



1ST HALF OF 2012
**THE DEUTSCHE ANNINGTON
REAL ESTATE GROUP**



- Deutsche Annington converted into a European company (SE – Societas Europaea) in June 2012
- Heads of terms on a non-binding basis for the refinancing of the securitised GRAND Notes agreed with a large proportion of the noteholders
- In the first half of 2012, Deutsche Annington delivers sustained strong performance and continues the positive development seen in the previous year:
 - At 4.8%, vacancy rate remains at low level
 - Net rent rises by 2.0%
 - Reletting times reduced by 22%
 - Letting performance sustained at high level
 - Number of apartments sold significantly increased

ECONOMIC ENVIRONMENT

Global economic climate brightens. According to estimates of the Federal Ministry of Economics and Technology (BMWi), there were also signs in the international environment of a moderate brightening of the economic climate in the second quarter of 2012. Economic activity in major industrial countries such as the USA and Japan is picking up again and emerging economies such as India and China are recording robust growth. By contrast, economic growth in the eurozone is still causing concern. The Organisation for Economic Cooperation and Development (OECD) is forecasting a slight decrease in gross domestic product (-0.1%) in the eurozone for the current year. According to the BMWi, the uncertainties and risks resulting from the persistent sovereign debt and financial crisis as well as the declining economic activity in the eurozone are still considerable.

The situation on the financial markets was still tense at the end of the first half of 2012. Although various measures of the ECB contributed to an easing of the financial markets at the beginning of 2012, the recent escalation of the crisis in the eurozone governed the development on the financial markets in the second quarter of 2012. According to an estimate of the International Monetary Fund (IMF), the financial markets will remain volatile as a result of the crisis in the eurozone. Just before the end of the second quarter of 2012, the ECB cut the benchmark interest rate by 25 basis points to an historic low of 0.75%.

According to an estimate of the BMWi, the German economy remained stable in the first six months of 2012 despite high external risks in connection with the sovereign debt and financial crisis in the eurozone. Whilst the renewed escalation of the financial crisis in the eurozone is governing developments on the financial markets, the terms and conditions of loans in Germany are still favourable. Important conditions for the robust German economy are the continued increase in employment figures and the positive development of incomes.

In its spring forecast, the BMWi expects German gross domestic product (GDP) to grow by an annual average of 0.7% in 2012. In the previous year, GDP still grew by 3.0%. The expected growth will be driven by domestic demand. The sovereign debt crisis in the eurozone remains the greatest risk for the development of the economy. A quick resolution of the crisis would be an opportunity for a more positive development.

Positive development of rents in Germany. The F+B residential rent index regularly determined by the Hamburg research company, F+B, showed an increase in rents for the first quarter of 2012. This rise was driven by higher rents in new contracts. The index for rents under new contracts rose by 0.6% in the first quarter of 2012 to 108.2 points compared with the prior quarter. In the same period, rents under existing contracts remained stable (101.5 index points). According to F+B, the reasons for this positive development are the seasonal market activity, usually stronger in the spring, as well as brightening economic prospects. This trend is confirmed by the property index of ImmobilienScout24 which indicates a renewed rise in asking rents and therefore rental in new contracts for the second quarter of 2012.

Vacancy rate falls. 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 had therefore fallen by 0.3 percentage points since the end of 2010 (5.3%). In the new German states (formerly East Germany), the vacancy rate decreased by 0.3 percentage points to 8.0%. In the old German states (formerly West Germany), it fell by 0.2 percentage points to 2.7%. The GdW is forecasting a slight decline in the vacancy rate by 0.1 percentage points to 4.9% for 2012 as a whole.

Prices for owner-occupier apartments continue to increase. According to F+B and the Association of German Pfandbrief Banks (vdp), prices for owner-occupier apartments rose by up to 1.3% in the first quarter of 2012 compared with the previous quarter. Prices increased by up to 3.1% compared with the prior-year quarter. This trend is due to the continued increasing importance of real estate as a material asset and as long-term protection against inflation. The prices for multi-family houses rose more sharply by 0.5% in the first quarter of 2012 than in the previous quarter.

Continued high demand for residential real-estate portfolios. According to CB Richard Ellis (CBRE) and Jones Lang LaSalle (JLL), the boom in investment in residential real estate is continuing in Germany. The reason for this is a “flight” into material assets caused by the sovereign debt crisis which is reflected in strong demand for German residential real estate portfolios. According to CBRE, residential real-estate portfolios with a total value of some € 7 billion were traded in the first half of 2012. Therefore, 14% or € 840 million more has already been invested in 2012 than in the entire year 2011. German and foreign investors still consider the German residential real estate market to be one of the world’s safest and most attractive investment markets and it is dominated by institutional investors. Given the investment activity in the first half of 2012, the continued interest of institutional investors and further planned major transactions, the experts of CBRE and JLL are expecting a transaction volume of at least € 10 billion for 2012.

BUSINESS PERFORMANCE

Positive trend of previous year continues. In the first half of 2012, the Deutsche Annington Immobilien Group continued the positive development of business seen in the previous year. Customer satisfaction grew: customer service was further expanded and performance levels increased overall. At the same time our economic KPIs exceeded the figures for the first six months of 2011, in some cases significantly. The basis for this were the positive development of net rents and vacancy rates in the Property Management division as well as the larger number of apartments sold.

In the Property Management division, rental income rose as a result of rent increases within the statutory limits and a lower vacancy rate. The average rent rose by 2.0% compared with the previous year. Some of the rent increases were achieved in connection with modernisation measures. One of the main reasons for the sustained low vacancy rate of 4.8% is our improved operational efficiency: for example, compared with the prior-year period, we reduced our reletting times by 22.0%. We also further stepped up our marketing activities. Furthermore, we upgraded the standard of our housing units.

Our letting performance remained high. In the first half of 2012, a total of 9,975 apartments were relet.

The number of housing units sold increased significantly in the first six months of 2012. With 1,886 apartments sold throughout Germany, the number more than doubled compared with the prior-year period. We achieved this thanks to the effective further development of our sales activities and 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 or as a long-term capital investment.

With the selective sale of apartments, we are satisfying many tenants' desire to own their home as an investment or as part of their provisions for retirement. The mix of tenants and owner-occupiers in our residential districts has, in our experience, a positive impact on the neighbourhood. In our privatisation programme, we are offering apartments for sale mainly to tenants, owner-occupiers and small capital investors.

Deutsche Annington has been an SE since June 2012. Deutsche Annington Immobilien GmbH was converted into a stock corporation (Aktiengesellschaft) at the beginning of March 2012 and into a European Company (SE – Societas Europaea) in June 2012. With this change in the legal form, one important formal prerequisite for an IPO has been satisfied. However, it remains to be seen whether and when this step will be taken. The European Company is a modern legal form which not only creates the optimum prerequisite for a smooth IPO but also ensures the greatest possible flexibility in an international context.

Heads of terms agreed for the refinancing. At the end of 2011, Deutsche Annington signed a loan agreement to replace the Prima securitised loan maturing in December 2012. When Deutsche Annington acquired the majority shareholding in Prima Wohnbauten Privatisierungs-Management GmbH Berliner Wohnungsgesellschaft in November 2009, the existing securitised loan was also taken over. This Prima securitisation was repaid in full at the end of March 2012, as planned, ahead of maturity in December 2012.

In view of the GRAND securitisation maturing in 2013, we systematically continued the work started last year on the refinancing or renewal of this financing. As a result of these efforts, we have managed to agree heads of terms with the representatives of the noteholders for the refinancing of the GRAND Notes.

Deutsche Annington Immobilien SE has agreed heads of terms on a non-binding basis with a large proportion of the creditors, the so-called ad-hoc group of Noteholders, regarding the refinancing of the securitised GRAND Notes. The ad-hoc group of Noteholders comprises Bayerische Landesbank, ING Investment Management, JP Morgan, Landesbank Baden-Württemberg, PIMCO and Standard Life Investments. The Notes held by the ad-hoc group, when aggregated with the Notes held by DAIG's shareholders, represent approximately 37.0% of the Notes. The other Noteholders are expected to sign up to the agreement as it is advantageous for both creditors and debtors. To reflect the extended maturity, the weighted margin on the GRAND Notes is to be increased from 48 to 165 basis points. The restructuring will be conducted via a so-called scheme of arrangement under English law, which is a court-approved agreement between a company and its lenders.

One key term under the proposed refinancing is equity support of € 504 million from the shareholders, which includes subordinated GRAND notes with a volume of € 239 million, which are held by a sister company of the owner company.

Combined with an updated valuation, this delivers a day-one LTV of approximately 59.7%.

The transaction will also enable the Deutsche Annington Immobilien Group to execute a series of partial refinancings of the underlying portfolio to deliver an orderly return of capital to Noteholders over a five-year period. Within the extended maturity, € 1.24 billion is to be repaid within the first year (of which € 240 million as an equity contribution by the shareholders), € 700 million in the second year, € 650 million in each of the third and fourth years, and the remaining amount in the fifth year.

Furthermore, the Deutsche Annington Immobilien Group will have the ability under the transaction to apply for funding for modernisation projects and invest in asset enhancement.

The reaction of the financial markets, media and analysts to the announcement of the refinancing of the GRAND securitisation was unanimously positive.

For full details of the commercial terms of the proposed refinancing, and key financial information on the GRAND securitisation, please refer to the DAIG website at www.deutsche-annington.com.

The aim is to implement the refinancing later this year.

Acquisitions: market still offers good opportunities for acquisitions. As a company which is geared to the long term, Deutsche Annington's aim is to continually expand its housing stocks. In the last five years, we have successfully integrated some 12,800 apartments into the company. In the future, we want to stay true to this strategy of adding to our real-estate portfolio where it makes sense and see clear opportunities for further acquisitions in the real-estate market, which has now picked up after the financial crisis. The key criteria for any decision are still whether the housing portfolios offered fit in with the Deutsche Annington strategy and whether the acquisition makes economic sense.

In the first half of 2012, we analysed in detail some 300 offers for a volume of about 110,000 housing units. In the months to come, we will be closely following up options which we consider attractive.

Overall, the business development in the first half of 2012 confirms that, with its business processes and considerably strengthened financial and earning power, our company is built on a stable and promising foundation. We expect our company's performance to further increase and this will be reflected in a positive development of business in 2012.

INITIATIVES TO INCREASE CUSTOMER SATISFACTION

Set-up of the facility manager and craftsmen's organisation continues. In conjunction with our efforts to further improve customer service and increase the value of our real estate, we started to build up our own facility manager organisation last year. This strengthens our presence in our residential estates and makes us closer to our customers. The facility managers are the direct local contacts for the tenants and our service providers. They assume the function of a quality manager and project coordinator and they also make sure that our residential estates are clean and tidy.

Parallel to setting up the facility manager organisation, in 2011 we also established Deutsche TGS West GmbH as a joint venture. Deutsche TGS West GmbH is responsible for handling jobs such as painting, plumbing, heating system and masonry work in our residential estates. With the joint venture we want to further increase the quality of workmanship in the interest of our customers.

We used the first half of the current year to gear the facility manager organisation and the joint venture to the new processes and enlarge them. For example, a total of 350 facility managers will be employed by early 2013. 150 new facility managers had already started work by the end of June 2012.

As part of our new craftsmen's organisation, we extended customer service with the start-up of Deutsche TGS GmbH at the beginning of July 2012.

In addition, since the beginning of 2012, the services outside the Deutsche Annington buildings (gardening work, winter service, street, pavement and house cleaning) have been performed by one company, which has considerably reduced complexity. At the same time, this step means price and performance stability until 2016 for our tenants.

Comprehensive 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 established "Deutsche Soziale Wohnen GmbH" in April 2012. This newly established company currently employs some 30 social managers who give our tenants specialist 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. Each customer who is successfully given counselling means one less notice which has to be served by our company as the landlord. Furthermore, it increases the tenants' trust in the company and therefore also customer satisfaction.

Projects to modernise 2,599 apartments started. The Deutsche Annington Immobilien Group is concentrating on targeted maintenance and modernisation programmes in the interest of satisfied tenants, maintaining the value and improving the quality of its housing stocks as well as for the sake of environmental protection. In 2011, we carried out 172 modernisation projects involving a total of 3,321 units. We will continue with this policy in 2012. In the current financial year, we intend to implement a total of 174 modernisation projects for 2,870 apartments. In the first six months, we already started to implement modernisation projects for 2,599 apartments throughout Germany. The modernisation and maintenance measures planned for 2012 will cost roughly € 18 per square metre of rented living area.

Apartments connected to the fibre optic network. At the end of 2011, Deutsche Annington entered into a strategic partnership with Deutsche Telekom in order to equip our housing 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 171,000 apartments of Deutsche Annington throughout Germany to the fibre optic network. At the beginning of 2013, the first 42,000 apartments will be provided with a TV signal through DMSG. In several expansion stages, Deutsche Telekom will provide our buildings at roughly 600 locations with powerful broadband connections at competitive prices. 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.

Energy management leads to lower costs for our tenants. As a supplement to the energy-saving measures implemented in our modernisation projects, we have further extended our energy procurement competence by setting up an energy management department in our company. Its task is to negotiate regional framework agreements for our tenants, for example for the supply of gas, electricity and oil. As part of these activities, advantageous conditions were already negotiated for several locations in previous years. We also achieve significant price advantages for our tenants in other fields by bundling the purchase of services.

Saving with modern waste management. Anyone who disposes of his waste properly saves money and does the environment some good. In order to improve waste management, Deutsche Annington has been working together with various service providers in a large number of residential estates since last year. These companies check the rubbish bins for incorrectly sorted waste three times a week, re-sort the waste and inform the tenants. As an economic result, we are expecting – after deduction of the service providers' fees – running cost savings of € 3.8 million for our customers throughout Germany in the years to come.

Regular survey of customers' mood. We are increasingly using customer surveys as a tool to find out where we stand with our customers. At regular intervals, we ask 500 tenants and potential customers their opinion. At the end of the first half of 2012, 77% of our new customers were satisfied with our services, 85% would recommend us to others. With our tenants who have been living in Deutsche Annington accommodation for more than a year, overall satisfaction is currently still only 68%. Here, we want to improve by talking to them more in future. Repairs are rated better: 70% of our customers are satisfied with our repair service, 93% with the quality of the repair. The regular feedback from our customers through these surveys also shows us where we have to start to make further improvements in future.

■ RESPONSIBILITY

Employees: motivation and satisfaction are important goals. The Deutsche Annington Immobilien Group wants to be an attractive employer for our employees and assume the responsibility which our role as an employer demands of us. Therefore, we have a modern and balanced style of HR management. It is designed to promote the development of each individual optimally. We want to offer long-term career prospects, also to our young employees.

Staff motivation and satisfaction are important goals in our company. If we want to satisfy our aspiration to provide high quality for our customers, we need people who identify with their tasks. Therefore, every year we have employee satisfaction measured by an independent institute. The first employee survey in 2010 gave a detailed overview of our employees' mood. The results of the survey gave us valuable information about how we can make further improvements and we have already successfully implemented some conclusions in day-to-day work. The results of the employee surveys regularly conducted confirm that the action taken is having an effect: employee satisfaction has increased significantly. Encouraged by the positive results, we will be systematically increasing our efforts to improve business processes and the working environment.

In the first six months of 2012, we also remained committed to health and the family. Individual part-time work arrangements, parent-child offices and cooperation with a provider of services for families are just three examples of the measures already implemented.

Customers and the local community: active engagement as a socially responsible landlord and reliable partner. People from a wide range of backgrounds and countries live in our estates. With our wide-ranging engagement, we want to give them the feeling that they are important to us – every single one of them, regardless of their personal background. We not only want to offer our customers a place to live but also support them in their everyday lives. Tenants who feel at home stay a long time in our apartments. We do a lot for this.

One important tool is our two foundations. Through them we provide help in cases of social hardship and to people in particular need. Furthermore, through our foundations and our sponsoring activities, we promote projects dealing with the major socio-political topics of the future “education” and “living in old age”.

For three years now, Deutsche Annington has been supporting the media educational school project “Newspaper and School” (Zeus) set up by the WAZ media group. With it, we want to make a contribution towards young people’s education and encourage media competence through newspapers and the Internet.

In several residential estates, Deutsche Annington and Auslandsgesellschaft Deutschland e. V. have joined forces and adopted new approaches: as part of the “Living and Learning” project, residents of our estates are being offered German courses free of charge. Deutsche Annington is providing the rooms rent-free and also funding the first language course. With this project, Deutsche Annington wants to help overcome language barriers and create good neighbourhood structures. In view of the positive response, we are preparing further offers.

In collaboration with the German Red Cross, we have opened a neighbourhood meeting place in Duisburg and Krefeld as an open meeting point for local residents. This new offering will improve the local advice and care situation, particularly for older citizens and their relatives so that they can stay living in their own apartments for as long as possible. Deutsche Annington is making appropriately converted rooms available rent-free for three years.

As part of the expansion of the facility manager organisation, 150 new facility managers had started work in our residential estates by the end of June 2012. Roughly one quarter of them are tenants of Deutsche Annington. Of the people so far employed, about one third are over 50 years old and some 30% of them had been unemployed for more than a year. Deutsche Annington is intentionally drawing on the experience these people have in both their occupation and in dealing with our tenants on a day-to-day basis.

At the same time we have extended the number of apprenticeships we offer. 2012 will be the first year in which 40 young people will be taken on as apprentices; previously not more than 20 apprentices were recruited each year. In the next few years, we plan to double the number of apprentices from 70 to 140. 10% of the future apprenticeships are reserved for children of our tenants.

We see the employment of tenants and the training of young people as part of our social responsibility which, as the largest German housing company, is very important to us.