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365

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days

2008 Annual Report

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DEUTSCHE ANNINGTON

365 days

at our tenants' side

DEUTSCHE
ANNINGTON

365
days

...at our tenants' side




Just imagine. You call a customer centre and the phone only rings once or twice before a friendly voice answers. A well-informed employee answers your questions and sets everything in motion to find a solution to your problem. By the time you've finished your quick call, somebody else is already working on making sure your problem is solved by tomorrow. That is Deutsche Annington's vision.

This is the Deutsche Annington Group's way to a strong future. We have set our sights high: We want to be the best company in our industry: **economically successful and at the same time setting standards in customer focus and service quality.** Every day, we work on achieving our goal.

38 39 40 41 42 43 44 45 46 47 48 49 50 51 52 53 54 55 56 57 8 59 60 61 62 63 64 65 66 67 68 69 70 71 72 73 74 75 76

365 DAYS

"I sat in the garden which
my parents had planted and
knew right there and then:
I want to live here again."

many hours

Back in the days when Frankfurt am Main was short-listed to become the capital of the new Federal Republic of Germany, work started on the construction of an idyllic **housing estate surrounded by greenery:** 726 single-family houses and apartments as a new home for government workers. The course of history took a different turn but the bizonal housing estate was built – and became home to Birgit Bartl: In 1953, her parents moved into a brand-new one-bedroom apartment together with her grandmother. Birgit Bartl was born in 1958 and grew up there together with her brother, who was a year younger: “The apartment was very cramped, the windows were draughty and we had to have our baths in the living room. But that was how everybody lived here. And the garden made up for a lot.”

Deutsche Annington’s success is measured by the satisfaction of its tenants. We regularly invest in our housing portfolio to make sure they feel at home in their apartments and houses – in 2008 it was some € €185 million.

After the death of her father, the charm of the housing estate brought her back to where she had spent her childhood. “The apartment was empty and we children had taken over the rental contract. The living area had been extended, the place was about to be modernised.” Today Birgit Bartl lives with her two daughters in the 85 square metre apartment with garden and balcony. She has landscaped her parents’ original garden, putting in a pond, a wooden deck, a stone wall and a garden shed. “Many residents stay in this estate until they die; it is like a green island in the middle of Griesheim. I certainly intend to as well,” she laughs. “I would like to spend **many more hours** in my garden.”

365 DAYS

"There is more to quality living than just a nice apartment. I need the flair of a vibrant district, a view of trees and plants from my windows and peace and quiet. I never want to move away from here."

8 weeks

Ursula Brinkmann loves the **new life** in her housing estate. "I go to our new local café at least twice a week. It's great to have a meeting place just around the corner again," she enthuses. The non-profit association, IN VIA, which is financially supported by Deutsche Annington, opened the cosy café last autumn which is now well frequented. A sign that Preuswald is slowly returning to its former glory after difficult years. The district of Aachen was once a popular area to live in. Then things started to go downhill: the row of shops fell into disrepair; the estate got a bad reputation. Deutsche Annington bought the roughly 625 apartments at the beginning of 2008. **Eight weeks** after acquiring the properties, Deutsche Annington Rheinland opened a service office. After talking to residents during an open day, they knew what had to be done: the neighbourhood and local facilities had to be improved.

The café was the first step, followed by a bakery. In the summer of 2009, a shop selling fresh produce is being opened, which will also create jobs for disadvantaged young people. A service centre is also to be built to improve medical care. Parallel to all this, the estate is being extensively renovated: Smaller flats are being put together to provide new accommodation for families. The playground is also being given a facelift. Today, the district of Preuswald is now returning to what it once was – **a desirable area to live in.**

Deutsche Annington seeks contact with its tenants in various ways: through its customer centres but also through a mobile field service and local caretakers.

365 DAYS

“Mr Scherrer from DASG was worth his weight in gold. The planning and coordination of the heating system installers, electricians, brick-layers, roofing company and chimney sweeps all went like a dream.”

15 minutes

In less than **15 minutes** the apartment of the condominium owner and caretaker, Reiner Fleschenberg, is toasty warm – thanks to the new gas condensing boiler which was installed last autumn and now reliably **supplies** the apartments in his block **with heat.** The old district heating station had become a real concern for the residents of the 124 apartments in the former railway workers' estate, Am Stadtgarten, in Essen. The system was unreliable. A solution had to be found quickly.

About half of the apartments were owned at that time by former tenants. They were organised in four condominium owners' associations managed by Deutsche Annington Service GmbH (DASG). Together, they looked for a solution: After intensive consultations, it was decided to install a separate heating system for each block. Carlo Scherrer, Head of the Technical Service and Planning department of DASG, organised the call for tenders together with a heating system planning expert and evaluated the quotes received. The modernisation work was also supervised by the professionals of DASG. In the end, the joint effort ensured that € 285,000 was sensibly invested to the satisfaction of all those involved.

Deutsche Annington provides a comprehensive customer service to help tenants and owners. Our centralised service is available to our customers six days a week .

365

days

...on course

...available

...strong

...satisfied

...reliable

365 days on course . . .

FACTS

- Properties in 630 cities, towns and villages
- 217,000 housing units managed
- 100 new lets per day

...our way

Our mission: To keep our customers by providing an excellent service

The demographic change is leading us in Germany to new ways of living. Nowadays, families, single people, single parents and pensioners all want to live in very different ways: some near a town, barrier-free, with a wide variety of services on hand, others in reasonably priced accommodation, with low ancillary costs, near to kindergartens and schools. People are becoming more mobile and moving house more frequently. Deutsche Annington is responding to this change. Today, we offer different accommodation for the different target groups, for example apartments with the additional service "Annington Wohnen Plus" for pensioners or low-priced flats at a fixed rent for students under the "Wohnsinn" programme. This is our way and we are staying true to it.

Like many other companies, we convince our customers by offering a good product. Naturally, that is first and foremost apartments. However, tenants are increasingly looking for services above and beyond simple accommodation: fast service, friendly and capable staff, prompt repairs, cost-optimised ancillary costs, fair rents. Tenants are customers. And customers expect us to be customer-focused. We know that and have set out to provide an excellent service. For it is only by unbeatable service that we can stand out from our competitors.

Cost effectiveness: A principle which is worthwhile for both sides

Deutsche Annington has to operate cost effectively. In this point we are no different from other companies offering accommodation. In Germany, that was different for many, many years after the Second World War: The absolute priority was to provide accommodation. Housing took on an almost sociopolitical dimension. Today, the problems of the post-war era are solved and there is now plenty of different accommodation available. So we also have to compete with other companies and are required to make offers tailored to the different target groups and work cost effectively. That is a good thing as we can only invest in our housing and our services if we work profitably. And that in turn is the fundamental requirement for achieving our main goal: satisfied tenants who feel at home in our apartments.

Growth: A strong company to the tenants' benefit

As a large housing company, we have strong negotiating power. We use this to sign contracts with good conditions for our tenants and set up new services. Thanks to our pooled purchasing power, we can get reasonable prices – whether for gardening or caretaker services, for elevator maintenance or heat meter-reading. And we pass on the savings to our customers.

The steady increase in heating and water charges in recent years means that ancillary costs are rising faster than the actual rents. We regularly do everything we can to cushion the rise in ancillary costs, for example by investing in new heating systems and thermal insulation. In this way, we ensure that our tenants can live as cheaply as possible.

And we think ahead. In 2008, we launched a refuse reduction initiative in a pilot project with Innotec Abfallmanagement GmbH. The 16,000 households taking part in the project saved an average of € 40 at the end of the year. Or in Dortmund: In the autumn of 2008, we negotiated a new gas supply contract for some 10,000 apartments, which means a two-digit percentage saving for the tenants.

365 days available...

Tenants hotline: Available when you need us

When it comes to service, availability is key. In many industries, we are now used to also being able to reach somebody in the evenings and on Saturdays. Deutsche Annington is transferring these service standards of other branches of industry to the housing industry. Since 2007, we have been operating a round-the-clock hotline for repairs. Its availability rate is 97%. Our customers use the hotline so much that we are going one step further this year: In future, we will be centrally available for our customers – whether they want to rent an apartment or have a query about their ancillary cost bill.

Technology: A virtual file is always up-to-date

In 2009, we are introducing a holistic IT solution. This makes paper tenant files a thing of the past. In future, we will have a virtual tenant and property file: If a customer calls us, the service clerk just needs to click once and the most important data come up on his screen. So he can answer all questions accurately and quickly – whether they are about the rental contract, the ancillary cost bill or garden maintenance. And if somebody is interested in an apartment, we can say where the nearest school is and where the nearest bus stop or train station is. Should the apartment then turn out to be in the wrong location, the service clerk can give some suitable alternatives. We have invested a lot to be able to offer our customers this service: we had to compile, sort and scan some 50 million sheets of paper from all locations.

Expertise: "You are already speaking to the right person."

Busy tones and messages such as "This is an automatic recording …" are a thing of the past. With its tenant and service centre, Deutsche Annington is pooling its expertise at one location. In future, our customers will be able to reach all contacts at one phone number. There is a specialist for every query. What happens if the tenant only speaks Turkish? No problem, our Turkish colleagues will be pleased to help. The service staff of Deutsche Annington are trained real estate clerks who are our employees. Not people sitting in an anonymous call centre somewhere in the world.

And we are fast: We believe that we will be able to answer over 80% of customer queries and questions after the first call. No tenant has to call us several times before he finally gets the right person on the phone. He gets a clear answer to his questions. The staff of the tenant and service centre immediately take action: they arrange viewing appointments, answer questions about an apartment, explain the rental contract, handle complaints. If they can't answer a question immediately, they call back.

...our employees

FACTS

- Centrally available for over 450,000 customers
- 40,000 tenancy confirmations sent out
- 10,000 inquiries about keeping pets handled every year

365 days strong...

Professionalism:
So experienced in managing properties that our tenants don't notice us

On the real estate market, size means pooled experience and strength. And this is something our tenants also benefit from! They can rely on us performing our work as a landlord to a high standard. That gives our customers a feeling of security. Rental contract, ancillary cost bill, user agreement – we design them so that both parties are happy. Repairs, replacements, modernisation work – we do work like this properly and without any fuss. For example, faults which are reported to the repair hotline are generally rectified within three days. We continuously think about our services and try to put ourselves in the shoes of our tenants. Be it offers of accommodation for the elderly or the sponsoring of the annual neighbourhood festival. A high degree of professionalism does not exclude personal dialogue with the individual: The Deutsche Annington staff who sit on the opposite side of the table to our tenants are people who always take the particular facts of the case into consideration.

FACTS

- Over 300,000 repair orders a year
- Some 50 million pages of digitalised files

...our solutions


DEUTSCHE ANNINGTON wohnen

Stromkosten runter

Andere Wohnung? Gern bei uns!

Networking: Local but with the entire expertise of the company

Arranging for a repair or passing on an inquiry to customer support often takes far too long. That is not the case with Deutsche Annington: Our service centre staff can already access the local employee's diary while they are talking to the customer. And vice versa: Thanks to the central database, our local field workers, whether they be customer support staff or letting agents, all have access to the same information as their colleagues at headquarters. Several phone calls, clarification of misunderstandings or forgotten files are now all a thing of the past.

But competence is just as important as the information: our local employees and partners are well trained to handle every situation properly.

Value added: Tenant benefits in everyday life

Our tenants enjoy a large number of benefits – some are even very unusual: The fact that they receive a customer newspaper with accommodation and consumer information, cinema vouchers and prize competitions delivered free of charge four times a year is now standard among good housing companies. We go further and negotiate special conditions for our tenants with companies whose products and services are interesting for our customers. For our tenants, the name Vodafone means cheap phone calls. If they buy their medicines from the mail-order pharmacy, Vivothek, they get a 10% discount, and anybody who moves house using Schenker gets a really competitive flat rate. Together with the German railway company, Deutsche Bahn, we are also even making sure our tenants are more mobile. In a first pilot project, tenants from Cologne can use the Bahn's car sharing offer "Flinkster" at special rates. This service picks them up direct from their front door.

A subject which is particularly dear to our hearts is accommodation for the elderly: Through our counselling service "Annington Wohnen Plus" we make it easier for our customers to continue living in their own four walls when they get older. And we are not standing still in this field, either. For example, in Gelsenkirchen we are working together with the charity, Caritas, to further develop the idea of sheltered, self-determined accommodation for the elderly.

365 days satisfied...

Long-term tenant: Moved in when Baron von Münchhausen was first a cinema hit

Quite a few of our tenants live their whole lives in Deutsche Annington accommodation. Their district, their street has become home to them over the years. They would never move out voluntarily. Emmi von Weydenberg from Kiel, for example, moved into her apartment when Hans Albers was pulling crowds to the cinema as Baron von Münchhausen. That was back in 1943. And 79-year-old Anna Wessel from Duisburg has also remained loyal to Deutsche Annington: After the death of her husband, she moved out of her house, which had become too big for her, into a nice, suitable ground-floor flat – without stairs and with a bathroom for the disabled. Others, such as Birgit Bartl from Frankfurt, return after many years to the place they grew up.

On average our tenants live for 15 years in one of our apartments. That is well above the national average. Tenant jubilees of 50 years and more are not at all rare at Deutsche Annington. Thanks to the large and varied number of apartments we have to offer, anybody who wants to move can often do so within the company. Moving from Flensburg in the north of Germany to Munich in the south is also no problem. After all, we have accommodation at more than 600 locations.

...our tenants

Thermal insulation and energy efficiency: Why not save on ancillary costs?

While rents have only increased in line with inflation since the beginning of this millennium, heating costs have really exploded. Therefore, improving the energy efficiency of our housing is particularly dear to our hearts. In 2008, Deutsche Annington invested a total of some € 185 million in modernisation and maintenance. Of this figure, € 37 million went into enhancing energy efficiency – that means into insulating facades, roofs and cellar ceilings. So in 2008 we cut our CO_2 emissions by some 12,000 tonnes.

And we are also active in other fields: In Wuppertal and Cochem on the Moselle, we have launched pilot projects and fitted solar panels on the roofs in some housing estates. In Essen, we are planning a first project to test air heat pumps. Together with the energy management service provider, Ennovatis, we are currently examining whether heating costs can be cut by up to 15%, simply by optimal setting of the heating system. We are also pursuing another goal by using climate-active roof tiles: tiles which convert toxic nitrogen oxide into harmless substances which are rinsed away by the rain. So we can keep costs under control and protect the environment.

Customer satisfaction: Finding things which still need changing

When answering the question of how satisfied our tenants are with our work, we do not just rely on our own feeling. The only people who can give us a clear picture of how well we are performing are our tenants themselves. Every day they know where we are good; and they also notice where we have to be even better. So that's why we ask them: regularly through surveys and customer satisfaction analyses and continually in direct talks and in customer service. We listen carefully to what they say. And we work on what they criticise today to find solutions which will turn one of our weaknesses into one of our strengths tomorrow.

FACTS

- An average of 15 years' tenancy
- € 185 million invested in our housing portfolio
- CO_2 emissions cut by 12,000 tonnes in 2008 thanks to energy-saving modernisation work

365 days reliable …

Foundations: Capital flows to people who have the weakest lobby

Through its two foundations, Deutsche Annington is committed to helping those people in society who need special support. Last year alone, we promised to support some 100 social, educational or cultural projects which had applied to the foundations for help. In 2008, some € 220,000 was granted and every cent is an investment in quality of life. The funds go to needy families so they can buy essentials such as school things for the children. Or to elderly people with small pensions so they can, for example, buy a new washing machine. Kindergartens and schools also need plenty of support: Here it is mostly a question of basic requirements such as giving the playground a facelift or buying books. Sometimes a complete new kitchen is needed such as for the Flensburg initiative, Schutzengel, which looks after families with children.

Alongside work through its foundations, Deutsche Annington looks after the neighbourhoods where its residential estates are located. For they are where our tenants live and we want them to feel happy there. Just like in Aachen-Preuswald, we open a café as a place where neighbours can meet. Just like in Messstetten in Baden-Württemberg, we provide rooms for clubs which focus on fostering intercultural relations between families. And when a charity hands out free food to people in Barsinghausen, we make sure that the rooms it uses are free of charge.

Social responsibility: For us not just lip service but something we live

Nearly all our properties are governed by social charters and voluntary undertakings. We have signed comprehensive and long-term tenant protection agreements which cover 99% of our portfolio and, in most cases, well exceed anything required by law. For example, former Viterra tenants have our "voluntary commitment to sell properties in a socially acceptable manner". And we have also signed voluntary social agreements for the apartments formerly owned by Bahn and RWE, the north-German Heimbau of Deutschbau as well as the Frankfurt-based companies Wohnbau Rhein-Main and FSG. Roughly a quarter of all our apartments are governed by long-term rent restrictions.

...our social ties

Involvement in associations: You can only achieve change if you get involved

We seek and maintain regular dialogue with local council representatives to share experience and exchange views. Our management meets local council representatives roughly 500 times a year. We regularly talk to local tenants' associations and the umbrella organisation, the German Tenants' Association. Through our membership of umbrella housing industry associations, we are committed to moving our industry forward. Whether the GdW (Federal Association of German Housing and Real Estate Companies), DV (German Association of the Housing Industry, Urban and Regional Planning), ZIA (Central Real Estate Committee) or BfW (Federal Association of Private Real Estate and Housing Companies) – Deutsche Annington is aware of its responsibility as Germany's largest housing company.

Common interests: Pulling together is better than fighting against each other

Each community that lives together in a district is unique. A lot of people have to help if living together in a community is to work. As the landlord, Deutsche Annington only has limited influence in this respect. But we use what influence we have to work together with our tenants to change things: For example, in Bedburg-Kaster, there were disputes about litter. Together with our tenants and the town council we discussed how the situation could be improved. A "Banish Litter Day" was organised and everybody grabbed brooms and plastic bags to clear the estate of litter and other rubbish. And now a caretaker newly employed by Deutsche Annington makes sure things stay clean.

FACTS

- Foundation capital of € 6 million for social causes
- € 220,000 paid out of the foundations for 100 social projects and the needy
- 500 talks with local council representatives

365 days

...answers

...service

...performance

...expertise

...customer proximity

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through the 2008 financial year

365 days

The Deutsche Annington Real Estate Group lets and manages approximately 217,000 flats, employs 1,300 staff and is one of the leading residential property companies in Germany. The company offers apartments to rent and to purchase in about 630 locations nationwide, complemented by customer-focused services.

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

Key figures for the Group

€ million	2006	2007	2008	2007/2008 Change in %
Income from property management	898.8	1,075.1	1,029.1	–4.3
Gross profit from property management	530.9	571.3	594.9	4.1
Income from disposal of properties	454.6	248.0	144.3	–41.8
Gross profit on disposal of properties	131.3	74.7	50.8	–32.0
Adjusted EBITDA	450.4	460.3	473.1	2.8
FFO	152.1	190.1	207.1	8.9
Investments	133.4	384.4	148.7	–61.3
Cash flow from operating activities	789.9	540.6	483.3	–10.6
Cash flow from/used in investing activities	20.9	–313.9	–117.2	–62.7
Cash flow used in financing activities	–589.1	–566.7	–479.0	–15.5
Total assets	10,932.2	10,824.0	10,249.6	–5.3
Non-current assets	7,059.9	7,989.4	7,892.5	–1.2
Current assets	3,872.3	2,834.6	2,357.1	–16.8
Total equity	1,688.7	1,739.4	1,456.1	–16.3
Return on equity in %	15.4	16.1	14.2	–1.9 % points
Number of residential units in portfolio (as at Dec. 31)	185,438	190,221	189,218	–0.5
Number of units acquired (title transferred in 2008)	3,311	8,007	1,364	–83.0
Number of units sold (recorded sales)	7,601	3,945	2,542	–35.6
Number of employees (as at Dec. 31)	1,385	1,406	1,302	–7.4

Contents

through the 2008 financial year

Dear Readers,

Wijnand Donkers

Dr Manfred Püschel

Deutsche Annington has long known that it can only achieve a sustained increase in the company's value with a long-term strategy. Such a strategy must be governed by **stability, reliability and responsibility.** After all, we are satisfying a fundamental human need and nobody should take that lightly.

Long-term success is only possible if our customers are satisfied with our services. On average, our customers live for 15 years in our apartments; that is six years more than the national average. We are pleased but not satisfied with this. As regards quality of service, the housing industry is not as advanced as other industries: we have a lot of catching up to do here.

Therefore, we have set ourselves a major goal for 2009: We want to create the right conditions for taking customer satisfaction to a higher level. We want our tenants and customers to be able to reach us even more easily. We want to solve problems even faster and we want to offer the best service – 365 days a year, up to 24 hours every day.

We made good progress towards achieving this goal last year – not least thanks to the great commitment of our staff at the 600+ locations in Germany where are properties are situated – and at our headquarters in Bochum, in the heart of the Ruhr area. We have thoroughly reviewed our entire company and decided to reorganise and better structure Deutsche Annington in important areas.

The improvements which we are now implementing step by step will, over the course of the year, lead to a reorganisation of our company. With this new structure, we have set out to achieve three key objectives: greater customer focus, more efficient processes and highly motivated employees. We have therefore adopted an approach which is to set standards in the housing industry. And we are investing some € 70 million in this reorganisation. We are not introducing anything which has never been seen before. We are only implementing concepts which have already been used successfully in other industries for some time. They range from digital tenant files and dynamic field staff management to the latest technology for our staff.

What can we offer our customers in future? First of all, maximum availability: Alongside the repair hotline which is manned seven days a week, we have now also set up central tenant and service centres where we can be reached at the same number from all over Germany from 8 a.m. to 6 p.m. Mondays to Fridays and from 9 a.m. to 1 p.m. Saturdays.

Secondly, we intend to improve our service quality: In future we will be able to settle most queries during the first phone call. Our new tenant centres are manned by trained real estate specialists. They have been given high decision-making powers and can access the most important files directly from their terminals. We have digitalised more than 50 million pages of paper so in future we will have all relevant documents available in electronic form and be able to quickly give the customers the information they need.

Thirdly, we want to be even faster: The electronic linking of inside and field staff, for example, makes it possible for our tenant centre staff to enter appointments directly in the field workers' diaries while they are on the phone to the customer. This example shows that the word 'service' will take on a new dimension in the housing industry in the next few years thanks to the organisational anchoring of the new solutions.

Economically we can look back on a successful 2008 – Deutsche Annington defied the financial crisis and the economic downswing. After good growth in the previous year, we managed to improve our earning power yet again in 2008. At € 473 million, our adjusted EBITDA was 3% up on the already good pre-year figure. And the other metrics also developed well. For example, FFO, one of our key operating performance figures, rose sharply by 9 % to € 207 million.

Enhanced efficiency and successful performance data are the basis for these figures. In our core business segment, Property Management, we succeeded in reducing the vacancy rate yet again, to 3.9%, and at the same time raised average rents by 2.7 %. With gross profit from property management up by 4% to € 595 million, we managed to follow on from the positive economic growth of previous years. As planned, the number of units sold to tenants decreased. At the same time, however, we improved the margin on properties sold. Last year, we invested € 185 million in our housing portfolio. These investments focused on improving housing quality and on our modernisation programme for the benefit of the climate, which was launched in 2008.

With 1,364 new apartments bought, we were careful about making acquisitions in 2008. We are proud of that. For in recent years we have developed a core competence in the analysis of real estate cycles. We only invest in acquisitions when we can realise value added, i.e. when the price is right. To do that, you need patience and must bide your time. This strategy has definitely paid off for us. Whilst many residential portfolios have changed owners at too high a price since 2006, we now see valuations of the portfolios on offer gradually returning to normal.

The situation on the financial markets has deteriorated further in the last twelve months. This led to rising margin and equity requirements for acquisitions and refinancing – that is, if a bank was prepared to grant a loan at all. Against this background, we see the fact that we were able to obtain new loans even at the end of 2008 as a positive sign. At that time, the loan market had practically ground to a halt. This shows that the capital markets regard the Deutsche Annington Real Estate Group as a reliable partner, even in critical times.

Our financing strategy is now paying off: Our borrowed capital is obtained through long-term loans with attractive conditions. This enables us to advance our operational projects according to plan, even in the current difficult economic environment.

This also includes reviewing the market values of our real estate portfolio every year and adjusting them to reflect the current market situation. This regular valuation is an important control instrument for us and the basis for strategic decisions.

In 2008, the demand for rented accommodation rose sharply whilst the demand for owner-occupied apartments fell. In anticipation of this development, we had already adjusted our sales strategy in the previous year and not put any additional properties up for sale. In contrast to 2007, we did not assign units which in previous years had been classified as having potential for sale to the privatisation portfolio but to the property management portfolio. Similarly, we revised the current value of our portfolio 4 % downwards.

We are expecting the demand for accommodation to remain stable in the current year. In view of the recession, reasonably priced, medium-sized apartments, which make up the majority of our portfolio, are likely to be even more in demand. Therefore, we are confident that we can keep our positive earnings figures stable.

All in all, we are optimistic about the current year. With our further improved services, we will provide the best possible care for our tenants – and for us that also means always acting in a socially acceptable manner. Our efficiency will help us to remain successful, in economic terms as well.

Wijnand Donkers

Dr Manfred Püschel

Boards

Managing Directors

Wijnand Donkers
Chairman

- *Responsible for:*
  Acquisition, Customer Care, Purchasing, Tenants Service, Legal Affairs and Shareholdings, Human Resources Management, Portfolio Management, Corporate Communications, Sales, Westfalen business unit, Nord/Ost business unit, Süd/Südwest business unit, Rheinland/Ruhr business unit

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

Dr Manfred Püschel

- *Responsible for:*
  Controlling, Finance, Accounting,
  Taxes, Auditing
  Deutsche Annington Informationssysteme GmbH,
  Deutsche Annington Service GmbH

Born in 1953; PhD in Business Economics; many years of management experience in the fields of planning and finance at various companies incl. VEBA, Stinnes and Raab Karcher; from 1998 to 2005 CFO of Viterra AG; since 2005 Managing Director of Deutsche Annington

Supervisory Board

Guy Hands
- *Chairman and Chief Investment Officer of Terra Firma Capital Partners Limited, London*

Phillip Burns
- *Financial Managing Director of Terra Firma Capital Partners Limited, London*

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

Fraser Duncan
- *Managing Director of Terra Firma Capital Partners Limited, London*

Wolfgang König
- *Business Consultant, Esslingen*

Sir Thomas Macpherson
(until February 7, 2008),
- *Chairman of Annington Holdings PLC, London*

Prof. Dr Klaus Rauscher
(since August 1, 2008)
- *Business Consultant, Berlin*

Management Report 2008

The 2008 Financial Year

In the face of the economic and financial crisis and the beginnings of a recession, the Deutsche Annington Real Estate Group **demonstrated the viability of its business model** last year. In 2008, we also started a comprehensive restructuring programme which will be completed in 2009.

We further strengthened our earning power in 2008. Adjusted EBITDA increased by 2.8 % to € 473.1 million and FFO by about 9 % to € 207.1 million, both proof of the sustainability of our business success.

In our core business, Property Management, we once again succeeded in reducing vacancy rates from 4.2 % in 2007 to 3.9 %. In the Sales segment, we sold 2,542 residential units. In 2008, acquisitions were well down on the previous year at 1,364 units.

We are expecting a **stable development** of business in 2009 despite the difficult economic environment.

Structure, Strategy, Employees

Thanks to its consistent strategy of long-term property management, the Deutsche Annington Real Estate Group has established itself as one of the leading residential real estate companies in Germany. We continue to focus on three core business segments: property management, property sales and growth through acquisitions. In 2008, we reviewed our internal organisation and further developed our company with the help of our employees.

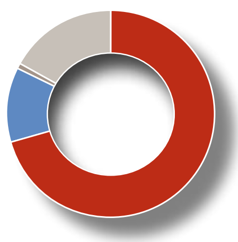
STRUCTURE: One of the leaders in the German housing industry

The Deutsche Annington Real Estate Group is one of the top housing companies in Germany with some 217,000 residential units managed and approx. 1,300 employees. The Group was established as part of the takeover of railway housing companies in 2001. Germany's largest residential real estate company was born in the summer of 2005 when Viterra was taken over by the Deutsche Annington Real Estate Group.

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

The Deutsche Annington Real Estate Group is, today, the largest private housing company in Germany. In total, we manage 189,218 apartments of our own, 43,795 garages and parking spaces as well as 1,428 commercial units. What's more, we also manage 28,441 apartments for other owners. The Deutsche Annington Real Estate Group offers accommodation in 630 cities, towns and villages throughout Germany. 68% of the apartments are situated in cities with more than 100,000 inhabitants; 32% are in medium-sized and small towns as well as villages.

Units managed by the Deutsche Annington Real Estate Group
(as at December 31, 2008)



Own apartments	189,218
Apartments owned by others	28,441
Commercial units	1,428
Garages and parking spaces	43,795

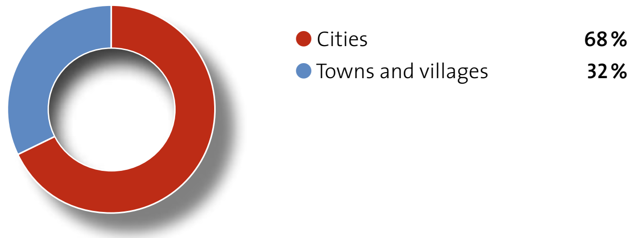
Regional focus in NRW and southern Germany

Approx. 60% of our portfolio is concentrated in 20 major cities and towns. In each of these locations, we have between 2,000 and 18,000 residential units. The four biggest locations are Dortmund, Frankfurt am Main, Essen and Berlin. The vast majority of our housing stocks are in the states of former West Germany (95.8% including the German capital, Berlin), particularly in North Rhine-Westphalia (54%).

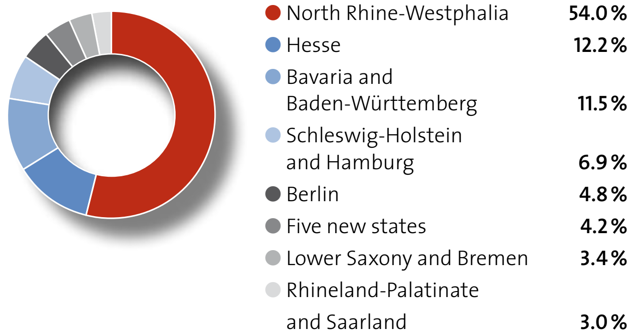
Sound rent structure

With our entire portfolio, we achieve an average monthly rent of € 4.91 per square metre (2007: € 4.78 per square metre). Roughly half of our apartments (52%) have living areas of up to 64 square metres. Thus the Deutsche Annington Real Estate Group is a major provider of reasonably priced, small and medium-sized apartments. Industry experts are currently predicting that the best market opportunities will be in this segment since the small household segment is growing disproportionately due to the rising numbers of single people in our society. Our customer satisfaction is high: On average, a tenant lives for about 15 years in a Deutsche Annington apartment, on a national average a tenancy lasts about nine years.

STRUCTURE OF THE DEUTSCHE ANNINGTON RESIDENTIAL PORTFOLIO BY CITIES, TOWNS AND VILLAGES



STRUCTURE OF THE DEUTSCHE ANNINGTON RESIDENTIAL PORTFOLIO BY GERMAN STATES



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

Portfolio as at Dec. 31, 2008	Units	Share in %	Living area in m²	Average living area per unit in m²	Annualised net rent* in € m	Share in %	Monthly net rent per m²* in €	Vacancy rate* in %
Deutsche Annington Nord GmbH	19,637	10.4	1,261,256	64	76.6	10.7	5.07	3.9
Deutsche Annington Ost GmbH	16,581	8.8	1,083,266	65	64.4	9.0	4.92	8.3
Deutsche Annington Rheinland GmbH	23,893	12.6	1,614,128	68	100.9	14.1	5.20	3.9
Deutsche Annington Ruhr GmbH	37,088	19.6	2,297,799	62	126.6	17.7	4.60	4.1
Deutsche Annington Süd GmbH	16,752	8.9	1,103,626	66	64.6	9.0	4.89	1.6
Deutsche Annington Süd-West GmbH	32,062	16.9	2,117,449	66	139.2	19.6	5.48	2.7
Deutsche Annington Westfalen GmbH	43,205	22.8	2,643,754	61	142.6	19.9	4.46	3.6
Total	**189,218**	**100**	**12,121,278**	**64**	**714.9**	**100**	**4.91**	**3.9**
Top 20 cities and towns								
Dortmund	18,083	9.6	1,103,645	61	58.8	8.2	4.39	3.5
Frankfurt	10,757	5.7	668,429	62	50.5	7.1	6.29	1.2
Essen	10,756	5.7	666,896	62	38.9	5.5	4.82	4.1
Berlin	9,070	4.8	594,931	66	37.9	5.3	5.26	2.5
Gelsenkirchen	9,056	4.8	547,814	60	28.2	3.9	4.29	3.5
Bochum	7,888	4.2	458,361	58	26.1	3.6	4.68	3.0
Munich	5,364	2.8	356,493	66	24.9	3.5	5.82	0.5
Duisburg	5,096	2.7	304,606	60	16.7	2.3	4.54	3.3
Bonn	4,760	2.5	334,754	70	22.6	3.2	5.64	2.4
Herne	4,735	2.5	290,779	61	15.1	2.1	4.29	2.4
Cologne	4,707	2.5	307,235	65	20.9	2.9	5.70	2.8
Gladbeck	3,743	2.0	229,383	61	12.2	1.7	4.63	7.9
Herten	3,028	1.6	196,981	65	10.0	1.4	4.24	2.7
Düsseldorf	2,704	1.4	176,738	65	12.7	1.8	5.95	1.5
Marl	2,605	1.4	175,396	67	10.7	1.5	5.10	4.9
Aachen	2,259	1.2	150,312	67	8.5	1.2	4.73	2.3
Bottrop	2,246	1.2	141,615	63	7.9	1.1	4.65	3.8
Wiesbaden	2,103	1.1	136,353	65	10.5	1.5	6.43	3.7
Bergkamen	2,030	1.1	134,384	66	7.1	1.0	4.40	7.6
Geesthacht	2,008	1.0	114,664	57	7.3	1.0	5.32	6.5
Subtotal for top 20 cities and towns	**112,998**	**59.7**	**7,089,769**	**63**	**427.5**	**59.8**	**5.01**	**3.2**
Other locations	76,220	40.3	5,031,509	66	287.4	40.2	4.76	4.9
Total	**189,218**	**100**	**12,121,278**	**64**	**714.9**	**100**	**4.91**	**3.9**

* as at beginning of December

Customer proximity through regional presence

In 2008, our Group was organised in seven regional companies which handled the local business, customer acquisition and support. Central services such as ancillary cost billing, rent accounting and receivables management were already pooled in service subsidiaries located in Bochum. As part of the restructuring planned for 2009, we will be centralising further services in Bochum, thus improving our efficiency.

STRATEGY: Constantly providing an outstanding service

The Deutsche Annington Real Estate Group would like to offer broad sections of the population reasonably priced accommodation and very good service. We see ourselves as a customer-minded service provider. Our toll-free repair hotline can be called 365 days a year. We have developed the free-of-charge "Annington Wohnen Plus" service for our older customers. Our tenants benefit from nationwide service agreements, which reduce ancillary costs, and a centralised quality management system, which constantly monitors the services provided by our contractors.

The Deutsche Annington Real Estate Group's aim is to grow both profitably and over a long period of time. We concentrate on three fields of business:

- **Long-term, value-enhancing management:** We see ourselves as a responsible landlord and offer our customers a competitive range of properties with very good services. We offer our tenants the security of a strong brand and guarantee uniform high standards.

- **Selective sales of units in a socially acceptable manner, primarily to tenants:** We offer residential properties at attractive prices. We only sell carefully selected units, primarily to our tenants, and secondarily to capital investors. We involve tenants and local authorities in this process at an early stage.

- **Strategic acquisition of housing portfolios:** As a housing company geared to long-term property management, we want to expand our housing stocks throughout Germany. In doing so, we concentrate above all on portfolios in urban areas. Thanks to our financial strength, we can also buy up large residential portfolios.

We are a socially responsible landlord and a reliable partner

Through our non-profit foundations, we offer help in cases of social hardship and to people in need. Our foundations also promote intact neighbourhoods and vocational training. We are also involved in many social projects in the vicinity of our residential estates. We encourage a strong community spirit among our tenants by supporting tenants' festivals, initiatives and clubs. Parallel to this, we sponsor social projects for children and young people as well as cultural activities.

Our housing stocks come from the merger of various housing companies. When we took them over, comprehensive social clauses were generally agreed to protect the tenants. We work closely in the communities with all those involved in a spirit of trust and are committed to the development of urban districts and the conclusion of individual estate agreements. We are party to numerous regional cooperation agreements throughout Germany. We maintain dialogue with political representatives and tenants' associations. Our reliability in such matters is recognised by the German Tenants' Association and the German public alike.

Our apartment sales give tenants the opportunity to own their own homes

Through the selective sale of apartments, we give many tenants the chance to fulfil their dream of owning their own home as an investment and provision for retirement. This mix of tenants and owners in our housing estates is an advantage because it creates a stable living environment. We aim to primarily sell to tenants, owner-occupiers and capital investors. We would stress that en-bloc sales are not part of our strategy. In the last ten years, some 50,000 families have bought an apartment from us or one of our predecessor companies.

Our mission: Long-term development and sustained first-rate performance

In our business, we believe in focusing on the long-term development of our company and total commitment to this goal. Our mission is clearly defined: We want to be the best company in the housing industry, now and always. We systematically pursued this goal in 2008, launching a comprehensive internal project to enhance quality, expand our services and improve efficiency.

EMPLOYEES: Identifying and promoting staff potential

Through our HR development work, we want to provide our staff and managers with the skills they need to optimally handle the current and future challenges of their jobs. At the same time, we want to keep high performers in our company by offering them career prospects and promoting their personal development. To achieve this, the Deutsche Annington Real Estate Group uses personnel development rounds as an instrument to identify potential candidates for key positions and emerging leaders.

Alongside individual development of potential, our two HR development programmes, Management BASIS and Annington Professionals, are a key component of strategic HR and management development. They form the basis of a structured system for promoting staff potential and pave the way for a career in management or specialist areas. In 2008, we again pursued our strategy of continuous HR development with targeted training measures, focusing on professional and interdisciplinary seminars, language courses and dedicated in-house SAP training throughout Germany.

360-degree feedback for managers introduced

A computer-based, 360-degree feedback system was introduced for second-tier managers. They receive feedback from their superior, colleagues and staff. A concrete plan of action is then developed in a results workshop. In future, the results of this feedback survey are to be reflected in the variable component of the managers' pay. It is also planned to extend the process to other management levels.

Round table encourages discussion culture

The Advisory Round Table was set up in January 2008. It currently consists of 34 young candidates with potential at staff and team leader level; the Chairman of DAIG meets the candidates once every three months to discuss current issues.

Employer assumes responsibility for work-life balance

The Deutsche Annington Real Estate Group currently employs 660 women, which is 50.7% of the total workforce. 229 employees (17.6%) have a part-time job. The Deutsche Annington Real Estate Group makes a special effort to be a family-friendly employer. Our "BALANCE 2010" project was launched in 2007 following our certification as a family-friendly company under the work and family audit, "audit berufundfamilie®" performed by the non-profit Hertie Foundation. We moved this project forward in 2008 in two working groups (balance family and balance body & mind). For example, we currently offer a large number of flexible working time models, have introduced a programme of preventive healthcare for our employees and help mothers to return quickly to working life.

Traineeships in the residential real estate industry much in demand

Interest in a traineeship at Deutsche Annington has increased greatly: More than 1,900 applications were received for traineeships starting in 2008. 25 trainees were recruited in the Deutsche Annington Real Estate Group. The 24 third-year trainees all passed their exams before the Chamber of Industry and Commerce; 16 were given a fixed-term employment contract, two received a permanent contract. Last year, we offered a traineeship as a personnel services clerk for the first time. Furthermore, we introduced a new instrument for our trainees called the "learning workshop".

Staff numbers down at year-end through natural wastage

At the end of 2008, the Deutsche Annington Real Estate Group had 1,302 (2007: 1,406) people in its employ. In view of the restructuring planned for mid-2009 and the associated staff cutbacks, we already reduced jobs last year. This was mainly achieved by not refilling positions which had become vacant. The average age of employees in our Group is 43.3; the average number of years of service is 12.8.

Economic Environment

OVERALL ECONOMIC SITUATION: Deepening US financial crisis develops into a global economic crisis

2008 was dominated by an escalation of the crisis on the financial markets. Whilst the first quarter of 2008 proved to be surprisingly stable with gross domestic product (GDP) still showing positive growth, a downturn already followed in the second quarter. In September the already very difficult conditions on the credit markets continued to deteriorate and liquidity in the financial system fell to a level not seen before in this crisis. The collapse of the US investment bank, Lehman Brothers, on September 15 shook market confidence to its foundations. These developments contributed to a steady deterioration in the market mood and worldwide plummeting stock market prices.

The financial market crisis was sparked off by the crisis in the subprime mortgage market when the rising number of defaults on US subprime mortgages led to a considerable fall in the prices of collateralised securities. This mainly hit collateralised debt obligations (CDO) and US residential mortgage-backed securities (US RMBS). The revaluation of these securities led to wide-scale write-downs in the entire industry. There was growing uncertainty about the scale of these losses and what sectors would be affected. Interbank trading came to a standstill.

The extraordinarily critical conditions continued in October. Governments and central banks around the world reacted with interventions on a scale never seen before: the recapitalisation of well-known banks, generous injections of liquidity into the markets as well as interest rate cuts, the introduction or strengthening of protection for investors, the shoring-up of the inter-bank money market and the buy-up of critical assets. The financial market crisis then spread to the real economy. One of the first key industries to be hit was the car industry where the number of vehicles sold fell dramatically.

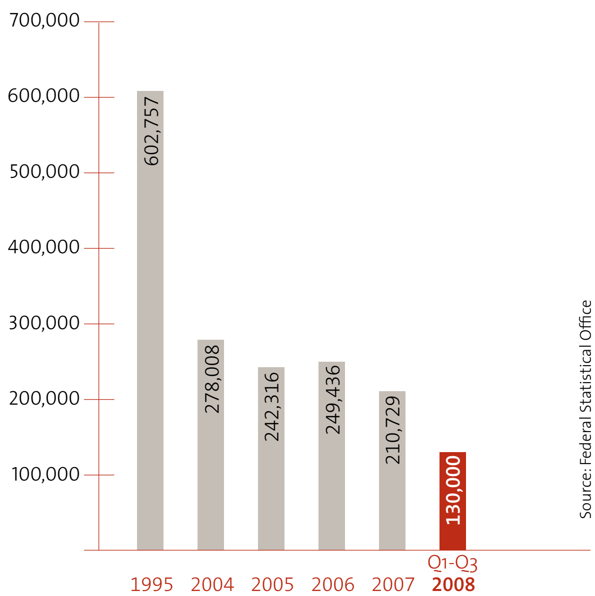
Economic indicators for 2008 showed first signs of a recession

By the end of the year, companies in Germany were also reporting a fall in the number of orders received. According to the Federal Statistical Office, price and calendar-adjusted GDP only grew by 1.0% in 2008 (2007: 2.6%). In 2008, momentum for growth came solely from the domestic market. Gross capital expenditure made the greatest contribution to the development of the economy. Investment in plant and equipment rose by 5.3% (after 6.9% in 2007) and building investments grew by 2.7%. Price-adjusted, public sector spending increased by 2.2% in 2008 whilst private consumption expenditure stagnated. Net exports, that is to say the difference between exports and imports of goods and services, acted as a brake on economic development in 2008 (contribution to growth: -0.3 percentage points). The reason for this is the comparatively small rise in exports of only 3.9% (2007: 7.5%), whilst price-adjusted imports increased even slightly more than in the previous year by 5.2% (2007: 5.0%).

Sharp downswing forecast for 2009

The German government already passed a first investment programme at the end of 2008 and agreed on a second package at the beginning of 2009 to mitigate the effects of the imminent recession. Altogether, the two packages mean expenditure of some € 70 billion. Parallel to this, nearly all governments all over the world are currently considering measures to support their national economies. The forecasts for economic development in 2009 differ, in some cases quite considerably, from each other. Most institutes and experts predict a historic economic slump in Germany and are expecting a decline of over 2%. The German government is also currently expecting GDP to shrink by 2.25%. That would be the sharpest recession since the foundation of the Federal Republic of Germany.

Development of new buildings completed in Germany between 1995 and 2007
(2008: building permits granted up to September)



Economic crisis still showed no effect on the labour market

According to the Federal Employment Agency, last year was one of the best years for the labour market. However, the figures for December showed that the economic crisis had meanwhile also reached the labour market. Unemployment rose from its lowest level for the year of 7.1% in November to 7.4% in December. On an annual average, the unemployment rate, related to the entire working population, ran at 7.8% (2007: 9%). The German government is expecting a significant increase in unemployment in 2009.

HOUSING MARKET: Gap between supply and demand increased as fewer new homes were built

At the end of 2008, Immobilienverband Deutschland (IVD) warned of an imminent housing shortage in the old German states. In its report it stated that, due to slack construction activity and the steady rise in single-person households, the number of residential units vacant in some cities in the old German states had already fallen below the 1% mark. Thus, the vacancy rate was well below the turnover reserve of 2 to 3% which a functioning market needed to compensate for moves and renovation work. The IVD was already talking of a current housing shortage. The reasons it gave were the abolition of both reducing-balance depreciation on new properties and the home owners allowance. It believes that the current situation will not change as long as there are no incentives for building new homes.

Housing market experts share this opinion. For example, Empirica estimates that there will be an annual demand for 330,000 new residential units in the period up to 2010. Much fewer are currently being built. In 2007, only 210,700 residential units were completed (another roughly 25,000 were created as a result of conversion work on existing buildings). The figures for 2008 are also likely to be down again; according to the Federal Statistical Office, only about 130,000 residential building permits were issued between January and September 2008.

Growing number of small households boosts demand for accommodation

According to a study conducted by HSH Real Estate AG, the demand for accommodation will increase steadily until the year 2020 despite a shrinking population. The study states that the reason for this development is the growing number of single-person households. By 2020, the number of households will have risen by 1.1 million to 40.7 million. The number of one or two-person households will grow faster than that of family households. The large cities and surrounding areas as well as other metropolitan areas in the south and west of Germany will profit particularly from this trend.

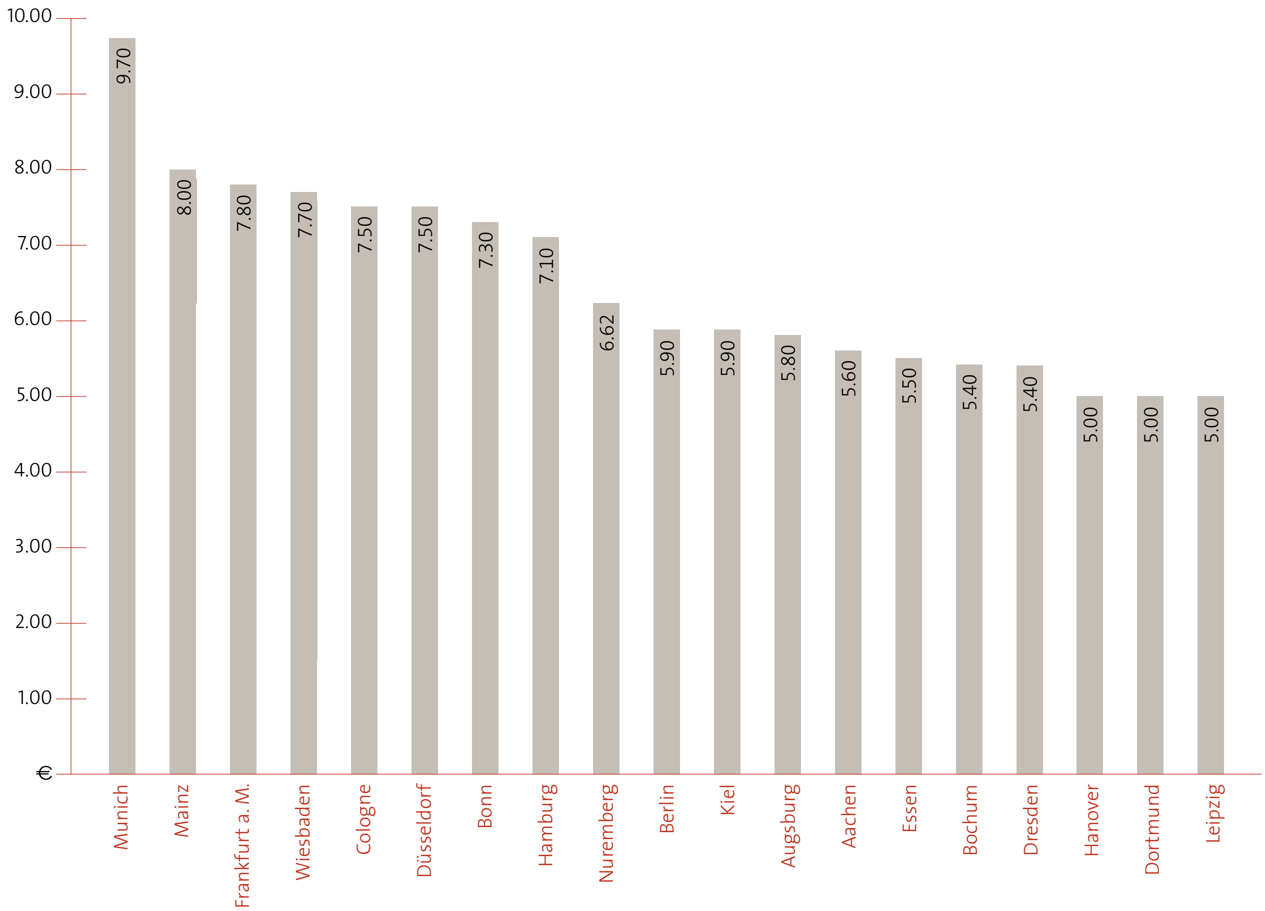
Demand for more living space increased again in 2007

The average per-capita living area rose in Germany to a new record of 41.9 square metres in 2007, according to a report of ifs Städtebauinstitut. In previous years, this figure was between 41.6 and 41.2 square metres. The main reason for the increase in per-capita living area is the smaller size of households. In 1990, an average household consisted of 2.27 people, whereas in 2007 this figure had fallen to only 2.07 people per household. The leaders in per-capita living area are the German states of Saarland, Rhineland-Palatinate as well as Lower Saxony; the states of Mecklenburg-Western Pomerania, Saxony and Hamburg bring up the rear.

Residential rents: Net rents developed moderately

According to the last surveys of the Federal Statistical Office, net rents hardly rose on a national average between 2002 and 2006, whereas the ancillary costs including heating increased sharply in the same period. An IVD study found that German tenants spend an average of one third of their household income on rent and ancillary costs. This figure is even 35% in the one hundred biggest cities. On the ancillary cost side, the biggest price driver again proved to be fossil fuels. Heating costs alone rose on average by 38% in the last five years and now account for up to 40% of the ancillary cost bill. The second biggest block of costs is water and sewage. According to the Federal Statistical Office, net rents continued to rise moderately, also after 2006: for example, the net rent in July 2008 had only increased by 1.3% compared with the same month in the previous year. At 1.7%, the rents for lower-priced units in used buildings are rising faster than those for other residential units (according to a study conducted by HSH Real Estate). A similar development is to be seen for apartments in big cities. Experts believe that this trend will continue.

Average rents in new rental contracts for apartments of average standard in selected cities
(Source: IVD rent index 2008/2009)



Given the fact that the number of new residential buildings completed has been falling steadily in recent years, the Deutsche Annington Real Estate Group believes that rents will continue to rise, especially in cities. There the demand for used buildings will also increase further.

House prices fall slightly

The prices of existing residential buildings fell in 2007 on a national average according to the figures last published by the Federal Statistical Office. According to this information, the price index for used residential buildings decreased in 2007 by 2.1% as an annual average compared with the previous year. The price index reflects the development of prices for owner-occupier apartments as well as single and two-family houses. In this segment, the price index showed an overall fall of 5.0% between 2000 and 2007. By contrast, prices for residential property in German cities continued to rise in 2007 according to “IVD-Wohnpreisspiegel 2008/2009”. This shows that well appointed owner-occupier apartments in good to very good locations of German cities are still in demand.

Buying as an investment: Investors with a long-term view still see good market opportunities

German residential properties in good locations are still highly sought-after as an investment. When deciding what to buy, investors mainly go by the price and the sustainable value of a property. The most important factors as regards sustainable value are a positive demographic development, the growing number of households and the increasing living space per person. Investors are still concentrating on expanding towns and regions. Whilst the purchase prices and rents in the metropolises should continue rising, prices are likely to fall further in peripheral and economically weaker regions.

Despite the recession, nationwide price falls are not expected on the German residential real estate market according to Deutsche Bank Research. It is far more likely that house prices will stagnate. In contrast to the USA, the United Kingdom and other European and Asian markets, Germany did not have a real estate bubble which could now burst.

According to an analysis conducted by the Federal Office for Building and Regional Planning, the number of transactions for residential real estate portfolios in the first six months of 2008 was well below the figure for the same period in 2007. The trend was towards smaller portfolios with prices falling at the same time. The buyers of larger portfolios were almost exclusively foreign investors.

In the first half of 2008, the number of residential units sold was, at over 100,000 units, roughly on a par with the figure for the same period in the previous year but this is mainly due to the sale of Landesentwicklungsgesellschaft NRW (LEG NRW) with some 92,000 apartments. The other portfolio transactions were all for a maximum of 3,000 units and altogether made up a volume of 16,000 units sold. Between 1999 and 2007, most of the portfolios sold had an average size of approx. 10,000 units per transaction.

German residential real estate considered stable in the crisis

According to a survey conducted by the real estate association, ZIA, German real estate companies are planning acquisitions despite the current crisis on the financial markets. It may be more difficult to raise loans in the present climate but it is, nevertheless, still possible. However, according to ZIA, large financing packages of more than € 200 million are problematic. The prospects for residential properties are still considered to be good as they are relatively stable in value: 86% of the companies surveyed expect a stable development in the first half of 2009.

Business Review

Despite the economic crisis, our business developed successfully in 2008. Gross profit from our core business segment, Property Management, rose from € 571.3 million to € 594.9 million. Although gross profit on disposal of properties fell from € 74.7 million to € 50.8 million because of the reduced number of sales, we further improved our margin. In 2008, we again stayed true to our acquisition policy of only buying portfolios at sensible prices; in total, we bought 1,364 units in 2008 and integrated them into our portfolio.

Core business of Deutsche Annington proves stable in the crisis

In the past year, the Deutsche Annington Real Estate Group improved its most important operating metrics: we again reduced the vacancy rate from 4.2% (2007) to 3.9%. We managed to raise our rents by 2.7% to € 4.91 per square metre (2007: € 4.78 per square metre). Although sales figures fell, the margin increased from 30.1% (2007) to 35.2%.

Our two most important metrics, adjusted EBITDA (earnings before interest, taxes, depreciation and amortisation) and FFO (funds from operations), also improved. In 2008, the Deutsche Annington Real Estate Group recorded adjusted EBITDA of € 473.1 million. Compared with 2007 (€ 460.3 million), that is an increase of 2.8%. The repeated improvement in the earnings metric, FFO, from € 190.1 million to € 207.1 million is pleasing. That is growth of 8.9%. The Deutsche Annington Real Estate Group has thus demonstrated its sustained earning and financial power. For the reconciliation to adjusted EBITDA and FFO as well as further explanations on our key metrics, we refer you to the chapter Results of Operations, Net Assets and Financial Position starting on page 22.

Overview of the key business performance metrics of the Deutsche Annington Real Estate Group in 2008

€ million	2008	2007
Income from property management	1,029.1	1,075.1
Gross profit from property management	594.9	571.3
Income from disposal of properties	144.3	248.0
Gross profit on disposal of properties	50.8	74.7
Adjusted EBITDA	473.1	460.3
FFO	207.1	190.1
Investments	148.7	384.4
Number of employees (as at Dec. 31)	1,302	1,406
Number of units sold (recorded sales)	2,542	3,945
Sold inidvidually	1,417	2,599
Other sales	1,125	1,346
Number of units bought (transfer of title in 2008)	1,364	8,007
Number of residential units in portfolio (as at Dec. 31)	189,218	190,221

PROPERTY MANAGEMENT: Gross profit in core business segment increased

Our core business segment, Property Management, covers our property letting and condominium administration activities. Our gross profit from property management rose by over 4% from € 571.3 million to € 594.9 million. This is mainly due to higher rental income which we achieved through buying properties, reducing the vacancy rate and raising rents in our portfolio.

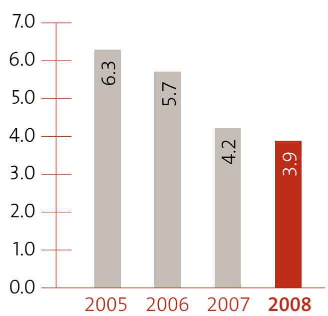
Vacancy rate again reduced thanks to improved letting performance

With a vacancy rate of 3.9% (2007: 4.2%) we managed to further reduce voids in 2008. The vacancy rate also includes the apartments earmarked for sale and therefore vacant (2008: 0.6%): We do not re-let apartments which we plan to sell as it is easier to sell empty apartments to owner-occupiers.

Rent rises in line with inflation

In the 2008 financial year, we managed to raise our rents by 2.7%, which was slightly more than the inflation rate. The rent increases were partly a consequence of our modernisation measures since housing improvements allow landlords to pass on some of the costs to their

Total vacancy rate of DAIG from 2005 to 2008
in %



tenants. According to the Federal Statistical Office, prices in Germany rose by an annual average of 2.6% in 2008, the steepest increase for 14 years. The main reason was the sharply fluctuating oil price. Due to the economic crisis, experts are expecting inflation to run at not more than 1% in 2009.

Modernisation programme for climate protection launched

Last year, we started a modernisation programme involving some € 66.6 million. Investments focused on energy-saving measures (thermal insulation of facades, roofs etc.) and on improving the quality of the housing (e.g. by adding on balconies). In addition, we invested € 118.0 million in further modernisation and maintenance work.

Condominium administration services improve operating result

The Deutsche Annington Real Estate Group offers its customers a condominium administration service. This service is provided by our subsidiary Deutsche Annington Service GmbH. It manages the common property for the apartment owners in accordance with the Condominium Act. The company offers capital investors a full management service for their separate property. In addition, it provides the owners with services such as the maintenance and modernisation of separate and common property in apartment buildings. The restructuring performed in 2007 considerably improved the earning power of our subsidiary. At the end of 2008, Deutsche Annington Service GmbH was looking after 1,430 condominium owners' associations (2007: 1,916) with a total of 47,959 residential units and condominiums (2007: 53,766).

SALES: Selective sales with good margins

In 2008, gross profit on disposal of properties fell from € 74.7 million in 2007 to € 50.8 million. In 2008, we also continued our strategy of selective sales in view of the positive results from property management. Our sales primarily concentrate on the individual sale of specific housing stocks. In 2008, we sold a total of 2,542 residential units (2007: 3,945) throughout Germany, including 1,417 apartments (2007: 2,599) to individual buyers.

ACQUISITION: Only small portfolios integrated

Last year, the Deutsche Annington Real Estate Group examined some 2,200 offers for sale with over 650,000 units. From our perspective, most of these offers were either too high in price or did not fit into our portfolio for various specific reasons. Therefore, we only integrated 1,364 units in 2008.

Comprehensive restructuring of the company in 2009 started

Last year, we started setting a new course for our business. In the first step, we asked both our customers and our employees to make suggestions for improvement. In a second step, interdisciplinary staff teams, backed up by external consultants, examined all our processes, identified potential for improvements and worked out proposals for a new organisational structure. In October 2008, we presented our project to the public and announced a timetable and plan of action for 2009.

Involvement in local social projects remains part of our corporate responsibility

We were again involved in many social projects in our housing estates in 2008. Furthermore, we donated some € 220,000 for social and cultural purposes through our two foundations as well as through sponsoring.

Results of Operations, Net Assets and Financial Position

The past financial year was successful for the Deutsche Annington Real Estate Group. Gross profit from property management rose again compared with the previous year, voids were reduced and our process costs were cut. Our two most important key metrics, adjusted EBITDA and FFO, have improved yet again. The Deutsche Annington Real Estate Group is therefore maintaining its very good position on the residential property market.

In 2008, the Deutsche Annington Real Estate Group again increased its earning power. This is reflected in the key operating metrics: gross profit from property management rose by 4.1% to € 594.9 million, the vacancy rate fell to 3.9% and we managed to improve the margin on the sale of residential units from 30.1% to 35.2% despite the sluggish market. Moreover, a rise of € 12.8 million in adjusted EBITDA and an increase of 9% in FFO are proof of our successful course.

Explanations of the key metrics

We steer our business by means of adjusted EBITDA (earnings before interest, taxes, depreciation and amortisation) and FFO (funds from operations). Adjusted EBITDA is earnings before interest, taxes, depreciation and amortisation adjusted for changes in the value of real estate and extraordinary effects. The FFO is a metric based on the cash flow available from operating activities. In addition to adjusted EBITDA, the recurring cash-effective net interest expense and taxes on income are taken into account in the FFO. Both metrics are not determined on the basis of particular IFRS requirements but are to be seen as a supplement to the other key result figures under IFRS. In our opinion, adjusted EBITDA and FFO give greater transparency in the assessment of the sustained earning power and financial strength of our business activities.

Gross profit from property management rose again in 2008

In the past financial year, the Deutsche Annington Real Estate Group significantly increased its gross profit from property management by 4.1% from € 571.3 million to € 594.9 million. We managed to make this improvement in our core business segment mainly by reducing voids, raising rents within the statutory limits and enhancing efficiency. We reduced our vacancy rate from 4.2% at the end of 2007 to 3.9% at the end of 2008. The new acquisitions of residential units led to an additional increase in rental income in 2008. Furthermore, we made repair management more efficient. This also had a positive effect on our result.

In 2008, cost of materials for the property management segment was € 69.6 million below the 2007 figure. This was mainly due to the fact that the income from ancillary cost billing rose sharply in 2007 as ancillary cost billing operations were stepped up. After optimisation of the billing processes, the ancillary costs still to be billed to the tenants for previous years decreased in early 2007. The cost of materials also includes modernisation and maintenance expenses of € 118.0 million.

Of the gross rental income in 2008, 71 % was income from net rents and 29 % from charges and costs passed on to the tenants in the ancillary cost bills. The main components of other income from property management are rent subsidies, income from condominium administration and income from property management activities for third parties.

Gross profit from property management

January 1 to December 31

€ million	2008	2007
Gross rental income	1,006.1	1,048.6
Other income from property management	23.0	26.5
Cost of materials for property management	–434.2	–503.8
Gross profit from property management	**594.9**	**571.3**

Margin on the sale of properties increased to over 35 %

In 2008, we systematically continued our selective sales strategy and adjusted our sales programme again to the changed market conditions. Despite reducing the number of apartments for sale, we managed to improve the margin on our sales programme. The properties for sale under our sales programme are mainly from the portfolio of residential units carried in the balance sheet under trading properties. In total, we sold 2,542 units in 2008 (2007: 3,945).

Gross profit from sales

January 1 to December 31

€ million	2008	2007
Income from disposal of properties	144.3	248.0
Carrying value of properties sold	–93.5	–173.3
Gross profit from sales	**50.8**	**74.7**
Margin	35.2%	30.1%

Market environment affects privatisation potential

The result of the revaluation of the investment properties and the review of the trading properties is shown under net valuation loss/gain on property. As in the year before, in 2008 we calculated the fair values of our entire real estate portfolio in a detailed internal valuation.

On the face of the balance sheet, we make a distinction between investment properties and trading properties. Properties planned for sale are shown under trading properties and recognised at cost. Properties held as financial investments are shown under investment properties and recognised at their fair values. Further information on how the fair values were determined is to be found in the section Fair Values starting on page 29.

The valuation of the investment properties led in 2008 to a valuation loss of € 479.9 million. In 2008, the Deutsche Annington Real Estate Group allocated residential units which we had classified as potential properties for privatisation in prior years to the property management portfolio and not to the privatisation portfolio as in 2007. The change in value of the trading properties resulted in income of € 52.1 million; this income was largely attributable to the remeasurement at fair value of the trading properties transferred to investment properties. Further details on this item can be found in the Notes to the consolidated financial statements, note 9. Overall, the consolidated profit before tax was therefore reduced by € 427.8 million as a result of the valuation of the real estate portfolio.

Changes in the value of the properties

January 1 to December 31

€ million	2008	2007
Net income from fair value adjustments of investment properties	–479.9	197.6
Changes in value of trading properties	52.1	0.8
Net valuation loss/gain on property	**–427.8**	**198.4**

Adjusted EBITDA improved again

In 2008, we improved adjusted EBITDA by € 12.8 million to € 473.1 million. We reduced other cost of materials, the other operating expenses and the personnel expenses, adjusted for restructuring components, in 2008. The other income and expenses which are not allocated to the different segmental results are included in the reconciliation to adjusted EBITDA.

The items listed here contain non-operating expenses and income. The non-operating result in 2008 is affected by the initiated restructuring project and by expenses for an acquisition project. In 2007, this item mainly contained expenses for legal and tax integration as well as for measures geared to the capital market.

Reconciliation to adjusted EBITDA

January 1 to December 31

€ million	2008	2007
Gross profit from property management and sales	**645.7**	**646.0**
Other operating income	56.8	61.6
Income from investments and financial assets	1.9	1.9
Other cost of materials	–56.8	–58.8
Other operating expenses	–91.0	–117.0
Personnel expenses	–134.8	–103.4
Elimination of the non-operating result	51.3	29.7
Balance of other operating income and expenses	**–172.6**	**–185.7**
Adjusted EBITDA	**473.1**	**460.3**

FFO grows by around 9 %

In the 2008 financial year, the FFO rose by 8.9% to € 207.1 million. In addition to the improved adjusted EBITDA, a major factor contributing to the improved FFO was the decrease in income tax expense from € 24.2 million to € 11.5 million in 2008. FFO is a financial metric not determined in accordance with IFRS which Deutsche Annington uses to show the funds generated in continuing operations.

Reconciliation to FFO
January 1 to December 31

€ million	2008	2007
Adjusted EBITDA	**473.1**	**460.3**
Net interest expense in FFO	–254.5	–246.0
Income tax expense in FFO	–11.5	–24.2
FFO	**207.1**	**190.1**

Result from continuing operations impacted by change in the fair values

The reconciliation from adjusted EBITDA to the result from continuing operations shows three main effects: the change resulting from the net valuation loss/gain on property, the resultant effects on deferred taxes and the changes in income tax expense. The lower valuation of the investment properties led to deferred tax income in 2008. The change in current income tax expense is mainly due to the reduction in the tax rates, the restructuring expense in 2008 as well as income from taxes for previous years. On the other hand, there was no one-off expense for the EK 02 amount in 2008.

Reconciliation to result from continuing operations
January 1 to December 31

€ million	2008	2007
Adjusted EBITDA	**473.1**	**460.3**
Non-operating result	–51.3	–29.7
Net valuation loss/gain on property	–427.8	198.4
Depreciation and amortisation	–8.5	–4.9
Other interest and similar income	19.7	28.6
Interest and similar expense	–376.6	–361.9
Income tax expense from lump sum taxation of the EK 02 amount	–0.5	–197.8
Current income tax	17.3	–23.9
Deferred tax income/expense	91.0	–27.7
Result from continuing operations	**–263.6**	**41.4**

Assets and financial situation: sound structure of non-current liabilities secured

Last year, the Deutsche Annington Real Estate Group slightly reduced the share of current liabilities in total equity and liabilities again from 9.1% to 8.3%. In 2008, Deutsche Annington invested € 148.7 million (2007: € 384.4 million), mainly in the purchase of residential units and modernisation projects.

Group balance-sheet structure

€ million	2008	%	2007	%
Total non-current assets	7,892.5	77.0	7,989.4	73.8
Total current assets	2,357.1	23.0	2,834.6	26.2
Total assets	**10,249.6**	**100.0**	**10,824.0**	**100.0**
Equity	1,456.1	14.2	1,739.4	16.1
Total non-current liabilities	7,939.7	77.5	8,096.9	74.8
Total current liabilities	853.8	8.3	987.7	9.1
Total equity and liabilities	**10,249.6**	**100.0**	**10,824.0**	**100.0**

The change in the fair values of investment properties (-€ 479.9 million) in particular led to a decrease in total non-current assets. The purchases of residential units, the capitalised modernisation measures and the transfer of trading properties in an amount of € 312.1 million could only compensate this effect to a certain extent. Total current assets in 2008 were well down on the previous year's figure. This decrease is mainly due to the change in the trading properties. In the reporting period, residential units worth € 71.2 million were sold.

Operating cash flow remains high

Last year, the Deutsche Annington Real Estate Group recorded cash flow from operating activities of € 483.3 million (2007: € 540.6 million). This figure includes cash inflow from the letting business and from the sale of trading properties. The decrease compared with the previous year is mainly a result of the downsizing of the sales programme. The cash flow used in investing activities fell compared with the previous year by € 196.7 million to € 117.2 million due to lower expenditure on the purchase of apartments. The financing activities led to a cash outflow of € 479.0 million (2007: € 566.7 million).

Statement of cash flows

January 1 to December 31

€ million	2008	2007
Cash flow from operating activities	483.3	540.6
Cash flow used in investing activities	–117.2	–313.9
Cash flow used in financing activities	–479.0	–566.7
Net changes in cash and cash equivalents	**–112.9**	**–340.0**
Cash and cash equivalents at beginning of year	366.4	706.4
Cash and cash equivalents at year-end	**253.5**	**366.4**

Funding

With its financing strategy Deutsche Annington pursued two major goals in 2008: debt reduction through continuous capital repayments and careful risk assessment of newly acquired portfolios. Given the massive credit crisis towards the end of the year, we regard the loan agreements signed in 2008 as a positive sign for the continued possibility of raising further funds. We also see this as proof that the financial market considers the Deutsche Annington Real Estate Group to be a reliable partner.

Financing strategy based largely on long-term loans

The financing strategy of the Deutsche Annington Real Estate Group is based on long-term loans. In addition to the classic bank loans in the form of mortgages, the Deutsche Annington Real Estate Group uses structured financing. The mortgages have long terms in some cases and fixed interest rates.

One special form of mortgage is the loans granted by promotional banks (e.g. Wfa) under the social housing construction programme. These funds have lower interest rates than mortgages and much longer terms.

Loan terms of up to seven years are agreed under structured financing programmes. It was pleasing to note that despite the crisis on the financial markets we still managed to obtain two seven-year loans described in greater detail below. The first of these financing packages contains variable interest rates based on the Euribor. In order to hedge against short-term changes in interest rates, the Deutsche Annington Real Estate Group contracts interest hedges in the form of fixed payer swaps in such cases. The term of these interest-hedging instruments depends on the term of the underlying loan, and the swap reduction on the loan repayment profile. The second loan agreed has a fixed interest rate.

Long-term financing secured until 2013

In 2006, 31 companies of the Deutsche Annington Real Estate Group sold REF notes to German Residential Asset Note Distributor P.L.C. (GRAND) as part of securitisation transactions. The 31 issuing companies involved in the securitisation transaction in 2006 provided securities in the form of land charges, account pledge agreements and assignments. Furthermore, company shares were pledged. The average weighted interest rate under the securitisation transactions is 3.37% until July 2010. Under the contract terms, this interest rate will increase to 4.66% from July 2010 to the end of the term in July 2013. Repayments on these transactions are made using the proceeds from the sale of residential units as well as from current cash flow from the property letting business.

Two new credit lines agreed for refinancing and acquisitions

In April 2008, the Deutsche Annington Real Estate Group signed a loan agreement with Landesbank Hessen-Thüringen and SEB AG for max. € 300.0 million running until April 2015, of which € 288.0 million was utilised in 2008. The loan was worth € 275.0 million as at December 31, 2008. The loan was taken out to refinance the acquisition line of € 500.0 million provided by Barclays Capital and Citibank, of which € 287.2 million had been used at the time of repayment, as well as to finance the acquisition of another portfolio. Under the loan, the borrowers provided securities in the form of land charges, account pledge agreements and assignments. In addition, company shares were pledged. Interest on the drawings under this credit line is based on the 3-month Euribor. In order to hedge the interest rate risk over the entire term of the loan agreement, the borrowers contracted a fixed payer swap with an interest rate of 5.45% (including margin). The loan conditions include quarterly regular repayments and obligatory special repayments when residential units are sold. The above-mentioned acquisition line of € 500.0 million from Barclays Capital and Citibank was terminated in October 2008.

In December 2008, subsidiaries of Deutsche Annington Immobilien GmbH took out loans totalling € 6.1 million with Kreissparkasse Köln to finance the acquisition of a portfolio. The interest rate of this annuity loan is 4.45% and is fixed until December 31, 2015. Securities are provided in the form of land charges.

Debt reduced again

The bearer bonds issued in two tranches in 2006 in connection with the securitisation transaction (GRAND plc.) had a value of € 5,153.4 million at the end of the 2008 financial year (2007: € 5,309.4 million). Repayments of € 156.0 million and interest payments of € 178.5 million were made in 2008. As in the past, the contractually agreed covenants were observed.

Financial market crisis has so far had no effect on financing conditions

In 2008, the market situation changed greatly as a result of the crisis on the financial markets. For example, the demands on margins and equity for acquisitions and refunding increased significantly. Since none of the four major acquisition credit lines of the Deutsche Annington Real Estate Group is due for refinancing before October 2011, the current portfolio of loans will not be affected by this market development for virtually the next three years. For further details on our liabilities, we refer to the Notes to the consolidated financial statements, note 29.

It is part of the strategy of Deutsche Annington to continue growing by acquisitions. We are planning to secure this growth using bank loans, structured financing programmes and equity in future as well.

Fair Values

The fair values of the Deutsche Annington properties are determined every year and adjusted to bring them into line with the current market situation. This valuation shows the direct impact of changes in the demand for properties for rent and purchase on the fair value of the Deutsche Annington real estate portfolio. In 2008, the demand for rented accommodation rose whilst the demand for owner-occupier apartments fell. Therefore, we transferred some of our housing stocks from trading properties to investment properties; the resulting changes in the fair values led to an overall lower valuation in 2008.

Determining the fair values creates transparent valuation of our properties

Calculating and showing the fair values gives greater transparency both outside and inside the company: It is an important instrument for the value-optimised control of the portfolio and serves as a basis for strategic decisions.

The Deutsche Annington Real Estate Group performed an internal valuation to determine the fair values of its entire stock of residential buildings, small commercial units, garages/parking spaces and undeveloped land as at December 31, 2008.

In 2007, the sales strategy was already adapted when it was decided not to include any more properties in the privatisation programmes for conversion into owner-occupier apartments. In line with this strategy, we have allocated residential units which we had classified as potential properties for privatisation in prior years to the property management portfolio and not to the privatisation portfolio as in 2007. Therefore, these properties were no longer valued using the comparative method but, as all other units for letting, using the income capitalisation method (see below).

The following criteria were applied in the valuation of the different segments of real estate:

- **Residential real estate**

The value of the entire portfolio of residential properties was determined on the basis of the International Valuation Standard Committee's definition of market value. It is not permitted to take into account either portfolio premiums and discounts, which can be observed when portfolios are sold in market transactions, or time restrictions in the marketing of individual properties. The method used by Deutsche Annington to determine fair values thus complies with IFRSs.

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

We consider properties which are being sold individually to be part of the **privatisation portfolio.** Single-family houses in our portfolio which, in DAIG’s opinion, are basically suitable for being sold individually, are also included in the privatisation portfolio. First, all buildings were valued according to a rating system with regard to their quality, their market attractiveness and their macro-location. The aspects considered in assessing the quality of the buildings included their age and an assessment of the technical condition of the buildings. This assessment was based on maintenance reports compiled by external companies for which the properties were inspected on a regular basis. The attractiveness was assessed on the basis of various factors including in particular the micro-location of the buildings, how built-up the area is and the average size of the apartments (living area and the number of rooms). The quality of the macro-location was derived from the purchasing power index in the particular postal code district and validated using location ratings provided by Feri EuroRatings Services AG.

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

The **property management portfolio** was valued using the income capitalisation method. The basis of the valuation is the net annual income per building which results from the annual net rent minus non-allocable ancillary costs, maintenance expenses and administrative expenses in accordance with the II. Berechnungsverordnung (II. BV; German Regulation on Calculations for Residential Buildings in Accordance with the Second Housing Construction Law, which stipulates how economic viability calculations for living space are to be performed) as well as any ground rent.

The modernisation work performed on our portfolio of residential units in 2007 and 2008 was included in the valuations by decreasing the current maintenance expenses and discounts on the capitalised interest rates. The Deutsche Annington Real Estate Group took void periods into consideration on the basis of assumed vacancy and re-letting scenarios and by applying market rents.

The capitalised value of potential yield returns was determined by capitalising the annual net yield at building level. The capitalised interest rates applied were derived from the current German real estate market and allocated to the buildings with the aid of the previously determined ratings. Special considerations such as long-term restricted rents, expiring rent restrictions or mining subsidence damage were allowed for by means of premiums and discounts.

- **Commercial properties**

The commercial properties in the portfolio are mainly small commercial units for the supply of the local community. They were also measured using the income capitalisation method. Different cost approaches were used to those for residential properties and the capitalised interest rates were adjusted to reflect the market specifics.

- **Undeveloped land**

Undeveloped plots of land were measured according to their state of development, the likelihood of development and the local market situation on the basis of derived land guide prices.

Fair value amounts to € 9.8 billion

In accordance with their letter of engagement, the auditors of the consolidated financial statements included these fair values in their audit of the consolidated financial statements and the Group management report. Thus, the result of this audit is included in the auditors' report on the audit of the consolidated financial statements and Group management report of the Deutsche Annington Real Estate Group for the year ended December 31, 2008.

The fair value of the stocks of residential buildings, small commercial units, garages and parking spaces as well as undeveloped land of the Deutsche Annington Real Estate Group as at December 31, 2008 was approx. € 9,819.8 million (2007: € 10,270 million). The decrease in the fair value compared with the previous year is a result of the aforementioned reclassification of properties formerly held for sale to investment properties. The fair values of the real estate portfolio by region are as follows:

Fair values of the real estate portfolio of the Deutsche Annington Real Estate Group

	Residential units		Other rental units		Fair values in € million*	
	2008	2007	2008	2007	2008	2007
Regional subsidiary						
Deutsche Annington Nord GmbH	19,637	19,878	4,932	4,975	986.8	989.5
Deutsche Annington Ost GmbH	16,581	17,335	2,898	2,964	751.3	778.0
Deutsche Annington Rheinland GmbH	23,893	24,086	8,099	8,110	1,509.5	1,523.5
Deutsche Annington Ruhr GmbH	37,088	36,844	6,515	6,452	1,636.2	1,728.6
Deutsche Annington Süd GmbH	16,752	16,949	8,098	8,169	1,128.0	1,146.8
Deutsche Annington Süd-West GmbH	32,062	31,928	8,307	8,031	2,011.4	1,996.0
Deutsche Annington Westfalen GmbH	43,205	43,201	6,374	6,465	1,725.6	2,024.7
Undeveloped land					71.0	82.9
	189,218	**190,221**	**45,223**	**45,166**	**9,819.8**	**10,270.0**

*Since the vast majority of the large commercial properties have been sold, the fair value of the remaining units is shown within the regional portfolios (fair value 2008: € 6.8 million).

Risk Management

Last year, the Deutsche Annington Real Estate Group carefully monitored risks while seizing any opportunities which presented themselves. Thanks to sound financial management and operational improvements in the core business, we managed to reduce our short-term liabilities and again achieve a high cash flow. Demand for our properties proved to be very stable in 2008. The Deutsche Annington Real Estate Group was not exposed to any significant risks which might jeopardise the existence of the company.

FRAMEWORK AND OVERALL ESTIMATE

Risk management is intended to support the development of the company's value

The opportunity and risk management policy of the Deutsche Annington Real Estate Group is geared to systematically and continuously increasing the company's value. The company has communicated codes of conduct laid down in policies and other directives for managers and staff. They are backed by a variety of different monitoring mechanisms. Speculative business transactions are not permitted.

Risk management based on a differentiated reporting system

The company uses a comprehensive reporting system to identify and handle risks. In addition to detailed monthly controlling reports, the Chief Executive Officer and the Chief Financial Officer both give monthly reports to the Supervisory Board of Deutsche Annington. In addition to the controlling reports, there is also qualitative reporting in weekly reports which the managers submit to the managing directors of the company. In our opinion, this standardised process ensures that all managers of the subsidiaries and heads of department of the holding company report major issues regularly to the managing directors.

Overall estimate: No risks jeopardising the existence of the company

As things now stand, the Deutsche Annington Real Estate Group is not exposed to any risks which might directly or indirectly jeopardise the existence of the company.

RISK SITUATION AND INDIVIDUAL RISKS

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

Risks from changes in the business environment

Economic forecasts predict that the demographic development of German metropolitan areas will differ: According to these forecasts, there are regions to which substantial numbers of people will migrate (e.g. the Rhine-Main region, Munich, Stuttgart). Here, the demand for accommodation is likely to rise. By contrast, there will, in our opinion, be regions from which large numbers will move away. This may also include the Ruhr area. Here, the expected decline in the population as a result of lower birth rates will have an additional impact. However, this development is likely to be cushioned by a shift in the individual demand for living space: The number of one and two-person households is likely to rise steadily and demand for bigger apartments will, in our opinion, also grow parallel to this. Therefore, in future there may be fewer people but they will be living in bigger homes and the number of households will increase overall. Thus, a noticeable fall in demand for rented and owner-occupier accommodation in regions like the Ruhr area from which people will migrate is not likely to occur before 2020.

Although hardly any government subsidies are available at present for buying a home, we are expecting demand to remain stable at a low level thanks to the continued low interest rates on mortgages. Should the interest rates increase considerably in the next few years, this might have an effect on the demand for residential properties.

Changes in market prices may also affect demand for properties to buy and our acquisition strategy. Should the prices for residential portfolios increase more sharply than we expect, the Deutsche Annington Real Estate Group may possibly only be able to achieve its growth targets by incurring higher costs. Prices are currently falling slightly.

Furthermore, market players could start to sell off residential units on a large scale and thus cause prices to fall as a result of higher supply. The Deutsche Annington Real Estate Group is carefully watching the development of demand and will, if necessary, step up its sale-promoting measures.

Performance/operational risks

As far as acquisitions are concerned, there are various government requirements restricting our rent increases and our sales programme for some of our housing stocks. Furthermore, there are also contractual and legal requirements impacting on the adjustment of our workforce structure to the changed market conditions.

A major objective in our core business segment, Property Management, is to reduce the vacancy rate. If the general macro-economic conditions deteriorate significantly here, the vacancy rate may also rise in the medium term and therefore result in lower rental income. However, as most of the housing offered by Deutsche Annington is in average locations and tends to be small to medium-sized apartments, we only expect a slight fluctuation in demand.

In the south of the Ruhr area, the many years of coal mining have left disused mine workings near the surface, which present a risk of mining damage to Deutsche Annington's land and buildings. At present, it is difficult to exactly estimate the associated economic risk as there are no or very few records for many of the old mine workings. Moreover, the law is still not clear on the question of liability for any damage which might occur. The Deutsche Annington Real Estate Group is countering this risk by conducting a systematic inspection of properties to identify potential mining damage. These results provide the basis for the Deutsche Annington Real Estate Group to successively take suitable remedial action and clarify the legal situation in the relevant cases.

Risk from the development of fair values

Our valuation of the fair values of our real estate is based on assumptions which may develop differently in the next few years than we currently expect. For example, the valuation included not only building-specific parameters but also the quality of the building location. Should the estimate of the micro-location of the buildings and the quality of the macro-location (purchasing power index) change adversely in the next few years, the fair value of our entire real estate portfolio would also decrease.

Changes in the value of our investment properties are recorded as appropriation or impairment in the income statement and therefore have a direct impact on the earnings situation of our company.

Financial risks

The companies of the Deutsche Annington Real Estate Group are mainly financed by third-party loans, which take current tax law and tax regulations as well as the present interpretation of the law on deductibility of interest into account.

In its financing activities for its operational business, the Deutsche Annington Real Estate Group is exposed to risks arising from changes in interest rates. The Deutsche Annington Real Estate Group operates a systematic finance management system to limit these risks.

As a result of the economic and financial crisis, the financing conditions and financing options for the Deutsche Annington Real Estate Group are not as good now. In general, this may mean that the Deutsche Annington Real Estate Group will have to provide more equity when making acquisitions and/or refinancing funds in order to finance on acceptable economic conditions.

The Deutsche Annington Real Estate Group had cash on hand and deposits at banking institutions totalling € 253.5 million as at the balance-sheet date as well as credit lines of € 100.0 million so that the Deutsche Annington Real Estate Group's ability to service debt can be regarded as guaranteed at all times, even in the light of the economic and financial crisis.

A description of the derivative financial instruments used can be found in the Notes to the consolidated financial statements, note 35.

Risks from any change in the laws on environmental protection

When managing our portfolio, we attach great importance to sustainability and make sure that energy-saving and low-emission technologies are used when maintenance work is carried out. In view of the increasing CO_2 pollution of the environment, further environmental requirements are currently being discussed, particularly for owners of residential properties. The Deutsche Annington Real Estate Group is following the discussions and will actively participate in the debate through the housing associations it belongs to.

Other risks

Other legal disputes beyond those allowed for in the balance sheet which might have a substantial negative impact on the economic situation of Deutsche Annington are neither pending nor, to our knowledge, has such a case been threatened. No major risks for the Deutsche Annington Real Estate Group can currently be identified in the information technology and human resources sectors.

Outlook and Start to 2009

In 2009, the recession will lead to falling sales in many branches of German industry. This does not apply to the rented accommodation market, possibly with the exception of luxury properties. The Deutsche Annington Real Estate Group believes that demand will remain stable. Demand could even rise for medium-sized, reasonably-priced apartments, which make up the majority of our rental units. Therefore, we are confident that we can stabilise adjusted EBITDA and FFO in 2009. We are even going a step further: Thanks to a comprehensive restructuring programme, we are creating a new organisation which will be much more customer-focused, more efficient and faster.

OUTLOOK: Our core business, Property Management, will remain stable in 2009

Deutsche Annington's strategy is to focus primarily on the value-enhancing management of its residential real estate. Therefore, we want to improve further in our core business in the coming year and intend to cut vacancy rates yet again. We believe that the predicted recession is likely to have a positive rather than a negative impact on the demand for reasonably-priced apartments and we are planning to increase our occupancy rates again in 2009. This year, we will be continuing the modernisation programme which we started in 2008 and investing considerable sums. We expect rent rises to be above the forecast inflation rate of 1%.

Sales of individual apartments still make important contribution to the result

Selling individual residential units is still an attractive line of business for the Deutsche Annington Real Estate Group. The proceeds from the sale of apartments make a contribution to our high operating cash flow and permit us to optimise our portfolio. In the last two years, purchase prices stagnated in spite of the good economic environment and so the Deutsche Annington Real Estate Group did not expand its sales programme. In view of our high occupancy rates, renting is in many cases more profitable than selling. For 2009, we are assuming that demand for existing properties will remain at the level of the previous year as the purchase prices remained largely stable in 2008 and there was no massive slump in prices as in the USA.

Opportunities for acquisitions will increase in the medium term

In view of the current situation on the German residential real estate market, the Deutsche Annington Real Estate Group still sees good chances of achieving its growth targets through acquisitions. For the next two to three years we are even expecting an increase in the number of properties on offer. The financial crisis is exacerbating the precarious financial situation of local authorities: local government debt will rise sharply in 2009 as a result of the economic stimulus packages and revenue will fall while the expected rise in unemployment will push up public spending. Local authorities may be forced to consider selling their housing companies. At the same time, the market is changing: The first investors are selling their housing portfolios as their expected return on investment is not materialising and they cannot obtain such good financing conditions.

RESULT: The aim is to stabilise the level of adjusted EBITDA and FFO in 2009

Our aim for the current year is to continue the company's stable course. This means for our key operating metrics, adjusted EBITDA and FFO, that we will not quite match the very good figure for 2008 in view of the forthcoming restructuring this year. We also plan to further simplify our processes and reduce our costs even more. Therefore, we have embarked on a comprehensive restructuring programme. All in all, the Deutsche Annington Real Estate Group intends to spend around € 70 million on this project. Some € 47 million was already expensed or set aside as a restructuring provision in 2008. The expenditure in 2008 mainly covered costs for the purchase and introduction of new software, consultancy fees as well as expense for a redundancy scheme to be implemented in 2009.

In the light of the probable development of rents and the measures initiated as part of the restructuring programme, we are currently expecting adjusted EBITDA and FFO to also remain at the 2009 level in 2010.

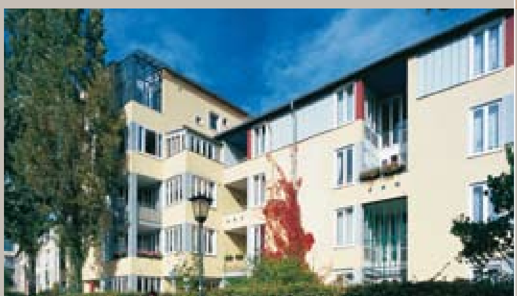
START to 2009: The Deutsche Annington Real Estate Group invests € 70 million in the reorganisation of the company

The Deutsche Annington Real Estate Group aims to further increase customer satisfaction. In 2009, we will therefore systematically gear our organisation to the needs of our customers. The core features here are a tenant centre with a nationwide hotline for all tenants' questions, a service centre for handling standard procedures, such as the billing of ancillary costs, as well as a new, powerful field service organisation that will focus on providing a local service for the tenants.

We want to offer customers a high level of availability and make sure that most questions can already be answered in the first telephone call. The tenant centre, which can be reached at one telephone number throughout Germany, will be manned from Mondays to Fridays from 8 a.m. to 6 p.m. The employees working in the tenant centre will be trained in the real estate business and will be able to access all important information by mouse click. They will have a high level of decision-making authority and so be able to handle the vast majority of inquiries during the first telephone call. If that is not possible, special field workers will make an appointment to visit the customer. Inside and field workers will be networked with mobile communication technology to ensure a fast and flexible customer service. This new organisation will enable the Deutsche Annington Real Estate Group to considerably simplify its response procedures and break down bureaucratic structures. We will therefore be able to deal with tenants' inquiries more quickly and reliably than before. The aim is to create a considerably more efficient and economic company.

Unforeseen developments and events, particularly the development of the current economic and financial crisis, may force us to revise our expectations and may lead to deviations from our forecasts.

Consolidated Financial Statements 2008



Consolidated Income Statement

January 1 to December 31

€ million	Notes	2008	2007
Continuing operations			
Gross rental income		1,006.1	1,048.6
Other income from property management		23.0	26.5
Income from property management	6	**1,029.1**	**1,075.1**
Income from sale of trading properties		105.9	214.3
Carrying value of trading properties sold		–71.2	–147.3
Income from disposal of investment properties		38.4	33.7
Carrying value of investment properties sold		–22.3	–26.0
Profit on disposal of properties	7	**50.8**	**74.7**
Net income from fair value adjustments of investment properties	8	**–479.9**	**197.6**
Changes in value of trading properties	9	52.1	0.8
Cost of materials	10	–491.0	–562.6
Personnel expenses	11	–134.8	–103.4
Depreciation and amortisation	12	–8.5	–4.9
Other operating income	13	56.8	61.9
Other operating expenses	14	–91.0	–117.0
Financial income	15	21.6	30.5
Financial expenses	16	–376.6	–361.9
Profit before tax		**–371.4**	**290.8**
Income tax	17	107.8	–249.4
Profit from continuing operations		**–263.6**	**41.4**
Discontinued operation			
Profit from discontinued operation (net of income tax)	32	**5.9**	**6.4**
Profit for the period		**–257.7**	**47.8**
Attributable to:			
Equity holders of DAIG		–256.9	46.3
Minority interests		–0.8	1.5

Also see the corresponding explanations in the Notes.

Consolidated Balance Sheet

€ million	Notes	Dec. 31, 2008	Dec. 31, 2007
Assets			
Intangible assets	18	14.0	13.7
Property, plant and equipment	19	12.8	17.1
Investment properties	20	7,780.2	7,870.6
Financial assets	21	46.6	48.1
Other assets	22	25.5	23.4
Income tax receivables		0.2	–
Deferred tax assets	17	13.2	16.5
Total non-current assets		**7,892.5**	**7,989.4**
Inventories	23	1,919.5	2,198.8
Trade receivables	24	86.0	137.6
Other financial assets	21	1.7	1.7
Other assets	22	19.1	22.9
Income tax receivables		77.3	107.2
Cash and cash equivalents	25	253.5	366.4
Total current assets		**2,357.1**	**2,834.6**
Total assets		**10,249.6**	**10,824.0**
Equity and liabilities			
Subscribed capital		0.1	0.1
Capital reserves		682.2	682.2
Retained earnings		787.1	1,044.0
Other reserves		–22.7	2.9
Total equity attributable to equity holders of DAIG		**1,446.7**	**1,729.2**
Minority interests		9.4	10.2
Total equity	26	**1,456.1**	**1,739.4**
Provisions	27	334.9	358.6
Trade payables	28	1.0	0.5
Other financial liabilities	29	6,911.7	6,931.9
Income tax liabilities	30	158.5	173.8
Other liabilities	31	5.1	4.7
Deferred tax liabilities	17	528.5	627.4
Total non-current liabilities		**7,939.7**	**8,096.9**
Provisions	27	230.1	259.6
Trade payables	28	32.4	38.7
Other financial liabilities	29	194.5	283.8
Income tax liabilities	30	24.6	24.0
Other liabilities	31	372.2	381.6
Total current liabilities		**853.8**	**987.7**
Total liabilities		**8,793.5**	**9,084.6**
Total equity and liabilities		**10,249.6**	**10,824.0**

Also see the corresponding explanations in the Notes.

Consolidated Cash Flow Statement

January 1 to December 31

€ million	Notes	2008	2007
Profit for the period		–257.7	47.8
Depreciation and amortisation	12	8.5	4.9
Interest expenses/income		356.8	344.0
Results from disposals of investment properties		–16.1	–7.7
Results from disposals of other non-current assets		0.0	–
Result from sale of discontinued operation, net of income tax	32	–5.9	–1.5
Result from valuation of investment properties	8	479.9	–197.6
Changes in value of trading properties	9	–52.1	–0.8
Other earnings not affecting net income	13	–1.9	–7.8
Changes in inventories		62.4	216.6
Changes in receivables and other assets		62.3	95.3
Changes in provisions		–15.4	–8.4
Changes in liabilities		–35.8	82.6
Changes in deferred taxes		–91.0	28.3
Income tax paid		–10.7	–55.1
Cash flow from operating activities		**483.3**	**540.6**
Proceeds from disposals of investment properties		30.5	29.9
Proceeds from disposals of intangible assets and property, plant and equipment		0.3	0.1
Disposal/proceeds of discontinued operation (net of cash disposed of)	32	–20.8	14.1
Proceeds received from disposals of financial investments		0.1	0.1
Acquisition of investment properties	20	–138.0	–359.9
Acquisition of intangible assets and property, plant and equipment	18	–4.2	–2.5
Acquisition of financial assets	21	–6.5	–22.0
Interest received		21.4	26.3
Cash flow from investing activities		**–117.2**	**–313.9**
Cash proceeds from issuing loans and notes	29	320.8	582.6
Cash repayments of financial liabilities	29	–528.2	–856.4
Transaction costs		–4.6	–5.5
Interest paid		–267.0	–287.4
Cash flow from financing activities		**–479.0**	**–566.7**
Net changes in cash and cash equivalents		**–112.9**	**–340.0**
Cash and cash equivalents at beginning of year	25	366.4	706.4
Cash and cash equivalents at year-end	25	**253.5**	**366.4**

Also see the corresponding explanations in the Notes.

Statement of Income and Expense Recognised Within Equity

€ million	2008	2007
Profit for the period	**–257.7**	**47.8**
Cash flow hedges		
Changes in the fair value of the period	–30.3	3.7
Taxes on changes in the fair value	4.3	–0.8
Reclassification affecting net income	0.5	–
Taxes on reclassification affecting net income	–0.1	–
Other comprehensive income	**–25.6**	**2.9**
Total comprehensive income	**–283.3**	**50.7**
Attributable to:		
Equity holders of DAIG	–282.5	49.2
Minority interests	–0.8	1.5

Consolidated Statement of Changes in Equity

€ million	Subscribed capital	Capital reserves	Retained earnings	Other reserves	Equity before minority interests	Minority interests in equity	Total equity
As of Jan. 1, 2008	**0.1**	**682.2**	**1,044.0**	**2.9**	**1,729.2**	**10.2**	**1,739.4**
Profit for the period			–256.9		–256.9	–0.8	–257.7
Other comprehensive income				–25.6	–25.6		–25.6
Total comprehensive income			–256.9	–25.6	–282.5	–0.8	–283.3
As of Dec. 31, 2008	**0.1**	**682.2**	**787.1**	**–22.7**	**1,446.7**	**9.4**	**1,456.1**
As of Jan. 1, 2007	**0.1**	**682.2**	**997.7**	**0.0**	**1,680.0**	**8.7**	**1,688.7**
Profit for the period			46.3		46.3	1.5	47.8
Other comprehensive income				2.9	2.9		2.9
Total comprehensive income			46.3	2.9	49.2	1.5	50.7
As of Dec. 31, 2007	**0.1**	**682.2**	**1,044.0**	**2.9**	**1,729.2**	**10.2**	**1,739.4**

Also see note (26) in the Notes.

Notes

Accounting Policies

1 Basis of Presentation

As an integrated real estate company, the Deutsche Annington Real Estate Group (referred to in the following as DAIG) pursues three core activities: the long-term, value-enhancing management of its nationwide residential real estate portfolio, the selective sale of units in a socially acceptable manner, primarily to tenants, as well as the strategic acquisition of housing portfolios to achieve a sustained increase in the company's value. The parent company of DAIG is Monterey Holdings I S.à.r.l., Luxembourg. Deutsche Annington Immobilien GmbH is incorporated and domiciled in Germany; its registered office is located in Düsseldorf. The head office (principal place of business) is located at Philippstrasse 3, Bochum.

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

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

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

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

On March 30, 2009, the Management approved the consolidated financial statements of Deutsche Annington Immobilien GmbH for submission to the shareholders' meeting. It is the responsibility of the shareholders' meeting to examine the consolidated financial statements and declare whether it approves them.

2 Consolidation Principles

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

Business combinations are accounted for using the purchase method, the cost of acquisition being offset against the equity attributable to the parent company at the date of acquisition. Regardless of the share of the minority interest, the identifiable assets, liabilities and contingent liabilities of the acquiree are recognised in the consolidated financial statements at fair value, except for non-current assets (or disposal groups) classified as held for sale, which are recognised at fair value less costs to sell. Any excess of the cost of a business combination over DAIG's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities is recognised as goodwill.

If DAIG's interest in the net fair value of the identifiable assets and liabilities exceeds the cost of the business combination, the values of the assets, liabilities and contingent 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 minority interests.

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

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

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

A special purpose entity (SPE) is consolidated if, based on an evaluation of the substance of its relationship with Deutsche Annington Immobilien GmbH and the SPE's risks and rewards, Deutsche Annington Immobilien GmbH concludes that it controls the SPE.

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

3 Scope of Consolidation

In addition to Deutsche Annington Immobilien GmbH, 122 (2007: 117) domestic companies and 1 foreign company (2007: 1) have been included in the consolidated financial statements of DAIG as at and for the year ended December 31, 2008.

The list of DAIG shareholdings is appended to these notes to the consolidated financial statements.

In the 2008 financial year, 7 companies (2007: 10) were acquired, which were not business operations at the time of acquisition. The purchase prices of these companies totalled € 0.2 million and were paid in full in cash.

The disposals in 2008 were the result of 2 mergers (2007: 2). No liquidations (2007: 1), intra-Group legal reorganisations (Anwachsung) (2007: 1) or sales (2007: 0) took place in the reporting year.

4 Currency Translation

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

5 Significant Accounting Policies

a) Recognition of income and expenses

Income from property management includes income from the letting of investment properties and trading properties which is recognised, net of discounts, sales incentives, customer bonuses and rebates granted, on a straight-line basis over the duration of the contracts when the remuneration is contractually fixed or can be reliably determined and collection of the related receivable is probable.

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

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

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

b) Intangible assets

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

c) Property, plant and equipment

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

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

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

d) Investment properties

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

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

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

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

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

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

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

e) Leases

Finance leases

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

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

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

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

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

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

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

g) Non-derivative financial assets
Contractually acquired financial assets are recognised in the balance sheet if the resulting rewards will flow to DAIG. A financial asset is derecognised when the contractual rights to the cash flows from the financial asset expire or the financial asset is transferred and DAIG neither retains control nor retains substantially all the risks and rewards of ownership of the financial asset.

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

Available-for-sale financial assets

Available-for-sale financial assets are initially measured at fair value and any changes therein – other than impairment losses – are recognised in equity. The fair value of available-for-sale financial assets is based on quoted market prices at the reporting date. When an available-for-sale financial asset is derecognised, the cumulative gain or loss recognised in equity is transferred to profit or loss. Regular way purchases or sales are accounted for at the date of the economic transfer of the asset to the purchaser.

Loans and receivables

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

h) Inventories

Trading properties are measured at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale. The estimated selling price is calculated on the basis of current market prices of comparable real estate.

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

The ancillary costs not yet charged are accounted for at cost; all discernible risks are allowed for by write-downs.

i) Borrowing costs

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

j) Cash and cash equivalents

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

k) Income and expense recognised directly in equity

This equity line item includes changes in equity not affecting net income except those resulting from capital transactions with equity holders (e.g. capital increases or dividend distributions). DAIG includes unrealised gains and losses from the fair value measurement of available-for-sale assets and derivative financial instruments under this item.

l) Taxes

Income tax

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

Obligations to pay lump-sum tax on the previously untaxed EK 02 amounts (see note [17] Income tax) are measured at their present value to make appropriate allowance for the interest-free nature of the obligation.

Deferred taxes

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

Deferred taxes are measured at tax rates that have been enacted or substantially enacted and that are expected to apply to the period when the tax asset is realised or the liability is settled. The combined tax rate of corporate income tax and trade tax of 31.6% for 2008 was used to calculate domestic deferred taxes.

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

m) Provisions

Provisions for pensions and similar obligations

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

The amount shown in the balance sheet is the present value of the defined benefit obligation after elimination of unrecognised actuarial gains and losses and unrecognised past service cost and after offsetting against the fair value of the plan assets.

Actuarial gains and losses arising are recognised using the corridor method. They are only recorded to income or expense when the balance of the accumulated unrecognised actuarial gains and losses determined per employer at the beginning of the business year exceeds the corridor of 10% of the greater of defined benefit obligation (DBO) and the fair value of plan assets. The excess is recognised in future periods over the expected average remaining working lives of the participating employees. If the obligations are obligations for employees who have already left the company’s service, the excess is recognised in the financial year in the income statement.

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

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

Other provisions

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

Provisions for environmental remediation are recognised when it is probable that an outflow of resources will be required to settle the obligation and the amount of the liability can be reliably estimated.

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

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

Provisions for warranties are recognised when the related goods or services are sold. The amount recognised is based on historical warranty data.

n) Financial liabilities

Financial liabilities under contracts are recognised if a resulting claim can be made against DAIG. Financial liabilities are derecognised when DAIG's obligations specified in the contract expire or are discharged or cancelled.

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

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

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

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

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

o) Derivative financial instruments and hedge accounting

All derivative instruments, irrespective of the purpose or the intended use, are initially accounted for at their fair values as assets or liabilities in the balance sheet. The fair values of the derivative financial instruments are calculated using standard market valuation methods for such instruments on the basis of the market data available on the valuation date. The fair values of instruments which are used to hedge interest rate risks are determined by discounting future cash flows using market interest rates over the remaining term of the instruments.

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

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

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

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

p) Government grants

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

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

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

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

The low-interest loans are grants from public authorities, which are recorded at net present value. The difference between nominal value and net present value is recognised in income over the maturity term of the corresponding loans.

q) Contingent liabilities

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

r) Assets and disposal groups classified as held for sale and discontinued operations

If the carrying amount of a non-current asset or a disposal group is expected to be recovered primarily through a sale transaction rather than through continuing use, the non-current asset or disposal group is classified as held for sale. The non-current asset or the disposal group must be available for immediate sale and the sale must be highly probable.

Immediately before classification as held for sale, the carrying amounts of the non-current assets (and all assets and liabilities of a disposal group) are measured in accordance with applicable IFRSs. Upon initial classification as held for sale, non-current assets and disposal groups are recognised at the lower of carrying amount and fair value less costs to sell.

Non-current assets that are classified as held for sale or are part of a disposal group held for sale are not depreciated; however, interest and other expenses attributable to the liabilities of a disposal group classified as held for sale are recognised.

A discontinued operation is a component of an entity which represents a separate major line of business or geographical area of operations that has been disposed of or is held for sale, is part of a single, coordinated plan to dispose of a separate major line of business or geographical area of operations or is a subsidiary acquired exclusively with a view to resale.

The comparative income statement is restated as if the operation had been discontinued from the start of the comparative period.

s) Estimates, assumptions and management judgment

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

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

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

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

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

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

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

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

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

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

- DAIG recognises actuarial gains and losses according to the corridor method. The application of a different option to recognise actuarial gains and losses, as permitted under IAS 19, would lead to a significantly different carrying amount of the recognised provision for pensions and would also have a significant effect on the income statement.

- IFRSs do not regulate the accounting treatment of further share purchases after control has been obtained, e.g. the acquisition of minority interests. In accordance with IAS 8.10, management has decided to treat such purchases as equity transactions. Increases or decreases in the ownership interest in subsidiaries without a change in control as well as any premiums or discounts are recognised directly in the parent shareholder's equity.

t) 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 2008 financial year.

The following amended Standard became effective for the 2008 financial year but is not relevant to DAIG's operations:

- Amendments to IAS 39 "Financial Instruments: Recognition and Measurement" and IFRS 7 "Financial Instruments: Disclosures" (These Amendments relate to the retrospective reclassification of certain financial instruments.)

The following Interpretations became effective for the 2008 financial year but are not relevant to DAIG's operations:

- IFRIC 11 "IFRS 2 - Group and Treasury Share Transactions"
- IFRIC 14 "IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction"

Application of the following Standard was not yet mandatory for the 2008 financial year. However, DAIG opted for early application:

- Amendment to IAS 1 "Presentation of Financial Statements"

As part of the convergence efforts, the revised IAS 1 is to be further aligned to the US-GAAP standards and thus facilitate analysis and comparison of financial statements. The new Standard is to be adopted for financial years beginning on or after January 1, 2009. DAIG has already opted for early adoption of the Amendments to IAS 1 and included a statement of income and expenses recognised within equity in the consolidated financial statements.

u) New Standards and Interpretations not yet adopted

Application of the following Standards, Interpretations and Amendments to existing Standards was not yet mandatory for the 2008 financial year. DAIG did not choose to apply them in advance, either. Their application will be mandatory for the financial years following the dates stated in the following table:

New Standards, Interpretations and Amendments to existing Standards		Effective date for DAIG
Amendments		
IAS 23	"Borrowing Costs"	Jan. 1, 2009
IAS 27	"Consolidated and Separate Financial Statements"	Jan. 1, 2010*
IAS 32	"Financial Instruments: Presentation" and IAS 1 "Presentation of Financial Statements"	Jan. 1, 2009
IAS 39	"Financial Instruments: Recognition and Measurement"	Jan. 1, 2010
IFRS 1	"First Time Adoption of IFRS: Restructuring "	Jan. 1, 2009*
IFRS 2	"Share-Based Payment"	Jan. 1, 2009
IFRS 3	"Business Combinations"	Jan. 1, 2010*
Standards		
IFRS 8	"Operating Segments"	Jan. 1, 2009
Interpretations		
IFRIC 12	"Service Concession Arrangements"	Jan. 1, 2008*
IFRIC 13	"Customer Loyalty Programmes"	Jan. 1, 2009
IFRIC 15	"Agreements for the Construction of Real Estate"	Jan. 1, 2009*
IFRIC 16	"Hedges of a Net Investment in a Foreign Operation"	Jan. 1, 2009*
IFRIC 17	"Distributions of Non-Cash Assets to Owners"	Jan. 1, 2010*

* not yet endorsed

Amendments to IAS 23 "Borrowing Costs"

The main change from the previous Standard is the removal of the option of immediately recognising as an expense borrowing costs that can be attributed directly to the acquisition, construction or production of a qualifying asset. In future, an entity is therefore required to capitalise such borrowing costs as part of the acquisition costs of the qualifying assets. The Amendments to IAS 23 are to be applied to financial years beginning on or after January 1, 2009. The changes to IAS 23 are not expected to have any effect on the consolidated financial statements of DAIG.

Amendments to IAS 27 "Consolidated and Separate Financial Statements"

The main Amendments to IAS 27 relate to the accounting for transactions between non-controlling and controlling shareholders as well as accounting on loss of control of a subsidiary. Transactions which do not result in loss of control are to be recorded as an equity transaction to not affect net income. Furthermore, the Standard regulates how a deconsolidation gain is to be calculated and how any remaining investment in the former subsidiary is to be measured. The Amendments to IAS 27 are to be applied to financial years beginning on or after July 1, 2009; earlier application is permitted. The changes to IAS 27 are not expected to have any effect on the consolidated financial statements of DAIG.

Amendments to IAS 32 "Financial Instruments: Presentation" and IAS 1 "Presentation of Financial Statements"

The Amendments relate essentially to questions regarding the demarcation between equity and borrowed capital. In particular, the revision now permits, under certain circumstances, the option of classifying puttable instruments as equity. The Amendments to IAS 32 are to be applied to financial years beginning on or after January 1, 2009. The changes to IAS 32 are not expected to have any effect on the consolidated financial statements of DAIG.

Amendments to IAS 39 "Financial Instruments: Recognition and Measurement"

The revised IAS 39 stipulates how the basic principles of hedge accounting are to be applied in two special situations – the designation of inflation risks as an underlying transaction and the designation of a unilateral risk as an underlying transaction. The Amendments to IAS 39 are to be applied to financial years beginning on or after July 1, 2009, earlier application is permitted. The changes to IAS 39 are not expected to have any effect on the consolidated financial statements of DAIG.

Amendments to IFRS 1 "First Time Adoption of IFRS: Restructuring"

The Amendments relate solely to the formal structure of IFRS 1, whilst the contents are unchanged. The new structure is to improve the clarity and applicability of the Standard. The revised IFRS 1 supersedes the current IFRS 1 and is to be applied to financial years beginning on or after January 1, 2009. The changes to IFRS 1 will not have any effect on the consolidated financial statements of DAIG.

Amendments to IFRS 2 "Share-Based Payment"

The Amendments to IFRS 2 clarify that exercise conditions are only service and goal fulfilment conditions. Furthermore, it is stipulated that the accounting rules on early termination of a plan apply regardless of whether the plan is terminated by the company or another party. The changes are to be applied retrospectively to financial years beginning on or after January 1, 2009. The changes to IFRS 2 are not expected to have any effect on the consolidated financial statements of DAIG.

Amendments to IFRS 3 "Business Combinations"

The main changes include the accounting treatment of minority interests and the remeasurement, through profit or loss, of already existing shares at the time control was gained for successive company acquisitions as well as rules on the recognition of acquisition costs and acquisition-related costs. According to the revised IFRS 3, minority interests may be measured at fair value or as a proportionate share of net assets. The revised Standard is to be applied to financial years beginning on or after July 1, 2009. The changes to IFRS 3 are not likely to have any effect on the consolidated financial statements of DAIG.

IFRS 8 "Operating Segments"

IFRS 8 replaces IAS 14 and aligns segment reporting with the requirements of SFAS 131. The Standard requires a publicly traded company or, in the case of consolidated financial statements, a publicly traded parent company to adopt the "management approach" to reporting on the financial performance of its operating segments. Operating segments are defined by the Standard as components of an entity whose operating results are regularly reviewed by the entity's chief operating decision-maker to make decisions about resources to be allocated to the segment and assess its performance and for which discrete financial information is available. The Standard is to be applied to financial years beginning on or after January 1, 2009. The changes to IFRS 8 are not expected to have any effect on the consolidated financial statements of DAIG.

IFRIC 12 "Service Concession Arrangements"

Service concessions are arrangements whereby a government or public sector entity grants contracts for the supply of public services to private-sector operators. IFRIC 12 specifies how service concession operators should apply existing IFRSs to account for the obligations they undertake and rights they receive under those service concession arrangements. The Interpretation is to be applied to financial years beginning on or after January 1, 2008. IFRIC 12 is not likely to have any effect on the consolidated financial statements of DAIG.

IFRIC 13 "Customer Loyalty Programmes"

The Interpretation IFRIC 13 addresses the accounting for customer loyalty programmes which are operated by manufacturers or service providers themselves or by third parties. IFRIC 13 requires that the revenue from sales be divided into two components. One component relates to the current business which is generated by the award credits. The other component is the future business which results from the credits which the customers are to redeem. This component is to be deferred as a liability until the customers redeem the credits and the entity fulfils its obligation according to the customer loyalty programmes. IFRIC 13 is to be applied to financial years beginning on or after July 1, 2008. IFRIC 13 is not expected to have any effect on the consolidated financial statements of DAIG.

IFRIC 15 "Agreements for the Construction of Real Estate"

The aim of the Interpretation IFRIC 15 is to standardise accounting practice for the recognition of revenue among real estate developers for sales of units, such as apartments or houses, before construction is complete. IFRIC 15 defines criteria according to which accounting is to be performed either in accordance with IAS 11 "Construction Contracts" or in accordance with IAS 18 "Revenue". The Interpretation is to be applied to financial years beginning on or after January 1, 2009. IFRIC 15 is not likely to have any effect on the consolidated financial statements of DAIG.

IFRIC 16 "Hedges of a Net Investment in a Foreign Operation"

The Interpretation IFRIC 16 deals with the clarification of issues connected with accounting for hedges of foreign currency risks within an entity or its foreign operations. IFRIC 16 regulates what is to be regarded as a risk when hedging a net investment in a foreign operation and where in the group the hedging instrument for reducing the risk may be held. The Interpretation is to be applied to financial years beginning on or after October 1, 2008. IFRIC 16 is not likely to have any effect on the consolidated financial statements of DAIG.

IFRIC 17 "Distributions of Non-Cash Assets to Owners"

The Interpretation IFRIC 17 regulates how a company must measure assets other than cash which it transfers to the owners as a profit distribution. A dividend obligation is to be recognised if the dividend has been approved by the bodies responsible and is no longer at the discretion of the entity. This dividend obligation is to be recognised at the fair value of the net assets payable. The difference between the dividend obligation and the carrying amount of the asset payable is recognised in profit or loss. IFRIC 17 enters into effect for financial years beginning on or after July 1, 2009; earlier application is permitted. IFRIC 17 is not likely to have any effect on the consolidated financial statements of DAIG.

Notes to the Consolidated Income Statement

6 Income from property management

The income from property management breaks down as follows:

€ million	2008	2007
Rental income	711.1	681.4
Ancillary costs (charged)	295.0	367.2
Gross rental income	**1,006.1**	**1,048.6**
Other income from property management	23.0	26.5
Income from property management	**1,029.1**	**1,075.1**

At € 295.0 million, the ancillary costs charged were well below the previous year's figure of € 367.2 million. After the optimisation of the billing processes, the ancillary costs from previous years still to be charged to the tenants were reduced at the beginning of 2007.

7 Profit on disposal of properties

In 2008, a book gain of € 34.7 million (2007: € 67.0 million) was recorded from the sale of trading properties.

A book gain of € 16.1 million (2007: € 7.7 million) was realised from the disposal of investment properties.

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 loss as at December 31, 2008 of € 479.9 million (2007: net gain of € 197.6 million). Further explanations on the measurement of investment properties are given under note (20) Investment properties.

9 Change in value of trading properties

Properties that are held for sale in the ordinary course of business are classified as trading properties and are shown within inventories. If the carrying amount exceeds the net realisable value, trading properties are written down to net realisable value item by item. In the financial year, impairment losses totalling € 29.8 million (2007: € 37.9 million) for several properties were recognised as an expense. Impairment losses of € 9.0 million (2007: € 1.3 million) performed in prior periods were reversed. Before the retransfer of trading properties to investment properties, a fair value adjustment on these properties is performed to affect net income. The fair value adjustment on trading properties transferred to investment properties amounted to € 72.9 million in 2008 (2007: € 37.4 million).

10 Cost of materials

€ million	2008	2007
Expenses for ancillary costs	316.2	383.9
Expenses for maintenance and modernisation	118.0	119.9
Other cost of purchased goods and services	56.8	58.8
	491.0	**562.6**

The sharp decrease in the expenses for ancillary costs mainly results from the optimisation of the billing processes (see note [6] Income from property management).

11 Personnel expenses

€ million	2008	2007
Wages and salaries	119.0	84.7
Social security, pensions and other employee benefits	15.8	18.7
	134.8	**103.4**

Personnel expenses contain costs for restructuring measures, pre-retirement part-time work arrangements and other severance payments totalling € 35.2 million (2007: € 6.1 million).

The personnel expenses include € 2.4 million (2007: € 2.7 million) for the Long Term Incentive Plan (LTIP) (see note [27] Provisions). The obligations towards members of the management for benefits under LTIP were assumed by Monterey Holdings I S.à.r.l., Luxembourg, (see note [40] Related party transactions).

In the year under review, employers' contributions to the statutory pension insurances totalling € 7.2 million (2007: € 7.2 million) were paid.

As at December 31, 2008, 1,302 people (2007: 1,406) were employed at DAIG. On an annual average, 1,322 people (2007: 1,390) were employed. The figures do not include apprentices and trainees.

12 Depreciation and amortisation

Amortisation and impairments of intangible assets totalled € 3.2 million (2007: € 2.5 million). Of this figure, capitalised customer bases accounted for € 1.6 million (2007: € 1.5 million) and impairments of concessions, industrial rights, licences and similar rights for € 0.6 million. Depreciation and impairments of property, plant and equipment amounted to € 5.3 million (2007: € 2.4 million). Of this figure, impairments of owner-occupied real estate accounted for € 4.0 million.

13 Other operating income

€ million	2008	2007
Income from compensation paid and cost reimbursements	19.4	13.2
Income from the reversal of provisions	14.9	23.1
Income from the reversal of impairment losses	1.0	3.5
Recognition of negative goodwill	–	7.8
Other	21.5	14.3
	56.8	**61.9**

Income from compensation paid and cost reimbursements includes € 9.7 million in compensation paid by insurance companies (2007: € 9.0 million).

14 Other operating expenses

The other operating expenses break down as follows:

€ million	2008	2007
Auditors' and consultants' fees	27.4	16.5
Impairment losses on receivables	11.0	15.9
Rents, leases, ground rents	9.7	11.5
IT and administrative services	4.8	5.7
Surveying costs	2.3	1.3
Legal and notary costs	2.1	4.3
Advertising costs	1.9	7.1
Sales incidentals	1.4	4.2
Other	30.4	50.5
	91.0	**117.0**

The increase in the auditors' and consultants' fees compared with the previous year is mainly due to the consultancy services provided in connection with the planned reorganisation of the company from 2009.

15 Financial income

€ million	2008	2007
Income from other investments	1.9	1.9
Income from non-current securities and non-current loans	1.9	1.9
Other interest and similar income	17.8	26.7
	21.6	**30.5**

16 Financial expenses

The financial expenses of € 376.6 million (2007: € 361.9 million) mainly relate to interest expense on financial liabilities measured at amortised cost.

Interest expense contains interest accretion to provisions, thereof € 12.2 million (2007: € 10.7 million) relating to provisions for pensions and € 3.8 million (2007: € 1.7 million) relating to miscellaneous other provisions.

Furthermore, a € 9.2 million addition of accrued interest concerning the obligation to pay lump-sum tax on the previously untaxed so-called EK 02 amounts is included in financial expenses.

Derivatives were measured at their fair value. To the extent that the hedge was ineffective, the change in the fair value of € 6.5 million was recognised as an increase (2007: € 0.9 million as a reduction) in interest expense.

A reconciliation of net interest to net interest from non-derivative financial instruments is shown in the table below:

€ million	2008	2007
Interest income	17.8	26.7
Interest expense	–376.6	–361.9
Net interest	**–358.8**	**–335.2**
less		
Interest income from provisions for pensions in acc. with IAS 19	12.2	10.7
Interest income from provisions in acc. with IAS 37	3.1	1.4
Interest income from the measurement of derivatives at fair value in acc. with IAS 39	6.5	–0.9
Net interest from non-derivative financial instruments	**–337.0**	**–324.0**

The net interest from non-derivative financial instruments breaks down into the measurement categories in accordance with IAS 39 as follows:

€ million	Measurement category in acc. with IAS 39*	2008	2007
Loans and receivables	LaR	17.1	26.3
Available-for-sale financial assets	AfS	0.1	0.1
Financial liabilities measured at amortised cost	FLAC	–354.2	–350.4
		–337.0	**–324.0**

* See note (33) Additional disclosures on financial instruments.

17 Income tax

€ million	2008	2007
Current income tax	7.8	24.2
Lump-sum taxation of the previously untaxed so-called EK 02 amounts	0.5	197.8
Aperiodical current income tax	–25.1	–0.3
Deferred income tax	–91.0	27.7
	–107.8	**249.4**

The current tax expense is determined on the basis of the taxable income for the reporting period. For the 2008 financial year, the combined tax rate of corporate income tax and solidarity surcharge is 15.8% of earnings (2007: 26.4%). Including German municipal trade tax at nearly 15.8% (in consideration of deductibility for corporate income tax purposes), the combined tax rate is 31.6% in 2008 (2007: 40%).

The enactment of the 2008 Annual Tax Act (Jahressteuergesetz 2008) led to lump-sum taxation of the previously untaxed so-called EK 02 amounts at a tax rate of 3%. The resultant tax is payable as from 2008 in ten equal annual instalments.

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

Deferred tax liabilities are generally recorded for all taxable temporary differences. Deferred tax assets are recognised only to the extent that the realisation of the respective benefit is probable. Based on the profits of the past and the expected profits in the foreseeable future, allowances are only accounted for if this criterion is not fulfilled.

Therefore, no deferred tax assets were recognised in the balance sheet for deductible temporary differences (excluding loss carryforwards) totalling € 43.3 million (2007: € 44.2 million) and no deferred trade tax for deductible temporary differences of € 103.9 million (2007: € 108.2 million) as their future utilisation is unlikely.

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

Deferred taxes are determined using the combined tax rate of corporate income tax and trade tax of 31.6% (2007: 31.6%). The effects of the extended trade tax exemption ("erweiterte Grundstückskürzung") in accordance with the German Trade Tax Act were taken into consideration in the measurement of deferred taxes.

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

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

As at December 31, 2008, the unutilised corporate income tax loss carryforwards totalled € 978.0 million (2007: € 885.0 million) and the unutilised trade tax loss carryforwards amounted to € 495.3 million (2007: € 469.0 million), for which deferred tax assets have been recognised since their realisation is probable.

The measurement of deferred tax assets on tax loss carryforwards in 2008 led to tax income of € 1.1 million (2007: tax expense of € 69.1 million – mainly due to the changes in the rules on loss carryforwards as a result of the 2008 Business Tax Reform (Unternehmensteuerreformgesetz).

Tax reductions due to the utilisation of tax loss carryforwards for which no deferred tax assets existed led in the 2008 financial year to a reduction in the tax burden of € 2.0 million (2007: € 0.5 million).

No deferred taxes were recognised in the balance sheet for unutilised corporate income tax loss carryforwards of € 941.3 million (2007: € 817.4 million). These loss carryforwards relate exclusively to German companies and, under current tax law, there are no restrictions either with regard to time or the amount of the loss carryforward. In addition, there are further trade tax loss carryforwards of € 467.7 million (2007: € 456.5 million) which have an unlimited carryforward and which have not led to deferred tax assets.

A reconciliation between actual income taxes and expected tax expense which is the product of the accounting profit from continuing operations multiplied by the average tax rate applicable in Germany is shown in the table below. The combined tax rate for 2008 of 31.6% (2007: 40.0%) results from corporate income tax of 15.0% (2007: 25.0%) plus a solidarity surcharge of 5.5% and the average trade tax.

€ million	2008	2007
Operating profit before income taxes	**–371.4**	**290.8**
Income tax rate of the company in %	31.6	40.0
Expected tax expense	**–117.4**	**116.3**
Trade tax effects	–0.2	–15.0
Non-deductible operating expenses	3.4	10.4
Tax-free income	–0.1	–0.3
Effect of change in tax rate	–	–140.0
Lump-sum taxation of the untaxed so-called EK 02 amounts	0.5	197.8
Change in the deferred tax assets on loss carryforwards	–1.1	69.1
Additional losses for which no deferred tax asset is recognised	32.9	13.0
Utilisation of loss carryforwards without deferred tax assets	–2.0	–0.5
Effects of taxes from prior years	–25.1	–0.3
Tax rate differences at foreign Group companies	–	0.4
Tax-free effect from first-time consolidations	–	–3.1
Other (net)	1.3	1.6
Actual income taxes	**–107.8**	**249.4**
Actual tax rate in %	**29.0**	**85.8**

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

€ million	Dec. 31, 2008	Dec. 31, 2007
Investment properties	23.1	2.6
Property, plant and equipment	0.6	0.1
Inventories	28.0	37.8
Prepaid expenses	8.8	9.4
Provisions for pensions	18.2	20.7
Other provisions	11.7	12.9
Liabilities	22.9	24.6
Deferred income	0.5	–
Unutilised loss carryforwards	10.1	12.6
Deferred tax assets	**123.9**	**120.7**

€ million	Dec. 31, 2008	Dec. 31, 2007
Intangible assets	3.1	3.5
Investment properties	465.9	517.7
Property, plant and equipment	0.3	0.9
Inventories	80.0	94.3
Financial assets	0.2	–
Receivables	–	1.0
Prepaid expenses	0.2	–
Other provisions	8.4	8.9
Liabilities	75.0	99.2
Deferred income	6.1	6.1
Deferred tax liabilities	**639.2**	**731.6**
Net deferred tax liabilities	**515.3**	**610.9**

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 in the balance sheet as at December 31, 2008:

€ million	Dec. 31, 2008	Dec. 31, 2007
Deferred tax assets	13.2	16.5
Deferred tax liabilities	528.5	627.4
Net deferred tax liabilities	**515.3**	**610.9**

The change in deferred taxes in the reporting period recognised directly in equity amounts to - € 4.2 million (2007: € 0.8 million).

Deferred tax liabilities on unremitted earnings of subsidiaries are not recognised as they are expected to be permanently invested or are not subject to taxation (outside basis differences).

Notes to the Consolidated Balance Sheet

18 Intangible assets

€ million	Concessions, industrial rights, licences and similar rights	Self-developed software	Customer relationships and similar rights	Total
Cost				
Balance on Jan. 1, 2008	7.5	1.2	15.8	**24.5**
Additions	0.8	2.8	–	**3.6**
Disposals	–0.9	–	–	**–0.9**
Balance on Dec. 31, 2008	7.4	4.0	15.8	**27.2**
Accumulated amortisation				
Balance on Jan. 1, 2008	5.9	0.2	4.7	**10.8**
Amortisation in 2008	0.7	0.3	1.6	**2.6**
Impairment	0.6	–	–	**0.6**
Disposals	–0.8	–	–	**–0.8**
Balance on Dec. 31, 2008	6.4	0.5	6.3	**13.2**
Carrying amounts				
Balance on Dec. 31, 2008	1.0	3.5	9.5	**14.0**
Cost				
Balance on Jan. 1, 2007	7.5	–	15.8	**23.3**
Additions	0.5	1.2	–	**1.7**
Disposals	–0.5	–	–	**–0.5**
Balance on Dec. 31, 2007	7.5	1.2	15.8	**24.5**
Accumulated amortisation				
Balance on Jan. 1, 2007	5.6	–	3.2	**8.8**
Amortisation in 2007	0.8	0.2	1.5	**2.5**
Disposals	–0.5	–	–	**–0.5**
Balance on Dec. 31, 2007	5.9	0.2	4.7	**10.8**
Carrying amounts				
Balance on Dec. 31, 2007	1.6	1.0	11.1	**13.7**

19 Property, plant and equipment

€ million	Owner-occupied properties	Technical equipment, plant and machinery	Other equipment, fixtures, furniture and office equipment	Construction in progress, pre-construction expenses	Total
Cost					
Balance on Jan. 1, 2008	13.5	0.9	23.3	–	**37.7**
Additions	–	–	0.7	–	**0.7**
Disposals	–	–	–5.1	–	**–5.1**
Transfers	0.5	–	–0.1	–	**0.4**
Balance on Dec. 31, 2008	14.0	0.9	18.8	–	**33.7**
Accumulated depreciation					
Balance on Jan. 1, 2008	0.4	0.8	19.4	–	**20.6**
Depreciation in 2008	0.2	0.0	1.1	–	**1.3**
Impairment	4.0	–	–	–	**4.0**
Disposals	–	0.0	–5.0	–	**–5.0**
Transfers	–0.1	0.1	0.0	–	**0.0**
Balance on Dec. 31, 2008	4.5	0.9	15.5	–	**20.9**
Carrying amounts					
Balance on Dec. 31, 2008	9.5	0.0	3.3	–	**12.8**
Cost					
Balance on Jan. 1, 2007	13.5	0.8	25.8	1.1	**41.2**
Additions	0.0	–	0.8	–	**0.8**
Disposals	–	0.0	–3.2	0.0	**–3.2**
Transfers	–	0.1	–0.1	–1.1	**–1.1**
Balance on Dec. 31, 2007	13.5	0.9	23.3	0.0	**37.7**
Accumulated depreciation					
Balance on Jan. 1, 2007	0.2	0.7	20.4	0.8	**22.1**
Depreciation in 2007	0.2	0.1	2.2	0.0	**2.5**
Disposals	0.0	0.0	–3.2	0.0	**–3.2**
Transfers	–	0.0	0.0	–0.8	**–0.8**
Balance on Dec. 31, 2007	0.4	0.8	19.4	0.0	**20.6**
Carrying amounts					
Balance on Dec. 31, 2007	13.1	0.1	3.9	0.0	**17.1**

As at December 31, 2008, carrying amounts of owner-occupied properties amounting to € 6.7 million (2007: € 10.3 million) are encumbered with land charges in favour of different lenders.

20 Investment properties

€ million	
Balance on Jan. 1, 2008	**7,870.6**
Additions	75.9
Capitalised modernisation costs	66.6
Transfer from advance payments	1.0
Transfer to trading properties	–43.2
Transfer from trading properties	312.1
Transfer to property, plant and equipment	–0.6
Disposals	–22.3
Fair value adjustment	–479.9
Balance on Dec. 31, 2008	**7,780.2**
Balance on Jan. 1, 2007	**6,908.6**
Additions due to changes in scope of consolidation	188.9
Additions	365.6
Capitalised modernisation costs	9.2
Transfer to trading properties	–10.3
Transfer from trading properties	236.7
Transfer from property, plant and equipment	0.3
Disposals	–26.0
Fair value adjustment	197.6
Balance on Dec. 31, 2007	**7,870.6**

The additions of € 75.9 million (2007: 365.6 million) relate to the acquisition of a total of 1,364 residential units (2007: 4,659) and 11 commercial properties.

Due to a change in the assessment of their marketability, properties totalling € 312.1 million (2007: € 236.7 million) were transferred from trading properties to investment properties.

The investment properties include leased assets which are defined as finance leases according to IAS 17 and are treated as if they were the Group's economic property. They amount to € 32.2 million (2007: € 32.1 million) and relate to the Spree-Bellevue (Spree-Schlange) property in Berlin. The property has been leased from DB Immobilienfonds 11 Spree Schlange von Quistorp KG until 2044. The leasing agreement includes an obligation to pay compensation for loss of use as agreed by contract. At the end of 2028, each fund subscriber is entitled to return his share to the property fund at a fixed redemption price. If all of the fund investors make use of this option, DAIG is obliged to acquire the property at a fixed purchase price after deduction of borrowings. If more than 75% of the shares are returned in this way, DAIG has a call option for the purchase of all fund shares. Details of minimum lease payments are given under note (29) Other financial liabilities.

The carrying amounts of the investment properties are predominantly encumbered with land charges in favour of different lenders; also see note (28) Trade payables.

Long-term leases

The long-term leases on commercial properties are non-cancellable operating leases. The minimum future leasing receipts from these leases are due as follows:

€ million	2008	2007
Total minimum lease payments	**13.2**	**23.5**
Due within one year	1.6	5.7
Due in 1 to 5 years	9.2	11.1
Due after 5 years	2.4	6.7

As from 2008, the minimum lease payments of Viterra Logistikimmobilien GmbH & Co. KG, Essen, are not included as the company's commercial properties were sold in December 2007.

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

Fair values

DAIG performed an internal valuation to determine the fair values of its entire stock of residential buildings, small commercial units, garages and parking spaces as well as undeveloped land as at December 31, 2008.

In 2007, the sales strategy was already adapted when it was decided not to include any more properties in the privatisation programmes for conversion into owner-occupier apartments. In line with this strategy, we have allocated residential units which we had classified as potential properties for privatisation in prior years to the property management portfolio and not to the privatisation portfolio as in 2007. The properties affected were therefore no longer measured using the comparative method but, as all other property management units, using the income capitalisation method (see below). As a result of this change, the fair value decreased by approx. € 520.0 million.

The following criteria were applied in the valuation of the different segments of real estate:

Residential real estate

The value of the entire portfolio of residential properties was determined on the basis of the International Valuation Standard Committee's definition of market value. It is not permitted to take into account either portfolio premiums and discounts, which can be observed when portfolios are sold in market transactions, or time restrictions in the marketing of individual properties. The determination of fair values by DAIG thus complies with the IFRS regulations.

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

DAIG considers properties which are being sold individually to be part of the privatisation portfolio. Single-family houses in our portfolio which, in DAIG's opinion, are basically suitable for being sold individually, are also included in the privatisation portfolio. First, all buildings were valued according to a rating system with regard to their quality, their market attractiveness and their macro-location. The aspects considered in assessing the quality of the buildings included their age and an assessment of the technical condition of the buildings. This assessment was based on maintenance reports compiled by external companies for which the properties were inspected on a regular basis. The attractiveness was assessed on the basis of various factors including in particular the micro-location of the buildings, how built-up the area is and the average size of the apartments (living area and the number of rooms). The quality of the macro-location was derived from the purchasing power index in the particular postal code district and validated using location ratings provided by Feri EuroRatings Services AG.

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

The property management portfolio was valued using the income capitalisation method. The basis of the valuation is the net annual income per building which results from the annual net rent minus non-allocable ancillary costs, maintenance expenses and administrative expenses in accordance with the II. Berechnungsverordnung (German Regulation on Calculations for Residential Buildings in Accordance with the Second Housing Construction Law) as well as any ground rent.

The modernisation work performed on the portfolio of residential units in 2007 and 2008 was included in the valuations by decreasing the current maintenance expenses and discounts on the capitalised interest rates.

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

The capitalised value of potential yield returns was determined by capitalising the annual net yield at building level. The capitalised interest rates applied were derived from the current German real estate market and allocated to the buildings with the aid of the previously determined ratings. Special considerations such as long-term restricted rents, expiring rent restrictions or mining subsidence damage were allowed for by means of premiums and discounts.

Commercial properties

The commercial properties in the portfolio are mainly small commercial units for the supply of the local residential area. They were also measured using the income capitalisation method. Amongst others different cost approaches were used to those for residential properties and the capitalised interest rates were adjusted to reflect the market specifics.

Undeveloped land

Undeveloped plots of land were measured according to their state of development, the likelihood of development and the local market situation on the basis of derived land guide prices.

Results of the valuation

The fair value of the real estate portfolio of residential buildings, small commercial units, garages, parking spaces and undeveloped land of DAIG as at December 31, 2008 was approx. € 9,819.8 million (2007: € 10,270.0 million). The decrease in the fair value compared with the previous year is a result of the aforementioned regrouping of privatisation potential.

The fair value of the real estate portfolio by region is as follows:

	Residential units		Other units		Fair values in € million	
	2008	2007	2008	2007	2008	2007
Regional subsidiary						
Deutsche Annington Nord GmbH	19,637	19,878	4,932	4,975	986.8	989.5
Deutsche Annington Ost GmbH	16,581	17,335	2,898	2,964	751.3	778.0
Deutsche Annington Rheinland GmbH	23,893	24,086	8,099	8,110	1,509.5	1,523.5
Deutsche Annington Ruhr GmbH	37,088	36,844	6,515	6,452	1,636.2	1,728.6
Deutsche Annington Süd GmbH	16,752	16,949	8,098	8,169	1,128.0	1,146.8
Deutsche Annington Süd-West GmbH	32,062	31,928	8,307	8,031	2,011.4	1,996.0
Deutsche Annington Westfalen GmbH	43,205	43,201	6,374	6,465	1,725.6	2,024.7
Undeveloped land					71.0	82.9
	189,218	**190,221**	**45,223**	**45,166**	**9,819.8**	**10,270.0**
thereof						
Investment properties					7,780.2	7,870.6
Trading properties and owner-occupied properties					2,039.6	2,399.4

Since the vast majority of the large commercial units have been sold, the fair value of the remaining units is shown within the regional portfolios (fair value 2008: € 6.8 million).

Restraints on disposal

When acquiring 13,895 WohnBau Rhein-Main AG apartments in 1999, a number of commitments to Deutsche Post and Deutsche Post Wohnen were made, including an undertaking by the then Viterra that it would serve no notice to vacate for personal use until 2009. Tenants and their spouses may not be served notice to vacate for personal use 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, 10,106 were still in the residential portfolio of DAIG as at December 31, 2008.

The 63,626 residential units which DAIG acquired from Bundeseisenbahnvermögen in 2000 are subject to the following restrictions on sale: Not more than 50% may be sold within the first ten years with the exception of housing stock in the new German states. If residential units in the new German states are sold, 25% of the proceeds must be paid to Deutsche Bundesbahn and a further 25% (less sales costs) must be invested in the modernisation and maintenance of the remaining housing stocks in the new German states. Furthermore, residential property used as such by a specified category of people may only be sold to them or to people named by them. Multi-family houses and owner-occupier apartments may only be sold to parties other than the specified category of people if more than half of the apartments in a block are already rented by tenants who do not fall under the specified category. Of the 63,626 residential units originally acquired, 44,970 were still in the residential portfolio of DAIG as at December 31, 2008.

The 10,413 Frankfurter Siedlungsgesellschaft mbH residential units acquired from the German federal government in 2001 and 2002 are subject to the restriction on sale that an annual sales programme must be agreed with the government. In addition, until November 2011, residential units must first be offered for sale to the tenant. Residential units may only be sold to persons other than the tenant if 50% of the residential units in a building have previously been sold to tenants or owner-occupiers (vacant residential units). Tenants aged 65 or over whose residential unit is sold have a right to live in it for life. Of the 10,413 residential units originally acquired, 7,662 were still in the residential portfolio of DAIG as at December 31, 2008.

In 2006/2007, DAIG acquired various housing stocks (2,773 residential units) from Corpus Immobiliengruppe and in particular entered into the following social obligations: Tenants and their spouses who have rented an apartment at various contractually stipulated times in the past may not be served notice to vacate for personal use if they are aged 60 or over. No notice may be served to other tenants until after certain contractually fixed dates. If the apartments are sold, the tenants are to be given first right of refusal until after certain contractually fixed dates. Of the 2,773 residential units originally acquired, 2,754 were still in the residential portfolio of DAIG as at December 31, 2008.

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

21 Financial assets

€ million	Dec. 31, 2008 non-current	Dec. 31, 2008 current	Dec. 31, 2007 non-current	Dec. 31, 2007 current
Other investments	1.7	–	1.7	–
Loans to related companies	34.7	–	34.9	–
Long-term securities	2.7	–	2.3	–
Other long-term loans	5.4	–	0.7	–
Derivatives	–	–	6.4	–
Restricted cash	2.1	–	2.1	–
Dividends from other investments	–	1.7	–	1.7
	46.6	**1.7**	**48.1**	**1.7**

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

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 increase in other long-term loans compared with 2007 is partly due to the granting of an interest-free loan to Wohnimmobilien-Kooperation Deutsche Annington e.V., Düsseldorf. The loan is for a nominal amount of € 4.1 million and runs for 10 years. Initial recognition at fair value led to discounting of € 1.3 million.

Furthermore, B&O Service und Messtechnik AG, Bad Aibling, was granted a loan of € 2.0 million. The interest rate on the loan is 4%. To secure repayment, B&O has provided collateral in the form of an absolute, unconditional, time-unlimited bank guarantee of € 2.0 million.

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

Derivatives are explained in detail in note (35) Derivative financial instruments.

As part of financing, cash restrictions were imposed on DAIG in respect of credit balances with banks totalling € 2.1 million (2007: € 2.1 million). Bank deposits to which cash restrictions apply for at least twelve months after the balance-sheet date are stated as non-current financial assets.

22 Other assets

€ million	Dec. 31, 2008 non-current	Dec. 31, 2008 current	Dec. 31, 2007 non-current	Dec. 31, 2007 current
Advance payments	–	0.5	–	1.0
Insurance claims	11.1	2.9	9.2	3.5
Miscellaneous other assets	13.6	13.7	13.3	16.7
Prepaid expenses	0.8	2.0	0.9	1.7
	25.5	**19.1**	**23.4**	**22.9**

While the indirect obligation arising from pension obligations transferred to former affiliated companies of the Viterra Group is shown under provisions for pensions, a corresponding asset of € 11.3 million (2007: € 12.9 million) is shown under non-current miscellaneous other assets.

Furthermore, in 2008 non-current miscellaneous other assets included an amount of € 1.9 million owed by Monterey Holdings I S.à.r.l., Luxembourg; see also note (40) Related party transactions.

23 Inventories

€ million	Dec. 31, 2008	Dec. 31, 2007
Trading properties	1,625.2	1,910.3
Ancillary costs	294.3	288.5
	1,919.5	**2,198.8**

The trading properties of DAIG developed as follows:

€ million	
Balance on Jan. 1, 2008	**1,910.3**
Additions	2.9
Transfer from investment properties	43.2
Transfer to investment properties	-312.1
Disposals	-71.2
Value adjustments	52.1
Balance on Dec. 31, 2008	**1,625.2**
Balance on Jan. 1, 2007	**2,270.5**
Additions	12.4
Transfer from investment properties	10.3
Transfer to investment properties	-236.7
Transfer from construction in progress	0.3
Disposals	-147.3
Value adjustments	0.8
Balance on Dec. 31, 2007	**1,910.3**

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

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

24 Trade receivables

The trade receivables break down as follows:

€ million	Impaired: Gross amount	Impaired: Impairment losses	Not impaired: neither impaired nor past due	Not impaired, past due by: less than 30 days	between 30 and 90 days	between 91 and 180 days	between 181 and 360 days	more than 360 days	Carrying amount: Maximum risk of loss
Receivables from the sale of properties	4.3	–2.3	42.3	5.8	1.3	0.0	6.7	8.5	66.6*
Receivables from property letting	31.3	–13.1							18.2
Receivables from property management			1.2						1.2
Balance on Dec. 31, 2008	35.6	–15.4	43.5	5.8	1.3	0.0	6.7	8.5	**86.0**
Receivables from the sale of properties	4.8	–3.3	66.9	0.0	0.5	3.9	1.9	43.9	118.6*
Receivables from property letting	32.8	–15.5							17.3
Receivables from property management			1.5						1.5
Receivables from other supplies and services			0.2						0.2
Balance on Dec. 31, 2007	37.6	–18.8	68.6	0.0	0.5	3.9	1.9	43.9	**137.6**

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

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

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

The sharp decrease in total trade receivables which are all short-term to € 86.0 million (2007: € 137.6 million) is mainly due to amounts received from the sale of properties.

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

Receivables from property letting generally arise at the beginning of a month. Whilst an impairment loss was made on 25% of the outstanding rent receivables under existing rental contracts due at December 31, 2008, an impairment loss of the full amount of the outstanding rent receivables due under rental contracts which had ended by the balance-sheet date was made.

On the other hand, impairments of 12.5% are made on receivables from ancillary cost bills not yet due under existing rental contracts and impairments of 50% are incurred on receivables from ancillary cost bills not yet due under rental contracts which had ended by the balance-sheet date.

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

Impairment losses on trade receivables developed as follows:

€ million	Trade receivables
Impairment losses as at Jan. 1, 2008	**18.8**
Addition	7.9
Utilisation	–11.2
Reversal	–0.1
Impairment losses as at Dec. 31, 2008	**15.4**

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

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

€ million	2008	2007
Expenses for the derecognition of receivables	1.3	2.0
Income from the receipt of derecognised receivables	0.5	0.5

25 Cash and cash equivalents

Cash and cash equivalents include cash on hand, cheques and deposits at banking institutions with an original term of up to three months totalling € 251.1 million (2007: € 363.5 million). Furthermore, the item contains marketable securities of € 2.4 million (2007: € 2.9 million).

The deposits at banking institutions include an amount of € 84.7 million (2007: € 124.2 million), which was pledged in connection with borrowings. Of these accounts, € 38.4 million (2007: € 66.4 million) are restricted. The marketable securities are also restricted with regard to their use.

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

26 Equity

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

The capital reserve amounts to € 682.2 million and did not change during the 2008 financial year.

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

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

Shares of third parties in Group companies are shown under minority interests.

Capital management

The aims of the DAIG capital management system are to:

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

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

The equity situation of the subsidiaries is regularly examined.

27 Provisions

€ million	Dec. 31, 2008 non-current	Dec. 31, 2008 current	Dec. 31, 2007 non-current	Dec. 31, 2007 current
Provisions for pensions and similar obligations	**263.4**	**–**	**268.4**	**–**
Provisions for taxes (current income taxes excl. deferred taxes)	**–**	**97.1**	**–**	**133.6**
Other provisions				
Environmental remediation	32.2	1.3	29.8	2.1
Personnel cost (excluding restructuring)	23.1	37.2	24.3	31.3
Restructuring	–	33.7	–	2.4
Contractually agreed guarantees	1.8	2.6	15.4	3.9
Outstanding trade invoices	–	17.3	–	17.4
Follow-up costs from property sales	–	2.4	–	2.7
Miscellaneous other provisions	14.4	38.5	20.7	66.2
	71.5	**133.0**	**90.2**	**126.0**
	334.9	**230.1**	**358.6**	**259.6**

Development of other provisions

€ million	Jan. 1, 2008	Additions	Reversals	Change in scope of consolida-tion	Transfer carryover	Interest portion	Utilisa-tion	Dec. 31, 2008
Other provisions								
Environmental remediation	31.9	4.2	–2.0	–	–	2.4	–3.0	33.5
Personnel costs (excluding restructuring)	55.6	22.5	–5.1	–	–	1.3	–14.0	60.3
Restructuring	2.4	33.7	–0.6	–	–	–	–1.8	33.7
Contractually agreed guarantees	19.3	0.3	–8.5	–	–	–	–6.7	4.4
Outstanding trade invoices	17.4	12.4	–3.5	–	–	–	–9.0	17.3
Follow-up costs from property sales	2.7	1.5	–1.4	–	0.0	–	–0.4	2.4
Miscellaneous other provisions	86.9	5.7	–11.6	–	0.0	–0.6	–27.5	52.9
	216.2	**80.3**	**–32.7**	**–**	**0.0**	**3.1**	**–62.4**	**204.5**

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 against payment of a one-off contribution. The conclusion of further reinsurance policies is not planned.

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

Actuarial assumptions:

in %	2008	2007
Discount rate	5.85	5.50
Projected salary increases	2.75	2.75
Projected pension payment increases	2.00	2.00
Expected return on plan assets	4.50	4.50

Plan assets comprise solely reinsurance contracts. The value of the reinsurance contracts for certain people is higher than the related pension obligations. Until 2007, the expected return was only determined for the share of the value of the reinsurance policies to be classified as plan assets at the beginning of the year. From 2008, the entire value of the reinsurance policies was recognised as plan assets; a corresponding other asset in the amount of the difference is recognised. The amount by which the fair values of the assets exceed the obligation is shown under non-current other assets.

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

€ million	2008	2007
Defined benefit obligation as at Jan. 1	**255.0**	**291.1**
Interest cost	13.5	12.0
Current service cost	2.1	3.0
Actuarial gains	–2.7	–32.8
Benefits paid	–18.4	–18.6
Transfer of transitional payments to pensions	–	0.3
Defined benefit obligation as at Dec. 31	**249.5**	**255.0**

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

€ million	Dec. 31, 2008	Dec. 31, 2007
Present value of funded obligations	18.5	22.0
Present value of unfunded obligations	231.0	233.0
Total present value of obligations (DBO)	**249.5**	**255.0**
Fair value of plan assets	–18.8	–17.9
Unrecognised actuarial gains	32.2	31.3
Net liability recognised in the balance sheet	**262.9**	**268.4**
Other asset to be recognised	0.5	–
Provisions for pensions recognised in the balance sheet	**263.4**	**268.4**

The total net periodic pension cost comprises the following:

€ million	2008	2007
Interest cost	13.5	12.0
Current service cost	2.1	3.0
Expected return on plan assets	–0.8	–0.8
Amortisation to be allowed for	–1.9	–
	12.9	**14.2**

The actual return on plan assets amounted to € 0.9 million (2007: € 0.9 million).

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

€ million	2008	2007
Fair value of plan assets as at Jan. 1	**17.9**	**17.6**
Other asset to be recognised	0.5	–
Expected return on plan assets	0.8	0.8
Actuarial gains	0.1	0.1
Benefits paid	–0.5	–0.6
Fair value of plan assets as at Dec. 31	**18.8**	**17.9**

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

€ million	2008	2007	2006	2005	2004
Present value of the defined benefit obligation	249.5	255.0	291.1	309.9	37.8
Fair value of plan assets	–18.8	–17.9	–17.6	–17.1	–
Deficit in the plan	**230.7**	**237.1**	**273.5**	**292.8**	**37.8**

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

	2008	2007	2006
Experience adjustments arising on plan liability (in %)	2.6	2.1	–2.9
Experience adjustments arising on plan assets (in %)	0.6	0.7	1.7
Difference between actual and expected return on plan assets (€ million)	0.1	0.1	0.1

The provisions for pensions contain liabilities of € 11.3 million (2007: € 12.9 million) for pension obligations transferred to former affiliated companies of the Viterra Group relating to vested rights and the payment of current pensions. A corresponding non-current receivable is shown under miscellaneous other assets.

Other provisions

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

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

The personnel obligations are provisions for pre-retirement part-time work arrangements, bonuses, severance payments beyond restructuring and other personnel expenses. The other personnel expenses include a provision for the Long-Term Incentive Plan (LTIP). The DAIG compensation system for the key management and the senior managers includes not only a basic salary and variable salary components but also a long-term component, the LTIP. All individual incentive agreements previously concluded were cancelled when this LTIP was introduced in 2007. The compensation under LTIP is in part linked to the occurrence of certain events (e.g. IPO, trade sale) or to certain retention periods. The amount of compensation to be paid to the key management largely depends on DAIG's performance in the period up to the occurrence of the event(s) triggering payment.

The other provisions as at December 31, 2008 include a provision of € 9.2 million (2007: € 9.8 million) for the LTIP.

The restructuring provisions relate to personnel expenses which will be incurred as a result of staff cuts in connection with the planned reorganisation of the company as from 2009. The company's restructuring plans were publicly announced and a timetable and plan of action presented in October 2008.

During the normal course of business, Deutsche Annington Immobilien GmbH and its subsidiaries give product warranties to the buyers of owner-occupier houses and apartments, commercial buildings and land. As at December 31, 2008, provisions of € 1.1 million (2007: € 3.4 million) had been recognised for these product warranties in the DAIG consolidated financial statements.

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

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

28 Trade payables

€ million	Dec. 31, 2008 non-current	Dec. 31, 2008 current	Dec. 31, 2007 non-current	Dec. 31, 2007 current
Liabilities				
from property letting	–	22.4	–	22.6
from other goods and services	1.0	10.0	0.5	16.1
	1.0	**32.4**	**0.5**	**38.7**

29 Other financial liabilities

€ million	Dec. 31, 2008 non-current	Dec. 31, 2008 current	Dec. 31, 2007 non-current	Dec. 31, 2007 current
Other financial liabilities				
Banks	1,360.2	125.0	1,428.0	84.7
Other creditors	5,523.4	61.7	5,503.8	192.0
Derivatives	28.1	–	0.1	–
Miscellaneous other financial liabilities	–	7.8	–	7.1
	6,911.7	**194.5**	**6,931.9**	**283.8**

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

€ million	Nominal obligation Dec. 31, 2008	Maturity	Average interest rate	Maturity of the nominal values is as follows: 2009	2010	2011	2012	2013	from 2014
Securitisation transactions									
GRAND plc.	5,153.4	2013	3.37%	80.4	63.9	122.7	133.3	4,753.1	0.0
Hallam Finance plc.	200.0	2011	3.89%	8.0	8.0	184.0	0.0	0.0	0.0
Acquisition loans									
Acquisition financing I	232.2	2013	4.73%	2.0	2.0	2.0	2.0	224.2	0.0
Acquisition financing II	275.0	2015	5.45%	2.9	4.2	4.4	4.6	4.7	254.2
Mortgages	1,409.3	2031	3.40%	133.4	74.0	86.1	81.2	66.1	968.5
(thereof prolongations)				(90.1)	(32.6)	(44.9)	(43.3)	(30.8)	(23.6)
	7,269.9			**226.7**	**152.1**	**399.2**	**221.1**	**5,048.1**	**1,222.7**

Of the nominal obligations to creditors, € 7,266.4 million (2007: € 7,204.5 million) are secured by land charges and other collateral (account pledge agreements, assignments, pledges of company shares and guarantees).

The nominal interest rates on the financial liabilities to banks and other creditors are between 0.0% and 8.0% (average weighted approx. 3.51%). None of the financial liabilities contain any short-term interest rate risks as they relate either to loans with long-term fixed interest rates or, in the cases of loans with variable interest rates, they are loans which are interest rate-hedged by fixed payer swaps.

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

In 2008, scheduled repayments of € 213.6 million and unscheduled repayments of € 314.5 million were made. New loans of € 324.4 million were taken out. These new loans include € 22.5 million to fund acquisitions and € 3.8 million to cover liabilities assumed as part of the acquisition of real estates.

In 2007, a loan agreement was concluded with Barclays Capital for the financing of acquisitions. The agreement running until the end of 2013 was originally for an amount of € 250.0 million. At December 31, 2008, the value of the loan was € 232.2 million (2007: € 235.6 million). As part of this loan agreement, the borrowers provided securities in the form of land charges, account pledge agreements and assignments. Furthermore, company shares were pledged. These securities can only be realised by the secured parties if the borrowers substantially infringe the loan agreement (e.g. fail to fulfil the financial covenants). Interest on the utilisations is based on the 3-month Euribor. In order to hedge the interest rate risk over the entire term of the loan agreement, the borrowers contracted fixed payer swaps. The average interest rate for this financing is – after allowing for the interest hedges – 4.73% (incl. margin). Capital repayments are obligatory when residential units are sold and to maintain the contractually agreed debt-equity ratio.

In April 2008, DAIG signed a loan agreement running until April 2015 with Landesbank Hessen-Thüringen and SEB AG for a maximum of € 300.0 million. A total of € 288.0 million was utilised. The loan had a value of € 275.0 million as at December 31, 2008. The purpose of this loan agreement was to refinance the acquisition line of credit concluded with Barclays Capital and Citibank for a total of € 500.0 million, € 287.2 million of which had been drawn at the time of repayment, as well as to fund a further portfolio acquisition. As part of the loan agreement, the borrowers provided securities in the form of land charges, account pledge agreements and assignments. Furthermore, company shares were pledged. Interest on the loan is based on the 3-month Euribor. In order to hedge the interest rate risk over the entire term of the loan agreement, the borrowers contracted a fixed payer swap with an interest rate of 5.45% (incl. margin). This loan agreement provides for regular quarterly capital repayments as well as obligatory special capital repayments when residential units are sold.

The aforementioned € 500.0 million acquisition line from Barclays Capital and Citibank was terminated in October 2008.

In December 2008, subsidiaries of DAIG signed loan agreements with Kreissparkasse Köln for a total of € 6.1 million to finance the acquisition of a portfolio. The interest rate of this annuity loan is 4.45% and is fixed until December 31, 2015. Securities have been provided in the form of land charges. These loans will be paid out in 2009.

The bearer bonds issued in two tranches in 2006 in connection with the securitisation transaction (GRAND plc.) had a value of € 5,153.4 million at the end of the 2008 financial year (2007: € 5,309.4 million). The average weighted interest rate is 3.37% up to July 2010 and, on the basis of contractual agreements, rises to 4.66% from July 2010 until the end of the term in July 2013. In 2008, capital repayments of € 156.0 million and interest payments of € 178.5 million were made. The contractually agreed debt-equity ratio was therefore clearly undercut. As part of the loan agreement, the borrowers provided securities in the form of land charges, account pledge agreements and assignments. These securities can only be realised by the secured parties if the borrowers substantially infringe the loan agreement (e.g. fail to fulfil the financial covenants).

Liabilities to other creditors include as at December 31, 2008 a liability of € 88.4 million from finance lease (2007: € 87.9 million) (Spree-Bellevue property). The following table shows the total minimum lease payments and reconciliation to their present value.

€ million	Dec. 31, 2008 Total minimum lease payments	Dec. 31, 2008 Interest portion	Dec. 31, 2008 Present value	Dec. 31, 2007 Total minimum lease payments	Dec. 31, 2007 Interest portion	Dec. 31, 2007 Present value
Due within one year	4.2	0.2	4.0	4.5	0.3	4.2
Due in 1 to 5 years	17.6	3.1	14.5	17.3	3.0	14.3
Due after 5 years	248.4	178.5	69.9	252.9	183.5	69.4
	270.2	**181.8**	**88.4**	**274.7**	**186.8**	**87.9**

30 Income tax liabilities

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

31 Other liabilities

€ million	Dec. 31, 2008 non-current	Dec. 31, 2008 current	Dec. 31, 2007 non-current	Dec. 31, 2007 current
Advance payments	–	314.1	–	307.7
Liabilities from deferred interest	–	43.1	–	42.5
Miscellaneous other liabilities	4.1	13.7	3.8	29.4
Deferred income	1.0	1.3	0.9	2.0
	5.1	**372.2**	**4.7**	**381.6**

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

The miscellaneous other liabilities mainly include other tax liabilities of € 2.5 million (2007: € 2.6 million). A subsequent adjustment of the acquisition cost of Viterra amounting to € 15.0 million was paid at the beginning of 2008.

32 Assets and disposal groups held for sale and discontinued operation

In 2006, DAIG decided to focus on its core business, the letting, buying and selling of housing units, and to sell the Development division. The entire Development division was classified as a discontinued operation. The parts of the division still remaining at December 31, 2006 were classified as a disposal group held for sale and were sold in December 2007.

The results of the discontinued operation break down as follows:

€ million	2008	2007
Income	–	21.1
Expenses	–	–11.3
Results from operating activities	**–**	**9.8**
Income tax	–	–4.9
Results from operating activities, net of income tax	**–**	**4.9**
Profit on sale of discontinued operation before income tax	6.5	3.8
Income tax on profit on sale of discontinued operation	–0.6	–2.3
Profit on sale of discontinued operation	**5.9**	**1.5**
Profit for the period	**5.9**	**6.4**

The cash flows from the discontinued operation are as follows:

€ million	2008	2007
Net cash used in/from operating activities	–7.4	22.3
Net cash used in/from investing activities	–20.8	14.4
Net cash used in financing activities	–	–17.6
Net cash used in/from discontinued operation	**–28.2**	**19.1**

Of the negative cash flow from operating activities in 2008, € 7.4 million is due to payments of supplementary trade tax.

At the end of 2006, a settlement was signed between DAIG and Deutsche Post in which it was agreed that the commercial properties of Viterra Logistikimmobilien GmbH & Co. KG, Essen, originally sold to DAIG had to be bought back by Deutsche Post with effect from December 31, 2007. The resulting subsequent adjustment of the acquisition cost of Viterra paid to E.ON led in February 2008 to a negative cash flow from investing activities of the discontinued operation of € 15.0 million. A further –€ 5.8 million (2007: –€ 1.2 million) results from the utilisation of provisions established in connection with the sale of the business operation.

The tax on discontinued operation income differs as follows from the hypothetical amount arrived at by applying a tax rate of 31.6% (2007: 40%) to profit before income tax:

€ million	2008	2007
Profit before income taxes	6.5	13.6
Income tax rate of the company in %	31.6	40.0
Expected tax expense	**2.1**	**5.5**
Trade tax effects	–	0.7
Non-deductible operating costs	–	1.0
Tax-free effects	–2.4	–
Effects of taxes from prior years	0.9	–
Actual income taxes	**0.6**	**7.2**
Actual tax rate in %	**9.2**	**52.8**

Other notes and disclosures

33 Additional disclosures on financial instruments

Measurement categories and classes: € million	Measure-ment category in acc. with IAS 39	Carrying amounts Dec. 31, 2008	Amounts recognised in balance sheet Face value	Amortised cost	Acquisition cost
Assets					
Cash and cash equivalents					
Cash	LaR	**253.5**	**253.5**		
Restricted cash	LaR	**2.1**	**2.1**		
Trade and other receivables					
Receivables from the sale of properties	LaR	**66.6**		**66.6**	
Receivables from property letting	LaR	**18.2**		**18.2**	
Receivables from property management	LaR	**1.2**		**1.2**	
Reveivables from other supplies and services	LaR	**0.0**		**0.0**	
Other financial receivables					
Loans to related companies	LaR	**34.7**		**34.7**	
Other long-term loans	LaR	**5.4**		**5.4**	
Dividends from other investments	LaR	**1.7**		**1.7**	
Other non-derivative financial assets					
Long-term securities	AfS	**2.7**			
Other investments	AfS	**1.7**			**1.7**
Hedged derivative financial assets					
Cash flow hedges	n.a.	**0.0**			
Liabilities					
Trade and other payables					
Liabilities from property letting	FLAC	**22.4**		**22.4**	
Liabilities from other goods and services	FLAC	**11.0**		**11.0**	
Other non-derivative financial liabilities					
Liabilities to banks	FLAC	**1,485.2**		**1,485.2**	
Liabilities to other creditors	FLAC	**5,496.7**		**5,496.7**	
Miscellaneous other financial liabilities	n.a.	**7.8**			
Liabilities from finance leases	n.a.	**88.4**			
Hedged derivative financial liabilities					
Cash flow hedges	n.a.	**28.1**			
thereof aggregated by measurement categories in accordance with IAS 39:					
Loans and receivables	**LaR**	**383.4**	**255.6**	**127.8**	**0.0**
Available-for-sale financial assets	**AfS**	**4.4**	**0.0**	**0.0**	**1.7**
Financial liabilities measured at amortised cost	**FLAC**	**7,015.3**	**0.0**	**7,015.3**	**0.0**
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		11.3			
Amount by which the fair value of plan assets exceeds the corresponding obligation		0.5			
Provisions for pensions and similar obligations		263.4			

according to IAS 39						Amounts recognised in balance sheet according to IAS 39						
Fair value affecting net income	Fair value recognised in equity	Amounts recognised in balance sheet in acc. with IAS 17	Fair value Dec. 31, 2008	Measurement category in acc. with IAS 39	Carrying amounts Dec. 31, 2007	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, 2007
			253.5	LaR	366.4	366.4						366.4
			2.1	LaR	2.1	2.1						2.1
			66.6	LaR	118.6		118.6					118.6
			18.2	LaR	17.3		17.3					17.3
			1.2	LaR	1.5		1.5					1.5
			0.0	LaR	0.2		0.2					0.2
			41.3	LaR	34.9		34.9					34.9
			5.4	LaR	0.7		0.7					0.7
			1.7	LaR	1.7		1.7					1.7
	2.7		**2.7**	AfS	2.3					2.3		2.3
			1.7	AfS	1.7			1.7				1.7
			0.0	n.a.	6.4				0.9	5.5		6.4
			22.4	FLAC	22.6		22.6					22.6
			11.0	FLAC	16.6		16.6					16.6
			1,567.0	FLAC	1,512.7		1,512.7					1,505.9
			5,675.9	FLAC	5,607.9		5,607.9					5,535.0
7.8			**7.8**	n.a.	7.1				7.1			7.1
		88.4	**109.6**	n.a.	87.9						87.9	92.3
5.5	**22.6**		**28.1**	n.a.	0.1					0.1		0.1
0.0	**0.0**		**390.0**	LaR	543.4	368.5	174.9	0.0	0.0	0.0		543.4
0.0	**2.7**		**4.4**	AfS	4.0	0.0	0.0	1.7	0.0	2.3		4.0
0.0	**0.0**		**7,276.3**	FLAC	7,159.8	0.0	7,159.8	0.0	0.0	0.0		7,080.1
					12.9							
					0.5							
					268.4							

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

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

Other investments are measured at cost as there is no price quoted on an active market and the fair market value cannot be determined reliably. Other investments are mainly VBW Bauen und Wohnen GmbH, Bochum, € 0.9 million (2007: € 0.9 million), Hellerhof GmbH, Frankfurt am Main, € 0.3 million (2007: € 0.3 million) as well as WoWi Media GmbH & Co. KG, Hamburg, € 0.3 million (2007: € 0.0 million).

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

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

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

Net result according to measurement categories:

€ million	Measurement category in acc. with IAS 39	from interest	Income from other long-term loans	from subsequent measurement: Impairment losses	from subsequent measurement: Derecognised receivables	from subsequent measurement: Derecognised liabilities	Income from other investments	Net result
2008								
Loans and receivables	LaR	17.1	1.9	–7.8	–0.8	–	–	**10.4**
Available-for-sale financial assets	AfS	0.1	–	0.0	–	–	1.9	**2.0**
Financial liabilities measured at amortised cost	FLAC	–354.2	–	–	–	0.9	–	**–353.3**
Total		–337.0	1.9	–7.8	–0.8	0.9	1.9	**–340.9**
2007								
Loans and receivables	LaR	26.3	1.9	–10.4	–1.5	–	–	**16.3**
Available-for-sale financial assets	AfS	0.1	–	0.0	–	–	1.9	**2.0**
Financial liabilities measured at amortised cost	FLAC	–350.4	–	–	–	–	–	**–350.4**
Total		–324.0	1.9	–10.4	–1.5	0.0	1.9	**–332.1**

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

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.

34 Risk management

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

Interest rate risks

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

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

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.

Credit risks

In the DAIG Group, there are no significant concentrations of potential credit risks. Contracts for derivative financial instruments and financial transactions are only concluded with banks of good standing. DAIG has a Group-wide policy to ensure that rental contracts are only made with tenants with a good credit history. Valuation allowances are provided for the risk of loss of financial assets.

Under the conditions of loan agreements, DAIG is obliged to fulfil certain financial covenants such as the debt service coverage ratio and debt-equity ratio. If these financial covenants are not fulfilled, the lender may call in the loan. In 2008, DAIG fulfilled all financial covenants agreed. As part of risk management, the fulfilment of these financial covenants is continually monitored on the basis of current extrapolations and budgetary accounting. On the basis of the current corporate planning, DAIG is confident that these financial covenants will also be fulfilled in future.

Market risks
(a) Currency risks
Owing to the limited internationality of DAIG's business, there are – as in 2007 – no substantive currency risks.

(b) Price risks
DAIG is – as in 2007 – exposed to property price and market rental risks.

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

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

€ million	Carrying amount as at Dec. 31, 2008	Cash flows					
		2009		2010		2011 to 2015	
		Interest	Repayment	Interest	Repayment	Interest	Repayment
Other non-derivative financial liabilities:							
Banks	1,485.2	54.2	118.3	48.1	65.3	207.6	745.7
Other creditors	5,496.7	191.2	108.4	204.0	86.8	673.1	5,266.5
Miscellaneous other financial liabilities	7.8		0.0		0.0		2.5
Liabilities from finance leases	88.4	4.2		4.3		22.6	
Hedged derivative financial assets							
Cash flow hedges	28.1	7.2	0.0	9.7	0.0	17.8	0.0

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

Breakdown of the credit line financing reserve:

€ million	Credit lines Dec. 31, 2008	Utilisation Dec. 31, 2008	Unutilised credit lines Dec. 31, 2008	Unutilised credit lines Dec. 31, 2007
Due within:				
< 1 year	100.0	0.0	100.0	105.0
> 1 year	0.0	0.0	0.0	0.0
	100.0	**0.0**	**100.0**	**105.0**

As a result of the economic and financial crisis, the financing conditions and financing options for DAIG are now not as good. In general, this may mean that DAIG will have to provide more equity when making acquisitions and/or refinancing funds in order to obtain economically acceptable conditions.

DAIG had cash on hand and deposits at banks totalling € 251.1 million as at the balance-sheet date. Given these cash and cash equivalents and the above-mentioned financing reserves from credit lines, DAIG's ability to service debt can be regarded as guaranteed at all times even in the light of the economic and financial crisis.

35 Derivative financial instruments

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

As part of the refinancing of acquisition financing II, interest hedges with Barclays Capital and Citibank were redeemed and continued with swaps contracted with Landesbank Hessen-Thüringen and SEB AG. The nominal volume of the interest rate swaps increased to € 525.6 million as at December 31, 2008. Interest rates vary between 4.075% and 4.400% with swap periods of 6.25 to 6.75 years.

€ million	Nominal value	Beginning of term	End of term	Average interest rate
Acquisition financing I				
Hedged item	237.2	Dec. 29, 2006	Dec. 31,2013	3-m EURIBOR
Interest rate swaps	237.6	Jul. 20, 2007	Oct. 20, 2013	4.205%
Acquisition financing II				
Hedged item	288.0	Apr. 18, 2008	Apr. 20, 2015	3-m EURIBOR
Interest rate swaps	288.0	Jul. 21, 2008	Apr. 20, 2015	4.400%

As part of the cash flow hedge accounting, the derivatives as at December 31, 2008 were shown at their negative clean present fair values totalling € 28.1 million under other financial liabilities.

As a result of the valuation, € 25.6 million was deducted from equity not affecting net income. A loss from ineffectiveness amounting to € 2.3 million in 2008, after deduction of deferred taxes, was recognised in the income statement.

An interest rate swap, which was no longer part of hedging at March 31, 2008, was redesignated in the second quarter of 2008. The lack of hedging led to a loss of € 2.7 million in the reporting period after deduction of deferred taxes.

On the basis of the valuation as at December 31, 2008, DAIG has used a sensitivity analysis to determine the change in equity given a hypothetical shift in the interest rate structure of 50 basis points in each case:

	Change in equity		
€ million	Other reserves not affecting income	Ineffective portions affecting net income	Total
+ 50 basis points	+10.8	+0.4	+11.2
– 50 basis points	–11.1	–0.4	–11.5

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

36 Information on the consolidated cash flow statement

When determining the cash flow from operating activities using the indirect method, the profit for the period was adjusted for the effects of transactions of a non-cash nature, any deferrals or accruals of past or future operating cash receipts or payments, as well as items of income or expense associated with investing or financing cash flows. Therefore, direct comparison with the corresponding changes in the consolidated balance sheet items is not possible.

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

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

Acquisition of investment properties shows the investments adjusted for non-cash debt assumptions. As part of the acquisition of various housing stocks, loan liabilities of € 3.8 million (2007: € 14.7 million) were assumed. The item “Cash proceeds from issuing loans and notes” has been adjusted accordingly.

The cash proceeds from issuing loans and notes mainly include the loans taken out to fund real estate newly acquired in the reporting year. They do not include loan liabilities which already existed and were assumed as part of a real estate acquisition.

Cash repayments of financial liabilities refer to the loan liabilities repaid in the reporting year. These include the repayment of the acquisition line of € 500.0 million which was provided by Barclays Capital and Citibank, of which € 287.2 million had been utilised at the time of repayment. The refinancing with Landesbank Hessen-Thüringen and SEB AG is shown in the cash proceeds from issuing loans and notes.

Of the cash and cash equivalents, restraints on disposal apply to € 40.8 million (2007: € 69.3 million).

37 Contingent liabilities

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

Contingent liabilities to third parties are mainly guarantees for warranty claims and contract performance guarantees. The terms are in many cases limited to an agreed time or depend on the term of the loan to which they apply. In some cases, the term is unlimited.

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

38 Other financial obligations

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

€ million	Dec. 31, 2008	Dec. 31, 2007
Total minimum lease payments	**269.2**	**254.2**
Due within one year	12.6	12.3
Due in 1 to 5 years	38.4	39.6
Due after 5 years	218.2	202.3

Payments of € 12.9 million (2007: € 14.2 million) under rental, tenancy and leasing agreements were recognised as expenses in 2008.

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

Furthermore, there are financial obligations from the commissioning of future services of € 154.8 million (2007: € 151.0 million).

39 Litigation and claims

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

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

40 Related party transactions

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

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

Monterey Holdings I S.à.r.l., Luxembourg, has assumed the existing obligations towards the members of the management for the payments under the Long-Term Incentive Plan (LTIP). DAIG discloses within other assets a receivable from Monterey Holdings I S.à.r.l., Luxembourg, of € 1.9 million, which is the amount of the obligations assumed.

In 2005, consultancy agreements were signed with Terra Firma Capital Partners Limited, London, and terrafirma GmbH, Frankfurt am Main. In 2008, services totalling € 1.1 million were provided (2007: € 1.7 million).

In 2008, Citibank N.A. and its subsidiary, Citigroup Global Markets Limited, had the following business relations with DAIG:

In May 2007, an acquisition line of credit for a total of € 500.0 million was signed with Barclays Capital and Citibank. This acquisition line was terminated in October 2008 and the loan amounts utilised repaid. A detailed description of the financing has already been given under note (29) Other financial liabilities.

As part of the refinancing of the acquisition loans, the fixed payer swaps with Citibank N. A., London Branch, used for hedging purposes, were also redeemed and replaced by new interest rate swaps with Landesbank Hessen-Thüringen and SEB AG respectively. The positive clean present fair value of € 5.0 million was realised through the redemption of these fixed payer swaps with Citibank N. A., London Branch.

In 2006, Citibank and DAIG signed cooperation agreements on future projects. The agreements end in March 2009.

41 Events after the balance-sheet date

In 2008, DAIG already signed purchase agreements, thus entering into a commitment to purchase 108 housing units and five commercial properties at a price of € 7.1 million; transfer of ownership will not take place until after December 31, 2008.

42 Remuneration

The members of the Supervisory Board received € 101.9 k for their work in 2008 (2007: € 71.4 k).

The total remuneration of the Management amounted to € 3.1 million (2007 € 6.7 million). Of this figure, € 1.7 million (2007: € 0.8 million) was for fixed remuneration components including benefits in kind and other remuneration. The variable remuneration of € 1.4 million (2007: € 5.9 million) refers to bonuses and in 2007 to payments under the Long Term Incentive Plan.

The pension obligations (DBO) to former managing directors and their surviving dependants amount to € 1.0 million (2007: € 4.1 million) and the pension obligations to current managing directors and their surviving dependants amount to € 3.1 million (2007: € 3.2 million).

Supervisory Board

Guy Hands, Chairman,
Chairman and Chief Investment Officer of Terra Firma Capital Partners Limited, London

Phillip Wesley Burns,
Financial Managing Director of Terra Firma Capital Partners Limited, London

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

Fraser Duncan,
Managing Director of Terra Firma Capital Partners Limited, London

Wolfgang König,
Business Consultant, Esslingen

Sir Thomas Macpherson (until February 7, 2008),
Chairman of Annington Holdings PLC, London

Prof. Dr Klaus Rauscher (since August 1, 2008)
Business Consultant, Berlin

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

Management

Wijnand Donkers, Chairman

Dr Manfred Püschel

Dr Wulf Böttger (from April 1, 2008 to February 5, 2009)

Düsseldorf, March 30, 2009

Wijnand Donkers   Dr Manfred Püschel

AUDITORS' REPORT

We have audited the consolidated financial statements prepared by Deutsche Annington Immobilien GmbH, Düsseldorf – comprising the balance sheet, income statement, statement of changes in equity, cash flow statement and the notes – together with the group management report for the financial year from January 1 to December 31, 2008. The preparation of the consolidated financial statements and the group management report in accordance with IFRSs as adopted by the EU, and the additional requirements of German commercial law pursuant to § 315a, para. 1 HGB are the responsibility of the parent company's management. Our responsibility is to express an opinion on the consolidated financial statements and on the group management report based on our audit.

We conducted our audit of the consolidated financial statements in accordance with § 317 HGB and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (IDW). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the consolidated financial statements in accordance with the applicable financial reporting framework and in the group management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Group and expectations as to possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the consolidated financial statements and the group management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the annual financial statements of those entities included in consolidation, the determination of entities to be included in consolidation, the accounting and consolidation principles used and significant estimates made by the parent company's management, as well as evaluating the overall presentation of the consolidated financial statements and the group management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion, based on the findings of our audit, the consolidated financial statements comply with IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to § 315a, para. 1 HGB and 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 group management report is consistent with the consolidated financial statements and as a whole provides a suitable view of the Group's position and suitably presents the opportunities and risks of future development.

Essen, March 31, 2009

KPMG AG
Wirtschaftsprüfungsgesellschaft
(formerly
KPMG Deutsche Treuhand-Gesellschaft
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft)

Beumer	Huperz
Wirtschaftsprüfer	Wirtschaftsprüfer

2008

Further Information

List of Shareholdings

List of DAIG shareholdings as at December 31, 2008

	Company	Seat	Interest %
	Deutsche Annington Immobilien GmbH	Düsseldorf	100.00
A.	**Consolidated companies**		
	Baugesellschaft Bayern mbH	Munich	94.90
	Bundesbahn Wohnungsbaugesellschaft Kassel Gesellschaft mit beschränkter Haftung	Kassel	94.90
	Bundesbahn-Wohnungsbaugesellschaft Regensburg mbH	Regensburg	94.90
	BWG Frankfurt am Main Bundesbahn-Wohnungsgesellschaft mbH	Frankfurt	94.90
	DA DMB Netherlands B.V.	Eindhoven/NL	100.00
	Deutsche Annington Bestands GmbH & Co.KG	Düsseldorf	100.00
	Deutsche Annington Beteiligungsverwaltungs GmbH	Düsseldorf	100.00
	Deutsche Annington Bewirtschaftungs GmbH & Co.KG	Düsseldorf	100.00
	Deutsche Annington Consulting GmbH	Bochum	100.00
	Deutsche Annington DEWG GmbH & Co.KG	Düsseldorf	100.00
	Deutsche Annington DEWG Verwaltungs GmbH	Düsseldorf	99.60
	Deutsche Annington DID Verwaltungs GmbH	Düsseldorf	99.60
	Deutsche Annington Dienstleistungen Holding GmbH i.L.	Düsseldorf	100.00
	Deutsche Annington DMB Eins GmbH	Bochum	100.00
	Deutsche Annington Dritte Beteiligungsgesellschaft mbH	Düsseldorf	100.00
	Deutsche Annington EWG Augsburg GmbH & Co.KG	Düsseldorf	100.00
	Deutsche Annington EWG Augsburg Verwaltungs GmbH	Düsseldorf	99.60
	Deutsche Annington EWG Essen Bestands GmbH & Co.KG	Düsseldorf	100.00
	Deutsche Annington EWG Essen Bewirtschaftungs GmbH & Co.KG	Düsseldorf	100.00
	Deutsche Annington EWG Essen Verwaltungs GmbH	Düsseldorf	99.60
	Deutsche Annington EWG Frankfurt Bestands GmbH & Co.KG	Düsseldorf	100.00
	Deutsche Annington EWG Frankfurt Bewirtschaftungs GmbH & Co.KG	Düsseldorf	100.00
	Deutsche Annington EWG Frankfurt Verwaltungs GmbH	Düsseldorf	99.60
	Deutsche Annington EWG Karlsruhe Bestands GmbH & Co.KG	Düsseldorf	100.00
	Deutsche Annington EWG Karlsruhe Bewirtschaftungs GmbH & Co.KG	Düsseldorf	100.00
	Deutsche Annington EWG Karlsruhe Verwaltungs GmbH	Düsseldorf	99.60
	Deutsche Annington EWG Kassel Bestands GmbH & Co.KG	Düsseldorf	100.00
	Deutsche Annington EWG Kassel Bewirtschaftungs GmbH & Co.KG	Düsseldorf	100.00
	Deutsche Annington EWG Kassel Verwaltungs GmbH	Düsseldorf	99.60
	Deutsche Annington EWG Köln Bestands GmbH & Co.KG	Düsseldorf	100.00
	Deutsche Annington EWG Köln Bewirtschaftungs GmbH & Co.KG	Düsseldorf	100.00
	Deutsche Annington EWG Köln Verwaltungs GmbH	Düsseldorf	99.60
	Deutsche Annington EWG Mainz GmbH & Co.KG	Düsseldorf	100.00
	Deutsche Annington EWG Mainz Verwaltungs GmbH	Düsseldorf	99.60
	Deutsche Annington EWG München Bestands GmbH & Co. KG	Düsseldorf	100.00
	Deutsche Annington EWG München Bewirtschaftungs GmbH & Co. KG	Düsseldorf	100.00
	Deutsche Annington EWG München Verwaltungs GmbH	Düsseldorf	99.60
	Deutsche Annington EWG Nürnberg GmbH & Co.KG	Düsseldorf	100.00
	Deutsche Annington EWG Nürnberg Verwaltungs GmbH	Düsseldorf	99.60
	Deutsche Annington EWG Regensburg GmbH & Co.KG	Düsseldorf	100.00
	Deutsche Annington EWG Regensburg Verwaltungs GmbH	Düsseldorf	99.60
	Deutsche Annington Finance GmbH	Düsseldorf	100.00
	Deutsche Annington Fundus Immobiliengesellschaft mbH	Cologne	100.00
	Deutsche Annington Fünfte Beteiligungsgesellschaft mbH	Düsseldorf	100.00
	Deutsche Annington Haus GmbH	Kiel	100.00
	Deutsche Annington Heimbau Bestands GmbH & Co.KG	Düsseldorf	100.00
	Deutsche Annington Heimbau Bewirtschaftungs GmbH & Co.KG	Düsseldorf	100.00
	Deutsche Annington Heimbau GmbH	Kiel	100.00
	Deutsche Annington Heimbau Verwaltungs GmbH	Düsseldorf	99.60
	Deutsche Annington Holdings Drei GmbH	Bochum	100.00
	Deutsche Annington Holdings Eins GmbH	Düsseldorf	100.00
	Deutsche Annington Holdings Fünf GmbH	Düsseldorf	100.00
	Deutsche Annington Holdings Vier GmbH	Düsseldorf	100.00
	Deutsche Annington Holdings Zwei GmbH	Düsseldorf	100.00
	Deutsche Annington Immobiliendienstleistung Bestands GmbH & Co.KG	Düsseldorf	100.00
	Deutsche Annington Immobilien-Dienstleistungen GmbH	Düsseldorf	100.00
	Deutsche Annington Informationssysteme GmbH	Düsseldorf	100.00
	Deutsche Annington Interim DAMIRA GmbH	Düsseldorf	100.00
	Deutsche Annington MIRA Bestands GmbH & Co.KG	Düsseldorf	100.00
	Deutsche Annington MIRA Bewirtschaftungs GmbH & Co.KG	Düsseldorf	100.00
	Deutsche Annington MIRA Verwaltungs GmbH	Düsseldorf	99.60
	Deutsche Annington Nord GmbH	Kiel	100.00
	Deutsche Annington Ost GmbH	Berlin	100.00

Company	Seat	Interest %
Deutsche Annington Revisionsgesellschaft mbH	Düsseldorf	100.00
Deutsche Annington Rheinland GmbH	Düsseldorf	100.00
Deutsche Annington Rheinland Immobiliengesellschaft mbH	Cologne	100.00
Deutsche Annington Rhein-Ruhr GmbH & Co.KG	Essen	100.00
Deutsche Annington Ruhr GmbH	Essen	100.00
Deutsche Annington Service GmbH	Frankfurt	100.00
Deutsche Annington Süd GmbH	Munich	100.00
Deutsche Annington Süd-West GmbH	Frankfurt	100.00
Deutsche Annington Vermögensgesellschaft mbH & Co.KG	Düsseldorf	100.00
Deutsche Annington Verwaltungs GmbH	Bochum	100.00
Deutsche Annington Vierte Beteiligungsgesellschaft mbH	Düsseldorf	99.60
Deutsche Annington Westfalen GmbH	Dortmund	100.00
Deutsche Annington WOGE Drei Verwaltungs GmbH	Düsseldorf	99.60
Deutsche Annington WOGE Eins Verwaltungs GmbH	Düsseldorf	99.60
Deutsche Annington WOGE Fünf Bestands GmbH & Co. KG	Düsseldorf	100.00
Deutsche Annington WOGE Fünf Bewirtschaftungs GmbH & Co. KG	Düsseldorf	100.00
Deutsche Annington WOGE Fünf Verwaltungs GmbH	Düsseldorf	100.00
Deutsche Annington WOGE Sechs Bestands GmbH & Co.KG	Bochum	100.00
Deutsche Annington WOGE Sechs Bewirtschaftungs GmbH & Co.KG	Bochum	100.00
Deutsche Annington WOGE Sechs Verwaltungs GmbH	Bochum	100.00
Deutsche Annington WOGE Sieben Bestands GmbH & Co.KG	Bochum	100.00
Deutsche Annington WOGE Sieben Bewirtschaftungs GmbH & Co.KG	Bochum	100.00
Deutsche Annington WOGE Sieben Verwaltungs GmbH	Düsseldorf	100.00
Deutsche Annington WOGE Vier Bestands GmbH & Co.KG	Düsseldorf	100.00
Deutsche Annington WOGE Vier GmbH & Co.KG	Düsseldorf	100.00
Deutsche Annington Wohnungsgesellschaft I Bestands GmbH & Co.KG	Düsseldorf	100.00
Deutsche Annington Wohnungsgesellschaft I mbH	Essen	100.00
Deutsche Annington Wohnungsgesellschaft III Bestands GmbH & Co.KG	Düsseldorf	100.00
Deutsche Annington Wohnungsgesellschaft III mbH	Bochum	100.00
Deutsche Annington Zweite Beteiligungsgesellschaft mbH	Essen	100.00
Deutsche Eisenbahn-Wohnungs-Gesellschaft mbH	Leipzig	100.00
Eisenbahn-Siedlungsgesellschaft Augsburg mbH (Siegau)	Augsburg	94.90
Eisenbahn-Wohnungsbau-Gesellschaft Karlsruhe GmbH	Karlsruhe	94.90
Eisenbahn-Wohnungsbaugesellschaft Köln mbH	Cologne	94.90
Eisenbahn-Wohnungsbaugesellschaft Nürnberg GmbH	Nuremberg	94.90
Frankfurter Siedlungsgesellschaft mbH	Düsseldorf	100.00
FSG Immobilien GmbH & Co.KG	Düsseldorf	100.00
FSG Immobilien Verwaltungs GmbH	Düsseldorf	99.60
FSG-Holding GmbH	Düsseldorf	94.80
Grundstücksgesellschaft Eins Stauffenbergstraße mbH	Berlin	100.00
Immobilienfonds Koblenz-Karthause Wolfgang Hober KG	Düsseldorf	86.51
JANANA Grundstücksgesellschaft mbH & Co.KG	Grünwald	94.90
KADURA Grundstücksges. mbH & Co.KG	Grünwald	92.51
LEMONDAS Grundstücksgesellschaft mbH & Co.KG	Grünwald	94.90
LEVON Grundstücksgesellschaft mbH & Co.KG	Grünwald	94.90
MAKAB Beteiligungs Eins GmbH	Düsseldorf	100.00
MAKAB Grundstücksgesellschaft mbH & Co. KG	Grünwald	94.90
MAKANA Beteiligungsgesellschaft Eins GmbH	Düsseldorf	100.00
MAKANA Beteiligungsgesellschaft Zwei GmbH	Düsseldorf	100.00
MAKANA Grundstücksgesellschaft mbH & Co. KG	Grünwald	94.90
MANGANA Grundstücksgesellschaft mbH & Co.KG	Grünwald	94.90
MELCART Grundstücks-Verwaltungsgesellschaft mbH	Grünwald	94.80
MIRA Grundstücksgesellschaft mbH	Düsseldorf	94.90
MIRIS Beteiligungs Eins GmbH	Düsseldorf	100.00
MIRIS Grundstücksgesellschaft mbH & Co.KG	Grünwald	94.90
„Siege" Siedlungsgesellschaft für das Verkehrspersonal mbH Mainz	Mainz	94.90
Viterra Holdings Eins GmbH	Düsseldorf	100.00
Viterra Holdings Zwei GmbH	Düsseldorf	100.00
Viterra Logistikimmobilien GmbH & Co. KG	Essen	99.96
Wohnungsgesellschaft Ruhr-Niederrhein mbH Essen	Essen	94.90

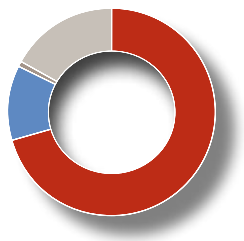
	Company	Seat	Interest %	Equity € '000	Net income for the year € '000
B.	**Other investments > 20 % interest**				
	FEA Verwaltungs GmbH	Düsseldorf	25.00	21	–1

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

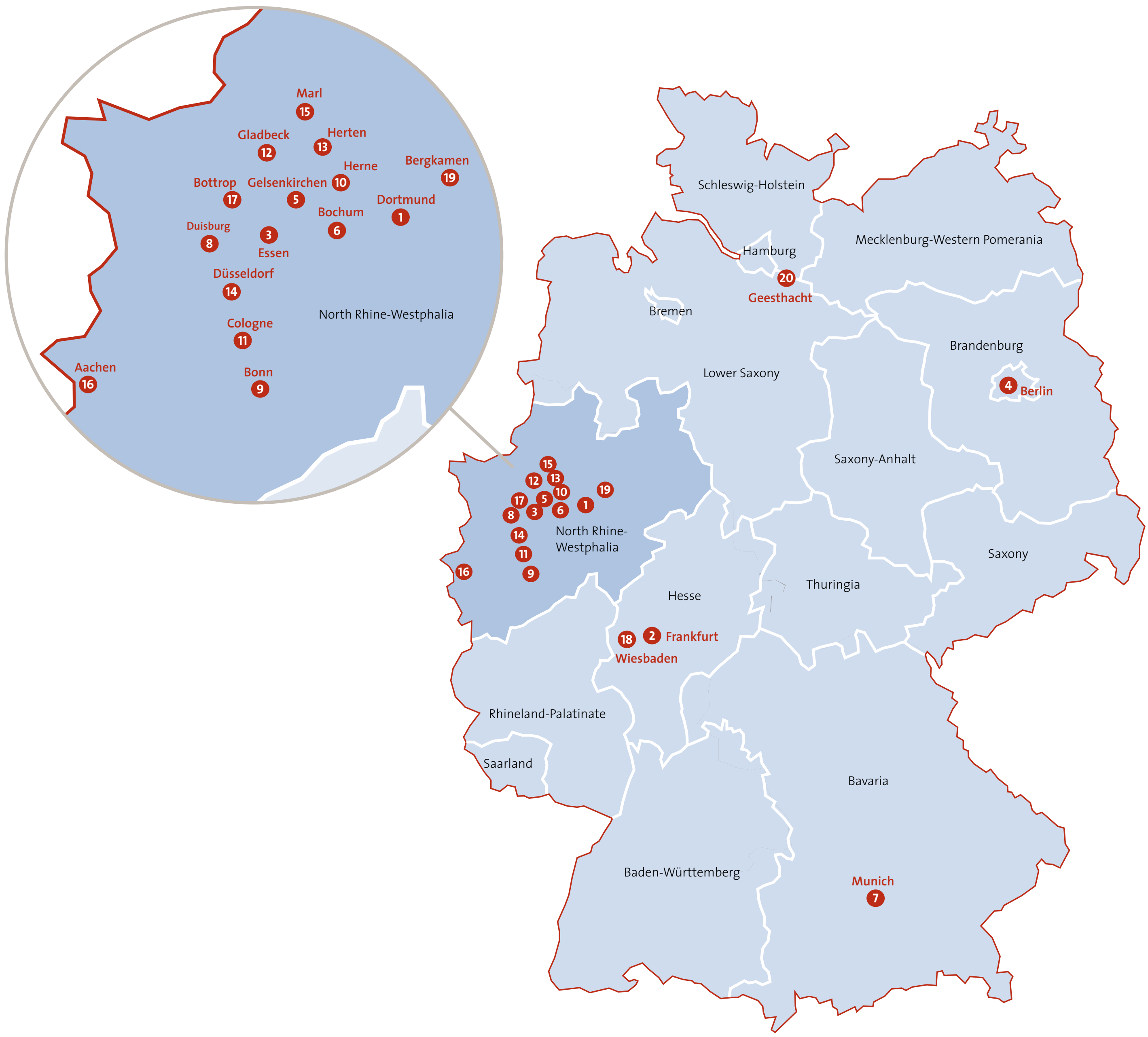
	Portfolio as at Dec. 31, 2008	Units	Share in %	Living area in m^2	Average living area per unit in m^2	Annualised net rent* in € m	Share in %	Monthly net rent per m^2* in €	Vacancy rate* in %
	Top 20 cities and towns								
1	Dortmund	18,083	9.6	1,103,645	61	58.8	8.2	4.39	3.5
2	Frankfurt	10,757	5.7	668,429	62	50.5	7.1	6.29	1.2
3	Essen	10,756	5.7	666,896	62	38.9	5.5	4.82	4.1
4	Berlin	9,070	4.8	594,931	66	37.9	5.3	5.26	2.5
5	Gelsenkirchen	9,056	4.8	547,814	60	28.2	3.9	4.29	3.5
6	Bochum	7,888	4.2	458,361	58	26.1	3.6	4.68	3.0
7	Munich	5,364	2.8	356,493	66	24.9	3.5	5.82	0.5
8	Duisburg	5,096	2.7	304,606	60	16.7	2.3	4.54	3.3
9	Bonn	4,760	2.5	334,754	70	22.6	3.2	5.64	2.4
10	Herne	4,735	2.5	290,779	61	15.1	2.1	4.29	2.4
11	Cologne	4,707	2.5	307,235	65	20.9	2.9	5.70	2.8
12	Gladbeck	3,743	2.0	229,383	61	12.2	1.7	4.63	7.9
13	Herten	3,028	1.6	196,981	65	10.0	1.4	4.24	2.7
14	Düsseldorf	2,704	1.4	176,738	65	12.7	1.8	5.95	1.5
15	Marl	2,605	1.4	175,396	67	10.7	1.5	5.10	4.9
16	Aachen	2,259	1.2	150,312	67	8.5	1.2	4.73	2.3
17	Bottrop	2,246	1.2	141,615	63	7.9	1.1	4.65	3.8
18	Wiesbaden	2,103	1.1	136,353	65	10.5	1.5	6.43	3.7
19	Bergkamen	2,030	1.1	134,384	66	7.1	1.0	4.40	7.6
20	Geesthacht	2,008	1.0	114,664	57	7.3	1.0	5.32	6.5
	Subtotal for top 20 cities and towns	**112,998**	**59.7**	**7,089,769**	**63**	**427.5**	**59.8**	**5.01**	**3.2**
	Other locations	76,220	40.3	5,031,509	66	287.4	40.2	4.76	4.9
	Total	**189,218**	**100**	**12,121,278**	**64**	**714.9**	**100**	**4.91**	**3.9**

* as at beginning of December

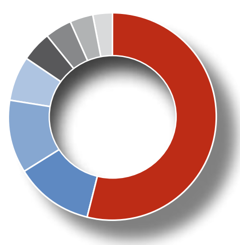
Units managed by the Deutsche Annington Real Estate Group
(as at December 31, 2008)



Own apartments	**189,218**
Apartments owned by others	**28,441**
Commercial units	**1,428**
Garages and parking spaces	**43,795**



Structure of the Deutsche Annington residential portfolio by German states



North Rhine-Westphalia	54.0 %
Hesse	12.2 %
Bavaria and Baden-Württemberg	11.5 %
Schleswig-Holstein and Hamburg	6.9 %
Berlin	4.8 %
Five new states	4.2 %
Lower Saxony and Bremen	3.4 %
Rhineland-Palatinate and Saarland	3.0 %

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www.deutsche-annington.com

Note

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

Forward-looking statements

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

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