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

| | Notes | 2011 | 2010 Restated* |
|---|---|---|---|
| Gross rental income | | 1,062.8 | 1,039.3 |
| Other income from property management | | 19.8 | 19.6 |
| **Income from property management** | **(6)** | **1,082.6** | **1,058.9** |
| Income from sale of trading properties | | 136.9 | 123.5 |
| Carrying value of trading properties sold | | -94.1 | -81.6 |
| Income from disposal of investment properties | | 116.4 | 101.4 |
| Carrying value of investment properties sold | | -94.3 | -71.9 |
| **Profit on disposal of properties** | **(7)** | **64.9** | **71.4** |
| **Net income from fair value adjustments of investment properties** | **(8)** | **249.4** | **25.8** |
| Changes in value of trading properties | (9) | 204.5 | 0.1 |
| Cost of materials | (10) | -552.9 | -529.6 |
| Personnel expenses | (11) | -90.8 | -83.1 |
| Depreciation and amortisation | (12) | -6.2 | -5.3 |
| Other operating income | (13) | 44.4 | 46.9 |
| Other operating expenses | (14) | -70.6 | -82.1 |
| Financial income | (15) | 14.7 | 8.5 |
| Financial expenses | (16) | -362.1 | -352.4 |
| **Profit before tax** | | **577.9** | **159.1** |
| Income tax | (17) | -154.3 | 32.1 |
| **Profit for the period** | | **423.6** | **191.2** |
| Attributable to: | | | |
| DAIG shareholders | | 423.0 | 190.6 |
| Non-controlling interests | | 0.6 | 0.6 |

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

| | Notes | 2011 | 2010 Restated* |
|---|---|---|---|
| **Profit for the period** | | **423.6** | **191.2** |
| **Cash flow hedges** | | | |
| Change in unrealised gains/losses, net | | -30.7 | -28.3 |
| Net realised gains/losses | | 17.4 | 19.7 |
| Tax effect | | 5.9 | 3.7 |
| **Actuarial gains/losses from pensions and similar obligations** | | | |
| Change in actuarial gains/losses, net | | -7.5 | -12.5 |
| Tax effect | | 2.4 | 4.0 |
| **Other comprehensive income** | **(28)** | **-12.5** | **-13.4** |
| **Total comprehensive income** | | **411.1** | **177.8** |
| Attributable to: | | | |
| DAIG shareholders | | 410.5 | 177.2 |
| Non-controlling interests | | 0.6 | 0.6 |

Also see the corresponding explanations in the Notes.

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

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

| | Notes | Dec. 31, 2011 | Dec. 31, 2010 | Jan. 1, 2010 |
|---|---|---|---|---|
| | | | Restated* | Restated* |
| **A s s e t s** | | | | |
| Intangible assets | (18) | 7.7 | 11.0 | 11.8 |
| Property, plant and equipment | (19) | 7.1 | 5.1 | 7.1 |
| Investment properties | (20) | 9,893.8 | 8,436.7 | 8,434.6 |
| Financial assets | (21) | 44.3 | 46.1 | 46.3 |
| Other assets | (22) | 18.8 | 16.6 | 13.6 |
| Income tax receivables | (23) | 0.2 | 0.2 | 0.2 |
| Deferred tax assets | | 0.0 | 0.0 | 9.1 |
| **Total non-current assets** | | **9,971.9** | **8,515.7** | **8,522.7** |
| Inventories | (24) | 326.7 | 1,499.1 | 1,571.3 |
| Trade receivables | (25) | 49.5 | 89.2 | 76.9 |
| Other financial assets | (21) | 2.2 | 6.0 | 1.9 |
| Other assets | (22) | 26.3 | 20.3 | 25.2 |
| Income tax receivables | (23) | 15.9 | 72.3 | 55.3 |
| Cash and cash equivalents | (26) | 278.5 | 310.7 | 275.5 |
| Assets held for sale | (27) | 25.9 | - | - |
| **Total current assets** | | **725.0** | **1,997.6** | **2,006.1** |
| **Total assets** | | **10,696.9** | **10,513.3** | **10,528.8** |
| **Equity and liabilities** | | | | |
| Subscribed capital | | 0.1 | 0.1 | 0.1 |
| Capital reserves | | 718.2 | 718.2 | 718.2 |
| Retained earnings | | 1,539.7 | 1,116.7 | 926.1 |
| Other reserves | | -41.7 | -29.2 | -15.8 |
| **Total equity attributable to DAIG shareholders** | | **2,216.3** | **1,805.8** | **1,628.6** |
| Non-controlling interests | | 13.5 | 12.2 | 11.6 |
| **Total equity** | (28) | **2,229.8** | **1,818.0** | **1,640.2** |
| Provisions | (29) | 296.9 | 295.5 | 293.2 |
| Trade payables | (30) | 0.3 | 0.3 | 0.4 |
| Other financial liabilities | (31) | 6,146.1 | 6,500.6 | 6,981.8 |
| Income tax liabilities | (32) | 105.6 | 124.0 | 141.7 |
| Other liabilities | (33) | 5.1 | 5.4 | 5.6 |
| Deferred tax liabilities | (17) | 691.9 | 544.3 | 590.7 |
| **Total non-current liabilities** | | **7,245.9** | **7,470.1** | **8,013.4** |
| Provisions | (29) | 165.2 | 175.6 | 173.3 |
| Trade payables | (30) | 37.6 | 41.1 | 40.8 |
| Other financial liabilities | (31) | 619.2 | 612.2 | 274.4 |
| Income tax liabilities | (32) | 26.0 | 25.6 | 25.1 |
| Other liabilities | (33) | 373.2 | 370.7 | 361.6 |
| **Total current liabilities** | | **1,221.2** | **1,225.2** | **875.2** |
| **Total liabilities** | | **8,467.1** | **8,695.3** | **8,888.6** |
| **Total equity and liabilities** | | **10,696.9** | **10,513.3** | **10,528.8** |

Also see the corresponding explanations in the Notes.

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

**Deutsche Annington Immobilien GmbH**
**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 ,2009** | **0.1** | **718.2** | **928.0** | **-29.1** | **0.1** | **0.0** | **-29.0** | **1,617.3** | **11.6** | **1,628.9** |
| Effect from change in accounting options | | | **-1.9** | | | **13.2** | **13.2** | **11.3** | | **11.3** |
| **As of Jan. 1, 2010 (restated*)** | **0.1** | **718.2** | **926.1** | **-29.1** | **0.1** | **13.2** | **-15.8** | **1,628.6** | **11.6** | **1,640.2** |
| Profit for the period | | | 190.6 | | | | | 190.6 | 0.6 | 191.2 |
| Other comprehensive income | | | | | | | | | | |
| Changes in the period | | | | -20.4 | 0.0 | -8.5 | -28.9 | -28.9 | -0.1 | -29.0 |
| Reclassification adjustments recognised in income | | | | 15.5 | | | 15.5 | 15.5 | 0.1 | 15.6 |
| Total comprehensive income | | | 190.6 | -4.9 | 0.0 | -8.5 | -13.4 | 177.2 | 0.6 | 177.8 |
| **As of Dec. 31 ,2010 (restated*)** | **0.1** | **718.2** | **1,116.7** | **-34.0** | **0.1** | **4.7** | **-29.2** | **1,805.8** | **12.2** | **1,818.0** |
| **As of Jan. 1, 2011 (restated*)** | **0.1** | **718.2** | **1,116.7** | **-34.0** | **0.1** | **4.7** | **-29.2** | **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 | | | | -20.9 | 0.0 | -5.1 | -26.0 | -26.0 | 0.0 | -26.0 |
| Reclassification adjustments recognised in income | | | | 13.5 | | | 13.5 | 13.5 | 0.0 | 13.5 |
| Total comprehensive income | | | 423.0 | -7.4 | 0.0 | -5.1 | -12.5 | 410.5 | 0.6 | 411.1 |
| Contributions and withdrawals by the shareholder | 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** | **0.1** | **718.2** | **1,539.7** | **-41.4** | **0.1** | **-0.4** | **-41.7** | **2,216.3** | **13.5** | **2,229.8** |

Also see note (28) in the Notes.

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

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

| January 1 to December 31 | Notes | 2011 | 2010<br>Restated* |
|---|---|---|---|
| Profit for the period | | 423.6 | 191.2 |
| Depreciation and amortisation | (12) | 6.2 | 5.3 |
| Interest expenses/income | | 350.1 | 346.2 |
| Income taxes | | 154.3 | -32.1 |
| Results from disposals of investment properties | | -22.1 | -29.5 |
| Net income from fair value adjustments of investment properties | (8) | -249.4 | -25.8 |
| Changes in value of trading properties | (9) | -204.5 | -0.1 |
| Other expenses/earnings not affecting net income | | 0.4 | -1.0 |
| Changes in inventories | | 112.3 | 72.6 |
| Changes in receivables and other assets | | 20.7 | 3.7 |
| Changes in provisions | | -24.9 | -36.3 |
| Changes in liabilities | | -9.2 | 4.0 |
| Income tax paid | | 23.1 | -25.7 |
| **Cash flow from operating activities** | | **580.6** | **472.5** |
| Proceeds from disposals of investment properties | | 135.2 | 89.1 |
| Proceeds from disposals of intangible assets and property, plant and equipment | | 0.0 | 0.1 |
| Proceeds received from disposals of financial assets | (21) | 4.1 | 0.1 |
| Acquisition of investment properties | (20) | -58.4 | -44.3 |
| Acquisition of intangible assets and property, plant and equipment | (18) (19) | -2.7 | -3.1 |
| Acquisition of shares in consolidated companies (net of cash acquired) | (3) | -1.6 | -0.6 |
| Acquisition of financial assets | (21) | -0.3 | -4.0 |
| Interest received | | 11.5 | 5.3 |
| **Cash flow from investing activities** | | **87.8** | **42.6** |
| Cash proceeds from issuing loans and notes | (31) | 178.5 | 13.4 |
| Cash repayments of financial liabilities | (31) | -545.6 | -224.8 |
| Transaction costs | (16) | -33.1 | -2.1 |
| Cash proceeds/cash repayments shareholders | (28) | 0.0 | - |
| Interest paid | | -300.4 | -266.4 |
| **Cash flow from financing activities** | | **-700.6** | **-479.9** |
| **Net changes in cash and cash equivalents** | | **-32.2** | **35.2** |
| Cash and cash equivalents at beginning of year | | 310.7 | 275.5 |
| **Cash and cash equivalents at year-end** | (26) | **278.5** | **310.7** |

See note (38) as well as the corresponding explanations 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 in an intact environment for broad sections of the population. We also offer additional real estate-related services which bring benefits for our stakeholder. 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 GmbH 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.

On January 17, 2012, the shareholders' meeting passed a resolution to convert Deutsche Annington Immobilien GmbH into Deutsche Annington Immobilien AG. The entry in the trade register necessary for the conversion to be effective has not occurred at the time when the consolidated financial statements were drawn up.

Deutsche Annington Immobilien GmbH 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, 2011. 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 22, 2012, the Management drew up the consolidated financial statements of Deutsche Annington Immobilien GmbH.

## (2) Consolidation Principles

Entities that are under the control of Deutsche Annington Immobilien GmbH are included in the consolidated financial statements as subsidiaries. Control is exercised when Deutsche Annington Immobilien GmbH 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 GmbH 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 GmbH 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 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 GmbH and the SPE’s risks and rewards shows that Deutsche Annington Immobilien GmbH 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 GmbH and all subsidiaries are prepared according to uniform accounting policies.

## (3) Scope of Consolidation

In addition to Deutsche Annington Immobilien GmbH, 128 (2010: 122) domestic companies and 2 foreign companies (2010: 2) have been included in the consolidated financial statements of DAIG as at and for the year ended December 31, 2011.

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.

As at October 1, 2011, 51% of the shares in B&O Service Rheinland GmbH, Düsseldorf, which started business operations with effect from September 6, 2011, were acquired as part of the issue of new shares.

The company was then renamed Deutsche TGS West GmbH.

The net assets of Deutsche TGS West GmbH acquired are as follows:

| € million | Carrying amount | Fair value |
|---|---|---|
| Property, plant and equipment | 0.5 | 0.5 |
| Inventories | 0.1 | 0.1 |
| Other assets | 0.2 | 0.2 |
| Cash and cash equivalents | 0.8 | 0.8 |
| Other liabilities | 0.3 | 0.3 |
| | | |
| Net assets acquired | **1.3** | **1.3** |
| thereof 51% | **0.7** | **0.7** |
| Purchase price for 51% | | **0.7** |
| | | |
| Operating profit before tax since date of acquisition | | **-0.1** |

The sales revenue of Deutsche TGS West GmbH since the date of acquisition totals € 0.1 million.

In the year under review, DAIG acquired additional shares in the following companies: FSG Immobilien Verwaltungs GmbH, Düsseldorf 100% (2010: 99.6%) and KADURA Grundstücksgesellschaft mbH & Co.KG, Grünwald 94.91% (2010: 92.51%).

In the 2011 financial year, 5 companies (2010: 2) were established. There were no additions through share increases (2010: 1) and disposals due to split-ups (2010: 4) or mergers (2010: 5) in the reporting year.

## (4) Currency Translation

In the separate financial statements of Deutsche Annington Immobilien GmbH 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 2011 financial year, DAIG retrospectively restated the prior-year figures in accordance with IAS 8 for the following cases:

- From January 1, 2011, the assets of the insolvency insurance 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 (see note o) Provisions in the section Other provisions). Surpluses of the fair values of the assets are shown as plan asset on the face of the balance sheet in other non-current assets under insurance claims.
- In order to increase transparency in reporting, from January 1, 2011, actuarial gains and losses on defined benefit pension commitments are no longer taken into consideration in the DAIG financial statements using the corridor method, but are recognised in full in the period in which they occur. According to IAS 8, the corresponding figures for 2010 and 2009 are to be adjusted to the changed accounting policy (see note o) Provisions in the section Provisions for pensions and similar obligations).
- From January 1, 2011, the liabilities from deferred interest are shown as “Other financial liabilities” and not as previously as “Other liabilities” (see note p) Non-derivative financial liabilities).

### 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.

Furthermore, the income from property management includes payments for ancillary costs made by DAIG in the current and prior years which are billed to tenants in the current year when the cost and the amount of revenue can be measured reliably. Ancillary costs which have yet to be billed are shown under inventories. Any advance payments made by tenants on these ancillary costs are shown under other liabilities.

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 actual or market rents, net 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.

In line with the accounting policies for investment properties laid down in the first IFRS consolidated financial statements in 2005 as part of the integration of Viterra AG, we reclassified trading properties to investment properties at the end of the 2011 financial year. In 2005, it was laid down that trading properties which cannot be sold within the course of a six-year business cycle are reclassified to investment properties. This is the case in 2011 for trading properties from the Viterra acquisition not yet sold. In addition, in the past it was in many cases not possible to sell the trading properties on terms that made economic sense during the six-year business cycle. Therefore, at the end of the 2011 financial year, all properties which were previously shown under trading properties as potential properties for privatisation were classified to 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 39.66ff.

**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

Residential properties which are to be sold within the normal six-year business cycle and for which a condominium declaration has been obtained are shown under trading properties until the end of 2011.

Trading properties are measured at the lower of cost and net realisable value. The net realisable value is the estimated selling price less the estimated costs to sell. The estimated selling price is calculated on the basis of current market prices of comparable real estate.

In the past, it was in many cases not possible to sell the trading properties on terms that made economic sense during the six-year business cycle. Therefore, from December 31, 2011 all properties, even those which are being prepared for sale, e.g. by obtaining a condominium declaration, will be classified under Investment properties (see note e) Investment properties). Any difference between the fair value of the property at that date and its previous carrying amount is recognised in profit or loss.

According 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.

### 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 they will be measured at fair value less cost to sell.

**m) Income and expense recognised directly in equity (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 2011 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.

In order to increase transparency in reporting, from January 1, 2011, actuarial gains and losses on defined benefit pension commitments are no longer taken into consideration in the DAIG financial statements using the corridor method, but are recognised in full in the period in which they occur in accordance with IAS 19.93A.

With the corridor method, actuarial gains and losses were only recorded to income or expense when the balance of the accumulated unrecognised actuarial gains and losses determined per employer at the beginning of the financial year exceeded the corridor of 10% of the greater of the present value of defined benefit obligation (DBO) and the fair value of the plan assets. The excess was recognised in future periods over the expected average remaining working lives of the participating employees. If the obligations were obligations for employees who had already left the company's service, the excess was recognised in the financial year in the income statement.

By adopting IAS 19.93A, actuarial gains and losses are accounted for in the period in which they occur and recognised in full as a component of other comprehensive income outside the income statement. The actuarial gains and losses will also no longer be recognised in profit or loss in subsequent periods.

According to IAS 8, the corresponding figures as at January 1, 2010 and for the 2010 financial year are to be adjusted to the changed accounting policy.

The change in accounting policies had the following effects on the comparative periods:

Consolidated balance sheet as at January 1, 2010:

| € million | | **Jan. 1, 2010** |
|---|---|---|
| Reduction in right to reimbursement arising from transferred pension obligations | | -0.2 |
| Increase in plan assets | | 0.7 |
| Reduction in provisions for pensions and similar obligations | | -16.0 |
| Increase in deferred tax liabilities | | 5.2 |
| **Increase in equity** | | **11.3** |
| thereof: | | |
| | Change in other reserves | 13.2 |
| | Change in retained earnings | -1.9 |

Consolidated balance sheet as at December 31, 2010:

| € million | | Dec. 31, 2010 |
|---|---|---|
| Increase in right to reimbursement arising from transferred pension obligations | | 0.4 |
| Reduction in provisions for pensions and similar obligations | | -2.9 |
| Increase in deferred tax liabilities | | 1.0 |
| **Increase in equity** | | **2.3** |
| thereof: | | |
| | Change in other reserves | 4.7 |
| | Change in retained earnings | -2.4 |

Consolidated income statement for the period from January 1 to December 31, 2010:

| € million | 2010 |
|---|---|
| Increase in personnel expenses | -0.7 |
| Reduction in income tax | 0.2 |
| **Reduction in profit for the period** | **-0.5** |
| | |
| **Change in other comprehensive income** | **-8.5** |
| **Total comprehensive income** | **-9.0** |

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.

In the 2011 financial year, the assets of the insolvency insurance policy to secure fulfilment shortfalls arising from part-time phased early retirement contracts have been offset against the amounts for fulfilment shortfalls contained in the provisions for part-time phased early retirement. According to IAS 8, the corresponding figures as at January 1, 2010 and for the 2010 financial year have been adjusted to the changed accounting policy. As a result of the retrospective change-over, the other non-current assets and the other non-current provisions were reduced by € 12.6 million as at December 31, 2010 and by € 12.4 million as at January 1, 2010.

**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.

In the 2011 financial year, liabilities from deferred interest are shown in other financial liabilities and not, as previously, in other liabilities. In accordance with IAS 8, the comparative figures as of January 1, 2010 and for the 2010 financial year were restated in line with the changed accounting policy. As a result of the retrospective change, the other liabilities as at December 31, 2010 were reduced by € 49.5 million and as at January 1, 2010 by € 41.8 million. The other financial liabilities increased correspondingly.

**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 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) 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.

Construction cost subsidies are, where they relate to construction measures, deducted from the construction costs and amortised as income over the useful life of the relevant assets. Construction cost subsidies relating to maintenance work which cannot be capitalised are recognised in income in the periods in which the expenses are incurred.

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.

**s) 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.

**t) Estimates, assumptions 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, the planning of capital repayments contingent on the cash flow from expected sales 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. Judgments 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. Judgment is required in determining the amounts of deferred tax assets and whether those assets can be utilised.

Other judgments that DAIG's management has made 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.

- Actuarial gains and losses are accounted for in the period in which they occur and recognised in full 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.

**u) 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 2011 financial year.

As part of the annual improvement project, changes were made to six Standards and one Interpretation. The changes have no material effects on the DAIG consolidated financial statements.

Application of the following new or amended Standards and Interpretations became mandatory for the 2011 financial year but they are not relevant to DAIG's operations at present:

- Amendments to IAS 24 "Related Party Disclosures": Disclosure of transactions as part of a state investment in a privately held entity
- Amendments to IAS 32 "Financial Instruments: Presentation": Classification of rights issues
- IFRIC 14 "IAS19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction"
- IFRIC 19 "Extinguishing Financial Liabilities with Equity Instruments"

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

Application of the following Standards, Interpretations and Amendments to existing Standards was not yet mandatory for the 2011 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 |
|---|---|---|
| Amendments to Standards | | |
| IAS 1 | "Presentation of Financial Statements" | Jan. 1, 2013 * |
| IAS 12 | "Income taxes" | Jan. 1, 2012 * |
| IAS 19 | "Employee benefits" | Jan. 1, 2013 * |
| IAS 27 | "Separate financial statements" | Jan. 1, 2013 * |
| IAS 28 | "Investments in associates and joint ventures" | Jan. 1, 2013 * |
| IAS 32 | "Financial Instruments: Presentation" | Jan. 1, 2014 * |
| IFRS 1 | "First-time adoption of IFRS" | Jan. 1, 2012 * |
| IFRS 7 | "Financial Instruments: Disclosures" | Jan. 1, 2012 |
| 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, 2013 * |
| IFRS 11 | "Joint Arrangements" | Jan. 1, 2013 * |
| IFRS 12 | "Disclosure of interests in other entities" | Jan. 1, 2013 * |
| IFRS 13 | "Fair Value Measurement" | Jan. 1, 2013 * |

* not yet endorsed

**IAS 1 "Presentation of Financial Statements"**

Other comprehensive income items that will never be recycled to profit or loss are to be presented separately from those that may be recycled to profit or loss. The Amendments are to be applied to financial years beginning on or after July 1, 2012; earlier application is permitted. The amendment to IAS 1 is not likely to have any effect on the DAIG consolidated financial statements.

**Amendments to IAS 12 “Income taxes”**

IAS 12 (revised) contains a partial clarification of the treatment of temporary tax differences in connection with the use of the fair value model in IAS 40. With an investment property, it is often difficult to assess whether recovery will be through use or through sale. IAS 12 (revised) stipulates that it must normally be presumed that recovery will be through sale. The amendment is to be applied retrospectively to financial years beginning on or after January 1, 2012. The amendment to IAS 12 is not likely to have any effect on the DAIG consolidated financial statements.

**IAS 19 “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 amendments are to be applied to financial years beginning on or after January 1, 2013; earlier application is permitted. DAIG has adapted early to various features of existing IAS 19 and is examining the additional effects of the amended Standard.

**IAS 28 “Investments in associates and joint ventures“**

Through the adoption of IFRS 10, IFRS 11 and IFRS 12, IAS 28 has also been amended accordingly. Thus the scope of IAS 28 now expressly includes not only associates but also joint ventures. The Amendments are mandatory for financial years beginning on or after January 1, 2013. Voluntary early adoption is permissible if the other Standards IFRS 10, IFRS 11, IFRS 12 and IAS 27 are also adopted at the same time. DAIG is examining the effects of the amended Standard.

**IAS 32 “Financial Instruments: Presentation“**

The Amendment to IAS 32 addresses inconsistencies in current practice when offsetting financial assets and financial liabilities. The amended Standard is mandatory for financial years beginning on or after January 1, 2014; earlier application is permitted. DAIG is examining the effects of the amended Standard.

**Amendments to IFRS 7 “Financial Instruments: Disclosures“**

The amendments to IFRS 7 relate to extended disclosure requirements for the transfer of financial assets and enable users of the financial statements to gain a better understanding of the effects of the risks remaining in the company. The amendments are to be applied to financial years beginning on or after July 1, 2011; earlier application is permitted. The Amendment to IFRS 7 is not likely to have any effect on the DAIG consolidated financial statements.

In 2011, a further amendment was made to IFRS 7 concerning additional disclosure requirements for netted financial instruments as well as financial instruments which are subject to master netting arrangements or similar agreements. The users of financial statements are to be informed of the effect of netting arrangements in the form of a reconciliation. The amended Standard is mandatory for financial years beginning on or after January 1, 2013; earlier application is permitted. DAIG is examining the effects of the amended Standard.

**IFRS 9 “Financial Instruments: Classification and Measurement”**

This new Standard is part of the project to replace IAS 39. The Standard deals with the classification and measurement of financial assets as well as accounting for financial liabilities. Instead of the previous four measurement categories, in future financial assets are to be measured either at amortised cost or at fair value. The classification to one of the two measurement categories is based on how an entity manages its financial instruments and the product characteristics of the financial assets. Apart from the fair value option, IFRS 9 does not contain any significant amendments for financial liabilities. When the fair value option is selected, fair value changes attributable to own credit risk of the liability are to be presented in other comprehensive income and not in the income statement. The Standard is mandatory for financial years beginning on or after January 1, 2015; earlier application has already been permitted since 2009. DAIG is examining the effects of the new Standard.

**IFRS 10 “Consolidated financial statements“**

Through the adoption of IFRS 10, all consolidation requirements previously forming part of IAS 27 are now contained in IFRS 10 so that, as a result of the subsequent changes to IAS 27, the latter now only refers to separate financial statements. Thus, there will be only one single consolidation model for all controlled entities. According to IFRS 10, an investor controls an investee if the investor has power over the investee, the investor's returns from its involvement with the investee vary depending on the investee's performance and the investor has the ability to use its power over the investee to affect the amount of the investor's returns. The Standard is mandatory for financial years beginning on or after January 1, 2013. Voluntary early adoption is permissible if the other Standards IFRS 11, IFRS 12 as well as IAS 27 and IAS 28 are also adopted at the same time. DAIG is examining the effects of the new Standard.

**IFRS 11 "Joint Arrangements"**

With IFRS 11, accounting for joint ventures is to be reformed and the existing IAS 31 "Interests in Joint Ventures" and SIC 31 "Jointly Controlled Entities" are to be superseded. The previous option to apply proportionate consolidation is eliminated. Only joint operations and joint ventures are dealt with in IFRS 11. The Standard is mandatory for financial years beginning on or after January 1, 2013. Voluntary early adoption is permissible if the other Standards IFRS 10, IFRS 12 as well as IAS 27 and IAS 28 are also adopted at the same time. The new standard is not likely to have any effect on the DAIG consolidated financial statements.

**IFRS 12 "Disclosure of interests in other entities"**

The content of IFRS 12 deals exclusively with disclosures to be made in the Notes in connection with consolidated subsidiaries, joint ventures and associates as well as unconsolidated special purpose entities. As a consequence, rules on notes disclosures are no longer contained in the original Standards IFRS 10, IFRS 12 and IAS 28. The Standard is mandatory for financial years beginning on or after January 1, 2013; earlier application is permitted. DAIG is examining the effects of the new Standard.

**IFRS 13 "Fair Value Measurement"**

In addition to a definition of fair value, the new Standard IFRS 13 contains a detailed framework for fair value measurement as well as disclosure requirements in connection with measurements at fair value. The rules of IFRS 13 apply if another IFRS Standard requires or permits measurement at fair value as an alternative or notes disclosures on fair value measurements are necessary. The Standard is mandatory for financial years beginning on or after January 1, 2013; earlier application is permitted. DAIG is examining the effects of the new Standard.

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 | 2011 | 2010 |
|---|---|---|
| Rental income | 730.7 | 723.7 |
| Ancillary costs (charged) | 332.1 | 315.6 |
| **Gross rental income** | **1,062.8** | **1,039.3** |
| Other income from property management | 19.8 | 19.6 |
| **Income from property management** | **1,082.6** | **1,058.9** |

## (7) Profit on disposal of properties

In 2011, a positive contribution to operating income of € 42.8 million (2010: € 41.9 million) was recorded from the sale of trading properties.

A positive contribution to operating income of € 22.1 million (2010: € 29.5 million) was realised from the disposal of investment properties.

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, 2011 of € 249.4 million (2010: € 25.8 million).

Properties for which a purchase contract has been signed but for which transfer of ownership has not yet taken place, are to be 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. The net income from fair value adjustments of investment properties contains € 2.7 million relating to the necessary value adjustment. 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. If the carrying amount exceeds the net realisable value, trading properties are written down to net realisable value item by item. In the financial year, impairment losses totalling € 0.1 million (2010: € 5.9 million) for several properties were recognised as an expense. Impairment losses of € 0.2 million (2010: € 6.0 million) performed in prior periods were reversed. At the end of 2011, nearly the entire stock of trading properties was reclassified to investment properties. Before the retransfer of 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 transferred to investment properties amounted to € 204.4 million in 2011. In 2010, no trading properties were retransferred to investment properties.

### (10) Cost of materials

| € million | **2011** | **2010** |
|---|---|---|
| Expenses for ancillary costs | 357.8 | 343.9 |
| Expenses for maintenance and modernisation | 128.8 | 125.5 |
| Other cost of purchased goods and services | 66.3 | 60.2 |
| | **552.9** | **529.6** |

## (11) Personnel expenses

| € million | 2011 | 2010 |
|---|---|---|
| Wages and salaries | 75.7 | 69.4 |
| Social security, pensions and other employee benefits | 15.1 | 13.7 |
| | **90.8** | **83.1** |

Personnel expenses contain the cost of restructuring measures amounting to € 3.0 million (2010: reversal of provisions for restructuring measures amounting to € 2.4 million) as well as the cost of pre-retirement part-time work arrangements and other severance payments totalling € 3.7 million (2010: € 2.8 million).

In 2011, the personnel expenses included € 0.9 million (2010: € 3.0 million) for the long-term incentive plan (LTIP) (see note (29) Provisions). The obligations towards members of the management for benefits under 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 € 6.7 million (2010: € 6.4 million) were paid.

As at December 31, 2011, 1,279 people (2010: 1,101) were employed at DAIG. On an annual average, 1,228 people (2010: 1,100) were employed. As at December 31, 2011, 67 apprentices and trainees (2010: 71) were employed at DAIG.

## (12) Depreciation and amortisation

Amortisation of intangible assets totalled € 4.2 million (2010: € 3.6 million). Of this figure, capitalised customer bases accounted for € 1.6 million (2010: € 1.6 million), self-developed software for € 1.9 million (2010: € 1.3 million) and concessions, industrial rights, licences and similar rights for € 0.7 million (2010: € 0.7 million). Depreciation and impairments of property, plant and equipment amounted to € 2.0 million in 2011 (2010: € 1.7 million) (see note (19) Property, plant and equipment). Of this figure, impairments of real estate used by the company itself accounted for € 0.4 million (2010: € 0.6 million).

### (13) Other operating income

| € million | 2011 | 2010 |
|---|---|---|
| Income from compensation paid and cost reimbursements | 21.1 | 20.3 |
| Income from the reversal of provisions | 9.3 | 13.4 |
| Income from the reversal of impairment losses | 1.3 | 1.2 |
| Other | 12.7 | 12.0 |
| | **44.4** | **46.9** |

Income from compensation paid and cost reimbursements includes € 13.8 million compensation paid by insurance companies (2010: € 12.2 million).

### (14) Other operating expenses

| € million | 2011 | 2010 |
|---|---|---|
| Auditors' and consultants' fees | 12.6 | 10.5 |
| Impairment losses on receivables | 12.1 | 11.8 |
| Rents, leases and ground rents | 7.3 | 7.3 |
| Vehicle and travelling costs | 5.3 | 5.4 |
| IT and administrative services | 5.1 | 13.7 |
| Additions to provisions | 4.7 | 5.2 |
| Advertising costs | 3.7 | 2.0 |
| Communication costs and office equipment | 3.6 | 4.7 |
| Legal and notary costs | 2.0 | 1.6 |
| Sales incidentals | 1.5 | 1.4 |
| Other | 12.7 | 18.5 |
| | **70.6** | **82.1** |

The performance of previously subcontracted services by DAIG's own staff led to a reduction in IT and administrative services of € 7.3 million.

## (15) Financial income

| € million | 2011 | 2010 |
|---|---|---|
| Income from other investments | 2.7 | 2.4 |
| Income from non-current securities and non-current loans | 1.9 | 1.9 |
| Other interest and similar income | 10.1 | 4.2 |
| | **14.7** | **8.5** |

## (16) Financial expenses

The financial expenses of € 362.1 million (2010: € 352.4 million) mainly relate to interest expense on financial liabilities measured at amortised cost, as well as transaction costs relating to the refinancing of miscellaneous portfolios.

Interest expense contains interest accretion to provisions, thereof € 11.0 million (2010: € 11.8 million) relating to provisions for pensions and € 2.7 million (2010: € 2.9 million) relating to miscellaneous other provisions.

Furthermore, a € 6.5 million (2010: € 7.3 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 € 19.0 million was recognised as interest expense in connection with swaps (2010: € 20.6 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 | | 2011 | 2010 |
|---|---|---|---|
| Interest income | | 10.1 | 4.2 |
| Interest expense | | -362.1 | -352.4 |
| **Net interest** | | **-352.0** | **-348.2** |
| less | | | |
| | Interest expense from provisions for pensions in acc. with IAS 19* | 11.0 | 11.8 |
| | Interest expense from other provisions in acc. with IAS 37 | 2.7 | 2.9 |
| | Interest expense from derivatives in acc. with IAS 39: cash flow hedges | 19.0 | 20.6 |
| | Interest expense from finance leases in acc. with IAS 17 | 5.1 | 5.0 |
| **Net interest with regard to measurement categories in acc. with IAS 39** | | **-314.2** | **-307.9** |
| * including expected return on plan assets of € 0.9 million (2010: € 0.8 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* | 2011 | 2010 |
|---|---|---|---|
| Loans and receivables | LaR | 10.0 | 4.0 |
| Available-for-sale financial assets | AfS | 0.1 | 0.1 |
| Financial liabilities held-for-trading | FLHfT | -2.0 | -0.3 |
| Financial liabilities measured at amortised cost | FLAC | -322.3 | -311.7 |
| | | **-314.2** | **-307.9** |

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

## (17) Income tax

| € million | 2011 | 2010 |
|---|---|---|
| Current income tax | 4.9 | 5.1 |
| Aperiodical current income tax | -6.5 | -7.6 |
| Deferred income tax | 155.9 | -29.6 |
| | **154.3** | **-32.1** |

The current tax expense is determined on the basis of the taxable income for the reporting period. For the 2011 financial year, the combined tax rate of corporate income tax and solidarity surcharge is 15.8% of earnings (2010: 15.8%). Including German municipal trade tax at nearly 16.8% (2010: 15.8%), the combined tax rate is 32.6% in 2011 (2010: 31.6%). This tax rate is also applied when determining deferred taxes. In the 2011 financial year, the change in the average municipal trade tax charge led to a deferred tax expense of € 17.7 million.

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 € 1.8 million (2010: € 33.8 million) and no deferred trade tax for deductible temporary differences of € 2.8 million (2010: € 9.2 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.

The effects of the extended trade tax exemption in accordance with the German Trade Tax Act were taken into consideration in the measurement of deferred taxes. As a result of the application of the ruling of the Federal Fiscal Court of February 3, 2010, the number of companies which have extended trade tax exemption has decreased. This led in 2010 for the subsidiaries affected to the first-time recognition of deferred trade taxes on temporary differences and thus to a deferred tax expense of € 41.6 million. In the 2011 financial year, it resulted in a further deferred tax expense of € 17.1 million.

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, 2011, the unutilised corporate income tax loss carryforwards totalled € 1,224.8 million (2010: € 1,031.1 million) and the unutilised trade tax loss carryforwards amounted to € 587.6 million (2010: € 446.3 million), for which deferred tax assets have been recognised since their realisation is probable. The increase in tax loss carryforwards resulted from current losses at individual companies as well as from new information regarding prior years.

No deferred taxes were recognised in the balance sheet for unutilised corporate income tax loss carryforwards of € 362.3 million (2010: € 432.0 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 € 216.8 million (2010: € 233.3 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 2011 led to tax income of € 76.5 million (2010: € 102.1 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 and the reclassified trading properties, greater use of the deductible temporary differences and loss carryforwards is expected. Further effects resulted from more recent information, particularly with regard to a more favourable ruling of the Federal Fiscal Court of April 20, 2011 on the income tax treatment of real-estate transfer tax. The deferred tax income in 2010 of € 102.1 million resulted in particular from the application of a ruling of the Federal Fiscal Court of February 3, 2010 and the associated tax effects as well as 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 2011 financial year to a reduction in the tax burden of € 0.1 million (2010: € 3.3 million).

No interest carryforwards existed either at the end of 2011 or at the end of 2010.

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 | 2011 | 2010 |
|---|---|---|
| **Operating profit before income taxes** | **577.9** | **159.1** |
| Income tax rate in % | 32.6 | 31.6 |
| **Expected tax expense** | **188.5** | **50.3** |
| | | |
| Trade tax effects | 3.1 | 5.7 |
| Deferred tax due to application of a Federal Fiscal Court (BFH) ruling | 17.1 | 41.6 |
| Non-deductible operating expenses | 3.1 | 7.1 |
| Tax-free income | -0.2 | -0.1 |
| Change in the deferred tax assets on loss carryforwards and temporary differences | -76.5 | -102.1 |
| New loss carryforwards not recognised | 7.9 | 4.3 |
| Utilisation of loss and interest carryforwards not previously recognised | -0.1 | -27.9 |
| Aperiodic current income tax | -6.5 | -7.6 |
| Tax rate adjustment | 17.7 | - |
| Other tax effects (net) | 0.2 | -3.4 |
| **Actual income taxes** | **154.3** | **-32.1** |
| | | |
| **Actual tax rate in %** | **26.7** | **-20.2** |

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

| € million | Dec. 31, 2011 | Dec. 31, 2010 |
|---|---|---|
| Investment properties | 0.8 | 0.6 |
| Property, plant and equipment | 0.6 | 0.3 |
| Inventories | 0.3 | 9.3 |
| Other assets | 15.9 | 15.6 |
| Provisions for pensions | 22.5 | 19.9 |
| Other provisions | 8.0 | 11.1 |
| Liabilities | 31.4 | 30.3 |
| Unutilised loss carryforwards | 198.8 | 128.4 |
| **Deferred tax assets** | **278.3** | **215.5** |
| | | |
| | | |
| € million | **Dec. 31, 2011** | **Dec. 31, 2010** |
| Intangible assets | 2.3 | 2.8 |
| Investment properties | 922.0 | 634.4 |
| Property, plant and equipment | 0.3 | 0.0 |
| Inventories | 0.5 | 68.5 |
| Financial assets | 0.2 | 0.2 |
| Other assets | 0.9 | 1.2 |
| Other provisions | 7.0 | 9.3 |
| Liabilities | 37.0 | 43.4 |
| **Deferred tax liabilities** | **970.2** | **759.8** |
| | | |
| **Excess deferred tax liabilities** | **691.9** | **544.3** |

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, 2011 | Dec. 31, 2010 |
|---|---|---|
| Deferred tax assets | - | - |
| Deferred tax liabilities | 691.9 | 544.3 |
| **Excess deferred tax liabilities** | **691.9** | **544.3** |

The change in taxes in the reporting period recognised directly in other comprehensive income amounts to € -8.3 million (2010: € -7.7 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, 2011 | 5.9 | 6.7 | 15.8 | **28.4** |
| Additions | 0.2 | 0.7 | - | **0.9** |
| 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** |
| 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** |
| | | | | |
| **Cost** | | | | |
| Balance on Jan. 1, 2010 | 5.7 | 4.3 | 15.8 | **25.8** |
| Additions | 0.4 | 2.4 | - | **2.8** |
| Disposals | -0.2 | - | - | **-0.2** |
| Balance on Dec. 31, 2010 | 5.9 | 6.7 | 15.8 | **28.4** |
| **Accumulated amortisation** | | | | |
| Balance on Jan. 1, 2010 | 4.5 | 1.6 | 7.9 | **14.0** |
| Amortisation in 2010 | 0.7 | 1.3 | 1.6 | **3.6** |
| Disposals | -0.2 | - | - | **-0.2** |
| Balance on Dec. 31, 2010 | 5.0 | 2.9 | 9.5 | **17.4** |
| **Carrying amounts** | | | | |
| Balance on Dec. 31, 2010 | 0.9 | 3.8 | 6.3 | **11.0** |

## (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, 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** |
| **Cost** | | | | |
| Balance on Jan. 1, 2010 | 4.2 | 1.0 | 9.2 | **14.4** |
| Additions | - | - | 0.3 | **0.3** |
| Disposals | 0.0 | - | -0.9 | **-0.9** |
| Transfer to investment properties | -0.6 | 0.0 | 0.0 | **-0.6** |
| Balance on Dec. 31, 2010 | 3.6 | 1.0 | 8.6 | **13.2** |
| **Accumulated depreciation** | | | | |
| Balance on Jan. 1, 2010 | 0.6 | 0.9 | 5.8 | **7.3** |
| Depreciation in 2010 | 0.0 | 0.0 | 1.1 | **1.1** |
| Impairment | 0.6 | - | - | **0.6** |
| Disposals | -0.1 | - | -0.8 | **-0.9** |
| Balance on Dec. 31, 2010 | 1.1 | 0.9 | 6.1 | **8.1** |
| **Carrying amounts** | | | | |
| Balance on Dec. 31, 2010 | 2.5 | 0.1 | 2.5 | **5.1** |

As at December 31, 2011, carrying amounts of owner-occupied properties amounting to € 2.1 million (2010: € 1.0 million) are encumbered with land charges in favour of different lenders.

## (20) Investment properties

| € million | | |
|---|---|---|
| **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 |
| Fair value adjustment | | 249.4 |
| **Balance on Dec. 31, 2011** | | **9,893.8** |
| | | |
| **Balance on Jan. 1, 2010** | | **8,434.6** |
| Additions | | 1.2 |
| Capitalised modernisation costs | | 46.3 |
| Transfer from property, plant and equipment | | 0.6 |
| Transfer from advance payments | | 0.1 |
| Disposals | | -71.9 |
| Fair value adjustment | | 25.8 |
| **Balance on Dec. 31, 2010** | | **8,436.7** |

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 € 32.4 million (2010: € 32.2 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.

**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, 2011 | Dec. 31, 2010 |
|---|---|---|
| **Total minimum lease payments** | **21.4** | **15.3** |
| Due within one year | 5.0 | 3.5 |
| Due in 1 to 5 years | 11.6 | 8.6 |
| Due after 5 years | 4.8 | 3.2 |

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, 2011.

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.

As of the balance-sheet date, December 31, 2011, the housing units shown under trading properties were reclassified to investment properties, see note (5) Accounting Policies e) Investment Properties and i) Inventories. They can, however, still be sold as part of the housing privatisation programme. Whilst this so-called privatisation portfolio was valued in 2010 using a modified comparable method, the entire residential real-estate portfolio was valued in 2011 using the income capitalisation method.

The capitalised interest rates applied were derived from the current 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 5.90% to 5.88% due to the positive development of the market.

The net 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 € 11.03 per square metre (2010: € 10.93 per square metre). The administrative expenses were some € 258 per housing unit (2010: € 255 per housing unit).

The modernisation work performed on our portfolio of residential units in 2011 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 2.0% and 12.0% 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 real-estate portfolio of residential buildings, small commercial units, garages, parking spaces as well as undeveloped land and any inheritable rights granted to DAIG as at December 31, 2011 was approx. € 9,939.6 million (2010: € 9,879.7 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 | |
|---|---|---|---|---|---|---|
| | 2011 | 2010 | 2011 | 2010 | 2011 | 2010 |
| North Rhine-Westphalia | 99,002 | 100,342 | 20,378 | 20,689 | 4,657.2 | 4,669.1 |
| Hesse | 22,066 | 22,432 | 4,272 | 4,238 | 1,536.7 | 1,499.9 |
| Bavaria and Baden-Württemberg | 20,353 | 21,002 | 9,954 | 10,201 | 1,398.7 | 1,391.2 |
| Berlin | 13,121 | 13,289 | 2,524 | 2,456 | 713.5 | 696.8 |
| Schleswig-Holstein and Hamburg | 12,742 | 12,852 | 3,543 | 3,568 | 644.1 | 627.6 |
| Five new states | 7,605 | 7,910 | 1,197 | 1,203 | 318.1 | 312.2 |
| Lower Saxony and Bremen | 6,230 | 6,319 | 1,190 | 1,196 | 310.9 | 323.5 |
| Rhineland-Palatinate and Saarland | 5,411 | 5,518 | 1,776 | 1,786 | 308.2 | 303.7 |
| Undeveloped land | | | | | 52.2 | 55.7 |
| | **186,530** | **189,664** | **44,834** | **45,337** | **9,939.6** | **9,879.7** |
| thereof | | | | | | |
| Investment properties | | | | | 9,893.8 | 8,436.7 |
| Trading properties | | | | | 16.2 | 1,440.5 |
| Owner-occupied properties | | | | | 3.7 | 2.5 |
| Assets held for sale | | | | | 25.9 | - |

**Sensitivity analyses**

The main value drivers for the fair values of the real-estate portfolio of DAIG 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** | | | | |
|---|---|---|---|---|
| Changes in value* | -1/4% | -1/8% | +1/8% | +1/4% |
| € million | 444.2 | 217.0 | -207.4 | -405.9 |
| in % | 4.5 | 2.2 | -2.1 | -4.1 |

* Result shows the change in value resulting solely from a change in the capitalised interest rate without any changes in any other measurement parameters.

**Market rents:**

| **Change in market rents** | | | | |
|---|---|---|---|---|
| Changes in value** | -2,0% | -1,0% | +1,0% | +2,0% |
| € million | -130.6 | -65,5 | 65.9 | 131.9 |
| in % | -1.3 | -0.7 | 0.7 | 1.3 |

** Result shows the change in value 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, 9,747 (2010: 9,887) were still in the residential portfolio of DAIG as at December 31, 2011.

The 63,626 residential units which DAIG acquired from Bundeseisenbahnvermögen in 2000 are subject to the following restrictions on sale: from February 9, 2011, 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, 42,698 (2010: 43,822) were still in the residential portfolio of DAIG as at December 31, 2011.

The 10,413 Frankfurter Siedlungsgesellschaft mbH residential units acquired from the German federal government at the end of 2001 are subject to the restriction on sale that an annual sales programme must be agreed with the government. In addition, until December 2011, residential units must first be offered for sale to the tenant. Residential units may only be sold to persons other than the tenant if 50% of the residential units in a building have previously been sold to tenants or owner-occupiers (vacant residential units). Tenants aged 65 or over whose residential unit is sold have a right to live in it for life. Of the 10,413 residential units originally acquired, 7,405 (2010: 7,488) were still in the residential portfolio of DAIG as at December 31, 2011.

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, 2,735 (2010: 2,757) were still in the residential portfolio of DAIG as at December 31, 2011.

In connection with the issuing of REF notes to German Residential Asset Note Distributor plc. (GRAND) in 2006, DAIG is obliged to use a certain part of the proceeds from the disposal of properties for the repayment of these REF notes. Overall, DAIG has to ensure that the aggregated disposal proceeds less any sales costs cover these fixed repayments. If DAIG does not meet this requirement, it has to fund the difference out of its own cash. If DAIG is not able to fund this shortfall, it is not allowed to sell any further properties.

For some of the properties in the acquired 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, 2011 | | Dec. 31, 2010 | |
|---|---|---|---|---|
| € million | non-current | current | non-current | current |
| Other investments | 1.6 | - | 1.6 | - |
| Loans to related companies | 33.7 | - | 33.7 | - |
| Securities | 3.6 | - | 3.4 | 4.0 |
| Other long-term loans | 5.4 | - | 5.4 | - |
| Restricted cash | - | - | 2.0 | - |
| Dividends from other investments | - | 2.2 | - | 2.0 |
| | **44.3** | **2.2** | **46.1** | **6.0** |

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

No impairment losses were made on other financial receivables 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 € 3.6 million (2010: € 3.4 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, 2011 | | Dec. 31, 2010 | |
|---|---|---|---|---|
| € million | non-current | current | non-current | current |
| Insurance claims | 2.2 | 5.0 | 1.3 | 3.1 |
| Prepaid expenses and deferred charges | 0.7 | 2.9 | 0.7 | 3.8 |
| Advance payments | 0.3 | - | 1.0 | 0.6 |
| Miscellaneous other assets | 15.6 | 18.4 | 13.6 | 12.8 |
| | **18.8** | **26.3** | **16.6** | **20.3** |

Non-current miscellaneous other assets include an asset of € 8.6 million (2010: € 9.2 million) corresponding to the indirect obligation shown under provisions for pensions arising from pension obligations transferred to former affiliated companies of the Viterra Group.

Furthermore, in 2011 non-current miscellaneous other assets included an amount of € 6.1 million (2010: € 2.3 million) owed by Monterey Holdings I S.à r.l., Luxembourg; see also note (42) Related party transactions.

## (23) Income tax receivables

The income tax receivables shown relate to corporate income tax and municipal trade tax receivables for 2011 and prior years.

## (24) Inventories

| € million | Dec. 31, 2011 | Dec. 31, 2010 |
|---|---|---|
| Trading properties | 12.7 | 1,166.6 |
| Ancillary costs | 313.9 | 332.5 |
| Raw materials and supplies | 0.1 | - |
| | **326.7** | **1,499.1** |

The trading properties of DAIG developed as follows:

| € million | | |
|---|---|---|
| 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** |
| | | |
| | | |
| Balance on Jan. 1, 2010 | | 1,247.7 |
| Additions | | 0.4 |
| Changes in value of trading properties | | 0.1 |
| Disposals | | -81.6 |
| **Balance on Dec. 31, 2010** | | **1,166.6** |

Purchase contracts have been signed for the trading properties shown as at December 31, 2011. Transfer of ownership of these properties has not yet taken place (see note (5) e) Investment properties and note (5) i) Inventories).

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

For information on restraints on disposal of trading properties, see note (20) Investment properties.

## (25) Trade receivables

The trade receivables break down as follows:

| € million | Impaired: Gross amount | Impaired: Impairment losses | Not impaired: Neither impaired nor past due | Past due by: less than 30 days | Past due by: between 30 and 90 days | Past due by: between 91 and 180 days | Past due by: between 181 and 360 days | Past due by: more than 360 days | Carrying amount: Maximum risk of loss | |
|---|---|---|---|---|---|---|---|---|---|---|
| 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 property management | | | 0.6 | | | | | | 0.6 | |
| Receivables from other supplies and services | | | 0.0 | | | | | | 0.0 | |
| **Balance on Dec. 31, 2011** | 48.1 | -23.6 | 20.4 | 3.0 | 0.8 | 0.2 | 0.2 | 0.4 | **49.5** | |
| Receivables from the sale of properties | 6.8 | -3.6 | 55.7 | 5.5 | 1.1 | 0.1 | 0.1 | 0.4 | 66.1 | *) |
| Receivables from property letting | 40.8 | -18.3 | | | | | | | 22.5 | |
| Receivables from property management | | | 0.6 | | | | | | 0.6 | |
| Receivables from other supplies and services | | | 0.0 | | | | | | 0.0 | |
| **Balance on Dec. 31, 2010** | 47.6 | -21.9 | 56.3 | 5.5 | 1.1 | 0.1 | 0.1 | 0.4 | **89.2** | |

* 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.

The decrease in total trade receivables, which are all short-term, to € 49.5 million (2010: € 89.2 million) is in particular due to the decrease of € 40.2 million in receivables from the sale of properties.

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. Whilst an impairment loss was recognised on 18% of both rent receivables and receivables from ancillary cost bills under existing rental contracts outstanding at December 31, 2011, impairment losses of 87% are recognised on corresponding receivables due under rental contracts which had ended by the balance-sheet date.

After considering the benefits and cost, no further breakdown of the receivables from property management by due dates has been made as this information is neither material nor relevant to the assessment of the credit risk.

Impairment losses on trade receivables developed as follows:

| € million | | Trade receivables |
|---|---|---|
| **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** |
| | | |
| | | |
| **Impairment losses as at Jan. 1, 2010** | | **21.2** |
| Addition | | 10.1 |
| Utilisation | | -8.7 |
| Reversal | | -0.7 |
| **Impairment losses as at Dec. 31, 2010** | | **21.9** |

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

| € million | **2011** | **2010** |
|---|---|---|
| Expenses for the derecognition of receivables | 0.6 | 0.9 |
| Income from the receipt of derecognised receivables | 1.0 | 0.6 |

### (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 € 278.0 million (2010: € 310.1 million). Furthermore, the item contains marketable securities of € 0.5 million (2010: € 0.6 million).

Of these bank accounts, € 45.7 million (2010: € 34.9 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 € 25.9 million (2010: € 0 ) 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 GmbH was increased during the 2011 financial year by € 45,000 to € 120,000 and has been fully paid in. Monterey Holdings I S.à r.l., Luxembourg, is the parent company of DAIG. In 2010, the subscribed capital was split into shares in the nominal amounts of € 25,000, € 26,000, € 23,250 and € 750. The subscribed capital is no longer split into shares in different nominal amounts so that there is now only one share in a nominal amount of € 120,000.

As in the previous year, the capital reserve amounts to € 718.2 million. The withdrawal of € 30 million from the capital reserve described in the 2010 Annual Report under Subsequent events was offset in full by a corresponding contribution to the capital reserve made on the basis of a shareholders' resolution by Monterey Holdings I S.à r.l., Luxembourg passed on September 29, 2011.

The other reserves contain cumulative changes in equity not affecting income. At DAIG, in particular the hedge-effective portion of the cumulative net change in the fair value of cash flow hedging instruments as well as actuarial gains and losses of defined benefit obligations are shown within this reserve. Furthermore, the other reserves include the cumulative net change in the fair value of available-for-sale financial assets.

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 other reserves from actuarial gains and losses cannot be reclassified and therefore may no longer be recognised in profit or loss in subsequent periods.

The change in other reserves leads to the other comprehensive income shown in the consolidated statement of comprehensive income:

| € million | | **2011** | **2010** |
|---|---|---|---|
| Cash flow hedges | | | |
| | Changes in the period | -30.7 | -28.3 |
| | Taxes on changes in the period | 9.8 | 7.8 |
| | Reclassification affecting net income | 17.4 | 19.7 |
| | Taxes on reclassification affecting net income | -3.9 | -4.1 |
| Actuarial gains and losses from pensions | | | |
| | Changes in the period | -7.5 | -12.5 |
| | Taxes on changes in the period | 2.4 | 4.0 |
| **Other comprehensive income** | | **-12.5** | **-13.4** |

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 minority interests.

## (29) Provisions

| € million | Dec. 31, 2011 non-current | Dec. 31, 2011 current | Dec. 31, 2010 non-current | Dec. 31, 2010 current |
|---|---|---|---|---|
| **Provisions for pensions and similar obligations** | **254.2** | **-** | **250.9** | **-** |
| **Provisions for taxes** (current income taxes excl. deferred taxes) | **-** | **73.2** | **-** | **83.9** |
| **Other provisions** | | | | |
| Environmental remediation | 28.7 | 3.5 | 29.4 | 2.3 |
| Personnel costs (excluding restructuring) | 4.5 | 41.6 | 6.5 | 38.9 |
| Restructuring | - | 3.3 | - | 1.3 |
| Contractually agreed guarantees | 0.0 | - | 0.4 | - |
| Outstanding trade invoices | - | 19.5 | - | 13.9 |
| Follow-up costs from property sales | - | 1.1 | - | 1.0 |
| Miscellaneous other provisions | 9.5 | 23.0 | 8.3 | 34.3 |
| | **42.7** | **92.0** | **44.6** | **91.7** |
| | **296.9** | **165.2** | **295.5** | **175.6** |

### Development of other provisions

| € million | Jan. 1, 2011 | Additions | Reversals | Transfer carryover | Interest portion | Utilisation | Dec. 31, 2011 |
|---|---|---|---|---|---|---|---|
| **Other provisions** | | | | | | | |
| Environmental remediation | 31.7 | 0.2 | -0.4 | 1.3 | 1.7 | -2.3 | 32.2 |
| Personnel costs (excluding restructuring) | 45.4 | 22.0 | -5.9 | - | 1.0 | -16.4 | 46.1 |
| Restructuring | 1.3 | 3.2 | -0.2 | - | - | -1.0 | 3.3 |
| Contractually agreed guarantees | 0.4 | 0.0 | -0.2 | - | - | -0.2 | 0.0 |
| Outstanding trade invoices | 13.9 | 19.5 | -1.9 | -1.3 | - | -10.7 | 19.5 |
| Follow-up costs from property sales | 1.0 | 0.2 | - | - | - | -0.1 | 1.1 |
| Miscellaneous other provisions | 42.6 | 5.5 | -8.3 | 0.0 | - | -7.3 | 32.5 |
| | **136.3** | **50.6** | **-16.9** | **0.0** | **2.7** | **-38.0** | **134.7** |

### 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 % | 2011 | 2010 |
|---|---|---|
| Discount rate | 4.60 | 4.75 |
| 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 | 2011 | 2010 |
|---|---|---|
| **Defined benefit obligation as at Jan. 1** | **269.2** | **259.6** |
| Interest cost | 12.3 | 13.1 |
| Current service cost | 2.0 | 1.9 |
| Actuarial losses | 7.2 | 13.1 |
| Transfer | 0.1 | - |
| Benefits paid | -18.1 | -18.5 |
| **Defined benefit obligation as at Dec. 31** | **272.7** | **269.2** |

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

| € million | Dec. 31, 2011 | Dec. 31, 2010 |
|---|---|---|
| Present value of funded obligations | 22.7 | 22.1 |
| Present value of unfunded obligations | 250.0 | 247.1 |
| | | |
| **Total present value of obligations (DBO)** | **272.7** | **269.2** |
| Fair value of plan assets | -19.7 | -19.4 |
| **Net liability recognised in the balance sheet** | **253.0** | **249.8** |
| Other assets to be recognised | 1.2 | 1.1 |
| **Provisions for pensions recognised in the balance sheet** | **254.2** | **250.9** |

The total net periodic pension cost comprises the following:

| € million | 2011 | 2010 |
|---|---|---|
| Interest cost | 12.3 | 13.1 |
| Current service cost | 2.0 | 1.9 |
| Expected return on plan assets | -0.9 | -0.8 |
| | **13.4** | **14.2** |

The actual return on plan assets amounted to € 0.9 million in 2011 (2010: € 0.9 million).

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

| € million | 2011 | 2010 |
|---|---|---|
| **Fair value of plan assets as at Jan. 1** | **19.4** | **19.1** |
| Expected return on plan assets | 0.9 | 0.8 |
| Actuarial gains | 0.0 | 0.1 |
| Benefits paid | -0.6 | -0.6 |
| **Fair value of plan assets as at Dec. 31** | **19.7** | **19.4** |

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 | 2011 | 2010 | 2009 | 2008 | 2007 |
|---|---|---|---|---|---|
| Present value of the defined benefit obligation | 272.7 | 269.2 | 259.6 | 249.5 | 255.0 |
| Fair value of plan assets | -19.7 | -19.4 | -19.1 | -18.8 | -17.9 |
| **Deficit in the plan** | **253.0** | **249.8** | **240.5** | **230.7** | **237.1** |

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.

| | 2011 | 2010 | 2009 | 2008 | 2007 |
|---|---|---|---|---|---|
| Experience adjustments arising on plan liabilities (in %) | 0.9 | -0.6 | -0.6 | 2.6 | 2.1 |
| Experience adjustments arising on plan assets (in %) | 0.0 | -0.2 | 0.4 | 0.6 | 0.7 |
| Difference between actual and expected return on plan assets (in € million) | 0.0 | 0.1 | 0.1 | 0.1 | 0.1 |

In 2011, actuarial losses of € 7.5 million (excluding deferred taxes) were recorded in other comprehensive income. In total, cumulative changes in equity not affecting net income of € 0.6 million (excluding deferred taxes) from actuarial losses relating to defined-benefit pension commitments have been recorded in other comprehensive income.

The provisions for pensions contain liabilities of € 8.6 million (2010: € 9.2 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 € 16.3 million (2010: € 12.2 million) according IFRS 2 (see note (42) Related Parties).

The restructuring provisions relate to personnel expenses incurred as a result of staff cuts in connection with the reorganisation of the company.

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.

## (30) Trade payables

| | Dec. 31, 2011 | | Dec. 31, 2010 | |
|---|---|---|---|---|
| € million | non-current | current | non-current | current |
| **Liabilities** | | | | |
| from property letting | - | 16.8 | - | 20.4 |
| from other goods and services | 0.3 | 20.8 | 0.3 | 20.7 |
| | **0.3** | **37.6** | **0.3** | **41.1** |

## (31) Other financial liabilities

| | Dec. 31, 2011 | | Dec. 31, 2010 | |
|---|---|---|---|---|
| € million | non-current | current | non-current | current |
| **Other non-derivative financial liabilities** | | | | |
| Banks | 1,424.5 | 117.6 | 1,318.6 | 100.4 |
| Other creditors | 4,661.8 | 449.0 | 5,135.6 | 455.3 |
| Deferred interest from other non-derivative financial liabilities | - | 42.8 | - | 46.1 |
| **Derivative financial liabilities** | | | | |
| Purchase price liabilities from put options | - | 7.2 | - | 7.0 |
| Cash flow hedges | 59.8 | - | 46.4 | - |
| Deferred interest from cash flow hedges | - | 2.6 | - | 3.4 |
| | **6,146.1** | **619.2** | **6,500.6** | **612.2** |

As at December 31, 2011, financial liabilities of € 26.2 million 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, 2011 | Mat-urity | Average interest rate | Repayment of the nominal obligations is as follows: 2012 | 2013 | 2014 | 2015 | 2016 | from 2017 |
|---|---|---|---|---|---|---|---|---|---|
| Securitisation transactions | | | | | | | | | |
| - GRAND plc | 4,643.0 | 2013 | 4.66% | 284.8 | 4,358.2 | - | - | - | - |
| - Opera Germany (No. 1) GmbH | 146.0 | 2012 | 3.89% | 146.0 | - | - | - | - | - |
| Acquisition loans | | | | | | | | | |
| - Acquisition financing I | 224.5 | 2013 | 4.73% | 2.0 | 222.5 | - | - | - | - |
| - Acquisition financing II | 257.1 | 2015 | 5.45% | 4.6 | 4.7 | 4.9 | 242.9 | - | - |
| - Acquisition financing III | 4.4 | 2012 | 4.58% | 4.4 | - | - | - | - | - |
| - Acquisition financing IV | 173.1 | 2018 | 4.27% | 5.8 | 5.8 | 5.8 | 5.8 | 5.8 | 144.1 |
| Mortgages | 1,268.1 | 2036 | 3.21% | 101.0 | 69.9 | 66.6 | 52.6 | 51.4 | 926.6 |
| (thereof prolongations) | | | | (56.5) | (27.9) | (26.4) | (13.6) | (13.4) | (329.9) |
| | **6,716.2** | | | **548.6** | **4,661.1** | **77.3** | **301.3** | **57.2** | **1,070.7** |

Of the nominal obligations to creditors, € 6,713.5 million (2010: € 7,080.3 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 as in 2010: approx. 4.39%). 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.

The loan repayments for the following years shown refer to expected loan repayments which are made up of both contractually fixed repayment amounts and possible special capital repayments.

In 2011, scheduled repayments of € 350.9 million and unscheduled repayments of € 194.7 million were made. New loans of € 178.5 million were taken out.

The bearer bonds issued in two tranches in 2006 in connection with the securitisation transaction (GRAND plc) had a value of € 4,643.0 million at the end of the 2011 financial year (2010: € 4,925.0 million). The average weighted interest rate is 4.66% (including margin) until the end of the term in July 2013. In 2011, capital repayments of € 282.0 million and interest payments of € 208.7 million were made. 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. 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 connection with the acquisition of Prima Wohnbauten Privatisierungs-Management GmbH, Berlin, agreement was reached in November 2009 on continuation of the existing financing. The financing referred to is a securitisation transaction (senior loan facility) with a volume of € 146.0 million and a bank loan from Eurohypo AG (junior loan facility) with a remaining value of € 4.4 million at the end of 2011. Both facilities run until December 31, 2012 and have an average weighted interest rate of 3.91%. Securities were provided in the form of land charges, account pledge agreements and assignments. Furthermore, company shares were pledged.

In order to refinance these borrowings, which must be repaid in December 2012 at the latest, two loan agreements for a total of € 150.3 million were already concluded with Norddeutsche Landesbank in December 2011, which can be paid out at the earliest on March 30, 2012. The average weighted interest rate is, after allowing for the interest hedges already 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.

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, 2011, the value of the loan was € 224.5 million (2010: € 227.8 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, 4.73% (incl. margin). Capital repayments are obligatory when residential units are sold and to comply with the contractually agreed debt-equity ratio.

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 € 257.1 million as at December 31, 2011 (2010: € 264.3 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.

The loans taken out in 2004 in connection with the securitisation transaction (Hallam Finance plc) were repaid in full in April 2011. In order to refinance this securitisation transaction, a loan agreement had already been signed with Corealcredit Bank AG in 2010, € 178.3 million of which was paid out in April 2011 and which was still valued at € 173.1 million as at December 31, 2011. 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. In the 2011 financial year, total capital repayments of € 5.2 million were made as part of the regular quarterly capital repayments and the obligatory special capital repayments when residential units are sold. In addition, interest payments amounted to € 5.5 million. 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.

Liabilities to other creditors include as at December 31, 2011 a liability of € 90.6 million from finance leases (2010: € 89.9 million) (Spree-Bellevue property). The following table shows the total minimum lease payments and reconciliation to their present value.

| € million | Dec. 31, 2011<br>Total minimum lease payments | Dec. 31, 2011<br>Interest portion | Dec. 31, 2011<br>Present value | Dec. 31, 2010<br>Total minimum lease payments | Dec. 31, 2010<br>Interest portion | Dec. 31, 2010<br>Present value |
|---|---|---|---|---|---|---|
| Due within one year | 4.4 | 0.2 | 4.2 | 4.3 | 0.2 | 4.1 |
| Due in 1 to 5 years | 18.5 | 3.2 | 15.3 | 18.2 | 3.2 | 15.0 |
| Due after 5 years | 234.4 | 163.3 | 71.1 | 239.2 | 168.4 | 70.8 |
| | **257.3** | **166.7** | **90.6** | **261.7** | **171.8** | **89.9** |

As part of finance leases, an expense of € 5.1 million was recorded in the reporting period (2010: € 5.0 million). On the balance-sheet date there were no significant non-cancellable sub-tenancies 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, 2011<br>non-current | Dec. 31, 2011<br>current | Dec. 31, 2010<br>non-current | Dec. 31, 2010<br>current |
|---|---|---|---|---|
| Prepayments received | - | 358.8 | - | 357.9 |
| Miscellaneous other liabilities | 5.1 | 14.4 | 5.4 | 12.8 |
| | **5.1** | **373.2** | **5.4** | **370.7** |

The received prepayments are mainly on account payments from tenants for ancillary costs.

The miscellaneous other liabilities include other tax liabilities of € 2.1 million (2010: € 2.2 million).

# Other notes and disclosures

## (34) Additional disclosures on financial instruments

| Measurement categories and classes: € million | Measurement category in acc. with IAS 39 | Amounts recognised in balance sheet according to 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 |
|---|---|---|---|---|---|---|---|---|---|
| **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 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 | | | | | | | | | |
| Restricted cash | LaR | **0.0** | **0.0** | | | | | | **0.0** |
| Long-term securities | AfS | **3.6** | | | | | **3.6** | | **3.6** |
| Other investments | AfS | **1.6** | | | **1.6** | | | | **1.6** |
| Short-term securities | HtM | **0.0** | | **0.0** | | | | | **0.0** |
| **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 | 369.3 | 278.5 | 90.8 | 0.0 | 0.0 | 0.0 | 0.0 | 374.4 |
| Available-for-sale financial assets | AfS | 5.2 | 0.0 | 0.0 | 1.6 | 0.0 | 3.6 | 0.0 | 5.2 |
| Held-to-maturity investments | HtM | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| 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** | | | | | | | |

| Measurement categories and classes: | | | Amounts recognised in balance sheet according to IAS 39 | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| € million | Measurement category in acc. with IAS 39 | Carrying amounts Dec. 31, 2010 | 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 2010 |
| **Assets** | | | | | | | | | |
| Cash and cash equivalents | LaR | **310.7** | **310.7** | | | | | | **310.7** |
| Trade and other receivables | | | | | | | | | |
| Receivables from the sale of properties | LaR | **66.1** | | **66.1** | | | | | **66.1** |
| Receivables from property letting | LaR | **22.5** | | **22.5** | | | | | **22.5** |
| Receivables from other management | LaR | **0.6** | | **0.6** | | | | | **0.6** |
| Other financial receivables | | | | | | | | | |
| Loans to related companies | LaR | **33.7** | | **33.7** | | | | | **33.7** |
| Other long-term loans | LaR | **5.4** | | **5.4** | | | | | **5.4** |
| Dividends from other investments | LaR | **2.0** | | **2.0** | | | | | **2.0** |
| Other non-derivative financial assets | | | | | | | | | |
| Restricted cash | LaR | **2.0** | **2.0** | | | | | | **2.0** |
| Long-term securities | AfS | **3.4** | | | | | **3.4** | | **3.4** |
| Other investments | AfS | **1.6** | | | **1.6** | | | | **1.6** |
| Short-term securities | HtM | **4.0** | | **4.0** | | | | | **4.0** |
| **Liabilities** | | | | | | | | | |
| Trade and other payables | | | | | | | | | |
| Liabilities from property letting | FLAC | **20.4** | | **20.4** | | | | | **20.4** |
| Liabilities from other goods and services | FLAC | **21.0** | | **21.0** | | | | | **21.0** |
| Other non-derivative financial liabilities | | | | | | | | | |
| Liabilities to banks | FLAC | **1,419.0** | | **1,419.0** | | | | | **1,407.3** |
| Liabilities to other lenders | FLAC | **5,501.0** | | **5,501.0** | | | | | **5,615.7** |
| Deferred interest from other non-derivative financial liabilities | FLAC | **46.1** | | **46.1** | | | | | **46.1** |
| Liabilities from finance leases | n.a. | **89.9** | | | | | | **89.9** | **94.0** |
| Derivative financial liabilities | | | | | | | | | |
| Purchase price liabilities from put options | FLHfT | **7.0** | | | | **7.0** | | | **7.0** |
| Cash flow hedges | n.a. | **46.4** | | | | **5.0** | **41.4** | | **46.4** |
| Deferred interest from cash flow hedges | n.a. | **3.4** | | | | **3.4** | | | **3.4** |
| thereof aggregated by measurement categories in accordance with IAS 39: | | | | | | | | | |
| Loans and receivables | LaR | 443.0 | 312.7 | 130.3 | 0.0 | 0.0 | 0.0 | 0.0 | 443.0 |
| Available-for-sale financial assets | AfS | 5.0 | 0.0 | 0.0 | 1.6 | 0.0 | 3.4 | 0.0 | 5.0 |
| Held-to-maturity investments | HtM | 4.0 | 0.0 | 4.0 | 0.0 | 0.0 | 0.0 | 0.0 | 4.0 |
| 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 | 7,007.5 | 0.0 | 7,007.5 | 0.0 | 0.0 | 0.0 | 0.0 | 7,110.5 |
| 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 | | **9.2** | | | | | | | |
| Amount by which the fair value of plan assets exceeds the corresponding obligation | | **1.1** | | | | | | | |
| Provisions for pensions and similar obligations | | **250.9** | | | | | | | |

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 (2010: € 0.9 million), Hellerhof GmbH, Frankfurt am Main, € 0.3 million (2010: € 0.3 million) as well as WoWi Media GmbH & Co. KG, Hamburg, € 0.3 million (2010: € 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. As far as repayments of the above-mentioned liabilities depend on the supposed disposal of properties, these have been estimated.

Net result according to measurement categories:

| **2011** | Measure- | From | Income | From subsequent measurement | | | Income | Net result |
|---|---|---|---|---|---|---|---|---|
| € million | ment category in acc. with IAS 39 | interest | from other long-term loans | Impair-ment losses | Derecog-nised receivables | Derecog-nised liabilities | from other investments | **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** |

| **2010** | Measure- | From | Income | From subsequent measurement | | | Income | Net result |
|---|---|---|---|---|---|---|---|---|
| € million | ment category in acc. with IAS 39 | interest | from other long-term loans | Impair-ment losses | Derecog-nised receivables | Derecog-nised liabilities | from other investments | **2010** |
| Loans and receivables | LaR | **4.0** | **1.9** | **-9.4** | **-0.3** | **-** | **-** | **-3.8** |
| Available-for-sale financial assets | AfS | **0.1** | **-** | **-** | **-** | **-** | **2.4** | **2.5** |
| Financial liabilities held for trading | FLHfT | **-0.3** | **-** | **-** | **-** | **-** | **-** | **-0.3** |
| Financial liabilities measured at amortised cost | FLAC | **-311.7** | **-** | **-** | **-** | **2.0** | **-** | **-309.7** |
| | | **-307.9** | **1.9** | **-9.4** | **-0.3** | **2.0** | **2.4** | **-311.3** |

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 € -325.5 million (2010: € -314.9 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 |
| **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 |
| **2010** | | | | |
| Assets | | | | |
| Other non-derivative financial assets | | | | |
| Long-term securities | 3.4 | - | - | 3.4 |
| Liabilities | | | | |
| Derivative financial liabilities | | | | |
| Purchase price liabilities from put options | - | - | 7.0 | 7.0 |
| Cash flow hedges | - | 46.4 | - | 46.4 |

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 |
| **2011** | | | | |
| Purchase price liabilities from put options | 7.0 | 2.0 | -1.8 | 7.2 |
| **2010** | | | | |
| Purchase price liabilities from put options | 6.7 | 0.3 | 0.0 | 7.0 |

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 € 6.8 million (2010: € 6.7 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 € +0.2 million (2010: € +0.1 million). A decrease by 10% would result in a € 0.2 million (2010: € 0.0 million) 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 2010 – 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. Furthermore, 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. Most of the excess amount has an interest cap under a cap agreement. There is an unhedged interest rate risk for a smaller remaining amount if the short-term 3-month EURIBOR should rise sharply.

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 chapter, 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 guideline to limit any concentration of credit risks and actively manages counterparty exposure. 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. In view of this, scenario analyses are regularly performed to determine to what extent fluctuations in operational business and changing conditions on the capital markets influence the company’s ability to service debt and its refinancing options. Since the GRAND securitisation matures in 2013, work already started in 2011 on refinancing or extending this financing.

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, 2011 | 2012 Interest | 2012 Repayment | 2013 Interest | 2013 Repayment | 2014 to 2018 Interest | 2014 to 2018 Repayment |
|---|---|---|---|---|---|---|---|
| Other non-derivative financial liabilities | | | | | | | |
| Banks | 1,542.1 | 47.5 | 103.7 | 38.8 | 283.1 | 139.0 | 808.7 |
| Other creditors | 5,020.2 | 221.8 | 444.9 | 157.4 | 4,378.0 | 28.7 | 66.9 |
| Deferred interest from other non-derivative financial liabilities | 42.8 | 42.8 | | | | | |
| Liabilities from finance leases | 90.6 | 5.1 | | 5.2 | | 26.2 | |
| | | | | | | | |
| Derivative financial liabilities | | | | | | | |
| Purchase price liabilities from put options | 7.2 | | | | | | 4.8 |
| Cash flow hedges | 59.8 | 18.7 | | 21.7 | | 19.0 | |
| Deferred interest from cash flow hedges | 2.6 | 2.6 | | | | | |

As far as repayments of non-derivative financial liabilities depend on the expected disposal of properties, these have been estimated.

In order to safeguard DAIG's solvency and financial flexibility at all times, a liquidity reserve is kept available in the form of cash. The credit line financing reserve of € 100.0 million expired without replacement in 2011.

DAIG had cash on hand and deposits at banks totalling € 278.0 million as at the balance-sheet date (2010: € 310.1 million), in this respect, DAIG's ability to service debt can be regarded as 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 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, 2011 | Dec. 31, 2010 |
|---|---|---|
| Total equity | 2,229.8 | 1,818.0 |
| Balance sheet | 10,696.9 | 10,513.3 |
| Equity ratio | 20.8% | 17.3% |

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 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

Fourteen fixed payer swaps and two forward starting 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 GmbH.

On December 30, 2011, two forward rate agreements effective March 30, 2012 were concluded for the refinancing of Prima Immobilien GmbH & Co.KG, Berlin. Accordingly, two forward starting swaps were contracted on December 27, 2011 for the same effective date.

On initial measurement, the expected negative fair values of the forward starting swaps had a negative impact of EUR 2.5 million on the net interest.

A hypothetical derivative was calibrated at the time of the acquisition. The expected ineffectiveness arising from the negative fair value of the derivative on the acquisition date is excluded from the calculation of the fair value change of the hedge. As at December 31, 2011, these financial instruments constitute an effective hedge.

In the 2011 financial year, the nominal volume of the interest rate swaps amounted to € 811.1 million (2010: € 665.7 million). Interest rates vary between 1.65% and 4.40% with swap periods of one to seven years.

The nominal volume of the forward starting swaps amounted to € 150.3 million at the reporting date. Interest rates vary between 3.47% and 4.47% with swap periods of 6.75 years.

| € million | Nominal value | Beginning of term | End of term | Current average interest rate (margin excluded) |
|---|---|---|---|---|
| **Securitisation Opera Germany (No. 1) GmbH** | | | | |
| Hedged items | 146.0 | August 09, 2006 | December 31, 2012 | 3-m EURIBOR |
| Interest rate swaps | 146.0 | November 1, 2005 | December 31, 2012 | 2.663% |
| **Acquisition financing I** | | | | |
| Hedged items | 224.5 | December 29, 2006 | December 31, 2013 | 3-m EURIBOR |
| Interest rate swaps | 225.9 | July 20, 2007 | October 20, 2013 | 4.212% |
| **Acquisition financing II** | | | | |
| Hedged items | 257.1 | April 18, 2008 | April 20, 2015 | 3-m EURIBOR |
| Interest rate swaps | 258.2 | July 21, 2008 | April 20, 2015 | 4.400% |
| **Acquisition financing III** | | | | |
| Hedged items | 4.4 | August 09, 2006 | December 31, 2012 | 3-m EURIBOR |
| Interest rate swaps | 3.6 | December 30, 2005 | September 28, 2012 | 3.350% |
| **Acquisition financing IV** | | | | |
| Hedged items | 173.0 | December 14, 2010 | December 31, 2018 | 3-m EURIBOR |
| Interest rate swaps | 177.3 | April 13, 2011 | April 13, 2018 | 3.335% |
| **Acquisition financing V** | | | | |
| Hedged items | 150.3 | March 30, 2012 | December 31, 2018 | 6-m EURIBOR |
| Interest rate swaps | 150.3 | March 30, 2012 | December 31, 2018 | 3.731% |

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, 2011 were shown at their negative clean present fair values totalling € 59.8 million (2010: € 46.4 million) under other financial liabilities.

As a result of the valuation, € 7.4 million (2010: € 4.9 million) was deducted from other comprehensive income.

In the period under review, after consideration of deferred taxes, ineffectiveness resulted in a gain of € 1.2 million (2010: loss € 0.8 million). In the reporting period, after consideration of deferred taxes, ineffectiveness decreased by € -1.2 million to € 1.5 million.

On the basis of the valuation as at December 31, 2011, 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 | | |
|---|---|---|---|
| **2011** | Other reserves not affecting income | Ineffective portions affecting net income | Total |
| + 50 basis points | +10.4 | +0.2 | +10.6 |
| - 50 basis points | -14.7 | -0.1 | -14.8 |
| **2010** | | | |
| + 50 basis points | +7.7 | +0.4 | +8.1 |
| - 50 basis points | -7.9 | -0.4 | -8.3 |

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.

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 € 46.2 million (2010: € 35.5 million).

### (39) Contingent liabilities

Contingent liabilities exist for cases in which Deutsche Annington Immobilien GmbH and its subsidiaries give guarantees to various contractual counterparts.

Contingent liabilities to third parties are mainly contract performance guarantees. The terms are in many cases limited to an agreed time. In some cases, the term is unlimited.

## (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 contracts term | Due within one year | Due in 1 to 5 years | Due after 5 years | Total |
|---|---|---|---|---|---|
| **Total minimum lease payments** | | | | | |
| **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 | 2017-2093 | 4.7 | 18.7 | 191.0 | **214.4** |
| | | **10.7** | **35.5** | **201.9** | **248.1** |
| **Dec. 31, 2010** | | | | | |
| Rents | 2012-2020 | 4.9 | 16.2 | 14.6 | **35.7** |
| Lease contracts | 2012-2015 | 1.9 | 1.3 | - | **3.2** |
| Ground rent contracts | 2017-2093 | 4.6 | 18.6 | 194.0 | **217.2** |
| | | **11.4** | **36.1** | **208.6** | **256.1** |

Payments of € 11.4 million (2010: € 11.6 million) under rental, tenancy and leasing agreements were recognised as expenses in 2011.

The DAIG ground rent contracts generally have a term of 99 years. The average remaining term of these contracts was approx. 42 years as at December 31, 2011. 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, 2011** | **Dec. 31, 2010** |
|---|---|---|
| **Other financial obligations** | | |
| Cable TV service contract | 136.0 | - |
| Minor repair and caretaker service contracts | 47.2 | 83.9 |
| IT service contracts | 26.1 | 26.1 |
| Surcharges under the German Condominium Act | 1.0 | 1.6 |
| | **210.3** | **111.6** |

In 2011, DAIG signed a cable TV service contract with Telekom Deutschland GmbH, resulting in other financial obligations of € 136.0 million as at the balance-sheet date. These obligations 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 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 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 for the payments under the long-term incentive plan (LTIP). DAIG discloses within Other assets (see note (22) Other assets) a receivable from Monterey Holdings I S.à r.l., Luxembourg, of € 6.1 million (2010: € 2.3 million), which is the amount of the obligations assumed.

In 2005, consultancy agreements were signed with Terra Firma Capital Partners Limited, London, and terrafirma GmbH, Frankfurt am Main. In 2011, services totalling € 0.1 million (2010: € 0.2 million) were provided, of which € 0.1 million (2010: € 0.1 million) has already been paid.

## (43) Remuneration

**Total remuneration of the Supervisory Board**

The members of the Supervisory Board received € 237 k for their work in 2011 (2010: € 151 k).

**Total remuneration of the Management**

The total cash remuneration of the Management amounted to € 3.9 million (2010: € 2.8 million). Of this figure, € 2.3 million (2010: € 1.7 million) was for fixed remuneration components including benefits in kind and other remuneration. The variable remuneration of € 1.6 million (2010: € 1.1 million) refers to bonuses.

In addition, the managing directors were granted one-off subscription rights (LTIP, see also note (42) Related parties) as a long-term component depending on the development of the value of Monterey Holdings I S.à r.l., Luxembourg. The fair value of the subscription rights at the commitment date was € 11.3 million. According to statutory requirements, a value is already to be recognised for the year of grant. The expenses for the LTIP were charged to the parent company.

**Total remuneration of former managing directors**

The pension obligations (DBO) to former managing directors and their surviving dependants amount to € 6.1 million (2010: € 1.6 million).

## (44) 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 | **2011** | **2010** |
|---|---|---|
| Audits | 1.8 | 1.8 |
| Other confirmation services | 0.1 | 0.2 |
| Tax consultancy services | 0.1 | 0.2 |
| Other services | 0.3 | 0.7 |
| | **2.3** | **2.9** |

## Supervisory Board

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

Robbie Barr
*Chief Operating Officer of Terra Firma Capital Partners Limited, London*

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

William T. Comfort
*Chairman of Citigroup Venture Capital, New York*

Fraser Duncan
*Business Consultant, London*

Wolfgang König
*Business Consultant, Esslingen*

Prof. Dr Klaus Rauscher
*Business Consultant*, Berlin

The Supervisory Board does not have the rights and obligations provided for in the German Stock Corporation Law (Aktiengesetz).

## Management

Wijnand Donkers, Chairman

Klaus Freiberg

Dr A. Stefan Kirsten

Düsseldorf, February 22, 2012

| | | |
|---|---|---|
| Wijnand Donkers | Klaus Freiberg | Dr. A. Stefan Kirsten |

## Annex to the notes: List of DAIG Shareholdings as at December 31, 2011

according to section 313 para. 2 HGB

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

### Consolidated Companies

| Company | Company domicile | Interest % | |
|---|---|---|---|
| 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 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 DMB Eins GmbH | Bochum | 100.00 | |
| Deutsche Annington Dritte Beteiligungsgesellschaft mbH | Düsseldorf | 100.00 | |
| 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 Energie Service GmbH | Bochum | 100.00 | |
| Deutsche Annington EWG Augsburg GmbH & Co.KG | Munich | 100.00 | |
| 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 | |
| Deutsche Annington EWG Köln Bewirtschaftungs GmbH & Co.KG | Bochum | 100.00 | |
| 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 | |
| Deutsche Annington EWG München Bewirtschaftungs GmbH & Co.KG | Munich | 100.00 | |
| 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 | Düsseldorf | 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 | |
| Deutsche Annington Haus GmbH | Kiel | 100.00 | |
| Deutsche Annington Heimbau Bestands GmbH & Co.KG | Bochum | 100.00 | |

## Annex to the notes: List of DAIG Shareholdings as at December 31, 2011

according to section 313 para. 2 HGB

| Company | Company domicile | Interest % | |
|---|---|---|---|
| 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 | |
| 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 | |
| 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 Kundenservice GmbH | Bochum | 100.00 | 1) |
| Deutsche Annington MIRA Bestands GmbH & Co.KG | Bochum | 100.00 | |
| Deutsche Annington MIRA Bewirtschaftungs GmbH & Co.KG | Bochum | 100.00 | |
| Deutsche Annington MIRA Verwaltungs GmbH | Düsseldorf | 99.60 | |
| Deutsche Annington Personalservice GmbH | Bochum | 100.00 | |
| 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 | |
| Deutsche Annington Süd GmbH | Munich | 100.00 | |
| Deutsche Annington Süd-West GmbH | Frankfurt | 100.00 | |
| Deutsche Annington Vermögensgesellschaft mbH & Co.KG | Bochum | 100.00 | |
| Deutsche Annington Vertriebs 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 | |
| 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 | |

## Annex to the notes: List of DAIG Shareholdings as at December 31, 2011

according to section 313 para. 2 HGB

| Company | Company domicile | Interest % |
|---|---|---|
| Deutsche Multimedia Service GmbH | Düsseldorf | 100.00 |
| Deutsche TGS West GmbH | Düsseldorf | 51.00 |
| Deutsche Wohn-Inkasso GmbH | Bochum | 100.00 |
| 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 Beteiligungs Eins GmbH | Düsseldorf | 100.00 |
| MIRIS Grundstücksgesellschaft mbH & Co.KG | Grünwald | 94.90 |
| Monterey Capital I S.à r.l. | Luxembourg/L | 100.00 |
| Prima Beteiligungsgesellschaft mbH | Berlin | 100.00 |
| Prima Immobilien GmbH & Co.KG | Berlin | 100.00 |
| Prima Wohnbauten Privatisierungs-Management GmbH | Berlin | 94.54 |
| "Siege" Siedlungsgesellschaft für das Verkehrspersonal mbH Mainz | Mainz | 94.90 |
| 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

# 2011 Group Management Report

**Contents**

# The 2011 Financial Year

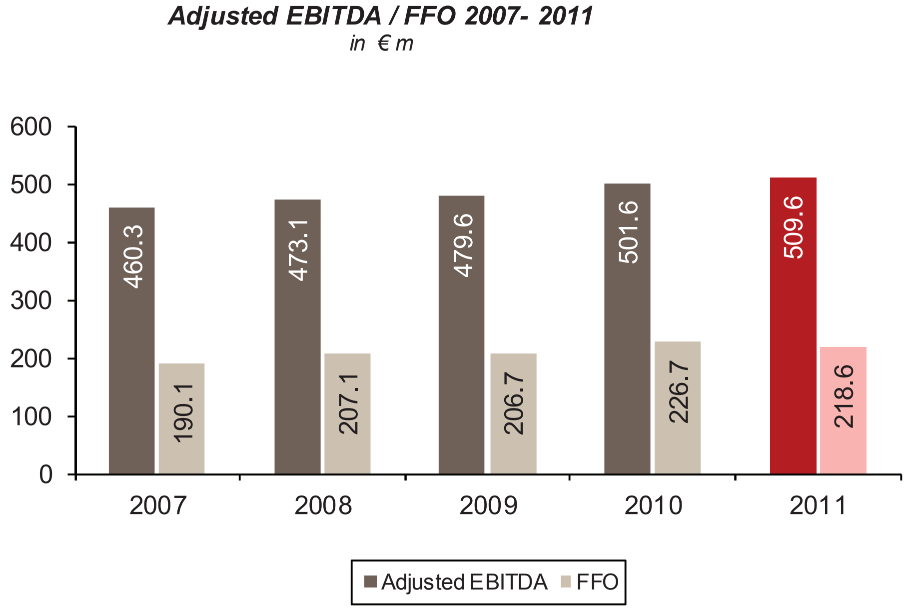
## Overview of the financial year

The Deutsche Annington Immobilien Group can look back on a highly successful year: by further improving our structures and processes, we considerably increased our performance and efficiency. Both the satisfaction of our 450,000 customers and the economic development of the Group benefited from these improvements.

In conjunction with improved rental performance, the vacancy rate fell significantly in 2011 by 0.8 percentage points. Rents were raised by 1.8%. Sales of apartments were also above the figure for the previous year. At the same time, we made substantial investments in the quality of our housing stock (€ 192.1 million).

We were successful in further improving and extending services, security, cleanliness and social integrity for our customers. Two important measures in this connection were the first steps in building up a caretaker organisation and the establishment of a joint venture for craftsmen's services. Through these measures as well as with our social engagement and the urban district management projects, we once again contributed actively to improving the quality of our housing and the residential surroundings last year.

The result for 2011 exceeded expectations: at € 509.6 million (+ 1.6%), adjusted EBITDA once again topped the half-billion-euro mark. At € 218.6 million (2010: € 226.7 million), FFO did not quite match the high pre-year figure as a result of the higher interest rates on the GRAND financing which applied to the entire year for the first time.



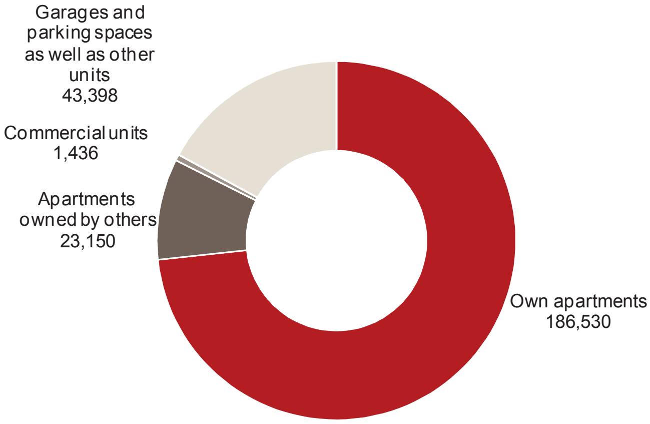

In 2012, we will continue to examine our workflows with a view to using resources efficiently for our real-estate business. Our aim remains to further expand Deutsche Annington's position as the market leader and to successfully continue developing the strengths of our Group systematically in the interest of a long-term, stable development of our business and earnings.

## Structure and Strategy

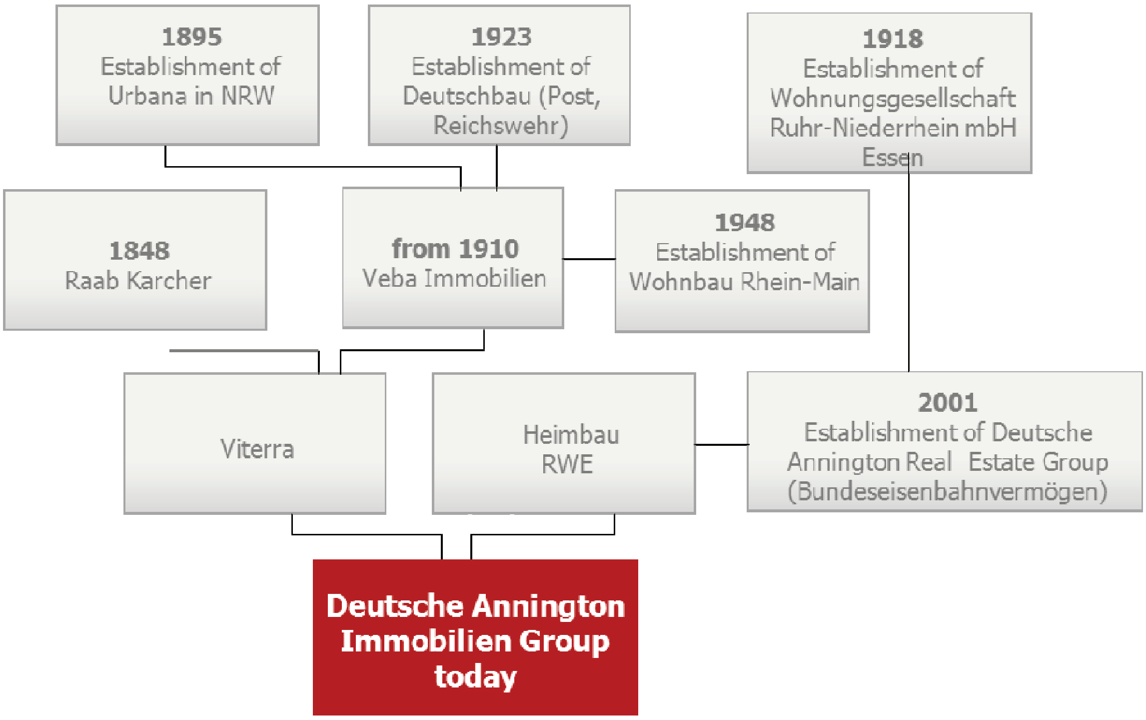
The Deutsche Annington Immobilien Group is a service-driven holder and manager of residential property in Germany. We want to expand our position as the market leader in the years to come and further increase earning power through property management and portfolio management and by providing additional 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**
The Deutsche Annington Immobilien Group is a service-driven holder and manager of residential property in Germany. 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 stakeholders. 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, 2011)*



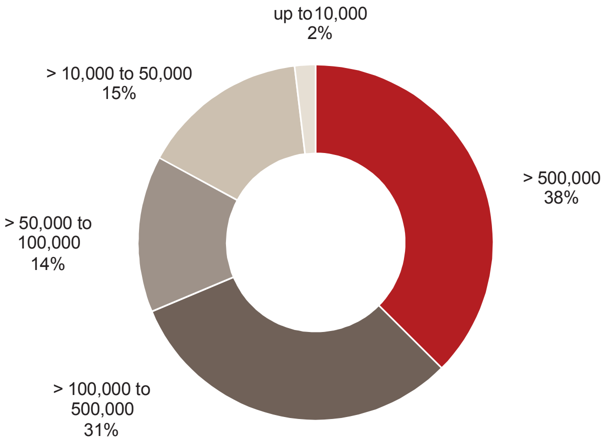

The Deutsche Annington Immobilien Group is one of the top housing companies in Germany with its some 210,000 residential units managed and 1,279 employees. The company was established as part of the takeover of railway housing companies in 2001 and grew considerably through further acquisitions in the 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**

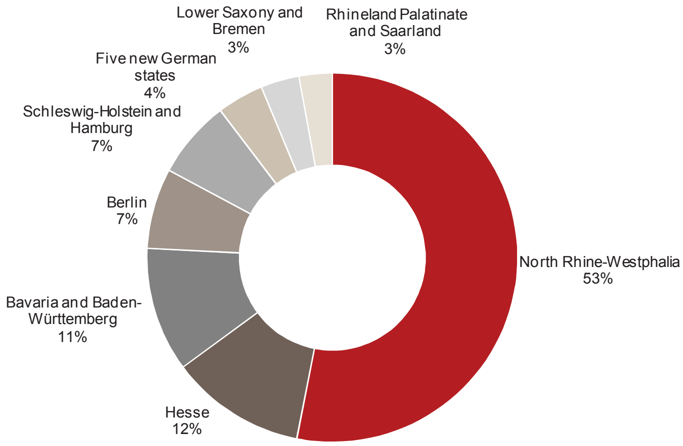
The Deutsche Annington Immobilien Group is, today, the largest housing company in Germany. In total, we manage 186,530 apartments of our own, 43,398 garages, parking spaces and other units as well as 1,436 commercial units. What's more, we also manage 23,150 apartments for other owners. The Deutsche 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, 2011)*



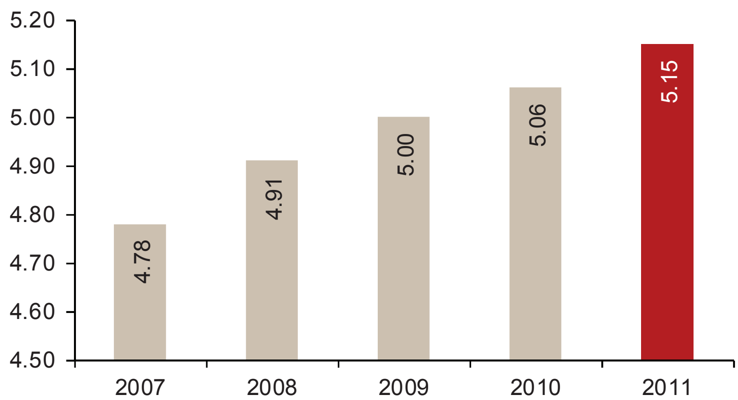
Approx. 69% of our portfolio is concentrated in cities with more than 100,000 inhabitants. The focus is on the Ruhr area, Berlin, the Rhine-Main region and southwest Germany. The four biggest locations are Dortmund, Berlin, Frankfurt am Main and Essen. The vast majority of our housing stocks (96%) are 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 rent of € 5.15 per square metre (2010: € 5.06 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.

***Development of rents 2007- 2011***
*€/m²/month*



Our customer satisfaction is above average: a tenant lives for about fifteen years in a Deutsche Annington apartment; the national average is about nine years.

*Overview of the Deutsche Annington residential portfolio data*

| Portfolio as at Dec. 31, 2011 | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| **20 largest locations** | Units | Share in % | Living area in m² | Average living area per unit in m² | Annualised net rent * in € million | Share in % | Monthly net rent/m²* in € | Vacancy rate* in % |
| Dortmund | 17,823 | 9.6 | 1,086,716 | 61 | 60.1 | 8.1 | 4.60 | 3.4 |
| Berlin | 13,121 | 7.0 | 844,880 | 64 | 56.4 | 7.6 | 5.54 | 2.0 |
| Essen | 10,416 | 5.6 | 641,902 | 62 | 39.3 | 5.3 | 5.09 | 5.8 |
| Frankfurt | 10,356 | 5.6 | 643,133 | 62 | 51.9 | 7.0 | 6.72 | 1.0 |
| Gelsenkirchen | 8,764 | 4.7 | 528,831 | 60 | 28.1 | 3.8 | 4.41 | 6.4 |
| Bochum | 7,737 | 4.1 | 447,710 | 58 | 26.5 | 3.6 | 4.93 | 2.8 |
| Munich | 4,914 | 2.6 | 326,495 | 66 | 24.3 | 3.3 | 6.16 | 1.1 |
| Duisburg | 4,874 | 2.6 | 289,934 | 59 | 16.7 | 2.3 | 4.77 | 4.4 |
| Herne | 4,647 | 2.5 | 284,690 | 61 | 15.5 | 2.1 | 4.55 | 5.0 |
| Bonn | 4,444 | 2.4 | 312,165 | 70 | 21.8 | 3.0 | 5.78 | 2.7 |
| Cologne | 4,420 | 2.4 | 288,737 | 65 | 21.0 | 2.8 | 6.02 | 3.9 |
| Gladbeck | 3,408 | 1.8 | 209,595 | 62 | 11.9 | 1.6 | 4.73 | 3.8 |
| Herten | 2,839 | 1.5 | 183,150 | 65 | 9.7 | 1.3 | 4.41 | 4.0 |
| Düsseldorf | 2,564 | 1.4 | 167,444 | 65 | 13.2 | 1.8 | 6.51 | 2.2 |
| Marl | 2,558 | 1.4 | 171,415 | 67 | 10.5 | 1.4 | 5.10 | 6.1 |
| Aachen | 2,259 | 1.2 | 150,245 | 67 | 9.2 | 1.2 | 5.11 | 1.8 |
| Wiesbaden | 2,161 | 1.2 | 144,599 | 67 | 11.9 | 1.6 | 6.86 | 2.1 |
| Bottrop | 2,046 | 1.1 | 128,813 | 63 | 7.7 | 1.0 | 4.90 | 3.8 |
| Bergkamen | 2,024 | 1.1 | 133,961 | 66 | 7.2 | 1.0 | 4.50 | 9.5 |
| Geesthacht | 2,003 | 1.1 | 114,275 | 57 | 7.4 | 1.0 | 5.36 | 5.3 |
| ***Sub-total for 20 largest locations*** | ***113,378*** | ***60.8*** | ***7,098,690*** | ***63*** | ***450.5*** | ***60.9*** | ***5.27*** | ***3.6*** |
| *Other locations* | *73,152* | *39.2* | *4,818,941* | *66* | *289.1* | 39.1 | *4.98* | *5.4* |
| ***Total*** | ***186,530*** | ***100.0*** | ***11,917,630*** | ***64*** | ***739.6*** | ***100.0*** | ***5.15*** | ***4.3*** |

## 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 Rhineland/Ruhr. 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. In the newly established customer centre, we deal with all customer inquiries. The central tenant centre, the repair centre and the sales centre are all under the one roof. Questions that the customer service staff cannot answer directly on the phone or for which they cannot initiate appropriate action are handled by our tenant service field workers who go out to the customers. Directly after the phone call, the customer service employee books an appointment with a field service worker. A computerised control system then quickly directs the field worker to the customer or apartment.

- All necessary management and support functions are pooled in the third functional area, Corporate.

This company organisation provides an excellent basis for us to further enhance the performance and efficiency of our Group in future.

**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 in intact neighbourhoods for broad sections of the population and are a reliable service provider for our customers. We want service, cleanliness, security and social integrity for our customers.

In conjunction with our services, we assume responsibility for our housing stock and make a contribution to solving any social problems 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 our stakeholders.

Our mission is to be the best company in the German housing industry, now and for the future.

**Success-driven company**
Ultimately, the purpose of our company is to generate earnings and provide a sound return for our stakeholders. We again achieved great successes in our core business in the past year. The vacancy rate in our properties fell to 4.3% which meant that our properties in many regions were virtually fully let. We reduced our revenue deductions by € 11 million (20.0%). At the same time, the average net monthly rent had increased at the end of 2011 to € 5.15 per square metre. With 3,169 apartments sold in 2011, the Sales unit exceeded its 2010 performance figures by 22.6%. We further improved our result and posted adjusted EBITDA of € 509.6 million (2010: € 501.6 million).

**Strategy: profitable growth through core business and additional business**
The Deutsche Annington Immobilien Group's declared aim is to achieve sustained and profitable growth in its core business and 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 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. We see even greater growth opportunities in the housing-related additional business activities, which we have already built up over the years and will continue to drive forward in the years to come. We apply strict success criteria when selecting the activities 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 business of our Finance department. The aim in future is to achieve a refinancing profile in which relatively small tranches are refinanced in a continuous process. In mid-2013, the Deutsche Annington Immobilien Group will have to refinance a large portion of its securitised debt. We started arranging this refinancing well in advance. We are confident that we can successfully master the challenges of the forthcoming refinancing.

- **Further developing the housing portfolio by acquisitions and selective sales**
  As a housing company geared to long-term property management, we continually expand 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. Thanks to our financial possibilities, we can also buy larger housing portfolios. 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. 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. For example, together with our partner RWE AG, we were able to offer our tenants an attractive electricity tariff last year.

**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. We are party to numerous regional cooperation agreements throughout Germany. We maintain a constructive dialogue with political representatives and tenants' associations.

We take care of the appearance of our urban districts, also in economic terms; for example in 2011 we invested some € 192 million in maintenance and modernisation, 12% more than in the previous year. That is an average of € 16 per square metre of rented living area. With our modernisation programmes, we not only increase the value of our apartments but also demonstrate a responsible attitude and make a contribution to improving the townscape.

At the same time, we started to build up a facility manager and craftsmen's organisation at the end of 2011. As on-site employees of Deutsche Annington, the facility managers do not just perform the traditional tasks of a caretaker but also assume the function of a quality manager and project coordinator. They are the direct contact for the tenants and for our service providers. To build up a craftsmen's organisation, we established Deutsche TGS West GmbH in a joint venture with B&O Service & Messtechnik AG. The joint venture handles the running maintenance and repairs to our housing stocks.

In view of the demographic development, we are doing our utmost to find ways of helping our elderly tenants to continue living safely and comfortably in their own homes for as long as possible. Together with strong local partners, in the last two years we have implemented projects to improve the quality of housing and life and can now arrange care and domestic help services at some locations as well as nationwide counselling for these services. And we are further expanding this offering.

We support our tenants in difficult situations. For example in future we will be offering them debt counselling. Through our two non-profit foundations, we offer help in cases of social hardship and to people in need. Our foundations also promote intact 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.

## Economic Environment

**OVERALL ECONOMY: global economy weakens**

The global economy got off to a dynamic start in 2011 but then lost considerable momentum. The indicator for the global economic climate published quarterly by the Institute for Economic Research at the University of Munich (ifo) fell by 29.0 index points from the year-high of 107.7 in the second quarter to 78.7 in the fourth quarter.

Various developments led to this drop in the index: they included a sharp oil price hike as a result of the political upheavals in the Arab states, the earthquake in Japan as well as the escalation of the sovereign debt crisis in the euro zone and elsewhere. According to the German Council of Economic Experts, the first two causes mentioned were largely absorbed by the markets. However, the subject of debt continued to dominate the economic situation. Volatility on the financial markets remained high.

Although events such as the downgrading of the US rating or concern about the financial soundness of the southern euro states repeatedly caused turbulence on the financial markets, the overall economy proved to be surprisingly robust in 2011. The International Monetary Fund (IMF) is expecting the global economy to grow by some 4.0% in 2011 and 2012. According to an estimate by Deutsche Bank, that is growth which is still above the average for the last business cycle.

**Sovereign debt crisis dominates the situation on the financial markets**

Events on the financial markets were dominated in 2011 by concerns about developments in the euro zone and the USA due to high sovereign debt levels. After the mood on the financial markets continued to relax at the beginning of the year, the economic and also the political situation in and around the southern euro peripheral states unnerved the financial markets as the year progressed. Now that not only Greece and Portugal but also Ireland have had to be supported by the European bail-out fund, contagion of the debt crisis to other countries is now regarded as a possibility. Italy in particular has become a major focus of the financial markets due to its high sovereign debt coupled with weak growth prospects and political fragility. The European Central Bank (ECB) responded to this uncertainty by surprisingly cutting the benchmark interest rate by 0.5 percentage points to 1.0% in the fourth quarter after raising it twice in the second and third quarters of 2011 by 0.25 percentage points in each case. Despite this action, the US rating agency Standard & Poor's threatened in December to downgrade the credit rating of Germany and other strong eurozone states.

In addition, as efforts were made to support Greece, a discussion began about whether euro government bonds could still be regarded as "riskless". Should prevailing opinion change and the bonds no longer be considered to be without risk, investments by the banks in these bonds would in future require equity capital backing, which could have effects on the banks, their business model and their future financing practices.

**German economy with stable domestic demand**
Overall, the German economy grew by 3.0% in 2011. The upswing is firmly anchored in domestic demand. According to the Federal Ministry of Economics and Technology (BMWi), the euro debt crisis dampened economic activity, but the rise in real disposable income stabilised domestic demand. Reasons for the increase in income were higher employment and higher wages and salaries. The driver of this positive trend was primarily industrial output, although the second half of 2011 saw a decline in new orders for industry.

In its autumn forecast, the German government stated that it expected the disposable income of private households to rise by 3.2% in 2011. This would be the largest increase in disposable income since the reunification boom.

The situation on the German labour market continued to improve in 2011. According to the Federal Employment Agency, adjusted for seasonal effects, the number of people in employment and the number in jobs subject to social security deductions increased in 2011; at the same time, unemployment fell.

**HOUSING MARKET: rents rise in Germany**
Residential rents continued to rise in 2011. 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 2.9% compared with the previous year. For apartments built after 1949, the increase was 2.1%. Overall, IVD is expecting rents in new contracts in Germany to steadily increase more or less nationwide: in cities, rates of increase are 5.8% (built before or in 1948) and 3.8% (built after 1949). In towns with up to 50,000 inhabitants, rents rose by 2.8% and 2.1%, respectively. Even in rural areas and in towns with less than 30,000 inhabitants, the rents were about 1.0% above the pre-year level. In the ranking of the large-area states, Lower Saxony and Bavaria came top of the table with rent increases of 4.9% and 3.9% respectively above the national average, whilst in Mecklenburg-Western Pomerania and Schleswig-Holstein rents fell compared with the previous year (- 2.3% and -0.8%).

According to the residential rent index issued by the Hamburg research and consultancy company, F+B, rents under existing rental contracts rose by an average of 1.0% in 2011 compared with the previous year. The residential rent index determined in surveys by F+B is based on a comparison of the net rent for apartments with an area of 65 square metres, average appointments and located in towns with at least 20,000 inhabitants as well as the published rent indices.

Rising rents are also to be observed in the new-build segment, although the increases are smaller. In cities, new-build rents (average standard) are increasing by 2.8% and in rural areas by 1.2%. In a ten-year comparison, rents have increased in cities by nearly 20%, in rural areas, by contrast, by 4.5%.

Analysts of HSH Nordbank are expecting rents to continue to rise in 2012 particularly in the housing markets of cities and in the west German growth regions.

**Regional differences in the vacancy rate**
The vacancy rate in the properties owned by housing companies represented by GdW Bundesverband deutscher Wohnungs- und Immobilienunternehmen e.V. fell from 5.5% in 2009 to 5.3% in 2010. This development was driven by a fall in the vacancy rate of 0.7 percentage points to 8.3% in the five new states (formerly East Germany), while the vacancy rate in the old German states stagnated at 2.9%. For 2011, GdW estimates that the vacancy rate decreased overall by 0.2 percentage points to 5.1%, falling to 8.0% in the new states while increasing moderately to 3.0% in the old states.

According to the housing market forecast of the Federal Institute for Research on Building, Urban Affairs and Spatial Development (BBSR) for 2025, there will be a high vacancy risk in future, particularly in certain regions in the new German states due to a decline in demand as a result of the demographic and social changes in Germany. Nevertheless, many other regions can expect stable or growing demand for housing. Some 2.9 million additional new-build apartments are required in Germany in the period up to 2025. The institute of business consultants, empirica, is predicting a demand for new builds, even in regions with shrinking populations.

**Purchase prices for residential properties continue to increase**
The purchase prices for residential properties continued to rise in 2011 after considerable growth in 2010. This development was driven above all by the increase in prices for owner-occupier apartments. Experts of the research and consultancy institute, F+B, explain this by higher demand as a result of a trend towards investment in real assets. According to the F+B residential property index, the prices for owner-occupied apartments rose from the fourth quarter of 2010 to the end of the third quarter of 2011 by 2.9 percentage points, the prices for single-family houses moderately by 0.7 percentage points and the prices for multi-family houses also moderately by 0.6 percentage points. The development in single-family and multi-family houses fluctuated over the course of the year. The Association of German Pfandbrief Banks (vdp) also sees a rise in prices for owner-occupied apartments in this period.

According to Immobilienverband Deutschland (IVD), there were regional differences in the development of prices. Cities saw much sharper price rises in 2011 than smaller towns. According to IVD, the towns with the highest rates of increase were Kassel with 18.0%, Karlsruhe with 15.0% as well as Bremen and Krefeld with 14.0%. The leaders among the metropolises were Hamburg with an increase of 9.4% and Berlin with 8.0%. Whilst, according to F+B, the prices for owner-occupier apartments in the states of Berlin and North Rhine-Westphalia are roughly on a par with the national average, the prices in Hamburg and Bavaria are the highest and those in the new German states the lowest. As with rents, the cities where the top purchase prices are fetched are the south German cities, and here the city of Munich takes first place with an average square metre price of € 3,710 in the third quarter of 2011. The lowest purchase prices are achieved in the towns and cities of the new German states. Weißenfels in Saxony-Anhalt was last in the list in the third quarter of 2011 with € 650 per square metre.

**German tenants considering purchasing an apartment**
By European comparison of home ownership rates, Germany is last but one at 43%, followed only by Switzerland. There are, however, considerable regional differences according to a study by PATRIZIA Research. Home ownership rates in Saarland and in Rhineland-Palatinate are higher than average whereas they are particularly low in the city states of Berlin and Hamburg. According to a representative survey conducted by the real-estate service provider, Immowelt, in 2011, roughly one in four tenants is considering buying an apartment.

**High demand for residential real-estate portfolios**
The demand for residential real-estate portfolios increased significantly in 2011 according to estimates of the experts at CB Richard Ellis (CBRE) and Jones Lang LaSalle (JLL). According to JLL, the turnover achieved in trading in residential property portfolios in the entire year of 2010 was already matched in the first half of 2011. According to CB Richard Ellis (CBRE), the transaction volume sold between January and September totalled € 3.42 billion and was thus 39% higher than in the same period of the previous year. The number of units sold was 44% higher than in the same period of 2010. The real-estate service provider Savills plc has calculated an investment volume of € 4.83 billion for 2011 as a whole.

Measured by the transaction volume, listed real-estate companies represent the largest group of buyers with a share of some 33%, followed by private real-estate companies and special funds. German residential property portfolios are interesting for foreign investors. According to information provided by CBRE, foreign investors were primarily involved in large transactions with a volume of € 50 million and more in 2011. 60% of the transactions in this sector were concluded by foreign investors.

The transaction volume was boosted by the IPO of GSW Immobilien AG as well as the takeover of the majority shareholding in Colonia Real Estate AG by TAG Immobilien AG. The main investment targets in 2011 were the metropolitan areas of Berlin, the Ruhr area, Frankfurt am Main and Hamburg as well as the area in and around Munich. Larger transactions with portfolios of 1,000 and more housing units were seen in 2010 and 2011 particularly frequently in Berlin as well as comparatively often in the old German states, North Rhine-Westphalia and Lower Saxony, and in the new German state, Saxony.

**More building permits, historically low financing terms**
According to the Federal Statistical Office, building permits were issued for the construction of 167,700 apartments from January to September 2011. That is an increase of 21.6% compared with the same period in 2010. The number of building permits for multi-family houses rose particularly sharply by 26.5%. Despite a slowing of momentum in the housing construction sector in the second half of 2011, Förderbank Kreditanstalt für Wiederaufbau (KfW), the German promotional bank, estimates that some 156,000 new housing units were completed in 2011. According to information provided by GdW, the demands on energy efficiency and high land prices mean that it is often only worthwhile building new apartments for rent in the top-rent segment. Social

housing promotion schemes will remain necessary after 2013 if the demand for new, reasonably priced, barrier-free and energy-efficient apartments is to be covered.

According to a survey conducted by the real-estate experts of PlanetHome, the demand for real-estate financing has risen. The reasons for this are the historically low financing conditions as well as the flight into investment in real assets. Nearly two thirds of the real-estate agents asked had observed greater customer interest in 2011. Measures to rescue the euro could, however, according to experts at Bremer Landesbank, drive investors out of German government bonds and lead to an increase in mortgage rates. In the second half of 2011, according to information from the consumer finance portal, Biallo.de, the trend in mortgage rates was slightly upward.

**Number of private households will continue to increase until 2025**

Despite the declining population, the number of households will, according to the Federal Statistical Office, increase in Germany until 2025 by 2.0% from some 40.3 million to 41.1 million. The reason for this is the continued trend towards smaller households as part of the demographic change and the rising number of single people, also among the younger generation. For example, the number of one and two-person households in particular will increase, which will lead overall to a corresponding demand for accommodation in the preferred regions. The development will differ from region to region. In Hamburg, Baden-Württemberg and Bavaria, there will be an above-average increase in the number of households, according to the Federal Statistical Office. By contrast, there will be a decrease in the new German states and in Saarland.

# Business Review

**Explanations of our key performance indicators**
Adjusted EBITDA (Earnings before Interest, Taxes, Depreciation and Amortisation) is used by Deutsche Annington for management reporting and represents the sustainable earning power of the company. Adjusted EBITDA is the result before interest, taxes, depreciation and amortisation adjusted for the non-recurring result as well as for effects of changes in the value of real estate. The non-recurring result comprises one-off or infrequent effects which have an impact on the result, such as project costs for the further development of business or the contribution made by acquisition activities to EBITDA. The effects from changes in the value of real estate comprise the gains and losses from the change in value recorded in the result as well as the effects on the result which may arise from a sale (realised changes in value).

FFO (Funds from Operations) is a key performance indicator based on the cash flow available from operating activities. In addition to adjusted EBITDA, the recurring cash-effective net interest expenses from non-derivative financial instruments as well as income taxes are included in the FFO. Neither key performance indicator is determined on the basis of any particular international reporting standards but instead they are to be regarded as a supplement to the other key result figures determined in accordance with IFRS. In our opinion, adjusted EBITDA and FFO permit greater transparency in the assessment of the sustainable earning and financial power of our business activities.

As part of the changes in the accounting policies in the 2011 financial year, we have restated the prior-year figures in accordance with IAS 8. For further explanations, we refer to the relevant section in the Notes to the Consolidated Financial Statements, note 5a.

***Overview of the key performance indicators of the Deutsche Annington Immobilien Group in 2011***

| € million | 2011 | 2010 |
|---|---|---|
| Income from property management | 1,082.6 | 1,058.9 |
| Gross profit from property management | 596.0 | 589.5 |
| Income from disposal of properties | 253.3 | 224.9 |
| Gross profit on disposal of properties | 64.8 | 71.8 |
| Adjusted EBITDA | 509.6 | 501.6 |
| FFO | 218.6 | 226.7 |
| Investments | 63.0 | 52.0 |
| Number of employees (as at Dec. 31) | 1,279 | 1,101 |
| Number of units sold (recorded sales) | 3,169 | 2,584 |
| *Sold individually* | *2,503* | *2,164* |
| *Other sales* | *666* | *420* |
| Number of units bought (transfer of title) | 0 | 0 |
| Vacancy rate in % | 4.3 | 5.1 |
| Number of residential units in portfolio (as at Dec. 31) | 186,530 | 189,664 |

**Positive development of results continues in 2011**
The Deutsche Annington Immobilien Group continued its positive result trend in the 2011 financial year. The most important operating KPIs were improved: the vacancy rate fell significantly from 5.1% (2010) to 4.3%. Our net rents rose by 1.8% to € 5.15/m$^2$/month (2010: € 5.06/m$^2$/month). At the same time, we managed to increase the number of units sold by 22.6% from 2,584 apartments to 3,169 apartments.

Our two most important key performance indicators, adjusted EBITDA (Earnings before Interest, Taxes, Depreciation and Amortisation) and FFO (Funds from Operations) also developed positively; both exceeded our expectations. Adjusted EBITDA reached € 509.6 million, which was an increase of 1.6% compared with the previous year. Thus we topped the half a billion euro mark for the second time in succession with one of the most important performance indicators. As regards FFO, we fell only just short of the high figure for 2010 despite the higher interest rates on the GRAND financing which applied to the entire year for the first time. FFO amounted to € 218.6 million in 2011 (2010: € 226.7 million). In the previous year, the changed interest rates only had an effect on the FFO in the last six months of the year.

Overall, the 2011 financial year was characterised by continuous improvements in the business processes and performance as well as by a positive development in the Property Management business segment and a rise in the number of housing units sold. The resulting stronger financial and earning power demonstrates once again that our company is built on a stable and promising foundation.

**Gross profit from property management**
*January 1 to December 31*

| € million | 2011 | 2010 |
|---|---|---|
| Gross rental income | 1,062.8 | 1,039.3 |
| Other income from property management | 19.8 | 19.6 |
| Cost of materials for property management | -486.6 | -469.4 |
| **Gross profit from property management** | **596.0** | **589.5** |

**Higher gross profit from Property Management**
The Property Management business segment covers our property rental and condominium administration activities. Our gross profit from property management in 2011 increased by 1.1% to € 596.0 million (2010: € 589.5 million). Rental income in 2011 rose by € 23.5 million to € 1,062.8 million. Here the raising of rents within the statutory limits and a much lower vacancy rate had a positive effect.

As in the previous year, some 70% of the gross rental income in 2011 was income from net rents and approx. 30% from charges and costs passed on to the tenants in the ancillary cost bills. The main components of other income from property management are rent subsidies, income from condominium administration and income from property management activities for third parties.

At € 486.6 million, the cost of materials for the property management segment was higher in 2011 than in 2010 (€ 469.4 million) and contains primarily the maintenance work performed in 2011 as well as ancillary costs charged to our tenants.

**Rents rise on average by 1.8%**
In the 2011 financial year, we were able to raise our rents by an average of 1.8% to € 5.15/m$^2$/month (2010: € 5.06/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 0.5 percentage points above the core inflation rate. The core inflation rate (consumer price index excluding domestic energy and fuels) was only

1.3%. According to the Federal Statistical Office, prices in Germany rose overall by an annual average of 2.3% in 2011.

**Vacancy rates significantly reduced in 2011**

In 2011, we again managed to further reduce the vacancy rate. At the end of the year, it ran at 4.3%, 0.8 percentage points below the prior-year figure of 5.1%. The vacancy rate also includes our so-called sales-related voids at 0.7% (2010: 0.8%). These are residential units earmarked for sale and therefore not re-let as it is easier to sell empty apartments to owner-occupiers.

We achieved the reduction in the vacancy rate through a number of coordinated measures. For example, in housing stocks with an above-average number of voids, we conducted targeted marketing campaigns, selectively reduced prices and, at the same time, upgraded the standard of the housing units. Furthermore, at locations with high demand and low vacancy rates, we adopted a policy of differentiated pricing and more targeted steering of prospective tenants, concentrating more on the sustainability of our tenant structure than before. Overall, our property rental performance in 2011 remained constantly high with an average of up to 1,806 (2010: 1,797) new rental contracts signed every month.

**Quality of the housing stock further improved**

Deutsche Annington invests in maintaining and improving the quality of its housing stocks with targeted modernisation and maintenance programmes. In 2011, we carried out 172 modernisation projects involving a total of 3,321 units as well as a large amount of maintenance work throughout Germany. Expenditure on such work increased by 11.8% to € 192.1 million compared with the previous year (2010: € 171.8 million). That is an average of € 16 per square metre of rented living area. Most of the 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 200,000 square metres. That is roughly the area of 30 football pitches.

In the last three years, we have spent half a billion euros in modernisation and maintenance work on our housing stock. Thanks to our size, we can achieve what are in some cases considerable price advantages when buying in goods and services.

In our modernised residential estates, energy consumption falls considerably, which also reduces $CO_2$ emissions. According to our own calculations, the $CO_2$ emissions of the apartments which were heat-insulated in 2011 will be reduced by roughly 5,400 tonnes. The lower energy consumption not only benefits the environment but also our tenants in the form of lower ancillary cost bills. At the same time, with these investments we increase the attractiveness of our residential units and therefore ultimately ensure sustained rental income.

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

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

**Set-up of the facility manager and craftsmen's organisation**

In 2011, Deutsche Annington set up its own facility manager organisation and established a joint venture for craftsmen's services, which is to recruit more than 1,000 new employees by 2013. The facility managers will be the direct contacts for the customers of Deutsche Annington and above all make sure the residential estates are clean. Furthermore, they will act as quality managers and check the work of the service providers contracted by Deutsche Annington and deployed in our housing units.

The company, Deutsche TGS West GmbH, founded by Deutsche Annington together with B&O Service & Messtechnik AG, a provider of craftsmen's services, will handle jobs such as painting, plumbing, masonry and glazing work in our residential estates.

In addition, as from 2012, Deutsche Annington will bundle and contract out services outside the buildings such as gardening work, winter service, street, pavement and house cleaning to Alba Facility Services. For the tenants of Deutsche Annington, this means price and performance stability until 2016.

**Ancillary cost billing improved and certification obtained**

In the past year, we improved our ancillary cost billing processes. As a result, we were able to send bills for ancillary costs and service charges on average nearly two months earlier than in 2010. At the same time, the number of complaints about bills was significantly reduced by 30%.

We have had the quality of our work verified by an independent body: in mid-2011, Deutsche Annington was awarded the Geislinger Konvention quality seal. It certifies that we make a demonstrable effort to keep the ancillary costs as low as possible and also confirms the high transparency of the bills. At the end of the year, Deutsche Annington was also the first large German housing company to receive a TÜV seal of approval for ancillary cost billing. With the ISO 9001:2008 certification, TÜV Rheinland confirms that DAIG pays close attention to the quality of its processes and continuously makes improvements.

The certifications demonstrate the efficiency of our processes as well as the high quality of our ancillary cost and service charge bills. Our customers will have the full benefit of this in the bills from 2012 onwards.

**Deutsche Wohn-Inkasso established**

By establishing Deutsche Wohn-Inkasso GmbH, a debt collection company, we are also working closely with our customers and providing assistance in difficult situations. Together with the tenants, we aim to find a mutually acceptable solution to help them out of their debts. Therefore, we are planning to offer debt counselling together with Arbeiterwohlfahrt (Workers' Welfare Association). Here, we are also adopting new methods and will further strengthen this social approach in future. At the same time, we are also pursuing the goal of reducing arrears on receivables at market conditions in order to ensure suitable payment for all the services we provide.

**Strategic partnership started with Deutsche Telekom**

At the end of 2011, Deutsche Annington entered into a strategic partnership with Deutsche Telekom in order to equip 171,000 housing units throughout Germany with modern fibre optic technology. Furthermore, our apartments are to not only have a wider range of TV channels available but also a connection to the fibre optic network and therefore also access to the fast broadband connections of Telekom. Work started on implementing the project at the beginning of 2012. By the first quarter of 2013, more than 40,000 apartments will be connected. Through this cooperation, we were able to negotiate another exclusive and low-cost service for our customers.

**Condominium administration well positioned**

The Deutsche Annington Immobilien Group offers its customers a condominium administration service through Deutsche Annington Service GmbH. It 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, Deutsche Annington Service GmbH 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.

Due to statutory regulations, apartment owners may engage a property manager for a maximum of five years. After that period, the contract can be renewed or another manager can be engaged. The so-called repeat order quota is therefore a direct indication of how satisfied the apartment owners are with the manager.

In 2011, Deutsche Annington Service GmbH expanded its business activities further. 190 (2010: 319) administration contracts were renewed with condominium owners' associations. The fees agreed in the contract renewals increased by an average of 1.4%. Furthermore, 11 (2010: 3) new administration contracts were signed. The increase was achieved by redoubling our efforts to acquire new customers. At the same time, we stopped administration of some properties of condominium associations since these locations were unprofitable. At the end of 2011, Deutsche Annington Service GmbH was looking after 1,189 condominium owners’ associations (2010: 1,202) with a total of 41,172 owner-occupier units (2010: 42,701).

In the past year, Deutsche Annington Service GmbH 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 the property. As a result, the condominium owners' associations have the opportunity to consider the necessary investments in context and therefore plan their entire financing requirements better. If the customers so request, Deutsche Annington Service GmbH can provide reasonably priced quotes for construction work where the condominium owners' associations can benefit from Deutsche Annington's purchasing advantages.

**Gross profit from sales**

*January 1 to December 31*

| € million | 2011 | 2010 |
|---|---|---|
| Income from disposal of properties | 253.3 | 224.9 |
| Carrying value of properties sold | -188.4 | -153.5 |
| Realised change in value of properties | -0.1 | 0.4 |
| **Gross profit from sales** | 64.8 | 71.8 |
| Margin | 25.6% | 31.9% |

**Apartment sales up by 22.6%**

Income from disposal of properties grew by 12.6% from € 224.9 million to € 253.4 million in 2011. The increase was due to the fact that the number of housing units sold rose by 22.6%: we sold 3,169 (2010: 2,584) apartments throughout Germany; of this figure, 2,503 (2010: 2,164) housing 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.

Gross profit from sales fell from € 71.8 million (2010) to € 64.8 million in 2011. This development is mainly a result of the larger number of units sold under our portfolio optimisation policy. The margin on these housing stocks was below the high level of 2010 and led to a decrease in gross profit from sales.

**Changes in the value of the properties**
*January 1 to December 31*

| € million | 2011 | 2010 |
|---|---|---|
| Income from fair value adjustments of investment properties | 249.4 | 25.8 |
| Changes in value of trading properties | 204.5 | 0.1 |
| **Net valuation gain on property** | **453.9** | **25.9** |

**Positive development of the market influences property values**
At € 453.9 million, the net valuation gain on property was well up on the prior-year figure (€ 25.9 million).

The positive development of rents and the decrease in voids in the housing stocks of the Deutsche Annington Immobilien Group led – in conjunction with the positive development of the market at our locations – to a much higher increase in value. The fair value adjustment of investment properties added € 249.4 million to the 2011 result.

The change in the value of trading properties led to income of € 204.5 million which resulted from the fair value adjustment of trading properties reclassified to investment properties.

As part of the integration of Viterra AG, Deutsche Annington prepared annual financial statements in accordance with the international accounting standards IFRS for the first time in 2005. Since then, we make a distinction on the face of the balance sheet between investment properties and trading properties:
- Investment properties: properties that are held for the purpose of earning rental income or for capital appreciation and that are measured at fair value.

- Trading properties: properties which are to be sold within the normal six-year business cycle and that are measured at amortised cost.

In the past, it was in many cases not possible to sell the trading properties on terms that make economic sense during the six-year business cycle. Therefore, in contrast to 2010, all properties that had previously been shown under trading properties as potential properties for privatisation were classified as investment properties in the 2011 financial year. The entire real-estate portfolio will therefore be measured uniformly in future and shown under the balance sheet item Investment Properties.

Any difference between the fair value and the previous carrying amount existing at the time of reclassification is recognised in profit or loss as a change in the value of trading properties.

As in previous years, in 2011 we again performed a detailed internal valuation to determine the fair values of our entire real-estate stocks. Further information on how the fair values were determined is to be found in the relevant section starting on page 33.

***Reconciliation to adjusted EBITDA***
*January 1 to December 31*

| € million | 2011 | 2010 |
|---|---|---|
| **Gross profit from property management and sales** | **660.8** | **661.3** |
| Other operating income | 44.3 | 46.9 |
| Income from investments and financial assets | 2.7 | 2.3 |
| Other cost of materials | -62.1 | -58.6 |
| Other operating expenses | -58.4 | -73.1 |
| Personnel expenses | -77.7 | -77.2 |
| **Balance of other operating income and expenses** | -151.2 | -159.7 |
| **Adjusted EBITDA** | **509.6** | **501.6** |

**Adjusted EBITDA above pre-year figure**

In 2011, we improved adjusted EBITDA by € 0.8 million to € 509.6 million. In the reconciliation to adjusted EBITDA, the income and expense items are adjusted to eliminate non-operating components. The non-recurring result amounting to € -29.4 million (2010: € -16.5 million) mainly contains project costs for the further development of the business model (€ 18.0 million), acquisitions (€ 4.1 million), restructuring costs (€ 3.0 million) as well as expenses arising from the development of provisions for the long-term incentive plan (€ 0.9 million).

***Reconciliation to FFO***
*January 1 to December 31*

| € million | 2011 | 2010 |
|---|---|---|
| **Adjusted EBITDA** | **509.6** | **501.6** |
| Net interest expense in FFO | -286.1 | -273.8 |
| Income tax expense in FFO | -4.9 | -1.1 |
| *thereof current income taxes for the year* | *-4.9* | *-5.1* |
| *first-time application of the FFC ruling* | *0.0* | *4.0* |
| **FFO** | **218.6** | **226.7** |

**As expected, FFO fell short of the previous year's figure**

At € 218.6 million, FFO in 2011 did not quite reach the high figure for 2010 (€ 226.7 million). One main reason for this was that net interest expense in FFO was, as expected, higher as a result of the changed interest rates under our securitisation. Net interest expense in FFO rose by € 12.3 million to € 286.1 million as a result of the effect of the changed interest rates under our securitisation applying for the first time to an entire year. Due to contractual agreements, the interest rates on the GRAND loan rose from July 2010. In 2006, 31 companies of the Deutsche Annington Immobilien Group sold REF notes to German Residential Asset Note Distributor PLC (GRAND) in a securitisation transaction. The average weighted interest rate under the securitisation transactions was 3.37% until July 2010. Under the contract conditions, this interest rate increased to 4.66% from July 2010 to the end of the term in July 2013.

The interest from non-derivative financial instruments is recorded under net interest expense in FFO. The main difference to the net interest in accordance with IFRS is the difference between the effective interest rate and the nominal interest rate. Furthermore, interest accretion to provisions is not taken into consideration in FFO.

***Reconciliation to profit for the period***

*January 1 to December 31*

| € million | 2011 | 2010 |
|---|---|---|
| **Adjusted EBITDA** | **509.6** | **501.6** |
| Non-recurring result | -29.4 | -16.5 |
| Net valuation gain on property | 453.9 | 25.9 |
| Depreciation and amortisation | -6.2 | -5.3 |
| Other interest and similar income | 12.0 | 6.2 |
| Interest and similar expense | -362.1 | -352.4 |
| Current income tax | 1.6 | 2.5 |
| Deferred tax expense/income | -155.9 | 29.6 |
| Realised change in value of properties | 0.1 | -0.4 |
| **Profit for the period** | **423.6** | **191.2** |

**Profit for the period much improved**

The reconciliation from adjusted EBITDA to the profit for the period shows two main effects: at € 453.9 million, the net valuation gain on property is well above the prior-year figure (2010: € 25.9 million). The reasons for this are a considerable increase in the value of the investment properties as well as the value adjustment made necessary when the trading properties were reclassified to investment properties in 2011. The higher valuation of the properties led at the same time to a higher deferred tax expense of € 155.9 million.

**Acquisitions: market still offers good opportunities for acquisitions**

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

We see the successful integration of the residential portfolios acquired in the last five years as proof of the sustainability of our growth strategy. Our core competence is to integrate and further develop large housing portfolios in line with our strategy.

We are expecting to find investment opportunities, particularly in the public sector. We are also anticipating that private-sector owners will continue to want to sell. In 2011, we analysed in detail some 400 offers for a volume of about 150,000 residential units. In the months to come, we will be closely following up options which we consider attractive.

## Financial Position and Net Assets

***Group balance-sheet structure***

| | Dec. 31, 2011 | | Dec. 31, 2010 | |
|---|---|---|---|---|
| | € million | % | € million | % |
| Non-current assets | 9,971.9 | 93.2 | 8,515.7 | 81.0 |
| Current assets | 725.0 | 6.8 | 1,997.6 | 19.0 |
| **TOTAL ASSETS** | **10,696.9** | **100.0** | **10,513.3** | **100.0** |
| Equity | 2,229.8 | 20.8 | 1,818.0 | 17.3 |
| Non-current liabilities | 7,245.9 | 67.8 | 7,470.1 | 71.1 |
| Current liabilities | 1,221.2 | 11.4 | 1,225.2 | 11.6 |
| **TOTAL EQUITY AND LIABILITIES** | **10,696.9** | **100.0** | **10,513.3** | **100.0** |

**Equity ratio increases in 2011, debt reduced**

In the reporting period, we increased the equity ratio of the Deutsche Annington Immobilien Group from 17.3% in 2010 to 20.8%. At the same time, we reduced debt significantly in 2011, above all by making net capital repayments of € 367.1 million on loans.

In 2011, non-current assets were well above the prior-year figure: the increase in the fair value of investment properties in 2011 (€ 249.4 million), the reclassification of trading properties in the amount of € 1,265.2 million as well as the capitalised modernisation measures are all reflected in this development.

***Statement of investments***

| € million | 2011 | 2010 |
|---|---|---|
| Cash-effective investments | 63.0 | 52.0 |
| Liabilities assumed | 0.0 | 0.0 |
| **Investments (total)** | **63.0** | **52.0** |

**Investments focus on the modernisation of housing stocks**

In 2011, Deutsche Annington invested € 63.0 million (2010: € 52.0 million) mainly in modernisation projects to further improve the quality of its housing stocks.

***Statement of cash flow***

*January 1 to December 31*

| € million | 2011 | 2010 |
|---|---|---|
| Cash flow from operating activities | 580.6 | 472.5 |
| Cash flow from investing activities | 87.8 | 42.6 |
| Cash flow from financing activities | -700.6 | -479.9 |
| **Net changes in cash and cash equivalents** | **-32.2** | **35.2** |
| Cash and cash equivalents at beginning of year | 310.7 | 275.5 |
| **Cash and cash equivalents at year-end** | **278.5** | **310.7** |

**Operating cash flow significantly higher**

In 2011, the Deutsche Annington Immobilien Group generated cash flow from operating activities of € 580.6 million (2010: € 472.5 million). This figure includes cash inflow from the property rental business and from the sale of trading properties. The increase was mainly a result of lower income tax payments, higher cash inflows from the sale of trading properties as well as positive effects from the fall in the vacancy rate.

The cash flow from investing activities rose in the reporting period by € 45.2 million to € 87.8 million. This sharp rise is a result of higher proceeds from the sale of investment properties. By contrast, expenses for modernisation work increased in 2011 compared with the previous year.

The financing activities led to a cash outflow of € 700.6 million (2010: € 479.9 million). We considerably increased net capital repayments in the 2011 financial year by € 155.7 million to € 367.1 million. As expected, interest payments increased to € 300.4 million due to the fact that the interest rates under our securitisation changed in mid-2010. Furthermore, in 2011 incidental expenses in connection with the refinancing of several portfolios were recorded as transaction costs in the cash flow from financing activities.

## Funding

The situation on the financial markets has worsened again since mid-2011. The main reason is the simmering debt crisis in a number of euro member states which had an impact on the entire economic area. This led to considerably higher margins in the interbank market which the banks passed on in full in their loans. Despite these uncertainties, our product, real estate, and the management of Deutsche Annington are still perceived by the market as being positive. We see the favourable conditions obtained in the refinancing of the Hallam securitisation transaction in April 2011 and the refinancing of the Prima portfolio at the end of 2011 as a sign that the market has 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 the classic bank loans in the form of mortgages, the Deutsche Annington Immobilien Group uses structured loans. The mortgages have long terms in some cases and fixed interest rates.

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 fixed payer swaps to hedge against short-term changes in interest rates. The term of these interest-hedging instruments depends on the term of the underlying loan; the swap reduction takes the loan repayment profile into consideration. So Deutsche Annington bears practically no interest rate risk.

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

**Debt further reduced**

As at December 31, 2011, Deutsche Annington had reduced its nominal liabilities to banks and other financial liabilities – mainly loans obtained on the capital market such as the GRAND and Prima securitisations – by € 367.1 million to € 6,716.2 million compared with the previous year. The classic bank loans in the form of mortgages had a nominal value of € 1,268.1 million at the end of 2011 (2010: € 1,330.9 million). These include loans granted by promotional banks which are subject to various conditions. These loans were reduced by € 12.8 million to € 443.6 million compared with the previous year. At the same time, Deutsche Annington renewed mortgages with a volume of € 50.8 million in 2011 (2010: € 53.3 million). No new drawdowns were made nor new loans taken out in 2011.

In 2011, the average interest rate on the loans of Deutsche Annington was unchanged on the balance-sheet date at 4.39% compared with the previous year. As in the past, the covenants laid down in the loan agreements were always fulfilled.

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

In 2011, we managed to significantly reduce the volume of large structured credit facilities. The nominal volume of the liabilities decreased by € 304.3 million from € 5,752.4 million to € 5,448.1 million. A large part of these repayments was accounted for by GRAND REF notes issued in two tranches in 2006, which had a value of € 4,643.0 million at the end of 2011 (2010: € 4,925.0 million). In total, we made capital repayments on these loans amounting to € 282.0 million in 2011 (2010: € 141.7 million) as well as interest payments of € 208.7 million (2010: € 176.6 million). Capital repayments on the other structured loans were made according to schedule.

**Talks started on extending the GRAND securitisation**

In 2006, 31 companies of the Deutsche Annington Immobilien Group sold REF Notes to German Residential Asset Note Distributor P.L.C. (GRAND) as part of securitisation transactions. The 31 issuing companies involved in the securitisation transactions in 2006 provided securities in the form of land charges, account pledge agreements and assignments. Furthermore, company shares were pledged. The average weighted interest rate under the securitisation transactions was 3.37% until July 2010. Under the contract terms, this interest rate increased to 4.66% from July 2010 to the end of the term in July 2013. Repayments on these transactions are made from current cash flow from the property rental business and sales of housing units.

At the beginning of 2011, Deutsche Annington took initial steps towards the refinancing of GRAND. Deutsche Annington identified the bondholders and with them set up a representative ad-hoc group, in which preliminary negotiations on the refinancing steps were conducted. The aim of the refinancing is to reduce the volume risk of the creditors and, at the same time, to make the borrowings profile of Deutsche Annington more balanced. In order to achieve this, the securitisation is to be both amended and extended. The talks are proceeding in a very constructive manner.

**Refinancing of other securitisations achieved ahead of maturity**
A further major event in 2011 was the early repayment in April of the Hallam securitisation due in October 2011.

Furthermore, at the end of 2011 we managed to secure a loan with a major German bank to replace the existing securitisation of the Prima Group (Opera Germany No. 1). In November 2009, Deutsche Annington acquired the majority shares in the Prima portfolio with 4,458 housing units, taking over the existing financing (securitised loan) which expires on December 31, 2012. Here, just as with the Hallam securitisation, we are aiming to repay the loan well before the end of its term.

During the refinancing process, the market was closely examined with regard to potential refinancing instruments as well as to possible financing partners. It became clear that the Deutsche Annington Immobilien Group is still seen as a good and reliable partner. This statement is underlined by the fact that both securitisations were refinanced in full in each case with just one bank.

We intend to further encourage this positive perception of the Deutsche Annington Immobilien Group by proactive communication. We are highly confident that sustainable and satisfactory solutions can also be found for the company when further refinancing is required after 2011.

**Financing conditions have become slightly tougher**
Whilst tension on the financial markets continued to ease in the first half of 2011, the debt crisis in the USA and the southern euro countries led to increased nervousness on the financial markets which spread as far as the interbank market. As a result, the banks increased their margin and equity requirements for the funding of acquisitions or refinancing. In industry circles, the situation is therefore no longer compared with the time before the financial crisis but it is generally regarded as the "new normality". As, however, expectations of further rises in the interest rates have disappeared in the light of the debt crisis, the base interest rate level has eased considerably so the overall refinancing costs have only risen slightly.

After securing the refinancing of Prima, none of the major loans of the Deutsche Annington Immobilien Group are due for refinancing before 2013. We will continue to watch the market, keep talking with our financing partners and take advantage of any good opportunities for us which present themselves. For details on our liabilities, we refer to the Notes to the Consolidated Financial Statements, note 31.

**Desired growth to be funded according to time-tested principles**
It remains part of the strategy of Deutsche Annington to expand our portfolio of properties through economically sensible acquisitions. To this end, we regularly examine portfolios and hold in-depth talks with potential sellers. Deutsche Annington is planning to ensure that we 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 42 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 2011. Rents and selling prices for multi-family houses and owner-occupier apartments rose, particularly in the locations relevant for Deutsche Annington. This development of the market and housing stocks led in 2011 to a sharp increase 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, 2011.

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.

As of the balance-sheet date, December 31, 2011, the housing units shown under trading properties were reclassified to investment properties (see page 23 f). They can, however, still be sold as part of the housing privatisation programme. Whilst this so-called privatisation portfolio was valued in 2010 using a modified comparable method, the entire residential real-estate portfolio was valued in 2011 using the income capitalisation method.

The capitalised interest rates applied were derived from the current 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 5.90% to 5.88% due to the positive development of the market.

The net 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 € 11.03 per square metre (2010: € 10.93 per square metre). The administrative expenses were some € 258 per housing unit (2010: € 255 per housing unit).

The modernisation work performed on our portfolio of residential units in 2011 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 2.0% and 12.0% 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 € 9.9 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, 2011.

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 real-estate portfolio of residential buildings, small commercial units, garages, parking spaces as well as undeveloped land and any inheritable rights granted of the Deutsche Annington Immobilien Group as at December 31, 2011 was approx. € 9,939.6 million (2010: € 9,879.7 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** | **2011** | 2010 | **2011** | 2010 | **2011** | 2010 |
| North Rhine-Westphalia | 99,002 | 100,342 | 20,378 | 20,689 | 4,657.2 | 4,669.1 |
| Hesse | 22,066 | 22,432 | 4,272 | 4,238 | 1,536.7 | 1,499.9 |
| Bavaria and Baden-Württemberg | 20,353 | 21,002 | 9,954 | 10,201 | 1,398.7 | 1,391.2 |
| Berlin | 13,121 | 13,289 | 2,524 | 2,456 | 713.5 | 696.8 |
| Schleswig-Holstein and Hamburg | 12,742 | 12,852 | 3,543 | 3,568 | 644.1 | 627.6 |
| Five new states | 7,605 | 7,910 | 1,197 | 1,203 | 318.1 | 312.2 |
| Lower Saxony and Bremen | 6,230 | 6,319 | 1,190 | 1,196 | 310.9 | 323.5 |
| Rhineland-Palatinate and Saarland | 5,411 | 5,518 | 1,776 | 1,786 | 308.2 | 303.7 |
| Undeveloped land | | | | | 52.2 | 55.7 |
| | **186,530** | **189,664** | **44,834** | **45,337** | **9,939.6** | **9,879.7** |

### 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 rates | - 1/4% | - 1/8% | +1/8% | + 1/4% |
|---|---|---|---|---|
| Changes in value* in € million | 444.2 | 217.0 | -207.4 | -405.9 |
| Changes in value* in % | 4.5 | 2.2 | -2.1 | -4.1 |

* Result shows the change in value 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** in € million | -130.6 | -65.5 | 65.9 | 131.9 |
| Changes in value** in % | -1.3 | -0.7 | 0.7 | 1.3 |

** Result shows the change in value resulting solely from a change in market rents without any changes in any other measurement parameters.

## Employees

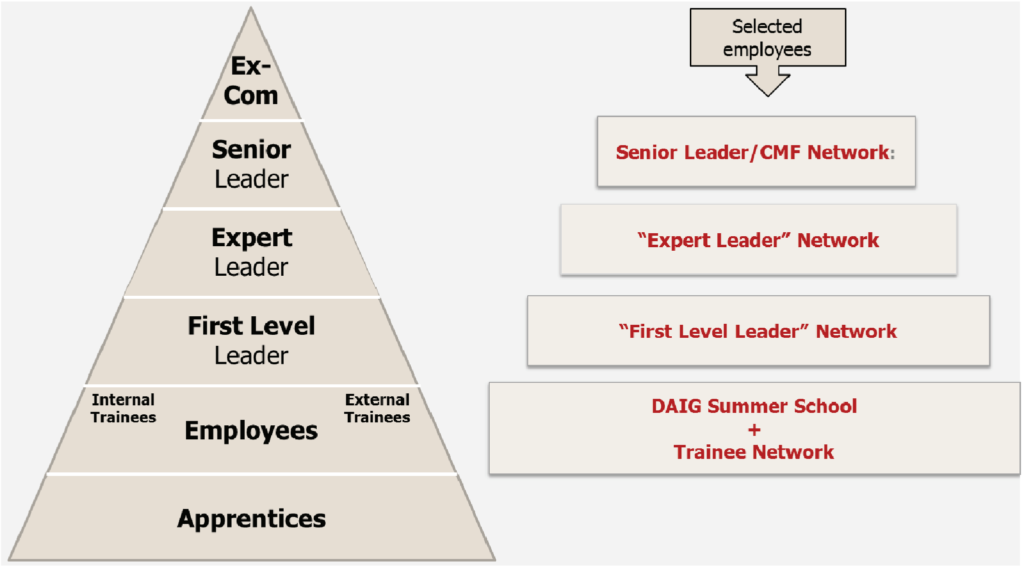
**The Deutsche Annington Immobilien Group has a sound employee structure**
Deutsche Annington currently employs 1,279 people. We want to be an attractive employer for them and fulfil the responsibility which our role as an employer demands of us. Therefore, we have a modern and balanced style of HR management. It is designed to promote the development of each individual optimally. We want to offer long-term career prospects, also to our young employees.

Admittedly, in the years from 2008 to 2010, staff numbers had to be cut as part of the fundamental restructuring of our company, which the development of the real-estate market had made necessary. However, this restructuring has been completed since the end of 2010. Two years after the reorganisation of our company, we have further developed our business model. This also involved the building up of our own facility manager and craftsmen's organisation in 2011. By 2013, more than 1,000 new employees are to be recruited to work in this organisation. Therefore, the number of employees will double in the next few years.

As at December 31, 2011, the Deutsche Annington Immobilien Group employed a total of 1,279 people, including 566 women, which is 44.3% of the total workforce (2010: 46.0%). 184 employees have part-time jobs (14.4%) as against 15.6% in 2010. A balanced employee structure is important to us. The average age of employees in our Group is 42.6 (2010: 43.1); the average number of years of service is 11.0 (2010: 12.9).

**Qualifications are important**
In the past years, we have initiated a range of further training programmes for our staff. These are important for personality development as well as for the successful performance of the tasks newly assigned to the staff in recent years. For example, special communication training was provided for the staff in the new customer centre. This training was attended by both new recruits and experienced employees who were transferred to perform this task. The further training measures not only strengthen the professional skills of the staff but also increase their identification with our company. Furthermore, they help to stabilise and further improve the quality of our services for customers.

**HR development: career model creates networks for employees with leadership qualities**
Our company offers high-potential employees at all levels numerous opportunities to develop their personal skills and professional competence. The possibilities range from targeted individual measures and training courses to participation in network programmes. As in previous years, in 2011 we also used the annual company-wide HR development rounds to identify talent and further train leaders. They are promoted according to the DAIG career model.




Elements of the career model:

One model module which targets talented junior managers is the **Annington Summer School** – a facility which we set up in October 2010. Here, engaged and high-performing talented employees can discover and develop their skills in a three-year programme. In the pilot project last October, 20 participants developed a renting concept for a Deutsche Annington residential estate. Innovativeness, entrepreneurial thinking, project management and the art of skilful interviewing and negotiation were all trained – key qualities which are indispensable in a leader's later daily life for successful communication with different target groups. At the Summer School held in August 2011, the number of participants already rose to 30. The focus here was on customer retention.

A new 15-month **First-Level Leader Network Programme** was introduced in the autumn of 2011. 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. Twelve employees were nominated for 2011. Important components of this concept are measures for personality development as well as for developing entrepreneurial skills. The programme is supplemented by individual modules which are developed together with the participants and their superiors. Parallel to this, we have set up a mentor model which focuses on the idea of networking: each first level leader is given a mentor from the higher management level up, who supports the participants in their personal assessment.

The **Expert Leader Network programme** is currently being planned. It will close the gap between the first-level leader network and the CMF network programme. The target group is high-potential, third-level leaders (F3).

**Pay system creates additional performance incentives**
The employees' efforts to obtain higher qualifications and develop their knowledge are also reflected in the pay system at Deutsche Annington. There is a performance-based pay system for our non-pay-scale employees. It defines the pay range for all employees in managerial and specialist/professional functions. The salaries are made up of a base salary and a variable component and are determined according to pre-defined principles. There is also a fringe benefit package covering special benefits such as a company car.

Alongside the rules for non-pay-scale employees, there is also a variable pay system for pay-scale workers: the management instrument "Management by Objectives" (MBO) is applied to all members of the company and is the central management instrument of Deutsche Annington. It is geared to breaking down the implementation of the Group and corporate strategy into the different company levels through target agreements. Individual target achievement and company performance are rewarded in the form of variable pay. The MBO process is conducted annually and starts with target agreement interviews in which the managers and their staff agree qualitative and quantitative targets.

**Work-life balance: DAIG certification renewed**
Deutsche Annington has already been committed to family and health promotion for some years now. The aim is to improve employee satisfaction and health through an offering tailored to their needs in this field. Furthermore, we want to increase our attractiveness as an employer and strengthen our public image as a family-friendly company. The measures which are now successfully practised include:

- 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 child care
- the provision of a parent/child office at headquarters
- "Wohnen Plus" offers to provide support when relatives of tenants and employees are in need of care

After being awarded the audit berufundfamilie certificate for the first time in 2007, we passed the re-audit in May 2010.

The current and planned measures for further improvements in this field include:

- extension of the internal and external information and communication offering on the subject of work, family and health
- greater sensitisation of managers to the subject of work-life balance
- extension of the "Social Responsibility" activities in the fields of "education" and "living in old age"
- continuation and expansion of health management

- Konzept 55 + (knowledge transfer)

Since 2009, we have been conducting a preventive health care programme entitled **BALANCE BODY & MIND**. A whole series of activities took place in 2010 and 2011. The holding of a health day, cooperation with fitness centres and driving safety training sessions for field service workers are just some examples. Deutsche Annington wants to help increase each and every employee's awareness of health promotion issues.

**Company pension offers**
In view of the fact that the state pensions will be much lower in future than they are today, this subject is very important to today's employees. Through supporting measures, Deutsche Annington helps to ensure that its employees can maintain their standard of living after retiring. The company pension package of Deutsche Annington comprises an employer-financed fixed amount of € 612 a year (pension fund) for pay-scale workers. We give non-pay-scale workers and managers the opportunity to agree individual company pension arrangements in the form of deferred compensation.

**Developing a pool of new talent**
The apprentices of today are our company's standard bearers of tomorrow. On this understanding, we train several dozen young people in commercial professions every year. As at December 31, 2011, the Deutsche Annington Immobilien Group had 67 apprentices (2010: 71) in its employ. Of this figure, 23 young people started their apprenticeships in 2011 (2010: 23).

The pass rate shows that our training is successful: in 2011, 23 apprentices passed their final exams; 20 of them were given a fixed-term employment contract, 3 received a permanent contract. The figures for the year before were 24, 18 and 5 respectively.

The Chamber of Industry and Commerce in the central Ruhr area gave a best-in-exam award to final-year apprentices in three different occupations: four real-estate business adminstrators, one office communications business administrator and one personnel services business administrator received this award. The personnel services apprentice was also invited to the award ceremony for the best apprentices in North Rhine-Westphalia in 2011.

The Federal Association of German Housing and Real Estate Companies (GdW) also awarded one real-estate business administrator a scholarship to study at the European Educational Centre of the Housing and Real Estate Industry (EBZ) for a Bachelor in Real Estate. In 2011, Deutsche Annington itself awarded four scholarships to apprentices with very good marks to study at the EBZ parallel to an apprenticeship or job.

**Employee opinion survey: annual survey of general mood among employees**

Employee motivation and satisfaction are two important goals in our company. If we want to satisfy our aspiration to provide high quality for our customers, we need employees who identify totally with their tasks. Therefore, we have employee satisfaction measured by an independent institute every year. The first employee opinion survey in 2010 gave a detailed overview of the mood among our employees and was dominated by the upheavals in 2009 and 2010. This survey gave us valuable information for further optimisation measures, some of which have already been integrated into day-to-day processes.

The results of the employee opinion survey conducted in May and December 2011 confirm that the measures which we have implemented are working: staff satisfaction increased sharply. Motivated by the positive results, we will systematically continue our efforts to improve our business processes and our working environment.

## Risk Management

The Deutsche Annington Immobilien Group again had an effective risk management system in 2011. The management was able at all times to identify and assess risks within the company and in the company's environment in good time as well as to take appropriate counteraction. The management of Deutsche Annington 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**
Deutsche Annington has set up a central risk management system which ensures the early identification, assessment, control and monitoring of all major risks. Thus potential risks which might impair the value and/or the development of the company are identified and effectively countered. The management 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.

The risk manager, who acts a controlling link between the departments and the management, aggregates and correlates all potential risks and action in a central risk register, which is regularly discussed with the management. Close communication with the management levels ensures that the measures adopted are effectively implemented.

**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. This includes detailed monthly controlling reports as well as monthly reports by the management 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.

The central risk manager ensures that the risk management system is updated and refined as well as adjusted to reflect changes in the company. He coordinates the risk management process from a central point and is in close contact with the managing directors. The effectiveness of our risk management system is examined in regular internal and external audits.

Risk management is documented regularly in a risk report which is made available to all decision-makers. 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 by the risk manager.

**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 which provides sufficient security for the reliability of financial reporting as well as the preparation of internal and published financial statements.

The starting point for the internal control system is a clear organisational and monitoring structure with clearly pre-defined responsibilities. 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

- 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
- intra-group transactions are recorded in full and properly eliminated
- items in business contracts and agreements which are relevant for accounting and require disclosure are appropriately allowed for
- processes exist which guarantee completeness of financial reporting
- processes are in place for the separation of functions and the four-eyes principle during the preparation of financial statements as well as authorisation and access rules for the relevant IT accounting systems.

The effectiveness of the internal control and risk management system is also monitored in both internal and external audits.

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 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. Last year, we saw a stable demand for housing in our segment. 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 led to higher sales of residential properties from our housing stocks to private owners in 2011. In 2012, 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 have continued to counteract this trend by redoubling our sales efforts. We again increased sales compared with the previous years. No housing stocks were acquired in 2011.

As the financial crisis persists in Europe, the situation on the ***financial markets*** remains tense. The margins and equity requirements for new acquisitions and acquisition refinancing increased slightly in 2011. These developments have an effect on the amount of equity we have to provide when making acquisitions and/or refinancing which negatively impacts our return goals due to the leverage effect.

Economic studies are forecasting that the ***demographic change*** (the shrinking and ageing of the population) will cause the demand for accommodation to fall in the long term. However, the number of households will still continue to increase until 2020 owing to the trend towards one and two-person households although the prospects for the German metropolitan areas will differ from region to region. We are responding to these forecasts with a regionally specific portfolio strategy and concentrating in our acquisition efforts on regions which people appear to be migrating to.

**Legal risks**
The Code of Conduct published in 2010 was updated last year and the signing of a group workforce agreement made it binding for all employees. This instrument helps us to ensure ***compliance with statutory regulations and directives*** and so maintains 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 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. All risks and the costs estimated in this connection are reflected in our controlling instruments.

**Real-estate-specific risks**
Last year, 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 structure 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. In 2011, we improved our dunning system by establishing Deutsche Wohn-Inkasso Immobilien GmbH. In addition to systematically pursuing our legitimate claims to outstanding receivables, in future we will also be offering 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 sales programmes. 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. Deutsche Annington works together with a large number of different service providers and therefore depends on their performance. 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**

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 flow 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 its business operations and 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.

In view of the GRAND securitisation maturing in 2013, we already started work last year on the refinancing or renewal of this financing. The successful refinancing and repayment of the Hallam securitisation transaction in 2011 meant that we were in contact with many different market players and could thoroughly check out the market. The basically positive reaction in the financing talks and the refinancing conditions achieved for the Hallam and Prima transactions allow us to be confident with respect to the major refinancing required from 2013 onwards. Please refer to the Notes to the Consolidated Financial Statements, note 31.

As part of the financial risks, we are also exposed to a ***liquidity risk***. Our liquidity management is based on daily cash management, a weekly financial status and rolling liquidity planning on a monthly basis. The regular positive cash flows from our core business do not indicate any particular liquidity risk in the forecast period. In total, the Deutsche Annington Immobilien Group had cash and cash equivalents of € 278.5 million on the reporting date. This enables Deutsche Annington Immobilien Group to fulfil its payment obligations, even during the current economic and financial crisis.

**Other risks**
We cannot identify any other risks that might have a substantial negative impact on the economic situation of the Deutsche Annington Immobilien Group. The Deutsche Annington Immobilien Group is involved in litigation resulting from operating activities, both as the plaintiff and the defendant. These **legal disputes** are routine and result from the normal course of business. They are in particular tenancy law and sales disputes.

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

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. Furthermore, we have incentive programmes for managers in place that also take the years of service into consideration. In order to identify causes of dissatisfaction at an early stage, we regularly conduct a staff satisfaction survey. The strengthened feedback culture increases employee motivation.

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 south of the Ruhr area, the many years of coal mining have left disused mine workings near the surface, which present a risk of mining damage to Deutsche Annington's land and buildings. At present, it is difficult to exactly estimate the

associated economic risk as there are no or very few records for many of the old mine workings. Moreover, the law is still not clear on the question of liability for any damage that might occur. The Deutsche Annington Immobilien Group is countering this risk by conducting a systematic inspection of properties to identify potential mining damage. These results provide the basis for the Deutsche Annington Immobilien Group to take suitable remedial action and clarify the legal situation in the relevant cases.

**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.

**Systematic innovation management**

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 by systematic innovation management. New business ideas and growth initiatives are subjected to a structured selection process. During this process, each initiative passes through several stages in which it is assessed for achievability, the chances of success and the earnings potential. This multi-stage process helps to implement promising business ideas quickly and effectively.

One example of this is the set-up of the company's own facility manager organisation, which first entered the innovation process as a business idea. By developing a business plan and subsequently conducting a pilot project, this idea was then developed into a separate successful business segment.

# Forecast Report

The Deutsche Annington Immobilien Group should be able to continue its successful development of past years in 2012. On the basis of improved business processes, we want to exceed the high level of 2011 in terms of our two most important key performance indicators, adjusted EBITDA and FFO. On the operational side, we will continue to concentrate on the development of our services and on further improving the quality of our housing stock. If the right opportunities arise, we will acquire further residential units and integrate them into our portfolio.

**Significant events after the balance-sheet date**

On January 17, 2012, the shareholders' meeting passed a resolution to convert Deutsche Annington Immobilien GmbH into Deutsche Annington Immobilien AG. The entry in the trade register necessary for the conversion to be effective had yet to be made at the time when the consolidated financial statements were prepared.

**General economic expectations**

According to the Federal Ministry for Economics and Technology, the positive development of the economy in 2012 will depend on whether the dampening effects of the euro debt crisis ease. For this to happen, consumers' and investors' confidence in sound state finances must be restored. The dependence of economic development on decisions of European politicians makes a forecast more difficult as quite different plausible scenarios are possible. Assuming that the euro crisis does not deepen further and that in particular Italy can continue to obtain finance on the market, the ifo institute is expecting gross domestic product to increase by 0.4% in 2012 with robust consumer demand and continued good housing construction activity. In 2012, Germany should be helped by the fact that the European Central Bank surprisingly lowered its benchmark rate to 1.0% in the fourth quarter of 2011 despite raising the interest rate by 0.25 percentage points both in the second and third quarters and inflation running at over 2% above the target rate in the eurozone and in Germany.

In its autumn 2011 projection, the German government forecast that the disposable income of private households would increase by 1.0% in 2012.

**Housing market**

According to DZ Bank Research estimates, from today's point of view, in 2012 the residential housing market in Germany should continue the recovery seen in 2011. Property prices on the German residential property market can be expected to rise both in the old and the new German states. At 3.0% for the past year, the increase is relatively moderate given the favourable business environment. Even though the economic climate has already deteriorated, the good employment situation and the favourable financing conditions mean that the prerequisites are good for the upward trend on the property market to continue in the coming year at the same pace.

**Business model: competitiveness established and company ready for an IPO**
In 2011, we again managed to increase our performance, expand our services for our customers and also improve our business processes. We have taken an important step forward in our quest to offer our tenants the best-possible service as well as the highest degree of cleanliness, security and social integrity. One important milestone was the further development of our business model and the associated build-up of the company’s own facility manager and craftsmen's organisation. We will carry on from here in 2012: we want to convince people not just now but in the long term with a comprehensible business model – as a performance-driven holder and manager of residential real estate with property management and portfolio management business activities and growth in additional business.

Focused companies with a clear vision for the future are also attractive for the capital market. The current market uncertainties show again and again that only companies with a comprehensible business model can prevail against the competition in the long term. At the beginning of this year, Deutsche Annington Immobilien GmbH is being converted into a stock corporation (Aktiengesellschaft). During the course of this year, we will further change our company into the legal form of a European Company (SE – Societas Europaea). With these changes in the legal form, we are formally creating the option for a flotation of Deutsche Annington. However, whether and when we will take this step remains undecided. The European Company is a modern legal form which creates the prerequisites for a smooth IPO and, at the same time, ensures the greatest possible flexibility in the international context.

At the end of 2011, we signed a loan agreement to replace the Prima securitisation maturing in December 2012. When Deutsche Annington acquired the majority shareholding in Prima Wohnbauten Privatisierungs-Management GmbH Berliner Wohnungsgesellschaft in November 2009, the existing securitised loan was also taken over. In view of the successful conclusion of the loan agreement, we expect the Prima securitisation to be repaid ahead of maturity.

In view of the GRAND securitisation maturing in 2013, we already started work in 2011 on the refinancing or renewal of this financing. Given the generally positive reaction in the financing talks as well as the advantageous refinancing conditions achieved for the Hallam and Prima securitisation transactions, we are confident about the forthcoming major refinancing required from 2013 onwards.

Deutsche Annington will extend the number of apprenticeships it offers. 2012 will be the first year in which 40 young people will be taken on as apprentices; previously not more than 20 apprentices were recruited each year. In the next few years, we plan to double the number of apprentices from 70 to 140. 10% of the future apprenticeships are reserved for children of our tenants. Deutsche Annington sees the training of young people as part of its social responsibility which, as the largest German housing company, is very important to us.

**Organisational integration of services: new subsidiaries will double the workforce**

In 2011, we set up our own facility manager organisation as part of our efforts to further improve customer service. The on-site facility managers do not just perform the traditional tasks of a caretaker but also assume the function of a quality manager and coordinator. They are the direct local contact for the tenants and for our service providers. And they make sure that our residential estates are clean and tidy. Parallel to setting up the facility manager organisation, in 2011 we also established Deutsche TGS West GmbH as a nationwide joint venture with B&O Service & Messtechnik AG. The new company is responsible for handling jobs such as painting, plumbing, masonry and glazing work in our residential estates. By 2013, more than 1,000 new employees are to be recruited as a result of the establishment of these two organisations. Therefore, the number of employees will double.

In addition, as from 2012, Deutsche Annington will bundle and contract out services outside the buildings such as gardening work, winter service, street, pavement and house cleaning to a service provider. Contracts with some 80 different service companies will be replaced by one contract with Alba Facility Services. We are expecting a considerable improvement in quality by eliminating the large number of interfaces involved in the coordination of different service providers.

**Service and quality: services to be further developed in 2012**

Thanks to a strategic partnership agreed with Deutsche Telekom at the end of 2011, we will in future be able to offer our customers additional convenience and service: we are planning to install modern fibre optic technology in 171,000 apartments throughout Germany. The apartments will be connected to the new fibre optic network step by step, starting in 2012. By the first quarter of 2013, more than 40,000 apartments are to have access to the TV network of Deutsche Telekom. The company will successively take over the provision of TV services for apartments at 600 Deutsche Annington locations throughout Germany. In addition to a wider range of TV channels, the fibre optic network offers our tenants access to fast broadband connections.

High customer satisfaction will continue to be one of the central goals of our company in 2012. We will systematically pursue our efforts to further improve our service quality. The customer survey is an important instrument to find out how successful we are in improving our services. Therefore, we will continue the customer surveys this year and so obtain ideas for further improvements.

Thanks to greater involvement in urban district management, we have improved the quality of housing and life in our residential estates. Together with strong local partners, in the last two years we have implemented projects to improve the quality of housing and life and can now arrange care and domestic help services at some locations as well as nationwide counselling for these services. In order to meet the needs of our older tenants, we want to improve the care services available in our residential estates in 2012 by further cooperations with mobile nursing services, associations and social agencies and also enable the elderly to carry on living in affordable accommodation to a ripe old age. To achieve this, we are systematically developing concepts which make the lives of our elderly tenants easier by providing senior-friendly accommodation.

As a socially responsible company, we are very much aware of our responsibility for our customers, society and the region. Therefore, for many years now we have been involved in the communities in which our properties are located in a wide variety of ways – as an opinion leader as well as a sponsor and supporter of social projects. As in the previous years, we are also committed to supporting a large number of social projects in 2012 through our two non-profit foundations as well as through sponsoring. The focus is again on supporting in cases of personal hardship and sponsoring projects dealing with the major socio-political topics of the future "education" and "living in old age".

**Property Management business segment: quality improvement and development of additional business**

In the Property Management business segment, Deutsche Annington will continue to focus in 2012 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 a low vacancy rate, raising average rents in line with the market, high customer satisfaction as well as improving our cost structure. We also see further growth opportunities in the housing-related additional business. In the past year, we therefore expanded our real-estate services.

We will continue to pursue our goal of steadily improving the quality of our housing stocks and the residential surroundings in 2011. Therefore, investments in our housing stocks will again be up on last year’s figure. A large proportion of the funds will go into energy-saving measures and action to improve the quality standard of the units. In the last two years, we managed to significantly reduce the vacancy rate. For this year, we are expecting to further cut the vacancy rate. As regards rents, we are anticipating a development at the level of 2011.

**Apartment sales: likely to be higher than the 2011 figure**

To supplement our Property Management business segment, we will continue with the selective sale of apartments in 2012. With the selective sale of apartments, we are satisfying many tenants’ desire to own their home as an investment or as part of their provisions for retirement. The mix of tenants and owner-occupiers in our residential districts has, in our experience, a positive impact on the neighbourhood. In our privatisation programme 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 continue streamlining our housing stocks as part of portfolio optimisation. Last year, we again systematically sold off low-earning properties in our housing stocks. In the next few years, we plan to sell some 12,000 properties. In view of this plan, we expect the number of apartment sales in 2012 to be above the figure for 2011. Regardless of our plans, we will adjust our sales activities to any change in demand.

**Acquisitions: market continues to offer good opportunities to buy**

In the last five years, we have acquired 12,800 housing units and integrated them into the Deutsche Annington Immobilien Group. We see the successful integration of the residential portfolios acquired as proof that our growth strategy works. We want to continue 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.

**Earnings situation: adjusted EBITDA and FFO above 2011 level**

Our aim for the current financial year is to continue our company's commercially successful course. Our key performance figures exceeded our expectations in 2011. Therefore, we expect to see a positive development of business in 2012 as well. Against the background of our current expectations and assumptions, we believe that income from property management and our two most important KPIs, adjusted EBITDA and FFO, will top the high figures achieved in 2011.

For 2013, allowing for the likely development of rents, voids, letting rate and sales as well as the assumption that our company’s performance will increase further, we are expecting the adjusted EBITDA and FFO to exceed the figures for 2012. Here we are assuming that the financing conditions in the second half of 2013 will be at the same level as the GRAND financing which runs out in mid-2013.

All in all, we want to further expand Deutsche Annington’s position as market leader in the years to come – as well as the strengths of our Group in the interest of the sustained and stable development of business and earnings. To achieve this, we will also review the organisational structure in 2012 – with the aim of gearing the use of resources efficiently to our real-estate business.

It remains to be pointed out that unforeseen developments and events may lead to changes in our expectations and therefore also to deviations from our forecast figures.