**Deutsche Annington Immobilien SE**
**Consolidated Income Statement (in € million)**

| | Notes | 2012 | 2011 Restated* |
|---|---|---|---|
| Revenues from property letting | | 1,046.5 | 1,058.5 |
| Other income from property management | | 18.4 | 19.8 |
| **Income from property management** | **(6)** | **1,064.9** | **1,078.3** |
| Income from sale 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 |
| **Profit on disposal of properties** | **(7)** | **51.6** | **67.6** |
| **Net income from fair value adjustments of investment properties** | **(8)** | **205.6** | **246.7** |
| Changes in value of trading properties | (9) | 0 | 204.5 |
| Cost of materials | (10) | -519.5 | -548.6 |
| Personnel expenses | (11) | -112.1 | -90.8 |
| Depreciation and amortisation | (12) | -6.1 | -6.2 |
| Other operating income | (13) | 43.5 | 44.4 |
| Other operating expenses | (14) | -81.2 | -70.6 |
| Financial income | (15) | 12.3 | 14.7 |
| Financial expenses | (16) | -443.2 | -362.1 |
| **Profit before tax** | | **215.8** | **577.9** |
| Income tax | (17) | -43.6 | -154.3 |
| **Profit for the period** | | **172.2** | **423.6** |
| Attributable to: | | | |
| DAIG shareholders | | 171.4 | 423.0 |
| Non-controlling interests | | 0.8 | 0.6 |

**Deutsche Annington Immobilien SE**
**Consolidated Statement of Comprehensive Income (in € million)**

| | Notes | 2012 | 2011 Restated* |
|---|---|---|---|
| **Profit for the period** | | **172.2** | **423.6** |
| **Cash flow hedges** | | | |
| Change in unrealised gains/losses, net | | -34.6 | -30.7 |
| Net realised gains/losses | | 26.5 | 17.4 |
| Tax effect | | 2.4 | 5.9 |
| **Actuarial gains/losses from pensions and similar obligations** | | | |
| Change in actuarial gains/losses, net | | -69.3 | -7.5 |
| Tax effect | | 22.1 | 2.4 |
| **Other comprehensive income** | **(28)** | **-52.9** | **-12.5** |
| **Total comprehensive income** | | **119.3** | **411.1** |
| Attributable to: | | | |
| DAIG shareholders | | 118.4 | 410.5 |
| Non-controlling interests | | 0.9 | 0.6 |

Also see the corresponding explanations in the Notes.

* see note (5) a) Changes in accounting policies

**Deutsche Annington Immobilien SE**
**Consolidated Balance Sheet (in € million)**

| | Notes | Dec. 31, 2012 | Dec. 31, 2011<br>Restated* | Jan. 1, 2011<br>Restated* |
|---|---|---|---|---|
| **A s s e t s** | | | | |
| Intangible assets | (18) | 5.2 | 7.7 | 11.0 |
| Property, plant and equipment | (19) | 16.2 | 7.1 | 5.1 |
| Investment properties | (20) | 9,843.6 | 9,893.8 | 8,436.7 |
| Financial assets | (21) | 44.6 | 44.3 | 46.1 |
| Other assets | (22) | 28.3 | 18.8 | 16.6 |
| Income tax receivables | (23) | 0.1 | 0.2 | 0.2 |
| Deferred tax assets | (17) | 8.8 | 0.0 | 0.0 |
| **Total non-current assets** | | **9,946.8** | **9,971.9** | **8,515.7** |
| Inventories | (24) | 0.9 | 12.8 | 1,166.6 |
| Trade receivables | (25) | 20.3 | 49.5 | 89.2 |
| Other financial assets | (21) | 2.1 | 2.2 | 6.0 |
| Other assets | (22) | 26.5 | 26.3 | 20.3 |
| Income tax receivables | (23) | 12.8 | 15.9 | 72.3 |
| Cash and cash equivalents | (26) | 470.1 | 278.5 | 310.7 |
| Assets held for sale | (27) | 128.8 | 25.9 | - |
| **Total current assets** | | **661.5** | **411.1** | **1,665.1** |
| **Total assets** | | **10,608.3** | **10,383.0** | **10,180.8** |
| **Equity and liabilities** | | | | |
| Subscribed capital | | 0.1 | 0.1 | 0.1 |
| Capital reserves | | 1,052.3 | 718.2 | 718.2 |
| Retained earnings | | 1,661.1 | 1,539.3 | 1,121.4 |
| Other reserves | | -47.1 | -41.3 | -33.9 |
| **Total equity attributable to DAIG shareholders** | | **2,666.4** | **2,216.3** | **1,805.8** |
| Non-controlling interests | | 11.0 | 13.5 | 12.2 |
| **Total equity** | (28) | **2,677.4** | **2,229.8** | **1,818.0** |
| Provisions | (29) | 358.2 | 296.9 | 295.5 |
| Trade payables | (30) | 0.3 | 0.3 | 0.3 |
| Other financial liabilities | (31) | 5,766.7 | 6,146.1 | 6,500.6 |
| Income tax liabilities | (32) | 86.3 | 105.6 | 124.0 |
| Other liabilities | (33) | 4.8 | 5.1 | 5.4 |
| Deferred tax liabilities | (17) | 724.2 | 691.9 | 544.3 |
| **Total non-current liabilities** | | **6,940.5** | **7,245.9** | **7,470.1** |
| Provisions | (29) | 185.5 | 196.9 | 188.1 |
| Trade payables | (30) | 46.0 | 37.6 | 41.1 |
| Other financial liabilities | (31) | 683.8 | 619.2 | 612.2 |
| Income tax liabilities | (32) | 26.5 | 26.0 | 25.6 |
| Other liabilities | (33) | 48.6 | 27.6 | 25.7 |
| **Total current liabilities** | | **990.4** | **907.3** | **892.7** |
| **Total liabilities** | | **7,930.9** | **8,153.2** | **8,362.8** |
| **Total equity and liabilities** | | **10,608.3** | **10,383.0** | **10,180.8** |

Also see the corresponding explanations in the Notes.

* see note (5) a) Changes in accounting policies

**Deutsche Annington Immobilien SE**
**Consolidated Cash Flow Statement (in € million)**

| January 1 to December 31 | Notes | 2012 | 2011 Restated* |
|---|---|---|---|
| Profit for the period | | 172.2 | 423.6 |
| Depreciation and amortisation | (12) | 6.1 | 6.2 |
| Interest expenses/income | | 433.9 | 350.1 |
| Income tax | | 43.6 | 154.3 |
| Results from disposals of investment properties | | -27.0 | -22.1 |
| Net income from fair value adjustments of investment properties | (8) | -205.6 | -246.7 |
| Revaluation of assets held for sale | (7) | -17.1 | -2.7 |
| Changes in value of trading properties | (9) | 0.0 | -204.5 |
| Other income/expenses not affecting net income | | -0.5 | 0.4 |
| Changes in inventories | | 11.9 | 93.7 |
| Changes in receivables and other assets | | 22.8 | 20.7 |
| Changes in provisions | | -32.3 | -24.9 |
| Changes in liabilities | | -4.6 | 13.8 |
| Income tax paid | | -17.9 | 23.1 |
| **Cash flow from operating activities** | | **385.5** | **585.0** |
| Proceeds from disposals of investment properties | | 284.5 | 135.2 |
| Proceeds received from disposals of financial assets | (21) | 0.1 | 4.1 |
| Acquisition of investment properties | (20) | -91.0 | -58.4 |
| Acquisition of intangible assets and property, plant and equipment | (18),(19) | -6.8 | -2.7 |
| Acquisition of shares in consolidated companies (net of cash acquired) | (3) | -0.9 | -1.6 |
| Acquisition of financial assets | (21) | -0.2 | -0.5 |
| Interest received | | 8.8 | 11.7 |
| **Cash flow from investing activities** | | **194.5** | **87.8** |
| Cash proceeds from DAIG SE shareholder | (28) | 334.1 | 0.0 |
| Cash repayments to shareholders of non-controlling interests | | -1.9 | 0.0 |
| Cash proceeds from issuing loans and notes | (31) | 4,469.6 | 178.5 |
| Cash repayments of financial liabilities | (31) | -4,874.6 | -545.6 |
| Transaction costs | | -28.2 | -33.1 |
| Acquisition of part of shares in consolidated companies | (3) | -5.0 | - |
| Interest paid | | -282.4 | -304.8 |
| **Cash flow from financing activities** | | **-388.4** | **-705.0** |
| **Net changes in cash and cash equivalents** | | **191.6** | **-32.2** |
| Cash and cash equivalents at beginning of year | | 278.5 | 310.7 |
| **Cash and cash equivalents at the end of the reporting period **)** | (26) | **470.1** | **278.5** |

See note (38) as well as the corresponding explanations in the Notes.

* see note (5) a) Changes in accounting policies

**) thereof restricted cash € 363.2 million (2011: € 46.2 million)

**Deutsche Annington Immobilien SE**
**Consolidated Statement of Changes in Equity (in € million)**

| | Subscribed capital | Capital reserves | Retained earnings | Other Reserves | | | | Equity of DAIG shareholders | Non-controlling interests | Total equity |
|---|---|---|---|---|---|---|---|---|---|---|
| | | | | Can be reclassified | | Cannot be reclassified | | | | |
| | | | | Cash flow hedges | Available-for-sale financial assets | Actuarial gains and losses | Total | | | |
| **As of Dec. 31 ,2010** | **0.1** | **718.2** | **1,116.7** | **-34.0** | **0.1** | **4.7** | **-29.2** | **1,805.8** | **12.2** | **1,818.0** |
| Change in disclosure of actuarial gains and losses | | | **4.7** | | | **-4.7** | **-4.7** | **0.0** | | **0.0** |
| **As of Jan. 1, 2011 (restated *)** | **0.1** | **718.2** | **1,121.4** | **-34.0** | **0.1** | **0.0** | **-33.9** | **1,805.8** | **12.2** | **1,818.0** |
| Profit for the period | | | 423.0 | | | | | 423.0 | 0.6 | 423.6 |
| Other comprehensive income | | | | | | | | | | |
| Changes in the period | | | -5.1 | -20.9 | 0.0 | | -20.9 | -26.0 | 0.0 | -26.0 |
| Reclassification adjustments recognised in income | | | | 13.5 | | | 13.5 | 13.5 | 0.0 | 13.5 |
| Total comprehensive income | | | 417.9 | -7.4 | 0.0 | | -7.4 | 410.5 | 0.6 | 411.1 |
| Shareholder's capital contributions and withdrawals | 0.0 | | | | | | | 0.0 | | 0.0 |
| Change in scope of consolidation | | | | | | | | | 0.6 | 0.6 |
| Changes recognised directly in equity | | | | | | | | | 0.1 | 0.1 |
| **As of Dec. 31, 2011 (restated *)** | **0.1** | **718.2** | **1,539.3** | **-41.4** | **0.1** | | **-41.3** | **2,216.3** | **13.5** | **2,229.8** |
| **As of Jan. 1, 2012 (restated *)** | **0.1** | **718.2** | **1,539.3** | **-41.4** | **0.1** | | **-41.3** | **2,216.3** | **13.5** | **2,229.8** |
| Profit for the period | | | 171.4 | | | | | 171.4 | 0.8 | 172.2 |
| Other comprehensive income | | | | | | | | | | |
| Changes in the period | | | -47.2 | -26.3 | 0.0 | | -26.3 | -73.5 | 0.1 | -73.4 |
| Reclassification adjustments recognised in income | | | | 20.5 | | | 20.5 | 20.5 | | 20.5 |
| Total comprehensive income | | | 124.2 | -5.8 | 0.0 | | -5.8 | 118.4 | 0.9 | 119.3 |
| Shareholder's capital contributions | | 334.1 | | | | | | 334.1 | | 334.1 |
| Change in scope of consolidation | | | | | | | | | 1.0 | 1.0 |
| Acquisition of non-controlling interests (without change of control) | | | -1.5 | | | | | -1.5 | -3.5 | -5.0 |
| Changes recognised directly in equity | | | -0.9 | | | | | -0.9 | -0.9 | -1.8 |
| **As of Dec. 31, 2012** | **0.1** | **1,052.3** | **1,661.1** | **-47.2** | **0.1** | | **-47.1** | **2,666.4** | **11.0** | **2,677.4** |

Also see note (28) in the Notes.

* see note (5) a) Changes in accounting policies

# Accounting Policies

## (1) Basis of Presentation

The Deutsche Annington Immobilien Group (hereinafter referred to as DAIG) is a performance-focused holder and manager of residential real estate in Germany. Our core business is providing affordable housing for broad sections of the population. We also offer additional real estate-related services which bring benefits for our stakeholders. A further business activity is portfolio optimisation. To achieve this, we sell selected properties in our portfolio and systematically integrate new housing stock into the Group. The parent company of DAIG is Monterey Holdings I S.à r.l., Luxembourg. Deutsche Annington Immobilien SE is incorporated and domiciled in Germany; its registered office is located in Düsseldorf. The head office (principal place of business) is located at Philippstrasse 3, Bochum.

Deutsche Annington Immobilien GmbH changed its legal form into that of a stock corporation ("Aktiengesellschaft") with effect from March 1, 2012. The company was converted into Deutsche Annington Immobilien SE (SE: Societas Europaea, legal form of a European Company) upon entry in the commercial register on June 21, 2012.

Deutsche Annington Immobilien SE has made use of the option under Section 315a, para. 3 of the German Commercial Code (HGB) and is thus not obliged to prepare consolidated financial statements in accordance with German commercial law.

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted in the EU as at and for the year ended December 31, 2012. Allowance has also been made for the supplementary provisions in accordance with Section 315a, para. 1 HGB.

The consolidated financial statements have been prepared on a cost basis except for investment properties, assets held for sale, derivative financial instruments, available-for-sale financial assets and financial liabilities arising from binding share purchase offers to minority shareholders. They are measured at their fair value or, in the case of financial liabilities arising from binding share price offers, at the minimum purchase price if it is higher than the fair value.
The income statement has been prepared using the nature of expense method.

These consolidated financial statements are presented in euro, which is the Group's functional currency. Unless stated otherwise, all figures are shown in million euros (€ million).

On February 20, 2013, the Management Board drew up the consolidated financial statements of Deutsche Annington Immobilien SE.

## (2) Consolidation Principles

Entities that are under the control of Deutsche Annington Immobilien SE are included in the consolidated financial statements as subsidiaries. Control is exercised when Deutsche Annington Immobilien SE is able to govern the financial and operating policies of an entity so as to obtain economic benefits from its activities. Any potential voting rights are taken into account when assessing control, if they are exercisable or convertible at any time. Subsidiaries are included in the consolidated financial statements from the date on which Deutsche Annington Immobilien SE obtains control until the day control ceases.

Business combinations are accounted for using the acquisition method. All hidden reserves and charges of the company acquired are disclosed as part of the remeasurement. Non-current assets (or disposal groups) classified as held for sale are recognised at fair value less costs to sell. Any excess of the cost of a business combination over DAIG's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities is recognised as goodwill.

If DAIG's interest in the net fair value of the identifiable assets and liabilities exceeds the cost of the business combination, the values of the assets and liabilities as well as the costs of acquisition are reassessed and any remaining excess is recognised as income in the income statement.

The shares in the net assets of subsidiaries that are not attributable to DAIG are shown as a separate component of equity under non-controlling interests (referred to in the following as minority interests).

Further share purchases after control has been obtained, e.g. the acquisition of minority interests, are accounted for as equity transactions. Any premiums or discounts on those purchases are recognised directly in equity.

For the term during which DAIG has granted put options to minority shareholders to purchase their shares in subsidiaries, such minority interests are recognised as financial liabilities and not as a separate component of equity.

Entities over which Deutsche Annington Immobilien SE has significant influence but not control are accounted for as associates. This is generally the case when 20% to 50% of the voting rights are held. Investments in associates are of minor significance to the DAIG Group's net assets, financial position and results of operations and therefore are accounted for at amortised cost.

A special purpose entity (SPE) is consolidated if an evaluation of the substance taking into consideration all relevant factors of the SPE's relationship with Deutsche Annington Immobilien SE and the SPE's risks and rewards shows that Deutsche Annington Immobilien SE controls the SPE.

The effects of the business transactions between the entities included in the DAIG consolidated financial statements are eliminated. The financial statements of Deutsche Annington Immobilien SE and all subsidiaries are prepared according to uniform accounting policies.

## (3) Scope of Consolidation

In addition to Deutsche Annington Immobilien SE, 131 (2011: 128) domestic companies and 2 foreign companies (2011: 2) have been included in the consolidated financial statements of DAIG as at and for the year ended December 31, 2012.

For all subsidiaries included in the consolidated financial statements, the reporting date is December 31.

The list of DAIG shareholdings is appended to the notes to the consolidated financial statements as an integral part thereof.

With effect from June 22, 2012, 51% of the shares in Deutsche TGS GmbH, Bad Aibling, entered in the commercial register as at April 4, 2012, were acquired as part of the issue of new shares. The company's previous share capital was increased from € 29,900 to € 61,020. The shareholders simultaneously paid € 2.0 million into the capital reserve in line with their respective shareholdings.

The purchase price for 51% of Deutsche TGS GmbH amounts to € 1.1 million. The cash and cash equivalents acquired amount to € 2.1 million. The company has no other assets or liabilities.

The operating profit before tax of Deutsche TGS GmbH since date of acquisition totals € -0.7 million. The revenue from sales to third parties since date of acquisition totals € 0.0 million.

The domicile of the company was changed from Bad Aibling to Bochum in December 2012.

By agreement of July 18, 2012, DAIG acquired the remaining shares (5.46%) in Prima Wohnbauten Privatisierungs-Management GmbH, Berlin, for a price of € 5.0 million.

In the 2012 financial year, 6 companies (2011: 5) were established. The disposals up to December 31, 2012, were the result of 3 mergers (2011: 0) and 1 intra-Group legal reorganisation (2011: 0).

## (4) Currency Translation

In the separate financial statements of Deutsche Annington Immobilien SE and the subsidiaries included in the consolidated financial statements, foreign currency transactions are translated into the functional currency at the exchange rate on the date of the transaction. Monetary assets and liabilities in foreign currencies are translated at the exchange rate prevailing on the balance-sheet date. Non-monetary items that are measured in terms of historical cost are recorded on the balance-sheet date at the exchange rate on the date when they were first recognised. Non-monetary items that are measured at fair value are translated using the exchange rate on the date when the fair value was determined. Any resulting translation gains and losses are recorded in the income statement.

## (5) Accounting Policies

### a) Changes in accounting policies

In the 2012 financial year, DAIG retrospectively restated the prior-year figures in accordance with IAS 8 for the following cases:

- The income from property management for ancillary costs is recognised at the same time as the expenses for ancillary costs already paid. This presentation leads to the recognition of income and expenses in connection with ancillary costs in the period in which they are incurred. In the consolidated balance sheet, the ancillary costs to be billed are offset against the corresponding advance payments received and the amount by which the advance payments received exceeds the work in progress is shown (see explanations b) Recognition of income and expenses and i) Inventories.

  Before the change in the accounting policies, the income from property management included payments for ancillary costs made by DAIG in the current and prior years which were billed to tenants in the current year when the cost and the amount of revenue could be measured reliably. Ancillary costs which had yet to be billed were shown under inventories. Any advance payments made by tenants on these ancillary costs were shown under other liabilities.
- In order to improve the informative value and adjust the presentation to that of the profit from property management and property sales, the fair value adjustment of investment properties, for which a purchase contract has been signed but for which transfer of ownership has not yet taken place, is shown separately in revaluation of assets held for sale under profit on disposal of properties. As at December 31, 2011, the value adjustment of € 2.7 million was still shown in net income from fair value adjustments of investment properties.
- Actuarial gains and losses are recognised in retained earnings. As at December 31, 2011 actuarial gains and losses were recognised in other reserves.

The change in accounting policies had the following cumulative effects on the prior-year periods:

Consolidated balance sheet as at January 1, 2011:

| € million | Jan. 1, 2011 | Changes as at Jan. 1, 2011 | Jan. 1, 2011 Restated |
|---|---|---|---|
| Inventories | 1,499.1 | -332.5 | 1,166.6 |
| Current provisions | 175.6 | 12.5 | 188.1 |
| Retained earnings | 1,116.7 | 4.7 | 1,121.4 |
| Other reserves | -29.2 | -4.7 | -33.9 |
| Other current liabilities | 370.7 | -345.0 | 25.7 |

Consolidated balance sheet as at December 31, 2011:

| € million | Dec. 31, 2011 | Changes as at Dec. 31, 2011 | Dec. 31, 2011 Restated |
|---|---|---|---|
| Inventories | 326.7 | -313.9 | 12.8 |
| Current provisions | 165.2 | 31.7 | 196.9 |
| Retained earnings | 1,539.7 | -0.4 | 1,539.3 |
| Other reserves | -41.7 | 0.4 | -41.3 |
| Other current liabilities | 373.2 | -345.6 | 27.6 |

Consolidated statement of comprehensive income for the period from January 1 to December 31, 2011:

| € million | 2011 | Changes 2011 | 2011 Restated |
|---|---|---|---|
| Gross rental income | 1,062.8 | -4.3 | 1,058.5 |
| Profit on disposal of properties | 64.9 | 2.7 | 67.6 |
| Net income from fair value adjustments of investment properties | 249.4 | -2.7 | 246.7 |
| Cost of materials | -552.9 | 4.3 | -548.6 |
| **Changes in profit for the period** | | **0.0** | |

The change in accounting policies had no influence on the cash flow from operating activities.

### b) Recognition of income and expenses

Income from property management includes income from the letting of investment properties and trading properties which is recognised, net of discounts over the duration of the contracts when the remuneration is contractually fixed or can be reliably determined and collection of the related receivable is probable.

In the DAIG financial statements, the corresponding income for all the services for ancillary costs performed by the end of the year is also recognised in the year in which the service is performed.

Income from property sales is recognised as soon as the material risks and rewards of ownership have been transferred to the buyer and DAIG has no substantive further obligations. If DAIG only retains insignificant risks of ownership, the proceeds are recognised at the time of sale and a provision is recognised for the probable risk.

Expenses are recognised when they arise or at the time they are incurred. Interest is recognised as income or expense in the period in which it is incurred using the effective interest method.

**c) Intangible assets**

Acquired intangible assets are capitalised at amortised cost and internally generated intangible assets at amortised cost provided that the requirements of IAS 38 for the capitalisation of internally generated intangible assets are met. All intangible assets of DAIG have definite useful lives and are amortised on a straight-line basis over their estimated useful lives. Software and licences are amortised on the basis of a useful life of three years. Customer bases are amortised on a straight-line basis over ten years.

**d) Property, plant and equipment**

Items of property, plant and equipment are carried at amortised cost less accumulated depreciation and are depreciated over their respective estimated useful lives on a straight-line basis.

Subsequent costs of replacing part of an item of property, plant and equipment are capitalised provided it is probable that future economic benefits associated with the item will flow to DAIG and the cost can be measured reliably.

Real estate used by the company itself is depreciated over 50 years; equipment, fixtures, furniture and office equipment are depreciated over periods of between three and thirteen years.

**e) Investment properties**

When DAIG acquires real-estate properties, whether through a business combination or separately, the intended use determines whether those properties are classified as investment properties, trading properties or as owner-occupied properties.

Investment properties are properties that are held for the purpose of earning rental income or for capital appreciation or both and are not owner-occupied or held for sale in the ordinary course of business. Investment properties include undeveloped land, land and land rights including buildings and land with inheritable rights of third parties. Properties which are capitalised under a finance lease in accordance with IAS 17 “Leases” and are covered by the definition of investment properties are also classified as investment properties. Property interests held under operating leases are not classified and accounted for as investment properties.

Investment properties are measured initially at cost. Related transaction costs, such as fees for legal services or real-estate transfer taxes, are included in the initial measurement. Property held under a finance lease is recognised at the lower of the fair value of the property and the present value of the minimum lease payments upon initial recognition.

After initial recognition, investment properties are measured at fair value with any change therein recognised in profit or loss.

The fair value of investment properties is calculated using internationally recognised measurement methods. The main method used is the income capitalisation method, which is based on net cold rents (actual or market rents) and a risk-adjusted capitalised interest rate. For a more detailed description of the determination of the fair values of investment properties, see note (20) Investment properties.

Investment properties are transferred to property, plant and equipment when there is a change in use evidenced by the commencement of owner-occupation. The properties’ deemed cost for subsequent accounting corresponds to the fair value at the date of reclassification.

Investment properties are accounted for as assets held for sale when notarised purchase contracts have been signed by the balance-sheet date but transfer of ownership will not take place until the subsequent period (see note l) Assets held for sale.

### f) Leases

**Finance leases**

Leases are either classified as finance leases or operating leases. Leases where substantially all risks and rewards incidental to ownership are transferred to the lessee are accounted for as finance leases.

**DAIG as a lessee under a finance lease**

The leased asset and a corresponding liability are recognised at an amount equal to the lower of the fair value of the leased asset and the present value of the minimum lease payments. Subsequently, the leased asset is accounted for in accordance with the standards applicable to that asset. The minimum lease payments are apportioned between the finance charge and the reduction of the outstanding liability.

**Operating leases**

All leases where not substantially all risks and rewards incidental to ownership are transferred are accounted for as operating leases.

**DAIG as a lessor under an operating lease**

Lease payments are recognised in income on a straight-line basis over the lease term. The assets subject to operating leases are presented in the balance sheet according to their nature.

**DAIG as a lessee under an operating lease**

Lease payments are recognised as an expense on a straight-line basis over the lease term.

### g) Impairment of intangible assets and property, plant and equipment

In accordance with IAS 36 “Impairment of Assets”, intangible assets as well as property, plant and equipment are tested for impairment whenever there is an indication of an impairment. An impairment loss is recognised when an asset’s recoverable amount is less than its carrying amount. If the recoverable amount cannot be determined for the individual asset, the impairment test is conducted on the cash-generating unit to which the asset belongs. Impairment losses are recorded as expenses in the income statement.

An impairment loss recognised for prior periods is reversed if there has been a change in the estimates used to determine the asset’s (or the cash-generating unit’s) recoverable amount since the last impairment loss was recognised. The carrying amount of the asset (or the cash-generating unit) is increased to the newly estimated recoverable amount. The carrying amount is limited to the amount that would have been determined if no impairment loss had been recorded in prior years for the asset (or the cash-generating unit).

**h) Non-derivative financial assets**

Receivables and loans are first accounted for as incurred, other non-derivative financial assets at the trade date. The trade date is the date on which DAIG becomes a contracting party of the financial instrument. All financial instruments are initially measured at fair value. A financial asset is derecognised when the contractual rights to the cash flows from the financial asset expire, or the financial asset is transferred and DAIG neither retains control nor retains substantially all the risks and rewards of ownership of the financial asset.

DAIG determines at the level of the individual financial instruments if they are material, and, for financial instruments with similar risks in common, whether impairments already exist (incurred loss). Impairments are identified for individual financial instruments when the counterparty has defaulted or breached a contract or there are indications of risks of impairments due to a rating downgrade and general information (triggering event). For groups of financial instruments with similar risks, historical default probabilities in relation to the time overdue are taken (triggering event). An impairment is calculated after the occurrence of a triggering event as the difference between the carrying amount and the value of the discounted estimated future cash flow. The original effective interest rate is taken as the discount rate. The amount of the impairment loss is recognised in profit or loss and the carrying amount of the financial instrument is reduced directly. Any interest income on impaired financial instruments is still recognised. If there are indications that the amount of the impairment loss will be smaller, the previously recognised impairment loss is reversed to this extent and recognised in profit or loss.

In the case of available-for-sale financial instruments, impairments are reclassified from other comprehensive income to the income statement. Reversals are recognised in accordance with IAS 39.67ff.

**Available-for-sale financial assets**

In principle, available-for-sale financial assets are subsequently measured at fair value. In exceptional cases, subsequent measurement is at cost of acquisition if the fair value cannot be determined. Changes in the fair value are, if not an impairment loss, recognised within other comprehensive income. The fair value of available-for-sale financial assets is based on quoted market prices at the reporting date. When an available-for-sale financial asset is derecognised, the cumulative gain or loss recognised in other comprehensive income is transferred to profit or loss. Interest on interest-bearing financial instruments of this category is calculated using the effective interest method. Dividends on equity instruments in this category are shown in the income statement.

**Held-to-maturity investments**

Financial instruments of this category are subsequently measured at amortised cost using the effective interest method.

**Loans and receivables**

Loans and receivables are stated at amortised cost using the effective interest method.

**i) Inventories**

According to IAS 18.8 paragraph 1 any ancillary costs not yet charged are primarily measured at acquisition cost. Any own administrator fees contained in the ancillary costs are recognised at production cost. All discernible risks are allowed for by write-downs.

In the consolidated balance sheet, the ancillary costs to be billed are offset against the corresponding advance payments received and only the amount by which the advance payments received exceeds the work in progress is shown.

**j) Borrowing costs**

Borrowing costs are capitalised as part of the acquisition or production costs if they can be directly attributed to the acquisition, construction or production of a qualifying asset.

**k) Cash and cash equivalents**

Cash and cash equivalents include cash on hand, cheques, deposits in bank accounts with an original term of up to three months as well as marketable securities.

**l) Assets held for sale**

The carrying amount of non-current assets for which a sale is planned is recovered principally through a sale transaction rather than through their continuing use. Therefore, in accordance with IFRS 5, these assets must be classified as held for sale if the criteria set out below are satisfied.

To be classified as held for sale, the assets must be available for immediate sale in their present condition subject only to terms that are usual and customary for sales of such assets, and it must be highly probable that a sale will take place. A sale is deemed to be highly probable if there is a commitment to a plan to sell the asset, an active programme to locate a buyer and complete the plan has been initiated, the asset is being actively marketed for sale at a reasonable price, and a sale is expected to be completed within one year of the date on which the asset is classified as held for sale.

Assets classified as held for sale are measured at the lower of carrying amount and fair value, less costs to sell. The assets are no longer depreciated from the date on which they are classified as held for sale. Only assets which are measured at fair value through profit or loss anyway are excluded from this measurement. In these cases, the fair value is recognised.

DAIG accounts for investment properties as assets held for sale when notarised purchase contracts have been signed at the balance-sheet date but transfer of ownership will, under the contract, not take place until the subsequent period. Initially they are recognised at the contractually agreed selling price and subsequently at fair value.

**m) Income and expense recognised directly in other comprehensive income**

This equity line item includes changes in other comprehensive income not affecting net income except those resulting from capital transactions with equity holders (e.g. capital increases or dividend distributions). DAIG includes under this item unrealised gains and losses from the fair value measurement of available-for-sale assets and derivative financial instruments which are designated as cash flow hedges as well as actuarial gains and losses from defined benefit pension commitments.

**n) Taxes**

**Income tax**

Income taxes for the current and prior periods are recognised as income tax liabilities to the extent that they have not yet been paid.

Obligations to pay lump-sum tax on the previously untaxed EK 02 amounts (see note (32) Income tax liabilities) are measured at their present value to make appropriate allowance for the interest-free nature of the obligation.

**Deferred taxes**

Deferred tax assets and liabilities are recognised using the *liability* method under the *temporary* concept, providing for all temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. A deferred tax asset is recognised for temporary differences and on loss carryforwards to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilised. The carrying amount of a deferred tax asset is reviewed at each balance-sheet date. If necessary, the carrying amount of the deferred tax asset is reduced to the extent that it is no longer probable that sufficient taxable profit will be available.

Deferred taxes are measured at tax rates that have been enacted or substantially enacted and that are expected to apply to the period when the tax asset is realised or the liability is settled. The combined tax rate of corporate income tax and trade tax of 32.6% for 2012 was used to calculate domestic deferred taxes.

Deferred tax assets and liabilities are offset against each other only if DAIG has a legally enforceable right to set off the recognised amounts, when the same tax authority is involved and when the realisation period is the same. In accordance with the regulations of IAS 12 “Income Taxes”, deferred tax assets and liabilities are not discounted.

**o) Provisions**

**Provisions for pensions and similar obligations**

The values of the pension obligations and the expenses necessary to cover these obligations are determined using the *projected unit credit method* according to IAS 19 “Employee Benefits” whereby current pensions and vested pension rights at the balance-sheet date as well as future increases in salaries and pensions are included in the valuation. An actuarial valuation is performed at every balance-sheet date.

The amount shown in the balance sheet is the present value of the defined benefit obligation (DBO) after offsetting against the fair value of the plan assets.

Actuarial gains and losses are accounted for in full in the period in which they occur and recognised in the retained earnings as a component of other comprehensive income and not in profit or loss. The actuarial gains and losses are also no longer recognised in profit or loss in subsequent periods.

Service cost is shown in personnel expenses. The service cost is the increase in the present value of a defined benefit obligation resulting from employee service in the reporting period. The interest expense on the annual costs is recorded in the financial result. Interest expense is the increase during a period in the present value of a defined benefit obligation which arises due to the fact that the benefit obligation is one period closer to being discharged.

Reinsurance policies that qualify as plan assets have been taken out to cover the pension obligations towards particular persons. Where the value of those reinsurance policies exceeds the related pension obligations, the excess is recognised as an asset and shown under other assets.

**Other provisions**

Other provisions are recognised when there is a present obligation, either legal or constructive, as a result of a past event, it is probable that an outflow of resources will be required to settle the obligation and the amount can be reliably estimated. Non-current provisions are discounted if the resulting effect is material. The carrying amount of discounted provisions increases in each period to reflect the passage of time and the unwinding of the discount is recognised within interest expense. The discount rate is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

Provisions for restructuring are recognised when the Group has set up a detailed formal plan for restructuring and has no realistic possibility of withdrawing from these obligations.

Provisions for onerous contracts are recognised when the expected benefits from a contract are lower than the unavoidable cost of meeting the obligations under the contract. The provision is stated at the lower of the net cost of continuing with the contract and the cost of terminating the contract, i.e. a possible indemnity or fine for breach or non-fulfilment of contract.

Provisions for warranties are recognised when the related goods or services are sold. The amount recognised is based on historical warranty data.
Provisions are reviewed regularly and adjusted to reflect new information or changed circumstances.

The assets of the insolvency policy to secure fulfilment shortfalls arising from part-time phased early retirement contracts are offset against the amounts for fulfilment shortfalls contained in the provisions for part-time phased early retirement.

**p) Non-derivative financial liabilities**

DAIG recognises non-derivative financial liabilities on the trade date. Initial measurement is at fair value. Financial liabilities are derecognised when DAIG's obligations specified in the contract expire or are discharged or cancelled.

Loans bearing no interest or interest below market rates in return for occupancy rights at rents below the prevailing market rates are recorded at present value.

Liabilities from finance leases are initially recognised at the fair value of the leased object or the lower present value of the minimum lease payments.

With the exception of cash flow hedges and financial liabilities arising from binding share purchase offers to minority shareholders, financial liabilities are shown at amortised cost using the effective interest method.

Debt discounts and debt issue costs are directly allocated to financial liabilities.

**q) Derivative financial instruments and hedge accounting**

All derivative financial instruments are initially recognised on the trade date. Initial measurement is at fair value. The fair values of the derivative financial instruments are calculated using standard market valuation methods for such instruments on the basis of the market data available on the valuation date.

With derivatives that are not designated as a hedging instrument, changes in the fair value are recorded in profit or loss.

Financial liabilities arising from binding share purchase offers to minority shareholders are measured at fair value. Fair value is determined using mathematical financial models, e.g. the income capitalisation method; if the purchase price offered for the shares is higher than the fair value, the purchase price is recognised.

With derivatives designated as hedging instruments, the recognition of changes in the fair value depends on the type of hedge:

With a fair value hedge, the changes in the fair value of the derivative financial instruments and of the underlying hedged items attributable to the hedged risk are recognised in the income statement.

With a cash flow hedge, the changes in fair value of the derivative hedging instrument are initially recognised in other comprehensive income to the extent that the hedge is effective. Amounts accumulated in other comprehensive income are reclassified to the income statement at the same time the underlying hedged item affects net income. To the extent that the hedge is ineffective, the change in fair value is immediately recognised in profit or loss.

The fair values of instruments which are used to hedge interest rate risks are determined by discounting future cash flows using market interest rates over the remaining term of the instruments.

**r) Share-based payment**

The senior managers of DAIG have entitlements under a cash-settled payment plan as well as, in the event of an IPO, entitlements to equity-settled, share-based payments. According to IFRS 2, the obligations arising from share-based payments are calculated using standard valuation methods based on option pricing models.

Equity-settled, share-based payments are to be recognised at the grant date at the fair value of the equity instruments vested by that date. The fair value of the obligation is therefore recognised as personnel expenses pro rata temporis over the vesting period.

The cash-settled, share-based obligations are shown under other provisions and remeasured at fair value at each balance-sheet date. The expenses are also recognised over the vesting period (see notes (29) Provisions and (42) Related party transactions).

**s) Government grants**

The DAIG companies receive grants from public authorities in the form of construction subsidies, expenses subsidies, expenses loans and low-interest loans.

Government grants are regularly recorded as income over the periods necessary to match them with the related costs which they are intended to compensate.

Expenses subsidies granted in the form of rent, interest and other expenses subsidies are recorded as income in the periods in which the expenses are incurred and shown within other income from property management.

The low-interest loans are grants from public authorities which - insofar as the company received them as part of a business combination - are recorded at net present value. The difference between nominal value and net present value is recognised in income over the maturity term of the corresponding loans.

**t) Contingent liabilities**

A contingent liability is a possible obligation towards third parties that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity or a present obligation that arises from past events for which an outflow of resources is not probable or the amount of which cannot be estimated with sufficient reliability. According to IAS 37 “Provisions, Contingent Liabilities and Contingent Assets”, contingent liabilities are not recognised.

**u) Estimates, assumptions, options and management judgment**

To a certain extent, the preparation of the consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the balance-sheet date as well as reported amounts of income and expenses during the reporting period. These estimates and assumptions mainly relate to the uniform definition of useful lives, the assumptions made on the value of land and buildings, the recognition and measurement of provisions as well as the realisation of future tax benefits. The actual amounts may differ from the estimates as the business environment may develop differently than assumed. In this case, the assumptions and, where necessary, the carrying amounts of the assets or liabilities affected are prospectively adjusted accordingly.

Assumptions and estimates are reviewed on an ongoing basis and are based on experience and other factors, including expectations regarding future events which appear reasonable under the given circumstances.

The estimates and assumptions which may have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities mainly relate to the determination of the fair value of investment properties.

The best evidence of fair value of investment properties are current prices in an active market for comparable properties. If, however, such information is not available, DAIG uses standard valuation techniques such as the income capitalisation method. In determining the fair value by using the income capitalisation method, DAIG takes, among others, the following estimates and assumptions into consideration: the annual net rent, future anticipated rental income, vacancy periods, administrative and maintenance expenses. The interest rate to determine the capitalised value is derived by using a rating system. DAIG regularly compares its valuations to actual market data as well as to actual transactions.

Furthermore, in preparing consolidated financial statements, DAIG needs to estimate its income tax obligations. This involves estimating the tax exposure as well as assessing temporary differences resulting from differing treatment of items for tax and accounting purposes. Estimates are required in determining the provision for income taxes because, during the ordinary course of business, there are transactions and calculations for which the ultimate tax determination is uncertain.

Deferred tax assets are recognised to the extent that it can be demonstrated that it is probable that future taxable profits will be available against which the temporary difference can be utilised. Deferred tax assets are reviewed at each balance-sheet date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised. Estimates are required in determining the amounts of deferred tax assets and whether those assets can be utilised.

Options exercised and management judgments made by DAIG's management in the process of applying the entity's accounting policies and that may have a significant effect on the amounts recognised in the consolidated financial statements include the following:

- Upon initial recognition, the management must determine whether real estate properties are classified as investment properties, trading properties or owner-occupied properties. The classification determines the subsequent measurement of those assets.

- DAIG measures investment properties at fair value. If management had opted to use the cost model as permitted under IAS 40, the carrying amounts of the investment properties as well as the corresponding income and expense items in the income statement would differ significantly.

- The criteria for assessing in which category a financial asset is to be classified may involve discretionary judgments.

- The cash flows and cash of the Securitisation Group are subject to contractual rules and restrictions on use. According to these rules and restrictions, all liquidity which comes from refinancings and the sale of real estate is to be used for capital repayment. The cash flows and cash surpluses from property management are also restricted, although all expenses necessary to maintain business operations are allowed under the agreed loan conditions. All cash and cash equivalents existing in the Securitisation Group at the end of the year are regarded as restricted cash.

- Actuarial gains and losses from IAS 19 are accounted for in the period in which they occur and recognised in full in retained earnings as a component of other comprehensive income. The actuarial gains and losses will also no longer be recognised in profit or loss in subsequent periods.

- Management regards the restructuring of GRAND as an extinguishment of the existing securitisation and the recognition of a new financial liability. Although the existing borrowers and lenders have not changed, the terms and conditions of the securitisation as reflected in the Heads of Terms are substantially different compared to the current ones. Therefore, transaction costs concerning the extinguishment of the previous securitisation are expensed as incurred.

- DAIG accounts for ancillary costs using the principal method since DAIG, as the landlord, bears responsibility for performing the service as well as the credit risk. With the principal method, income and expenses are shown unnetted.

**v) Changes in accounting policies due to new Standards and Interpretations**

The application of numerous new Standards, Interpretations and Amendments to existing Standards became mandatory for the 2012 financial year.

Application of the following amended Standard became mandatory for the first time for the 2012 financial year:

- Amendments to IFRS 7 “Financial Instruments: Disclosures”: Extended disclosure requirements for the transfer of financial assets

**w) New Standards and Interpretations not yet applied**

Application of the following Standards, Interpretations and Amendments to existing Standards was not yet mandatory for the 2012 financial year. DAIG did not choose to apply them in advance, either. Their application will be mandatory for the financial years following the dates stated in the following table:

| New Standards, Interpretations and Amendments to Existing Standards and Interpretations | | Effective date for DAIG |
|---|---|---|
| Improvements to IFRS 2009-2011 | | Jan. 1, 2013 * |
| Amendments to Standards | | |
| IAS 1 | "Presentation of Financial Statements" | Jan. 1, 2013 |
| IAS 12 | "Income Taxes" | Jan. 1, 2013 |
| IAS 19 | "Employee Benefits" | Jan. 1, 2013 |
| IAS 27 | "Separate Financial Statements" | Jan. 1, 2014 |
| IAS 28 | "Investments in Associates and Joint Ventures" | Jan. 1, 2014 |
| IAS 32 | "Financial Instruments: Presentation" | Jan. 1, 2014 |
| IFRS 1 | "First-time Adoption of International Financial Reporting Standards" | Jan. 1, 2013 * |
| IFRS 7 | "Financial Instruments: Disclosures" | Jan. 1, 2013 |
| New Standards | | |
| IFRS 9 | "Financial Instruments: Classification and Measurement" | Jan. 1, 2015 * |
| IFRS 10 | "Consolidated Financial Statements" | Jan. 1, 2014 |
| IFRS 11 | "Joint Arrangements" | Jan. 1, 2014 |
| IFRS 12 | "Disclosure of Interests in Other Entities" | Jan. 1, 2014 |
| IFRS 13 | "Fair Value Measurement" | Jan. 1, 2013 |

* not yet endorsed

**IAS 19 (revised 2011) "Employee Benefits"**

The Amendments to IAS 19 relate to the elimination of the option to defer the recognition of actuarial gains and losses, known as the 'corridor method', the presentation/separation of changes in net assets and liabilities arising from defined benefit plans as well as additional disclosure requirements on the features and risks arising from such defined benefit plans. The amended

IAS 19 replaces the expected return on plan assets and the interest cost on the pension obligation with a uniform net interest component. Furthermore, the amended definition of termination benefits will have an effect on accounting for top-up amounts to which DAIG has committed under pre-retirement part-time work arrangements. The amendments are to be applied to financial years beginning on or after January 1, 2013; earlier application is permitted. By utilizing the amended option in the existing IAS 19, DAIG has reacted to the forthcoming amendment to IAS 19 regarding the recognition of actuarial gains and losses and therefore does not expect the amended Standard to have any material effects.

**IFRS 1 "First-time Adoption of International Financial Reporting Standards"**

In March 2012, the IASB published amendments to IFRS 1 “First-time Adoption of International Financial Reporting Standards”. The Amendments relate to IFRS first-time adopters’ accounting for and measurement of government loans at below-market rate of interest. The amended Standard is mandatory for financial years beginning on or after July 1, 2013; earlier application is permitted. The amendments to IFRS 1 will not have any effect on the DAIG consolidated financial statements.

In June 2012, the IASB published amendments to the transition guidance for IFRS 10 “Consolidated Financial Statements“, IFRS 11 “Joint Arrangements“ and IFRS 12 “Disclosures of Interests in Other Entities”. The amendments clarify first-time application of IFRS 10. The amendment to IFRS 10 defines the date of initial application of IFRS 10 and also stipulates how retrospective adjustment of comparative information is to be performed when, under IFRS 10, an entity arrives at another decision on the scope of consolidation than under IAS 27. The Standard is mandatory for financial years beginning on or after January 1, 2014; earlier application is permitted. The amendments to the transition guidance for IFRS 10, 11 and 12 have not yet been endorsed by the European Union. DAIG is examining the effects of the amended Standard.

In October 2012, the IASB published further amendments to IFRS 10 "Consolidated Financial Statements", IFRS 12 “Disclosures of Interests in Other Entities” as well as IAS 27 "Separate Financial Statements" relating to accounting for investment entities. The amendments define an investment entity and introduce an exception to consolidating subsidiaries of an investment entity under IFRS 10. The amendments are mandatory for financial years beginning on or after January 1, 2014; earlier application is permitted. The amendments have not yet been endorsed by the European Union. The amendment to IFRS 10 will not have any effect on the DAIG consolidated financial statements.

Standards and Interpretations not described in detail are not expected to have any effect on the DAIG consolidated financial statements.

# Notes to the Consolidated Income Statement

## (6) Income from property management

| € million | 2012 | 2011 Restated* |
|---|---|---|
| Rental income | 729.0 | 730.7 |
| Ancillary costs | 317.5 | 327.8 |
| **Revenues from property letting** | **1,046.5** | **1,058.5** |
| Other income from property management | 18.4 | 19.8 |
| **Income from property management** | **1,064.9** | **1,078.3** |

* see note (5) a) Changes in accounting policies

## (7) Profit on disposal of properties

| € million | 2012 | 2011 Restated* |
|---|---|---|
| Income from disposal of investment properties | 144.1 | 116.5 |
| Carrying amount of investment properties sold | -117.0 | -94.4 |
| Profit on disposal of investment properties | 27.1 | 22.1 |
| Income from sale of trading properties | 20.0 | 136.8 |
| Carrying amount of trading properties sold | -12.6 | -94.0 |
| Profit on disposal of trading properties | 7.4 | 42.8 |
| Income from sale of assets held for sale | 140.8 | - |
| Retirement carrying amount of assets held for sale | -140.8 | - |
| Revaluation of assets held for sale | 17.1 | 2.7 |
| Profit on disposal of assets held for sale | 17.1 | 2.7 |
| | **51.6** | **67.6** |

* see note (5) a) Changes in accounting policies

The fair value adjustment of investment properties for which a purchase contract had been signed but for which transfer of ownership had not yet taken place led to a gain of € 17.1 million (2011: € 2.7 million) as at December 31, 2012. After value adjustment, these properties were transferred to “Assets held for sale”.

The total gain from the disposal of property was adjusted for transaction costs, mainly for own personnel, sales commissions as well as other sales-related costs in the line items personnel expenses, cost of materials and other operating expenses.

### (8) Net income from fair value adjustments of investment properties

Investment properties are measured according to the fair value model. That means that the carrying amount of investment properties is the fair value of those properties. Any gains or losses from a change in fair value are recognised in the income statement. The measurement of the investment properties led to a net valuation gain as at December 31, 2012 of € 205.6 million (2011: € 246.7 million).

Properties for which a purchase contract has been signed but for which material risks and rewards have not yet been transferred to the buyer are shown as assets held for sale. The contractually agreed purchase price reflects the market conditions and is therefore the fair value of these properties at the balance-sheet date. To improve the informative value, the necessary value adjustment of the assets held for sale is shown in a separate item in the profit on disposal of properties (see note (7) Profit on disposal of properties). Further explanations on the measurement of investment properties are given under note (20) Investment properties.

### (9) Changes in value of trading properties

Properties that are held for sale in the ordinary course of business are classified as trading properties and are shown within inventories. At the end of 2011, nearly the entire stock of trading properties was reclassified to investment properties. The remaining stock was sold in 2012.

If the carrying amount of trading properties exceeds the net realisable value, trading properties are written down to net realisable value item by item. In 2011, impairment losses totalling € 0.1 million for individual trading properties were recognised as an expense. Impairment losses of € 0.2 million performed in the prior periods were reversed in 2011. Before retransfer from trading properties to investment properties, a fair value adjustment on these properties is performed to affect net income. This fair value adjustment on trading properties retransferred to investment properties amounted to € 204.4 million in 2011.

### (10) Cost of materials

| € million | 2012 | 2011 Restated* |
|---|---|---|
| Expenses for ancillary costs | 337.8 | 353.5 |
| Expenses for maintenance | 115.2 | 128.8 |
| Other cost of purchased goods and services | 66.5 | 66.3 |
| | **519.5** | **548.6** |

* see note (5) a) Changes in accounting policies

### (11) Personnel expenses

| € million | 2012 | 2011 |
|---|---|---|
| Wages and salaries | 93.3 | 75.7 |
| Social security, pensions and other employee benefits | 18.8 | 15.1 |
| | **112.1** | **90.8** |

Personnel expenses contain reversals of provisions for restructuring measures amounting to € 2.4 million (2011: cost of restructuring measures amounting to € 3.0 million) as well as the cost of pre-retirement part-time work arrangements and other severance payments totalling € 2.5 million (2011: € 3.7 million).

In 2012, the personnel expenses included € 1.7 million (2011: € 0.9 million) for the long-term incentive plan (LTIP) (see note (29) Provisions). The obligations towards members of the Management Board for benefits under the LTIP were assumed by Monterey Holdings I S.à r.l., Luxembourg, (see note (42) Related party transactions).

In the year under review, employers' contributions to the statutory pension insurances totalling € 8.4 million (2011: € 6.7 million) were paid.

As at December 31, 2012, 2,260 people (2011: 1,279) were employed at DAIG. On an annual average, 1,819 people (2011: 1,228) were employed. As at December 31, 2012, 85 apprentices and trainees (2011: 67) were employed at DAIG.

## (12) Depreciation and amortisation

Amortisation of intangible assets totalled € 3.2 million (2011: € 4.2 million). Of this figure, capitalised customer bases accounted for € 1.6 million (2011: € 1.6 million), self-developed software for € 1.3 million (2011: € 1.9 million) and concessions, industrial rights, licences and similar rights for € 0.3 million (2011: € 0.7 million). Depreciation and impairments of property, plant and equipment amounted to € 2.9 million in 2012 (2011: € 2.0 million) (see note (19) Property, plant and equipment). Of this figure, impairments of real estate used by the company itself accounted for € 0.1 million (2011: € 0.4 million).

## (13) Other operating income

| € million | 2012 | 2011 |
|---|---|---|
| Compensation paid and cost reimbursements | 22.2 | 21.1 |
| Reversal of provisions | 9.1 | 9.3 |
| Dunning and debt collection fees | 2.0 | 1.8 |
| Reversal of impairment losses | 0.5 | 1.3 |
| Other | 9.7 | 10.9 |
| | **43.5** | **44.4** |

Income from compensation paid and cost reimbursements includes € 14.5 million compensation paid by insurance companies (2011: € 13.8 million).

## (14) Other operating expenses

| € million | 2012 | 2011 |
|---|---|---|
| Impairment losses on doubtful accounts | 18,2 | 12,1 |
| Consultants' and auditors' fees | 10,3 | 12,6 |
| Rents, leases and ground rents | 8,5 | 7,3 |
| IT and administrative services | 8,4 | 5,1 |
| Vehicle and travelling costs | 8,3 | 5,3 |
| Communication costs and work equipment | 5,8 | 3,6 |
| Advertising costs | 3,4 | 3,7 |
| Additions to provisions | 2,6 | 4,7 |
| Sales incidentals | 2,3 | 1,5 |
| Legal and notary costs | 1,9 | 2,0 |
| Refused insurance claims | 1,8 | 1,4 |
| Other | 9,7 | 11,3 |
| | **81,2** | **70,6** |

## (15) Financial income

| € million | 2012 | 2011 |
|---|---|---|
| Income from other investments | 3.0 | 2.7 |
| Income from non-current securities and non-current loans | 1.9 | 1.9 |
| Other interest and similar income | 7.4 | 10.1 |
| | **12.3** | **14.7** |

## (16) Financial expenses

The financial expenses of € 443.2 million (2011: € 362.1 million) mainly relate to interest expense on financial liabilities measured at amortised cost.

In connection with the GRAND restructuring, transaction costs amounting to € 57.1 million (2011: € 26.7 million) had a negative impact on net interest. Interest expense totalling € 83.1 million was incurred in the reporting period when determining the fair value of the GRAND restructuring on initial measurement.

Interest expense contains interest accretion to provisions, thereof € 10.9 million (2011: € 11.0 million) relating to provisions for pensions and € 3.1 million (2011: € 2.7 million) relating to miscellaneous other provisions.

Furthermore, a € 5.7 million (2011: € 6.5 million) addition of accrued interest concerning the obligation to pay lump-sum tax on the previously untaxed so-called EK 02 amounts is included in financial expenses.

In the reporting year, € 36.2 million was recognised as interest expense in connection with swaps (2011: € 19.0 million).

A reconciliation of net interest to net interest with regard to measurement categories in accordance with IAS 39 is shown in the table below:

| € million | | **2012** | **2011** |
|---|---|---|---|
| Interest income | | 7.4 | 10.1 |
| Interest expense | | -443.2 | -362.1 |
| **Net interest** | | **-435.8** | **-352.0** |
| less | | | |
| | Interest expense from provisions for pensions in acc. with IAS 19* | 10.9 | 11.0 |
| | Interest expense from other provisions in acc. with IAS 37 | 3.0 | 2.7 |
| | Interest expense from derivatives in acc. with IAS 39: cash flow hedges | 36.2 | 19.0 |
| | Interest expense from finance leases in acc. with IAS 17 | 5.1 | 5.1 |
| **Net interest with regard to measurement categories in acc. with IAS 39** | | **-380.6** | **-314.2** |

* including expected return on plan assets of € 0.9 million (2011: € 0.9 million)

The net interest breaks down into the measurement categories in accordance with IAS 39 as follows:

| € million | Measurement category in acc. with IAS 39* | **2012** | **2011** |
|---|---|---|---|
| Loans and receivables | LaR | 7.3 | 10.0 |
| Available-for-sale financial assets | AfS | 0.1 | 0.1 |
| Financial liabilities held for trading | FLHfT | 0.1 | -2.0 |
| Financial liabilities measured at amortised cost | FLAC | -388.1 | -322.3 |
| | | **-380.6** | **-314.2** |

* see note (34) Additional disclosures on financial instruments.

### (17) Income tax

| € million | **2012** | **2011** |
|---|---|---|
| Current income tax | 2.1 | 4.9 |
| Aperiodical current income tax | -6.4 | -6.5 |
| Deferred income tax - temporary differences | 117.0 | 226.3 |
| Deferred income tax - unutilised loss carryforwards | -69.1 | -70.4 |
| | **43.6** | **154.3** |

The current tax expense is determined on the basis of the taxable income for the reporting period. For the 2012 financial year, the combined tax rate of corporate income tax and solidarity surcharge is 15.8% of earnings (2011: 15.8%). Including German municipal trade tax at nearly 16.8% (2011: 16.8%), the combined tax rate is 32.6% in 2012 (2011: 32.6%). This tax rate is also applied when determining deferred taxes. Anticipated effects of the so-called extended trade tax exemption in accordance with the German Trade Tax Act were taken into consideration in the measurement of deferred taxes.

Deferred taxes are the expected tax charges or benefits arising from the difference between the carrying amounts of assets and liabilities in the consolidated financial statements and the tax bases used to calculate the taxable income (tax balance sheet).

Deferred tax liabilities are generally recorded for all taxable temporary differences. Deferred tax assets are recognised to the extent that there are deferred tax liabilities which can be offset against them or, based on the expected profits in the foreseeable future, it can be verified that they will be realised.

Therefore, no deferred tax assets were recognised in the balance sheet for deductible temporary differences (excluding loss carryforwards) totalling € 1.2 million (2011: € 1.8 million) and no deferred trade tax for deductible temporary differences of € 5.4 million (2011: € 2.8 million) as their future utilisation is unlikely.

Such deferred tax assets and liabilities are not recognised where the temporary difference arises from initial recognition of goodwill in connection with a business combination or the initial recognition (other than a business combination) of other assets and liabilities in a transaction which neither affects taxable income nor net income.

Deferred taxes on loss carryforwards are recognised as assets provided that it is likely that there will be sufficient taxable income in the following years for those loss carryforwards to be utilised and loss carryforwards have not forfeited as a result of share transfers.

In Germany, according to the rules on loss carryforwards, unutilised loss carryforwards may be partly or completely lost, if they exceed the taxable hidden reserves of the shares acquired, depending on the extent of share transfers. Furthermore, tax loss carryforwards for corporate income tax and trade tax purposes may only be offset against taxable income of € 1.0 million and 60% of taxable income exceeding € 1.0 million.

As at December 31, 2012, the unutilised corporate income tax loss carryforwards totalled € 1,368.0 million (2011: € 1,224.8 million) and the unutilised trade tax loss carryforwards amounted to € 697.3 million (2011: € 587.6 million), for which deferred tax assets have been recognised since their realisation is probable. The increase in tax loss carryforwards resulted from current tax losses at individual companies.

No deferred taxes were recognised in the balance sheet for unutilised corporate income tax loss carryforwards of € 241.9 million (2011: € 362.3 million). These loss carryforwards relate exclusively to German companies and, under current tax law, there are no restrictions either with regard to time or the amount of the loss carryforward. In addition, there are further trade tax loss carryforwards of € 180.5 million (2011: € 216.8 million) which have an unlimited carryforward but have not led to deferred tax assets.

The measurement of deferred tax assets on tax loss carryforwards and temporary differences in 2012 led to tax income of € 35.3 million (2011: € 76.5 million). The increase in deferred tax assets is mainly due to the fact that, in connection with the higher deferred tax liabilities as a result of the positive changes in the value of investment properties, greater use of the deductible temporary differences and loss carryforwards is expected. Further effects resulted from tax optimisation measures which led to higher expected realisation of the tax loss carryforwards.

Tax reductions due to the utilisation of tax loss carryforwards for which no deferred tax assets existed led in the 2012 financial year to a reduction in the tax burden of € 0.2 million (2011: € 0.1 million).

No interest carryforwards existed either at the end of 2012 or at the end of 2011.

A reconciliation between actual income taxes and expected tax expense, which is the product of the accounting profit for the period multiplied by the average tax rate applicable in Germany, is shown in the table below.

| € million | 2012 | 2011 |
|---|---|---|
| **Operating profit before income taxes** | **215,8** | **577,9** |
| Income tax rate in % | 32,6 | 32,6 |
| **Expected tax expense** | **70,4** | **188,5** |
| Trade tax effects | 4,4 | 3,1 |
| Deferred tax due to application of a Federal Fiscal Court (BFH) ruling | - | 17,1 |
| Non-deductible operating expenses | 2,2 | 3,1 |
| Tax-free income | -0,1 | -0,2 |
| Change in the deferred tax assets on loss carryforwards and temporary differences | -35,3 | -76,5 |
| New loss carryforwards not recognised | 8,7 | 7,9 |
| Utilisation of loss carryforwards not previously recognised | -0,2 | -0,1 |
| Aperiodic current income tax | -6,4 | -6,5 |
| Tax rate adjustment | - | 17,7 |
| Other tax effects (net) | -0,1 | 0,2 |
| **Actual income taxes** | **43,6** | **154,3** |
| **Actual tax rate in %** | **20,2** | **26,7** |

The deferred taxes refer to temporary differences in balance sheet items and unutilised loss carryforwards as follows:

| € million | Dec. 31, 2012 | Dec. 31, 2011 |
| --- | --- | --- |
| Investment properties | 1.5 | 0.8 |
| Property, plant and equipment | 0.3 | 0.6 |
| Inventories | - | 0.3 |
| Other assets | 15.2 | 15.9 |
| Provisions for pensions | 44.5 | 22.5 |
| Other provisions | 7.3 | 8.0 |
| Liabilities | 32.2 | 31.4 |
| Unutilised loss carryforwards | 267.9 | 198.8 |
| **Deferred tax assets** | **368.9** | **278.3** |

| € million | Dec. 31, 2012 | Dec. 31, 2011 |
| --- | --- | --- |
| Intangible assets | 1.4 | 2.3 |
| Investment properties | 1,039.9 | 922.0 |
| Property, plant and equipment | 0.8 | 0.3 |
| Inventories | - | 0.5 |
| Financial assets | 0.2 | 0.2 |
| Other assets | 0.3 | 0.9 |
| Other provisions | 6.8 | 7.0 |
| Liabilities | 34.9 | 37.0 |
| **Deferred tax liabilities** | **1,084.3** | **970.2** |
| | | |
| **Excess deferred tax liabilities** | **715.4** | **691.9** |

The deferred tax liabilities with respect to investment properties include deferred taxes of € 9.8 million (2011: € 2.7 million) for assets held for sale.

Deferred tax assets and liabilities are netted against each other when the same company and the same tax authority are involved and the realisation period is the same. As a result, the following deferred tax assets and liabilities are stated:

| € million | Dec. 31, 2012 | Dec. 31, 2011 |
| --- | --- | --- |
| Deferred tax assets | 8.8 | - |
| Deferred tax liabilities | 724.2 | 691.9 |
| **Excess deferred tax liabilities** | **715.4** | **691.9** |

The change in taxes recognised directly in the reporting period in other comprehensive income amounts to € -24.5 million (2011: € -8.3 million).

Regarding temporary differences related to shares in subsidiaries, no deferred tax liabilities are recognised as they are not expected to be realisable in the foreseeable future or are not subject to taxation (outside basis differences).

# Notes to the Consolidated Balance Sheet

## (18) Intangible assets

| € million | Concessions, industrial rights, licences and similar rights | Self-developed software | Customer relationships and similar rights | Total |
|---|---|---|---|---|
| **Cost** | | | | |
| Balance on Jan. 1, 2012 | 6.1 | 7.4 | 15.8 | **29.3** |
| Additions | 0.7 | - | - | **0.7** |
| Disposals | -0.4 | - | - | **-0.4** |
| Other transfers | 0.0 | - | - | **0.0** |
| Balance on Dec. 31, 2012 | 6.4 | 7.4 | 15.8 | **29.6** |
| **Accumulated amortisation** | | | | |
| Balance on Jan. 1, 2012 | 5.7 | 4.8 | 11.1 | **21.6** |
| Amortisation in 2012 | 0.3 | 1.3 | 1.6 | **3.2** |
| Disposals | -0.4 | - | - | **-0.4** |
| Other transfers | 0.0 | - | - | **0.0** |
| Balance on Dec. 31, 2012 | 5.6 | 6.1 | 12.7 | **24.4** |
| **Carrying amounts** | | | | |
| Balance on Dec. 31, 2012 | 0.8 | 1.3 | 3.1 | **5.2** |
| | | | | |
| **Cost** | | | | |
| Balance on Jan. 1, 2011 | 5.9 | 6.7 | 15.8 | **28.4** |
| Additions | 0.2 | 0.7 | - | **0.9** |
| Disposals | - | - | - | **0.0** |
| Balance on Dec. 31, 2011 | 6.1 | 7.4 | 15.8 | **29.3** |
| **Accumulated amortisation** | | | | |
| Balance on Jan. 1, 2011 | 5.0 | 2.9 | 9.5 | **17.4** |
| Amortisation in 2011 | 0.7 | 1.9 | 1.6 | **4.2** |
| Disposals | - | - | - | **0.0** |
| Balance on Dec. 31, 2011 | 5.7 | 4.8 | 11.1 | **21.6** |
| **Carrying amounts** | | | | |
| Balance on Dec. 31, 2011 | 0.4 | 2.6 | 4.7 | **7.7** |

## (19) Property, plant and equipment

| € million | Owner-occupied properties | Technical equipment, plant and machinery | Other equipment, fixtures, furniture and office equipment | Total |
|---|---|---|---|---|
| **Cost** | | | | |
| Balance on Jan. 1, 2012 | 5.2 | 1.6 | 10.3 | **17.1** |
| Additions | 0.2 | 0.0 | 5.5 | **5.7** |
| Capitalised modernisation costs | 0.1 | 0.3 | - | **0.4** |
| Disposals | - | -0.1 | -2.2 | **-2.3** |
| Transfer from investment properties | 5.4 | - | - | **5.4** |
| Transfer from other assets | - | - | 0.2 | **0.2** |
| Transfer to investment properties | -0.2 | - | - | **-0.2** |
| Transfers | - | 0.1 | - | **0.1** |
| Balance on Dec. 31, 2012 | 10.7 | 1.9 | 13.8 | **26.4** |
| **Accumulated depreciation** | | | | |
| Balance on Jan. 1, 2012 | 1.5 | 1.0 | 7.5 | **10.0** |
| Depreciation in 2012 | 0.0 | 0.1 | 2.7 | **2.8** |
| Impairment | 0.1 | - | - | **0.1** |
| Reversal of impairments | -0.4 | - | - | **-0.4** |
| Disposals | - | -0.1 | -2.3 | **-2.4** |
| Transfers | - | 0.1 | - | **0.1** |
| Balance on Dec. 31, 2012 | 1.2 | 1.1 | 7.9 | **10.2** |
| **Carrying amounts** | | | | |
| Balance on Dec. 31, 2012 | 9.5 | 0.8 | 5.9 | **16.2** |
| **Cost** | | | | |
| Balance on Jan. 1, 2011 | 3.6 | 1.0 | 8.6 | **13.2** |
| Additions due to changes in scope of consolidation | - | 0.0 | 0.5 | **0.5** |
| Additions | - | 0.0 | 1.3 | **1.3** |
| Capitalised modernisation costs | - | 0.6 | 0.0 | **0.6** |
| Disposals | - | 0.0 | -0.1 | **-0.1** |
| Transfer from investment properties | 1.6 | - | - | **1.6** |
| Balance on Dec. 31, 2011 | 5.2 | 1.6 | 10.3 | **17.1** |
| **Accumulated depreciation** | | | | |
| Balance on Jan. 1, 2011 | 1.1 | 0.9 | 6.1 | **8.1** |
| Depreciation in 2011 | 0.0 | 0.1 | 1.5 | **1.6** |
| Impairment | 0.4 | - | - | **0.4** |
| Disposals | - | 0.0 | -0.1 | **-0.1** |
| Balance on Dec. 31, 2011 | 1.5 | 1.0 | 7.5 | **10.0** |
| **Carrying amounts** | | | | |
| Balance on Dec. 31, 2011 | 3.7 | 0.6 | 2.8 | **7.1** |

As at December 31, 2012, carrying amounts of owner-occupied properties amounting to € 7.4 million (2011: € 2.1 million) are encumbered with land charges in favour of different lenders.

## (20) Investment properties

| € million | |
|---|---|
| **Balance on Jan. 1, 2012** | **9,893.8** |
| Additions | 3.5 |
| Capitalised modernisation costs | 89.4 |
| Transfer from property, plant and equipment | 0.2 |
| Transfer to property, plant and equipment | -5.4 |
| Transfer to assets held for sale | -243.7 |
| Disposals | -116.9 |
| Net income from fair value adjustments of investment properties | 205.6 |
| Revaluation of assets held for sale | 17.1 |
| **Balance on Dec. 31, 2012** | **9,843.6** |
| | |
| **Balance on Jan. 1, 2011** | **8,436.7** |
| Additions | 0.6 |
| Capitalised modernisation costs | 63.1 |
| Transfer from trading properties | 1,265.2 |
| Transfer from advance payments | 0.6 |
| Transfer to property, plant and equipment | -1.6 |
| Transfer to assets held for sale | -25.9 |
| Disposals | -94.3 |
| Net income from fair value adjustments of investment properties | 246.7 |
| Revaluation of assets held for sale | 2.7 |
| **Balance on Dec. 31, 2011** | **9,893.8** |

The investment properties include leased assets which are defined as finance leases according to IAS 17 and are treated as if they were the Group's economic property. They amount to € 34.6 million (2011: € 32.4 million) and relate to the Spree-Bellevue (Spree-Schlange) property in Berlin. The property has been leased from DB Immobilienfonds 11 Spree-Schlange von Quistorp KG until 2044. The lease agreement includes an obligation to pay compensation for loss of use as agreed by contract. At the end of 2028, each fund subscriber is entitled to return his share to the property fund at a fixed redemption price. If all of the fund investors make use of this option, DAIG is obliged to acquire the property at a fixed purchase price after deduction of borrowings. If more than 75% of the shares are returned in this way, DAIG has a call option for the purchase of all fund shares. Details of minimum lease payments are given under note (31) Other financial liabilities.

The carrying amounts of the investment properties are predominantly encumbered with land charges in favour of different lenders; see note (31) Other financial liabilities.

**Directly attributable operating expenses**

The rental income from investment properties amounted to € 729.0 million in 2012 (2011: € 730.7 million). The operating expenses directly relating to these properties amounted to € 152.4 million in 2012 (2011: € 152.3 million). These include expenses for maintenance, operating costs that cannot be passed on to the tenants and personnel expenses from the facility manager and craftsmen's organisations. In 2011, these figures also included the amounts attributable to the trading properties.

**Long-term leases**

DAIG as a lessor has concluded long-term leases on commercial properties, which are non-cancellable operating leases. The minimum future leasing receipts from these leases are due as follows:

| € million | Dec. 31, 2012 | Dec. 31, 2011 |
|---|---|---|
| **Total minimum lease payments** | **22.0** | **21.4** |
| Due within one year | 4.9 | 5.0 |
| Due in 1 to 5 years | 12.5 | 11.6 |
| Due after 5 years | 4.6 | 4.8 |

The fair values of the real-estate portfolios were determined in accordance with IAS 40.

**Fair values**

DAIG 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.

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 property 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. DAIG 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.

**Results of the valuation**

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 € 9,982.0 million (2011: € 9,939.6 million).

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

| German state | Residential units | | Other rental units | | Fair values in € million | |
|---|---|---|---|---|---|---|
| | **2012** | **2011** | **2012** | **2011** | **2012** | **2011** |
| 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 and 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 | | | | | 50.6 | 52.2 |
| | **181,669** | **186,530** | **43,612** | **44,834** | **9,982.0** | **9,939.6** |
| thereof | | | | | | |
| Investment properties | | | | | 9,843.6 | 9,893.8 |
| Trading properties | | | | | - | 16.2 |
| Owner-occupied properties | | | | | 9.6 | 3.7 |
| Assets held for sale | | | | | 128.8 | 25.9 |

**Sensitivity analyses**

Owing to the stable residential property market, the fair values of the DAIG real estate 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 rates** | -1/4% | -1/8% | +1/8% | +1/4% |
|---|---|---|---|---|
| Changes in value* | | | | |
| € 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% |
|---|---|---|---|---|
| Changes in value** | | | | |
| € 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.

**Contractual obligations**

When acquiring 13,895 WohnBau Rhein-Main AG apartments in 1999, a number of commitments to Deutsche Post and Deutsche Post Wohnen were made with respect to the acquired housing stocks, including an undertaking by the then Viterra that it would serve no notice to vacate for personal use to tenants and their spouses if they are aged 60 or over. Furthermore, when residential units are converted into owner-occupier apartments, there is an obligation to give tenants first right of refusal. Of the 13,895 residential units originally acquired, 9,504 (2011: 9,747) were still in the residential portfolio of DAIG as at December 31, 2012.

The 63,626 residential units which DAIG acquired from Bundeseisenbahnvermögen in 2000 are subject to the following restriction on sale: not more than 70% of the housing stock of a railway housing company may be sold until December 31, 2016. Furthermore, residential property used as such by a specified category of people may only be sold to them or to people named by them. Multi-family houses may only be sold to third parties without the consent of the specified category of people if more than half of the apartments in a block are already rented by tenants who do not fall under the specified category. Of the 63,626 residential units originally acquired, 40,762 (2011: 42,698) were still in the residential portfolio of DAIG as at December 31, 2012.

In 2006/2007, DAIG acquired various housing stocks (2,773 residential units) from Corpus Immobiliengruppe and in particular entered into the following social obligations: Tenants and their spouses who rented an apartment on or before December 31, 1998 or November 1, 2004 respectively and were already aged 60 or over at that time may not be served notice to vacate for personal use. No notice to vacate for personal use may be served to other tenants for ten years after the above-mentioned dates. If the apartments are sold, the tenants are to be given first right of refusal. The above contractual provisions apply until October 31, 2014 at the latest. Of the 2,773 residential units originally acquired, 2,693 (2011: 2,735) were still in the residential portfolio of DAIG as at December 31, 2012.

Under structured financing programmes, DAIG is subject to fundamental restrictions on the use of excess property disposal proceeds, such restrictions being particularly in the form of mandatory minimum repayments. Excess cash from property management is also restricted to a certain extent.

When acquiring and financing some of the properties in the portfolio, DAIG also entered into an obligation to spend a certain average amount per square metre on maintenance and improvements.

## (21) Financial assets

| | Dec. 31, 2012 | | Dec. 31, 2011 | |
|---|---|---|---|---|
| € million | non-current | current | non-current | current |
| Other investments | 1.6 | - | 1.6 | - |
| Loans to related companies | 33.7 | - | 33.7 | - |
| Securities | 3.8 | - | 3.6 | - |
| Other long-term loans | 5.5 | - | 5.4 | - |
| Dividends from other investments | - | 2.1 | - | 2.2 |
| | **44.6** | **2.1** | **44.3** | **2.2** |

The carrying amount of financial assets is the maximum risk of loss.

No impairment losses were made on financial assets either in the reporting year or in the prior period.

The loans to related companies not yet due relate to a loan to the property fund DB Immobilienfonds 11 Spree-Schlange von Quistorp KG.

The long-term securities amounting to € 3.8 million (2011: € 3.6 million) were acquired in connection with pension commitments and have been pledged in full to the beneficiaries.

The other long-term loans to employees are deducted from the salary pro rata temporis on the due date as part of payroll accounting.

## (22) Other assets

| | Dec. 31, 2012 | | Dec. 31, 2011 | |
|---|---|---|---|---|
| € million | non-current | current | non-current | current |
| Receivables from related parties | 15.0 | - | 6.1 | - |
| Receivables for transferred pensions | 9.4 | - | 8.6 | - |
| Insurance claims | 2.2 | 7.9 | 2.2 | 5.0 |
| Miscellaneous other assets | 1.7 | 18.6 | 1.9 | 21.3 |
| | **28.3** | **26.5** | **18.8** | **26.3** |

The receivables from related parties are from Monterey Holdings I S.à r.l., Luxembourg; see note (42) Related party transactions.

The right to reimbursement arising from transferred pension obligations is in connection with the indirect obligation shown under provisions for pensions arising from pension obligations transferred to former affiliated companies of the Viterra Group.

The insurance claims include the excess of the fair value of plan assets over the corresponding pension obligations amounting to € 0.1 million (2011: € 1.2 million), as well as the excess of insurances for part-time phased early retirement contracts amounting to € 2.1 million (2011: € 1.0 million).

## (23) Income tax receivables

The income tax receivables shown relate to corporate income tax and municipal trade tax receivables for 2012 and prior years.

## (24) Inventories

| € million | Dec. 31, 2012 | Dec. 31, 2011 Restated* |
|---|---|---|
| Trading properties | - | 12.7 |
| Raw materials and supplies | 0.9 | 0.1 |
| | **0.9** | **12.8** |

* see note (5) a) Changes in accounting policies

The trading properties of DAIG developed as follows:

| € million | | |
|---|---|---|
| Balance on Jan. 1, 2012 | | 12.7 |
| Disposals | | -12.7 |
| **Balance on Dec. 31, 2012** | | **0.0** |
| | | |
| | | |
| Balance on Jan. 1, 2011 | | 1,166.6 |
| Additions | | 0.9 |
| Changes in value of trading properties | | 204.5 |
| Disposals | | -94.1 |
| Transfer to investment properties | | -1,265.2 |
| **Balance on Dec. 31, 2011** | | **12.7** |

## (25) Trade receivables

The trade receivables break down as follows:

| € million | Impaired | | Not impaired | | | | | | **Carrying amount** | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Gross amount | Impairment losses | Neither impaired nor past due | Past due by: less than 30 days | between 30 and 90 days | between 91 and 180 days | between 181 and 360 days | more than 360 days | Maximum risk of loss | |
| Receivables from the sale of properties | 2.2 | -1.0 | 3.7 | 3.2 | 0.1 | 0.1 | 0.2 | 0.1 | 8.6 | *) |
| Receivables from property letting | 36.6 | -25.5 | | | | | | | 11.1 | |
| Receivables from other management | | | 0.6 | | | | | | 0.6 | |
| **Balance on Dec. 31, 2012** | 38.8 | -26.5 | 4.3 | 3.2 | 0.1 | 0.1 | 0.2 | 0.1 | **20.3** | |
| Receivables from the sale of properties | 2.6 | -1.1 | 19.8 | 3.0 | 0.8 | 0.2 | 0.2 | 0.4 | 25.9 | *) |
| Receivables from property letting | 45.5 | -22.5 | | | | | | | 23.0 | |
| Receivables from other management | | | 0.6 | | | | | | 0.6 | |
| **Balance on Dec. 31, 2011** | 48.1 | -23.6 | 20.4 | 3.0 | 0.8 | 0.2 | 0.2 | 0.4 | **49.5** | |

* The maximum risk of loss on the receivables from the sale of properties is limited to the margin and the transaction unwinding costs as the title to the properties remains with DAIG as security until receipt of payment.

The carrying amounts of current trade receivables correspond to their fair values.

In principle all impaired trade receivables are due and payable. As regards the trade receivables which are neither impaired nor past due, there was no indication on the balance-sheet date that the debtors would not meet their payment obligations.

Receivables from the sale of properties arise on economic transfer of title. The due date of the receivable may, however, depend on the fulfilment of contractual obligations. Some purchase contracts provide for the purchase price to be deposited in an escrow account. Impairment losses for doubtful debts are recorded up to the amount of the posted proceeds from sales.

Receivables from property letting generally arise at the beginning of a month. When determining the impairment losses on rent receivables, a difference is made with regard to rent arrears between those under terminated contracts and those under continuing rental contracts. Furthermore, with rent receivables under continuing rental contracts, a difference is made between rent arrears resulting from existing payment difficulties and product-related rent arrears based on rent increases, ancillary cost bills and withheld rents.

Impairment losses on trade receivables developed as follows:

| € million | Trade receivables |
|---|---|
| **Impairment losses as at Jan. 1, 2012** | **23.6** |
| Addition | 17.1 |
| Utilisation | -14.1 |
| Reversal | -0.1 |
| **Impairment losses as at Dec. 31, 2012** | **26.5** |

| | |
|---|---|
| **Impairment losses as at Jan. 1, 2011** | **21.9** |
| Addition | 10.6 |
| Utilisation | -8.8 |
| Reversal | -0.1 |
| **Impairment losses as at Dec. 31, 2011** | **23.6** |

The following table shows the expenses for the full derecognition of receivables as well as income from the receipt of derecognised receivables:

| € million | 2012 | 2011 |
|---|---|---|
| Expenses for the derecognition of receivables | 0.6 | 0.6 |
| Income from the receipt of derecognised receivables | 0.5 | 1.0 |

## (26) Cash and cash equivalents

Cash and cash equivalents include cash on hand, cheques and deposits at banking institutions with an original term of up to three months totalling € 469.9 million (2011: € 278.0 million). Furthermore, the item contains marketable securities of € 0.2 million (2011: € 0.5 million).

Of these bank accounts, € 363.0 million (2011: € 45.7 million) are restricted. The marketable securities are also restricted with regard to their use.

## (27) Assets held for sale

The assets held for sale amounting to € 128.8 million (2011: € 25.9 million) contain the carrying amounts of properties held for sale for which notarised purchase contracts have already been signed at the balance-sheet date.

## (28) Equity

The subscribed capital of Deutsche Annington Immobilien SE is unchanged at € 120,000 and has been fully paid in. Monterey Holdings I S.à r.l., Luxembourg, is the parent company of DAIG. The subscribed capital of Deutsche Annington Immobilien SE is divided into 120,000 no-par value registered shares.

The capital reserves amount to € 1,052.3 million (2011: 718.2 million). In the reporting period, contributions of the shareholder amounting to € 36.0 million (shareholder's resolution of October 1, 2012) and € 298.1 million (shareholder's resolution of December 20, 2012) were made into the capital reserves.

Retained earnings of € 1,661.1 million (2011: € 1,539.3 million) are shown as at December 31, 2012. This figure includes actuarial gains and losses of € -47.6 million (2011: € -0.4 million), which cannot be reclassified and therefore may no longer be recognised in profit or loss in subsequent reporting periods.

The other reserves contain cumulative changes in equity not affecting income. At DAIG, the hedge-effective portion of the net change in the fair value of cash flow hedging instruments as well as the cumulative net change in the fair value of available-for-sale financial assets are recognised within this reserve.

The other reserves from cash flow hedges and available-for-sale financial assets can be reclassified. When the underlying hedged item of the cash flow hedge affects net income, the reserves attributable thereto are reclassified to profit or loss. The other reserves from available-for-sale financial assets are reclassified if the asset is derecognised or impaired.
The changes in the cash flow hedges and the actuarial gains and losses from pensions and similar obligations leads to the other comprehensive income shown in the consolidated statement of comprehensive income.

| € million | **2012** | **2011** |
|---|---|---|
| Cash flow hedges | | |
| Changes in the period | -34.6 | -30.7 |
| Taxes on changes in the period | 8.4 | 9.8 |
| Reclassification affecting net income | 26.5 | 17.4 |
| Taxes on reclassification affecting net income | -6.0 | -3.9 |
| Actuarial gains and losses from pensions and similar obligations | | |
| Changes in the period | -69.3 | -7.5 |
| Taxes on changes in the period | 22.1 | 2.4 |
| **Other comprehensive income** | **-52.9** | **-12.5** |

The cumulative other reserves from the measurement of available-for-sale financial assets amount to € 0.1 million as in the previous year.

The development of the Group's equity is shown in the consolidated statement of changes in equity.

Shares of third parties in Group companies are shown under non-controlling interests.

## (29) Provisions

| € million | Dec. 31, 2012 non-current | Dec. 31, 2012 current | Dec. 31, 2011 non-current | Dec. 31, 2011 current Restated* |
|---|---|---|---|---|
| **Provisions for pensions and similar obligations** | **319.0** | **-** | **254.2** | **-** |
| **Provisions for taxes** (current income taxes excl. deferred taxes) | **-** | **71.4** | **-** | **73.2** |
| **Other provisions** | | | | |
| Environmental remediation | 27.5 | 1.9 | 28.7 | 3.5 |
| Personnel costs (excluding restructuring) | 2.2 | 52.5 | 4.5 | 41.6 |
| Restructuring | - | - | - | 3.3 |
| Outstanding trade invoices | - | 40.8 | - | 51.2 |
| Follow-up costs from property sales | - | 1.9 | - | 1.1 |
| Miscellaneous other provisions | 9.5 | 17.0 | 9.5 | 23.0 |
| | **39.2** | **114.1** | **42.7** | **123.7** |
| | **358.2** | **185.5** | **296.9** | **196.9** |

* see note (5) a) Changes in accounting policies

## Development of other provisions

| € million | Jan. 1, 2012 Restated* | Additions | Reversals | Transfer carryover | Interest portion | Utilisation | Dec. 31, 2012 |
|---|---|---|---|---|---|---|---|
| **Other provisions** | | | | | | | |
| Environmental remediation | 32.2 | 0.2 | -1.6 | - | 1.3 | -2.7 | 29.4 |
| Personnel costs (excluding restructuring) | 46.1 | 33.7 | -9.0 | 1.4 | 0.9 | -18.4 | 54.7 |
| Restructuring | 3.3 | - | -2.4 | - | - | -0.9 | 0.0 |
| Outstanding trade invoices | 51.2 | 33.0 | -4.6 | - | - | -38.8 | 40.8 |
| Follow-up costs from property sales | 1.1 | 1.0 | 0.0 | -0.1 | - | -0.1 | 1.9 |
| Miscellaneous other provisions | 32.5 | 3.7 | -6.3 | 0.1 | 1.2 | -4.7 | 26.5 |
| | **166.4** | **71.6** | **-23.9** | **1.4** | **3.4** | **-65.6** | **153.3** |

* see note (5) a) Changes in accounting policies

**Provisions for pensions and similar obligations**

DAIG has pension obligations towards various employees which are based on the length of service. Defined benefit and defined contribution obligations – for which DAIG guarantees a certain level of benefit – are provided for through provisions for pensions. DAIG has taken out reinsurance contracts for individual people. The conclusion of further reinsurance policies is not planned.

Pension plan obligations and the expenses necessary to cover these obligations are determined using the projected unit credit method prescribed by IAS 19, whereby current pensions and vested rights as well as expected future increases in salaries and pensions are included in the measurement. The following actuarial assumptions were made at the reporting date – in each case related to the end of the year and with economic effect for the following year. The expected return on plan assets has, on the other hand, already been taken into account in the interest cost in the respective current financial year.
Actuarial assumptions:

| in % | | **2012** | **2011** |
|---|---|---|---|
| Discount rate | | 2.70 | 4.60 |
| Projected salary increases | | 2.75 | 2.75 |
| Projected pension payment increases | | 2.00 | 2.00 |
| Expected return on plan assets | | 4.50 | 4.50 |

Plan assets comprise solely reinsurance contracts which were taken out against payment of a one-off amount. The expected return is based on the anticipated overall interest yield on these assets paid by the insurance company. The value of the reinsurance contracts for certain people is higher than the related pension obligations. The amount by which the fair values of the assets exceed the obligation is shown under non-current other assets.

The defined benefit obligation (DBO) has developed as follows:

| € million | 2012 | 2011 |
|---|---|---|
| **Defined benefit obligation as at Jan. 1** | **272.7** | **269.2** |
| Interest cost | 12.1 | 12.3 |
| Current service cost | 1.9 | 2.0 |
| Actuarial losses | 71.7 | 7.2 |
| Transfer | - | 0.1 |
| Benefits paid | -18.6 | -18.1 |
| **Defined benefit obligation as at Dec. 31** | **339.8** | **272.7** |

The following table shows a reconciliation of the defined benefit obligation to the provision for pensions recognised in the balance sheet:

| € million | Dec. 31, 2012 | Dec. 31, 2011 |
|---|---|---|
| Present value of funded obligations | 29.0 | 22.7 |
| Present value of unfunded obligations | 310.8 | 250.0 |
| **Total present value of obligations (DBO)** | **339.8** | **272.7** |
| Fair value of plan assets | -20.9 | -19.7 |
| **Net liability recognised in the balance sheet** | **318.9** | **253.0** |
| Other assets to be recognised | 0.1 | 1.2 |
| **Provisions for pensions recognised in the balance sheet** | **319.0** | **254.2** |

The total net periodic pension cost comprises the following:

| € million | 2012 | 2011 |
|---|---|---|
| Interest cost | 12.1 | 12.3 |
| Current service cost | 1.9 | 2.0 |
| Expected return on plan assets | -0.9 | -0.9 |
| | **13.1** | **13.4** |

The actual return on plan assets amounted to € 1.8 million in 2012 (2011: € 0.9 million).

The change in the fair value of plan assets is as follows:

| € million | 2012 | 2011 |
|---|---|---|
| **Fair value of plan assets as at Jan. 1** | **19.7** | **19.4** |
| Expected return on plan assets | 0.9 | 0.9 |
| Actuarial gains | 0.9 | 0.0 |
| Benefits paid | -0.6 | -0.6 |
| **Fair value of plan assets as at Dec. 31** | **20.9** | **19.7** |

The present value of the defined benefit obligation, the fair value of plan assets and the corresponding funded status developed in the past five years as follows:

| € million | 2012 | 2011 | 2010 | 2009 | 2008 |
|---|---|---|---|---|---|
| Present value of the defined benefit obligation | 339.8 | 272.7 | 269.2 | 259.6 | 249.5 |
| Fair value of plan assets | -20.9 | -19.7 | -19.4 | -19.1 | -18.8 |
| **Deficit in the plan** | **318.9** | **253.0** | **249.8** | **240.5** | **230.7** |

The following table shows the experience adjustments arising on the plan liabilities during the respective period and the difference between the actual and expected return on plan assets.

| | 2012 | 2011 | 2010 | 2009 | 2008 |
|---|---|---|---|---|---|
| Experience adjustments arising on plan liabilities (in %) | -0.1 | 0.9 | -0.6 | -0.6 | 2.6 |
| Experience adjustments arising on plan assets (in %) | 4.5 | 0.0 | -0.2 | 0.4 | 0.6 |
| Difference between actual and expected return on plan assets (in € million) | 0.9 | 0.0 | 0.1 | 0.1 | 0.1 |

In 2012, actuarial losses of € 69.3 million (excluding deferred taxes) were recorded in other comprehensive income. In total, actuarial losses of € 70.0 million (excluding deferred taxes) relating to defined-benefit pension commitments were recorded in other comprehensive income.

The provisions for pensions contain liabilities of € 9.4 million (2011: € 8.6 million) for pension obligations transferred to former affiliated companies of the Viterra Group relating to vested rights and the payment of current pensions. A corresponding non-current receivable is shown under miscellaneous other assets.

**Other provisions**

Reversals of provisions are generally offset against the expense items for which they were originally established.

The provisions for environmental remediation basically refer to site remediation of locations of the former Raab Karcher companies. Remediation has either already begun or an agreement has been reached with the authorities as to how the damage is to be remedied. The cost estimates are based on expert opinions detailing the anticipated duration of the remediation work and the anticipated cost.

The personnel obligations are provisions for pre-retirement part-time work arrangements, bonuses, severance payments beyond restructuring and other personnel expenses. The other personnel expenses include a provision for the long-term incentive plan (LTIP) of € 25.6 million (2011: € 16.3 million) according IFRS 2 (see note (42) Related Parties).

The restructuring provisions relate to personnel expenses incurred as a result of staff cuts.

Outstanding trade invoices and follow-up costs from property sales relate to unbilled goods and services as well as contractually agreed completion work.

The miscellaneous other provisions include, among others, future costs connected with heat contracting which cannot be passed on to tenants as well as costs for entering transfers of title and litigation costs.

## (30) Trade payables

| | Dec. 31, 2012 | | Dec. 31, 2011 | |
|---|---|---|---|---|
| € million | non-current | current | non-current | current |
| **Liabilities** | | | | |
| from property letting | - | 19.3 | - | 16.8 |
| from other goods and services | 0.3 | 26.7 | 0.3 | 20.8 |
| | **0.3** | **46.0** | **0.3** | **37.6** |

## (31) Other financial liabilities

| € million | Dec. 31, 2012 non-current | Dec. 31, 2012 current | Dec. 31, 2011 non-current | Dec. 31, 2011 current |
|---|---|---|---|---|
| **Other non-derivative financial liabilities** | | | | |
| Banks | 1,297.0 | 337.1 | 1,424.5 | 117.6 |
| Other creditors | 4,402.6 | 300.5 | 4,661.8 | 449.0 |
| Deferred interest from other non-derivative financial liabilities | - | 35.4 | - | 42.8 |
| **Derivative financial liabilities** | | | | |
| Purchase price liabilities from put options | - | 7.0 | - | 7.2 |
| Cash flow hedges | 67.1 | - | 59.8 | - |
| Deferred interest from cash flow hedges | - | 3.8 | - | 2.6 |
| | **5,766.7** | **683.8** | **6,146.1** | **619.2** |

As at December 31, 2012, financial liabilities were reclassified from non-current financial liabilities to current financial liabilities. These reclassifications relate to loans which have to be repaid in the next financial year due to property sales. After the sale of these properties, part of the proceeds from their sale is to be used to repay the loans (see note (20) Investment properties).

The maturities and average interest rates of the nominal obligations of the liabilities to banks and the liabilities to other creditors are as follows:

| € million | Nominal obligation Dec. 31, 2012 | Mat-urity | Average interest rate | Repayment of the nominal obligations is as follows: 2013 | 2014 | 2015 | 2016 | 2017 | from 2018 |
|---|---|---|---|---|---|---|---|---|---|
| Securitisation transaction | | | | | | | | | |
| - GRAND plc | 4,325.3 | 2018 | 2.90% | 276.6 | 1,000.0 | 700.0 | 650.0 | 650.0 | 1048.7 |
| Acquisition loans | | | | | | | | | |
| - Acquisition financing I | 220.8 | 2013 | 4.74% | 220.8 | - | - | - | - | - |
| - Acquisition financing II | 252.8 | 2015 | 5.45% | 3.7 | 3.9 | 245.2 | - | - | - |
| - Acquisition financing III | 147.3 | 2018 | 3.73% | 3.1 | 3.3 | 3.4 | 3.6 | 3.7 | 130.2 |
| - Acquisition financing IV | 166.8 | 2018 | 4.27% | 1.8 | 1.8 | 1.8 | 1.8 | 1.8 | 157.8 |
| Mortgages | 1,205.5 | 2037 | 3.10% | 122.9 | 67.3 | 53.7 | 52.3 | 200.7 | 708.6 |
| (thereof prolongations) | | | | (80.2) | (26.4) | (13.7) | (13.4) | (167.4) | (168.2) |
| | **6,318.5** | | | **628.9** | **1,076.3** | **1,004.1** | **707.7** | **856.2** | **2,045.3** |

The loan repayments shown for the following years contain contractually fixed minimum repayment amounts.

Of the nominal obligations to creditors, € 6,313.4 million (2011: € 6,713.5 million) are secured by land charges and other collateral (account pledge agreements, assignments, pledges of company shares and guarantees).

The nominal interest rates on the financial liabilities to banks and other creditors are between 0.0% and 8.0% (average weighted approx. 3.16%). Basically none of the financial liabilities contain any short-term interest rate risks as they relate either to loans with long-term fixed interest rates or variable-interest liabilities which are hedged using suitable derivative financial instruments (see note (35) Financial risk management).

Loans bearing no interest or interest below market rates in return for occupancy rights at rents below the prevailing market rates are stated at their present values in the balance sheet.

In 2012, scheduled repayments of € 380.8 million and unscheduled repayments of € 4,493.8 million were made. New loans of € 4,469.6 million were taken out. Unscheduled repayments and new loans include the restructuring of the securitisation transaction (GRAND plc).

**Securitisation transaction GRAND plc**

A restructuring with amended loan conditions was concluded effective December 21, 2012 for the bearer bonds issued in two tranches in 2006 in connection with the securitisation transaction (GRAND plc).

The nominal volume of the bearer bonds was valued at € 4,325.3 million at the end of 2012 (2011: € 4,643.0 million). In 2012, net capital repayments of € 317.7 million and interest payments of € 193.6 million were made.

The average weighted interest rate was 4.66% (incl. margin) up to the date of implementation of the restructuring, December 21, 2012. After December 21, 2012, the average weighted interest rate is 2.90% (incl. margin), depending on the capital repayments.

Interest hedging agreements for a combination of interest rate swaps and caps signed in connection with the restructuring were transferred to GRAND plc. Through this transfer, the interest hedging instrument control rights passed to GRAND plc. Under the general cost assumption agreement, DAIG has continuing involvement. The remaining risk consists in a credit default of the issuing bank. As a result of the restructuring, the carrying amount at initial measurement is the fair value. The fair value is the nominal principal amount of € 4,325.3 million less continuing involvement of € 8.2 million plus the fair value of the interest hedging transactions for the original liability of € 83.1 million. As at December 31, 2012, the carrying amount of the financial liability to GRAND plc was € 4,398.4 million.

The repurchase value of the continuing involvement is the current fair value of € -12.4 million.

The following table shows the undiscounted cash outflows which would be necessary to repurchase derecognised financial assets with continuing involvement:

| € million | Cash flows | | |
|---|---|---|---|
| | 2013 | 2014 | 2015 to 2017 |
| Interest rate swaps | -3.9 | -10.4 | -3.2 |
| Interest rate cap | - | 0.0 | 5.1 |

The refinanced bearer bonds (REF Notes and "S" REF Notes) have a new maturity date in January 2018 ("S" REF Notes: final maturity in 2023; with two-year extension option) with annual amortisation targets being set at the same time. Earlier capital repayments are, however, possible without any prepayment penalties to the creditors.

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 it into smaller sub-portfolios which are transferred to companies to be newly established.

As part of the restructuring, the Securitisation Group has committed to the fulfilment of certain financial covenants, fundamental rules on the disposal of properties and much more comprehensive reporting requirements. The main covenants will continue to be the LTV and the interest cover ratio.

As part of the loan agreement, the borrowers provided securities in the form of land charges, account pledge agreements and assignments. These securities can only be realised by the secured parties if the borrowers substantially infringe the loan agreement (e.g. fail to fulfil the financial covenants).

In order to meet the GRAND contractually agreed restructuring targets, Deutsche Annington Immobilien SE already signed a loan agreement for up to € 656.6 million with Berlin-

Hannoversche Hypothekenbank before the end of the financial year (see note (43) Subsequent events).

**Acquisition financing I**

In 2007, a loan agreement was concluded with Barclays Capital for the financing of acquisitions. The agreement running until the end of 2013 was originally for an amount of € 250.0 million. At December 31, 2012, the value of the loan was € 220.8 million (2011: € 224.5 million). As part of this loan agreement, the borrowers provided securities in the form of land charges, account pledge agreements and assignments. Furthermore, company shares were pledged. These securities can only be realised by the secured parties if the borrowers substantially infringe the loan agreement (e.g. fail to fulfil the financial covenants). Interest on the utilisations is based on the 3-month Euribor rate. In order to hedge the interest rate risk over the entire term of the loan agreement, the borrowers contracted fixed payer swaps. The average interest rate for this financing is, after allowing for the interest hedges, 4.74% (incl. margin). Capital repayments are obligatory when residential units are sold and to comply with the contractually agreed debt-equity ratio.

**Acquisition financing II**

The loan agreement signed as part of a refinancing measure in 2008 with Landesbank Hessen-Thüringen and SEB AG originally for a maximum of € 300.0 million and running until April 2015 had a value of € 252.8 million as at December 31, 2012 (2011: € 257.1 million). As part of the loan agreement, the borrowers provided securities in the form of land charges, account pledge agreements and assignments. Furthermore, company shares were pledged. Interest on the loan is based on the 3-month Euribor. In order to hedge the interest rate risk over the entire term of the loan agreement, the borrowers contracted fixed payer swaps with an interest rate of 5.45% (incl. margin). This loan agreement provides for regular quarterly capital repayments as well as obligatory special capital repayments when residential units are sold.

**Acquisition financing III**

In connection with the acquisition of PRIMA Wohnbauten Privatisierungs-Management GmbH in 2006, financial liabilities were assumed in the form of a securitisation transaction (Senior Loan Facility) and a bank loan with Eurohypo AG (Junior Loan Facility). These borrowings were repaid in full in March 2012. In order to refinance them, two loan agreements had already been signed in 2011 with Norddeutsche Landesbank, which were paid out in March 2012 in an amount of € 150.3 million and were valued at € 147.3 million as at December 31, 2012 after deduction of the regular semi-annual capital repayment. The average weighted interest rate is, after allowing for the interest hedges contracted, 3.73% (including margin) until the end of the term of the loans in December 2018. Securities were provided in the form of land charges, account pledge agreements and assignments.

**Acquisition financing IV**

The loan agreement for originally € 178.3 million signed with Corealcredit Bank AG in 2010 was valued at € 166.8 million as at December 31, 2012 (2011: € 173.1 million). The average interest rate for this financing is, after allowing for the interest hedges contracted and depending on loan-to-value, between 4.22% and 4.27% (including margin) until the end of the term in April 2018. The contractually agreed debt-equity ratio was complied with. As part of the loan agreement, the borrowers provided securities in the form of land charges, account pledge agreements and assignments. Furthermore, company shares were pledged. This loan agreement provides for regular quarterly capital repayments as well as obligatory special capital repayments when residential units are sold.

Liabilities to other creditors include as at December 31, 2012 a liability of € 91.3 million from finance leases (2011: € 90.6 million) (Spree-Bellevue property). The following table shows the total minimum lease payments and reconciliation to their present value.

| | Dec. 31, 2012 | | | | Dec. 31, 2011 | | |
|---|---|---|---|---|---|---|---|
| € million | Total minimum lease payments | Interest portion | Present value | | Total minimum lease payments | Interest portion | Present value |
| Due within one year | 4.5 | 0.2 | 4.3 | | 4.4 | 0.2 | 4.2 |
| Due in 1 to 5 years | 18.7 | 3.3 | 15.4 | | 18.5 | 3.2 | 15.3 |
| Due after 5 years | 229.7 | 158.1 | 71.6 | | 234.4 | 163.3 | 71.1 |
| | **252.9** | **161.6** | **91.3** | | **257.3** | **166.7** | **90.6** |

As part of finance leases, an expense of € 5.1 million was recorded in the reporting period (2011: € 5.1 million). On the balance-sheet date there were no significant non-cancellable subtenancies on the Spree-Bellevue property.

## (32) Income tax liabilities

Income tax liabilities result from the lump-sum taxation of the previously untaxed so-called EK 02 amounts at a rate of 3% introduced under the 2008 Annual Tax Act (Jahressteuergesetz 2008). The tax is to be paid starting from 2008 in ten equal annual instalments.

## (33) Other liabilities

| € million | Dec. 31, 2012 non-current | Dec. 31, 2012 current | Dec. 31, 2011 non-current | Dec. 31, 2011 current Restated* |
|---|---|---|---|---|
| Advance payments received | - | 27.2 | - | 13.2 |
| Miscellaneous other liabilities | 4.8 | 21.4 | 5.1 | 14.4 |
| | **4.8** | **48.6** | **5.1** | **27.6** |

* see note (5) a) Changes in accounting policies

The advance payments received include on-account payments of € 24.8 million (2011: € 12.6 million) from tenants for ancillary costs after offsetting against the corresponding work in progress.

The current miscellaneous other liabilities include other tax liabilities of € 3.0 million (2011: € 2.1 million) and liabilities arising from the Grand restructuring of € 8.0 million.

# Other notes and disclosures

## (34) Additional disclosures on financial instruments

| Measurement categories and classes: € million | Measurement category in acc. with IAS 39 | Carrying amounts Dec. 31, 2012 | Amounts recognised in balance sheet according to IAS 39: Face value | Amortised cost | Acquisition cost | Fair value affecting net income | Fair value recognised in equity | Amounts recognised in balance sheet in acc. with IAS 17 | Fair value Dec. 31 2012 |
|---|---|---|---|---|---|---|---|---|---|
| Assets | | | | | | | | | |
| Cash and cash equivalents | LaR | **470.1** | **470.1** | | | | | | **470.1** |
| Trade and other receivables | | | | | | | | | |
| Receivables from the sale of properties | LaR | **8.6** | | **8.6** | | | | | **8.6** |
| Receivables from property letting | LaR | **11.1** | | **11.1** | | | | | **11.1** |
| Receivables from other management | LaR | **0.6** | | **0.6** | | | | | **0.6** |
| Other assets | | | | | | | | | |
| Reveivables from related parties | LaR | **15.0** | | **15.0** | | | | | **15.0** |
| Financial assets | | | | | | | | | |
| Loans to related companies | LaR | **33.7** | | **33.7** | | | | | **40.7** |
| Other long-term loans | LaR | **5.5** | | **5.5** | | | | | **5.5** |
| Dividends from other investments | LaR | **2.1** | | **2.1** | | | | | **2.1** |
| Other non-derivative financial assets | | | | | | | | | |
| Long-term securities | AfS | **3.8** | | | | | **3.8** | | **3.8** |
| Other investments | AfS | **1.6** | | | **1.6** | | | | **1.6** |
| Liabilities | | | | | | | | | |
| Trade and other payables | | | | | | | | | |
| Liabilities from property letting | FLAC | **19.3** | | **19.3** | | | | | **19.3** |
| Liabilities from other goods and services | FLAC | **27.0** | | **27.0** | | | | | **27.0** |
| Other liabilities | | | | | | | | | |
| Liabilities from GRAND restructuring | FLAC | **8.0** | | **8.0** | | | | | **8.0** |
| Other non-derivative financial liabilities | | | | | | | | | |
| Liabilities to banks | FLAC | **1,634.1** | | **1,634.1** | | | | | **1,688.3** |
| Liabilities to other lenders | FLAC | **4,611.8** | | **4,611.8** | | | | | **4,626.8** |
| Deferred interest from other non-derivative financial liabilities | FLAC | **35.4** | | **35.4** | | | | | **35.4** |
| Liabilities from finance leases | n.a. | **91.3** | | | | | | **91.3** | **118.8** |
| Derivative financial liabilities | | | | | | | | | |
| Purchase price liabilities from put options | FLHfT | **7.0** | | | | **7.0** | | | **7.0** |
| Cash flow hedges | n.a. | **67.1** | | | | **6.4** | **60.7** | | **67.1** |
| Deferred interest from cash flow hedges | n.a. | **3.8** | | | | **3.8** | | | **3.8** |
| thereof aggregated by measurement categories in accordance with IAS 39: | | | | | | | | | |
| Loans and receivables | LaR | 546.7 | 470.1 | 76.6 | 0.0 | 0.0 | 0.0 | 0.0 | 553.7 |
| Available-for-sale financial assets | AfS | 5.4 | 0.0 | 0.0 | 1.6 | 0.0 | 3.8 | 0.0 | 5.4 |
| Financial liabilities held for trading | FLHfT | 7.0 | 0.0 | 0.0 | 0.0 | 7.0 | 0.0 | 0.0 | 7.0 |
| Financial liabilities measured at amortised cost | FLAC | 6,335.6 | 0.0 | 6,335.6 | 0.0 | 0.0 | 0.0 | 0.0 | 6,404.8 |
| Financial assets and financial liabilities not covered by IAS 39 | | | | | | | | | |
| Employee benefits in accordance with IAS 19 | | | | | | | | | |
| Gross presentation: right to reimbursement corresponding to indirect obligation arising from transferred pension obligations | | **9.4** | | | | | | | |
| Amount by which the fair value of plan assets exceeds the corresponding obligation | | **0.1** | | | | | | | |
| Provisions for pensions and similar obligations | | **319.0** | | | | | | | |

| Measurement categories and classes: € million | Measurement category in acc. with IAS 39 | Carrying amounts Dec. 31, 2011 | Face value | Amortised cost | Acquisition cost | Fair value affecting net income | Fair value recognised in equity | Amounts recognised in balance sheet in acc. with IAS 17 | Fair value Dec. 31 2011 |
|---|---|---|---|---|---|---|---|---|---|
| | | Amounts recognised in balance sheet according to IAS 39 | | | | | | | |
| Assets | | | | | | | | | |
| Cash and cash equivalents | LaR | **278.5** | **278.5** | | | | | | **278.5** |
| Trade and other receivables | | | | | | | | | |
| Receivables from the sale of properties | LaR | **25.9** | | **25.9** | | | | | **25.9** |
| Receivables from property letting | LaR | **23.0** | | **23.0** | | | | | **23.0** |
| Receivables from other management | LaR | **0.6** | | **0.6** | | | | | **0.6** |
| Other assets | | | | | | | | | |
| Reveivables from related parties | LaR | **6.1** | | **6.1** | | | | | **6.1** |
| Other financial receivables | | | | | | | | | |
| Loans to related companies | LaR | **33.7** | | **33.7** | | | | | **38.8** |
| Other long-term loans | LaR | **5.4** | | **5.4** | | | | | **5.4** |
| Dividends from other investments | LaR | **2.2** | | **2.2** | | | | | **2.2** |
| Other non-derivative financial assets | | | | | | | | | |
| Long-term securities | AfS | **3.6** | | | | | **3.6** | | **3.6** |
| Other investments | AfS | **1.6** | | | **1.6** | | | | **1.6** |
| Liabilities | | | | | | | | | |
| Trade and other payables | | | | | | | | | |
| Liabilities from property letting | FLAC | **16.8** | | **16.8** | | | | | **16.8** |
| Liabilities from other goods and services | FLAC | **21.1** | | **21.1** | | | | | **21.1** |
| Other non-derivative financial liabilities | | | | | | | | | |
| Liabilities to banks | FLAC | **1,542.1** | | **1,542.1** | | | | | **1,565.4** |
| Liabilities to other lenders | FLAC | **5,020.2** | | **5,020.2** | | | | | **5,133.0** |
| Deferred interest from other non-derivative financial liabilities | FLAC | **42.8** | | **42.8** | | | | | **42.8** |
| Liabilities from finance leases | n.a. | **90.6** | | | | | | **90.6** | **109.6** |
| Derivative financial liabilities | | | | | | | | | |
| Purchase price liabilities from put options | FLHfT | **7.2** | | | | **7.2** | | | **7.2** |
| Cash flow hedges | n.a. | **59.8** | | | | **6.2** | **53.6** | | **59.8** |
| Deferred interest from cash flow hedges | n.a. | **2.6** | | | | **2.6** | | | **2.6** |
| thereof aggregated by measurement categories in accordance with IAS 39: | | | | | | | | | |
| Loans and receivables | LaR | 375.4 | 278.5 | 96.9 | 0.0 | 0.0 | 0.0 | 0.0 | 380.5 |
| Available-for-sale financial assets | AfS | 5.2 | 0.0 | 0.0 | 1.6 | 0.0 | 3.6 | 0.0 | 5.2 |
| Financial liabilities held for trading | FLHfT | 7.2 | 0.0 | 0.0 | 0.0 | 7.2 | 0.0 | 0.0 | 7.2 |
| Financial liabilities measured at amortised cost | FLAC | 6,643.0 | 0.0 | 6,643.0 | 0.0 | 0.0 | 0.0 | 0.0 | 6,779.1 |
| Financial assets and financial liabilities not covered by IAS 39 | | | | | | | | | |
| Employee benefits in accordance with IAS 19 | | | | | | | | | |
| Gross presentation: right to reimbursement corresponding to indirect obligation arising from transferred pension obligations | | **8.6** | | | | | | | |
| Amount by which the fair value of plan assets exceeds the corresponding obligation | | **1.2** | | | | | | | |
| Provisions for pensions and similar obligations | | **254.2** | | | | | | | |

Cash and cash equivalents, trade and other receivables and other financial receivables mainly have short maturities; therefore their carrying amounts at the balance-sheet date approximate their fair values.

The fair values of the other non-current financial receivables correspond to the present values of the payments associated with the assets, taking into account the relevant current interest parameters.

Other investments are measured at cost as there is no price quoted on an active market and the fair market value cannot be determined reliably. Other investments are mainly VBW BAUEN UND WOHNEN GMBH, Bochum, € 0.9 million (2011: € 0.9 million), Hellerhof GmbH, Frankfurt am Main, € 0.3 million (2011: € 0.3 million) as well as WoWi Media GmbH & Co. KG, Hamburg, € 0.3 million (2011: € 0.3 million).

The fair values of cash flow hedges shown under derivatives are determined by discounting the future cash flows using the current interest rate structure curve at the balance-sheet date.

Liabilities from property letting and liabilities from other goods and services usually have short maturities; the values accounted for approximate the fair values.

The fair values of the other non-derivative financial liabilities are also measured by discounting the future cash flows using the current risk-adjusted interest rate structure curve at the balance-sheet date.

Net result according to measurement categories:

| 2012<br>€ million | Measure-ment category in acc. with IAS 39 | From interest | Income from other long-term loans | From subsequent measurement<br>Impair-ment losses | From subsequent measurement<br>Derecog-nised receivables | From subsequent measurement<br>Derecog-nised liabilities | Income from other investments | Net result 2012 |
|---|---|---|---|---|---|---|---|---|
| Loans and receivables | LaR | 7.3 | 1.9 | -17.0 | -0.1 | - | - | -7.9 |
| Available-for-sale financial assets | AfS | 0.1 | - | - | - | - | 3.0 | 3.1 |
| Financial liabilities held for trading | FLHfT | 0.1 | - | - | - | - | - | 0.1 |
| Financial liabilities measured at amortised cost | FLAC | -388.1 | - | - | - | 0.2 | - | -387.9 |
| | | -380.6 | 1.9 | -17.0 | -0.1 | 0.2 | 3.0 | -392.6 |

| 2011<br>€ million | Measure-ment category in acc. with IAS 39 | From interest | Income from other long-term loans | From subsequent measurement<br>Impair-ment losses | From subsequent measurement<br>Derecog-nised receivables | From subsequent measurement<br>Derecog-nised liabilities | Income from other investments | Net result 2011 |
|---|---|---|---|---|---|---|---|---|
| Loans and receivables | LaR | 10.0 | 1.9 | -10.5 | 0.4 | - | - | 1.8 |
| Available-for-sale financial assets | AfS | 0.1 | - | - | - | - | 2.7 | 2.8 |
| Financial liabilities held for trading | FLHfT | -2.0 | - | - | - | - | - | -2.0 |
| Financial liabilities measured at amortised cost | FLAC | -322.3 | - | - | - | 1.2 | - | -321.1 |
| | | -314.2 | 1.9 | -10.5 | 0.4 | 1.2 | 2.7 | -318.5 |

DAIG basically records the components of the net result under financial income and financial expenses.

In the reporting year, the financial result for financial assets or financial liabilities that are not measured at fair value through profit and loss (calculated using the effective interest method) adds up to € -391.3 million (2011: € -325.5 million).

Impairment losses which can be assigned to the measurement category “Loans and receivables” (LaR) as well as income and expenses in connection with derecognised receivables are shown under other operating income or other operating expenses.

The income from derecognised liabilities assigned to the measurement category “Financial liabilities measured at amortised cost” (FLAC) was shown under other operating income.

The following table shows the allocation of the financial instruments accounted for at fair value to the three levels in the fair value hierarchy. The individual hierarchy levels are defined in IFRS 7 as follows:

Level 1: Measurement using quoted prices in active markets for identical financial instruments

Level 2: Measurement using quoted prices in active markets for similar instruments or using measurement models with inputs that are based on observable market data

Level 3: Measurement using measurement models with significant inputs that are not based on observable market data

**Financial instruments measured at fair value**

| € million | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| **2012** | | | | |
| Assets | | | | |
| Other non-derivative financial assets | | | | |
| Long-term securities | 3.8 | - | - | 3.8 |
| Liabilities | | | | |
| Derivative financial liabilities | | | | |
| Purchase price liabilities from put options | - | - | 7.0 | 7.0 |
| Cash flow hedges | - | 67.1 | - | 67.1 |
| **2011** | | | | |
| Assets | | | | |
| Other non-derivative financial assets | | | | |
| Long-term securities | 3.6 | - | - | 3.6 |
| Liabilities | | | | |
| Derivative financial liabilities | | | | |
| Purchase price liabilities from put options | - | - | 7.2 | 7.2 |
| Cash flow hedges | - | 59.8 | - | 59.8 |

The following table shows the development of the level 3 financial instruments accounted for at fair value:

| | | Change | | |
|---|---|---|---|---|
| € million | Jan. 1 | affecting net income | cash-effective | Dec. 31 |
| **2012** | | | | |
| Purchase price liabilities from put options | 7.2 | -0.1 | -0.1 | 7.0 |
| **2011** | | | | |
| Purchase price liabilities from put options | 7.0 | 2.0 | -1.8 | 7.2 |

The changes affecting net income in the level 3 financial instruments only had an effect on net interest.

The fair value of the put options for shares held by minority shareholders is always determined by the value of the company; if a contractually agreed minimum purchase price is higher than this amount, this purchase price is recognised. At the balance-sheet date the contractually agreed minimum purchase price is € 6.7 million (2011: € 6.8 million). The sensitivity analysis has shown that if the value of the companies increases by 10%, the purchase price liability under put options granted at the reporting date would only differ by € +0.1 million (2011: € +0.2 million). As in the previous year, a decrease by 10% would not result in a lower purchase price liability. The changes would be reflected in full in net interest.

## (35) Financial risk management

In the course of its business activities, DAIG is exposed to various financial risks. The Group-wide risk management system focuses on the unpredictability of developments on the financial markets and its aim is to minimise the potentially negative impact on the financial position of the Group and avoid risk concentrations. The risks associated with financial instruments and the corresponding risk management are described in detail as follows:

**Market risks**

(a) Currency risks

Owing to the limited internationality of DAIG's business, there are – as in 2011 – no substantive currency risks.

(b) Interest rate risks

DAIG is exposed to interest rate risks in the course of its ordinary activities. Floating-rate debt exposes DAIG to a cash flow interest rate risk. DAIG uses derivative financial instruments to limit or eliminate these risks. These derivative financial instruments are used for hedging risks connected with operational business and never for speculative purposes.

The market is continually monitored as part of the management of interest rate risks. A continual analysis verifies whether any market changes have a negative influence on DAIG's interest rate situation. Where possible and sensible, derivative financial instruments are used in these cases. In particular, variable interest liabilities are directly interest rate-hedged with a fixed payer swap or other suitable derivative financial instruments in order to safeguard the company against future interest rate fluctuations.

As part of the GRAND financing, there is an incongruence between the underlying transaction and the interest hedge. This is because repayments of the bearer bonds due to the sale of properties were in the past lower than the agreed amortisation profile of the fixed payer swaps used for interest hedging at GRAND. The excess amount has an interest cap under a cap agreement.

DAIG's policies permit the use of derivatives only if they are associated with underlying assets or liabilities, contractual rights or obligations and planned operating transactions.

Preceding this note, there is a sensitivity analysis with regard to purchase price liabilities from put options. A sensitivity analysis for cash flow hedges is provided under note (37) Derivative financial instruments.

**Credit risks**
In the reporting year the credit risk of DAIG remained unchanged. There are no significant concentrations of potential credit risks in the DAIG Group. Contracts for derivative financial instruments and financial transactions are only concluded with banks of good standing. DAIG Treasury observes a Group-wide policy to limit any concentration of credit risks and actively manages counterparty exposure. Furthermore, DAIG has a Group-wide policy to ensure that rental contracts are only made with tenants with a good credit history. Valuation allowances are provided for the risk of loss of financial assets.

**Liquidity risks**
The companies of DAIG are mainly financed by borrowings. Due to their high volume, the current securitisation transactions and structured bank loans are in some cases exposed to a considerable refinancing risk.

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, DAIG is in constant contact with many different market players and continuously monitor all financing options available on the capital and banking markets. Moreover, DAIG subjects its 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, with the GRAND restructuring in particular leading to a significant reduction in the volume risk.

Under the conditions of existing loan agreements, DAIG is obliged to fulfil certain financial covenants such as the debt service coverage ratio or debt-equity ratio. If financial covenants are violated, the breach is not rectified within so-called cure periods and no mutually acceptable agreement can be reached with the lenders, the financing may be restructured and the cost structure changed. Should all commonly practised solutions be unsuccessful, the lenders could call in the loan. As part of risk management, the fulfilment of these financial covenants is continually monitored on the basis of current extrapolations and budgetary accounting.

DAIG uses a liquidity forecast and a liquidity plan to manage the liquidity risks.

The following table shows the forecast for (undiscounted) cash flows of the non-derivative financial liabilities and derivative financial instruments with negative fair values:

| € million | Carrying amount as at Dec. 31, 2012 | 2013 | | 2014 | | 2015 to 2019 | |
|---|---|---|---|---|---|---|---|
| | | Interest | Repayment | Interest | Repayment | Interest | Repayment |
| Other non-derivative financial liabilities | | | | | | | |
| Banks | 1,634.1 | 40.6 | 332.7 | 36.5 | 60.7 | 124.8 | 929.3 |
| Other creditors | 4,611.8 | 182.0 | 296.2 | 82.8 | 1,015.6 | 170.8 | 3,124.9 |
| Deferred interest from other non-derivative financial liabilities | 35.4 | 35.4 | | | | | |
| Liabilities from finance leases | 91.3 | 5.2 | | 5.2 | | 26.4 | |
| Derivative financial liabilities | | | | | | | |
| Purchase price liabilities from put options | 7.0 | | | | | | 4.9 |
| Cash flow hedges | 67.1 | 26.1 | | 16.6 | | 18.8 | |
| Deferred interest from cash flow hedges | 3.8 | 3.8 | | | | | |

The loan repayments shown for the following years contain contractually fixed minimum repayment amounts.

In order to safeguard DAIG's solvency and financial flexibility at all times, a liquidity reserve is kept available in the form of cash.

Following the restructuring of the GRAND securitisation, all cash flows and cash surpluses of the Securitisation Group are subject to contractually agreed requirements and restrictions on their use. Consequently, all liquidity resulting from refinancings and profit on disposal of properties must be used for redemption. Cash flows and cash surpluses from property management are also subject to restrictions, although all expenditures necessary to maintain business operations are allowed under the loan agreement. Due to these restraints, all cash and cash equivalents of the Securitisation Group as at December 31, 2012, are classified as cash-restricted.

DAIG had cash on hand and deposits at banks totalling € 469.9 million as at the balance-sheet date (2011: € 278.0 million). Therefore, even against the backdrop of the existing cash restrictions and the economic and financial crisis, DAIG's ability to service debt is guaranteed at all times.

## (36) Capital management

The aims of the DAIG capital management system are to:

- ensure a long-term increase in value in the interest of investors, employees and customers
- ensure adequate liquidity of the Group
- ensure that the company can service its debts
- create enough financial flexibility for the company to implement its growth and portfolio optimisation strategy
- determine and control risks arising from changes in interest rates as well as to take advantage of the potential to optimise the interest result within the relevant risk preference.

As part of the opportunities and risk management of DAIG, the members of the Management Board are given monthly reports on the development of results and the potential effects on the Group's equity.

The equity situation of the subsidiaries is regularly examined.

The DAIG equity developed as follows:

| € million | **Dec. 31, 2012** | **Dec. 31, 2011** Restated* |
|---|---|---|
| Total equity | 2,677.4 | 2,229.8 |
| Total assets | 10,608.3 | 10,383.0 |
| Equity ratio | 25.2% | 21.5% |

* see note (5) a) Changes in accounting policies

DAIG has a Treasury Management, which checks and optimises the cash flows of the Group every day using, among other things, cash pooling. Furthermore, the Group has a finance status report which is updated every week. Liquidity management is also supplemented by a short-term liquidity forecast as well as rolling, monthly liquidity planning for the current financial year, of which the Management Board is promptly notified.

Under the conditions of loan agreements, DAIG is obliged to fulfil certain financial covenants such as the debt service coverage ratio and debt-equity ratio. As part of the internal forecasting process, the fulfilment of these financial covenants is continually monitored on the basis of current extrapolations and budgetary accounting. As in previous years, the financial covenants required in the loan agreements were also fulfilled in the reporting period.

DAIG plans to continue funding possible acquisitions by an optimal mix of bank loans, structured capital market financing and appropriate use of equity.

In its financing strategy, DAIG mainly relies on long-term financing with a reasonable proportion of borrowings. In the case of liabilities with variable interest rates, DAIG always contracts interest hedges in the form of fixed payer swaps to hedge against changes in interest rates. The Finance department is responsible for implementing the financing strategy.

## (37) Derivative financial instruments

Thirteen fixed payer swaps have been contracted to hedge the interest rate risk of the acquisition lines of credit, which were taken out in particular to fund portfolio acquisitions by subsidiaries of Deutsche Annington Immobilien SE.

According to the refinancing of PRIMA Wohnbauten Privatisierungs-Management GmbH, taking effect on March 30, 2012, the interest rate swaps contracted in the context of the securitisation transaction Opera Germany (No. 1) GmbH as well as the interest rate swaps of the previous acquisition financing III were replaced by two fixed payer swaps of Norddeutsche Landesbank Girozentrale, Hanover.

In the 2012 financial year, the nominal volume of all interest rate swaps amounted to € 800.5 million (2011: € 811.1 million). Interest rates vary between 2.28% and 4.40% with swap periods of six and a quarter to seven years.

| € million | Nominal value | Beginning of term | End of term | Current average interest rate (incl. margin) |
|---|---|---|---|---|
| **Acquisition financing I** | | | | |
| Hedged items | 220.8 | December 29, 2006 | December 31, 2013 | 3-m EURIBOR +margin 0.525% |
| Interest rate swaps | 223.1 | July 20, 2007 | October 20, 2013 | 4.213% |
| **Acquisition financing II** | | | | |
| Hedged items | 252.8 | April 18, 2008 | April 20, 2015 | 3-m EURIBOR +margin 1.05% |
| Interest rate swaps | 254.6 | July 21, 2008 | April 20, 2015 | 4.400% |
| **Acquisition financing III** | | | | |
| Hedged items | 147.3 | March 30, 2012 | December 31, 2018 | 6-m EURIBOR +margin 1.04%-2.19% |
| Interest rate swaps | 147.3 | March 30, 2012 | December 31, 2018 | 2.393% |
| **Acquisition financing IV** | | | | |
| Hedged items | 166.8 | December 14, 2010 | December 31, 2018 | 3-m EURIBOR +margin 0.88%-0.93% |
| Interest rate swaps | 175.5 | April 13, 2011 | April 13, 2018 | 3.335% |

Designation as a hedging instrument is prospectively determined on the basis of a sensitivity analysis, retrospectively on the basis of the accumulated dollar offset method. The fair value changes of the hedged items are determined on the basis of the hypothetical derivative method. In the reporting year - as well as in the prior year - the impact of default risk on the fair values is negligible and did not result in any adjustments of the balance sheet item.

As part of the cash flow hedge accounting, the derivatives as at December 31, 2012 were shown at their negative clean present fair values totalling € 67.1 million (2011: € 59.8 million) under other financial liabilities.

As a result of the valuation, € 5.7 million (2011: € 7.4 million) was deducted from other comprehensive income in 2012.

In the period under review, after consideration of deferred taxes, ineffectiveness resulted in a loss of € 0.9 million (2011: gain of € 1.2 million). In the reporting period, after consideration of deferred taxes, ineffectiveness increased by € 0.9 million to € 2.4 million (2011: € 1.5 million).

On the basis of the valuation as at December 31, 2012, DAIG has used a sensitivity analysis to determine the change in equity given a parallel shift in the interest rate structure of 50 basis points in each case:

| € million | Change in equity | | |
|---|---|---|---|
| **2012** | Other reserves not affecting income | Ineffective portions affecting net income | Total |
| + 50 basis points | +7.6 | -0.5 | +7.1 |
| - 50 basis points | -9.3 | -1.0 | -10.3 |
| **2011** | | | |
| + 50 basis points | +10.4 | +0.2 | +10.6 |
| - 50 basis points | -14.7 | -0.1 | -14.8 |

All the derivative financial instruments used by DAIG are part of effective hedging as required by IAS 39.

### (38) Information on the consolidated cash flow statement

The cash flow statement shows how the cash of DAIG has changed during the reporting year as a result of cash inflows and outflows. In accordance with IAS 7 (Statements of Cash Flows), a distinction is made between changes in cash flow from operating activities, investing activities and financing activities.

The cash flow from operating activities is determined from the profit for the period using the indirect method, the profit for the period being adjusted for effects of transactions of a non-cash nature, any deferrals or accruals of past or future operating cash receipts or payments, as well as items of income or expense associated with investing or financing cash flows.

The effects of changes in the scope of consolidation are shown separately. Therefore, direct comparison with the corresponding changes in the consolidated balance sheet items is not possible.

The income from the sale of trading properties is shown in cash flow from operating activities, the proceeds from the disposal of intangible assets, property, plant and equipment and investment properties are shown in cash flow from investing activities.

As from January 1, 2012, the changes in inventories due to ancillary costs to be billed are netted against the advance payments received and shown in the line Changes in liabilities. The prior-year figures were restated accordingly. See also note (5) a) Changes in accounting policies.

Exercising the IAS 7 option, interest received is shown under cash flow from investing activities and interest paid is shown under cash flow from financing activities.

Acquisition of investment properties mainly shows expenses for modernisation measures.

Of the cash and cash equivalents, restraints on disposal apply to € 363.2 million (2011: € 46.2 million).

## (39) Contingent liabilities

Contingent liabilities exist for cases in which Deutsche Annington Immobilien SE and its subsidiaries give guarantees to various contractual counterparts.
The terms are in many cases limited to an agreed time. In some cases, the term is unlimited.

Contingent liabilities of DAIG are as follows:

| in Mio. € | 2012 | 2011 |
|---|---|---|
| Contract performance guarantees | 70.1 | 65.7 |
| Rent surety bonds | 0.2 | 0.1 |
| Other | 0.1 | 0.1 |
| | **70.4** | **65.9** |

## (40) Other financial obligations

The future minimum lease payment obligations arising from such agreements as a result of the fact that they are non-cancellable operating leases are due as follows:

| € million | End of contract term | Due within one year | Due in 1 to 5 years | Due after 5 years | Total |
|---|---|---|---|---|---|
| **Total minimum lease payments** | | | | | |
| **Dec. 31, 2012** | | | | | |
| Rents | 2013-2020 | 4.6 | 16.6 | 7.1 | **28.3** |
| Lease contracts | 2013-2017 | 4.8 | 11.2 | - | **16.0** |
| Ground rent contracts | 2017-2094 | 4.8 | 19.2 | 191.0 | **215.0** |
| | | **14.2** | **47.0** | **198.1** | **259.3** |
| **Dec. 31, 2011** | | | | | |
| Rents | 2012-2020 | 4.7 | 15.5 | 10.9 | **31.1** |
| Lease contracts | 2012-2015 | 1.3 | 1.3 | - | **2.6** |
| Ground rent contracts | 2017-2094 | 4.7 | 18.7 | 191.0 | **214.4** |
| | | **10.7** | **35.5** | **201.9** | **248.1** |

Payments of € 15.2 million (2011: € 11.4 million) under rental, tenancy and leasing agreements were recognised as expenses in 2012.

The DAIG ground rent contracts generally have a term of 99 years. The average remaining term of these contracts was approx. 41 years as at December 31, 2012. The owners of inheritable building rights are in particular the German state, church institutions, German states, local authorities and Deutsche Post AG, Bonn.

In addition to obligations under operating leases, other financial obligations include:

| € million | Dec. 31, 2012 | Dec. 31, 2011 |
|---|---|---|
| **Other financial obligations** | | |
| Cable TV service contracts | 160.0 | 136.0 |
| Minor repair and caretaker service contracts | 81.3 | 47.2 |
| IT service contracts | 20.9 | 26.1 |
| Surcharges under the German Condominium Act | 1.3 | 1.0 |
| Refinancing costs | 1.8 | - |
| | **265.3** | **210.3** |

The obligations under cable TV service contracts are set against future income from the marketing of the cable TV service.

## (41) Litigation and claims

DAIG is involved in litigation resulting from operating activities, both as the plaintiff and the defendant. These legal disputes and claims for damages are routine resulting from the normal course of business. They are in particular disputes under the Law of Tenancy and sales disputes.

None of these legal disputes and claims for damages will have a material effect on the balance sheet, profits or liquidity of DAIG.

## (42) Related party transactions

The members of the Management Board and the Supervisory Board and members of their immediate families do not personally have any business relations with DAIG companies other than in their capacity as members of the Management Board or Supervisory Board.

There are also no business relations between DAIG companies and affiliated DAIG companies or with members of the management or supervisory bodies of consolidated DAIG companies or members of their immediate families.

Commitments under a long-term incentive plan (LTIP) have been given to the senior managers of DAIG as a long-term incentive component of their remuneration. Pay-out is linked 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/or Monterey Holdings I S.à r.l., Luxembourg (LTIP 2011) until the occurrence of the triggering event.

The amount of the provision established for the LTIP is re-determined every year and depends not only on the development of the value of DAIG and Monterey Holdings I S.à r.l., Luxembourg but also on other value-determining factors such as the probability of occurrence and the forecast date of 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.

Monterey Holdings I S.à r.l., Luxembourg, has assumed the existing obligations towards the members of the Management Board of € 15.0 million (2011: € 6.1 million) for the payments under the long-term incentive plan (LTIP). These are obligations as defined by IAS 24.17e, of which € 10.9 million (2011: € 3.7 million) relate to former Management Board members. DAIG discloses within Other assets (see note (22) Other assets) a receivable from Monterey Holdings I S.à r.l., Luxembourg, in the amount of the total obligations assumed.

In 2005, consultancy agreements were signed with Terra Firma Capital Partners Limited, London, and terrafirma GmbH, Frankfurt am Main. In 2012, services totalling € 0.1 million (2011: € 0.1 million) were provided, of which € 0.1 million (2011: € 0.1 million) has already been paid.

On the basis of the shareholder's resolutions of October 1, 2012 and December 20, 2012, Monterey Holdings I S.à r.L., Luxembourg, contributed a total of € 334.1 million to the capital reserves in 2012.

On January 23, 2013, Monterey Holdings I S.à r.l., Luxembourg, contributed a subordinated loan ("S" loan) amounting to € 239.1 million as a non-cash contribution to the capital reserves.

## (43) Subsequent events

As already agreed as part of the GRAND restructuring, on January 17, 2013 liabilities of the Securitisation Group amounting to € 240.0 million were converted into subordinated "S" REF Notes. On January 21, 2013, noteholders of GRAND plc converted the same amount of outstanding Notes into subordinated loans ("S" loans), the key terms of the "S" REF Notes and "S" loans being the same. Monterey Finance S.à r.l., Luxembourg, a sister company of Deutsche Annington Immobilien SE, provided most of the converted Notes amounting to € 239.1 million. Following the conversion on January 21, 2013, the "S" loans of Monterey Finance S.à r.l., Luxembourg, amounting to € 239.1 million were contributed on January 23, 2013 to the capital reserves of Deutsche Annington Immobilien SE through Monterey Holdings I S.à r.l., Luxembourg, as part of a non-cash contribution.

As a further step in the GRAND restructuring, € 240 million was taken from cash and cash equivalents on January 17, 2013 and used, as contractually agreed, for redemption of REF Notes and the current liabilities outstanding as at the end of 2012 were correspondingly reduced. This redemption was in addition to the regular capital repayments of € 47.4 million from proceeds from property sales.

The partial refinancing of the Securitisation Group negotiated in December 2012 with Berlin-Hannoversche Hypothekenbank was paid out on February 14, 2013 with a loan amount of € 654.3 million. The average weighted interest rate of this financing is 3.144%. Maturity is 5 years from pay-out. Securities were provided in the form of land charges, account pledge agreements and assignments. As part of this refinancing, a total of € 545.1 million of the outstanding REF Notes were redeemed on the pay-out date. Furthermore, € 60.6 million was used to repay mortgages. The remaining amounts will be used to finance the transaction costs and kept to support future partial refinancings of the Securitisation Group. With the funds already available and the additions from proceeds from property sales in January 2013, total funds of some € 52.2 million are available for partial refinancings of the Securitisation Group.

## (44) Remuneration

**Total remuneration of the Supervisory Board**

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

**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 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 (2011: € 0.0 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).

## (45) Auditors' fees

The following fees (including expenses) have been recorded as expenses for the services provided in the reporting year by the Group auditors, KPMG AG Wirtschaftsprüfungsgesellschaft:

| € million | 2012 | 2011 |
|---|---|---|
| Audits | 1.9 | 1.8 |
| Other confirmation services | 0.3 | 0.1 |
| Tax consultancy services | 0.1 | 0.1 |
| Other services | 0.1 | 0.3 |
| | **2.4** | **2.3** |

**Supervisory Board**

Guy Hands, Chairman
*Chairman and Chief Investment Officer of Terra Firma Capital Partners, Guernsey*

Robert Nicolas Barr (since September 25, 2012 dormant)
*Operational Managing Director of Terra Firma Capital Partners Limited, London*

Arjan Breure
*Financial Managing Director of Terra Firma Capital Partners Limited, London*

William T. Comfort (until May 10, 2012)
*Chairman of Citigroup Venture Capital, New York*

Fraser Duncan
*Business Consultant, London*

Neil Hasson (since May 10, 2012)
*Managing Director of Citi Property Investors, London*

Wolfgang König (until March 1, 2012)
*Business Consultant, Esslingen*

Prof. Dr. Klaus Rauscher
*Business Consultant*, Berlin

**Management Board**

Robert Nicolas Barr (since September 25, 2012)

Wijnand Donkers, Chairman (until September 25, 2012)

Klaus Freiberg

Dr. A. Stefan Kirsten

Düsseldorf, February 20, 2013

Robert Nicolas Barr Klaus Freiberg Dr. A. Stefan Kirsten

## List of DAIG Shareholdings as at December 31, 2012

according to section 313 para. 2 HGB

| Company | Company domicile | Interest % | | |
|---|---|---|---|---|
| Deutsche Annington Immobilien SE | Düsseldorf | | | |

## Consolidated Companies

| | | | | |
|---|---|---|---|---|
| Baugesellschaft Bayern mbH | Munich | 94.90 | | |
| Bundesbahn Wohnungsbaugesellschaft Kassel Gesellschaft mit beschränkter Haftung | Kassel | 94.90 | | |
| Bundesbahn-Wohnungsbaugesellschaft Regensburg mbH | Regensburg | 94.90 | | |
| BWG Frankfurt am Main Bundesbahn-Wohnungsgesellschaft mbH | Frankfurt | 94.90 | | |
| DA DMB Netherlands B.V. | Eindhoven/NL | 100.00 | | |
| Deutsche Annington Bestands GmbH & Co.KG | Bochum | 100.00 | | |
| Deutsche Annington Beteiligungsverwaltungs GmbH | Düsseldorf | 100.00 | | |
| Deutsche Annington Bewirtschaftungs GmbH & Co.KG | Bochum | 100.00 | | |
| Deutsche Annington Business GmbH | Bochum | 100.00 | 1) | |
| Deutsche Annington Business Management GmbH | Bochum | 100.00 | 1) | |
| Deutsche Annington DEWG GmbH & Co.KG | Bochum | 100.00 | | |
| Deutsche Annington DEWG Verwaltungs GmbH | Düsseldorf | 99.60 | | |
| Deutsche Annington DID Verwaltungs GmbH | Düsseldorf | 99.60 | | |
| Deutsche Annington Dienstleistungs GmbH | Bochum | 100.00 | 1) | |
| Deutsche Annington Dienstleistungsmanagement GmbH | Bochum | 100.00 | 1) | |
| Deutsche Annington DMB Eins GmbH | Bochum | 100.00 | | |
| Deutsche Annington Dritte Beteiligungsgesellschaft mbH | Düsseldorf | 100.00 | | |
| Deutsche Annington Eigentumsverwaltungs GmbH | Bochum | 100.00 | 1) | |
| Deutsche Annington EisenbahnWG Karlsruhe Bestands GmbH & Co.KG | Bochum | 100.00 | | |
| Deutsche Annington EisenbahnWG Karlsruhe Bewirtschaftungs GmbH & Co.KG | Bochum | 100.00 | | |
| Deutsche Annington EisenbahnWG Karlsruhe Verwaltungs GmbH | Düsseldorf | 99.60 | | |
| Deutsche Annington EWG Augsburg GmbH & Co.KG | Munich | 100.00 | | 2) |
| Deutsche Annington EWG Augsburg Verwaltungs GmbH | Düsseldorf | 99.60 | | |
| Deutsche Annington EWG Essen Bestands GmbH & Co.KG | Essen | 100.00 | | |
| Deutsche Annington EWG Essen Bewirtschaftungs GmbH & Co.KG | Essen | 100.00 | | |
| Deutsche Annington EWG Essen Verwaltungs GmbH | Düsseldorf | 99.60 | | |
| Deutsche Annington EWG Frankfurt Bestands GmbH & Co.KG | Bochum | 100.00 | | |
| Deutsche Annington EWG Frankfurt Bewirtschaftungs GmbH & Co.KG | Bochum | 100.00 | | |
| Deutsche Annington EWG Frankfurt Verwaltungs GmbH | Düsseldorf | 99.60 | | |
| Deutsche Annington EWG Kassel Bestands GmbH & Co.KG | Bochum | 100.00 | | |
| Deutsche Annington EWG Kassel Bewirtschaftungs GmbH & Co.KG | Bochum | 100.00 | | |
| Deutsche Annington EWG Kassel Verwaltungs GmbH | Düsseldorf | 99.60 | | |
| Deutsche Annington EWG Köln Bestands GmbH & Co.KG | Bochum | 100.00 | | 2) |
| Deutsche Annington EWG Köln Bewirtschaftungs GmbH & Co.KG | Bochum | 100.00 | | 2) |
| Deutsche Annington EWG Köln Verwaltungs GmbH | Düsseldorf | 99.60 | | |
| Deutsche Annington EWG Mainz GmbH & Co.KG | Bochum | 100.00 | | |
| Deutsche Annington EWG Mainz Verwaltungs GmbH | Düsseldorf | 99.60 | | |
| Deutsche Annington EWG München Bestands GmbH & Co.KG | Munich | 100.00 | | 2) |
| Deutsche Annington EWG München Bewirtschaftungs GmbH & Co.KG | Munich | 100.00 | | 2) |
| Deutsche Annington EWG München Verwaltungs GmbH | Düsseldorf | 99.60 | | |
| Deutsche Annington EWG Nürnberg GmbH & Co.KG | Munich | 100.00 | | |
| Deutsche Annington EWG Nürnberg Verwaltungs GmbH | Düsseldorf | 99.60 | | |
| Deutsche Annington EWG Regensburg GmbH & Co.KG | Munich | 100.00 | | |
| Deutsche Annington EWG Regensburg Verwaltungs GmbH | Düsseldorf | 99.60 | | |
| Deutsche Annington Finance GmbH | Düsseldorf | 100.00 | | |
| Deutsche Annington Fundus Immobiliengesellschaft mbH | Cologne | 100.00 | | |
| Deutsche Annington Fünfte Beteiligungsgesellschaft mbH | Düsseldorf | 100.00 | | |

## List of DAIG Shareholdings as at December 31, 2012

according to section 313 para. 2 HGB

| Company | Company domicile | Interest % | | |
|---|---|---|---|---|
| Deutsche Annington Haus GmbH | Kiel | 100.00 | | |
| Deutsche Annington Heimbau Bestands GmbH & Co.KG | Bochum | 100.00 | | |
| Deutsche Annington Heimbau Bewirtschaftungs GmbH & Co.KG | Bochum | 100.00 | | |
| Deutsche Annington Heimbau GmbH | Kiel | 100.00 | | |
| Deutsche Annington Heimbau Verwaltungs GmbH | Düsseldorf | 99.60 | | |
| Deutsche Annington Holdings Drei GmbH | Bochum | 100.00 | | |
| Deutsche Annington Holdings Eins GmbH | Düsseldorf | 100.00 | | |
| Deutsche Annington Holdings Fünf GmbH | Düsseldorf | 100.00 | | |
| Deutsche Annington Holdings Sechs GmbH | Bochum | 100.00 | | |
| Deutsche Annington Holdings Vier GmbH | Düsseldorf | 100.00 | 1) | |
| Deutsche Annington Holdings Vier GmbH & Co.KG | Bochum | 100.00 | | |
| Deutsche Annington Holdings Zwei GmbH | Düsseldorf | 100.00 | | |
| Deutsche Annington Immobiliendienstleistung Bestands GmbH & Co.KG | Bochum | 100.00 | | |
| Deutsche Annington Immobilien-Dienstleistungen GmbH | Düsseldorf | 100.00 | | |
| Deutsche Annington Immobilienmanagement GmbH | Bochum | 100.00 | 1) | |
| Deutsche Annington Immobilienservice GmbH | Munich | 100.00 | | |
| Deutsche Annington Immobilienservice West GmbH | Bochum | 100.00 | | |
| Deutsche Annington Informationssysteme GmbH | Düsseldorf | 100.00 | 1) | |
| Deutsche Annington Interim DAMIRA GmbH | Düsseldorf | 100.00 | | |
| Deutsche Annington IT-Management GmbH | Düsseldorf | 100.00 | 1) | |
| Deutsche Annington Kundenmanagement GmbH | Bochum | 100.00 | 1) | |
| Deutsche Annington Kundenservice GmbH | Bochum | 100.00 | 1) | |
| Deutsche Annington MIRA Bestands GmbH & Co.KG | Bochum | 100.00 | | 2) |
| Deutsche Annington MIRA Bewirtschaftungs GmbH & Co.KG | Bochum | 100.00 | | 2) |
| Deutsche Annington MIRA Verwaltungs GmbH | Düsseldorf | 99.60 | | |
| Deutsche Annington Personalservice GmbH | Bochum | 100.00 | 1) | |
| Deutsche Annington Regenerative Energien GmbH | Bochum | 100.00 | | |
| Deutsche Annington Revisionsgesellschaft mbH | Düsseldorf | 100.00 | | |
| Deutsche Annington Rheinland Immobiliengesellschaft mbH | Cologne | 100.00 | | |
| Deutsche Annington Rhein-Ruhr GmbH & Co.KG | Düsseldorf | 100.00 | | |
| Deutsche Annington Service GmbH | Frankfurt | 100.00 | 1) | |
| Deutsche Annington Solutions GmbH | Bochum | 100.00 | 1) | |
| Deutsche Annington Vermögensgesellschaft mbH & Co.KG | Bochum | 100.00 | | |
| Deutsche Annington Vertriebs GmbH | Bochum | 100.00 | 1) | |
| Deutsche Annington Vertriebsmanagement GmbH | Bochum | 100.00 | 1) | |
| Deutsche Annington Vierte Beteiligungsgesellschaft mbH | Düsseldorf | 99.60 | | |
| Deutsche Annington WOGE Drei Verwaltungs GmbH | Düsseldorf | 99.60 | | |
| Deutsche Annington WOGE Eins Verwaltungs GmbH | Düsseldorf | 99.60 | | |
| Deutsche Annington WOGE Fünf Bestands GmbH & Co. KG | Bochum | 100.00 | | |
| Deutsche Annington WOGE Fünf Bewirtschaftungs GmbH & Co. KG | Bochum | 100.00 | | |
| Deutsche Annington WOGE Fünf Verwaltungs GmbH | Düsseldorf | 100.00 | | |
| Deutsche Annington WOGE Sechs Bestands GmbH & Co.KG | Bochum | 100.00 | | |
| Deutsche Annington WOGE Sechs Bewirtschaftungs GmbH & Co.KG | Bochum | 100.00 | | |
| Deutsche Annington WOGE Sechs Verwaltungs GmbH | Bochum | 100.00 | | |
| Deutsche Annington WOGE Sieben Verwaltungs GmbH | Düsseldorf | 100.00 | | |
| Deutsche Annington WOGE Vier Bestands GmbH & Co.KG | Bochum | 100.00 | | |
| Deutsche Annington WOGE Vier GmbH & Co.KG | Düsseldorf | 100.00 | | |
| Deutsche Annington Wohnungsgesellschaft I Bestands GmbH & Co.KG | Bochum | 100.00 | | |
| Deutsche Annington Wohnungsgesellschaft I mbH | Essen | 100.00 | | |
| Deutsche Annington Wohnungsgesellschaft III Bestands GmbH & Co.KG | Bochum | 100.00 | | |

## List of DAIG Shareholdings as at December 31, 2012

according to section 313 para. 2 HGB

| Company | Company domicile | Interest % | |
|---|---|---|---|
| Deutsche Annington Wohnungsgesellschaft III mbH | Bochum | 100.00 | |
| Deutsche Annington Zweite Beteiligungsgesellschaft mbH | Essen | 100.00 | |
| Deutsche Eisenbahn-Wohnungs-Holdings GmbH & Co.KG | Leipzig | 100.00 | |
| Deutsche Multimedia Service GmbH | Düsseldorf | 100.00 | 1) |
| Deutsche Soziale Wohnen GmbH | Bochum | 100.00 | |
| Deutsche TGS GmbH | Bochum | 51.00 | |
| Deutsche TGS West GmbH | Düsseldorf | 51.00 | |
| Deutsche Wohn-Inkasso GmbH | Bochum | 100.00 | 1) |
| Eisenbahn-Siedlungsgesellschaft Augsburg mbH (Siegau) | Augsburg | 94.90 | |
| Eisenbahn-Wohnungsbau-Gesellschaft Karlsruhe GmbH | Karlsruhe | 94.90 | |
| Eisenbahn-Wohnungsbaugesellschaft Köln mbH | Cologne | 94.90 | |
| Eisenbahn-Wohnungsbaugesellschaft Nürnberg GmbH | Nuremberg | 94.90 | |
| Frankfurter Siedlungsgesellschaft mbH | Düsseldorf | 100.00 | |
| FSG Immobilien GmbH & Co.KG | Düsseldorf | 100.00 | |
| FSG Immobilien Verwaltungs GmbH | Düsseldorf | 100.00 | |
| FSG-Holding GmbH | Düsseldorf | 94.80 | |
| Immobilienfonds Koblenz-Karthause Wolfgang Hober KG | Düsseldorf | 92.71 | |
| JANANA Grundstücksgesellschaft mbH & Co.KG | Grünwald | 94.90 | |
| KADURA Grundstücksgesellschaft mbH & Co.KG | Grünwald | 94.91 | |
| LEMONDAS Grundstücksgesellschaft mbH & Co.KG | Grünwald | 94.90 | |
| LEVON Grundstücksgesellschaft mbH & Co.KG | Grünwald | 94.90 | |
| MAKAB Beteiligungs Eins GmbH | Düsseldorf | 100.00 | |
| MAKAB Grundstücksgesellschaft mbH & Co.KG | Grünwald | 100.00 | |
| MAKANA Beteiligungsgesellschaft Eins GmbH | Düsseldorf | 100.00 | |
| MAKANA Grundstücksgesellschaft mbH & Co. KG | Grünwald | 94.90 | |
| MANGANA Grundstücksgesellschaft mbH & Co.KG | Grünwald | 94.90 | |
| MELCART Grundstücks-Verwaltungsgesellschaft mbH | Grünwald | 94.80 | |
| MIRA Grundstücksgesellschaft mbH | Düsseldorf | 94.90 | |
| MIRIS Grundstücksgesellschaft mbH & Co.KG | Grünwald | 94.90 | |
| Monterey Capital I S.à r.l. | Strassen/L | 100.00 | |
| Prima Wohnbauten Privatisierungs-Management GmbH | Berlin | 100.00 | |
| "Siege" Siedlungsgesellschaft für das Verkehrspersonal mbH Mainz | Mainz | 94.90 | |
| Verimmo2 GmbH | Bochum | 100.00 | 1) |
| Viterra Holdings Eins GmbH | Düsseldorf | 100.00 | |
| Viterra Holdings Zwei GmbH | Düsseldorf | 100.00 | |
| Wohnungsgesellschaft Ruhr-Niederrhein mbH Essen | Essen | 94.90 | |

1) exemption according to section 264 para. 3 HGB

2) the companies were merged with their respective parent company with effect from February 14, 2013

# 2012 Group Management Report

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# The 2012 Financial Year

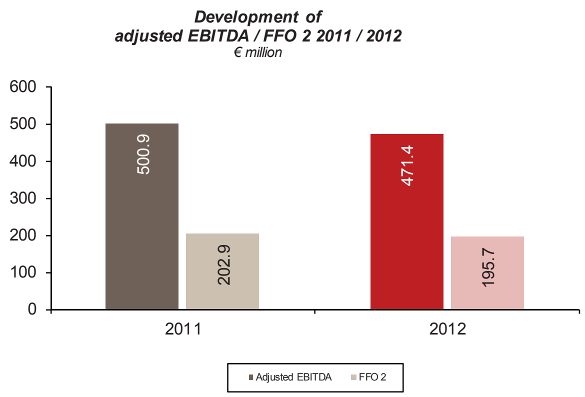
## Year of change and paving the way

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. Another important metric that we aim to sustainably increase, net assets or NAV (net asset value according to the EPRA definition), rose in the reporting year from € 2,968.0 million to € 3,448.0 million.

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, some 1,000 employees from our facility manager and craftsmen's organisations 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.

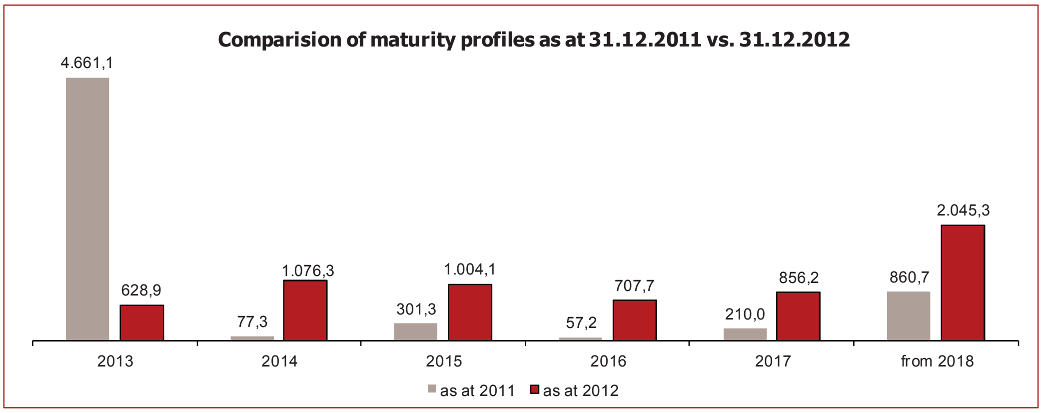
Thanks to our improved letting performance, the vacancy rate fell by 0.4 percentage points to 3.9 % in 2012. Rents increased significantly by 2.3 %. Apartment sales were again up in 2012 on the previous year's figure. At the same time, we again made considerable investments of € 216.7 million in the 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. The successfully implemented measures will, in future, form the basis for a sustained increase in our earning power.  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.



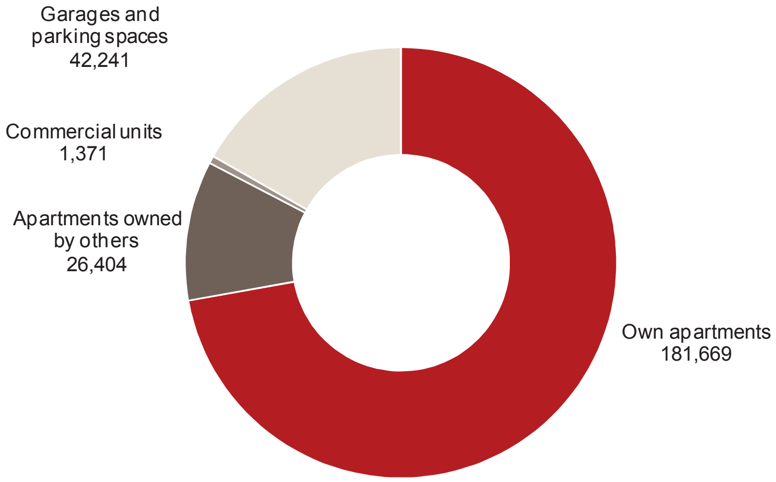
## Structure and Strategy

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.

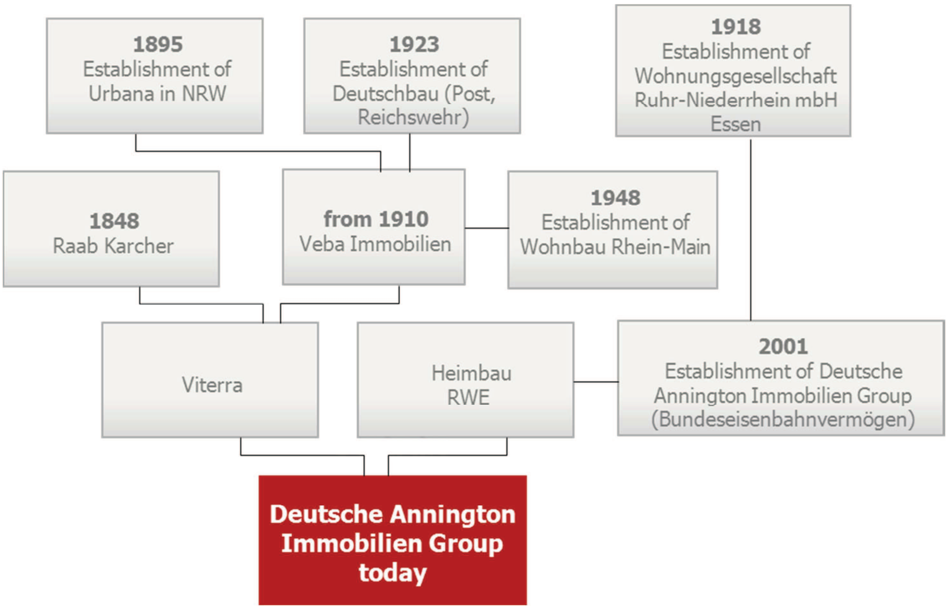
**Business model: service-driven management of residential properties**

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.

*Units managed by Deutsche Annington*
*(as at December 31, 2012)*



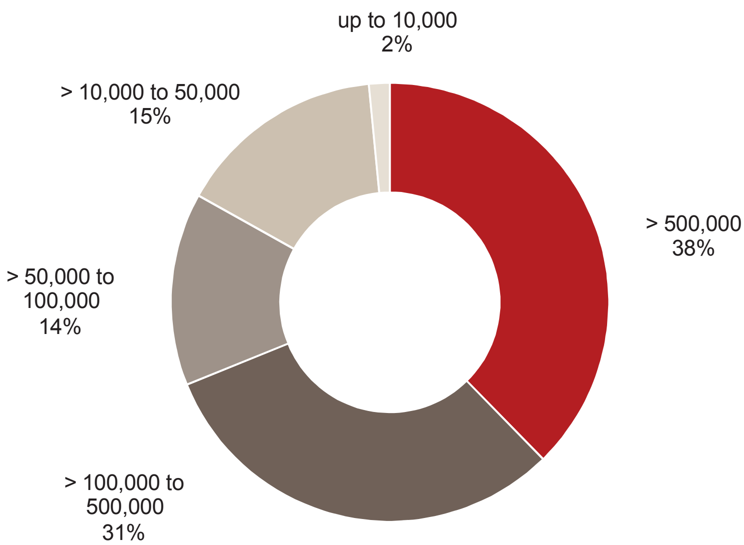

The Deutsche Annington Immobilien Group is one of the top housing companies in Germany with its some 210,000 residential units managed and 2,260 employees. The company was established as part of the takeover of railway housing companies in 2001 and grew considerably through further acquisitions in the years that followed. With the purchase of Viterra in 2005, Deutsche Annington advanced to become Germany's largest residential real-estate company. Today, the Group pools the experience and know-how of ten companies with over one hundred years of history.




**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.

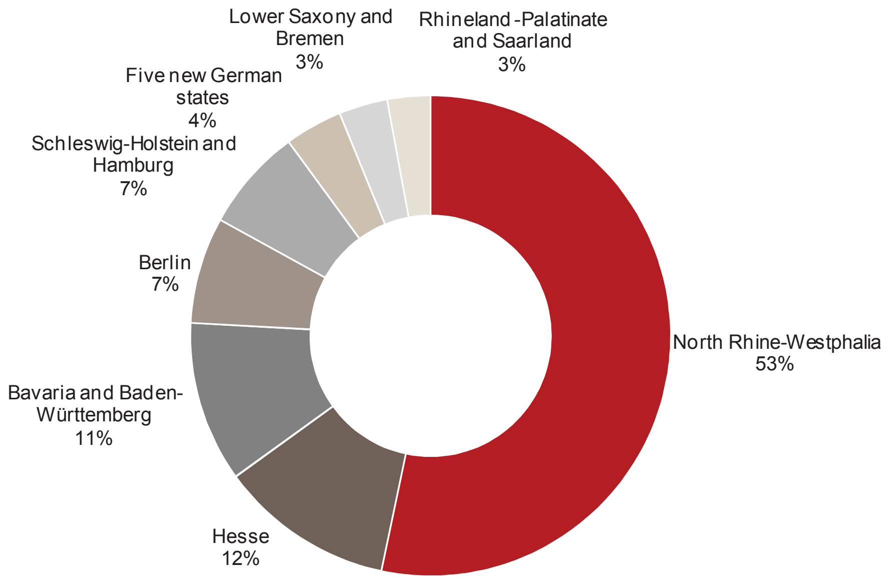
*Number of housing units by size of town or city*
*(as at December 31, 2012)*




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 |
| ***Sub-total for 20 largest locations*** | ***111,086*** | ***61.1*** | ***6,950,750*** | ***63*** | ***449.2*** | ***61.2*** | ***5.39*** | ***3.6*** |
| *Other locations* | 70,583 | 38.9 | 4,652,297 | 66 | 284.7 | 38.8 | 5.10 | 4.5 |
| ***Total*** | ***181,669*** | ***100.0*** | ***11,603,047*** | ***64*** | ***733.9*** | ***100.0*** | ***5.27*** | ***3.9*** |

* 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 $CO_2$ 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.

# 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.

# Business Review

***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 (€/m²) | 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 |
| *Sold individually* | 2.784 | *2.503* |
| *Other sales* | 2.035 | *666* |
| Vacancy rate in % (as at Dec. 1) | 3,9 | 4,3 |
| Monthly net cold rent (€/m²) | 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$^2$/month (2011: € 5.15/m$^2$/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*

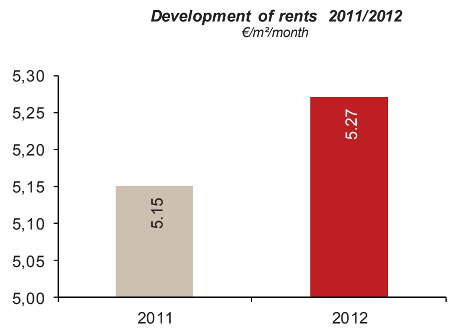
| € million | 2012 | 2011 |
|---|---|---|
| Rental income | 729.0 | 730.7 |
| Other income from property management | 18.4 | 19.8 |
| Ancillary cost balance | -20.8 | -22.7 |
| Other property management costs | -289.3 | -279.2 |
| **Profit from property management** | **437.3** | **448.6** |

**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.

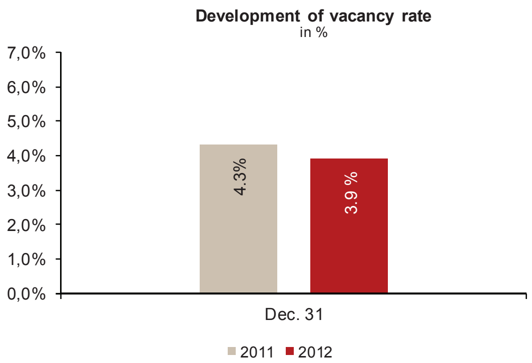
**Rents rise on average by 2.3 %**
In the 2012 financial year, rents were raised by an average of 2.3 % year-on-year to € 5.27/m$^2$/month (2011: € 5.15/m$^2$/month). We achieved the rent increases through rent adjustments as well as in connection with modernisation measures. Housing improvements allow 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.

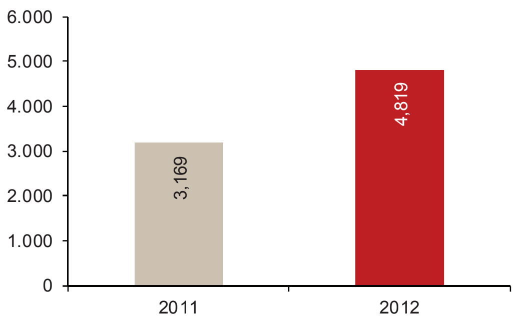
## Sharp increase in apartment sales

***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 |
| **Gross profit from property sales** | **51,6** | **67,6** |
| Administrative expenses | -17,5 | -15,3 |
| **Profit from property sales** | **34,1** | **52,3** |

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

| Funds from Operations (FFO) | 2012 | 2011 |
|---|---|---|
| *Profit for the period* | *172.2* | *423.6* |
| 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 |
| **= EBITDA IFRS** | **450.2** | **483.0** |
| *Non-recurring items* | 21.2 | *17.9* |
| **= EBITDA (adjusted for non-recurring items)** | **471.4** | **500.9** |
| Profit from property sales | -34.1 | -52.3 |
| **= EBITDA (excl. profit from property sales and non-recurring items)** | **437.3** | **448.6** |
| Net cash interest | -273.6 | -293.1 |
| Current income taxes | -2.1 | *-4.9* |
| **= FFO 1** | **161.6** | **150.6** |
| Capitalised maintenance | -23.7 | -15.5 |
| **= AFFO** | 137.9 | **135.1** |
| ***FFO 2*** *(FFO 1 incl. profit from property sales)* | ***195.7*** | ***202.9*** |

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.

| Reconciliation of financial result to net cash interest<br>€ million | 2012 | 2011 |
|---|---|---|
| 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 |
| **Net cash interest** | -273,6 | -293,1 |

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 |
| **Total non-recurring items** | **21.2** | **17.9** |

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.

## 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 |
| **TOTAL ASSETS** | **10,608.3** | **100.0** | **10,383.0** | **100.0** |
| 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 |
| **TOTAL EQUITY AND LIABILITIES** | **10,608.3** | **100.0** | **10,383.0** | **100.0** |

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 39 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**<br>*€ million* | **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 |
| **Net changes in cash and cash equivalents** | **191,6** | **-32,2** |
| Cash and cash equivalents at beginning of year | 278,5 | 310,7 |
| **Cash and cash equivalents on the reporting date** | **470,1** | **278,5** |

**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.

## 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.

# 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 4 ff.

**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 50 ff.)

# 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 | |
|---|---|---|---|---|---|---|
| **German State** | **2012** | 2011 | **2012** | 2011 | **2012** | 2011 |
| 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 | 52.4 |
| | | | | | | |
| | 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% |
|---|---|---|---|---|
| **Changes in value*** | | | | |
| in € million | 463.6 | 226.2 | -215.9 | -422.0 |
| in % | 4.7 | 2.3 | -2.2 | -4.3 |

* Result show s the sensitivity of the fair values resulting solely from a change in the capitalised interest rate w ithout any changes in any other measurement parameters.

**Market rents:**

| Change in market rents | - 0.2 % | - 0.1 % | + 0.1 % | + 0.2 % |
|---|---|---|---|---|
| **Changes in value**** | | | | |
| in € million | -136.3 | -68.3 | 68.9 | 138.1 |
| in % | -1.4 | -0.7 | 0.7 | 1.4 |

** Result show s the sensitivity of the fair values resulting solely from a change in market rents w ithout any changes in any other measurement parameters.

# Employees

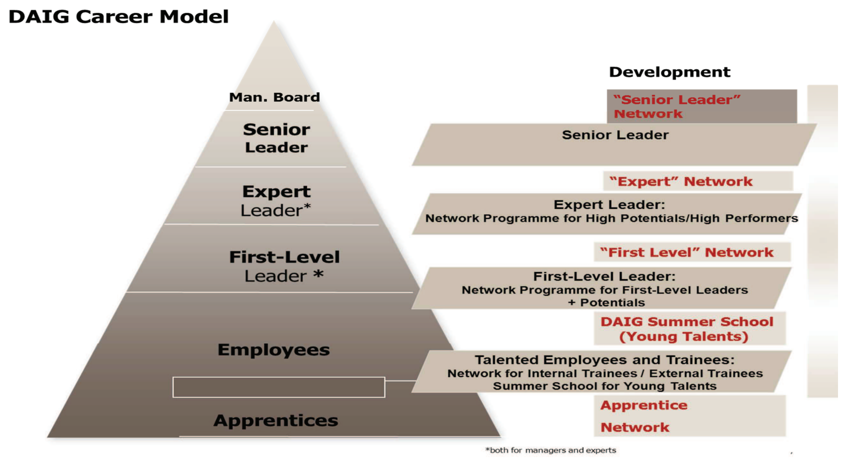
**Number of employees rises sharply due to expansion of facility manager and craftsmen's organisations**
The Deutsche Annington Immobilien Group employed 2,260 people as at December 31, 2012 (2011: 1,279). The sharp rise of 981 employees results from the expansion of our own facility manager and craftsmen's organisations.

**Employee structure**
As at December 31, 2012, Deutsche Annington employed 2,260 people (2011: 1,279), including 699 women (2011: 566), which is 30.9 % of the total workforce (2011: 44.3 %). 177 (7.8%) employees had part-time jobs (2011: 14.4 %). Furthermore, 85 apprentices successfully completed their training in our company as at December 31, 2012 (2011: 67). The average age of employees in our Group was 41.8 (2011: 42.6); the average number of years of service was 6.7 (2011: 12.9).

**Qualifications are important**
We offer our employees a varied range of programmes to develop their personal skills and professional qualifications. This support helps to ensure that our employees enjoy working for us. At the same time, it also helps us to provide the best possible service for our customers.

As a new measure, we have developed an individual training concept for our facility managers in cooperation with Europäisches Bildungszentrum der Wohnungs- und Immobilienwirtschaft (EBZ): our 360 newly recruited facility managers from all over Germany have the opportunity to obtain a recognised Chamber of Industry and Commerce (IHK) qualification in "Residential Real Estate Facility Management" at the EBZ Business School. In this course, the participants learn about tenancy law, technology, building defects, public safety obligations and communications.

**Talent and leader development using a career model**
Deutsche Annington attaches great importance to the active advancement of all talented people and offers them various development possibilities to prepare them for future positions. One central component is our career model:



One model module which targets in-house talented junior managers is the **Annington Summer School** – a programme which we already conducted for the 3rd time in 2012. The main objectives of the Summer School are for the young talents in the company to build up a network within the Deutsche Annington Group, to acquire further skills and to work on operational issues with the aim of practical implementation.

A new 15-month **First-Level Leader Network Programme** was introduced in the autumn of 2011 and implemented in 2012. This programme is for employees who are taking on a leadership role for the first time. It is also designed for experts and project staff who have high development potential. Parallel to this, we have a mentor model which focuses on the idea of networking: each first-level leader is given a mentor from the next-higher management level who supports the participants in their personal reflection.

We started the **Expert Leader Network Programme** in 2012. It closes the gap to the First-Level Leader Network. The participants are high-potential, third-level leaders (F3). The elements of this network programme are strategic and business topics as well as the development of leadership skills.

**Trainee programme**

By offering a trainee programme, we are creating the basis for identifying and retaining people with high potential at an early stage. Both external and internal qualified university graduates can take part in the programme lines, which were extended in 2012. We offer trainee positions in Business Management, Real Estate, Procurement and Finance.

**Deutsche Annington: Exemplary Vocational Training Enterprise 2012**

Our company attaches great importance to vocational training. As at December 31, 2012 the Deutsche Annington Immobilien Group had 85 apprentices in its employ (2011: 67). A total of 44 young people started their apprenticeships in 2012 (2011: 23).

Once again, all 24 apprentices passed their final exams in 2012. 15 of them were given a fixed-term employment contract, six received a permanent contract. In 2011, 23 apprentices passed their exams, 20 of whom were given permanent contracts and three fixed-term contracts.

The Housing Industry Employers‘ Association (Arbeitgeberverband der Wohnungswirtschaft e.V. (AGV)) conferred the award "Exemplary Vocational Training Enterprise 2012" on Deutsche Annington for its engagement in this sector. This is one of the most prestigious prizes in this field. The key factors for conferral of the award were achievements such as the promotion of dual studies, nationwide assignments, placements abroad, apprenticeships not only in housing industry professions, apprenticeship marketing initiatives as well as the strong focus on teaching additional skills.

As part of our vocational training programme, we also enter into cooperations: for example, in collaboration with the Ministry for Family, Children, Youth, Culture and

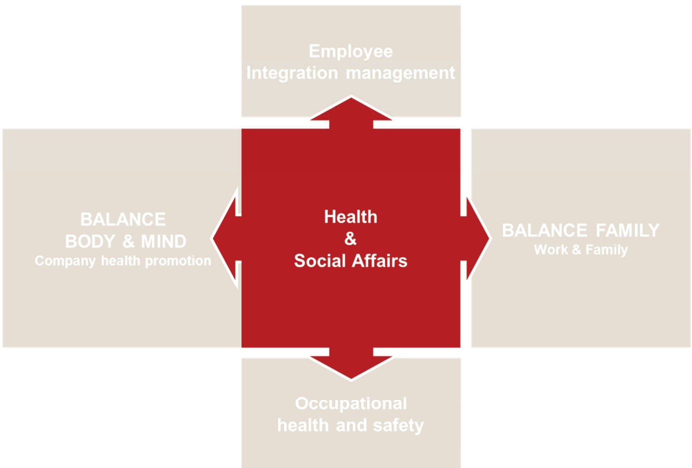
Sport, we offer apprenticeships  to young sports talents and support them in coping with the triple stress of sport, school and job.

We are also committed to providing youth employment assistance: we give young people with limited prospects of finding a job the opportunity to do a placement with us with the prospect of then being given an apprenticeship.

With our “Part-time Apprenticeship” offer, we make it easier for young people with children to start a career. We help them to apply for an education maintenance allowance, offer them a flexible working hour model and provide a parent-child office for use in the event of temporary childcare problems so that they can combine work and family well. In 2012, two young mothers completed their apprenticeships using this part-time model.

The number of apprentices will be considerably increased in the years to come. In 2014, we intend to employ some 120 apprentices. From 2013, we will be offering not only commercial but also technical apprenticeships.

**Extension of health management: set-up of the Health & Social Affairs department**
In view of today’s high workloads, we feel it is particularly important to promote and maintain our employees’ health, workability and employability. For this reason, we set up the new department **Health & Social Affairs** in our Group in August 2012 as an integral part of active health management.




We are continuing the initiatives and measures already in place: For example, we pool all measures to promote health-conscious behaviour under the title BALANCE BODY & MIND.

The same applies to family promotion which includes the following successful measures:

- individually tailored part-time working arrangements and flexible working hour arrangements
- alternating teleworking and mobile places of work
- health promotion offers
- an information platform on work and family on the Intranet
- cooperation with providers of family services for childcare
- the provision of a parent/child office at headquarters
- extension of the internal and external information and communication offering on the subject of work and family
- greater sensitisation of managers to the subject of work-life balance

We have an active employee (re)integration management system in our Group. It helps to identify work-related health risks in good time, to prevent people from becoming unable to work and to stop any existing illnesses becoming worse.

# 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.

# 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 4 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.

# 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.

Düsseldorf, February 2013

The Management Board

Barr Freiberg Dr Kirsten