DEUTSCHE ANNINGTON

At home in Germany

Annual Report 2014

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LONDON
COFFE
CAFÉ
Café

Group

in € million

Financial Key Figures	2014	2013	Change (%)
Rental income	789.3	728.0	8.4
Adjusted EBITDA Rental	503.9	442.7	13.8
Income from disposal of properties	287.3	353.5	-18.7
Adjusted EBITDA Sales	50.1	27.7	80.9
Adjusted EBITDA	554.0	470.4	17.8
Total maintenance and modernisation work	345.5	228.4	51.3
thereof maintenance	145.1	136.5	6.3
thereof capitalised maintenance	28.7	21.1	36.0
thereof modernisation	171.7	70.8	142.5
Interest expense FFO	-209.3	-210.7	-0.7
FFO 1	286.6	223.5	28.2
FFO 2	336.7	251.2	34.0
AFFO	258.3	203.5	26.9
FFO 1 per share in €*	1.06	1.00	5.9

* Based on the shares qualifying for a dividend on the reporting date Dec. 31, 2014: 271,622,425; Dec. 31, 2013: 224.242.425

Key Balance Sheet Figures	Dec. 31, 2014	Dec. 31, 2013	Change (%)
Fair value of the real estate portfolio	12,759.1	10,326.7	23.6
EPRA NAV	6,578.0	5,123.4	28.4
EPRA NNNAV	4,932.6	3,805.5	29.6
LTV (%)*	49.7	49.0	0.7 pp
EPRA NAV per share in €**	24.22	22.85	6.0

* Adjusted to reflect effects in connection with the acquisitions of Franconia and GAGFAH
** Based on the shares qualifying for a dividend on the reporting date Dec. 31, 2014: 271,622,425; Dec. 31, 2013: 224.242.425

Non-Financial Figures	2014	2013	Change (%)
Number of units managed	232,246	201,737	15.1
thereof own apartments	203,028	175,258	15.8
thereof apartments owned by others	29,218	26,479	10.3
Number of units bought	31,858	-	-
Number of units sold	4,081	6,720	-39.3
thereof Privatise	2,238	2,576	-13.1
thereof Non-Core	1,843	4,144	-55.5
Vacancy rate (%)	3.4	3.5	-0.1 pp
EPRA vacancy rate (%)	3.0	3.1	-0.1 pp
Monthly in-place rent in €/m²	5.58	5.40	3.3
Monthly in-place rent in €/m² (like-for-like without DeWAG/Vitus)	5.55	5.41	2.5
Number of employees (as at December 31)	3,850	2,935	31.2

in € million

Other Financial Figures	2014	2013	Change (%)
Income from fair value adjustments of investment properties	371.1	553.7	-33.0
EBITDA IFRS	500.3	431.0	16.1
EBT	589.1	689.6	-14.6
Profit for the period	409.7	484.2	-15.4
Cash flow from operating activities	463.3	259.6	78.5
Cash flow from investing activities	-1,188.0	171.3	-793.5
Cash flow from financing activities	1,741.7	-353.2	-593.1

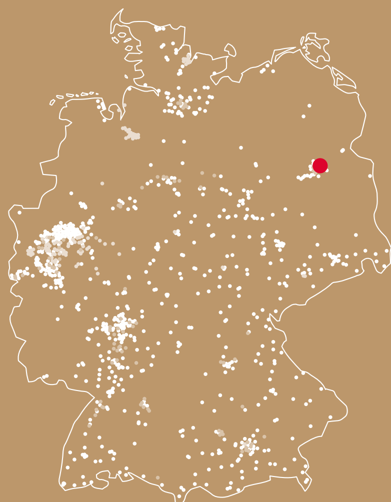
At home in Germany

We offer people in Germany an affordable and reliable home across more than 545 locations. We achieve this by successfully uniting two worlds: proximity to our customers and the opportunities of a modern property management concept.

We support our customers where they live. Here, we engage with one another and face the challenges that everyday life presents – with our own employees on site, our own craftsmen and our own caretakers.

All with the help of our well-designed performance and value added chain, which enables us to successfully manage our properties to ensure that our tenants can benefit from the system's many advantages. A system that is unique in Germany in this form.

Where does "home" begin? After you've closed your apartment door – or before then?



Berlin
Managed residential units: 13,579
Average rent: 5.90 (€/m²/month)
Letting rate: 98.7 %
Market trend 2015: ↗

Prenzlauer Berg, Berlin

Julia and Evelyn Csabai, owners of the trendy “LOLA was here” café in Berlin’s Prenzlauer Berg district since September 2014.

“Back in our student days, we worked in catering to finance our studies. Afterwards, we always had this dream of opening our own café some day. But we didn’t want to do it until we had found the perfect property for our idea. When we heard that the old pharmacy located right on our doorstep was about to close, we knew right away: this is the one! Our café has since established itself as a real neighbourhood meeting place and our second home. It really is a project that is close to our hearts. It’s like opening up your living room to the neighbourhood.”

Our apartments are located in interconnected neighbourhoods. That’s why we also make sure that enough space is available for communal use. After all, “home” is not just where we reside, but where we live our lives.

Do you have to leave the home you've grown to love when old age sets in?

Marl
Managed residential units: 2,089
Average rent: 5.09 (€/m²/month)
Letting rate: 94.3 %
Market trend 2015: ↗

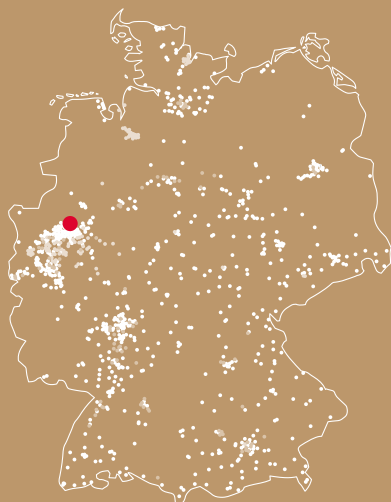
Marl

We do a lot to make sure that our tenants can remain our tenants even in old age. Around 4,000 apartments are already equipped with features that help to reduce obstacles in the apartments and improve comfort and safety for older people. Over the next few years, we will be converting around 3,000 more apartments every year.

Pensioners Johann and Irene Brigulla sold their apartment in the summer of 2014 and moved to a Deutsche Annington apartment in the town of Marl.

"If we were younger, we would want to stay in a home that we owned. But as a tenant, things are a lot more convenient and you don't have anywhere near as many obligations. We looked around in the neighbourhood for a few months and then found this place. We're very happy and content here. We decorated and furnished the new apartment together. Luckily, we share the same taste – we probably wouldn't have stayed married for so long otherwise."

How quickly can a landlord reach the plumber if the tap is leaking?



Essen
Managed residential units: 9,393
Average rent: 5.29 (€/m²/month)
Letting rate: 95.4 %
Market trend 2015: ↗

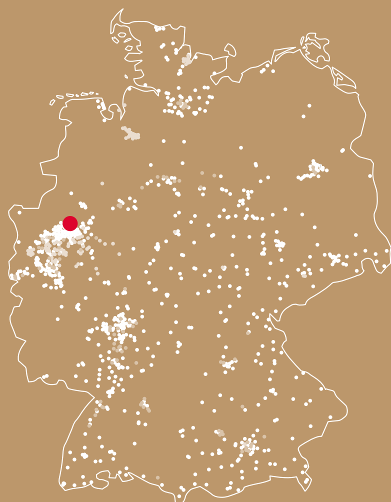
Essen

Hasan Baran Özkan, photographer and graphic designer, has been living in a Deutsche Annington apartment in Essen since December 2014.

"When you're self-employed, you don't just live in your apartment. It often has to serve as an office, too. That's why it was twice as important to me to find a new apartment that I feel good in. I also like to live centrally. And I've done quite a bit here to really make the apartment my own. I like modern, unique design, but I'm not quite finished yet. This sort of place has to gradually grow until it feels like a real home."

We are the plumber. And we're on site and ready to help faster than ever before. Our customers can reach us by phone 365 days a year, round the clock. And with our 1,760 employees, we now have the biggest craftsperson's organisation in our sector.

Can landlords contribute to a good neighbourhood atmosphere?



Essen
Managed residential units: 9,393
Average rent: 5.29 (€/m²/month)
Letting rate: 95.4 %
Market trend 2015: ↗

Eltingviertel, Essen

WOHNRAUM
WEISS

We certainly can! As a provider of apartments located in interconnected estates, we make sure that we have the right social mix in our neighbourhoods. And if there's ever a problem, our employees are on site to help. We also provide targeted support for social and cultural projects. This fosters a sense of togetherness.

Harriet Wölki, an artist from Essen, opened the elTing atelier in the city's Eltingviertel district in November 2014.

"People from a whole range of backgrounds and almost 30 countries live, work and study here in the Eltingviertel district. You really get to see current global politics on a small scale. There's a real sense of things taking off, new beginnings, the search for identity, new opportunities and a neighbourhood. That's something I find really stimulating. I want my atelier to provide a public space where people can meet and use art to promote dialogue between people living in the area."

How can you tell whether a tenant is happy?

Bochum
Managed residential units: 7,534
Average rent: 5.23 (€/m²/month)
Letting rate: 97.2 %
Market trend 2015: ↗

Bochum

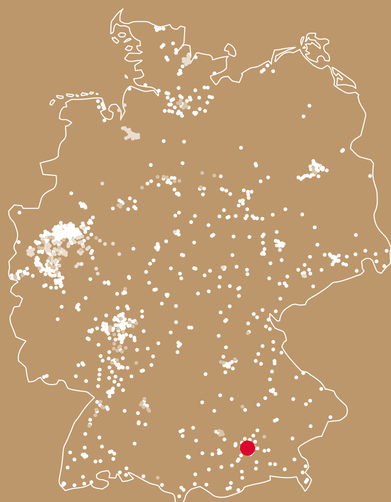
lächeln

Satisfied tenants stay – in their apartment, in their neighbourhood. Some of our tenants have lived with us for more than 60 years. We are constantly developing new ideas to make sure things stay this way. We turn the best of these ideas into reality in a swift, unbureaucratic manner.

Rebecca Buers and Kristina Diebels, trainees,
have been living in a Deutsche Annington apartment in Bochum for nearly three years.

“When you move into your very first apartment, you obviously have a clear idea about what you want it to be like. On a trainee’s salary, however, it’s hard to turn a lot of these ideas into reality. But the flat we have now is exactly what we were looking for. We really feel at home here. Our neighbour sometimes cooks for us and our caretaker is a really great guy. He’s always on hand to help. You can’t help but feel at home.”

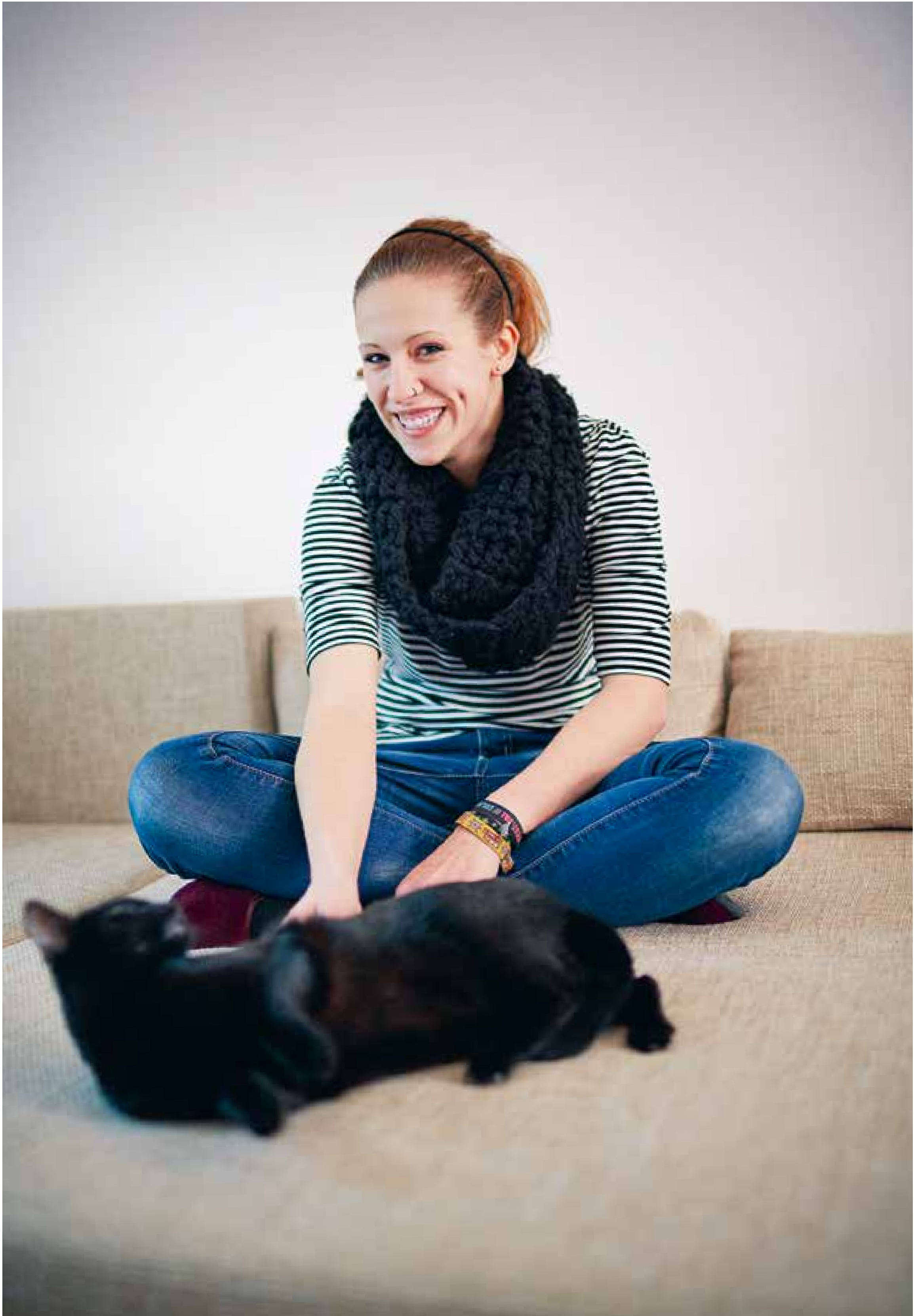
Home should be a pleasant, affordable place. How can the two be combined?



Munich
Managed residential units: 4,840
Average rent: 6.63 (€/m²/month)
Letting rate: 99.3%
Market trend 2015: ↗

Munich

Coshida
Knusper-Mix



Sarah Kraus, a technical systems planner, finally found a home with Deutsche Annington after two years of looking on the market in Munich with her friend.

"We love the unique architecture of this apartment, with the small gables offering a view into the attic floor. The apartment is in a very quiet location but we are still close to the city centre; I only need ten minutes to get to work. After giving up on our hope of finding a flat together in Munich after two years of looking, Deutsche Annington welcomed us with open arms. The rent was affordable based on our trainee budget and we could even bring our little cat along with us."

As part of our strategic management approach, we solve a lot of problems on a larger scale. This saves money. In procurement, for example, where we can sometimes negotiate for our entire portfolio.

A System with Four Winners

Can a housing company serve tenants, shareholders and employees all at the same time, and still solve society's future problems in the process? Deutsche Annington is living proof that this is possible – we are not quite perfect yet, but we are getting better every day.

We are currently undergoing a process of fundamental change in the housing sector – moving away from administration and towards active management: apartments need to be maintained to stop them falling into disrepair and losing value. Tenants want their apartments to be managed properly. Otherwise, they will move out. And when the social environment isn't right, nobody wants to move in to even the most beautiful apartment.

We have been on a learning curve here at Deutsche Annington, too. Fortunately, our curve has been a steep one, one that has ended with a model that will put the company on a long-term path to success and that all of our stakeholders will benefit from for many years to come, despite the differences between them: tenants and shareholders, our employees and society at large.

Our mission can be summarised in only one sentence: "We aim to offer everyone in Germany the prospect of a dependable home that they can afford." This mission implies three key statements for us:

1. We have a responsibility towards our tenants.
2. If we live up to our responsibility, our tenants will be happy with us.
3. Our tenants' satisfaction is the cornerstone of our corporate success.

"We have a responsibility towards our tenants." This means that the first step towards our success as a housing company lies in our own corporate culture. During our development process over the past two years, we have been working on this culture in detail and have developed a mission statement that we aim to base our activities on. And this makes our employees active comrades-in-arms as we continue on our development crusade.

Today, Deutsche Annington has 3,850 employees, well over 2,500 more than back in 2011. We have managed to achieve this growth because we have realised one important thing: We cannot hand over control of our most important service: the service we provide to our customers. Or at least we can't if we want to provide it in the best way possible.

"If we live up to our responsibility, our tenants will be happy with us." We have learned that for this to happen, specific on-site action is an absolute must. It starts with our own caretakers, who are out and about every day in our estates in their bright red jumpers, attending to tenant concerns, and our high-performance internal craftspersons' organisation, Deutsche TGS. We also play a key role in shaping the society we live in. We want to provide answers to tomorrow's problems.

One issue that is raising a lot of questions is demographic change and living arrangements for old age. We want to make sure that old age, and the changing requirements that come with it, do not necessarily mean that people have to leave the home they have found with us. This is why we are working on preparing our apartments for this challenge. We consider what conversion work and which extended services are necessary, without pushing the rent up to an unaffordable level. Thinking ahead and developing new solutions – this benefits several groups at once: tenants and society as a whole, which is also confronted with the challenge of demographic change.

There is an approach that tackles things not from the perspective of the product, the property or its costs, but from the perspective of the customer. This has long been par for the course in other sectors, especially those characterised by intense competition. In the future, it will apply to the housing industry, too. This is why we have also focused on our tenants in this year's Annual Report.

First of all, thinking from the customer's perspective means finding out what our customers want. This is something we can't find out from theoretical studies or reviews: we have to ask our tenants themselves. As a result, we ask the people on the ground – on what is now a very regular basis. We incorporate our findings directly in improvement processes. We also try to get an overview of our tenant structure: we look at the different age groups, monitor demographic and social changes in the places where our apartments are located and keep an eye on political developments. This gives us a comprehensive picture that helps us to make the right decisions when it comes to the big questions as well.

But how can we get to grips with the financial challenges? After all, while the demand for residential space is rising, the same cannot necessarily be said for our tenants' solvency. The answer is quite simple: efficiency. Efficient organisation. Efficient processes. Our growth activities and the building up of our considerable capital strength are also primarily underpinned by efficiency considerations. Digitalised documentation, central management, intelligent networks combining personal on-site presence with high technical performance in the background – these are all solutions that keep costs down without the service we provide to our customers suffering.

Efficiency is particularly good when customers really feel the benefits of it. Take conversion measures, for example: we have opted for cost-efficient but effective standard solutions. As far as bathrooms are concerned, for example, we have developed a model that can be ideally applied to many of our apartments, accommodates senior citizens and can be installed by our own craftspeople in the space of 72 hours. The work can be performed individually on request. Or it is performed in selected apartments in entire estates and buildings that we want to convert in a systematic, streamlined manner. Thanks to efficient processes, we can offer the right service and keep the conversion work affordable. Compared with the conventional conversion measures on the market, our measures cost up to 50 % less. This will allow us to keep our rent levels low and stable in the future, too – even in metropolitan areas.

In order to solve the challenges facing society at large – and it is no secret that we are directly confronted with these challenges, too – we have raised the issue of efficiency to a whole new level over the past two years. Demographic change and the energy transition are creating costs for us that can only be shouldered with the financial power of the private sector. As a private housing company, we have better access to the capital markets than our public-sector counterparts. Our special financing model makes the most of this access, allowing us to attract investors who value long-term development prospects.

↗ 545

Today, we are not just the landlords of affordable residential spaces, we are also partners for communal facilities on site at more than 545 locations. The authorities and local facilities know us as we are in regular contact with them.

↗ 2,500

We have increased the number of our employees by more than 2,500 in recent years. This helps us to pursue the goal of managing our 203,028 apartments in the best possible way.

↗ 203,028

↗ 56.2%

Deutsche Annington's security price increased by 56.2 % during 2014. This demonstrates our shareholders' trust in our stocks.

↗ 1

One joint mission statement and nine values have formed the central point of orientation for our company since 2014 – internally with one another and opposite our customers and partners.

What is more, our capital strength allows us to employ another big efficiency lever. It's all about size: by acquiring and integrating new portfolios, we can roll out our services even more reliably across the board, allowing us to be on hand where our customers need us.

"Our tenants satisfaction is the cornerstone of our corporate success." Doesn't that sound good? Of course it does! Our experience and the developments seen over the past two years show that this approach is paying off more and more every single day:

Our tenants benefit from affordable living space where they can feel at home in the long term. We do not let luxury properties, but apartments of a solid standard, and offer advantages that we can pass on to our tenants thanks to our size and efficiency.

Our investors benefit from a long-term, crisis-proof model. It is an unspectacular one, and the returns it promises are not about excessive speculative gains. But our capital offers predictable returns for a period stretching well into the future. For our shareholders, this means that they can already plan their dividends for the next 30 years, without having to worry about major fluctuations. On the other hand, the long-term capital certainly offers value for money for us, too, because it provides us with a solid foundation to steadily build our long-term business model on. This, in turn, benefits our tenants and employees.

Our cities and municipalities have a competent partner on their side to take some of the pressure off them. They are responsible for looking ahead with their town planning to ensure healthy neighbourhoods. Our concept also allows us to address tasks that would normally fall to the public sector. As a major portfolio manager, we are pursuing the same interests. Our advantage: we know how to achieve these goals in the interests of our customers and in a financially viable manner.

Our employees also benefit from our long-term company focus as well as from the opportunity to make a key contribution to solving key social challenges.

However we tell our story: it is a story where everyone is a winner. This is something we are proud of and something we will continue to work on. And this work continues tomorrow. Because we have no time to rest on our laurels here at Annington.

Management

Over the past two years we at Deutsche Annington have become larger, better and more stable. Above all, we are now in close proximity to our tenants.

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from left to right: Klaus Freiberg, Rolf Buch, Dr A. Stefan Kirsten

Dear Shareholders, Ladies and Gentlemen,

Having kept our fast pace in 2014 has paid off. By staying firmly focused on our goals, we managed to achieve all of our planned milestones. All in all, our Group once again made considerable progress at all levels.

Whereas 2013 was still shaped, in financial terms, by the development and implementation of the new capital structure, we were able to use our clear strategy to expand our national market leadership in 2014.

At operational level, our processes became even more established, meaning that we can now provide reliable on-site customer support nationwide. In addition, we invested a sizeable amount in the sustainable modernisation of our apartments, with yet another significant increase in volume during the course of the year.

At the same time, we were able to expand our portfolio significantly using several larger and smaller acquisitions, developing into new key regions in Germany. With successful acquisitions during the last year and the merger with GAGFAH, which looks set to be completed in March of this year, our portfolio will cover more than 350,000 residential units, making us responsible for almost 1 million tenants. Based on these figures, we can confidently say that we are **“at home in Germany”**.

But this guiding principle is not really about highlighting our claim to leadership on the residential property market. After all, quality is more important to us than quantity. Rather, it is designed to send out a signal that we interpret our role as Germany’s largest housing agency first and foremost from the customer’s perspective: we can, and indeed will, offer our tenants attractive and affordable housing where they can feel at home, both today and in the future.

Let's now take a look at developments on the capital market: our shares established extremely successful on the stock exchange. Only 18 months after our IPO, our shares are already streets ahead of their initial value. The high of € 28.12 reached on the last trading day of 2014 underlines the sustainable upward trend. All in all, our shares gained 56.2 % in the course of the year, meaning that Deutsche Annington was valued at € 7.6 billion on the cut-off date of December 31, 2014.

2014 saw fundamental changes to our shareholder structure. Whereas free float stood at 10.2 % at the end of 2013 with the investors Terra Firma and CPI Capital Partners holding a clear majority stake in our company, their complete withdrawal pushed the free float up considerably to 80.33 % in the course of the year. Excellent performance coupled with increased tradability opened the doors for our stock's admission to the MDAX and MSCI Germany in the autumn. This means that we have an even higher profile amongst general and passive oriented investors.

It was not just our shares, but also our bonds that were in high demand in 2014: We were able to issue three bonds with a total volume of € 2.2 billion and use the proceeds to finance the acquisitions.

The combined financing strategy that we have been pursuing on the capital market since 2013 has once again paid off. But there's more to it than that: It is the key to our company's sustainable and successful development. It gives us a competitive edge and more room for manoeuvre. It also helps to make us even more strengthen stabilisation. The maturity of our financial liabilities was around eight years and refinancing costs fell from 3.3 % to 3.2 %.

Our economic fundamentals are strong. This motivated us to continue on our growth path in the second half of the year and forge ahead with the merger with GAGFAH, the current market number three. We published a corresponding takeover offer in December after obtaining the approval of our Supervisory Board. This offer met with a very positive response from shareholders. With a combined portfolio value of around € 21 billion, we will be creating a national champion over the next few months, one that will be the second-largest listed property company in continental Europe.

We are using the motto "the best of both worlds" to describe the merger. This is our way of expressing that the merger brings real benefits for all involved – for our tenants as well as our shareholders. We want to create Germany's leading housing company by merging two players that are more profitable and competitive together than they would be alone. By exploiting synergy potential and boosting efficiency, we aim to create value and both strengthen and expand our business model. The leading rating agency Standard & Poor's shares our positive estimate. Our credit rating was raised to BBB+ in December 2014, subject to the proviso that the transaction is completed successfully.

We have also developed positively with regard to our operational business over the previous year and have reached a new record value. Some of our key figures have once again showed marked improvement in a year-on-year comparison: FFO 1 (Funds from

Operations) increased by 28.2 % and therefore per share to € 1.06. The vacancy rate remained with 3.4 % (previous year: 3.5 %) at a low level. NAV (Net Asset Value) rose by 28.4 %, representing an increase of € 24.22 per share.

We once again want you, our shareholders, to benefit from this positive business development through our dividend policy this year. At the Annual General Meeting on 30 April 2015, we will therefore suggest a dividend distribution of € 0.78 per share, up by 11.4 % on the previous year.

2014 once again saw us invest a substantial amount in our apartments and buildings, as well as in the residential environment as a whole. In total, we spent around € 346 million, of which € 172 million alone were for modernisations. This represents an investment per square metre of € 29 (previous year: €20). More than 10,000 residential units have undergone energy efficiency improvements, while approximately 3,000 further units have been converted in order to meet the needs of older people. This is another example of our commitment to the social responsibility that we have as the market leader. At the same time, it is our way of providing measurable answers to the challenges facing society as a whole as a result of the energy transition and demographic change.

We are delighted that, alongside managing our day-to-day business, we were able to integrate the newly acquired DeWAG and Vitus portfolios into our structure and systems with virtually no hiccups and much faster than planned. We hope that the imminent structural integration of GAGFAH will be an equally smooth process.

"At home in Germany" – this motto stands for our history and our present day. Most importantly, however – and as I hinted at above – it is a promise for the future: the satisfaction of our tenants is our utmost priority in everything we do. We want to meet their needs even more effectively, which is why we are expanding our customer service even further. The successful roll-out across Germany of our own craftspersons' organisation and the nationwide support provided by our own caretakers have, over the past two years, taken us back to where we are needed: on our housing estates. Month after month, we hold many hundred on-site service hours with our tenants across Germany and can now react much faster to customer concerns. Our tenants value our reliability and personal service. This is confirmed by our regular customer satisfaction surveys.

Today, we employ a workforce of over 3,800 people. Every single one of these employees has a crucial role to play in the future. This is because we are convinced that we can only achieve customer satisfaction and corporate success in the long term with satisfied and committed employees. In order to achieve this, we need a culture based on fixed values shared by all members of the company. In order to strengthen this culture, we kicked off the development process with a Group-wide satisfaction survey in 2014. At the same time, the Management Board and our executives have put a great deal of energy into developing a new corporate mission statement. The aim behind this intensive and ongoing process is to come up with a distinctive profile that people within our company can identify with and that our customers can use to measure our performance.

Developments over the past two years mean that, as our direction, conduct and self-image have changed considerably, so too has our company's identity. We will be making this change visible over the coming months when we announce a new company name. As in everything we do, we want to remain systematic in our approach to this step.

As a company, further on we want to develop successfully between the poles of profitability, sustainability and social responsibility. This means that we can look forward to a year 2015 that will be exciting and interesting for us in the most positive sense of the terms. At the end of the year, the face of our company will be very different to the Deutsche Annington we currently know – to the benefit of all tenants, investors and employees.

Together with my Management Board colleagues, our management team and our employees, I look forward to getting started on the work that lies ahead. Dear shareholders, we achieved a great deal last year and laid the foundation for a prosperous future for Deutsche Annington. We would like to thank you for the trust you have shown in us and look forward to joining forces with you to shape our company's further development.

Bochum, March 2015

Yours

Rolf Buch

CEO

Rolf Buch (CEO)

Management Board

As of December 31, 2014, the Management Board of Deutsche Annington Immobilien SE was made up of three members.

Rolf Buch
Chairman of the Management Board

As Chief Executive Officer, Rolf Buch is responsible for acquisition, general counsel, investor relations, HR management, auditing, corporate communications and corporate strategy. Before joining the company, Buch was a Member of the Management Board at Bertelsmann SE and Chairman of the Management Board at Arvato AG. During his time at Arvato, the company grew into a global BPO service provider with over 60,000 employees in more than 40 countries and became the fastest-growing division at Bertelsmann SE. Buch began his career at Bertelsmann in 1991 after studying mechanical engineering and business management at RWTH Aachen University.

Klaus Freiberg
Member of the Management Board

As Chief Operating Officer, Klaus Freiberg is responsible for product management, central control management, infra-structural FM/residential environment and DTGS, as well as the north-east, Rhine/Main, Ruhr area and southern Germany. From 1995 to 2010, he held various managerial positions at the Arvato Group (Bertelsmann), including responsibility for optimising the service centres of Deutsche Post and Deutsche Telekom. Klaus Freiberg is a recognised expert in making companies customer-focused. Freiberg completed his degree in history, social sciences and economics at the University of Münster in 1990.

Dr. A. Stefan Kirsten
Member of the Management Board

As Chief Financial Officer, Prof. Dr A. Stefan Kirsten is responsible for finance, accounting, controlling, insurance, commercial management, portfolio controlling and valuation. Prof. Dr Kirsten was previously Chairman of the Management Board of the trading and real estate group, Majid Al Futtaim Group LLC in the United Arab Emirates. Before that, he was, among other things, CFO of Metro AG and ThyssenKrupp AG. Prof. Dr Kirsten completed his degree in business economics and informatics at the Hagen Distance-Learning University and Georg-August University, Göttingen. In 1996, he completed the Stanford Executive Program at the Graduate School of Business at Stanford University in California with a doctorate (Dr rer. pol.). Since 1995, he has been lecturing at various German and foreign universities and since 2001, he has lectured at the Westphalian University of Applied Science in Gelsenkirchen under an honorary professorship.

Supervisory Board

In accordance with the Articles of Association, the current Supervisory Board consists of nine members, of which four members have been ordered by the Düsseldorf District Court following the resignation of previous members.

Dr Wulf H. Bernotat, Chairman
Former CEO of E.ON SE

Manuela Better (from August 21, 2014)
Former CEO of Hypo Real Estate Holding AG (HRE) and former member of the Executive Board of Deutsche Pfandbriefbank AG (pbb)

Burkhard Ulrich Drescher (from December 12, 2014)
Managing Director of InnovationCity Management GmbH
Managing Director of BDC Consulting GmbH & Co. KG

Prof. Dr Edgar Ernst
President of the German Financial Reporting Enforcement Panel DPR e.V.

Dr Florian Funck
Member of the Management Board of Franz Haniel & Cie. GmbH

Hildegard Müller
Chairwoman of the Executive Board of German Association of Energy and Water Industries

Prof. Dr Klaus Rauscher
Business Consultant, Berlin

Clara-Christina Streit
Former Senior Partner with McKinsey & Company, Inc.

Christian Ulbrich
Chairman of the Management Board at Jones Lang LaSalle EMEA (Europe, the Middle East and Africa) as well as Member of the Management Board at the New York listed Jones Lang LaSalle Inc.

Members who left the Supervisory Board

Robert Nicolas Barr (until August 20, 2014)
Operational Managing Director of Terra Firma Capital Partners Limited, London

Arjan Breure (until August 20, 2014)
Management consultant at Terra Firma Capital Partners Limited, London

Fraser Duncan (until August 20, 2014)
Business Consultant, London

Tim Pryce (until August 20, 2014)
Chief Executive Officer of Terra Firma Capital Partners Limited

Report of the Supervisory Board

Dear Sir/Madam,

Dr Wulf H. Bernotat, Chairman

The Supervisory Board was once again able to accompany the Management Board of Deutsche Annington Immobilien SE through a successful financial year. We are delighted that the Management Board was able to successfully develop the company's business further in 2014, once again strengthening its position as the market leader.

In 2014, we in the Supervisory Board continuously monitored the Management Board's management activities and provided the board with regular advice concerning the running of the company. In the process, we were able at all times to establish that their actions were lawful, expedient and regular. The Management Board fulfilled its information obligations at all times, notifying us regularly, promptly and comprehensively, both in writing and verbally, of all events and measures that were relevant to the company. This also included notifying us of any discrepancies between the actual course of business events and the planning.

In both committees and plenary meetings, we always had ample opportunity to critically appraise the reports and proposals submitted by the Management Board and to contribute their own suggestions. We discussed and tested the plausibility of all business occurrences of significance to the company, as communicated to us by the Management Board in written and verbal reports, in detail. Where required by law or the Articles of Association, we granted our consent to individual business transactions.

Cooperation between the Management Board and the Supervisory Board

The Supervisory Board of Deutsche Annington comprises nine members. We provide the Management Board with advisory support in relation to key decisions. The Management Board, which comprises three members in the 2014 financial year, regularly informs us about key events and the company's strategic direction as part of a collaboration based on trust.

In my role as Supervisory Board chairman, I remained in close contact with the Management Board even between meetings, regularly exchanging information and ideas. Other senior management and supervisory personnel were promptly notified of any important findings or judgements, and at the latest by the next board meeting.

Focal points of our work

In line with the duties assigned to the Supervisory Board by law, the Articles of Association and the rules of procedure, we once again closely scrutinised the Group's operational, economic and strategic progress last year within the context of our supervisory and advisory activities. In 2014, our advisory sessions and resolutions focused, in particular, on the expansion of our portfolio and the associated financing.

Meetings

In 2014, we met at seven Supervisory Board meetings and also held six conference calls. We passed three resolutions via written circular. In preparation for these meetings, the Management Board submitted written reports and resolution proposals to us. On all but one occasion every member attended the Supervisory Board meetings. The exception was the meeting on April 29, 2014, for which two members were absent and excused.

On February 3, 2013, we used a conference call to discuss the planned DeWAG and Vitus acquisitions and the related scenarios. Another item on the agenda was the planned capital increase of up to 10 % of the company's authorised capital using an accelerated bookbuilding process (ABB). This matter was passed on to the Finance Committee for a decision to be made. We also resolved a contractual/remuneration amendment for Dr A. Stefan Kirsten.

On February 19, 2014, we issued our consent, in writing, to the declaration of conformity with the German Corporate Governance Code made by the Management Board and Supervisory Board of Deutsche Annington Immobilien SE in accordance with Section 161 of the German Stock Corporation Act (AktG).

At its ordinary meeting held on **February 27, 2014,** we initially looked at the operational and financial business development of Deutsche Annington Immobilien SE. This included detailed discussions on the planned portfolio acquisitions and the financing of these acquisitions. The Supervisory Board members also looked at the replacement of the "Führen durch Ziele" (management by objectives) agreement with a share option plan. Within this context, we passed a resolution on the introduction of the FFO 1, NAV per share and CSI parameters as agreed target parameters for the Management Board. We were also provided with the annual financial statements of DAIG SE and the DAIG SE Group, as well as the auditors' report. Although these were discussed in detail, they were not yet approved due to ongoing negotiations and the impact of the negotiation results on the annual financial statements. The meeting also looked at the agenda and procedure for the first Annual General Meeting.

On **February 28, 2014,** we met for a non-scheduled conference call and passed a resolution, based on the discussions held a day earlier, for a non-cash capital increase relating to 11.78 million new shares. We also approved a cash capital increase relating to up to 16 million new shares using the authorised capital. Based on the above, we approved the acquisition of the DeWAG and Vitus Group portfolios. We also unanimously approved the 2013 annual and consolidated financial statements of Deutsche Annington Immobilien SE and the proposal for the appropriation of profit to be made to the Annual General Meeting on May 9, 2014.

The meeting held on **April 29, 2014** focused on the Group's operational and financial development in the first quarter. We were provided with detailed information on the work of the Finance and Audit Committees. We also discussed the swift integration of the DeWAG portfolio, approved the first Management Board performance period within the framework of the Long-Term Incentive Plan (LTIP) and discussed details relating to the upcoming Annual General Meeting on May 9, 2014.

In the Supervisory Board meeting on **May 9, 2014,** we voted before the Annual General Meeting to elect Prof. Dr Edgar Ernst as chair of the forthcoming Annual General Meeting in the event that the statutory chair (Chairman of the Supervisory Board) is unable to perform in this role.

On **June 9, 2014,** we used a conference call to discuss, and pass a resolution on, the acquisition of at least 15 % of the shares in GAGFAH S.A. A term loan from JP Morgan should be provided for the acquisition. The resolution on refinancing was postponed.

At the ordinary meeting held on **July 30, 2014,** we once again looked at the work of the committees, operational and financial business development, the development of a vision and a mission statement, as well as HR matters.

During a conference call on **August 26, 2014,** we approved the acquisition of the Franconia portfolio from the CitCor Residential Group as part of an asset deal, in line with the proposal submitted by the Management Board.

On **September 10, 2014,** we passed written resolutions regarding the change to the Supervisory Board's rules of procedure, the replacement of the deputy Chair of the Supervisory Board as well as the filling of committee positions after the premature departure of four Supervisory Board members who had withdrawn their mandates as majority shareholders of the company following their exit from Monterey Holdings I S.à r.l., Luxembourg.

The ordinary meeting held on **September 15, 2014** focused on the company's further development: Together with the Management Board, we discussed the overall strategy, as well as the sub-strategies (financial strategy, extension strategy) of the Group, giving special consideration to the market situation and competitive landscape. We also discussed the potential impact of the rent ceilings on DAIG and the market as a whole. We also passed a resolution on the sale of a sub-portfolio from the acquisition of the Vitus Group as part of a share deal, as well as other transactions to support further portfolio optimisation based on the proposals submitted by the Management Board.

At the meeting held on **October 29, 2014,** we appointed KPMG as the company's auditor and set the focal points of the audit and the audit fee. In addition to reports on operational and financial business development, we discussed the planned cash capital increase, using authorised capital, relating to up to 24 million shares, passed a resolution approving the capital increase on the merits and delegated the further implementation to the Finance Committee. We also took an in-depth look at the plans to acquire GAGFAH S.A. and addressed the results of the employee survey, with the Supervisory Board explicitly urging the company to use the latter in order to promote a uniform corporate culture.

The meeting held on **November 27, 2014,** once again focused on the acquisition of GAGFAH. We discussed – both critically and in detail – issues relating to strategy, the time of acquisition, synergy effects, financing, budgeting, transaction structure, risks, valuation and offer price. We also discussed the budget for 2015 in detail, taking into account the planned key figures: rental income, cost per unit, CSI, NAV and FFO.

On **November 30, 2014,** we used two conference calls to further address the GAGFAH acquisition. At the first conference call, the Supervisory Board discussed the talks held between the Management Board, the Supervisory Board chairman and GAGFAH's management on the one hand, and those held between the Management Board and major investors on the other. A decision was made to obtain a fairness opinion (bank confirmation that the offer is viable). The Supervisory Board passed resolutions on the announcement of the publication of the takeover offer, the offer price and the negotiations regarding a merger agreement and a hybrid bond as part of the GAGFAH financing package. During the second conference call held on the same day, we passed a resolution on the final offer price following further in-depth discussions.

At the very last meeting of the year, held on **December 30, 2014,** we passed a resolution, in writing, stating that a certain portion of the tendered GAGFAH shares (surplus shares), which had been modified compared with the original resolution passed on November 30, 2014, would not be taken over by the company, but rather by JP Morgan Securities plc.

Work of the committees

In order to perform our duties effectively, we set up the following committees last year: the Audit Committee, the Finance Committee and the Executive and Nomination Committee. The committees prepare subjects which are to be discussed and/or resolved by the Supervisory Board. In addition, they pass resolutions on behalf of the Supervisory Board.

Audit Committee

The Audit Committee comprises four members. Up until August 20, 2014, the Committee members were Prof. Dr Edgar Ernst (Chairman), Robert Nicolas Barr, Fraser Duncan and Dr Wulf H. Bernotat. Robert Nicolas Barr and Fraser Duncan left the Committee on August 20, 2014 (with effect from 24hrs). As of September 10, the Committee members were Prof. Dr Edgar Ernst (Chairman), Dr Florian Funck, Christian Ulbrich and Dr Wulf H. Bernotat.

At a total of five meetings, the Committee assessed the quarterly, half-yearly and nine-monthly financial statements. The meetings held on February 27 and 28 focused on the audit of the individual and consolidated financial statements as well as recommendations to the Supervisory Board regarding the adoption of the financial statements and appropriation of profit at the Annual General Meeting. Furthermore, we accepted the reports of the internal revision and the reports regarding the reputation of the Group and compliance matters following the IPO in 2013. At the meeting on 29 April, 2014, the Audit Committee discussed, in addition to the quarterly financial statements, swift measures to resolve outstanding issues relating to tax accounts from the previous year, the risk management system and the implementation of a compliance management system to meet the latest technical requirements. On July 30, 2014, the Committee looked at the half-year financial statements and the Internal Audit's report. This meeting also addressed the company's image in the media. On October 29, 2014, the Committee acknowledged the interim consolidated financial statements for the third quarter of 2014 and passed several resolutions to be submitted to the Supervisory Board. These included matters relating to the audit conducted by KPMG, the provisional property valuation result, the current risk management report on the second half of 2014, the compliance management system and the internal audit, the status report and the audit plan for 2015.

Finance Committee

The Finance Committee currently comprises three members: until August 20, 2014, the members were Clara-Christina Streit (Chairwoman), Robert Nicolas Barr, Dr Wulf H. Bernotat and Arjan Breure. Robert Nicolas Barr and Arjan Breure left the Committee on August 20, 2014. From September 10, the new Committee members were Manuela Better and Lutz Basse, who resigned from his post on September 15, 2014, so that since then the Committee has comprised Clara-Christina Streit (Chairwoman), Manuela Better and Dr Wulf H. Bernotat.

The Finance Committee held four meetings in the reporting year (February, April, October and November) and nine conference calls (January (two), February, March (three), June, July and November). The discussions in, and resolutions passed by the Finance Committee mainly related to issues in connection with the Vitus, DeWAG and

Franconia transactions. This included approving and implementing the accelerated bookbuilding process together with the corresponding measures, the cash capital increase relating to 16 million new shares using authorised capital, definitively setting the number of shares (16 million) and the placement price (€ 19 per share), approving the issue of € 500 million as part of the European Medium Term Notes (EMTN) programme, and approving the Management Board resolution on the final number of shares (19.6 million) and the placement price (€ 23 per share) for the second cash capital increase in 2014 using authorised capital. Recommendations to the Supervisory Board regarding strategy, financing and risks associated with the acquisition of GAGFAH S.A. were the second main topic that the Committee dealt with in the course of the year.

Executive and Nomination Committee

The Executive and Nomination Committee has four members. Up until August 20, the members were Dr Wulf H. Bernotat (Chairman), Robert Nicolas Barr, Arjan Breure and Hildegard Müller. After Robert Nicolas Barr and Arjan Breure left, Clara-Christina Streit and Prof. Dr Klaus Rauscher joined the Committee as new members on September 10, 2014.

The Executive and Nomination Committee met four times in 2014. It also passed one resolution by way of a written circular (on February 3, 2014) regarding the remuneration paid to Dr A. Stefan Kirsten. At a meeting held on February 26, 2014, the Committee passed a resolution on the termination of the works agreement entitled Führen durch Ziele (management by objectives) with retroactive effect from December 31, 2013, and its replacement by the Employee Profit Share and Share Option Plan for Employees programmes with effect from January 1, 2014. The Committee also discussed the target achievement level for 2013 and the targets agreed for 2014 with measurable requirements given the need to boost the customer satisfaction index and the integration of the upcoming acquisitions, and drew up a recommendation for the Supervisory Board regarding the inclusion of FFO 1, NAV per share and CSI as parameters in the targets set for the Management Board and for it further individual targets.

On April 29, 2014, the Committee reached a decision on the target achievement level for the first Management Board LTIP period from January 1, 2013 to December 31, 2013. On September 15, 2014, the Committee approved three mandates assumed by Dr Kirsten outside of the DAIG Group. On November 27, the Executive and Nomination Committee extensively discussed matters relating to Management Board contracts.

Corporate Governance

The Management Board and Supervisory Board of Deutsche Annington Immobilien Group are committed to the principles of good corporate governance. As a result, the members of the Supervisory Board once again looked at the German Corporate Governance Code in the reporting year. On February 9, 2015, the Management Board and the Supervisory Board issued an updated declaration of conformity pursuant to Section 161 of the German Stock Corporation Act (AktG). The Management Board also reports, including on behalf of the Supervisory Board, on corporate governance at the Deutsche Annington Immobilien Group **in the declaration on corporate governance.** Both declarations will be permanently published by the company on its website for perusal.

Audit

After being appointed at the Annual General Meeting on May 9, 2014 to financial statements for the 2014 financial year, KPMG AG Wirtschaftsprüfungsgesellschaft, Essen, has duly audited the annual financial statements and consolidated financial statements of Deutsche Annington Immobilien SE for the 2014 financial year as well as the corresponding management report and the accounting on which they were based and has expressed an unqualified opinion thereon. The audit also extended to the structure and functioning of the risk management system, and no reservations were expressed.

The auditor has affirmed its independence from the Chair of the Audit Committee and duly declared that no circumstances exist which could give grounds for assuming a lack of impartiality on its part. The audit assignment was awarded to KPMG by the chairman of the Audit Committee in line with the Supervisory Board resolution and the choice of auditor made by the General Meeting of Shareholders.

The single-entity financial statements were prepared by the Management Board in accordance with German generally accepted accounting practice and the rules laid down in the German Commercial Code (Handelsgesetzbuch – HGB). The consolidated financial statements were prepared by the Management Board in accordance with International Financial Reporting Standards (IFRS), as applied in the European Union, as well as the supplementary provisions applicable pursuant to Section 315a (1) HGB.

For the single-entity financial statements and the consolidated financial statements, Deutsche Annington Immobilien SE prepared a combined management report based on the requirements set out in German Accounting Standard (DRS) 20.

Every member of the Supervisory Board received copies of the annual financial statements, the consolidated financial statements and the combined management report and the auditor's report in good time. On the basis of the preliminary examination by the Audit Committee, about which the Audit Committee chairman reported to the Supervisory Board, the Supervisory Board has scrutinised in detail the annual financial statements, consolidated financial statements and combined management report of the Deutsche Annington Immobilien Group for the 2014 financial year and also considered the Management Board's proposal for the appropriation of profit.

At a joint meeting on March 4, 2015 with the Audit Committee, and at the subsequent Supervisory Board meeting on March 4, 2015, the auditors reported both on their overall audit findings and on the audit's individual focal points. In particular, the auditors addressed the real estate valuation in relation to transactions made with equity or borrowings during the financial year and to the accounting for acquisitions. The auditors gave detailed answers to our questions. After an in-depth review of all documentation, we found no grounds for objection. As a result, we concurred with the auditors' findings. On March 4, 2015, we followed the Audit Committee's recommendation and approved the annual financial statements and consolidated financial statements of Deutsche Annington Immobilien SE, as well as the combined management report. The annual financial statements are thus duly adopted.

The Supervisory Board considered the Management Board's proposal for the appropriation of profit, taking a particular look at the company's liquidity, tax-related aspects, financial planning and investment planning. The Management Board and the Supervisory Board propose to the Annual General Meeting of Shareholders that, of the profit of Deutsche Annington Immobilien SE for the 2014 financial year, a dividend of € 0.78 per share or € 211,865,491.50 in total on the shares of the share capital as at December 31, 2014, be paid as a dividend to the shareholders and the remaining amount of € 83,959,423.82 be carried forward to the new account or be used for other dividends on shares carrying dividend rights at the time of the Annual General Meeting and which go beyond those as at December 31, 2014.

Personnel

The following staff changes affected the Supervisory Board in the reporting year: With effect from 24hrs on August 20, 2014, the members Robert Nicolas Barr, Arjan Breure, Fraser Duncan and Tim Pryce left the Supervisory Board. Lutz Basse left with effect from September 15, 2014 after being admitted to the Supervisory Board on August 21, 2014.

Manuela Better, Dr Florian Funck and Christian Ulbrich were also appointed to the Supervisory Board on August 21, 2014. Burkhard Ulrich Drescher was then appointed to the Board on December 12, 2014.

Clara-Christina Streit, Hildegard Müller, Prof. Dr Edgar Ernst and Prof. Dr Klaus Rauscher held their positions for the entire reporting period. Dr Wulf H. Bernotat continued to hold the position of Supervisory Board chairman. The post of deputy chairman was held by Robert Nicolas Barr (until 24hrs on August 20, 2014) and then by Prof. Dr Edgar Ernst (as of September 10, 2014).

Concluding Remarks

We would like to thank the outgoing Supervisory Board members for their commitment and the contribution they have made to the progress and success of the Deutsche Annington Immobilien Group. We would also like to thank the Management Board, the employees and the employees' representatives for their outstanding performance, which once again contributed to the company's considerable success in 2014.

Düsseldorf, March 4, 2015
On behalf of the Supervisory Board

Dr Wulf. H. Bernotat, Chairman

Combined Management Report

Our company not only achieved its targets for the previous year, but significantly exceeded them in some cases. This affirms the Management Board's course: the concept is working.

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Fundamental Information about the Group

Company and business model

The Company

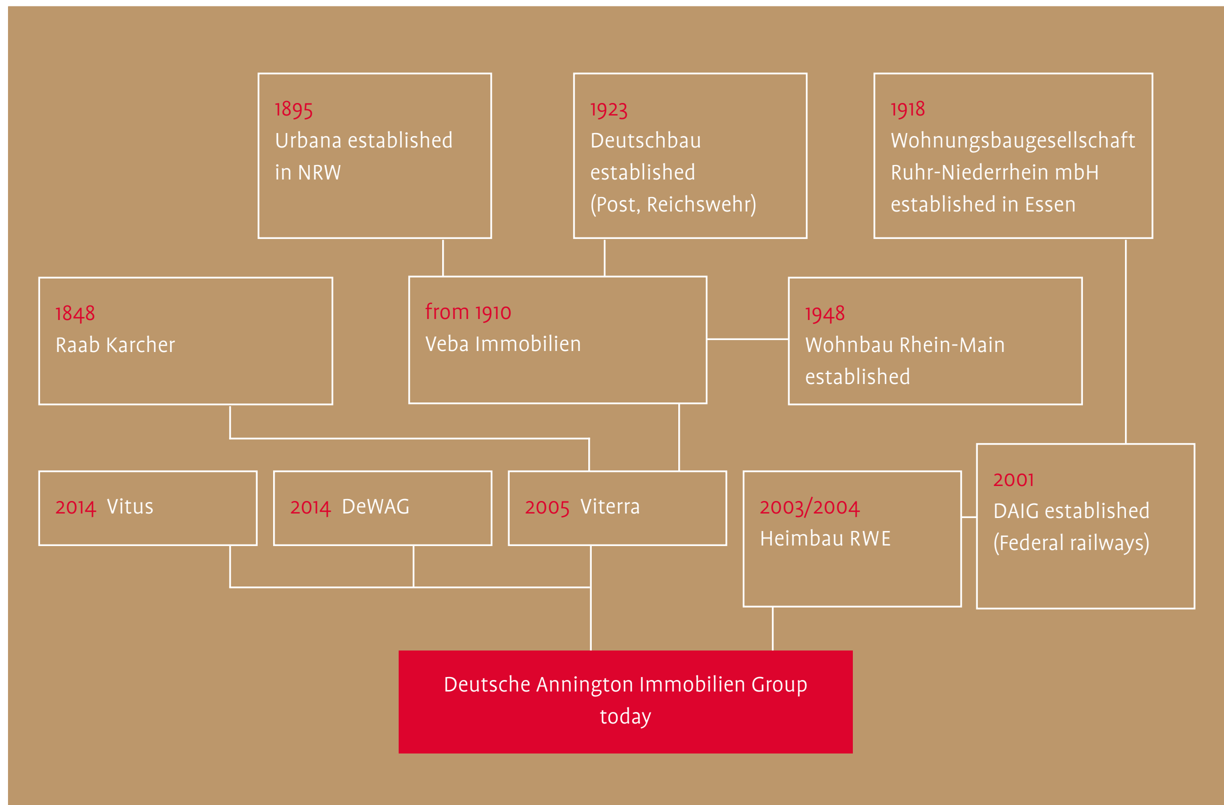
With some 203,000 residential units worth a total of € 12.8 billion, Deutsche Annington Immobilien SE is one of the leading real estate companies in Europe and is the biggest housing company in Germany measured by fair value and the number of residential units. As at December 31, 2014, we managed a total of 203,028 residential units of our own, 49,508 garages and parking spaces as well as 1,471 commercial units. We also managed 29,218 residential units for other owners. Deutsche Annington Immobilien Group provides housing in 545 towns and municipalities throughout Germany.

Deutsche Annington Immobilien Group (hereinafter: DAIG) is a performance-focused holder and manager of residential real estate in Germany. Our core business lies in providing affordable housing and the best possible service for large sections of the population at fair prices, as well as offering additional real estate-related services. DAIG pursues a holistic approach for the housing industry with an integrated and scalable model that aims to establish the company as the quality leader. Our financial strength allows us to achieve both organic business growth and innovative growth fuelled by acquisitions. A further business activity is portfolio optimisation. To achieve this, we sell selected properties in our portfolio and systematically integrate new housing stock into the Group. Deutsche Annington Immobilien SE is incorporated and domiciled in Germany; its registered office is located in Düsseldorf. The head office (principal place of business) is located at Philippstrasse 3, Bochum.

The company assumes the function of the management holding in the Group of Deutsche Annington Immobilien SE. In this function, it is responsible for determining and pursuing the overall strategy and implementing the company's goals and performs property management, financing, service and coordination tasks for the Group. Furthermore, it is responsible for the management, control and monitoring system as well as risk management. To carry out these management functions, DAIG has established service companies to pool certain functions, such as the central and local customer service units. By pooling the corporate functions, DAIG achieves harmonisation, standardisation and economies of scale objectives and therefore the other Group companies do not need to perform such functions themselves.

DAIG was established as part of the takeover of railway housing companies in 2001 and grew considerably through further acquisitions in the years that followed. With the purchase of Viterra in 2005, Deutsche Annington advanced to become Germany's largest residential real estate company. Today, the Group pools the experience and expertise of companies with over one hundred years of history.

Our history



Performance-focused management of residential real estate

Our company sees itself as a performance-focused holder and manager of residential real estate in Germany. Most of our apartments have two to three rooms and cover an average area of 63 square metres. This makes Deutsche Annington Immobilien Group a major provider of small and medium-sized apartments. This is a sector that industry experts believe has the best market opportunities, with the demand for smaller apartments expected to see above-average growth over the next few years and decades.

We also offer additional real estate-related services which bring benefits to both our customers and our shareholders.

As part of our business activities, we assume responsibility for our housing stocks and make a contribution to solving the societal challenges that arise from demographic and social changes in our residential estates. At the same time, we manage our properties in a success-focused manner and secure a stable return for our shareholders.

Sales – Privatise and Non-Core

We generate further value by selling owner-occupier units and single-family houses at a premium compared with their reported fair value. The same applies to selected multi-family houses for which Deutsche Annington does not see sufficient development potential in the rental portfolio in the medium term and which are to be sold at their reported recognised fair value. Our properties are offered to tenants, owner-occupiers as well as private and institutional investors.

Value-enhancing acquisition

It is also part of our business to make selective acquisitions of housing stocks and to add them to our Rental portfolio and thus increase the company's value in the long term. In order to achieve this targeted portfolio growth, we continuously follow the market and assess potential acquisitions on offer.

The DeWAG transaction was completed with effect from April 1, 2014. As a result, a stock of 11,307 residential units, 198 commercial properties and 5,366 garages and parking spaces was added to the Deutsche Annington portfolio in the second quarter of 2014.

The Vitus transaction was completed with effect from October 1, 2014. This transaction saw a stock of 20,471 residential units, 222 commercial properties and 4,180 garages and parking spaces being added to the Deutsche Annington portfolio in the fourth quarter of 2014. At the time of the takeover, the acquired Vitus residential portfolio is as follows*:

as at October 1, 2014	Units	Living area (thousand m²)	Vacancy rate (%)	In-place rent (p.a. € million)	In-place rent (€/m²/month)
Operate	13,565	800	3.9	46.5	5.03
Upgrade Buildings	3,937	227	3.1	12.9	4.90
Optimise Apartments	795	43	0.8	2.7	5.15
Rental only	**18,297**	**1,070**	**3.6**	**62.1**	**5.01**
Privatise	1,876	121	2.3	7.6	5.32
Non-Core	298	21	47.7	0.6	4.22
Total	**20,471**	**1,212**	**4.1**	**70.3**	**5.03**

* An additional 9,571 apartments and 42 commercial units were acquired and sold on directly to LEG Immobilien AG as part of the transaction.

In the third quarter of 2014, DAIG had announced the purchase of a portfolio of more than 5,000 apartments and around 210 commercial units, mainly in Berlin and eastern Germany, from the portfolio of the CitCor Residential Group (CitCor) for around € 323 million. By way of the amended purchase and share transfer agreement dated December 16, 2014, the completion of the transaction was postponed until April 1, 2015. The stocks acquired will boost the company's nationwide presence, especially in eastern Germany, and ideally complement the existing portfolio to enable efficient management.

Takeover offer for GAGFAH S. A.

DAIG made a public takeover offer to the shareholders of GAGFAH S. A. on December 1, 2014. This offer was approved by the German Federal Financial Supervisory Authority (BaFin) on December 19. Once the takeover is complete, our Group's residential portfolio will comprise around 350,000 residential units. The transaction was approved by the antitrust authorities on January 28, 2015. The takeover offer is scheduled for completion in early March 2015. For further information, we refer to our comments in the section entitled "Subsequent events".

Deutsche Annington Immobilien Group Mission Statement

Deutsche Annington's corporate mission statement sets out the fundamental principles that govern its business activity

With the move towards listing on the stock exchange and the departure of the former majority shareholder, the company needed a mission statement to serve as a point of reference for its stakeholders. The Management Board and the company's executives decided to address this task in 2014 by coming up with a common mission statement for the company. The aim behind this process was to come up with a distinctive profile that people within Deutsche Annington Immobilien Group can identify with, one that they can refer to as a guiding force and that our customers can use to measure our performance.

The corporate mission statement is designed to articulate this shared identity and translate it into specific principles. This provides a framework for individual conduct that is consistent with a common understanding of values.

The three main components of the mission statement are mission, vision and values. They answer questions like: "Why are we here?", "Where are we heading to?" and "Which principles guide us in what we do?".

Mission:
The mission sets out the company's aim "to offer everyone in Germany the prospect of a dependable home that they can afford". As a result, it is the core element of the mission statement.

Our mission answers the following questions:

What is our product?
We pursue a comprehensive approach for the housing industry. We offer homes and the best possible service for a fair price.

What is our business model?
We have an integrated nationwide business model that offers flexible scalability and allows us to establish ourselves as the quality leader in our market segment.

What are our development objectives?
We are financially strong and can further develop our business as need be at any time.

Which principles guide us in what we do?
Our actions bear the hallmarks of integrity and innovation and we expect the very best from ourselves.

Vision
From the point of view of our stakeholders, our vision paints a positive, desirable picture of Deutsche Annington's future. In line with our vision, we want to be "a mover and shaker of the German housing industry that is sought-after among all stakeholders" and to be seen by our stakeholders as follows:

Customers:
Deutsche Annington offers more than just an apartment – it provides a home for me and my family.

Employees:
Deutsche Annington is my company! I am motivated by challenging duties, a long-term focus and a leadership approach that values me.

Society:
Deutsche Annington takes a responsible approach based on the idea that "home ownership implies an obligation".

Investors:
Deutsche Annington offers me sustainable returns that are commensurate with the risks involved.

Suppliers:
Deutsche Annington is a demanding but fair partner.

Values
The mission statement contains nine values that we aim to base our action on. They apply to all employees and executives and provide a framework by giving people both room for manoeuvre and responsibility.

Our values are based on the image of the entrepreneur. They apply universally to all of our employees and executives and imply both freedom and responsibility at the same time: the freedom to act independently within defined boundaries and the responsibility to be able to explain the reasons behind what we do at any time. The values guide us in our quest to fulfil our mission and turn our vision into a reality.

Our values:

Passion
We are fully committed to what we do.

Will to succeed
We have a culture of excellence and performance.

"Can-do" attitude
We are pragmatic, committed to getting things done and have strong processes in place.

Responsibility
We think and act like long-term owners.

Customer focus
Our quest is to ensure that our tenants are satisfied.

Innovation
We are continually developing our business.

Respect
We show respect in the form of trust and freedom.

Reliability
We are dependable and treat everyone fairly and understandably.

Integrity
Integrity is the ethical compass that guides our actions.

As part of the mission statement process, the Management Board and top-level executives also developed the company's leadership philosophy. This philosophy sees executives as role models: They should provide guidance that motivates their employees, forge ahead with further development and make decisions. In the future, all executives will have their performance assessed based on how they put this leadership philosophy into practice and identify with it.

The merger with GAGFAH will require an assessment and possibly an adjustment of the mission statement.

Targets and strategy

Strategic environment

Guiding aspects of the strategic environment for Deutsche Annington are three megatrends, energy transition and demographic change, as well as increasing immigration to Germany.

A crucial prerequisite for the success of the **energy transition** in Germany is the sustainable and significant reduction of final energy consumption. As residential buildings account for more than a quarter of total final energy consumption, this sector offers considerable potential for saving energy. For this reason, the German government has set itself the ambitious goal of reducing the heat requirements of buildings by 20 % by 2020 and reducing primary energy consumption by 80 % – compared with 1990. This means that comprehensive energy-efficiency measures have to be performed in a large percentage of buildings in Germany by 2050.

Deutsche Annington is aware of its responsibility and has therefore set up an energy-efficient modernisation programme. Based on our extensive experience of the energy-efficient modernisation of residential buildings since 2008, we made the decision, in 2013, to significantly expand the existing investment programme for the energy-efficient modernisation of our buildings and to invest around € 500 million in the period leading up to 2018 with the help of subsidies provided by the German state development bank, KfW. Last year, we already made a substantial contribution, implementing energy-efficient modernisation measures in homes accounting for a total volume of around € 119 million – as against € 47 million in the previous year. We will be expanding this programme this year to cover the acquired portfolios.

The **demographic change** also has a considerable influence on the housing industry in Germany. The population is ageing fast and presenting the housing industry with major challenges – particularly in the field of age-appropriate accommodation. In order to respond to this trend, the German government provides low-interest funds from promotional banks to support the efforts of real estate owners to adapt their housing stocks to the needs of older people, therefore enabling them to live longer in their familiar surroundings. Within this context, Deutsche Annington came up with a five-year plan back in 2013 to invest a volume of € 300 million in senior-friendly conversions of its properties. After investing € 16 million in senior-friendly, accessible apartment modernisation measures in 2013, we were able to more than double the investment volume in the 2014 financial year, bringing it up to more than € 40 million. These measures will also be gradually extended to cover the portfolios we have acquired.

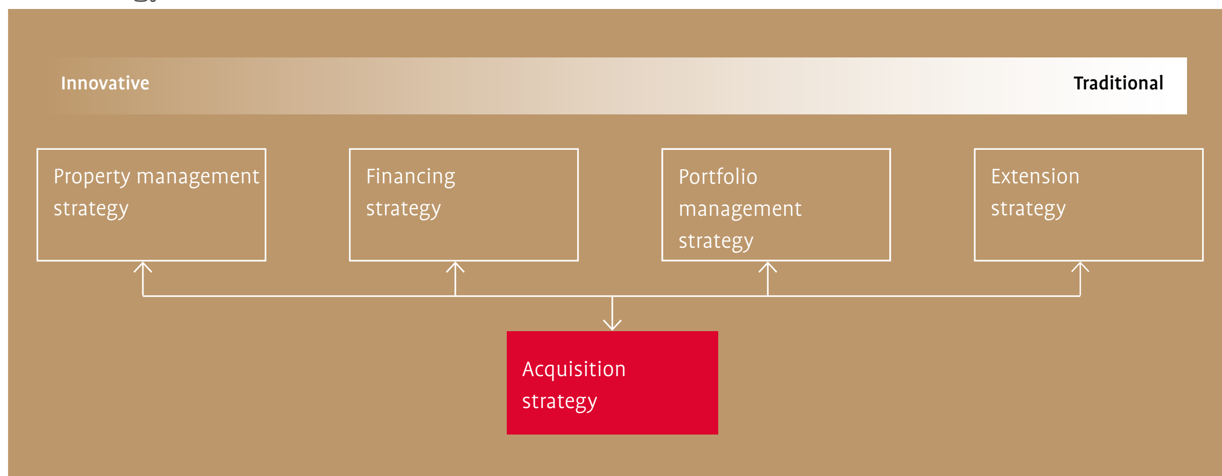
Furthermore, 2014 also saw increasing **migration** fuelled by immigration to Germany and migration within Germany from the countryside to the metropolitan areas such as Rhine/Neckar, Rhine/Main, Rhine/Ruhr as well as Munich, Hamburg and Berlin. This development is contributing to an increase in the number of one to two-person households, which the Deutsche Annington business model benefits from.

Our strategy consists of five elements. They are:

- Property management
- Financing
- Portfolio management
- Extension (extension of the value chain)
- Acquisitions

The successful implementation of the strategic elements – Property management, Financing, Portfolio and Extension – is the basis for a sustained and positive development of our primary key performance indicators: net asset value (NAV) and funds from operations (FFO). At the same time, it gives us flexibility for acquisitions which open up further optimisation potential through economies of scale.

Our strategy



Property management strategy

The paramount goal of Deutsche Annington's property management strategy is the systematic optimisation of operating performance and core business productivity. In order to achieve this objective, we need a good reputation and satisfied customers.

Through a balanced mix of various measures which are geared to this goal, we create a strategy which is characterised by sustainability and profitability.

Deutsche Annington makes ongoing investments, and above-average investments compared to its peers, in property maintenance. This guarantees the reliable technical quality of our apartments.

In addition, we optimise our services by implementing a coherent quality management system, which is characterised by high quality standards and continuous checks. In order to ensure the economic balance of all activities, our processes and structures are strictly geared to our customers' satisfaction.

This holistic property management approach delivers a clear economic benefit.

Financing strategy

Our financing strategy pursues various goals: a balanced structure and maturity of our debt capital, optimisation of our financing costs, maintenance of our credit rating and adequate liquidity at all times.

The success of our financing strategy is reflected in the following:

> Access to the capital markets through the IPO on the basis of a sound equity ratio of roughly 40.4 % and a loan-to-value ratio of up to around 50 %

> access to the debt capital markets through an investment grade rating of "BBB" from S&P
  - Balanced and weighted maturity profile with an average residual term of up to around 8 years
  - Balanced debt structure through bonds (EMTN and US bond programmes) supplemented by hybrid instruments, structured loans and low-interest mortgages
  - Synchronised hedging strategy for exchange rate and interest rate risks

> Possibilities to obtain a balanced mix of equity and debt capital
  - Enables further internal and external growth
  - Ensures improved financial result
  - Ensures earnings growth and investor returns through dividends and share price

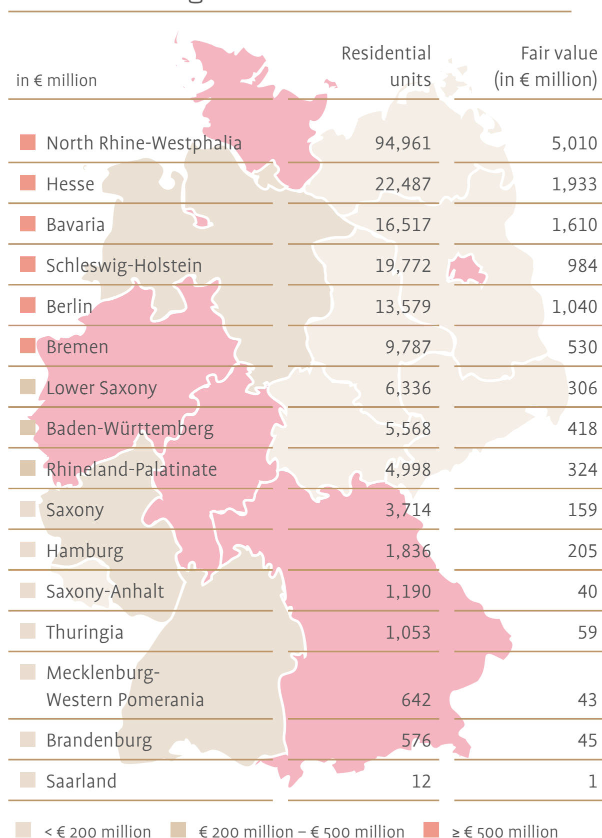
After laying the foundation for our financing strategy in 2013 with the IPO, the awarding of an investment grade rating and the first-time issue of unsecured bonds, we were not only able to systematically enhance this strategy last year, but also made a decisive contribution to internal and external growth thanks to the skilful use of the various instruments.

Furthermore, our “BBB” investment grade rating from S&P has been assigned a “positive outlook” on Creditwatch since December 1, 2014, and we expect our rating to be upgraded to “BBB+” following the successful completion of the takeover of the GAGFAH Group. An improvement in our rating would, as a logical consequence, also help to further reduce future borrowing costs.

The financing structure that we have chosen is also confirmed to be the right one if we look at the acquisitions that were announced and completed in the year under review. Without fast and free access to the equity and debt capital markets, these would not be shown.

These successes are a clear competitive advantage for a German residential real estate company. The DAIG Management Board has clearly expressed its intention to procure additional funds through the issuance of further bonds; these funds are to serve as debt capital to supplement equity so that both the company’s organic and external growth (by acquisitions) can be advanced.

Portfolio Management



in € million	Residential units	Fair value (in € million)
North Rhine-Westphalia	94,961	5,010
Hesse	22,487	1,933
Bavaria	16,517	1,610
Schleswig-Holstein	19,772	984
Berlin	13,579	1,040
Bremen	9,787	530
Lower Saxony	6,336	306
Baden-Württemberg	5,568	418
Rhineland-Palatinate	4,998	324
Saxony	3,714	159
Hamburg	1,836	205
Saxony-Anhalt	1,190	40
Thuringia	1,053	59
Mecklenburg-Western Pomerania	642	43
Brandenburg	576	45
Saarland	12	1

< € 200 million | € 200 million – € 500 million | ≥ € 500 million

Portfolio management strategy

Deutsche Annington has divided its portfolio into five action-oriented sub-portfolios. We follow a clearly differentiated strategy for each sub-portfolio with regard to value creation. Newly acquired portfolios are evaluated after their integration and then incorporated into the existing structure.

As at the beginning of 2014, the portfolio structure is as follows:

> **Operate**
In this sub-portfolio, we pursue the strategy of **value-enhancing property management.** We achieve operational value generation through rental growth, vacancy reduction, effective and sustainable maintenance spend as well as cost efficiencies through scale.

> **Upgrade Buildings**
We use **value-enhancing investments** to achieve a significant improvement in value with an extensive investment programme. We also address one of today‘s social megatrends, climate protection, and invest in energy-efficient modernisations.

> **Optimise Apartments**
As part of the **value-creating investments,** we pick up on a further societal megatrend – demographic change. With our comprehensive investment programme, we create further significant value improvement by refurbishing apartments for senior living as well as completing high-standard refurbishments in markets where fully refurbished apartments deliver a rental premium.

> **Privatise**
We generate further value through the sale **(privatisation)** of owner-occupier units and single-family houses at a significant premium compared with their fair value. Related to the fair value at the end of 2014, these units amount to 12 % of the DAIG housing stocks.

> **Non-Core**
As part of **portfolio optimisation,** we sell buildings to private and institutional investors as the opportunity presents itself. 3 % of the DAIG housing stocks, measured in terms of fair value, have only limited development potential in the medium to long term as they are not suitable for long-term, successful management using our standardised letting processes due to their location or the condition of the property. This housing stock is to be sold in the medium term at prices around fair value.

The foundation of all sales and purchase decisions of Deutsche Annington is its own analysis of the German market on the basis of the yield achieved and the future potential to increase value. To calculate the growth potential, we have developed a scorecard with which we believe we can forecast the future development of the local markets better than by using publically available studies. One main difference is that our analysis includes the knowledge of our local regional managers throughout Germany in addition to the expected regional demographic developments. The result of this market analysis forms the basis for long-term portfolio optimisation.

Extension strategy

Deutsche Annington has steadily extended its core business since 2012. The most important examples of the successful extension of our value chain are the development of our craftsmen's organisation Deutsche TGS and the partnership with Deutsche Telekom to supply our residential units with digital radio and TV reception. Both projects by far exceeded our original expectations. We have been establishing our own caretaker organisation on an ongoing basis since 2012 so that we can provide better support to our customers with our service offering. The response to this caretaker service offering has been positive. We still see great growth potential for the craftsmen's organisation DTGS. Since the beginning of 2013, we have been significantly increasing our capacities in the different regions. At the end of 2014, we employed a workforce of around 1,760 at DTGS and plan to continue to increase the number of employees in line with portfolio growth. DTGS is available to all Deutsche Annington customers and the reaction to our service is positive.

Our craftsmen's organisation gives us key strategic advantages:

- Availability of highly-skilled craftsmen
- Improved service quality by building expertise and implementing efficient, well-coordinated processes
- Cost advantages (procurement, etc.)
- Scalable operating platform throughout Germany

The contract with Deutsche Telekom was signed in 2011. The joint objective is to equip 145,000 apartments with modern fibre-optic technology so as to be able to offer our tenants the entire spectrum of Deutsche Telekom services on more favourable conditions. At the end of 2014, 55,000 apartments had already been equipped with this technology, with plans to complete this work in the other apartments by 2025.

In addition to these projects, we want to further expand the service offering for our tenants. Our aim is to continually strengthen the loyalty of our customers and profitably develop our business.

Acquisitions strategy

In addition to Deutsche Annington's potential for organic growth, we are also active in the field of acquisitions. Thanks to our presence throughout Germany, we can identify a large number of opportunities and can also integrate housing stocks which are scattered over a wide area into our existing portfolio quickly and without any hiccups for our tenants, as we showed in the last financial year with the impressive integration of the DeWAG and Vitus portfolios. Due to our financial flexibility, we offer potential sellers a very high degree of transaction security and swift processing.

Growth-Return-Matrix

With the help of our nationwide market knowledge and our many years of experience, we have developed the growth-return matrix for the whole of Germany, which shows expected growth in relation to current returns. This evaluation method allows us to identify, very quickly and easily, whether a portfolio would be a worthwhile addition to our stocks and whether it offers positive development opportunities. Since this allows us to assess even larger portfolios in detail relatively quickly and with minimum effort, we can also use the system to help us make disinvestment decisions. Last year provided a good example of how this tool can be used: we used the analysis method to decide not only to purchase Vitus, but also to quickly pass on part of the portfolio.

Deutsche Annington is highly disciplined when assessing potential acquisitions and sets clear requirements. All eligible acquisitions must meet the following four conditions, they must

> Fit into the existing portfolio
> Increase FFO/share
> Be at least NAV/share neutral
> Not jeopardise the existing “BBB”-rating

Portfolio Structure

The Deutsche Annington portfolio as at December 31, 2014 can be broken down as follows:

			Vacancy rate		In-place rent			
as at Dec. 31, 2014	Units	Living area (thousand m²)	(%)	Change (% points)	(p.a. € million)	(€/m²/ month)	Change like-for-like (%)*	Fair value** Dec. 31, 2014 (€/m²)
Operate	86,325	5,418	2.9	-0.1	351.2	5.56	+1.8	954
Upgrade Buildings	51,901	3,259	2.7	-0.1	211.2	5.55	+3.2	998
Optimise Apartments	34,320	2,175	2.7	0.6	152.9	6.03	+3.7	1,054
Rental only	**172,546**	**10,852**	**2.8**	**0.0**	**715.3**	**5.65**	**+2.7**	**987**
Privatise	21,530	1,466	4.6	-0.3	91.8	5.46	+1.8	1,008
Non-Core	8,952	570	11.8	2.1	25.8	4.30	+1.1	508
Total	**203,028**	**12,888**	**3.4**	**- 0.1**	**832.9**	**5.58**	**+ 2.5**	**964**

* Without DeWAG/Vitus
** Average fair value of housing stocks related to rentable area

Regional distribution of total portfolio

As at December 31, 2014, around 72 % of the portfolio was concentrated in towns and cities with a population in excess of 100,000. The focus is on the Ruhr area, Berlin, the Rhine-Main region, northern Germany and southwest Germany. The vast majority of our housing stocks (96 %) are situated in the former West Germany (incl. Berlin). 47 % are located in North Rhine-Westphalia. Therefore, by far the largest proportion of our residential portfolio is located in the most highly populated German state.

				In-place rent	
as at Dec. 31, 2014	Units	Living area (thousand m²)	Vacancy rate (%)	(p.a. € million)	(€/m²/month)
North Rhine-Westphalia	94,961	5,947	3.5	362.9	5.27
Hesse	22,487	1,429	1.8	114.5	6.80
Schleswig-Holstein	19,772	1,192	3.1	72.6	5.24
Bavaria	16,517	1,098	1.7	79.3	6.12
Berlin	13,579	879	1.3	61.4	5.90
Bremen	9,787	595	5.5	33.8	5.00
Lower Saxony	6,336	427	9.2	23.9	5.13
Baden-Württemberg	5,568	385	3.1	26.1	5.84
Rhineland-Palatinate	4,998	354	3.3	22.1	5.38
Saxony	3,714	229	8.4	12.4	4.95
Hamburg	1,836	110	2.4	9.7	7.55
Saxony-Anhalt	1,190	83	17.3	3.8	4.56
Thuringia	1,053	68	6.5	4.2	5.46
Mecklenburg-Western Pomerania	642	49	2.3	3.3	5.71
Brandenburg	576	42	4.9	2.8	5.87
Saarland	12	1	0.0	0.1	4.72
Total	**203,028**	**12,888**	**3.4**	**832.9**	**5.58**

Roughly 67 % of the housing portfolio (135,845 units) is concentrated in our 25 largest locations. The three largest locations are Dortmund, Berlin and Kiel. Overall, a large proportion of our residential portfolio is located in cities and regions with good growth prospects and a positive development of the number of households, including Munich and Berlin as well as the Rhine-Main region with the cities of Frankfurt am Main, Cologne, Bonn and Düsseldorf.

as at Dec. 31, 2014	Units	Living area (thousand m²)	Vacancy rate (%)	In-place rent (p.a. € million)	In-place rent (€/m²/month)
Dortmund	17,414	1,064	2.3	61.5	4.93
Berlin	13,579	879	1.3	61.4	5.90
Kiel	10,715	624	1.2	38.4	5.19
Frankfurt am Main	10,593	656	0.8	57.3	7.34
Bremen	9,561	581	5.5	33.1	5.01
Essen	9,393	577	4.6	34.9	5.29
Bochum	7,534	433	2.8	26.4	5.23
Gelsenkirchen	7,387	452	5.8	24.2	4.75
Duisburg	5,093	308	4.1	17.9	5.06
Munich	4,840	321	0.7	25.3	6.63
Cologne	4,611	303	1.7	24.3	6.79
Herne	4,523	277	4.2	15.3	4.83
Bonn	4,163	292	1.7	21.7	6.30
Gladbeck	3,202	196	2.9	11.4	5.01
Düsseldorf	2,757	180	2.4	15.2	7.22
Herten	2,645	169	4.8	9.0	4.64
Wiesbaden	2,337	156	2.8	13.8	7.57
Aachen	2,283	151	3.3	9.8	5.64
Marl	2,089	138	5.7	7.9	5.09
Geesthacht	1,978	113	2.9	7.5	5.73
Bergkamen	1,843	120	4.2	6.3	4.59
Bottrop	1,838	115	3.4	6.9	5.17
Hamburg	1,836	110	2.4	9.7	7.55
Kassel	1,823	114	3.6	6.9	5.22
Augsburg	1,808	99	2.7	7.6	6.55
Subtotal of the 25 largest locations	**135,845**	**8,428**	**2.8**	**553.7**	**5.64**
Other locations	67,183	4,460	4.5	279.2	5.46
Total	**203,028**	**12,888**	**3.4**	**832.9**	**5.58**

Portfolio changes

DAIG's portfolio segmentation is action-based. Consequently, in addition to the sales-related and acquisition-related changes, there are also changes as a result of reclassified empirical values in the property management, investment and sales areas.

DAIG portfolio as at December 31, 2014 (no. of residential units)

Portfolio	Old Portfolio Structure	New Portfolio Structure	Changes
Operate	86,325	85,127	-1,198
Upgrade Buildings	51,901	54,051	2,150
Optimise Apartments	34,320	35,139	819
Rental Only	**172,546**	**174,317**	**1,771**
Privatise	21,530	19,616	-1,914
Non-Core	8,952	9,095	143
Total	**203,028**	**203,028**	**0**

> Operate: The number of units fell by 1,198. The main reasons were:

- Disposals on balance from the re-assessment of investment opportunities in our housing stocks for buildings and modernisation of our apartments, with the transfer to the relevant sub-portfolios
- Additions on balance from completed modernisation projects which, after refurbishment, belong to the Operate sub-portfolio

> Upgrade Buildings: The number of units rose by 2,150. The main reasons were:

- Disposals on balance owing to completed modernisation projects, the units then being transferred to the Operate sub-portfolio
- Additions on balance of units which were moved from the Operate sub-portfolio following the annual strategy review

> Optimise Apartments: The number of units rose by 819. The main reasons were:

- Disposals on balance of units which moved to the Operate or Upgrade Buildings sub-portfolios after their completed refurbishment
- Additions on balance of units which were moved from the Operate sub-portfolio following the annual strategy review

> Privatise: The number of units fell by 1,914 units, largely due to reclassifications to the Operate (543) and Optimise Apartments (1,096) sub-portfolios. No new sales projects were started.

> Non-Core: The number of units increased only slightly, by 143 units, due to the net total of disposals made and newly identified non-core stocks from the acquisition portfolios.

At the start of 2015 and following the implementation of the annual restructured reassessment of all potential, the portfolio is as follows:

Portfolio	Units	Vacancy rate (%)	Living area (million m²)	In-place rent (€/ m²)	Fair value (€/ m²)
Operate	85,127	3.3	5.3	5.57	934
Upgrade Buildings	54,051	2.4	3.4	5.55	975
Optimise Apartments	35,139	2.1	2.3	6.00	1,131
Rental only	**174,317**	**2.8**	**11.0**	**5.65**	**987**
Privatise	19,616	4.4	1.3	5.45	992
Non-Core	9,095	13.2	0.6	4.27	519
Total	**203,028**	**3.4**	**12.9**	**5.58**	**964**

This means that the proportion of Non-Core properties has remained virtually constant year-on-year at approx. 3 % of the fair value. The share of the sub-portfolios in which investments are planned has increased to 46 % of the total fair value.

Modernisation and maintenance

In 2014, we continued to pursue our goal of steadily improving the quality of our housing stocks and the neighbourhoods. Expenditure on maintenance and modernisation amounted to € 29.12/m² in 2014.

As part of the energy-efficient modernisation measures in the “Upgrade Buildings” sub-portfolio, we heat-insulated façades, basement ceilings and attics for a living area of some 320,000 m². The catalogue of measures also included the optimisation and renewal of heating systems – benefiting more than 5,000 apartments. All these measures reduce energy consumption which, in turn, cuts CO_2 emissions. The lower energy consumption not only benefits the environment but also our tenants in the form of lower heating costs. In addition, our customers profit from the improved standard of comfort of our properties.

We also take account of the demographic change when planning investments in our properties. Some 35 % of our tenants are over 60 and many of them want to stay living in their homes as long as possible. In the “Optimise Apartments” sub-portfolio, we therefore initiated modernisation measures with an investment volume of over € 43 million in 2014. Over 2,900 apartment modernisations were completed in 2014 or are near completion.

If technically feasible, conversions were carried out according to standards of the KfW programme 159 “Senior-friendly conversions”.

DAIG Investment programme

Programme year	Investment volume (€ million)	Units (No.)	Yield (%)
Average 2010 – 2012	43	2,529	6.7
2013	65	5,314	7.2
2014 (Forecast)	163	11,933	7.5

Notes:
(1) "Programme year" is defined as the calendar year in which construction work on the respective measure started.
(2) "Total investment volume" includes all costs of the measures performed excluding internal personnel costs incurred, e.g. for programme coordination or for the site managers employed in the Group.
(3) "Yield" is the static net initial yield and is calculated for the Upgrade Buildings sector from the change in the property management income (i.e. changes in the rent and vacancy rate) in relation to the external planning and construction costs of the measure. The time of measurement is December of the calendar year following the programme year; in the Optimise Apartments sector, the difference between the last rent before the refurbishment and the reletting rent achieved after refurbishment is completed is compared with construction costs of the project. The timeof measurement is, in this case, the middle of the calendar year following the programme year.
(4) The "Forecast" nature of the figures for the 2014 programme year is due to the fact that success is not measured until the middle or the end of the calendar year following the programme year and is therefore not finally determined until mid-2015 (Optimise Apartments) or the end of 2015 (Upgrade Buildings).
(5) The difference between the € 163 million forecast for 2014 and shown here, and the € 171.7 million shown in the Report on Economic Position, is due to small-scale measures that do not form part of the centrally managed Group investment programme and that are also classed as modernisation measures in accordance with the accounting standards.

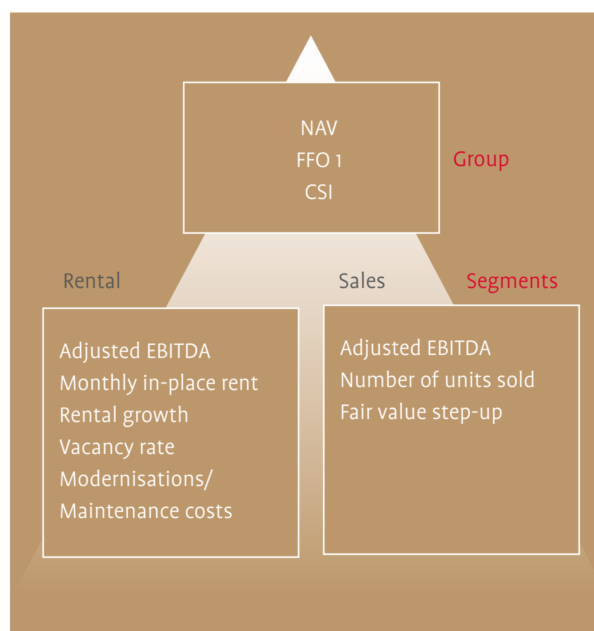
Management system

Performance indicators

Our entrepreneurial actions are focused on sustainably increasing the value of the company. As is common practice in the industry, this is expressed in the net asset value (NAV). We strive to steadily grow our earnings through the value-enhancing management of our properties, through value-creating investments in these portfolios as well as through active portfolio management.

In order to ensure that our business activities are focused on growing the value of the company in the long term, we have an integrated Group planning and controlling system in place. Based on the mid-term plans derived from our strategy, which are subject to an annual review, we calculate a budget for all areas of the Group. In the course of the financial year, current business developments are compared with these targets and the current forecasts on a regular basis for all KPIs that are relevant to control. The business is then steered accordingly in a targeted manner, with any countermeasures being initiated and tracked.

The systematic focus on value is also reflected in our internal management system.



Financial performance indicators

The value of our company is increased largely by growth from operating activities and by the value of our property assets. These two factors are therefore decisive for the further development of our company which is reflected in the **net asset value**

(NAV) – a standard parameter in our sector. Our NAV calculations are based on the best practice recommendations of the EPRA (European Public Real Estate Association).

NAV calculation

	Equity attributable to DAIG shareholders
(+)	Deferred taxes on investment properties and properties held for sale
(+/-)	Fair value of derivative financial instruments
(-/+)	Deferred taxes on derivative financial instruments
=	**NAV (Net Asset Value)**

For managing the recurring sustainable earnings of our core business, property management, the main standard financial figure in the sector is **Funds from Operations 1 (FFO 1).** This can be derived from the profit or loss for the period.

FFO 1 calculation

	Profit for the period
(+)	Net interest
(+)	Income taxes
(+)	Depreciation
(-)	Net income from fair value adjustments of investment properties
=	EBITDA IFRS
(+)	Non-recurring items
(+)	Effects from assets held for sale
=	Adjusted EBITDA
(-)	Adjusted EBITDA Sales
=	Adjusted EBITDA Rental
(-)	FFO interest expense
(-)	Current income tax
=	**FFO 1 (Funds from Operations 1)**

Based on the profit or loss for the period, we can calculate the **EBITDA IFRS,** i.e. earnings before interest, taxes, depreciation and amortisation with the additional elimination of income from fair value adjustments of investment properties. Further adjustments are made to eliminate specific effects which do not relate to the period, are non-recurring or do not relate to the objective of the company, with the **adjusted EBITDA** as the resulting financial figure. This is split into the two segment results, **adjusted EBITDA Rental** and **adjusted EBITDA Sales.** In this respect, all activities not relating to Sales are defined as relating to Rental.

The adjusted EBITDA Rental reflects the operating result of our core business before interest, taxes, depreciation and amortisation; it can be broken down into three central components: rental income, property maintenance expenses and management costs. The latter include all costs that do not comprise maintenance.

Adjusted EBITDA Rental calculation

	Rental income
(-)	Maintenance expenses
(-)	Property management costs
=	**Adjusted EBITDA Rental**

In addition to defining maintenance expenses, we make an additional distinction between capitalised maintenance and value-enhancing investment in modernisation measures. The total amount of all **maintenance and modernisation services** therefore includes the services provided by the Group's own craftsmen's organisation, which are measured at the market price, and bought-in services. Therefore, this number reflects the amount of all value maintaining and value preserving measures for our properties. Related to the living area of our own units, it shows the intensity of the maintenance and modernisation work in our housing stocks.

As the financing of operating activities is also a fundamental component for the success of our business activities, we deduct the net cash interest payments excluding non-recurring results **(interest expense FFO)** from the adjusted EBITDA Rental to reflect as weill as the current income taxes to calculate the FFO 1 as the KPI for the sustained earnings power of our core business. If we reduce value-preserving investments from the FFO 1 , we arrive at the **AFFO.** This number reflects our sustained earnings power after deducting all necessary investments in our properties.

We always refer both metrics, NAV and FFO 1, to the number of shares in order to make the sustainable earnings and the company value per share transparent.

Apart from the sustainable management of our residential real estate portfolio, active portfolio management is another element of our business activities. We measure the resulting sales activities using **adjusted EBITDA Sales.**

Adjusted EBITDA Sales calculation

	Income from sale of properties
(-)	Carrying amount of properties sold
(+)	Revaluation from disposal of assets held for sale
=	Profit from disposal of properties (IFRS)
(-)	Revaluation (realised) of assets held for sale
(+)	Revaluation from disposal of assets held for sale
=	Adjusted profit/loss from disposal of properties
(-)	Selling costs
=	**Adjusted EBITDA Sales**

The adjusted EBITDA Sales compares the sales proceeds generated with the fair values of units sold and also deducts the related selling costs. In order to report profit and revenue in the period in which they are incurred and determine a sales margin, the fair values of units sold, valued in accordance with IFRS, have to be adjusted to reflect realised/unrealised changes in value.

Adding adjusted EBITDA Sales to FFO 1 produces **FFO 2.** This means that FFO 2 shows the operating income generated from all of our business activities in the period in question.

As a non-operational financial metric, the **loan-to-value ratio (LTV ratio)** is used for monitoring the degree to which debt is covered by the value of the properties. This metrics helps to ensure a sustainable ratio of debt to real estate assets.

The performance indicators used are so-called non-GAAP measures, i.e. metrics which cannot be taken directly from the figures in the consolidated financial statements according to the IFRS standards. The financial performance indicators can, however, be reconciled to the closest-possible metric in the consolidated financial statements.

Non-financial performance indicators

We also focus on non-financial operating performance indicators as drivers for our financial KPIs.

Our daily activities focus on our customers. Consequently, the third main KPI alongside FFO 1 and NAV is the **Customer Satisfaction Index (CSI).** It is determined at regular intervals in systematic customer surveys conducted by the service provider Infas TTR and shows the effectiveness and sustainability of our services for the customer.

The **vacancy rate** shows the proportion of residential units in our own housing stocks which are not let and therefore generate no rental income. The **monthly in-place rent per square metre** gives information on the average rental income from the rented properties. In particular, over the course of time, the **average rent increase** achieved in the rented properties can be derived from this figure. The vacancy rate and the average rent are key drivers for managing **rental income.**

The **number of units sold** in the Privatise portfolio and the Non-Core sales indicate the sales performance in the Sales segment. The **fair value step-up** is the difference between the income from the sale of a residential unit and its fair value related to its fair value. It shows the percentage increase in value for the company on the sale of a residential unit before further costs to sell.

Customers and customer service

In addition to the financial and operational non-financial performance indicators explained in the section on the management system, **customer satisfaction** and our **employees** are relevant for Deutsche Annington Group as further non-financial performance factors.

Customer satisfaction

The economic success of our company is closely linked to the satisfaction of our customers. We understand this fact and therefore implement a wide variety of measures to improve our services in the interest of our tenants.

Regular customer satisfaction surveys

As already described in the section about our management system, the **Customer Satisfaction Index** (CSI) is an important indicator for ensuring that improvement potential is closely aligned with our tenants‘ needs. We have been conducting the

customer satisfaction survey on a quarterly basis since 2012. This quarterly survey looks at general customer satisfaction aspects, such as image, loyalty and overall satisfaction, as well as issues relating to customer service, and maintenance and conversion work. With the help of the strategic surveys, we report our **Customer Satisfaction Index** (CSI) and **Customer Commitment Index** (CCI), which allow us to gain important insights into the satisfaction of our customers in statistical terms and their loyalty to the company.

In addition to the regular surveys, we also conduct event-based interviews with our customers on an ongoing basis for the purposes of internal quality assurance. During these interviews, we ask customers to describe how satisfied they are with the manner in which their last issue was handled. We can use the knowledge gained during this process to identify and exploit specific optimisation potential for our customer service.

The surveys cover all key components of our relationship with our customers: From the first point of contact when someone shows an interest in an apartment through to repair reports and how customers perceive the company as a whole – we want to find out what our customers think of us as a company and what they think of our services. We take this feedback as an opportunity to review and sustainably optimise internal processes.

The company attaches a great deal of importance to customer satisfaction, which is why the survey results have an impact on the variable remuneration of selected employees of Deutsche Annington. This link underscores the close relationship between customer and staff satisfaction, which, from the company's viewpoint, are mutually dependent.

Customer services

Organisational management through an efficient and fully integrated management platform

Deutsche Annington steers its processes with a balanced combination of central and decentralised responsibilities.

The close interaction of the departments in the **Local Customer Service** – New Rentals, Property Management, Technology and Caretaking – permits high flexibility and fast response times in the on-site handling of customers' inquiries. Special service levels have been defined for written and telephone customer inquiries which the **Central Customer Service** receives. Our customers receive a binding reply from us within five to ten working days.

All necessary management and support functions are pooled in the **Corporate** unit. Deutsche Annington Immobilien SE performs the function of the management holding company for the Group.

All in all, we managed to deal with our customers' wishes even faster and more reliably in 2014 and have greater local presence with our own employees. This concept is supplemented by our own caretaker and craftsmen' organisations.

Senior-friendly apartment conversions

Demographic change is already reflected in Deutsche Annington's tenant structure, with some 35 per cent of our customers over the age of 60. Many people want to live for as long as possible in their own four walls and in their neighbourhood – and we have prepared ourselves accordingly. We are continuously converting some of our apartments to meet the needs of the elderly. It is not just in vacant apartments that we make sure that we can offer senior-friendly facilities. In selected estates, we offer our ageing existing customers the option of having their bathroom renovated to make it senior-friendly within the space of a week so as to considerably increase the level of comfort and the length of time that they can stay in their home. Our aim is to safeguard the quality of housing and life for our customers in the long term. Therefore, our concept of senior-friendly accommodation would not be complete without close cooperation with politicians, welfare associations and local service providers.

Debt counselling offer for customers with rent arrears

We employ "social managers" throughout Germany who give our tenants expert advice if they are in arrears with their rent. The aim of this measure is to work together with these tenants and develop sustainable solutions to their debt problems. In 2014, we avoided more than 250 evictions and safeguarded over 1,615 rental contracts in the long term thanks to this approach.

Energy management leads to lower costs for tenants

Electricity, gas and oil are key components of ancillary costs. To keep the costs for our customers as low as possible, we have set up an energy management unit which focuses on negotiating pan-regional framework agreements with big-name energy suppliers. The aim is to secure long-term beneficial conditions for our customers. The prices in existing framework agreements are regularly reviewed.

Modern fibre-optic technology installed in apartments

At the end of 2011, Deutsche Annington has been involved in a strategic partnership with Deutsche Telekom in order to equip 145,000 apartments with modern fibre-optic technology and provide our tenants with a TV signal. By the end of 2014, around 55,000 apartments had already been equipped. With the new offering, we are giving our customers access to the latest telecommunications infrastructure and, at the same time, increasing the attractiveness of our apartments.

Customers benefit from certified ancillary cost bills

In 2014, the quality of ancillary cost and service charge bills was again attested by the Geislinger Konvention quality seal and ISO 9001:2008 certification by TÜV Rheinland. The certifications verify the efficiency of our processes as well as the high quality of our ancillary cost and service charge bills.

Over the past few years, the number of customer complaints about our ancillary cost bills has been reduced further. At the same time, we have been able to improve the understanding of how the ancillary cost bills work by systematically providing tenants, tenants' associations and other institutions with feedback.

Socially responsible partner

Deutsche Annington Immobilien Group has grown from the merger and integration of various housing companies. When we acquire companies, existing and negotiated social clauses to protect the tenants are a priority for the company.

We are also committed to the development of urban districts and conclude individual estate agreements. Our Group is party to numerous regional cooperation agreements throughout Germany. We maintain a constructive dialogue with political representatives and tenants' associations.

We help our tenants in difficult situations. Through our two non-profit foundations, we offer help in cases of social hardship and to people in need. We also provide targeted support for projects that encourage a strong community spirit among our tenants, such as tenants' festivals as well as local initiatives and clubs. Through sponsoring in various areas, we also back cultural activities as well as social projects for children and young people.

Employees

As at December 31, 2014, Deutsche Annington Immobilien Group employed 3,850 people, taking account of the acquisition of DeWAG and Vitus (2013: 2,935).

As at December 31, 2014, 962 women were in the employ of Deutsche Annington Immobilien Group (2013: 781), which corresponds to a proportion of women of 25.0 % (2013: 26.6 %). 492 employees work part-time (12.8 %). A balanced staff structure is important to us. The average age in the Group is 41.4 (2013: 41.1), and the average length of service is 5.6 years (2013: 5.6 years).

Deutsche Annington: Another strong vocational training initiative in 2014

All in all, the company employed around 152 apprentices as at December 31, 2014 (2013: 117). 12.3 % of the workforce* and 25.3 % of managers* (* excl. TGS companies) completed in-house vocational training.

During the 2014 financial year, we employed a total of 55 apprentices (2013: 53).

In 2014, all 26 apprentices passed the examinations for their various occupations. Since then, 24 up-and-coming talents have been members of Deutsche Annington's team, meaning that 92.3 % of apprentices were taken on as permanent employees in 2014. Looking at the last five years, the average percentage of apprentices taken on as permanent employees comes in at over 90 %. In 2014, too, the apprentices who successfully completed their vocational training in the summer proved to be flexible and mobile. The up-and-coming talents work not only in Bochum and the surrounding area, but also in Berlin, Hamburg and Munich.

Advertising of vocational training ensures consistently high number of applicants

Deutsche Annington offers a wide range of apprenticeships, and we want to be seen as an attractive employer. Our aim is to offer needs-based vocational training to ensure that we have a long-term stream of up-and-coming talents within the company and to stabilise the grass roots. We compare the apprenticeships we offer with our departments' requirement profiles on a regular basis, adapting what we offer to suit demands. We are interested in applications not only from school-leavers, but also from students or employees looking for a new professional challenge. We look for apprentices that meet clearly defined requirement profiles in order to ensure that the apprentices we take on as permanent employees can meet our demands. Active and pro-

fessional advertising of vocational training allows Deutsche Annington to attract a consistently high number of high-quality applications. In order to do this, we have to ask ourselves who our target group is, how these people think, where and how they obtain information and what is important to them.

Our own apprentices regularly take part in projects related to the advertising of vocational training at Deutsche Annington. They take a critical look at issues relating to the vocational training situation and the target group, and develop and implement suitable recruitment measures. We can ensure that our professional image remains authentic if our apprentices are involved in the recruitment process and get to say what they think. One particular example is the corporate image video about vocational training at Deutsche Annington, which was produced and released this year.

Trusting someone brings out the best in them

This is just one of the messages that Deutsche Annington wants to get across in its vocational training video. The results of this year's employee survey also show that our apprentices trust our vocational training concept and are very happy with their training. Our apprentices would recommend Deutsche Annington to others as a vocational training employer. They value support and development opportunities just as much as they value a strong sense of team spirit, pride in joint achievements and fairness.

Ideal partner for professional and sporting careers

Talented young athletes once again benefited from Deutsche Annington's vocational training concept this year. Individual support and work schedules, as well as flexible working-time models, allow the young talents to master the combination of vocational training and competitive sport.

There are sufficient examples of this at Deutsche Annington, for example committed apprentices who dedicate a significant amount of time to badminton and water polo training alongside their work within the company and at college. They regularly compete in national and international tournaments, ambitiously pursuing their exacting targets, including nothing less than a place at the 2016 Olympic Games in Rio de Janeiro. In addition to his sporting achievements, the goalkeeper of Germany's national men's water polo side, who has been completing his vocational training at Deutsche Annington since 2012, celebrated yet another personal success this year, when he was voted sports personality of the year in Duisburg.

This positive experience makes Deutsche Annington all the more committed to continuing to promote competitive sport.

First step on the career ladder in the trades

Well-trained employees are important to our company's success. The same naturally also applies to our craftsperson's organisation, Deutsche TGS, which is still experiencing strong growth and is considerably stepping up its commitment to vocational training in the trades.

When the vocational training year started in September 2014, 43 apprentices started their working lives at Deutsche TGS in locations across Germany. The company is currently training people in plant engineering with a specialisation in sanitary equipment, heating and air conditioning technology, as well as in electronics with a specialisation in energy and building technology and in painting/varnishing in the property construction and maintenance sector. This year's team of apprentices is just as diverse as the range of occupations on offer: while many have joined Deutsche TGS straight from school, some of the apprentices are already training for their second vocational occupation. Some of the entry-level candidates speak several languages and can incorporate their multicultural experiences into their day-to-day working lives – a skill that is becoming increasingly important in a professional environment. The fact that the apprentice craftspeople aged between 16 and 30 also include five women is also encouraging.

The Group is remaining true to its motto in the trades as well, continuing to focus on filling positions from within the company itself. Motivated and committed young talents will have the best possible chances of permanent employment and further development within the company after they have completed their vocational training. Deutsche TGS is planning to offer vocational training in additional locations and also in additional disciplines in the future.

Continued high demand for collaborative training

Other vocational training employers continue to hold our professional vocational training concept and the wide range of duties within the company in high regard. As part of the collaborative training system, Deutsche Annington offers companies that cannot fully offer certain elements of vocational training themselves the opportunity to close this knowledge transfer gap and ensure high-quality vocational training. In 2014, we trained around 20 apprentices from companies and organisations such as Deutsche Bahn AG and the German Federal Agency for Real Estate Administration (Bundesanstalt für Immobilienaufgaben) in residential property management, letting and commercial operation at our locations in Hamburg, Munich and Düsseldorf.

Training is extremely important: numerous further training opportunities

Part of our HR strategy is to recruit, keep and advance qualified employees by offering them **further training opportunities** and, at the same time, create added value for our customers. As the environment changes and becomes more demanding, further training measures also help to prepare our employees in the best-possible way to meet the challenges of the market.

We attach a great deal of importance to providing our employees with targeted support and advancement opportunities. Instead of simply presenting a training catalogue, we offer managers within our departments regular HR retreats and development centre events so that they can identify potential among our employees and ensure the development of up-and-coming talents for our company. Individual development meetings can then be used to pinpoint the employees' needs and make them customised offers. 26 % of our commercial executives have undergone training at DAIG.

We have launched various further training programmes for employees in recent years. These programmes are important for personality development and to successfully implement the new allocation of duties and responsibilities that has been developed over the past few years.

Targeted investments have been made in **further vocational training** for our employees. The individual training courses on offer cover everything from soft skills to specific work-related topics, allowing all employees to acquire the knowledge and skills they need for their specific position. Our employees can also use **recognised further training measures and courses of study** to obtain additional professional qualifications while working. These include training to become Real Estate Specialists (offered by the Chamber of Industry and Commerce, IHK) and courses leading to a bachelor's or master's in Real Estate Management at the EBZ Business School.

Our individual further training concept, developed in **cooperation with EBZ,** was continued this year. DAIG offers its employees the opportunity to obtain a Chamber of Industry and Commerce qualification as a **"Residential Real Estate Caretaker"**, something that aroused great interest among our caretakers. Of our 381 employed caretakers from across Germany, 250 have taken part in the certified training course to date, with all of them obtaining their Chamber of Industry and Commerce qualification.

The training sessions address topics such as tenancy law, technology, the initial assessment of construction faults, how to comply with public safety obligations, and communications. Our caretakers have to attend face-to-face sessions lasting a total of 80 hours over a ten-week period. In order to make the programme a success for our caretakers and, as a result, also in terms of customer satisfaction, we maintain regular contact with our caretakers, EBZ and the relevant departments to exchange information, e.g. at workshops. This ensures that content is always up-to-date.

Award-winning further training concept

This individually designed further training concept has attracted attention from various sectors. In 2013, it achieved no fewer than two nominations for the renowned HR Excellence Award and came second in the "Learning and development strategy" category.

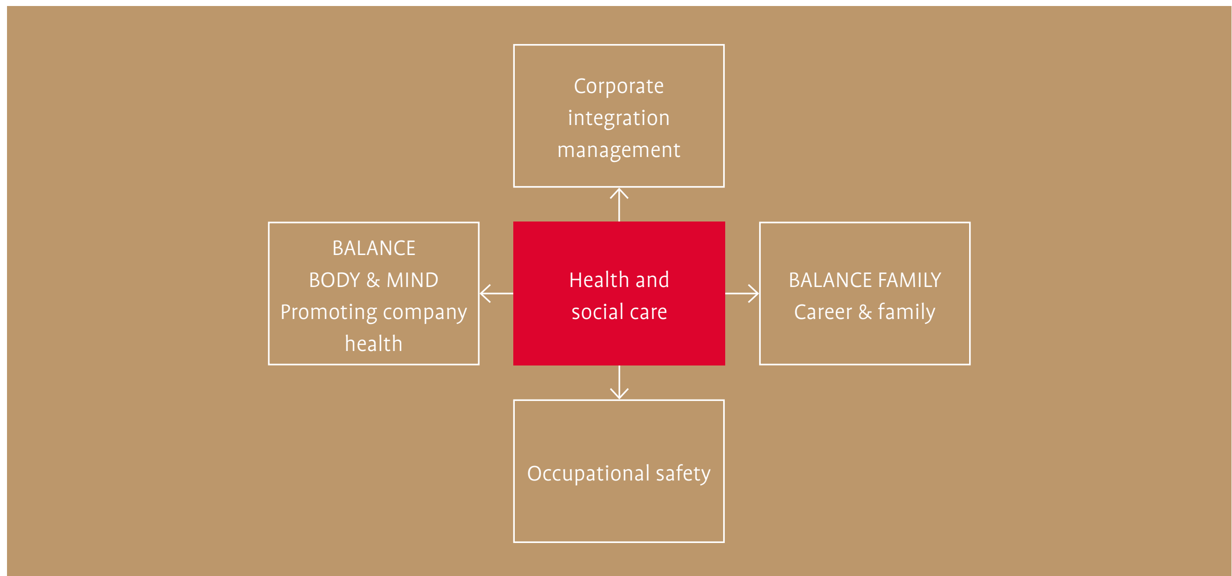
Individuals who pass the final Chamber of Industry and Commerce examinations prove that they have fully taken part in the training sessions and have fully understood the content. By encouraging our employees to obtain additional qualifications, we are also laying an important foundation stone for customer satisfaction.

Expansion of health management: establishment of the Health & Social Affairs department

Demographic change, combined with an increasing workload, means that the use of human capital is becoming more and more intense. As a result, we are committed to promoting and maintaining health, the ability to work and earning capacity. This resulted in the establishment of the "Health & Social Affairs" department in August 2012 as a key component of active health management within Deutsche Annington Immobilien Group.

Company health promotion: BALANCE BODY & MIND

BALANCE BODY & MIND combines all of the measures designed to support healthy behaviour. The programme focuses, in particular, on prevention and on strengthening personal skills and knowledge so that each and every employee can play an active role in shaping their own health. We have already been implementing preventative health programmes within this context since 2009. In 2013, we also included the DAIG Vital health portal and an employee assistance programme that provides advice to employees and executives alike as key components of our active health management programme, an initiative that we continued successfully in 2014.



Striking a balance between work and family life: BALANCE FAMILY

Deutsche Annington has been committed to promoting family life for years now, the aim being to offer needs-based concepts in this area in order to boost employee satisfaction.

We also want to make ourselves more attractive as an employer and strengthen our public image as a family-friendly company. Measures that have proven successful include:

- Individual part-time models and flexible regulations governing working hours
- The opportunity to alternate between working from home and mobile workplaces
- Health promotion programmes
- An information platform on the intranet dealing with work and family life
- Cooperation with family service providers to help with child-care and offer support in the provision of long-term care to relatives
- Establishment of a parent/child office at the headquarters
- Expansion of the internal and external information and communications programme regarding work and family life
- Raising awareness of the need to strike a balance between these two areas among managers

Returning to work after prolonged illness: corporate integration management

Deutsche Annington Immobilien Group's activities in the field of corporate integration management help us

- to identify and remedy work-related health risks in good time and prevent any inability to work
- to prevent existing illnesses from being exacerbated
- to overcome existing inability to work and secure the health of our employees in the long term by strengthening their ability to deal with physical and psychological strain

Remuneration including performance bonus and profit share

Deutsche Annington offers its employees performance-based remuneration.

Around half of our employees participate in the company's success by receiving an amount of up to € 1,600 under the Group works council agreement entitled "Employee Profit Share". The FFO 1 ratio formed the basis for the calculation of the profit share in 2014.

The Group also offers all employees, with the exception of the TGS employees, an employee share programme subject to a maximum amount of € 360.

Group-wide employee survey as a compass for corporate and leadership culture

With its sustainable strategy, DAIG has placed its customers at the centre of its actions, which must meet the highest possible quality and service standards. We are convinced that this corporate success can only be sustainable if we have satisfied customers and committed employees. The harmonious interplay of corporate values and leadership culture has a significant impact on employees' willingness to perform.

The company itself is the most valuable source when it comes to boosting this sort of corporate culture. As part of a Group-wide employee survey, all employees were given an opportunity to assess the situation honestly. Where does the company stand in terms of leadership, collaboration, satisfaction and health?

The results show that Deutsche Annington is on the right track. Our employees recognise the fact that the company guides them well by setting out their targets and duties. They can see that Deutsche Annington offers a whole range of opportunities in the form of independence, room for manoeuvre and responsibility, and that it has a good feedback culture and strategy for dealing with mistakes. They also confirm that Deutsche Annington employees treat each other as equals, identify with their work and are motivated.

The results also prove that employee leadership plays a key role and requires special trust. A successful leadership culture promotes critical dialogue, collaboration, enjoyment of work and commitment from our employees, makes teams successful and strengthens our company for the future.

Based on the feedback provided by employees and the corporate mission statement, we have already defined and set out the principles for a binding, uniform leadership philosophy.

Defining our leadership philosophy, however, is only the first step in the process of translating the feedback from our employees into suitable measures and tools in the long term. The management team has acknowledged the fact that employees would like more of an opportunity to help shape the company. The first few ideas, such as that of an in-house academy, are already being implemented at the start of the new financial year. Additional components are being developed. We will continue to pursue this approach systematically in 2015 – with all of our 3,850 employees.

Social commitment

Deutsche Annington uses foundations to show its social commitment by providing support to tenants, the rental environment and in cases of social hardship.

Geheimrat Huber Foundation

The Geheimrat Huber Foundation is a support association run by Deutsche Annington. As a registered association, its purpose, as set out in its articles of association, is to support employees of Deutsche Annington Immobilien Group by providing them with cash payments in times of financial hardship, without conferring any legal rights and reserving the right to revoke the payments at any time. Surviving dependants can also receive support in the event of an employee dying.

Deutsche Annington Foundation

The Deutsche Annington Foundation is a charitable foundation under German civil law and has its registered office in Düsseldorf. The Foundation is committed to social affairs, community life, helping others to help themselves and vocational training. The Foundation's activities benefit the tenants and their relatives living in the houses and apartments covered by the Deutsche Annington Immobilien Group umbrella.

The Deutsche Annington Foundation was set up back in 2002. It uses income from the foundation capital to finance its work. The Foundation is a charitable organisation and does not pursue any financial objectives of its own.

Its mission is to provide help in cases of social hardship to individuals who need assistance, and to promote intact neighbourhoods and vocational training. In this respect, the Foundation makes a key contribution to shaping and ensuring social and neighbourhood cohesion in the properties that belong to Deutsche Annington Immobilien Group. It expressly supports active citizenship, personal responsibility and individual initiative within a residential context. In particular, it provides support for smaller projects initiated by residents and neighbourhoods themselves. The Foundation has no political or religious affiliation.

Corporate Governance

In this corporate governance declaration, we report, in accordance with No. 3.10 of the German Corporate Governance Code (DCGK) and Section 289a of the German Commercial Code (HGB) on the principles of management and corporate governance. The declaration contains the declaration of conformity, information on corporate governance practices, a description of how the Management Board and Supervisory Board work and key corporate governance structures. The declaration is also available to the public on our website at www.deutsche-annington.com.

Fundamental Information

Corporate governance is the responsible management and supervision of a company. The Management Board and the Supervisory Board are committed to the principles of corporate governance. The principles are the basis for the sustainable success of the company and therefore guidelines for conduct in the company's daily management and business.

Good corporate governance strengthens the trust of our shareholders, business associates, customers, employees and the general public in Deutsche Annington Immobilien SE. It increases the company's transparency and strengthens our Group's credibility. With balanced corporate governance, the Management Board and the Supervisory Board wish to safeguard Deutsche Annington Immobilien SE's competitiveness, strengthen the trust of the capital market and the general public in the company and sustainably increase the company's value.

As a major housing company, we are aware of the particular significance of our entrepreneurial actions for society at large. As a result, we are also committed to the main aims and principles of the corporate governance initiative of the German housing industry, which we have been a member of since November 14, 2003. The initiative supplements the corporate governance principles to include housing-specific aspects and is committed to even greater transparency, an improved image and a more competitive real estate sector.

Declaration of conformity with the German Corporate Governance Code by the Management Board and Supervisory Board in accordance with Section 161 of the German Stock Corporation Act (AktG):

In February 2015, the Management Board and the Supervisory Board declared compliance with the recommendations of the German Corporate Governance Code in accordance with Section 161 of the German Stock Corporation Act (AktG) and made the declaration publicly and permanently available on the company's website (www.deutsche-annington.com).

Standards of corporate governance

Corporate governance, acting in accordance with the principles of responsible management aimed at increasing the value of the business on a sustainable basis, is an essential requirement for the DAIG Group, embracing all areas of the business. Our corporate culture is founded on transparent reporting and corporate communications, on corporate governance aimed at the interests of all stakeholders, fair and open dealings between the Management Board, the Supervisory Board and employees as well as on compliance with the law.

The Code of Conduct provides the ethical and legal framework within which we act and want to maintain a successful course for the company. The focus is on dealing fairly with each other but also in particular on dealing fairly with our tenants, suppliers, customers and investors. The Code of Conduct specifies how we assume our ethical and legal responsibility as a company and is the expression of our company values.

Information on the company's governing constitution

The designation DAIG comprises Deutsche Annington Immobilien SE and its Group companies. DAIG is a European company (SE) in accordance with the German Stock Corporation Act (AktG), the SE Act and the SE Regulation. Its head office is in Düsseldorf. It has three governing bodies: the Annual General Meeting of Shareholders, the Supervisory Board and the Management Board. The duties and authorities of those bodies derive from the SE Regulation (SE-VO), the German Stock Corporation Act and the Articles of Association. Shareholders, as the owners of the company, exercise their rights at the Annual General Meeting.

According to the two-tier governance system, Deutsche Annington Immobilien SE has a Management Board and a Supervisory Board. In the two-tier governance system, the management of business and the monitoring of business are strictly separated from each other. The duties and responsibilities of these two bodies are clearly specified by law in the German Stock Corporation Act.

In accordance with the governing laws, in particular the SE Regulation and the German SE Employee Participation Act (SEBG), the Supervisory Board is only made up of representatives of the shareholders. The highest representative body of the employees is the Group works council. In addition, an SE works council has been formed.

The Management Board and Supervisory Board of a company listed in Germany are obliged by law (Section 161 of the German Stock Corporation Act) to report once a year whether the officially published and relevant recommendations issued by Govern-

ment Commission German Corporate Governance Code, as valid at the date of the declaration, have been, and are being, complied with. Companies affected are also required to state which of the recommendations of the Code have not been, or will not be, applied and if not, why.

The Management Board reports in its declaration, also on behalf of the Supervisory Board, on important aspects of corporate governance pursuant to Section 289a of the German Commercial Code (HGB) and No. 3.10 of the German Corporate Governance Code (DCGK).

Annual General Meeting

The Annual General Meeting decides in particular on the appropriation of profit, the ratification of the acts of the members of the Management Board and of the Supervisory Board, the appointment of the external auditor, amendments to the Articles of Association as well as specific capital measures and elects the shareholders' representatives to the Supervisory Board.

The Supervisory Board

The Supervisory Board appoints, supervises and advises the Management Board and is directly involved in decisions of fundamental importance to the company. The Supervisory Board performs its work in accordance with the legal provisions, the Articles of Association, its rules of procedure and its resolutions. It consists of nine members, who are each elected for terms of four financial years. The Supervisory Board continuously oversees the management and advises the Management Board.

The Supervisory Board shall include what it considers an adequate number of independent members. A Supervisory Board member is, in particular, not to be considered independent if he/she has personal or business relations with the company, its bodies, a controlling shareholder or a company associated with such a shareholder which may cause a substantial and not merely temporary conflict of interest.

The aforementioned rules are to be taken into account when making proposals to the shareholders at the Annual General Meeting for the elections of Supervisory Board members. Account is also to be taken of diversity. Proposed candidates for the Supervisory Board chair shall be announced to the shareholders.

The Supervisory Board examines and adopts the annual financial statements and the management report. It assesses and confirms the proposal for the appropriation of profit, as well as the consolidated financial statements and the combined management report, on the basis of the report prepared by the Audit Committee. The Supervisory Board reports in writing to the shareholders at the Annual General Meeting on the result of its examination.

The chairman of the Supervisory Board is an independent member. The same applies to the chairs of the committees which the Supervisory Board has set up (see p. 38 et seq.).

The chairman of the Supervisory Board chairs the meetings and coordinates communications. The members of the Supervisory Board have generally the same rights and obligations. Supervisory Board resolutions are above all passed in the Supervisory Board meetings but also, if necessary, using the written procedure or by other communication means. At least three meetings are held every half-year. In addition, if necessary and on the basis of the rules of procedure of the Supervisory Board, a meeting of the Supervisory Board or its committees can be convened at any time at the request of a member or the Management Board. In the 2014 financial year, the Supervisory Board had sixteen meetings, including telephone conferences.

The Supervisory Board must be composed in such a way that its members as a group have the knowledge, ability and specialist experience required to properly complete its tasks. Each Supervisory Board member shall ensure that he/she has enough time to carry out his/her mandate. As a rule, nominations for election to the Supervisory Board should only be for persons who have not yet reached the age of 75 at the time of the election.

At least one independent member of the Supervisory Board must have expertise in the fields of accounting or auditing (Section 100 (5) of the German Stock Corporation Act).

A Supervisory Board member, who is also a member of the Management Board of a listed company, shall, in addition to the Supervisory Board mandate in the company, not accept more than two other supervisory board mandates in listed companies or in supervisory bodies of companies which make similar requirements and which do not belong to the Group of the company for which he/she is on the Management Board. Supervisory Board members shall not exercise directorships or similar positions or advisory tasks for important competitors of the company.

Supervisory Board committees

The Supervisory Board sets up an Executive and Nomination Committee, an Audit Committee and a Finance Committee from among its members. Further committees are set up as required. Committees are made up of at least four members of the Supervisory Board. The committees prepare subjects which are to be discussed and/or resolved by the Supervisory Board. In addition,

they pass resolutions on behalf of the Supervisory Board. The basis for committee work was the transfer of tasks and responsibilities within the scope of the legal provisions.

The **Executive and Nomination Committee** is made up of the chairman of the Supervisory Board and three other members to be elected by the Supervisory Board. The chairman of the Supervisory Board is the chairman of the Executive and Nomination Committee. The tasks of this committee are in particular to prepare the appointment of Management Board members, to advise on the remuneration system, to assign responsibilities and to decide in cases of legal transactions with Management Board members and conflicts of interest.

The Supervisory Board appoints one of the members of the **Audit Committee** as the chairman of the Audit Committee. When electing the committee members, the Supervisory Board shall ensure that the chairman of the Audit Committee has specialist knowledge and experience in the application of accounting principles and internal control processes. The Committee chairman should be independent and not be a former member of the Management Board whose appointment ended less than two years before his appointment as chairman of the Audit Committee. The chairman of the Supervisory Board shall not be the chairman of the Audit Committee.

The Audit Committee handles, in particular, the monitoring of the accounting process, the effectiveness of the internal control system, risk management system and internal audit system, the audit of the annual financial statements, here in particular the independence of the auditor, the services rendered additionally by the auditor, the issuing of the audit mandate to the auditor, the determination of strategic audit objectives and the fee agreement, and – unless another committee is entrusted therewith – compliance. The Audit Committee prepares the resolutions of the Supervisory Board on the annual financial statements (and, if applicable, the consolidated financial statements), and the agreements with the auditor (in particular the issuing of the audit mandate to the auditor, the determination of strategic audit objectives and the fee agreement). The Audit Committee takes suitable action to determine and monitor the independence of the auditor. In place of the Supervisory Board, the Audit Committee adopts resolutions on the approval of the contracts with the auditor on additional consultancy services, insofar as, according to the Articles of Association or the rules of procedure for the Management Board, these contracts require approval.

The **Finance Committee** prepares the resolutions of the Supervisory Board on the following matters:

a) Financing and investment principles, including the capital structure of the Group companies and dividend payments
b) Principles of the acquisition and disposal policies, including the acquisition and disposal of individual shareholdings of strategic importance

In place of the Supervisory Board, the Finance Committee adopts resolutions in particular on general guidelines and principles for the implementation of this strategy, including the handling of currency risks, interest, liquidity and other financial risks and the handling of credit risks and the implementation of external financing principles as well as on important transactions regarding the sale of real estate, the granting of securities, the acquisition and establishment of subsidiaries as well as on the contracting of loans.

Cooperation between the Management Board and the Supervisory Board

The Management Board develops the strategy of the company in cooperation with the Supervisory Board and discusses the current status of its implementation with the Supervisory Board at regular intervals. Furthermore, the Management Board regularly informs the Supervisory Board in written or verbal reports of topics including the development of business and the situation of the company. In this way, the Supervisory Board receives detailed documents from the Management Board without delay and regularly on the economic development and the company's current situation as well as half-yearly a risk management report which deals with the most important risks for the business of Deutsche Annington Immobilien SE. On the basis of these reports, the Supervisory Board monitors the company's management by the Management Board.

Avoidance of conflicts of interest

In the financial year, there were no conflicts of interest of Management Board or Supervisory Board members which are to be reported immediately to the Supervisory Board.

Management Board

The Management Board members are jointly accountable for independently managing the company in the company's best interests while complying with the applicable laws and regulations, the Articles of Association and the rules of procedure. In doing so, they must take account of the interests of the shareholders, the employees and other stakeholders.

The Management Board, which must be made up of at least two members, is appointed by the Supervisory Board, whereby the term of office must not exceed six years. The Management Board is monitored and advised by the Supervisory Board. It has

adopted rules of procedure and resolved the allocation of duties in consultation with the Supervisory Board. The Management Board has a chairman who coordinates the work of the Management Board and represents it in dealings with the Supervisory Board. The chairman of the Management Board has the right to veto Management Board resolutions.

The members of the Management Board are Rolf Buch (chairman) as well as Klaus Freiberg and Dr Stefan A. Kirsten. Further information is to be found in the 2014 Annual Report on page 215 et seq.

The Management Board informs the Supervisory Board regularly, in due time and comprehensively in line with the principles of diligent and faithful accounting in accordance with the law and the reporting duties specified by the Supervisory Board.

The Management Board develops the company's strategy, coordinates it with the Supervisory Board and implements it. The Management Board ensures that all statutory provisions and the company's internal policies are complied with. The Management Board also ensures appropriate risk management and risk controlling in the company.

It submits the corporate planning for the coming year to the Supervisory Board as well as the mid-term and strategic planning. The Management Board informs the Supervisory Board chairman without delay of important events which are essential for the assessment of the situation and development or for the management of the company as well as of any shortcomings which occur in the monitoring systems.

The Management Board requires the approval of the Supervisory Board for certain important transactions. Transactions and measures which require Supervisory Board approval are submitted to the Supervisory Board in good time.

The Management Board members are obliged to disclose any conflicts of interest to the Supervisory Board without delay and to inform the other Management Board members accordingly.

The Management Board members are subject to a comprehensive non-competition obligation. Management Board members may only take up sideline activities, in particular supervisory board mandates outside the Group, with the approval of the Supervisory Board.

Important transactions between the company, on the one hand, and the Management Board members as well as persons they are close to or companies they have a personal association with, on the other hand, require the approval of the Supervisory Board. Reference is made to such relations in the remuneration report.

Transparency

Shareholders can obtain full and timely information about our company on our website and can access current as well as historical company data. Among other information, Deutsche Annington regularly posts all financial reports, important information on the company's governing bodies, its corporate governance documentation, information requiring ad-hoc disclosure, press releases as well as directors' dealings notifiable pursuant to Section 15a of the German Securities Trading Act (WpHG). Our shareholders can exercise their voting rights at the meeting or instruct a proxy of their choice or one of the proxies provided for that purpose by the company. Our shareholders are also able to vote by postal ballot. The details are in the invitation to the Annual General Meeting. The entire documentation for the Annual General Meeting and opportunities to authorise, and issue instructions to, the company's proxies, as well as opportunities for postal ballots, are available to shareholders at all times on the website.

Accounting and financial statement auditing

The Annual General Meeting elected KPMG AG Wirtschaftsprüfungsgesellschaft as auditor for the annual financial statements and consolidated financial statements. We prepare the annual financial statements of DAIG SE in accordance with the German Commercial Code (HGB) and the consolidated financial statements in accordance with the International Financial Reporting Standards (IFRS) to be applied in the EU. In addition, we prepare a combined management report as required by the German Commercial Code and the German Stock Corporation Act (AktG). The Management Board is responsible for financial accounting. The Supervisory Board examines and adopts or approves the annual financial statements, the consolidated financial statements and the combined management report.

In addition to our annual financial statements, we also prepare quarterly reports for the first, second, and third quarters. Our quarterly reports comply with the German Securities Trading Act and are discussed with the Audit Committee of the Supervisory Board before they are published. Under German stock corporation and commercial law, there are special requirements for internal risk management that apply to DAIG. Therefore, our risk management system covers risk inventory, analysis, handling and elimination. In accordance with Section 317 (4) of the German Commercial Code applicable to listed companies, KPMG assesses in its audit the risk early warning system as part of the risk management system.

Furthermore, we maintain throughout the Group standard documentation of all our internal control mechanisms and continually evaluate their effectiveness. Our auditor has not reported any material weaknesses in the accounting-related internal control system detected in its audit to the Management Board and the Supervisory Board.

In the combined management report, we provide comprehensive information on the main features of the internal control and risk management system with regard to the accounting process and the Group accounting process in accordance with our reporting duties pursuant to Sections 289, para. 5, and 315, para. 2, No. 5 of the German Commercial Code.

Shares and capital market development

Real estate shares outperform the market as a whole by far

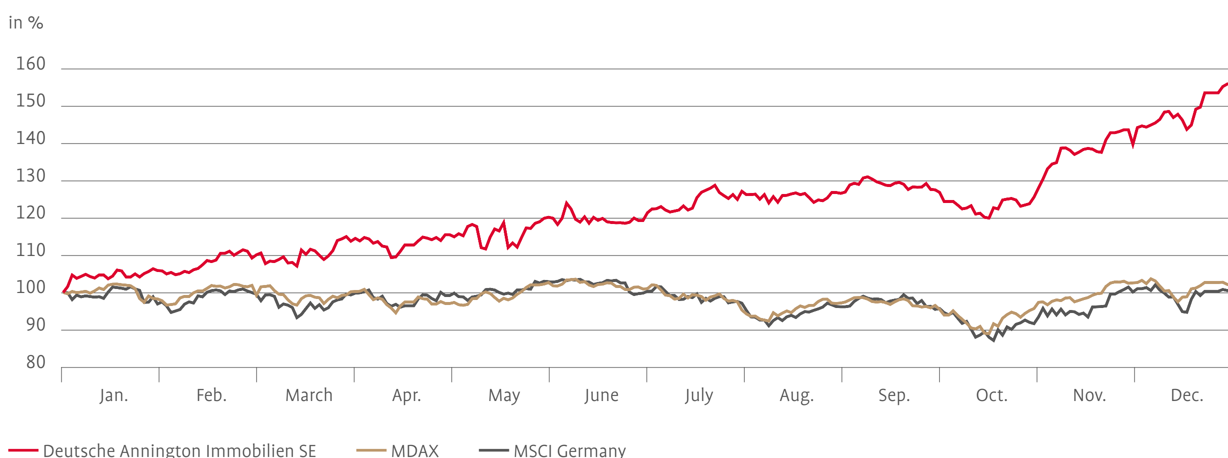
Developments on the capital markets last year were shaped considerably by the continued expansive monetary policy pursued by central banks across the globe as well as by geopolitical crises. Whereas the prospect of low interest rates in the medium term dominated the euro zone markets, more and more hints that the US Federal Reserve might be considering a turnaround in monetary policy started to emerge during the course of the year. The uncertainty regarding a turnaround in US monetary policy, coupled with the geopolitical crises, kept capital markets worldwide in suspense and triggered considerable fluctuations. By way of example, although the DAX climbed to an all-time high of 10,093 points on December 5, the index gained only 2.65 %, to reach 9,806 points, in 2014 as a whole. The MDAX, too, ultimately only gained 2.17 % year-on-year to close the year at 16,935 points.

The EPRA Europe and GPR 250 real estate indices, which include Deutsche Annington, showed much more positive development. While the GPR 250 index, which invests globally, gained 15.30 % in 2014, the European-focused EPRA Europe Index climbed by as much as 18.98 %.

Deutsche Annington's shares managed to outstrip even the encouraging performance achieved by the two real estate indices, gaining 56.2 % over the year. After touching a low of € 18.29 on January 2, 2014, our shares managed to achieve virtually uninterrupted positive development, closing the year with a high of € 28.12 on December 30, 2014. This corresponded to market capitalisation of € 7.7 billion at the end of the year.

Name	Performance 2014	DAIG's weighting on the reporting date
DAIG	56.19 %	
MDAX	2.17 %	3.66 %
MSCI Germany	0.01 %	0.73 %
GPR 250	15.30 %	0.65 %
FTSE EPRA/NAREIT Europe Index	18.98 %	3.87 %

Development of the share price since the start of the year



Marked increase in free float

Whereas free float stood at 10.2 % at the start of the year and many investors found it virtually impossible to invest due to the narrow market, our free float rose considerably as the year progressed, coming in at 80.3 % as the year drew to a close.

In March, we first of all used the placement of shares held by our former major shareholders CPI and Terra Firma to increase our free float by way of a capital increase and finance the acquisitions announced at our results press conference for the 2013 financial year. 16 million new shares were issued at a price of € 19.00 each in the course of an accelerated allocation procedure. Placing the shares that used to be held by the major shareholders at the same time boosted the free float considerably to 32.7 %. This drew substantial attention to the company's shares among analysts and investors.

In May 2014, there was another major change on the share front. To begin with, 30 million existing shares that used to be held by the former shareholders Terra Firma and CPI Capital Partners were placed on the market at a price of € 19.50 per share on May 20, 2014. Terra Firma transferred its remaining shares to the previous fund investors. Only a small proportion of the shares were still held by funds advised by Terra Firma. As a result, both liquidity and the free float once again increased considerably. Today, we have a balanced shareholder structure that, in the main, consists of investors with a long-term focus.

Finally, a non-cash capital increase relating to 11,780,000 shares was implemented as part of the completion of the Vitus acquisition, with another cash capital increase relating to 19,600,000 shares following in November as part of another accelerated allocation procedure.

Inclusion in major indices

The marked increase in free float and the resulting improvement in tradability soon bore fruit. We were admitted to the MDAX, the second-largest German Stock Exchange index, by Deutsche Börse (German Stock Exchange) with effect as at September 22, 2014. At the same time, international indices such as the real estate-specific EPRA index were re-weighted, resulting in a substantial increase in the weighting assigned to Deutsche Annington in this major industry-specific index.

After the further capital increase relating to 19.6 million shares at a price of € 23.00 per share, bringing the total up to 271,622,425 shares, in early November, Deutsche Annington was admitted to the MSCI Germany index with effect as at November 25, 2014, meaning that it forms part of the MSCI Global Standard index.

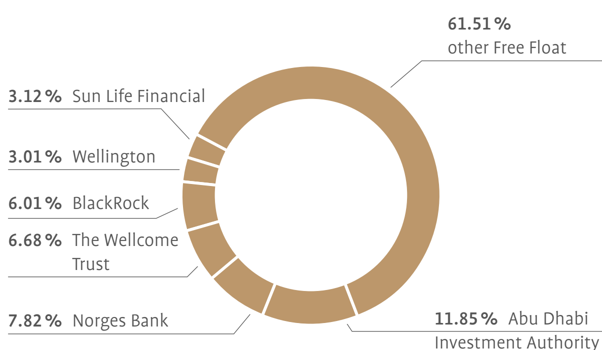
The company's inclusion/higher weighting in various indices further enhanced its profile among investors. In addition, many passive products, such as exchange-traded funds (ETFs), track the MSCI, meaning that they also have to invest in Deutsche Annington's shares.

First Annual General Meeting

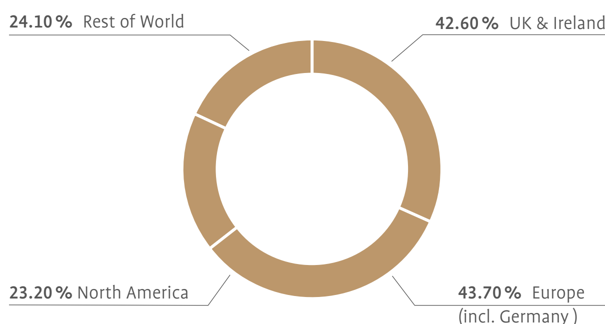
The first Annual General Meeting of Deutsche Annington Immobilien SE as a listed company was held in Düsseldorf on May 9, 2014. 84.81 % of the capital was represented. All of the items on the agenda were carried by a large majority, including a proposal to distribute a dividend of € 0.70 per share for the 2013 financial year.

Shareholder structure

Free float and breakdown of major shareholders
(as at December 31, 2014)



Regional breakdown of institutional investors
(as at November 2014)



As at: November 2014, Source: Ipreo

This corresponds to a dividend yield of 3.9 % in relation to the share's closing price of € 18.00 on December 31, 2013.

This dividend for the 2013 financial year was paid out from a contribution account for tax purposes. It was therefore paid out for domestic shareholders without capital gains tax or the solidarity surcharge being deducted.

Positive response to 2014 Capital Market Day

Our Capital Market Day for this year was held on September 17, 2014, at our company headquarters in Bochum. With 32 international participants – consisting of both analysts and investors – the event proved very popular.

In contrast to traditional events of this type, at which the Management Board covers the various aspects of the strategy in great detail, we decided to focus on the actual implementation of our strategy at various levels using practical examples, rather than on the strategy itself. This is part of our goal to highlight the process strengths of our platform and the defining characteristics of Deutsche Annington in comparison to our competitors.

The thoroughly positive feedback received from all participants confirmed that our choice of format for the Capital Market Day was not only innovative, but that it also informed internal and external participants of important findings. Our aim is to make Deutsche Annington's Capital Market Day an important fixture in the calendars of investors and analysts. As a result, we will be repeating the event in 2015.

Investor relations activities stepped up

The Management Board held numerous roadshows throughout 2014, visiting key European and North American centres and attending relevant investors' conferences. Specifically, we took part in ten sector- and country-specific conferences. In addition, we organised several tours around properties in our real estate portfolio for interested investors and analysts.

We aim, and will continue to aim, to regularly inform investors and analysts about current business developments, our plans for the years to come and the attractive growth potential of our company.

In addition to the roadshows and investor conferences, we also held regular telephone conferences that the Management Board used to provide detailed information on current developments and special events.

We noticed a clear and steady rise in investor demand as our free float increased. Our admission to relevant indices also triggered far more interest among investors, even among those that do not specialise in the real estate sector.

Share information

1st day of trading	July 11, 2013
Subscription price	€ 16.50
Total number of shares	271.6 million
Share capital in €	271,622,425
ISIN	DE000A1ML7J1
WKN	A1ML7J
Symbol	ANN
Common code	94567408
Class	Registered shares with no par value
Stock exchange	Frankfurt Stock Exchange
Market segment	Regulated market
Indices	MDAX, MSCI Germany, FTSE EPRA Europe, GPR 250

Report on Economic Position

Development of the economy and the industry

German economy stable on the whole

After making a strong start to 2014, the German economy moved on to a weaker expansion path in the summer half-year and had stabilised again by the end of the year. Based on estimates released by the German Federal Statistics Office, the German economy witnessed growth in gross domestic product (GDP), after price adjustments, to the tune of 1.5 % in 2014. The Federal Ministry of Economic Affairs and Energy (BMWi) has cited the sluggish development of both the global and eurozone economies, as well as geopolitical conflicts such as the Russian-Ukrainian crisis, as major factors putting a damper on business sentiment. According to the Federal Statistics Office, the German economy was able to hold its own in a difficult global economic environment, benefiting from strong domestic demand in particular. Private consumer spending rose by 1.1 %, after price adjustments, with state consumer spending climbing by 1.0 %. On the consumption side, investments were up, too: equipment investments in the corporate and public-sector rose by 3.7 % in Germany, with construction investments rising by 3.4 % after price adjustments. Foreign trade picked up slight momentum in 2014 on average, with exports picking up slightly more speed than imports. In purely arithmetical terms, however, foreign trade only made a small contribution to gross domestic product. On the output side, almost all areas of the economy helped to spur on its revival. There was a marked increase in economic output in the construction sector, the manufacturing industry made considerable gains and service industries also showed largely positive development.

The situation on the employment market is still improving, According to preliminary figures released by the German Federal Statistics Office, employment was up by almost 0.9 % on the previous year in 2014 on average. According to the German Federal Employment Agency, unemployment stood at 6.7 % in 2014, 0.2 percentage points lower than in the previous year.

The subdued price development that had emerged at the start of the year continued until 2014 reached a close. One of the factors putting a damper on price development was the drop in energy prices in the course of the year. In 2014, the rate of inflation came in at 0.9 % in relation to the consumer price index. To support the economy and as a reaction to low inflation rates in the eurozone, the European Central Bank lowered its base rate by 10 basis points to 0.05 % in September 2014 after having already brought the rate down to 0.15 % in June.

Housing market

Development in residential real estate prices and rents loses momentum

The upward trend in residential rents also continued in 2014. According to information provided by the German Association of Real Estate Consultants, Agents, Managers and Experts (IVD), however, the increase in rents in new contracts for apartments in Germany was less dramatic than in previous years across the country, for housing of all standards and ages. For example, the increase for apartments of an average standard built from 1949 onwards was 2.1 %, compared with an increase of more than 3 % a year earlier. According to the residential rent index determined in surveys by the Hamburg research and consultancy company, F+B, rents under existing rental contracts had risen by 0.8 % by autumn 2014 compared with the prior-year period.

IVD has been observing a catch-up process in the prices for owner-occupied apartments since 2010. The purchase prices for

existing owner-occupier apartments also continued to show positive development last year. By way of example, the increase for owner-occupier apartments of an average standard came in at 4.5 %. According to the IVD, while the developments vary considerably depending on the property standard and city category, the price curve for existing properties of an average standard has flattened in many city categories as against the previous year and the average German price increase for properties of a good standard was also less pronounced than in 2013. The prices for newly built owner-occupier apartments of an average standard were up by around 5.1 % year-on-year.

Investment market for German housing portfolios and residential estates remains buoyant

According to CBRE experts, residential packages and residential estates accounting for a total volume of around € 13.3 million were traded in 2014. This means that the transaction volume was once again at a very high level, down by only 3 % on the previous year. On the whole, investment activity is dominated primarily by listed German housing companies. In terms of transaction volume, 54 % of investment activity is attributable to this group of investors alone. The demand for residential portfolios remains high and is not satisfied by the current supply. In and around the major investment centres, the purchase prices and factors for core properties are on a continual upward trend. With investors now keener to take risks, the purchase price factors for non-core properties have also risen in the top locations. CBRE is also observing an increasing investment trend towards high-growth mid-sized towns in northern and eastern Germany.

Agreement reached on bill for the Tenancy Amendment Act

On October 1, 2014, the Federal Cabinet passed the bill revised by Federal Minister of Justice Heiko Maas (SPD) introducing “rent ceilings” and the principle that parties commissioning agents bear the cost of their services. Among other things, the bill envisages capping rents at a level that must not exceed 10 % of the standard local comparative rent in tense housing markets when apartments are relet. Following criticism from the housing industry, as well as from the CDU/CSU coalition partners, the current agreement provides for a time limit and excludes new-builds and the first lease following comprehensive modernisation. The provisions could apply from mid-2015 onwards. Recent criticism from the real estate industry was aimed largely at the use of the standard local comparative rent as a point of reference for rent increases as part of the planned rent ceilings, as well as at the unclear definition of the terms “modernisation” and “tense housing market”:

Economic development of the Group

Business development in 2014

The 2014 financial year was extremely successful for Deutsche Annington Immobilien Group. We further developed our corporate strategy and implemented the planned modernisation measures in a targeted manner. We were also able to considerably expand our property portfolio by making successful acquisitions. In doing so, we showed that we are able to integrate large housing stocks and we focused clearly on our tenants. In the fourth quarter of 2014, we decided to take the next big step. After constructive negotiations, we reached an agreement with our competitor GAGFAH on a merger of our two companies. This process got off to a successful start. In December, we successfully placed a hybrid bond that qualifies as equity amounting to € 1 billion at 4 %.

The 2014 financial year was shaped by the following major events:

- Successful acquisitions and integrations
  - Completion of the acquisition of DeWAG on April 1, 2014 with the subsequent successful and full integration of the property management business into the DIAG Group’s management platform processes
  - Completion of the acquisition of Vitus on October 1, 2014, followed by the successful integration of the property management processes into the DAIG Group
  - Successful agreement on the purchase of the “Franconia portfolio” of CitCor Residential, which is scheduled for completion on April 1, 2015

- Financing
  - Issue of a subordinated, long-term hybrid bond with a volume of € 700 million on April 8, 2014
  - Issue of a hybrid bond that qualifies as equity in the amount of € 1,000 million (gross) on December 10, 2014
  - Updating of the EMTN tap issue and draw-down from this programme in the amount of € 500 million
  - Equity capital increases using authorised capital as part of two accelerated book-building processes
  - Non-cash capital increase as part of the acquisition of Vitus on October 1, 2014 as part of the purchase price consideration
  - Confirmation of investment grade rating

> Operational success
  - Successful operational developments in both business segments, Rental and Sales
  - Renewed increase in profitability and exploitation of economies of scale resulting from the integration of the acquired portfolios
  - Further successful expansion of the craftsmen's organisation
  - Implementation of the modernisation programme as planned

Overall development of business

Business at Deutsche Annington Immobilien Group developed very positively on the whole. The acquisitions made in 2014 allowed us to substantially expand our portfolio.

The acquisition of the DeWAG portfolio was completed on April 1, 2014. This meant that the corresponding companies were included in the reporting for the interim consolidated financial statements for the first time in the second quarter of 2014. As a result, a stock of 11,307 residential units, 198 commercial properties and 5,366 garages and parking spaces centring on the conurbations of Munich, Frankfurt am Main, Düsseldorf, Cologne and Hamburg were added to the Deutsche Annington portfolio in the second quarter of 2014. During the reporting period, a total of 269 residential units from the DeWAG portfolio were sold.

The acquisition of the Vitus portfolio was completed on October 1, 2014. This meant that the corresponding companies were included in the reporting for the interim consolidated financial statements for the first time in the fourth quarter of 2014. As a result, a stock of 20,471 residential units, 222 commercial properties and 4,180 garages and parking spaces was added to the Deutsche Annington portfolio in the fourth quarter of 2014. During the reporting period, a total of 73 residential units from the Vitus portfolio were sold.

In the 2014 financial year, income from property management was in line with our expectations and came in at a total of € 1,156.6 million. Income from the sale of properties stood at € 287.3 million The DeWAG portfolio contributed € 61.7 million towards income from property management and € 51.5 million towards income from the sale of properties. The Vitus portfolio contributed € 29.7 million towards income from property management and € 0.8 million towards income from the sale of properties.

Our key performance indicators also improved in comparison to the previous year. All in all, FFO 1 came in at € 286.6 million, up by 28.2 % in a year-on-year comparison. EBITDA IFRS amounted to € 500.3 million in 2014 and was therefore 16.1 % above the figure for the previous year. Adjusted EBITDA increased by 17.8 % from € 470.4 million in 2013 to € 554.0 million in 2014. Our NAV increased by 28.4 % from € 5,123.4 million at the end of 2013 to € 6,578.0 million at the end of 2014.

Results of operations

The following primary KPIs reflect the development of the results of operations at Deutsche Annington Immobilien Group. These KPIs were affected by the first-time inclusion of the portfolios acquired from DeWAG/Vitus.

Key performance indicators of Deutsche Annington

in € million	2014	2013
Income from property management	1,156.6	1,067.6
thereof rental income	789.3	728.0
Adjusted EBITDA Rental	503.9	442.7
Income from disposal of properties	287.3	353.5
Adjusted EBITDA Sales	50.1	27.7
EBITDA IFRS	500.3	431.0
Adjusted EBITDA	554.0	470.4
FFO 1	286.6	223.5
FFO 2 (incl. profit from property sales)	336.7	251.2
AFFO	258.3	203.5
Number of employees (as at December 31)	3,850	2,935
Number of units bought	31,858	-
Number of units sold	4,081	6,720
thereof Privatise	2,238	2,576
thereof Non-Core	1,843	4,144
Vacancy rate (%)	3.4	3.5
Monthly in-place rent (€/m²)	5.58	5.40
Number of residential units in portfolio	203,028	175,258

Rental

In our core Rental business, we were able to further grow in the 2014 financial year. Primarily thanks to the ongoing performance-focused property management and the acquisition of the DeWAG and Vitus portfolios, we increased **adjusted EBITDA Rental** from € 442.7 million in 2013 by 13.8 % to € 503.9 million in 2014.

Adjusted EBITDA Rental

in € million	2014	2013
Rental income	789.3	728.0
Maintenance expenses	-145.1	-136.5
Property management costs	-140.3	-148.8
Adjusted EBITDA Rental	**503.9**	**442.7**

Rental income rose by 8.4 % from € 728.0 million in 2013 to € 789.3 million in 2014. The DeWAG portfolio contributed € 45.8 million while the Vitus portfolio contributed € 19.8 million. The monthly in-place rent per square metre rose from € 5.40 at the end of 2013 to € 5.58 at the end of 2014. This corresponds to an increase of 3.3 % in total. At the end of the year, the DeWAG portfolio was included in the group value at a monthly in-place rent of € 6.82/m² and the Vitus portfolio at a monthly in-place rent of € 5.06/m². The development in vacancy also had a positive impact on rental income. We were able to reduce the vacancy rate further from 3.5 % at the end of 2013 to 3.4 % at the end of 2014. The EPRA vacancy rate stood at 3.0 % at the end of 2014, compared with 3.1 % at the end of 2013.

If we leave the acquisition of the DeWAG and Vitus portfolios out of the equation, rental income fell, due to reduced housing stocks as a result of disposals, from € 728.0 million in 2013 to € 723.7 million in 2014. The monthly in-place rent per square metre came in at € 5.55 at the end of 2014 on a like-for-like basis, up by 2.5 % compared with the end of 2013.

The **maintenance expenses** came in at € 145.1 million in the 2014 financial year, with € 7.1 million attributable to the DeWAG portfolio and € 2.4 million to the Vitus portfolio. The spend on the real-estate portfolio excluding the acquired portfolios came in at € 135.6 million, down slightly on the previous year in a manner that was proportionate to the smaller size of the portfolio due to disposals. We increased our value-enhancing modernisation programme by more than 140 %, from € 70.8 million in 2013 to € 171.7 million in 2014. This means that, including capitalised maintenance of € 28.7 million, we invested a total volume of € 345.5 million (2013: € 228.4 million) in modernisation and maintenance work on our properties in the 2014 financial year.

Maintenance and modernisation

in € million	2014	2013
Maintenance expenses	145.1	136.5
Capitalised maintenance	28.7	21.1
Modernisation work	171.7	70.8
Total cost of modernisation and maintenance*	**345.5**	**228.4**
thereof sales of own craftsmen's organisation	176.6	123.8
thereof bought-in services	168.9	104.6

* Incl. intra-Group profits in 2014: € 18.7 million (thereof € 0.4 million in capitalised maintenance); 2013: € 11.6 million (thereof € 1.1 million in capitalised maintenance)

Related to square metres of living area, this is an increase in the total cost of modernisation and maintenance of 46 %, from € 19.95 to € 29.12.

Property management costs cover all expenses for the Rental segment which cannot be allocated to maintenance expenses. In addition, we also include other income from property management which is offset by costs such as income from condominium administration for other owners or public-sector rent subsidies.

In the 2014 financial year, property management costs came in at € 140.3 million, down by € 8.5 million on the prior-year level of € 148.8 million despite the acquisition of DeWAG and Vitus. As well as the expansion of our craftsmen's organisation, whose positive value contribution is allocated to property management costs, the success of our cost reduction measures is reflected in these numbers. Related to the number of residential units, this represents a reduction in the property management costs of more than 9 % from an average of € 830 to € 754 per unit. For us, this metric is an important indicator of the further improvement in our property management efficiency.

Sales

The Sales segment covers all business activities relating to the sale of single residential units (Privatise) and the sale of entire buildings or land (Non-Core sales).

Sales in the Privatise portfolio were as follows:

Sales in the Privatise portfolio

in € million	2014	2013
Number of units sold	2,238	2,576
Income from disposal of properties	231.2	223.4
Fair value of properties sold*	-168.0	-178.8
Adjusted profit from disposal of properties	**63.2**	**44.6**
Fair value step-up (%)	37.6	24.9

* The fair values of properties sold including fair value effects from assets held for sale

As expected, the number of units sold (2,238) in 2014 was slightly below the figure from the previous year. Sales proceeds nevertheless rose from € 223.4 million in the previous year to € 231.2 million. These increased proceeds associated with a reduced sales volume are reflected in a significantly improved sales margin, expressed in the fair value step-up. This rose considerably from 24.9 % in 2013 to 37.6 % in 2014. 269 units from the DeWAG portfolio were privatised.

Sales in the Non-Core portfolio

in € million	2014	2013
Number of units sold	1,843	4,144
Income from disposal of properties	56.1	130.1
Fair value of properties sold*	-50.6	-131.7
Adjusted profit from disposal of properties	**5.5**	**-1.6**
Fair value step-up (%)	10.9	-1.2

* The fair values of properties sold including fair value effects from assets held for sale

In the Non-Core portfolio, we continued to optimise our portfolio by selling properties which do not fit in with our medium to long-term strategy if the opportunity arises. At 1,843 residential units, the number of units sold in 2014 was down compated to the previous year. This was to be expected, as the sale of Non-Core portfolios in 2013 had been characterized by an individual transaction of over 2,100 units. Five non-core entities were sold from the DeWAG portfolio and 73 from the Vitus portfolio.

All in all, the Sales segment developed as follows in 2014 compared with 2013:

Adjusted EBITDA Sales

in € million	2014	2013
Income from disposal of properties	287.3	353.5
Carrying amount of properties sold	-243.4	-325.8
Revaluation of assets held for sale	25.1	24.3
Profit on disposal of properties (IFRS)	**69.0**	**52.0**
Revaluation (realised) of assets held for sale	-25.1	-24.3
Revaluation from disposal of assets held for sale	24.8	15.3
Adjusted profit from disposal of properties	**68.7**	**43.0**
Selling costs	-18.6	-15.3
Adjusted EBITDA Sales	**50.1**	**27.7**

The adjusted profit on the disposal of properties rose considerably from € 43.0 million in 2013 to € 68.7 million in 2014, largely due to higher sales margins in Privatise. In the Sales segment, we make adjustments for effects not relating to the period from assets held for sale. This adjustment is made to show the effect of property sales on the result only in the period in which the sale takes place. The total adjustment in the 2014 financial year was € -0.3 million, compared with € -9.0 million in 2013.

At € 18.6 million, selling costs were up on the prior-year value of € 15.3 million. Adjusted EBITDA Sales rose considerably from € 27.7 million in 2013 to € 50.1 million in 2014.

Non-recurring items

To show the development of operating performance and to ensure comparability with previous periods, we calculate adjusted EBITDA for both the Rental and the Sales segments, as mentioned above. The sum of these two KPIs is the adjusted EBITDA of the Group. The adjustments made include specific factors which do not relate to the period, are non-recurring or do not relate to the objective of the company. The non-recurring items include the development of new business areas and business processes, acquisition projects, expenses for refinancing and equity increases (where not treated as capital procurement costs), IPO preparation costs and expenses for pre-retirement part-time work arrangements and severance payments.

The following table gives a detailed list of the non-recurring items for the 2014 financial year:

Non-recurring items

in € million	2014	2013
Business model optimisation/ Development of new fields of business	1.6	4.8
Acquisition costs	43.2	2.3
Refinancing and equity measures	1.2	20.4
Severance payments/ Pre-retirement, part-time work arrangements	8.0	20.9
Total non-recurring items	**54.0**	**48.4**

The main non-recurring items in the 2014 financial year were € 43.2 million in acquisition costs in connection with the DeWAG, Vitus and Franconia portfolio and the acquisition of GAGFAH. The cost reduction measures we initiated in 2013 also resulted in expenses of € 8.0 million for severance payments and pre-retirement part-time work arrangements which are included in non-recurring items.

All in all, adjusted EBITDA rose in the 2014 financial year to € 554.0 million and was therefore 17.8 % above the comparable figure for the previous year of € 470.4 million. Excluding these adjustments for non-recurring items and effects not relating to the period in the Sales segment, EBITDA IFRS came in at € 500.3 million in 2014, 16.1 % above the comparable figure for the previous year.

FFO

We increased our FFO 1, the main KPI for the recurring sustainable earnings of our core business, compared with 2013 by € 63.1 million or 28.2 % to total € 286.6 million. This is the result of a strongly improved adjusted EBITDA Rental driven by further improvements in our property management performance and the portfolio acquisitions, which are included on a pro rata basis. Related to the number of our shares as at December 31, 2014, FFO 1 comes in at € 1.06 per share. Based on the FFO 1, the plan is to distribute € 0.78 per share.

The table shows the reconciliation of key financial performance indicators:

Funds From Operations (FFO)

in € million	2014	2013
Profit for the period	**409.7**	**484.2**
Financial result	274.9	288.3
Income taxes	179.4	205.4
Depreciation	7.4	6.8
Income from fair value adjustments of investment properties	-371.1	-553.7
= EBITDA IFRS	**500.3**	**431.0**
Non-recurring items	54.0	48.4
Total period adjustments from assets held for sale	-0.3	-9.0
= Adjusted EBITDA	**554.0**	**470.4**
Adjusted EBITDA Sales	50.1	27.7
= Adjusted EBITDA rental	503.9	442.7
Interest expense FFO	-209.3	-210.7
Current income taxes	-8.0	-8.5
= FFO 1	**286.6**	**223.5**
Capitalised maintenance	-28.3	-20.0
= AFFO	**258.3**	**203.5**
FFO 2 (FFO 1 incl. Profit from property sales)	**336.7**	**251.2**
FFO 1 per share in €*	1.06	1.00
AFFO per share in €*	0.95	0.91

* Based on the shares qualifying for a dividend on the reporting date Dec. 31, 2014: 271,622,425; Dec. 31, 2013: 224.242.425

In 2014, the financial result amounted to € -274.9 million, slightly up compared to the prior-year value of € -288.3 million. This was largely due to lower interest expenses. The improvement in the interest result due to an optimised financing structure was partly offset by negative effects resulting from accruals and actuarial valuations.

By contrast, the operating FFO-related interest result improved by € 1.4 million in comparison to the prior year to total € -209.3 million. Ongoing interest expenses fell due to repayments of financial liabilities in 2013 and the optimised financing conditions resulting from the refinancing in 2013. At the same time, this optimisation was offset by additional interest expenses in connection with acquisition financing. In 2014, the average borrowing costs were on a par with the previous year at 3.2 %. The average maturity of loans is around eight years.

Reconciliation of net interest result to net cash interest

in € million	2014	2013
Income from non-current loans	2.0	1.9
Interest income	3.4	9.3
Interest expense	-280.3	-299.6
Financial result*	**-274.9**	**-288.3**
Adjustments:		
Transaction costs	5.0	9.6
Prepayment penalties and commitment interest	34.7	27.5
Effects from the valuation of non-derivative financial instruments	18.2	4.6
Derivatives	-5.9	22.2
Interest accretion to provisions/ EK02	12.4	8.6
Accrued interest	29.0	-10.9
Other effects	-1.2	5.1
Net cash interest	**-182.7**	**-221.6**
Accrued interest adjustment	-29.0	10.9
Financing of the Vitus acquisition ahead of schedule	2.4	-
Interest expense FFO	**-209.3**	**-210.7**

* Excluding income from other investments

Taxes

At € 179.4 million, income tax was € 26.0 million down on the prior-period figure. Current income taxes fell by € 1.5 million to € 3.3 million. The tax rate for the 2014 financial year came to 30.5 % (2013: 29.8 %).

Profit for the period

The profit for the period came in at € 409.7 million in the 2014 financial year (2013: € 484.2 million) and was influenced to a considerable degree by the net income from fair value adjustments to investment properties of € 371.1 million. By comparison, the profit for the previous year included net income from fair value adjustments to investment properties of € 553.7 million.

Financing Position

Cash flow

The following table shows the Group cash flow:

Statement of cash flow

in € million	2014	2013
Cash flow from operating activities	463.3	259.6
Cash flow from investing activities	-1,188.0	171.3
Cash flow from financing activities	1,741.7	-353.2
Net changes in cash and cash equivalents	**1,017.0**	**77.7**
Cash and cash equivalents at the beginning of the period	547.8	470.1
Cash and cash equivalents at the end of the period	**1,564.8**	**547.8**

The increase in cash flow from **operating activities** compared with 2013 is the result of a higher cash surplus from the operating business. The acquired DeWAG and Vitus portfolios have made a marked positive contribution to this increase since the time of their integration. Working capital also showed positive development compared with 2013. The cash flow in the previous year was negatively impacted by the payment of the EK02 tax liability and higher income taxes.

The cash flow from **investing activities** includes not only investment spending on our residential stocks, which rose considerably to € 241.0 million, but also payouts for the acquisitions made in the financial year. On the other hand, there were increased proceeds from the sale of properties amounting to € 329.6 million. These were influenced by proceeds from sales that were already recorded as income in the previous year but were only paid in the current fiscal year.

The cash flow from **financing activities** was shaped by the equity and debt capital financing measures in the 2014 financial year. Inflows in connection with equity financing amounted to € 2,014.2 million, including a hybrid bond that is to be classified as equity in the amount of € 990.2 million. Inflows from borrowing measures totalled € 1,702.3 million and mainly relate to the issue of a hybrid bond and a draw-down from the EMTN tap issue. On the other hand, outflows due to the repayment of financial liabilities came to € 1,525.9 million. The cash flow from financing activities in the 2014 financial year also includes the dividend paid in the financial year, which amounted to € 168.2 million. The interest payments made in the financial year were down by € 36.8 million on the prior-year value.

Funding

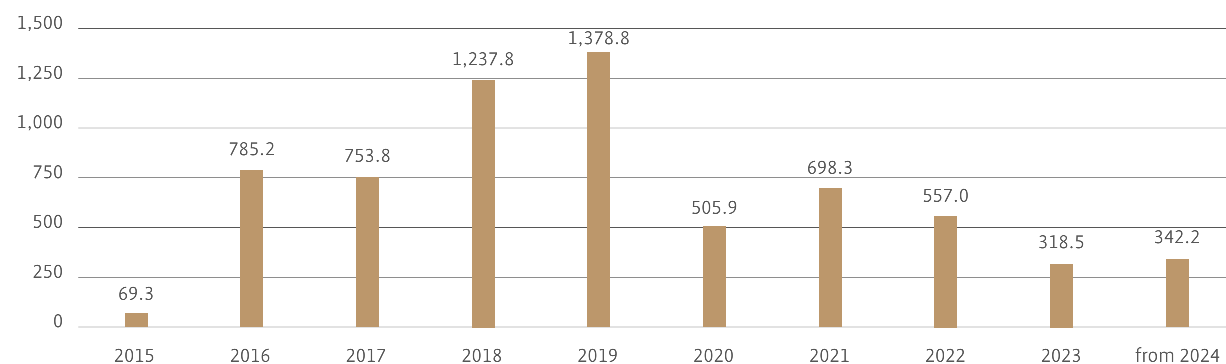
Responsibility for financing the Group as a whole and the group companies individually lies with Deutsche Annington Immobilien SE. The latter raises the funds required, in line with the financing strategy, in a flexible manner on the international equity and debt capital markets. Within this context, DAIG mainly makes use of its Dutch subsidiary DA Finance B. V.

The IPO in 2013, together with the investment grade rating granted by Standard & Poor´s Rating Service, DAIG now enjoys access to the equity and debt capital markets at all times, allowing it to ensure balanced and flexible financing with a balanced maturity profile in line with its financing strategy.

The maturity profile of DAIG's financing was as follows at the end of the 2014 financial year:

Maturity profile

as at December 31, 2014 in € million



For more detailed information on financing, please refer to the relevant explanations in the Notes under "Non-derivative financial liabilities".

In connection with the issue of unsecured bonds by DA Finance B. V., DAIG has undertaken to comply with the following standard market covenants:

> Limitations on incurrence of financial indebtedness
> Maintenance of consolidated coverage ratio
> Maintenance of total unencumbered assets

The existing structured and secured financing arrangements also require adherence to certain standard market covenants. Any failure to meet the agreed financial covenants could have a negative effect on the liquidity status.

At the end of the year, our standard industry LTV (loan to value) was as follows:

in € million	Dec. 31, 2014	Dec. 31, 2013
Non-derivative financial liabilities	6,664.8	5,594.8
Foreign currency effects [1]	-84.0	14.7
Cash an Cash Equivalents	-1,564.8	-547.8
Funds held for Franconia purchase [2]	322.5	–
Funds held for GAGFAH purchase [2]	1,000.0	–
Adjusted Net Debt	**6,338.5**	**5,061.7**
Fair value of the real estate portfolio	**12,759.1**	**10,326.7**
LTV [3]	**49.7 %**	**49.0 %**

[1] See item 32 in the Notes
[2] Adjusted of equity instruments
[3] Previous year restated

in € million	Dec. 31, 2014	Dec. 31, 2013
Non-derivative financial liabilities	6,664.8	5,594.8
Total assets	14,759.2	11,092.8
LTV bond covenants	**45.2 %**	**50.4 %**

These financial covenants have been fulfilled as expected.

Furthermore, on December 1, 2014, S&P confirmed DAIG's "BBB" investment grade rating (Long-Term Corporate Credit Rating), with a positive outlook for an upgrade by one level to "BBB+" following the successful conclusion of the takeover of GAGFAH S. A., and the A-2 Short-Term Corporate Credit Rating. The bonds placed, with their unsecured debt rating, are also rated "BBB", while the subordinated hybrid bonds are rated two levels lower, at "BB+".

In the 2014 financial year, DAIG once again turned to the international capital markets for equity financing and debt capital financing.

In the 2014 financial year, DAIG reached an agreement with Commerzbank on a current account credit line of € 130 million to optimise its liquidity supply and help fine-tune financing. € 4.6 million of this credit line had been made use of at the end of the financial year. Furthermore, an acquisition credit line of € 475 million was agreed in the 2014 financial year as part of the purchase price payment for the Vitus portfolio. This credit line has been repaid in full.

Last year saw DAIG successfully execute various equity and debt capital transactions. As part of accelerated book-building processes, the company's equity was increased by a total of € 754.8 million in 2014, not taking transaction costs into account. Furthermore, a non-cash capital increase of € 269.2 million was implemented as part of the acquisition of the Vitus portfolio.

The annual update of the EMTN tap issue was approved by the financial supervisory authority of the Grand Duchy of Luxembourg (CSSF) on June 30, 2014. This saw the framework for the EMTN tap issue being expanded to € 5,000 million.

DAIG used the debt capital market in 2014 for the placement of a hybrid bond in April, in the amount of € 700 million, for the placement of a further hybrid bond worth € 1,000 million in December, and for an issue of € 500 million in July as part of the EMTN tap issue.

A hybrid bond is a bond that has both equity and debt capital elements.

Obligations under hybrid bonds have subordinated status and are only satisfied after all other obligations that the company has vis-à-vis third parties have been satisfied, ranking senior only to the company's shares. Hybrid bonds have a very long to unlimited term. Their structure means that hybrid bonds carry an increased risk for their investors, which is why the nominal return is often higher than for regular, pure, unsubordinated debt capital bonds. In particular due to their subordinated nature, hybrid bonds are assessed positively when it comes to determining the credit rating.

Hybrid bonds tend to offer fixed returns, meaning that they are fundamentally debt capital instruments, although the returns can change during the very long to unlimited term depending on the bond terms and conditions.

If a bond has an indefinite term, the hybrid issuer can exempt itself from any repayment obligation perpetually, until the company is liquidated, and the hybrid bonds can only be terminated unilaterally by the issuer, and if interest payments can be suspended, they can be classed as equity instruments provided that no dividend is paid and no shares are bought back.

Hybrid bonds classed as debt capital are reported in the balance sheet as financial obligations under liabilities, whereas hybrid bonds that qualify as equity form a separate equity component in the balance sheet that is reported, as such, separately in the statement of changes in equity with its development. The inflow from an equity hybrid issue is shown as an addition, following deductions for transaction costs. The hybrid interest increases the obligation under the hybrid bond directly in equity, whereas the payment of the hybrid bond interest is treated as an appropriation of profit. The interest on a hybrid bond that qualifies as debt capital constitutes interest expenses in the income statement.

The hybrid bond issued in April is treated as debt capital in the balance sheet. Due to its structure, the hybrid bond issued in December is treated as equity in the balance sheet.

Capital increases from authorised capital to the exclusion of subscription rights

On February 28, 2014, the Management Board of Deutsche Annington Immobilien SE resolved, with the Supervisory Board's approval, to increase capital against cash contributions from the existing authorised capital by issuing 16,000,000 no-par value registered shares to the exclusion of existing shareholders' subscription rights. In an accelerated book-building process, 16,000,000 new shares were issued to institutional investors on March 7, 2014 at a price of € 19.00. This resulted in gross proceeds of € 304 million for the company. The capital increase transaction was completed on March 11, 2014.

As at October 1, 2014, DAIG increased equity by another € 269.2 million as part of a non-cash capital increase in kind by issuing 11,780,000 shares as remuneration for the acquisition of Vitus's real estate business.

On November 6, 2014, DAIG increased its share capital, partially utilising its authorised capital and excluding shareholder subscription rights, from € 252,022,425.00 to € 271,622,425.00. The 19,600,000 new no-par-value registered shares were issued to institutional investors as part of a private placement using an accelerated book-building process and carry dividend rights as of January 1, 2014. The shares were distributed based on a placement price of € 23.00 per share. This means that DAIG received proceeds from the issue of € 450.8 million before commission and costs.

Increase in the borrowing volume

DAIG issued a subordinated, long-term bond (hybrid bond) with a volume of € 700 million via its Dutch financing company DA Finance B. V. on April 8, 2014. The issue price was 99.782 %. This bond has a term of 60 years and an initial nominal interest rate of 4.625 %. It can be redeemed in five years' time (and thereafter every five years) if the company exercises its contractual redemption option. For the purposes of the balance sheet, this bond is recognised as debt capital.

Furthermore, on December 11, 2014, DAIG successfully placed a hybrid bond, that cannot be terminated early, in the amount of € 1 billion, with no final maturity date, a nominal interest rate of 4 % and the first repayment opportunity in 2021, at an issue price of 100 % via its Dutch financing company. Due to its structure, this hybrid bond is treated as equity in the balance sheet.

In particular due to their subordinated nature and 50 % classification as equity, hybrid bonds are assessed positively when it comes to determining the credit rating. After the first rated hybrid bond in the property sector was issued in April, this December issue was the first with investment grade (provisional rating: "BBB-") to be issued in this sector in Europe, meaning that it sets standards for the market.

With a view to acquiring the Vitus real estate business, DAIG drew € 500 million, before commission and costs, from the EMTN programme on July 9, 2014. The annual update of the EMTN tap issue was approved by the financial supervisory authority of the Grand Duchy of Luxembourg (CSSF) on June 30, 2014. This saw the framework for the EMTN tap issue being expanded to € 5 billion.

In addition, secured mortgage loans of € 307.6 million were repaid.

Cash and cash equivalents as at December 31, 2014, totalled € 1,564.8 million. The change as against December 31, 2013, resulted not only from the inflows from operating activity, but also primarily from cash inflows as part of the equity placements in March and November 2014, the issue of hybrid bonds and the placement under the EMTN programme, which were offset by the settlement of the payment obligations for the DeWAG and Vitus portfolios and the dividend payout following the Annual General Meeting, as well as the repayment of a structured finance product. € 32.8 million of the cash and cash equivalents are subject to restrictions on their disposal.

Assets position

Asset and capital structure

Group balance sheet structure

	Dec. 31, 2014		Dec. 31, 2013	
	in € million	%	in € million	%
Non-current assets	12,980.0	87.9	10,352.6	93.3
Current assets	1,779.2	12.1	740.2	6.7
Total assets	**14,759.2**	**100.0**	**11,092.8**	**100.0**
Equity	5,962.2	40.4	3,818.0	34.4
Non-current liabilities	8,292.9	56.2	6,830.7	61.6
Current liabilities	504.1	3.4	444.1	4.0
Total equity and liabilities	**14,759.2**	**100.0**	**11,092.8**	**100.0**

The **equity** of Deutsche Annington Immobilien Group increased by € 2,144.2 million in the course of the 2014 financial year from € 3,818.0 million to € 5,962.2 million. This was driven largely by the cash capital increases and a non-cash capital increase as part of the Vitus transaction. Equity was also boosted by the profit for the period of € 409.7 million. A hybrid bond that qualifies as equity also increased equity by € 990.2 million. The € 168.2 million dividend payout, the recognition of € 38.5 million in actuarial losses from pension provisions and the negative impact from hedge accounting totalling € 31.1 million had the opposite effect, however. Another effect recognised in equity amounting to € 53.8 million results from an obligation vis-à-vis minority shareholders to pay a guaranteed dividend within the framework of the profit and loss transfer agreement concluded in the 2014 financial year. For further information relating to developments in equity, we refer to the information provided in note [29] “Equity”. An overview of shareholdings is also provided in the list of shareholdings, which is included in an Annex to these Notes.

As at December 31, 2014, the **equity ratio** came in at 40.4 %, after having stood at 34.4 % at the end of the previous financial year.

At € 12,687.2 million (Dec. 31, 2013: € 10,266.4 million), the Group’s main **non-current assets** are investment properties. The total value of the real estate assets including properties used by the Group and assets held for sale came in at € 12,757.1 million (Dec. 12, 2013: € 10,324.5 million) (GAV or Gross Asset Value). The value of the investment properties rose year-on-year by € 1,066.3 million due to the incorporation of the DeWAG portfolio and by € 994.7 million due to the Vitus stocks. Due to the splitting of the purchase price for the acquisitions, non-current assets contain goodwill totalling € 106.0 million.

The values of our real estate portfolio are a main factor influencing the assessment of our asset position and therefore the development of our important performance indicator, net asset value (NAV).

As at December 31, 2014, **non-current liabilities** largely include non-derivative financial liabilities totalling € 6,539.5 million and deferred tax liabilities of € 1,132.8 million. The non-current provisions include pension obligations of € 360.9 million, residual pollution provisions of € 23.9 million and non-current provisions for personnel expenses under pre-retirement part-time work arrangements totalling € 14.0 million.

In addition to other provisions, current liabilities largely include current payment obligations for debt repayments and interest on loans of € 125.3 million.

Net asset value

In this presentation of NAV, DAIG has moved closer into line with the approach taken by major market players and has focused more on the EPRA Best Practice Guidelines when it comes to the treatment of deferred taxes. The Net Asset Value (NAV), in accordance with EPRA standards, increased in the period under review in line with equity as a result of capital measures, but also due to the profit for the period that is attributable to DAIG, by € 1,454.6 million from € 5,123.4 million to € 6,578.0 million or by 28.4 %. EPRA NNNAV is the reported equity of DAIG's shareholders.

Net asset value (NAV) based on application of IAS 40

€ million	Dec. 31, 2014	Dec. 31, 2013
Equity attributable to DAIG shareholders	**4,932.6**	**3,805.5**
Deferred taxes on investment properties/assets held for sales	1,581.0	1,276.6
Fair value of derivative financial instruments*	88.1	56.3
Deferred taxes on derivative financial instruments	-23.7	−15.0
EPRA NAV**	**6,578.0**	**5,123.4**
Goodwill	-106.0	–
Adjusted NAV	**6,472.0**	**5,123.4**
EPRA NAV per share in €***	**24.22**	**22.85**

* Adjusted for effects from cross currency swaps
** NAV for 2013 restated by € 339.6 million deferred taxes on other balance sheet items and € 1.6 million deferred interest on derivatives, in line with the new definition, only recognition of deferred taxes on investment properties and properties held for sale, as well as deferred taxes on derivative financial instruments
*** Based on the number of shares on the reporting date Dec. 31, 2014: 271,622,425; Dec. 31, 2013: 224,242,425

Over a period of five years, DAIG created value and increased NAV and GAV every year:

in € million	NAV	GAV
2014	6,578.0	12,757.1
2013	5,123.4	10,324.5
2012	3,758.4	9,981.9
2011	3,184.7	9,936.1
2010	2,538.1	9,605.4

Fair values

The fair values of Deutsche Annington are reviewed every quarter and updated to reflect the current market situation. Due to the extensive investments made in the energy-efficient modernisation of our buildings and senior-friendly conversions of numerous apartments, the portfolio of Deutsche Annington showed very positive development in 2014. Together with the removal of additional rent restrictions, this resulted in a substantial increase in rent throughout the entire portfolio. At the same time, the residential property market continued to show very positive development in 2014. Particularly in expensive and very dynamic locations such as Munich, Berlin and Hamburg, the sale prices for multi-family houses rose considerably in 2014. Since the return expectations of property buyers have dropped at the same time, the increase in market values is ahead of rent developments in these locations. This means that in 2014, the value of our property portfolio rose by 5.3 % compared with 2013, after adjustments for acquisitions and disposals. Taking acquisitions and disposals into account, the fair value rose by € 2.4 billion or 23.6 %.

The results of the internal property valuation are confirmed by an independent report of the external property appraiser CBRE GmbH.

Continuous determination of the fair values creates a transparent valuation of the company's properties.

Calculating and showing the fair values provides a control parameter inside the company and also helps to make the development of the value of our assets transparent to people outside the company.

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.

The valuation methodology used by the DAIG is based on the discounted cash flow (DCF) methodology. Under the DCF methodology, the fair values are derived from the income and costs associated with a property. Under the DCF methodology, the expected future income and costs of a property are forecast over a period of ten years and discounted to the date of valuation as the net present value. The income mainly comprises expected rental income (current in-place rent, market rents as well as their development) taking vacancy losses into account. They are derived for each location from the latest rent indices and rent tables (e.g. IVD and IDN ImmoDaten GmbH) as well as from studies on spatial prosperity (Federal Institute for Research on Building, Urban Affairs and Spatial Development (BBSR), Prognos, empirica, Bertelsmann Stiftung inter alia).

On the cost side, maintenance expenses and administrative costs are taken into account in accordance with the II. Berechnungsverordnung and inflated in the reporting period (II. BV; German Regulation on Calculations for Residential Buildings in Accordance with the Second Housing Construction Law, stipulating how economic viability calculations for accommodation are to be performed). Modernisation measures carried out in the housing stocks are factored in by decreasing the current maintenance expenses and adjusting market rents. The commercial properties in the portfolio are mainly small commercial units for the supply of the local residential area. Different cost approaches were used to those for residential properties, and the capitalization rates were adjusted to reflect the market specifics.

The recognition and valuation of investment properties are explained in detail in the Notes to the consolidated financial statements.

The fair value of the real estate portfolio of Deutsche Annington Immobilien Group of residential buildings, commercial properties, garages and parking spaces as well as undeveloped land and any inheritable rights granted was approx. € 12,759.1 million as at December 31, 2014 (2013: € 10,326.7 million). This led overall to net income from fair value adjustments of € 371.1 million.

The fair values for each real estate portfolio sectors are as follows:

	Residential units		Fair value (in € million)*	
	2014	2013	2014	2013
Operate	86,325	78,764	5,302.1	4,604.7
Upgrade Buildings	51,901	43,476	3,271.9	2,469.2
Optimise Apartments	34,320	21,363	2,293.2	1,446.8
Rental only	**172,546**	**143,603**	**10,867.2**	**8,520.7**
Privatise	21,530	20,536	1,493.8	1,350.7
Non-Core	8,952	11,119	348.4	404.6
Total	**203,028**	**175,258**	**12,709.4**	**10,276.0**

* Fair value of the developed land excluding € 49.7 million for undeveloped land and inheritable rights granted

The value of our real estate portfolio is a crucial factor influencing the assessment of our asset position and therefore the development of our net asset value, which is an important performance indicator.

EPRA key financial indicators

The European Public Real Estate Association (EPRA) has developed a number of key financial indicators (EPRA Performance Measures) designed to make the financial information published by real estate companies more transparent, relevant and easier to compare. As part of its "Best Practice Recommendations", EPRA recommends that European listed real estate companies include these performance measures in their financial reporting. Based on this recommendation, Deutsche Annington made the decision that EPRA NAV, EPRA NNNAV and the EPRA vacancy rate

are suitable parameters for reflecting the development of its business activities and publishes these key figures accordingly. Further information on the presentation of NAV can be found in the section on net assets.

The **EPRA vacancy rate** shows the rental income on vacant properties that would be expected based on market rent values in relation to the rental income on the residential property portfolio, based on market rent values. The key performance indicators for the 2014 financial year are as follows:

in € million	Dec. 31, 2014	Dec. 31, 2013
Market rent of unoccupied apartments	28.9	24.6
Market rent of residential property portfolio	950.4	793.8
EPRA Vacancy rate in %	3.0	3.1

Statement of the Management Board on the economic situation

The net assets, financial position and results of operations of the Group are extremely positive, particularly given the solid financing, the resulting balanced maturity profile and the financing flexibility gained through the rating-backed bond financings with a view to both organic and external growth. Steady improvements to the property management processes promote ongoing improvements in profitability.

Economic development of Deutsche Annington Immobilien SE

(Reporting on the basis of the German Commercial Code (HGB))

Fundamental Information

Deutsche Annington Immobilien SE, Düsseldorf ("DAIG") was established as Deutsche Annington Immobilien GmbH with its head office in Frankfurt am Main on June 17, 1998. Today, together with its subsidiaries, it forms Deutsche Annington Immobilien SE Group and is Germany's leading residential property management company with some 203,100 residential units.

In the 2014 financial year, Deutsche Annington Informationssysteme GmbH, Düsseldorf, merged with DAIG, by way of absorption, with effect from January 1, 2014.

The DAIG annual financial statements have been prepared in accordance with the provisions of the German Commercial Code (HGB) taking into account the supplementary regulations of the German Stock Corporation Act (AktG). It is classed as a large corporation.

The description of the company's net assets, financial position and results of operations is based largely on the Group reporting. The net assets, financial position and results of operations of DAIG SE are largely determined by the assets of the group companies and their ability to make positive contributions to earnings, and generate positive cash flows, in the long run. The company's risk profile is therefore largely the same as the Group's.

The preceding reporting for the Group of Deutsche Annington Immobilien SE therefore also expresses the company's position.

The annual financial statements and consolidated financial statements as well as the combined management report are published in the Federal Gazette (Bundesanzeiger).

Development of business in 2014

On September 3, 2014, Deutsche Börse (German Stock Exchange) admitted Deutsche Annington Immobilien SE, Düsseldorf, to the MDAX with effect as at September 22, 2014.

Deutsche Annington Immobilien SE announced on December 1, 2014 that it would be making a voluntary public takeover offer to the shareholders of GAGFAH S. A. On December 19, 2014, the Federal Financial Supervisory Authority (BaFin) approved the offer documents for mandatory publication pursuant to Sections 34, 14 (3) and 3 of the German Securities and Takeover Act (WpÜG). The rating agency Standard & Poors (S&P) had already issued the company with a "BBB" investment grade rating (Long-Term Corporate Credit Rating) on June 10, 2013. S&P confirmed this rating on December 1, 2014. As part of the announced takeover of GAGFAH S. A., Luxembourg, S&P not only confirmed this rating, but also announced the prospect of an upgrade to "BBB+" upon the successful conclusion of the takeover. This serves as impressive confirmation of the strength of our business model and our long-term strategy.

In the course of the 2014 financial year, the shareholder structure became more diverse as a result of the departure of Monterey Holdings I S.à r.l., Luxembourg, as the majority shareholder.

Employees of Deutsche Annington Immobilien SE

At the end of 2014, 196 people were in the employ of Deutsche Annington Immobilien SE (2013: 149). Furthermore, 81 seconded employees (2013: 59) were working at the company via personnel secondment contracts with subsidiaries of Deutsche Annington Immobilien SE.

Results of Operations, Net Assets and Financial Position

Results of operations of Deutsche Annington Immobilien SE

The company regularly generates income from the charging of the services it provides, from investment income in the form of dividend distributions from Group companies and from the transfer of profits. Profit-and-loss transfer agreements exist mainly with the service companies which themselves generate income by charging the real estate companies for the services they have provided.

The expenses are largely personnel expenses and non-personnel costs incurred in the performance of its management function.

The financial result is governed by the Group financing.

In the 2014 financial year, the company reported a net loss for the year of € 56.6 million (previous year: € -1.8 million). The loss is due to non-recurring effects. These arose in connection with the selling on of Vitus stocks to LEG and in connection with company law restructuring:

> The net loss from the sale of Vitus interests to LEG amounts to € 37.2 million.
> The expenses resulting from the assumption of losses totalling € 28.8 million largely relate to losses in connection with company law restructuring
> The personnel expenses increased mainly due to the extra employees who joined the company as a result of the merger
> Major positive effects on earnings came from the increase in income from onward-charging and services due to the merger of Deutsche Annington Informationssysteme GmbH, Düsseldorf
> The reduction in the interest result by around € 23.4 million in the financial result is largely due to lower interest income. In 2013, there were positive non-recurring effects in the form of the contributions from the refinancing of the GRAND CMBS bond (GRAND financing.) The interest income also fell due to volume-related aspects

Income statement

in € million	Dec. 31, 2014	Dec. 31, 2013
Income from onward-charging and services	113.6	97.1
Other income	28.3	4.9
Personnel expenses	-36.7	-33.2
Other administrative expenses	-141.0	-101.8
Profit/loss before financial result and tax	**-35.8**	**-33.0**
Income from profit transfer	33.5	28.7
Income from investments	3.4	3.8
Interest and similar income	26.7	45.5
Expenses from the assumption of losses	-28.8	-2.1
Interest and similar expenses	-49.1	-44.5
Extraordinary costs	-1.4	-
Profit/loss before tax	**-51.5**	**-1.6**
Tax	-5.1	-0.2
Net profit/loss for the year	**-56.6**	**-1.8**

DAIG assets

Assets

in € million	Dec. 31, 2014	Dec. 31, 2013
Financial assets	3,239.1	1,612.3
Other assets	3.7	0.4
Receivables from companies	592.1	764.7
Other receivables and assets	19.7	9.3
Securities	850.0	–
Cash and cash equivalents	605.3	408.6
Total assets	**5,309.9**	**2,795.3**

Equity and liabilities

in € million	Dec. 31, 2014	Dec. 31, 2013
Equity	2,670.1	1,863.9
Provisions	90.7	77.8
Liabilities from companies	2,535.5	851.1
Other liabilities	13.6	2.5
Total assets	**5,309.9**	**2,795.3**

The change in assets in the 2014 financial year is largely due to the increase in long-term financial assets (company law measures to strengthen the equity of group companies and Vitus acquisition) and to the liquidity inflows from the placement of a hybrid bond that qualifies as equity pursuant to IFRS. In order to finance the planned GAGFAH takeover, Deutsche Annington Finance B. V. successfully placed this hybrid bond in December 2014 in the amount of € 1 billion and passed the liquidity on to DAIG. The resulting liquidity was invested on the money market until the due date of the cash component of the GAGFAH takeover offer. Although the investment volume was substantial on the whole and despite an interbank market that is currently marred by negative interest rates, we managed to place these temporarily free funds without any exceptional additional risks and in interest-bearing investments. On the other hand, the funds from the hybrid bond that were passed on to DAIG resulted in a significant increase in liabilities to affiliated companies.

The increase in equity is due to the capital increases implemented in the 2014 financial year, namely on March 4, 2014 (capital increase against cash contributions), September 12, 2014 (capital increase against non-cash contributions) and on November 5, 2014 (capital increase against cash contributions).

A dividend of € 281.1 million is to be distributed for the 2014 financial year. In order to provide the necessary profit, € 325.0 million was taken from the capital reserves. From a tax law perspective, the distribution shall be made from the contribution account, making the dividend tax-free for domestic investors.

Financial position of DAIG

The financial position is governed by the previously described group finance strategy as well as, on the operations side, by the degree of group financing and cash management. The company generates cash flows by charging services. Cash outflows result from personnel expenses and administrative costs.

DAIG SE only has appreciable cash flows from investing activities when acquisitions are made.

Cash inflows from financing activities result from income from investments and interest income as well as from additions to equity. Furthermore, there are cash outflows for interest payments. Interest expenses and interest income are closely connected with the Group financing.

The company received equity of some € 1,031.1 million in 2014 as a result of the capital increases. In May 2014, a dividend of € 168.2 million was paid for the 2013 financial year.

Opportunities and risks of DAIG

The likely development of Deutsche Annington Immobilien SE in the 2015 financial year depends to a considerable extent on the development of the Group as a whole and its opportunity and risk situation. This situation is set out in the Group's Opportunity and Risk report, meaning that the statements set out there in regarding the opportunity and risk situation of the Group also apply to the separate financial statements of Deutsche Annington Immobilien SE.

Forecast Report

Since the company's net assets, financial position and results of operations are determined solely by the ability of the Group companies to make positive earnings contributions and generate positive cash flows in the long term, we refer at this point to the Forecast Report for the Group.

The company's earnings in 2014 were largely influenced by the non-recurring effects referred to above.

The results for the 2015 financial year will once again be characterised by the results of subsidiaries collected/compensated for on the basis of profit and loss transfer agreements, income from services, personnel and administrative expenses and the financial result. Looking at the 2015 financial year, we expect to see a slight increase in expenses resulting from the assumption of losses due to the company law restructuring measures and a negative impact on the results of operations due to the special effects resulting from the GAGFAH takeover, such as subsequent decision-making and discovery costs and expenses linked to the company's integration. We expect the net loss for the 2015 financial year to be roughly on a par with the result for the reporting year.

It is still generally planned for DAIG SE to distribute 70 % of the Group's performance indicator, FFO 1, to the shareholders as a dividend.

Subsequent Events

Events after the balance-sheet date

On December 1, 2014, the Management Board of DAIG made the shareholders of GAGFAH S. A. a public takeover offer for their GAGFAH shares. On December 18, 2014, the Federal Financial Supervisory Authority (BaFin) approved the offer documents for mandatory publication pursuant to Sections 34, 14 (2) and (3) of the German Securities and Takeover Act (WpÜG).

The mandatory publications regarding the takeover offer were made on December 19, 2014. On December 23, 2014, the Board of Directors of GAGFAH S. A. ("GAGFAH") advised the company's shareholders to accept the voluntary public takeover offer made by DAIG. In a statement published pursuant to Section 27 (1) WpÜG, the Board concluded that the consideration offered by DAIG SE in the amount of € 18.00 per GAGFAH share in total (based on the XETRA closing price of Deutsche Annington's shares on November 28, 2014) was appropriate. This was confirmed in the Fairness Opinions drawn up by Bank of America Merrill Lynch, Deutsche Bank and Rothschild.

The public takeover offer ended on the acceptance deadline of January 21, 2015, with a voluntary extension of the tender period until February 9. The results of the public takeover offer were published on February 17, with DAIG being offered the option of taking over 230,954,655 shares or 93.82 % of GAGFAH.

The combined takeover offer consists of a cash component and a share-based component. The corresponding listing prospectus for the approval of the non-cash capital increase by BaFin was submitted on January 28, 2015. The non-cash capital increase was registered on February 24, 2015.

The plan is to finance the transaction, in particular, using the increase in capital, the equity hybrid bond issued in December 2014, worth € 1.0 billion and using other debt capital instruments.

The Management Board and the Supervisory Board of DAIG now expect BaFin to approve the listing prospectus in the near future, meaning that the corresponding non-cash capital increase can also be entered in the Düsseldorf Commercial Register (Handelsregister) in a timely fashion.

Once the entry has been made in the Commercial Register and the corresponding new shares have been created for the former GAGFAH shareholders, ownership shall pass to DAIG. The cash component is expected to be paid, and the new shares transferred, on March 11, 2015.

The German Federal Cartel Office approved the planned transaction unconditionally on January 28, 2015.

By way of an agreement concluded on December 16, 2014, DAIG acquired a portfolio of around 5,000 residential units managed by CitCor under a combined share and asset transfer agreement for around € 323 million after the original purchase agreement dated August 29, 2014 was rescinded.

Further statutory disclosures

Declaration by the Management Board in accordance with section 312 (3) of the German Stock Corporation Act (AktG)

In the 2014 financial year, Deutsche Annington Immobilien SE ceased to be classed as a dependent company pursuant to Section 17 (2) AktG, as the former main shareholder, Monterey Holdings S.à r.l., largely surrendered its shares by way of a dividend in kind and division of real assets.

Up until the point at which the 50 % shareholding threshold was exceeded on May 20, 2014, the Management Board is obliged to make a declaration pursuant to Section 312 (3) AktG.

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

Remuneration report

The remuneration report describes the principles of the remuneration system for members of the Management Board of Deutsche Annington Immobilien SE (DAIG) and explains the structure as well as the income received by each Management Board member. Furthermore, the remuneration report contains information on the principles and the amount of remuneration for the members of the Supervisory Board. The total remuneration received by each Management Board member, including the names of the members, is shown in the Notes.

The remuneration report takes account of the applicable regulations of the German Commercial Code (HGB), the German Accounting Standard (DRS 17), the laws on disclosure and appropriateness of Management Board remuneration (VorstAG, VorstOG) as well as the principles of the German Corporate Governance Code (DCGK).

Management Board

Remuneration system

The remuneration system and the amount of remuneration of the Management Board are determined by the Supervisory Board on the proposal of the Executive and Nomination Committee.

The criteria used to assess whether the remuneration is appropriate include the duties of the individual Management Board member, his or her personal performance, the economic situation, the company's success and future outlook and the extent to which such remuneration is standard practice. When determining whether the level of remuneration is standard practice, the company looks at its peer group and the remuneration structure that applies in the rest of the company. Furthermore, we compare ourselves with other listed companies of a similar size. The remuneration structure is oriented towards sustainable growth of the company.

In addition to fixed remuneration, the members of the Management Board receive variable short-term as well as variable long-term remuneration which takes account of both positive and negative developments. Furthermore, the members of the Management Board receive fringe benefits in the form of insurance premiums, as well as the private use of means of communication and company vehicles. In one case, the company

assumes the costs associated with the rental of an apartment as opposed to insurance premiums.

Fixed remuneration and fringe benefits

The fixed remuneration is paid to the Management Board members in twelve equal monthly instalments. In addition to their fixed remuneration, the Management Board members are given the opportunity to pay an annual pension contribution of 20 % of the fixed remuneration into a deferred compensation scheme. Alternatively, the amount is paid out as cash remuneration.

The fringe benefits include premiums for a term life insurance policy and 50 % of health and nursing care insurance contributions, albeit up to the amount of the statutory employer's share at the most. In the event of illness, salaries continue to be paid for a period of twelve months, but until the end of the employment contract at the latest. In the event of death, DAIG continues to pay the salary to the surviving dependants for up to six months.

Travel expenses are reimbursed in line with the DAIG Travel Expense Policy.

Should the Management Board members be held liable for financial losses while executing their duties, this liability risk is, in principle, covered by the D&O insurance for Management Board members of the company. DAIG follows the statutory requirements, which provide for a deductible of 10 % of any claim up to an amount of one-and-a-half times the fixed annual remuneration for all claims in one financial year.

Bonus

The variable short-term remuneration is based on success criteria set in advance by the Supervisory Board as well as personal targets. The variable short-term remuneration is capped at € 700,000 for Rolf Buch as the chairman of the Management Board, and at € 440,000 for Klaus Freiberg and Dr A. Stefan Kirsten. The success criteria state that 40 % of the variable short-term remuneration depends on the achievement of the Group AFFO target, 15 % on the achievement of the Group EBITDA target for sales and a further 15 % on the improvement of the customer satisfaction index as determined by an independent third party. 30 % of the variable short-term remuneration is related to the achievement of the personal targets agreed with the Supervisory Board.

The Management Board members receive the variable short-term remuneration one month after the adoption of the annual financial statements of DAIG.

Long-term incentive plan (LTIP)

As part of the LTIP, the Management Board members were granted a total of 931,030 notional shares (SARs = stock appreciation rights) last year, paid out in five equal annual tranches. Over the five-year period, 400,000 notional shares are attributable to Rolf Buch, with Klaus Freiberg and Dr A. Stefan Kirsten each being allocated 265,515. The notional shares will be converted into payout amounts for each annual tranche on the basis of a formula laid down in the LTIP agreement.

When the shareholding of the previous majority shareholder Monterey Holdings I S.á. r.l. was reduced to below 30 % in 2014, the first tranche fell due and was paid out in 2014. The other tranches will each be paid out on July 11 of the subsequent years, with the exception of Rolf Buch's tranches, which will be paid out on February 28 of each year.

The cash-settled amounts are determined from the product of the number of notional shares per tranche, the market value of the share, taking into account dividend payments in the period between the IPO and the payout date, and the level of performance target achievement for the relevant measurement period. This level of performance target achievement results from the sum of the NAV percentage, the TSR percentage and the AFFO percentage divided by three. (NAV = EPRA Net Asset Value, TSR = Total Shareholder Return, AFFO = Adjusted Funds from Operations).

The possible performance target achievement may be between 90 % and 110 %. The following table shows the performance target achievement parameters as well as the factors influencing them:

Performance target achievement parameters	Factors influencing the parameters
NAV	NAV increase per share in relation to the comparator group defined in the LTIP agreement
TSR	Increase in the market closing price adjusted for dividend payments (generally the stock market price) in relation to the comparator group defined in the LTIP agreement
AFFO	AFFO from the last financial statements against the AFFO target for the same period in the medium-term plan

Payments in the event of premature termination of Management Board duties

Payments to a Management Board member on premature termination of his or her contract, including fringe benefits, are contractually regulated to not exceed the value of two years' remuneration and are paid for no more than the remaining term of the employment contract (severance pay cap).

Payments in the event of premature termination of a Management Board member's contract due to a change of control are limited to 150 % of the severance pay cap.

Total remuneration paid to the Management Board within the meaning of the German Corporate Governance Code

In the reporting year, the following total remuneration was paid to the Management Board members:

Grants allocated to the Management Board	Rolf Buch CEO since March 1, 2013			
in €	2013	2014	2014 (min)	2014 (max)
Fixed remuneration	750,000	900,000	900,000	900,000
Deferred compensation	150,000	180,000	180,000	180,000
Fringe benefits	30,909	38,545	38,545	38,545
Total	**930,909**	**1,118,545**	**1,118,545**	**1,118,545**
Annual variable remuneration (bonus)	583,333	700,000	0	700,000
Settlement of original LTIP	2,285,300	–	–	–
Multi-year variable remuneration (stock appreciation rights)	6,580,400	–	0	–*
One-off payment	200,000	–	–	–
Total	**9,649,033**	**700,000**	**0**	**–***
Total remuneration	**10,579,942**	**1,818,545**	**0**	**–***

* At present, the remuneration paid to the Management Board members does not feature maximum limits in terms of amount across the board. Nor do maximum limits in terms of amount apply to all variable remuneration components

Klaus Freiberg COO since February 1, 2010				Dr. A. Stefan Kirsten CFO since January 1, 2011			
2013	2014	2014 (min)	2014 (max)	2013	2014	2014 (min)	2014 (max)
550,000	550,000	550,000	550,000	518,000	550,000	550,000	550,000
110,000	110,000	110,000	110,000	103,600	109,600	109,600	109,600
20,400	30,032	30,032	30,032	35,022	36,525	36,525	36,525
680,400	**690,032**	**690,032**	**690,032**	**656,622**	**696,125**	**696,125**	**696,125**
440,000	440,000	0	440,000	400,000	440,000	0	440,000
–	–	–	–	–	–	–	–
4,367,987	–	0	–*	4,367,987	–	0	–*
50,000	–	–	–	50,000	–	–	–
4,857,987	**440,000**	**0**	**–***	4,817,987	**440,000**	**0**	**–***
5,538,387	**1,130,032**	**0**	**–***	**5,474,609**	**1,136,125**	**0**	**–***

In the reporting year, the following total remuneration was paid to the Management Board members:

Inflow	Rolf Buch CEO since March 1, 2013		Klaus Freiberg COO since February 1, 2010		Dr. A. Stefan Kirsten CFO since January 1, 2011	
in €	2013	2014	2013	2014	2013	2014
Fixed remuneration	750,000	900,000	550,000	550,000	518,000	550,000
Deferred compensation	150,000	180,000	110,000	110,000	103,600	109,600
Fringe benefits	30,909	38,545	20,400	30,032	35,022	36,525
Total	**930,909**	**1,118,545**	**680,400**	**690,032**	**656,622**	**696,125**
Annual variable remuneration (bonus)	576,004	700,000	425,480	440,000	395,200	440,000
Settlement of original LTIP	2,285,300	–	1,721,082	–	2,190,474	–
Multi-year variable remuneration (stock appreciation rights)	–	–	–	–	–	–
1. Tranche (2013–2014)	–	1,873,754	–	1,288,237	–	1,288,237
One-off payment	200,000	–	50,000	–	50,000	–
Total	**3,061,304**	**2,573,754**	**2,196,562**	**1,728,237**	**2,635,674**	**1,728,237**
Total remuneration	**3,992,213**	**3,692,299**	**2,876,962**	**2,418,269**	**3,292,296**	**2,424,362**

Remuneration of the Supervisory Board

The remuneration of the Supervisory Board is determined by the shareholders at the Annual General Meeting and is regulated in Article 13 of the Articles of Association of DAIG.

The current Supervisory Board remuneration system is based on the resolution passed by the Annual General Meeting on June 9, 2013.

Each member of the Supervisory Board receives annual fixed basic remuneration of €100,000. The chairman of the Supervisory Board receives double this amount, a deputy chairman one-and-a-half times this amount.

The members of the Audit Committee receive additional annual fixed remuneration of €40,000; the Audit Committee chairman receives double this amount. Supervisory Board members who are members of one or more other Supervisory Board Committees that have acted at least once a year receive additional annual remuneration of € 20,000 per committee; in the case of the committee chairman € 40,000.

The sum total of all aforementioned remuneration plus remuneration for membership of Supervisory Boards and comparable supervisory bodies of Group companies must not exceed an amount of € 300,000 per calendar year and Supervisory Board member.

The company reimburses the Supervisory Board members for appropriate expenses incurred due to the exercising of their office. VAT is reimbursed by the company to the extent that the Supervisory Board members are eligible to separately invoice VAT and have exercised such right.

The remuneration of the Supervisory Board of DAIG breaks down as follows for each member – on a pro rata basis according to the length of service on the Supervisory Board:

	Fixed remuneration		Remuneration of committee work		Total remuneration	
in €	2013	2014	2013	2014	2013	2014
Supervisory Board members in office as at December 31, 2014						
Dr Wulf H. Bernotat [2) 3) 6)] (since June 18, 2013) Chairman	116,667	200,000	58,333	100,000	175,000	300,000
Prof. Dr Edgar Ernst [1)] (since June 18, 2013) Deputy Chairman	58,333	116,667	46,667	80,000	105,000	196,667
Manuela Better [6)] (ince Aug. 21, 2014)	–	41,667	–	6,667	–	48,333
Burkhard Ulrich Drescher (since Dec. 12, 2014)	–	8,333	–	–	–	8,333
Dr. Florian Funck [2)] (since Aug. 21, 2014)	–	41,667	–	13,333	–	55,000
Hildegard Müller [4)] (since June 18, 2013)	58,333	100,000	11,667	20,000	70,000	120,000
Prof. Dr Klaus Rauscher [4)] (since Aug. 1, 2008)	93,333	100,000	–	6,667	93,333	106,667
Clara-Christina Streit [4) 5)] (since June 18, 2013)	58,333	100,000	23,333	46,667	81,667	146,667
Christian Ullbrich [2)] (since Aug. 21, 2014)	–	41,667	–	13,333	–	55,000
Former Supervisory Board members						
Guy Hands (until June 18, 2013)	–	–	–	–	–	–
Robert Nicolas Barr [2) 4) 6)] (until Aug. 20, 2014)	–	–	–	–	–	–
Lutz Basse [6)] (Aug. 21 – Sept. 15, 2014)	–	–	–	–	–	–
Arjan Breure [4) 6)] (until Aug. 20, 2014)	–	–	–	–	–	–
Fraser Duncan [2)] (until Aug. 20, 2014)	90,983	66,667	23,333	26,667	114,317	93,333
Neil Hasson (until June 18, 2013)	–	–	–	–	–	–
Tim Pryce (until Aug. 20, 2014)	–	–	–	–	–	–
Total					**639,317**	**1,130,000**

1) Chairman of the Audit Committee
2) Member of the Audit Committee
3) Chairman of the Executive and Nomination Committee
4) Member of the Executive and Nomination Committee
5) Chairman of the Finance Committee
6) Member of the Finance Committee

The former members of the Supervisory Board Robert Nicolas Barr, Lutz Basse, Arjan Breure and Tim Pryce waived their right to receive the corresponding remuneration.

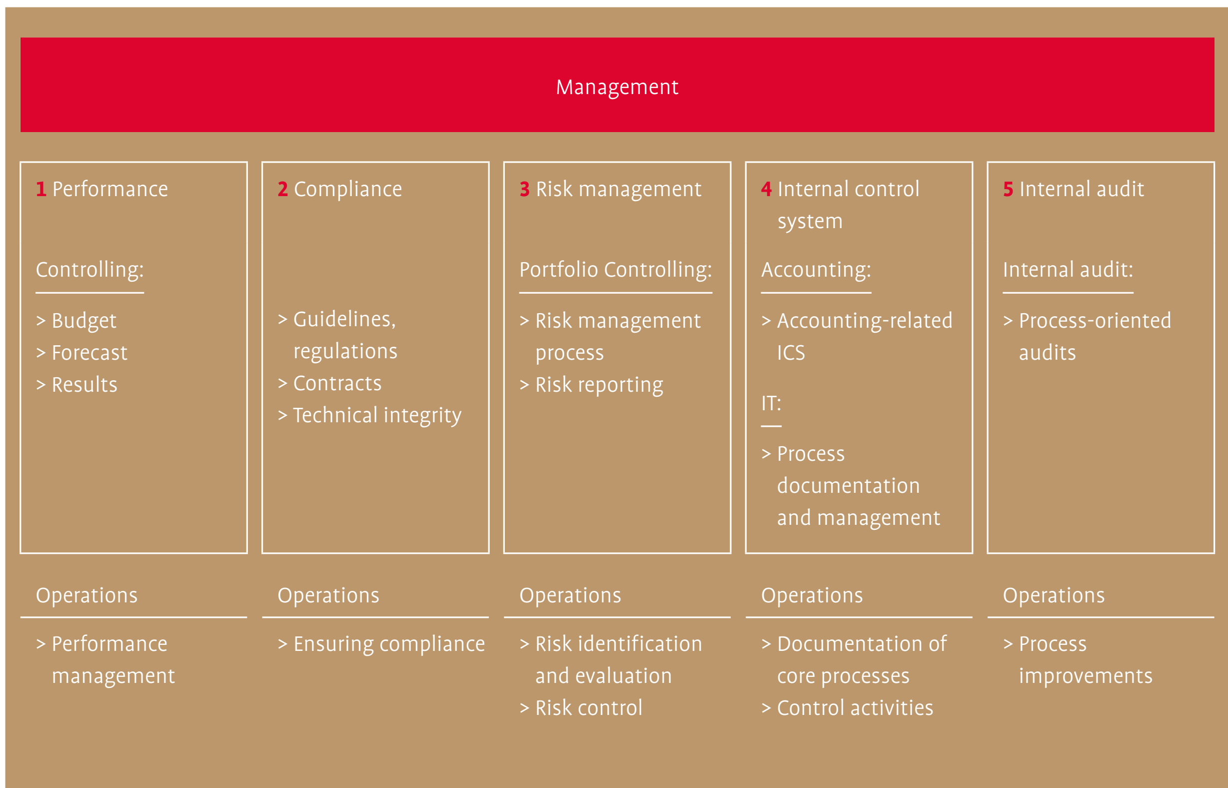
All remuneration is payable after the expiry of each financial year. Supervisory Board members who are Supervisory Board members or members of a committee of the Supervisory Board for only part of a financial year receive corresponding pro rata remuneration rounded up to the full month.

Furthermore, DAIG has taken out a liability insurance (D&O insurance) for the members of the Supervisory Board. DAIG follows the statutory requirements, which provide for a deductible of 10 % of any claim up to an amount of one-and-a-half times the fixed annual remuneration for all claims in one financial year.

Opportunities and Risks

Structure and instruments

Like any other company, DAIG is exposed to various opportunities and risks in connection with its business activities. Risks are defined as possible developments or events in the future that could result in a negative outlook/deviation from targets for the company, whereas opportunities are seen as positive deviations from an expected outcome. In order to make appropriate allowances for this situation, the company uses an integrated management approach based on five key pillars.



Strategy

DAIG's risk management is governed by the company's business strategy. In the interests of the company's five main stakeholder groups – customers, employees, investors, society and suppliers – the Management Board pursues a conservative, security-focused risk strategy. Each and every employee is encouraged to act in a risk-conscious manner, i.e. to fully clarify the risk situation in their area of responsibility on the one hand and to handle any risks identified in a responsible manner on the other. Unreasonably high risks are to be avoided. The threshold value for the reporting of new individual risks takes account of the company's conservative strategy and currently amounts to a low value of € 10,000. This allows the company to ensure that suitable measures are taken to avoid, reduce or transfer risks or to consciously accept calculated risks.

Responsibility

The Management Board has overall responsibility for risk management. It decides on the organisational structures and workflows of risk management and provision of resources. It approves the documented risk management findings and takes account of them in steering the company. The Audit Committee of the Supervisory Board monitors the effectiveness of the risk management system. Executives belonging to the first level below Management Board level are appointed as risk owners and, in this role, assume responsibility for the identification, assessment, documentation and communication of all material risks in their area of responsibility. The risk manager coordinates the recording, assessment, documentation and communication of the risks as part of the risk management process. They trigger the periodic risk management process, consolidate the risk reports of the risk owners and prepare the report for the Management Board and the Supervisory Board. The Internal Audit department monitors the risk management function as part of its auditing remit.

This system not only ensures the continued existence of the company but also makes a sustainable contribution to achieving the company's goals. The Management Board is able at all times to identify and assess material risks within the company and in the company's environment in good time as well as to take appropriate counteraction.

Given that the risk situation is virtually unchanged in a year-on-year comparison, the Management Board of Deutsche Annington sees, from today's point of view, no risks which the company cannot suitably combat or which may jeopardise the Group's results of operations, net assets and financial position in a manner that would pose a threat to its existence.

Pillar 1 – Performance Management

High-quality corporate planning and appropriate reporting on operational and financial key performance indicators from Controlling constitute the backbone of the early warning system used at the company. Analyses are made of the business performance compared with the plans approved by the Supervisory Board and the previous year. Furthermore, a forecast is prepared regularly which takes appropriate account of the effect of any potential risks and opportunities on the development of business. Reporting includes detailed monthly controlling reports to the Supervisory Board. The direct operational business is described in regular KPI reports, some of which are drawn up on a weekly basis. On the basis of these reports and the deviations that they highlight between the actual and target figures, countermeasures are implemented and then checked in subsequent reporting periods to ensure they are effective.

Pillar 2 – Compliance Management

Compliance describes the lawful action of the company, its bodies and employees. For the Management Board, compliance with statutory requirements and the observance of internal guidelines are the basis of corporate management and culture. Compliance is to ensure the integrity of employees, customers and suppliers and avoid possible negative consequences for the company.

The management and monitoring of Deutsche Annington is based on the relevant statutory requirements, the Articles of Association and the rules of procedure for the Supervisory Board and the Management Board. They form the basis for the company's internal rules and guidelines, adherence to which is monitored by a central compliance management system and administered by a guideline management team that forms part of the Legal department.

The guidelines describe clear organisational and monitoring structures with specified responsibilities and appropriately installed checks. The legally compliant behaviour of all employees in the business processes is ensured by suitable control procedures and supervision by managers. The company has also put in place a compliance management system based on IDW (Institute of Public Auditors in Germany) standard PS 980 and has appointed a central compliance officer, whose remit focuses on identifying compliance risks, taking suitable measures to

avoid and detect these risks and taking appropriate action in response to compliance risks (compliance programme).

In terms of specific content, the main features of the compliance management system are the Code of Conduct of Deutsche Annington, which focuses on ethical values and statutory requirements and reinforces the personal responsibility of employees, the DAIG Compliance Guidelines and a Business Partner Code setting out requirements that the company's contractual partners have to meet. An external ombudsman is available to all employees and business partners as a person of trust in respect of compliance issues.

At present, we are not aware of any major violations of laws or rules by employees.

Pillar 3 – Risk Management

The risk management system of Deutsche Annington ensures the early identification, assessment, control and monitoring of all material risks within the Group that exceed the short-term financial risks dealt with by the Performance Management pillar and could pose a risk not only to the company's results of operations and net assets, but also to intangible assets such as the company's reputation. This means that potential risks which might impair the value and/or development of the company can be identified at an early stage.

Responsibility for concrete risk control in daily business is decentralised and lies with the first management level below the Management Board, whereas the risk manager is assigned to the CFO division. The risk owners use a systematic process to identify and update all risks in their respective areas on a regular basis. Once validated by the risk manager, these risks are split into five categories: "Economic environment and market-related risks", "Regulatory and legal risks", "Risks related to business", "Financial risks" and "Other risks". The potential damage level and the probability of occurrence are classified within set ranges before action (gross) and after action (net) for each risk and documented in a Group-wide risk register. As with the period used for medium-term corporate planning, the observation period used is five years. Based on the probability of occurrence and the amount of damage arising from the gross and net risk assessments, a score is established for each risk and the risks are prioritised accordingly. The ten risks with the highest score make up the "Top 10 risks". These are included in a separate report that is submitted to the Audit Committee.

Category	Probability	in %	Amount of loss	in € million
I	Unlikely	< 20 %	Low	< 5
II	Possible	21 % to 50 %	Moderate	5 to 25
III	Likely	51 % to 80 %	Considerable	25 to 250
IV	Very likely	> 80 %	High	> 250

The risk management system and the risk register are updated and refined on a regular basis and are also adjusted to reflect changes at the company. The effectiveness of the risk management system is examined in regular audits.

Risk management is documented regularly in a half-yearly risk report, which is made available to the Management Board. The Audit Committee of the Supervisory Board is informed twice a year at its regular meetings about the risk situation and, in particular, about the development of the Top 10 risks. The risk management system is described in a risk reporting policy that is updated on an annual basis.

This reporting system ensures that both managers and supervisory bodies are comprehensively informed and provides relevant operational early warning indicators. In this way, misguided developments can be recognised in good time and counteraction taken at an early stage. Should material risks occur unexpectedly, they are reported directly to the Management Board.

Pillar 4 – Internal Control System

Accounting-based internal control system

The Management Board of DAIG is responsible for the preparation of the annual financial statements, the consolidated financial statements and the combined and group management report. This includes responsibility for the set-up and maintenance of a suitable accounting-related internal control and risk management system.

The aim of the accounting-related internal control and risk management system is to ensure due and proper and legally compliant financial reporting pursuant to the relevant regulations. The accounting-related internal control and risk management system is embedded in the overarching Group-wide risk management system.

Organisationally, preparation of the financial statements is in the area of responsibility of the CFO and in particular of the Accounting department. Therefore, the Accounting department exercises the authority to lay down guidelines for the application of relevant accounting standards as well as for the content and timing of the steps in the financial statements preparation process.

From the organisational and systems side, the preparation of the financial statements for all companies included in the consolidated financial statements as well as the preparation of the consolidated financial statements themselves are performed in the central shared service centre of the Accounting department, which ensures consistent and continual application of accounting policies in a uniform financial statement preparation process. Furthermore, through the shared service centre it is ensured that both content and organisational changes in the requirements are incorporated in the financial statement preparation process.

The financial statements of all companies included in the consolidated financial statements are located in a computerised SAP environment with a uniform system configuration and are thus subject to uniform charts of account, accounting guidelines, processes and process controls. The requirement of separation of functions and the four-eyes principle are taken appropriate account of with preventive and also subsequent checks.

Finally, the relevant financial statement data of the individual companies are made available to the SAP consolidation module via an integrated, automated interface with comprehensive validation rules for further processing and preparation of the consolidated financial statements. A comprehensive authorisation concept is in place granting access to the financial statements in line with the respective job profile of the employee.

Newly acquired companies are immediately incorporated into the internal control environment as part of a structured integration process, which includes integration in terms of both IT systems and processes relating to financial statements. The prepared consolidated financial statements and the single financial statements of the companies included then constitute the authoritative source of data for internal analysis and external communications.

Once the financial statements have been drawn up, the annual and consolidated financial statements, including the consolidated management report, are submitted to the Audit Committee of the Supervisory Board. The Committee then makes a recommendation to adopt or approve them. This examination may include the auditor's presence at the committee meeting and is subject to the auditor's report. The Audit Committee is continually involved in the establishment and refinement of the accounting-related internal control and risk management system.

Process documentation

All of DAIG's core processes were identified in detail centrally as part of the 2013 IPO and documented in full using the ARIS software solution. This documentation highlights opportunities and risks in the interests of a process-oriented internal control system, providing a starting point for a process of continuous improvement in operational business.

Pillar 5 – Internal Audit

The effectiveness of the system and control environment, as well as the internal control system, is checked on a regular basis by the Internal Audit department. Internal Audit's annual audit plan is drawn up on a risk-oriented basis, taking particular account of the company's risk atlas, and is approved by the Management Board/Audit Committee of the Supervisory Board. The audits conducted throughout the year focus on assessing the effectiveness of the control and risk management systems, as well as identifying process improvements in order to minimise risks. Audits are also conducted in consultation with the compliance officer. The internal audit reports are provided to the Management Board, the responsible head of the audited department and the risk manager on a regular basis. The Audit Committee receives a quarterly summary of the audit results. The implementation status of all jointly approved improvement measures is checked on an ongoing basis after the relevant due dates and reported to the Management Board and to the Audit Committee of the Supervisory Board at their regular meetings.

Current assessment of material risks

At its ordinary meeting for the fourth quarter of 2014, the Audit Committee confirmed the overview of the Top 10 risks of all the risks identified for the reporting period, submitted by the Management Board:

No.	Risk	Risk category	Net potential impact
1	Damaged reputation and inadequate customer satisfaction	Economic environment and market-related risks	Material
2	Act limiting rents to 110 % of the standard local comparative rent when properties are relet	Regulatory and legal risks	Moderate
3	Act reducing the modernisation allocation with fixed amortisation	Regulatory and legal risks	High
4	Wrong/uneconomic investment decisions on real estate acquisitions	Risks related to business	Material
5	Material impact of legal disputes	Regulatory and legal risks	Moderate
6	Incorrect determination of the fair value of our properties	Risks related to business	Material
7	Inadequate IT security – unauthorised external and internal access	Risks related to business	Material
8	Incorrect decisions/high risk propensity with regard to significant investment decisions (excluding real estate acquisitions)	Risks related to business	Low
9	Incorrect invoicing of ancillary costs	Risks related to business	Low
10	Insufficient monitoring of special contractual rights	Risks related to business	Moderate

Economic environment and market-related risks

Deutsche Annington Immobilien SE owns properties in more than 500 municipalities throughout Germany. As a result of this geographical spread, the company's portfolio includes properties in locations with limited potential in terms of growth and population development. These market developments come hand-in-hand with the risk of limited return opportunities in the long term. A dedicated "Non-Core" selling programme, which forms part of our portfolio strategy, represents an effective response to this risk by gradually reducing the number of such properties in our portfolio.

The reputation (risk 1) of a company is of crucial importance for establishing business connections. A bad reputation may make it more difficult to let our residential units or lead to the termination of rental contracts. Furthermore, on the financing side, there is the risk that the raising of capital could be impaired. Deutsche Annington takes reputation and customer satisfaction very seriously and counteracts this risk with a large number of measures. For example, customer satisfaction is measured on a quarterly basis and is monitored using the performance indicator CSI in order to identify potential problems at an early stage. Improvements to the process workflows and quality initiatives increase customer satisfaction. Active public relations work helps to communicate the efforts made to improve customer satisfaction and increase Deutsche Annington's reputation.

Regulatory and legal risks

We closely follow planned amendments to laws, as our business activities are above all subject to tax, environmental, tenancy and building law. Any adverse changes in the legal environment, such as mandatory environmental modernisation requirements or restrictions regarding modernisation measures or provisions (including taxes), that result in the incurrence of costs in the event of a property sale may be detrimental to the business activities of Deutsche Annington.

The German lower house (Bundestag) is currently debating a specific draft bill ("rent ceilings") that includes the introduction of a cap on rents when properties are relet, limiting them to a level that is no more than 10 % above the standard local comparative rent in tight housing markets for a period of five years (risk 2). If this draft bill is passed and then implemented by German federal states and local authorities, there is a risk that the potential for rent increases in relation to relet properties would change, potentially limiting the scope for such increases,

for all market participants, i.e. also for Deutsche Annington Immobilien SE. In addition to this draft bill, there are also plans for a second act – which has not yet been set out in detail – that would revise the existing provisions that apply to rent increases connected with improvements in property value following modernisation (Section 559 of the German Civil Code (BGB)) (risk 3). In particular, plans to limit the amortisation period for all investments to a period of ten years – thus essentially quashing any chances of a profitable investment – entail a significant risk for all market participants, including for Deutsche Annington Immobilien SE.

Deutsche Annington is subject to the general tax environment in Germany. The Group's tax burden may increase as a consequence of future tax treatment of dividend payments, current or future tax assessments, tax audits or court proceedings based on changes in tax laws or changes in the application or interpretation thereof. The extent of the corresponding risk depends on the legislation.

Deutsche Annington Immobilien SE is involved in litigation resulting from normal business activities. In particular, this involves disputes under the law of tenancy and sales disputes. None of the legal disputes, taken in isolation, will have any material effects on the net assets, financial position or results of operations of Deutsche Annington Immobilien SE. There is, however, a risk of a material legal impact (risk 5) resulting from the simultaneous effect of a large number of individual cases, even if these are minor cases when taken in isolation.

Risks related to DAIG's business

Deutsche Annington faces risks in connection with possible acquisitions and investments (risk 4). These risks include unexpected cases of liability, greater indebtedness, higher interest expenses, and challenges with respect to integrating acquisitions into the procedural landscape and achieving anticipated synergies. Furthermore, portfolios or real estate companies that may be acquired in the future may not develop as favourably as expected. By applying complex, quality-assured investment models during the investment decision process, we counter the risk of uneconomic real estate acquisitions. These models not only take the purchase price and the financing cost into consideration but also regional scenarios for regular maintenance and the development of rents. The extent of any risks which manifest themselves may be significant, even though comprehensive professional due diligence is performed when acquisitions are made. DAIG's response to the risk associated with procedural integration is a systematic and structured integration process.

The determination of the fair values of our housing stocks is subject to assumptions which may deviate from our current expectations. Should, for example, the estimate of the micro-location of the buildings and the quality of the macro-location deteriorate or the current low interest rate level start to edge up, the fair value of our entire real estate portfolio would decrease (risk 6). As far as our investment properties are concerned, changes in value are reported in the income statement as increases or decreases in value. This means that they have a direct impact on the company's net assets, financial position and results of operations. We counter the associated risk of error with a separate department for internal determination of fair value. This department works in line with the standards that apply to professional property appraisers. What is more, our fair values are checked or calculated on neutral terms by professional, external and independent valuation companies which, in turn, work in line with professional rules and regulations.

By optimising sales processes, improving the apartment handover inspections and continually upgrading the properties we offer to suit the tenants' needs, we have further reduced our voids and thus the vacancy risk. Before renting out a property, we check the credit standing and assess the disposable income of the potential tenant to minimise our rent default risk. We are interested in as long a tenancy as possible.

The computer systems of Deutsche Annington are exposed to general IT security risks, in particular the risk of unauthorised access from outside and within the company (risk 7). There is the risk that the computer systems may not work properly or may be impaired as a result of such interference or other manipulations.

There is the risk that the management may make wrong investment decisions as a result of insufficient information or lack of knowledge of the facts (risk 8). Deutsche Annington counters this risk with clear instructions for action and rules governing powers and responsibilities. Responsibility for the business is decentralised to permit better local decision-making.

Inaccuracies in the annual ancillary cost bills (risk 9) issued to the customers of Deutsche Annington Immobilien SE have an impact on the company's reputation and customer satisfaction, both when tenants are charged too much and also impact the company's results of operations when tenants are charged too

little. The absolute amount of the billing volume and the individual nature of some billing rules, particularly in old rent agreements, influence the potential impact of the risk considerably. We respond to this risk using standardisation and certification (ISO, Geislinger Konvention agreement reached by a housing industry working group), regular training and quality controls at all critical points in the process.

Some contracts on the acquisition of properties contain restrictions (risk 10) on rent increases and selling programmes and/or require minimum investments in maintenance. Employee-based special protection rights set out in individual contracts rank among these restrictions. Any violation of these requirements could lead to significant contract penalties. The existing control network and provisions in place both within the company and with major contractual partners help to further reduce the risk.

As far as possible, risks to the building stocks as well as from the operational business are covered by appropriate insurance. The adequacy of the insurance cover is continuously checked by an external specialist company.

Financial risks

Deutsche Annington is reliant on how the German economy develops. The demand for properties and the refinancing of property-related liabilities depend to a considerable degree on expected interest rate developments. The current macroeconomic environment is characterised by low interest rates and comparatively high valuations of residential real estate portfolios in Germany. Any rise in interest rates, however, could have adverse effects on the German real estate market and on Deutsche Annington. Should interest rates rise considerably in the years to come or the banks become less inclined to grant loans for the acquisition of properties, this may have a negative effect on demand for residential properties or the refinancing of property finance, as well as on property valuations.

To limit the financial risks, we continuously monitor the financial markets and are also in constant contact with many different market players. Furthermore, we continually monitor all financing options available on the capital and banking markets. We expect to be able to refinance the necessary volumes by making use of all financing instruments in the future, too.

Our external loans are normally subject to loan conditions that are customary on the market (covenants) which, on the one hand, require adherence to defined key financial ratios but can also, for example, restrict the sale of properties or prescribe minimum selling prices. DAIG also has to adhere to the conditions required to maintain the credit rating awarded by rating agencies, which also relate mainly to compliance with certain key financial ratios. As a result, adherence to the relevant loan conditions is monitored and reported on an ongoing basis.

Some of our borrowings are loans granted by promotional banks, which limit rent increases and thus our business options. Here, we pay strict attention to compliance with all covenants but use any scope available to us.

As part of the financial risks, we are also exposed to a liquidity risk. Our liquidity management is based on daily cash management of our bank accounts, a weekly financial flexibility status and rolling liquidity planning on a monthly basis, allowing for the relevant restrictions. The regular positive cash flows from our core business do not indicate any particular liquidity risk in the forecast period.

Overall, as at the reporting date, Deutsche Annington Immobilien SE has sufficient liquid funds and potential financing options to guarantee the Deutsche Annington Immobilien SE Group's ability to pay at all times.

In the normal course of business, Deutsche Annington Immobilien SE is exposed to interest rate risks. The liabilities with variable interest rates expose the Group to a cash-effective interest rate risk. The company uses derivative financial instruments in order to limit or eliminate these risks. The purpose of these financial instruments is to hedge interest rate risks in connection with existing loans and they may never be used for speculation. For a description of the derivative financial instruments, we refer to the Notes to the consolidated financial statements, note (38) (Derivative financial instruments).

Other risks

Deutsche Annington could be exposed to risks from residual pollution, including mining damage, soil conditions, wartime ordnance and contaminants in building materials as well as possible building code violations. Moreover, Deutsche Annington is the owner and/or property manager of a large number of buildings in the Ruhr area which are situated in the area of near-surface mine workings where the overburden layers are only thin, predominantly in the Essen/Bochum/Dortmund region. These mine workings may represent risks of damage to the surface and/or structures (e.g. traffic routes, buildings etc.). Deutsche Annington counters this economic and liability risk by having inspections of all houses in the area of near-surface mining works systematically conducted by external experts. On the basis of the inspection findings and the opinions of external experts, the properties classified as subject to risks are examined for mining damage, which is immediately rectified where necessary. Proof of stability and public safety is then confirmed in an expert opinion.

At the time this report was drawn up, there were no risks in connection with future development that were identified as posing a risk to the survival of DAIG SE, a major company included in the scope of consolidation or the Group as a whole. Compared with the previous year, the estimated probability of occurrence and/or possible financial impact of some risk areas/some opportunity areas has increased slightly. Nevertheless, there are no fundamental changes to the risk or opportunity situation on the whole.

Risks relating to the planned merger with the GAGFAH Group

Since the approval of the updated risk report by the Deutsche Annington Audit Committee in October 2014, additional risks that extend beyond the issues set out in risk 4 of the Top 10 have arisen as a result of the public takeover offer made to the shareholders of the GAGFAH Group, which was announced on December 1, 2014.

Risks relating to the market and environment

The merger of two of the three largest listed housing companies in Germany will create an even more high-profile market participant that could find itself more of a target for demands made by political and social players than in the past. This could have a negative impact on the company's reputation, particularly during the integration phase following the merger of the two companies.

The new company will have properties in a larger number of regions than either of the two individual companies in the past. From Deutsche Annington's perspective, for example, the proportion of properties located in eastern, northern and south-western Germany will increase significantly. This new portfolio structure could prove to be more sensitive to property market developments that deviate from current forecasts and to economic developments in Germany, resulting in negative changes to key asset ratios.

Regulatory and legal risks

The planned merger of the two companies depends on various regulatory and legal requirements being met within a certain period of time. Delay within this context could jeopardise or result in major changes to the time frame, costs, strategy and, in particular, the planned exploitation of synergy potential.

In addition, shareholders of GAGFAH could take legal action against the takeover under certain circumstances. Each or a combination of these scenarios would mean that the takeover offer would only be accepted on less favourable conditions, or would not be accepted at all. Both scenarios would have an impact on the net assets of both companies.

The company valuation of the GAGFAH Group by Deutsche Annington Immobilien SE is based exclusively on sources that are publicly available. In the event of a successful takeover, there is a risk that circumstances and documents/contracts could come to light during the integration process which, when considered, result in material changes to the original company valuation and/or the costs or time frame of the integration process.

Risks related to business

One of the main arguments behind the merger of the two companies lies in the potential for exploiting financial and operational synergy effects. On the operational side, IT and process-related efficiencies are expected to be created in the areas of rental, administration, management and procurement, with the capacity utilisation of the much larger nationwide craftsmen's organisation also expected to be optimised. On the financial side, economies of scale are expected to be realised in the form of lower financing costs. The realisation of this synergy potential, of course, comes hand in hand with risks. After all, the actual integration costs could turn out to be higher than planned, the integration process could take longer than expected, and mistakes made when the synergy volume and time frame were originally planned could result in negative deviations. The merger could also result in key employees leaving the company, meaning that crucial expertise required for the successful implementation of the promised advantages would be lost. This sort of development would have a negative impact on the company's net assets and results of operations.

Financial risks

The purchase price for the takeover of GAGFAH is also based on certain synergies and assumptions on the net assets of GAGFAH.

The takeover of the GAGFAH Group is expected to result in goodwill. Goodwill has to be subject to regular impairment testing. The absolute level of goodwill depends on a variety of factors, e.g. the acceptance rate for the takeover offer among GAGFAH shareholders or the final amount of GAGFAH's net assets. If these tests were to reveal deviations between the value and the purchase price, this would result in goodwill write-downs and, as a result, would have a direct impact on the results of operations and net assets.

The financing of the takeover is based on certain conditions and timescales on which the issue of debt capital and equity running into the billions rests. In the event of certain changes to these conditions and timescales, some of the planned financing may no longer be available. This could make the transaction more expensive or even result in it not coming to fruition at all if alternative financing instruments cannot be issued in time.

The GAGFAH Group's existing financing arrangements could include certain clauses that apply in the event of a takeover that stipulate that loans have to be paid back early, convertible bond creditors are awarded premature rights or that other change of control mechanisms, e.g. prepayment penalties, come into force. These events could give rise to substantial financial expenses incurred to realise the takeover and could also limit Deutsche Annington in its own financing efforts.

The takeover of the GAGFAH Group largely results in three tax-related risks. First, the company's results of operations could deteriorate because land transfer tax falls due. Second, it may prove impossible, under certain circumstances, to report any of GAGFAH's tax-related loss carryforwards or deferred taxes, which would have a negative impact on the net assets and results of operations. Third, circumstances could arise in which the Group's tax payments increase considerably due to the provisions governing what is known as the "interest rate cap".

If the takeover offer were to fail, DAIG would be left with costs resulting from the termination of the project.

Current assessment of the main opportunities

Economic environment and market-related opportunities

The demand for affordable accommodation is largely determined by demographic factors and the economic climate. According to the Federal Statistical Office, the trend in Germany is towards increasingly smaller households. One- to two-person households have made up the largest group for more than three decades now, and their share is increasing almost continuously. Both younger and increasingly also older people live alone. While the number of one- and two-person households is growing virtually constantly, the number of households with more than two people is declining. According to the 2030 Regional Planning Forecast of the Federal Institute for Research on Building, Urban Affairs and Spatial Development (BBSR), which was published in 2012, the population will decrease slightly in the period up to 2025 but the number of private households will continue to rise. Developments are also expected to vary considerably from region to region. Whilst the number of households in the old West German states will increase until 2030, a decrease is to be expected in the new German states (former East Germany).

The Federal Statistical Office estimates that Germany's population increased again in 2014. The reason for this is what is expected to be repeated high positive net migration, which can more than compensate for the birth deficit (difference between births and deaths). The main reason for the positive net migration is, according to the Leibniz-Informationszentrum Wirtschaft (ZBW, 2013), the unusual economic situation in Europe, which is leading to a sharp rise in unemployment in some parts of Europe and resulting in migration movements. Therefore, Germany should increasingly benefit from high positive net migration in the years to come.

In view of these trends, demand and market opportunities for existing small- and medium-sized apartments may increase. With 86 % of its entire real estate portfolio covering an area < 80 m² and 96 % located in the former West German states including Berlin, Deutsche Annington could profit from this rising demand.

In addition, the continued strained situation on the housing market in certain metropolitan areas may lead to government decisions to extend housing or rent subsidies. This may have positive effects on the business activities of Deutsche Annington in some regions.

Opportunities arising from the business

Today, we already provide a considerable part of the repair and maintenance services for our residential properties with our own craftsmen's organisation. We intend to extend the scope of these services to all kinds of technical work including the modernisation of buildings and apartments and thus bring added value from these services to Deutsche Annington. There is also the option of extending the range of services provided by our own employees to cover the maintenance of a building's surroundings.

By offering our tenants the option of targeted modernisation measures in their own homes, we can boost customer satisfaction and help promote longer-term loyalty to the company. This also allows us to further improve the quality of the homes we offer.

We already supply around 100,000 households with a direct cable TV signal, approx. 55,000 of which via our cooperation with Deutsche Telekom. We expect to extend this business in the coming years and also provide broadband data access. Moreover, there might be potential for additional added value resulting from other housing-related services which provide benefit for our customers such as heat and power generation and metering directly on-site.

Deutsche Annington manages its housing stocks throughout Germany using standardised systems and processes. The acquisition of further residential real estate portfolios, similar to the acquisition of DeWAG and the Vitus Group, offers the opportunity to generate additional value through economies of scale on the property management side by reducing the costs per residential unit. Therefore, we watch the market very closely for acquisition portfolios and assess them on the basis of our strict success criteria.

We also see targeted small-scale „tactical“ acquisitions of single or multiple buildings as an opportunity to improve the nature and quality of whole residential districts and thus increase the appeal of our apartments for our customers and the value of our residential properties. There is also the option of constructing new buildings on land that we own and adding additional floors to existing buildings in order to expand Deutsche Annington's housing supply in metropolitan areas, which also allows us to help reduce the short supply of housing in urban locations.

Financial opportunities

Deutsche Annington's financing depends on the conditions on the capital market which are very favourable at the moment due to the low interest rates. Nevertheless, we always strive to further improve the financing costs while maintaining our credit rating performance indicators and the desired financing structure. Even though a further fall in interest rates currently appears unlikely, such a development would open up opportunities to further reduce our financing costs.

The internal determination of the fair values of our residential properties not only takes account of building-specific parameters but also location features in the valuation. In view of the above-mentioned possible rising demand with the supply of affordable accommodation remaining virtually the same, the assumptions we are currently making for determining the fair values could be exceeded in the positive sense and lead to a higher fair value of our residential real estate. This would have a direct positive impact on the results of operations of our company.

Opportunities relating to the planned merger with the GAGFAH Group

As a result of the merger with GAGFAH, which was announced on December 1, 2014, there is an opportunity to create a new industry leader on the German real estate market, one which will rank among the Top 3 European listed real estate companies in terms of market capitalisation. The merger will offer an opportunity to significantly expand the group of shareholders thanks to increased market appeal and, as a result, to generate further growth.

Another opportunity will result from the realisation of the targeted operational synergies. We can create further value for our customers by implementing more efficient rental and administration processes, realising economies of scale by using our integrated SAP system and exploiting procurement advantages thanks to the ability to negotiate larger volumes. The expansion of our in-house craftsmen's organisation and additional service offerings offer efficient, cost-effective opportunities to keep more satisfied tenants with us in the long term. Financing synergies will give us the opportunity to further reduce the costs associated with loans and further improve our S&P investment grade rating.

Forecast Report

Further course of the Group

Expected development of the overall economic environment

Return to stronger economic growth following economic dip

Following a buoyant start to the year and a weaker phase in the summer, the economic situation in Germany had stabilised again by the end of 2014, according to the German Federal Statistics Office. Gross domestic product was up by 1.5 % in 2014, after price adjustments, compared with the previous year. The German Bundesbank says that the German economy is still in good shape and could expand by 1 % in 2015 and 1.6 % in 2016 in terms of real gross domestic product.

Economic growth in Germany is only expected to pick up slowly. The possibility of increased growth momentum on the German economy in the course of 2015 depends to a considerable degree on the international environment. If the economic recovery in the eurozone gathers pace and global trade starts to pick up again, the Bundesbank believes that additional opportunities could present themselves for Germany. With their relatively low debt level, balanced price-cost ratios and presence on all key markets with attractive product ranges, German companies should be in a position to exploit any opportunities that arise. Given the very favourable financing conditions, this should also have an impact on investment activity. Based on the ECB's resolutions – the ECB reduced the base rate to 0.15 % in June 2014 and 0.05 % in September 2014 – the monetary environment remains expansive. Although the residential construction sector has cooled off, it remains on an upward trajectory in principle. The domestic economy is in good shape, with unemployment at a low level and real wages charting a marked increase. Private consumption will provide a reliable boost to domestic demand. We also expect to see a more substantial increase in public spending. In the medium term, the unfavourable demographic outlook will put pressure on the German economy, with political moves, such as the "retire at 63" option, already reducing the supply of labour.

Risks to the forecasted growth can be found in increased geopolitical tension, the risk of abrupt adjustment processes on some emerging markets prompted by the financial markets, and in connection with the emerging recovery in the eurozone, which remains fragile.

Housing market: Less momentum in price development

According to experts from the German Real Estate Association (IVD), both the development in prices for residential property ownership and the development in rents under new contracts have lost momentum. According to the Association of German Pfandbrief banks (vdp), fewer dynamic price increases are expected in the coming years. Experts from Deutsche Bank Research expect to see the price of apartments increase by 4.0 % (existing properties) and 5.0 % (new properties), and rents to rise by 1.8 % (existing properties) and 3.0 % (new properties) across Germany in 2015.

Although experts from the research institute, empirica, have confirmed that the autumn of 2014 did not result in any bubbles emerging in Germany, it pays to be cautious. The empirica bubble index has already identified a "moderately high" risk of bubbles in some of Germany's largest cities. According to estimates by the analysts of Universalbank Nord/LB, the price rise on the German housing market must be seen as moderately relative to its own history and in particular to earlier interna-

tional developments. The price development reflects the scarcity of supply and is fundamentally self-explanatory. Experts at Deutsche Bank believe that there are solid reasons for the high demand and the resulting price increase in metropolitan areas: few investment alternatives offering stable returns, the continuation of low interest rates on housing construction loans, low unemployment and higher incomes are making it easier for people to buy property, with the demand for residential space being boosted by both immigration and the trend towards urbanisation. In a long-term comparison, property ownership in Germany remains affordable on the whole. Higher house prices counteract growing disposable incomes and lower interest rates.

According to information supplied by experts from Immobilienscout24, the impact of the rent ceilings that the legislature decided upon in early October 2014 remains to be seen. Deutsche Bank Research believes that the lack of supply, which is likely to continue for years, will remain the main feature driving the current real estate cycle. In this respect, the rent ceilings are unlikely to alleviate the situation, but instead are more likely to exacerbate the short supply even further.

Upswing in residential construction in Germany

According to IVD, the pick-up in new construction activity is not enough to keep pace with the growing population: the pressure on the market is rising, which is having a knock-on effect on price developments. According to the Minister of Building and Construction, Barbara Hendricks (SPD), there is a lack of affordable residential space in Germany's metropolitan areas. The European research and consultancy network EUROCONSTRUCT forecasts a rise in new-build completions from an estimated 215,000 residential units in 2014 to 255,000 residential units in 2016.

Expected business development

Comparison of the forecast made in 2013 with the results for 2014

The 2014 financial year was a very successful one for Deutsche Annington. We were able to considerably expand our portfolio with the acquisitions of DeWAG and Vitus. As a result, we clearly outstripped the forecast expectations for the 2014 financial year set out in our group management report for 2013.

The following table provides an overview of business developments, the forecast published in the 2013 Annual Report and the last forecast published.

	2013	Forecast for 2014 in the 2013 annual report	Last forecast for 2014 in the 2014 Q3 report	2014
NAV	€ 4,782 million (in accordance with Def. 2013)	Increase of 2.3 – 2.6 %	Incl. DeWAG/Vitus increase 15 %	€ 6,578 million
FFO 1	€ 223.5 million	€ 250 – 265 million	at the upper end of € 275–285 million	€ 286.6 million
CSI	Indexing 100 %	Increase of up to 5 %	Increase of up to 5 %	Increase of 5.7 % (=+3 index points
Monthly in-place rent €/m² (like-for-like)	€ 5.40	Increase of 2.3 – 2.6 %	Increase of 2.3 – 2.6 %	2.5 %
Vacancy rate	3.5 %	ca. 3.5 %	3.5 %	3.4 %
Maintenance and modernisation work incl. capitalised maintenance	€ 157.6 million	ca. € 160 million	ca. € 170 million	€ 173.8 million
Modernisation	€ 70.8 million	ca. € 150 million	ca. € 160 million	€ 171.7 million
Number of units sold thereof Privatisation	2,576	Significantly below previous year	At the upper end of 2,000 – 2,100	2,238
Step-up Privatisation	24.9 %	Slightly below previous year	ca. 35 %	37.6 %
Number of units sold thereof Non-Core	4,144	Continue opportunistic sales	Continue opportunistic sales	1,843
Step-up Non-Core	-1.2 %	At previous year's level	At previous year's level	10.9 %

Forecast for the 2015 financial year

Our forecast for the 2015 financial year is based on the corporate planning described in the chapter on our management system. These plans have taken appropriate account of possible opportunities and risks associated with the company's future development, meaning that they reflect realistic expectations.

Beyond this, the Group's further development remains exposed to general opportunities and risks. These have been described in detail in the chapter on opportunities and risks.

The planning for the 2015 financial year is based on the above-mentioned assumptions on the development of the overall economy and on the development of the real estate market in Germany.

All in all, we plan to further expand on our leading position on the German residential property market in the coming financial year. We want to offer our customers a "home" with the best possible service and fair rental prices. We want to ensure that our investors receive a return that is commensurate with the risk involved in 2015, too.

We will continue to increase the value of our company in 2015. Compared with the € 6,578.0 million net asset value at the end of December 2014, we expect to see an increase of up to 4 % or an NAV per share of € 24 to € 25 in the course of 2015.

We also plan to continue to improve our long-term operational earnings power significantly in the year ahead, also thanks to the acquisitions we made in 2014. As far as the FFO 1 is concerned, we expect to see an increase from € 286.6 million in 2014 to € 340 million to € 360 million, or from € 1.25 to € 1.33 per share. The values forecast include the acquisitions of the DeWAG and the Vitus Group that were completed in 2014, as well as the share from the Franconia acquisition in 2015. Our forecast does not include the merger with GAGFAH or any other large-scale acquisitions of further property portfolios.

We will continue to aim to improve our customer service in 2015. As a result, we expect our customer satisfaction index, CSI, to improve further by 5 % compared with 2014, or by 12 % compared with our reference year, 2013.

In the Rental segment, we aim to continue to systematically pursue our strategy in 2015 and invest in our portfolio of properties. We plan, for example, to once again considerably boost our investment programme, from more than € 170 million in 2014 to more than € 200 million. The focus will remain on energy-efficient modernisations, the refurbishment of units to improve the standard of comfort and on senior-friendly conversions. In addition to these investments, we plan to perform ongoing maintenance work, including capitalised maintenance, with a volume of around € 200 million. All in all, this corresponds to an investment volume of over € 400 million, or € 31 per m² in 2015. We are expecting an increase from 2.6 % to 2.8 % in the monthly in-place rent per square metre like-for-like in 2015. We also expect to see a vacancy rate of around 3.3 % at the end of 2015. All in all, we predict that our rental income will increase by more than € 100 million from € 789.3 million in 2014 to between € 880 and € 900 million.

As far as the net cash interest payments excluding non-recurring results (interest expense FFO) are concerned, we expect to see a level that is up slightly on the € 209.3 million interest expense FFO for 2014 due to the acquisitions in 2014.

In the Sales segment, we will continue to pursue our strategy of selective disposals. In Privatisation, we expect around 1,600 apartments to be sold with a step up on the fair value of these apartments of around 30 %. We will also continue to sell buildings in the non-core segment at prices that are roughly in line with the fair value in 2015, insofar as corresponding opportunities present themselves.

We plan to distribute a dividend corresponding to around 70 % of the FFO 1 in 2015.

Düsseldorf, February 25, 2015

Rolf Buch	Klaus Freiberg	Dr A. Stefan Kirsten
(CEO)	(COO)	(CFO)

Consolidated Financial Statements

As at the reporting date, the Group had a stable financial and asset position. With total assets up by € 3.7 billion to total € 14.8 billion, the equity ratio rose from 34.4 % to 40.4 %. The total value of the real estate assets – including properties used by the Group and assets held for sale – amounts to € 12.8 billion. Cash and cash equivalents amounted to € 1.6 billion at the end of the year and resulted from the inflows associated with share placements, the issue of the hybrid bonds and the bond placement.

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Consolidated Income Statement

January 1 to December 31

€ million	Notes	2014	2013
Income from property letting		1,138.4	1,048.3
Other income from property management		18.2	19.3
Income from property management	6	**1,156.6**	**1,067.6**
Income from sale of properties		287.3	353.5
Carrying amount of properties sold		-243.4	-325.8
Revaluation of assets held for sale		25.1	24.3
Profit on disposal of properties	7	**69.0**	**52.0**
Net income from fair value adjustments of investment properties	8	**371.1**	**553.7**
Capitalised internal expenses	9	85.6	42.0
Cost of materials	10	-542.6	-502.8
Personnel expenses	11	-184.6	-172.1
Depreciation and amortisation	12	-7.4	-6.8
Other operating income	13	65.3	45.8
Other operating expenses	14	-152.4	-104.2
Financial income	15	8.8	14.0
Financial expenses	16	-280.3	-299.6
Profit before tax		**589.1**	**689.6**
Income tax	17	-179.4	-205.4
Profit for the period		**409.7**	**484.2**
Attributable to:			
DAIG shareholders		401.4	480.2
DAIG hybrid capital investors		1.2	–
Non-controlling interests		7.1	4.0
Earnings per share (basic and diluted) in €	18	**1.64**	**2.26**

Consolidated Statement of Comprehensive Income

January 1 to December 31

€ million	2014	2013
Profit for the period	**409.7**	**484.2**
Cash flow hedges		
Change in unrealised gains/losses, net	38.5	-16.7
Net realised gains/losses	-81.7	42.1
Tax effect	12.1	-5.5
Available-for-sale financial assets		
Changes in the period	–	-0.1
Taxes on changes in the period	–	0.0
Items which will be recognised in profit or loss in the future	-31.1	19.8
Actuarial gains/losses from pensions and similar obligations		
Change in actuarial gains/losses, net	-58.1	23.6
Tax effect	19.6	-7.2
Items which will not be recognised in profit or loss in the future	-38.5	16.4
Other comprehensive income	-69.6	36.2
Total comprehensive income	**340.1**	**520.4**
Attributable to:		
DAIG shareholders	331.8	516.4
DAIG hybrid capital investors	1.2	–
Non-controlling interests	7.1	4.0

Also see the corresponding explanations in the Notes

Consolidated Balance Sheet

€ million	Notes	Dec. 31, 2014	Dec. 31, 2013
ASSETS			
Intangible assets	19	108.5	3.8
Property, plant and equipment	20	29.0	20.7
Investment properties	21	12,687.2	10,266.4
Financial assets	22	93.2	42.5
Other assets	23	47.0	16.1
Income tax receivables	24	0.1	0.1
Deferred tax assets	17	15.0	3.0
Total non-current assets		**12,980.0**	**10,352.6**
Inventories	25	2.2	2.5
Trade receivables	26	65.1	103.5
Financial assets	22	2.0	2.1
Other assets	23	77.5	26.3
Income tax receivables	24	13.8	12.1
Cash and cash equivalents	27	1,564.8	547.8
Assets held for sale	28	53.8	45.9
Total current assets		**1,779.2**	**740.2**
Total assets		**14,759.2**	**11,092.8**

€ million	Notes	Dec. 31, 2014	Dec. 31, 2013
EQUITY AND LIABILITIES			
Subscribed capital		271.6	224.2
Capital reserves		2,076.0	1,430.1
Retained earnings		2,643.4	2,178.5
Other reserves		-58.4	-27.3
Total equity attributable to DAIG shareholders		**4,932.6**	**3,805.5**
Equity attributable to hybrid capital investors		1,001.6	–
Total equity attributable to DAIG shareholders and hybrid capital investors		**5,934.2**	**3,805.5**
Non-controlling interests		28.0	12.5
Total equity	29	**5,962.2**	**3,818.0**
Provisions	30	422.1	342.6
Trade payables	31	1.0	0.3
Non-derivative financial liabilities	32	6,539.5	5,396.0
Derivative financial liabilities	33	54.5	69.4
Liabilities from finance leases	34	88.1	87.6
Liabilities to non-controlling interests	35	46.3	0.0
Other liabilities	36	8.6	9.8
Deferred tax liabilities	17	1,132.8	925.0
Total non-current liabilities		**8,292.9**	**6,830.7**
Provisions	30	211.3	148.6
Trade payables	31	51.5	47.6
Non-derivative financial liabilities	32	125.3	198.8
Derivative financial liabilities	33	21.9	9.0
Liabilities from finance leases	34	4.4	4.3
Liabilities to non-controlling interests	35	7.5	0.0
Other liabilities	36	82.2	35.8
Total current liabilities		**504.1**	**444.1**
Total liabilities		**8,797.0**	**7,274.8**
Total equity and liabilities		**14,759.2**	**11,092.8**

Also see the corresponding explanations in the Notes

Consolidated Cash Flow Statement

January 1 to December 31

€ million	Notes	2014	2013
Profit for the period		409.7	484.2
Net income from fair value adjustments of investment properties	8	-371.1	-553.7
Revaluation of assets held for sale	7	-25.1	-24.3
Depreciation and amortisation	12	7.4	6.8
Interest expenses/income		274.9	288.3
Income taxes	17	179.4	205.4
Results from disposals of investment properties		-43.9	-27.6
Results from disposals of other non-current assets		–	0.9
Transactions costs (cash paid) for the acquisition of shares in consolidated companies	3	10.1	–
Other expenses/earnings not affecting net income		0.4	0.8
Changes in inventories		0.4	-1.7
Changes in receivables and other assets		-11.8	-0.3
Changes in provisions		11.0	-2.9
Changes in liabilities		27.0	9.3
Payments of tax liabilities (EK02)		-	-114.7
Income tax paid		-5.1	-10.9
Cash flow from operating activities		**463.3**	**259.6**
Proceeds from disposals of investment properties and assets held for sale		329.6	270.3
Proceeds from disposals of intangible assets and property, plant and equipment		0.1	0.2
Disposal of shares in consolidated companies (net of cash inflow)	3	37.0	-
Proceeds received from disposals of financial assets	22	0.8	0.9
Acquisition of investment properties	21	-241.0	-94.9
Acquisition of intangible assets and property, plant and equipment	19/20	-9.5	-8.3
Acquisition of shares in consolidated companies (net of cash outflow)	3	-236.0	-0.1
Acquisition of financial assets		-1,074.3	-
Interest received		5.3	3.2
Cash flow from investing activities		**-1,188.0**	**171.3**

€ million	Notes	2014	2013
Capital contributions on the issue of new shares (including premium)	29	1,024.0	400.0
Cash proceeds from hybrid capital investors	29	990.2	–
Cash paid to shareholders of DAIG SE	29	-168.2	–
Cash paid to non-controlling shareholders		-11.5	-5.1
Cash proceeds from issuing financial liabilities	32	1,702.3	6,525.0
Cash repayments of financial liabilities	32	-1,525.9	-6,876.3
Payment of transaction costs in connection with the issue of shares		-9.3	-20.6
Other transaction costs		-30.2	-123.9
Prepayment penalty and commitment interest		-44.6	-27.5
Disposal/Acquisition of shares in consolidated companies (net of cash inflow)		2.9	–
Interest paid		-188.0	-224.8
Cash flow from financing activities		**1,741.7**	**-353.2**
Net changes in cash and cash equivalents		**1,017.0**	**77.7**
Cash and cash equivalents at beginning of the period		547.8	470.1
Cash and cash equivalents at the end of the period*	27	**1,564.8**	**547.8**

Also see the corresponding explanations in the Notes
* Thereof restricted cash € 32.8 million (2013: 49.1 million)

Consolidated Statement of Changes in Equity

				Other reserves	
				Can be reclassified	
€ million	Subscribed capital	Capital reserves	Retained earnings	Cash flow hedges	Available-for-sale financial assets
As at Jan. 1, 2013	**0.1**	**1,052.3**	**1,661.1**	**-47.2**	**0.1**
Profit for the period			480.2		
Other comprehensive income					
Changes in the period			16.4	-11.7	-0.1
Reclassification adjustments recognised in income				31.6	
Total comprehensive income			496.6	19.9	-0.1
Shareholder's capital contributions	24.2	239.1			
Capital increase from company funds	199.9	-199.9			
Premium from listing		375.8			
Transaction costs from listing		-13.9			
Changes recognised directly in equity			-2.5		
Distribution					
Withdrawal from capital reserves		-23.3	23.3		
As at Dec. 31, 2013	**224.2**	**1,430.1**	**2,178.5**	**-27.3**	**0.0**
As at Jan. 1, 2014	**224.2**	**1,430.1**	**2,178.5**	**-27.3**	**0.0**
Profit for the period			401.4		
Other comprehensive income					
Changes in the period			-38.5	30.7	0.0
Reclassification adjustments recognised in income				-61.8	
Total comprehensive income			362.9	-31.1	0.0
Capital increase	47.4				
Premium on the issue of new shares		976.5			
Transaction costs in connection with the issue of shares		-6.2			
Dividend distributed by DAIG SE			-168.2		
Employee share programme		0.5	–		
Withdrawal from capital reserve		-324.9	324.9		
Changes recognised directly in equity		–	-54.7		
As at Dec. 31, 2014	**271.6**	**2,076.0**	**2,643.4**	**-58.4**	**0.0**

[1] DAIG received inflows of € 990.2 million, following the deduction of capital procurement costs amounting to € 9.8 million, in connection with the hybrid bond placed in December 2014. The hybrid capital was classified as equity. The profit for the period of DAIG's hybrid investors was calculated taking deferred taxes into account.

Also see note [29] in the Notes.

Total	Equity of DAIG shareholders	Equity of DAIG hybrid investors [1]	Equity of DAIG shareholders and hybrid investors	Non-controlling interests	Total equity
-47.1	**2,666.4**	**–**	**2,666.4**	**11.0**	**2,677.4**
	480.2	–	480.2	4.0	484.2
-11.8	4.6	0.0	4.6	0.0	4.6
31.6	31.6		31.6		31.6
19.8	516.4	0.0	516.4	4.0	520.4
	263.3		263.3		263.3
	–		–		–
	375.8		375.8		375.8
	-13.9		-13.9		-13.9
	-2.5	–	-2.5	2.5	–
	–	–	-	-5.0	-5.0
	–	–	-		–
-27.3	**3,805.5**	**0.0**	**3,805.5**	**12.5**	**3,818.0**
-27.3	**3,805.5**	**–**	**3,805.5**	**12.5**	**3,818.0**
	401.4	1.2	402.6	7.1	409.7
30.7	-7.8	0.0	-7.8	0.0	-7.8
-61.8	-61.8		-61.8		-61.8
-31.1	331.8	1.2	333.0	7.1	340.1
	47.4	990.2	1,037.6		1,037.6
	976.5		976.5		976.5
	-6.2		-6.2		-6.2
	-168.2		-168.2		-168.2
	0.5		0.5		0.5
	–		–		–
	-54.7	10.2	-44.5	8.4	-36.1
-58.4	**4,932.6**	**1,001.6**	**5,934.2**	**28.0**	**5,962.2**

Notes

Accounting policies

1 Principles of the consolidated financial statement

Deutsche Annington Immobilien Group (hereinafter: DAIG) is a performance-focused holder and manager of residential real estate in Germany. Our core business is providing affordable housing for broad sections of the population. We also offer additional real estate-related services. A further business activity is portfolio optimisation. To achieve this, we sell selected properties in our portfolio and systematically integrate new housing stock into the Group. Deutsche Annington Immobilien SE is incorporated and domiciled in Germany; its registered office is located in Düsseldorf. The head office (principal place of business) is located at Philippstrasse 3, Bochum. The company's consolidated financial statements include the company itself and its subsidiaries.

The previous parent company of DAIG, Monterey Holdings I S.à r.l., Luxembourg, indicated in the second quarter of 2014 that its shareholding had fallen to 9.04 %. This means that Monterey Holdings I S.à r.l. is no longer classed as the parent company.

On September 3, 2014, Deutsche Börse (German Stock Exchange) admitted Deutsche Annington Immobilien SE to the MDAX with effect as at September 22, 2014.

The consolidated financial statements as at and for the year ended December 31, 2014, have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted in the EU. In addition, the supplementary commercial law provisions under Section 315a (1) of the German Commercial Code (HGB) have been considered.

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

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

On February 25, 2015, the Management Board of Deutsche Annington Immobilien SE drew up the consolidated financial statements.

2 Consolidation principles

In accordance with the full consolidation method, all subsidiaries that are controlled by the Group are included. The Group is deemed to control an associated company if it is exposed to risks or has rights to fluctuating returns due to its involvement in the associated company, and the Group is in a position to use its power of

control over the associated company to influence the level of these returns. In the process of full consolidation, the assets and liabilities of a subsidiary are included in the consolidated financial statements in their entirety. Subsidiaries are included in the consolidated financial statements from the date on which Deutsche Annington Immobilien SE obtains control until the day control ceases.

If DAIG loses control over a subsidiary, the assets and liabilities of the subsidiary in question, as well as any corresponding non-controlling interests, are derecognised. The result is reported in the income statement. Any interests retained are valued at fair value at the time at which control is lost.

Business combinations are accounted for using the acquisition method. All hidden reserves and charges of the company acquired are disclosed as part of the necessary 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, following the disclosure of hidden reserves and charges, is recognised as goodwill in the balance sheet.

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 at majority-owned and fully consolidated companies, e.g. resulting from 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.

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

3 Scope of consolidation and business combinations

In addition to Deutsche Annington Immobilien SE, 114 companies (2013: 105), thereof 95 (2013: 102) domestic and 19 foreign companies (2013: 3) have been included in the consolidated financial statements of DAIG as at and for the year ended December 31, 2014.

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

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

Companies that have made use of the exemption provision set out in Section 264 (3) of the German Commercial Code (HGB) are marked accordingly in the list of shareholdings.

The main changes as at December 31, 2014 result from the acquisitions described below, as well as from 23 mergers (2013: 13), nine intra-Group legal reorganisations (2013: 25), seven disposals (2013: 0) and one split-up (2013: 0).

Acquisition of DeWAG's real estate business

With a share purchase agreement dated February 28, 2014, a subsidiary of Deutsche Annington Immobilien SE acquired 94.0 % of the real estate business of the DeWAG Group. DAIG gained control of this group of companies upon completion of this share purchase on April 1, 2014.

The nationwide real estate business of DeWAG that has been acquired relates to a property portfolio comprising 11,307 residential units and 198 commercial properties, most of which are located in the conurbations of Munich, Frankfurt am Main, Düsseldorf, Cologne and Hamburg. The portfolio almost exclusively comprises residential properties that are further developed through professional property management, as well as value-focused refurbishment and modernisation measures. Apartments are also offered for sale at selected locations where the demand for residential property ownership is high. The stocks managed by the DeWAG Group present an excellent complement to the portfolio strategy of DAIG, in particular with a view to the aspiration to continuously improve the quality of life and housing for tenants while simultaneously generating a corresponding higher value as a return for our shareholders.

In a uniform transaction, in addition to selected holding companies, the relevant property-holding entities under German and Dutch law as well as amounts payable by the DeWAG Group under existing shareholder loans were acquired.

The sellers are holding companies under Dutch and Luxembourg law that are advised by international investment funds.

Following a final purchase price adjustment of € 8.9 million in December 2014, the total purchase price for the acquisition of the shares in the DeWAG Group amounts to € 25.4 million. The purchase price has been paid in full.

In addition, DAIG has assumed amounts payable by the acquired DeWAG Group under existing shareholder loans. As at the date of first-time consolidation, the fair value of the amounts payable under these loans was € 429.3 million.

The following allocation of the total purchase price to the fair values of the assumed assets and liabilities at the time of acquisition is based on an external value assessment prepared for this purpose.

The assets and liabilities assumed in the course of the business combination had the following fair values at the time of acquisition:

€ million	
Investment properties	1,055.6
Trade receivables	2.6
Other assets	20.3
Cash and cash equivalents	57.2
Total assets	**1,135.7**
Trade payables	-1.3
Other financial liabilities	-1,051.2
Provisions	-7.4
Deferred tax liabilities	-51.9
Other liabilities	-9.2
Total liabilities	**-1,121.0**
Consideration	25.4
Goodwill	**10.7**

The goodwill represents synergies from the planned integration of DeWAG's real estate business. Further information on goodwill can be found in note [19] Intangible Assets.

The gross amount of the acquired trade receivables was € 5.6 million, while the net carrying amount (which corresponds to the fair value) was € 2.6 million. Out of the trade receivables that were acquired, an amount of € 3.0 million is likely to have been uncollectible at the time of acquisition.

In regard to the non-controlling interests in the acquired group of companies, a contract has been concluded establishing put options. The fair value of the purchase price liabilities resulting from put options amounts to the pro rata value of the DeWAG Group, which is determined as the present value of the net cash inflows connected with ownership. As at the date of first-time consolidation, these put options for shares held by minority shareholders had a fair value of € 18.6 million and were disclosed as other financial liabilities.

Since April 1, 2014, the DeWAG Group has recognised income from property management in the amount of € 61.7 million, as well as an earnings contribution in the sense of earnings before interest, taxes, depreciation and amortisation and excluding net income from fair value adjustments of investment properties (IFRS EBITDA) of € 47.8 million.

If the DeWAG Group had already been fully included in the consolidated group as of January 1, 2014, it would have contributed to the income from property management in the amount of € 82.8 million and to IFRS EBITDA in the amount of € 64.5 million.

In the 2014 financial year, transaction costs of € 8.8 million were recognised as other operating expenses.

All in all, 11 domestic companies and 19 foreign companies have been newly included in the scope of consolidation as a result of the acquisition of the DeWAG Group.

Acquisition of Vitus's real estate business

Deutsche Annington Immobilien SE concluded a share transfer agreement with Lion Residential Holdings S.à r.l. on April 17, 2014, relating to 94.9 % of the Vitus Group's real estate business.

With around 30,000 apartments, the Vitus Group is one of the leading residential real estate companies in northern and western Germany. The properties are primarily located in the Rhine-Ruhr-Wupper conurbation as well as in the cities of Bremen and Kiel. The portfolio comprises almost exclusively residential properties that are handled through professional property management as well as value-focused refurbishment and modernisation measures. The northern German stocks in particular are an excellent complement to DAIG's portfolio strategy, also regarding the aspiration to continuously improve the quality of life and housing for tenants by means of efficient business processes while simultaneously improving the shareholders' share values.

The housing stocks and management processes are to be integrated into those of the DAIG in order to realise potential synergies.

When the share transfer agreement was concluded on October 1, 2014, the shares in the acquired Vitus Group companies as well as certain financial receivables and selected other assets were transferred as a contribution in kind in return for the granting of 11,780,000 new ordinary registered shares at a closing rate of € 22.85, corresponding to a consideration in the amount of € 269.2 million. In addition to remuneration in the form of new shares as a consideration for the transfer of shares, the total transaction also included a cash component in the amount of € 55.7 million net and a contingent purchase price component totalling € 4.6 million. Payments totalling € 1,048.6 million were also effected to discharge financial debt. Overall, a total consideration for the shares in the Vitus companies as well as for financial receivables and assets therefore amounted to € 1,378.1 million.

The amount and merits of the contingent purchase price obligation are based on the occurence of the effects of value-enhancing measures relating to the transferred real estate stocks. Pursuant to the share transfer agreement, this can result in a maximum obligation of € 58 million.

The preliminary consideration for the acquisition of shares in Vitus companies is made up as follows:

€ million	
Net cash purchase price component	55.7
Equity instruments	269.2
Contingent purchase price obligation	4.6
Total consideration	**329.5**

On October 9, 2014, DAIG and a subsidiary of LEG Immobilien AG (LEG) signed a purchase and transfer agreement as the seller and the buyer respectively, comprising shares and real estate portfolio stocks of 9,571 residential and 42 commercial units. The portfolio to be transferred is the North Rhine-Westphalia-based portion of the former Vitus portfolio that was acquired by DAIG on October 1, 2014. The stocks were transferred at their fair values in the amount of € 462 million, with offsetting of the corresponding financial debt. Other assets in the amount of € 10 million were also transferred, in addition to the consideration for the transfer of the real estate portfolios.

Allocation of the total purchase price to the acquired asset and liabilities of Vitus's real estate business at fair values as at October 1, 2014 is based on an external valuation report produced for this purpose. This purchase price allocation already takes into account the assets and liabilities transferred to LEG separately. At the time of acquisition, the intention was already to pass on the portfolios in question in the short term – at no point in time was there any intention of using the acquired stocks for business purposes above and beyond maintaining the ongoing business operations.

The assets and liabilities acquired on the basis of the business combination described and their fair values are as follows:

€ million	
Investment Properties	993.7
Cash and cash equivalents	62.5
Accounts to affiliated companies	13.9
Fair value other assets	29.8
LEG portfolio held for sale (net assets)	41.0
Total assets	**1,140.9**
Other financial liabilities	-847.0
Provisions for pensions and similar obligations	-12.3
Other provisions	-34.0
Deferred tax liabilities	-4.2
Other liabilities	-9.2
Total liabilities	**-906.7**
Fair value net assets	**234.2**
Consideration	329.5
Goodwill	**95.3**

In connection with the acquisition of the Vitus Group, contingent liabilities worth around € 29 million have been taken into account for existing obligations towards employees.

The gross amount of the acquired trade receivables and other assets was € 8.8 million, while the net carrying amount (which corresponds to the fair value) was € 7.1 million. Out of the receivables that were acquired, an amount of € 1.7 million is likely to have been uncollectible at the time of acquisition.

In regard to the non-controlling interests in the acquired group of companies, a contract has been concluded establishing put options. The fair value of the purchase price liabilities resulting from put options amounts to the pro rata value of the Vitus Group, which is determined as the present value of the net cash inflows connected with ownership. As at the date of first-time consolidation, these put options for shares held by minority shareholders had a fair value of € 15.3 million and were disclosed as other financial liabilities.

The goodwill represents synergies from the planned integration of Vitus's real estate business. Further information on goodwill can be found in note [19] Intangible assets.

Since October 1, 2014, the Vitus Group has recognised income from property management in the amount of € 29.7 million, as well as an earnings contribution in the sense of earnings before fair value adjustments of investment properties, interest, taxes, depreciation and amortisation (IFRS EBITDA) of € 4.3 million. This earnings contribution includes negative non-recurring effects in the amount of € 9.4 million.

If the Vitus Group had already been fully included in the consolidated group as of January 1, 2014, it would have contributed to the income from property management in the amount of € 119.9 million and to IFRS EBITDA in the amount of € 38.2 million.

During the financial year, transaction costs of € 10.8 million were recognised through profit or loss as other operating expenses, € 9.0 million of which is already cash-effective.

All in all, 19 domestic companies have been newly included in the scope of consolidation as a result of the acquisition of the Vitus Group.

4 Currency translation

In the separate financial statements of Deutsche Annington Immobilien SE and the subsidiaries included in the consolidated financial statements, foreign currency transactions are translated into the functional currency at the exchange rate on the date of the transaction.

Monetary assets and liabilities in foreign currencies are translated at the exchange rate prevailing on the balance sheet date. Non-monetary items that are measured in terms of historical cost are recorded on the balance sheet date at the exchange rate on the date when they were first recognised. Non-monetary items that are measured at fair value are translated using the exchange rate on the date when the fair value was determined. Any resulting translation gains and losses are recorded in the income statement.

5 Accounting policies

a) Recognition of income and expenses

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

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

Income from property sales is recognised as soon as the material risks and rewards of ownership have been transferred to the buyer and DAIG has no substantial 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) Goodwill

Goodwill results from a business combination and is defined as the amount by which the acquisition costs for shares in a company exceed the pro rata net assets acquired. The net assets are the total of the identifiable assets acquired that are valued in accordance with IFRS 3, the debt assumed and contingent liabilities.

Goodwill is stated at cost as an asset at the time of acquisition and must be subjected to an impairment test whenever there are indications of impairments, or at least once a year, by comparing its carrying amount with the recoverable amount.

For subsequent valuations, and exclusively for the purposes of the impairment test, assets whose recoverable amount cannot be determined individually are grouped to form a cash-generating unit (CGU). A cash-generating unit for an asset is the smallest group of assets containing the asset and generating cash inflows that are largely independent of the cash inflows generated by other assets or other groups of assets. Goodwill purchased as part of a business combination is allocated to the CGUs that are expected to produce benefits resulting from the synergy effects of the combination. At DAIG, each property fulfils the criteria for classification as a cash-generating unit in general. As part of operational management, these properties are grouped first of all to form geographically structured business units and then to form regional business areas. Since the business areas are the lowest level within the company at which goodwill is monitored for internal management purposes, the impairment test is performed at business area level and, as a result, in accordance with IAS 36.80 for a group of CGUs. The acquired assets are allocated to the business areas based on the geographical location of the investment properties. The business areas that produce goodwill as a result of this allocation, i.e. that are expected to produce benefits as a result of the business combination, are subjected to an impairment test.

This involves comparing the recoverable amount with the carrying amount of the cash-generating unit. The recoverable amount of an asset or a cash-generating unit is either its value in use or fair value less costs to sell, whichever is higher. When calculating the value in use, the estimated future cash flows are discounted to their cash value. A derived discount rate before tax is used that reflects the current market assessment of the interest rate effect and the specific risks associated with an asset or business area.

If goodwill has been allocated to a business area and its carrying amount exceeds the recoverable amount in the future, the goodwill is to be written down in the amount of the difference in the first instance. Any need for write-downs in excess of this amount is distributed among the other assets in the cash-generating unit in proportion to their carrying amount.

Impairment losses relating to the valuation of goodwill are not reversed.

c) Other intangible assets

Acquired other 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 of DAIG's other intangible assets have definite useful lives and are amortised on a straight-line basis over their estimated useful lives. Software and licences are amortised on the basis of a useful life of three years. Customer bases are amortised on a straight-line basis over ten years.

d) Property, plant and equipment

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

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

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

e) Impairment of other intangible assets and property, plant and equipment

In accordance with IAS 36 "Impairment of Assets", other 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 CGU 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 CGU's) recoverable amount since the last impairment loss was recognised. The carrying amount of the asset (or the CGU) 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 CGU).

f) Investment properties

When DAIG acquires real-estate properties, whether through a business combination or separately, the intended use determines whether such properties are classified as investment 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 covered by the definition of investment properties are also classified as investment properties.

Investment properties are initially measured 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.

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

DAIG uses the discounted cash flow (DCF) method to value investment properties. Under the DCF methodology, the expected future income and expenses associated with each property are generally forecast over a ten-year period. For a more detailed description of the determination of the fair values of investment properties, see note [21] Investment properties.

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

g) Leases

Finance leases

Leases where all material risks and rewards associated with ownership are transferred to the lessee are accounted for as finance leases.

DAIG as a lessee under a finance lease

The leased asset and 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 all material risks and rewards associated with 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.

DAIG as a lessee under an operating lease

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

h) Non-derivative financial assets

Receivables and loans are first accounted for as incurred, other non-derivative financial assets at the trade date. The trade date is the date on which DAIG becomes a contracting party of the financial instrument. All financial instruments are initially measured at fair value, taking account of transaction costs. 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 material risks and rewards associated with ownership of the financial asset.

DAIG determines whether there is an objective indication of an impairment at the level of individual financial instruments if they are material, and, for financial instruments for which no impairments have been identified at the level of the individual financial instruments or such impairments are immaterial, grouped according to risk profile. Impairments are identified for individual financial instruments when the counterparty has defaulted or breached a contract or there are indications of risks of impairments due to a rating downgrade and general information (loss event). For groups of financial instruments with similar risks, historical default probabilities in relation to the time overdue are taken (loss event). An impairment is calculated after the occurrence of a loss event as the difference between the carrying amount and the value of the discounted estimated future cash flow. The original effective interest rate is taken as the discount rate. Impairment losses are recognised in profit or loss and posted directly in the carrying amount of the financial instrument. Any interest income on impaired financial instruments is still recognised. If there are indications that the amount of the impairment loss will be smaller, this reduction is credited to the financial instrument through profit or loss to the extent that the sum does not exceed the amortised cost which would have been recognised if the impairment had not occurred.

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

Available-for-sale financial assets

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

Held-to-maturity investments

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

Receivables and other assets

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

i) Inventories

Inventories are valued at cost or at their net realisable value, whichever is lower.

j) Cash and cash equivalents

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

k) Assets held for sale

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

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

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

l) Income and expense recognised directly in other comprehensive income

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

m) Tax

Current income tax

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

Deferred taxes

Deferred tax assets and liabilities are recognised using the liability method under the temporary concept, providing for all temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. A deferred tax asset is only recognised for temporary differences and on loss carryforwards to the extent that it is sufficiently probable that future taxable profits will be available against which the temporary difference or loss carryforward 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 the tax rates that apply, or are expected to apply, to the period when the tax asset is realised or the liability is settled based on the current legislation in the countries in question. The combined tax rate of corporate income tax and trade tax of 33.15 % for 2014 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.

n) Earnings per share

The basic earnings per share are calculated by dividing the profit for the period attributable to the shareholders by the weighted average number of ordinary shares in circulation during the reporting period. The diluted earnings per share are obtained by adjusting the profit for the period and the number of outstanding shares on the basis of the assumption that convertible instruments will be converted, options or warrants will be exercised or ordinary shares will be issued under certain conditions.

o) Provisions

Provisions for pensions and similar obligations

When valuing the provisions for pensions, the company pension obligations are determined using the projected unit credit method pursuant to IAS 19R “Employee Benefits”, whereby current pensions and vested pension rights at the balance sheet date, as well as expected future increases in salaries and pensions, are included in the valuation. An actuarial valuation is performed at every balance sheet date.

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

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

Service cost is shown in personnel expenses. The service cost is the increase in the present value of a defined benefit obligation resulting from employee service in the reporting period.

The interest expense on the annual costs is recorded in the financial result. Interest expense is the increase during a period in the present value of a defined benefit obligation which arises due to the fact that the benefit obligation is one period closer to being discharged.

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

Other provisions

Other provisions are recognised when there is a present obligation, either legal or constructive, vis-à-vis third parties as a result of a past event, if it is probable that a claim will be asserted and the probable amount of the required provision can be reliably estimated. 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.

Provisions for restructuring expenses are recognised when the Group has set up and communicated 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 present value of the fulfilment obligation and the cost of terminating the contract, i.e. a possible indemnity or fine for breach or non-fulfilment of contract.

Provisions are reviewed regularly and adjusted to reflect new information or changed circumstances.

The provisions for pre-retirement part-time work arrangements are basically to be classified as other long-term employee benefits which are to be accrued over the employees' service periods.

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

p) Financial liabilities

DAIG reports non-derivative financial liabilities, which mainly include liabilities to banks and to investors, at their fair value on the day of trading, less the directly attributable transaction costs. These liabilities are subsequently measured at amortised cost using the effective interest method. 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.

Derivative financial instruments are stated at their fair value on the day of trading when they are recognised for the first time. 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 in the balance sheet, 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. The fair value of the put options for shares held by minority shareholders is, in principle, determined by the value of the respective company; if a contractually agreed minimum purchase price is higher than this amount, this purchase price is recognised.

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

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

With a cash flow hedge, the unrealised gains and losses are initially recognised in other comprehensive income to the extent that the hedge is effective. Amounts accumulated in other comprehensive income are reclassified to the income statement at the same time the underlying hedged item affects net income. To the extent that the hedge is ineffective, the change in fair value is immediately recognised in net interest.

In order to measure interest rate swaps, future cash flows are calculated and then discounted. The calculated cash flows result from the contract conditions. The contract conditions refer to the EURIBOR reference rates (3M and 6M EURIBOR). Discounting is based on market interest rate data as at the reporting date for comparable instruments (EURIBOR rate of the same tenor). The fair value contains the credit risk of the interest rate swaps and therefore allows for adjustments for the company's own credit risk or for the counterparty credit risk.

To measure the cross currency swaps, future cash flows are calculated and then discounted. The calculated cash flows result from the contract conditions and the US-$ forward rates (development of exchange rates expected by the market). Discounting is based on market interest rate data as at the reporting date for comparable instruments (EURIBOR rate of the same tenor). The fair value contains the credit risk of the cross currency swaps and therefore allows for adjustments for the company's own credit risk or for the counterparty credit risk.

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. For the purposes of subsequent valuations, the leased asset is accounted for in accordance with the standards applicable to that asset. The minimum lease payments are split into an interest and a principal repayment component in respect of the residual debt.

Liabilities to non-controlling shareholders, which include obligations from the guaranteed dividend agreements, in particular, are stated at fair value when they are recognised for the first time. Later, they are measured at amortised cost using the effective interest method.

q) Share-based payment

Share-based payments in accordance with IFRS 2 are equity-settled share-based payment transactions, as well as cash-settled share-based payment transactions.

In accordance with IFRS 2, the obligations arising from share-based payments are calculated using standard valuation methods based on option pricing models.

Equity-settled share-based payments are recognised at the grant date at the fair value of the equity instruments vested by that date. The fair value of the obligation is therefore recognised as personnel expenses pro rata temporis over the vesting period and is offset directly against the capital reserves.

The cash-settled share-based obligations are shown under other provisions and remeasured at fair value at each balance-sheet date. The expenses are also recognised as personnel expenses over the vesting period (see notes [30] Provisions and [46] Share-based payments).

r) Government grants

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

Government grants are recognised when there is reasonable assurance that the relevant conditions will be fulfilled and that the grants will be awarded.

Government grants which do not relate to investments are regularly recognised as income in the periods in which the relevant 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 present value. The difference between nominal value and present value is recognised in income over the maturity term of the corresponding loans.

New expenses loans or low-interest loans are initially recognised at their present value within the non-derivative financial liabilities on the basis of the market interest rate at the time the loans are taken out. The difference between the nominal value and the present value of the loan is recognised as deferred income. Reversal occurs, in principle, through profit or loss in line with the length of the fixed-interest-rate period of the relevant loans. In cases where the low-interest loans are issued as part of capitalised modernisation measures, the difference between the nominal value and the present value of the loan is deducted from the capitalised acquisition cost. In subsequent measurements, the loans are measured at amortised cost. In the 2014 financial year, DAIG was granted low-interest loans of € 27.3 million (2013: € 4.6 million).

s) Contingent liabilities

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

t) Estimates, assumptions, options and management judgement

To a certain extent, the preparation of the consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the balance sheet date, as well as reported amounts of income and expenses during the reporting period. 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.

A detailed description of the discounted cash flow (DCF) method used can be found in note [21] Investment properties.

As at December 31, 2014, DAIG determined the fair values in an internal valuation which was confirmed by an independent report of the external property appraiser CBRE GmbH. The overall positive development of the market and the optimisation of the portfolio through investment, rent increases and the reduction of voids led to net income from fair value adjustments of € 371.1 million (2013: € 553.7 million).

In accordance with IAS 40 in conjunction with IFRS 13, the respective market values of the investment properties owned by DAIG are determined for accounting purposes on an annual basis with a quarterly update as at the relevant reporting date. Changes in certain market conditions such as prevailing rent levels and vacancy rates may affect the valuation of investment properties. Any changes in the fair value of the investment portfolio are recognised as gains or losses in the Group's income statement and can substantially affect DAIG's results of operations.

When measuring financial liabilities at amortised costs using the effective interest method contractual cash flows are taken into account. However, in some contracts the duration of the contracts is not determined. In this case, timing and amount of the cash flows depend on management decision.

As explained in the accounting policies, DAIG checks for goodwill impairments on an annual basis, or if there is any reason to suspect such impairments. The next step involves estimating the recoverable amount of the cash-generating unit (CGU). This corresponds to either the fair value less costs to sell or the value in use, whichever is higher. Determining the value in use includes adjustments and estimates regarding the forecast and discounting of the future cash flow. Although the management believes that the assumptions used to determine the recoverable amount are appropriate, any unforeseeable changes in these assumptions could result in impairment losses, with a detrimental impact on the net assets, financial position and results of operations.

When determining the volume of current and deferred taxes, the Group takes into account the effects of uncertain tax items and whether additional taxes and interest may be due. This assessment is made on the basis of estimates and assumptions and may contain a number of judgements about future events. New information may become available which causes the Group to change its judgements regarding the appropriateness of existing tax liabilities; such changes to tax liabilities will affect the tax expense in the period in which such a change is made.

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

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

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.

Options exercised and judgements made by DAIG's management in the process of applying the entity's accounting policies 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 or owner-occupied properties. The classification determines the subsequent measurement of those assets.

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

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

> DAIG accounts for ancillary costs using the principal method, since DAIG, as the landlord, bears responsibility for performing the service as well as the credit risk. With the principal method, income and expenses are not netted.

> The decision on how to define a cash-generating unit to which goodwill is allocated may involve discretionary judgements.

> Allocating the goodwill to the individual cash-generating units may also involve discretionary judgements.

> The parameters used in the impairment test, such as the weighted average cost of capital and the growth rate may also involve discretionary judgements.

u) Changes in accounting policies due to new Standards and Interpretations

The application of numerous new Standards, Interpretations and Amendments to existing Standards became mandatory for the 2014 financial year.

The following new or amended Standards and Interpretations became mandatory for the first time in the 2014 financial year and have no significant effects on the DAIG consolidated financial statements:

> IFRS 10 "Consolidated Financial Statements"
> IFRS 11 "Joint Arrangements"
> IFRS 12 "Disclosure of Interests in Other Entities"
> IFRIC 21 "Levies"
> Amendments to IAS 27 "Separate Financial Statements"
> Amendments to IAS 28 "Investments in Associates and Joint Ventures"
> Amendments to IAS 32 "Financial Instruments: Presentation"
> Amendments to IAS 36 "Impairment of Assets"
> Amendments to IAS 39 "Financial Instruments: Recognition and Measurement"

v) New Standards and Interpretations not yet applied

Application of the following Standards, Interpretations and Amendments to existing Standards was not yet mandatory for the 2014 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:

Relevant new Standards, Interpretations and Amendments to existing Standards and Interpretations

		Date effective for DAIG
Improvements and Supplements to IFRS 2010–2012		Jan. 1, 2015
Improvements and Supplements to IFRS 2011–2013		Jan. 1, 2015
Improvements and Supplements to IFRS 2012–2014		Jan. 1, 2016*
Amendments to Standards		
IAS 1	"Presentation of Financial Statements"	Jan. 1, 2016*
IAS 16	"Property, Plant and Equipment"	Jan. 1, 2016*
IAS 19	"Employee Benefits"	Jan. 1, 2015
IAS 27	"Separate Financial Statements"	Jan. 1, 2016*
IAS 28	"Investments in Associates and Joint Ventures"	Jan. 1, 2016*
IAS 38	"Intangible Assets"	Jan. 1, 2016*
IAS 41	"Agriculture"	Jan. 1, 2016*
IFRS 10	"Consolidated Financial Statements"	Jan. 1, 2016*
IFRS 11	"Joint Arrangements"	Jan. 1, 2016*
IFRS 12	"Disclosure of Interests in Other Entities"	Jan. 1, 2016*
New Standards		
IFRS 9	"Financial Instruments: Classification and Measurement"	Jan. 1, 2018*
IFRS 14	"Regulatory Deferral Accounts"	Jan. 1, 2016*
IFRS 15	"Revenue from Contracts with Customers"	Jan. 1, 2017*

* Not yet endorsed

Improvements to IFRS 2010–2012

As part of the annual improvement project, changes were made to seven Standards. The wording of individual IFRSs was adjusted, the aim being to make the existing regulations clearer. Changes have also been made that have implications for the information set out in the Notes. The Standards affected are IFRS 2, IFRS 3, IFRS 8, IFRS 13, IAS 16, IAS 24 and IAS 38. The amendments will apply for the first time in financial years beginning on or after July 1, 2014 and the changes to IFRS 2 and IFRS 3 will apply to transactions executed on or after July 1, 2014.

Improvements to IFRS 2011–2013

As part of the annual improvement project, changes were made to four Standards. The wording of individual IFRSs was adjusted, the aim being to make the existing regulations clearer. The Standards affected are IFRS 1, IFRS 3, IFRS 13 and IAS 40. The amendments will apply for the first time in financial years beginning on or after January 1, 2015.

Improvements to IFRS 2012–2014

As part of the annual improvement project, changes were made to four Standards. The wording of individual IFRSs/IASs was adjusted, the aim being to make the existing regulations clearer. The Standards affected are IFRS 5, IFRS 7, IAS 19 and IAS 34.

Subject to their implementation in EU law, the amendments will apply for the first time in financial years beginning on or after January 1, 2016.

IAS 1 “Presentation of Financial Statements”

The IASB has used these amendments to clarify that information only has to be provided in the notes to the financial statements if the content of this information is not immaterial. This explicitly applies even if an IFRS features a list of minimum disclosures. The amendments also do away with a model structure for the notes and include explanatory information on the aggregation and disaggregation of line items in the balance sheet and the statement of comprehensive income, as well as clarifying how the shares of other comprehensive income that are attributable to companies valued at equity are to be shown in the statement of comprehensive income. The amendments to IAS 1 will not have any effect on the DAIG consolidated financial statements.

IAS 16 “Property, Plant and Equipment” and IAS 38 “Intangible Assets”

The IASB has used these amendments to provide further guidelines for identifying acceptable methods of depreciation and amortisation. Based on these amendments, revenue-based depreciation for property, plant and equipment is not deemed to be appropriate. In the case of intangible assets, amortisation based on revenue is only deemed to be appropriate in certain exceptional cases. The amended Standard is mandatory for financial years beginning on or after January 1, 2016; earlier application is permitted. The amendment to IAS 38 will not have any effect on the DAIG consolidated financial statements.

IAS 19 “Employee Benefits”

The changes to IAS 19 are to apply to the statement of contributions made by employees or third parties to defined benefit pension plans. This means that contributions made by employees or third parties can be recognised as a reduction in the current service cost in the period in which the corresponding work was performed, provided that the contributions do not depend on the number of years of service. The amended Standard is mandatory for financial years beginning on or after July 1, 2014; earlier application is permitted. The amendment to IAS 19 will not have any material effect on the DAIG consolidated financial statements.

IAS 27 "Equity Method in Separate Financial Statements"

This amendment reinstates the equity method as an accounting option for investments in subsidiaries, joint ventures and associates recognised in an investor's separate financial statements. The existing options for valuation at cost or pursuant to IAS 39/IFRS 9 remain unaffected. The amendments therefore reverse the deletion of the equity method option, a move that was implemented as part of the revision of IAS 27 "Consolidated and Separate Financial Statements" in 2005. The amendments enter into force for reporting years beginning on or after January 1, 2016. Early application is permitted. The amendment to IAS 27 will not have any effect on the DAIG consolidated financial statements.

IAS 28 "Investments in Associates and Joint Ventures" and IFRS 10 "Consolidated Financial Statements"

The changes address a known inconsistency between the two Standards when it comes to recognising the sale of an investor's assets or contributions to the investor's associate or a joint venture. Insofar as the transaction relates to a business within the meaning of IFRS 3, the gain or loss must be recognized in full at the level of the investor. If the transaction only relates to the sale of assets that do not constitute a business, partial gain or loss recognition shall be applied. The amendments enter into force for financial years beginning on or after January 1, 2016. Early application is permitted but requires an EU endorsement. The amendments to IFRS 10 and IAS 28 will not have any effect on the DAIG consolidated financial statements.

IAS 28 "Investments in Associates and Joint Ventures", IFRS 10 "Consolidated Financial Statements" and IFRS 12 "Disclosure of Interests in Other Entities"

The amended standard serves to clarify three issues relating to the application of the exemption from the consolidation requirement under IFRS 10 if the parent company meets the definition of an "investment entity". This also involves amendments to IFRS 12, clarifying that investment entities that measure all of their subsidiaries at fair value through profit or loss nevertheless fall under the scope of IFRS 12. The amendments enter into force for financial years beginning on or after January 1, 2016. Early application is permitted but requires an EU endorsement. The amendments to IAS 28, IFRS 10 and IFRS 12 will not have any effect on the DAIG consolidated financial statements.

IFRS 9 "Financial Instruments"

IFRS 9 contains revised requirements regarding the classification and measurement of financial assets, including impairment rules, and supplements the new rules regarding hedge accounting published in 2013. The final version of IFRS 9 now published introduces a new impairment model for anticipated losses. In addition, the category "fair value through other comprehensive income" (FVTOCI) has been incorporated into the classification and measurement model for certain debt instruments. The new category has been introduced for business models in which assets are held both for sale and to generate cash flows. This standard therefore replaces all the previous versions of IFRS 9 and applies to all reporting periods beginning on or after January 1, 2018. Early adoption is permissible subject to local regulations. DAIG is examining the effects of the new Standard.

IFRS 11 "Joint Arrangements"

The amendment to IFRS 11 relates to accounting for acquisitions of an interest in a joint operation when the operation constitutes a business within the meaning of IFRS 3 "Business Combinations". In such cases, the acquirer is to adhere to the principles on business combinations accounting and the disclosure requirements set out in IFRS 3. The amended Standard is mandatory for financial years beginning on or after January 1, 2016; earlier application is permitted. The amendment to IFRS 11 will not have any effect on the DAIG consolidated financial statements.

IFRS 15 "Revenue from Contracts with Customers"

IFRS 15 replaces the previous Standards and Interpretations for revenue recognition and creates a uniform regulatory framework for all issues of revenue recognition from contracts with customers. The basic principle of IFRS 15 is that in future, only a single, uniform model will be used for revenue recognition. On the basis of a five-step framework model, IFRS 15 indicates when revenue is to be recognised and in what amount. Further changes as a result of the new policies may arise in respect of revenue recognition in the event of a transfer of control, multiple-element sales arrangements, the recognition of revenue during the period in which services are provided and through extended disclosures. The new Standard is mandatory for financial years beginning on or after January 1, 2017; earlier application is permitted. DAIG is examining the effects of the new Standard.

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

w) Adjustment to the balance sheet structure

In the 2014 financial year, the balance sheet structure was adjusted in the "Financial liabilities" item in order to make the balance sheet more transparent.

New structure		Previous structure	
€ million	Dec. 31, 2013	€ million	Dec. 31, 2013
Non-derivative financial liabilities	5,396.0	Other financial liabilities	5,553.0
Derivative financial liabilities	69.4		
Liabilities from finance leases	87.6		
Liabilities to non-controlling interests	–		
Total non-current financial liabilities	**5,553.0**	**Total non-current financial liabilities**	**5,553.0**
Non-derivative financial liabilities	198.8	Other financial liabilities	212.1
Derivative financial liabilities	9.0		
Liabilities from finance leases	4.3		
Liabilities to non-controlling interests	–		
Total current financial liabilities	**212.1**	**Total current financial liabilities**	**212.1**

Notes to the Consolidated Income Statement

6 Income from property management

€ million	2014	2013
Rental income	789.3	728.0
Ancillary costs	349.1	320.3
Income from property letting	1,138.4	1,048.3
Other income from property management	18.2	19.3
Income from property management	**1,156.6**	**1,067.6**

7 Profit on disposal of properties

€ million	2014	2013
Income from disposal of investment properties	155.0	145.5
Carrying amount of investment properties sold	-111.1	-117.9
Profit on disposal of investment properties	43.9	27.6
Income from sale of assets held for sale	132.3	208.0
Retirement carrying amount of assets held for sale	-132.3	-207.9
Revaluation of assets held for sale	25.1	24.3
Profit on disposal of assets held for sale	25.1	24.4
	69.0	**52.0**

The fair value adjustment of investment properties held for sale for which a purchase contract had been signed but for which transfer of ownership had not yet taken place led to a gain of € 25.1 million as at December 31, 2014 (2013: € 24.3 million). After value adjustment, these properties were transferred to “Assets held for sale”.

The total profit on disposal of property does not take account of 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 during the 2014 financial year of € 371.1 million (2013: € 553.7 million).

Further explanations on the measurement of investment properties are given under note [21] Investment properties.

9 Capitalised internal expenses

Capitalised own work in the financial year amounts to € 85.6 million (2013: € 42.0 million) and relates to the expenses of the Group's own craftsmen's organisation contained in the capitalised modernisation expenses, as well as the management costs for major modernisation projects.

10 Cost of materials

€ million	2014	2013
Expenses for ancillary costs	344.4	324.9
Expenses for maintenance	141.0	119.7
Other cost of purchased goods and services	57.2	58.2
	542.6	**502.8**

11 Personnel expenses

€ million	2014	2013
Wages and salaries	150.9	147.4
Social security, pensions and other employee benefits	33.7	24.7
	184.6	**172.1**

Personnel expenses contain expenses for severance payments amounting to € 5.1 million (2013: € 10.2 million), allocations to the provisions for part-time phased early retirement obligations in the amount of € 3.2 million (2013: € 11.1 million) and expenses for the Long-Term Incentive Plan (LTIP) at € 8.3 million (2013: € 7.1 million) (see note [30] Provisions).

In the financial year under review, employers' contributions to statutory pension insurance totalling € 12.4 million (2013: € 10.5 million) were paid.

As at December 31, 2014, 3,850 people (2013: 2,935) were employed at DAIG. On an annual average, 3,411 people (2013: 2,738) were employed. As at December 31, 2014, 152 apprentices (2013: 117) were employed.

12 Depreciation and amortisation

Amortisation of intangible assets totalled € 2.4 million (2013: € 3.0 million); with € 1.5 million (2013: € 1.6 million) attributable to capitalised customer bases, € 0.3 million (2013: € 1.0 million) to self-developed software and € 0.6 million (2013: € 0.4 million) to concessions, industrial rights, licences and similar rights. Depreciation and impairments of property, plant and equipment amounted to € 5.0 million in the financial year under review (2013: € 3.8 million) (see note [20] Property, plant and equipment) with € 0.1 million (2013: € 0.3 million) attributable to impairments of real estate used by the company itself.

13 Other operating income

€ million	2014	2013
Compensation paid and cost reimbursements	27.2	23.5
Dunning and debt collection fees	5.7	5.3
Reversal of provisions	3.9	3.3
Reversal of impairment losses	-	0.7
Miscellaneous other	28.5	13.0
	65.3	**45.8**

Income from compensation paid and cost reimbursements includes € 18.4 million in compensation paid by insurance companies (2013: € 14.4 million). The other miscellaneous income includes transaction and integration cost shares assumed by LEG with respect to the transferred portfolios in the amount of € 16.0 million.

14 Other operating expenses

€ million	2014	2013
Consultants' and auditors' fees	46.9	15.0
Vehicle and travelling costs	17.1	13.0
Impairment losses on doubtful accounts	14.2	10.9
Additions to provisions	13.3	7.2
Rents, leases and ground rents	11.3	10.4
Administrative services	9.6	6.9
Communication costs and work equipment	8.4	5.9
Dunning and debt collection fees	3.2	3.3
Advertising costs	3.1	2.9
Legal and notary costs	2.9	8.4
Sales incidentals	2.0	0.6
Refused insurance claims	0.9	1.3
Miscellaneous other	19.5	18.4
	152.4	**104.2**

The increase in consultants' and auditors' fees is connected with the acquisitions of the DeWAG and Vitus real estate businesses described in further detail in note [3] Scope of consolidation and business combinations. The additions to provisions mainly relate to provisions for outstanding invoices as part of the public takeover offer to the shareholders of GAGFAH S. A., which is described in greater detail in note [49] Events after the balance sheet date.

15 Financial income

€ million	2014	2013
Income from other investments	3.4	2.8
Income from non-current securities and non-current loans	2.0	1.9
Other interest and similar income	3.4	9.3
	8.8	**14.0**

16 Financial expenses

The financial expenses mainly relate to interest expense on financial liabilities measured at amortised cost.

In the reporting period, the non-cash interest expense resulting from the application of the effective interest method amounted to € 18.2 million. In 2013, financial expenses were increased by € 4.6 million through the use of the effective interest method.

Interest expense contains interest accretion to provisions for pensions in the amount of € 9.1 million (2013: € 8.1 million) and for miscellaneous other provisions in the amount of € 3.3 million (2013: € 0.3 million).

In 2014, transaction costs of € 5.0 million were recognised as expenses, largely due to refinancing, the creation of land charges and consultancy costs (2013: € 21.0 million).

In addition, interest from prepayment penalties and commitment interest negatively impacted results in the amount of € 34.7 million (2013: € 27.5 million).

In the reporting year, € 3.7 million were recognised as net interest in connection with swaps (2013: € 48.6 million).

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

€ million	2014	2013
Interest income	3.4	9.3
Interest expense	-280.3	-299.6
Net interest	**-276.9**	**-290.3**
less		
Interest expense from provisions for pensions in acc. with IAS 19*	9.1	8.1
Interest expense from other provisions in acc. with IAS 37	3.3	-1.3
Interest expense from derivatives in acc. with IAS 39: cash flow hedges	3.7	48.6
Interest expense from finance leases in acc. with IAS 17	5.2	5.2
Net interest with regard to measurement categories in acc. with IAS 39	**-255.6**	**-229.7**

* Including interest income on plan assets of € 0.6 million (2013: € 0.5 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*	2014	2013
Loans and receivables	LaR	3.1	7.5
Available-for-sale financial assets	AfS	–	0.1
Financial liabilities held for trading	FLHfT	-3.9	-0.5
Financial liabilities measured at amortised cost	FLAC	-254.8	-236.8
		-255.6	**-229.7**

* See note [37] Additional financial instrument disclosures

17 Income taxes

€ million	2014	2013
Current income tax	8.0	8.5
Prior year current income tax	-4.7	-3.7
Deferred income tax – temporary differences	194.2	228.2
Deferred income tax – unutilised loss carryforwards	-18.1	-27.6
	179.4	**205.4**

The current tax expense is determined on the basis of the taxable income for the reporting period. For the 2014 financial year, the combined tax rate of corporate income tax and solidarity surcharge for domestic companies is 15.8 % of earnings (2013: 15.8 %). Including German municipal trade tax at nearly 16.8 % (2013: 16.8 %), the combined domestic tax rate is 32.6 % in 2014 (2013: 32.6 %). Anticipated effects of the so-called extended trade tax exemption on German municipal trade tax are taken into account when the deferred taxes are determined.

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

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

Therefore, no deferred taxes were recognised for domestic deductible temporary differences (excluding loss carryforwards) of € 6.1 million (2013: € 0.2 million) and no deferred trade taxes were recognised for other domestic deductible temporary differences of € 2.3 million (2013: € 5.7 million) as their future utilisation is unlikely.

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

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

As at December 31, 2014, the unutilised corporate income tax loss carryforwards in Germany totalled € 1,751.8 million (2013: € 1,404.5 million) and the unutilised trade tax loss carryforwards amounted to € 901.8 million (2013: € 710.7 million), for which deferred tax assets have been recognised to the extent that their realisation is sufficiently probable. The increase in tax loss carryforwards resulted from current tax losses at individual companies as well as from the first-time consolidation of the DeWAG and Vitus Groups.

No deferred taxes were recognised in the balance sheet for unutilised corporate income tax loss carryforwards of € 310.8 million (2013: € 176.9 million). Under current tax law, these loss carryforwards are not subject to restrictions either with regard to time or the amount of the loss carryforward. In addition, there are further trade tax loss carryforwards of € 190.6 million (2013: € 126.6 million) which have an unlimited carryforward but have not led to deferred tax assets.

The measurement of deferred tax assets on tax loss carryforwards and deductible temporary differences in 2014 led to tax expenses of € 2.6 million (2013: tax income of € 30.6 million).

Tax reductions due to the utilisation of tax loss carryforwards for which no deferred tax assets existed led to no reduction in tax charges in the 2014 financial year (2013: a reduction of € 0.5 million).

Under German tax law, the tax-deductibility of interest expenses is generally limited to 30 % of the EBITDA for tax purposes in a financial year unless certain exceptions, for instance what is known as the "equity escape", apply. If interest expenses cannot be deducted, they are to be carried forward to the following financial years (interest carryforwards). Deferred taxes on these interest carryforwards are capitalised if the interest carryforward is likely to be able to be used in the future. Due to the Group's capital structure, no interest carryforwards are likely to be able to be used in the future. As a result, no deferred tax assets have been stated on interest carryforwards of € 6.8 million (2013: € 0.0 million), because realisation in the future is not expected.

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

€ million	2014	2013
Operating profit before income taxes	**589.1**	**689.6**
Income tax rate in %	32.6	32.6
Expected tax expense	**192.2**	**225.0**
Trade tax effects	-7.8	-7.1
Non-deductible operating expenses	1.8	1.3
Tax-free income	-2.0	-0.1
Change in the deferred tax assets on loss carryforwards and temporary differences	2.6	-30.6
New loss- and interest-carryforwards not recognised	8.7	4.7
Utilisation of loss carryforwards not previously recognised	-	-0.5
Prior year current income tax	-4.7	-3.7
Tax rate change in Germany	-3.4	15.4
Differing foreign tax rates	-0.3	0.8
Other tax effects (net)	-7.7	0.2
Actual income taxes	**179.4**	**205.4**
Actual tax rate in %	**30.5**	**29.8**

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

€ million	2014	2013
Assets held for sale	–	–
Property, plant and equipment	0.1	0.1
Financial assets	2.1	–
Other assets	15.8	15.7
Provisions for pensions	58.6	36.2
Other provisions	18.2	11.5
Liabilities	76.0	33.2
Unutilised loss carryforwards	346.2	295.5
Deferred tax assets	**517.0**	**392.2**

€ million	2014	2013
Intangible assets	–	0.6
Investment properties	1,570.1	1,269.9
Assets held for sale	10.8	6.7
Property, plant and equipment	1.2	1.1
Financial assets	-	0.2
Other assets	16.8	0.2
Other provisions	2.2	7.2
Liabilities	33.7	28.3
Deferred tax liabilities	1,634.8	1,314.2
Excess deferred tax liabilities	**1,117.8**	**922.0**

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	2014	2013
Deferred tax assets	15.0	3.0
Deferred tax liabilities	1,132.8	925.0
Excess deferred tax liabilities	**1,117.8**	**922.0**

The change in deferred taxes is as follows:

€ million	2014	2013
Excess of deferred tax liabilities as at January 1	922.0	715.4
Deferred tax expense in income statement	176.1	200.6
Deferred tax due to first time consolidation	56.1	–
Change recognised in other comprehensive income in deferred taxes on actuarial gains and losses from pensions and similar obligations	-18.2	7.2
Change recognised in other comprehensive income in deferred taxes on derivative financial instruments regarding liabilities	-12.2	5.5
Deferred taxes recognised in retained earnings on accrued procurement costs resulting from the issuance of a hybrid bond with an indefinite term	-2.9	–
Deferred taxes recognised in the capital reserves on recognised tax loss carryforwards resulting from capital procurement costs of capital increases (in the prior year the initial listing)	-3.1	-6.7
Excess of deferred tax liabilities as at December 31	**1,117.8**	**922.0**

In accordance with IAS 12 (Income Taxes), deferred tax liabilities are to be recognised on the difference between the pro-rata equity of a subsidiary in the consolidated balance sheet and the investment carrying amount for the subsidiary in the tax balance sheet of the parent (outside basis differences) if utilisation is to be expected. The origins of these differences are mainly undistributed profits of domestic and foreign subsidiaries.

No deferred tax liabilities are recognised for profits accumulated at subsidiaries of € 3,304.3 million (2013: € 2,774.8 million), as these profits are to remain invested for an indefinite period or are not subject to taxation. In the event of distribution, 5 % of the profits would be subject to German taxation so that there would normally be an additional tax burden. Determination of the potential tax effects was dispensed with in view of the disproportionately high cost.

18 Earnings per share

The earnings per share are calculated by dividing the profit for the period attributable to the shareholders by the weighted average number of ordinary shares in circulation during the reporting period.

	2014	2013
Profit for the period attributable to DAIG shareholders (in € million)	401.4	480.2
Weighted average number of shares	244,819,302	212,231,909
Earnings per share (basic and diluted) in €	**1.64**	**2.26**

In March and November 2014, cash capital increases were implemented against the issuance of 16,000,000 and 19,600,000 new shares respectively. In September 2014, there was a capital increase against non-cash contributions amounting to 11,780,000 shares. As a result, the total number of shares as at December 31, 2014 was 271,622,425.

In the current financial year and in the previous year, no diluting financial instruments were in circulation. The basic earnings per share are therefore identical to the diluted earnings per share.

The issuance of additional shares carrying dividend rights up to the Annual General Meeting is determined by the number of GAGFAH shares submitted, as part of the combined public takeover offer made to the shareholders of GAGFAH S. A., in exchange for DAIG shares.

Notes to the Consolidated Balance Sheet

19 Intangible assets

€ million	Concessions, industrial rights, licences and similar rights	Self-developed software	Customer relationships and similar values	Goodwill	Total
Cost					
Balance on Jan. 1, 2014	8.0	7.4	15.8	–	**31.2**
Additions due to changes in scope of consolidation	0.8	–	–	106.0	**106.8**
Additions	0.9	–	–	–	**0.9**
Disposals	-0.5	–	–	–	**-0.5**
Balance on Dec. 31, 2014	9.2	7.4	15.8	106.0	**138.4**
Accumulated amortisation					
Balance on Jan. 1, 2014	6.0	7.1	14.3	–	**27.4**
Additions due to changes in scope of consolidation	0.6	–	–	–	**0.6**
Amortisation in 2014	0.6	0.3	1.5	–	**2.4**
Disposals	-0.5	-	–	–	**-0.5**
Balance on Dec. 31, 2014	6.7	7.4	15.8	–	**29.9**
Carrying amounts					
Balance on Dec. 31, 2014	2.5	–	–	106.0	**108.5**
Cost					
Balance on Jan. 1, 2013	6.4	7.4	15.8	–	**29.6**
Additions	1.6	–	–	–	**1.6**
Disposals	–	–	–	–	**–**
Balance on Dec. 31, 2013	8.0	7.4	15.8	–	**31.2**
Accumulated amortisation					
Balance on Jan. 1, 2013	5.6	6.1	12.7	–	**24.4**
Amortisation in 2013	0.4	1.0	1.6	–	**3.0**
Disposals	–	–	–	–	**–**
Balance on Dec. 31, 2013	6.0	7.1	14.3	–	**27.4**
Carrying amounts					
Balance on Dec. 31, 2013	2.0	0.3	1.5	–	**3.8**

Goodwill

The acquisitions of Vitus and DeWAG result in goodwill totalling € 106.0 million. The Vitus investment properties are mainly located in the north/east business area. As a result, the goodwill is exclusively attributable exclusively to this business area. The goodwill relating to DeWAG will be distributed proportionately among the north/east, Ruhr, Rhine/Main and south business areas based on the distribution of DeWAG's investment properties. As part of the impairment test, we first of all, in accordance with IAS 36.19, only calculate the value in use based on the medium-term plans, with a planning period of five years, approved by the Management Board and adjusted to reflect portfolio effects. The main drivers behind the results of the five-year plan are the increase in gross rental income and the planned reduction in the vacancy rate. On the other hand, there is an increase in operating costs, taking into account the rate of inflation. The development in these values is in line with our past experience of business model development. The plans were extended by one further year in order to arrive at strategic targets for 2020. The cash flows from the last planning year are derived to calculate the perpetual annuity. The plans were drawn up taking into account both factors that can be influenced, and factors that cannot be influenced at all, or can hardly be influenced.

The main parameters for calculating the recoverable amount are the long-term growth rate, the weighted average cost of capital (WACC) and payments for maintenance. The growth rate was taken from from the assumptions for the internal valuation of the investment properties. It is consistent with the assumptions used to determine the value of our investment properties (see also note [21] Investment properties).

The weighted average cost of capital before tax is based on the risk-free interest rate of 1.75 % calculated as a three-month average using the Svensson method, a market risk premium of 6.5 %, which is therefore within the range recommended by the technical committee for business valuations and commerce of the Institute of Public Auditors in Germany, namely 5.5 % – 7.0 %, and a beta of 0.68. The beta and the equity ratio used are determined on the basis of a peer comparison.

	North/East area	Ruhr area	Rhine/Main area	South area
Goodwill Vitus € million	95.3	–	–	–
Goodwill DeWAG € million	2.1	0.4	3.4	4.8
WACC before tax in %	5.0	5.1	5.0	5.0
Sustainable rate of increase in %	1.1	1.0	1.3	1.3

The results of the assessment confirm the value of the goodwill from the acquisitions of DeWAG and Vitus. The value of the goodwill is also confirmed in a sensitivity analysis based on realistic changes in the key parameters, in particular in the weighted average cost of capital, the growth rate and the payouts for repairs.

20 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, 2014	13.5	3.8	16.6	**33.9**
Additions due to changes in scope of consolidation	4.0	0.0	2.9	**6.9**
Additions	0.1	3.0	5.4	**8.5**
Capitalised modernisation costs	0.1	–	–	**0.1**
Disposals	-0.1	–	-1.9	**-2.0**
Transfer from investment properties	1.2	–	–	**1.2**
Transfer to investment properties	-1.1	–	–	**-1.1**
Balance on Dec. 31, 2014	17.7	6.8	23.0	**47.5**
Accumulated depreciation				
Balance on Jan. 1, 2014	1.3	1.3	10.6	**13.2**
Additions due to changes in scope of consolidation	–	0.0	2.2	**2.2**
Depreciation in 2014	0.3	1.0	3.6	**4.9**
Impairment	0.1	–	–	**0.1**
Reversal of impairments	-0.1	–	–	**-0.1**
Disposals	0.0	–	-1.8	**-1.8**
Balance on Dec. 31, 2014	1.6	2.3	14.6	**18.5**
Carrying amounts				
Balance on Dec. 31, 2014	16.1	4.5	8.4	**29.0**
Cost				
Balance on Jan. 1, 2013	10.7	1.9	13.8	**26.4**
Additions	0.0	2.8	3.2	**6.0**
Capitalised modernisation costs	0.5	0.1	–	**0.6**
Disposals	0.0	-1.0	-0.4	**-1.4**
Transfer from investment properties	3.4	–	–	**3.4**
Transfer to investment properties	-1.1	–	–	**-1.1**
Balance on Dec. 31, 2013	13.5	3.8	16.6	**33.9**
Accumulated depreciation				
Balance on Jan. 1, 2013	1.2	1.1	7.9	**10.2**
Depreciation in 2013	0.2	0.4	2.9	**3.5**
Impairment	0.3	–	–	**0.3**
Reversal of impairments	-0.4	–	–	**-0.4**
Disposals	0.0	-0.2	-0.2	**-0.4**
Balance on Dec. 31, 2013	1.3	1.3	10.6	**13.2**
Carrying amounts				
Balance on Dec. 31, 2013	12.2	2.5	6.0	**20.7**

As at December 31, 2014, carrying amounts of owner-occupied properties amounting to € 9.5 million (2013: € 7.2 million) are encumbered with land charges in favour of different lenders.

21 Investment properties

€ million	
Balance on Jan. 1, 2014	**10,266.4**
Additions due to changes in scope of consolidation	2,049.3
Additions	13.0
Capitalised modernisation costs	197.9
Grants received	-1.2
Transfer from property, plant and equipment	1.1
Transfer to property, plant and equipment	-1.2
Transfer from assets held for sale	1.3
Transfer to assets held for sale	-124.5
Disposals	-111.1
Net income from fair value adjustments of investment properties	371.1
Revaluation of assets held for sale	25.1
Balance on Dec. 31, 2014	**12,687.2**
Balance on Jan. 1, 2013	**9,843.6**
Additions	0.9
Capitalised modernisation costs	90.8
Grants received	-2.0
Transfer from property, plant and equipment	1.1
Transfer to property, plant and equipment	-3.4
Transfer to assets held for sale	-124.7
Disposals	-117.9
Net income from fair value adjustments of investment properties	553.7
Revaluation of assets held for sale	24.3
Balance on Dec. 31, 2013	**10,266.4**

In the amount of € 34.6 million (2013: € 34.1 million), the investment properties contain leased assets which are defined as finance leases according to IAS 17 and are treated as if they were the Group's economic property. These 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 [32] Non-derivative financial liabilities.

For the investment properties encumbered with land charges in favour of various lenders, see note [32] Non-derivative financial liabilities.

Directly attributable operating expenses

Rental income from investment properties amounted to € 789.3 million in 2014 (2013: € 728.0 million). Operating expenses directly relating to these properties amounted to € 123.3 million in 2014 (2013: € 131.6 million). These include expenses for maintenance, operating costs that cannot be passed on to the tenants, personnel expenses from the caretaker and craftsmen's organisations, and income from the capitalised own work. The capitalised own work relates to the work performed by the Group's own craftsmen's organisation and the management costs for major modernisation projects.

Long-term leases

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

€ million	Dec. 31, 2014	Dec. 31, 2013
Total minimum lease payments	**25.7**	**21.8**
Due within one year	5.0	5.1
Due in 1 to 5 years	12.0	12.9
Due after 5 years	8.7	3.8

As part of IFRS accounting, the fair values of the real-estate portfolios were determined in accordance with IAS 40.

Fair values

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. Portfolio premiums and discounts, which can be observed when portfolios are sold in market transactions, were not included. Nor were time restrictions in the marketing of individual properties. DAIG determines fair value in accordance with the requirements of IAS 40 in conjunction with IFRS 13.

DAIG values its portfolio using a method known as the discounted cash flow (DCF) method. Under the DCF methodology, the expected future income and costs of a property are forecast over a period of 10 years and discounted to the date of valuation as the net present value. The income mainly comprises expected rental income (current in-place rent, market rents as well as their development) taking vacancy losses into account. These are derived for each location from the latest rent indices and rent tables (e.g. IVD and IDN ImmoDaten GmbH), as well as from studies on spatial prosperity (Federal Institute for Research on Building, Urban Affairs and Spatial Development (BBSR), Prognos, empirica, Bertelsmannstiftung, etc.).

On the cost side, maintenance expenses and administrative costs are taken into account in accordance with the Second Calculation Regulation (II. Berechnungsverordnung) and inflated in the reporting period (II. BV; German Regulation on Calculations for Residential Buildings in a Accordance with the Second Housing Construction Law, stipulating how economic viability calculations for accommodation are to be performed). Further cost items are, for example, non-allocable ancillary costs and any ground rents. Modernisation measures carried out in the housing stocks are factored in by decreasing the current maintenance expenses and adjusting market rents.

On this basis, the forecast cash flows are calculated on an annual basis and discounted to the date of valuation as the net present value. In addition, the terminal value of the property at the end of the ten-year period is determined using the expected stabilised net operating income and again discounted to the date of valuation as the net present value. The discount rate applied reflects the market situation, location, type of property, special property features (e.g. inheritable rights, rent restrictions), the yield expectations of a potential investor and the risk associated with the forecast future cash flows of the property.

The commercial properties in the portfolio are mainly small commercial units for the supply of the local residential area. Different cost approaches were used to those for residential properties, and the discount rates were adjusted to reflect the market specifics.

The valuation is, in principle, performed on the basis of homogeneous valuation units. These meet the criteria of economically cohesive and comparable land and buildings. They include:

> Geographical location (identity of the micro-location and geographical proximity)
> Comparable types of use, building class, construction year class and condition of property
> Same property features such as rent restrictions, inheritable rights and full or part ownership

The DAIG portfolio also contains development areas and land areas with inheritable rights which make up less than 1 % of the total value. The development areas are valued using a comparable method on the basis of the local standard land value. Deductions are taken into account, in particular for the readiness for construction and potential use as well as for likelihood of development and the development situation. Inheritable rights granted are valued in the same way as the property portfolio using a DCF method. The input parameters here are the duration and amount of ground rent and the value of the land.

As at December 31, 2014, DAIG determined the fair values for its portfolio of real estate internally in its own valuation department on the basis of the methodology described above. For the purchase of the Vitus portfolio, a pre-purchase valuation was performed by CBRE and the resulting values were recognised. The internal valuation results were confirmed by a CBRE appraisal.

The following table gives an overview of the main valuation parameters and valuation results as at December 31, 2014:

Valuation parameters	Average	min*	max*
Management costs residential	€ 252 per residential unit p. a.	195	350
Repair and maintenance costs residential	€ 9.72 per m² p. a.	5.92	12.29
Apartment improvement costs for reletting	€ 3.51 per m² p. a.	0.00	15.57
Maintenance cost total	€ 13.22 per m² p. a.	5.92	25.68
Cost increase/inflation	1.5 % p. a.		
Market rent	€ 6,15 per m² p. a.	2.50	13.00
Market rent increase	1.1 % p. a.	0.3 %	1.6 %
Stabilised vacancy rate	3.0 %	0.5 %	10.8 %
Discount rate	6.0 %	4.8 %	8.5 %
Capitalised interest rate	4.9 %	3.5 %	7.5 %

* Adjusted of individual cases; range with at least 98 % of all valuation units

Results of the valuation

The real estate portfolio of Deutsche Annington Immobilien Group is to be found in the investment properties, property, plant and equipment (properties used by the company itself) and assets held for sale balance sheet items. The fair value of this real estate portfolio of residential buildings, commercial properties, garages and parking spaces, as well as undeveloped land and any inheritable rights granted, was € 12,759.1 million as at December 31, 2014 (2013: € 10,326.7 million).

Valuation results	
Net initial yield	4.8 %
Actual rent multiplier	14.7-fold
Fair value per m²	€ 964 per m² of lettable area

The fair values for each real estate portfolio segment are as follows:

	Residential units		Fair value (€ million)*	
	2014	2013	2014	2013
Operate	86,325	78,764	5,302.1	4,604.7
Upgrade buildings	51,901	43,476	3,271.9	2,469.2
Upgrade apartments	34,320	21,363	2,293.2	1,446.8
Rental only	**172,546**	**143,603**	**10,867.2**	**8,520.7**
Privatise	21,530	20,536	1,493.8	1,350.7
Non-Core	8,952	11,119	348.4	404.6
Total	**203,028**	**175,258**	**12,709.4**	**10,276.0**

* Fair value of the developed land excluding € 49.7 million for undeveloped land an inheritable rights granted

This led overall to net income from fair value adjustments of € 371.1 million in 2014 (2013: € 553.7 million).

Sensitivity analyses

Owing to the stable residential property market, the fair values of the DAIG real estate only fluctuate to a comparatively minor extent. The main value drivers influenced by the market are the market rents and their development, the amount of recognised administrative and maintenance expenses, cost increases, the vacancy rate and interest rates. The effect of possible fluctuations in these parameters is shown separately for each parameter in the following. Interactions between the parameters are possible but cannot be quantified owing to the complexity of the interrelationships.

Valuation parameters	Changes in parameters	Changes in values € million	in %
Management costs residential	-10 %	103.6	0.8 %
	+10 %	-103.7	-0.8 %
Maintenance cost residential	-10 %	321.8	2.5 %
	+10 %	-321.1	-2.5 %
Cost increase/inflation	-0.5 % percentage points	433.5	3.4 %
	+0.5 % percentage points	-449.3	-3.5 %
Market rent	-2.0 %	-291.1	-2.3 %
	+2.0 %	290.1	2.3 %
Market rent increase	-0.2 % percentage points	-639.6	-5.0 %
	+0.2 % percentage points	707.1	5.6 %
Stabilised vacancy rate	-1 % percentage points	200.8	1.6 %
	+1 % percentage points	-226.9	-1.8 %
Discounting and capitalised interest rates	-0.25 % percentage points	690.5	5.4 %
	+0.25 % percentage points	-621.9	-4.9 %

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, 9,348 (2013: 9,465) were still in DAIG's residential portfolio as at December 31, 2014.

The 63,626 residential units which DAIG acquired from Bundeseisenbahnvermögen in 2000 are subject to the following restriction on sale: no more than 70 % of the housing stock of a railway housing company may be sold by December 31, 2016. Furthermore, residential property used as such by a specified category of people may only be sold to them or to people named by them. Multi-family houses may only be sold to third parties without the consent of the specified category of people if more than half of the apartments in a block are already rented by tenants who do not fall under the specified category. Of the 63,626 residential units originally acquired, 37,609 (2013: 38,746) were still in DAIG's residential portfolio as at December 31, 2014.

In respect of the DeWAG Group, which DAIG acquired on April 1, 2014 and which relates to a portfolio of 11,505 residential and commercial units, there are contractual obligations imposing rental and sale restrictions for certain properties in the DeWAG portfolio. Certain leases cannot be terminated for convenience, irrespective of the statutory provisions and individual contractual structures, before the end of certain periods. In some cases, lifelong protection against termination has been granted. In a number of cases, DAIG has waived the right to issue notice to vacate for personal use or notice of termination due to opportunities for better commercial exploitation. Leases cannot be terminated systematically. For some properties, it is not permitted to

request new deposits. DAIG has undertaken, in the event that the sold properties are split into owned apartments/part ownership, to offer the tenants in question the apartment for purchase based on fair market prices. In some cases, apartments can only be sold to third parties within certain periods if they are not let. In some cases, DAIG has waived the right to perform luxury renovation work for certain periods. There are controlled tenancy agreements and occupancy agreements in place for certain properties. Some apartments are state-subsidised. This means that, even if the public funds are paid back, there are still commitment periods with continuing effect. Some restrictions are protected by contractual penalties. Certain apartments may not be sold on as a group as part of an outright sale. DAIG is obliged to pass certain restrictions on to legal successors. As at December 31, 2014, 11,213 residential and commercial properties of the DeWAG Group were still in DAIG's portfolio.

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

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

22 Financial assets

	Dec. 31, 2014		Dec. 31, 2013	
€ million	non-current	current	non-current	current
Other investments	1.7	–	1.6	–
Loans to other investments	33.6	–	33.6	–
Securities	2.9	–	3.7	–
Other long-term loans	4.4	–	3.6	–
Derivatives	50.6	–	–	–
Dividends from other investments	–	2.0	–	2.1
	93.2	**2.0**	**42.5**	**2.1**

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

No impairments were recognised on financial assets either in the reporting year or in the prior period.

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

The derivatives result from the positive market values of the cross currency swaps.

Non-current securities amounting to € 2.9 million (2013: € 3.7 million) were acquired in connection with pension commitments and have been pledged in full to the beneficiaries.

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

23 Other assets

€ million	Dec. 31, 2014 non-current	Dec. 31, 2014 current	Dec. 31, 2013 non-current	Dec. 31, 2013 current
Receivables for transferred pensions	8.3	–	8.1	–
Insurance claims	4.9	10.1	3.2	6.8
Receivables from related parties	–	–	3.0	–
Miscellaneous other assets	33.8	67.4	1.8	19.5
	47.0	**77.5**	**16.1**	**26.3**

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

The insurance claims include the excess of the fair value of plan assets over the corresponding part-time phased early retirement obligations amounting to € 4.2 million (2013: € 3.2 million).

The miscellaneous other assets include € 30.3 million for advance payments made on property purchases and € 19.5 million for deferred expenses in connection with future financing. An amount of € 8.7 million relates to receivables in connection with the transfer of sub-portfolios from the Vitus transaction.

24 Income tax receivables

The income tax receivables shown relate to corporate income tax and municipal trade tax receivables for 2014 and prior years.

25 Inventories

€ million	Dec. 31, 2014	Dec. 31, 2013
Raw materials and supplies	2.2	1.9
Work in progress	–	0.6
	2.2	**2.5**

The raw materials and supplies recognised relate to repair materials for our craftsmen's organisation.

26 Trade receivables

The trade receivables break down as follows:

€ million	Impaired		Not impaired						Carrying amount
				Past due by					
	Gross amount	Impairment 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	3.5	-2.5	45.2	1.2	0.3	0.2	0.3	1.6	49.8
Receivables from property letting	32.1	-17.5	–	–	–	–	–	–	14.6
Receivables from other management	0.7	–	–	–	–	–	–	–	0.7
Receivables from other supplies and services	–	–	–	–	–	–	–	–	–
As at Dec. 31, 2014	**36.3**	**-20.0**	**45.2**	**1.2**	**0.3**	**0.2**	**0.3**	**1.6**	**65.1**
Receivables from the sale of properties	1.9	-0.9	86.1	2.2	0.3	0.4	0.2	0.3	90.5
Receivables from property letting	30.2	-18.2	–	–	–	–	–	–	12.0
Receivables from other management	–	–	1.0	–	–	–	–	–	1.0
Receivables from other supplies and services	–	–	–	–	–	–	–	–	–
As at Dec. 31, 2013	**32.1**	**-19.1**	**87.1**	**2.2**	**0.3**	**0.4**	**0.2**	**0.3**	**103,5**

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

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

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

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

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

Impairment losses on trade receivables developed as follows:

€ million	Trade receivables
Impairment losses at Jan. 1, 2014	19.1
Addition	13.3
Utilisation	-12.4
Reversal	–
Impairment losses at Dec. 31, 2014	**20.0**
Impairment losses at Jan. 1,2013	26.5
Addition	8.9
Utilisation	-16.2
Reversal	-0.1
Impairment losses at Dec. 31, 2013	**19.1**

The receivables are derecognised if there are indications that they cannot be recovered.

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

€ million	2014	2013
Expenses for the derecognition of receivables	0.3	1.6
Income from the receipt of derecognised receivables	1.6	0.9

27 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 € 714.8 million (2013: € 547.8 million), as well as marketable securities in the amount of € 850.0 million (2013: € 0.0 million). The liquidity inflows relating to the preparatory measures for the acquisition of GAGFAH were invested in short-term standard market securities (commercial papers, money market funds).

Of these bank balances, € 32.8 million (2013: € 49.1 million) are restricted with regard to their use.

28 Assets held for sale

The assets held for sale include properties totalling € 53.8 million (2013: € 45.9 million) for which notarised purchase contracts had already been signed at the balance sheet date.

29 Equity

Subscribed capital

The subscribed capital represents the company's share capital in the amount of € 271,622,425.00, split into 271,622,425 no-par-value registered shares.

The shares are currently uncertificated.

In the event of capital increases, the profit participation of new shares can be determined in a manner which differs from that stipulated in Section 60 (2) AktG.

The Company's existing 2013 authorised capital has been partially utilised in accordance with resolutions passed by the Management Board on February 28, 2014 and March 4, 2014 on a capital increase against cash contributions in the amount of € 16,000,000 to the exclusion of the subscription rights of existing shareholders pursuant to Section 186 (3) sentence 4 of the German Stock Corporation Act [AktG]. The Supervisory Board and its finance committee, to which the Supervisory Board had delegated certain powers by resolution dated February 28, 2014, approved these resolutions of the Management Board by resolutions dated February 28, 2014 and March 4, 2014, respectively. Entry in the Düsseldorf commercial register was on March 7, 2014. After this capital increase, the subscribed capital of Deutsche Annington Immobilien SE was divided into 240,242,425 no-par-value registered shares accounting for a notional share of the share capital of € 1.00 per share. These shares carry full dividend rights as from January 1, 2013.

The shares resulting from the capital increase on March 7, 2014 were successfully placed on the market in an accelerated book-building procedure at an issue price of € 19.00.

On February 28, 2014, and September 12, 2014, the Management Board of Deutsche Annington Immobilien SE passed a resolution, with the consent of the Supervisory Board issued on February 28, 2014, and September 12, 2014, to increase the company's share capital by € 11,780,000.00 against contribution in kind by partially utilising the company's 2013 authorised capital. Shareholder subscription rights were excluded pursuant to Section 186 (3) sentence 4 AktG. Entry in the Düsseldorf commercial register was on October 9, 2014. After this capital increase, the subscribed capital of Deutsche Annington Immobilien SE was divided into 252,022,425 no-par-value registered shares accounting for a notional share of the share capital of € 1.00 per share. These shares carry full dividend rights as from January 1, 2014.

On November 5, 2014, the Management Board of Deutsche Annington Immobilien SE passed a resolution, with the consent of the company's Supervisory Board issued on October 29, 2014 and the consent of the Supervisory Board's finance committee issued on November 6, 2014, to increase the company's share capital by up to € 19,600,000.00 against a cash contribution by partially utilising the company's 2014 authorised capital and issuing up to 19,600,000 no-par-value registered shares. Shareholder subscription rights were excluded pursuant to Section 186 (3) sentence 4 AktG. Entry in the Düsseldorf commercial register was on November 10, 2014. After this capital increase, the subscribed capital of Deutsche Annington Immobilien SE was divided into 271,622,425 no-par-value registered shares accounting for a notional share of the share capital of € 1.00 per share. These shares carry full dividend rights as from January 1, 2014.

Capital increases that have been resolved but not completed

On December 1, 2014, the Management Board of Deutsche Annington Immobilien SE passed a resolution, with the consent of the company's Supervisory Board issued on November 30, 2014, to increase the company's share capital by up to € 83,331,111.00 by utilising the company's 2013 authorised capital, and by a further

€ 985,859.00 by utilising the company's 2014 authorised capital, and issuing up to 83,331,111 and 985,859 no-par-value registered shares respectively, accounting for a notional share of the share capital of € 1.00 per share, in return for a mixed non-cash contribution ("offer capital increase"). Shareholder subscription rights were excluded pursuant to Section 186 (3) sentence 4 AktG.

On December 1, 2014, the company's Management Board also passed a resolution, with the consent of the company's Supervisory Board issued on November 30, 2014, to increase the company's share capital by up to € 4,424,242.00 against a cash contribution by utilising the company's 2014 authorised capital and issuing up to 4,424,242 no-par-value registered shares, accounting for a notional share of the share capital of € 1.00 per share, in return for a cash contribution ("offer capital increase"). Shareholder subscription rights were excluded pursuant to Section 186 (3) sentence 4 AktG.

The shares from the offer capital increase shall be issued as part of a takeover offer to be made to the shareholders of GAGFAH S. A. pursuant to Section 29 et seq. of the German Securities and Takeover Act (WpÜG) in the form of a combined cash and exchange offer to purchase all of the shares in GAGFAH S. A. held by them ("exchange offer").

Development of the subscribed capital

€	
Balance on January 1, 2014	**224,242,425.00**
Cash capital increase on March 7, 2014	16,000,000.00
Capital increase against non-cash contributions on October 9, 2014	11,780,000.00
Cash capital increase on November 10, 2014	19,600,000.00
Balance on December 31, 2014	**271,622,425.00**

2013 authorised capital

At the Annual General Meeting held on June 30, 2013, the Management Board was authorised, subject to the approval of the Supervisory Board, to increase the company's share capital until June 29, 2018 by a maximum of € 111,111,111.00 by issuing up to 111,111,111 new no-par-value registered shares against cash and/or non-cash contributions once or multiple times and under certain circumstances to the exclusion of the subscription rights of shareholders. Following the partial utilisation of this authorised capital in March and October 2014, the Management Board is still authorised to use this authorised capital to increase the share capital, with the consent of the Supervisory Board, by up to a total of € 83,331,111.00 by issuing up to 83,331,111 new no-par-value registered shares, in return for a cash contribution and/or a contribution in kind once or multiple times.

2014 authorised capital

At the Annual General Meeting of Deutsche Annington Immobilien SE on May 9, 2014, the Management Board was authorised, subject to the approval of the Supervisory Board, to increase the Company's share capital until May 8, 2019 by a maximum of € 25,010,101.00 by issuing up to 25,010,101 new no-par-value registered shares against cash and/or non-cash contributions once or multiple times and to the exclusion of the subscription rights of shareholders. The Annual General Meeting's resolution concerning the above-mentioned creation of authorised capital and the corresponding amendment to the Articles of Association were entered in the commercial register at Düsseldorf Local Court on June 30, 2014. Following the partial utilisation of this authorised capital in November 2014, the Management Board is still authorised to use this authorised capital to increase the share capital, with the consent of the Supervisory Board, by up to a total of € 5,410,101.00 by issuing up to 5,410,101 new no-par-value registered shares, in return for a cash contribution and/or a contribution in kind once or multiple times.

In respect of the 2013 and 2014 authorised capital, the Management Board is authorised, with the consent of the Supervisory Board, to exclude subscription rights under certain circumstances, e.g. within the framework of a cash capital increase if the newly issued new shares do not exceed a total of 10 % of the share capital or in cases involving capital increases in return for a contribution in kind where new shares are granted for the purpose of acquisitions as well as within the framework of employee share programmes.

Development of the authorised capital

€	
Authorised capital 2013	
Balance on January 1, 2014	**111,111,111.00**
Cash capital increase on March 7, 2014	-16,000,000.00
Capital increase against non-cash contributions on October 9, 2014	-11,780,000.00
Balance on December 31, 2014	**83,331,111.00**
Authorised capital 2014	
Annual General Meeting May 9, 2014/Commercial Register entry on June 30, 2014	25,010,101.00
Cash capital increase on November 10, 2014	-19,600,000.00
Balance on December 31, 2014	**5,410,101.00**

Issuance of option rights, bonds with warrants, convertible bonds, profit-sharing rights or profit participation bonds

The Management Board was authorised, subject to the consent of the Supervisory Board, to issue once or several times on or before June 29, 2018 option rights, bonds with warrants, convertible bonds, profit-sharing rights or profit participation bonds or a combination of these instruments (together referred to as "debentures") up to a total amount of € 3 billion and to grant the holders or creditors of the debentures option or conversion rights for shares in the company with a proportionate aggregate amount of up to € 100 million of the share capital subject to the detailed conditions of the debentures.

Conditional capital

Conditional capital was created in the amount of € 100,000,000.00 divided into 100,000,000 registered shares in order to service the conversion or option rights owing to the authorisation given by the Annual General Meeting on June 30, 2013, to issue convertible bonds, bonds with warrants or similar bonds. The subscribed capital is therefore conditionally increased by up to € 100 million divided into up to 100 million new no-par-value registered shares (2013 conditional capital).

Authorisation to purchase own shares

The Management Board was authorised to purchase shares in the company up to a total of 10 % of the company's share capital at the time of the resolution on or before June 29, 2018.

Capital reserves

Capital reserves amounted to € 2,076.0 million (Dec. 31, 2013: € 1,430.1 million)

The capital reserves increased by € 976.6 million in 2014 as a result of the premium on the issue of new shares. The capital procurement costs attributable to the company of € 9.3 million in connection with the issuing of the new shares were offset against the capital reserves allowing for deferred tax effects of € 3.1 million.

As part of the preparations for the 2014 employee share programme, the capital reserves were increased by € 0.5 million.

In preparation for a dividend distribution in line with the Management Board's proposal for the appropriation of profit, € 324.9 million was withdrawn from the capital reserves of Deutsche Annington Immobilien SE and reclassified to retained earnings.

Development of capital reserves

€ million	
Balance on January 1, 2014	**1,430.1**
Cash capital increase on March 7, 2014	288.0
Capital increase against non-cash contributions on October 9, 2014	257.3
Cash capital increase on November 10, 2014	431.2
Transaction costs on the issue of new shares	-6.2
Employee share programme	0.5
Withdrawal from capital reserve	-324.9
Balance on December 31, 2014	**2,076.0**

Dividend

The Annual General Meeting held on May 9, 2014 in Düsseldorf resolved inter alia to pay a dividend for the 2013 financial year in the amount of 70 cents per share. This dividend was distributed on May 12, 2014.

Retained earnings

Retained earnings of € 2,643.4 million (2013: € 2,178.5 million) are shown as at December 31, 2014. This figure includes actuarial gains and losses of € -69.8 million (2013: € -31.2 million), which cannot be reclassified and therefore may no longer be recognised in profit or loss in subsequent reporting periods.

Other reserves

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

The other reserves from cash flow hedges and available-for-sale financial assets can be reclassified. When the underlying hedged item of the cash flow hedge affects net income, the reserves attributable thereto are reclassified to profit or loss. The other reserves from available-for-sale financial assets are reclassified if the asset is derecognised or impaired.

The changes in the cash flow hedges and the actuarial gains and losses from pensions and similar obligations lead to the other comprehensive income shown in the consolidated statement of comprehensive income:

€ million	2014	2013
Cash flow hedges		
Changes in the period	38.5	-16.7
Taxes on changes in the period	-7.8	5.0
Reclassification affecting net income	-81.7	42.1
Taxes on reclassification affecting net income	19.9	-10.5
Actuarial gains and losses from pensions and similar obligations		
Changes in the period	-58.1	23.6
Taxes on changes in the period	19.6	-7.2
Available-for-sale financial assets		
Changes in the period	–	-0.1
Taxes on changes in the period	–	–
Other comprehensive income	**-69.6**	**36.2**

Equity of hybrid investors

In December 2014, DAIG issued a hybrid bond with a nominal volume of € 1.0 billion via a subsidiary, Deutsche Annington Finance B.V., Amsterdam/Netherlands (issuer). In order to finance the takeover of GAGFAH, the proceeds from the issue were passed on from Deutsche Annington Finance B.V. to DAIG SE as part of a loan agreement. This subordinated hybrid bond is of unlimited duration and can only be terminated by DAIG on certain contractually fixed dates or occasions. Up until the first termination date in December 2021, the hybrid bond shall bear interest at a rate of 4.0 % p.a. If DAIG does not exercise its termination right at this point, the interest rate that will apply until the next termination date in December 2026 will correspond to the five-year swap rate plus a margin of 339 basis points. The mark-up will increase by 25 basis points as of December 2026 and by another 75 basis points as of December 2041. The agreements reached allow interest payments to be suspended. Suspended interest payments shall not bear interest.

Pursuant to IAS 32, the hybrid bond is to be classified as equity in full. The capital raised was added to equity following a deduction for the costs of raising the capital. The interest payments to be made to the bondholders are recognised directly in equity after a deduction of deferred taxes.

Non-controlling interests

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

	Dec. 31, 2014		Dec. 31, 2013	
Company	%	€ million	%	€ million
Kieler Wohnungsbaugesellschaft mit beschränkter Haftung, Kiel	5.1	9.5	–	–
MIRA Grundstücksgesellschaft mbH, Düsseldorf	5.1	9.0	5.1	8.0
Beamten-Baugesellschaft Bremen Gesellschaft mit beschränkter Haftung, Bremen	5.1	3.3	–	–
Bremische Gesellschaft für Stadterneuerung, Stadtentwicklung und Wohnungsbau mit beschränkter Haftung, Bremen	5.1	1.8	–	–
Other	–	4.4	–	4.5
		28.0		**12.5**

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

30 Provisions

	Dec. 31, 2014		Dec. 31, 2013	
€ million	non-current	current	non-current	current
Provisons for pensions and similar obligations	**360.9**	**–**	**291.0**	**–**
Provisions for taxes (current income taxes excl. deferred taxes)	**–**	**66.0**	**–**	**64.4**
Other provisions				
Environmental remediation	23.9	0.8	24.4	1.4
Personnel costs	26.4	29.2	17.5	39.6
Outstanding trade invoices	–	50.7	-	19.5
Miscellaneous other provisions	10.9	64.6	9.7	23.7
	61.2	**145.3**	**51.6**	**84.2**
	422.1	**211.3**	**342.6**	**148.6**

Development of other provisions

€ million	Jan. 1, 2014	Additions due to changes in scope of consolidation	Additions	Reversals	Netting plan assets	Interest portion	Utilisation	Dec. 31, 2014
Other provisions								
Environmental remediation	25.8	1.2	–	-0.5	–	1.9	-3.7	24.7
Personnel costs (excluding restructuring)	57.1	0.1	35.2	-10.6	4.1	0.5	-30.8	55.6
Outstanding trade invoices	19.5	0.1	50.7	-1.3	–	–	-18.3	50.7
Miscellaneous other provisions	33.4	38.0	14.6	-2.5	–	1.3	-9.3	75.5
	135.8	**39.4**	**100.5**	**-14.9**	**4.1**	**3.7**	**-62.1**	**206.5**

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.

Generally, they are pension benefits which depend on the final salary with percentage increases depending on the number of years of service.

The pension commitments cover 2,479 eligible persons.

Executives in active service have the opportunity to participate in the "Pension instead of Cash Remuneration" model (Versorgungsbezüge anstelle von Barbezügen) in the version dated October 2003. Retirement, invalidity and surviving dependant benefits in the form of a life-long pension are offered under this deferred compensation model. The retirement benefits can also be paid out as a one-off capital sum. The annuity table is based on a discount rate of 6 % and in other respects is the same as the defined contribution model of Bochumer Verband.

The following overview summarises the most important basic data of the closed pension plans:

	VO 1 Veba Immobilien	VO 91 Eisenbahnges.	Bochumer Verband
Type of benefits	Retirement, invalidity and surviving dependant benefits	Retirement, invalidity and surviving dependant benefits	Retirement, invalidity and surviving dependant benefits
Pensionable remuneration	Final salary	Final salary	Final salary
Max. pension level			
Remuneration up to state pension assessment limit	25 %	27 %	Depends on individual grouping
Remuneration in excess of state pension assessment limit	25 %	72 %	Depends on individual grouping
Total pension model based on final salary	Yes	Yes	No
Net benefit limit incl. state pension	None	90 %	None
Gross benefit limit	70 %	None	None
Adjustment of pensions	Section 16, para. 1,2 BetrAVG	Section 16, para. 1,2 BetrAVG	Adjustment every 3 years by Bochumer Verband (Management Board resolution)
Supplementary periods	Age of 55	None	Age of 55 (half)
Legal basis	Works agreement	Works agreement	Commitment to executives in individual contract
No. of eligible persons	369	342	515

	VO 60 Eisenbahnges.	Viterra commitment to Management Board members (with plan assets)	Deferred compensation until 1999
Type of benefits	Retirement, invalidity and surviving dependant benefits	Retirement, invalidity and surviving dependant benefits	Retirement, invalidity and surviving dependant benefits
Pensionable remuneration	Final salary	Final salary	Not applicable
Max. pension level			
Remuneration up to state pension assessment limit	48 %	75 %	Not applicable
Remuneration in excess of state pension assessment limit	48 %	75 %	Not applicable
Total pension model based on final salary	Yes	No	No
Net benefit limit incl. state pension	None	None	None
Gross benefit limit	75 %	None	None
Adjustment of pensions	Section 16, para. 1,2 BetrAVG	Annual according to development of cost of living	Section 16, para. 1,2 BetrAVG, min. 8 % every 3 years
Supplementary periods	None	None	Age of 55
Legal basis	Works agreement	Commitment to Management Board members in individual contract	Commitment to executives in individual contract
No. of eligible persons	186	6	29

The current pensions according to the classic pension benefit regulations of Bochumer Verband are adjusted in line with Section 20 of those regulations. Section 20 is a rule which is based on Section 16 (1,2) of the German Occupational Pensions Improvement Act (BetrAVG) but which, according to a ruling of the Federal Labour Court, is an independent rule. Other company pensions are reviewed and adjusted under the terms of the agreement according to Section 16 (1,2) BetrAVG. On every review date, the development of the cost of living since the individual retirement date is reviewed and compensated for. Only in the aforementioned deferred compensation model is the option, available since January 1, 1999, used to raise the current pensions every year by 1% (Section 16 (3) No. 1 BetrAVG). No further risks are seen.

The company has decided to use the internal financing effect of the pension provisions and only back a relatively small portion of the pension obligations with plan assets. Reinsurance policies have been taken out for former Management Board members against payment of a one-off insurance premium in order to provide additional protection against insolvency; these reinsurance policies were pledged to the eligible persons. They constitute plan assets, which are offset against the gross obligation. In the previous year, the fair value of the reinsurance policies was for individual persons higher than the extent of the obligations towards the respective person. This surplus of the fair values of the assets over the obligation is shown under non-current other assets. 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. Both pensions known on the reporting date 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.

Actuarial assumptions:

%	2014	2013
Discount rate	1.90	3.30
Pension trend	2.00	2.00
Salary trend	2.75	2.75

The 2005 G mortality tables of Prof. Dr Klaus Heubeck have been taken for the biometric assumptions without any changes.

The defined benefit obligation (DBO) developed as follows:

€ million	2014	2013
Defined benefit obligation as at Jan. 1	**309.1**	**339.8**
Additions due to changes in scope of consolidation	12.3	–
Interest cost	10.0	8.9
Current service cost	3.3	2.5
Actuarial gains and losses:		
Changes in the biometric assumptions	-4.7	1.4
Changes in the financial assumptions	62.4	-25.2
Transfer from other provisions	0.1	0.2
Benefits paid	-18.1	-18.5
Past service cost	3.8	–
Defined benefit obligation as at Dec. 31	**378.2**	**309.1**

The present value of the defined benefit obligation is divided among the groups of eligible persons as follows:

€ million	2014	2013
Active employees	61.8	45.8
Former employees with vested pension rights	57.8	42.7
Pensioners	258.6	220.6
DBO as at Dec. 31	**378.2**	**309.1**

Plan assets comprise solely reinsurance contracts. The fair value of the plan assets has developed as follows:

€ million	2014	2013
Fair value of plan assets as at Jan. 1	**18.2**	**20.9**
Return calculated using the discount rate	0.6	0.5
Actuarial gains:		
Changes in the biometric assumptions	–	–
Changes in the financial assumptions	0.2	0.2
Benefits paid	-1.0	-0.9
Repayments	–	-2.5
Fair value of plan assets as at Dec. 31	**18.0**	**18.2**

The actual return on plan assets amounted to € 0.8 million in 2014 (2013: € 1.1 million).

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

€ million	2014	2013
Present value of funded obligations*	27.1	26.4
Present value of unfunded obligations	351.1	282.7
Total present value of obligations (DBO)	**378.2**	**309.1**
Fair value of plan assets*	-18.0	-18.2
Net liability recognised in the balance sheet	**360.2**	**290.9**
Other assets to be recognised	0.7	–
Provisions for pensions recognised in the balance sheet	**360.9**	**290.9**

* Attributable to the "Viterra commitment to Management Board members" pension plan

In 2014, actuarial losses of € 58.1 million (excluding deferred taxes) were recorded in other comprehensive income. Cumulative changes in equity not affecting net income of € 103.3 million (excluding deferred taxes) from actuarial losses on defined benefit obligations are recognised in other comprehensive income.

The weighted average term of the defined benefit obligations is 14.5 years.

The following table contains the projected, undiscounted pension payments of the coming five financial years and the total of those in the subsequent five financial years:

€ million	Projected pension payments
2015	19.7
2016	18.7
2017	18.4
2018	18.1
2019	18.0
2020–2024	87.5

Sensitivity analysis:

An increase or decrease in the main actuarial assumptions would have the following effects on the DBO as at December 31, 2014 assuming the other assumptions did not change:

€ million		
Discount rate	Increase by 1 %	-48.0
	Decrease by 1 %	60.9
Pension trend	Increase by 0.25 %	8.2
	Decrease by 0.25 %	-7.7
Salary trend	Increase by 0.25 %	0.7
	Decrease by 0.25 %	-0.7

An increase in life expectancy of 5.3 % would have resulted in an increase in the DBO of € 16.1 million as at December 31, 2014. This percentage rise corresponds to a one-year increase in the life expectancy of a man who was 65 at the reporting date.

If several assumptions are changed simultaneously, the cumulative effect is not necessarily the same as if there had been a change in just one of the assumptions.

The pension provisions include € 8.3 million (2013: € 8.1 million) for pension obligations which were transferred to third parties as part of an assumption of debt and which relate 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 part-time phased early retirement obligations, bonuses, severance payments not relating to restructuring and other personnel expenses. The other personnel expenses include a provision for the Long-Term Incentive Plan (LTIP) of € 13.6 million (2013: € 16.5 million) determined in accordance with IFRS 2 (see note [45] Related party transactions).

The miscellaneous other provisions include among others a contingent purchase price component connected with the acquisition of the Vitus Group, future costs connected with heat contracting which cannot be passed on to tenants, as well as costs for entering transfers of title and litigation costs.

31 Trade payables

€ million	Dec. 31, 2014 non-current	Dec. 31, 2014 current	Dec. 31, 2013 non-current	Dec. 31, 2013 current
Liabilities				
from property letting	–	25.1	–	19.5
from other goods and services	1.0	26.4	0.3	28.1
	1.0	**51.5**	**0.3**	**47.6**

32 Non-derivative financial liabilities

€ million	Dec. 31, 2014 non-current	Dec. 31, 2014 current	Dec. 31, 2013 non-current	Dec. 31, 2013 current
Non-derivative financial liabilities				
Banks	2,418.5	58.8	2,512.7	150.6
Other creditors	4,121.0	10.5	2,883.3	21.4
Deferred interest from non-derivative financial liabilities	–	56.0	–	26.8
	6,539.5	**125.3**	**5,396.0**	**198.8**

As at December 31, 2014, financial liabilities were reclassified from non-current financial liabilities to current financial liabilities. These reclassifications relate to loans which have to be repaid in the next financial year due to property sales. After the sale of these properties, part of the proceeds from their sale is to be used to repay the loans (see note [21] Investment properties).

Deferred interest is presented at this point as current in order to show the cash effectiveness of the interest payments transparently. In principle, the deferred interest is part of the non-derivative financial liability. Of the deferred interest from non-derivative financial liabilities, € 55.2 million (2013: € 25.3 million) is from corporate bonds reported under non-derivative financial liabilities to other creditors.

The US dollar corporate bonds issued in 2013 are translated at the exchange rate prevailing on the balance sheet date in line with applicable IFRS provisions. Allowing for the hedging rate prescribed through the interest hedging transaction entered into, this financial liability would be € 84.0 million lower than the recognised value.

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, 2014	Maturity	Average interest rate	Repayment of the nominal obligations is as follows: 2015	2016	2017	2018	2019	from 2020
Bond*	700.0	2016	2.13 %	–	700.0	–	–	–	–
Bond*	600.0	2019	3.13 %	–	–	–	–	600.0	–
Bond (US dollar)*	554.9	2017	2.97 %	–	–	554.9	–	–	–
Bond (US dollar)*	184.9	2023	4.58 %	–	–	–	–	–	184.9
Bond (EMTN)*	500.0	2021	3.63 %	–	–	–	–	–	500.0
Bond (EMTN)*	500.0	2022	2.13 %	–	–	–	–	–	500.0
Bond (Hybrid)*	700.0	2019	4.63 %	–	–	–	–	700.0	–
Portfolio loans									
Norddeutsche Landesbank (1)*	140.9	2018	3.68 %	3.4	3.6	3.7	130.2	–	–
Corealcredit Bank AG*	158.7	2018	4.22 %	1.8	1.8	1.8	153.3	–	–
Berlin-Hannoversche Hypothekenbank (Landesbank Berlin)*	582.5	2018	3.14 %	8.4	8.4	8.4	557.3	–	–
Nordrheinische Ärzteversorgung	35.4	2022	3.49 %	0.5	0.6	0.6	0.6	0.6	32.5
AXA S. A. (Société Générale S. A.)*	161.9	2018	3.61 %	2.5	2.5	2.2	154.7	-	–
Norddeutsche Landesbank (2)*	41.4	2020	3.99 %	2.0	2.1	2.2	2.3	2.4	30.4
	85.1	2023	3.76 %	1.3	0.8	1.1	1.1	1.2	79.6
Berlin Hannoversche Hypothekenbank, Landesbank Berlin and Landesbank Baden-Württemberg*	435.4	2020	3.57 %	4.2	4.2	4.2	4.2	4.2	414.4
Pfandbriefbank AG*	180.2	2018	3.26 %	2.5	2.5	2.5	172.7	-	-
Deutsche Hypothekenbank*	184.2	2021	3.96 %	4.5	4.7	4.9	5.1	5.3	159.7
Mortgages	901.3	2036	2.43 %	38.2	54.0	167.3	56.3	65.1	520.4
	6,646.8			**69.3**	**785.2**	**753.8**	**1,237.8**	**1,378.8**	**2,421.9**

* Under the conditions of existing loan agreements, DAIG is obliged to fulfil certain financial covenants.

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

Of the nominal obligations to creditors, € 2,906.2 million (2013: € 3,187.4 million) are secured by land charges and other collateral (account pledge agreements, assignments, pledges of company shares and guarantees). In the event of a breach of the covenants, failure to repay or insolvency, the securities provided are used to satisfy the claims of the creditors.

The nominal interest rates on the financial liabilities to banks and other creditors are between 0.0 % and 8.7 % (average approx. 3.2 %). The financial liabilities as a whole do not contain any significant 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 [38] Financial risk management).

In the reporting year, capital repayments totalling € 1,525.9 million were made. This figure includes unscheduled repayments of € 989.7 million. New loans of € 1,702.3 million were taken out.

As part of the takeover of the DeWAG Group and the Vitus Group, portfolio loans and mortgages with a nominal volume of € 565.5 million for the DeWAG Group and € 175.5 million for the Vitus Group were acquired.

Bonds (EMTN)

The financial supervisory authority of the Grand Duchy of Luxembourg (CSSF) approved the required annual update of the prospectus for the EMTN tap issue on June 30, 2014. On the basis of this update, DAIG, through its Dutch financing company, issued another bond with a volume of € 500 million. On July 9, 2014, this bond was placed at an issue price of 99.412 %, with a coupon of 2.125 % and a term of eight years. The purpose of the cash inflow is to finance the acquisition of the Vitus Group. This took place back in July, ahead of schedule, exploiting the extremely favourable market conditions.

Issuance of a hybrid bond

On April 1, 2014, DAIG agreed to issue a subordinated long-term bond (hybrid bond) of € 700 million. The bond was issued with a term of up to 60 years and an initial nominal interest rate of 4.625 % and may be called first after five years (and afterwards every five years) if the company uses its termination option. The hybrid bond was placed by Deutsche Annington Finance B. V. at an issue price of 99.782 %. The issue was completed on April 8, 2014.

Term loan

On September 16, 2014, Deutsche Annington Finance B. V. concluded a term loan subject to interest on the basis of EURIBOR with Barclays Bank PLC and JP Morgan Limited in the amount of € 475 million, which was paid out in full on September 26, 2014, to finance the Vitus acquisition. The loan liability was repaid in full on October 27, 2014.

HSH Nordbank

A loan with a volume of € 131.5 million, which was granted by HSH Nordbank on December 12, 2013, was acquired in connection with the acquisition of the DeWAG Group. The loan was repaid in full with instalments paid on June 30, 2014, and July 16, 2014.

Deutsche Hypothekenbank (Actien-Gesellschaft)

In October 2011, the DeWAG Group – acquired by DAIG in April 2014 – obtained a syndicated loan with a volume of € 208.0 million under the lead management of Deutsche Hypothekenbank (Actien-Gesellschaft), which had a value of € 184.2 million as at December 31, 2014. This loan bears interest at a rate of 3.96 % and its term expires in October 2021. Securities were provided in the form of land charges, account pledge agreements and assignments.

33 Derivative financial instruments

	Dec. 31, 2014		Dec. 31, 2013	
	non-current	current	non-current	current
Derivatives				
Purchase price liabilities from put options	–	21.7	–	7.4
Cash flow hedges	54.5	–	69.4	–
Deferred interest from cash flow hedges	–	0.2	–	1.6
	54.5	**21.9**	**69.4**	**9.0**

Regarding derivative financial instruments please refer to note [37] Additional financial instrument disclosures and [40] Cash flow hedges.

34 Liabilities from finance leases

The following table shows the total minimum lease payments and reconciliation to their present value:

	Dec. 31, 2014			Dec. 31, 2013		
€ million	Total minimum lease payments	Interest portion	Present value	Total minimum lease payments	Interest portion	Present value
Due within 1 year	4.6	0.2	4.4	4.6	0.3	4.3
Due in 1 to 5 years	19.3	3.4	15.9	19.0	3.3	15.7
Due after 5 years	219.8	147.6	72.2	224.8	152.9	71.9
	243.7	**151.2**	**92.5**	**248.4**	**156.5**	**91.9**

As part of finance leases, an expense of € 5.2 million was recorded in the reporting period (2013: € 5.2 million). As at the balance-sheet date, there were no significant non-cancellable sub-tenancies on the Spree-Bellevue property.

35 Liabilities to non-controlling interests

In 2014, DAIG committed to paying a guaranteed dividend to a non-controlling shareholder as part of a newly signed profit and loss transfer agreement. Based on the annual compensation amounts and an original term running until the end of 2020, there are financial liabilities to non-controlling shareholders in the amount of € 53.7 million, which are recognised in equity as transaction under common control.

36 Other liabilities

	Dec. 31, 2014		Dec. 31, 2013	
€ million	non-current	current	non-current	current
Advance payments received	–	43.7	–	20.2
Miscellaneous other liabilities	8.6	38.5	9.8	15.6
	8.6	**82.2**	**9.8**	**35.8**

The advance payments received include on-account payments of € 24.2 million (2013: € 18.2 million) from tenants for ancillary costs after offsetting against the corresponding trade receivables. They also include down payments from the sale of housing stocks that were sold, with the transfer of rights and obligations in early 2015, in the amount of € 16.1 million.

The miscellaneous other liabilities include financing costs of € 14.5 million and other taxes totalling € 4.7 million (2013: € 3.4 million).

Other Notes and Disclosures

37 Additional financial instrument disclosures

Measurement categories and classes: € million	Measurement category in acc. with IAS 39	Carrying amounts Dec. 31, 2014
Assets		
Cash and cash equivalents		
Cash on hand and deposits at banking institutions	LaR	714.8
Commercial papers	LaR	450.0
Money market funds	AfS	400.0
Trade and other receivables		
Receivables from the sale of properties	LaR	49.8
Receivables from property letting	LaR	14.6
Receivables from other management	LaR	0.7
Financial assets		
Loans to other investments	LaR	33.6
Other long-term loans	LaR	4.4
Dividends from other investments	LaR	2.0
Long-term securities	AfS	2.9
Other investments	AfS	1.7
Derivative financial assets		
Cash flow hedges (cross currency swaps)	n. a.	50.6
Liabilities		
Trade and other payables		
Liabilities from property letting	FLAC	25.1
Liabilities from other goods and services	FLAC	27.4
Non-derivative financial liabilities		
Liabilities to banks	FLAC	2,477.3
Liabilities to other lenders	FLAC	4,131.5
Deferred interest from other non-derivative financial liabilities	FLAC	56.0
Derivative financial liabilities		
Purchase price liabilities from put options	FLHfT	21.7
Cash flow hedges (cross currency swaps)	n. a.	–
Cash flow hedges (interest rate swaps)	n. a.	54.5
Deferred interest from cash flow hedges	n. a.	0.3
Liabilities from finance leases	n. a.	92.5
Liabilities to non-controlling interests	FLAC	53.7
thereof aggregated by measurement categories in accordance with IAS 39:		
Loans and receivables	LaR	1,269.9
Available-for-sale financial assets	AfS	404.6
Financial liabilities held for trading	FLHfT	21.7
Financial liabilities measured at amortised cost	FLAC	6,771.0
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		8.3
Amount by which the fair value of plan assets exceeds the corresponding obligation		0.7
Provisions for pensions and similar obligations		360.9

	Amounts recognised in balance sheet according to IAS 39							
	Face value	Amortised cost	Acquisition cost	Fair value affecting net income	Fair value recognised in equity	Amounts recognised in balance sheet in acc. with IAS 17	Fair value Dec. 31, 2014	Fair value hierarchy level
	714.8						714.8	1
		450.0					450.0	2
		400.0					400.0	2
		49.8					49.8	2
		14.6					14.6	2
		0.7					0.7	2
		33.6					55.3	2
		4.4					4.4	2
		2.0					2.0	2
					2.9		2.9	1
			1.7				1.7	n. a.
							50.6	2
		25.1					25.1	2
		27.4					27.4	2
		2,477.3					2,735.2	2
		4,131.5					4,446.0	2
		56.0					56.0	2
				21.7			21.7	3
							–	2
							54.5	2
							0.3	2
						92.5	162.8	2
		53.7					53.7	3
	714.8	555.1	–	–	–	–	1,291.6	
	–	400.0	1.7	–	2.9	–	404.6	
	–	–	–	21.7	–	–	21.7	
	–	6,771.0	–	–	–	–	7,343.4	

Measurement categories and classes:

€ million	Measurement category in acc. with IAS 39	Carrying amounts Dec. 31, 2013
Assets		
Cash and cash equivalents	LaR	547.8
Trade and other receivables		
Receivables from the sale of properties	LaR	90.4
Receivables from property letting	LaR	12.1
Receivables from other management	LaR	1.0
Other assets		
Receivables from related parties	LaR	3.0
Financial assets		
Loans to other investments	LaR	33.6
Other long-term loans	LaR	3.6
Dividends from other investments	LaR	2.1
Long-term securities	AfS	3.7
Other investments	AfS	1.6
Liabilities		
Trade and other payables		
Liabilities from property letting	FLAC	19.5
Liabilities from other goods and services	FLAC	28.4
Non-derivative financial liabilities		
Liabilities to banks	FLAC	2,663.3
Liabilities to other lenders	FLAC	2,904.7
Deferred interest from other non-derivative financial liabilities	FLAC	26.8
Derivative financial liabilities		
Purchase price liabilities from put options	FLHfT	7.4
Cash flow hedges (cross currency swaps)	n. a.	24.7
Cash flow hedges (interest rate swaps)	n. a.	44.7
Deferred interest from cash flow hedges	n. a.	1.6
Liabilities from finance leases	n. a.	91.9
thereof aggregated by measurement categories in accordance with IAS 39:		
Loans and receivables	LaR	693.6
Available-for-sale financial assets	AfS	5.3
Financial liabilities held for trading	FLHfT	7.4
Financial liabilities measured at amortised cost	FLAC	5,642.7
Financial assets and financial liabilities not covered by IAS 39		
Employee benefits in accordance with IAS 19:		
Gross presentation: right to reimbursement corresponding to indirect obligation arising from transferred pension obligations		8.1
Provisions for pensions and similar obligations		291.0

Amounts recognised in balance sheet according to IAS 39							
Face value	Amortised cost	Acquisition cost	Fair value affecting net income	Fair value recognised in equity	Amounts recognised in balance sheet in acc. with IAS 17	Fair value Dec. 31, 2013	Fair value hierarchy level
547.8						547.8	1
	90.4					90.4	2
	12.1					12.1	2
	1.0					1.0	2
	3.0					3.0	2
	33.6					37.4	2
	3.6					3.6	2
	2.1					2.1	2
				3.7		3.7	1
		1.6				1.6	n. a.
	19.5					19.5	2
	28.4					28.4	2
	2,663.3					2,756,2	2
	2,904.7					2,945,5	2
	26.8					26,8	2
			7.4			7.4	3
						24.7	2
						44.7	2
						1.6	2
					91.9	109.4	2
547.8	145.8	–	–	–	–	697.4	
–	–	1.6	–	3.7	–	5.3	
–	–	–	7.4	–	–	7.4	
–	5,642.7	–	–	–	–	5,776.4	

IFRS 13 defines fair value as a price that would be received by selling an asset or paid to transfer a liability in the principal market for the asset or liability or, in the absence of a principal market, in the most advantageous market. The fair value is to be determined using as inputs measurement parameters which are as market-based as possible. The measurement hierarchy (fair value hierarchy) categorises the inputs for the measurement technique in three levels, giving the highest priority level to the most market-based inputs:

Level 1 inputs: quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date.

Level 2 inputs: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3 inputs: unobservable inputs for the asset or liability.

When inputs used to measure the fair value are categorised within different levels of the fair value hierarchy, the fair value measurement is categorised in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement.

Should the level of the input parameters used for a financial instrument change in a period subsequent to initial recognition, the financial instrument is reclassified to the new hierarchy level as at the end of that reporting period. No financial instruments were reclassified to different hierarchy levels during the reporting period.

The following table shows the assets and liabilities which are recognised in the balance sheet at fair value and their classification according to the fair value hierarchy:

€ million	Dec. 31, 2014	Level 1	Level 2	Level 3
Assets				
Investment properties	12,687.2			12,687.2
Available-for-sale financial assets				
Non-current securities	2.9	2.9		
Assets held for sale				
Investment properties (contract closed)	53.8		53.8	
Derivative financial assets				
Cash flow hedges	50.6		50.6	
Liabilities				
Derivative financial liabilities				
Purchase price liabilities from put options	21.7			21.7
Cash flow hedges	54.5		54.5	

€ million	Dec. 31, 2013	Level 1	Level 2	Level 3
Assets				
Investment properties	**10,266.4**			10,266.4
Available-for-sale financial assets				
Non-current securities	**3.7**	3.7		
Assets held for sale				
Investment properties (contract closed)	**45.9**		45.9	
Liabilities				
Derivative financial liabilities				
Purchase price liabilities from put options	**7.4**			7.4
Cash flow hedges	**69.4**		69.4	

DAIG measures its investment properties on the basis of the discounted cash flow (DCF) methodology (Level 3). The main measurement parameters and results can be found in note [21] Investment properties. This note also includes a reconciliation from January 1 to December 31, 2014.

Changes in the fair value are recognised as income in the income statement of € 371.1 million. In the 2014 financial year, € 370.7 million of the income from fair value adjustments of investment properties was attributable to properties still in the housing stocks at the end of the reporting period. € 0.4 million was realised by sales during the year.

Non-current securities are measured using the quoted prices in active markets (Level 1).

The investment properties classified as assets held for sale are recognised at the time of their transfer to assets held for sale at their new fair value, the agreed purchase price (Level 2). In the reporting period, investment properties totalling € 124.5 million (Level 3) were reclassified to assets held for sale (Level 2) while the disposals amounted to € 174.0 million.

For the measurement of financial instruments, cash flows are initially calculated and then discounted. In addition to the tenor-specific EURIBOR rates (3M; 6M), the respective credit risk is taken as a basis for discounting. Depending on the expected cash flows, either DAIG's own credit risk or the counterparty risk is taken into account in the calculation. For the consolidated financial statements, DAIG's own credit risk was relevant for interest rate swaps. This credit risk is derived for major risks from rates observable on the capital markets and ranges of between 45 and 75 basis points, depending on the residual maturities of financial instruments. Regarding the positive market values of the cross currency swaps, a counterparty risk of between 48 and 66 basis points was taken into account.

The non-derivative financial liabilities, the liabilities from finance leases and the liabilities to non-controlling shareholders are measured at fair value by discounting contractually agreed future cash flows.

The fair value of the purchase price obligations from put options granted to minority shareholders for the shares they hold is generally based on the going concern value of the company; if a contractually agreed minimum purchase price exceeds this amount, the purchase price is recognised (Level 3). The unobservable valuation parameters may fluctuate depending on the going concern values of these companies. However, a major change in value is not likely, as the business model is very predictable.

The following table shows the development of the put options recognised at fair value:

€ million	Jan. 1	Change scope of consolidation	Change affecting net income	Change cash- effective	Dec. 31
2014					
Purchase price liabilities from put options	**7.4**	18.6	3.9	-8.2	21.7
2013					
Purchase price liabilities from put options	7.0	–	0.5	-0.1	7.4

As part of the acquisition of the DeWAG Group, a contract was concluded establishing put options. As at the date of first-time consolidation, these put options had a fair value of € 18.6 million. Cash transactions, in particular reorganisations under company law and distribution of dividends resulted in the value of this put option falling to € 13.8 million as at the reporting date.

The sensitivity analysis has shown that if the value of the company deviates by 10 % in each case, the purchase price liability under put options granted as at the reporting date would differ by € +1.6 million or € -1.6 million (2013: € +0.1 million or € -0.1 million). The changes would be reflected in full in net interest.

In order to measure interest rate swaps, future cash flows are calculated and then discounted (Level 2). The calculated cash flows result from the contract conditions. The contract conditions refer to the EURIBOR reference rates (3M and 6M EURIBOR).

The calculated cash flows of the currency swap result from the forward curve for USD/EUR. The cash flows are discounted on the basis of the reference interest rate of each currency (LIBOR and EURIBOR) and translated into EURO at the current exchange rate (Level 2).

Financial instruments, which are not recognised in the balance sheet at fair value but at amortised cost, but whose fair values are nonetheless disclosed in the Notes, are also classified in the three-level fair value hierarchy.

The fair values of the cash and cash equivalents, trade receivables as well as other financial receivables approximate their carrying amounts at the balance-sheet date owing to their mainly short maturities.

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 (Level 2).

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 (2013: € 0.9 million), Hellerhof GmbH, Frankfurt am Main, € 0.3 million (2013: € 0.3 million) as well as WoWi Media GmbH & Co. KG, Hamburg, € 0.3 million (2013: € 0.3 million).

Liabilities from property letting and liabilities from other goods and services usually have short maturities; the values recognised 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 (Level 2).

Net results according to measurement categories:

2014 € million	Measurment 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 results 2014
Loans and receivables	LaR	3.1	2.0	-13.3	**1.3**	–	–	**-6.9**
Available-for-sale financial assets	AfS	-	–	–	–	–	3.4	3.4
Financial liabilities held for trading	FLHfT	-3.9	–	–	–	–	–	-3.9
Financial liabilities measured at most amortised cost	FLAC	-254.8	–	–	–	0.1	–	-254.7
		-255.6	**2.0**	**-13.3**	**1.3**	**0.1**	**3.4**	**-262.1**

2013 € million	Measurment 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 results 2013
Loans and receivables	LaR	7.5	1.9	-8.8	-0.7	–	–	-0.1
Available-for-sale financial assets	AfS	0.1	–	–	–	–	2.8	2.9
Financial liabilities held for trading	FLHfT	-0.5	–	–	–	–	–	-0.5
Financial liabilities measured at most amortised cost	FLAC	-236.8	–	–	–	1,1	–	-235.7
		-229.7	**1.9**	**-8.8**	**-0.7**	**1,1**	**2.8**	**-233.4**

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

In the reporting year, the financial result for financial assets or financial liabilities that are not measured at fair value through profit and loss (calculated using the effective interest method) adds up to € -258.3 million (2013: € -241.8 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.

38 Financial risk management

In the course of its business activities, DAIG is exposed to various financial risks. The Group-wide financial risk management system aims to identify any potentially negative impact on the financial position of the Group early on and take suitable measures to limit this impact. For the structure and organisation of financial risk management, we refer to the management report (chapter "Structure and instruments of the risk management system"). This system was implemented on the basis of Group guidelines which were approved by the Management Board and which are continually reviewed. The risks associated with financial instruments and the corresponding risk management are described in detail as follows:

Market risks

a) Currency risks

The cash-effective currency risks arising in connection with the issuance of US dollar bonds bonds were eliminated by the simultaneous contracting of cross currency swaps. Apart from the aforementioned, DAIG is still not exposed to any material currency risks in its normal business activities.

b) Interest rate risks

In the course of its business activities, DAIG is exposed to cash-effective interest rate risks as a result of floating-rate debt as well as new and follow-on loans. Within this context, the interest markets are continually monitored by the Finance and Treasury department. Its observations are incorporated into the financing strategy.

As part of its financing strategy, DAIG uses derivative financial instruments, in particular EUR interest rate swaps, to limit or manage interest rate risks. DAIG's policies permit the use of derivatives only if they are associated with underlying assets or liabilities, contractual rights or obligations and planned operating transactions.

Preceding this chapter, there is a sensitivity analysis with regard to purchase price liabilities from put options. A sensitivity analysis for cash flow hedges is provided under note [40] Cash flow hedges.

Credit risks

DAIG is exposed to a default risk resulting from the potential failure of a counterparty to fulfil its part of the contract. In order to minimise risks, financial transactions are only executed with banks and partners whose credit rating has been found by a rating agency to be at least equivalent to DAIG's. These counterparties are assigned volume limits set by the Management Board. The counterparty risks are managed and monitored centrally by the Finance and Treasury department.

Liquidity risks

The companies of DAIG are financed by borrowings to a notable degree. Due to their high volume, the loans are in some cases exposed to a considerable refinancing risk. The liquidity risks arising from financing transactions with high volumes (volume risks) have become apparent in the financial sector, especially in the wake of the financial crisis. In order to limit these risks, DAIG is in constant contact with many different market players, continuously monitors all financing options available on the capital and banking markets and uses these options in a targeted manner. Moreover, DAIG subjects its existing financings to an early review prior to the respective final maturity date in order to ensure refinancing.

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

In order to ensure its ability to pay at all times, DAIG has put a system-supported cash management system in place. This system monitors and optimises DAIG's cash flows on an ongoing basis and provides the Management Board with regular reports on the Group's current liquidity situation. Liquidity management is supplemented by short-term rolling, monthly liquidity planning for the current financial year, of which the Management Board is also promptly notified.

The following table shows the forecast for undiscounted cash flows of the non-derivative financial liabilities and derivative financial instruments. The loan repayments shown for the following years contain only contractually fixed minimum repayment amounts:

€ million	Carrying amount as at Dec. 31, 2014	2015 Interest	2015 Repayment	2016 Interest	2016 Repayment	2017–2021 Interest	2017–2021 Repayment
Non-derivative financial liabilities							
Banks	2,477.3	70.0	59.0	67.7	73.9	178.7	1,001.1
Other creditors	4,131.5	134.1	10.3	127.3	711.1	344.3	2,620.2
Deferred interest from other non-derivative financial liabilities	56.0	56.0	–	–	–	–	–
Liabilities from finance leases	92.5	5.2	–	5.2	–	26.7	–
Derivative financial liabilities							
Purchase price liabilities from put options	21.7	–	2.5	–	–	–	19.2
Cash flow hedges (interest)	54.5	15.0	–	14.9	–	27.4	–
Cash flow hedges (cross currency swap) USD in EUR	-50.6	-30.0	–	-29.8	–	-67.3	-596.3
EUR		25.0	–	25.0	–	58.9	554.8
Deferred interest from cash flow hedges	0.3	0.3	–	–	–	–	–

In April 2014, DAIG issued a subordinated hybrid bond with terms and conditions stating that the issuer shall not have its first special right of termination until a period of five years has passed. In line with the principle of prudence, the nominal value of these bonds has been recognised in the repayments from the 2017–2021 period, although the contractual term extends well beyond this period.

Syndicated bridge facility

On December 1, 2014, DAIG concluded an agreement on a syndicated bridge facility amounting to € 6,500 million via its Dutch financing company with JP Morgan Chase Bank, N.A. for the interim financing of the acquisition of the GAGFAH Group. This credit line has a maximum term of 24 months and is subject to interest on the basis of EURIBOR plus a mark-up. The credit line had not yet been drawn on as at December 31, 2014.

Working capital facility

In March 2014, DAIG entered into an agreement with Commerzbank AG on a working capital facility of € 130 million. € 4.6 million of this amount is committed due to outstanding guarantees. This unsecured credit line runs until March 2016 in the first instance and is subject to interest on the basis of EURIBOR plus a mark-up. The working capital facility had not been drawn on by December 31, 2014.

DAIG had cash and cash equivalents totalling € 1,564.8 million as at the balance-sheet date (2013: € 547.8 million); this includes cash on hand and deposits at banks in the amount of € 714.8 million, commercial papers totalling € 450.0 million and money market funds of € 400.0 million. Therefore DAIG's ability to service debt continues to be guaranteed at all times.

We refer to the information on financial risk management in the management report.

39 Capital management

DAIG's management aims to achieve a long-term increase in value in the interests of customers, employees and investors. Within this context, maintaining a degree of financial flexibility in order to be able to pursue the company's growth and portfolio optimisation strategy is crucial. This is why DAIG's capital management focuses on ensuring our investment grade rating. The priority is to ensure sufficient liquidity resources and maintain an efficient ratio between secured and non-secured capital components.

As part of the opportunities and risk management of DAIG, the members of the Management Board are given monthly reports on the development of results and the potential effects on the capital structure.

The equity situation of the subsidiaries is regularly examined.

The DAIG equity developed as follows:

€ million	Dec. 31, 2014	Dec. 31, 2013
Total equity	5,962.2	3,818.0
Total assets	14,759.2	11,092.8
Equity ratio	40.4 %	34.4 %

DAIG plans to continue funding possible acquisitions by an optimal mix of debt capital and equity.

In order to protect itself against changes in exchange rates and interest rates, DAIG regularly contracts derivative hedging transactions in the case of liabilities with variable interest rates or liabilities in foreign currencies. The Finance and Treasury department is responsible for implementing the approved financing strategy.

40 Cash flow hedges

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

All derivatives are included in netting agreements with the issuing banks. Whereas the cross currency swaps were all recognised with positive market values, all interest rate swaps have a negative market value as at the balance sheet date. Since the instruments were concluded with different banks, neither economic nor accounting offsetting takes place.

At the reporting date, the nominal volume of the interest rate swaps amounted to € 734.1 million (2013: € 996.4 million). Interest rates vary between 1.295 % and 4.470 % with original swap periods of between 4.75 and 10 years:

€ million	Nominal value	Beginning of term	End of term	Current average interest rate (incl. margin)
Norddeutsche Landesbank (1)				
Hedged items	140.9	Mar. 30, 2012	Dec. 31, 2018	6M EURIBOR margin 1.04 %–2.19 %
Interest rate swaps	140.9	Mar. 30, 2012	Dec. 31, 2018	3.682 %
Corealcredit Bank AG				
Hedged items	158.7	Dec. 14, 2010	Dec. 31, 2018	3M EURIBOR margin 0.88 %
Interest rate swaps	171.8	Apr. 13, 2011	Apr. 13, 2018	3.335 %
AXA S. A. (Société Générale S. A.)				
Hedged items	146.5	Jun. 26, 2013	Jun. 29, 2018	3M EURIBOR margin 2.25 %
Interest rate swaps	146.5	Sep. 30, 2013	Jun. 26, 2018	1.360 %
Norddeutsche Landesbank (2)				
Hedged items	85.1	Jun. 28, 2013	Jun. 30, 2018	3M EURIBOR margin 1.47 %
Interest rate swaps	85.1	Jun. 28, 2013	Jun. 30, 2018	2.290 %
Pfandbriefbank AG				
Hedged items	180.2	Jul. 5, 2013	Jun. 30, 2023	3M EURIBOR margin 1.95 %
Interest rate swaps	189.7	Jul. 5, 2013	Jul. 5, 2023	3.257 %

In 2013, two cross currency swaps were contracted in equal amounts with each of JP Morgan Limited and Morgan Stanley Bank International Limited; these cross currency swaps became effective on the issuance of two bonds for a total amount of US-$ 1,000 million. The hedging instruments, each for an amount of US-$ 375 million, originally had a term of four years and the cross currency swaps, each for an amount of US-$ 125 million, originally had a term of ten years. Therefore, the EUR-USD currency risk resulting from the coupon and capital repayments is eliminated for the entire term of the bonds.

The nominal volume of the cross currency swaps is still € 739.8 million at the reporting date. The interest conditions are 2.970 % for four years and 4.58 % for ten years.

	Nominal-value US-$	Nominal value €	Beginning of term	End of term	Interest rate US-$	Interest rate €	Hedging rate US-$/€
JP Morgan Securities plc Morgan Stanley & Co. International plc							
Hedged items	750.0	554.9	Oct. 2, 2013	Oct. 2, 2017	3.20 %		
Hedged items	250.0	184.9	Oct. 2, 2013	Oct. 2, 2023	5.00 %		
Cross currency swap	750.0	554.9	Oct. 2, 2013	Oct. 2, 2017		2.97 %	1.3517
Cross currency swap	250.0	184.9	Oct. 2, 2013	Oct. 2, 2023		4.58 %	1.3517

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

As part of cash flow hedge accounting, the interest rate swaps as at December 31, 2014 were shown at their negative clean present fair values totalling € -54.5 million (2013: € -44.7 million), whereas a positive clean present fair value of € 50.6 million (2013: € -24.7 million) was recognised for the cross currency swaps in the year under review.

The corresponding deferred interest was stated at € 0.3 million (2013: € 1.6 million).

As a result of the valuation, € 31.1 million was deducted from other comprehensive income in 2014 (2013: € 19.9 million credited).

In the reporting period, after allowing for deferred taxes, positive cumulative ineffectiveness amounts to € 1.0 million (2013: negative cumulative ineffectiveness of € 1.2 million), improving net interest by € 2.2 million.

On the basis of the valuation as at December 31, 2014, DAIG 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
2014			
+50 basis points	8.9	0.4	9.3
-50 basis points	-8.7	-0.4	-9.1
2013			
+50 basis points	11.8	0.2	12.0
-50 basis points	-14.5	-0.3	-14.8

A further sensitivity analysis showed that a change in the foreign currency level of -5 % (+5 %) would lead, after allowance for deferred taxes, to a change in the other reserves not affecting net income of € -4.1 million (or € +4.3 million), while ineffectiveness affecting net income in the amount of € +4.1 million (or € -2.2 million) would result at the same time. In the previous year, there was a change in the other reserves not affecting net income of € -19.6 million (or € -7.8 million).

At the balance sheet date, all the derivative financial instruments used by DAIG are part of effective hedging as required by IAS 39.

41 Information on the consolidated cash flow statement

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

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

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

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

The changes in inventories due to ancillary costs to be billed are netted against the advance payments received and shown in the line Changes in liabilities.

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 € 32.8 million (2013: € 49.1 million).

42 Contingent liabilities

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

The terms are in many cases limited to an agreed time. In some cases, the term is unlimited.

Contingent liabilities of DAIG are as follows:

€ million	Dec. 31, 2014	Dec. 31, 2013
Property transfer obligations	1.7	12.6
Rent surety bonds	0.2	0.2
Other	5.7	2.8
	7.6	**15.6**

The property transfer obligations are shown in the amount of the guarantees utilised.

Deutsche Annington Immobilien SE is involved in litigation resulting from normal business activities. In particular, this involves disputes under the law of tenancy and sales disputes. None of the legal disputes, taken in isolation, will have any material effects on the net assets, financial position or results of operations of Deutsche Annington Immobilien SE.

43 Other financial obligations

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

€ million	End of contract term	Due within 1 year	Due in 1 to 5 years	Due after 5 years	Total
Total minimum lease payments					
Dec. 31, 2014					
Rents	2015–2020	5.1	15.4	1.0	21.5
Lease contracts	2015–2018	10.0	14.4	–	24.4
Ground rent contracts	2017–2019	6.0	23.9	237.1	267.0
		21.1	**53.7**	**238.1**	**312.9**
Dec. 31, 2013					
Rents	2014–2020	4.7	17.3	3.4	25.4
Lease contracts	2014–2017	6.8	12.3	–	19.1
Ground rent contracts	2017–2094	5.0	21.1	208.8	234.9
		16.5	**50.7**	**212.2**	**279.4**

Payments of € 19.1 million (2013: € 16.9 million) under rental, tenancy and lease agreements were recognised as expenses in 2014.

The DAIG ground rent contracts generally have a term of 99 years. The average remaining term of these contracts was approx. 39 years as at December 31, 2014. The owners of inheritable building rights are in particular the German state, church institutions, German states, local authorities and Deutsche Post AG, Bonn.

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

€ million	Dec. 31, 2014	Dec. 31, 2013 Restated
Other financial obligations		
Cable TV service contracts	193.6	178.7
Caretaker service contracts	44.7	64.3
IT service contracts	13.2	20.2
Surcharges under the German Comdominium Act	2.4	1.3
	253.9	**264.5**

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

44 Segment reporting

DAIG is an integrated real estate company. Its policy focuses on sustainably increasing the value of the company. DAIG steadily strives to grow its earnings through the value-enhancing management of its properties, through value-creating investments as well as through active portfolio management. The housing stocks are located exclusively in Germany.

The systematic focus on value is also reflected in the company's internal management system. For this purpose, a distinction is made between the two segments, Rental and Sales.

The Rental segment pools all business activities for active management as well as investments in the residential properties.

Only ancillary costs that cannot be passed on to the tenants are included in the Rental segment. The other income from property management is offset against the operating costs within the Rental segment and is therefore not shown gross as sales. The maintenance shown includes the services of the Group's own craftsmen's organisation measured at the market price, among other things.

The Sales segment covers all business activities relating to the sale of single units (Privatise) as well as the sale of entire buildings or plots of land (Non-Core sales).

A group-wide planning and controlling system ensures that resources for both segments are efficiently allocated and their successful use is monitored.

Reporting to the chief decision-makers and thus the assessment of business performance as well as the allocation of resources are performed on the basis of this segmentation. Accordingly, segment reporting is presented in accordance with IFRS 8.22. No segmentation by region is performed. Assets and liabilities are not viewed separately by segment.

Internal reporting is generally based on the IFRS reporting standards.

The Management Board as chief decision-makers of the DAIG assess the contribution of the business segments to the company's performance on the basis of the revenues as well as the segment result. The segment result represents earnings before interest, taxes, depreciation and amortisation adjusted for items not related to the period, recurring irregularly and atypical for the business operation and excluding effects from revaluations in accordance with IAS 40 (adjusted EBITDA).

€ million	Rental	Sales	Other*	Group
Jan. 1–Dec. 31, 2014				
Segment revenues	**789.3**	**287.3**	**367.3**	**1,443.9**
Carrying amount of properties sold		-243.4		
Revaluation from disposal of assets held for sale		24.8		
Maintenance	-145.1			
Operating expenses	-140.3	-18.6	-367.3	
EBITDA (adjusted)	**503.9**	**50.1**	**0.0**	**554.0**
Non-recurring items				-54.0
Period adjustments from assets held for sale				0.3
EBITDA IFRS				**500.3**
Net income from fair value adjustments of investment properties				371.1
Depreciation and amortisation				-7.4
Income from other investments				-3.4
Financial income				8.8
Financial expenses				-280.3
EBT				**589.1**
Income taxes				-179.4
Profit for the period				**409.7**

* Includes ancillary costs of € 349.1 million and other income from property management of € 18.2 million

€ million	Rental	Sales	Other*	Group
Jan. 1–Dec. 31, 2013				
Segment revenues	**728.0**	**353.5**	**339.6**	**1,421.1**
Carrying amount of properties sold		-325.8		
Revaluation from disposal of assets held for sale		15.3		
Maintenance	-136.5			
Operating expenses	-148.8	-15.3	-339.6	
EBITDA (adjusted)	**442.7**	**27.7**	**0.0**	**470.4**
Non-recurring items				-48.4
Period adjustments from assets held for sale				9.0
EBITDA IFRS				**431.0**
Net income from fair value adjustments of investment properties				553.7
Depreciation and amortisation				-6.8
Income from other investments				-2.7
Financial income				14.0
Financial expenses				-299.6
EBT				**689.6**
Income taxes				-205.4
Profit for the period				**484.2**

* Includes ancillary costs of € 320.3 million and other income from property management of € 19.3 million.

45 Related party transactions

At DAIG, the individuals in key positions pursuant to IAS 24 include the members of the Management Board and the Supervisory Board of Deutsche Annington Immobilien SE.

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

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

As far as the total remuneration paid to the Management Board and Supervisory Board is concerned, reference is made at this point to the remuneration report and to note [47] Remuneration.

Monterey Holdings I S.à r.l., Luxembourg, has settled its existing obligations to reimburse the payments to serving and former members of the Management Board under the previous Long-Term Incentive Plan (LTIP) linked to the stock exchange listing. In the prior year, DAIG had reported a receivable from Monterey Holdings I S.à r.l., Luxembourg, of € 3.0 million under other assets in the amount of a resulting residual obligation.

The reduction in the shareholding of the previous major shareholder Monterey Holdings I S.à r.l. to below the 50 % threshold in the 2014 financial year meant that the company ceased to be classed as a dependent company pursuant to Section 17 AktG.

46 Share-based payments

Management Board

Under the Long-Term Incentive Plan (LTIP), the Management Board members were granted a total of 931,030 notional shares (SARs = stock appreciation rights) in the previous year. These are paid out in five annual tranches with a cliff vesting of 20 % per calendar year of the total number of notional shares granted. In this context, the fair value corresponds to the actuarial fair value of the remuneration expected over the total 5-year period. These notional shares will be converted into payout amounts for each annual tranche on the basis of a formula laid down in the LTIP agreement. Therefore, this LTIP qualifies as a cash-settled share-based plan in accordance with IFRS 2. When the shareholding of the previous major shareholder was reduced to below 30 % in 2014, the first tranche fell due and was paid out in 2014. The other tranches shall be paid out on February 28 and July 11 of the following years. For further information, please refer to the remuneration report.

The value of the total notional shares that had been granted but not paid out as at December 31, 2014 was calculated by an external expert based on recognised actuarial principles. The obligation disclosed as at December 31, 2014 breaks down as follows:

Tranche	End of vesting period	Rolf Buch	Klaus Freiberg	Dr A. Stefan Kirsten
2014	Feb. 28, 2015	2,017,162.28	–	–
2014	July 11, 2015	–	1,108,247.96	1,108,247.96
2015	Feb. 28, 2016	1,273,528.45	–	–
2015	July 11, 2016	–	748,054.78	748,054.78
2016	Feb. 28, 2017	920,035.32	–	–
2016	July 11, 2017	–	557,701.79	557,701.79
2017	Feb. 28, 2018	722,568.74	–	–
2017	July 11, 2018	–	446,002.42	446,002.42

The LTIP programme results in expense pursuant to IFRS 2 totalling € 10.9 million in 2014 (2013: € 4.2 million), with € 4.7 million attributable to Rolf Buch and € 3.1 million attributable to both Klaus Freiberg and Dr A. Stefan Kirsten.

Executives below Management Board level

In 2014, DAIG resolved a virtual share programme (LTIP) for its level 1 executives with effect from January 1, 2014. The executives receive notional shares on January 1 of each calendar year. The terms and conditions of the new LTIP are basically the same as those for the Management Board LTIP. The new LTIP will run for three years.

The level of target achievement is calculated every year based on three equally weighted targets (AFFO, NAV, TSR) and is capped at 150 % for each target. An amount is accumulated over the three-year period. For the notional shares granted on January 1, 2014, the waiting period is three calendar years, meaning that it ends on December 31, 2016.

The value of the total virtual shares that had been granted but not paid out as at December 31, 2014 was calculated by an external expert based on recognised actuarial principles. The obligation disclosed as at December 31, 2014 breaks down as follows:

Tranche	End of vesting period	Dec. 31, 2014
2014	Dec. 31, 2016	400,991.29

The LTIP programme results, in accordance with IFRS, in total expenses of € 0.4 million in the reporting year (2013: € – million).

Employees

An employee share programme was resolved on the basis of a works agreement in 2014. The programme starts in the first quarter of 2015 and the shares granted are subject to a vesting period of six months. The costs associated with the securities deposit account are borne by DAIG. Shares with a value of between € 90.00 and € 360.00 at the most are granted to the eligible employees, depending on their gross annual salary, without the employees having to make any contribution of their own.

The new employee share programme results, in accordance with IFRS, in total expenses of € 0.5 million in the reporting year (2013: € – million), which has been offset directly against the capital reserves.

47 Remuneration

Remuneration of the Supervisory Board

The members of the Supervisory Board received fixed remuneration of € 1.1 million in 2014 (2013: € 0.6 million) for their work.

Total remuneration of the Management Board

The remuneration paid to the serving Management Board members in 2014 totals € 4.0 million (2013: € 20.3 million), with € 1.8 million (2013: € 10.0 million) attributable to Rolf Buch, € 1.1 million (2013: € 5.2 million) attributable to Klaus Freiberg and € 1.1 million (2013: € 5.1 million) attributable to Dr A. Stefan Kirsten.

Of this figure, € 1.1 million (2013: € 0.9 million) relates to fixed remuneration for Rolf Buch and € 0.7 million (2013: € 0.7 million) to fixed remuneration for Klaus Freiberg and Dr A. Stefan Kirsten respectively.

The one-year variable remuneration of € 1.5 million (2013: € 1.7 million) includes € 0.7 million (2013: € 0.8 million) that is attributable to Rolf Buch and € 0.4 million (2013: € 0.5 million) that is attributable to Klaus Freiberg and Dr A. Stefan Kirsten respectively. In the previous year, € 2.2 million was included in the total remuneration for Rolf Buch for the settlement of the original LTIP.

The total remuneration from the previous year includes the fair value of the 931,030 notional shares granted under the new LTIP for the entire five-year period amounting to € 14.0 million. This corresponded to the actuarial fair value of the expected remuneration over the entire five-year period of the LTIP. € 6.0 million was attributable to Rolf Buch and € 4.0 million to Klaus Freiberg and Dr A. Stefan Kirsten respectively.

The Management Board members do not receive any additional remuneration for mandates held at Group companies.

Pension obligations to members of the Management Board

Rolf Buch and Dr A. Stefan Kirsten are paying their 20 % contractual share of € 180,000 and € 109,600 respectively, based on their fixed remuneration, into the deferred compensation scheme. Klaus Freiberg has opted for a cash payout for his entitlement of € 110,000.00.

The pension obligations to members of the Management Board from salary conversion comprise the following:

	Contribution total as at Dec. 31		Defined benefit obligation as at Dec. 31	
€	2013	2014	2013	2014
Rolf Buch	150,000	180,000	272,689	852,454
Dr A. Stefan Kirsten	103,600	109,600	560,144	1,024,355

Remuneration of former Management Board members and their surviving dependants

The total remuneration of the former Management Board members and their surviving dependants amounts to € 1.0 million for the 2014 financial year (2013: € 7.3 million). The pension obligations (DBO) to former members of the Management Board and their surviving dependants amount to € 13.9 million (2013: € 10.7 million).

48 Auditor's fees

In the reporting year, the folling fees (including expenses and excluding VAT) have been credited for the services rendered by the Group auditors KPMG Wirtschaftsprüfungsgesellschaft:

€ million	2014	2013
Audits	2.1	2.0
Other confirmation services	0.8	2.3
Tax consultancy services	0.2	0.7
Other services	0.2	0.1
	3.3	**5.1**

49 Events after the balance sheet date

On December 1, 2014, the Management Board of DAIG made the shareholders of GAGFAH S. A. a public takeover offer for their GAGFAH shares. On December 18, 2014, the Federal Financial Supervisory Authority (BaFin) approved the offer documents for mandatory publication pursuant to Sections 34, 14 (2) and (3) of the German Securities and Takeover Act (WpÜG).

The mandatory publications regarding the takeover offer were made on December 19, 2014. On December 23, 2014, the Board of Directors of GAGFAH S. A. ("GAGFAH") advised the company's shareholders to accept the voluntary public takeover offer made by DAIG. In a statement published pursuant to Section 27 (1) WpÜG, the Board concluded that the consideration offered by DAIG SE in the amount of € 18.00 per GAGFAH share in total (based on the XETRA closing price of Deutsche Annington's shares on November 28, 2014) was appropriate. This was confirmed in the Fairness Opinions drawn up by Bank of America Merrill Lynch, Deutsche Bank and Rothschild.

The public takeover offer ended on the acceptance deadline of January 21, 2015, with a voluntary extension of the tender period until February 9. The results of the public takeover offer were published on February 17, with DAIG being offered the option of taking over 230,954,655 shares or 93.82 % of GAGFAH.

The combined takeover offer consists of a cash component and a share-based component. The corresponding listing prospectus for the approval of the non-cash capital increase by BaFin was submitted on January 28, 2015.

The non-cash capital increase was registered on February 24, 2015.

The German Federal Cartel Office (Bundeskartellamt) approved the planned transaction unconditionally on January 28, 2015.

The Management Board and the Supervisory Board of DAIG now expect BaFin to approve the listing prospectus in the near future, meaning that the corresponding non-cash capital increase can also be entered in the Düsseldorf Commercial Register (Handelsregister) in a timely fashion.

Once the entry has been made in the Commercial Register and the corresponding new shares have been created for the former GAGFAH shareholders, ownership shall pass to DAIG. The cash component is expected to be paid, and the new shares transferred, on March 11.

50 Declaration of conformity with the German Corporate Governance Code

In February 2015, the Management Board and the Supervisory Board declared compliance with the recommendations of the German Corporate Governance Code in accordance with Section 161 of the German Stock Corporation Act (AktG) and made the declaration publicly and permanently available on the company's website (www.deutsche-annington.com).

51 Management Board's proposal for the appropriation of profit

The Management Board and the Supervisory Board propose to the Annual General Meeting of Shareholders that, of the profit of Deutsche Annington Immobilien SE for the 2014 financial year of € 295,824,915.32, an amount of € 211,865,491.50 on the 271,622,425 shares of the share capital as at December 31, 2014, be paid as a dividend to the shareholders and the remaining amount of € 83,959,423.82 be carried forward to the new account or be used for other dividends on shares carrying dividend rights at the time of the Annual General Meeting and which go beyond those as at December 31, 2014.

The maximum number of additional shares carrying dividend rights is 82,483,803, in line with the scope of the capital increase resolution passed by the Management Board on February 24, 2015 as part of the public takeover offer for shares in GAGFAH S. A. This means that the dividend will be increased by € 64,337,366.34, leaving a remaining amount of at least € 19,622,057.48 to be carried forward to the new account.

That is a dividend distribution of € 0.78 per share.

The dividend will be distributed on the basis of the shares carrying dividend rights at the time of the Annual General Meeting on the banking day following the Annual General Meeting. The dividend payment to the shareholders does not trigger any tax obligation at Deutsche Annington Immobilien SE.

Düsseldorf, February 25, 2015

Rolf Buch   Klaus Freiberg   Dr A. Stefan Kirsten

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List of DAIG Shareholdings

as at December 31, 2014, according to Section 313 para. 2 HGB

Company	Company domicile	Interest %	
Deutsche Annington Immobilien SE	Düsseldorf		

Consolidated Companies

Company	Company domicile	Interest %	
Baugesellschaft Bayern mbH	Munich	94.90	
BBG Grundstücksgesellschaft mbH	Bremen	100.00	
Beamten-Baugesellschaft Bremen Gesellschaft mit beschränkter Haftung	Bremen	94.90	
Börsenhof A Besitz GmbH	Bremen	94.00	
Bremische Gesellschaft für Stadterneuerung, Stadtentwicklung und Wohnungsbau mit beschränkter Haftung	Bremen	94.90	
Bremische Wohnungsgesellschaft mbH	Bremen	100.00	
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/Main	94.90	
DA DMB Netherlands B. V.	Eindhoven/NL	100.00	
DA Jupiter Capital GmbH	Düsseldorf	100.00	
DA Jupiter Holdings GmbH	Düsseldorf	100.00	2)
DA Jupiter NL JV Holdings 1 B. V.	Amsterdam/NL	100.00	
DA Jupiter Wohnanlage GmbH	Düsseldorf	94.00	
DAIG 1. Objektgesellschaft mbH	Düsseldorf	100.00	
DAIG 10. Objektgesellschaft B. V.	Amsterdam/NL	94.00	
DAIG 11. Objektgesellschaft B. V.	Amsterdam/NL	94.00	
DAIG 12. Objektgesellschaft mbH	Düsseldorf	94.00	
DAIG 13. Objektgesellschaft mbH	Düsseldorf	94.00	
DAIG 14. Objektgesellschaft B. V.	Amsterdam/NL	94.00	
DAIG 15. Objektgesellschaft B. V.	Amsterdam/NL	94.00	
DAIG 16. Objektgesellschaft B. V.	Amsterdam/NL	94.00	
DAIG 17. Objektgesellschaft B. V.	Amsterdam/NL	94.00	
DAIG 18. Objektgesellschaft B. V.	Amsterdam/NL	94.00	
DAIG 19. Objektgesellschaft B. V.	Amsterdam/NL	94.00	
DAIG 2. Objektgesellschaft mbH	Düsseldorf	100.00	
DAIG 20. Objektgesellschaft B. V.	Amsterdam/NL	94.00	
DAIG 21. Objektgesellschaft B. V.	Amsterdam/NL	94.00	
DAIG 22. Objektgesellschaft B. V.	Amsterdam/NL	94.00	
DAIG 23. Objektgesellschaft B. V.	Amsterdam/NL	94.00	
DAIG 24. Objektgesellschaft B. V.	Amsterdam/NL	94.00	
DAIG 25. Objektgesellschaft B. V.	Amsterdam/NL	94.00	
DAIG 3. Objektgesellschaft mbH	Düsseldorf	100.00	
DAIG 4. Objektgesellschaft mbH	Düsseldorf	100.00	

Company	Company domicile	Interest %	
DAIG 9. Objektgesellschaft B. V.	Amsterdam/NL	94.00	
Deutsche Annington Acquisition Holding GmbH	Düsseldorf	100.00	1)
Deutsche Annington Beteiligungsverwaltungs GmbH	Düsseldorf	100.00	
Deutsche Annington DEWG GmbH & Co. KG	Bochum	100.00	
Deutsche Annington DEWG Verwaltungs GmbH	Düsseldorf	100.00	
Deutsche Annington DMB Eins GmbH	Bochum	100.00	
Deutsche Annington Eigentumsverwaltungs GmbH	Bochum	100.00	1)
Deutsche Annington Finance B. V.	Amsterdam/NL	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 GmbH	Kiel	100.00	
Deutsche Annington Holdings Drei GmbH	Bochum	100.00	
Deutsche Annington Holdings Eins GmbH	Düsseldorf	100.00	
Deutsche Annington Holdings Fünf GmbH	Düsseldorf	100.00	1)
Deutsche Annington Holdings Sechs GmbH	Bochum	100.00	1)
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 Immobilien-Dienstleistungen GmbH	Düsseldorf	100.00	
Deutsche Annington Immobilienmanagement GmbH	Bochum	100.00	1)
Deutsche Annington Immobilienservice GmbH	Munich	100.00	1)
Deutsche Annington Interim DAMIRA GmbH	Düsseldorf	100.00	
Deutsche Annington Kundenmanagement GmbH	Bochum	100.00	1)
Deutsche Annington Kundenservice GmbH	Bochum	100.00	1)
Deutsche Annington McKinley Drei Verwaltungs GmbH	Düsseldorf	100.00	
Deutsche Annington McKinley Eins GmbH & Co. KG	Bochum	100.00	
Deutsche Annington McKinley Eins Verwaltungs GmbH	Düsseldorf	100.00	
Deutsche Annington McKinley-Holding GmbH & Co. KG	Bochum	100.00	
Deutsche Annington Parker GmbH (until January 14, 2015 Vitus GmbH)	Mönchengladbach	100.00	
Deutsche Annington Regenerative Energien GmbH	Bochum	100.00	
Deutsche Annington Revisionsgesellschaft mbH	Düsseldorf	100.00	
Deutsche Annington Rheinland Immobiliengesellschaft mbH	Cologne	100.00	
Deutsche Annington Rhein-Ruhr GmbH & Co. KG	Düsseldorf	100.00	
Deutsche Annington Sechste Beteiligungs GmbH	Düsseldorf	100.00	
Deutsche Annington Service GmbH	Frankfurt / Main	100.00	1)
Deutsche Annington WOGE Fünf Verwaltungs GmbH	Düsseldorf	100.00	
Deutsche Annington WOGE Sechs Verwaltungs GmbH	Bochum	100.00	
Deutsche Annington WOGE Sieben Verwaltungs GmbH	Düsseldorf	100.00	
Deutsche Annington WOGE Vier Bestands GmbH & Co. KG	Bochum	100.00	
Deutsche Annington WOGE Vier GmbH & Co. KG	Bochum	100.00	
Deutsche Annington Wohnungsgesellschaft I mbH	Essen	100.00	
Deutsche Annington Wohnungsgesellschaft III mbH	Bochum	100.00	
Deutsche Annington Zweite Beteiligungsgesellschaft mbH	Essen	100.00	

Company	Company domicile	Interest %	
Deutsche Eisenbahn-Wohnungs-Gesellschaft mbH (former: Deutsche Eisenbahn-Wohnungs-Holdings GmbH & Co. KG)	Leipzig	100,00	
Deutsche Multimedia Service GmbH	Düsseldorf	100,00	1)
Deutsche TGS GmbH (former: MAKAB Beteiligungs Eins GmbH)	Düsseldorf	51,00	
Deutsche Wohn-Inkasso GmbH	Bochum	100,00	1)
Eisenbahn-Siedlungsgesellschaft Augsburg mbH (Siegau)	Augsburg	94,90	
Eisenbahn-Wohnungsbau-Gesellschaft Karlsruhe GmbH	Karlsruhe	94,90	
Eisenbahn-Wohnungsbaugesellschaft Köln mbH	Cologne	94,90	
Eisenbahn-Wohnungsbaugesellschaft Nürnberg GmbH	Nuremburg	94,90	
Frankfurter Siedlungsgesellschaft mbH	Düsseldorf	100,00	1)
FSG Immobilien Verwaltungs GmbH	Düsseldorf	100,00	
FSG-Holding GmbH	Düsseldorf	94,80	
GAB Grundstücksgesellschaft mbH	Mönchengladbach	100,00	
Immobilienfonds Koblenz-Karthause Wolfgang Hober KG	Düsseldorf	92,71	
JANANA Grundstücksgesellschaft mbH & Co. KG	Grünwald	94,90	
KADURA Grundstücksgesellschaft mbH & Co. KG	Grünwald	94,91	
Kieler Stadtentwicklungs- und Sanierungsgesellschaft mbH	Kiel	94,95	
Kieler Wohnungsbaugesellschaft mit beschränkter Haftung	Kiel	94,90	
KWG Grundstücksgesellschaft mbH	Kiel	100,00	
LEMONDAS Grundstücksgesellschaft mbH & Co. KG	Grünwald	94,90	
LEVON Grundstücksgesellschaft mbH & Co. KG	Grünwald	94,90	
MAKANA Grundstücksgesellschaft mbH & Co. KG	Grünwald	94,90	
MANGANA Grundstücksgesellschaft mbH & Co. KG	Grünwald	94,90	
MELCART Grundstücks-Verwaltungsgesellschaft mbH	Grünwald	94,80	
MIRA Grundstücksgesellschaft mbH	Düsseldorf	94,90	
MIRIS Grundstücksgesellschaft mbH & Co. KG	Grünwald	94,90	
Monterey Capital I S.à r.l.	Strassen/L	100,00	
Prima Wohnbauten Privatisierungs-Management GmbH	Berlin	100,00	1)
RSTE Objektgesellschaft Wohnanlagen für Chemnitz mbH	Wuppertal	94,73	
"Siege" Siedlungsgesellschaft für das Verkehrspersonal mbH Mainz	Mainz	94,90	
TSP Wega Verwaltungs GmbH	Stuttgart	100,00	
Verimmo2 GmbH	Bochum	100,00	1)
Viterra Holdings Eins GmbH	Düsseldorf	100,00	1)
Viterra Holdings Zwei GmbH	Düsseldorf	100,00	
WIN Wohnen-In-Nordenham GmbH	Mönchengladbach	100,00	
Wohnungsgesellschaft Ruhr-Niederrhein mbH Essen	Essen	94,90	

Company	Company domicile	Interest %	Equity € '000s Dec. 31, 2013	Net income/ loss for the year € '000s Dec. 31, 2013
Hellerhof GmbH	Frankfurt/Main	13.17	54,008	7,299
VBW Bauen und Wohnen GmbH	Bochum	14.15	88,750	6,014

1) Exemption according to Section 264 para. 3 HGB
2) The company was merged with her respective parent company with effect from February 2, 2015.

Further Information about the Bodies

Management Board

The Management Board of Deutsche Annington Immobilien SE consisted of three members as at December 31, 2014.

Rolf Buch, Chairman of the Management Board
Function: Chief Executive Officer
Responsibilities: Acquisitions, General Counsel, Investor Relations, HR Management, Internal Audit, Corporate Communications and Corporate Strategy
Mandates:
- GSB Gesellschaft zur Sicherung von Bergmannswohnungen mbH (Member of the Supervisory Board)
- Woldemar-Winkler-Stiftung of Sparkasse Gütersloh (Member of the Committee)

Klaus Freiberg, Member of the Management Board
Function: Chief Operating Officer
Responsibilities: Product Management, Central Property Management, Infrastructural FM/Residential Environment, DTGS, North East, Rhine/Main, Ruhr Area and South

Dr A. Stefan Kirsten, Member of the Management Board
Function: Chief Financial Officer
Responsibilities: Finance, Accounting, Tax, Insurance and Commercial Control (Controlling, Portfolio Controlling and Valuation)
Mandates:
- AVW Versicherungsmakler GmbH (Member of the Supervisory Board)
- VBW Bauen und Wohnen GmbH (Deputy Chairman of the Supervisory Board)
- SOCIEDADE Francisco Manuel dos Santos B. V., Amsterdam (Member of the Supervisory Board)

Supervisory Board

In accordance with the Articles of Association, the current Supervisory Board consists of nine members, of which four members have been ordered by the Düsseldorf District Court following the resignation of previous members.

Dr Wulf H. Bernotat, Chairman
Former CEO of E.ON SE
Mandates:
- Allianz SE (Deputy Chairman of the Supervisory Board)
- Bernotat & Cie. GmbH (Managing Director)
- Bertelsmann SE & Co. KGaA (Member of the Supervisory Board)
- Bertelsmann Management SE (Member of the Supervisory Board)
- Deutsche Telekom AG (Member of the Supervisory Board)
- Metro AG (Member of the Supervisory Board)

Manuela Better (until August 20, 2014)
Former Chairman of the Board of Hypo Real Estate Holding AG (HRE) as well as former member of the Board of Deutschen Pfandbrief AG (pbb)
Mandates:
> AXA Konzern AG, Köln (Member of the Supervisory Board)
> Deutsche EuroShop AG, Hamburg (Member of the Supervisory Board)
> Dr. Ingrid Better Vermögensverwaltungs GmbH & Co. KG (Managing Director)

Burkhard Ulrich Drescher (since December 12, 2014)
Managing Director der InnovationCity Management GmbH
Managing Director of BDC Consulting GmbH & Co. KG
Mandates:
> STEAG Fernwärme GmbH (Advisory Board)

Prof. Dr Edgar Ernst
President of Deutschen Prüfstelle für Rechnungslegung DPR e.V.
Mandates:
> Deutsche Postbank AG (Member of the Supervisory Board)
> DMG MORI SEIKI AG (Member of the Supervisory Board)
> TUI AG (Member of the Supervisory Board)
> Wincor Nixdorf AG/Wincor Nixdorf International GmbH (Member of the Supervisory Board)

Dr Florian Funck
Member of the Board der Franz Haniel & Cie. GmbH
Mandates:
> Metro AG, Düsseldorf (Member of the Supervisory Board)
> TAKKT AG, Stuttgart (Member of the Supervisory Board)

Hildegard Müller
Chairwomen of the Executive Board of Bundesverbandes der Energie- und Wasserwirtschaft

Prof. Dr Klaus Rauscher
Business Consultant, Berlin
Mandates:
> Drägerwerk AG & Co. KGaA (Member of the Supervisory Board)
> Dräger Medical GmbH (Member of the Supervisory Board)
> Dräger Safety GmbH (Member of the Supervisory Board)
> Drägerwerk Verwaltungs AG (Member of the Supervisory Board)
> Stiftung Berliner Philharmoniker (Member of the Board of Trustees)

Clara-Christina Streit
Former Senior Partner bei McKinsey & Company, Inc.
Mandates:
> Delta Lloyd N.V. (Member of the Supervisory Board)
> Vontobel Holding AG (Member of the Administrative Board)
> Coface SA (Member of the Administrative Board)

Christian Ulbrich
Managing Director of Jones Lang LaSalle EMEA (Europe, Middle East and Africa) and a member of the Board of Jones Lang LaSalle Inc., which is listed on the New York Stock Exchange.

Members who left the Supervisory Board:

Robert Nicolas Barr (until August 20, 2014)
Operational Managing Director der Terra Firma Capital Partners Limited, London
Mandates:
> Odeon und UCI Cinemas Holdings Limited (Management)
> Terra Firma Capital Partners Limited (Director)
> Elli Finance (UK) plc (Director)

Arjan Breure (until August 20, 2014)
Business Consultant Terra Firma Capital Partners Limited, London
Mandates:
> Elli Group (UK) Limited (Management)
> Elli Finance (UK) plc (Management)
> Elli Management Limited (Management)
> Maltby Capital Limited (Management) and
> Maltby Holdings Limited (Management)

Fraser Duncan (until August 20, 2014)
Business Consultant, London
Mandates:
> Annington Ltd (Non-executive Director)
> Aurelius Property LLP (Chairman)
> Metellus Property LLP (Chairman)
> Odeon and UCI Holdings plc (Non-executive Director)
> Clockjack Investments Ltd (Chairman)
> Abroadacre Ltd (Director)
> Carve Productions Ltd (Chairman)

Tim Pryce (until August 20, 2014)
Chief Executive Officer der Terra Firma Capital Partners Limited
Mandates:
> Terra Firma Capital Partners Limited (Member of the Board)
> Terra Firma Investments (DA) Limited (Member of the Board)
> Terra Firma Investments (DA) II Limited (Member of the Board)
> Terra Firma Investments (GP) 2 Limited (Member of the Board)
> Terra Firma Investments (GP) 3 Limited (Member of the Board)
> Terra Firma Investments (RE) Limited (Member of the Board)
> Terra Firma Investments (Special Opportunities I)

Independent Auditor’s Report

To Deutsche Annington Immobilien SE, Düsseldorf

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Deutsche Annington Immobilien SE, Düsseldorf and its subsidiaries, which comprise the consolidated income statement, the consolidated statement of comprehensive income, consolidated balance sheet, consolidated cash flow statement, and consolidated statement of changes in equity, and notes to the consolidated financial statements for the business year from January 1 to December 31, 2014.

Executive Board’s Responsibility for the Consolidated Financial Statements

The executive board of Deutsche Annington Immobilien SE 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 EU, and the supplementary requirements of German law pursuant to § [Article] 315a Abs. [paragraph] 1 HGB [Handelsgesetzbuch: 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 company’s executive board is also responsible for the internal controls that management 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 § 317 HGB and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer [Institute of Public Auditors in Germany] (IDW) as well as in supplementary compliance with International Standards on Auditing (ISA). Accordingly, we are required to comply with ethical 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 the internal control system relevant to the entity’s preparation of the consolidated financial statements that give a true and fair view. 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 internal control system. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, 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 § 322 Abs.3 Satz 1 HGB, 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 IFRSs as adopted by the EU and the supplementary requirements of German commercial law pursuant to § 315a Abs. 1 HGB and give a true and fair view of the net assets and financial position of the Group as at December 31, 2014 as well as the results of operations for the business year then ended, in accordance with these requirements.

Report on the Combined Management Report

We have audited the accompanying combined management report of Deutsche Annington Immobilien SE for the business year from January 1, 2014 to December 31, 2014. The executive board of Deutsche Annington Immobilien SE is responsible for the preparation of the combined management report in compliance with the applicable requirements of German commercial law pursuant to § [Article] 315a Abs. [paragraph] 1 HGB [Handelsgesetzbuch: German Commercial Code]. We conducted our audit in accordance with § 317 Abs. 2 HGB and German generally accepted standards for the audit of the combined management report promulgated by the Institut der Wirtschaftsprüfer [Institute of Public Auditors in Germany] (IDW). Accordingly, we are required to plan and perform the audit of the combined management report to obtain reasonable assurance about whether the combined management report is consistent with the consolidated financial statements and the audit findings, 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 § 322 Abs.3 Satz 1 HGB, we state that our audit of the combined management report has not led to any reservations.

In our opinion, based on the findings of our audit of the consolidated financial statements and combined management report, the combined 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, February 28, 2015

KPMG AG
Wirtschaftsprüfungsgesellschaft

Dr Hain	Salzmann
Wirtschaftsprüfer	Wirtschaftsprüferin
[German Public Auditor]	[German Public Auditor]

Responsibility Statement

"To the best of our knowledge and in accordance with the applicable reporting principles, the consolidated financial statements give a true and fair view of the Group's net assets, financial position and results of operations, and the combined management report includes a fair view of the business development including the results and the position of the Group, together with a description of the principal opportunities and risks associated with the expected development of the Group in the remainder of the financial year."

Düsseldorf, February 25, 2015

Rolf Buch Klaus Freiberg Dr A. Stefan Kirsten

Glossary

Adjusted EBITDA (earnings before interest, taxes, depreciation and amortisation)

Adjusted EBITDA is the result before interest, taxes, depreciation and amortisation (including income from other investments) adjusted for specific effects which do not relate to the period, are non-recurring or do not relate to the objective of the company and for net income from fair value adjustments of investment properties. These non-recurring items include the development of new business areas and business processes, acquisition projects, expenses for refinancing and equity increases (where not treated as capital procurement costs), IPO preparation costs and expenses for pre-retirement part-time work arrangements and severance payments.

Adjusted EBITDA Rental

The adjusted EBITDA Rental is calculated by deducting property management costs and maintenance expenses from the Group's rental income.

Adjusted EBITDA Sales

The adjusted EBITDA Sales is calculated by subtracting all operating expenses (excl. overheads) incurred in connection with sales activities from the profit on the disposal of properties generated by the Group and by adjusting the profit on the disposal of properties to reflect certain reclassification and time effects.

Adjusted NAV

The adjusted NAV is equal to the EPRA NAV less goodwill.

Cash-generating unit (CGU)

The cash-generating unit refers, in connection with the impairment testing of goodwill, to the smallest group of assets that generates cash inflows and outflows independently of the use of other assets or other cash-generating units (CGUs).

Core/Non-Core properties

Properties which are assigned to the company's Core or Non-Core real estate portfolios. Non-Core properties are less attractive management propositions because they are at odds with our processes or due to their characteristics or location. Furthermore, significant numbers of these properties have below-average growth potential and will be sold in the medium term in line with the corporate strategy. Core properties are our properties in the Rental Only and Privatise portfolios.

Covenants

Requirements specified in loan agreements or bond conditions containing future obligations of the borrower or the bond obligor to meet specific requirements or to refrain from undertaking certain activities.

CSI (customer satisfaction index)

The CSI is determined at regular intervals by means of systematic customer surveys and reflects how our services are perceived and accepted by our customers. The CSI is determined on the basis of coring for our properties and their neighbourhood, customer service, commercial and technical support as well as maintenance and modernisation management.

EPRA (European Public Real Estate Association)

Organisation located in Brussels which represents the interests of the large European property companies in the public view and supports the development and market presence of the European publicly listed real estate companies.

EPRA NAV

EPRA NAV is used as an indicator of Deutsche Annington's long-term equity and is calculated based on the equity of DAIG's shareholders ("EPRA NNNAV") excluding the fair value of derivative financial instruments (net) and deferred taxes on investment properties, properties held for sale and derivative financial instruments.

EPRA NNNAV

EPRA NNNAV is the reported equity for DAIG's shareholders.

EPRA vacancy rate

The EPRA vacancy rate shows the rental income on vacant properties that would be expected based on market rent values in relation to the rental income on the residential property portfolio, based on market rent values.

Fair value

Valuation pursuant to IAS 40 in conjunction with IFRS 13. The estimated value of an asset. The fair value is the amount for which an asset could be exchanged between knowledgeable, willing parties in an arm's length transaction.

Fair value step-up
Fair value step-up is the difference between the income from selling a residential unit and its current fair value in relation to its fair value. It shows percentagewise the increase in value for the company on the sale of a residential unit before further costs to sell.

FFO (funds from operations)
FFO reflects the recurring earnings from the operating business. In addition to adjusted EBITDA, FFO allows for recurring net interest expenses from non-derivative financial instruments as well as recurring income taxes. This metric is not determined on the basis of any specific international reporting standard but is to be regarded as a supplement to other performance indicators determined in accordance with IFRS.

FFO 1/FFO 1 before maintenance/FFO2/AFFO
Deutsche Annington Immobilien Group differentiates between the following:

FFO 1: The profit or loss for the period adjusted by the profit or loss from sales, the effects from property held for sale, specific effects which do not relate to the period, are non-recurring or do not relate to the objective of the company, the net income from fair value adjustments of investment properties, depreciation and amortisation, deferred and prior-year current taxes (tax expenses/income), transaction costs, prepayment penalties and commitment interest, valuation effects on financial instruments, the unwinding of discounting for provisions, particularly pension provisions, and other prior-year interest expenses and income that are not of a long-term nature.

For the purposes of FFO 1 (before maintenance), FFO 1 is adjusted to reflect bymaintenance expenses.

AFFO refers to capex-adjusted FFO 1 in which capitalised maintenance is deducted from FFO 1.

In order to calculate FFO 2, the adjusted EBITDA Sales is added to FFO 1 for the periods in question.

LTV ratio (loan-to-value ratio)
The LTV ratio refers to the coverage ratio of financial liabilities. It shows the ratio of non-derivative financial liabilities pursuant to IFRS, less cash and cash equivalents, to the total fair values of the investment properties, trading properties, properties used by the company itself and assets held for sale.

Maintenance
Maintenance covers the measures which are necessary to ensure that the property can continue to be used as intended over its useful life and which eliminate structural and other defects caused by wear and tear, age and weathering effects.

Modernisation measures
Modernisation measures are long-term and sustainable value-enhancing investments in housing and building stocks. Energy-efficient refurbishments generally involve improvements to the building shell and communal areas as well as the heat and electricity supply systems. Typical examples are the installation of 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. façade insulation, insulation of the top storey ceilings and cellar ceilings. In addition to modernisation of the apartment electrics, the refurbishment work upgrades the apartments, typically through the installation of modern and/or handicapped-accessible bathrooms, the installation of new doors and the laying of high-quality and non-slip flooring. Where required, the floor plans are altered to meet changed housing needs.

Monthly in-place rent
The monthly in-place rent is measured in € per square metre and is the current gross rental income per month for rented residential units as agreed in the corresponding rent agreements at the end of the relevant month before deduction of non-transferable ancillary costs divided by the living area of the rented residential units. The in-place rent is often referred to as the net cold rent. The monthly in-place rent (in € per square metre) like for like refers to the monthly in-place rent for the residential portfolio that was already held by Deutsche Annington 12 months ago, i.e. portfolio changes during this period are not included in the calculation of the in-place rent like for like.

Rating
Classification of debtors or securities with regard to their creditworthiness or credit quality according to credit ratings. The classification is generally performed by rating agencies.

Rental income
Rental income refers to the current gross income for rented residential units as agreed in the corresponding rent agreements before the deduction of non-transferable ancillary costs.

Vacancy rate
The vacancy rate is the number of empty housing units as a percentage of the total housing units owned by the company. The vacant units are counted at the end of each month.

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Financial Calendar

March 5, 2015	Annual Report 2014
April 30, 2015	Annual General Meeting
June 1, 2015	Interim Report Q1 2015
August 19, 2015	Interim Report H1 2015
November 3, 2015	Interim Report Q3 2015

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 SE 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.

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