# ANNUAL REPORT 2010

DEUTSCHE ANNINGTON

**The Deutsche Annington Real Estate Group** lets and manages approximately 220,000 apartments, employs some 1,100 staff and is one of the leading residential property companies in Germany. The company offers apartments to rent and to purchase in about 610 locations nationwide, complemented by customer-focused services.

We see ourselves as a service-minded property holder and intend to grow profitably in the years to come. To achieve this, we will expand our portfolio through selective acquisitions and further improve the quality of our tenants' living conditions by offering attractive services.

## Key figures for the Group

| € million | 2008 | 2009 | 2010 | 2009/20010 Change in % |
|---|---|---|---|---|
| Income from property management | 1,029.1 | 1,033.6 | 1,058.9 | +2.4 |
| Gross profit from property management | 594.9 | 591.9 | 589.5 | –0.4 |
| Income from disposal of properties | 144.3 | 149.6 | 224.9 | +50.3 |
| Gross profit on disposal of properties | 50.8 | 46.8 | 71.4 | +52.6 |
| Adjusted EBITDA | 473.1 | 479.6 | 501.9 | +4.7 |
| FFO | 207.1 | 206.7 | 227.0 | +9.8 |
| Economic investments | 148.7 | 241.1 | 52.0 | –78.4 |
| Cash flow from operating activities | 483.3 | 406.2 | 472.5 | +16.3 |
| Cash flow from investing activities | –117.2 | –24.5 | 42.6 | – |
| Cash flow from financing activities | –479.0 | –359.7 | –479.9 | +33.4 |
| Total assets | 10,249.6 | 10,540.7 | 10,525.5 | –0.1 |
| Non-current assets | 7,892.5 | 8,534.6 | 8,527.9 | –0.1 |
| Current assets | 2,357.1 | 2,006.1 | 1,997.6 | –0.4 |
| Total equity | 1,456.1 | 1,628.9 | 1,815.7 | +11.5 |
| Equity ratio in % | 14.2 | 15.5 | 17.3 | +1.8 % points |
| Number of residential units in portfolio (as at Dec. 31) | 189,218 | 191,952 | 189,664 | –1.2 |
| Number of units acquired (title transferred) | 1,364 | 4,566 | 0 | – |
| Number of units sold (recorded sales) | 2,542 | 1,880 | 2,584 | +37.4 |
| Vacancy rate in % | 3.9 | 5.9 | 5.1 | –0.8 % points |
| Number of employees (as at Dec. 31) | 1,302 | 1,097 | 1,101 | +0.4 |

# Contents

**Wijnand Donkers**
Chairman of the
Management Board

**Klaus Freiberg**
Member of the
Management Board

**Dr A. Stefan Kirsten**
Member of the
Management Board

## Dear Readers,

Together with you, we can be pleased with a successful financial year 2010! The results of the past year prove that it is also possible in the housing industry to increase customer proximity and, at the same time, sensibly standardise mass processes. We have geared our structures to meet the needs of our customers and also substantially improved our performance and efficiency. The 2010 financial year has shown that we definitely set the right course with the reorganisation in previous years. On these foundations, we intend to increase customer satisfaction, boost our earning power and grow further in future.

Deutsche Annington 2011 – the linking of productivity and customer proximity, the combination of tradition and modernity. As the largest private housing company in Germany, we pool the expertise of 10 merged companies with over 100 years of experience. Today, 10 years after the establishment of Deutsche Annington, we are a large and efficient group with highly transparent, top-quality processes. We focus on our customers and their satisfaction. Thanks to the use of cutting-edge technology, our data and processes have a unique degree of transparency. As a result, we are getting to know our customers better every day and can optimally steer our company. There has never been anything quite like this before in the housing industry.

Investing € 60 million in the reorganisation of the company over the last two years has paid off – not only because we are now more efficient but, above all, because we have enhanced our performance substantially:

This performance centres on the management of our residential portfolio. This management function is performed by more than 2,000 employees and contract workers in our estates and by our modern customer centre where we now handle about 3,400 calls a day. In addition, some 2,400 queries from tenants reach us by fax, e-mail or through our new Internet customer portal. So altogether we deal with an average of 5,800 inquiries every day. The telephone availability rate of the customer centre now averages over 80 %. On average, a caller does not have to wait more than two minutes before getting through to his customer advisor. Our field service workers are in direct contact with the customer centre and handle up to 1,100 orders every day. Never before have we visited our customers so often. In property management, we have therefore created an exemplary balance between the efficient recording of customer inquiries and closeness to our tenants.

The high performance of our business model is also reflected in the number of apartments let, which was never as high as in 2010: Over the course of the year, we welcomed more than 22,500 new tenants; that is an average of 517 new rental contracts per week. At the same time, the number of tenants giving notice on their apartment fell sharply. We see this as a strong indication that the satisfaction of our customers has risen considerably. Coupled with the optimisation of our letting activities, we managed to reduce the vacancy rate from 5.9 to 5.1 % in the space of a year.

We also continued our targeted maintenance and modernisation programmes in 2010. We invested more than € 170 million in 130 modernisation projects and in a large amount of maintenance work for our tenants throughout Germany. We have been investing in the modernisation of our housing stocks for years. The upkeep of our houses is not just important for maintaining living quality and protecting the environment as, with the Energy-saving Ordinance, the government is now also setting clear requirements. In the years to come, we will continue to invest in the sustainability and quality of our housing stock in line with our long-term strategy.

Apartment sales also developed very well. We sold 2,584 residential units, considerably more than in the previous year – primarily to our own tenants. Measured by the over 220,000 units we own, this number may appear small. However, we are pleased about every new tenant we can make a home owner. And we will continue to help our tenants become property owners in future. We can easily do that without changing from a socially responsible long-term holder of residential property into a trading platform.

Judged by our operating results, the 2010 financial year was also an economic success for us. Our adjusted EBITDA topped the 500 million euro mark for the first time and FFO rose by almost 10 % to € 227 million. This thoroughly positive development is all the more remarkable since we achieved it in spite of the higher interest rates under our securitisation transactions. With this earning power, we can compete with the big names in other industries.

We have achieved all this with employees who are highly committed to making our company successful. We, the management, greatly appreciate their dedication, especially in view of the current rapid pace of change. We are pleased that, with the restructuring of numerous processes, a large number of employees have taken on new responsibilities. Many of them are young and personify the fresh spirit with which we are looking ahead. We are also delighted that many experienced professionals have joined us, bringing with them all their expertise to the benefit of our company.

In the last two years, we have achieved a great deal - for our customers and for our company. We have successfully changed from a property manager into a customer-focused service company. That took a lot of effort and so we can be rightly proud of what we have achieved! However, we do not intend to rest on our laurels but want to become even better. We are delivering on performance. That is the basis. We now want to build on this sound performance and make it more tangible for our customers. To this end, we have set ourselves new objectives for the years to come: Now that we have got our structures, processes and also our costs firmly under control, we will consolidate what we have achieved and drive our business forward. As part of this strategy, we also intend to grow further – organically through the continued development of our range of products and services as well as through the selective acquisition of attractive residential portfolios as soon as the right opportunities present themselves.

On the property management side, we will be focusing on increasing revenue and achieving even greater customer proximity. For example, we aim to boost our rental income through reasonable rent increases and by steadily reducing the number of vacant units. At the same time, we want to cut ancillary costs further for our tenants by getting the best deals possible with utilities and other service providers. We are also on the lookout for new ideas. As a landlord of large housing estates which are often situated close to each other, we have the opportunity to be creative in offering our residents further product-related local services.

The subject of refinancing will also be another demanding challenge in the current year. We are watching the market closely with a view to the major loans coming up for refinancing in the medium term. At the end of 2010, we successfully concluded a loan agreement to replace the Hallam securitisation transaction this year. The experience of those negotiations has given us reassurance that we will also successfully handle the major refinancing coming up in 2013.

In 2011, we will continue our successful course of previous years. Adjusted EBITDA should exceed the high level of 2010 while we are expecting FFO to be just short of last year's high figure.

The tremendous commitment of all our employees, the many constructive suggestions made by our tenants and the numerous ideas gained from talks with the representatives of tenants' associations and politicians were a great help to us in 2010. We would like to take this opportunity to express our sincere thanks for this assistance and are also counting on your support in the current year.

Yours

Wijnand Donkers | Klaus Freiberg | Dr A. Stefan Kirsten

# Boards

## Management

**Wijnand Donkers**
Chairman

Responsible for:
Acquisition, Business Management, Human Resources Management, Portfolio Management, Legal Affairs & Shareholdings, Corporate Communications, Westphalia business unit, North/East business unit, South/Southwest business unit, Rhineland/Ruhr business unit, Prima Wohnbauten Privatisierungs-Management GmbH

Born in 1962; Master of Business Administration; international management experience at BP p.l.c. with career steps in Europe and North America; last: Managing Director, BP Gas Marketing

**Klaus Freiberg (since February 1, 2010)**

Responsible for:
Property Management, Business Development Services, Cost Consulting, Deutsche Annington Service GmbH, Procurement, Systems, Sales

Born in 1962; degree in History, Social Studies and Economics; from 1995 to 2010 various managerial positions in the Arvato Group (Bertelsmann) including responsibility for the optimisation of the Deutsche Post and Deutsche Telekom service centres; last: Managing Director at Arvato Services. Klaus Freiberg is a recognised expert in making companies customer-focused.

**Dr A. Stefan Kirsten (since January 1, 2011)**

Responsible for:
Controlling, Finance, Accounting, Auditing, Taxes, Facility Management

Born in 1961; doctorate in Business Administration; held post of CFO at both Metro AG and ThyssenKrupp AG; last: Chief Executive Officer of the trading and real estate group, Majid Al Futtaim Group LLC, in the United Arab Emirates.

**Dr Manfred Püschel (until December 31, 2010)**

Responsible for:
Controlling, Finance, Accounting, Auditing, Taxes

## Supervisory Board

**Guy Hands**
Chairman

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

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

**Arjan Breure (since December 2, 2010)**
Financial Managing Director of Terra Firma Capital Partners Limited, London

**Phillip Wesley Burns (until December 2, 2010)**
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 Report



## The 2010 Financial Year

### Overview of the financial year

The Deutsche Annington Real Estate Group can look back on a highly successful year: Thanks to the optimised structures and processes, customer satisfaction, performance and efficiency have improved significantly. This is also reflected in the results. Year One after the reorganisation of the business processes has confirmed: The course we have chosen is right and the new business model is sustainable.

In conjunction with improved rental performance, the vacancy rate fell significantly in 2010. Rents were raised by 1.5 %; at the same time, we again invested considerable sums in our housing stocks. Compared with the previous year, sales of apartments – primarily to tenants – also increased appreciably.

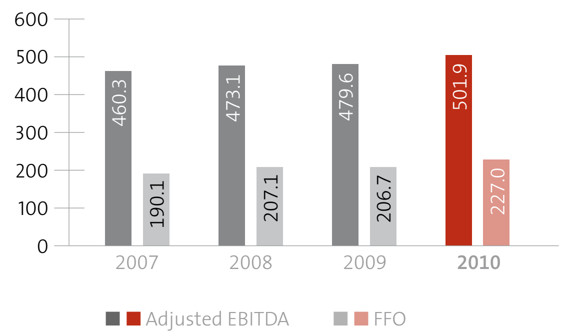
Our central goal of noticeably improving the service for our customers was fully attained. Together with our social commitment and the urban district management projects, last year we once again contributed actively to improving the quality of our housing and the living environment.

The result exceeded expectations: At € 501.9 million (+ 4.7 %), adjusted EBITDA (defined on page 16) topped the half a billion euro mark for the first time. FFO rose to € 227.0 million (+ 9.8 %) despite scheduled higher interest rates since mid-2010 as part of our securitisation.

In 2011, we will systematically continue our successful course: we will further improve our processes and again make considerable investments in the quality of our residential portfolio. Economically speaking, our goal in 2011 is to match and even slightly exceed the high figures for 2010.

**Development of adjusted EBITDA/FFO**

€ million



# Structure and Strategy

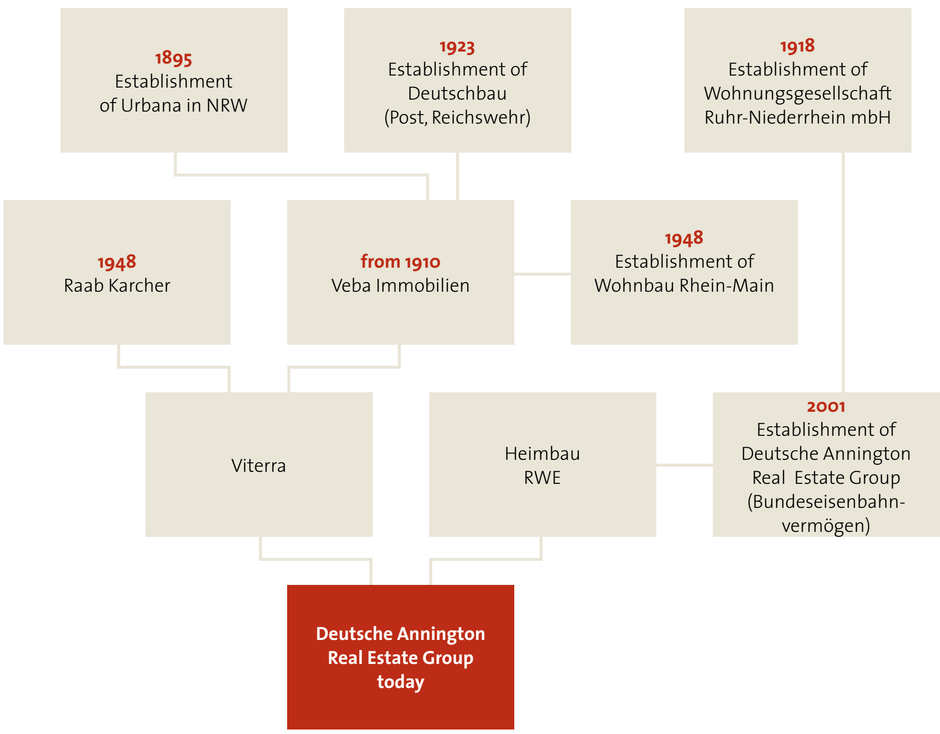
The Deutsche Annington Real Estate Group sees itself as a company which is geared to the long-term holding of residential real estate in Germany. Through our core activities, property management, property sales and growth through acquisitions, we want to expand our leading market position in the years to come and further increase our earning power. The improved structures and processes are making a major contribution towards achieving these goals.

## Structure and strategy

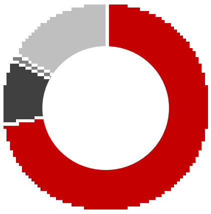
**Business activities: service-driven management of residential properties**

The Deutsche Annington Real Estate Group is one of the top housing companies in Germany with some 220,000 residential units managed and approx. 1,100 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 biggest residential real estate company. Today, the Group pools the experience and know-how of ten companies with over one hundred years of history.

The Deutsche Annington Real Estate Group sees itself as a service-driven holder and manager of residential property in Germany. Its core business is to offer reasonably priced apartments for long lets to broad sections of the population as well as to provide additional services for its customers. A further business activity is the sale of selected properties. Moreover, we acquire and systematically integrate new residential portfolios into the Group.

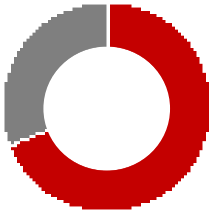


**Units managed by the Deutsche Annington Real Estate Group**
(as at December 31, 2010)



| | |
|---|---|
| Own apartments | 189,664 |
| Apartments owned by others | 25,905 |
| Commercial units | 1,486 |
| Garages, parking spaces and other units | 43,851 |

**Structure of the Deutsche Annington residential portfolio by cities, towns and villages**



| | |
|---|---|
| Cities | 69 % |
| Towns and villages | 31 % |

## The Deutsche Annington Real Estate Group is Germany's largest residential letting company

The Deutsche Annington Real Estate Group is, today, the largest private housing company in Germany. In total, we manage 189,664 apartments of our own, 43,851 garages, parking spaces and other units as well as 1,486 commercial units. What's more, we also manage 25,905 apartments for other owners. The Deutsche Annington Real Estate Group offers accommodation in some 610 cities, towns and villages throughout Germany. 69 % of the apartments are situated in cities with more than 100,000 inhabitants; 31 % are in medium-sized and small towns as well as villages.

## Portfolio structure: regional focus in NRW, Berlin and southwest Germany

Approx. 61 % of our portfolio is concentrated in 20 major cities and towns in which we have between 2,000 and 18,000 residential units. 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 (95.8 %) are situated in the states of former West Germany (including Berlin). 52.9 % 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 states**

| | |
|---|---|
| North Rhine-Westphalia | 52.9 % |
| Hesse | 11.8 % |
| Bavaria and Baden-Württemberg | 11.1 % |
| Berlin | 7.0 % |
| Schleswig-Holstein and Hamburg | 6.8 % |
| Five new states | 4.2 % |
| Lower Saxony and Bremen | 3.3 % |
| Rhineland-Palatinate and Saarland | 2.9 % |

**Positioning: offering affordable apartments, standing out through best possible service**

As Germany's largest residential letting company, the Deutsche Annington Real Estate Group has a strong market position. 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 a considerable advantage when competing for long-term tenant loyalty. The additional services offered range from lower ancillary cost bills thanks to framework agreements for the most important maintenance and other services to discounts on purchases from selected retailers. The Group has also devised an innovative and free-of-charge service for its older tenants called "Annington Wohnen Plus".

**Extended Internet offering for our customers**

The new customer Internet portal went online in October 2010. Thus Deutsche Annington has further extended its service offering. Many matters which could previously only be handled by phone, fax or letter can now be quickly and easily settled at any time of the day or night on the Internet. For example, tenants can apply for a rental certificate or request repairs online and they can track the current status of their request at any time. Furthermore, all current and new customers can search for a new apartment even more conveniently and efficiently on the website.

With the new portal, we are meeting the requests of many of our customers, up to 80 % of whom now contact us via the Internet. In addition to the customer centre, which is available 54 hours a week, Deutsche Annington now offers its customers a comprehensive 24/7 service with the new Internet portal.

**Customer satisfaction is regularly measured**

Thanks to a much improved service, customer satisfaction also increased in 2010. In 2011, we will continue to systematically pursue our goal of steadily improving the quality of our service. At the end of 2010, we introduced a monthly survey of our tenants and potential customers who have inquired about an apartment in order to identify areas for improvement and assess the effect of action already taken. The first results show that the Internet is the most important medium for apartment hunting and the customers' method of choice for contacting our company. Most of our customers stated that they were "fully satisfied" or "satisfied" with the initial contact with us.

The customer survey is an important instrument for us to find out how successful we are in improving our service. Therefore, we will be extending the regular customer surveys in 2011. We believe that this will give us an even better basis for improvement measures.

**Energy management reduces tenants' energy costs**

In the interest of our tenants, we have further extended our energy procurement competence by setting up an energy management department in our company. Its job is to negotiate regional framework agreements for Deutsche Annington, for example for the supply of gas, electricity and oil. The aim is to obtain conditions which are advantageous for our tenants. In 2010, we already managed to achieve savings at several locations by switching energy suppliers.

**Business model: clear focus on three functional areas – Business Management, Property Management and Corporate**

Deutsche Annington is divided into 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 responsible for a certain portfolio permanently assigned to them. This ensures that in-depth knowledge of a property and market proximity 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. Tenant 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.

## STRATEGY: growing profitably by developing our portfolios and enhancing our performance

The Deutsche Annington Real Estate Group's aim is profitable and sustained growth. We concentrate on three fields of business:

- **Long-term, value-enhancing management:** Through our letting and other services whose quality we continually review and improve, we offer our customers a competitive range of properties with services to match. Parallel to this, we maintain our residential portfolio to modern-day quality standards and make targeted improvements. All this helps to ensure long lets and good rental conditions.

- **Selective sales of units in a socially acceptable manner, primarily to tenants:** We offer residential properties at attractive prices. We sell units in a selective manner, 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.

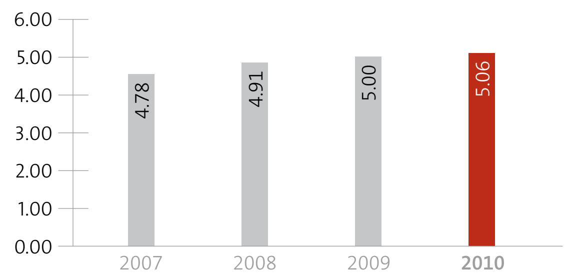
- **Strategic acquisition of housing portfolios:** As a housing company geared to long-term property management, we continually expand our housing stocks. In doing so, we concentrate on attractive portfolios with more than 500 residential units in urban areas with a positive demographic forecast. Thanks to our financial strength, we can also buy large residential portfolios. Our strategy focuses on the profitable management of our properties and their maintenance. It is, after all, our properties which secure us a regular and sustained income. When buying new portfolios and selling residential units, we proceed according to carefully defined criteria.

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 handling special agreements such as comprehensive social clauses to protect tenants.

### Demand-based housing at attractive prices

Our portfolio generates an average monthly rent of € 5.06 per square metre (2009: € 5.00 per square metre). Roughly half of our apartments (52%) have living areas of up to 64 square metres. Thus the Deutsche Annington Real Estate Group is a major provider of reasonably priced, 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 in our society increases in the coming years and decades.

**Development of rents**
€/m²/month




### Length of tenancy above German average

Our customer satisfaction is unusually high: On average, a tenant lives for about fifteen years in a Deutsche Annington apartment; the national average is about nine years. In 2010, the number of tenants terminating their rental contracts fell overall. At the same time, the number of tenants who serve notice within one year of moving in also fell.

**Overview of the residential portfolio data of the Deutsche Annington Real Estate Group**

| Portfolio as at Dec. 31, 2010 | Units | Share in % | Living area in m² | Average living area per unit in m² | Annualised net rent* in € million | Share in % | Monthly net rent per m²* in € | Vacancy rate* in % |
|---|---|---|---|---|---|---|---|---|
| **20 largest locations** | | | | | | | | |
| Dortmund | 17,951 | 9.5 | 1,094,753 | 61 | 59.0 | 8.0 | 4.48 | 5.0 |
| Berlin | 13,289 | 7.0 | 856,411 | 64 | 56.0 | 7.6 | 5.41 | 2.9 |
| Essen | 10,540 | 5.6 | 651,096 | 62 | 39.4 | 5.3 | 5.02 | 7.3 |
| Frankfurt | 10,497 | 5.5 | 652,431 | 62 | 51.5 | 7.0 | 6.53 | 1.2 |
| Gelsenkirchen | 8,891 | 4.7 | 536,710 | 60 | 28.2 | 3.8 | 4.37 | 7.2 |
| Bochum | 7,790 | 4.1 | 451,485 | 58 | 26.4 | 3.6 | 4.86 | 2.8 |
| Munich | 5,139 | 2.7 | 341,035 | 66 | 25.2 | 3.4 | 6.08 | 1.8 |
| Duisburg | 4,950 | 2.6 | 295,061 | 60 | 16.8 | 2.3 | 4.70 | 6.0 |
| Herne | 4,679 | 2.5 | 286,748 | 61 | 15.4 | 2.1 | 4.45 | 5.7 |
| Bonn | 4,571 | 2.4 | 321,248 | 70 | 22.4 | 3.0 | 5.77 | 3.2 |
| Cologne | 4,558 | 2.4 | 297,753 | 65 | 21.1 | 2.9 | 5.86 | 3.7 |
| Gladbeck | 3,471 | 1.8 | 213,533 | 62 | 12.0 | 1.6 | 4.68 | 8.7 |
| Herten | 2,897 | 1.5 | 187,324 | 65 | 9.8 | 1.3 | 4.34 | 5.2 |
| Düsseldorf | 2,650 | 1.4 | 173,046 | 65 | 13.2 | 1.8 | 6.32 | 2.4 |
| Marl | 2,579 | 1.4 | 173,127 | 67 | 10.7 | 1.4 | 5.13 | 9.2 |
| Aachen | 2,259 | 1.2 | 150,280 | 67 | 8.9 | 1.2 | 4.94 | 1.9 |
| Bottrop | 2,104 | 1.1 | 132,429 | 63 | 7.8 | 1.1 | 4.82 | 3.8 |
| Bergkamen | 2,027 | 1.1 | 134,185 | 66 | 7.2 | 1.0 | 4.46 | 10.0 |
| Geesthacht | 2,006 | 1.1 | 114,489 | 57 | 7.3 | 1.0 | 5.32 | 5.4 |
| Wiesbaden | 1,989 | 1.0 | 129,056 | 65 | 10.8 | 1.5 | 6.90 | 3.6 |
| **Sub-total for 20 largest locations** | **114,837** | **60.5** | **7,192,201** | **63** | **448.9** | **60.6** | **5.17** | **4.6** |
| Other locations | 74,827 | 39.5 | 4,934,205 | 66 | 291.4 | 39.4 | 4.90 | 5.9 |
| **Total** | **189,664** | **100.0** | **12,126,407** | **64** | **740.3** | **100** | **5.06** | **5.1** |

* as at beginning of December

**Company and community: active involvement as a socially responsible landlord and reliable partner**

The housing stocks of the Deutsche Annington Real Estate Group come from the merger and integration of various housing companies. When we took them over, 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.

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 vicinity of our residential estates. 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.

**Greater involvement in urban district management increases the quality of housing and life**

In view of the demographic development, we are doing our utmost to find ways of helping our tenants to continue living safely and comfortably in their own homes to a ripe old age. 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. The services offered are not only to be geared to older people but also to adolescents and young families.

**Helping tenants to buy their own home**

Through the selective sale of apartments, we give many tenants the chance to fulfil their dream of owning their own home as an investment and provision for retirement. According to a survey conducted by Immobilienverband Deutschland (IVD), property offers the best protection against inflation and is playing an increasingly important role in people's provisions for retirement. According to the survey, roughly half of all tenants have already thought seriously about buying a house or apartment.

A mix of tenants and owners in our residential estates is also an advantage because it can have a positive effect on the living environment. We aim to primarily sell to tenants, potential owner-occupiers and capital investors. In the last ten years, some 50,000 families have bought an apartment from us.

**Our mission: Long-term development 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 want to be the best company in the housing industry, now and always. We successfully advanced towards this goal in 2010 by further improving our new organisation set up in 2009.

# Economic Environment

In Germany, gross domestic product grew in 2010 faster than at any time since reunification. Both exports and the development of the domestic economy contributed to this growth. The housing market also recovered. For the first time in three years, the number of building permits increased. At the same time, residential property rents rose. The positive development will continue in 2011, albeit at a slightly slower rate.

## Economic environment

### OVERALL ECONOMY: Upturn continues but at a slower pace

The global economy is continuing to recover. However, the picture is still mixed. Compared with the first half of 2010, global economic growth slowed slightly in the last months of the year. According to estimates by the Institute for Economic Research at the University of Munich (ifo), this is particularly due to the declining momentum from fiscal policies and the moderate growth rates in the Asian and Latin American emerging economies.

The mood remains tense on the international financial markets. Although share prices recovered from their year-low in the summer, in some cases quite significantly, the continued considerable uncertainty about the soundness of state finances in the peripheral countries of the euro zone is keeping interest rates at historically very low levels in those countries regarded as financially sound. In the euro zone, the base rate is still 1.0 %.

### Strong growth in Germany after the crisis

The German economy expanded strongly yet again in 2010. According to the Federal Statistical Office, GDP grew by 3.6 %, more than at any other time since reunification. Whereas exports were initially the main driver of growth, momentum increasingly came from the domestic economy. Consumer spending also developed positively: Private consumer spending rose in real terms by 0.5 %, public spending even by 2.2 %. According to figures published by the Federal Statistical Office, consumer prices increased by 1.1 % in 2010.

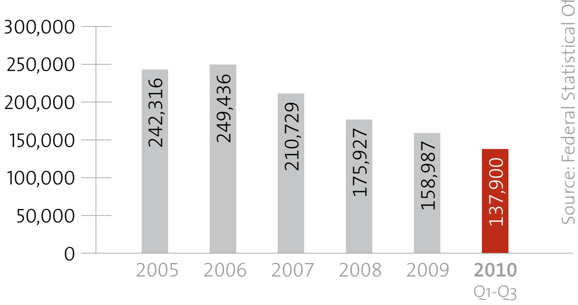
Germany's economic performance was delivered in 2010 by an annual average of some 40.5 million people in employment. Thus the number of people in work rose by 0.5 % or 212,000, reaching a new record.

### Economic prospects again positive

The ifo Institute is again expecting the economy to develop positively in 2011, although growth is likely to slow somewhat compared with 2010. One reason for this is the weakening momentum from the global economy. Furthermore, the German government is redoubling its budget austerity efforts in 2011 by implementing its so-called "Future Package". At the same time, the economic stimulus programmes of 2010 have been phased out. This means that, overall, fiscal policy will provide much less stimulus for the economy. The ifo Institute forecasts an increase of 2.4 % in GDP in 2011.

**Development of new buildings completed in Germany between 2005 and 2010**

(2010: building permits granted up to September)



**HOUSING MARKET: Number of new building permits rises for the first time in three years**

In Germany, the number of permits granted for new residential buildings increased for the first time in three years. According to the Federal Statistical Office, the number of residential building permits granted rose by 7.0 % to 137,900 in the first three quarters of 2010 compared with the same period in 2009. Overall, the German building societies (Landesbausparkassen) are expecting over 190,000 permits to be granted in 2010 and a further increase of 13 % to 215,000 in 2011. The reasons for this positive development are the current good economic environment, the resulting greater confidence of potential home-owners and the increased use of Riester subsidies for would-be owner-occupiers.

**Growing number of small households boosts demand for accommodation**

According to calculations by the Federal Statistical Office, the number of households In Germany has risen by some 4.9 million to over 40.0 million since 1991. This trend will also continue in the years to come, above all due to the increase in one and two-person households. The number of households is expected to increase to 40.5 million by 2020. The large cities and surrounding areas as well as other metropolitan areas in the south and west of Germany will benefit particularly from this trend.

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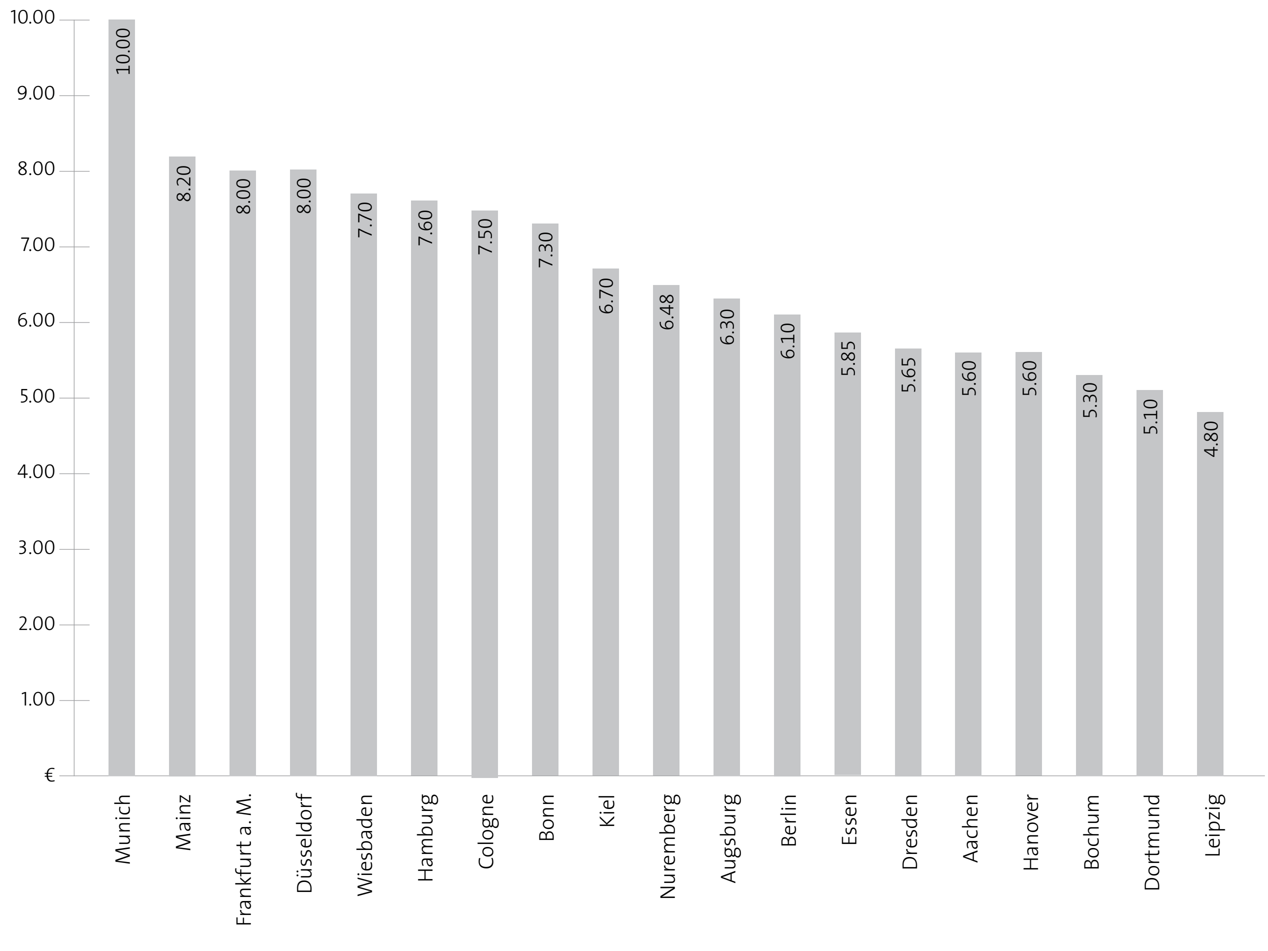
**Average rents in new rental contracts for apartments of average standard in selected cities**

(Source: IVD rent index 2010/2011)



**A quarter of homes are senior-citizen households**

According to the results of the micro-census, in 2009 the members of one in four households were exclusively people over the age of 65. In 6% of homes, senior citizens lived with younger people under one roof. Thus nearly one third of households had at least one senior citizen in them and this proportion has risen by 4 percentage points since 1991.

**Demand for living space increases again**

The average per-capita living space in Germany has increased continually since 1993 from 40 square metres to 48 square metres in 2010. According to a study by the business consultants, Empirica, per-capita living space will continue to rise in the next 20 years: In 2030, an average per-capita living space of 56 square metres is to be expected. The main reason for this development is the trend towards smaller households due to demographic changes.

**RESIDENTIAL RENTS: Moderate rise in rents continues**

According to the 2010/2011 rent index issued by Immobilienverband Deutschland IVD, rents for residential properties continued to rise in 2010. The rises varied, depending on the category of apartments, by between 1.5 and 2.5%. The reason for this development was the continued small number of new rental apartments being built. According to IVD estimates, there will be no sustained increase in the number of new builds, especially in the metropolitan areas, without government incentives.

Against this background, a further rise in rents is to be expected in the years to come, above all in the attractive locations in major cities. However, the rents for new leases in medium-sized and small towns will also increase. In several large German cities, the IVD has already identified a shortage of small apartments. This is becoming particularly noticeable due to the increase in one and two-person households. We therefore conclude that the demand for apartments in older buildings will continue to grow due to the shortage of newly built apartments.

**Markets for residential property recover well after the crisis**

In Germany, the residential property markets have recovered significantly after the crisis. In comparison to the previous year, the purchase prices of existing residential buildings increased in the larger German towns and cities by an average of some 2.5% in 2010 according to calculations by Deutsche Bank Research. Again the development varies from region to region. The sharpest price rises were seen in the seven largest cities defined by IVD (Berlin, Hamburg, Munich, Cologne, Frankfurt am Main, Stuttgart and Düsseldorf).

**German residential properties still attractive for investors**

The number of properties changing hands rose significantly compared with the previous year. According to a projection by IVD, residential and commercial buildings worth € 110 billion were sold in Germany in the first nine months of 2010. Thus the transaction volume increased by more than € 10 billion compared with 2009. When deciding what to buy, investors mainly went by the stable prices and the sustainable value of a property. At the same time, alongside stability and sustainable value, it is also the attractive growth potential which favours this class of asset. The ever-widening gap between demand and the amount of accommodation on offer is a crucial investment criterion as this should lead to prices rising in the medium term.

According to a study by Feri EuroRating, investors are planning to expand their real estate investments. Three quarters of the investors expect real estate to continue to gain in importance as a form of investment. Consequently, 60% are planning to increase their property investments. Residential real estate has gained more weight in investment decisions. After office real estate, residential properties are the second most important type of use with a share of about 18%. One third of investors are planning investments in German residential properties by the end of 2013. This again shows how highly investors rate the German residential property market.

**Property is an attractive form of investment for private investors**

Residential properties remain in demand among private investors in Germany as a means of providing for old age. The unemployment rate is falling; German economic output is rising and will reach the pre-crisis level in 2011. Real estate is a low-risk form of investment with good returns and the long-term favourable financing conditions often sway a decision in favour of the purchase of a residential property.

# Business Review

After the restructuring and the improvement of our processes, our Group developed very successfully in 2010: On the operational side, customer service was expanded and the level of performance was significantly increased overall. At the same time, our economic key performance indicators improved: adjusted EBITDA topped the 500 million euro mark for the first time and FFO rose by 9.8 %.

**Explanation 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. In the reconciliation to adjusted EBITDA, the income and expense items are adjusted to eliminate non-recurring items in order to show maintainable earnings. The non-recurring results comprise one-off effects and/or effects occurring infrequently, project costs for the further development of the business as well as the expenses affecting EBITDA incurred through the acquisition activities.

FFO (Funds from Operations) is a 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 FFO. Both key performance indicators are not determined on the basis of any particular international reporting standards but 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.

**Overview of the key performance indicators of the Deutsche Annington Real Estate Group in 2010**

| € million | 2010 | 2009 |
|---|---|---|
| Income from property management | 1,058.9 | 1,033.6 |
| Gross profit from property management | 589.5 | 591.9 |
| Income from disposal of properties | 224.9 | 149.6 |
| Gross profit on disposal of properties | 71.4 | 46.8 |
| Adjusted EBITDA | 501.9 | 479.6 |
| FFO | 227.0 | 206.7 |
| Economic investments | 52.0 | 241.1 |
| Number of employees (as at Dec. 31) | 1,101 | 1,097 |
| Number of units sold (recorded sales) | 2,584 | 1,880 |
| Sold individually | 2,164 | 1,620 |
| Other sales | 420 | 260 |
| Number of units bought (transfer of title) | 0 | 4,566 |
| Vacancy rate in % | 5.1 | 5.9 |
| Number of residential units in portfolio (as at Dec. 31) | 189,664 | 191,952 |

**New organisation brings clear operational successes: performance significantly improved**

In the past one-and-a-half years, we have demonstrated that with a residential property company of the size of Deutsche Annington standardisation of customer contact can be combined with a high quality service. We have created an optimal balance between centralised recording of customer inquiries and local closeness to our tenants. With our modern customer centre, we can now handle about 3,400 calls a day. In addition. some 2,400 customer inquiries and questions reach us by fax, e-mail or through our new Internet customer portal. The telephone availability rate averages over 80 %, with a waiting time of up to two minutes. Before the change-over to the new system, telephone availability was well below this figure. The customer centre can be reached six days a week for a total of 54 hours: the repair hotline is even available 24/7. In addition, our customer Internet portal can be used at any time. We answer some 85 % of the phone inquiries immediately and/or take suitable action directly. That is a much higher rate than before the new organisation. Questions that the customer centre staff cannot answer on the phone are passed on to our field service workers who go out to the customers. Every day, they make up to 1,100 local visits at some 610 locations throughout Germany.

In 2010, the service quality of the Deutsche Annington Real Estate Group increased to a higher level overall. Customer satisfaction improved and process costs fell thanks to the use of cutting-edge technology. Overall, the performance and cost efficiency of Deutsche Annington have been further enhanced.

**Earning power considerably increased**

The Deutsche Annington Real Estate Group continued its successful course in the 2010 financial year, also in economic terms. The two most important performance indicators, adjusted EBITDA (Earnings before Interest, Taxes, Depreciation and Amortisation) and FFO (Funds from Operations) were both well above the high level of the previous year: adjusted EBITDA amounts to € 501.9 million. Compared with the prior-year figure of € 479.6 million, that is an increase of 4.7 %. Thus, we managed to top the half a billion euro mark for the first time with one of the most important performance indicators. The earnings indicator FFO rose from € 206.7 million in 2009 to € 227.0 million (+9.8 %) despite higher interest rates for the GRAND financing from July 2010 as provided for in the loan agreements. In 2006, 31 companies of the Deutsche Annington Real Estate Group sold REF Notes to German Residential Asset Note Distributor PLC (GRAND). The average weighted interest rate under the securitisation transactions was 3.37 % until July 2010. Under the terms of the agreement, this interest rate increased to 4.66 % from July 2010 until maturity in July 2013.

The positive development of business demonstrates that with the new business processes introduced in 2009 and the much stronger financial and earning power our company has a stable and promising foundation.

**Gross profit from property management**

January 1 to December 31

| € million | 2010 | 2009 |
|---|---|---|
| Gross rental income | 1,039.3 | 1,012.3 |
| Other income from property management | 19.6 | 21.3 |
| Cost of materials for property management | –469.4 | –441.7 |
| **Gross profit from property management** | **589.5** | **591.9** |

**Property management: Gross profit in core business on a par with previous year**

Our core business segment, Property Management, covers our property letting and condominium administration activities. Our gross profit from property management in 2010 was on a par with the previous year at € 589.5 million (2009: € 591.9 million). Gross rental income in 2010 increased due to the raising of rents within the statutory limits as well as because of the first full year of rental income from the residential units acquired at the end of 2009. Furthermore, the rise was also due to the higher volume of ancillary costs billed.

Of the gross rental income in 2010, some 70 % 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.

In 2010, the cost of materials for the property management segment was € 27.7 million higher than the 2009 figure. Alongside the higher ancillary costs charged to our tenants, this is due to maintenance work performed in 2010.

### Vacancy rate falls

In 2010, we managed to considerably reduce the vacancy rate. At the end of 2010, it was 5.1 % (2009: 5.9 %). The vacancy rate also includes our so-called sales-related voids at 0.8 % (2009: 0.9 %). These are residential units earmarked for sale and therefore not re-let as it is easier to sell empty apartments to owner-occupiers. Furthermore, both the overall number of tenants terminating their rental contracts and the number terminating within a year of the start of the contract fell.

This positive development was achieved above all thanks to our improved business processes: With more than 15,000 inquiries from prospective tenants a week, the letting rate was continuously increased over the course of the year. An average of up to 517 new rental contracts were signed every week in 2010. This strong letting performance was supported by our redoubled efforts to reduce voids, which included measures to upgrade unlet apartments and above all special marketing campaigns to target particular customer groups.

### Average rise in rents above inflation rate

In the 2010 financial year, our rents rose by 1.5 % on average. The rent increases were partly a consequence of our modernisation measures since housing improvements allow landlords to pass on some of the costs to their tenants. The rent increases were above the inflation rate. According to the Federal Statistical Office, prices in Germany rose by an annual average of 1.1 % in 2010.

### Investment focuses on energy-saving modernisation measures

Deutsche Annington invests continually in improving the quality of its housing stocks with targeted modernisation and maintenance programmes. In 2010, we carried out 130 modernisation projects involving a total of 2,040 units as well as a large amount of maintenance work throughout Germany. The total cost of this work was € 171.8 million. Thanks to our size, we can achieve price advantages over most of our competitors of up to 30 % when buying in goods and services. Most of the investments went into energy-saving measures (insulation of facades and roofs etc.) as well as into improving the quality of the housing (e.g. by adding balconies).

Energy consumption falls significantly in the modernised residential estates, which in turn reduces emissions of climate-damaging $CO_2$. An annual reduction of $CO_2$ emissions of about 50 kg per square metre of living area can be expected. Thus annual $CO_2$ emissions in the units modernised in 2010 are cut by about 6.2 million kilograms. 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

Alongside the energy-saving measures performed as part of our modernisation projects, we have intensified energy management in recent years. Here we see a further opportunity to cut energy costs in our residential units. In the interests of our tenants, we also extended our energy procurement competence in 2010 as part of energy management. We negotiate regional framework agreements for our tenants, for example for the supply of gas, electricity and oil. Our tenants profit directly from the improved conditions through lower ancillary cost bills

In the past, Deutsche Annington's experience with changing suppliers has been positive and it has signed new contracts with energy utilities offering better conditions for the tenants. For example, some 10,000 tenants in Dortmund will be saving another roughly 15 % this year thanks to a new gas supply contract after already jointly saving on paper a high six-figure amount the previous year by changing suppliers. In 2010, we also switched gas suppliers for some 14,500 apartments in areas including Dortmund, Hanover, Witten and Frankfurt am Main. The annual savings total some € 1.1 million; they are passed on to our tenants in the form of lower ancillary cost bills. Furthermore, a new electricity contract with improved conditions for 82,000 homes was signed. Thanks to new contracts for communal area electricity in apartments in Frankfurt as well as the Rhine-Ruhr region (including Cologne and Düsseldorf), the tenants will in future pay up to 16 % less for their electricity.

## Service quality of condominium administration increased

The Deutsche Annington Real Estate Group offers its customers a condominium administration service. This service is provided by our subsidiary 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, it provides the owners with services such as the maintenance and modernisation of separate and common property in apartment buildings. The new business processes have further improved the quality of the services that our subsidiary offers. At the end of 2010, Deutsche Annington Service GmbH was looking after some 1,202 condominium owners' associations (2009: 1,292) with a total of 42,701 residential units and condominiums (2009: 45,276).

**Gross profit from sales**
January 1 to December 31

| € million | 2010 | 2009 |
|---|---|---|
| Income from disposal of properties | 224.9 | 149.6 |
| Carrying value of properties sold | –153.5 | –102.8 |
| **Gross profit from sales** | **71.4** | **46.8** |
| Margin | 31.7 % | 31.3 % |

## Sales: Number of apartments sold increases

Gross profit on disposal of properties rose from € 46.8 million (2009) to € 71.4 million. In 2010, we continued our strategy of selective sales to complement our property management business. Our sales primarily concentrate on the individual sale of selected housing stocks. As rents are stable or rising moderately and demand for property to buy is picking up slightly, Deutsche Annington's clear focus is currently on keeping properties in its portfolio.

The number of units sold in 2010 was well above the figure for the previous year. In 2010, we sold a total of 2,584 residential units (2009: 1,880) throughout Germany, including 2,164 apartments (2009: 1,620) to individual buyers. This rise was made possible thanks to the effective further development of our sales activities and our improved workflows which led, among other things, to accelerated sales processes. Furthermore, we made more portfolio adjustments than in the year before.

Income from disposal of properties increased in 2010 from € 149.6 million to € 224.9 million. This development is largely due to the higher number of apartments sold. The margin on the units sold as part of the privatisation programme was slightly higher than the already high 2009 level.

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

| € million | 2010 | 2009 |
|---|---|---|
| Income from fair value adjustments of investment properties | 25.8 | 61.6 |
| Changes in value of trading properties | 0.1 | 49.3 |
| **Net valuation gain on property** | **25.9** | **110.9** |

## Risk minimisation and market development affect property values

The result of the revaluation of the investment properties and the review of the trading properties is shown under net valuation gain on property. As in the year before, in 2010 we calculated the fair values of our entire real estate portfolio in a detailed internal valuation.

On the face of the balance sheet, we make a distinction between investment properties and trading properties. Properties primarily planned for sale are shown under trading properties and recognised at cost. Properties held as non-current assets are shown under investment properties and recognised at their fair values. Further information on how the fair values were determined is to be found in the relevant section starting on page 26.

The valuation of the investment properties led in 2010 to income of € 25.8 million. The change in value of the trading properties resulted in income of € 0.1 million.

These results were mainly attributable to the downward revision of valuation assumptions of particular properties and the market development in certain locations.

Overall, the net valuation gain on property increased Group earnings in the reporting period by € 25.9 million.

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

| € million | 2010 | 2009 |
|---|---|---|
| **Gross profit from property management and sales** | **660.9** | **638.7** |
| Other operating income | 46.9 | 46.3 |
| Income from investments and financial assets | 2.3 | 2.2 |
| Other cost of materials | –58.6 | –55.5 |
| Other operating expenses | –73.1 | –75.5 |
| Personnel expenses | –76.5 | –76.6 |
| **Balance of other operating income and expenses** | **–159.0** | **–159.1** |
| **Adjusted EBITDA** | **501.9** | **479.6** |

## Adjusted EBITDA increases by 4.7 %

In 2010, we improved adjusted EBITDA by € 22.3 million to € 501.9 million. In the reconciliation to adjusted EBITDA, the income and expense items are adjusted to eliminate non-operating components. The 2010 non-recurring result amounting to - € 16.5 million (2009: - € 32.8 million) mainly contains project costs for the further development of the business model (€ 9.3 million) and acquisitions (€ 4.2 million) as well as expenses arising from the development of provisions for the long-term incentive plan (€ 3.0 million).

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

| € million | 2010 | 2009 |
|---|---|---|
| **Adjusted EBITDA** | **501.9** | **479.6** |
| Net interest expense in FFO | –273.8 | –256.7 |
| Income tax expense in FFO | –1.1 | –16.2 |
| thereof current income taxes for the year | –5.1 | –16.2 |
| first-time application of the FFC ruling | 4.0 | – |
| **FFO** | **227.0** | **206.7** |

## FFO rises sharply over previous year

In 2010, FFO was nearly 10 % higher than the 2009 figure at € 227.0 million. In addition to the improved adjusted EBITDA, one main reason for this positive development was the lower income tax expense. By contrast, net interest expense in FFO was, as expected, higher as a result of the changed interest rates under our securitisation. The interest from non-derivative financial instruments is recorded under net interest 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 | 2010 | 2009 |
|---|---|---|
| **Adjusted EBITDA** | **501.9** | **479.6** |
| Non-recurring result | –16.5 | –32.8 |
| Net valuation gain on property | 25.9 | 110.9 |
| Depreciation and amortisation | –5.3 | –7.8 |
| Other interest and similar income | 6.2 | 7.0 |
| Interest and similar expense | –352.4 | –362.0 |
| Current income tax | 2.5 | –8.1 |
| Deferred tax income/expense | 29.4 | –45.9 |
| **Profit for the period** | **191.7** | **140.9** |

### Profit for the period considerably improved

The reconciliation from adjusted EBITDA to the profit for the period shows two main effects: at € 25.9 million, the net valuation gain on property is below the prior-year figure. In 2009, a special effect from the transfer of trading properties to investment properties was realised. The effects of a ruling of the Federal Fiscal Court (Bundesfinanzhof) and the resulting valuation of our loss carry-forwards led in 2010 to deferred tax income of € 29.4 million.

### Acquisition: Successful integration of the housing portfolios acquired in 2009

In 2010, the housing stocks acquired in the previous year were successfully integrated into the Deutsche Annington Real Estate Group. At the end of 2009, we took over the majority of the shares in Prima Wohnbauten Privatisierungs-Management GmbH in Berlin-Lichtenberg with 4,458 residential units. Including this acquisition, we now have a total of some 13,300 apartments in the growing real estate market of Berlin. The capital is our second-largest location after Dortmund.

We see the successful integration of the residential portfolios acquired 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.

### Active involvement as a socially responsible landlord

In 2010, we were again involved in many social projects in our residential estates. Furthermore, we donated some € 200,000 through our two foundations as well as through sponsoring. As always, our focus is on helping in cases of personal hardship and sponsoring projects dealing with the major socio-political topics of the future "education" and "living in old age".

Since 2009, Deutsche Annington has been supporting the media educational school project "Newspaper and School" (Zeus) set up by the WAZ media group. With it, we want to make a contribution towards children's education and media competence through newspapers and the Internet.

In North Rhine-Westphalia, Deutsche Annington has entered into a special partnership: In order to improve the educational opportunities of the young people in our residential estates, together with the "Reading Foundation", we offer our tenants material for developing language and reading skills in the family from a child's first year of age. To make it easier for foreign families to help their children, the information material is also available in both Turkish and Russian.

Deutsche Annington and Auslandsgesellschaft Deutschland e.V. have joined forces and adopted a new approach in one of our residential estates in the Nette district of Dortmund: as part of the "Living and Learning" project, the estate residents are being offered German courses free of charge. Deutsche Annington is providing the rooms rent-free and also funding the first language course. With this project, Deutsche Annington wants to help overcome language barriers and create good neighbourhood structures.

In view of the demographic development, we are trying to find ways of helping our tenants continue living in their homes to a ripe old age. The services offered are not only to be designed for elderly people but also for adolescents and young families.

In 2009, Deutsche Annington launched a project in cooperation with the charity, Caritas, in Gelsenkirchen: When modernising a multi-family house, we set up a disabled-friendly advice centre with a café-cum-meeting place for tenants. Out of two ground-floor apartments, we made one handicapped-accessible unit. The specially converted rooms are being provided for Caritas rent-free, initially for two years.

As part of a project in cooperation with Johanniter-Unfall-Hilfe e.V. in Dortmund, a disabled-friendly advice centre and meeting place was also opened on one of our residential estates at the end of June 2010, on a similar line to the Caritas project. Deutsche Annington is providing specially converted rooms for Johanniter-Unfall-Hilfe rent-free, initially for two years. The charity also received a donation from the Deutsche Annington Foundation for the interior furnishings.

Deutsche Annington also became involved in the "Pro Organspende" campaign. Every year, over 1,000 people in our country die due to a shortage of organ donors. The initiator of this campaign, Deutsche Herzzentrum in Berlin, is being supported by Deutsche Annington together with the BILD newspaper, Deutsche Telekom, Bahn and other sponsors in its efforts to encourage people to be more willing to become a registered organ donor.

# Financial Position and Net Assets

**Group balance-sheet structure**

| € million | Dec. 31, 2010 | % | Dec. 31, 2009 | % |
|---|---|---|---|---|
| Non-current assets | 8,527.9 | 81.0 | 8,534.6 | 81.0 |
| Current assets | 1,997.6 | 19.0 | 2,006.1 | 19.0 |
| **TOTAL ASSETS** | **10,525.5** | **100.0** | **10,540.7** | **100.0** |
| Equity | 1,815.7 | 17.3 | 1,628.9 | 15.5 |
| Non-current liabilities | 7,484.6 | 71.1 | 8,036.6 | 76.2 |
| Current liabilities | 1,225.2 | 11.6 | 875.2 | 8.3 |
| **TOTAL EQUITY AND LIABILITIES** | **10,525.5** | **100.0** | **10,540.7** | **100.0** |

## Equity ratio increased in 2010, debt reduced

In the last reporting period, we increased the equity ratio of the Deutsche Annington Real Estate Group from 15.5 % in 2009 to 17.3 %. At the same time, we reduced debt significantly in 2010, above all by making net capital repayments of € 211.4 million on loans. The change in the maturity structure is due to the Hallam securitisation transaction maturing in October 2011 and the planned higher capital repayments for 2011.

**Statement of investments**

| € million | 2010 | 2009 |
|---|---|---|
| Cash-effective investments | 52.0 | 75.5 |
| Liabilities assumed | 0.0 | 165.6 |
| **Economic investments** | **52.0** | **241.1** |

### Investments focus on the modernisation of housing stocks

In 2010, Deutsche Annington invested € 52.0 million (2009: € 241.1 million) mainly in modernisation projects to further improve the quality of its housing stocks. The high figure for the previous year was above all the result of the purchase of the majority of the shares in Prima Wohnbauten Privatisierungs-Management GmbH.

To determine the economic investments, the financial liabilities taken over are added to the cash-effective investments recorded in the cash flow statement.

**Statement of cash flow**
January 1 to December 31

| € million | 2010 | 2009 |
|---|---|---|
| Cash flow from operating activities | 472.5 | 406.2 |
| Cash flow from investing activities | 42.6 | –24.5 |
| Cash flow from financing activities | –479.9 | –359.7 |
| **Net changes in cash and cash equivalents** | **35.2** | **22.0** |
| Cash and cash equivalents at beginning of year | 275.5 | 253.5 |
| **Cash and cash equivalents at year-end** | **310.7** | **275.5** |

### Operating cash flow significantly higher

In 2010, the Deutsche Annington Real Estate Group recorded cash flow from operating activities of € 472.5 million (2009: € 406.2 million). This figure includes cash inflow from the letting business and from the sale of trading properties.

The increase in cash flow compared with the previous year is due to the improvement in business processes. Furthermore, the figure for 2009 includes higher one-off spending in connection with the reorganisation of the company.

Cash inflow from sales of investment properties exceeded cash outflow for modernisation measures in 2010. In 2009, the cash flow used in investing activities was affected particularly by the purchase of the majority of the shares in Prima Wohnbauten Privatisierungs-Management GmbH.

The financing activities led to a cash outflow of € 479.9 million (2009: € 359.7 million). We considerably increased net capital repayments in 2010 by € 74.8 million to € 211.4 million.

# Funding

Whereas 2009 was still marked by a trend towards consolidation and rather cautious financing behaviour, in 2010 we saw that the market had eased slightly again. With the aim of refinancing the Hallam securitisation which is due in October 2011, we spoke to a large number of potential partners and met with an across-the-board positive response. Although the margins are still at a relatively high level compared with pre-crisis times, the product and the management of the Deutsche Annington Real Estate Group are still perceived as being positive. In the end, we signed a loan agreement with a German bank in December 2010 to refinance the Hallam securitisation transaction. We see this as a positive sign that it is still possible to raise funds and proof that the financial market considers the Deutsche Annington Real Estate Group to be a reliable partner.

**Financing strategy: Group focuses largely on long-term loans**

The financing strategy of the Deutsche Annington Real Estate Group is based on long-term loans. In addition to the classic bank loans in the form of mortgages, the Deutsche Annington Real Estate Group uses structured financing. 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. Wfa) under the social housing construction programme. These funds have lower interest rates than mortgages and much longer terms.

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 Real Estate 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, and the swap reduction on the loan repayment profile.

**Term: Financing secured until 2013**

In 2006, 31 companies of the Deutsche Annington Real Estate 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 using the proceeds from the sale of residential units as well as from current cash flow from the property rental business.

Major loan agreements of the Deutsche Annington Real Estate Group contain certain financial covenants which relate in particular to the interest cover and loan-to-value ratio.

**Loan agreement for refinancing signed**

The main event in 2010 was the signing of a loan agreement with a German bank for the refinancing of the Hallam securitisation transaction due in October 2011. The exact terms depend on various conditions which must be met by the time the loan is paid out. 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 higher margins and equity required by the banks in 2009 during the financial crisis had eased slightly in 2010. Furthermore, the Deutsche Annington Real Estate Group was still seen as a good and reliable partner.

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

**Debt reduced again**

The bearer bonds issued in two tranches in 2006 in connection with the securitisation transaction had a value of € 4,925.0 million at the end of the 2010 financial year (2009: € 5,066.7 million). Repayments of € 141.7 million and interest payments of € 176.6 million were made in 2010. As in the past, the contractually agreed covenants were observed.

**Financing conditions have eased slightly again**

In 2010, the after-effects of the financial crisis were still being felt but the situation on the financial markets eased. The margins and equity demanded by the banks for acquisitions or refinancing eased but were still high compared with the phase before the financial crisis. We took advantage of this situation in the agreement for the refinancing of Hallam. Since none of the major acquisition credit lines of the Deutsche Annington Real Estate Group is 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 further details on our liabilities, we refer to the Notes to the consolidated financial statements, note 29.

**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. In 2010, we successfully integrated a portfolio of some 4,500 apartments into our company which we had acquired at the end of 2009. 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.

# 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. Despite the international financial crisis, the residential real estate market in Germany proved to be extremely stable in 2010. Rents and selling prices for multi-family houses and owner-occupier apartments continued to develop positively, particularly in the metropolitan areas relevant for Deutsche Annington. Together with the rent and purchase price increases achieved in our own housing stocks, this led to a moderate positive development of the overall fair value of the Deutsche Annington portfolio.

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

Calculating and showing the fair values gives greater transparency both outside and inside the company. Fair values are an important instrument for the value-optimised control of the portfolio and provide a basis for strategic decisions.

The Deutsche Annington Real Estate 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 as at December 31, 2010.

As in the previous year, Deutsche Annington retained its sales strategy of not including any more properties in the privatisation programmes for conversion into owner-occupier apartments.

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 line with our business model, a distinction was made between properties to be managed and properties to be sold individually (privatisation portfolio):

We consider properties that are being sold individually to be part of the **privatisation portfolio.** Single-family houses in our portfolio that, in our opinion, are basically suitable for being sold individually are also included in the privatisation portfolio. 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 and an assessment of the technical condition of the buildings. This assessment was based on maintenance reports compiled by external companies for which the 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.

For the privatisation portfolio, the Deutsche Annington Real Estate Group assumed that there are a certain number of apartments which, depending on the attractiveness, quality and macro-location, cannot be sold directly to tenants, owner-occupiers and capital investors and that these remaining apartments can only be sold at a discounted price in small packages (remainder share). The value of the privatisation share per building was derived from comparable figures based on the company's own sales and extensive market research (comparable method). The value of the remainder share was determined according to a method similar to the income capitalisation method and specially tailored to the product.

The **property management portfolio** was valued using the income capitalisation method. The basis of the valuation is the net annual income per building which results from the annual net rent minus non-allocable ancillary costs, maintenance expenses and administrative expenses 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 living space are to be performed) as well as any ground rent.

The modernisation work performed on our portfolio of residential units in 2010 was included in the valuations by decreasing the current maintenance expenses and discounts on the capitalised interest rates. Void periods were taken into consideration on the basis of assumed vacancy and re-letting scenarios and by applying market rents.

The capitalised value of potential yield returns was determined by discounting the annual net yield at building level. 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 or mining subsidence damage were allowed for by means of premiums and discounts.

**> 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 auditors' report on the audit of the consolidated financial statements and Group management report of the Deutsche Annington Real Estate Group for the year ended December 31, 2010.

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 Real Estate Group as at December 31, 2010 was approx. € 9,879.7 million (2009: € 9,979.4 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 Real Estate Group**

| | Residential units | | Other rental units | | Fair values in € million | |
|---|---|---|---|---|---|---|
| German state | **2010** | 2009 | **2010** | 2009 | **2010** | 2009 |
| North Rhine-Westphalia | 100,342 | 101,582 | 20,689 | 20,759 | 4,669.1 | 4,736.2 |
| Hesse | 22,432 | 22,760 | 4,238 | 4,285 | 1,499.9 | 1,497.2 |
| Bavaria and Baden-Württemberg | 21,002 | 21,491 | 10,201 | 10,358 | 1,391.2 | 1,426.1 |
| Berlin | 13,289 | 13,439 | 2,456 | 2,246 | 696.8 | 690.1 |
| Schleswig-Holstein and Hamburg | 12,852 | 12,924 | 3,568 | 3,592 | 627.6 | 632.2 |
| Five new states | 7,910 | 7,800 | 1,203 | 1,218 | 312.2 | 306.4 |
| Lower Saxony and Bremen | 6,319 | 6,382 | 1,196 | 1,195 | 323.5 | 325.6 |
| Rhineland-Palatinate and Saarland | 5,518 | 5,574 | 1,786 | 1,794 | 303.7 | 308.3 |
| Undeveloped land | | | | | 55.7 | 57.3 |
| | **189,664** | **191,952** | **45,337** | **45,447** | **9,879.7** | **9,979.4** |

# Employees

After the successful introduction of the new tasks and workflows, in 2010 the Group concentrated on promoting young talents and increasing employee satisfaction. Central pillars of this work were the establishment of a Summer School and the performance of the first employee opinion survey. Furthermore, the Group successfully continued its commitment to promoting the health and work-life balance of its employees.

**Number of employees remains constant**
At the end of 2010, the Deutsche Annington Real Estate Group had 1,101 (2009: 1,097) people in its employ. Following completion of the reorganisation of the company and the decrease in the number of employees due to cutting of jobs in 2009, staffing levels changed only minimally in 2010. New staff were also recruited in the past year to handle new topics and tasks. These recruitments were largely on a fixed-term contract basis and involved people who had previously worked as freelancers or temps for the Deutsche Annington Real Estate Group.

**Employee structure: Average length of service is just under 13 years**
As of December 31, 2010, the Deutsche Annington Real Estate Group employed 507 women, which is 46.0 % of the total workforce. 172 employees (15.6 %) have part-time jobs. The average age of employees in our Group is 43.1; the average number of years of service is 12.9.

**Awards for the best examinees in three occupations**
As of December 31, 2010 the Deutsche Annington Real Estate Group had 71 apprentices in its employ (2009: 72). In the 2010 financial year, 23 apprentices were recruited (2009: 25). It was the first year that Deutsche Annington offered part-time apprenticeships. This model is particularly interesting for single mothers and fathers as it gives them the chance to complete an apprenticeship they have already started or to start an apprenticeship and still look after a child.

24 Deutsche Annington apprentices passed their final exams (2009: 22); 18 were given a fixed-term employment contract and five received a permanent contract.

The Chamber of Industry and Commerce in the central Ruhr area in Bochum gave an award to final-year apprentices in three different occupations who passed their exams with the distinction of being best in their year: one real estate clerk, one IT specialist for application development and one office communications clerk from our company received this award. One real estate clerk also received an award from the European Training Centre.

Since mid-2010, Deutsche Annington has been sponsoring the Metropol Baskets Ruhr because it is committed to supporting youth education in the Ruhr area. Metropol Baskets Ruhr – an alliance of three long-established basketball clubs from Essen, Herten and Recklinghausen – supports young basketball players in the Ruhr area. The idea behind it is to promote sporting talents in their development and, alongside competition sports, also to teach them social skills such as respect, fairness, team spirit and comradeship – qualities which are rated highly not just during an apprenticeship but in our company in general.

**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 people who identify totally with their tasks. Therefore, in 2010, we had employee satisfaction measured for the first time by an independent institute. The results of the survey gave us important indications of how we can further improve satisfaction at the workplace by changing workflows and the work environment. We have already implemented some of the findings in routine processes.

The detailed overview of the general mood in the company has given us valuable information for further optimisation. Therefore, we have now decided to conduct the employee survey every year.

### HR development: "Summer School" established to complement the classic programmes

On the HR development side, we focused on further optimising the four strategic fields "Recruiting – Development – Responsibility – Change" in 2010.

Staff development and qualifications are a major strategic success factor for our Group. The aim of HR Development is to enable staff and managers to cope successfully with present and future requirements. In addition, particularly the high performers are to be encouraged to stay with the company. We offer them career prospects as well as opportunities for personal development.

Our HR development programmes also offer junior managers the opportunity to quickly assume responsibility. In this connection, we introduced a new instrument for developing talent in 2010: "Annington Summer School" is the new concentrated development programme for young and high-performing talents in our company, which was held for the first time in October 2010. 20 good to very good former apprentices of Deutsche Annington who show high commitment and promising potential were invited to take part in the pilot project.

The "Annington Summer School" offers young talents from our own ranks interdisciplinary development opportunities as part of a project workshop. In this way, we want to build more strongly in future on the foundations of our high-quality vocational training. The aims of the "Annington Summer School" are:

- to build up a network for young talented people,
- to promote interdisciplinary skills,
- and to offer a platform for young talents.

The participants of the "Annington Summer School" were given the task of developing a letting concept for a Deutsche Annington residential estate. The project assignment was designed to teach the following core competencies:

- innovation management
- development of entrepreneurial thinking
- project management
- target-group-focused interview techniques (stakeholder management)

### Re-audit certificate as a family-friendly company obtained

Deutsche Annington continues to be committed to family-friendly structures. In 2007, the company was awarded certification as a family-friendly company in the berufundfamilie® audit. Thus concrete goals and measures for a sustainable, family-conscious corporate culture were laid down.

After a project lasting three years, Deutsche Annington has now received the re-audit certificate. To achieve this, a strategy and audit workshop was held which was attended by heads of department, the works council chairpersons and project members. The comprehensive documentation of the measures already performed and planned served as the basis for the re-audit decision of audit berufundfamilie of berufundfamilie GmbH. The certificate was confirmed in mid-May after a successful examination and presented in Berlin on June 11, 2010 by the Federal Family Minister, Kristina Schröder.

### Continued commitment to health and the family

Deutsche Annington continued its commitment to health management in 2010. All family and health promotion offers for our employees run under the name "Balance 2010". Individual part-time work arrangements, parent-child offices and cooperation with a provider of services for families are just three examples of the measures already implemented.

In the "balance body & mind" field, we conducted a large number of preventive healthcare activities:

- in September 2010, a health day focusing on healthy eating and mental stress
- driving safety training sessions for the field service organisation
- bowel cancer screening for employees aged 45 and over (every year)
- continuation of the fitness cooperation agreements with Fitness First and Kieser and the health programme with Oase Health & Sports Club in Bochum

# Risk Management

Last year, the Deutsche Annington Real Estate Group developed its risk management processes further. This included the introduction of a comprehensive risk reporting system. Furthermore, we put the risk inventory on a broader basis through further survey methods. The entire opportunity and risk management system was subjected to a comprehensive analysis and systematically improved. On the basis of this transparent system, the management was in a position to identify and assess risks within the company and in the company's environment in good time. From today's viewpoint, the Deutsche Annington Real Estate Group sees no risks that cannot be counteracted or that might jeopardise the company's existence.

## Framework and overall estimate

### Opportunity and risk management system supports company decisions

The opportunity and risk management policy of the Deutsche Annington Real Estate Group is geared to maintaining and systematically increasing the company's value. It consists of a large number of elements and is firmly embedded in the company's structure and workflows. Responsibility for risk control lies in each case with the person bearing operational responsibility. Thus the opportunity and risk management system is an integral part of the company's processes and decisions.

Risk principles and framework conditions are anchored in our policies and rules. As part of the restructuring of the processes in 2009, our documentation and policies were extensively revised. This process was completed in 2010 with the introduction of a Code of Conduct whose principles apply to employees and indirectly also to business partners.

Risks for our portfolio of properties and risks arising from business operations are covered by insurance policies that are as comprehensive and tailored as possible. Insurance cover is continually reviewed by an external specialist company.

### Modern information structures provide the basis for prompt Group-wide reporting

Our early warning system is based on a differentiated reporting system. 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 the relevant operational early warning indicators. In this way, operational mistakes can be recognised in good time and counteraction taken at an early stage.

Last year, the Deutsche Annington Real Estate Group considerably improved its risk management process by introducing a comprehensive risk reporting system and putting risk inventory on a broader basis through further survey methods. In the light of optimised processes, the opportunity and risk management system was subjected to a comprehensive analysis and systematically improved.

The effectiveness of our risk management system is examined in regular internal audits.

**No risks jeopardising the company's existence identifiable**

As things now stand, the Deutsche Annington Real Estate Group sees no risks that cannot be counteracted or that might jeopardise the company's existence.

## Risk situation and individual risks

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

**Risks from changes in the business environment**

If the prospects for the German economy change substantially, it is conceivable that the demand for residential properties will also change to the detriment of the company. However, the actual development in recent months shows stable demand for residential real estate in our segment. The demand for low-priced apartments for rent tends to be positively influenced by a strained economic situation. 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. Despite rising interest rates, mortgage interest rates are still low in a long-term comparison. Against this background, we believe that demand will also remain stable in 2011. 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. The development varies from region to region. In growth regions, we are seeing prices rise and demand increase. The prices in lower-income-areas are falling. We managed to counteract this trend by redoubling our sales activities. In the Rhine-Ruhr and Westphalia regions, we sold considerably more properties than in the previous two years. No residential units were bought in 2010.

As a result of the financial crisis, the situation on the financial markets has changed considerably. For example, banks initially demanded much higher margins and equity for new acquisitions and acquisition refinancing in 2009 but the situation eased slightly again in 2010. 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-on-equity 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 differentiated portfolio strategy and concentrating in our lobbying and our acquisition efforts on regions which people appear to be migrating to.

**Risks from changes in the legal framework**

Our business activities are above all subject to tenancy and building law. Any changes in these laws may have a negative impact on our business and the reliability of our planning. New or amended environmental laws or ordinances may also impact on our cost situation substantially. Therefore, we are closely following planned amendments to laws and supporting the relevant housing industry bodies through lobbying work.

In order to adequately 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.

**Risks from the development of fair values**

Our valuation of the fair values of our real estate is based on 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. Should the estimate of the micro-location of the buildings and the quality of the macro-location change adversely 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.

**Performance/operational risks**

A major objective in our core business segment, Property Management, is to manage the vacancy risk. Last year, voids were systematically reduced by optimising sales processes and by continually upgrading the properties we offer to suit the tenants' needs. Thanks to our high-performance operations reporting system, we can analyse the success of our letting activities relative to each apartment every day 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.

As a property letting company, we also have to face a rent default risk. In order to counter this risk, we have the credit standing, the disposable income and the social structure of potential tenants examined by external agencies before renting out a property to them. We are interested in as long a tenancy as possible in order to reduce the costs that occur every time a tenant changes.

A further risk is that real estate acquisitions may subsequently turn out to be uneconomic. We counter this by applying complex, quality-assured investment models during the investment decision. They 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.

As far as acquisitions are concerned, there are various government requirements restricting our rent increases and our sales programme for some of our housing stocks. These tend to limit our commercial and strategic flexibility. These circumstances are also taken into account in our economic viability calculations.

We are combating the risks of rising purchase prices for minor repairs and maintenance work through central procurement, technical standardisation, outsourcing, long-term framework agreements and active cost controlling at project level. A centralised management system constantly monitors the quality of the services provided by the contractors who work for us.

**Financial risks**

The companies of the Deutsche Annington Real Estate Group are mainly financed by borrowings. These loans take current tax law and tax regulations as well as the present interpretation of the law on deductibility of interest into account. Due to their size, the current securitisation transactions and structured bank loans are 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. If the availability of loans depends on the observance of certain financial covenants, such covenants are also closely monitored and projected into the future using scenario analyses.

In view of the refinancing coming up in the medium term, we are watching the market closely and pursuing parallel strategies at an early stage. The successful conclusion of a loan agreement at the end of 2010 to replace the Hallam securitisation transaction in 2011 meant that we were in contact with many different market players and could check out the market. The market players' reaction and the refinancing conditions for the Hallam transaction give the company reassurance with respect to the major acquisition refinancing required from 2013 onwards.

In its financing activities for its operational business, the Deutsche Annington Real Estate Group is exposed to risks arising from changes in interest rates. The Group operates a systematic finance management system to limit these risks. This is coordinated and operated by a central treasury department. Speculative financial instruments are not permitted. We refer to the Notes to the consolidated financial statements, note 34, for a description of the derivative financial instruments.

In connection with the GRAND financing, there is an incongruence between the underlying transaction and the interest hedge. This is because repayments of the REF Notes 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 the GRAND financing. 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.

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 permanently positive cash flows of our core business do not indicate any particular liquidity risk in the forecast period. In total, the Deutsche Annington Real Estate Group had cash and cash equivalents of € 310.7 million on the reporting date as well as credit lines of € 100.0 million. Thus, the Deutsche Annington Real Estate Group's ability to service debt can be regarded as guaranteed at all times, even in the light of the 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 Real Estate Group. The Deutsche Annington Real Estate Group is involved in litigation resulting from operating activities, both as the plaintiff and the defendant. These legal disputes 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 will have a material effect on the balance sheet, profits or liquidity of the Deutsche Annington Real Estate Group.

Personnel risks mainly result from the turnover of staff in key positions. We limit these risks by training our own up-and-coming managers in emerging leader programmes as well as by offering performance-based pay. Furthermore, we have incentive programmes for managers in place that also take the years of service into consideration.

The operational steering 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 Real Estate 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 Real Estate Group to successively take suitable remedial action and clarify the legal situation in the relevant cases.

# Start to 2011 and Outlook

The Deutsche Annington Real Estate Group will continue its successful development of past years in 2011. On the basis of improved business processes and buoyed by a stabilising economy, we are likely to increase our earnings. On the operational side, we will continue to concentrate on the development of our services and on maintaining our housing stock. If the right opportunities arise, we will integrate further residential units into our portfolio. We are expecting to increase adjusted EBITDA in the current year while FFO will fall slightly.

**START to 2011: Loan refinancing successfully concluded**
At the end of 2010, we successfully signed a loan agreement to replace the Hallam securitisation transaction in 2011. We are carefully watching the market with a view to the refinancing required in the medium term. Here we see that the higher demands on margins and equity made by the banks in 2009 during the financial crisis eased slightly in 2010. This development and the conditions negotiated for the loan agreement to replace the Hallam securitisation transaction give us reassurance  with respect to the forthcoming major refinancing from 2013.

The first few months of 2011 were again dominated by efforts to improve services for our customers. How successful we are will be shown by the customer surveys which we introduced in 2010 and have since conducted at regular intervals. Furthermore, we are also focusing on the question of how we can sensibly extend our real estate services. We are very satisfied with the developments which we had achieved by the end of 2010. In the current year, we will continue our course of improving services.

**New urban district management projects planned to improve the quality of housing and life**
At the start of the year, we also expanded our urban district management activities: After setting up advice centres in Gelsenkirchen and Dortmund in the last two years together with Caritas and Johanniter Unfallhilfe, we are now planning similar projects at other locations in 2011 thanks to the positive response:

For example, in cooperation with the Duisburg branch of the German Red Cross as our partner, an advice centre is to be set up in the Duisburg district of Wedau. This centre is to serve as an open meeting place for young and old residents alike. The aim of the project is to offer all residents comprehensive help and services in all situations in life. Deutsche Annington will be making appropriately converted rooms available rent-free for three years.

Trägerwerk Soziale Dienste in Berlin und Brandenburg gGmbH (TWSD gGmbH) is planning to set up an advice and support centre in our residential estate in the Berlin district Mitte. In addition to Deutsche Annington, the cooperation project is supported by the German government's initiative "At home rather than in a home", Bundestag member Silvia Schmidt, Berliner Mieterverein e.V. and the health and nursing care insurance companies. The advice is to be primarily offered to tenants of

Deutsche Annington as well as all local residents. As a cooperation partner, Deutsche Annington is supporting the project in the first three years by providing a specially converted apartment with barrier-free access rent-free as well as part of the project funding.

In addition, Deutsche Annington will be supporting the integration initiative IFAK in Bochum in 2011. This organisation operates various facilities including kindergartens and further training centres for migrants in Bochum and the surrounding area. In addition to cash donations for children's facilities, we are also providing IFAK with funds for a two-year social counselling project in Bochum-Stahlhausen.

Furthermore, Deutsche Annington will be a cooperation partner of Johanniter Unfallhilfe from March 2011. As part of the cooperation, we can offer our tenants care and domestic services as well as advice on attractive conditions. At the same time, our vacant apartment offers will appear in the member publications of Johanniter Unfallhilfe.

In cooperation with Auslandsgesellschaft Deutschland e.V., we have been offering free German lessons to our foreign tenants at two locations since 2010. In view of the high take-up on this offer, we will be extending this involvement in the current year.

## Subsequent events

On the basis of the shareholders' resolution of February 16, 2011, Monterey Holdings I S.à r.l., Luxembourg, withdrew an amount of € 30.0 million from the capital reserves of Deutsche Annington Immobilien GmbH.

## OUTLOOK: Core business, Property Management, will be further strengthened

From today's point of view, the recovery of the residential real estate markets in Germany seen in 2010 can be expected to also continue in 2011. Deutsche Bank Research estimates that the prospects remain good for the following reasons:

- German economic output will already return to the pre-crisis level in 2011; the highest employment level since reunification was already reached in the autumn of 2010.
- Financing conditions are still very attractive on a long-term average.
- In particular, private investors are looking for lower-risk investment options with adequate returns.
- In recent years, comparatively little new living accommodation was built in Germany. Therefore, the supply side can be expected to present hardly any risks.

In 2011, Deutsche Annington is continuing to focus on the value-enhancing management of its residential properties. We also want to improve still further in our business segment, Property Management, this year and extend the real-estate-related services we offer. We will systematically continue our efforts to reduce voids, which were so successful in 2010. We believe that the development on the residential real estate markets will have a positive influence on the demand for reasonably priced rental accommodation. Our aim is to once again increase the letting rate in 2011.

We will invest in our housing portfolio at the same high level as in 2010. A large proportion of the funds will go into energy-saving measures and action to improve the quality standard of the units. We are expecting rents to increase slightly more than the forecast inflation rate for 2011 of 1.4 %.

**Selective sales of individual apartments to be continued**

To complement the successful core business of Property Management, we will also be continuing our strategy of selective apartment sales in 2011. Here our main target group is again our tenants but we will also be offering to owner-occupiers and capital investors. As rents are stable or rising and the demand for residential property to buy is also stable, Deutsche Annington's clear focus is, however, on keeping properties in the portfolio. Against this background, we believe that in 2011 apartment sales will be below the high 2010 level.

Irrespective of our current strategy, our experience in selling residential properties in a socially acceptable manner and our comprehensive knowledge of the market enable us to adapt our selling activities at any time to any change in demand. The new business processes again help greatly to make us flexible.

**Good chances for further acquisitions**

Last year, the residential units acquired at the end of 2009 were successfully integrated into our company. In future, we will continue to expand our portfolio with economically sensible acquisitions. We have the financial scope to acquire even relatively large portfolios at any time.

In view of the current situation in the German residential real estate market, we see good chances to continue our course of growth through acquisitions. As efforts are made to consolidate budgets, pressure on public-sector housing companies to sell properties may well grow. Furthermore, the first private-sector investors are also starting to sell their housing portfolios. Against this background, we will examine the possibility of acquiring further residential portfolios in 2011.

**Result: Adjusted EBITDA expected to rise in 2011**

Our aim for the coming 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 2011 as well. We are confident that our operating performance indicator, adjusted EBITDA, will be above the high 2010 figure. However, FFO is likely to remain below the previous year's level. Here, the changed interest rates for our securitisation transactions will have a full-year impact for the first time in 2011.

Given the likely development of rents and the assumption that our company's efficiency will further increase, we are currently expecting adjusted EBITDA and FFO to be higher in 2012 than in 2011.

Unforeseen developments and events may lead to changes in our expectations and deviations from our forecasted figures.

# Consolidated Financial Statements

# Consolidated Income Statement

January 1 to December 31

| € million | Notes | 2010 | 2009 |
|---|---|---|---|
| Gross rental income | | 1,039.3 | 1,012.3 |
| Other income from property management | | 19.6 | 21.3 |
| **Income from property management** | 6 | **1,058.9** | **1,033.6** |
| Income from sale of trading properties | | 123.5 | 106.4 |
| Carrying value of trading properties sold | | –81.6 | –71.7 |
| Income from disposal of investment properties | | 101.4 | 43.2 |
| Carrying value of investment properties sold | | –71.9 | –31.1 |
| **Profit on disposal of properties** | 7 | **71.4** | **46.8** |
| **Net income from fair value adjustments of investment properties** | 8 | 25.8 | 61.6 |
| Changes in value of trading properties | 9 | 0.1 | 49.3 |
| Cost of materials | 10 | –529.6 | –497.2 |
| Personnel expenses | 11 | –82.4 | –81.5 |
| Depreciation and amortisation | 12 | –5.3 | –7.8 |
| Other operating income | 13 | 46.9 | 50.8 |
| Other operating expenses | 14 | –82.1 | –107.9 |
| Financial income | 15 | 8.5 | 9.2 |
| Financial expenses | 16 | –352.4 | –362.0 |
| **Profit before tax** | | **159.8** | **194.9** |
| Income tax | 17 | 31.9 | –54.0 |
| **Profit for the period** | | **191.7** | **140.9** |
| Attributable to: | | | |
| DAIG shareholders | | 191.1 | 140.9 |
| Non-controlling interests | | 0.6 | 0.0 |

Also see the corresponding explanations in the Notes.

# Consolidated Statement of Comprehensive Income

January 1 to December 31

| € million | Notes | 2010 | 2009 |
|---|---|---|---|
| **Profit for the period** | | **191.7** | **140.9** |
| Cash flow hedges | | –4.9 | –6.4 |
| Available-for-sale securities | | 0.0 | 0.1 |
| **Other comprehensive income** | (26) | **–4.9** | **–6.3** |
| **Total comprehensive income** | | **186.8** | **134.6** |
| Attributable to: | | | |
| DAIG shareholders | | 186.2 | 134.6 |
| Non-controlling interests | | 0.6 | 0.0 |

Also see the corresponding explanations in the Notes.

# Consolidated Balance Sheet

| € million | Notes | Dec. 31, 2010 | Dec. 31, 2009 |
|---|---|---|---|
| **ASSETS** | | | |
| Intangible assets | 18 | 11.0 | 11.8 |
| Property, plant and equipment | 19 | 5.1 | 7.1 |
| Investment properties | 20 | 8,436.7 | 8,434.6 |
| Financial assets | 21 | 46.1 | 46.3 |
| Other assets | 22 | 28.8 | 25.5 |
| Income tax receivables | | 0.2 | 0.2 |
| Deferred tax assets | | 0.0 | 9.1 |
| **Total non-current assets** | | **8,527.9** | **8,534.6** |
| Inventories | 23 | 1,499.1 | 1,571.3 |
| Trade receivables | 24 | 89.2 | 76.9 |
| Other financial assets | 21 | 6.0 | 1.9 |
| Other assets | 22 | 20.3 | 25.2 |
| Income tax receivables | | 72.3 | 55.3 |
| Cash and cash equivalents | 25 | 310.7 | 275.5 |
| **Total current assets** | | **1,997.6** | **2,006.1** |
| **Total assets** | | **10,525.5** | **10,540.7** |
| **EQUITY AND LIABILITIES** | | | |
| Subscribed capital | | 0.1 | 0.1 |
| Capital reserves | | 718.2 | 718.2 |
| Retained earnings | | 1,119.1 | 928.0 |
| Other reserves | | –33.9 | –29.0 |
| **Total equity attributable to DAIG shareholders** | | **1,803.5** | **1,617.3** |
| Non-controlling interests | | 12.2 | 11.6 |
| **Total equity** | 26 | **1,815.7** | **1,628.9** |
| Provisions | 27 | 311.0 | 321.6 |
| Trade payables | 28 | 0.3 | 0.4 |
| Other financial liabilities | 29 | 6,500.6 | 6,981.8 |
| Income tax liabilities | 30 | 124.0 | 141.7 |
| Other liabilities | 31 | 5.4 | 5.6 |
| Deferred tax liabilities | | 543.3 | 585.5 |
| **Total non-current liabilities** | | **7,484.6** | **8,036.6** |
| Provisions | 27 | 175.6 | 173.3 |
| Trade payables | 28 | 41.1 | 40.8 |
| Other financial liabilities | 29 | 562.7 | 232.6 |
| Income tax liabilities | 30 | 25.6 | 25.1 |
| Other liabilities | 31 | 420.2 | 403.4 |
| **Total current liabilities** | | **1,225.2** | **875.2** |
| **Total liabilities** | | **8,709.8** | **8,911.8** |
| **Total equity and liabilities** | | **10,525.5** | **10,540.7** |

Also see the corresponding explanations in the Notes.

# Consolidated Cash Flow Statement

January 1 to December 31

| € million | Notes | 2010 | 2009 |
|---|---|---|---|
| Profit for the period | | 191.7 | 140.9 |
| Depreciation and amortisation | 12 | 5.3 | 7.8 |
| Interest expenses/income | | 346.2 | 354.9 |
| Results from disposals of investment properties | | –29.5 | –12.1 |
| Net income from fair value adjustments of investment properties | 8 | –25.8 | –61.6 |
| Changes in value of trading properties | 9 | –0.1 | –49.3 |
| Other earnings not affecting net income | | –1.0 | –2.5 |
| Changes in inventories | | 72.6 | 49.1 |
| Changes in receivables and other assets | | 3.4 | –2.7 |
| Changes in provisions | | –39.2 | –51.4 |
| Changes in liabilities | | 4.0 | 19.9 |
| Changes in deferred taxes | | –29.4 | 45.9 |
| Income tax paid | | –25.7 | –32.7 |
| **Cash flow from operating activities** | | **472.5** | **406.2** |
| Proceeds from disposals of investment properties | | 89.1 | 46.2 |
| Proceeds from disposals of intangible assets and property, plant and equipment | | 0.1 | 0.0 |
| Disposal/proceeds of discontinued operation (net of cash disposed of) | | 0.0 | –0.5 |
| Proceeds received from disposals of financial investments | | 0.1 | 0.1 |
| Acquisition of investment properties | 20 | –44.3 | –38.8 |
| Acquisition of intangible assets and property, plant and equipment | 18, 19 | –3.1 | –5.1 |
| Acquisition of subsidiaries (net of cash acquired) | 3 | –0.6 | –31.1 |
| Acquisition of financial assets | 21 | –4.0 | –0.5 |
| Interest received | | 5.3 | 5.2 |
| **Cash flow from investing activities** | | **42.6** | **–24.5** |
| Cash proceeds from issuing loans and notes | 29 | 13.4 | 40.2 |
| Cash repayments of financial liabilities | 29 | –224.8 | –176.8 |
| Transaction costs | | –2.1 | –0.2 |
| Capital contributions from the shareholder | 26 | 0.0 | 36.0 |
| Interest paid | | –266.4 | –258.9 |
| **Cash flow from financing activities** | | **–479.9** | **–359.7** |
| **Net changes in cash and cash equivalents** | | **35.2** | **22.0** |
| Cash and cash equivalents at beginning of year | 25 | 275.5 | 253.5 |
| **Cash and cash equivalents at year-end** | 25 | **310.7** | **275.5** |

Also see the corresponding explanations in the Notes.

# Consolidated Statement of Changes in Equity

| € million | Subscribed capital | Capital reserves | Retained earnings | Other reserves | Equity of DAIG shareholders | Non-controlling interests | Total equity |
|---|---|---|---|---|---|---|---|
| **As of Jan. 1, 2010** | **0.1** | **718.2** | **928.0** | **–29.0** | **1,617.3** | **11.6** | **1,628.9** |
| Profit for the period | | | 191.1 | | 191.1 | 0.6 | 191.7 |
| Other comprehensive income | | | | –4.9 | –4.9 | 0.0 | –4.9 |
| Total comprehensive income | | | 191.1 | –4.9 | 186.2 | 0.6 | 186.8 |
| **As of Dec. 31 , 2010** | **0.1** | **718.2** | **1,119.1** | **–33.9** | **1,803.5** | **12.2** | **1,815.7** |
| **As of Jan. 1, 2009** | **0.1** | **682.2** | **787.1** | **–22.7** | **1,446.7** | **9.4** | **1,456.1** |
| Profit for the period | | | 140.9 | | 140.9 | 0.0 | 140.9 |
| Other comprehensive income | | | | –6.3 | –6.3 | 0.0 | –6.3 |
| Total comprehensive income | | | 140.9 | –6.3 | 134.6 | 0.0 | 134.6 |
| Capital increase | | 36.0 | | | 36.0 | | 36.0 |
| Changes in scope of consolidation | | | | | | 2.2 | 2.2 |
| **As of Dec. 31 , 2009** | **0.1** | **718.2** | **928.0** | **–29.0** | **1,617.3** | **11.6** | **1,628.9** |

Also see note [26] in the Notes.

# Notes

## Accounting Policies

### 1 Basis of Presentation

As an integrated real estate company, the Deutsche Annington Real Estate Group (referred to in the following as DAIG) pursues three core activities: the long-term, value-enhancing management of its nationwide residential real estate portfolio, the selective sale of units in a socially acceptable manner, primarily to tenants, as well as the strategic acquisition of housing portfolios to achieve a sustained increase in the company's value. 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.

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, 2010. 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 the cost basis except for investment properties, derivative financial instruments, available-for-sale financial assets and financial liabilities arising from binding share purchase offers to minority shareholders, which are measured at fair value. The income statement has been prepared using the nature of expense method and follows the recommendations of the European Public Real Estate Association (EPRA).

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 March 18, 2011, the Management approved the consolidated financial statements of Deutsche Annington Immobilien GmbH for submission to the shareholders' meeting. It is the responsibility of the shareholders' meeting to examine the consolidated financial statements and declare whether it approves them.

### 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. 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, i.e. 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, based on an evaluation of the substance and taking into consideration all relevant factors of its relationship with Deutsche Annington Immobilien GmbH and the SPE's risks and rewards, Deutsche Annington Immobilien GmbH concludes that it 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, 122 (2009: 128) domestic companies and 2 foreign companies (2009: 2) have been included in the consolidated financial statements of DAIG as at and for the year ended December 31, 2010.

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

With effect from January 1, 2010, FEA Verwaltungs GmbH, Düsseldorf (FEA), previously shown under other investments, was included in the consolidated financial statements for the first time after the shareholding in the company was increased from 25 to 100%. FEA is, however, not a business operation. Furthermore, in the reporting year 2 companies were newly established (2009: 7) and no company was acquired (2009: 6).

In 2010, 4 companies were split up (2009: 0) and their assets and liabilities contributed to other consolidated companies. The other disposals in the reporting year result from 5 mergers (2009: 0). No liquidations (2009: 3) or intra-Group legal reorganisations (2009: 3) took place in the reporting year.

The fair values of the net assets recognised on initial consolidation of the Prima companies contained qualified estimates and were thus provisional. As the provisional and final figures corresponded, no restatement in accordance with the provisions of IFRS 3.45 was necessary.

## 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) 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, sales incentives, customer bonuses and rebates granted, on a straightline basis 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.

### b) 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.

### c) 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.

**d) 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 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 real estate trading strategy of DAIG, investment properties which are to be sold within the normal six-year business cycle and which are being prepared for sale, e.g. condominium declaration obtained after initial classification, are transferred to inventories. Should these properties classified as trading properties not have been sold within the six-year business cycle as intended, they are, at the latest at this date, retransferred to the investment properties category in accordance with the provisions of IAS 8 "Changes in Accounting Estimates".

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.

### e) 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.

### f) 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).

### g) Non-derivative financial assets

Contractually acquired financial assets are recognised in the balance sheet if the resulting rewards will flow to DAIG. 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.

**Financial investments**
Shares in associates not accounted for using the equity method are measured at cost as there is no price quoted on an active market and the fair value cannot be determined reliably.

**Available-for-sale financial assets**
Available-for-sale financial assets are initially measured at fair value and any changes therein – other than impairment losses – are recognised in equity. 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 equity is transferred to profit or loss. Regular-way purchases or sales are accounted for at the date of the economic transfer of the asset to the purchaser.

**Held-to-maturity investments**
Non-derivative financial assets with a final maturity which are assigned to the held-to-maturity category are measured at amortised cost. If the recoverable amount falls below the carrying amount, an impairment loss is to be recognised in profit or loss.

**Loans and receivables**
Loans and receivables are stated at amortised cost using the effective interest method. Allowance is made for all discernible risks by appropriate deductions. An appropriate valuation allowance is made when it is estimated that certain receivables will be uncollectible.

**h) Inventories**
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.

Trading properties are residential properties which are to be sold within the normal six-year business cycle and for which a condominium declaration has been obtained. Should these properties have not been sold within the six-year business cycle, they are, at the latest at this date, transferred to the investment properties category in accordance with the provisions of IAS 8 "Changes in Accounting Estimates". Any difference between the fair value of the property at that date and its previous carrying amount is recognised in profit or loss.

Any ancillary costs not yet charged are primarily accounted for 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.

**i) 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.

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

**k) Income and expense recognised directly in equity**

This equity line item includes changes in equity 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.

**l) 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 [30] 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, 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 31.6 % for 2010 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.

**m) 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 after elimination of unrecognised actuarial gains and losses and unrecognised past service cost and after offsetting against the fair value of the plan assets.

Actuarial gains and losses arising are recognised using the corridor method. They are 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 exceeds the corridor of 10 % of the greater of the present value of defined benefit obligation (DBO) and the fair value of plan assets. The excess is recognised in future periods over the expected average remaining working lives of the participating employees. If the obligations are obligations for employees who have already left the company's service, the excess is recognised in the financial year in the income statement.

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.

**n) Financial liabilities**
Financial liabilities under contracts are recognised if a resulting claim can be made against DAIG. 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.

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

All derivative financial instruments, irrespective of the purpose or the intended use, are initially accounted for at their fair values as assets or liabilities in the balance sheet. 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 recording 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 equity to the extent that the hedge is effective. Amounts accumulated in equity 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.

**p) Government grants**

The companies of DAIG 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.

**q) 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.

**r) Estimates, assumptions and management judgment**

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

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

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

The best evidence of fair value of investment properties is 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, void periods and 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 consolidated provision for income taxes. 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 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.

At the time when the consolidated financial statements were prepared, there was no reason to assume that the assumptions and best possible estimates made on the basis of the circumstances at the balance-sheet date would change materially.

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 figures in the income statement would differ significantly.

- DAIG recognises actuarial gains and losses according to the corridor method. The application of a different option to recognise actuarial gains and losses, as permitted under IAS 19, would lead to a different carrying amount of the recognised provision for pensions and might also have an effect on the income statement and/or on changes in equity not affecting net income.

**s) 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 2010 financial year.

The following Amendments were adopted by DAIG for the first time for the 2010 financial year:

**Amendments to IAS 27 "Consolidated and Separate Financial Statements"**

Material amendments to IAS 27 relate to the requirements for accounting for transactions between controlling and non-controlling shareholders of a group entity as well as accounting in the event of the loss of control over a subsidiary. Transactions that do not lead to the loss of control are to be recorded directly within equity as equity transactions. Furthermore, the Standard regulates how a deconsolidation gain is to be calculated and how the remaining investment in the former subsidiary is to be measured. Further share purchases after control has been obtained were already accounted for as pure equity transactions in the prior period and therefore do not lead to any change in presentation in the consolidated financial statements in the reporting period.

**Amendments to IFRS 3 "Business Combinations"**

The main changes include the accounting treatment of minority interests and the remeasurement, through profit or loss, of already existing shares at the time control was gained for successive company acquisitions as well as rules on the recognition of acquisition costs and acquisition-related costs. According to the revised IFRS 3, minority interests may be measured at fair value or as a proportionate share of net assets. In the 2010 financial year, no shares in companies were acquired which constitute a business operation. Therefore, there were no effects on the DAIG consolidated financial statements in the reporting period.

Application of the following amended Standards and Interpretations became mandatory for the 2010 financial year but they are not relevant to DAIG's operations at present:

- Amendments to IAS 39 "Financial Instruments: Recognition and Measurement": Eligible hedged items
- Amendments to IFRS 2 "Share-Based Payment": cash-settled share-based-payments regarding entities of the group
- IFRIC 12 "Service Concession Arrangements": Accounting for rights and obligations under public service agreements
- IFRIC 15 "Agreements for the Construction of Real Estate": Uniform accounting for the development of land and the sale of apartments or houses before their completion
- IFRIC 16 "Hedges of a Net Investment in a Foreign Operation"
- IFRIC 17 "Distributions of Non-Cash Assets to Owners": Recognition of distributions to owners
- IFRIC 18 "Transfers of Assets from Customers": Accounting for the transfer of property, plant and equipment by a customer

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

Application of the following Standards, Interpretations and Amendments to existing Standards was not yet mandatory for the 2010 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 12 | "Income taxes" | Jan. 1, 2012 * |
| IAS 24 | "Related Party Disclosures" | Jan. 1, 2011 |
| IAS 32 | "Financial Instruments: Presentation" (Classification of Rights Issues) | Jan. 1, 2011 |
| IFRS 7 | "Financial Instruments: Disclosures" | Jan. 1, 2012 * |
| **New Standards** | | |
| IFRS 9 | "Financial Instruments: Classification and Measurement" | Jan. 1, 2013 * |
| **Amendments to Interpretations** | | |
| IFRIC 14 | "IAS19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction" | Jan. 1, 2011 |
| **New Interpretations** | | |
| IFRIC 19 | "Extinguishing Financial Liabilities with Equity Instruments" | Jan. 1, 2011 |

* not yet endorsed

**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.

**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.

**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, 2013; earlier application has already been permitted since 2009. DAIG is examining the effects of the new Standard.

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

# Notes to the Consolidated Income Statement

## 6 Income from property management

| € million | 2010 | 2009 |
|---|---|---|
| Rental income | 723.7 | 716.0 |
| Ancillary costs (charged) | 315.6 | 296.3 |
| **Gross rental income** | **1,039.3** | **1,012.3** |
| Other income from property management | 19.6 | 21.3 |
| **Income from property management** | **1,058.9** | **1,033.6** |

## 7 Profit on disposal of properties

In 2010, a positive contribution to operating income of € 41.9 million (2009: € 34.7 million) was recorded from the sale of trading properties.

A positive contribution to operating income of € 29.5 million (2009: € 12.1 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, 2010 of € 25.8 million (2009: € 61.6 million). Further explanations on the measurement of investment properties are given under note [20] Investment properties.

## 9 Change 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 € 5.9 million (2009: € 7.8 million) for several properties were recognised as an expense. Impairment losses of € 6.0 million (2009: € 14.5 million) performed in prior periods were reversed. Before the retransfer of trading properties to investment properties, a fair value adjustment on these properties is performed to affect net income. The fair value adjustment on trading properties transferred to investment properties amounted to € 42.6 million in the previous year. In 2010 no trading properties were retransferred to investment properties.

## 10 Cost of materials

| € million | 2010 | 2009 |
|---|---|---|
| Expenses for ancillary costs | 343.9 | 318.8 |
| Expenses for maintenance and modernisation | 125.5 | 122.9 |
| Other cost of purchased goods and services | 60.2 | 55.5 |
| | **529.6** | **497.2** |

## 11 Personnel expenses

| € million | 2010 | 2009 |
|---|---|---|
| Wages and salaries | 68.7 | 65.4 |
| Social security, pensions and other employee benefits | 13.7 | 16.1 |
| | **82.4** | **81.5** |

Personnel expenses contain the reversal of provisions for restructuring measures amounting to € 2.4 million (2009: € 8.1 million) as well as the cost of pre-retirement part-time work arrangements and other severance payments totalling € 2.8 million (2009: € 7.8 million).

In 2010, the personnel expenses included € 3.0 million (2009: € 0.1 million) for the Long Term Incentive Plan (LTIP) (see note [27] 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 [39] Related party transactions).

In the year under review, employers' contributions to the statutory pension insurances totalling € 6.4 million (2009: € 6.8 million) were paid.

As at December 31, 2010, 1,101 people (2009: 1,097) were employed at DAIG. On an annual average, 1,100 people (2009: 1,173) were employed. The figures do not include apprentices and trainees.

## 12 Depreciation and amortisation

Amortisation of intangible assets totalled € 3.6 million (2009: € 3.5 million). Of this figure, capitalised customer bases accounted for € 1.6 million (2009: € 1.6 million), self developed software for € 1.3 million (2009: € 1.2 million) and concessions, industrial rights, licenses and similar rights for € 0.7 million (2009: € 0.7 million). Depreciation and impairments of property, plant and equipment amounted to € 1.7 million in 2010 (2009: € 4.3 million) (see note [19] Property, plant and equipment). Of this figure, impairments of real estate used by the company itself accounted for € 0.6 million (2009: € 0.5 million) and impairments of other equipment, fixtures, furniture and office equipment for € 0.0 million (2009: € 2.0).

## 13 Other operating income

| € million | 2010 | 2009 |
|---|---|---|
| Income from compensation paid and cost reimbursements | 20.3 | 18.2 |
| Income from the reversal of provisions | 13.4 | 15.5 |
| Income from the reversal of impairment losses | 1.2 | 0.8 |
| Other | 12.0 | 16.3 |
| | **46.9** | **50.8** |

Income from compensation paid and cost reimbursements includes € 12.2 million in compensation paid by insurance companies (2009: € 9.0 million).

## 14 Other operating expenses

| € million | 2010 | 2009 |
|---|---|---|
| IT and administrative services | 13.7 | 24.7 |
| Impairment losses on receivables | 11.8 | 14.2 |
| Auditors' and consultants' fees | 10.5 | 16.5 |
| Rents, leases, ground rents | 7.3 | 9.7 |
| Vehicle costs | 4.2 | 3.1 |
| Telephone costs, postal charges and communication costs | 3.2 | 3.1 |
| Advertising costs | 2.0 | 2.5 |
| Legal and notary costs | 1.6 | 1.7 |
| Other | 27.8 | 32.4 |
| | **82.1** | **107.9** |

The 2009 figures for the line items IT and administrative services and auditors' and consultants' fees reflect the costs incurred in connection with the introduction of the new business organisation.

## 15 Financial income

| € million | 2010 | 2009 |
|---|---|---|
| Income from other investments | 2.4 | 2.2 |
| Income from non-current securities and non-current loans | 1.9 | 1.9 |
| Other interest and similar income | 4.2 | 5.1 |
| | **8.5** | **9.2** |

## 16 Financial expenses

The financial expenses of € 352.4 million (2009: € 362.0 million) mainly relate to interest expense on financial liabilities measured at amortised cost.

Interest expense contains interest accretion to provisions, thereof € 11.8 million (2009: € 12.7 million) relating to provisions for pensions and € 2.9 million (2009: € 2.3 million) relating to miscellaneous other provisions.

Furthermore, a € 7.3 million (2009: € 8.1 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 € 20.6 million was recognised as interest expense in connection with swaps (2009: € 13.6 million).

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

| € million | 2010 | 2009 |
|---|---|---|
| Interest income | 4.2 | 5.1 |
| Interest expense | –352.4 | –362.0 |
| **Net interest** | **–348.2** | **–356.9** |
| less | | |
| Interest expense from provisions for pensions in acc.with IAS 19* | 11.8 | 12.7 |
| Interest expense from other provisions in acc. with IAS 37 | 2.9 | 2.3 |
| Interest expense from derivatives in acc. with IAS 39 | 20.6 | 13.6 |
| Interest expense from finance leases in acc. with IAS 17 | 5.0 | 5.0 |
| **Net interest with regard to measurement categories in acc. with IAS 39** | **–307.9** | **–323.3** |

* including expected return on plan assets of € 0.8 million (2009: € 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* | 2010 | 2009 |
|---|---|---|---|
| Loans and receivables | LaR | 4.0 | 5.0 |
| Available-for-sale financial assets | AfS | 0.1 | 0.1 |
| Financial liablities held-for-trading | FLHfT | –0.3 | 1.0 |
| Financial liabilities measured at amortised cost | FLAC | –311.7 | –329.4 |
| | | –307.9 | –323.3 |

* See note [32] Additional disclosures on financial instruments.

## 17 Income tax

| € million | 2010 | 2009 |
|---|---|---|
| Current income tax | 5.1 | 16.2 |
| Aperiodical current income tax | –7.6 | –8.1 |
| Deferred income tax | –29.4 | 45.9 |
| | **–31.9** | **54.0** |

The current tax expense is determined on the basis of the taxable income for the reporting period. For the 2010 financial year, the combined tax rate of corporate income tax and solidarity surcharge is 15.8 % of earnings (2009: 15.8 %). Including German municipal trade tax at nearly 15.8 % (2009: 15.8 %), the combined tax rate is 31.6 % in 2010 (2009: 31.6 %).

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 only to the extent that, based on the profits of the past and the expected profits in the foreseeable future, their realisation is probable.

Therefore, no deferred tax assets were recognised in the balance sheet for deductible temporary differences (excluding loss carryforwards) totalling € 33.8 million (2009: € 30.6 million) and no deferred trade tax for deductible temporary differences of € 9.2 million (2009: € 103.8 million) as their future utilisation is unlikely.

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

Deferred taxes are determined using the combined tax rate of corporate income tax and trade tax of 31.6 % (2009: 31.6 %). 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. The application of a ruling of the Federal Fiscal Court of February 3, 2010 has led to structural changes which have various tax implications. The subsidiaries affected no longer have extended trade tax exemption which has resulted in an expense of € 41.6 million for temporary differences of € 253.7 million from the first-time recognition of deferred trade tax liabilities. On the other hand, this ruling of the Federal Fiscal Court has resulted in further recognition and netting possibilities for deferred tax assets, in particular for tax loss carryforwards.

In Germany, according to the rules on loss carryforwards, unutilised loss carryforwards may be partly or completely lost – depending on the extent of share transfers. In the Growth Acceleration Act (Wachstumsbeschleunigungsgesetz), a rule was introduced that, from the 2010 tax assessment period, such unutilised loss carryforwards will not be forfeited up to the amount of the taxable hidden reserves of the shares acquired. 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.

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

As at December 31, 2010, the unutilised corporate income tax loss carryforwards totalled € 1,031.1 million (2009: € 953.4 million) and the unutilised trade tax loss carryforwards amounted to € 446.3 million (2009: € 538.4 million), for which deferred tax assets have been recognised since their realisation is probable.

No deferred taxes were recognised in the balance sheet for unutilised corporate income tax loss carryforwards of € 432.0 million (2009: € 830.9 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 € 233.3 million (2009: € 514.9 million) which have an unlimited carry-forward but have not led to deferred tax assets.

The measurement of deferred tax assets on tax loss carryforwards and temporary differences in 2010 led to tax income of € 102.1 million (2009: € 23.1 million). The tax optimisation measures performed and application of the above-mentioned ruling of the Federal Fiscal Court result in 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 2010 financial year to a reduction in the tax burden of € 3.3 million (2009: € 5.6 million).

In 2009, no deferred tax assets were recognised for interest carryforwards totalling € 63.8 million. No more interest carryforwards existed at the end of 2010. Utilisation of the interest carryforwards therefore led to tax income of € 24.6 million.

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. The combined tax rate for 2010 of 31.6 % (2009: 31.6 %) results from corporate income tax of 15.0 % (2009: 15.0 %) plus a solidarity surcharge of 5.5 % and the average trade tax.

| € million | 2010 | 2009 |
|---|---|---|
| **Operating profit before income taxes** | **159.8** | **194.9** |
| Income tax rate in % | 31.6 | 31.6 |
| **Expected tax expense** | **50.5** | **61.5** |
| Trade tax effects | 5.7 | –3.9 |
| One-off effect of deferred tax due to implementation of a new Federal Fiscal Court (BFH) ruling | 41.6 | – |
| Non-deductible operating expenses | 7.1 | 2.4 |
| Tax-free income | –0.1 | –0.8 |
| Change in the deferred tax assets on loss and interest carryforwards and temporary differences | –102.1 | –23.1 |
| Additional loss and interest carryforwards for which no deferred tax asset is recognised | 4.3 | 30.1 |
| Utilisation of loss and interest carryforwards not previously recognised | –27.9 | –5.6 |
| Aperiodic current income tax | –7.6 | –8.1 |
| Other tax effects (net) | –3.4 | 1.5 |
| **Actual income taxes** | **–31.9** | **54.0** |
| Actual tax rate in % | –20.0 | 27.7 |

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

| € million | Dec. 31, 2010 | Dec. 31, 2009 |
|---|---|---|
| Investment properties | 0.6 | 4.5 |
| Property, plant and equipment | 0.3 | 0.1 |
| Inventories | 9.3 | 19.4 |
| Other assets | 15.6 | 8.1 |
| Provisions for pensions | 20.9 | 17.8 |
| Other provisions | 11.1 | 10.0 |
| Liabilities | 30.3 | 24.8 |
| Unutilised loss carryforwards | 128.4 | 23.1 |
| **Deferred tax assets** | **216.5** | **107.8** |

| € million | Dec. 31, 2010 | Dec. 31, 2009 |
|---|---|---|
| Intangible assets | 2.8 | 2.6 |
| Investment properties | 634.4 | 543.8 |
| Property, plant and equipment | 0.0 | 0.0 |
| Inventories | 68.5 | 68.1 |
| Financial assets | 0.2 | 0.2 |
| Other assets | 1.2 | – |
| Other provisions | 9.3 | 9.3 |
| Liabilities | 43.4 | 60.2 |
| **Deferred tax liabilities** | **759.8** | **684.2** |
| **Excess deferred tax liabilities** | **543.3** | **576.4** |

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, 2010 | Dec. 31, 2009 |
|---|---|---|
| Deferred tax assets | – | 9.1 |
| **Deferred tax liabilities** | **543.3** | **585.5** |
| **Excess deferred tax liabilities** | **543.3** | **576.4** |

The change in taxes in the reporting period recognised directly in equity amounts to –€ 3.7 million (2009: –€ 0.6 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, licenses and similar rights | Self-developed software | Customer relationships and similar rights | Total |
|---|---|---|---|---|
| **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** |
| **Cost** | | | | |
| Balance on Jan. 1, 2009 | 7.4 | 4.0 | 15.8 | **27.2** |
| Additions due to changes in scope of consolidation | 0.1 | – | – | **0.1** |
| Additions | 0.9 | 0.4 | – | **1.3** |
| Disposals | –2.7 | – | – | **–2.7** |
| Other transfers | – | –0.1 | – | **–0.1** |
| Balance on Dec. 31, 2009 | 5.7 | 4.3 | 15.8 | **25.8** |
| **Accumulated amortisation** | | | | |
| Balance on Jan. 1, 2009 | 6.4 | 0.5 | 6.3 | **13.2** |
| Additions due to changes in scope of consolidation | 0.1 | – | – | **0.1** |
| Amortisation in 2009 | 0.7 | 1.2 | 1.6 | **3.5** |
| Disposals | –2.7 | – | – | **–2.7** |
| Other transfers | – | –0.1 | – | **–0.1** |
| Balance on Dec. 31, 2009 | 4.5 | 1.6 | 7.9 | **14.0** |
| **Carrying amounts** | | | | |
| Balance on Dec. 31, 2009 | 1.2 | 2.7 | 7.9 | **11.8** |

## 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, 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** |
| **Cost** | | | | |
| Balance on Jan. 1, 2009 | 14.0 | 0.9 | 18.8 | **33.7** |
| Additions due to changes in scope of consolidation | – | 0.1 | 0.2 | **0.3** |
| Additions | – | – | 3.8 | **3.8** |
| Disposals | – | 0.0 | –13.6 | **–13.6** |
| Transfer to investment properties | –9.8 | – | – | **–9.8** |
| Balance on Dec. 31, 2009 | 4.2 | 1.0 | 9.2 | **14.4** |
| **Accumulated depreciation** | | | | |
| Balance on Jan. 1, 2009 | 4.5 | 0.9 | 15.5 | **20.9** |
| Additions due to changes in scope of consolidation | – | 0.0 | 0.2 | **0.2** |
| Depreciation in 2009 | 0.1 | 0.0 | 1.7 | **1.8** |
| Impairment | 0.5 | – | 2.0 | **2.5** |
| Reversal of impairments | –2.8 | – | – | **–2.8** |
| Disposals | – | 0.0 | –13.6 | **–13.6** |
| Transfer to investment properties | –1.7 | – | – | **–1.7** |
| Balance on Dec. 31, 2009 | 0.6 | 0.9 | 5.8 | **7.3** |
| **Carrying amounts** | | | | |
| Balance on Dec. 31, 2009 | 3.6 | 0.1 | 3.4 | **7.1** |

As at December 31, 2010, carrying amounts of owner-occupied properties amounting to € 1.0 million (2009: € 1.7 million) are encumbered with land charges in favour of different lenders.

## 20 Investment properties

| € million | |
|---|---|
| **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** |
| **Balance on Jan. 1 , 2009** | **7,780.2** |
| Additions due to changes in scope of consolidation | 219.1 |
| Additions | 8.0 |
| Capitalised modernisation costs | 32.5 |
| Transfer from trading properties | 355.8 |
| Transfer from property, plant and equipment | 8.1 |
| Transfer from advance payments | 0.4 |
| Disposals | –31.1 |
| Fair value adjustment | 61.6 |
| **Balance on Dec. 31, 2009** | **8,434.6** |

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 € 32.2 million (2009: € 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 [29] Other financial liabilities.

The carrying amounts of the investment properties are predominantly encumbered with land charges in favour of different lenders; see note [29] 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, 2010 | Dec. 31, 2009 |
|---|---|---|
| **Total minimum lease payments** | **15.3** | **17.3** |
| Due within one year | 3.5 | 4.1 |
| Due in 1 to 5 years | 8.6 | 9.2 |
| Due after 5 years | 3.2 | 4.0 |

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, 2010.

As in the previous year, DAIG retained its sales strategy of not including any more properties in the privatisation programmes for conversion into owner-occupier apartments.

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 DAIG to determine fair values thus complies with IFRS regulations.

In line with the DAIG business model, a distinction was made between properties to be managed and properties to be sold individually:

DAIG considers properties that are being sold individually to be part of the privatisation portfolio. Single-family houses in the portfolio that, in DAIG's opinion, are basically suitable for being sold individually are also included in the privatisation portfolio. 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 and an assessment of the technical condition of the buildings. This assessment was based on maintenance reports compiled by external companies for which the 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.

For the privatisation portfolio, the DAIG assumed that there are a certain number of apartments which, depending on the attractiveness, quality and macro-location, cannot be sold directly to tenants, owner-occupiers and capital investors and that these remaining apartments can only be sold at a discounted price in small packages (remainder share). The value of the privatisation share per building was derived from comparable figures based on the company's own sales and extensive market research (comparable method). The value of the remainder share was determined according to a method similar to the income capitalisation method and specially tailored to the product.

The property management portfolio was valued using the income capitalisation method. The basis of the valuation is the net annual income per building which results from the annual net rent minus non-allocable ancillary costs, maintenance expenses and administrative expenses 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 living space are to be performed) as well as any ground rent.

The modernisation work performed on our portfolio of residential units in 2010 was included in the valuations by decreasing the current maintenance expenses and discounts on the capitalised interest rates.

Void periods were taken into consideration on the basis of assumed vacancy and re-letting scenarios and by applying market rents.

The capitalised value of potential yield returns was determined by discounting the annual net yield at building level. 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 or mining subsidence damage were allowed for by means of premiums and discounts.

**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 and undeveloped land and inheritable rights granted of DAIG as at December 31, 2010 was approx. € 9,879.7 million (2009: € 9,979.4 million).

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

| | Residential units | | Other rental units | | Fair values in € million | |
|---|---|---|---|---|---|---|
| | 2010 | 2009 | 2010 | 2009 | 2010 | 2009 |
| **Federal State** | | | | | | |
| North Rhine-Westphalia | 100,342 | 101,582 | 20,689 | 20,759 | 4,669.1 | 4,736.2 |
| Hesse | 22,432 | 22,760 | 4,238 | 4,285 | 1,499.9 | 1,497.2 |
| Bavaria and Baden-Württemberg | 21,002 | 21,491 | 10,201 | 10,358 | 1,391.2 | 1,426.1 |
| Berlin | 13,289 | 13,439 | 2,456 | 2,246 | 696.8 | 690.1 |
| Schleswig-Holstein and Hamburg | 12,852 | 12,924 | 3,568 | 3,592 | 627.6 | 632.2 |
| Five new states | 7,910 | 7,800 | 1,203 | 1,218 | 312.2 | 306.4 |
| Lower Saxony and Bremen | 6,319 | 6,382 | 1,196 | 1,195 | 323.5 | 325.6 |
| Rhineland-Palatinate and Saarland | 5,518 | 5,574 | 1,786 | 1,794 | 303.7 | 308.3 |
| Undeveloped land | | | | | 55.7 | 57.3 |
| | **189,664** | **191,952** | **45,337** | **45,447** | **9,879.7** | **9,979.4** |
| thereof | | | | | | |
| Investment properties | | | | | 8,436.7 | 8,434.6 |
| Trading properties | | | | | 1,440.5 | 1,541.1 |
| Owner-occupied properties | | | | | 2.5 | 3.7 |

**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, 9,887 (2009: 9,988) were still in the residential portfolio of DAIG as at December 31, 2010.

The 63,626 residential units which DAIG acquired from Bundeseisenbahnvermögen in 2000 are subject to the following restrictions on sale: Not more than 50 % may be sold within the first ten years with the exception of housing stock in the new German states. If residential units in the new German states are sold, 25 % of the proceeds must be paid to Bundeseisenbahnvermögen and a further 25 % (less sales costs) must be invested in the modernisation and maintenance of the remaining housing stocks in the new German states. 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 and owner-occupier apartments may only be sold to parties other than 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, 43,822 (2009: 44,393) were still in the residential portfolio of DAIG as at December 31, 2010.

The 10,413 Frankfurter Siedlungsgesellschaft mbH residential units acquired from the German federal government in 2001 and 2002 are subject to the restriction on sale that an annual sales programme must be agreed with the government. In addition, until November 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, 7,488 (2009: 7,574) were still in the residential portfolio of DAIG as at December 31, 2010.

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 have rented an apartment in the past may not be served notice to vacate for personal use if they are aged 60 or over. No notice to vacate for personal use may be served to other tenants and, if the apartments are sold, the tenants are to be given first right of refusal. The above contractual provisions apply until October 31, 2014. Of the 2,773 residential units originally acquired, 2,757 (2009: 2,757) were still in the residential portfolio of DAIG as at December 31, 2010.

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, 2010 | | Dec. 31, 2009 | |
|---|---|---|---|---|
| € million | non-current | current | non-current | current |
| Other investments | 1.6 | – | 1.7 | – |
| Loans to related companies | 33.7 | – | 33.7 | – |
| Securities | 3.4 | 4.0 | 3.4 | – |
| Other long-term loans | 5.4 | – | 5.4 | – |
| Restricted cash | 2.0 | – | 2.1 | – |
| Dividends from other investments | – | 2.0 | – | 1.9 |
| | **46.1** | **6.0** | **46.3** | **1.9** |

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.

Variable interest securities amounting to € 4.0 million were acquired in the reporting period. These are securitisation bonds running until October 2011.

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

As part of financing, cash restrictions were imposed on DAIG in respect of credit balances with banks totalling € 2.0 million (2009: € 2.1 million). Bank deposits to which cash restrictions apply for at least twelve months after the balance-sheet date are reported as non-current financial assets.

## 22 Other assets

| € million | Dec. 31, 2010 non-current | Dec. 31, 2010 current | Dec. 31, 2009 non-current | Dec. 31, 2009 current |
|---|---|---|---|---|
| Advance payments | 1.0 | 0.6 | – | 0.8 |
| Insurance claims | 13.9 | 3.1 | 13.5 | 3.8 |
| Miscellaneous other assets | 13.9 | 16.6 | 12.0 | 20.6 |
| | **28.8** | **20.3** | **25.5** | **25.2** |

Non-current miscellaneous other assets include an asset of € 9.2 million (2009: € 9.8 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 2010 non-current miscellaneous other assets included an amount of € 2.3 million (2009: € 1.1 million) owed by Monterey Holdings I S.à r.l., Luxembourg; also see note [39] Related party transactions.

## 23 Inventories

| € million | Dec. 31, 2010 | Dec. 31, 2009 |
|---|---|---|
| Trading properties | 1,166.6 | 1,247.7 |
| Ancillary costs | 332.5 | 323.6 |
| | **1,499.1** | **1,571.3** |

The trading properties of DAIG developed as follows:

| € million | |
|---|---|
| **Balance on Jan. 1, 2010** | **1,247.7** |
| Additions | 0.4 |
| Value adjustment | 0.1 |
| Disposals | –81.6 |
| **Balance on Dec. 31, 2010** | **1,166.6** |
| **Balance on Jan. 1, 2009** | **1,625.2** |
| Additions | 0.7 |
| Value adjustment | 49.3 |
| Transfer to investment properties | –355.8 |
| Disposals | –71.7 |
| **Balance on Dec. 31, 2009** | **1,247.7** |

The carrying amounts of the trading properties are predominantly encumbered with land charges in favour of different lenders; see note [29] Other financial liabilities.

For information on restraints on disposal of trading properties, see note [20] Investment properties.

**24 Trade receivables**

The trade receivables break down as follows:

| € million | Impaired | | Not impaired | | | | | | Carrying amount |
|---|---|---|---|---|---|---|---|---|---|
| | | | | past due by | | | | | |
| | Gross amount | Impair-ment losses | neither impaired nor past due | less than 30 days | between 30 and 90 days | between 91 and 180 days | between 181 and 360 days | more than 360 days | Maximum risk of loss |
| Receivables from the sale of properties | 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** |
| Receivables from the sale of properties | 5.9 | –4.2 | 45.9 | 1.4 | 0.4 | 0.2 | 0.3 | 1.5 | 51.4* |
| Receivables from property letting | 41.3 | –16.9 | | | | | | | 24.4 |
| Receivables from property management | | | 1.1 | | | | | | 1.1 |
| Receivables from other supplies and services | 0.1 | –0.1 | | | | | | | 0.0 |
| **Balance on Dec. 31, 2009** | **47.3** | **–21.2** | **47.0** | **1.4** | **0.4** | **0.2** | **0.3** | **1.5** | **76.9** |

* 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.

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 increase in total trade receivables, which are all short-term, to € 89.2 million (2009: € 76.9 million) is in particular due to the increase of € 14.7 million in receivables from the sale of properties. By contrast, receivables from property letting decreased by € 1.9 million.

Receivables from the sale of properties arise in most cases 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 up to the amount of the posted proceeds from sales are recorded for doubtful debts.

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, 2010, impairments 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, 2010** | **21.2** |
| Addition | 10.1 |
| Utilisation | –8.7 |
| Reversal | –0.7 |
| **Impairment losses as at Dec. 31, 2010** | **21.9** |
| **Impairment losses as at Jan. 1, 2009** | **15.4** |
| Addition | 12.8 |
| Utilisation | –6.9 |
| Reversal | –0.1 |
| **Impairment losses as at Dec. 31, 2009** | **21.2** |

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

| € million | 2010 | 2009 |
|---|---|---|
| Expenses for the derecognition of receivables | 0.9 | 0.4 |
| Income from the receipt of derecognised receivables | 0.6 | 0.3 |

## 25 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 € 310.1 million (2009: € 274.0 million). Furthermore, the item contains marketable securities of € 0.6 million (2009: € 1.5 million).

The deposits at banking institutions include an amount of € 80.5 million (2009: € 79.1 million), which was pledged in connection with borrowings. Of these accounts, € 34.9 million (2009: € 27.5 million) are restricted. The marketable securities are also restricted with regard to their use.

Bank deposits to which cash restrictions apply for at least twelve months after the balance-sheet date are stated as non-current financial assets.

## 26 Equity

The subscribed capital of Deutsche Annington Immobilien GmbH is unchanged at € 75,000 and has been fully paid in. Monterey Holdings I S.à r.l., Luxembourg, is the parent company of DAIG. The subscribed capital is split into shares in the nominal amounts of € 25,000, € 26,000, € 23,250 and € 750.

The capital reserve amounts to € 718.2 million and did not change during the 2010 financial year.

The other reserves contain cumulative changes in equity not affecting income. The hedge-effective portion of the cumulative net change in the fair value of cash flow hedging instruments is shown within this reserve until the underlying hedged item affects net income. Furthermore, the other reserves include the cumulative net change in the fair value of available-for-sale financial assets until the asset is derecognised.

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

| € million | 2010 | 2009 |
|---|---|---|
| Cash flow hedges | | |
| Changes in the fair value of the period | –28.3 | –20.7 |
| Taxes on changes in the fair value of the period | 7.8 | 2.9 |
| Reclassification affecting net income | 19.7 | 13.7 |
| Taxes on reclassification affecting net income | –4.1 | –2.3 |
| Available-for-sale financial assets | | |
| Changes in the fair value of the period | 0.0 | 0.2 |
| Taxes on changes in the fair value of the period | 0.0 | –0.1 |
| **Other comprehensive income** | **–4.9** | **–6.3** |

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.

### Capital management

The aims of the DAIG capital management system are to:

- ensure an adequate return for investors, taking the relevant risk situation into consideration,
- ensure that the company can service its debts at all times and
- give the company enough flexibility to implement its growth and portfolio optimisation strategy.

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 development of the Group's equity.

The equity situation of the subsidiaries is regularly examined.

## 27 Provisions

| € million | Dec. 31, 2010 non-current | Dec. 31, 2010 current | Dec. 31, 2009 non-current | Dec. 31, 2009 current |
|---|---|---|---|---|
| **Provisions for pensions and similar obligations** | **253.8** | **–** | **258.3** | **–** |
| **Provisions for taxes** (current income taxes excl. deferred taxes) | **–** | **83.9** | **–** | **74.2** |
| **Other provisions** | | | | |
| Environmental remediation | 29.4 | 2.3 | 31.1 | 0.8 |
| Personnel costs (excluding restructuring) | 19.1 | 38.9 | 20.9 | 35.4 |
| Restructuring | – | 1.3 | – | 8.2 |
| Contractually agreed guarantees | 0.4 | – | 1.0 | 0.7 |
| Outstanding trade invoices | – | 13.9 | – | 18.5 |
| Follow-up costs from property sales | – | 1.0 | – | 1.2 |
| Miscellaneous other provisions | 8.3 | 34.3 | 10.3 | 34.3 |
| | **57.2** | **91.7** | **63.3** | **99.1** |
| | **311.0** | **175.6** | **321.6** | **173.3** |

## Development of other provisions

| € million | Jan. 1, 2010 | Additions | Reversals | Transfer carryover | Interest portion | Utilisation | Dec. 31, 2010 |
|---|---|---|---|---|---|---|---|
| **Other provisions** | | | | | | | |
| Environmental remediation | 31.9 | 1.1 | 0.0 | –0.1 | 1.5 | –2.7 | 31.7 |
| Personnel costs (excluding restructuring) | 56.3 | 18.1 | –1.5 | – | 1.3 | –16.2 | 58.0 |
| Restructuring | 8.2 | 0.2 | –2.6 | – | – | –4.5 | 1.3 |
| Contractually agreed guarantees | 1.7 | 0.1 | –1.0 | –0.3 | – | –0.1 | 0.4 |
| Outstanding trade invoices | 18.5 | 13.4 | –5.7 | 0.0 | – | –12.3 | 13.9 |
| Follow-up costs from property sales | 1.2 | 0.0 | 0.0 | – | – | –0.2 | 1.0 |
| Miscellaneous other provisions | 44.6 | 9.3 | –5.1 | 0.4 | – | –6.6 | 42.6 |
| | **162.4** | **42.2** | **–15.9** | **0.0** | **2.8** | **–42.6** | **148.9** |

## 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 % | 2010 | 2009 |
|---|---|---|
| Discount rate | 4.75 | 5.25 |
| 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 | 2010 | 2009 |
|---|---|---|
| **Defined benefit obligation as at Jan. 1** | **259.6** | **249.5** |
| Interest cost | 13.1 | 14.0 |
| Current service cost | 1.9 | 2.0 |
| Actuarial losses | 13.1 | 13.0 |
| Benefits paid | –18.5 | –18.9 |
| **Defined benefit obligation as at Dec. 31** | **269.2** | **259.6** |

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

| € million | Dec. 31, 2010 | Dec. 31, 2009 |
|---|---|---|
| Present value of funded obligations | 22.1 | 20.1 |
| Present value of unfunded obligations | 247.1 | 239.5 |
| **Total present value of obligations (DBO)** | **269.2** | **259.6** |
| Fair value of plan assets | –19.4 | –19.1 |
| Unrecognised actuarial gains | 2.9 | 16.7 |
| **Net liability recognised in the balance sheet** | **252.7** | **257.2** |
| Other assets to be recognised | 1.1 | 1.1 |
| **Provisions for pensions recognised in the balance sheet** | **253.8** | **258.3** |

The total net periodic pension cost comprises the following:

| € million | 2010 | 2009 |
|---|---|---|
| Interest cost | 13.1 | 14.0 |
| Current service cost | 1.9 | 2.0 |
| Expected return on plan assets | –0.8 | –0.8 |
| Amortisation to be allowed for | –0.7 | –2.7 |
| | **13.5** | **12.5** |

The actual return on plan assets amounted to € 0.9 million in 2010 (2009: € 0.9 million).

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

| € million | 2010 | 2009 |
|---|---|---|
| **Fair value of plan assets as at Jan. 1** | **19.1** | **18.8** |
| Expected return on plan assets | 0.8 | 0.8 |
| Actuarial gains | 0.1 | 0.1 |
| Benefits paid | –0.6 | –0.6 |
| **Fair value of plan assets as at Dec. 31** | **19.4** | **19.1** |

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 | 2010 | 2009 | 2008 | 2007 | 2006 |
|---|---|---|---|---|---|
| Present value of the defined benefit obligation | 269.2 | 259.6 | 249.5 | 255.0 | 291.1 |
| Fair value of plan assets | –19.4 | –19.1 | –18.8 | –17.9 | –17.6 |
| **Deficit in the plan** | **249.8** | **240.5** | **230.7** | **237.1** | **273.5** |

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.

| | 2010 | 2009 | 2008 | 2007 | 2006 |
|---|---|---|---|---|---|
| Experience adjustments arising on plan liabilities (in %) | –0.6 | –0.6 | 2.6 | 2.1 | –2.9 |
| Experience adjustments arising on plan assets (in %) | –0.2 | 0.4 | 0.6 | 0.7 | 1.7 |
| Difference between actual and expected return on plan assets (in € million) | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 |

The provisions for pensions contain liabilities of € 9.2 million (2009: € 9.8 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). The DAIG compensation system for the key management and the senior managers includes not only a basic salary and variable salary components but also a long-term component, the LTIP. The compensation under LTIP is in part linked to the occurrence of certain events (e. g. IPO, trade sale) or to certain retention periods. The amount of compensation to be paid to the key management largely depends on DAIG's performance in the period up to the occurrence of the event(s) triggering payment. The other provisions as at December 31, 2010 include a provision of € 12.2 million (2009: € 8.8 million) for the LTIP.

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, litigation costs and optimising processes of DASG.

## 28 Trade payables

| € million | Dec. 31, 2010 non-current | Dec. 31, 2010 current | Dec. 31, 2009 non-current | Dec. 31, 2009 current |
|---|---|---|---|---|
| **Liabilities** | | | | |
| from property letting | – | 20.4 | – | 21.2 |
| from other goods and services | 0.3 | 20.7 | 0.4 | 19.6 |
| | **0.3** | **41.1** | **0.4** | **40.8** |

## 29 Other financial liabilities

| € million | Dec. 31, 2010 non-current | Dec. 31, 2010 current | Dec. 31, 2009 non-current | Dec. 31, 2009 current |
|---|---|---|---|---|
| **Other financial liabilities** | | | | |
| Banks | 1,318.6 | 100.4 | 1,366.3 | 102.9 |
| Other creditors | 5,135.6 | 455.3 | 5,575.8 | 123.0 |
| Cash flow hedges | 46.4 | – | 39.7 | – |
| Purchase price liabilities from put options | – | 7.0 | – | 6.7 |
| | **6,500.6** | **562.7** | **6,981.8** | **232.6** |

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, 2010 | Maturity | Average interest rate | Repayment of the nominal obligations is as follows: 2011 | 2012 | 2013 | 2014 | 2015 | from 2016 |
|---|---|---|---|---|---|---|---|---|---|
| Securitisation transactions | | | | | | | | | |
| GRAND plc | 4,925.0 | 2013 | 4.66 % | 256.8 | 197.4 | 4,470.8 | – | – | – |
| Hallam Finance plc | 180.0 | 2011 | 3.89 % | 180.0 | – | – | – | – | – |
| Opera Germany (No. 1) GmbH | 146.0 | 2012 | 3.89 % | 0.0 | 146.0 | – | – | – | – |
| Acquisition loans | | | | | | | | | |
| Acquisition financing I | 227.8 | 2013 | 4.73 % | 2.0 | 2.0 | 223.8 | – | – | – |
| Acquisition financing II | 264.3 | 2015 | 5.45 % | 6.9 | 4.6 | 4.7 | 4.9 | 243.2 | – |
| Acquisition financing III | 9.3 | 2012 | 4.58 % | 4.9 | 4.4 | – | – | – | – |
| Mortgages | 1,330.9 | 2036 | 3.25 % | 101.0 | 87.6 | 71.5 | 65.5 | 51.9 | 953.4 |
| (thereof prolongations) | | | | (55.7) | (44.4) | (31.1) | (26.8) | (14.3) | (333.0) |
| | **7,083.3** | | | **551.6** | **442.0** | **4,770.8** | **70.4** | **295.1** | **953.4** |

Of the nominal obligations to creditors, € 7,080.3 million (2009: € 7,291.5 million) are secured by land charges and other collateral (account pledge agreements, assignments, pledges of company shares and guarantees).

The nominal interest rates on the financial liabilities to banks and other creditors are between 0.0 % and 8.0 % (average weighted approx. 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 [33] 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 2010, scheduled repayments of € 204.8 million and unscheduled repayments of € 20.0 million were made. New loans of € 13.4 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 € 4,925.0 million at the end of the 2010 financial year (2009: € 5,066.7 million). The average weighted interest rate is 4.66 % until the end of the term in July 2013. In 2010, capital repayments of € 141.7 million and interest payments of € 176.6 million were made. The contractually agreed debt-equity ratio was therefore 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).

The loans taken out in 2004 in connection with the securitisation transaction (Hallam Finance plc) had a value of € 180.0 million at the end of the 2010 financial year (2009: € 187.9 million). The average weighted interest rate is 3.89 % until the end of the term in October 2011. In 2010, capital repayments of € 7.9 million and interest payments of € 7.3 million were made. The contractually agreed acceptable debt-equity ratio was therefore clearly undercut. As part of the loan agreement, the borrowers provided securities in the form of land charges, account pledge agreements and assignments. These securities can only be realised by the secured parties if the borrowers substantially infringe the loan agreement (e.g. fail to fulfil the financial covenants).

In order to refinance this securitisation transaction which must be repaid in October 2011 at the latest, a loan for max. € 178.4 million was already signed with Coreal-credit Bank AG in December 2010 but not yet paid out. Interest on the loan is based on the 3-month Euribor plus margin. In order to hedge the interest rate risk, a suitable interest hedging instrument is to be taken out starting no later than the payout date and running the entire term of the loan.

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 € 9.3 million at the end of 2010. Both facilities run until December 31, 2012 and have an average weighted interest rate of 4.37 % (up to December 29, 2010) and 3.93 % (from December 30, 2010) depending on the expiry of the swaps used for fixing interest rates. Securities were provided in the form of land charges, account pledge agreements and assignments. Furthermore, company shares were pledged.

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, 2010, the value of the loan was € 227.8 million (2009: € 229.8 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 € 264.3 million as at December 31, 2010 (2009: € 267.6 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.

Liabilities to other creditors include as at December 31, 2010 a liability of € 89.9 million from finance leases (2009: € 89.1 million) (Spree-Bellevue property). The following table shows the total minimum lease payments and reconciliation to their present value.

| | Dec. 31, 2010 | | | Dec. 31, 2009 | | |
|---|---|---|---|---|---|---|
| € million | Total minimum lease payments | Interest portion | Present value | Total minimum lease payments | Interest portion | Present value |
| Due within one year | 4.3 | 0.2 | 4.1 | 4.2 | 0.2 | 4.0 |
| Due in 1 to 5 years | 18.2 | 3.2 | 15.0 | 17.9 | 3.1 | 14.8 |
| Due after 5 years | 239.2 | 168.4 | 70.8 | 243.8 | 173.5 | 70.3 |
| | **261.7** | **171.8** | **89.9** | **265.9** | **176.8** | **89.1** |

As part of finance leases, an expense of € 5.0 million was recorded in the reporting period (2009: € 5.0 million).

## 30 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.

## 31 Other liabilities

| | Dec. 31, 2010 | | Dec. 31, 2009 | |
|---|---|---|---|---|
| € million | non-current | current | non-current | current |
| Advance payments | – | 357.9 | – | 343.9 |
| Liabilities from deferred interest | – | 49.5 | – | 41.8 |
| Miscellaneous other liabilities | 5.4 | 12.8 | 5.6 | 17.7 |
| | **5.4** | **420.2** | **5.6** | **403.4** |

The advance payments are mainly payments made in instalments by tenants for ancillary costs.

The miscellaneous other liabilities include other tax liabilities of € 2.2 million (2009: € 3.2 million).

# Other Notes and Disclosures

## 32 Additional disclosures on financial instruments

| Measurement categories and classes: € million | Measurement category in acc. with IAS 39 | Carrying amounts Dec. 31, 2010 | Amounts recognised in balance sheet according to IAS 39 Face value | Amortised cost | Acquisition cost | Fair value affecting net income |
|---|---|---|---|---|---|---|
| **Assets** | | | | | | |
| Cash and cash equivalents | | | | | | |
| Cash and cash equivalents | LaR | **310.7** | **310.7** | | | |
| Restricted cash | LaR | **2.0** | **2.0** | | | |
| Trade and other receivables | | | | | | |
| Receivables from the sale of properties | LaR | **66.1** | | **66.1** | | |
| Receivables from property letting | LaR | **22.5** | | **22.5** | | |
| Receivables from other management | LaR | **0.6** | | **0.6** | | |
| Other financial receivables | | | | | | |
| Loans to related companies | LaR | **33.7** | | **33.7** | | |
| Other long-term loans | LaR | **5.4** | | **5.4** | | |
| Dividends from other investments | LaR | **2.0** | | **2.0** | | |
| Other non-derivative financial assets | | | | | | |
| Long-term securities | AfS | **3.4** | | | | |
| Other investments | AfS | **1.6** | | | **1.6** | |
| Short-term securities | HtM | **4.0** | | **4.0** | | |
| **Liabilities** | | | | | | |
| Trade and other payables | | | | | | |
| Liabilities from property letting | FLAC | **20.4** | | **20.4** | | |
| Liabilities from other goods and services | FLAC | **21.0** | | **21.0** | | |
| Other non-derivative financial liabilities | | | | | | |
| Liabilities to banks | FLAC | **1,419.0** | | **1,419.0** | | |
| Liabilities to other lenders | FLAC | **5,501.0** | | **5,501.0** | | |
| Liabilities from finance leases | n.a. | **89.9** | | | | |
| Derivative financial liabilities | | | | | | |
| Purchase price liabilities from put options | FLHfT | **7.0** | | | | **7.0** |
| Cash flow hedges | n.a. | **46.4** | | | | **5.0** |
| **therof aggregated by measurement categories in accordance with IAS 39:** | | | | | | |
| **Loans and receivables** | LaR | **443.0** | **312.7** | **130.3** | **0.0** | **0.0** |
| **Available-for-sale financial assets** | AfS | **5.0** | **0.0** | **0.0** | **1.6** | **0.0** |
| **Held-to-maturity investments** | HtM | **4.0** | **0.0** | **4.0** | **0.0** | **0.0** |
| **Financial liabilities held-for-trading** | FLHfT | **7.0** | **0.0** | **0.0** | **0.0** | **7.0** |
| **Financial liabilities measured at amortised cost** | FLAC | **6,961.4** | **0.0** | **6,961.4** | **0.0** | **0.0** |
| 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 | | 253.8 | | | | |

| Fair value recognised in equity | Amounts recognised in balance sheet in acc. with IAS 17 | Fair value Dec. 31, 2010 | Measurement category in acc. with IAS 39 | Carrying amounts Dec. 31, 2009 | Amounts recognised in balance sheet according to IAS 39: Face value | Amortised cost | Acquisition cost | Fair value affecting net income | Fair value recognised in equity | Amounts recognised in balance sheet in acc | Fair value Dec. 31, 2009 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | | | | | | | |
| | | | | | | | | | | | |
| | | **310.7** | LaR | 275.5 | 275.5 | | | | | | 275.5 |
| | | **2.0** | LaR | 2.1 | 2.1 | | | | | | 2.1 |
| | | | | | | | | | | | |
| | | **66.1** | LaR | 51.4 | | 51.4 | | | | | 51.4 |
| | | **22.5** | LaR | 24.4 | | 24.4 | | | | | 24.4 |
| | | **0.6** | LaR | 1.1 | | 1.1 | | | | | 1.1 |
| | | | | | | | | | | | |
| | | **33.7** | LaR | 33.7 | | 33.7 | | | | | 31.6 |
| | | **5.4** | LaR | 5.4 | | 5.4 | | | | | 5.4 |
| | | **2.0** | LaR | 1.9 | | 1.9 | | | | | 1.9 |
| | | | | | | | | | | | |
| **3.4** | | **3.4** | AfS | 3.4 | | | | | 3.4 | | 3.4 |
| | | **1.6** | AfS | 1.7 | | | 1.7 | | | | 1.7 |
| | | **4.0** | HtM | | | | | | | | |
| | | | | | | | | | | | |
| | | | | | | | | | | | |
| | | **20.4** | FLAC | 21.2 | | 21.2 | | | | | 21.2 |
| | | **21.0** | FLAC | 20.0 | | 20.0 | | | | | 20.0 |
| | | | | | | | | | | | |
| | | **1,407.3** | FLAC | 1,469.2 | | 1,469.2 | | | | | 1,438.1 |
| | | **5,615.7** | FLAC | 5,609.7 | | 5,609.7 | | | | | 5,724.4 |
| | **89.9** | **94.0** | n.a. | 89.1 | | | | | | 89.1 | 87.6 |
| | | | | | | | | | | | |
| | | **7.0** | FLHfT | 6.7 | | | | 6.7 | | | 6.7 |
| **41.4** | | **46.4** | n.a. | 39.7 | | | | 5.0 | 34.7 | | 39.7 |
| | | | | | | | | | | | |
| **0.0** | **0.0** | **443.0** | LaR | 395.5 | 277.6 | 117.9 | 0.0 | 0.0 | 0.0 | 0.0 | 393.4 |
| **3.4** | **0.0** | **5.0** | AfS | 5.1 | 0.0 | 0.0 | 1.7 | 0.0 | 3.4 | 0.0 | 5.1 |
| **0.0** | **0.0** | **4.0** | HtM | | | | | | | | |
| **0.0** | **0.0** | **7.0** | FLHfT | 6.7 | 0.0 | 0.0 | 0.0 | 6.7 | 0.0 | 0.0 | 6.7 |
| **0.0** | **0.0** | **7,064.4** | FLAC | 7,120.1 | 0.0 | 7,120.1 | 0.0 | 0.0 | 0.0 | 0.0 | 7,203.7 |
| | | | | | | | | | | | |
| | | | | | | | | | | | |
| | | | | 9.8 | | | | | | | |
| | | | | 1.1 | | | | | | | |
| | | | | 258.3 | | | | | | | |

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 correspond to 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 (2009: € 0.9 million), Hellerhof GmbH, Frankfurt am Main, € 0.3 million (2009: € 0.3 million) as well as WoWi Media GmbH & Co. KG, Hamburg, € 0.3 million (2009: € 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:

| € million | Measurement category in acc. with IAS 39 | from interest | Income from other long-term loans | from subsequent measurement: Impairment losses | from subsequent measurement: Derecognised receivables | from subsequent measurement: Derecognised liabilities | Income from other investments | Net result |
|---|---|---|---|---|---|---|---|---|
| **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 liablities 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** |
| **2009** | | | | | | | | |
| Loans and receivables | LaR | 5.0 | 1.9 | –12.7 | –0.1 | – | – | –5.9 |
| Available-for-sale financial assets | AfS | 0.1 | – | – | – | – | 2.2 | 2.3 |
| Financial liablities held-for-trading | FLHfT | 1.0 | – | – | – | – | – | 1.0 |
| Financial liabilities measured at amortised cost | FLAC | –329.4 | – | – | – | 4.2 | – | –325.2 |
| | | **–323.3** | **1.9** | **–12.7** | **–0.1** | **4.2** | **2.2** | **–327.8** |

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 at fair value through profit and loss (calculated using the effective interest method) adds up to -€ 315.2 million (2009: -€ 331.5 million).

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

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

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

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

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

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

**Financial instruments measured at fair value**

| | Dec. 31, 2010 | | | |
|---|---|---|---|---|
| € million | Level 1 | Level 2 | Level 3 | Total |
| **Assets** | | | | |
| Other non-derivative financial assets | | | | |
| Long-term securities | 3.4 | – | – | 3.4 |
| **Liabilities** | | | | |
| Miscellaneous other financial liabilities | | | | |
| Purchase price liabilities from put options | – | – | 7.0 | 7.0 |
| Derivatives | | | | |
| Cash flow hedges | – | 46.4 | – | 46.4 |

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

| € million | Jan. 1, 2010 | Change affecting net income | Change cash-effective | Dec. 31, 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 € 6.7 million (2009: € 6.5 million). The sensitivity analysis has shown that if the value of the companies increases by 10 %, the purchase price liability under put options granted at the reporting date would only differ by + € 0.1 million. A decrease by 10 % would have no apparent consequences.

## 33 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 2009 – 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 on the day of their payout 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 sensivity analysis with regard to purchase price liabilities from put options.

A sensivity analysis for cash flow hedges is provided under note [34] 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 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.

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. 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 financing institute or the capital market, the financing may be restructured and the cost structure changed. Should all commonly practised solutions be unsuccessful, the financing institute or the capital market 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.

**Liquidity risks**
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 | 2011 interest | 2011 repayment | 2012 interest | 2012 repayment | 2013 to 2017 interest | 2013 to 2017 repayment |
|---|---|---|---|---|---|---|---|
| Other non-derivative financial liabilities | | | | | | | |
| Banks | 1,419.0 | 45.7 | 100.4 | 41.4 | 83.5 | 151.7 | 843.5 |
| Other creditors | 5,501.0 | 244.2 | 451.2 | 225.2 | 358.5 | 185.3 | 4,547.9 |
| Liabilities from finance leases | 89.9 | 5.1 | | 5.1 | | 26.1 | |
| Derivative financial liabilities | | | | | | | |
| Purchase price liabilities from put options | 7.0 | | 0.0 | | 0.0 | | 4.7 |
| Cash flow hedges | 46.4 | 16.4 | 0.0 | 16.4 | 0.0 | 15.4 | 0.0 |

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 credit lines and, where necessary, cash.

Breakdown of the credit line financing reserve:

| € million | Credit lines Dec. 31, 2010 | Utilisation Dec. 31, 2010 | Unutilised credit lines Dec. 31, 2010 | Unutilised credit lines Dec. 31, 2009 |
|---|---|---|---|---|
| Due within: | | | | |
| < 1 year | 100.0 | 0.0 | 100.0 | 100.0 |
| > 1 year | 0.0 | 0.0 | 0.0 | 0.0 |
| | **100.0** | **0.0** | **100.0** | **100.0** |

DAIG had cash on hand and deposits at banks totalling € 310.1 million as at the balance-sheet date. Given these cash and cash equivalents and the above-mentioned financing reserves from credit lines, DAIG's ability to service debt can be regarded as guaranteed at all times.

## 34 Derivative financial instruments

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

One of those hedging instruments which expired in the year under review was replaced by a new fixed payer swap. Henceforth all significant contractual terms correspond to the hedged item.

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

| € million | Nominal value | Beginning of term | End of term | Average interest rate |
|---|---|---|---|---|
| **Securitisation Opera Germany (No. 1) GmbH** | | | | |
| Hedged items | 146.0 | Aug. 9, 2006 | Dec. 31, 2012 | 3–m-EURIBOR |
| Interest rate swaps | 146.0 | Nov. 1, 2005 | Dec. 31, 2012 | 2.663 % |
| **Acquisition financing I** | | | | |
| Hedged items | 227.8 | Dec. 29, 2006 | Dec. 31, 2013 | 3–m-EURIBOR |
| Interest rate swaps | 228.7 | Jul. 20, 2007 | Oct. 20, 2013 | 4.205 % |
| **Acquisition financing II** | | | | |
| Hedged items | 264.3 | Apr. 18, 2008 | Apr. 20, 2015 | 3–m-EURIBOR |
| Interest rate swaps | 282.5 | Jul. 21, 2008 | Apr. 20, 2015 | 4.400 % |
| **Acquisition financing III** | | | | |
| Hedged items | 9.3 | Aug. 9, 2006 | Dec. 31, 2012 | 3–m-EURIBOR |
| Interest rate swaps | 8.5 | Dec. 30, 2005 | Sep. 28, 2012 | 3.350 % |

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 of the hedge item is determined on the basis of the hypothetical derivative method.

As part of the cash flow hedge accounting, the derivatives as at December 31, 2010 were shown at their negative clean present fair values totalling € 46.4 million under other financial liabilities.

As a result of the valuation, € 4.9 million was deducted from equity not affecting net income. A loss from ineffectiveness amounting to € 0.8 million in 2010, after deduction of deferred taxes, was recognised in the income statement.

On the basis of the valuation as at December 31, 2010 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:

| | Change in equity | | |
|---|---|---|---|
| € million | Other reserves not affecting income | Ineffective portions affecting net income | Total |
| +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.

## 35 Information on the consolidated cash flow statement

When determining the cash flow from operating activities using the indirect method, the profit for the period was adjusted for the 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. 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 € 35.5 million (2009: € 29.0 million).

## 36 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 guarantees for warranty claims and contract performance guarantees. The terms are in many cases limited to an agreed time. In some cases, the term is unlimited.

As part of the divestment of companies, the legal predecessor of the subsidiary Deutsche Annington Beteiligungsverwaltungs GmbH signed letters of indemnity with the buyers relating to tax, legal and other risks. The assurances agreed were normal for commitments given in such transactions. The terms of the agreements are generally two to three years, in a few cases also 10, 15 or max. 30 years.

## 37 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 | Dec. 31, 2010 | Dec. 31, 2009 |
|---|---|---|
| **Total minimum lease payments** | **264.8** | **272.1** |
| Due within one year | 11.7 | 11.6 |
| Due in 1 to 5 years | 37.3 | 38.2 |
| Due after 5 years | 215.8 | 222.3 |

Payments of € 11.9 million (2009: € 11.8 million) under rental, tenancy and leasing agreements were recognised as expenses in 2010.

The lease payments relate particularly to rented real estate and ground rent.

Furthermore, there are financial obligations from the commissioning of future services of € 110.0 million (2009: € 114.7 million) and from surcharges under the German Condominium Act (Wohnungseigentumsgesetz) amounting to € 1.6 million (2009: € 1.5 million).

## 38 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.

## 39 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 and associated DAIG companies or with members of the management or supervisory bodies of consolidated DAIG companies or members of their immediate families.

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]) a receivable from Monterey Holdings I S.à r.l., Luxembourg, of € 2.3 million (2009: € 1.1 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 2010, services totalling € 0.2 million (2009: € 0.2 million) were provided, of which € 0.1 million (2009: € 0.2 million) has already been paid.

## 40 Events after the balance-sheet date

By shareholders' resolution of February 16, 2011, Monterey Holdings I S.à r.l., Luxembourg, withdrew an amount of € 30.0 million from the capital reserve of Deutsche Annington Immobilien GmbH.

## 41 Remuneration

The members of the Supervisory Board received € 151 k for their work in 2010 (2009: € 90 k).

The total remuneration of the Management amounted to € 2.8 million (2009: € 2.3 million). Of this figure, € 1.7 million (2009: € 1.2 million) was for fixed remuneration components including benefits in kind and other remuneration. The variable remuneration of € 1.1 million (2009: € 1.1 million) refers to bonuses.

The total remuneration of former managing directors and their surviving dependants amounting to € 0.7 million relates solely to benefits in accordance with IAS 24 paragraph 16 (d). The pension obligations (DBO) to former managing directors and their surviving dependants amount to € 1.6 million (2009: € 1.3 million) and the pension obligations to current managing directors and their surviving dependants amount to € 5.4 million (2009: € 4.2 million).

## 42 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 | 2010 | 2009 |
|---|---|---|
| Audits | 1.8 | 2.1 |
| Other confirmation services | 0.2 | 0.1 |
| Tax consultancy services | 0.2 | 0.2 |
| Other services | 0.7 | 0.6 |
| | **2.9** | **3.0** |

# Supervisory Board

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

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

**Arjan Breure (since December 2, 2010)**
Financial Managing Director of Terra Firma Capital Partners Limited, London

**Phillip Wesley Burns (until December 2, 2010)**
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 (since February 1, 2010)**

**Dr A. Stefan Kirsten (since January 1, 2011)**

**Dr Manfred Püschel (until December 31, 2010)**

Düsseldorf, March 18, 2011

Wijnand Donkers | Klaus Freiberg | Dr A. Stefan Kirsten

## Annex to the Notes

# List of DAIG Shareholdings as at December 31, 2010

| Company | Seat | Interest % |
|---|---|---|
| Deutsche Annington Immobilien GmbH | Düsseldorf | |
| **Consolidated companies** | | |
| Baugesellschaft Bayern mbH | Munich | 94.90 |
| Bundesbahn Wohnungsbaugesellschaft Kassel Gesellschaft mit beschränkter Haftung | Kassel | 94.90 |
| Bundesbahn-Wohnungsbaugesellschaft Regensburg mbH | Regensburg | 94.90 |
| BWG Frankfurt am Main Bundesbahn-Wohnungsgesellschaft mbH | Frankfurt | 94.90 |
| DA DMB Netherlands B.V. | Eindhoven/NL | 100.00 |
| Deutsche Annington Bestands GmbH & Co.KG | Düsseldorf | 100.00 |
| Deutsche Annington Beteiligungsverwaltungs GmbH | Düsseldorf | 100.00 |
| Deutsche Annington Bewirtschaftungs GmbH & Co.KG | Düsseldorf | 100.00 |
| Deutsche Annington Business Management GmbH | Bochum | 100.00 1) |
| Deutsche Annington DEWG GmbH & Co.KG | Düsseldorf | 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 |
| Deutsche Annington DMB Eins GmbH | Bochum | 100.00 |
| Deutsche Annington Dritte Beteiligungsgesellschaft mbH | Düsseldorf | 100.00 |
| Deutsche Annington EisenbahnWG Karlsruhe Bestands GmbH & Co.KG | Düsseldorf | 100.00 |
| Deutsche Annington EisenbahnWG Karlsruhe Bewirtschaftungs GmbH & Co.KG | Düsseldorf | 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 | Düsseldorf | 100.00 |
| Deutsche Annington EWG Augsburg Verwaltungs GmbH | Düsseldorf | 99.60 |
| Deutsche Annington EWG Essen Bestands GmbH & Co.KG | Düsseldorf | 100.00 |
| Deutsche Annington EWG Essen Bewirtschaftungs GmbH & Co.KG | Düsseldorf | 100.00 |
| Deutsche Annington EWG Essen Verwaltungs GmbH | Düsseldorf | 99.60 |
| Deutsche Annington EWG Frankfurt Bestands GmbH & Co.KG | Düsseldorf | 100.00 |
| Deutsche Annington EWG Frankfurt Bewirtschaftungs GmbH & Co.KG | Düsseldorf | 100.00 |
| Deutsche Annington EWG Frankfurt Verwaltungs GmbH | Düsseldorf | 99.60 |
| Deutsche Annington EWG Kassel Bestands GmbH & Co.KG | Düsseldorf | 100.00 |
| Deutsche Annington EWG Kassel Bewirtschaftungs GmbH & Co.KG | Düsseldorf | 100.00 |
| Deutsche Annington EWG Kassel Verwaltungs GmbH | Düsseldorf | 99.60 |
| Deutsche Annington EWG Köln Bestands GmbH & Co.KG | Düsseldorf | 100.00 |
| Deutsche Annington EWG Köln Bewirtschaftungs GmbH & Co.KG | Düsseldorf | 100.00 |
| Deutsche Annington EWG Köln Verwaltungs GmbH | Düsseldorf | 99.60 |
| Deutsche Annington EWG Mainz GmbH & Co.KG | Düsseldorf | 100.00 |
| Deutsche Annington EWG Mainz Verwaltungs GmbH | Düsseldorf | 99.60 |
| Deutsche Annington EWG München Bestands GmbH & Co.KG | Düsseldorf | 100.00 |
| Deutsche Annington EWG München Bewirtschaftungs GmbH & Co.KG | Düsseldorf | 100.00 |
| Deutsche Annington EWG München Verwaltungs GmbH | Düsseldorf | 99.60 |
| Deutsche Annington EWG Nürnberg GmbH & Co.KG | Düsseldorf | 100.00 |
| Deutsche Annington EWG Nürnberg Verwaltungs GmbH | Düsseldorf | 99.60 |

Annex to the Notes

# List of DAIG Shareholdings as at December 31, 2010

| Company | Seat | Interest % |
|---|---|---|
| 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 | Düsseldorf | 100.00 |
| Deutsche Annington Heimbau Bewirtschaftungs GmbH & Co.KG | Düsseldorf | 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 | Düsseldorf | 100.00 |
| Deutsche Annington Immobilien-Dienstleistungen GmbH | Düsseldorf | 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 |
| Deutsche Annington MIRA Bestands GmbH & Co.KG | Düsseldorf | 100.00 |
| Deutsche Annington MIRA Bewirtschaftungs GmbH & Co.KG | Düsseldorf | 100.00 |
| Deutsche Annington MIRA Verwaltungs GmbH | Düsseldorf | 99.60 |
| 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 | Essen | 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 | Düsseldorf | 100.00 |
| Deutsche Annington Vertriebs GmbH | Bochum | 100.00 |
| 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 | Düsseldorf | 100.00 |
| Deutsche Annington WOGE Fünf Bewirtschaftungs GmbH & Co. KG | Düsseldorf | 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 |

| Company | Seat | Interest % |
|---|---|---|
| Deutsche Annington WOGE Sieben Verwaltungs GmbH | Düsseldorf | 100.00 |
| Deutsche Annington WOGE Vier Bestands GmbH & Co.KG | Düsseldorf | 100.00 |
| Deutsche Annington WOGE Vier GmbH & Co.KG | Düsseldorf | 100.00 |
| Deutsche Annington Wohnungsgesellschaft I Bestands GmbH & Co.KG | Düsseldorf | 100.00 |
| Deutsche Annington Wohnungsgesellschaft I mbH | Essen | 100.00 |
| Deutsche Annington Wohnungsgesellschaft III Bestands GmbH & Co.KG | Düsseldorf | 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 |
| 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 |
| FEA Verwaltungs GmbH | Düsseldorf | 100.00 |
| Frankfurter Siedlungsgesellschaft mbH | Düsseldorf | 100.00 |
| FSG Immobilien GmbH & Co.KG | Düsseldorf | 100.00 |
| FSG Immobilien Verwaltungs GmbH | Düsseldorf | 99.60 |
| 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 | 92.51 |
| 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

# Independent Auditor's Report

"Independent Auditor's Report

To Deutsche Annington Immobilien GmbH, Düsseldorf

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Deutsche Annington Immobilien GmbH, Düsseldorf, and its subsidiaries, which comprise the consolidated statement of income, the statement of comprehensive income, the consolidated balance sheet as at December 31, 2010, the consolidated cash flow statement and the statement of changes in equity, for the financial year then ended, and the notes to the consolidated financial statements.

*Responsibility of the Management of the Company for the Consolidated Financial Statements*

The management of Deutsche Annington Immobilien GmbH is responsible for the preparation of these consolidated financial statements. This responsibility includes preparing these consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the European Union and the supplementary requirements of German law pursuant to Section 315a (1) German Commercial Code, to give a true and fair view of the net assets, financial position and results of operations of the Group in accordance with these requirements. The management of the company is also responsible for the internal controls that he determines are necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

*Auditor's Responsibility*

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with Section 317 German Commercial Code and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (Institute of Public Auditors in Germany) as well as in supplementary compliance with International Standards on Auditing (ISA). Those standards require that we comply with professional requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing audit procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The selection of audit procedures depends on the auditor's professional judgment. This includes the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In assessing those risks, the auditor considers system of internal control relevant to the entity's preparation of the consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the European Union and the supplementary requirements of German law pursuant to Section 315a (1) German Commercial Code. The aim of this is to plan and perform audit procedures that are appropriate in the given circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's system of internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the management of the company, as well as evaluating the overall presentation of the consolidated financial statements.

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

*Audit Opinion*

Pursuant to Section 322 (3) 1 German Commercial Code, we state that our audit of the consolidated financial statements has not led to any reservations.

In our opinion, based on the findings of our audit, the consolidated financial statements comply in all material respects with International Financial Reporting Standards as adopted by the European Union and the supplementary requirements of German law pursuant to Section 315a (1) German Commercial Code and give a true and fair view of the net assets and financial position of the Group as at December 31, 2010, as well as the results of operations for the financial year then ended, in accordance with these requirements.

*Report on the Group Management Report*

We have audited the accompanying group management report of Deutsche Annington Immobilien GmbH for the business year from January 1, 2010 to December 31, 2010. The management of Deutsche Annington Immobilien GmbH is responsible for the preparation of the Group Management Report in compliance with the applicable requirements of German law pursuant to Section 315a (1) German Commercial Code. We conducted our audit in accordance with Section 317 (2) German Commercial Code and German generally accepted standards for the audit of the Group Management Reports promulgated by the Institut der Wirtschaftsprüfer (Institute of Public Auditors in Germany). Those standards require that we plan and perform the audit of the Group Management Report to obtain reasonable assurance about whether the Group Management Report is consistent with the consolidated financial statements and with the findings of our audit, and as a whole provides a suitable view of the Group's position and suitably presents the opportunities and risks of future development.

Pursuant to Section 322 (3) 1 German Commercial Code, we state that our audit of the Group Management Report has not led to any reservations.

In our opinion, based on the findings of our audit of the consolidated financial statements and of the Group Management Report, the Group Management Report is consistent with the consolidated financial statements and as a whole provides a suitable view of the Group's position and suitably presents the opportunities and risks of future development.

Essen, March 18, 2011

KPMG AG
Wirtschaftsprüfungsgesellschaft

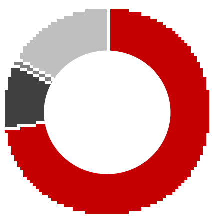
| | |
|---|---|
| Salzmann | Dr. Hain |
| (Wirtschaftsprüferin) | (Wirtschaftsprüfer)“ |

# Overview of the Residential Portfolio Data of the Deutsche Annington Real Estate Group

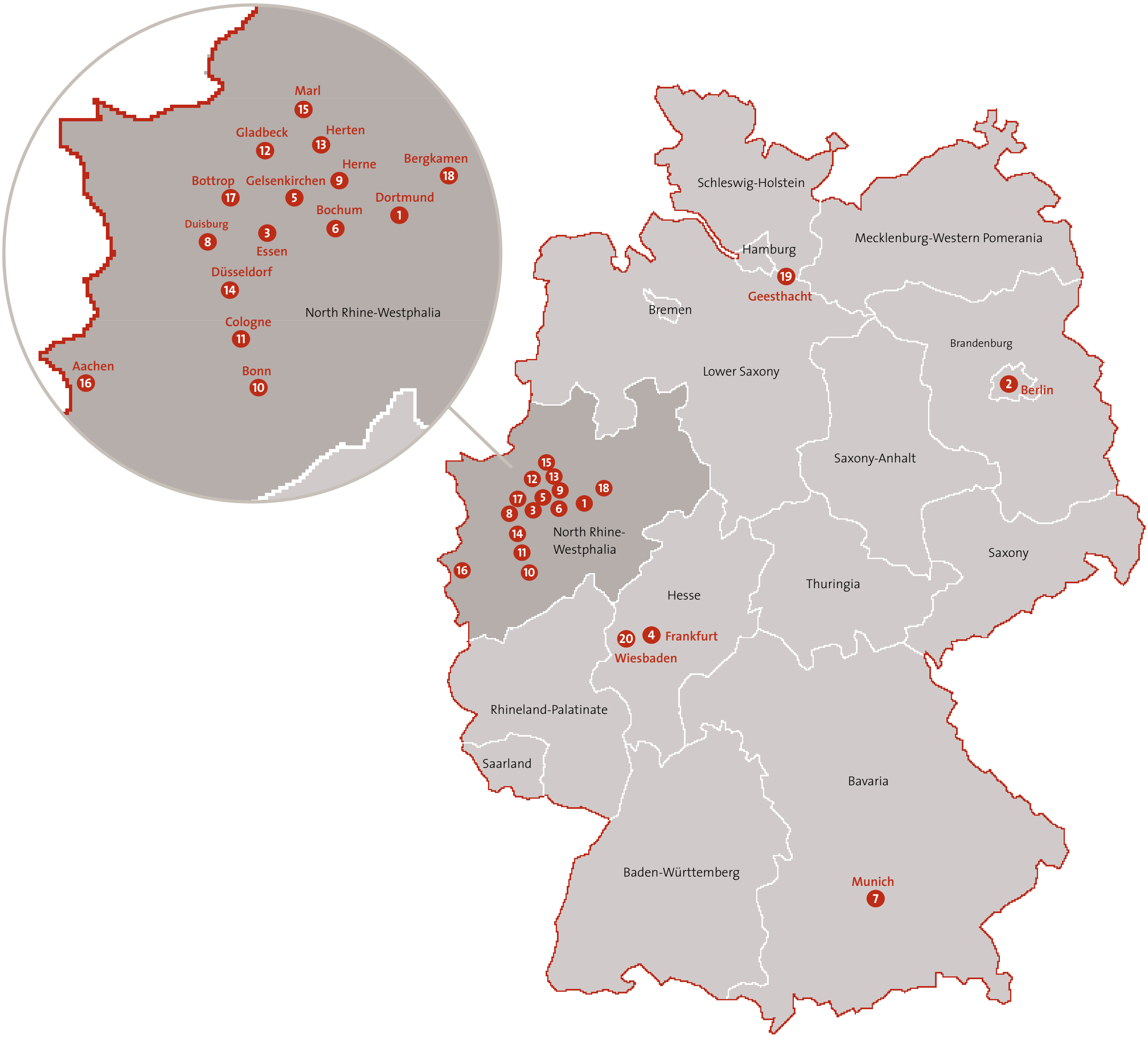
| Portfolio as at Dec. 31, 2010 | | Units | Share in % | Living area in m² | Average living area per unit in m² | Annualised net rent* in € million | Share in % | Monthly net rent per m²* in € | Vacancy rate* in % |
|---|---|---|---|---|---|---|---|---|---|
| | **20 largest locations** | | | | | | | | |
| 1 | Dortmund | 17,951 | 9.5 | 1,094,753 | 61 | 59.0 | 8.0 | 4.48 | 5.0 |
| 2 | Berlin | 13,289 | 7.0 | 856,411 | 64 | 56.0 | 7.6 | 5.41 | 2.9 |
| 3 | Essen | 10,540 | 5.6 | 651,096 | 62 | 39.4 | 5.3 | 5.02 | 7.3 |
| 4 | Frankfurt | 10,497 | 5.5 | 652,431 | 62 | 51.5 | 7.0 | 6.53 | 1.2 |
| 5 | Gelsenkirchen | 8,891 | 4.7 | 536,710 | 60 | 28.2 | 3.8 | 4.37 | 7.2 |
| 6 | Bochum | 7,790 | 4.1 | 451,485 | 58 | 26.4 | 3.6 | 4.86 | 2.8 |
| 7 | Munich | 5,139 | 2.7 | 341,035 | 66 | 25.2 | 3.4 | 6.08 | 1.8 |
| 8 | Duisburg | 4,950 | 2.6 | 295,061 | 60 | 16.8 | 2.3 | 4.70 | 6.0 |
| 9 | Herne | 4,679 | 2.5 | 286,748 | 61 | 15.4 | 2.1 | 4.45 | 5.7 |
| 10 | Bonn | 4,571 | 2.4 | 321,248 | 70 | 22.4 | 3.0 | 5.77 | 3.2 |
| 11 | Cologne | 4,558 | 2.4 | 297,753 | 65 | 21.1 | 2.9 | 5.86 | 3.7 |
| 12 | Gladbeck | 3,471 | 1.8 | 213,533 | 62 | 12.0 | 1.6 | 4.68 | 8.7 |
| 13 | Herten | 2,897 | 1.5 | 187,324 | 65 | 9.8 | 1.3 | 4.34 | 5.2 |
| 14 | Düsseldorf | 2,650 | 1.4 | 173,046 | 65 | 13.2 | 1.8 | 6.32 | 2.4 |
| 15 | Marl | 2,579 | 1.4 | 173,127 | 67 | 10.7 | 1.4 | 5.13 | 9.2 |
| 16 | Aachen | 2,259 | 1.2 | 150,280 | 67 | 8.9 | 1.2 | 4.94 | 1.9 |
| 17 | Bottrop | 2,104 | 1.1 | 132,429 | 63 | 7.8 | 1.1 | 4.82 | 3.8 |
| 18 | Bergkamen | 2,027 | 1.1 | 134,185 | 66 | 7.2 | 1.0 | 4.46 | 10.0 |
| 19 | Geesthacht | 2,006 | 1.1 | 114,489 | 57 | 7,3 | 1,0 | 5,32 | 5,4 |
| 20 | Wiesbaden | 1,989 | 1.0 | 129,056 | 65 | 10,8 | 1,5 | 6,90 | 3,6 |
| | **Sub-total for 20 largest locations** | **114,837** | **60.5** | **7,192,201** | **63** | **448.9** | **60.6** | **5.17** | **4.6** |
| | Other locations | 74,827 | 39.5 | 4,934,205 | 66 | 291.4 | 39.4 | 4.90 | 5.9 |
| | **Total** | **189,664** | **100.0** | **12,126,407** | **64** | **740.3** | **100** | **5.06** | **5.1** |

* as at beginning of December

**Units managed by the Deutsche Annington Real Estate Group**
(as at December 31, 2010)



| | |
|---|---|
| Own apartments | **189,664** |
| Apartments owned by others | **25,905** |
| Commercial units | **1,486** |
| Garages, parking spaces and other units | **43,851** |




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

| | |
|---|---|
| North Rhine-Westphalia | 52.9 % |
| Hesse | 11.8 % |
| Bavaria and Baden-Württemberg | 11.1 % |
| Berlin | 7.0 % |
| Schleswig-Holstein and Hamburg | 6.8 % |
| Five new states | 4.2 % |
| Lower Saxony and Bremen | 3.3 % |
| Rhineland-Palatinate and Saarland | 2.9 % |

# Glossary

### Cash flow
Key figure for assessing the financial and earning power of a company (see Cash flow statement).

### Cash flow statement
Calculation and presentation of the cash a company has generated or used during a reporting period as a result of its operating, investing and financing activities (see Cash flow).

### Consolidation
Accounting approach in which a parent company and its Group companies are presented as if they formed a single legal entity. All intercompany income and expenses, intercompany accounts receivable and payable and other intercompany transactions are offset against each other (elimination of intercompany income and expense as well as elimination of intercompany results). Share investments in Group companies are offset against their equity (capital consolidation) as are all intercompany receivables and liabilities (elimination of intercompany liabilities) since such rights and obligations do not exist within a single legal entity. The adding together and consolidation of the remaining items in the annual financial statements yields the consolidated balance sheet and the consolidated income statement.

### Code of Conduct
Basic rules of behaviour which a company sets itself as part of its organisation in order to ensure compliance with mandatory statutory and contractual requirements as well as to communicate and ensure compliance with voluntary in-house principles of behaviour towards employees and business partners. The wording of the rules of conduct serves as a basic guide for employees and business partners to encourage the desired conduct and avoid undesirable actions.

### Deferred taxes
Income tax to be paid or received in the future as a result of temporary differences between the carrying amounts in the financial accounts and the relevant tax base or the value of unused tax loss carryforwards and unused tax credits (e.g. interest carryforwards). At the balance sheet date, deferred taxes do not yet represent actual amounts receivable or payable from or to tax authorities.

### Defined benefit obligation
see Projected unit credit method

### Derivatives
Financial instruments whose value is mainly derived from the price, the price fluctuations and price expectations of the underlying assets or liabilities (e.g. indices, shares, bonds, foreign exchange). Derivatives include in particular swaps, options and futures (also see Interest swap).

### EBITDA (adjusted)
Earnings before Interest, Taxes, Depreciation and Amortisation. Key performance indicator of Deutsche Annington used for management reporting and as an indicator of the sustainable earning power of the company. Adjusted EBITDA is the result before interest, taxes, depreciation and amortisation adjusted for the non-recurring result. In the reconciliation to adjusted EBITDA, the income and expense items are adjusted to eliminate non-recurring items in order to present a result which does not include any one-off or infrequent effects (also see Non-recurring result). Adjusted EBITDA is not determined on the basis of any particular international reporting standards but is to be regarded as a supplement to the other key result figures determined in accordance with IFRS.

### Economic investments
To determine economic investments, the financial liabilities acquired and directly assignable are added to the cash-effective investments recorded in the cash flow statement.

### Effectiveness of a hedge
The effectiveness of a hedge describes the degree to which any changes in the fair value or the cash flows attributable to a hedged risk are compensated for by the hedging instrument.

### Energy-saving Ordinance 2009 (EnEV 2009)
Part of German building law which sets standard requirements that home builders and home owners have to meet with regard to the efficient consumption of operating energy in their building or building project. It applies to residential buildings, office buildings and certain industrial buildings. The aim of the ordinance is to reduce energy consumption. The last amendment to the Energy-saving Ordinance came into force in October 2009.

### EPRA
European Public Real Estate Association. Organisation based in Brussels which represents the interests of the major European real estate companies in the public eye and supports the development and market presence of the European real estate companies.

**EURIBOR**
The EURO Interbank Offered Rate is the rate at which euro interbank term deposits are offered.

**Fair value**
The fair value is the amount for which an asset could be exchanged between knowledgeable, willing parties in an arm's length transaction. The market values of the investment properties and the trading properties of the Deutsche Annington Real Estate Group are determined every year in an internal valuation of the fair values.

**FFO**
Funds from Operations. FFO 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 FFO. FFO is not determined on the basis of any particular international reporting standards but is to be regarded as a supplement to the other key result figures determined in accordance with IFRS.

**Financial covenants**
Set of conditions in individual loan agreements in which the borrower undertakes, for the duration of the loan agreement, to comply with certain financial key figures laid down in the side agreements in relation to equity, debt, earnings or liquidity.

**IFO**
Institute for Economic Research at the Ludwig-Maximilians University, Munich.

**IFRS (formerly IAS)**
International Financial Reporting Standards (formerly International Accounting Standards). International reporting regulations which, under the ordinance passed by the European Parliament and the Council of the European Union, must be applied by publicly listed companies governed by the law of an EU member state for financial years commencing on or after January 1, 2005 – but at latest from 2007. EU companies which are not publicly listed may, in accordance with Section 315a, para. 3 HGB (German Commercial Code), also prepare their consolidated financial statements in compliance with all IFRSs as adopted in the EU. In this case, allowance must also be made for the supplementary commercial provisions in accordance with Section 315a, para. 1 HGB.

**Impairment test**
Single-stage impairment test (in accordance with IAS 36) in which the carrying amount of an asset is compared with its recoverable amount. The recoverable amount is the higher of the net selling price (fair value less costs to sell) and the value in use (present value of the future cash flows). If the recoverable amount is less than the carrying amount, an impairment loss is to be recognised for the asset.

**Interest swap**
An interest swap is a derivative where two contracting parties agree to exchange interest payments on fixed notional amounts at certain times in the future. The interest payments are normally set so that one party pays an interest rate fixed on conclusion of the contract and the other party, by contrast, pays a variable interest rate. The variable interest rate is based on the usual reference interbank interest rates (e.g. EURIBOR). The interest swap is called a fixed payer swap for the contracting party which has to pay the fixed interest rate. This contracting party receives in return a variable interest rate.

**Investments**
The commitment of money or capital to acquire assets according to the cash flow statement (see Economic investments).

**Investment 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.

**IVD**
Immobilienverband Deutschland IVD, German Real Estate Professional Association, Berlin.

**Modernisation measures**
Typical modernisation measures are the refurbishment of bathrooms, the installation of new doors and windows, the installation of central heating systems, the renovation of balconies and the retrofitting of prefabricated balconies as well as the implementation of energy-saving projects, such as the installation of double-glazed windows and heat insulation, e.g. facade insulation, insulation of the top storey ceilings and the cellar ceiling.

**Net rent**
Contractually agreed rent payments; ancillary costs (e.g. refuse collection, water, caretaker) and heating costs are not included.

**Non-recurring result**
The non-recurring result comprises business transactions which are not of a maintainable nature. These include one-off effects and effects which occur infrequently, project costs for the further development of business as well as the expenses affecting EBITDA incurred through the acquisition activities (see EBITDA (adjusted)).

**OCI**
Other comprehensive income (income and expenses recorded directly in equity). OCI comprises the cumulative changes in equity not affecting net income which result from the measurement of available-for-sale financial instruments and cash flow hedges at fair value.

**Privatisation**
Sale of real estate to tenants, owner-occupiers and capital investors. The Deutsche Annington Real Estate Group mainly focuses on selling selected apartments to individuals.

**Projected unit credit method**
Pension and similar obligations are determined using the projected unit credit method (IAS 19) whereby not only current pensions and vested pension rights but also future increases in salaries and pensions are included in the valuation. The actuarial present value of the vested part of the obligation is termed the defined benefit obligation (DBO). The discount rate is based on interest rates on corporate bonds issued by companies with a high credit standing.

**Rating**
Classification recognised in the international capital markets of short and long-term debt instruments or borrowers into credit rating classes or rating categories based on the probability of interest payment and full repayment. The main function of a rating is to provide investors and creditors with the transparency they need to compare the risks of various financial investments. Credit ratings are set by specialised, generally recognised agencies and solely reflect the opinion of the agency in question.

**Securitisation**
Procurement of funds by turning receivables into securities, e.g. bonds. The primary aim is to make these receivables tradable on organised capital markets, e.g. stock exchanges. Investors (savers) and borrowers (e.g. companies or the state) enter into a direct creditor/debtor relationship with one another. The purchaser of the securitised receivables therefore assumes the risk of market price fluctuations of the security and the risk of default. In contrast to taking out a loan from a bank, the debtor generally has a large number of creditors and has to prove his credit standing publicly by means of detailed and regular reporting as well as by means of a rating where possible (see Rating).

**Trading properties**
The trading properties refer to those residential properties which are to be sold within the normal six-year business cycle and for which a condominium declaration has been obtained.

**Vacancy rate**
The vacancy rate quantifies the ratio of the number of empty housing units to the company's total number of housing stocks in percent. The vacant units are counted at the beginning of every month.

## Contact

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## Note

This Annual Report is published in German and English. The German version is always the authoritative text. The Annual Report can be found on the website at www.deutsche-annington.com.

## Forward-looking statements

This present Annual Report for Deutsche Annington Immobilien GmbH contains statements on future developments. They reflect the current view of the Management and are based on appropriate evaluations and expectations. These statements are not intended as guarantees that these expectations will be fulfilled. The Annual Report has also been generated using references. These references have been carefully selected and have been taken from credible sources. We nevertheless point out that Deutsche Annington has not examined the veracity of the sources.

## Imprint

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of Deutsche Annington Immobilien GmbH

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