

**Deutsche Annington Immobilien SE, Düsseldorf**  
**Until June 21, 2012: Deutsche Annington Immobilien AG, Düsseldorf**  
**Until March 01, 2012: Deutsche Annington Immobilien GmbH, Düsseldorf**

**Balance Sheet as of December 31, 2012**

**Assets**

	Notes	Dec. 31, 2012 €	Dec. 31, 2011 €
<b>A. Fixed assets</b>	(1)		
<b>I. Intangible assets</b>			
Commercial and industrial property rights and similar rights		637.42	234,958.58
<b>II. Tangible assets</b>			
Other equipment, fixtures, furniture and office equipment		799,047.97	1,068,437.16
<b>III. Financial assets</b>	(2)		
Shares in affiliated companies		1,606,094,881.92	1,607,708,638.06
Investments		520.00	520.00
Other long-term loans		5,293,129.49	5,175,018.79
		1,611,388,531.41	1,612,884,176.85
		<b>1,612,188,216.80</b>	<b>1,614,187,572.59</b>
<b>B. Current assets</b>			
<b>I. Receivables and other assets</b>	(3)		
Receivables from affiliated companies		193,719,326.98	96,504,633.23
Receivables to companies in which the company holds a participating interest		2,120,904.48	2,157,068.02
Other assets		1,521,482.35	7,358,681.08
		197,361,713.81	106,020,382.33
<b>II. Cash and cash equivalents</b>	(4)		
Cash, balances at banks		70,568,541.08	29,787,989.64
		<b>267,930,254.89</b>	<b>135,808,371.97</b>
<b>C. Prepaid expenses</b>	(5)	<b>10,710.00</b>	-
<b>D. Surplus from offsetting</b>	(6)	<b>677,773.32</b>	<b>709,637.95</b>
		<b>1,880,806,955.01</b>	<b>1,750,705,582.51</b>

Equity and Liabilities			
	Notes	Dec. 31, 2012 €	Dec. 31, 2011 €
<b>A. Equity</b>	(7)		
I. Share capital	(8)	120,000.00	120,000.00
II. Capital reserve	(9)	1,052,308,434.22	718,209,230.65
III. Revenue reserves			
1. Legal reserve	(10)	12,000.00	-
2. Other revenue reserves		25,588.00	25,588.00
IV. Profit carried forward		-	171,619,802.78
V. Net loss for the year		-	- 7,187,477.13
VI. Net profit for the year		174,054,506.30	-
		<b>1,226,520,528.52</b>	<b>882,787,144.30</b>
<b>B. Provisions</b>			
Provisions for pensions and similar obligations	(11)	32,376,336.27	30,240,667.13
Provisions for taxes		6,600,000.00	6,300,000.00
Other provisions	(12)	63,922,190.98	39,030,103.06
		<b>102,898,527.25</b>	<b>75,570,770.19</b>
<b>C. Liabilities</b>	(13)		
Liabilities to banks		2,685,573.85	-
Trade payables		9,930,814.15	2,109,341.28
Liabilities to affiliated companies		537,454,547.80	789,159,375.56
Other liabilities		1,316,963.44	1,078,951.18
		<b>551,387,899.24</b>	<b>792,347,668.02</b>
		<b>1,880,806,955.01</b>	<b>1,750,705,582.51</b>

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**Until March 01, 2012: Deutsche Annington Immobilien GmbH, Düsseldorf**

**Income statement for the period from January 1 to December 31, 2012**

	Notes	Jan. 01.- Dec. 31 2012 €	Jan. 01.- Dec. 31 2011 €
Other operating income	(14)	136,642,485.12	87,040,592.10
<b>Gross profit</b>		<b>136,642,485.12</b>	<b>87,040,592.10</b>
Personnel expenses			
a) Wages and salaries		- 40,809,292.66	- 26,690,330.79
b) Social security contributions and expenses for pensions and support	(15)	- 3,575,264.71	- 4,121,220.62
		- 44,384,557.37	- 30,811,551.41
Amortisation of intangible assets and depreciation of tangible assets	(16)	- 863,502.39	- 1,659,416.84
Other operating expenses	(17)	- 89,076,205.58	- 62,200,764.11
Income from investments	(18)	3,980,122.39	4,013,906.16
Income from profit transfer agreements	(19)	36,812,484.96	22,973,090.77
Other interest and similar income	(20)	1,175,556.46	1,480,909.93
Write-downs of financial assets and marketable securities	(21)	- 130,000.00	- 80,000.00
Expenses for the assumption of losses	(22)	- 1,655,947.16	- 1,073,875.96
Interest and similar expenses	(23)	- 32,531,308.35	- 26,530,509.66
<b>Result from ordinary activities</b>		<b>9,969,128.08</b>	<b>- 6,847,619.02</b>
Income taxes	(24)	- 300,000.00	- 302,558.03
Other taxes		- 34,947.43	- 37,300.08
<b>Net income for the year / Net loss for the year</b>		<b>9,634,180.65</b>	<b>- 7,187,477.13</b>
Profit carried forward and net loss for the year from previous years		164,432,325.65	-
Allocation to revenue reserves			
a) To legal reserve		12,000.00	-
<b>Net profit for the year</b>	(25)	<b>174,054,506.30</b>	<b>-</b>

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**Notes to the 2012 Financial Statements**

As the parent company of the Deutsche Annington Immobilien Group in accordance with Section 290 HGB of the German Commercial Code, Deutsche Annington Immobilien SE, Düsseldorf, (hereinafter referred to as "DAIG" or "Company") prepares consolidated financial statements. The consolidated financial statements of DAIG are prepared according to IFRS as they are to be applied in the EU and are published in the electronic Federal Gazette.

On January 17, 2012 the shareholders' meeting passed a resolution to convert Deutsche Annington Immobilien GmbH into Deutsche Annington Immobilien AG. Following the resolution passed by the general shareholders' meeting on June 11, 2012, Deutsche Annington Immobilien AG was converted into Deutsche Annington Immobilien SE (Societas Europaea) by changing its legal form; the conversion was entered in the commercial register of the Düsseldorf local court under HRB 68115 on June 21, 2012.

By notarised merger agreement of August 27, 2012, and with economic effect from January 1, 2012, Deutsche Annington Süd-West GmbH, Frankfurt am Main with a capital of € 100 k and Deutsche Annington Süd GmbH, Munich, with a share capital of € 25 k were merged with DAIG.

With economic effect from January 1, 2012, Deutsche Annington Immobilien SE signed a profit-and-loss transfer agreement with Deutsche Annington Holdings Vier GmbH, Düsseldorf, and Deutsche Annington Immobilienmanagement GmbH, Bochum. Furthermore, the company signed a profit-and-loss transfer agreement with the following companies with economic effect from their respective dates of establishment: Deutsche Annington Business GmbH, Bochum, Deutsche Annington Dienstleistungsmanagement GmbH, Bochum, Deutsche Annington Eigentumsverwaltungs GmbH, Bochum, Deutsche Annington IT-Management GmbH, Düsseldorf, Deutsche Annington Kundenmanagement GmbH, Bochum, and Deutsche Annington Vertriebsmanagement GmbH, Bochum.

At the end of 2011, Deutsche Annington Immobilien SE started to build up its own facility manager and craftsmen's organisations. For this purpose, it established, together with a joint venture partner, Deutsche TGS GmbH, Bochum and Deutsche TGS West GmbH, Düsseldorf to perform the craftsmen's work and Deutsche Annington Immobilienservice GmbH, München and Deutsche Annington Immobilienservice West GmbH, Bochum to perform the facility manager and the caretaker services.

31 subsidiaries (Securitisation Group) of DAIG were financed by the issuance of REF Notes. The final maturity date of the REF Notes was July 18, 2013, taking into account the repayments already made by that date. In view of the importance to the entire Deutsche Annington Immobilien Group of the refinancing finalised on December 21, 2012, the main amendments to the conditions of the loan with German Residential Asset Note Distributor P.L.C., Dublin/Ireland (GRAND), are outlined in the following.

The amendments to the original loan conditions mainly comprised provisions on procedural questions, refinancings and redemptions through single or partial refinancings as well as amended maturities.

In line with the contractual framework of August 3, 2006 as well as the subsequent supplements, GRAND Notes of the classes A, B, C, D, E and F with a total nominal volume of € 5,815 million were issued by GRAND.

In line with the amended loan conditions, the original REF Notes are converted into REF Notes with a nominal amount of € 4,085 million as well as a subordinate REF Notes with a nominal amount of € 240 million. The refinancing matures in January 2018. The following annual amortisation targets apply to the entire Securitisation Group:

2013: € 1,000 million,  
2014: € 700 million,  
2015: € 650 million,  
2016: € 650 million.

The remaining outstanding debt matures at the end of the loan term. According to this amortisation schedule, the weighted average life is 2.4 years. However, earlier amortisation payments to the creditors are possible without any prepayment penalties.

In order to meet the amortisation and refinancing targets, parts of the Securitisation Group can be refinanced individually or jointly, or in accordance with the provisions of the amended contractual conditions can in addition be partially refinanced by splitting a sub-portfolio into companies to be newly established.

In accordance with the provisions of the amended contractual conditions, the new average interest margin is 161.9 basis points. That means on the basis of the original margin of 48.3 basis points an increase of 113.6 basis points. For the S-REF-Notes amounting to € 240 million, the nominal interest rate is 4.793 % p.a.

To hedge the interest rate risk, the issuer group had already signed for the Grand Notes of 2006 interest rate hedges with a term running to the original maturity date.

The existing interest rate hedges with a negative market value at the time of the refinancing of about €- 83 million were modified and supplemented by further interest rate hedges over the new loan term, taking the scheduled amortisation payments into account. The companies of the Securitisation Group paid a one-off sum of some € 36.6 million in 2013 as a special payment for the modification of the existing interest rate hedges. The remaining share of the negative market value of the original interest rate hedging instruments is offset against the interest payments until maturity of the original financing in July 2013.

An option (CAP) signed under the newly established interest rate hedging transactions was purchased for some € 7.3 million in 2012. Through these interest rate hedging transactions, the Securitisation Group was able to take advantage of the lower capital market interest rates. The current interest depends on the planned amortisation structure as either the CAP is used or interest rate hedging is solely through the deposited interest rate swaps. The average interest rate over the planned term of the refinanced Notes is approx. 2.90%. Under the previous loan conditions, the average interest rate is 4.66 %.

Deutsche Annington Immobilien SE already purchased interest rate hedging instruments prior to the refinancing of the GRAND securitisation in order to secure the favourable interest rate. With effect from December 21, 2012, these interest rate hedging instruments were transferred to GRAND P.L.C. in line with the contractual provisions in the Global Facilities Agreement.

Deutsche Annington Immobilien SE transferred the corresponding receivables from GRAND P.L.C. to DA Vermögensgesellschaft mbH & Co. KG, Bochum in return for the granting of a corresponding intercompany loan in the same amount.

In accordance with the cash pooling agreement, Deutsche Annington Immobilien SE, as the main account holder, performs the intragroup cash pooling mainly for the FSG Group, the service companies as well as PRIMA Wohnbauten Privatisierungs-Management GmbH.

The purpose of cash pooling is to optimise short-term liquidity management and simplify payments to be performed under the so-called Corpus financing. Accordingly, the bank balances are pooled daily as part of cash pooling. The interest rate for any resulting receivable is EONIA +40 bps and for any resulting liability EONIA -25 bps.

## **A. Accounting and Valuation Principles**

The financial statements for the 2012 financial year have been prepared according to the accounting principles of the German Commercial Code.

The income statement has been prepared using the total-cost method.

Intangible assets are carried at acquisition cost and amortised on a straight-line basis over a period of 3 years.

Tangible assets are valued at acquisition cost and, except for land, depreciated over their respective useful lives.

Fixtures, furniture and office equipment are depreciated on a straight-line basis over periods of between 3 and 13 years. Movable assets are, in accordance with the tax regulations, depreciated exclusively pro rata temporis. Minor assets, which are assets whose acquisition cost is up to and including € 410.00, are written off in full in their year of purchase. A compound item was established for assets acquired in 2008 and 2009 when the cost of the individual asset was more than € 150.00 but not more than € 1,000.00. The relevant compound item was released over five years to affect net income, i.e. by one fifth in the year of establishment and in each of the following four financial years.

Financial assets are recorded at cost of acquisition.

Interest-free and low-interest loans are stated at their present values.

If, at the balance-sheet date, the fair value of an asset is lower than the value obtained by application of the aforementioned valuation methods and this impairment is likely to be permanent, allowance is made by unscheduled depreciation. If the reasons for unscheduled depreciation no longer apply at a later balance-sheet date, the write-down is reversed in accordance with section 253, para. 5 of the German Commercial Code.

Receivables and other assets are stated at nominal values. The fund assets for pensions and similarly long-term obligations are stated at fair value. Allowance is made for all discernible risks by appropriate deductions. Furthermore, general risks are covered by a general valuations allowance.

The provisions allow for all discernible risks and uncertain obligations. Provisions are established in the amount of the settlement amount considered necessary using reasonable commercial judgement.

With provisions with a residual term of more than one year, future price and cost increases are taken into consideration and discounting to the balance-sheet date is performed. The interest rates corresponding to the residual terms of the provisions are used as announced by the German Federal Bank in accordance with the German Provision Discounting Ordinance (Rückstellungsabzinsungsverordnung).

Provisions for pensions are determined on the basis of recognised actuarial computations using the projected unit credit method. In accordance with Section 253, para. 2, sentence 2 of the German Commercial Code, a residual term of 15 years is assumed. Thus a discount rate of 5.07 % is taken for the valuation. The biometric basis for the calculation of provisions for pensions is still the Heubeck 2005G mortality tables. The projected salary increases are assumed to be 2.75 % p.a. and the projected pension payment increases 2.00 % p.a.

Provisions for part-time phased early retirement obligations are determined according to actuarial principles using the projected unit credit method with a discount rate of 4.14 % and an assumed residual term of 4 years. The projected salary increases are assumed to be 2.50 % p.a. The basis for the calculation is the Heubeck 2005G mortality tables.

The other long-term personnel provisions for anniversary bonuses and temporary assistance were determined using the projected unit credit method applying actuarial principles with a discount rate of 5.07 % p.a. on the basis of the 2005G mortality tables of Prof. Dr. Klaus Heubeck. A general residual term of 15 years is assumed. The projected salary increases for the interim payment are assumed to be 2.75 % p.a.

The asset values of the insolvency insurance policy to secure fulfilment obligations arising from part-time phased early retirement contracts are offset in accordance with Section 246, para. 2, sentence 2 of the German Commercial Code against the amounts for fulfilment arrears contained in the provisions for part-time phased early retirement. Surpluses of the fair values of the asset values are shown separately in the balance sheet as a surplus arising from offsetting.

Reinsurance contracts for the pension benefits of individual persons were taken out against payment of a one-off insurance premium. Furthermore, securities and, to a minor extent, bank credit balances are held which also serve to secure the pension claims. The invested assets were pledged in favour of the beneficiaries and cannot be accessed by other creditors and will be offset as an asset against the underlying obligations in accordance with Section 246 para 2 sentence 2 of the German Commercial Code.

Liabilities are shown at the amount repayable.

## **B. Notes to the Balance Sheet**

### **(1) Fixed assets**

The development of fixed assets is shown in Annex 1 to the Notes (**Statement of Fixed Assets Movements**).

### **(2) Financial assets**

The list of shareholdings of DAIG is appended in Annex 2.

The significant changes in the financial assets are described in the following:

In 2012, the following companies were established, each with a subscribed capital of € 25 k Deutsche Annington Business GmbH, Deutsche Annington Dienstleistungsmanagement GmbH, Deutsche Annington Kundenmanagement GmbH, Deutsche Annington Vertriebsmanagement GmbH, Deutsche Annington Eigentumsverwaltungs GmbH and Deutsche Annington IT-Management GmbH.

Totalling, DAIG made other payments in the 2012 financial year in accordance with Section 272, para. 2, No. 4 HGB into the capital reserve of Deutsche TGS GmbH of € 1,020 k, Deutsche Annington Holdings Sechs GmbH, Bochum of € 80 k, Deutsche Soziale Wohnen GmbH, Bochum (former: MIRIS Beteiligungs Eins GmbH, Düsseldorf) of € 19 k as well as Verimo2 GmbH, Bochum (former: Deutsche Annington Energie Service GmbH, Bochum) of € 1 k.

Furthermore, on November 21, 2012 DAIG has withdrawn € 1,724 k from the capital reserve of Deutsche Annington Holdings Eins GmbH, Düsseldorf.

In accordance with Section 55 para. 1 GmbHG Deutsche Annington Immobilien SE acquired 51% of the shares of the newly founded group company Deutsche TGS GmbH for a purchase price of € 31 k.

As part of the acquisition of KADURA Grundstücksgesellschaft GmbH & Co. KG, Grünwald, by purchase and transfer agreement of December 30, 2011, acquisition incidentals of € 30k were incurred in the 2012 financial year and increased the investment book value.

Write-downs to the net realisable value amounting to € 130 k (prior period € 80 k) were performed on shares in affiliated companies in the current financial year.

### **Other long-term loans**

By contract dated May 5, 2008, a supplier received a loan of € 2,000 k from DAIG. The annual interest rate payable on the loan is 4% and is to be repaid by 2014. To secure repayment, the supplier has provided collateral in the form of an absolute, unconditional, time-unlimited bank guarantee of € 2,000 k.

By loan agreement dated December 15, 2008, DAIG granted Wohnimmobilien Kooperation Deutsche Annington e.V. an interest-free loan of € 4,100 k with a term of 10 years. Unwinding of the discount of € 118 k on the loan was performed in the financial year.

### (3) Receivables and other assets

Receivables and other assets and their remaining terms break down as follows:

	Dec. 31, 2012		Dec. 31, 2011	
	Total € '000	of which with a remain- ing term of more than 1 year € '000	Total € '000	of which with a remain- ing term of more than 1 year € '000
Receivables				
from affiliated companies	193,719	15,025	96,504	6,058
(of which to shareholders)	(15,025)	(15,025)	(6,058)	(6,058)
from companies of which the company holds a participat- ing interest	2,121	-	2,157	-
Other assets	1,522	-	7,359	-
<b>Total</b>	<b>197,362</b>	<b>15,025</b>	<b>106,020</b>	<b>6,058</b>

The receivables from affiliated companies mainly result from financial transactions amounting to € 151,849 k (prior period: € 88,144 k), from the granting of a short-term intercompany-loan with the GRAND-securitisation amounting to € 25.000 k, from the onward charging of personnel expenses amounting to € 15,025 k (prior period € 6,058 k) and from the takeover of the result of Deutsche Annington WOGÉ Vier Bestands GmbH & Co. KG, Bochum which amounted to € 1,845 k (prior period € 1,847 k).

The receivables from companies in which the company holds a participating interest result from the shareholding in AVW Assekuranz der Wohnungswirtschaft GmbH & Co. KG, Hamburg and relate to the profit allocation from 2012.

### (4) Cash and cash equivalents

The balances at banks include bank accounts pledged to third parties amounting to € 2,648 k. The pledged bank accounts are mainly for securing purchase price payments received from third parties and are blocked until performance of the work still outstanding under the respective contract.

### (5) Prepaid expenses

The prepaid expenses include costs paid in 2012 for services provided in 2013.

### (6) Surplus arising from offsetting

	Dec. 31, 2012 € '000	Dec. 31, 2011 € '000
Surplus arising from offsetting / provisions for part-time phased early retirement	414	710
Surplus arising from offsetting / provisions for pensions and similar obligations	264	-
<b>Surplus arising from offsetting</b>	<b>678</b>	<b>710</b>

The fair value corresponds to the tax asset value at the balance-sheet date confirmed by the insurance company.

The money on account and the provision for part-time phased early retirement developed as follows:

Provisions for part-time phased early retirement	Dec. 31, 2012 € '000	Dec. 31, 2011 € '000
Fair value of money on account - Allianz	1,891	3,099
Settlement amount - part-time phased early	-1,477	-2,389
<b>Surplus arising from offsetting</b>	<b>414</b>	<b>710</b>
Cost of money on account	1,891	3,099

The income and expenses from the discounting as well as from the assets to be offset break down as follows:

Interest expense for part-time phased early retirement obligations	2012 € '000	2011 € '000
Change in fair value of money on account	69	74
Taxation expiry from part-time phased early retirement	41	25
Interest portion of provision for part-time phased early retirement	-92	-146
<b>Interest expense after netting</b>	<b>18</b>	<b>-47</b>

#### (7) Equity

Due to the change in the legal form in the 2012 financial year, the presentation of equity as at December 31, 2012, is as prescribed by Section 150 of the German Stock Corporation Law (AktG) and the figures can therefore not be compared with the prior-year figures.

#### (8) Share capital

The subscribed capital of € 120k is divided into 120,000 no-par value shares. The shares are registered shares. The assignment and encumbrance of shares are not effective without a unanimous resolution by the shareholders' meeting.

#### (9) Capital reserve

The capital reserve contains solely paid-in amounts in accordance with Section 272, para. 2, No. 4 of the German Commercial Code. During the financial year, Monterey Holdings I S.à r.l. made a payment of € 334,099k into the capital reserve of Deutsche Annington Immobilien SE in accordance with Section 272, para. 2, No. 4 of the German Commercial Code; this payment is for the refinancing of the so-called GRAND Notes.

#### (10) Legal reserve

In accordance with section 150 para 2 AktG € 12 k of the profit for the year were allocated to the legal reserve.

#### (11) Provisions for pensions and similar obligations

The fair value of the reinsurance contracts corresponds to the tax asset value at the balance-sheet date confirmed by the insurance company.

The fair value of the securities corresponds to the stock market price on the balance-sheet date.

The value of the fund assets is higher than the respective benefit obligations for some people. The surplus of assets over obligations is shown under the item "Surplus arising from offsetting".

<b>Provisions for pensions and similar obligations</b>	<b>Dec. 31, 2012 € '000</b>	<b>Dec. 31, 2011 € '000</b>
Settlement amount for pensions and similar obligations	37,368	34,883
Fair value of reinsurance contract	3,361	2,928
Fair value of securities and credit balances with banks	1,895	1,714
Net liability recognised in the balance sheet	32,112	30,241
<b>Surplus arising from offsetting</b>	<b>264</b>	<b>0</b>
<b>Provision for pensions recognised in the balance sheet</b>	<b>32,376</b>	<b>30,241</b>
Cost of reinsurance contract	3,361	2,928
Cost of securities and credit balances with banks	1,807	1,640

The income resulting from the fund assets as well as the appreciation of the fair value were off-set against interest expenses on the provisions for pensions as follows:

<b>Interest expenses for provisions for pensions</b>	<b>2012 € '000</b>	<b>2011 € '000</b>
Reinsurance contract:		
Current income (pension payment)	13	-
Depreciation (previous year appreciation) through change in fair value	433	113
Securities		
Distributions of earnings	47	41
Appreciation through change in fair value	13	-13
Income from fund assets	506	141
Interest expense from change in discount rate	-346	-219
Addition of interest portion to pension provision current financial year	-1,782	-1,658
<b>Interest expense after netting</b>	<b>-1,622</b>	<b>-1,736</b>

## (12) Other provisions

The other provisions cover all discernible risks which are not already covered in other balance-sheet items and break down as follows:

	<b>Dec. 31, 2012 € '000</b>	<b>Dec. 31, 2011 € '000</b>
Personnel obligations	40,403	28,720
Outstanding invoices	20,230	5,904
Other obligations	1,353	1,656
Tax consultancy costs	558	788
Archiving fees	496	502
Internal year-end closing costs	400	400
Payroll tax audit	150	150
Vacancy	146	655
Year-end closing costs	95	236
Supervisory Board and Advisory Board remuneration	91	19
<b>Total</b>	<b>63,922</b>	<b>39,030</b>

The provisions for personnel obligations include provisions for redundancy payments as well as bonus, vacation and special payments.

The provisions for pensions include long-term incentive plans (LTIP) totalling € 25,590 k (prior period: € 16,334 k). Of this figure, agreements with the management board account for € 15,025 k (prior period: € 6,058 k). The amount of the provision depends in particular on the development of the value of the Deutsche Annington Real Estate Group (LTIP 2007) and/or Monterey Holdings I S.à r.l. (LTIP 2011), the probability of occurrence as well as the forecast

occurrence date of certain events (IPO, long-term stop). In principle, the obligations are the participating members' entitlement to cash. In the event of an IPO, however, the LTIP 2007 may be fulfilled by the issue of equity instruments. The entitlement under the LTIP agreement is earned during the term of employment. The amount of the provision is therefore the entitlement earned up to the balance-sheet date.

Long-term incentive agreements were also concluded for other executives. Provisions of € 10,565 k (prior period € 10,276 k) as at December 31, 2012 were established for the resulting obligations. The amount of the provision depends in particular on the probability of occurrence and the occurrence date of certain events (IPO, long-term stop). The entitlement under the LTIP agreement is earned during the term of employment. The amount of the provision is therefore the entitlement earned up to the balance-sheet date.

### (13) Liabilities

The liabilities break down according to their remaining terms and the liens granted as security as follows:

	Dec. 31, 2012				Dec. 31, 2011	
	Total € '000	of wich with a remaining term of			Total € '000	of wich with a remaining of
		< 1 year € '000	1 to 5 years € '000	over 5 years € '000		< 1 year € '000
Liabilities to banks	2,686	2,686	-	-	-	-
Trade payables	9,931	9,931	-	-	2,109	2,109
Liabilities to affiliated companies	537,455	537,455	-	-	789,160	789,160
Other liabilities	1,317	1,317	-	-	1,079	1,045
(of which from taxes)	(1,106)	(1,106)	-	-	(822)	(822)
<b>Total</b>	<b>551,388</b>	<b>551,388</b>	<b>-</b>	<b>-</b>	<b>792,348</b>	<b>792,314</b>

The liabilities to banks result from a short-term current account loan.

The liabilities to affiliated companies mainly result from the acquisition of the FSG Group, € 230,000 k relating to liabilities to Frankfurter Siedlungsgesellschaft mbH (FSG), Düsseldorf, and € 129,514 k to Deutsche Annington Vermögensgesellschaft GmbH & Co. KG; the redemption from the refinancing amounting to € 240,000 k was taken into account. The other liabilities amounting to € 177,941 k (2011: € 113,459 k) result from financial transactions.

## C. Notes to the Income Statement

### (14) Other operating income

The other operating income includes income from intercompany allocations (€ 113,520 k) as well as income not relating to the period, mainly from the reversal of other provisions amounting to € 6,319 k (2011: € 4,943 k).

### (15) Social security contributions and expenses for pensions and support

The expenses for pensions amount to € 1,219 k (prior period € 1,532 k).

**(16) Amortisation of intangible assets and depreciation of tangible assets**

In the reporting period, depreciation and amortisation amounted to € 864 k (prior period € 1,659 k). It was exclusively scheduled depreciation and amortisation.

**(17) Other operating expenses**

This item mainly includes legal and consultancy costs (€ 55,092 k), IT and service costs (€ 9,411 k), costs of business premises (€ 7,403 k), from income in particular for the personnel recruitment (€ 3,538 k) as well as expenses for prior years amounting to € 1 k (prior period € 26 k).

**(18) Income from investments**

Of the income from equity interests, € 1,845 k (prior period € 1,847 k) relates to affiliated companies and results from the takeover of the profit of Deutsche Annington WOGÉ Vier Bestands GmbH & Co. KG.

**(19) Income from profit transfer agreements (see Annex 2)**

The income from the profit-and-loss transfer agreements break down as follows:

	Dec. 31, 2012 € '000
Frankfurter Siedlungsgesellschaft mbH *	16,506
Deutsche Annington Holdings Vier GmbH	12,953
Deutsche Annington Business Management GmbH	2,832
Deutsche Wohn-Inkasso GmbH	1,830
Deutsche Annington Dienstleistungs GmbH	1,324
Deutsche Annington Vertriebs GmbH	900
Deutsche Annington Kundenservice GmbH	565
Deutsche Annington Solutions GmbH	102
<b>Income from profit-and-loss transfer agreements</b>	<b>37,012</b>

\*before allowance for guaranteed dividends to the minority shareholder of € 200 k

**(20) Other interest and similar income**

Of the other interest and similar income, € 897 k (prior period: € 1,116 k) relate to affiliated companies.

**(21) Write-downs of financial assets and marketable securities**

In the reporting period, write-downs to the net realisable value amounting to € 130 k (prior period € 80 k) were performed on shares in affiliated companies.

**(22) Expenses for the assumption of losses (see Annex 2)**

The expenses for the assumption of losses break down as follows:

	Dec. 31, 2012 € '000
Deutsche Annington Service GmbH	1,034
Deutsche Multimedia Service GmbH	396
Deutsche Annington Immobilienmanagement GmbH	101
Verimmo2 GmbH	45
Deutsche Annington Dienstleistungsmanagement GmbH	39
Deutsche Annington Eigentumsverwaltungs GmbH	20
Deutsche Annington Informationssysteme GmbH	9
Deutsche Annington Vertriebsmanagement GmbH	6
Deutsche Annington Business GmbH	5
Deutsche Annington IT-Management GmbH	1
Deutsche Annington Kundenmanagement GmbH	0
<b>Expenses for the assumption of losses</b>	<b>1,656</b>

**(23) Interest and similar expenses**

Of the interest and similar expenses, € 22,851 k (prior period € 24,741 k) relate to affiliated companies. The expenses arising from the unwinding of discounting for provisions amount to € 2,227 k (prior period € 2,031 k).

**(24) Income tax**

The reported tax expense in the financial year relates completely taxes for previous years.

**(25) Net profit for the year**

The net profit for the year includes income of € 74k from the measurement of assets at fair value. This is increased by the gain of € 13k from fair value measurement. In accordance with Section 268, para. 8, sentence 3 of the German Commercial Code, there is an accumulated amount of € 87k barred for distribution.

Due to the change in the legal form in the 2012 financial year, a reconciliation of net income for the year to distributable profit was made in accordance with Section 158, para. 1 AktG and the figures are not comparable with those of the prior year.

## D. Other information

In the 2012 financial year an average of 188 staff were employed in the Company, of whom 188 were office workers.

There is a letter of comfort given to the seller of shares in ten railway housing companies in which DAIG undertakes to provide these companies with sufficient own funds and liquidity on a long-term basis in order to meet and fulfil their obligations under the privatisation contract for the shares in the companies dated December 14/15, 2000. The obligations comprise guarantees for the provision of housing and employment guarantees.

Contingent liabilities as defined by Section 251 of the German Commercial Code include bank accounts with balances of € 2,648 k pledged to third parties. The bank accounts are largely for securing purchase price payments received from third parties and are blocked until performance of the work still outstanding under the respective contract.

The financial obligations break down as follows:

	2013	2014	2015	2016	ab 2017
	€ '000	€ '000	€ '000	€ '000	€ '000
Under rental and service contracts	5378	4,746	4,403	2,669	441
Under TV basic-service contracts	13,836	19,010	15,284	688	83,988
of which to affiliated companies	141	141	141	141	389

In fiscal year 2011, Deutsche Multimedia Service GmbH signed contracts with Telekom Deutschland GmbH against the background of a joint strategic partnership. As regards assumption of debt, Telekom Deutschland GmbH and DAIG have agreed that, in addition to Deutsche Multimedia Service GmbH, DAIG will jointly and severally enter into all existing and future obligations arising from the contracts. As of the balance-sheet date, there are financial obligations of € 133 million resulting from the contract for the TV basic service. These obligations are set against future income from marketing the TV basic service to the tenants.

With regard to the disclosures on related party transactions, we refer to the information on the long-term incentive plan under (12) other provisions as well as the Management Board remuneration under D. No other transactions requiring disclosure exist.

Robert Nicolas Barr	since	September 25, 2012	inactive
Operational Managing Director of			
Terra Firma Capital Partners Limited, London			

William T. Comfort	until	May 10, 2012
Chairman der		
Citigroup Venture Capital, New York		

Guy Hands  
Chairman  
Chairman and Chief Investment Officer der  
Terra Firma Capital Partners Limited, Guernsey

Wolfgang König Business Consultant, Esslingen	until	March 01, 2012
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The members of the Supervisory Board received € 194 k (prior period € 237 k) for their work in the financial year 2012.

The following are members of the **Management Board**:

Wijnand Donkers  
(Chairman)

until September 25, 2012

Robert Nicolas Barr

since September 25, 2012

Klaus Freiberg

Dr. A. Stefan Kirsten

The total remuneration of the management board amounted to € 3.4 million (prior period € 3.9 million). Of this figure, € 2.0 million (prior period € 2.3 million) was for fixed remuneration components including benefits in kind and other remunerations. The variable remuneration of € 1.4 million (prior period € 1.6 million) relates to bonus claims.

The pension obligations towards former managing directors and their dependants total € 7.8 million (prior period € 5.6 million).

In accordance with section 285 no. 9b) of the German Commercial Code the remuneration amounted to € 2,963 k in the financial year.

The management board proposed to the supervisory board within the approval of the annual financial statements, that the profit of the year amounting to € 9,634,180.65 be carried forward to new account.

Düsseldorf, February 22, 2013

Deutsche Annington Immobilien SE  
The Management Board

Barr

Freiberg

Dr. Kirsten

Deutsche Annington Immobilien SE, Düsseldorf

Statement of Fixed Assets Movements (in EURO)

	Acquisition or production costs					Accumulated depreciation					Book values	
	Balance on January 1, 2012	Additions	Disposals	Disposal to consolidated companies	Balance on December 31, 2012	Balance on January 1, 2012	Additions	Disposals	Disposal to consolidated companies	Balance on December 31, 2012	Balance on December 31, 2012	Balance on December 31, 2011
<b>I. Intangible assets</b>												
Industrial rights and similar rights	6,477,329.11	-	14,528.72	-	6,462,800.39	6,242,370.53	234,321.16	14,528.72	-	6,462,162.97	637.42	234,958.58
	6,477,329.11	-	14,528.72	-	6,462,800.39	6,242,370.53	234,321.16	14,528.72	-	6,462,162.97	637.42	234,958.58
<b>II. Tangible assets</b>												
Other equipment, fixtures, furniture and office equipment	3,447,129.43	373,207.10	52,359.60	28,082.17	3,739,894.76	2,378,692.27	629,181.23	52,359.60	14,667.11	2,940,846.79	799,047.97	1,068,437.16
	3,447,129.43	373,207.10	52,359.60	28,082.17	3,739,894.76	2,378,692.27	629,181.23	52,359.60	14,667.11	2,940,846.79	799,047.97	1,068,437.16
<b>III. Financial assets</b>												
1. Shares in affiliated companies	1,608,125,533.86	1,331,070.00	2,814,826.14	-	1,606,641,777.72	416,895.80	130,000.00	-	-	546,895.80	1,606,094,881.92	1,607,708,638.06
2. Equity interests	520.00	-	-	-	520.00	-	-	-	-	-	520.00	520.00
3. Other long-term loans	6,100,000.00	-	-	-	6,100,000.00	924,981.21	-	118,110.70	-	806,870.51	5,293,129.49	5,175,018.79
	1,614,226,053.86	1,331,070.00	2,814,826.14	-	1,612,742,297.72	1,341,877.01	130,000.00	-	-	1,353,766.31	1,611,388,531.41	1,612,884,176.85
	1,624,150,512.40	1,704,277.10	2,881,714.46	28,082.17	1,622,944,992.87	9,962,939.81	993,502.39	-	51,222.38	10,756,776.07	1,612,188,216.80	1,614,187,572.59

# List of Deutsche Annington Immobilien SE Shareholdings as at December 31, 2012

## Annex 2 to the notes

Company	Company domicile	Interest %	Equity € '000s	Net income/ loss for the year € '000s	
Baugesellschaft Bayern mbH	Munich	94.90	116,063	2,942	
Bundesbahn Wohnungsbaugesellschaft Kassel Gesellschaft mit beschränkter Haftung	Kassel	94.90	2,295	-2,784	
Bundesbahn-Wohnungsbaugesellschaft Regensburg mbH	Regensburg	94.90	51,957	-928	
BWG Frankfurt am Main Bundesbahn-Wohnungsgesellschaft mbH	Frankfurt	94.90	72,840	269	
DA DMB Netherlands B.V.	Eindhoven/NL	100.00	47,141	10,737	
Deutsche Annington Bestands GmbH & Co.KG	Bochum	100.00	374,864	47,571	
Deutsche Annington Beteiligungsverwaltungs GmbH	Düsseldorf	100.00	114,247	-88,198	
Deutsche Annington Bewirtschaftungs GmbH & Co.KG	Bochum	100.00	350,561	16,766	
Deutsche Annington Business GmbH	Bochum	100.00	25	-5	1) 2) 3) 4)
Deutsche Annington Business Management GmbH	Bochum	100.00	1,050	2,832	1) 2) 3)
Deutsche Annington DEWG GmbH & Co.KG	Bochum	100.00	7,279	718	
Deutsche Annington DEWG Verwaltungs GmbH	Düsseldorf	99.60	30	2	
Deutsche Annington DID Verwaltungs GmbH	Düsseldorf	99.60	23	-1	
Deutsche Annington Dienstleistungs GmbH	Bochum	100.00	439	1,324	1) 2) 3)
Deutsche Annington Dienstleistungsmanagement GmbH	Bochum	100.00	25	-39	1) 2) 3) 4)
Deutsche Annington DMB Eins GmbH	Bochum	100.00	1,910	103	1)
Deutsche Annington Dritte Beteiligungsgesellschaft mbH	Düsseldorf	100.00	22	-1	
Deutsche Annington Eigentumsverwaltungs GmbH	Bochum	100.00	25	-20	1) 2) 3) 4)
Deutsche Annington EisenbahnWG Karlsruhe Bestands GmbH & Co.KG	Bochum	100.00	61,690	6,182	
Deutsche Annington EisenbahnWG Karlsruhe Bewirtschaftungs GmbH & Co.KG	Bochum	100.00	26,394	3,021	
Deutsche Annington EisenbahnWG Karlsruhe Verwaltungs GmbH	Düsseldorf	99.60	22	0	
Deutsche Annington EWG Augsburg GmbH & Co.KG	Munich	100.00	20,937	-2,567	5)
Deutsche Annington EWG Augsburg Verwaltungs GmbH	Düsseldorf	99.60	22	0	
Deutsche Annington EWG Essen Bestands GmbH & Co.KG	Essen	100.00	59,569	3,378	
Deutsche Annington EWG Essen Bewirtschaftungs GmbH & Co.KG	Essen	100.00	21,393	1,024	
Deutsche Annington EWG Essen Verwaltungs GmbH	Düsseldorf	99.60	23	0	
Deutsche Annington EWG Frankfurt Bestands GmbH & Co.KG	Bochum	100.00	97,480	7,402	
Deutsche Annington EWG Frankfurt Bewirtschaftungs GmbH & Co.KG	Bochum	100.00	52,774	3,892	
Deutsche Annington EWG Frankfurt Verwaltungs GmbH	Düsseldorf	99.60	21	0	
Deutsche Annington EWG Kassel Bestands GmbH & Co.KG	Bochum	100.00	9,757	641	
Deutsche Annington EWG Kassel Bewirtschaftungs GmbH & Co.KG	Bochum	100.00	32,213	2,518	
Deutsche Annington EWG Kassel Verwaltungs GmbH	Düsseldorf	99.60	22	0	
Deutsche Annington EWG Köln Bestands GmbH & Co.KG	Bochum	100.00	88,726	4,614	5)
Deutsche Annington EWG Köln Bewirtschaftungs GmbH & Co.KG	Bochum	100.00	98,685	5,405	5)
Deutsche Annington EWG Köln Verwaltungs GmbH	Düsseldorf	99.60	23	0	
Deutsche Annington EWG Mainz GmbH & Co.KG	Bochum	100.00	82,558	3,673	
Deutsche Annington EWG Mainz Verwaltungs GmbH	Düsseldorf	99.60	23	0	
Deutsche Annington EWG München Bestands GmbH & Co.KG	Munich	100.00	89,900	9,022	5)
Deutsche Annington EWG München Bewirtschaftungs GmbH & Co.KG	Munich	100.00	83,730	1,705	5)
Deutsche Annington EWG München Verwaltungs GmbH	Düsseldorf	99.60	22	0	
Deutsche Annington EWG Nürnberg GmbH & Co.KG	Munich	100.00	60,523	5,760	
Deutsche Annington EWG Nürnberg Verwaltungs GmbH	Düsseldorf	99.60	22	0	
Deutsche Annington EWG Regensburg GmbH & Co.KG	Munich	100.00	43,960	2,069	
Deutsche Annington EWG Regensburg Verwaltungs GmbH	Düsseldorf	99.60	22	0	
Deutsche Annington Finance GmbH	Düsseldorf	100.00	2,757	180	
Deutsche Annington Fundus Immobiliengesellschaft mbH	Cologne	100.00	3,179	1,125	1)
Deutsche Annington Fünfte Beteiligungsgesellschaft mbH	Düsseldorf	100.00	3,404	-8	
Deutsche Annington Haus GmbH	Kiel	100.00	1,576	10	
Deutsche Annington Heimbau Bestands GmbH & Co.KG	Bochum	100.00	200,976	11,310	
Deutsche Annington Heimbau Bewirtschaftungs GmbH & Co.KG	Bochum	100.00	63,966	3,866	
Deutsche Annington Heimbau GmbH	Kiel	100.00	28,173	-1,046	
Deutsche Annington Heimbau Verwaltungs GmbH	Düsseldorf	99.60	22	0	

# List of Deutsche Annington Immobilien SE Shareholdings as at December 31, 2012

## Annex 2 to the notes

Company	Company domicile	Interest %	Equity € '000s	Net income/loss for the year € '000s	
Deutsche Annington Holdings Drei GmbH	Bochum	100.00	13,541	293	
Deutsche Annington Holdings Eins GmbH	Düsseldorf	100.00	151,732	-1,795	
Deutsche Annington Holdings Fünf GmbH	Düsseldorf	100.00	36,922	13,182 <sup>1)</sup>	
Deutsche Annington Holdings Sechs GmbH	Bochum	100.00	23	-81	
Deutsche Annington Holdings Vier GmbH	Düsseldorf	100.00	36,849	13,087 <sup>1) 2) 3)</sup>	
Deutsche Annington Holdings Vier GmbH & Co.KG	Bochum	100.00	34,932	100	
Deutsche Annington Holdings Zwei GmbH	Düsseldorf	100.00	138,847	-1,681 <sup>1)</sup>	
Deutsche Annington Immobiliendienstleistung Bestands GmbH & Co.KG	Bochum	100.00	30,058	1,722	
Deutsche Annington Immobilien-Dienstleistungen GmbH	Düsseldorf	100.00	7,771	-605 <sup>1)</sup>	
Deutsche Annington Immobilienmanagement GmbH	Bochum	100.00	24	-101 <sup>1) 2) 3)</sup>	
Deutsche Annington Immobilienservice GmbH	Munich	100.00	25	164 <sup>1)</sup>	
Deutsche Annington Immobilienservice West GmbH	Bochum	100.00	25	182 <sup>1)</sup>	
Deutsche Annington Informationssysteme GmbH	Düsseldorf	100.00	2,124	-9 <sup>1) 2) 3)</sup>	
Deutsche Annington Interim DAMIRA GmbH	Düsseldorf	100.00	515	72	
Deutsche Annington IT-Management GmbH	Düsseldorf	100.00	25	-1 <sup>1) 2) 3) 4)</sup>	
Deutsche Annington Kundenmanagement GmbH	Bochum	100.00	25	0 <sup>1) 2) 3) 4)</sup>	
Deutsche Annington Kundenservice GmbH	Bochum	100.00	289	565 <sup>1) 2) 3)</sup>	
Deutsche Annington MIRA Bestands GmbH & Co.KG	Bochum	100.00	57,275	1,682	<sup>5)</sup>
Deutsche Annington MIRA Bewirtschaftungs GmbH & Co.KG	Bochum	100.00	57,643	110	<sup>5)</sup>
Deutsche Annington MIRA Verwaltungs GmbH	Düsseldorf	99.60	22	0	
Deutsche Annington Personalservice GmbH	Bochum	100.00	25	0 <sup>1) 2) 3)</sup>	
Deutsche Annington Regenerative Energien GmbH	Bochum	100.00	187	0	
Deutsche Annington Revisionsgesellschaft mbH	Düsseldorf	100.00	48	-1	
Deutsche Annington Rheinland Immobiliengesellschaft mbH	Cologne	100.00	13,762	1,786 <sup>1)</sup>	
Deutsche Annington Rhein-Ruhr GmbH & Co.KG	Düsseldorf	100.00	24,478	6,277	
Deutsche Annington Service GmbH	Frankfurt	100.00	63	-1,034 <sup>1) 2) 3)</sup>	
Deutsche Annington Solutions GmbH	Bochum	100.00	25	102 <sup>1) 2) 3)</sup>	
Deutsche Annington Vermögensgesellschaft mbH & Co.KG	Bochum	100.00	590,083	57,132	
Deutsche Annington Vertriebs GmbH	Bochum	100.00	284	900 <sup>1) 2) 3)</sup>	
Deutsche Annington Vertriebsmanagement GmbH	Bochum	100.00	25	-6 <sup>1) 2) 3) 4)</sup>	
Deutsche Annington Vierte Beteiligungsgesellschaft mbH	Düsseldorf	99.60	23	0	
Deutsche Annington WOG E Drei Verwaltungs GmbH	Düsseldorf	99.60	22	-1	
Deutsche Annington WOG E Eins Verwaltungs GmbH	Düsseldorf	99.60	22	-1	
Deutsche Annington WOG E Fünf Bestands GmbH & Co. KG	Bochum	100.00	244	-7	
Deutsche Annington WOG E Fünf Bewirtschaftungs GmbH & Co. KG	Bochum	100.00	84,861	2,484	
Deutsche Annington WOG E Fünf Verwaltungs GmbH	Düsseldorf	100.00	23	-1	
Deutsche Annington WOG E Sechs Bestands GmbH & Co.KG	Bochum	100.00	1	69	
Deutsche Annington WOG E Sechs Bewirtschaftungs GmbH & Co.KG	Bochum	100.00	9,320	820	
Deutsche Annington WOG E Sechs Verwaltungs GmbH	Bochum	100.00	24	0	
Deutsche Annington WOG E Sieben Verwaltungs GmbH	Düsseldorf	100.00	23	1	
Deutsche Annington WOG E Vier Bestands GmbH & Co.KG	Bochum	100.00	12,847	1,947	
Deutsche Annington WOG E Vier GmbH & Co.KG	Düsseldorf	100.00	-180,569	1,709	
Deutsche Annington Wohnungsgesellschaft I Bestands GmbH & Co.KG	Bochum	100.00	18,639	870	
Deutsche Annington Wohnungsgesellschaft I mbH	Essen	100.00	37,553	-2,847 <sup>1)</sup>	
Deutsche Annington Wohnungsgesellschaft III Bestands GmbH & Co.KG	Bochum	100.00	21,624	1,420	
Deutsche Annington Wohnungsgesellschaft III mbH	Bochum	100.00	32,422	-2,261 <sup>1)</sup>	
Deutsche Annington Zweite Beteiligungsgesellschaft mbH	Essen	100.00	49	-3	
Deutsche Eisenbahn-Wohnungs-Holdings GmbH & Co.KG	Leipzig	100.00	11,938	4,186	
Deutsche Multimedia Service GmbH	Düsseldorf	100.00	24	-396 <sup>1) 2) 3)</sup>	
Deutsche Soziale Wohnen GmbH	Bochum	100.00	60	9 <sup>4)</sup>	
Deutsche TGS GmbH	Bochum	51.00	1,001	-689	
Deutsche TGS West GmbH	Düsseldorf	51.00	741	903	
Deutsche Wohn-Inkasso GmbH	Bochum	100.00	25	1,830 <sup>1) 2) 3)</sup>	

**List of Deutsche Annington Immobilien SE Shareholdings as at December 31, 2012**

**Annex 2 to the notes**

Company	Company domicile	Interest  %	Equity  € '000s	Net income/ loss for the year  € '000s
Eisenbahn-Siedlungsgesellschaft Augsburg mbH (Siegau)	Augsburg	94.90	6,010	-2,429
Eisenbahn-Wohnungsbau-Gesellschaft Karlsruhe GmbH	Karlsruhe	94.90	108,733	2,062
Eisenbahn-Wohnungsbaugesellschaft Köln mbH	Cologne	94.90	141,695	-3,364
Eisenbahn-Wohnungsbaugesellschaft Nürnberg GmbH	Nuremberg	94.90	8,921	-553
Frankfurter Siedlungsgesellschaft mbH	Düsseldorf	100.00	431,691	16,506 <sup>1) 2)</sup>
FSG Immobilien GmbH & Co.KG	Düsseldorf	100.00	193,025	12,539
FSG Immobilien Verwaltungs GmbH	Düsseldorf	100.00	20	-1
FSG-Holding GmbH	Düsseldorf	94.80	8,832	92
Immobilienfonds Koblenz-Karlsruhe Wolfgang Hober KG	Düsseldorf	92.71	-2,728	210
JANANA Grundstücksgesellschaft mbH & Co.KG	Grünwald	94.90	2,198	-67
KADURA Grundstücksgesellschaft mbH & Co.KG	Grünwald	94.91	26,154	-228
LEMONDAS Grundstücksgesellschaft mbH & Co.KG	Grünwald	94.90	1,359	22
LEVON Grundstücksgesellschaft mbH & Co.KG	Grünwald	94.90	6,033	41
MAKAB Beteiligungs Eins GmbH	Düsseldorf	100.00	22	-30
MAKAB Grundstücksgesellschaft mbH & Co.KG	Grünwald	100.00	73	-78
MAKANA Beteiligungsgesellschaft Eins GmbH	Düsseldorf	100.00	2,292	-10
MAKANA Grundstücksgesellschaft mbH & Co. KG	Grünwald	94.90	10,418	27
MANGANA Grundstücksgesellschaft mbH & Co.KG	Grünwald	94.90	1,544	164
MELCART Grundstücks-Verwaltungsgesellschaft mbH	Grünwald	94.80	909	51
MIRA Grundstücksgesellschaft mbH	Düsseldorf	94.90	135,152	-22,200 <sup>1)</sup>
MIRIS Grundstücksgesellschaft mbH & Co.KG	Grünwald	94.90	2,001	137
Monterey Capital I S.à r.l.	Strassen/L	100.00	5	-4
Prima Wohnbauten Privatisierungs-Management GmbH	Berlin	100.00	23,845	13,226 <sup>1)</sup>
"Siege" Siedlungsgesellschaft für das Verkehrspersonal mbH Mainz	Mainz	94.90	72,204	-2,445
Verimmo2 GmbH	Bochum	100.00	26	-45 <sup>1) 2) 3)</sup>
Viterra Holdings Eins GmbH	Düsseldorf	100.00	710,853	-41
Viterra Holdings Zwei GmbH	Düsseldorf	100.00	706,091	-4,273
Wohnungsgesellschaft Ruhr-Niederrhein mbH Essen	Essen	94.90	33,638	-5,890

<sup>1)</sup> result before transfer of result

<sup>2)</sup> profit-and-loss transfer agreement with DAIG

<sup>3)</sup> exemption according to section 264 para. 3 HGB

<sup>4)</sup> result from short business year

<sup>5)</sup> the companies were merged with their respective parent company with effect from February 14, 2013

# Deutsche Annington Immobilien SE, Düsseldorf

## 2012 Management Report

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## **1. Business Activities of Deutsche Annington Immobilien SE and Major Transactions in the Financial Year**

Deutsche Annington Immobilien SE was established as Deutsche Annington Immobilien GmbH on June 17, 1998. It served private equity funds advised by Terra Firma as an acquisition company for the purchase of housing portfolios, largely of Bundeseisenbahnvermögen, and subsequently either directly or indirectly further housing stocks such as those of E.ON AG and RWE, and thus today forms the Deutsche Annington Immobilien SE Group, which is Germany's leading residential real-estate management company with some 180,000 units of its own.

On January 17, 2012, a notarised resolution was passed to convert the Company into a German stock corporation (Aktiengesellschaft). Thus the sole shareholder, Monterey Holdings I S.à.r.l., which is domiciled in Luxembourg (hereinafter referred to as Monterey), became the sole owner of the share capital of Deutsche Annington Immobilien AG in its changed legal form. With a view to the desired sale of the Company, a resolution was passed on June 11, 2012 to convert the Company into a Societas Europaea (SE). Deutsche Annington Immobilien SE (DAIG) was entered in the Düsseldorf commercial register under HRB 68115 on June 21, 2012.

In accordance with Section 17, para. 2, AktG, Deutsche Annington Immobilien SE is a dependent company of Monterey and therefore, due to the conversion, obliged to prepare a dependent company report in accordance with Section 312 AktG for the first time for 2012. The final declaration of this dependent company report is reproduced in this Management Report.

In the Group of Deutsche Annington Immobilien SE, the Company performs the function of the management holding company. In this function, it is responsible for setting and pursuing business goals and assumes property management steering, financing, service and coordination tasks for the Group. In addition, it is responsible for the management, steering and control system as well as risk management. To perform these management functions, Deutsche Annington Immobilien SE has established service companies to pool certain functions in these companies, such as customer service or IT. By pooling the corporate functions, Deutsche Annington Immobilien SE achieves harmonisation, standardisation and economies of scale advantages and therefore the Group companies do not need to perform such functions themselves.

The Company's Management Board is responsible for operational control.

As part of these tasks, Deutsche Annington Immobilien SE also coordinated the restructuring of the Notes signed with GRAND (GERMAN RESIDENTIAL ASSET NOTE DISTRIBUTOR P.L.C.), which was successfully finalised on December 21, 2012. As part of the GRAND restructuring, Monterey made payments of € 334.1 million into the capital reserves as "other additional payment" as defined by Section 272, para. 2, No. 4 HGB.

## **2. Business Performance, Net Assets, Financial Position and Results of Operations of Deutsche Annington Immobilien SE**

The results of operations and the ability of Deutsche Annington Immobilien SE to generate cash surpluses and thus its net assets and financial position are largely determined by the ability of the Group companies to generate earnings and cash surpluses. The consolidated view of the net assets, financial position and results of operations is expressed in the consolidated financial statements of Deutsche Annington Immobilien SE, which are prepared in accordance with the international reporting standards IFRS and published in the Federal Gazette (Bundesanzeiger).

Where the description of the net assets, financial position and results of operations of the Group are mentioned in this management report, the presentation is largely based on the information given in these consolidated financial statements.

### **2.1 Business Performance of the Deutsche Annington Immobilien Group**

#### **Year of change and paving the way**

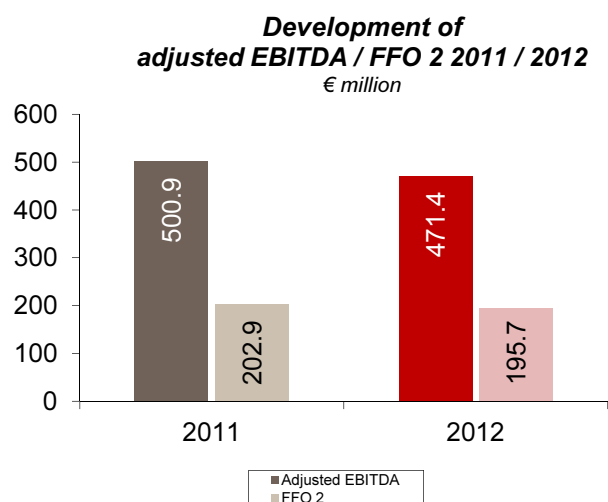
2012 was a year of great change for the Deutsche Annington Immobilien Group – and a year when important groundwork was laid for the future. Our focus remained firmly on customer satisfaction. By implementing comprehensive measures to enhance the quality of our services and property management, we were able to improve our customer performance and thus achieve higher customer satisfaction ratings. Furthermore, we successfully completed the restructuring of the GRAND securitisation, which was finalised at the end of the year. The intensive efforts made during the year are also reflected in our key performance indicators, adjusted EBITDA and FFO 2.

In 2012, we made further strides on our way to significantly improving customer satisfaction. Two important steps were the regionalisation of customer service and the expansion of our facility manager and craftsmen's organisations. We now have considerably more of our own employees working locally to look after our customers: at the end of 2012, 371 facility managers and 704 employees from our craftsmen's organisation were deployed to take care of our customers' needs. Our customer service settles some 80 % of all customer inquiries and requests directly on the phone. Our field workers sort out the rest directly with the customers on site.

Thanks to our improved letting performance, the vacancy rate fell by 0.4 percentage points to 3.9 % in 2012. Rents increased significantly by 2.3 %. Apartment sales were again up in 2012 on the previous year's figure. At the same time, we again made considerable investments of € 216.7 million in the quality of our housing stock.

The development of our two most important performance indicators, adjusted EBITDA and FFO 2, was impacted by efforts to further improve our company's operational performance. Furthermore, the profit from property sales in 2011 included an influence from the sale of trading properties which were

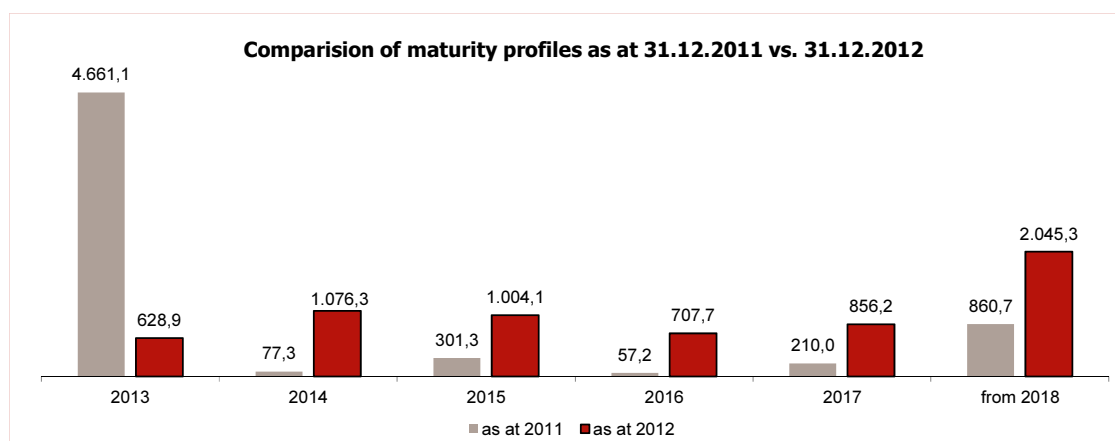
measured at amortised cost. At the end of 2011, all trading properties were retransferred to investment properties, a fair value adjustment on these properties being performed to affect net income.



At the beginning of March 2012, Deutsche Annington Immobilien GmbH was converted into a stock corporation (AG) and in June 2012 into a Societas Europaea (SE). With this change in the legal form, we formally created the option for a flotation of the company. The societas europaea is a modern legal form which creates the prerequisites for gearing to the equity markets and, at the same time, ensures greatest possible flexibility in the international context.

Alongside efforts to improve the company's operational and economic performance, 2012 was marked by activities started in the year before to refinance the GRAND securitisation maturing in 2013. In December 2012, we successfully finalised the restructuring of the GRAND securitisation ahead of maturity. The reaction of the financial markets, media and analysts to the completed restructuring of the GRAND Notes was unanimously positive.

All in all, the restructured GRAND securitisation has led to a balanced maturity structure.



## **2.2 Net Assets, Financial Position and Results of Operations of Deutsche Annington Immobilien SE**

### **Income from the management function**

As a management holding, Deutsche Annington Immobilien SE does not record any sales revenue. Its results of operations are determined by the income from investments, transfers of profits and losses by subsidiaries and the charging of the services which its subsidiaries use. The expenses incurred for this are largely personnel expenses and non-personnel costs in connection with the performance of the management function. The financial result is governed by the receivables and liabilities existing as part of the Group financing.

The other operating income of Deutsche Annington Immobilien SE mainly contains onward charges and fees, which rose by € 38.1 million to € 113.5 million in 2012. The Company therefore recorded an increase of € 49.6 million in other operating income in the reporting period. This is also a result of passing on the cost of additions to the long-term incentive plans to Monterey Holdings I S.à r.l.

In turn, personnel expenses rose by € 13.6 million to € 44.4 million and other operating expenses by € 26.9 million to € 89.1 million. The increase in other operating expenses largely results from the costs incurred in connection with the restructuring. This is reflected in the higher expenses for legal and consultancy costs, which increased by € 23.0 million to € 55.0 million.

The income statement of Deutsche Annington Immobilien SE shows profit from investments of € 39.0 million in 2012 (2011: € 26.2 million) which comprises income from investments of € 4.0 million (2011: € 4.0 million), income from profit transfer agreements of € 36.8 million (2011: € 23.3 million) as well as expenses for the assumption of losses of € 1.7 million (2011: € 1.1 million). Furthermore, the profit from investments is negatively impacted by write-downs to the net realisable value of shares in affiliated companies amounting to € 0.1 million (2011: € 0.1 million). The increase in the profit from investments in 2012 is largely due to the conclusion of new profit transfer agreements and the positive development of the results of some subsidiaries.

The net interest expense of the Company increased by € 6.3 million to € 31.4 million. The main reasons for this rise were restructuring costs which impacted the interest result.

Income taxes remained at the prior-year level in 2012 and amounted to € 0.3 million. The tax expense shown in 2012 relates in its entirety to taxes for prior periods.

In the 2012 financial year, EBITDA totalled € 42.3 million (2011: € 20.4 million). EBITDA is earnings before interest, tax, depreciation and amortisation, and extraordinary result.

In 2012, Deutsche Annington Immobilien SE recorded net income for the year of € 9.6 million (2011: net loss of € 7.2 million).

## **Net assets and financial position governed by shares in Group companies, higher equity ratio and Group financing**

The financial position is largely determined by Group financing and the charging of the management function.

Equity amounted to € 1,226.5 million as at the balance-sheet date. This is a year-on-year increase of € 343.7 million, which is mainly due to contributions of € 334.1 million made by Monterey Holdings I S.à.r.l. as part of the GRAND restructuring as well as the net income for the 2012 year of € 9.6 million. The equity ratio as at December 31, 2012 was therefore 65.2% (2011: 50.4%).

Within liabilities, the Company shows provisions for pensions and similar obligations of € 32.4 million (2011: € 30.2 million), which are non-current.

Nearly all the remaining liabilities totalling € 654.3 million have a remaining term of less than one year and include liabilities to affiliated companies of € 537.5 million. The liabilities to affiliated companies decreased by € 251.7 million compared with the previous year, particularly as a result of capital repayments made possible by contributions by the shareholder.

Current assets amounted to € 268.6 million. Of this figure, € 193.7 million were receivables from affiliated companies and € 70.6 million were credit balances at banks. The credit balances at banks include balances in bank accounts pledged to third parties of € 2.7 million, which are blocked to secure purchase price payments until performance of the work still outstanding under the respective contract.

In addition to the existing cash and cash equivalents, the Company's ability to pay was ensured at all times in the reporting period owing to cash pooling. The credit balances at banks particularly of the FSG Group, the service companies and PRIMA Wohnbauten Privatisierungs-Management GmbH are pooled daily as part of cash pooling. The annual interest rate for any resulting receivable is EONIA plus 40 bps and for any resulting liability EONIA minus 25 bps.

The assets of Deutsche Annington Immobilien SE are determined by the shares in Group companies amounting to € 1,606.1 million (2011: € 1,607.7 million). The change compared with 2011 is largely a result of the withdrawal from the capital reserves of Deutsche Annington Holdings Eins GmbH, Düsseldorf. Furthermore, there are receivables from affiliated companies under Group financing amounting to € 193.7 million (2011: € 96.5 million). Under the LTIP programme, the Company has an entitlement to a reimbursement of € 15.0 million from the sole shareholder.

## **Business performance as well as the net assets, financial position and results of operations of the Group as the determining factors for the position of the Company**

The Company's net assets, financial position and results of operations are determined by the ability of the Group companies to generate earnings and cash surpluses.

Accordingly, we refer at this point to the consolidated financial statements and in particular the Group management report.

Therefore, in the following it is mainly the situation of the Group that is discussed. Where the description of the net assets, financial position and results of operations refers to Deutsche Annington Immobilien SE as such, reference is made thereto in the explanation.

Statements on the strategy, economic environment, the development of the net assets, financial position and results of operations, the fair values, the risk environment and future development in the forecast report apply similarly to Deutsche Annington Immobilien SE.

### **2.3 Significant Events after the Balance-sheet Date**

On January 21, 2013 Monterey Holdings I S.à.r.L., Luxembourg, contributed "S" loans amounting to € 239.1 million into the capital reserves as a non-cash contribution.

## **3. Position of the Deutsche Annington Immobilien Group**

### **3.1. Structure and Strategy**

The Deutsche Annington Immobilien Group is a service-driven holder and manager of residential property in Germany. We want to expand our position as the market leader in the years to come and further increase earning power through property management and portfolio management and by providing additional real-estate-related services. The improved internal structures and processes are making a major contribution towards achieving these goals.

#### **Business model: service-driven management of residential properties**

Our core business is to provide affordable accommodation for broad sections of the population. We supplement this business with additional real-estate-related services which provide advantages for our customers and our owners. A further business activity is portfolio optimisation. We sell selected properties and systematically integrate new housing stocks into the Group.

Property Type	Count
Own apartments	181,669
Garages and parking spaces	42,241
Apartments owned by others	26,404
Commercial units	1,371

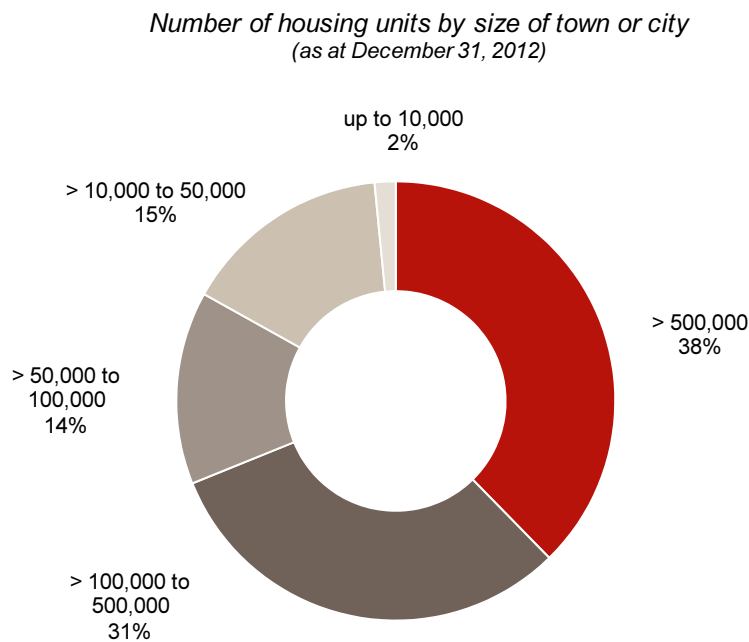
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graph TD
    A[1848  
Raab Karcher] --> D[Viterra]
    B[1895  
Establishment of  
Urbana in NRW] --> D
    B --> C[1923  
Establishment of  
Deutschbau (Post,  
Reichswehr)]
    C --> E[from 1910  
Veba Immobilien]
    C --> F[1918  
Establishment of  
Wohnungsgesellschaft  
Ruhr-Niederrhein mbH  
Essen]
    E --> D
    E --> G[1948  
Establishment of  
Wohnbau Rhein-Main]
    D --> H[Heimbau  
RWE]
    G --> H
    F --> I[2001  
Establishment of Deutsche  
Annington Immobilien Group  
(Bundeseisenbahnvermögen)]
    H --> J[Deutsche Annington  
Immobilien Group  
today]
    I --> J
  
```

The diagram illustrates the historical development of Deutsche Annington Immobilien Group. It begins with Raab Karcher in 1848. In 1895, Urbana in NRW was established, which later merged with Veba Immobilien (from 1910) to form Viterra. In 1923, Deutschbau (Post, Reichswehr) was established, which merged with Veba Immobilien and later with Wohnbau Rhein-Main (established in 1948) to form Heimbau RWE. In 1918, Wohnungsgesellschaft Ruhr-Niederrhein mbH Essen was established, which merged with Heimbau RWE and Deutsche Annington Immobilien Group (established in 2001) to form the Deutsche Annington Immobilien Group today.

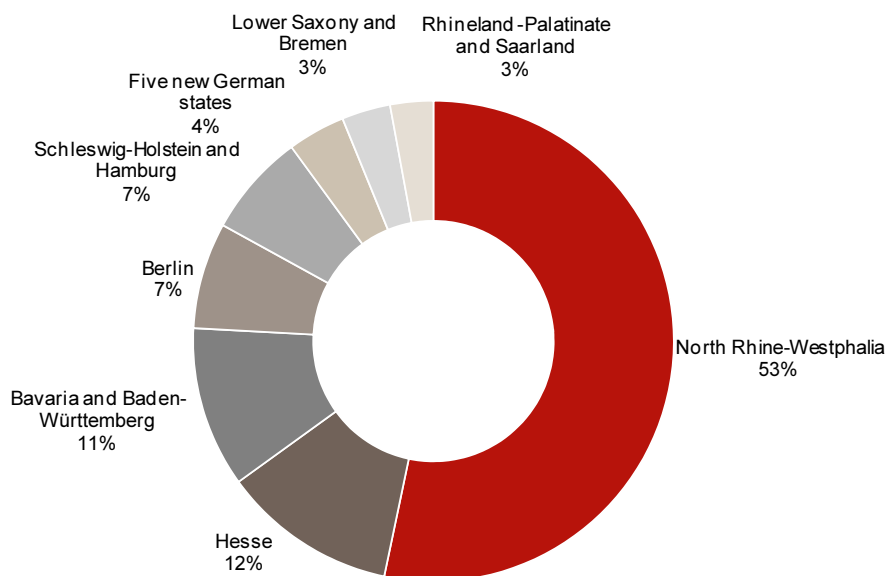
### Residential properties in 600 cities, towns and villages

The Deutsche Annington Immobilien Group is, today, the largest housing company in Germany. In total, we manage 181,669 apartments of our own, 42,241 garages and parking spaces as well as 1,371 commercial units. What's more, we also manage 26,404 apartments for other owners. The Deutsche Annington Immobilien Group offers accommodation in some 600 cities, towns and villages throughout Germany.



Approx. 69 % of our portfolio is concentrated in cities with more than 100,000 inhabitants. The focus is on the Ruhr area, Berlin, the Rhine-Main region and southwest Germany. The four biggest locations are Dortmund, Berlin, Frankfurt am Main and Essen. The vast majority of our housing stocks (96 %) are situated in the states of former West Germany (including Berlin). 53 % are in North Rhine-Westphalia. Therefore, by far the largest proportion of our residential portfolio is located in the most highly populated German state.

*Structure of the Deutsche Annington residential portfolio by German state*



**Our offering: suitable accommodation at attractive prices**

With our portfolio, we generate an average monthly net cold rent of € 5.27 per square metre (2011: € 5.15 per square metre). Nearly half of our apartments (43 %) have living areas of up to 60 square metres. Thus the Deutsche Annington Immobilien Group is a major provider of affordable, small and medium-sized apartments. Industry experts are currently predicting that this market segment will offer the best opportunities since the demand for smaller apartments will grow disproportionately as the number of one and two-person households increases in the coming years and decades.

## Data on the Deutsche Annington residential portfolio

Portfolio as at Dec. 31, 2012								
20 largest locations	Units	Share in %	Living area in m²	Average living area per unit in m²	Annualised net cold rent * in € million	Share in %	Monthly net cold rent/m²* in €	Vacancy rate* in %
Dortmund	17,705	9.7	1,079,286	61	60.6	8.3	4.68	2.8
Berlin	12,992	7.2	837,119	64	56.7	7.7	5.65	1.7
Essen	10,190	5.6	624,822	61	38.6	5.3	5.15	5.6
Frankfurt	10,101	5.6	626,216	62	52.2	7.1	6.95	0.9
Gelsenkirchen	8,315	4.6	504,388	61	27.3	3.7	4.50	6.7
Bochum	7,677	4.2	443,455	58	26.8	3.6	5.03	2.6
Duisburg	4,809	2.6	286,099	59	16.7	2.3	4.86	4.6
Munich	4,741	2.6	315,416	67	23.7	3.2	6.25	0.8
Herne	4,628	2.5	283,430	61	15.8	2.1	4.64	4.9
Bonn	4,322	2.4	303,162	70	21.7	3.0	5.96	2.8
Cologne	4,195	2.3	274,807	66	20.6	2.8	6.24	2.1
Gladbeck	3,289	1.8	201,268	61	11.7	1.6	4.85	3.3
Herten	2,765	1.5	178,037	64	9.6	1.3	4.47	3.9
Marl	2,532	1.4	169,442	67	10.3	1.4	5.08	7.6
Düsseldorf	2,517	1.4	164,498	65	13.4	1.8	6.80	2.6
Aachen	2,210	1.2	146,929	66	9.4	1.3	5.31	1.2
Wiesbaden	2,105	1.2	140,516	67	12.2	1.7	7.21	1.9
Bergkamen	2,022	1.1	133,829	66	7.2	1.0	4.46	9.3
Geesthacht	2,003	1.1	114,186	57	7.5	1.0	5.44	4.3
Bottrop	1,968	1.1	123,848	63	7.4	1.0	5.01	3.5
<b>Sub-total for 20 largest locations</b>	<b>111,086</b>	<b>61.1</b>	<b>6,950,750</b>	<b>63</b>	<b>449.2</b>	<b>61.2</b>	<b>5.39</b>	<b>3.6</b>
<i>Other locations</i>	70,583	38.9	4,652,297	66	284.7	38.8	5.10	4.5
<b>Total</b>	<b>181,669</b>	<b>100.0</b>	<b>11,603,047</b>	<b>64</b>	<b>733.9</b>	<b>100.0</b>	<b>5.27</b>	<b>3.9</b>

\* as at beginning of December

## Organisational control: management through three functional areas

Deutsche Annington controls its processes through three functional areas:

Business Management, Property Management and Corporate.

- The ownership function is pooled under *Business Management*. It is performed by four business units – Westphalia, North/East, South/Southwest and Ruhr/ Rhineland. Local decisions about properties are taken by business managers who are each responsible for a certain portfolio permanently assigned to them. This ensures that in-depth knowledge of a property and market proximity of the business managers can be used to better effect. They provide the important basis for decisions to be taken in a well-founded and considered manner.
- The focus of *Property Management* is on the direct support of our customers through customer service. Customer service is divided into two core units: the Local Customer Service and Central Customer Service.
- The **Local Customer Service** is divided into seven regions: North, East, Westphalia, Ruhr, Rhine, Southwest and South. Our field workers on site deal with tenant inquiries and requests which the Central Customer Service could not settle on the phone. At the same time, they also process customer orders which the staff at our service locations have taken.

- In **Central Customer Service**, teams of employees are permanently assigned to our four business units (Westphalia, North/East, South/Southwest and Ruhr/Rhineland). The Central Customer Service can be reached at a low-cost regional phone number.
- All necessary management and support functions are pooled in the third functional area, Corporate.

Deutsche Annington Immobilien SE assumes the function of the management holding in the Group. In this function, it performs property management, financing, service, coordination and strategic management tasks for the Group. To carry out these management functions and for operational control, Deutsche Annington Immobilien SE has established service companies to pool functions in them such as customer service or IT. By pooling the corporate functions, Deutsche Annington Immobilien SE achieves harmonisation, standardisation and economies of scale objectives and therefore the other Group companies do not need to perform such functions themselves. The service companies handle the operational business of the Group and perform the services for the real estate companies and therefore also for our customers. The costs of the services performed are charged to the Group companies in line with the actual services used by each company and on the basis of recognised transfer pricing methods (cost-plus).

#### **Our mission: long-term success and sustained first-rate performance**

In our business, we believe in focusing on the long-term development of our company and total commitment to this goal. Our mission is clearly defined: we offer affordable accommodation for broad sections of the population and are a reliable service provider for our customers. We want to offer service, cleanliness, security and social integrity for our customers.

In conjunction with our services, we assume responsibility for our housing stocks and make a contribution to solving the societal challenges that arise from demographic and social changes in our residential estates.

At the same time, we manage our properties in a success-focused manner in this business environment and secure a stable return for all our investors.

#### **Success-driven company**

Ultimately, the purpose of our company is to generate earnings and provide a sound return for our investors. We increased operational performance in our core business in the past year. The vacancy rate in our properties fell to 3.9 % which meant that our properties in many regions were virtually fully let. As a result, we reduced our vacancy losses by € 3.7 million (8.4 %). At the same time, the average monthly net cold rent had increased by 2.3 % to € 5.27 per square metre at the end of 2012. With 4,819 apartments sold in 2012, the Sales unit exceeded its 2011 performance figures by more than 50 %.

**Strategy: profitable growth in core business**

The Deutsche Annington Immobilien Group's declared aim is to achieve sustained and profitable growth in its core business. This is supplemented with selected housing-related additional business. We focus on the following subjects:

- **Convincing our customers in day-to-day business and further improving business processes**

Through our property rental and other services, whose quality we continually review and increase, we offer our customers a competitive range of properties with services to match. We continually improve our business processes and adjust them to the current requirements. Parallel to this, we maintain the quality of our housing stocks at a modern-day standard and selectively increase it. Both approaches help to enable us to let our apartments on a long-term basis and on economically sound terms and conditions.

- **Actively driving the core business forward**

In our core business we would like to grow by further increasing efficiency and improving quality. For us this includes continuously reducing voids, raising average rents in line with the market and improving our cost structure. In the housing-related business areas, we are pursuing selected growth initiatives. We apply strict success criteria when selecting additional business opportunities and concentrate on profitable fields.

- **Refinancing long-term liabilities**

We rely mainly on long-term debt financing of our housing stocks. The repayment and renewal of borrowings is part of the routine business of our Finance department. The aim in future is to achieve a refinancing profile in which marketable tranches are refinanced in a continuous process using various financing sources on the capital and banking markets. The refinancing of the GRAND securitisation, the largest single loan of the Deutsche Annington Immobilien Group, was completed in 2012 ahead of maturity in mid-2013. We are confident that we can also successfully master the challenges of future refinancings.

- **Further developing the housing portfolio by acquisitions and selective sales**

As a housing company geared to long-term property management, we continually examine possibilities of further expanding our housing stocks. In doing so, we concentrate on attractive portfolios with more than 500 residential units in urban areas with a positive demographic forecast. One important aspect which we must consider when acquiring properties is whether they fit into our portfolio structure, can be integrated into our modern company processes and will satisfy our earnings criteria in the short to medium term. We examine both private-sector and public-sector housing

portfolios which are up for sale. When taking over housing stocks, we are used to dealing with special agreements such as comprehensive social clauses to protect tenants.

We sell units in a selective manner; our offers for sale are made primarily to our tenants. Furthermore, we approach other prospective owner-occupiers and, in some cases, capital investors. At the same time, we selectively sell multi-family houses where sale is more advantageous than keeping them in the Deutsche Annington portfolio. We involve tenants and local authorities in this process at an early stage and ensure social compatibility between tenants and owners.

### **Strengths of our profile as a service-driven landlord with social responsibility**

#### **Service-driven landlord**

As Germany's largest residential property rental company, the Deutsche Annington Immobilien Group has a strong market position throughout Germany. The Group uses this size advantage to actively expand the services it provides in addition to pure property rental in its market segment – affordable apartments, mainly in metropolitan areas. The Group not only optimises its own services but also generates purchasing advantages for its tenants by bundling demand. With this combination it offers current and potential tenants an attractive package of services, which is an advantage when competing for long-term tenant loyalty. The services offered range from ancillary cost savings to the negotiation of discounts on purchases from selected service providers.

#### **Initiatives to increase customer satisfaction**

To be successful in today's housing industry, a company must get three things right: the service provided for the customer, speed of response and cost efficiency. This can only be achieved with well-coordinated processes which intermesh optimally. The focus of all our activities is always customer satisfaction. We continued to work on improving customer satisfaction, laying important groundwork in 2012. The aim was to further increase our presence in the residential estates where our customers live.

#### **Customer service with clear regional responsibilities**

In the reporting year, we reorganised our customer service and divided it into two core units:

- **Central Customer Service and**
- **Local Customer Service.**

In the **Central Customer Service** in Bochum, we have reassigned the regional responsibilities of our employees who have direct contact to our customers. A team of employees is permanently assigned to and responsible for each of our four business units (Westphalia, North/East, South/Southwest and Ruhr/Rhineland). By allocating a certain portfolio permanently to each employee, we ensure that in-depth knowledge of the properties and neighbourhood can be put to better use. This enables us to respond to tenant inquiries and requests in an even more targeted manner.

The **Local Customer Service** is divided into seven regions. Our Local Customer Service field workers are each responsible in the regions for a certain portfolio at some 211 service locations. Just as in the Central Customer Service, this means that the field workers' in-depth knowledge of the properties can be used to better effect and decisions can be taken in a well-founded and considered manner in the interest of our customers. The field workers deal with tenant inquiries on site which the Central Customer Service could not settle on the phone. At the same time, they also process customer orders which the staff at our service locations have taken.

As a result of the measures implemented, we have achieved greater flexibility as well as faster response times in customer service. Overall, we can now respond even faster and even more reliably to our customers' wishes and have increased our local presence with our own employees. An additional benefit is that the division into regions has meant that the customer service employees identify more with the properties they look after. At the same time, we expanded our own craftsmen's and facility manager organisations in 2012.

#### **Closer to the customer with our own facility managers and craftsmen**

In 2011, we started to build up our own facility manager organisation: Parallel to this, we established a craftsmen's organisation together with a joint venture partner. This organisation operates under the names Deutsche TGS West GmbH and Deutsche TGS GmbH.

We used the 2012 financial year to further gear the new facility manager organisation to the new processes and enlarge it. Our facility managers are the direct contacts for the tenants and our local service providers. At the same time, they make sure that our residential estates are clean and tidy. We offer this service for some 140,000 apartments.

After setting up our own craftsmen's organisation in 2011, we started performing the craftsmen's work in our residential buildings ourselves. This work includes painting, plumbing, heating and masonry jobs. At the beginning of July 2012, we expanded the regional coverage of this customer service by establishing Deutsche TGS GmbH.

In 2012, our own craftsmen's organisation performed roughly 195,000 minor repairs and renovated some 5,000 vacant apartments. At the end of 2012, 704 employees worked at ten locations throughout Germany and were responsible for about 180,000 apartments.

As a supplement to the above-mentioned measures, we bundled and contracted out the services outside the buildings such as gardening work, winter service, street, pavement and house cleaning to one single provider, Alba Facility Services. This step means price and performance stability for the Deutsche Annington tenants until 2016.

### **Investments in modernisation and maintenance considerably increased**

In 2012, Deutsche Annington invested more in improving the quality of our residential estates than ever before: we successfully carried out 196 modernisation projects involving a total of 2,876 units as well as a large amount of maintenance work throughout Germany. Including the services performed by our own craftsmen's organisation, expenditure on such work increased by 12.6 % to € 216.7 million compared with the previous year (2011: € 192.5 million).

A large amount of the modernisation and maintenance investments went into energy-saving measures as well as into improving the quality of the housing. For example, we insulated facades, cellar ceilings and attics for a living area of some 185,200 square metres.

In our modernised residential estates, energy consumption falls considerably, which also reduces CO<sub>2</sub> emissions. The lower energy consumption not only benefits the environment but also our tenants in the form of lower ancillary costs. At the same time, with these investments we increase the attractiveness of our residential units and therefore ultimately ensure sustained rental income.

In the last three years, we have spent some € 581 million on modernisation and maintenance work on our housing stock.

### **Energy management leads to lower costs for tenants**

Major ancillary cost items are gas, electricity and oil, where prices have been steadily rising for years. These higher prices are a significant extra financial burden on our tenants. To keep the costs for our customers as low as possible, we are in constant contact with cross-regional energy providers.

As part of our energy management activities, we sign regional framework agreements for our tenants, for example for the supply of gas, electricity and oil. By bundling the purchase of services, we also achieve significant cost advantages for our tenants in other fields as we pass on the special conditions we have negotiated to our customers.

### **Modern fibre optic technology installed in apartments**

At the end of 2011, Deutsche Annington entered into a strategic partnership with Deutsche Telekom in order to equip our residential units throughout Germany with modern fibre optic technology and provide the tenants with a TV signal through the subsidiary Deutsche Multimedia Service GmbH (DMSG). In addition to a wider range of TV channels, the tenants will be connected to the fibre optic network and therefore have access to the fast broadband connections of Deutsche Telekom.

In the first half of 2012, the green light was given for connecting some 171,000 apartments of Deutsche Annington throughout Germany to the fibre optic network. During 2013, the first 42,000 apartments will be provided with a TV signal through DMSG. With this new offer, we are giving our customers access to the latest telecommunications infrastructure and, at the same time, increasing the attractiveness of our apartments.

### **Customers benefit from certified ancillary cost bills**

In the past two years, we continuously improved our business processes. As a result, we were able to increase the quality of ancillary cost and service charge bills and speed up the whole billing process. Since 2010, we have more than halved the number of customer complaints about ancillary cost bills. At the same time, the justified customer objections were cut to 3 %, partly due to the fact that the bills sent to our customers were easier to understand.

In the last two years, the quality of our ancillary cost and service charge bills was attested by the Geislinger Konvention quality seal and ISO 9001:2008 certification by TÜV Rheinland. The certifications verify the efficiency of our processes as well as the high quality of our ancillary cost and service charge bills. Both customer and company benefit from this equally.

### **Socially responsible partner**

The housing stocks of the Deutsche Annington Immobilien Group come from the merger and integration of various housing companies. When we acquired them, comprehensive social clauses were generally agreed to protect the tenants. We work closely in the communities with all those involved in a spirit of trust, are committed to the development of urban districts and conclude individual estate agreements. Our Group is party to numerous regional cooperation agreements throughout Germany. We maintain a constructive dialogue with political representatives and tenants' associations.

We help our tenants in difficult situations. Through our two non-profit foundations, we offer help in cases of social hardship and to people in need. Our foundations also promote favourable neighbourhoods and vocational training. Furthermore, we are involved in many social projects in the areas where our residential estates are situated. We encourage a strong community spirit among our tenants by supporting tenants' festivals, initiatives and clubs. Through sponsoring, we back social projects for children and young people as well as cultural activities.

### **Apartments converted to be senior-friendly**

The demographic change which Germany is facing can already be seen in the Deutsche Annington tenant structure: some 40 % of our tenants are over 60. Many older people want to live for as long as possible in their own four walls and in their neighbourhood – and we have prepared ourselves accordingly. We are continuously converting some of our apartments to meet the needs of the elderly. Our aim is to safeguard the quality of housing and life for our customers in the long term. Therefore, our concept "Living in old age" would not be complete without close cooperation with politicians, welfare associations and local service providers.

### **Advice to tenants in arrears**

Since early April 2012, Deutsche Annington has been offering free rent debt counselling to its own tenants throughout Germany together with Arbeiterwohlfahrt (Workers' Welfare Association). If the tenant wants further counselling, he is passed on to regional Arbeiterwohlfahrt branches or other local advice centres.

In addition to rent debt counselling, we offer further special counselling to tenants who are facing eviction after falling behind with rent payments. To provide this service, we currently employ some 70 social managers who give our tenants expert advice and can work out individual solutions where required. Initial experience shows that it is a great relief for tenants who have got into financial difficulties to tackle their debt problems with experts.

At the same time, we are also pursuing the goal of reducing arrears on receivables at market conditions in order to also ensure proper payment for all the services we provide. Each customer who is successfully given counselling means one less notice which has to be served by the landlord. It also increases the tenants' trust in the company and therefore customer satisfaction as well. The success shows that this is the right approach.

### **3.2. Economic Environment**

#### **Overall economy: global economy impacted by the euro crisis**

The global economy lost momentum in 2012. While global growth still ran at 3.8 % in 2011, the German Council of Economic Experts estimates in its annual report for 2012/2013 that economic performance increased by 3.3 % in 2012. Sustained consolidation efforts in the private and public sectors as well as great uncertainty regarding the further development of the euro crisis led to a decline in gross domestic product (GDP) in the eurozone and in the United Kingdom. The United States, Japan and the emerging markets had a stabilising effect although the growth rates of the emerging economies are likely to have slowed in 2012.

The Institute for Economic Research at the University of Munich (ifo) is expecting GDP to decline by 0.5 % in the eurozone in 2013. This downturn is mainly a result of a fall in domestic demand. Only Germany, Austria, Estonia, the Netherlands and Slovakia have so far managed to escape the downward trend although economic momentum also slowed here as well.

#### **German economy loses impetus**

According to an estimate of the German Council of Economic Experts, domestic demand was also weak in Germany. By contrast, exports held up well in a difficult foreign trade environment. They made a major contribution to growth. According to the Federal Statistical Office (Destatis), the German economy continued to grow on an annual average in 2012: GDP increased by 0.7 % compared with the previous year. The disposable income of private households in Germany rose by 2.3 % in 2012 in a year-on-year comparison.

Prospects on the labour market remain good. According to Destatis, the unemployment rate as defined by the ILO fell on an annual average by 162,000 (- 6.5 %) to 2.34 million compared with the previous year. This unemployment rate - defined as the percentage of people out of work in the labour force - dropped by 0.4 percentage points to 5.3 %.

## **HOUSING MARKET: rents continue to rise in 2012**

The upward trend in residential rents continued in 2012. According to information from the German Association of Real Estate Consultants, Agents, Managers and Experts (IVD), the rents in new contracts for apartments built before 1948 of an average standard rose on a national average by 3.1 %. For apartments built in or after 1949, the increase was 2.3 %. Given an inflation rate of 2.0 %, this development can be regarded as moderate. According to the IVD, rents in new contracts in Germany rose continuously and virtually nationwide: in cities with over 500,000 inhabitants, they rose by 3.0 % (built before 1948) and 4.2 % (built in or after 1949).

According to the residential rent index determined in surveys by the Hamburg research and consultancy company, F+B, rents under existing rental contracts had risen by 0.7 % by mid-2012 compared with the prior-year period. Rising rents are also to be observed in the new-build segment. According to IVD, new-build rents (average standard) increased in cities by 4.1 % and in rural areas by 1.8 %. A sharp rise in the number of building permits for apartment buildings in 2011 and 2012 compared with 2010 is preventing even higher rates of increase in new-build rents.

According to the Federal Institute for Research on Building, Urban Affairs and Spatial Development (BBSR), the main reason for the current rent rises is higher demand for housing in cities. Furthermore, positive economic developments and increases in the number of jobs in recent years are creating pent-up demand in some areas. This is also affecting many regions where rents were previously stagnating or falling.

## **Further fall in vacancy rate**

The vacancy rate in the properties owned by housing companies represented by GdW Bundesverband deutscher Wohnungs- und Immobilienunternehmen e.V. was 5.0 % at the end of 2011 and therefore 0.3 percentage points lower than at the end of 2010 (5.3 %). In the new states (formerly East Germany), the vacancy rate fell by 0.3 percentage points from 8.3 % to 8.0 %. In the old states, it decreased by 0.2 percentage points from 2.9 % to 2.7 %. Overall for 2012, GdW is expecting a slight decline in the vacancy rate of 0.1 percentage points to 4.9 % with the vacancy rate in the new states falling to 7.9 % and remaining stable in the old states at 2.7 %.

According to the BBSR's housing market forecast for 2025, the demographic and societal changes in Germany will lead to an increasing vacancy risk in future, particularly in regions in the new states. At the same time, many other regions can expect stable or rising demand for housing.

## **Purchase prices for residential properties continue to increase**

The rise in purchase prices for residential properties seen in recent years also continued in 2012. According to analyses of the IVD, the square metre prices for existing owner-occupier apartments of an average standard increased on a national average by 3.1 % compared with the previous year. There are great regional differences in the price rises. Whilst prices often increased by up to 1.0 % in small towns, prices in cities with more than 500,000 inhabitants rose by between 3.8 % (basic

standard) and 9.1 % (high standard). The price increase for new-build apartments (average standard) was 4.8 % on a national average and 7.7 % in cities. According to the IVD, the prices for detached, semi-detached and terraced houses increased by 2.8 % (detached or semi-detached house, average standard) and 2.4 % (terraced house, average standard) in a year-on-year comparison. According to the F+B residential index, the prices for apartment buildings had increased by 1.5 % by mid-2012 compared with the prior-year period.

According to a survey carried out for Wüstenrot Immobilien, rising rents mean that nearly one in four German tenants would like to look for a cheaper apartment. Above all interviewees with mean net household incomes intend to move. Some 18 % of Germans are considering buying a residential property.

### **High demand for housing portfolios**

The number of properties changing hands on the housing investment market in Germany increased compared with 2011 according to Jones Lang LaSalle (JLL) and Dr. Lübke. In the first nine months of 2012, a portfolio transaction volume of some € 8 billion was achieved. In the view of experts, the volume was therefore 75 to 100 % up on the prior-year period. This development was above all the result of four major transactions, each involving more than 20,000 residential units. At a total sum of € 4.6 billion, they account for more than half of the total transaction volume and include the residential properties of DKB Immobilien AG, the residential properties of LBBW Immobilien as well as the BauBeCon portfolio and the Speymill portfolio.

In view of the investment activity in the first nine months and further major transactions – such as the sale of 11,350 TLG apartments in the fourth quarter of 2012 – the experts of CBRE, Dr. Lübke and JLL estimate a transaction volume of a good € 10 billion for 2012 as a whole.

According to CBRE Global Research and Consulting (CBRE), the buyer structure is diverse. On the buyer side, above all German listed real estate companies dominated in the first nine months of 2012 with a share of about 40 % of the total volume, followed by mainly foreign asset/fund managers and insurance companies/pension funds, each with some 20 %.

The experts of JLL and Patrizia Immobilien believe that Germany remains one of the most attractive housing markets in the world for institutional investors. Despite falling returns at high-price locations, a shortage of properties on offer is preventing a higher transaction volume. Investors are again increasingly searching at secondary locations with a more attractive risk-return ratio.

### **More buildings completed due to historically favourable financing conditions**

According to information published by the Federal Statistical Office, building permits were issued for 178,100 apartments between January and September 2012. That is an overall increase of 6.2 % compared with the prior-year period. The number of building permits for apartments in multi-family buildings showed a particularly sharp rise (14.0 %). The experts of Landesbausparkassen (LBS) are

expecting a total of some 240,000 housing construction permits for 2012; that is an increase of 6 % compared with the previous year. The number of residential units completed in 2012 is expected to have exceeded the 200,000 mark.

According to analyses made by the mortgage broker, Interhyp, the interest rates for housing construction loans in 2012 were at times the lowest ever in the history of the Federal Republic of Germany. The low interest rates are keeping mortgage payments low so that the cost of buying a home has in many cases not increased in the last two years although property prices have risen.

### **Number of private households will continue to rise**

Despite the declining population, the number of private households in Germany will increase to 41.3 million (2010: 40.3 million) by 2030. This is the result of the latest population forecast published by the Federal Institute for Research on Building, Urban Affairs and Spatial Development (BBSR). The reason for the larger number of households is the continued trend towards smaller households as part of the demographic change and the rising number of single people. In 2030, there will be some 5 % more one and two-person households. In rural areas, more and more elderly people will live in smaller households, whilst young couples and single people will move to the cities. Therefore, the demand for accommodation in the metropolitan areas will continue to grow and regional shortages may become more acute.

### 3.3. Business Review

The business review for the Group which determines the net assets, financial position and results of operations of the Company is described in the following.

#### **Overview of the key performance indicators of the Deutsche Annington Immobilien Group in 2012**

in € million	2012	2011
Income from property management	1.064,9	1.078,3
Profit from property management	437,3	448,6
Income from disposal of properties	304,9	253,3
Profit from property sales	34,1	52,3
EBITDA IFRS	450,2	483,0
EBITDA (adjusted)	471,4	500,9
FFO 2 (incl. profit from property sales)	195,7	202,9
Investments	98,9	63,0
Profit from property management (€/m <sup>2</sup> )	37,18	37,31
Number of employees (as at Dec. 31)	2.260	1.279
Number of units sold (recorded sales)	4.819	3.169
<i>Sold individually</i>	2.784	2.503
<i>Other sales</i>	2.035	666
Vacancy rate in % (as at Dec. 1)	3,9	4,3
Monthly net cold rent (€/m <sup>2</sup> )	5,27	5,15
Number of residential units in portfolio (as at Dec. 31)	181.669	186.530

#### **Improving quality of property management impacts on earnings**

In the 2012 financial year, the Deutsche Annington Immobilien Group stepped up its activities geared to optimising the business processes in the core business, Property Management, and improving the quality of its own residential units. These included expanding the facility manager and craftsmen's organisations, assigning the customer service staff to particular regions and improving the quality of the housing stock. The aim was to further increase operational performance.

The operating metrics, vacancy rate, net cold rent and revenue deductions, all showed a positive development in the reporting period. We cut the vacancy rate significantly from 4.3 % (2011) to 3.9 % and the resulting vacancy losses by 8.4 % to € 40.6 million. Our net cold rent rose by 2.3 % to € 5.27/m<sup>2</sup>/month (2011: € 5.15/m<sup>2</sup>/month). At the same time, the number of residential units sold increased by 52.1 % from 3,169 to 4,819 units. This rise is mainly due to the larger number of housing stocks sold under our portfolio optimisation programme. The margin on these housing stocks is generally lower than on the units sold under the privatisation programme.

The development of our key performance indicators, adjusted EBITDA and FFO 2, was impacted in 2012 by the company's efforts to improve the quality of property management: adjusted EBITDA (adjusted earnings before interest, taxes, depreciation and amortisation) totalled € 471.4 million (2011: € 500.9 million). At € 195.7 million, FFO 2 was roughly on a par with the previous year (2011: € 202.9 million).

Overall, it can be said that our company continues to operate on a stable and promising foundation.

### **Profit from property management**

January 1 to December 31

€ million	2012	2011
Rental income	729.0	730.7
Other income from property management	18.4	19.8
Ancillary cost balance	-20.8	-22.7
Other property management costs	-289.3	-279.2
<b>Profit from property management</b>	<b>437.3</b>	<b>448.6</b>

### **Profit from property management reflects process optimisation efforts**

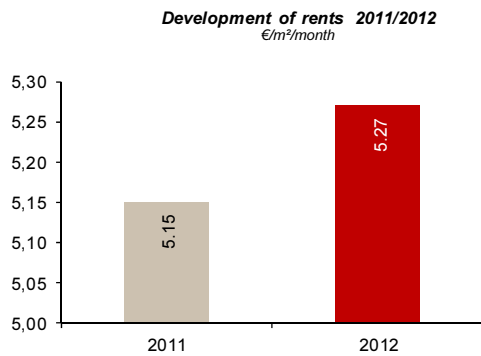
The Property Management business segment covers our property rental and condominium administration activities. Our profit from property management in 2012 amounted to € 437.3 million and was therefore 2.5 % down on the previous year's figure (€ 448.6 million). This decrease was largely the result of the expansion of the facility manager and craftsmen's organisations, which led to higher other property management costs. The improvement in customer service, which was achieved by developing the facility manager and craftsmen's organisations, is an important precondition for further enhancing our company's performance in future.

Rental income fell by € 1.7 million to € 729.0 million. Here, the smaller housing stock as a result of property sales had an impact. It was not possible to fully offset this effect by raising rents and reducing the vacancy rate.

By contrast, the ancillary cost balance improved by € 1.9 million to € 20.8 million. The other property management costs, which include the central functions, increased as a result of the process optimisation activities in the Property Management business segment from € 279.2 million to € 289.3 million.

### **Rents rise on average by 2.3 %**

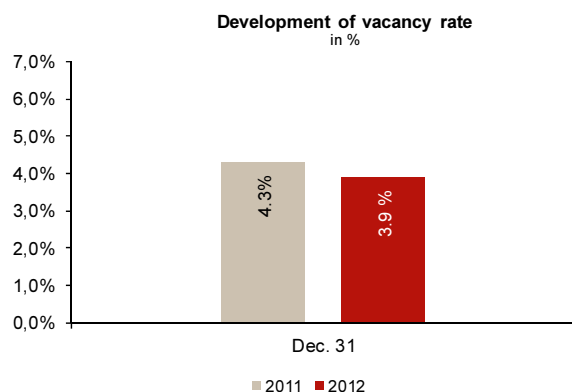
In the 2012 financial year, rents were raised by an average of 2.3 % year-on-year to € 5.27/m<sup>2</sup>/month (2011: € 5.15/m<sup>2</sup>/month). We achieved the rent increases through rent adjustments as well as in connection with modernisation measures. Housing improvements allow landlords to pass on some of the costs to their tenants.



The rent rises were 0.7 percentage points above the core inflation rate (consumer price index excluding domestic energy and fuels), which was 1.6 %. According to the Federal Statistical Office, prices in Germany rose by an annual average of 2.0 % in 2012.

### **Vacancy rate reduced again**

In 2012, we again managed to further reduce the vacancy rate. At the end of the year, it ran at 3.9 %, 0.4 percentage points below the prior-year figure of 4.3 %. The vacancy rate also includes our so-called sales-related voids at 0.9 % (2011: 0.7 %). These are residential units earmarked for sale and therefore not re-let as it is generally easier to sell empty apartments to owner-occupiers.



Compared with the previous year, we reduced our re-letting times by 3.7 % and further stepped up our marketing activities. This is also reflected in our lower vacancy rate. In addition, the standard of residential units was upgraded.

Overall, our property rental performance in 2012 remained constantly high with an average of up to 1,708 (2011: 1,806) new rental contracts signed every month.

### **Condominium administration represented throughout Germany at 14 locations**

The Deutsche Annington Immobilien Group offers its customers a condominium administration service through Deutsche Annington Service GmbH (DASG). The company is represented at 14 locations in Germany and, with over 40,000 apartments on its books, is one of the largest condominium administration service providers in Germany.

DASG manages the common property for the apartment owners in accordance with the Condominium Act. The company offers capital investors a full management service for their separate property. In addition, DASG provides the owners with services, such as the maintenance and modernisation of separate and common property in apartment buildings. As part of this, our customers benefit from nationwide framework agreements on special conditions for craftsmen's services, insurances and other services.

In 2011, DASG developed a new service for condominium owners' associations, technical building and requirement analysis. A holistic technical building and requirement analysis gives the condominium owners' associations a sound overview of measures which are necessary or to be recommended in the medium and long term for effective energy-saving, and maintaining or increasing the value of their property. As a result, the condominium owners' associations have the opportunity to consider the necessary investments in context and therefore better plan their entire financing requirements.

### Sharp increase in apartment sales

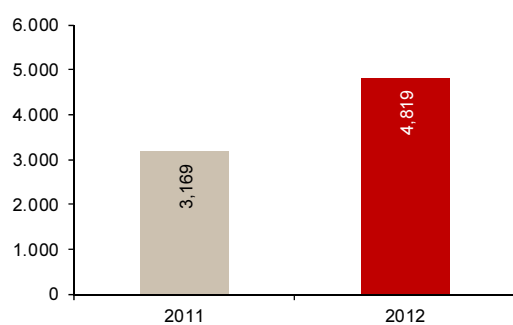
#### ***Profit from property sales***

*January 1 to December 31*

€ million	2012	2011
Income from disposal of properties	304,9	253,3
Carrying amount of properties sold	-270,4	-188,4
Revaluation of assets held for sale	17,1	2,7
<b>Gross profit from property sales</b>	<b>51,6</b>	<b>67,6</b>
Administrative expenses	-17,5	-15,3
<b>Profit from property sales</b>	<b>34,1</b>	<b>52,3</b>

Income from disposal of properties grew in 2012 by 20.4 % from € 253.4 million to € 304.9 million. The increase was due to the fact that the number of residential units sold in 2012 rose by 52.1 %. We sold 4,819 apartments (2011: 3,169) throughout Germany; of this figure, 2,784 (2011: 2,503) residential units were sold to tenants. We achieved this thanks to the effective further development of our sales activities and our improved workflows which led, among other things, to accelerated sales processes. At the same time, the demand for apartments rose as residential properties became more attractive for owner occupation and as a long-term capital investment. Furthermore, we made more portfolio adjustments than in the year before.

**Development of apartment sales 2011/2012**  
*in units (recorded sales)*



Profit from property sales fell from € 52.3 million (2011) to € 34.1 million. This development is mainly a result of the effect on the 2011 result of the sale of trading properties, which were measured at amortised cost. The difference between the fair value of these properties and the amortised cost at the time of their sale was € 21.0 million in 2011.

## FFO

<u>Funds from Operations (FFO)</u>	<u>2012</u>	<u>2011</u>
<b><u>Profit for the period</u></b>	<b><u>172.2</u></b>	<b><u>423.6</u></b>
Interest expense/income	433.9	350.1
Income taxes	43.6	154.3
Depreciation	6.1	6.2
Income from fair value adjustment of investment properties	-205.6	-246.7
Changes in value of trading properties	0.0	-204.5
<b>= EBITDA IFRS</b>	<b>450.2</b>	<b>483.0</b>
<i>Non-recurring items</i>	21.2	17.9
<b>= EBITDA (adjusted for non-recurring items)</b>	<b>471.4</b>	<b>500.9</b>
Profit from property sales	-34.1	-52.3
<b>= EBITDA (excl. profit from property sales and non-recurring items)</b>	<b>437.3</b>	<b>448.6</b>
Net cash interest	-273.6	-293.1
Current income taxes	-2.1	-4.9
<b>= FFO 1</b>	<b>161.6</b>	<b>150.6</b>
Capitalised maintenance	-23.7	-15.5
<b>= AFFO</b>	<b>137.9</b>	<b>135.1</b>
<b>FFO 2 (FFO 1 incl. profit from property sales)</b>	<b>195.7</b>	<b>202.9</b>

The profit for the period decreased in 2012 by € 251.4 million to € 172.2 million. One of the main reasons for this is the value adjustment at fair values performed in 2011 as part of the reclassification of trading properties to investment properties (€ 204.5 million) as well as the lower income from fair value adjustments of the actual investment properties. This figure fell by € 41.1 million to € 205.6 million. Furthermore, the rise of € 83.8 million in interest expense had an effect on the financial result.

<b>Reconciliation of financial result to net cash interest</b>	<b>2012</b>	<b>2011</b>
€ million		
Income from non-current loans	1,9	1,9
Interest income	7,4	10,1
Interest expense	-443,2	-362,1
Financial result	-433,9	-350,1
Adjustments:		
Effect of initial valuation of GRAND refinancing	83,1	0,0
Transaction costs	57,1	26,7
Effects from the valuation of loans	6,7	11,5
Interest accretion to provisions / EK02	19,6	20,2
Deferred interest and other effects	-6,2	-1,4
<b>Net cash interest</b>	<b>-273,6</b>	<b>-293,1</b>

The financial result was impacted by non-recurring items connected with the restructuring of the GRAND Notes. They result from the determination of the fair value of the GRAND restructuring at initial measurement as well as from transaction costs which, in a debt restructuring, are to be recognised as expense. By contrast, the regular net cash interest fell by € 19.5 million or 6.7 % due to the capital repayments made in the 2012 financial year.

In 2012, EBITDA according to IFRS totalled € 450.2 million and was therefore down on the previous year's figure (2011: € 483.0 million). This was largely due to the decrease of € 18.2 million in profit from property sales. EBITDA adjusted for non-recurring items and profit from property sales fell by € 11.3 million to € 437.3 million as a result of the lower profit from property management.

The non-recurring items which are not taken into consideration in adjusted EBITDA relate to the development of new fields of business, severance payments due to business process optimisation as well as refinancing expenses and the expenditure on preparations for capital market readiness and a possible IPO. The following table shows the respective amounts for the special influences in 2012 compared with the previous year.

Non-recurring items	2012	2011
Development of new fields of business	7.1	6.8
Development of business processes and reorganisation measures	0.4	3.5
Restructuring measures	0.0	0.5
Severance payments	3.2	3.6
Cost of refinancings and equity increases which cannot be deducted from liabilities or equity	8.5	3.0
IPO preparations	2.0	0.5
<b>Total non-recurring items</b>	<b>21.2</b>	<b>17.9</b>

At € 195.7 million, FFO 2 (FFO 1 including profit from property sales) was on a par with the figure for the previous year (€ 202.9 million). On the basis of adjusted EBITDA, the lower net cash interest, which fell by € 19.5 million compared with the previous year, had a positive effect. The decrease was particularly a result of capital repayments made on financial liabilities.

### Explanations of our key performance indicators

Deutsche Annington Immobilien SE takes the view that the performance indicators EBITDA, adjusted EBITDA, (EPRA) NAV and FFO are suitable metrics for assessing operational performance, net assets and cash generation as other companies, particularly real estate companies, use these KPIs.

These performance indicators are metrics which are not based on accounting standards and are not recognised by such standards (so-called Non-GAAP measures). None of these performance indicators can be used to replace such metrics which are determined in accordance with IFRS, the applied reporting standard. These KPIs do not indicate whether cash generation is sufficient or will be available to cover liquidity requirements. No conclusions can necessarily be drawn about past or future earnings from these performance indicators. They are therefore to be regarded as a supplement to those applied according to official reporting standards.

EBITDA stands for “earnings before interest, taxes, depreciation and amortisation”. The Deutsche Annington Immobilien Group uses EBITDA to assess operational performance and to determine the cash inflows from operating activities and thus also for resource allocation. Measurement effects in accordance with IAS 40 are not taken into account when determining EBITDA IFRS. EBITDA IFRS is regularly adjusted for non-recurring items (adjusted EBITDA) in order to permit assessment of the sustainable earning power of the operational business as the non-recurring items have little or no significance for the informative value of sustainable earnings. The non-recurring items include one-off effects and effects which occur infrequently.

FFO, a KPI typically used in the real estate industry, stands for Funds from Operations and denotes the funds generated from operating activities. FFO represents a cash-flow-based metric. When

determining FFO 2, adjusted EBITDA is adjusted for an interest and a tax component. Net cash interest is reconciled to a liquidity-related component. The income tax expense for the current year is shown as income tax.

FFO 1 reflects the sustained ability of the property management business operations to generate cash and for this reason the profit from property sales is eliminated in the reconciliation from FFO 2 to FFO 1. In adjusted FFO (AFFO), capitalised maintenance is deducted from FFO 1.

NAV stands for Net Asset Value in accordance with the EPRA definition. NAV is a key performance indicator in the real estate industry which provides information about the net assets at fair values. Typically, equity according to IFRS is adjusted for measurement effects of financial instruments and deferred taxes.

### 3.4. Financial Position and Net Assets

The equity of the Deutsche Annington Immobilien Group increased in the 2012 financial year from € 2,229.8 million to € 2,677.4 million. In addition to the contribution made by the profit for the period, this increase was due to payments of € 334.1 million made by the shareholder into the capital reserves as part of the restructuring of the GRAND Notes. By contrast, the other reserves decreased to € -94.7 million, largely as a result of the adjustment of pension provisions due to the lower discount rate. The equity ratio increased from 21.5 % in 2011 to 25.2 %.

#### *Group balance-sheet structure*

	Dec. 31, 2012		Dec. 31, 2012	
	in € million	%	in € million	%
Non-current assets	9,946.8	93.8	9,971.9	96.0
Current assets	661.5	6.2	411.1	4.0
<b>TOTAL ASSETS</b>	<b>10,608.3</b>	<b>100.0</b>	<b>10,383.0</b>	<b>100.0</b>
Equity	2,677.4	25.2	2,229.8	21.5
Non-current liabilities	6,940.5	65.5	7,245.9	69.8
Current liabilities	990.4	9.3	907.3	8.7
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>10,608.3</b>	<b>100.0</b>	<b>10,383.0</b>	<b>100.0</b>

The net asset value (NAV) of the Deutsche Annington Immobilien Group increased in a similar manner. The NAV and the triple NAV according to the EPRA definition are shown in the following table.

Net asset value (NAV) based on application of IAS 40	2012	2011
Equity attributable to DAIG shareholders	2,666.4	2,216.3
Fair value of derivative financial instruments	67.1	59.8
Deferred taxes	715.4	691.9
NAV	3,448.9	2,968.0
NNNAV equals equity attributable to shareholders of DAIG		

A further effect which led to the increase in the equity ratio was the reduced borrowings compared with the previous year as a result of capital repayments made. Furthermore, within borrowed capital there was a shift between long-term and short-term loans due to the amortisation obligations entered into for January 2013. The necessary funds for this capital repayment are provided by the payment made into capital reserves. The EK02 obligation decreased in the reporting period as a result of payments of € 24.5 million to € 112.8 million.

The company's main non-current assets are investment properties. The capitalisation of modernisation expenses and the final valuation of properties led to an average increase in the fair value of investment properties in accordance with IAS 40 of 3.2 %. For details, we refer to the chapter Fair Values on page 43 ff. By contrast, investment properties decreased as a result of property sales so that the overall figure for 2012 was € 50 million less than in the previous year.

Compared with the previous year, the assets held for sale increased by € 102.9 million to € 128.8 million as a result of higher sales of properties where the contracts had been signed but transfer of ownership was yet to be completed.

The Deutsche Annington Immobilien Group invests in maintaining or improving the quality of its housing stocks with targeted maintenance and modernisation programmes. Expenditure on such work increased by € 12.7 million to € 204.6 million compared with the previous year. Maintenance and investment in our housing stocks include repairs recognised as expenses, capitalised maintenance as well as value-creating modernisation measures as detailed in the following table:

Maintenance and modernisation <i>€ million</i>	2012	2011
Repairs recognised as expenses	115.2	128.8
Capitalised maintenance	23.7	15.5
Value-creating modernisation measures	65.7	47.6
	204.6	191.9

Furthermore, our own craftsmen's organisation performed maintenance work amounting to another € 12.1 million (2011: € 0.6 million).

The cash and cash equivalents shown under current assets rose year-on-year from € 278.5 million to € 470.1 million. This increase largely reflected the payment made by the sole shareholder into the capital reserves. The payment includes € 240.0 million, which was designated for repayments of GRAND Notes subsequently made in January 2013.

## Cash flow

### **Statement of cash flow**

*January 1 to December 31*

€ million	2012	2011
Cash flow from operating activities	385,5	585,0
Cash flow from investing activities	194,5	87,8
Cash flow from financing activities	-388,4	-705,0
<b>Net changes in cash and cash equivalents</b>	<b>191,6</b>	<b>-32,2</b>
Cash and cash equivalents at beginning of year	278,5	310,7
<b>Cash and cash equivalents on the reporting date</b>	<b>470,1</b>	<b>278,5</b>

### **Operating cash flow reflects investments in property management and services**

Overall, the cash flow from operating activities fell by some € 200 million to € 385.5 million. This decrease was influenced by non-recurring items in 2011 as well as by investments in business operation processes.

The cash flow from operating activities was marked, on the one hand, by the expansion of the facility manager and craftsmen's organisations and therefore by the higher cash outflow for personnel expenses and by investments in property management processes compared with 2011. On the other hand, operating cash flow in 2012 was influenced by changes in working capital. Here, in particular the lower decrease in inventories than in 2011 and the comparatively lower balance on ancillary cost advance payments had an impact. The reduction in inventories was still influenced in 2011 by sales of trading properties. Finally, the lower operating cash flow in 2012 compared with the prior year is also due to the high tax refunds in 2011.

### **Property sales have positive impact on cash flow from investing activities**

The cash flow generated by investing activities rose in the reporting period by some € 107 million to € 194.5 million as a result of much higher property sales compared with the previous year. By contrast, the higher expenditure on investments in our housing stocks, which increased by € 32.6 million in 2012, had an opposite effect.

### **Cash flow from financing activities marked by restructuring of GRAND Notes**

The cash flow from financing activities reflects in particular the restructuring of the GRAND Notes and shows the redemption and re-issuance of Notes. We increased net capital repayments in 2012 by € 37.9 million to € 405.0 million. Net cash interest fell by € 19.5 million in 2012 as a result of the net capital repayments. Overall, the cash flow from financing activities improved by some € 317 million, largely driven by the payments of € 334.1 million made by the sole shareholder into the capital reserves.

**Cash and cash equivalents** therefore increased in 2012 by € 191.6 million to € 470.1 million. The cash and cash equivalents are subject to constraints and restrictions on use (restricted cash) under the financing agreements, in particular the provisions of the GRAND Notes. At this point, we refer to the information on restrictions on use given in the notes to the consolidated financial statements, note 26 (Cash and cash equivalents). In January 2013, € 240.0 million of the cash and cash equivalents shown was used, as contractually agreed, for repayment of GRAND Notes.

### **3.5. Funding**

In 2012, the effects of the sustained economic and financial crisis again impacted the development of the financial markets, bringing greater volatility and uncertainty. Particularly the banking market faces high regulatory and refinancing constraints. This was again reflected in higher margins and strict credit guidelines. By contrast, the restructuring of our GRAND securitisation is to be regarded as an extremely positive sign on the capital market. We see the successful conclusion of the largest real estate refinancing in Europe in 2012 and the positive reaction of the markets as further evidence of confidence in our performance.

#### **Financing strategy: Group relies largely on long-term loans and central treasury**

The financing strategy of the Deutsche Annington Immobilien Group is mainly based on long-term funding with a reasonable proportion of borrowings. In addition to classic bank loans in the form of mortgages, we use structured loans.

One special form of mortgage is the loans granted by promotional banks (e.g. Wohnungsbauförderungsanstalt WfA) under the social housing construction programme. These funds have lower interest rates than normal mortgages and much longer terms with higher amortisation rates at the same time.

Loan terms of up to seven years are agreed under structured financing programmes. In the case of liabilities with variable interest rates, the Deutsche Annington Immobilien Group contracts interest hedges in the form of derivative financial instruments to hedge against short-term changes in interest rates. The term of these interest-hedging instruments depends on the expected term of the underlying loan; the nominal amounts of the derivatives take the expected loan amortisation profile into consideration. The interest rate risk is therefore clearly limited and is continually monitored in the

normal business process. The Finance department is responsible for implementing the financing strategy. It acts as a central function for the entire Group in line with internal policies. Its work covers the uniform management of funds and differentiated cash pooling. Central finance management is the basis for the uniform control of interest, volume and liquidity risks, the initiation and implementation of efficient capital procurement measures as well as interest hedging and is therefore the main instrument for optimising the interest result. By providing comprehensive and regular reports and performing a monitoring function, this central department is an essential part of the risk management system of the Deutsche Annington Immobilien Group.

### **Debt further reduced**

The amended loan conditions for the so-called GRAND (GERMAN RESIDENTIAL ASSET NOTE DISTRIBUTOR PLC. Ireland) financing entered into force on December 21, 2012. Deutsche Annington Immobilien SE had been working with the creditors since June 2011 on the amended loan conditions, which were examined under a so-called Scheme of Arrangement (SoA) by the English High Court of Justice. In a ruling of December 19, 2012, the English High Court of Justice approved the Scheme of Arrangement and thus paved the way for implementation of the amendments to the contractual conditions of the GRAND Notes financing on December 21, 2012.

The SoA became necessary as the original contract conditions of 2006 did not provide for any practicable provisions to amend the contract conditions. As the GRAND Notes were issued under English law, it was possible to successfully use the English legal instrument of the Scheme of Arrangement for the implementation. The contract conditions amended during the restructuring negotiations were examined by the English court and sanctioned as fair for all creditors. Following the fairness hearing in November, the creditors' meeting attended by creditors representing 95.12 % of the principal outstanding convened on December 14, 2012. Those present unanimously approved the amended contract conditions. The amendments to the original conditions mainly comprise adjusted conditions, provisions on procedural questions, refinancings and redemptions through single or partial refinancings as well as amended maturities.

The agreed amended loan conditions and the associated refinancing schedule provide the noteholders with a clearly implementable redemption profile and therefore eliminate concerns about the future funding of the GRAND portfolio within the Deutsche Annington Immobilien Group.

### **Transaction process**

In the name of and for the account of the Securitisation Group, in June 2011 Deutsche Annington Immobilien SE formed a so-called Ad-Hoc Group (AHG) of major holders of the GRAND Notes to permit scheduled refinancing in tranches. This step was necessary since, in the market climate prevailing in 2006, no procedural rules had been set up for scheduled refinancing in tranches.

At the same time, the holders of the GRAND Notes and other interested parties, such as the media and analysts, were informed about the current situation of GRAND.

During the restructuring efforts, the AHG mainly comprised Bayerische Landesbank, ING AM Insurance Companies B.V. and ING Fund Management B.V., JPMorgan Chase Bank, N.A., Landesbank Baden-Württemberg, PIMCO Europe Ltd and Standard Life Investments Ltd.

On July 15, 2012, so-called Heads of Terms and an Information Memorandum on the main outcomes of the negotiations with the AHG were published; they were given a unanimously positive assessment by analysts and market players and recommended for acceptance. This was accompanied by a sharp rise in the Note quotations.

In October 2012, the members of the AHG and Deutsche Annington Immobilien SE agreed on the Final Heads of Terms with the amended loan conditions, the rescheduling of repayment as well as further procedural steps for implementation of the proposal. The holders of the Notes were asked to agree to the amended contract conditions in an extraordinary creditors' meeting, which they did unanimously at the meeting on December 14, 2012. A so-called Scheme of Arrangement under English law regulates the procedure for this.

#### **Main elements of the amended financing**

On the restructuring implementation date, December 21, 2012, the LTV fell to 59.7 %, taking the equity support measures into consideration and on the basis of an updated valuation. For this purpose, the shareholder of Deutsche Annington Immobilien SE made equity injections of more than € 334.1 million in 2012.

As part of the restructuring, a new class of unsecured and subordinated loans ("S" Loans) was created, which can be purchased in exchange for the previous GRAND Notes. In view of their subordination and other characteristics, e.g. interest capitalisation, these "S" Loans are excluded from the calculation of the LTV of the GRAND financing. GRAND plc has in turn undertaken to convert corresponding volumes of REF Notes into subordinated "S" REF Notes.

As part of the transaction, Monterey Finance S.à.r.l., a sister company of Deutsche Annington Immobilien SE, had undertaken to exchange the GRAND Notes it held amounting to approximately € 239.1 million for a subordinated "S" Loan on January 23, 2013. The new "S" Loan was then contributed to Deutsche Annington Immobilien SE as further equity support. Thus, more than € 573.2 million new equity was made available to Deutsche Annington Immobilien SE as part of the transaction.

After redemption of all REF Notes of a REF Note Issuer with the exception of the relevant "S" REF Notes, GRAND plc must repay the outstanding "S" Loans by transferring an "S" REF Note receivable with the same terms. The "S" Loan position held by Deutsche Annington Immobilien SE then changes into a direct "S" REF Note position at this time and constitutes from this time a subordinated shareholder's loan from Deutsche Annington Immobilien SE to the respective REF Note Issuers.

The maturity of the amended REF Notes was extended until January 2018 and annual amortisation targets were set at the same time. The amortisation targets are € 1,000.0 million (not including the agreed repayment from equity of € 240.0 million) by January 16, 2014 and in the following years € 700.0 million, € 650.0 million and € 650.0 million, the then outstanding debt being due at maturity. According to this amortisation schedule, the average remaining term is approximately 2.4 years, assuming amortisation in each case at the latest possible date. Earlier repayments are, however, possible without any prepayment penalties to the creditors, and consequently shorten the remaining term.

In order to meet the amortisation and refinancing targets, in addition to the repayments which will be funded as before from cash flow from operating activities, sub-portfolios of the Securitisation Group may be refinanced singly or together. Furthermore, the largest sub-portfolio may, in accordance with the provisions of the amended contract conditions, also be partially refinanced by splitting into smaller sub-portfolios which are transferred to companies to be newly established.

According to the amended contract conditions, the new weighted average interest margin on the GRAND Notes is 161.9 bps. This results from the original margin of 48.3 bps which was increased by 116.7 bps as part of the restructuring. At the same time, however, the margin is reduced by 3.1 bps, since particularly GRAND Notes in the lower classes with correspondingly higher margins were converted into subordinated "S" Loans.

To hedge the interest risk, the Securitisation Group as the Issuer Group already entered into interest hedge agreements for the GRAND Notes which were due to expire on the original final maturity date of the REF Notes in July 2013.

These existing interest hedge agreements were modified and supplemented by additional hedge agreements over the new loan term, taking the scheduled amortisations into account. Some € 36.5 million was paid as a one-off sum in January 2013 for the modification of the existing interest hedges. An option (CAP) contracted as part of the new interest hedges was purchased for some € 7.34 million in 2012.

Through these interest hedge agreements, the Securitisation Group was able to take advantage of the lower capital market interest rates and even overcompensate for the new higher margin. Thanks to the lower market interest rates, the current interest rate over the new planned term of the refinanced Notes has been considerably reduced. The current average interest rate has been reduced to some 2.90 % on the basis of the planned amortisation structure compared with some 4.66 % under the previous loan conditions.

The cash flows and cash of the Securitisation Group are subject to fundamental constraints and restrictions on use (restricted cash) under the contract provisions. Accordingly, all cash and cash equivalents from refinancings or the disposal of real property must be used for repayment. The cash

flows and excess cash from property management are also cash-restricted. Once the principal amount of the outstanding Notes is below € 2,400.0 million and the LTV is 57.5 % or less, the Securitisation Group is free to utilise excess cash, but only for purposes which could reasonably be expected to enhance the value of the Securitisation Group. In addition to the above-mentioned conditions, if an IPO takes place resulting in 20.0 % or more of the share capital of Deutsche Annington Immobilien SE being listed, excess cash may be used for the purposes of dividend payments up to an amount of € 112.5 million per year.

As part of the restructuring, the Securitisation Group committed to the fulfilment of certain financial covenants, fundamental rules on the disposal of properties and much more comprehensive reporting requirements. We see in particular the extended reporting requirements as an important step so that we can in future provide our debt investors with the necessary information, which is essential as the basis for a decision. The rules on the disposal of properties are covenants mainly restricting sales of properties below the current valuation and ensuring minimum repayments. The main financial covenants will continue to be the LTV and the interest cover ratio.

In contrast to the past and to many other capital market transactions, the amended loan conditions permit, under certain circumstances, the raising of loans with KfW for the purposes of modernisation and maintenance. This is an important step to increase the funds available for our modernisation programme.

The agreed amended loan conditions and the associated refinancing schedule give the noteholders a clearly implementable redemption profile and eliminate concerns about the future funding of the Deutsche Annington Immobilien Group.

In order to meet the refinancing schedule and have the necessary funds available to make the redemptions of € 1,000.0 million required by January 16, 2014, Deutsche Annington Immobilien SE already signed a loan agreement for € 654.3 million with Berlin-Hannoversche Hypothekenbank. This partial refinancing was paid out on February 14, 2013. As part of this refinancing, € 545.1 million of the outstanding REF Notes was redeemed. Further funds were paid into a refinancing reserve account to support future refinancings. Therefore, funds of some € 52.2 million are available in this account. The remaining amounts from this payout were used for repayment of senior debt as well as transaction costs.

Furthermore, Deutsche Annington Immobilien SE is negotiating with other lenders to ensure that the contractually required amortisation target can be met. Given the refinancing volume already secured in 2012, the Management Board is confident that the amortisation targets can be met on time.

The classic bank loans in the form of mortgages contained in the total liabilities had a nominal value of € 1,205.5 million at the end of 2012 (2011: € 1,268.1 million). These included loans granted by promotional banks which are subject to various conditions. These loans were reduced by € 21.4

million to € 625.6 million compared with the previous year. At the same time, Deutsche Annington renewed mortgages with a nominal principal amount of € 56.5 million in 2012 (2011: € 50.8 million). No new drawdowns were made nor new loans taken out in 2012.

The average interest rate on the loans of Deutsche Annington was 3.16 % on the balance-sheet date. As in the past, the covenants laid down in the loan agreements were always fulfilled.

### **Financing activities focus on optimising the large loans**

The aim of our financing strategy is to split large loans to be refinanced into sizes more usual on the market. In 2012, we successfully refinanced both the GRAND transaction and the Prima Group (Opera Germany No. 1) securitisation. As in the previous year, we again managed to significantly reduce the volume of the large structured credit facilities.

The nominal volume of liabilities decreased by € 335.1 million from € 5,448.1 million to € 5,113.0 million. A large proportion of these repayments were accounted for by the GRAND securitisation issued in two tranches in 2006, which had a value of € 4,325.3 million at the end of 2012 (2011: € 4,643.0 million). In total, we made interest payments on these financings of € 193.6 million in the reporting period (2011: € 208.7 million). Capital repayments on the other structured loans were made according to schedule.

### **Extension of maturity of the GRAND securitisation finalised**

The talks started in 2011 on the restructuring of the GRAND securitisation were completed with the successful implementation of the amended documentation on December 21, 2012. The details of the transaction are to be found in the separate section on page 2.

### **Refinancing of the Opera Germany No. 1 securitisation finalised**

The contracts already signed in 2011 for the refinancing of the existing securitisation of the Prima Group (Opera Germany No. 1) were successfully finalised in 2012.

### **Equity support**

In 2012, the sole shareholder of Deutsche Annington Immobilien SE paid € 334.1 million into the capital reserves to strengthen the company's equity and aid GRAND restructuring. In addition, outstanding liabilities under the GRAND restructuring were converted into so-called subordinated "S" REF Notes. Mainly an affiliate of the shareholder made use of this conversion. In January 2013, the shareholder contributed a subordinated loan ("S" Loan) to GRAND plc with the same terms in the amount of € 239.1 million to the capital reserves of Deutsche Annington Immobilien SE.

### **Financing conditions remain volatile and marked by uncertainty**

in 2012, the financial and economic crisis caused further great uncertainty and nervousness on the financial markets which spread as far as the interbank market. In addition, our bank partners still face high regulatory constraints such as minimum equity but also high refinancing costs. The number of

active providers in the banking market is still much reduced. At the same time, however, there are also positive signals in the form of the appearance of new alternative providers such as insurance companies or pension funds as well as the first new securitisation transaction involving German residential real estate on the capital market. Overall, we still have to contend with higher margins, which are, however, compensated or overcompensated for by the very low base interest rate due to the financial crisis

### **Desired growth to be funded according to time-tested principles**

It remains part of the strategy of Deutsche Annington to expand its residential portfolio by economically sensible acquisitions. To this end, we regularly examine portfolios and hold in-depth talks with potential sellers. Deutsche Annington plans to ensure that it will continue to have the financial framework for this growth by using bank loans, structured financing programmes and equity.

For the financial risks, we refer to the section Risk Management (page 47 ff.).

### **3.6. Fair Values**

The fair values of the Deutsche Annington properties are determined every year and adjusted to bring them into line with the current market situation. The residential property market in Germany again showed a positive development in 2012. This development of the market and housing stocks led in 2012 to a sharp increase of 3.2 % in the value of our real-estate portfolio compared with the previous year.

#### **Determining the fair values creates a transparent valuation of our properties**

Calculating and showing the fair values serves as an internal control parameter and also helps to make the development of the value of our assets transparent to people outside the company.

The Deutsche Annington Immobilien Group performed an internal valuation to determine the fair values of its entire stock of residential buildings, small commercial units, garages and parking spaces as well as undeveloped land and inheritable rights granted as at December 31, 2012.

The following criteria were applied in the valuation of the different segments of real estate:

#### **Residential real estate**

The value of the entire portfolio of residential properties was determined on the basis of the *International Valuation Standard Committee's* definition of market value. It is not permitted to take into account either portfolio premiums and discounts, which can be observed when portfolios are sold in market transactions, or time restrictions in the marketing of individual properties. The method used by Deutsche Annington to determine fair values thus complies with IFRS regulations, in particular IAS 40.

First, all buildings were valued according to a rating system with regard to their quality, their market attractiveness and their macro-location. The aspects considered in assessing the quality of the

buildings included their age, the degree of modernisation and an assessment of the technical condition of the buildings. This assessment was based on maintenance reports compiled by external companies for which all properties were inspected on a regular basis. The attractiveness was assessed on the basis of various factors including in particular the micro-location of the buildings, how built-up the area is and the average size of the apartments (living area and the number of rooms). The quality of the macro-location was derived from the purchasing power index in the particular postal code district and validated using location ratings provided by Feri EuroRatings Services AG. The entire residential real-estate portfolio was valued in 2012 using the income capitalisation method. Units classified as investment properties sold at the balance-sheet date but for which transfer of ownership has not yet taken place are accounted for at the contractually agreed purchase price.

The capitalised interest rates applied in the income capitalisation method were derived on the basis of the current transactions on the German residential real-estate market and allocated to the buildings with the aid of the previously determined ratings. Special considerations such as long-term restricted rents, expiring rent restrictions, mining subsidence damage or similar were allowed for by means of premiums and discounts. Compared with the previous year, the average capitalised interest rate has fallen from 5.88 % to 5.68 % due to the positive development of the market.

The net cold rents as at the balance-sheet date are taken as a basis for determining the capitalised earnings. In addition, market rents are derived for every location from the current rent tables, from IVD rent tables and market data provided by the real-estate service provider, IDN ImmoDaten GmbH, and assigned to the properties using the ratings. In the event of differences between the actual and the market rents, the increased or decreased income to be expected in the future is taken into account when determining capitalised earnings, which are then discounted to equivalent earnings today using the selected capitalised interest rate over the expected period of the increased or decreased income.

Maintenance and administrative expenses were stated in accordance with the II. Berechnungsverordnung (II. BV; German Regulation on Calculations for Residential Buildings in Accordance with the Second Housing Construction Law, which stipulates how economic viability calculations for accommodation are to be performed). The average maintenance expenses stated were € 11.71 per square metre (2011: € 11.03 per square metre). The administrative expenses were some € 248 per rental unit (2011: € 245) and € 298 per owner-occupier unit (2011: € 307).

The modernisation work performed on our portfolio of residential units in 2012 was included in the valuations by decreasing the current maintenance expenses and discounts on the capitalised interest rates.

The sustainable rentability was derived for each building. The normal vacancy rate is between 2.25 % and 12.25 % per building. The Deutsche Annington Immobilien Group takes the difference between the actual voids and sustainable rentability into account by vacancy and re-letting scenarios using the market rents previously determined.

The net annual income is arrived at by deducting the non-allocable ancillary costs and any ground rents.

The capitalised value of potential yield returns was determined by capitalising the annual net yield at building level by applying the capitalised interest rates.

### **Commercial properties**

The commercial properties in the portfolio are mainly small commercial units for the supply of the local residential area. They were also measured using the income capitalisation method. Different cost approaches were used to those for residential properties and the capitalised interest rates were adjusted to reflect the market specifics.

### **Undeveloped land**

Undeveloped plots of land were measured according to their state of development, the likelihood of development and the local market situation on the basis of derived land guide prices.

### **Fair value amounts to € 10.0 billion**

In accordance with their letter of engagement, the auditors of the consolidated financial statements included these fair values in their audit of the consolidated financial statements and the Group management report. Thus, the result of this audit is included in the auditor's report on the audit of the consolidated financial statements and Group management report of the Deutsche Annington Immobilien Group for the year ended December 31, 2012.

Furthermore, in the past financial year as part of the ongoing financing activities the fair value of the vast majority of our housing stock was examined by several independent internationally recognised external valuers, who confirmed the value of our real estate.

The fair value of the Deutsche Annington Immobilien Group real-estate portfolio of residential buildings, small commercial units, garages, parking spaces as well as undeveloped land and any inheritable rights granted as at December 31, 2012 was approx. € 9,982.0 million (2011: € 9,939.6 million).

The fair values of the real-estate portfolio by region are as follows:

Fair values of the real-estate portfolio of the Deutsche Annington Immobilien Group

	Residential units		Other rental units		Fair values in € million	
	2012	2011	2012	2011	2012	2011
<b>German State</b>						
North Rhine-Westphalia	96.807	99.002	19.926	20.378	4.630,5	4.657,2
Hesse	21.370	22.066	4.159	4.272	1.554,5	1.536,7
Bavaria and Baden-Württemberg	19.637	20.353	9.547	9.954	1.445,5	1.398,7
Berlin	12.992	13.121	2.513	2.524	737,9	713,5
Schleswig-Holstein und Hamburg	12.592	12.742	3.515	3.543	643,5	644,1
Five new states	7.054	7.605	1.135	1.197	313,8	318,1
Lower Saxony and Bremen	5.947	6.230	1.137	1.190	304,6	310,9
Rhineland-Palatinate and Saarland	5.270	5.411	1.680	1.776	301,1	308,2
Undeveloped land	0		0		50,6	52,2
	181.669	186.530	43.612	44.834	9.982,0	9.939,6

### Sensitivity analyses

Owing to the stable residential property market, the fair values of the real estate of the Deutsche Annington Immobilien Group only fluctuate to a comparatively small extent. The main value drivers which are influenced by the market are the capitalised interest rates and market rents. A fluctuation of these parameters alone would have the following effect on the fair values:

#### Capitalised interest rates:

Change in interest rate	- 1/4%	- 1/8%	+ 1/8%	+ 1/4%
<b>Changes in value*</b>				
in € million	463.6	226.2	-215.9	-422.0
in %	4.7	2.3	-2.2	-4.3

\* Result shows the sensitivity of the fair values resulting solely from a change in the capitalised interest rate without any changes in any other measurement parameters.

#### Market rents:

Change in market rents	- 2.0 %	- 1.0 %	+ 1.0 %	+ 2.0 %
<b>Changes in value**</b>				
in € million	-136,3	-68,3	68,9	138,1
in %	-1,4	-0,7	0,7	1,4

\*\* Result shows the sensitivity of the fair values resulting solely from a change in market rents without any changes in any other measurement parameters.

### **3.7. Risk Management**

The Deutsche Annington Immobilien Group has established an appropriate and effective risk management system. The Management Board is thus able at all times to identify and assess material risks within the company and in the company's environment in good time as well as to take appropriate counteraction. The Management Board of Deutsche Annington Immobilien SE currently sees no risks which might jeopardise the company's existence.

#### **Internal control and risk management system**

##### **Group conducts active risk management on the basis of fixed responsibilities**

The risk management system of Deutsche Annington ensures the early identification, assessment, control and monitoring of all material risks. Thus potential risks which might impair the value and/or the development of the company are identified at an early stage and effectively countered. The Management Board has overall responsibility for the functioning of the risk management system.

Responsibility for concrete risk control in daily business lies in each case with the person bearing operational responsibility. As part of a systematic process, the operational units and central departments regularly identify all strategic, operational, financial and legal risks. The potentially adverse effects and the likelihood of occurrence are evaluated before action (gross) and after action (net) for each risk and documented in a Group-wide risk register.

The risk management system and the risk register are continuously updated and refined as well as adjusted to reflect changes in the company. The effectiveness of our risk management system is examined in regular audits.

Risk management is documented regularly in a risk report which is made available to all decision-makers. The Audit Committee of the Supervisory Board is informed twice a year at its regular meetings about the risk situation in a separate risk report. The risk management system is described in a risk reporting policy which is regularly updated.

##### **Detailed reporting creates a stable information base and ensures a high-quality foundation for decision-making**

The risk early warning system is based on detailed reporting on the operational and financial key performance indicators from Controlling. Analyses are made of the development of business compared with the plans approved by the Supervisory Board and the previous year. Reporting includes detailed monthly controlling reports as well as monthly reports by the Management Board to the Supervisory Board. The controlling reports are supplemented by weekly financial reports. The direct operational business is reflected in daily performance figure reports.

This reporting system ensures that both managers and supervisory bodies are kept continually and comprehensively informed and provides relevant operational early warning indicators. In this way, misguided operational developments can be recognised in good time and counteraction taken at an

early stage. Should significant risks occur unexpectedly, they are reported direct to the Management Board.

### **An internal control system monitors proper processing of accounting data**

The Deutsche Annington Immobilien Group has set up an internal control system for the accounting and financial reporting process. It ensures sufficient security and reliability of financial reporting as well as the preparation of internal and published financial statements.

The objective and purpose of the internal control system is to ensure correct and complete measurement, recognition and presentation of all business transactions in the individual financial statements and in the consolidated financial statements. The basis for accounting is formed by statutory requirements laid down in national and international accounting standards as well as our accounting policies. The internal control system is an integral part of the risk management system.

The starting point for the internal control system is a clear organisational and monitoring structure with clearly pre-defined responsibilities and appropriate controls. The major processes and authorisations are documented in Group and departmental policies. The internal control system covers organisational and monitoring principles, information on the monitoring procedures to be applied as well as requirements for preventive checks which are to be performed. Among others, we regularly check to ensure that

- all business transactions - including intra-group transactions - are recorded in full, punctually and with the correct amounts in the financial statements
- accounting, measurement and account assignment requirements are continuously updated and applied to the entire Group
- the staff performing the accounting, measurement and account assignment tasks are trained
- items in business contracts and agreements which are relevant for accounting and require disclosure are appropriately recorded in the financial statements
- processes including system-supported checks exist which guarantee the correctness of financial reporting; these include in particular ensuring the separation of functions and the four-eyes principle
- authorisation and access rules for the relevant IT accounting systems
- the Supervisory Board and the Audit Committee regularly discuss relevant issues of accounting, risk management and external and internal auditing.

The effectiveness of the internal control and risk management system is also continuously monitored by the internal auditing department. The external auditor of the financial statements takes the internal control system into account when conducting the year-end audit.

We consider the accounting-related internal control and risk management system to be appropriate in view of the fact that all business-related facts are accounted for, processed and shown completely, correctly and promptly.

### **Explanation of individual risks**

Major risk fields or risks have been identified in the following areas:

#### **Business environment and industry risks**

The development of the German economy also influences the demand for residential properties, although deterioration in the general economic situation generally increases the demand in our segment for reasonably priced accommodation. Despite the uncertainty about the future of the eurozone, we saw a stable demand for housing in our segment last year. Our property rental business has again proved to be stable both with regard to demand and cash flow.

The ***demand for owner-occupier properties*** depends to a high degree on the expected development of interest rates. The continuing low interest rates again led to high sales of residential properties from our housing stocks to private owners in 2012. In 2013, we are expecting low mortgage rates to continue and demand to remain stable. Should interest rates rise considerably in the next few years or the banks become more reluctant to give loans for the purchase of residential property, this may have a negative impact on demand for residential real estate.

General ***changes in market prices*** may affect both demand for residential properties to buy and our acquisition strategy. In growth regions, we continue to see prices rise and demand increase. The prices in lower-income areas are falling. We continue to counteract this trend by redoubling our sales efforts. No housing stocks were acquired in 2012.

The demand for accommodation is governed, on the one hand, by the ***demographic change*** (the shrinking and ageing of the population) and, on the other, by the trend towards more one-person households. Overall, the number of households will still continue to increase until 2030 although the prospects for the German metropolitan areas will differ from region to region. We are responding to the ***risk of lower market demand*** with a regionally specific portfolio strategy and concentrating in our acquisition efforts on regions which people appear to be migrating to.

#### **Legal risks**

For the Management Board, ***compliance with statutory regulations and directives*** is the basis of its corporate governance. Therefore, the Code of Conduct of Deutsche Annington is binding for all employees in order to promote the integrity of employees, customers and business partners. In

addition, the legally compliant behaviour of all employees within the business processes is ensured by suitable control measures and supervision by the managers. The managers are particularly sensitised to the subject and report regularly to the Management Board on integrity in their business units as well as on the technical safety of the housing stocks. In future, Deutsche Annington will further intensify the preventive action it takes to ensure behaviour in compliance with laws and regulations. At present, we are not aware of any violations of laws or regulations by employees. Currently, no risk relevant for the group of companies has been identified in this area, either.

We are closely following planned amendments to laws as our business activities are above all subject to **tenancy and building law**. Changes in this area may have a substantial impact on our business and the reliability of our planning. New or amended environmental laws or ordinances may also have a substantial influence on our cost situation.

In order to meet the increasing requirements under **environmental law**, particularly those of the Energy Conservation Regulations 2009, we work with medium-term scenarios and exploit synergies in our modernisation and maintenance projects.

Changes in **tax law** or its interpretation by courts or new interpretations by the tax authorities may increase Deutsche Annington's tax burden. Therefore, any changes in tax law are carefully monitored by our Tax department and possible effects identified in good time.

The Deutsche Annington Immobilien Group is involved in litigation, both as the plaintiff and the defendant. These **legal disputes** have resulted from the normal business activities. They are in particular tenancy law and sales disputes.

None of the legal disputes will have any material effects on the net assets, financial position or results of operations of the Deutsche Annington Immobilien Group.

### **Real-estate-specific risks**

In 2012, we had the **fair value** of a large proportion of our housing stock reviewed by independent external valuers. The result confirms the internal valuation of our properties.

Our valuation of the fair values of our real estate is based on our internal assumptions that may develop differently than we currently expect. For example, the valuation included not only building-specific parameters but also the quality of the building location. The information base for this is continuously extended. Should the estimate of the micro-location of the buildings and the quality of the macro-location deteriorate in the next few years due to developments, the fair value of our entire real-estate portfolio would also decrease.

Changes in the value of our investment properties are recorded in the income statement as appreciation or depreciation in value and therefore have a direct impact on the earnings situation of our company.

By optimising sales processes, improving the apartment hand-over inspections and by continually upgrading the properties we offer to suit the tenants' needs, we managed to further reduce our voids and thus the **vacancy risk**. Thanks to our high-performance operations reporting system, we can analyse the success of our property rental activities relative to each apartment every day and thus promptly and proactively steer the marketing campaigns. As part of our portfolio strategy, we are systematically increasing the quality of our accommodation through standardised repairs in vacant units and a centrally managed modernisation programme.

Before renting out a property, we examine the credit standing and assess the disposable income and the social circumstances of the potential tenant to minimise our **rent default risk**. We are interested in as long a tenancy as possible. One of the advantages of long tenancies is that the costs which occur with every change of tenant can be recouped over a longer period. Our dunning system is supported by our subsidiary, Deutsche Wohn-Inkasso Immobilien GmbH. In addition to systematically pursuing our legitimate claims to outstanding receivables, we also offer social and debt counselling to tenants who are in arrears with their rent.

By applying complex, quality-assured investment models during the investment decision, we counter the risk of uneconomic **real-estate acquisitions**. These models not only take the purchase price and the financing cost into consideration but also regional scenarios for regular maintenance and the development of rents. Newly acquired properties are integrated according to a standardised and time-tested procedure and the entire integration process is subject to tight operational and economic checks.

Some contracts on the acquisition of properties contain restrictions on rent increases and selling programmes and/or require minimum investments in maintenance. These restrictions tend to reduce our commercial and strategic flexibility. These circumstances are taken into account in our economic viability calculations.

Through central procurement, technical standardisation, outsourcing, the conclusion of long-term framework agreements and active cost controlling at project level, we reduce the risk of rising **purchase prices** for minor repairs and maintenance work. A centralised management system constantly monitors the quality of the services provided by our contractors.

The **technical safety** of our housing stocks entails not only monetary risks but potentially also risks to the health of our tenants and employees. By conducting regular physical inspections of our housing stocks and responding quickly to information received from our tenants, defects and faults can be detected and rectified at an early stage. Deutsche Annington attaches particular importance to the quick rectification of faults which may have an effect on safety regardless of the cost.

## Financial risks

The liquidity risks arising from financing transactions with high volumes (**volume risks**) have become apparent in the financial sector, especially in the wake of the financial crisis. In order to limit these risks, we continuously monitor the financial markets and are also in constant contact with many different market players and we continuously monitor all financing options available on the capital and banking markets. Moreover, we subject our existing financings to an early examination prior to the respective final maturity date in order to ensure refinancing. The success of this strategy is evidenced by the successful refinancing of the GRAND and Opera securitisations in 2012. Particularly the GRAND restructuring led to a significant reduction in the volume risk. See page 2 ff. In the future, we are also expecting to be able to refinance the necessary volumes by making use of all financing instruments. Some of our borrowings are loans granted by promotional banks, which restrict rent increases and thus our business options. Here we pay strict attention to compliance with all covenants but use any scope available to us.

As part of the financial risks, we are also exposed to a **liquidity risk**. The existing liquidity of the Group may, in substantial parts, be subject to considerable restrictions. These restrictions may relate to both the use of funds within a Group company and to restrictions on liquidity movements between Group companies. Our liquidity management is based on daily cash management, a weekly financial status and rolling liquidity planning on a monthly basis, allowing for the relevant restrictions. The regular positive cash flows from our core business do not indicate any particular liquidity risk in the forecast period. Exceptional liquidity requirements arising from the GRAND restructuring were offset by appropriate equity support by the owners.

After the restructuring of the GRAND securitisation, the cash flows and excess cash are subject to requirements and restrictions on their use. The aim of these requirements and restrictions is to ensure that excess cash from property management, property sales and from the restructuring of portfolios from the GRAND securitisation is used for capital repayments. As at December 31, 2012, cash and cash equivalents of € 363.1 million were cash-restricted.

In total, the Deutsche Annington Immobilien Group had cash and cash equivalents of € 470.1 million on the reporting date. This enables the Deutsche Annington Immobilien Group to fulfil its payment obligations in the foreseeable future, even against the backdrop of the existing cash restrictions and the economic and financial crisis.

In the normal course of business, the Deutsche Annington Immobilien Group is exposed to **risks arising from interest rates**. The liabilities with variable interest rates expose the Group to a cash-effective interest rate risk. The company uses derivative financial instruments in order to limit or eliminate these risks. The purpose of these financial instruments is to hedge interest rate risks in connection with existing financings and they may never be used for speculation. For a description of the derivative financial instruments, we refer to the Notes to the consolidated financial statements, note 37 (Derivative financial instruments).

## Other risks

We cannot identify any other risks that might have a substantial negative impact on the economic situation of Deutsche Annington.

We have set up various junior manager development programmes to train our own up-and-coming managers and offer performance-based pay. In this way, we combat any **personnel risks** that may arise from the turnover of staff in key positions or a lack of motivation. We cooperate with the works council to take the needs of our employees into consideration. Furthermore, we have monetary incentive programmes for managers in place that also take the years of service into consideration. The strengthened feedback culture increases employee motivation.

The development of new fields of business, such as our facility manager and craftsmen's organisations, or the re-alignment of existing business units, such as the local focusing of our customer service, are challenges for **operational control and reporting**. By assigning clear responsibilities with the appropriate reporting lines, adjusting the system landscape and closely monitoring the results, we ensure that our business operations perform successfully.

The operational control of our Group depends to a great extent on complex information technology. The stability and **security of the IT systems** are ensured through the support provided by qualified in-house and external experts as well as through continual organisational and technical back-ups.

In the Ruhr area, Deutsche Annington is the owner and/or property manager of a large number of buildings which are situated in the area of **near-surface mine workings** where the overburden layers are only thin, predominantly in the Essen/Bochum/Dortmund region. These mine workings may represent risks of damage to the surface and/or structures (e.g. traffic routes, buildings etc.). Deutsche Annington is countering this economic and liability risk by having systematic inspections of all houses in the area of near-surface mining works conducted by external experts. On the basis of the inspection findings and the opinions of external experts, the properties classified as subject to risks are examined for mining damage, which is immediately rectified where necessary. Proof of the stability and public safety is then confirmed in an expertise.

## Overall assessment of the risk situation

The Deutsche Annington Immobilien Group combats all material risks with suitable measures and effective controls. As far as possible, risks to the building stocks as well as from operational business are covered by **appropriate insurance**. The adequacy of the insurance cover is continuously checked by an external specialised company.

The Deutsche Annington management sees, from today's point of view, no risks which the company cannot suitably combat or which may jeopardise the company's existence.

## **Business opportunities**

The Deutsche Annington Immobilien Group only enters into business risks because there are, at the same time, opportunities for developing and expanding the business. The Deutsche Annington Immobilien Group explores its business opportunities systematically by subjecting new property-management-related business ideas and growth initiatives to a structured selection process.

## **4. Employees**

At the end of 2012, 185 people were in the employ of Deutsche Annington Immobilien SE (2011: 205). Furthermore, 43 seconded employees (2011: 10 employees) work in the Company under personnel supply contracts signed with subsidiaries of Deutsche Annington Immobilien SE.

## **5. Remuneration Report**

The general shareholders' meeting of Deutsche Annington Immobilien SE passed a resolution on May 10, 2012 in accordance with Section 286, para. 5 HGB that the information in accordance with Section 285, No. 9a, sentences 5 to 8 HGB, in particular information on the total remuneration of each individual management board member is not to be disclosed for the financial years 2012 to 2016. Therefore, in the following only total figures for the remuneration of all management board members of Deutsche Annington Immobilien SE are disclosed and split into performance-based and non-performance-based components. The following remuneration report is part of the management report.

## **Management board**

### **Remuneration system**

In addition to fixed remuneration, the management board members have the possibility of making an annual pension contribution of 20 % of their fixed remuneration to a deferred compensation model. Alternatively, the amount is paid out as cash remuneration.

Furthermore, the management board members receive a variable remuneration component, which is split into a short-term incentive and a long-term incentive.

The short-term incentive consists of an annual payment which is based on the results from normal business operations and, in particular, takes budget and individual target achievement into account. The relevant targets are set every year anew in connection with the budget process and resolved by the Supervisory Board.

As a long-term incentive component, the long-term incentive plan (LTIP) contains commitments which link payout to certain triggering events (such as an IPO, trade sale or change of control), the amount paid out depending in particular on the development of the value of DAIG (LTIP 2007) and Monterey Holdings I S.à r.l., Luxembourg, (LTIP 2011) until the occurrence of the triggering event.

The provision is calculated using stochastic methods and is based on estimates of the above-mentioned value-determining factors. The fair value of an LTIP commitment is calculated on the basis of the discounted expected payments to the participating members.

In principle, the obligations are the participating members' entitlements to cash. In the event of an IPO, the LTIP 2007 may be fulfilled by the issuance of equity instruments. The entitlement under the LTIP agreement is earned during the term of employment. The amount of the provision is therefore the entitlement earned up to the balance-sheet date.

In addition to the aforementioned remuneration components, the management board members are granted fringe benefits. Such benefits are mainly the taxable non-cash benefits for private use of the company car and the payment of the insurance premium for a term life insurance including accidental death benefit cover.

In the event of the death of a management board member, the company pays the surviving dependents the fixed remuneration due to that management board member for the month in which death occurs and for 6 further calendar months as well as the pro-rata entitlement arising from the short-term incentive.

#### **Total remuneration of the Management Board**

The total cash remuneration of the Management Board amounted to € 3.4 million (2011: € 3.9 million). Of this figure, € 2.1 million (2011: € 2.3 million) was for fixed remuneration components including non-cash benefits in kind and other remuneration. The variable remuneration of € 1.3 million (2011: € 1.6 million) refers to bonuses. The amount disclosed in accordance with IAS 24.17d is € 3.0 million, of which € 1.5 million is only paid out in subsequent years.

#### **Total remuneration of former members of the Management Board**

The pension obligations (DBO) to former members of the Management Board and their surviving dependants amount to € 12.0 million (2011: € 6.1 million).

#### **Miscellaneous**

The management board members have not received any pension commitments from the company nor have they received any loans from the company.

Moreover, the management board members do not receive any additional remuneration for offices held at Group companies.

Should the management board members be held liable for financial losses while executing their duties, this liability risk is covered by the D&O insurance for management board members of the company. DAIG follows the statutory requirements which provide for a deductible of 10% of any claim

up to an amount of one-and-a-half times the fixed annual remuneration for all claims in one financial year.

### **Supervisory Board**

The remuneration of the Supervisory Board is determined by the general shareholders' meeting and is regulated in Article 14 of the Articles of Association of Deutsche Annington Immobilien SE.

The members of the Supervisory Board do not receive remuneration but are only reimbursed their expenses.

The members of the Supervisory Board received € 194 k for their work in 2012 (2011: € 237 k).

Furthermore, DAIG has taken out a liability insurance (D&O insurance) for the members of the Supervisory Board.

The Supervisory Board members have not been granted any loans by the company.

## **6. Result Forecast for Deutsche Annington Immobilien SE**

After a net loss for the year of € 7.2 million in 2011, the Company again closed the 2012 financial year with net income for the year of € 9.6 million and distributable profit for the year of € 174.1 million.

For the current financial year 2013 and the following business year, Deutsche Annington Immobilien SE will again generate income from providing central services and charging them to the real-estate management companies. This income will be used to cover the cost of the resources designated therefor. The services are charged using recognised transfer pricing methods. Furthermore, Deutsche Annington Immobilien SE will again post net investment income, largely from profit transferred by its subsidiaries. The financial result will again be governed by Group financing.

The Management Board therefore is also expecting a profit before interest and tax in the 2013 and 2014 financial year and overall net income for the year. Furthermore, sufficient free reserves in the Group companies permit the targeted control of the result from investments and thus the net result for the year.

## **7. Outlook for the Deutsche Annington Immobilien Group**

### **Forecast Report**

With the restructuring of the GRAND securitisation at the end of 2012 ahead of maturity, crucial groundwork was laid for the future of our company. Building on improved business processes, we want to continually increase the value of our company. This is also to be reflected in the development

of our most important performance indicators, adjusted EBITDA, FFO 2 and NAV. On the operational side, we continue to concentrate on developing our core business, Property Management, as well as further improving the quality of our housing stock and thus overall customer satisfaction.

### **Overall economic outlook**

The ifo institute is expecting the economy to recover slightly in the first quarter of 2013. As the year progresses, the upswing should accelerate. Assuming that the euro crisis does not escalate, stimulating forces on the domestic market and demand from outside Europe for German exports will both increase. As a result, private consumption and capital expenditure should rise significantly again.

According to the forecast of the Federal Labour Office, the unemployment rate will increase slightly by 0.2 percentage points to 7.0 %. In its annual economic report for 2013, the German government expects consumer prices to increase by 1.8 % and GDP to grow by 0.4 % in 2013.

### **Housing market**

According to the IVD, rents and apartment prices will continue to rise in 2013, particularly in cities as here the demand for accommodation remains high. On a national average, the price rise will be slightly above the inflation rate. The increase in rents and prices will, however, gradually slow as the year progresses.

### **Financing of the Grand liabilities**

This restructuring of the GRAND securitisation enables Deutsche Annington to repay its liabilities of € 3.8 billion under the securitisation in tranches over a period of five years. In view of the agreed amortisation targets, we already started activities to refinance the Grand liabilities in 2012. The partial refinancing negotiated in December 2012 with Berlin-Hannoversche Hypothekenbank was paid out on February 14 with a loan amount of € 654.3 million. (For further details, see the section "Restructuring of Grand Securitisation"). We are currently in promising negotiations with other lenders.

Given the basically positive reaction in the financing talks as well as the financing agreements we have already successfully concluded, we are confident that we can meet the agreed amortisation targets.

### **Greater customer proximity and quality improvements in the Property Management segment**

In the Property Management business segment, Deutsche Annington will continue to focus in 2013 on the value-enhancing management of residential properties. We want to make progress by further increasing efficiency and improving quality. We are looking above all to achieving a low vacancy rate, raising average rents in line with the market, increasing customer satisfaction as well as improving our cost structure.

We deploy more of our own employees in our residential estates than ever before. Through our facility manager and craftsmen's organisations, some 1,000 employees work in the Deutsche Annington

estates. In 2013, we will continue this strategy and, consequently, plan to recruit roughly 200 more workers for our craftsmen's organisation, increasing the total number to some 900 by mid-2013.

We will also continue to pursue our goal of steadily improving the quality of our housing stocks and the residential surroundings in 2013. Therefore, investments in modernisation and maintenance will again be well up on last year's figure and should run at around € 230 million. That is an average of about € 20.00 per square metre of rented living area and makes us one of the industry leaders. A large proportion of the investments will go into energy-saving measures and action to improve the quality standard of the units.

When planning investments in our properties, we also take the demographic change into consideration. Some 40.0 % of our tenants are over 60 and many of them want to live in their apartment for as long as possible. In 2013, we are planning to spend some € 10.0 million on converting some 670 apartments to be senior-friendly in accordance with the KfW standard.

In the last two years, we managed to significantly reduce the vacancy rate. This year, we are expecting to further cut the vacancy rate. We are anticipating that rental income will be on a par with the 2012 figure.

#### **Modern fibre optic technology to be installed in apartments**

At the end of 2011, Deutsche Annington entered into a strategic partnership with Deutsche Telekom. The aim of this partnership is to equip our housing stocks throughout Germany with modern fibre optic technology and provide the tenants with a TV signal through our subsidiary Deutsche Multimedia Service GmbH (DMSG). In addition to a wider range of TV channels, the tenants will be connected to the fibre optic network and therefore have access to the fast broadband connections of Deutsche Telekom. During 2013, the first 42,000 units should be provided with a TV signal by DMSG.

#### **Apartment sales**

To supplement our Property Management business segment, we will continue with the selective sale of apartments in 2013. In our privatisation programme for the current year, we are again offering apartments for sale mainly to tenants, owner-occupiers and small capital investors. At the same time, we will further streamline our housing stocks as part of portfolio optimisation. Last year, we again sold off properties in our housing stocks which, for various reasons, did not meet our earnings requirements. In 2013, we expect the number of apartment sales to be below the figure for 2012. Regardless of our plans, we will adjust our sales activities to any change in demand.

#### **Pursuing opportunities for acquisitions**

In the last six years, we have acquired 12,800 residential units and integrated them into the Deutsche Annington Immobilien Group. We want to further pursue our strategy of making sensible additions to our real-estate portfolio. The key criterion for any decision is still whether the housing portfolios offered fit in with the Deutsche Annington strategy and whether the acquisition makes economic sense. We

see good opportunities for further acquisitions in the real-estate market, which is now picking up after the financial crisis. In the months to come, we will be closely following up options which we consider attractive.

**Expected earnings and assets situation: adjusted EBITDA at same level, FFO 2 and NAV above prior-year** After the important groundwork was laid last year, we will continue to systematically pursue our course in the current year. In the past year, our key financial performance indicators were impacted by the efforts to make significant progress in our core business, Property Management, by optimising business processes. As a result, we have succeeded in further increasing our operational performance. Building on this improved operational performance, we will stabilise our profit for 2013 at the 2012 level, with property sales lower than in 2012, as expected. We anticipate that profit from property management will be on a par with the 2012 figure despite the smaller portfolio size resulting from property sales as average rents per square metre will increase. Provided the business environment develops in line with our assumptions, adjusted EBITDA will remain at the 2012 level but FFO 2 will be well up on the figure for 2012.

Given our company's improved performance and assuming that rents, vacancy rates, the letting rate and sales develop as forecast, we expect our KPIs, adjusted EBITDA and FFO 2, to be above the 2013 level in 2014.

The interest rate secured through the GRAND restructuring should have a noticeable positive effect on the financial result.

Profit for the period will be positively influenced by the refinancings already initiated and the resultant lower interest rates.

We are also expecting a further increase in the NAV in 2013 and 2014.

In view of steadily rising demand for residential properties and the comparatively sound economic prospects, we believe that the fair values of our residential properties will increase again in 2013.

Given the positive reaction on the financing markets, we expect to be able to complete the necessary refinancings in the volumes required and on schedule.

All in all, we want to further expand Deutsche Annington's position as market leader in the years to come and build on the strengths of our Group to achieve a sustained and stable development of business and earnings. Therefore, we will continue to review the organisational structure in 2013 so as to gear the use of resources efficiently to our real-estate business and thus to customer satisfaction.

**Concluding remark:**

This Management Report contains forward-looking statements and information. These forward-looking statements may be identified by words such as "expects," "intends," "will," or words of similar meaning. Such statements are based on our current expectations, assessments and assumptions

about future developments and events and, therefore, are naturally subject to certain uncertainties and risks. The actual developments and events may differ significantly both positively and negatively from the forward-looking statements so that the expected, anticipated, intended, believed or estimated developments and events may in retrospect prove to be incorrect.

**Declaration in accordance with Section 312 (3) of the German Stock Corporation Law (AktG)**

Our company received appropriate consideration for each transaction and measure listed in the report on relations with affiliated companies under the circumstances known to us at the time the transactions were made or the measures implemented or omitted and has not been disadvantaged by the implementation or omission of any measures.

Düsseldorf, February 2013

The Management Board

Barr

Freiberg

Dr Kirsten