Receivables from sales of land and buildings	0.0	0.0	0.0	0.2
Rent receivables	- 8.2	- 8.3	0.0	0.0
Other	- 1.0	- 0.3	0.4	0.3

In 2010, no financial assets were transferred in such a way that either one part of them or all financial assets are not considered to be booked out.

## 2. 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 to finance the Group's continuing operations. In addition, there are other financial assets and liabilities such as trade receivables and trade payables that directly arise from the Group's operations.

The Group also applies derivative financial instruments (interest rate swaps and caps) to manage 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 speculative purposes.

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

### HEDGING POLICIES AND FINANCIAL DERIVATIVES

On December 31, 2010, the derivative financial instruments used by the Group were option agreements and interest rate swaps and caps.

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

In the fiscal year 2010, no derivative financial instruments were used for hedge accounting.

#### INTEREST RATE DERIVATIVES

In the business year 2010, the Group used interest rate swaps and, since September 1, 2010, interest rate caps in connection with the new loan agreement to hedge future cash flows from variable-rate loans. Up to now, these derivatives have not been designated as being hedging instruments.

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

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

€ MILLION	12-31-2010	12-31-2009
Nominal value of interest rate swaps	316.6	316.6
Fair value of interest rate swaps	- 11.8	- 15.9

Due to the valuation of the derivatives, interest rate swaps with a negative amount of €11.8 million (prior year: €15.9 million) are disclosed in the balance sheet item "Financial liabilities".

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

€ MILLION	12-31-2010	12-31-2009
Nominal value of interest rate caps	100.0	0.0
Fair value of interest rate caps	0.0	0.0

The market values of the interest rate swaps and caps are regularly determined and monitored on the basis of the market data available on the balance sheet date and suitable valuation methods.

As of December 31, 2010, the valuation was based on the following term structure:

%	12-31-2010	12-31-2009
Interest rate for six months	1.227	0.993
Interest rate for one year	1.507	1.247
Interest rate for two years	1.555	1.860
Interest rate for five years	2.485	2.805

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

Changes in the fair value of the interest rate swaps and caps of €4.1 million profit (prior year: €8.6 million loss) were recognized through profit or loss under the item “Profit/loss from the fair value measurement of derivatives”.

#### OPTION AGREEMENTS

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

€ MILLION	12-31-2010	12-31-2009
<b>Call option (writer):</b>		
Nominal volumes	0.6	2.5
(Historical) cost	0.0	0.0
<b>Put option:</b>		
Nominal volumes	0.6	2.5
(Historical) cost	0.0	0.0

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 €0.00.

The first option agreement contained a call option by NBN Norddeutsche Beteiligungsgesellschaft für Immobilien in Niedersachsen m.b.H. (buyer), which at any time until December 31, 2012, 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 Immobiliengesellschaft GmbH (seller) had the opportunity to prevent the buyer from exercising this option by paying the buyer a fixed amount.

Furthermore, this option agreement contained 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.

On June 30, 2010, NILEG Norddeutsche Immobiliengesellschaft GmbH sold its shares in Lehrter Wohnungsbau GmbH. In accordance with the sales contract, the aforementioned reverse call and put rights between NBN Norddeutsche Beteiligungsgesellschaft für Immobilien in Niedersachsen m.b.H. and NILEG Norddeutsche Immobiliengesellschaft GmbH concerning the shares in the company ceased. The nominal volumes of call and put options as of December 31, 2010, were reduced by the nominal volumes of the option of €1.9 million.

The reverse call and put rights concerning the remaining company, Wohnungsgesellschaft m.b.H. für den Landkreis Goslar, still exist at the balance sheet date with nominal volumes of €0.6 million.

#### **FINANCIAL RISK MANAGEMENT SYSTEM**

The risk management system of the GAGFAH GROUP consists 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 ensure 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 to the risk coordinator using a standardized form 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 descriptions of 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 early warning directive. In case of ad hoc reporting, the risk owners report informally and immediately.

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. The controlling system is positioned in the controlling department, which prepares a monthly controlling report for the GAGFAH GROUP Management. This controlling system ensures proactive control of financial risks.

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

The risk management procedures applied to the key categories of financial risk of the GAGFAH GROUP entities are described below.

#### **INTEREST RATE RISK**

Analyses of the current operating results show that a variation of the interest yield curve has an impact on the interest result.

If market interest rates were 50 basis points lower (or 100 basis points higher) by the next reporting date, the result would be €0.8 million (€1.4 million) lower (higher).

The decrease of €0.8 million in income results from valuation losses of €2.6 million on interest rate derivatives and lower interest expenses of €1.8 million related to variable-interest financial liabilities.

The increase of €1.4 million in income results from valuation gains of €5.1 million on interest rate derivatives and higher interest expenses of €3.7 million related to variable-interest financial liabilities.

If the market interest rates had been 50 basis points lower (or 100 basis points higher) on December 31, 2009, the result would have been €1.6 million (€2.9 million) lower (higher).

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 GROUP 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 serve exclusively hedging purposes. Pure trading transactions without an underlying transaction (speculative transactions) are not carried out.

All hedging measures are coordinated and carried out centrally by the Group's Finance Department.

Management receives regular reports on interest rate risk factors for GAGFAH GROUP.

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 also arises from the possibility that tenants may not be able to meet obligations to the Company under the terms of the lease agreements.

The Group is financed long term, but regularly considers the credit terms and is up to refinance at an early stage. A liquidity plan based on a fixed planning horizon endeavors to ensure that GAGFAH GROUP entities have sufficient liquidity at all times.

GAGFAH GROUP provides guarantees for certain financing arrangements of the subsidiaries. These guarantees pose a risk in as much as they could be utilized. GAGFAH GROUP monitors these risks in close collaboration with its subsidiaries and takes appropriate measures wherever necessary.

For an analysis of the Group's financial liabilities, please refer to section E.16.1. "Financial Liabilities".

#### **CREDIT RISK**

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



The maximum exposure to credit risk at the reporting date is the carrying value of each class of financial assets mentioned in section H.1., Table 1 “Additional Disclosures on Financial Instruments”.

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

Deposits achieved of €82.2 million (prior year: €84.1 million) and amounts paid by contracting parties into notary trust accounts of €5.9 million (prior year: €50.8 million) serve as collateral securities mainly for the receivables from sales of land and buildings.

#### CURRENCY RISK

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

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

### 3. Joint Ventures

Joint ventures serve the purpose of the development and subsequent sale of property. As of year-end, the following entities were consolidated with a 50 % share in their net assets, liabilities, income and expenses:

- Wolmirstedt GbR
- Objekt Dresden GbR
- Grundstücksentwicklungsgesellschaft Oesselse “Langes Feld” GbR
- Möser GbR

The Group's share in the remaining four joint ventures breaks down as follows:

€ MILLION	12-31-2010	12-31-2009
Current assets	2.5	2.5
Current liabilities	0.2	0.2
<b>Net assets</b>	<b>2.3</b>	<b>2.3</b>
Income	0.0	0.0
Expenses	0.0	0.0

## 4. Contingent Liabilities and Other Financial Obligations and Receivables

### CONTINGENT LIABILITIES

On March 4, 2011, the City of Dresden informed GAGFAH S.A. that the City of Dresden was contemplating taking legal action against certain subsidiaries of GAGFAH S.A. The contemplated legal action relates to alleged breaches of certain obligations under the privatization agreement entered into with the City of Dresden in 2006 under which a subsidiary of GAGFAH S.A. has acquired the WOBA companies in Dresden. No final decision on the filing of the legal action has been taken by the City of Dresden and would require a separate resolution by the City Council (Stadtrat). The City of Dresden has not specified the amount of any such claims, but has indicated that the claims could be material. GAGFAH GROUP is confident in its adherence to the privatization agreement and is of the opinion that its interpretation of the agreement is appropriate and will, therefore, defend against any such claims.

GAGFAH GROUP provided securities in terms of land charges with a nominal value of €16.4 million (prior year: €16.4 million) in favor of Grundstücksgesellschaft Klinik-Teltow GbR.

Furthermore, GAGFAH GROUP put a guarantee with a nominal value of €4.8 million (prior year: €4.8 million) for financial liabilities of Grundstücksgesellschaft Klinik-Teltow GbR.

Beyond that, there were no material contingent liabilities in the fiscal year.

### OTHER FINANCIAL OBLIGATIONS AND RECEIVABLES

The Group's other financial obligations break down as follows:

€ MILLION 12-31-2010	Within one year	Between one year and three years	Between three and five years	More than five years	Total
Outsourcing contracts (provider of maintenance activities)	24.0	48.0	12.0	0.0	84.0
Rent obligations (buildings)	3.3	5.8	5.1	6.6	20.8
Hosting fees for computer center	5.2	5.6	0.0	0.0	10.8
Repair and maintenance of software	1.8	1.1	0.0	0.0	2.9
Leasing obligations – automobile	1.1	1.3	0.1	0.0	2.5
Leasing obligations – copiers	0.3	0.4	0.1	0.0	0.8
Basic fees for telephony and data network	0.6	0.3	0.0	0.0	0.9
Rent and leasing obligations – hardware	0.5	0.4	0.1	0.0	1.0
Repair and maintenance of hardware	0.1	0.1	0.1	0.0	0.3
<b>Total</b>	<b>36.9</b>	<b>63.0</b>	<b>17.5</b>	<b>6.6</b>	<b>124.0</b>

€ MILLION 12-31-2009	Within one year	Between one year and three years	Between three and five years	More than five years	Total
Outsourcing contracts (provider of maintenance activities)	60.0	120.0	120.0	230.0	530.0
Rent obligations (buildings)	4.1	6.3	4.8	7.8	23.0
Hosting fees for computer center	5.4	8.2	1.9	0.0	15.5
Repair and maintenance of software	2.2	2.7	0.2	0.0	5.1
Leasing obligations – automobile	1.1	1.7	0.4	0.0	3.2
Leasing obligations – copiers	0.4	0.5	0.1	0.0	1.0
Basic fees for telephony and data network	0.4	0.5	0.0	0.0	0.9
Rent and leasing obligations – hardware	0.4	0.3	0.0	0.0	0.7
Repair and maintenance of hardware	0.2	0.1	0.0	0.0	0.3
<b>Total</b>	<b>74.2</b>	<b>140.3</b>	<b>127.4</b>	<b>237.8</b>	<b>579.7</b>

In the fiscal year 2010, GAGFAH GROUP decided to perform parts of maintenance activities in-house. The agreement with the outsourcing partners was renegotiated accordingly regarding service volume and contract term.

For some of the rental agreements for buildings, there are individual renewal and rent adjustment clauses. The rent adjustments are pegged to the consumer price index.

There are no purchase options for the rental agreements, but some of the contracts include renewal clauses up to ten years.

In the fiscal year 2010, the total payments for operating lease amounted to €6.0 million (prior year: €5.1 million).

#### Transferable leasehold land agreements

GAGFAH GROUP has financial obligations in connection with finance leases concerning transferable leasehold land. These leases typically have lease terms of 99 years. For further information, please refer to section C.2. "Leases".

The realization of the amended IAS 17 as of January 1, 2010, resulted in the recognition of leasehold land at its fair value of €4.1 million, the recognition of a leasing liability of €4.3 million and, equal to the difference, an equity effect of €0.2 million.

Future minimum lease payments under finance leases together with the present value of the net minimum lease payments are as follows:

€ MILLION 12-31-2010	Within one year	Between one year and three years	Between three and five years	More than five years	Total
Minimum lease payments	0.3	0.5	0.5	14.8	16.1
Present value of payments	0.3	0.5	0.4	3.1	4.3

€ MILLION 12-31-2009	Within one year	Between one year and three years	Between three and five years	More than five years	Total
Minimum lease payments	0.3	0.5	0.5	15.1	16.4
Present value of payments	0.3	0.5	0.4	3.1	4.3

Regularly, those leases have neither terms of renewal nor purchase options and escalation clauses.

There are no sublease contracts concerning transferable leasehold land, but the respective land is commercialized in terms of rental leases related to the Group's investment property.

Furthermore, GAGFAH GROUP has financial obligations and financial receivables in connection with operating leases concerning transferable leasehold land. These leases typically have lease terms of 99 years as well.

Future minimum lease payments are as follows:

€ MILLION	Within one year	Between one year and three years	Between three and five years	More than five years	Total
<b>12-31-2010</b>					
Minimum lease payments	2.1	4.1	4.1	87.2	97.5
<b>12-31-2009</b>					
Minimum lease payments	2.1	4.1	4.1	89.3	99.6

Future minimum rentals receivable are as follows:

€ MILLION	Within one year	Between one year and three years	Between three and five years	More than five years	Total
<b>12-31-2010</b>					
Minimum rentals receivable	0.2	0.4	0.4	14.7	15.7
<b>12-31-2009</b>					
Minimum rentals receivable	0.2	0.4	0.4	14.9	15.9

## 5. Number of Employees and Personnel Expenses

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

	2010		2009	
	Heads	FTEs	Heads	FTEs
Real estate management	1,235	1,179	1,202	1,157
thereof facility management service	705	680	614	595
Real estate sales	32	31	39	39
Other	203	195	277	267
<b>Total</b>	<b>1,470</b>	<b>1,405</b>	<b>1,518</b>	<b>1,463</b>

Including 338 part-time employees (prior year: 364) and 104 trainees (prior year: 89), the total average headcount was 1,912 (prior year: 1,971).

Personnel expenses amounted to €95.7 million (prior year: €109.0 million) and break down as follows:

€ MILLION	2010	2009
Wages and salaries	77.8	90.8
Social security	13.7	15.3
Pension costs	2.3	3.3
Other	1.9	- 0.4
<b>Total</b>	<b>95.7</b>	<b>109.0</b>

Other personnel expenses mainly contain expenses for share-based payment (equity-settled) amounting to €1.6 million (prior year: income of €1.5 million), expenses for share-based payment (cash-settled) amounting to €0.2 million (prior year: expenses of €0.1 million) and prior-year personnel expenses of €0.1 million (prior year: €0.9 million).

€5.7 million (prior year: €6.4 million) of the expenses for social security are recognized as an expense for defined contribution plans.

## 6. Related Party Transactions

**Natural persons** related to GAGFAH S.A. in 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. in 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, indicating in Exhibit (1) the relevant share capital.

GAGFAH S.A., Luxembourg, is majority-owned by the following investment funds, which are controlled by Fortress Investment Group LLC:

<b>MAJOR SHAREHOLDERS</b>		
<b>Shareholder</b>	<b>Number of shares</b>	<b>%</b>
Fortress Residential Investment Deutschland (Fund A) LP	20,626,823	9.16
Fortress Investment Fund III (GAGACQ Subsidiary) LLC	16,539,554	7.35
Fortress Investment Fund III (Fund B) (GAGACQ Subsidiary) LLC	14,141,601	6.28
Fortress Residential Investment Deutschland (Fund B) LP	12,330,464	5.48

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 to 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.

## 7. Management

### 7.1. BOARD OF DIRECTORS

#### Members

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.

The following individuals were members of the Board of Directors as of December 31, 2010:

Members	
Robert I. Kauffman	Chairman
William J. Brennan	Director
Wesley R. Edens	Director
Randal A. Nardone	Director
Dr. Jürgen Allerkamp	Independent Director
Dieter H. Ristau	Independent Director
Yves Wagner, Ph.D.	Independent Director

#### Total Remuneration and Loans Granted

Robert I. Kauffman, William J. Brennan, Wesley R. Edens and Randal A. Nardone are not parties to service agreements with the Company and receive no compensation as Board members. William J. Brennan serves as member of the Board of Directors and the Senior Management. For details regarding the remuneration of Senior Management see below (section H.7.2. "Senior Management"). The members of the Board of Directors are reimbursed for expenses incurred through their attendances of Board meetings.

Yves Wagner, Dieter H. Ristau and Dr. Jürgen Allerkamp are party to service agreements with the Company, receive compensation for their services as Board members and are reimbursed for their expenses on an annual basis. Such compensation consists (net) of €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.

The total net compensation to members of the Board for the fiscal year 2010 was paid in January 2011 and amounted to €75,000 plus 15,000 shares in the Company. In addition, we provide all Board members with directors' and officers' insurance.

As of December 31, 2010, no advances or loans had been granted to members of the Board.

## 7.2. 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 William J. Brennan, 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 William J. Brennan is active in the day-to-day management of the subsidiaries.

The following individuals were members of the Senior Management of the Company's respective subsidiaries:

Members	
William J. Brennan	Chief Executive Officer (CEO)
Nicolai Kuss	Chief Operations Officer (COO)
Stefan de Greiff	Chief Investment and Sales Officer (CISO) (since April 1, 2010)
Worna Zohari	Chief Sales Officer (CSO) (until March 31, 2010)

On March 31, 2010, Worna Zohari resigned from his position as a member of the Senior Management of the Company's subsidiaries.

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

### Total Remuneration and Loans Granted

Current management remuneration comprises a fixed, a variable and a share-based component. In fiscal year 2010, the Senior Management received remuneration totaling €2.7 million (prior year: €2.9 million) for the performance of their duties within the Group.

Of total remuneration, €1.0 million (prior year: €1.5 million) relates to fixed remuneration, €0.9 million (prior year: €1.4 million) thereof 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 and double-homestead allowance.



The variable component (management bonuses) totaling €1.3 million (prior year: €0.5 million) includes annually recurring components linked to the success of the Company.

Additionally, management received share-based remuneration amounting to €0.4 million (prior year: €0.9 million).

As of December 31, 2010, 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 of 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 €0.7 million (prior year: €0.5 million) were paid to former managers and their dependents in the fiscal year.

#### **Jubilee Commitments**

There are no obligations to pay jubilee bonuses to Senior Management.

#### **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 the fiscal year, no severance payments (prior year: €0.4 million) were made. In addition, as of the balance sheet date, the Group had no outstanding obligations due to severance payments (prior year: €0.4 million).

## **8. Events after the Balance Sheet Date**

On January 25, 2011, Stephen Charlton was appointed as a member of the Senior Management of the Company's subsidiaries as Chief Financial Officer (CFO).

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**OTHER**

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# (1) List of Shareholdings

## FORMATIONS IN THE FISCAL YEAR 2010

Parent company	Subsidiary	Date of formation	Date of entry into the commercial register
GAGFAH Holding GmbH	WOHNBAU NORDWEST Dienstleistungen GmbH	January 14, 2010	February 5, 2010
GAGFAH Verwaltung GmbH	DW Management GmbH	November 12, 2010	January 25, 2011
VHB Grundstücksverwaltungsgesellschaft "Haus und Bodenfonds" mbH	Instandhaltungs-Service GmbH (ISG)	December 20, 2010	In the course of formation
VHB Grundstücksverwaltungsgesellschaft "Haus und Bodenfonds" mbH	Grünflächen-Service GmbH (GSG)	December 20, 2010	In the course of formation

## LIST OF SHAREHOLDINGS AS OF DECEMBER 31, 2010

No.	Company name	Registered office	Share of capital	Held by No.
1	GAGFAH S.A.	Luxembourg, Luxembourg		
2	GAGFAH Holding GmbH	Essen, Germany	100.00 %	1
3	KALIRA Grundstücks-Verwaltungsgesellschaft mbH	Grünwald, Germany	94.80 %	2
4	KALIRA Grundstücksgesellschaft mbH & Co. KG	Grünwald, Germany	94.90 %	2
5	GAGFAH Verwaltung GmbH	Essen, Germany	100.00 %	2
6	DW Management GmbH	Essen, Germany	100.00 %	5
7	GAG ACQ Ireland Limited	Clonee, Ireland	100.00 %	1
8	UC ACQ Ireland Limited	Clonee, Ireland	0.00 %	n/a
9	GAGFAH Operations Advisor GmbH	Essen, Germany	83.00 % 17.00 %	7 8
10	GAGFAH GmbH	Essen, Germany	82.48 % 17.52 %	2 8
11	GAGFAH M Immobilien Management GmbH	Essen, Germany	94.00 % 6.00 %	12 10
12	GAGFAH I Invest GmbH & Co. KG	Essen, Germany	100.00 %	10
13	GAGFAH B Beteiligungs GmbH	Essen, Germany	99.60 %	11
14	GAGFAH A Asset GmbH & Co. KG	Essen, Germany	100.00 %	11
15	VHB Grundstücksverwaltungsgesellschaft "Haus und Bodenfonds" mbH	Essen, Germany	100.00 %	11
16	Neues Schweizer Viertel Betriebs + Service GmbH & Co. KG	Berlin, Germany	94.99 % 94.74 % 5.26 %	11 11 16
17	Schweizer Viertel Grundstücks GmbH	Berlin, Germany		
18	IVS Immobilienversicherungsservice GmbH	Mülheim an der Ruhr, Germany	100.00 %	11
19	HaBeGe Bau- und Projektentwicklungsgesellschaft mbH	Essen, Germany	94.90 % 5.10 %	11 4

(1) List of Shareholdings

**LIST OF SHAREHOLDINGS AS OF DECEMBER 31, 2010**

No.	Company name	Registered office	Share of capital	Held by No.
20	Instandhaltungs-Service GmbH (ISG)	Essen, Germany	100.00 %	15
21	Grünflächen-Service GmbH (GSG)	Essen, Germany	100.00 %	15
22	Haus- und Boden-Fonds 5	Essen, Germany	66.96 %	12
23	Haus- und Boden-Fonds 6	Essen, Germany	88.66 %	12
24	Haus- und Boden-Fonds 7	Essen, Germany	76.37 %	12
25	Haus- und Boden-Fonds 8	Essen, Germany	74.30 %	12
26	Haus- und Boden-Fonds 9	Essen, Germany	72.85 %	12
27	Haus- und Boden-Fonds 10	Essen, Germany	73.36 %	12
28	Haus- und Boden-Fonds 11	Essen, Germany	73.16 %	12
29	Haus- und Boden-Fonds 12	Essen, Germany	81.05 %	12
30	Haus- und Boden-Fonds 13	Essen, Germany	77.72 %	12
31	Haus- und Boden-Fonds 14	Essen, Germany	63.06 %	12
32	Haus- und Boden-Fonds 15	Essen, Germany	71.88 %	12
33	Haus- und Boden-Fonds 18	Essen, Germany	71.59 %	12
34	Haus- und Boden-Fonds 19	Essen, Germany	74.20 %	12
35	Haus- und Boden-Fonds 21	Essen, Germany	71.23 %	12
36	Haus- und Boden-Fonds 23	Essen, Germany	54.44 %	12
37	Haus- und Boden-Fonds 29	Essen, Germany	62.60 %	12
38	Haus- und Boden-Fonds 33	Essen, Germany	57.10 %	12
39	Haus- und Boden-Fonds 35	Essen, Germany	58.36 %	12
40	Haus- und Boden-Fonds 37	Essen, Germany	47.97 %	12
41	Haus- und Boden-Fonds 38	Essen, Germany	54.15 %	12
			94.80 %	2
42	NILEG Immobilien Holding GmbH	Hannover, Germany	5.20 %	1
			94.81 %	42
43	NILEG Real Estate GmbH	Hannover, Germany	5.19 %	4
			94.90 %	42
44	NILEG Real Estate GmbH & Co. Management KG	Hannover, Germany	5.10 %	4
			94.86 %	42
45	NILEG Norddeutsche Immobiliengesellschaft mbH	Hannover, Germany	5.14 %	44
46	GAGFAH S Service GmbH	Essen, Germany	100.00 %	42
			94.09 %	42
47	Osnabrücker Wohnungsbaugesellschaft mbH	Osnabrück, Germany	5.91 %	4
48	OWG Beteiligungs GmbH	Hannover, Germany	100.00 %	47
49	OWG Asset GmbH & Co. KG	Osnabrück, Germany	100.00 %	47
50	NILEG Norddeutsche Beteiligungs GmbH	Hannover, Germany	100.00 %	45
51	NILEG Commercial Asset GmbH & Co. KG	Hannover, Germany	100.00 %	45
52	NILEG Residential Asset GmbH & Co. KG	Hannover, Germany	100.00 %	45
53	Wohnungsgesellschaft Norden mbH	Hannover, Germany	94.88 %	45

## LIST OF SHAREHOLDINGS AS OF DECEMBER 31, 2010

No.	Company name	Registered office	Share of capital	Held by No.
54	WGNorden Beteiligungs GmbH	Hannover, Germany	100.00 %	53
55	WGNorden Asset GmbH & Co. KG	Hannover, Germany	100.00 %	53
56	Wohnungsbau Niedersachsen GmbH	Hannover, Germany	94.85 %	53
57	VHB FM GmbH	Essen, Germany	100.00 %	56
58	WBN Beteiligungs GmbH	Hannover, Germany	100.00 %	56
59	WBN Asset GmbH & Co. KG	Hannover, Germany	100.00 %	56
			94.80 %	2
60	WOBA HOLDING GMBH	Dresden, Germany	5.20 %	1
61	Opera Co-Acquisition GP GmbH	Dresden, Germany	94.80 %	60
62	Opera Co-Acquisition GmbH & Co. KG	Dresden, Germany	94.90 %	60
63	WOBA DRESDEN GMBH	Dresden, Germany	100.00 %	60
64	Immo Service Dresden GmbH	Dresden, Germany	100.00 %	63
65	Dienstleistungs- und Bauhof Dresden GmbH	Dresden, Germany	100.00 %	64
			94.73 %	63
66	Bau- und Siedlungsgesellschaft Dresden mbH	Dresden, Germany	5.27 %	62
			94.75 %	63
67	Liegenschaften Weissig GmbH	Dresden, Germany	5.25 %	62
			94.90 %	63
68	WOHNBAU NORDWEST GmbH	Dresden, Germany	5.10 %	62
			94.90 %	63
69	SÜDOST WOBA DRESDEN GMBH	Dresden, Germany	5.10 %	62
70	Parkhaus Prohlis GmbH	Dresden, Germany	70.00 %	69
71	Immobilien-Vermietungsgesellschaft Knappertsbusch & Co. & SÜDOST WOBA Striesen KG	Leipzig, Germany	0.02 %	69
72	WOHNBAU NORDWEST Dienstleistungen GmbH	Dresden, Germany	100.00 %	2
			94.80 %	2
73	GAGFAH Acquisition 1 GmbH	Essen, Germany	5.20 %	1
			94.80 %	2
74	GAGFAH Acquisition 2 GmbH	Essen, Germany	5.20 %	1
			94.80 %	2
75	GAGFAH Acquisition 3 GmbH	Essen, Germany	5.20 %	1
			94.80 %	75
76	GAGFAH Pegasus GmbH	Berlin, Germany	5.20 %	4
77	GAGFAH Erste Grundbesitz GmbH	Essen, Germany	100.00 %	75

(1) List of Shareholdings

**LIST OF SHAREHOLDINGS AS OF DECEMBER 31, 2010**

No.	Company name	Registered office	Share of capital	Held by No.
			94.80 %	2
78	GBH Acquisition GmbH	Essen, Germany	5.20 %	1
		Heidenheim an der Brenz, Germany	100.00 %	78
79	GBH Service GmbH			
		Heidenheim an der Brenz, Germany	100.00 %	78
80	GBH Heidenheim Verwaltung GmbH			

Joint Ventures (as defined by IAS 31) included in the Consolidated Financial Statements on a Proportionate Basis:

**LIST OF SHAREHOLDINGS AS OF DECEMBER 31, 2010**

No.	Company name	Registered office	Share of capital	Held by No.
81	Objekt Dresden GbR	Hannover, Germany	50.00 %	45
82	Grundstücksentwicklungsgesellschaft Oesselse "Langes Feld" GbR	Essen, Germany	50.00 %	45
83	Wolmirstedt GbR	Essen, Germany	50.00 %	45
84	Möser GbR	Essen, Germany	50.00 %	45

Other Financial Assets of 20 % or more:

**LIST OF SHAREHOLDINGS AS OF DECEMBER 31, 2010**

No.	Company name	Registered office	Share of capital	Total equity (€k)	Net profit / loss (€k)	Held by No.
85	Hannover Region Grundstücksgesellschaft Verwaltung mbH & Co. Businesspark Hannover Nord KG	Hannover, Germany	33.33 %	1,390.2 <sup>1)</sup>	- 384.7 <sup>1)</sup>	45

<sup>1)</sup> As of December 31, 2009

## (2) Statement of Changes in Consolidated Non-current Assets 2010

€ MILLION	Acquisition or production costs						
	Jan. 1, 2010	Change in the Consolidated Group	Additions	Disposals	Reclassifications	Dec. 31, 2010	
<b>Intangible Assets</b>							
Industrial rights	11.5	0.0	0.1	0.0	0.0	11.6	
Goodwill	26.6	0.0	0.0	0.0	0.0	26.6	
	<b>38.1</b>	<b>0.0</b>	<b>0.1</b>	<b>0.0</b>	<b>0.0</b>	<b>38.2</b>	
<b>Property, plant and equipment</b>							
Land and buildings (owner-occupied)	53.2	0.0	0.7	9.1	8.7	53.5	
Technical equipment and machines	4.1	0.0	0.0	0.0	0.5	4.6	
Other equipment, furniture and fixtures	21.0	0.0	1.5	1.7	0.0	20.8	
Assets under construction	0.0	0.0	0.5	0.0	- 0.5	0.0	
	<b>78.3</b>	<b>0.0</b>	<b>2.7</b>	<b>10.8</b>	<b>8.7</b>	<b>78.9</b>	
<b>Other financial assets</b>							
Investments	2.5	0.0	0.0	0.0	0.0	2.5	
Other loan receivables	0.2	0.0	0.0	0.0	0.0	0.2	
Other financial assets	3.2	0.0	0.0	0.0	0.0	3.2	
	<b>5.9</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>5.9</b>	
<b>Total</b>	<b>122.3</b>	<b>0.0</b>	<b>2.8</b>	<b>10.8</b>	<b>8.7</b>	<b>123.0</b>	



(2) Statement of Changes in Consolidated  
Non-current Assets 2010

	Accumulated depreciation					Book value
	Jan. 1, 2010	Change in the Consolidated Group	Additions	Disposals	Dec. 31, 2010	Dec. 31, 2010
	8.0	0.0	1.2	0.0	9.2	2.4
	3.0	0.0	0.0	0.0	3.0	23.6
	<b>11.0</b>	<b>0.0</b>	<b>1.2</b>	<b>0.0</b>	<b>12.2</b>	<b>26.0</b>
	19.7	0.0	0.9	9.1	11.5	42.0
	1.9	0.0	0.3	0.0	2.2	2.4
	15.2	0.0	2.4	1.4	16.2	4.6
	0.0	0.0	0.0	0.0	0.0	0.0
	<b>36.8</b>	<b>0.0</b>	<b>3.6</b>	<b>10.5</b>	<b>29.9</b>	<b>49.0</b>
	1.7	0.0	0.0	0.0	1.7	0.8
	0.0	0.0	0.0	0.0	0.0	0.2
	0.3	0.0	0.0	0.1	0.2	3.0
	<b>2.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.1</b>	<b>1.9</b>	<b>4.0</b>
	<b>49.8</b>	<b>0.0</b>	<b>4.8</b>	<b>10.6</b>	<b>44.0</b>	<b>79.0</b>

## (2) Statement of Changes in Consolidated Non-current Assets 2009

€ MILLION	Acquisition or production costs					Dec. 31, 2009
	Jan. 1, 2009	Change in the Consolidated Group	Additions	Disposals	Reclassifications	
<b>Intangible Assets</b>						
Industrial rights	11.2	0.0	0.3	0.0	0.0	11.5
Goodwill	26.6	0.0	0.0	0.0	0.0	26.6
	<b>37.8</b>	<b>0.0</b>	<b>0.3</b>	<b>0.0</b>	<b>0.0</b>	<b>38.1</b>
<b>Property, plant and equipment</b>						
Land and buildings (owner-occupied)	55.6	- 0.5	0.0	1.0	- 0.9	53.2
Technical equipment and machines	3.5	0.0	0.0	0.0	0.6	4.1
Other equipment, furniture and fixtures	20.0	- 0.6	1.8	0.2	0.0	21.0
Assets under construction	0.0	0.0	0.6	0.0	- 0.6	0.0
	<b>79.1</b>	<b>- 1.1</b>	<b>2.4</b>	<b>1.2</b>	<b>- 0.9</b>	<b>78.3</b>
<b>Other financial assets</b>						
Investments	2.5	0.0	0.0	0.0	0.0	2.5
Other loan receivables	0.3	0.0	0.0	0.1	0.0	0.2
Other financial assets	3.2	0.0	0.0	0.0	0.0	3.2
	<b>6.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.1</b>	<b>0.0</b>	<b>5.9</b>
<b>Total</b>	<b>122.9</b>	<b>- 1.1</b>	<b>2.7</b>	<b>1.3</b>	<b>- 0.9</b>	<b>122.3</b>

(2) Statement of Changes in Consolidated  
Non-current Assets 2010

	Accumulated depreciation						Book value
	Jan. 1, 2009	Change in the Consolidated Group	Additions	Disposals	Reclassifications	Dec. 31, 2009	Dec. 31, 2009
	6.9	0.0	1.1	0.0	0.0	8.0	3.5
	3.0	0.0	0.0	0.0	0.0	3.0	23.6
	<b>9.9</b>	<b>0.0</b>	<b>1.1</b>	<b>0.0</b>	<b>0.0</b>	<b>11.0</b>	<b>27.1</b>
	20.2	- 0.3	0.8	1.0	0.0	19.7	33.5
	1.7	0.0	0.2	0.0	0.0	1.9	2.2
	14.2	- 0.6	1.8	0.2	0.0	15.2	5.8
	0.0	0.0	0.0	0.0	0.0	0.0	0.0
	<b>36.1</b>	<b>- 0.9</b>	<b>2.8</b>	<b>1.2</b>	<b>0.0</b>	<b>36.8</b>	<b>41.5</b>
	1.7	0.0	0.0	0.0	0.0	1.7	0.8
	0.0	0.0	0.0	0.0	0.0	0.0	0.2
	0.6	0.0	0.0	0.3	0.0	0.3	2.9
	<b>2.3</b>	<b>0.0</b>	<b>0.0</b>	<b>0.3</b>	<b>0.0</b>	<b>2.0</b>	<b>3.9</b>
	<b>48.3</b>	<b>- 0.9</b>	<b>3.9</b>	<b>1.5</b>	<b>0.0</b>	<b>49.8</b>	<b>72.5</b>

# Independent Auditor's Report

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

## **REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS**

Following our appointment by the Board of Directors dated March 9, 2010, we have audited the accompanying Consolidated Financial Statements of GAGFAH S.A., which comprise the Consolidated Statement of Financial Position as at December 31, 2010, the Consolidated Statement of Comprehensive Income, the Statement of Changes in Consolidated Equity and the Consolidated Statement of Cash Flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

## **BOARD OF DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS**

The Board of Directors is responsible for the preparation and fair presentation of these Consolidated Financial Statements in accordance with International Financial Reporting Standards as adopted by the European Union and for such internal control as the Board of Directors determines is necessary to enable the preparation and presentation of Consolidated Financial Statements that are free from material misstatement, whether due to fraud or error.

## **RESPONSIBILITY OF THE "RÉVISEUR D'ENTREPRISES AGRÉÉ"**

Our responsibility is to express an opinion on these Consolidated Financial Statements based on our audit. We conducted our audit in accordance with International Standards on Auditing as adopted for Luxembourg by the "Commission de Surveillance du Secteur Financier". Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the Consolidated Financial Statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the Consolidated Financial Statements. The procedures selected depend on the judgement of the "réviseur d'entreprises agréé", including the assessment of the risks of material misstatement of the Consolidated Financial Statements, whether due to fraud or error. In making those risk assessments, the "réviseur d'entreprises agréé" considers internal control relevant to the entity's preparation and fair presentation of

the Consolidated Financial Statements 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 Consolidated Financial Statements.

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 Consolidated Financial Statements give a true and fair view of the Consolidated Financial Position of GAGFAH S.A. as of December 31, 2010, and of its Consolidated Financial Performance and its Consolidated Cash Flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

**EMPHASIS OF MATTER**

Without qualifying our opinion we would like to draw the attention to paragraph H.4 of the notes to the Consolidated Financial Statements in which the contingent liability with respect to the contemplated legal action of the City of Dresden against certain subsidiaries of GAGFAH S.A. is disclosed.

**REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS**

The Directors' report, which is the responsibility of the Board of Directors, is consistent with the Consolidated Financial Statements.

ERNST & YOUNG  
Société Anonyme  
Cabinet de révision agréé

René ENSCH

Luxembourg, March 22, 2011

# Glossary

## CAPEX

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

## CBRE

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

## CONDO SALES PROGRAM

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

## FUNDS FROM OPERATIONS (FFO) PER SHARE

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

## HB FUNDS

The HB Funds comprise of 20 closed-end real estate funds with a total of 3,053 units, which are structured in a legal form of “economic fractional ownership” and in which GAGFAH holds the majority of shares. GAGFAH M, one of GAGFAH S.A.’s operating subsidiaries, acts as trustee and manager of the funds. The sale of the HB Funds assets was initiated in 2010 and out of a total of initially 7,130 units, 4,077 have already been sold as of December 31, 2010. All HB Funds units are non-core and therefore not part of GAGFAH’s core residential portfolio.

## LARGE MULTI-FAMILY HOME SALES PROGRAM

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

## MANAGEMENT COST PER UNIT / COST TO MANAGE

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

## NET ASSET VALUE (NAV) PER SHARE

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

## NET COLD RENT

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

**RECOVERABLE OPERATING EXPENSES**

Recoverable operating expenses are expenses incurred in connection with managing our properties and can be charged back to our tenants. These expenses include

- public charges on the property, such as real estate tax
- water supply / sewage
- drainage
- heating
- warm water
- maintenance of escalators
- street cleaning and garbage removal
- snow removal
- building cleaning
- gardening
- lighting
- chimney cleaning
- insurances
- caretakers

**REPAIRS AND MAINTENANCE**

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

**SAME STORE BASIS**

Residential units GAGFAH owned at both dates:

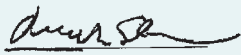
As of December 31, 2009, and December 31, 2010.

**VACANCY**

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

# Financial Statement Certification

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



Wesley R. Edens



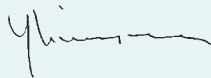
Robert I. Kauffman



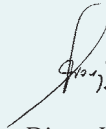
Randal A. Nardone



William J. Brennan



Yves Wagner, PhD



Dieter H. Ristau



Dr. Jürgen Allerkamp

Luxembourg, March 22, 2011



# Financial Calendar

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## **MARCH 23, 2011**

Publication of Annual Report 2010

## **APRIL 21, 2011**

Annual General Meeting of Shareholders, Luxembourg

## **MAY 2011**

Publication of Interim Report – Q1 2011

## **AUGUST 2011**

Publication of Interim Report – Q2 2011

## **NOVEMBER 2011**

Publication of Interim Report – Q3 2011

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### **IMPRINT:**

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