

GAGFAH S.A.
ANNUAL ACCOUNTS
and
INDEPENDENT AUDITOR'S REPORT
as of
December 31, 2008

2-4, rue Beck
1222 Luxembourg
R.C.S. Luxembourg B 109.526

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INDEPENDENT AUDITOR'S REPORT

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

Report on the annual accounts

Following our appointment by the Board of Directors, we have audited the accompanying annual accounts of GAGFAH S.A., which comprise the balance sheet as at December 31, 2008 and the profit and loss account for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Board of Directors' responsibility for the annual accounts

The Board of Directors is responsible for the preparation and fair presentation of these annual accounts in accordance with Luxembourg legal and regulatory requirements relating to the preparation of the annual accounts. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of annual accounts that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Responsibility of the "Réviseur d'Entreprises"

Our responsibility is to express an opinion on these annual accounts based on our audit. We conducted our audit in accordance with International Standards on Auditing as adopted by the "Institut des Réviseurs d'Entreprises". Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the annual accounts are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the annual accounts. The procedures selected depend on the judgment of the "Réviseur d'Entreprises", including the assessment of the risks of material misstatement of the annual accounts, whether due to fraud or error. In making those risk assessments, the "Réviseur d'Entreprises" considers internal control relevant to the entity's preparation and fair presentation of the annual accounts in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.

An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Board of Directors, as well as evaluating the overall presentation of the annual accounts.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the annual accounts give a true and fair view of the financial position of GAGFAH S.A. as of December 31, 2008, and of the results of its operations for the year then ended in accordance with the Luxembourg legal and regulatory requirements relating to the preparation and presentation of the annual accounts.

Report on other legal and regulatory requirements

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

ERNST & YOUNG
Société Anonyme
Réviseur d'Entreprises

Bruno DI BARTOLOMEO

March 24, 2009

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

Directors' Report 2008

Organizational and legal structure

GAGFAH S.A. has been incorporated on July 12, 2005 as a Luxembourg *société de commandite par actions* under the name NLG Acquisition Holdings S.C.A. It subsequently changed its corporate name to NLG Acquisition Investments S.C.A. The Company was transformed into a *société anonyme* and changed its name into GAGFAH S.A.

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

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

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

Business conditions

Macroeconomic conditions

As the economic situation of GAGFAH S.A. depends on the income received from the interest it holds in its affiliated companies operating in Germany the German macroeconomic conditions are relevant. In 2008, German GDP grew only by 1.3 %, and contracted by 2.1 % in the fourth quarter of 2008. In 2009, GDP is forecast to decrease by approximately 2.25 %.

With 7.8 %, the unemployment rate for 2008 was 13 % lower than in 2007 and was at a 15-year low. Economic downturns usually have an impact on the unemployment rate with a time lag. Therefore, it is expected that the unemployment rate will increase in the course of 2009.

The German residential real estate market

Germany has the largest residential property stock in Europe and is comprised of 39.4 million dwelling units, of which approximately 80 % are located in the western German states including western Berlin (the former West Germany), and approximately 20 % in the eastern German states and in eastern Berlin (the former East Germany). Owners of rented units are comprised of private investors with 13.5 million units, municipal housing and other communal housing enterprises with a stock of approximately 3.3 million units, building co-operatives with 2.1 million units, housing enterprises with 1.7 million units, banks, insurance companies and corporates with 1.5 million units and other owners with

0.5 million units (Source: Deloitte: Der Deutsche Wohnimmobilienmarkt – Status Quo und Ausblick and German Federal Statistics Office 2006).

Development of Housing Sales and Rental Prices

Historically, the German residential market has been very stable, both in terms of rent and house price development. Since the mid-1990s residential real estate prices in Germany have decreased slightly whereas most other European countries have experienced substantial increases, followed by strong price reductions within 2008, especially in UK and in Spain.

Rents in western Germany have shown a stable and consistent growth through economic cycles and recessions since 1975. Only the reunification in 1990 led to a significant increase of rents in western Germany followed by a rent decrease as a result of the end of the reunification boom. The historical performance of rents and house prices underlines residential property as a stable asset class.

Apartment rents in Germany as a national average increased only slightly from € 6.00 per square meter in 1995 to € 6.44 per square meter in 2008 (BulwienGesa AG).

Home Ownership Rate

According to the German Federal Office for Building and Regional Planning, the home ownership rate in Germany was at 46% in 2005 (German Federal Office for Building and Regional Planning, Raumordnungsprognose 2020/2050, 2006) and one of the lowest in Western Europe and well below the E.U. average of 63 % (Source: German Federal Statistics Office; Euroconstruct). Furthermore, the German Federal Office for Building and Regional Planning expects the rate to increase to 49% in 2020.

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

Change in Stock of Residential Housing Units in Germany

The construction of units in buildings with three or more units (net of units becoming obsolete) decreased by approximately 90 % from 275,862 units in 1994 to 28,644 units in 2006 (Source: German Federal Statistics Office). In 2008, the number of building permits dropped to a 20 year low of 174,595 or 4.2% compared to 2007. We believe that the decline in building permits and the construction of new residential housing units is largely attributable to high construction costs, the scarcity of land available for construction, low risk-adjusted returns for developers and strict regulations, particularly regarding building construction.

Demographic Developments

Although the German Federal Office for Building and Regional Planning projects (Source: German Federal Office for Building and Regional Planning: Raumordnungsprognose 2020 / 2050, 2006) that due to demographic changes the population of Germany will decline slightly by 3 % until 2020, it is anticipated that the number of households in Germany will increase by one million or 3 % between 2007 and 2025, which will lead to an increase in the demand for residential units (German Federal Statistics Office, October 5, 2007). This is mainly due to a substantial reduction in household sizes and increased living space utilized per person as well as factors such as an increasing number of elderly people (German Federal Office for Building and Regional Planning, Raumordnungsprognose 2020/2050, 2006). We expect these trends to have a positive impact on residential property rents and house prices.

Business situation of the Company

Result situation

In contrast to the income situation until December 31, 2007 with predominantly interest income from shareholder loans, GAGFAH S.A. realized a loss in 2008 mainly caused by interest expenses from liabilities to credit institutions and affiliated undertakings.

Due to the changed structure GAGFAH S.A. does depend on profit distributions from its subsidiaries in order to realize profits from investments.

No such distributions were made in 2008.

Accordingly the result of the year 2008 was basically influenced by interest expenses of M€ 37.5 (thereof, M€15.7 from the adjustment of the provision for contingent losses) as well as other operating charges in the amount of M€ 8.8, which predominantly consist of M€ 3.3 for consulting fees (of which M€ 2.1 for reorganization and restructuring), M€ 1.6 for audit and publication expenses and M€ 0.7 for insurance expenses.

Financial situation

The following table summarizes the capital structure of GAGFAH S.A. as of December 31, 2008:

	2008		2007	
	in M€	in %	in M€	in %
Equity	1,668.3	77.85	1,893.7	88.32
Liabilities to affiliated undertakings	159.5	7.44	0.0	0.00
Liabilities to credit institutions	289.5	13.51	239.4	11.17
Liabilities to shareholders	3.6	0.16	3.6	0.16
Other debt	22.3	1.04	7.7	0.35
Balance sheet total	2,143.2	100.00	2,144.4	100.00

The subscribed capital consists of 225,700,384 shares (225,553,192 shares as of December 31, 2007) with a nominal value of € 1.25 per share. All shares grant equal rights and obligations.

Compared to prior year's figures liabilities to affiliated undertakings rose up to M€ 159.5. For the time being GAGFAH S.A. is financed by a loan from GAGFAH Holding GmbH instead of profit contribution of the company.

In 2007 the Company entered into a revolving credit facility amounting to M€ 300.0 of which M€ 289.5 were drawn as of December 31, 2008. These financial liabilities bear interest of EURIBOR + 250 bp for the drawn amount and an interest rate of 0.75 % for the undrawn amount. The credit line expires September 2010

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

Asset situation

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

The following table summarizes the balance sheet structure:

<u>ASSETS</u>			<u>EQUITY AND LIABILITIES</u>		
	2008 M€	2007 M€	2008 M€	2007 M€	
Long-Term Assets	2,138.8	2,138.8	Equity	1,668.3	1,893.7
			Long-Term Liabilities	309.5	243.2
Short-Term Assets	4.4	5.6	Short-Term Liabilities	165.4	7.5
	2,143.2	2,144.4		2,143.2	2,144.4

Fixed assets amounting to M€ 2,138.8 consist basically of financial assets (shares in and loans to affiliated companies).

Current assets total M€ 4.4 and consist essentially of cash at banks amounting to M€ 0.5, receivables from affiliated companies amounting to M€ 2.7, and prepaid expenses amounting to M€ 1.1. Long-term liabilities include creditors of M€ 289.0 and provisions of M€ 20.5.

The following table summarizes the significant accounting ratios:

	2008	2007
	in M€	in M€
Total assets	2,143.2	2,144.4
Equity	1,668.3	1,893.7
Equity in % of total assets	77.85	88.31
Financial assets	2,138.6	2,138.6
Financial assets in % of total assets	99.79	99.73
Equity-to-fixed-assets ratio	78.01	88.54

Events after the balance sheet date

In February 2009, the GAGFAH S.A. has closed out a swap with a notional amount of € 250.0 million. No other event with particular significance for the capital, financial and result situation has occurred after the closing date.

Risk management system

With regard to Corporate Governance the GAGFAH Group has implemented a risk management and risk control system. The elements of this system are the internal control system, the controlling system and the early warning system.

The advisability of organizational regulations is proved generally through control instances using inbuilt controls which are non-process-oriented and within the scope of the audit planning by the internal audit. One of the basic tasks of the internal audit is the supervision and controlling advice of the risk management.

For the delivery of all target figures, the monitoring and possible countermeasures and also as an indicator for entrepreneurial variances by target/actual analyses we have implemented and established a controlling system.

The early warning system is the entirety of all activities with regard to risk identification and risk control. This includes the definition of risks, the analysis, the rating and valuation as well as the monitoring. All information about identified and possible risks is reflected in the early warning system.

GAGFAH S.A. is integrated in the risk management and risk monitoring system of the GAGFAH Group.

Outlook

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

Disclosure regarding Article 11 of the Law on Takeover

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

Shareholder	Number of shares	%
Fortress Subsidiary (GAGACQ) LLC	11,669,744	5.17
Fortress Subsidiary (GAGACQ) Investors (Cayman) Ltd.	25,574,777	11.33
Fortress Residential Investment Deutschland (Fund A) LP	20,626,823	9.14
Fortress Residential Investment Deutschland (Fund B) LP	12,330,464	5.47
Fortress Investment Fund III (GAGACQ Subsidiary) LLC	16,539,554	7.33
Fortress Investment Fund III (Fund B) (GAGACQ Subsidiary) LLC	14,141,601	6.27
Highbridge Capital Management LLC	11,818,697	5.24

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

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

may fill such vacancy and appoint a successor to act until the next meeting of shareholders, without regard to the independence requirement.

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

i) Powers of the Board of Directors:

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

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

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

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

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

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

GAGFAH S.A. has a total authorized un-issued share capital of € 9,999 million. The board of Directors has been authorized by the General Meeting of shareholders to issue shares up to the total amount of authorized share capital without further approval of the shareholders. Shares may be issued within the authorized share capital of GAGFAH S.A. with or without reserving any pre-emptive subscription rights to existing shareholders at the discretion of the Board.

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

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

Luxembourg, March 24, 2009

Board of Directors of GAGFAH S.A.

GAGFAH S.A.

BALANCE SHEET December 31, 2008 (expressed in EUR)

<u>ASSETS</u>	<u>Dec. 31, 2008</u>	<u>Dec. 31, 2007</u>
Fixed Assets		
Tangible assets		
Other fixtures and fittings, tools and equipment (Note 3)	213.782	270.292
Financial assets		
Shares in affiliated undertakings (Note 4)	2.000.453.726	2.000.453.726
Loans to affiliated undertakings (Note 5)	<u>138.113.372</u>	<u>138.113.372</u>
	2.138.780.880	2.138.837.390
Current assets		
Debtors		
Amounts owed by affiliated undertakings (Note 6)	2.743.894	2.750.303
Other debtors due within one year	173.870	143.863
Cash at bank, in CCP accounts and in hand	455.852	1.392.628
Prepayments (Note 7)	<u>1.075.767</u>	<u>1.278.031</u>
	<u>4.449.383</u>	<u>5.564.825</u>
	<u><u>2.143.230.263</u></u>	<u><u>2.144.402.215</u></u>

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

GAGFAH S.A.

BALANCE SHEET December 31, 2008 (expressed in EUR)

Capital and reserves

Subscribed capital (Note 8)	282.125.480	281.941.490
Share premium account (Note 9)	1.533.410.450	1.532.197.037
Legal reserve (Note 10)	28.200.181	28.189.422
Profit brought forward	6.253.270	-
Interim Dividend (Note 11)	(135.398.086)	(45.107.638)
Loss / Profit for the financial year	<u>(46.254.274)</u>	<u>96.491.956</u>
	1.668.337.021	1.893.712.267
Other provisions (Note 12)	21.913.546	7.371.130

Creditors

Long-term liabilities

Amounts owed to credit institutions (Note 15)	289.000.000	238.631.501
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Short-term liabilities

Amounts owed to shareholders (Note 13)	3.600.337	3.573.337
Amounts owed to affiliated undertakings (Note 14)	159.531.486	20.157
Amounts owed to credit institutions (Note 15)	462.659	811.062
Other creditors	<u>385.214</u>	<u>282.761</u>
	<u>163.979.696</u>	<u>4.687.317</u>
	<u><u>2.143.230.263</u></u>	<u><u>2.144.402.215</u></u>

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

GAGFAH S.A.

PROFIT AND LOSS ACCOUNT

for the period from January 1, 2008 to December 31, 2008
(expressed in EUR)

<u>EXPENSES</u>	Jan. 1 to Dec. 31, 2008	Jan. 1 to Dec. 31, 2007
Personnel costs (Note 16)	337.683	252.248
Value adjustments in respect of tangible assets	122.278	25.927
Other operating charges (Note 17)	8.811.005	12.918.881
Interest and similar expenses (Note 15)	37.527.961	15.808.535
Profit for the financial year	-	96.491.956
	<u>46.798.927</u>	<u>125.497.547</u>
<u>INCOME</u>		
Other operating income	534.059	147.343
Interest income from affiliated undertakings (Note 5)	-	125.297.935
Interest income from third parties and similar income	10.594	52.269
Loss for the financial year	46.254.274	-
	<u>46.798.927</u>	<u>125.497.547</u>

GAGFAH S.A.

NOTES TO THE ANNUAL ACCOUNTS

As of December 31, 2008

NOTE 1 - GENERAL INFORMATION

GAGFAH S.A. (“the Company”) has been incorporated on July 12, 2005 as a Luxembourg “S.C.A.” under the name NLG Acquisition Holdings S.C.A. It subsequently changed its corporate name to NLG Acquisition Investments S.C.A. and later to GAGFAH S.A. It is registered at the trade register under number B 109526 and has its registered office at 2-4, rue Beck, L-1222 Luxembourg.

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

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

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

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

The Company also prepared consolidated financial statements according to IFRS for the year ended December 31, 2008. These consolidated financial statements are available on the website <http://www.gagfah.com>.

GAGFAH S.A.

NOTES TO THE ANNUAL ACCOUNTS
As of December 31, 2008

NOTE 2 - VALUATION PRINCIPLES AND METHODS

General principles

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

Currency translation

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

Tangible Assets

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

Financial assets

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

Receivables and Debts

Receivables and debts are recorded at their nominal value. Receivables are written down to their recoverable amount if there is a permanent impairment.

GAGFAH S.A.

NOTES TO THE ANNUAL ACCOUNTS As of December 31, 2008

NOTE 3 – TANGIBLE ASSETS

The following overview shows the development of tangible assets in 2008:

Other fixtures and fittings, tools and equipment in EUR	2008			2007
	Acquisition costs	Depreciation	Book Value	Book Value
As of January 1	296,219	25,927	270,292	---
Additions	65,768	122,278	-56,510	270,292
Disposals				---
As of December 31	361,987	148,205	213,782	270,292

NOTE 4 – SHARES IN AFFILIATED UNDERTAKINGS

The investment structure of GAGFAH S.A. remains stable in 2008 and is listed below.

Company	share in %	investment in EUR
WOBA Holding GmbH	5.20	32,605,908
NILEG Immobilien Holding GmbH	5.20	16,500,105
GAGFAH Acquisition 3 GmbH	5.20	10,187,216
GBH Acquisition GmbH	5.20	3,985,702
GAGFAH Acquisition 1 GmbH	5.20	4,004,624
GAGFAH Acquisition 2 GmbH	5.20	739,493
GAG ACQ Ireland Limited	100.00	45,750
GAGFAH Holding GmbH *	100.00	1,932,384,928
Total shares in affiliated undertakings		2,000,453,726

* formerly Blitz F07-einhundert-neunzig GmbH

NOTE 5 – LOANS TO AFFILIATED UNDERTAKINGS

The Eurobonds for the UC ACQ Ireland Ltd. amount for EUR 138,113,372 (EUR 138,113,372 as of December 31, 2007) including an amount of EUR 705,186 for accrued interests. The terms of the loans set out that the income generated less administrative expenses must be transferred in full to GAGFAH S.A. except for a residual amount of EUR 4k for each loan. Maturity date is September 29, 2024.

In 2008 UC ACQ realized a loss of EUR 364,714 and no interest income could be drawn from this loan (prior year: EUR 10,781,420).

Prior year's interest income also included a Eurobond for GAG ACQ and several shareholder loans. All corresponding loans were repaid on December 31, 2007.

GAGFAH S.A.

NOTES TO THE ANNUAL ACCOUNTS As of December 31, 2008

NOTE 6 – AMOUNTS OWED BY AFFILIATED UNDERTAKINGS

The following overview shows the development of amounts owed by affiliated undertakings in 2008:

Company	December 31, 2007	December 31, 2008
GAG ACQ Ireland Limited	2,693,894	2,693,894
GAGFAH Operation Advisors	50,000	50,000
GAGFAH M Immobilien-Management GmbH	6,409	--
Total amounts owed by affiliated undertakings	2,750,303	2,743,894

NOTE 7 – PREPAYMENTS

Prepaid expenses and deferred charges in the amount of EUR 1,075,767 (EUR 1,278,031 as of December 31, 2007) mainly comprise deferred insurance premiums.

NOTE 8 – SUBSCRIBED CAPITAL

As of December 31, 2008 the subscribed capital consists of 225,700,384 (225,553,192 as of December 31, 2007) shares with a nominal value of EUR 1.25 each. The capital increase was due to exercised stock options in the amount of 147,192 shares with a nominal value of EUR 1.25 each.

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

NOTE 9 – SHARE PREMIUM ACCOUNT

As of December 31, 2008 the share premium account amounts to EUR 1,533,410,450 (EUR 1,532,197,037 as of December 31, 2007). The increase in the amount of EUR 1,213,413 originated from the above-mentioned exercise of stock options .

NOTE 10 – LEGAL RESERVE

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

On April 21, 2008 the shareholders resolved at the Annual General Meeting an allocation of EUR 10,759 from the net income for the year 2007 to the legal reserve.

GAGFAH S.A.

NOTES TO THE ANNUAL ACCOUNTS

As of December 31, 2008

NOTE 11 – DIVIDENDS

In 2008 dividends in the amount of EUR 180,518,375 were distributed.

The Company paid an interim dividend of EUR 45,120,289, which was approved at the Annual General Meeting on April 21, 2008. Accordingly this amount was recorded against the profit brought forward.

Further interim dividends of 135,398,086 were paid and have not yet been approved by the General Meeting.

NOTE 12 – OTHER PROVISIONS

Other provisions amount to EUR 21,913,546 (EUR 7,371,130 as of December 31, 2007).

During 2008 provisions for refinancing and restructuring were utilized. The main part of the other provisions is a provision on pending losses from swap valuation.

NOTE 13 – AMOUNTS OWED TO SHAREHOLDERS

As of December 31, 2008 the Company is showing liabilities to shareholders of EUR 3,600,337 (EUR 3,573,337 as of December 31, 2007). These liabilities have no maturity date and do not bear interest.

NOTE 14 – AMOUNTS OWED TO AFFILIATED UNDERTAKINGS

As of December 31, 2008 the Company discloses an amount of EUR 159,531,486 (EUR 20,157) owed to affiliated undertakings.

The Company has a loan from GAGFAH Holding in the amount of EUR 159,531,486 interests included (EUR 0 as of December 31, 2007).

The interest rate was 6.6 % p.a. and the loan is without fixed maturity date.

NOTE 15 – AMOUNTS OWED TO CREDIT INSTITUTIONS

As of December 31, 2008 the Company had a revolving credit facility amounting to EUR 300,000,000 of which EUR 289,462,659 were drawn. These financial liabilities bear interest of EURIBOR + 250 bp for the drawn amount and an interest rate of 0.75 % for the undrawn amount. The credit line expires September 2010.

Interest and similar expenses of EUR 37,527,961 consist of EUR 14,959,460 interest expenses for the revolving credit facility, EUR 6,388,495 for the loan from GAGFAH Holding, EUR 15,664,157 for the adjustment of the provision for contingent losses und EUR 515,849 for other interest expenses.

GAGFAH S.A.

NOTES TO THE ANNUAL ACCOUNTS

As of December 31, 2008

NOTE 16 – PERSONNEL COSTS

As of December 31, 2008 personnel costs amounted to EUR 337,683, of which EUR 210,852 apply to salaries and wages for an average number of 3 (FTE) employees, EUR 24,240 for social security costs and EUR 102,591 for other personnel costs.

NOTE 17 – OTHER OPERATING CHARGES

As of December 31, 2008 other operating charges amounted to EUR 8,811,005, of which EUR 2,098,176 apply to reorganization and restructuring expenses, mainly for legal and consulting fees .

NOTE 18 – TAXES

The Company qualifies as a securitization vehicle falling within the scope of the Securitization Law of March 22, 2004. The Company is therefore fully liable to corporate income tax and municipal business tax. However it is subject to net worth tax (paragraph 3 of the Net Worth Law of October 16, 1934). Any commitments to investors (i.e. profit distributions) and commitments to other creditors of the Company will be deductible and will not be subject to Luxembourg withholding tax.

NOTE 19 – COMMITMENTS

GAGFAH S.A. has entered into a non-cancellable rent contract until February 14, 2010 combined with a sub-lease contract, both with the option for the reconduction of the contract for another period of three years. The future payments will be as follows:

in EUR	2009	2010	Total
Rent contract	143,998	18,000	161,998
Sub-lease contract	106,145	13,268	119,413
Future payments	250,143	31,268	281,411

NOTE 20 – CONTINGENCIES

GAGFAH S.A. has given a guarantee up to the maximum amount of EUR 7,500,000.00 for GAGFAH Acquisition 3 GmbH regarding liabilities of GAGFAH Acquisition 3 GmbH to an external bank.

GAGFAH S.A. has issued letters of comfort for her subsidiaries Erste Grundbesitz GmbH (formerly: GAGFAH First Property Holding GmbH & Co. KG) and GAGFAH Acquisition 1 GmbH. In these letters GAGFAH S.A. guarantees to provide financial support to the extent necessary to repay all liabilities of the subsidiaries due to Wohnungsbauförderungsanstalt Nordrhein-Westfalen, Anstalt der NRW.BANK. The book value of the liabilities is as of December 31, 2008 31,775,825 EUR.

GAGFAH S.A.

NOTES TO THE ANNUAL ACCOUNTS

As of December 31, 2008

GAGFAH S.A. has pledged its share in GBH Acquisition GmbH to secure liabilities of GBH Acquisition GmbH to banks. The corresponding liabilities amount to 278,029,696 EUR as of December 31, 2008.

NOTE 21 – SUBSEQUENT EVENTS

In February 2009, the GAGFAH S.A. has closed out a swap with a notional amount of € 250.0 million. No other event with particular significance for the capital, financial and result situation has occurred after the closing date.