COMBINED MANAGEMENT REPORT

This combined management report contains the reporting on Deutsche Annington Immobilien SE as well as the Deutsche Annington Immobilien Group. The management report was prepared in accordance with the rules of Sections 289, 315 and 315a of the German Commercial Code (HGB) as well as the promulgations of the German Accounting Standard (DRS) 20.

Fundamental Information about the Group

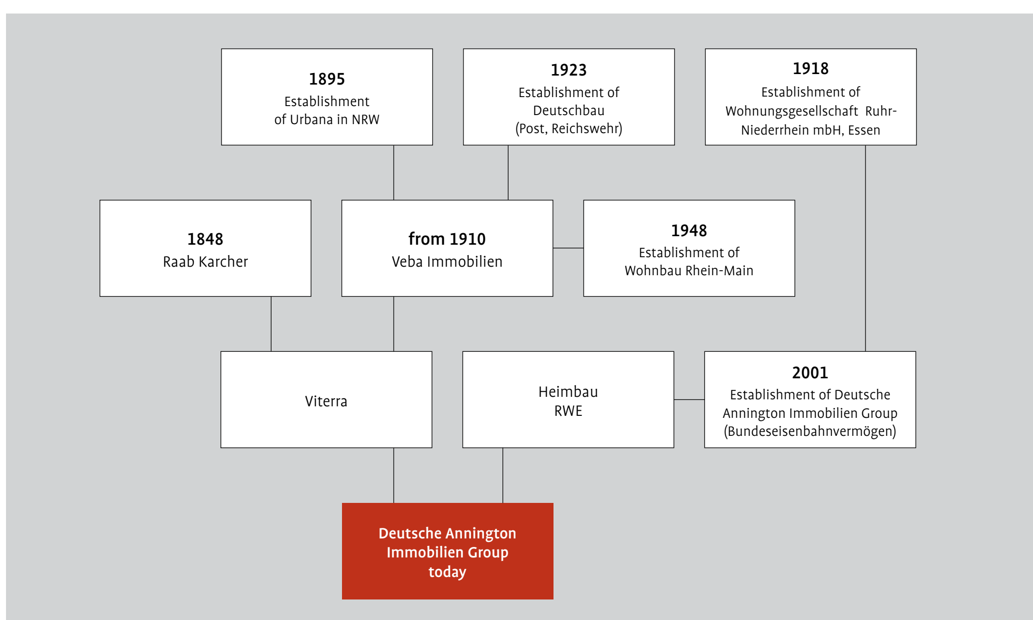
BUSINESS MODEL

The company

With some 175,000 residential units worth a total of € 10.3 billion, Deutsche Annington Immobilien SE is one of the leading real estate companies in Europe.

The Deutsche Annington Immobilien Group is today Germany's largest housing company measured by fair value and the number of residential units. We manage a total of 175,258 residential units of our own, 40,760 garages and parking spaces as well as 1,076 commercial units. We also manage 26,479 apartments for other owners. Deutsche Annington provides housing in some 533 cities and communities throughout Germany.

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



Performance-focused management of residential real estate

The Deutsche Annington Immobilien Group is a performance-focused holder and manager of residential real estate in Germany. Our core business is providing affordable housing for broad sections of the population. Most of our apartments have two to three rooms and average living areas of 64 square metres. Thus Deutsche Annington is a major provider of small and medium-sized apartments. Industry experts are currently predicting that this market segment will offer the best opportunities since the demand for smaller apartments will grow disproportionately as the number of one and two-person households increases in the coming years and decades.

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

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

A further business activity is portfolio optimisation. To achieve this, we sell selected properties in our portfolio and systematically integrate new housing stock into the Group.

Sales – Privatise and Non-Core

Deutsche Annington pursues the business model of generating additional value by selling owner-occupier units and single-family houses at a premium compared with their fair value. The same applies to selected multi-family houses for which Deutsche Annington does not see sufficient development potential in the Rental portfolio in the medium term and which are to be sold at their fair value. These properties are offered to tenants, owner-occupiers as well as private and institutional investors.

Targeted value-enhancing acquisition opportunities

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

OBJECTIVES AND STRATEGY

Strategic environment

Important strategic aspects of the strategic environment for Deutsche Annington are the two megatrends, energy transition and the demographic change, in Germany.

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

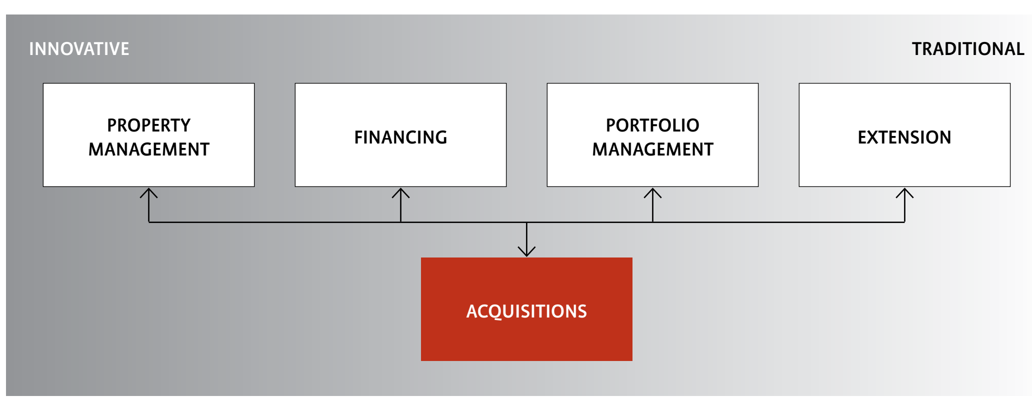
Deutsche Annington is aware of its responsibility and has therefore set up an energy-efficient modernisation programme. With the help of the funds from promotional banks, we will be investing some € 500 million over the next five years in measures to enhance the energy efficiency of our buildings.

The demographic change also has a considerable influence on the housing industry in Germany. The population is ageing fast and presenting the housing industry with major challenges – particularly in the field of age-appropriate accommodation.

In order to respond to this trend, the German government is also providing low-interest funds from promotional banks to support the efforts of the real estate companies to adapt their housing stocks to the needs of older people, therefore enabling them to live longer in their familiar surroundings. Against this background, Deutsche Annington will invest a three-digit million sum in the senior-friendly conversion of its apartments in the next five years.

Furthermore, Germany is currently experiencing a wave of immigrants coupled with a migration of people within Germany from the countryside to the metropolitan areas such as Rhine/Neckar, Rhine/Main, Rhine/Ruhr as well as Munich, Hamburg and Berlin. This development is contributing to an increase in the number of one to two-person households, which the Deutsche Annington business model benefits from.

OUR STRATEGY



Our strategy consists of five elements. They are:

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

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

Property Management

The paramount goal of Deutsche Annington's property management strategy is the systematic optimisation of operating performance and core business productivity. The fundamental requirements for achieving this goal are sustained strength and improved customer satisfaction.

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

Deutsche Annington invests continuously and above the average of its competitors in the maintenance of its buildings – this guarantees reliable technical quality of our apartments.

In addition, we optimise our services by implementing a coherent quality management system, which is characterised by high quality standards and continuous checks. In order to ensure the economic balance of all activities, our processes and structures are strictly geared to our customers' satisfaction. This gives us a clear picture of falling ancillary costs and growing customer satisfaction, which we continuously measure and evaluate.
This holistic property management approach delivers a clear economic benefit.

Financing

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

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

- > Access to the capital markets through the IPO on the basis of a sound equity ratio of roughly 34 % and a loan-to-value ratio of up to about 50 %

> Access to the debt capital markets through an investment grade rating of BBB from S&P
  > Balanced and weighted maturity profile up to 2023
  > Balanced debt structure through bonds (EMTN and Yankee Bond programmes) supplemented by structured loans and low-interest mortgages
  > Synchronised hedging strategy

> Possibilities to obtain funds of more than € 4 billion in a balanced mix of equity and debt capital
  > Permits further growth
  > Ensures improved financial result
  > Ensures earnings growth and investor returns through dividends and share price

We laid the foundation of our financing strategy in 2013 by achieving a financing structure which is both unique and leading in the German real estate industry.

At the beginning of 2013, the Management Board of Deutsche Annington Immobilien SE, Düsseldorf, ("DAIG" or "Company") began to implement the new financing strategy of Deutsche Annington. This strategy is based on balanced financing made up of equity and debt capital with a sound equity ratio and loan-to-value ratio (LTV ratio). That means, in particular, that the GRAND CMBS securitisation is refinanced by a healthy mix of issued unsecured and non-subordinated bonds as well as structured loans and mortgages, which results in a weighted and balanced maturity profile.

In a first step, in June 2013 Deutsche Annington Immobilien SE, Düsseldorf, applied for admission of its public offering on the Frankfurt and Luxembourg stock exchanges on the basis of a stock exchange prospectus in accordance with the EU Prospectus Directive. The approvals were granted by the German Federal Financial Supervisory Authority (Bundesanstalt für Finanzdienstleistungsaufsicht (BaFin)) on June 19 and July 10. The initial listing of the share then took place on July 11 in the Prime Standard segment of the Frankfurt stock exchange (WKN: A1ML7J; ticker symbol: ANN).

As a result of the IPO, DAIG generated net proceeds of some € 380 million from the issue whereupon the rating agency Standard & Poor's (S&P) granted DAIG a corporate rating of BBB (long-term) and A2 (short-term) with a stable outlook (investment grade rating BBB).

The successful IPO and the investment grade rating granted by S&P smoothed the way for the procurement of funds on the international equity and debt capital markets.

On July 25 as well as on October 2 and 8, 2013, bonds were issued for a total value of € 2,527 million in three stages on the basis of the investment grade rating, the proceeds from the bonds ultimately being used for the repayment of the GRAND CMBS securitisation.

After repayment of the GRAND securitisation using the proceeds from the bonds, the structured financing now in place and the successful IPO, DAIG has largely achieved the most important goals of its financing strategy: a balanced mix of equity and unsecured, non-subordinated bonds with free access to the equity and debt capital markets on the basis of an investment grade rating.

The desired result is a loan-to-value ratio of 50 %.

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

Portfolio Management

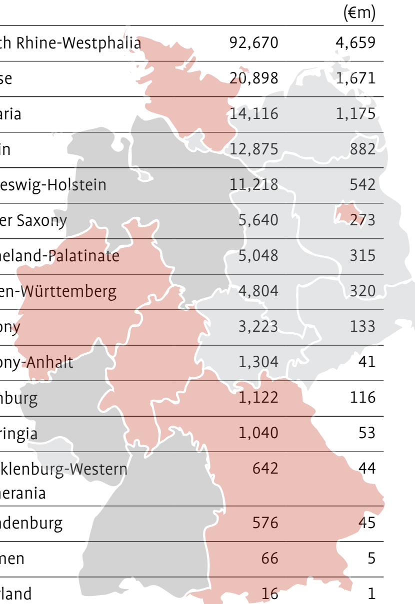
Deutsche Annington has divided its portfolio into five action-oriented portfolio segments. We follow a clearly differentiated strategy with regard to value creation.

Portfolio segmentation*

Core 97 %	Rental Only (84 %)	
	Operational value generation through: > Rental growth > Vacancy reduction > Effective and sustainable maintenance spend > Cost efficiency through scale	**I. Operate (39 %)** > Continuous improvement without major portfolio measures
	Additional value creation through investments: > € 800 m capex opportunities > Returns above cost of capital > Cost of capital lower than for acquisitive growth > Track record of about € 160 m of investments 2009-2012 at about 7 % unlevered yield on average	**II. Upgrade Buildings (25 %)** > Invest in energy efficiency upgrades > € 500 m of opportunities identified **III. Optimise Apartments (20 %)** > Invest in apartments for senior living and higher standard flats in strong markets
	Additional value creation through retail sales: > Total of 21 k apartments prepared > Track record of selling about 2,500 apartments > 20% above fair value per annum	**IV. Privatise (13 %)** > Sell as opportunity presents itself if sufficient premium value is offered
Non-Core 3 %	> Insufficient medium to long-term growth prospects	**V. Non-Core (3 %)** > Sell mid-term around fair value

* Percentages refer to the segment's fair values in relation to the total fair value

Portfolio distribution



German federal states	Units	Fair value (€m)
North Rhine-Westphalia	92,670	4,659
Hesse	20,898	1,671
Bavaria	14,116	1,175
Berlin	12,875	882
Schleswig-Holstein	11,218	542
Lower Saxony	5,640	273
Rhineland-Palatinate	5,048	315
Baden-Württemberg	4,804	320
Saxony	3,223	133
Saxony-Anhalt	1,304	41
Hamburg	1,122	116
Thuringia	1,040	53
Mecklenburg-Western Pomerania	642	44
Brandenburg	576	45
Bremen	66	5
Saarland	16	1

< € 200 m € 200 m - € 500 m ≥ € 500 m

The portfolio segmentation is as follows at the beginning of 2014:

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

> **Upgrade Buildings**
With **value-creating investments,** we generate significant value improvement through a comprehensive investment programme, picking up on the societal megatrend, climate protection, and investing in energy-efficient modernisations.

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

> **Privatise**
We generate further value through the sale **(privatisation)** of owner-occupier units and single-family houses at a significant premium compared with their fair value. Related to the fair value at the end of 2013, these units amount to 13 % of the DAIG housing stocks, measured by the number of residential units.

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

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

Extension
Deutsche Annington has steadily extended its core business since 2012. The most important examples of the successful extension of our value chain are the development of our craftsmen's organisation Deutsche TGS and the partnership with Deutsche Telekom to supply our residential units with digital radio and TV reception. Both

projects have met or even exceeded our expectations. In 2012, we started to build up our own caretaker organisation to be able to look after our tenants better with our service offering. The response to this caretaker service offering is extremely positive and fully meets our expectations.

We see great growth potential for the craftsmen's organisation DTGS. Since the beginning of last year, we have hugely expanded our capacities in the different regions. Today, we employ some 1,200 people and plan to further increase the number of employees. DTGS is now available for all Deutsche Annington customers and the reaction to our service offering is extremely positive.

Our craftsmen's organisation gives us key strategic advantages:

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

The contract with Deutsche Telekom was signed in 2011. The joint objective is to equip 145,000 apartments with modern fibre-optic technology so as to be able to offer our tenants the entire spectrum of Deutsche Telekom services on more favourable conditions. By the end of 2013, 43,000 apartments had already been equipped.

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

Acquisitions
In addition to Deutsche Annington's potential for organic growth, we are also active in the field of acquisitions. Thanks to our presence throughout Germany, we see many possibilities and can also integrate housing stocks which are scattered over a wide area into our existing portfolio. Furthermore, our financial flexibility means that we offer potential sellers a high degree of transaction security.

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

> fit into the existing portfolio
> increase FFO/share
> be at least NAV/share neutral
> not jeopardise the existing BBB rating

PORTFOLIO

Structure

The Deutsche Annington portfolio as at December 31, 2013 breaks down as follows:

HOUSING STOCKS

as at Dec. 31, 2013	Units	Living area (thousand m²)	Vacancy rate (%)	Vacancy rate Change (% points)	In-place rent (€ million)	In-place rent like-for-like (€/m²/month)	In-place rent Change like-for-like (%)	Fair value* Dec. 31, 2013 (€/m²)
Operate	78,764	4,999	3.0	-0.1	316.1	5.43	+1.7	907
Upgrade Buildings	43,476	2,743	2.8	0.0	170.3	5.33	+1.8	897
Optimise Apartments	21,363	1,335	2.1	0.1	95.6	6.10	+3.5	1,084
Rental Only	**143,603**	**9,077**	**2.8**	**0.0**	**581.9**	**5.50**	**+2.0**	**930**
Privatise	20,536	1,406	4.9	-0.9	85.3	5.31	+1.9	953
Non-Core	11,119	699	9.7	-1.4	32.0	4.24	+0.6	494
Total	**175,258**	**11,182**	**3.5**	**-0.4**	**699.2**	**5.40**	**+1.9**	**901**

* Average fair value of housing stocks related to rentable area

Regional distribution of the entire portfolio

Approx. 69 % of our portfolio is concentrated in cities with more than 100,000 inhabitants. The focus is on the Ruhr area, Berlin, the Rhine-Main region and southwest Germany. The vast majority of our housing stocks (96 %) are situated in the states of former West Germany (including Berlin). 53 % are in North Rhine-Westphalia. Therefore, by far the largest proportion of our residential portfolio is located in the most highly populated German state.

HOUSING STOCKS BY GERMAN STATE

as at Dec. 31, 2013	Units	Living area (thousand m²)	Vacancy rate (%)	In-place rent (€ million)	In-place rent (€/m²/month)
North Rhine-Westphalia	92,670	5,797	3.8	341.8	5.11
Hesse	20,898	1,321	1.6	102.9	6.59
Bavaria	14,116	939	1.8	61.2	5.54
Berlin	12,875	829	1.4	56.5	5.76
Schleswig-Holstein	11,218	699	3.7	41.4	5.14
Lower Saxony	5,640	381	7.5	21.5	5.08
Rhineland-Palatinate	5,048	359	3.6	21.6	5.20
Baden-Württemberg	4,804	335	2.2	21.5	5.48
Saxony	3,223	202	9.0	10.8	4.89
Saxony-Anhalt	1,304	89	17.9	4.0	4.51
Hamburg	1,122	65	1.9	5.6	7.38
Thuringia	1,040	67	6.2	4.0	5.26
Mecklenburg-Western Pomerania	642	49	2.8	3.3	5.70
Brandenburg	576	42	3.8	2.9	5.83
Bremen	66	5	9.1	0.3	5.74
Saarland	16	1	0.0	0.1	4.75
Total	**175,258**	**11,182**	**3.5**	**699.2**	**5.40**

Roughly 66 % of the housing portfolio (115,867 units) is concentrated in our 25 largest locations. The three largest locations are Dortmund, Berlin and Frankfurt am Main. Overall, a large proportion of our residential portfolio is located in cities and regions with good growth prospects and a positive development of the number of households, including Munich and Berlin as well as the Rhine-Main region with the cities Frankfurt am Main, Cologne, Bonn and Düsseldorf.

HOUSING STOCKS 25 LARGEST LOCATIONS

as at Dec. 31, 2013	Units	Living area (thousand m²)	Vacancy rate (%)	In-place rent (€ million)	In-place rent (€/m²/month)
Dortmund	17,541	1,070	3.0	59.6	4.79
Berlin	12,875	829	1.4	56.5	5.76
Frankfurt am Main	9,960	616	0.8	52.4	7.14
Essen	9,491	583	5.2	34.5	5.22
Gelsenkirchen	7,642	469	6.7	24.2	4.61
Bochum	7,588	437	2.7	26.2	5.13
Munich	4,616	307	0.5	23.2	6.33
Herne	4,564	279	5.2	15.0	4.72
Duisburg	4,501	269	3.7	15.4	4.97
Bonn	4,230	297	1.3	21.3	6.06
Cologne	3,956	261	1.7	19.8	6.42
Gladbeck	3,256	199	3.4	11.3	4.91
Herten	2,692	173	4.1	9.1	4.57
Düsseldorf	2,464	161	2.2	13.1	6.93
Aachen	2,187	145	2.1	9.2	5.39
Marl	2,103	139	5.8	8.0	5.08
Wiesbaden	2,051	137	1.8	11.9	7.37
Geesthacht	1,994	114	3.7	7.3	5.57
Bottrop	1,900	120	3.2	7.1	5.08
Bergkamen	1,872	122	5.7	6.2	4.49
Kassel	1,848	115	2.9	6.6	4.91
Castrop-Rauxel	1,704	100	4.5	5.8	5.12
Recklinghausen	1,654	109	2.9	6.1	4.79
Flensburg	1,594	106	4.3	5.8	4.80
Nuremberg	1,584	109	0.6	7.6	5.81
Subtotal of the 25 largest locations	**115,867**	**7,265**	**3.0**	**463.1**	**5.48**
Other locations	59,391	3,916	4.4	236.2	5.26
Total	**175,258**	**11,182**	**3.5**	**699.2**	**5.40**

Modernisation and maintenance

In 2013, we continued to systematically pursue our goal of steadily improving the quality of our housing stocks and the neighbourhoods. Expenditure on maintenance and modernisation amounted to € 19.95/m^2 in 2013.

As part of the energy-efficient modernisation measures in the Upgrade Buildings portfolio segment, we heat-insulated façades, basement ceilings and attics for a living area of some 150,000 m^2. The catalogue of measures also included the optimisation and renewal of heating systems. All these measures reduce energy consumption which, in turn, cuts CO_2 emissions. The lower energy consumption not only benefits the environment but also our tenants in the form of lower heating costs. In addition, our customers profit from the improved standard of comfort of our properties.

We also take account of the demographic change when planning investments in our properties. Some 36 % of our tenants are over 60 and many of them want to stay living in their homes as long as possible. In the Optimise Apartments segment, we therefore initiated modernisation measures with an investment volume of over € 16 million in 2013. Over 1,100 apartment modernisations were completed in 2013 or are near completion.

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

DAIG INVESTMENT PROGRAMME

Programme year	Investment volume (€ million)	Units (No.)	Yield (%)
Ø 2009-2011	33.70	2,281	7.00
2012	56.60	2,982	6.80
2013 (Forecast)	65.30	5,320	7.10

Notes:

(1) "Programme year" is defined as the calendar year in which construction work on the respective measure started.

(2) "Total investment volume" includes all costs of the measures performed excluding internal personnel costs incurred, e.g. for programme coordination or for the site managers employed in the Group.

(3) "Yield" is the static net initial yield and is calculated for the Upgrade Buildings segment from the change in the property management income (i.e. changes in the rent and vacancy rate) in relation to the external planning and construction costs of the measure. The time of measurement is December of the calendar year following the programme year; in the Optimise Apartments segment, the difference between the last rent before the refurbishment and the reletting rent achieved after refurbishment is completed is compared with construction costs of the project. The time of measurement is, in this case, the middle of the calendar year following the programme year.

(4) The "Forecast" nature of the figures for the 2013 programme year is due to the fact that success is not measured until the middle or the end of the calendar year following the programme year and is therefore not finally determined until mid-2014 (Optimise Apartments) or the end of 2014 (Upgrade Buildings).

At the dena Energy Efficiency Congress in Berlin in November 2013, we presented the results of our refurbishment roadmap which we had developed with dena. The refurbishment roadmap evaluates the DAIG portfolio with regard to the technical feasibility and economic viability of energy-efficient refurbishment and compares the energy-efficiency effects with the German government's climate goals for 2050. As a result, the refurbishment roadmap, the first in the German residential real estate industry, gives us a long-term and innovative blueprint with which we will further develop our modernisation strategy.

Portfolio changes

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

DAIG PORTFOLIO AS AT DEC. 31, 2013 (NUMBER OF RESIDENTIAL UNITS)

Portfolio segment	Old segmentation	New segmentation	Changes
Operate	78,764	68,002	-10,762
Upgrade Buildings	43,476	45,469	1,993
Optimise Apartments	21,363	31,945	10,582
Rental Only	**143,603**	**145,416**	**1,813**
Privatise	20,536	19,860	-676
Non-Core	11,119	9,982	-1,137
Total	**175,258**	**175,258**	**0**

> Operate: the number of units fell by 10,762.
The main reasons were:
> Disposals from the re-assessment of investment possibilities in our housing stocks, in particular investments in our apartments which were transferred to the relevant segments.
> Additions from completed modernisation projects which, after refurbishment, belong to the Operate segment.

> Upgrade Buildings: the number of units increased by 1,993.
The main reasons were:
> Disposals owing to completed modernisation projects, the units then being transferred to the Operate segment.
> Additions of units which were moved from the Operate segment following the annual strategy review.

> Optimise Apartments: the number of units increased by 10,582.
The main reasons were:
> Disposals of units which moved to the Operate or Upgrade Buildings segments after their completed refurbishment.
> Additions of units which were moved from the Operate segment following the annual strategy review.

> Privatise: the number of units fell by 676 owing to reclassifications within the sales portfolio to the Non-Core segment. No new sales projects were started.

> Non-Core: the number of units fell by 1,137 owing to reclassification to the Operate segment. The basis for this reclassification was the findings of the annual sales audit in which the sales prospects and market situation were re-assessed.

The portfolio segmentation at the beginning of 2014 is as follows:

Portfolio segment	Units	Vacancy rate in %	Living area million m²	In-place rent €/m²	Fair value €/m²
Operate	68,002	3.0	4.3	5.48	917
Upgrade Buildings	45,469	2.5	2.9	5.30	901
Optimise Apartments	31,945	2.7	2.0	5.79	989
Rental Only	**145,416**	**2.8**	**9.2**	**5.49**	**928**
Privatise	19,860	4.9	1.4	5.30	953
Non-Core	9,982	10.5	0.6	4.17	478
Total	**175,258**	**3.5**	**11.2**	**5.40**	**901**

Therefore, the share of the Non-Core segment has fallen to about 3 % of the total fair value, mainly as a result of the sale of properties with a total of 4,144 residential units in 2013. The share of the segments in which investments are planned has increased to 45 % of the total fair value.

MANAGEMENT SYSTEM

Performance Indicators

Our company policy focuses on sustainably increasing the value of the company. As is customary in the industry, this is expressed in the net asset value (NAV). We strive to steadily grow our earnings through the value-enhancing management of our properties, through value-creating investments in these housing stocks as well as through active portfolio management.

The systematic focus on value is also reflected in our internal management system. For this purpose, we distinguish between the two segments, Rental and Sales. In the Rental segment, we pool all business activities for active management as well as investments in our residential properties. The Sales segment covers all business activities relating to the sale of single units (Privatise) as well as the sale of entire buildings or plots of land (Non-Core sales). A Group-wide planning and controlling system ensures that resources for both segments are efficiently allocated and their successful use is monitored.

Financial KPIs

The basis for value-focused operational management for the two segments Rental and Sales is **adjusted EBITDA** (earnings before interest, tax, depreciation and amortisation). By adjusting for special effects which do not relate to the period, are non-recurring or do not relate to the object of the company, we ensure concentration on the operational performance of the segments and comparability with prior periods. Furthermore, we eliminate net income from fair value adjustments to determine **adjusted EBITDA Rental** so this performance indicator shows the sustainable cash-based earnings from the management of our properties.

Our main metric for steering sustainable operational earnings is the performance indicator typically used in the industry, **Funds from Operations 1 (FFO 1).** To arrive at FFO 1, we adjust adjusted EBITDA Rental for net cash interest payments excluding non-recurring results **(interest expense FFO)** as financing is also a fundamental component in the success of our business activities. Furthermore, the result is reduced by current income taxes.

In addition to growth from operating activities, the increase in our company's value is mainly driven by the valuation of our real estate assets. These two factors are therefore decisive for the further development of our company which is reflected in the **net asset value (NAV)** provided that the capital structure remains the same. Therefore, NAV is our second main metric alongside FFO 1. We always refer both metrics to the number of shares in order to make the sustainable earnings and the value of each share transparent. In view of their significance, they are also part of our forecast report.

Our daily activities focus on the customer. Therefore, in addition to the two financial performance indicators FFO 1 and NAV, the **customer satisfaction index (CSI)** is of special importance for internal management. It is determined at regular intervals in systematic customer surveys and shows the effectiveness and sustainability of our services for the customer.

Alongside the sustainable management of our residential real estate, active portfolio management is another element of our business activities. We measure the resulting sales activities using **adjusted EBITDA Sales.** Adding adjusted EBITDA Sales to FFO 1 gives **FFO 2.** FFO 2 thus shows the earnings from all our operating activities.

As a non-operational financial metric, the **loan-to-value ratio (LTV ratio)** is used for monitoring the degree to which debt is covered by the value of the properties. With the help of this metric, we ensure a sustainable ratio of debt to real estate assets as well as our investment grade rating.

The performance indicators used are so-called non-GAAP measures, i.e. metrics which cannot be derived directly from the figures in the consolidated financial statements according to the IFRS standards. The financial performance indicators can, however, be reconciled to the closest-possible metric in the consolidated financial statements. DAIG follows the recommendation of the European Public Real Estate Association EPRA when deriving the metric NAV.

Non-financial metrics

We also focus on non-financial operating performance indicators in our daily business since they are drivers for our financial KPIs. Therefore, we include these metrics in the management report in order to give a better and clearer picture of our business performance. They are also part of our forecast report.

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

The **maintenance and modernisation work** reflects the amount of value-maintaining and value-enhancing measures in our rental properties. Related to the living area of our own units, it shows the intensity of the maintenance and modernisation work in our housing stocks.

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

SHARE

Successful IPO affords important leeway for financing strategy

The share of DAIG SE has been listed on the Prime Standard of the regulated market of the Frankfurt stock exchange since July 11, 2013. Through the issuance of further no-par-value registered shares as part of the IPO, Deutsche Annington Immobilien SE raised gross proceeds of € 400.0 million.

A total of 34,848,485 shares within a price range from € 16.50 to € 17.00 were offered to institutional investors on July 9, 2013 by way of an accelerated book-building process. The offering consisted of 24,242,425 new shares from a capital increase, 6,060,606 shares from the holdings of the selling shareholder and 4,545,454 shares from the selling shareholder as part of an over-allotment.

In addition to flexible access to the equity market, the **IPO** has given us greater flexibility in our debt capital structure. The foundation for this is the **new financing strategy** of DAIG on the basis of the investment grade rating BBB, which we were granted by Standard & Poor's Ltd. on June 10, 2013. As the only housing company in Germany with an investment grade rating, we can therefore use the entire spectrum of financing possibilities. Consequently, we are even more flexible in our financing and, depending on the market situation, can profit from interest advantages.

In the second half of the year, the Management Board and the IR team held roadshows at important financial centres. In addition, we organised several tours around properties in our real estate portfolio for interested investors and analysts. In 2014, we will expand our IR activities and take part in various roadshows and investor conferences. We aim to regularly inform investors and analysts about the current development of business and the attractive growth potential of our company.

INFORMATION ON THE SHARE

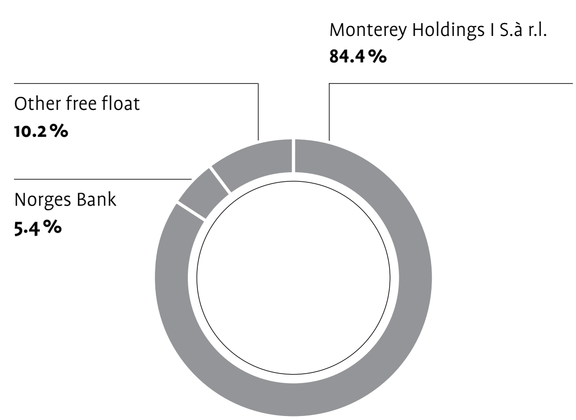
1st day of trading	July 11, 2013
Subscription price	€ 16.50
Total number of shares	224.2 million
Share capital in €	224,242,425
ISIN	DE000A1ML7J1
WKN	A1ML7J
Symbol	ANN
Common code	94567408
Class	Registered shares with no par value
Free float	15.6 % (including Norges Bank)
Stock exchange	Frankfurt Stock Exchange
Market segment	Regulated market

Current share price and information on share at investoren.deutsche-annington.com

Shareholder structure

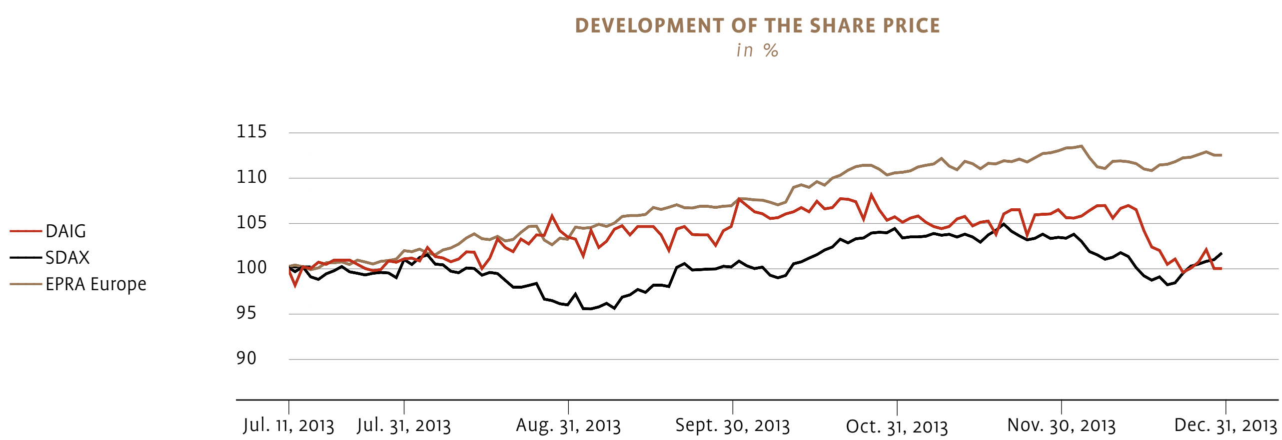
The number of outstanding shares of Deutsche Annington was unchanged at 224,242,425 as of the reporting date, December 31, 2013. Alongside the former sole shareholder, Monterey Holdings I S.à r.l., which remains the majority shareholder of Deutsche Annington with an 84.4 % stake, a free float of 15.6 % is held mainly by institutional investors (including 5.4 % held by the Norwegian Norges Bank).

SHAREHOLDER STRUCTURE
as at Dec.31, 2013



Development of the share

Expressed in numbers, the shares were allotted at a price of € 16.50. After its opening price on July 11 of € 17.10, the share increased in value by 9.1 % to € 18.00 as at December 31, 2013. This is a clear outperformance of the industry index EPRA Europe, which rose by 2.4 % in the same period. Market capitalisation amounted to € 4.04 billion as at December 31, 2013.



Dividend policy

For the past financial year, the governing bodies propose for the first time the distribution of a dividend of € 0.70 per share to the Annual General Meeting. That is some 70 % of FFO 1 and a dividend yield of 3.9 % as at the reporting date.

Provided the development of business is stable, Deutsche Annington intends to increase the dividend and pay out some 70 % of FFO 1, which is some 4 % of EPRA NAV for the 2014 financial year.

CORPORATE GOVERNANCE

Fundamental information

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

Good corporate governance strengthens the trust of our shareholders, suppliers, customers, employees and also the general public in DAIG. It increases the company's transparency and strengthens our Group's credibility. With balanced corporate governance, the Management Board and the Supervisory Board want to safeguard DAIG's competitiveness, strengthen the trust of the capital market and the general public in the company and sustainably increase the company's value.

Corporate governance declaration in accordance with Section 289a of the German Commercial Code (HGB)

The full declaration on corporate governance, also containing the corporate governance report, is to be found on the website at www.deutsche-annington.com. The declaration reproduced on the website is an integral part of the audited combined management report.

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

"The Management Board and the Supervisory Board declare compliance with the recommendations of the "Government Commission German Corporate Governance Code" in the version dated May 13, 2013 announced by the Federal Ministry of Justice in the official section of the electronic Federal Gazette and furthermore declare their intention to continue complying with the recommendations."

The declarations on the German Corporate Governance Code to be made by DAIG in accordance with Section 161 of the German Stock Corporation Act (AktG) are available to shareholders and interested parties on the company's website (www.deutsche-annington.com).

Standards of corporate governance

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

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

Information on the company's governing constitution

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

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

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

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

The Management Board and Supervisory Board of a company listed in Germany are obliged by law (Section 161 of the German Stock Corporation Act) to report once a year whether the officially published and relevant recommendations issued by Government Commission German Corporate Governance Code, as valid at the date of the declaration, have been, and are being, complied with. Companies affected are also required to state which of the recommendations of the Code have not been or will not be applied and if not, why.

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

The Management Board

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

The Management Board, which must be made up of at least two members, is appointed by the Supervisory Board, whereby the term of office must not exceed six years. The Management Board is monitored and advised by the Supervisory Board. It has adopted rules of procedure and resolved the allocation of duties in consultation with the Supervisory Board. The Management Board has a chairman who coordinates the work of the Management Board and represents it in dealings with the Supervisory Board. The chairman of the Management Board has the right to veto Management Board resolutions.

The members of the Management Board are Rolf Buch (chairman) as well as Klaus Freiberg and Dr A. Stefan Kirsten. Rolf Buch joined the Management Board as chairman on April 1, 2013. Robert Nicolas Barr was appointed an interim Management Board member from September 2012 to May 2013. Further information is to be found in the 2013 Annual Report on page 175ff.

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

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

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

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

The Management Board members are obliged to disclose any conflicts of interest to the Supervisory Board without delay and to inform the other Management Board members accordingly. The Management Board members are subject to a comprehensive non-competition obligation. Management Board members may only take up sideline activities, in particular supervisory board mandates outside the Group, with the approval of the Supervisory Board.

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

The Supervisory Board

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

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

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

The chairman of the Supervisory Board chairs the meetings and coordinates communications. The members of the Supervisory Board have generally the same rights and obligations. Supervisory Board resolutions are above all passed in the Supervisory Board meetings but also, if necessary, using the written procedure or by other communication means. At least three meetings are held every half-year. In addition, if necessary and on the basis of the rules of procedure of the Supervisory Board, a meeting of the Supervisory Board or its committees can be convened at any time on the request of a member or the Management Board. In the 2013 financial year, the Supervisory Board had twelve meetings, including telephone conferences.

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

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

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

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

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

Cooperation between the Management Board and the Supervisory Board

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

Supervisory Board committees

The Supervisory Board sets up an Executive and Nomination Committee, an Audit Committee and a Finance Committee from among its members. Further committees are set up as required. Committees are made up of at least four members of the Supervisory Board. The committees prepare subjects which are to be discussed and/or resolved by the Supervisory Board. In addition, they pass resolutions on behalf of the Supervisory Board. The basis for committee work was the transfer of tasks and responsibilities within the scope of the legal provisions.

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

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

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

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

a) financing and investment principles, including the capital structure of the Group companies and dividend payments;
b) principles of the acquisition and sale policies, including the acquisition of individual shareholdings of strategic importance.

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

Avoidance of conflicts of interest

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

Transparency

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

Accounting and financial statement auditing

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

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

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

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

Report on Economic Position

DEVELOPMENT OF THE ECONOMY AND THE INDUSTRY

Economy and industry environment

Overall economic environment continues to stabilise in 2013

In **Germany,** the expansion of aggregate economic production continued in 2013, temporarily interrupted by the deepening of the sovereign debt crisis in the eurozone. However, the expected economic upturn still did not materialise. The Institute for the World Economy (IfW) determined growth for the past year of 0.4 % (2012: 0.7 %). However, the driving forces have changed: whilst momentum came largely from foreign trade in the recovery phase after the financial and economic crises, in 2013 the domestic economy was the main driver. A low unemployment rate, higher wages and salaries and low interest rates boosted private consumption and acted as a motor for housing construction. By contrast, foreign trade growth weakened in 2013: due to comparatively weak demand from the eurozone, German exports grew less than world trade.

The labour market is continuing to enjoy a positive development. With 41.78 million people in work (+0.6 %), the number of people employed reached a record high for the seventh year in succession. This increase resulted from the growth in the number of people liable to pay social security contributions. The unemployment rate fell from 5.3 % in 2012 to 5.2 % in 2013.

In the **external economic environment,** the climate is also slowly brightening: the US economy continued to show a positive development despite the fiscal brake and the temporary government shutdown. In the UK, debt reduction in the private sector continued and the Japanese economy also picked up again. In the middle of the year, the eurozone's economy also managed to shake off the recession that had lasted for over a year – this is, however, a development which was greatly favoured by a less restrictive fiscal policy and by the implementation of the OMT (Outright Monetary Transactions) programme of the European Central Bank (ECB). Overall, the economy of the monetary union remains in a poor state: the situation is still characterised by a high degree of heterogeneity among the individual member states. Above all, the economies of Spain, Portugal, Greece and Italy remain prone to turbulence in the financial markets due to high private and public-sector debt. According to IfW calculations, GDP in the eurozone in 2013 decreased by 0.4 % (2012: -0.7 %). The global economy grew by 2.9 % in 2013 (2012: 3.1 %).

Housing market

Moderate rise in rents

The upward trend in residential rents also continued in 2013. According to information from the German Association of Real Estate Consultants, Agents, Managers and Experts (IVD), the **rents in new contracts** for apartments in Germany rose moderately nationwide for housing of all standards and ages in 2013. For example, the increase for apartments of an average standard built from 1949 onwards was 3.1 %. In the ten largest cities the rate of increase was slightly above the national average at 5.37 % (built from 1949 onwards) and 4.87 % (built up to 1948). According to IVD, rents therefore did not rise as much as perceived by the general public.

According to the residential rent index determined in surveys by the Hamburg research and consultancy company, F+B, rents under existing rental contracts had risen by 1 % by mid-2013 compared with the prior-year period.

Moderate rises in rents are also to be observed in the new-build segment. According to IVD, new-build rents (average standard) increased by 3.7 %.

According to IVD experts, the rising rents are a result of the shortage of apartments. The reason for this is the low level of new-build activity in the last ten years. The rise in rents is stimulating new builds and energy-saving modernisation, as evidenced by the number of building permits which has been increasing for years. If the government limits rent rises, e.g. “a ceiling on rent increases” currently under discussion, there is a risk, according to IVD, that investors will invest their capital elsewhere and fewer houses will be built. Ultimately, tenants and those looking for apartments would suffer. According to experts of CBRE, the real estate service provider, and the consulting company, empirica, a “ceiling on rent increases” would mainly affect apartments in the higher-rent segment and would benefit high-income tenants in particular. Low-paid workers would still have problems finding affordable housing.

Further fall in vacancy rate

The vacancy rate in the properties owned by housing companies represented by the German Association of German Housing and Real Estate Companies (GdW) was 4.7 % at the end of 2012 and therefore 0.3 percentage points lower than at the end of 2011 (5.0 %). In the new states (formerly East Germany), the vacancy rate fell again by 0.3 percentage points from 8.0 % to 7.7 %. In the old states, it decreased by 0.2 percentage points from 2.7 % to 2.5 %. Overall for 2013, GdW is expecting a decline in the vacancy rate of 0.1 percentage points to 7.6 % in the new states and 0.1 percentage points to 2.4 % in the old states.

According to the experts of CBRE and empirica, the reduction in the reserves of vacant properties has partially eased the tension in the housing markets recently. These reserves have now been largely used up in the growth regions.

Purchase prices for residential properties increase

The rise in purchase prices for owner-occupier apartments seen in recent years also continued in 2013. According to calculations of IVD, the square metre prices for existing owner-occupier apartments of an average standard increased on a national average by 4.4 % compared with the previous year.

There are regional differences in the price rises. Whilst prices in cities with more than 500,000 inhabitants rose by 7.9 % (average standard), prices increased by 5.3 % in cities with between 250,000 and 500,000 inhabitants. The price curve is slowly levelling off in cities. However, in smaller towns, where the development of prices previously lagged behind that in the metropolises, prices are still catching up.

The price increase for new-build apartments (average standard) was 4.9 % on a national average. According to IVD, the difference in prices between new-build and existing apartments of average standard is up to 45 %.

According to IVD, the prices for single-family houses increased by 3.4 % (average standard) compared with the prior year, the prices and growth in prices rising in line with the number of inhabitants in the towns and cities.

An evaluation of the F+B residential index showed that the prices for apartment buildings had increased by 1.8 % by mid-2013 compared with the prior-year period.

High purchase prices and strong demand make the search for a dream property difficult, according to 52 % of Germans, who were surveyed as part of a study by the mortgage broker, Interhyp. 51 % of those surveyed also feared that they would not obtain financing and 38 % of them doubted that they would find a property that met their requirements.

Demand for German housing portfolios remains high

According to experts, roughly € 8.21 billion (CBRE) or € 8.8 billion (Savills) was invested in German housing portfolios in the first three months of 2013 – not including IPOs. According to CBRE, there was a decline of 5 % compared with the prior-year period but this reflects tougher competition for good investment products. By contrast, Savills registered a rise of 14 % in the first nine months compared with the prior-year period. The differences are due to different counting methods.

Given the investment activity in the first nine months, the well-filled investment pipeline and the continued strong demand from the major buyer groups, both groups of experts are expecting the result for the entire year 2013 to be above the already very good year 2012. For 2013, CBRE estimates a transaction volume of € 11.5 billion compared with € 11.25 billion in 2012. In 2013, Savills anticipates an annual turnover of some € 12 billion compared with € 10.7 billion in the prior year.

On the buyer side, German institutional investors dominated in the first nine months of 2013 with a share of roughly three quarters (Savills) or four fifths (CBRE) of the total volume, followed by foreign investors above all from Austria and Switzerland. According to Savills, property stock corporations invested a total of € 2.9 billion in this period. The second-largest buyer group comprises insurance companies and pension funds. They invested € 1.2 billion.

The research experts of Patrizia Immobilien AG believe that residential property investments yield comparatively high returns at an acceptable risk given the debt crisis and the lack of high-return alternatives. As a “safe haven”, Germany remains a desirable investment destination.

More building permits and low construction loan interest rates

According to information published by the Federal Statistical Office, building permits were issued for 202,100 apartments between January and September 2013. That is an overall increase of 13.5 % compared with the prior-year period. The number of building permits for new-build apartments in multi-family buildings showed a particularly sharp rise (25.1 %). The experts of the Landesbausparkassen (LBS) are expecting a total of some 270,000 housing construction permits for the whole of 2013. 300,000 permits could even be possible for 2014. According to LBS, the growing supply of new builds has still not eased the price situation. However, the German Association of German Housing and Real Estate Companies (GdW) warns that putting a ceiling on rent increases and the limit on the right to raise rents after modernisation currently under discussion would stifle the new-build trend.

According to experts of Deutsche Bank Research (DB Research), the interest rates for housing construction loans fell to an average of 2.7 % in the first half of 2013. In a long-term comparison, home ownership therefore remains affordable. The low interest rates coupled with higher disposable incomes are counteracting the effect of rising house prices.

Germany's population has increased in recent years

According to provisional results of the Federal Statistical Office, net migration in Germany amounted to some 369,000 in 2012. That is the highest figure since 1995. As in the previous year, the high rise in immigration more than offset the drop in the birth rate. Germany's population increased by 196,000 (+0.2 %) in 2012 compared with the previous year and totalled 80.5 million inhabitants at the end of the year. In the first half of 2013, net migration remained at a high level, as in previous years.

According to the estimates of the GdW, the recent population growth will, however, not halt the demographic change in Germany over the country as a whole. According to GdW, geographical differences will be exacerbated to the extent that, in future, regions where the population is shrinking will account for an increasingly higher proportion of Germany's total area. In the prospering centres, the housing market situation will worsen due to population growth.

ECONOMIC DEVELOPMENT OF THE GROUP

Overall development of business

The Deutsche Annington Immobilien Group developed positively overall in the 2013 financial year. In our core segment Rental, we further increased sustainable operational earnings and further improved the quality and value of our housing stocks in the reporting year thanks to high investments. We also pushed ahead with our active portfolio management in the 2013 financial year. As a result, our property sales are well up on the prior year.

These efforts are also reflected in the increased value of our real estate assets in the 2013 financial year. Overall, we therefore also further increased the value of our company.

RESULTS OF OPERATIONS

The following primary KPIs reflect the development of the results of operations of the Deutsche Annington Immobilien Group.

KEY PERFORMANCE INDICATORS OF DEUTSCHE ANNINGTON

€ million	2013	2012
Income from property management	1,067.6	1,064.9
thereof rental income	728.0	729.0
Adjusted EBITDA Rental	442.7	437.3
Income from disposal of properties	353.5	304.9
Adjusted EBITDA Sales	27.7	36.7
EBITDA IFRS	431.0	450.2
Adjusted EBITDA	470.4	474.0
FFO 1	223.5	169.9
FFO 2 (incl. profit from property sales)	251.2	206.6
AFFO	203.5	146.2
Number of employees	2,935	2,407
Number of units sold (recorded sales)	6,720	4,819
Sold individually	2,576	2,784
Other sales	4,144	2,035
Vacancy rate (%)	3.5	3.9
Monthly in-place rent (€/m²) (like-for-like)*	5.40	5.30
Number of residential units in portfolio	175,258	181,954

* 2012 monthly in-place rent not like-for-like € 5.28/m²

Rental

In the Rental segment, we improved **adjusted EBITDA** in 2013 by € 5.4 million to € 442.7 million. With more or less stable rental income, we increased our property maintenance spend and, at the same time, reduced expenses for the management of our residential units.

ADJUSTED EBITDA RENTAL

€ million	2013	2012
Rental income	728.0	729.0
Maintenance expenses	-136.5	-127.3
Property management costs	-148.8	-164.4
Adjusted EBITDA Rental	**442.7**	**437.3**

Despite the smaller number of residential properties as a result of property sales, **rental income** in 2013 totalled € 728.0 million, which is only slightly below the prior-year figure of € 729.0 million. The main reason for this was that the monthly in-place rent for the units rented as at the end of 2013 increased to € 5.40/m². If the effects of changes in the portfolio on the monthly in-place rent are taken into account, this increase was 2.3 %, like-for-like 1.9 %. Furthermore, rental income was positively impacted by the development of the vacancy rate, which we reduced significantly from 3.9 % at the end of 2012 to 3.5 % at the end of 2013.

Maintenance expenses for the past year totalled € 136.5 million and were therefore € 9.2 million higher than in the previous year despite the reduction in our housing stocks due to sales. Including capitalised maintenance of € 21.1 million as well as value-enhancing modernisation work of € 70.8 million, we invested a total of € 228.4 million in modernisation and maintenance work in our properties in 2013 (2012: € 216.7 million).

MAINTENANCE AND MODERNISATION

€ million	2013	2012
Maintenance expenses	136.5	127.3
Capitalised maintenance*	21.1	23.7
Modernisation work	70.8	65.7
Total cost of modernisation and maintenance work	**228.4**	**216.7**
thereof sales of own craftsmen's organisation	123.8	54.3
thereof bought-in services	104.6	162.4

* 2013 including intra-Group profits of € 1.1 million

Related to square metres of living area, this is an increase in the modernisation and maintenance expenses of 8.3 % from € 18.43 in 2012 to € 19.95 in 2013.

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

In the 2013 financial year, we pushed ahead with our initiatives to optimise the business model and therefore reduced our **property management** costs. Compared with the 2012 financial year, they fell by € 15.6 million or 9.5 % to € 148.8 million. The expansion of our craftsmen's and caretaker organisations had a crucial positive effect. Furthermore, optimisations in receivables management as well as in service charge and ancillary cost billing contributed to this reduction in costs.

Related to the number of residential units, this represents a reduction in the property management costs of some 7 % from € 892 to € 830 per unit. For us, this metric is an important indicator of our property management efficiency. To further support the reduction in property management costs, the Management Board and the works council agreed a reorganisation and pre-retirement part-time work programme in 2013.

Sales

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

SALES OF PRIVATISE PORTFOLIO SEGMENT

€ million	2013	2012
Number of units sold	2,576	2,784
Income from disposal of properties	223.4	233.5
Fair value of properties sold*	-178.8	-191.0
Adjusted profit from disposal of properties	**44.6**	**42.5**
Fair value step-up (%)	24.9	22.2

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

In the Privatise portfolio segment, the number of units sold fell slightly compared with the prior year. Consequently, income from the disposal of properties decreased slightly from € 233.5 million to € 223.4 million. This reduced sales volume was accompanied by a much improved sales margin, expressed in the fair value step-up, which rose from 22.2 % in 2012 to 24.9 %. Thanks to this improved margin, in 2013 we even managed to slightly increase the sales result adjusted for period effects.

SALES OF NON-CORE PORTFOLIO SEGMENT

€ million	2013	2012
Number of units sold	4,144	2,035
Income from disposal of properties	130.1	71.4
Fair value of properties sold*	-131.7	-59.7
Adjusted profit/loss from disposal of properties	**-1.6**	**11.7**
Fair value step-up (%)	-1.2	19.5

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

In the Non-Core portfolio segment, we optimised our portfolio by selling properties which do not fit in with our strategy in the medium to 169

. We sold 4,144 residential units, which is 29 % of the housing stocks assigned to this segment and represents a doubling of sales performance compared with the 2012 financial year. A major step in this portfolio optimisation was the sale of a residential portfolio of 2,114 units in North Rhine-Westphalia, which, at € 56.2 million, is reflected in the increase in proceeds from sales. Accordingly, the average step-up and the adjusted income from the disposal of properties fell significantly year-on-year.

The Sales segment developed as follows in 2013 compared with 2012:

ADJUSTED EBITDA SALES

€ million	2013	2012
Income from disposal of properties	353.5	304.9
Carrying amount of properties sold	-325.8	-270.4
Revaluation of assets held for sale*	24.3	17.1
Profit on disposal of properties (IFRS)	**52.0**	**51.6**
Revaluation (realised) of assets held for sale*	-24.3	-17.1
Revaluation from disposal of assets held for sale*	15.3	19.7
Adjusted profit from disposal of properties	**43.0**	**54.2**
Selling costs	-15.3	-17.5
Adjusted EBITDA Sales	**27.7**	**36.7**

* For the first time in the interim management report for the first half of 2013, EBITDA Sales was adjusted for these period effects. The purpose of this adjustment is to show effects from the application of IFRS 5 on property sales affecting net income only in the period in which the sale actually takes place.

The selling costs fell from € 17.5 million to € 15.3 million in 2013 despite the higher sales volume. Adjusted EBITDA Sales decreased from € 36.7 million to € 27.7 million as a result of the portfolio sale in the Non-Core segment described above.

Non-recurring items

To show the development of operating performance and to ensure comparability with prior periods, we determine, as mentioned above, adjusted EBITDA for both the Rental and the Sales segments. The sum of these two KPIs gives the **adjusted EBITDA** of the Group. The adjustments made include special effects which do not relate to the period, are non-recurring or do not relate to the object of the company. These special effects comprise expenses for refinancing and equity increases (where not treated as capital procurement costs), expenses for pre-retirement part-time work arrangements, severance payments, IPO preparation costs, the development of new fields of business, acquisition projects and the development of business processes.
The table gives a detailed list of the non-recurring items:

NON-RECURRING ITEMS

€ million	2013	2012
Business model optimisation/Development of new fields of business	4.8	7.5
Acquisition costs	2.3	0.0
Refinancing and equity measures	20.4	10.5
Severance payments/Pre-retirement, part-time work arrangements	20.9	3.2
Total non-recurring items	**48.4**	**21.2**

In addition, in the Sales segment, we adjust for effects not relating to the period from assets held for sale. This adjustment is made to show the effect of property sales on the result only in the period in which the sale takes place.

Adjusted EBITDA decreased slightly to € 470.4 million in 2013, compared with € 474.0 million in 2012. If these adjustments for non-recurring items and effects not relating to the period in the Sales segment are excluded, this gives **EBITDA IFRS,** which fell from € 450.2 million in 2012 to € 431.0 million in 2013.

FFO

We increased our primary key performance indicator for sustained operating performance, **FFO 1,** by € 54 million or 32 % to € 223.5 million year-on-year. This rise is due, in particular, to much improved current interest expense as a result of our refinancing measures in 2013 as well as improved adjusted EBITDA Rental. The € 6.4 million increase in tax expenses, above all due to the improved earnings situation, had an opposite effect. Related to the number of our shares as at December 31, 2013, FFO 1 is € 1 per share. On the basis of FFO 1 of € 223.5 million, it is planned to distribute a dividend of € 0.70 per share to the shareholders; that is some € 157 million and some 70 % of FFO 1.

The table shows the reconciliation of key financial performance indicators:

FUNDS FROM OPERATIONS (FFO)

€ million	2013	2012
Profit for the period	**484.2**	**172.2**
Interest expense/income	288.3	433.9
Income taxes	205.4	43.6
Depreciation	6.8	6.1
Income from fair value adjustments of investment properties	-553.7	-205.6
= EBITDA IFRS	**431.0**	**450.2**
Non-recurring items	48.4	21.2
Total period adjustments from assets held for sale	-9.0	2.6
= Adjusted EBITDA	**470.4**	**474.0**
Adjusted EBITDA Sales	-27.7	-36.7
= Adjusted EBITDA Rental	**442.7**	**437.3**
Interest expense FFO*	-210.7	-265.3
Current income taxes	-8.5	-2.1
= FFO 1	**223.5**	**169.9**
Capitalised maintenance	-20.0	-23.7
= AFFO	**203.5**	**146.2**
FFO 2 (FFO 1 incl. profit from property sales)	**251.2**	**206.6**
FFO 1 per share in €**	1.00	0.85
FFO 2 per share in €** (FFO 1 incl. profit from property sales)	1.12	1.03
AFFO per share in €**	0.91	0.73

* The net cash interest “Interest expense FFO” of the prior year has been adjusted for interest accretion of € 6.2 million.
** based on the shares qualifying for a dividend on the reporting date Dec. 31, 2013: 224,242,425, Dec. 31, 2012: 200,000,000

The **net interest result** improved by € 145 million to € 288 million, including some € 55 million from the improvement in direct financing costs while the rest of the reduction of some € 90 million is attributable to the costs incurred in the prior year for the restructuring of the GRAND CMBS securitisation. By contrast, the financial year was impacted by prepayment penalties and valuation effects of the derivatives. The reduction of direct financing costs ultimately results from the implementation of the financing strategy and optimised equity and debt capital financing, which is evident in the refinancing of the GRAND CMBS securitisation and the reduction of the loan volume through equity and new debt capital. The average loan costs improved from about 4.4 % to about 3.3 % and the average maturity of loans is 8.4 years.

RECONCILIATION OF NET INTEREST RESULT TO NET CASH INTEREST

€ million	2013	2012
Income from non-current loans	1.9	1.9
Interest income	9.3	7.4
Interest expense	-299.6	-443.2
Net interest result*	**-288.4**	**-433.9**
Adjustments:		
Transaction costs	9.6	57.1
Prepayment penalties and commitment interest	27.5	2.1
Initial measurement effect of GRAND refinancing	0.0	83.1
Effects from the valuation of loans	4.6	6.7
Derivatives	22.2	1.5
Interest accretion to provisions/EK02	8.6	19.6
Accrued interest	-10.9	-6.2
Other effects	5.2	-1.5
Net cash interest	**-221.6**	**-271.5**
Accrued interest adjustment	10.9	6.2
Interest expense FFO**	**-210.7**	**-265.3**

* Excluding income from other investments
** The net cash interest “Interest expense FFO” of the prior year has been adjusted for accrued interest of € 6.2 million.

Taxes

Income taxes rose by € 162 million compared with the prior year, largely as a result of the significant increase in the valuation of the investment properties. Current income taxes increased from € 2.1 million to € 8.5 million owing to greatly improved profit before tax compared with 2012, which was impacted by expenses for the restructuring of the GRAND CMBS securitisation. The tax rate for the 2013 financial year is 29.8 % compared with the expected Group tax rate of 32.6 %. The tax rate of 20.2 %, which applied in 2012, results from the higher influence of non-taxable effects in relation to the profit before tax and from non-recurring effects from the utilisation of tax loss carryforwards under new profit-and-loss transfer agreements.

Net profit for the period

The profit for the period increased in 2013 year-on-year by € 312.0 million to € 484.2 million. The main driver was the sharp increase in the income from fair value adjustments of investment properties.

ASSETS POSITION

Asset and capital structure

The equity of the Deutsche Annington Immobilien Group increased in the 2013 financial year by € 1,140.6 million from € 2,677.4 million to € 3,818.0 million. The main drivers of this increase were the contribution of the "S" Notes of € 239 million by the then sole shareholder Monterey in the spring, the net capital increase of € 386 million as part of the IPO as well as the contribution from the profit for the period of € 484.2 million.

Within financial liabilities, the GRAND CMBS securitisation was repaid in full on July 18, 2013. The funds necessary were provided by placing unsecured bonds of € 2.5 billion and raising structured and secured loans of € 1.7 billion. This gave DAIG a flexible and balanced maturity profile. The borrowings are underpinned by the corporate credit rating BBB long-term and A2 short-term with a stable outlook granted by S&P.

The non-current liabilities also include pension obligations of € 291 million, lease obligations of € 88 million as well as residual pollution provisions of € 24 million and non-current provisions for personnel expenses under pre-retirement part-time work arrangements totalling € 11 million.

Current liabilities included current payment obligations for capital repayments and interest on loans as well as liabilities from current operating activities.

GROUP BALANCE SHEET STRUCTURE

	Dec. 31, 2013		Dec. 31, 2012	
	€ million	%	€ million	%
Non-current assets	10,352.6	93.3	9,946.8	93.8
Current assets	740.2	6.7	661.5	6.2
TOTAL ASSETS	**11,092.8**	**100.0**	**10,608.3**	**100.0**
Equity	3,818.0	34.4	2,677.4	25.2
Non-current liabilities	6,830.7	61.6	6,940.5	65.5
Current liabilities	444.1	4.0	990.4	9.3
TOTAL EQUITY AND LIABILITIES	**11,092.8**	**100.0**	**10,608.3**	**100.0**

The equity ratio rose from 25.2 % as at the 2012 reporting date to 34.4 % as at December 31, 2013. At € 10,266.4 million (2012: € 9,843.6 million), the Group's main non-current assets are investment properties. The total real estate assets including properties used by the Group and assets held for sale are € 10,324.5 million (GAV or gross asset value).

Cash and cash equivalents totalled € 548 million at the end of 2013 as a result of cash inflows from the IPO and the bond placements; of this figure, € 49.1 million are cash-restricted.

Fair values

The fair values of Deutsche Annington are reviewed every quarter and updated to reflect the current market situation. The residential real estate market in Germany again enjoyed a positive development in 2013. This market development and the optimisation of the portfolio through investment, rent increases and a reduction of voids led in 2013 to an increase in the value of our housing stock of **6.8 %** compared with 2012.

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

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

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

The value of the entire portfolio of residential properties was determined on the basis of the International Valuation Standard Committee's definition of market value.

The valuation methodology used by the DAIG is based on the discounted cash flow (DCF) methodology. Under the DCF methodology, the fair values are derived from the income and costs associated with a property. Under the DCF methodology, the expected future income and costs of a property are forecast over a period of 10 years and then discounted to the date of valuation as the net present value. The income mainly comprises expected rental income (current in-place rent, market rents as well as their development) taking vacancy losses into account. They are derived for each location from the latest rent indices and rent tables (e.g. IVD and IDN ImmoDaten GmbH) as well as from studies on spatial prosperity (Federal Institute for Research on Building, Urban Affairs and Spatial Development (BBSR), Prognos, empirica, Bertelsmann Stiftung inter alia). The range of sustained rentability thus derived for "Residential", the type of use characteristic of the portfolio, is from 0.6 % to 10.8 % for the individual locations and is on average 3.1 %.

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

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

The fair value of the real estate portfolio of the Deutsche Annington Immobilien Group of residential buildings, commercial properties, garages and parking spaces as well as undeveloped land and any inheritable rights granted was approx. € 10,326.7 million as at December 31, 2013 (2012: € 9,982.0 million). This led overall to net income from fair value adjustments of € 553.7 million.

The fair values for each real estate portfolio segment are as follows.

	Units		Fair value (€ million)	
	2013	2012	2013	2012
Operate	78,764	77,560	4,604.7	4,228.2
Upgrade Buildings	43,476	46,409	2,469.2	2,444.0
Optimise Apartments	21,363	19,744	1,446.8	1,209.4
Rental Only	**143,603**	**143,713**	**8,520.7**	**7,881.6**
Privatise	20,536	23,214	1,350.7	1,529.4
Non-Core	11,119	15,027	404.6	519.6
Total	**175,258**	**181,954**	**10,276.0**	**9,930.6**

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

Net asset value

The EPRA net asset value (EPRA NAV) of the Deutsche Annington Immobilien Group increased by € 1,333.3 million or by 39 % from € 3,448.9 million to € 4,782.2 million in the reporting period in line with equity due to the increase in the value of the real estate assets but also as a result of the capital measures performed. The triple NAV according to the EPRA definition is the reported equity of the Deutsche Annington shareholders.

NET ASSET VALUE (NAV) BASED ON APPLICATION OF IAS 40

€ million	Dec. 31, 2013	Dec. 31, 2012
Equity attributable to DAIG shareholders	**3,805.5**	**2,666.4**
Fair value of derivative financial instruments*	54.7	67.1
Deferred taxes	922.0	715.4
NAV	**4,782.2**	**3,448.9**
NAV per share in €**	**21.33**	**17.24**

* adjusted for effects from cross currency swaps
** based on the number of shares on the reporting date Dec. 31, 2013: 224,242,425; Dec. 31, 2012: 200,000,000

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

€ million	NAV	GAV
2013	4,782.2	10,324.5
2012	3,448.9	9,981.9
2011	2,968.0	9,936.1
2010	2,670.5	9,605.4
2009	2,543.3	9,685.9

FINANCING POSITION

The paramount goal of the financing strategy is to serve the Group and therefore the operational business and to provide the necessary financing and the necessary liquidity at all times on the most advantageous conditions. Financing decisions are taken centrally and implemented centrally by the Treasury department. The Group therefore presents one face to the financial markets for financing and liquidity management. The Treasury is divided into a front, middle and back office, with the middle office handling central operational risk management for financial transactions.

The main cash inflows from operating activities were from rental income and sales proceeds. The Group's liquidity is allocated by central liquidity management (cash pooling) as required in order to optimise the financial result.

When procuring funds on the international financial markets, DAIG benefits from the corporate credit rating granted by S&P of BBB long term and A2 short term with a stable outlook. An important goal of the financial strategy is to maintain this investment grade rating and therefore sustained access to the capital markets.

To increase flexibility, a tap issue for up to € 4 billion was placed under an EMTN programme (European Medium Term Notes Programme) to cover mid-term and long-term funding requirements. Current account credit lines are used on a case-by-case basis to cover short-term liquidity requirements.

In addition, in the 2013 financial year, net cash inflows were generated from equity increases. Cash inflows from loans were ultimately used to repay the GRAND CMBS Notes.

Cash flow

STATEMENT OF CASH FLOW

€ million	2013	2012
Cash flow from operating activities	259.6	385.5
Cash flow from investing activities	171.3	194.5
Cash flow from financing activities	-353.2	-388.4
Net changes in cash and cash equivalents	**77.7**	**191.6**
Cash and cash equivalents at the beginning of the period	470.1	278.5
Cash and cash equivalents at the end of the period	**547.8**	**470.1**

Cash flow from **operating activities** is considerably influenced by the non-recurring items in 2013 in connection with the IPO and the refinancing of loans. One major item is the cash outflow for the repayment of the EK02 liability; in addition, tax payments increased by € 17.5 million year-on-year. The changes in working capital led to positive cash flows of € 4.4 million compared with cash outflows of € 2.2 million in 2012.

Cash flow from **investing activities** decreased in the reporting period by € 23.2 million to € 171.3 million. Whilst the cash outflows for investments in real estate stocks totalled € 94.9 million and were thus at the level of the prior year, income from disposal of properties fell by some € 14 million. At € 8.3 million, investments in intangible assets and in other property, plant and equipment increased by € 1.5 million year-on-year, whilst at € 3.2 million, interest received was € 5.6 million below the prior-year figure.

Cash flow from **financing activities** reflects the refinancing of the GRAND CMBS securitisation as well as the repayment of a further portfolio loan and the raising of new equity and debt capital through the capital increase as part of the IPO, the placement of the bonds as well as financing through new structured and secured loans. It also includes transaction costs in connection with equity and debt capital financing.

Funding

Funding in the reporting period was dominated by three major subjects: the initial listing on the Frankfurt stock exchange and the related net cash inflows from the capital increase of some € 380 million as well as the realignment of financing in accordance with the newly formulated financing strategy through the issue of unsecured and non-subordinated bonds, which ultimately served to refinance the GRAND CMBS Notes. The main prerequisite for this was the granting of a BBB long-term corporate credit rating to Deutsche Annington Immobilien SE by S&P on June 10, 2013. Prerequisites for this were in turn the successful listing on July 11 in the Prime Standard segment of the Frankfurt stock exchange and the related net issue proceeds from the capital increase.

At the beginning of the financial year, Group financing built on the restructuring of the GRAND CMBS Notes completed in December 2012. In six refinancing transactions with various banks and insurance companies, DAIG managed to successfully contract a total volume of some € 1.7 billion through secured loans for individual portfolios from the GRAND securitisation.

Securities in the form of pledge agreements and land charges were provided for all loans. In no case is there any cross-collateralisation with other loans. The loans are subject to normal market covenants which are to be regularly reviewed.

Furthermore, we used part of the net proceeds (€ 218.6 million) from the IPO on July 22, 2013 for early repayment of the portfolio financing of Deutsche Annington WOGE Vier GmbH & Co. KG, Düsseldorf.

As part of its financing strategy, DAIG established Deutsche Annington Finance B.V., Amsterdam, (Finance B.V.), a wholly owned subsidiary of DAIG, whose purpose is to procure funds on the international debt capital markets by issuing unsecured, non-subordinated bonds. The funds subsequently procured were then lent to the DAIG to ultimately permit the refinancing of the GRAND CMBS securitisation, which frees the DAIG from all restrictions which are connected with a CMBS financing. It is standard international practice to use a Dutch financing company.

On July 25, 2013 the first issue of corporate bonds with an aggregate notional volume of € 1.3 billion was placed. The first issue consisted of two tranches: a three-year tranche with a volume of € 700.0 million and a coupon of 2.125 % as well as a six-year tranche with a volume of € 600.0 million and a coupon of 3.125 %.

The placement of a US-dollar bond in two tranches: a four-year tranche with a volume of US-$ 750 million and a coupon of 3.2 % and a ten-year tranche with a volume of US-$ 250 million and a coupon of 5.0 % followed on October 2, 2013. At the same time, the currency risk was hedged in full by contracting appropriate interest-currency derivatives (cross currency swaps). Due to the interest rate differences between the US dollar and the euro, this also resulted in a reduction in the financing costs compared with the US-dollar coupon so that the interest rate is 2.97 % on the four-year tranche and 4.68 % on the ten-year tranche.

On October 8, a further bond was placed under the € 4.0 billion EMTN Programme (European Medium Term Note Programme) with a volume of € 500 million, a term of eight years and a coupon of 3.625 %.

Finance B.V. is supported by an unconditional and unlimited guarantee provided by DAIG. Finance B.V. is included in DAIG's control and risk management system and is controlled and monitored by the middle office of DAIG's Treasury department, which looks after in particular the main business risks of Finance B.V.: the interest risk, the liquidity risk, the counterparty risk and to a certain extent the currency risk. DAIG's Treasury department is also responsible for appropriate hedging of the above-mentioned risks.

In order to support the procurement of funds in North America – through the first bond ever placed in the USA by a European residential real estate company and with which the DAIG has secured access to the North American debt capital markets – swaps were purchased to hedge the associated interest/currency risk.

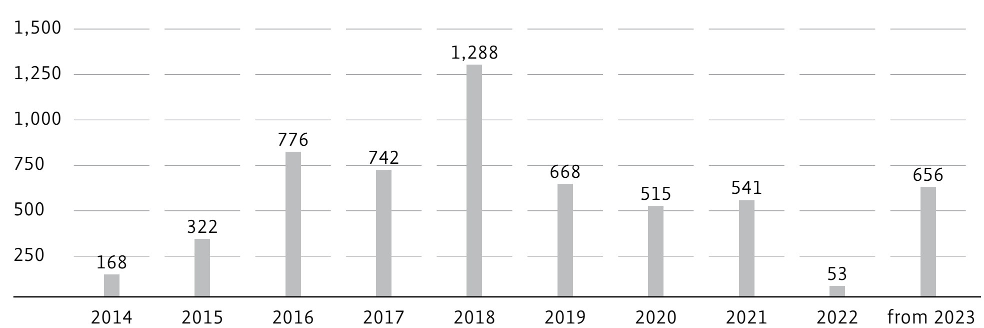
In connection with the issue of unsecured bonds by Deutsche Annington Finance B.V., we have committed to the observance of the following normal market covenants:

> limitations on incurrence of financial indebtedness
> maintenance of consolidated coverage ratio and
> maintenance of total unencumbered assets.

As at December 31, 2013, these financial covenants had been fulfilled as expected. Any failure to meet to financial covenants agreed could have a negative impact on the liquidity status.

With the completion of the listing of its shares as well as the bond placements on the basis of the investment grade rating, DAIG has gained access to the international equity and debt capital markets and can therefore achieve flexible and balanced financing with a balanced maturity profile; this new financing of Deutsche Annington led to the following maturity structure as at December 31, 2013:

MATURITY STRUCTURE
as at Dec. 31, 2013 in € million



For more detailed information, we refer to the relevant explanations in the Notes to the consolidated financial statements under note [32] Other financial liabilities.

SUBSEQUENT EVENTS

- **Acquisition of the real estate business of the DeWAG Group**
- **Integration of the real estate business of the Vitus Group**
- **Capital increase from authorised capital**
- **Non-cash capital increase from authorised capital**
- **Creation of new authorised capital**
- **Hybrid bond**

Approval to acquire the real estate business of the DeWAG Group

On February 28, 2014, the Management Board resolved, with the approval of the Supervisory Board, to acquire a real estate business managed by the DeWAG Group by purchasing the relevant approx. 94 % of the shares on the basis of a submitted contract ready for signature. The object of the purchase contract is the relevant real-estate-holding property companies in addition to selected holding companies. The expected completion of the acquisition is April 1, 2014. The agreed purchase price, taking debt into account, is approx. € 970 million. The sellers of the DeWAG Group are holding companies under Luxembourg and Dutch law which are advised by international real estate funds.

DeWAG is a real estate management company operating throughout Germany with housing stocks of more than 11,000 units. The majority of these stocks are in the metropolises of Munich, Frankfurt am Main, Düsseldorf, Cologne and Hamburg. The portfolio comprises almost exclusively properties used for residential purposes, which are being further developed through professional property management as well as value-focused refurbishment and modernisation measures.

Apartments are also offered for sale at selected locations where the demand for residential property is high. DeWAG's professional property management is characterised by its aspiration to continuously optimise the quality of life and housing for the tenants in its estates and to generate a corresponding higher value as a return for the owners.

Therefore, the DeWAG Group is an excellent supplement to the DAIG strategy.

Approval to integrate the real estate business of the Vitus Group

On February 28, 2014, the Management Board further resolved, with the approval of the Supervisory Board, to integrate the real estate business of the Vitus Group. The object of the Contribution and Investment Agreement is the relevant real-estate-holding property companies of the Vitus Group. The expected completion of the transaction is October 1, 2014. The agreed consideration, taking debt into account, is approx. € 1.4 billion.

With over 30,000 apartments of its own, the Vitus Group is one of the leading housing companies in northern and western Germany. The properties are located in the Rhine-Ruhr conurbation as well as in the cities of Bremen, Kiel and Wuppertal.

The business model is based on the sustainable improvement of earnings by optimising the core portfolio and acquiring properties in areas with economic development potential and is aimed at maintaining and enhancing value. This business model therefore addresses the main interests of the tenants and, at the same time, the owners' interest in receiving a good return. This is a particularly holistic business approach which goes beyond pure letting and administration of properties by providing numerous service offerings, combined with local tenant and district support to create a residential environment worth living in based on standardised core business processes geared to optimisation and efficiency increases.

Therefore, the Vitus Group is another excellent supplement to the DAIG strategy.

To finance the approved transactions, the Supervisory Board has approved the following flanking financing options.

Capital increases from authorised capital

Capital increase against cash contributions to the exclusion of the subscription right

On February 28, 2014, the Management Board of Deutsche Annington Immobilien SE resolved, with the Supervisory Board's approval, a capital increase against cash contributions of 16,000,000 no-par value registered shares to the exclusion of the subscription rights of the shareholders from the existing authorised capital.

The new no-par value registered shares, each with a proportionate amount of the share capital of € 1.00, are to be offered for sale to institutional investors in an accelerated book-building process to be performed in the near future. The new shares are fully entitled to a dividend with effect from January 1, 2013. On the basis of the proposed appropriation of profit amounting to € 0.70 per share, the newly created shares account for a further dividend volume of € 11,200,000.

The company intends to use the issue proceeds of the transaction in particular to partly finance the acquisition of the DeWAG Group and the Vitus Group.

Non-cash capital increase granting new shares as part of the total consideration to be paid in connection with the Vitus integration

On February 28, 2014, the Management Board of Deutsche Annington Immobilien SE also resolved, with the Supervisory Board's approval, a non-cash capital increase against the granting of approx. 11,780,000 new shares from the existing authorised capital to the exclusion of the subscription rights of the shareholders. The shares will be created in order to settle parts of the total compensation in new shares on completion of the integration of the real estate business of the Vitus Group. It is planned to complete this transaction and thus the entry in the commercial register of the new no-par value registered shares to be issued in this connection in the 4th quarter 2014.

The new shares are to be admitted for trading on the stock exchange on the basis of a stock exchange prospectus still to be prepared and thus included in the existing listing in the sub-segment of the regulated market with additional obligations arising from admission (Prime Standard) on the Frankfurt Stock Exchange.

With the equity transactions announced, DAIG intends to maintain a sound and strong financing structure for planned acquisitions.

Creation of further authorised capital

On February 28, 2014, the Management and Supervisory Boards resolved, in principle, against the background of the planned partial use of the existing authorised capital, to propose a motion to the Annual General Meeting for the creation of further new authorised capital 2014 with the possibility of excluding the subscription right of the shareholders and for the corresponding inclusion of a new Article 5a in the Articles of Association.

On June 30, 2013, the Annual General Meeting had authorised the Management Board, with the Supervisory Board's approval, to increase the company's share capital by up to a total of € 111,111,111 through one or more issuances on or before June 29, 2018 by issuing up to 111,111,111 new no-par value registered shares against contributions in cash and/or in kind and, under certain circumstances, to the exclusion of the subscription right of the shareholders (authorised capital) and had passed an appropriate amendment to Article 5 of the Articles of Association. Against the background of the partial use of the authorised capital, an admissible amount of further authorised capital is to be created (authorised capital 2014), the possibilities of excluding the subscription right, which are provided for the existing and still applicable authorised capital, also being provided for the authorised capital 2014. The amount of the authorised capital 2014 is to be the difference between (i) the EUR amount to which the authorisation under the existing authorised capital after performance of the capital increase against cash contributions resolved on February 28, 2014 is reduced, and (ii) 50 % of the EUR share capital figure of Deutsche Annington Immobilien SE increased on the basis of the aforementioned performance of the capital increase. The authorisation under the new authorised capital 2014 is to apply for a period of max. five years (Section 202 AktG).

Issuance of a hybrid bond

On February 28, 2014, the Management Board resolved, with the Supervisory Board's approval, to issue a subordinated, long-term bond (hybrid bond) in the amount of € 600 million to € 750 million for the partial financing of the planned acquisitions. The hybrid bond will be issued through Deutsche Annington Finance B.V. As part of placement in a private placement procedure, the hybrid bonds will only be offered for purchase to institutional investors.

To generate further financing volumes, the Supervisory Board has also issued the authorisation to place, through Deutsche Annington Finance B.V., further bonds on the international financial markets from the tap issue of the EMTN programme.

STATEMENT OF THE MANAGEMENT BOARD ON THE ECONOMIC SITUATION

The net assets, financial position and results of operations of the Group are highly positive particularly given the successful refinancing, the resulting balanced maturity profile and the financing flexibility gained through the rating-backed bond financings with a view to both organic and external growth. Steady improvements to the property management processes promote an improved cost structure.

NON-FINANCIAL INFLUENCING FACTORS

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

Customer Satisfaction

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

Customer satisfaction survey

Our customer satisfaction survey is an important indicator for gearing improvement potential closely to our tenants' needs. This survey helps us to create a measurable and sound analysis basis for aligning our strategy.

Every month, we conduct a survey on how we keep our service promises. The survey covers such subjects as the quality of services and punctuality. We contact some 400 customers through a reputable independent market research institute. We ask equal numbers of potential tenants, new customers, existing tenants as well as customers who have recently reported a fault in need of repair. The results are evaluated by our service provider and sent to the company in anonymised form.

In addition to the business operations survey, which focuses on everyday subjects connected with rental accommodation, since 2012 we have also been conducting a strategic customer satisfaction survey. This deals with overarching aspects such as image, loyalty, overall satisfaction and also subjects connected with customer care or maintenance and conversion measures. Using the strategic surveys, we determine our customer satisfaction index and the customer commitment index. These indices give us important information on the statistical satisfaction of our customers and their loyalty to our company.

Therefore, the surveys cover all main elements of our relationship with customers: from the first contact when they are interested in an apartment to reports of necessary repair work and their perception of the company as a whole, we would like to know how our customers rate us as a company and our services. We take this feedback as an opportunity to review and sustainably optimise internal processes.

The company attaches great importance to customer satisfaction and therefore the survey results have a direct influence on the variable remuneration of all employees of Deutsche Annington. This link underscores the close relationship between customer and staff satisfaction, which, from the company's viewpoint, are mutually dependent.

Organisational management through efficient and fully integrated management platform
Deutsche Annington steers its processes with a balanced combination of central and decentralised responsibilities.

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

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

All in all, we managed to deal with our customers' wishes even faster and more reliably in 2013 and have greater local presence with our own employees. This concept is supplemented by our own caretaker and craftsmen's organisations.

Closer to the customer with our own caretakers and craftsmen
In 2011, we started to build up our own caretaker organisation: parallel to this, together with a joint venture partner, we established craftsmen's organisations which operate under the names Deutsche TGS West GmbH and Deutsche TGS GmbH.

We used the 2013 financial year to further gear the new caretaker organisation to the new processes and enlarge it. Our caretakers, who have already been trained in a large number of property-specific areas, are competent on-site partners for our customers. Every month, some 750 on-site service hours are held throughout Germany. At the same time, they make sure that our residential estates are clean and tidy. We offer this service for some 140,000 apartments.

Thanks to our craftsmen's organisations, we can perform work in our residential properties such as painting, plumbing, heating and masonry work with our own people.

In 2013, our own craftsmen's organisations performed more than 195,000 minor repairs in our housing stocks and renovated some 5,000 vacant apartments. At the end of 2013, 1,200 employees worked at ten locations throughout Germany and were responsible for about 175,000 residential units.

Senior-friendly apartment conversions

The demographic change can already be seen today in the Deutsche Annington tenant structure: some 36 % of our customers are over 60. Many people want to live for as long as possible in their own four walls and in their neighbourhood – and we have prepared ourselves accordingly. We are continuously converting some of our apartments to meet the needs of the elderly. Our aim is to safeguard the quality of housing and life for our customers in the long term. Therefore, our concept of senior-friendly accommodation would not be complete without close cooperation with politicians, welfare associations and local service providers.

Debt counselling offer for customers with rent arrears

We employ some 110 social managers throughout Germany who give our tenants expert advice if they are in arrears with their rent. The aim of this measure is to work together with these tenants and develop sustainable solutions to their debt problems. In 2013, we avoided more than 450 evictions and safeguarded over 1,600 rental contracts in the long term thanks to this approach.

Energy management leads to lower costs for tenants

Major ancillary cost items are gas, electricity and oil where prices on the open market have been steadily rising for years. These higher prices are a significant extra financial burden on our tenants. To keep the costs for our customers as low as possible, we have set up an energy management unit which focuses on negotiating pan-regional framework agreements. The aim is to secure long-term beneficial conditions for our customers. The prices in existing framework agreements are regularly reviewed.

Modern fibre-optic technology installed in apartments

At the end of 2011, Deutsche Annington entered into a strategic partnership with Deutsche Telekom in order to equip our housing stocks throughout Germany with modern fibre-optic technology and provide the tenants with a TV signal.

In 2013, the first 43,000 apartments were switched over to a TV signal provided by the Group subsidiary, Deutsche Multimedia Service GmbH. Some 7,300 of these units are already connected to the cutting-edge, fibre-optic network of Deutsche Telekom. With the new offering, we are giving our customers access to the latest telecommunications infrastructure and, at the same time, increasing the attractiveness of our apartments.

Customers benefit from certified ancillary cost bills

In 2013, the quality of ancillary cost and service charge bills was again attested by the Geislinger Konvention quality seal and ISO 9001:2008 certification by TÜV Rheinland. The certifications verify the efficiency of our processes as well as the high quality of our ancillary cost and service charge bills.

In the last three years, the number of customer complaints about our ancillary cost bills has more than halved. At the same time, the justified customer objections were cut to 3 %, partly as a result of optimised billing preparation.

Socially responsible partner

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

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

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

EMPLOYEES

As at December 31, 2013, the Deutsche Annington Immobilien Group employed 2,935 people. This figure included 781 women, which is 26.6 % of the total workforce. 271 employees had part-time jobs. Furthermore, 117 people were doing an apprenticeship in our company as at the reporting date.

A balanced staff structure is important to us. The average age of employees in our Group is 41.1; the average number of years of service is 5.6.

Qualifications

An important part of our HR strategy is to recruit, keep and advance qualified employees by offering them further training opportunities and, at the same time, create added value for our customers. As the market environment becomes more demanding and changes, further training measures also help to prepare our employees in the best possible way to meet the challenges of the market. The training offerings range from targeted individual programmes to specialised training programmes.

DAIG offers its employees the opportunity to obtain a Chamber of Industry and Commerce qualification as a "Residential Real Estate Caretaker". This opportunity is unique in the industry and aroused great interest among our caretakers. As at December 31, 2013, 132 employees had already taken part in and successfully completed the training for the certificate. The programme will be further expanded in 2014.

Further elements of our career advancement offering are part-time studies, e.g. for a Bachelor or Masters in Real Estate Management at the EBZ business school.

Vocational training

The company attaches great importance to vocational training. We aim to offer targeted individual advancement programmes and long-term prospects.

In 2013, all 19 apprentices in their third and final year passed their exams in the individual apprenticeship occupations.

The Chamber of Industry and Commerce also gave an award to five apprentices of Deutsche Annington who obtained the best mark "excellent" in their final exams. Special mention should be made of the outstanding performance of one female real estate administration apprentice whose final exam result made her one of the two best real estate administration clerks in North Rhine-Westphalia and who received a further "Best of NRW" award.

In 2013, Deutsche Annington was conferred the "Vocational Training Ace" award for its commitment to vocational training as one of Germany's best vocational training enterprises.

> Strong vocational training initiative 2013

With 43 apprentices between 17 and 35 years of age, one of the largest apprentice intakes in the history of Deutsche Annington and also one of the most varied started in 2013: most of the job starters began an apprenticeship in real estate administration. Seven of them are studying for a degree parallel to their apprenticeship. Furthermore, Deutsche Annington trains people as office communications clerks and IT specialists; one young lady is serving an HR services apprenticeship.

Since 2013, the Deutsche Annington Immobilien Group has widened its commitment to vocational training to include trade apprenticeships. The fast-growing subsidiaries, Deutsche TGS and Deutsche TGS West, were able to offer ten young people apprenticeships in plant engineering with specialisation in sanitary equipment, heating and air-conditioning technology as well as in electronics with specialisation in energy and building technology. The programme will be further expanded starting in the 2014 apprenticeship intake year.

> Young talent advancement programmes

In view of the demographic change and the increasing complexity of professional challenges, the early identification and recruiting of people with high potential is very important. Targeted qualification programmes already safeguard succession planning today.

> Graduate trainee programmes

Our graduate trainee programmes, which are aimed at internal and external university graduates, are a fundamental part of talent and succession management and geared to their long-term deployment in an expert or management function.

The 18-month programme offers the trainees the opportunity to get to know the different interfaces of Deutsche Annington and, above all, our core business in a structured manner in five to six work assignments.

This year, Absolventa again awarded our trainee programme the seal of quality "Charta karrierefördernde und faire Trainee-Programme", which is given to career-advancing and fair trainee programmes.

> International placements

In cooperation with AIESEC, the world's largest student organisation, we successfully took on university placement students from abroad in 2013. As part of a six to twelve-month placement, we offer high-calibre students the opportunity to develop their social and professional skills and to build up an international network. We are engaged as a partner of the committee in AIESEC Bochum.

ECONOMIC DEVELOPMENT OF DEUTSCHE ANNINGTON IMMOBILIEN SE

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

Fundamental Information

Deutsche Annington Immobilien SE ("DAIG") was established as Deutsche Annington Immobilien GmbH with its head office in Frankfurt am Main on June 17, 1998. Today, together with its subsidiaries, it forms the Deutsche Annington Immobilien SE Group and is Germany's leading residential property management company with some 175,000 residential units.

The DAIG annual financial statements have been prepared in accordance with the provisions of the German Commercial Code (HGB) taking into account the supplementary regulations of the German Stock Corporation Act (AktG) as well as the applicable transitional regulations of the German Accounting Law Modernisation Act (BilMoG) and have been audited by the auditor.

The company assumes the function of the management holding in the Group of Deutsche Annington Immobilien SE. In this function, it is responsible for determining and pursuing the overall strategy and implementing the company's goals and performs property management, financing, service and coordination tasks for the Group.

Furthermore, it is responsible for the management, control and monitoring system as well as risk management. To carry out these management functions, DAIG has established service companies to pool certain functions, such as the central and local customer service units. By pooling the corporate functions, DAIG achieves harmonisation, standardisation and economies of scale objectives and therefore the other Group companies do not need to perform such functions themselves.

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

The description of the company's net assets, financial position and results of operations is based largely on and influenced by the Group reporting. The company's risk profile is largely the same as the Group's.

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

Development of Business in 2013

In June 2013, Deutsche Annington Immobilien SE applied for admission of its no-par value registered shares in Germany and Luxembourg on the basis of a stock exchange prospectus in accordance with the German Securities Prospectus Act (Wertpapierprospektgesetz (WpPG)). On July 2, 2013, the shares were admitted to trading on the Prime Standard of the regulated market by Frankfurt stock exchange. The German Securities Code (WKN) is: A1ML7J; the ticker symbol: ANN. The company is therefore subject to the rules of the German Securities Trading Act (Wertpapierhandelsgesetz (WpHG)). On July 11, 2013, the share of Deutsche Annington Immobilien SE was first listed in the Prime Standard segment of the regulated market of the Frankfurt stock exchange. The IPO resulted in gross proceeds of € 400 million. The successful IPO and the related net issue proceeds from the capital increase were the prerequisites for the granting of a BBB long-term corporate credit rating by Standard & Poor's.

Monterey Holdings I S.à r.l., Luxembourg ("Monterey"), was, until the stock exchange listing on July 11, 2013, the sole owner of the shares in our company.

Employees of Deutsche Annington Immobilien SE

At the end of 2013, 149 people were in the employ of Deutsche Annington Immobilien SE (2012: 185). Furthermore, 59 seconded employees (2012: 43 employees) work in the company under personnel supply contracts signed with subsidiaries of Deutsche Annington Immobilien SE.

Results of Operations, Net Assets and Financial Position

Results of operations of Deutsche Annington Immobilien SE

The company regularly generates income from the charging of the services it provides and from the transfer of profits and assumption of losses. Profit-and-loss transfer agreements exist mainly with the service companies which themselves generate income by charging the real estate companies for the services they have provided. Furthermore, DAIG SE can generate income from dividend distributions of its Group companies.

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

The financial result is governed by the Group financing.

INCOME STATEMENT

€ million	2013	2012	Delta
Income from onward-charging and services	97.1	130.7	-33.6
Other income	4.9	5.9	-1.0
Personnel expenses	-33.2	-44.4	11.2
Other administrative expenses	-101.8	-90.0	-11.8
Loss (profit) before financial result and tax	**-33.0**	**2.2**	**-35.2**
Income from profit transfer	28.7	36.8	-8.1
Income from investments	3.8	4.0	-0.2
Interest and similar income	45.5	1.2	44.3
Expense from the assumption of losses	-2.1	-1.7	-0.4
Interest and similar expense	-44.5	-32.5	-12.0
Loss (profit) before tax	**-1.6**	**10.0**	**-11.6**
Tax	-0.2	-0.4	0.2
Net loss (profit) for the year	**-1.8**	**9.6**	**-11.4**

The income from onward-charging and services fell by some € 34 million in 2013 as the prior-year onward-charging figure contained the considerable expenses from the restructuring of the GRAND securitisation in 2012.

Personnel expenses decreased by € 11.2 million, which is largely due to the smaller number of employees. The number of employees working for DAIG SE fell in 2013 from 185 to 149. The other administrative costs increased by € 11.8 million.

The profit before financial result and tax decreased in the financial year by € 35.2 million to a loss of € 33.0 million. By contrast, the financial result improved by € 23.6 million owing to the changes in Group financing.

In the reporting year, no dividends from subsidiaries were received.

The company therefore closed the financial year with a net loss of € 1.8 million compared with net income of € 9.6 million in 2012.

Net assets of Deutsche Annington Immobilien SE

The change in the financial assets mainly results from the repayment of a loan.

Assets € million	Dec. 31, 2013	Dec. 31, 2012	**Equity and liabilities** € million	Dec. 31, 2013	Dec. 31, 2012
Financial assets	1,612.3	1,611.4	Equity	1,863.9	1,226.5
Other assets	0.4	0.8	Provisions	77.8	102.9
Receivables from companies	764.7	193.7	Liabilities from companies	851.1	537.5
Other receivables and assets	9.3	4.3	Other liabilities	2.5	13.9
Cash and cash equivalents	408.6	70.6			
Total assets	**2,795.3**	**1,880.8**	**Total equity and liabilities**	**2,795.3**	**1,880.8**

Cash and cash equivalents increased in 2013 as a result of the extension of Group financing and thus of cash pooling following the GRAND refinancing and the absence of cash restrictions previously in place in this connection. Furthermore, the amount is influenced by cash inflows from the placement of the bonds and the positive cash flow from the operating companies, which, through the Group financing and cash pooling, are both reflected in the amount reported by DAIG SE. The increase in amounts receivable from and payable to affiliated companies therefore also results from the GRAND refinancing and the Group financing optimised in cash pooling.

The increase in equity in 2013 of some € 637 million results almost exclusively from the capital increase as part of the IPO as well as from the non-cash contribution in the form of the "S" Notes by Monterey Holdings I S.à r.l., Luxembourg. In the 2013 financial year, parts of the capital reserves were accordingly converted into share capital. The share capital as at December 31, 2013 amounted to € 224.2 million, the capital reserves to € 1,444.0 million. Equity also contains profit carried forward from the prior year amounting to € 174.1 million.

Financial position of Deutsche Annington Immobilien SE

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

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

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

The company received equity of some € 380 million in 2013 as a result of the cash capital increase.

Expenses which were incurred on behalf of the former sole shareholder in connection with the IPO were reimbursed before the end of the reporting year.

FORECAST REPORT

The company's net assets, financial position and results of operations are determined solely by the ability of the Group companies to generate profits. Accordingly, we refer at this point to the Group forecast report.

The result for the 2014 financial year will again be influenced by the income received from the service companies on the basis of profit-and-loss transfer agreements. The results of operations of DAIG SE will also be governed by the extent to which profits of the Group companies are distributed to DAIG SE under the inter-Group dividend policy.

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

Further Statutory Disclosures

DECLARATION BY THE MANAGEMENT BOARD IN ACCORDANCE WITH SECTION 312, PARA. 3 AKTG

In accordance with Section 17, para. 2, AktG, Deutsche Annington Immobilien SE is a dependent company of Monterey and therefore obliged to prepare a dependent company report in accordance with Section 312 AktG. The final declaration of this dependent company report is reproduced in this Management Report.

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

REMUNERATION REPORT

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

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

The general shareholders' meeting of DAIG passed a resolution on May 10, 2012 in accordance with Section 286, para. 5 HGB that the information in accordance with Section 285, No. 9a, sentences 5 to 8 HGB and Section 314, para. 1, No. 6 HGB, in particular information on the total remuneration of each individual Management Board member, is not to be disclosed for the years 2012 to 2016. For the 2013 reporting year, DAIG is meeting the requirements of the German Corporate Governance Code in spite of the resolution of the general shareholders' meeting and is presenting the remuneration components of the individual Management Board members on a voluntary basis. For the prior year 2012, only total figures for the remuneration of the Management Board members are disclosed in accordance with the resolution of the general shareholders' meeting and in view of the lack of comparability; these 2012 figures are split into non-performance-based and performance-based components.

Management Board

Remuneration system

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

Criteria for determining the appropriateness of remuneration are both the tasks of the individual member of the Management Board, his personal performance, the economic situation, the performance and outlook of the company as well as the common level of remuneration, taking into account peer companies and the remuneration structure in place in other areas of the company. Furthermore, we compare ourselves with other listed companies of a similar size. The remuneration structure is oriented towards sustainable growth of the company.

In addition to basic remuneration, the members of the Management Board receive variable short-term as well as variable long-term remuneration which takes account of both positive and negative developments. The variable remuneration is capped. Furthermore, the members of the Management Board receive benefits in kind in the form of insurance premiums, the private use of communication means and company vehicles. In one case, instead of the provision of benefits in kind in the form of insurance premiums, the rent is paid by the company.

Fixed remuneration and fringe benefits

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

The fringe benefits comprise a risk life insurance and 50 % of the health insurance contributions up to a maximum of the relevant employer contributions to the statutory health and nursing care insurance funds. Guaranteed remuneration in the event of illness is for twelve months, but no longer than until the end of the Management Board member's service contract. In the event of death, DAIG continues to pay the salary to the surviving dependants for up to six months.

The members of the Management Board are provided with a company car as well as communication means which they have the right to use for private purposes. Travel expenses are reimbursed in line with the DAIG Travel Expense Policy.

Bonus

The variable short-term remuneration is based on success criteria set in advance by the Supervisory Board as well as personal targets. The variable short-term remuneration is capped at € 700,000 for Rolf Buch as the chairman of the Management Board, at € 440,000 for Klaus Freiberg and at € 400,000 for Dr A. Stefan Kirsten. The success criteria state that 40 % of the variable short-term remuneration depends on the achievement of the AFFO Group target and 15 % on the achievement of the EBITDA Group target for sales and a further 15 % is in connection with the improvement of the customer satisfaction index determined by an independent third party. 30 % of the variable short-term remuneration is related to the achievement of the personal targets agreed with the Supervisory Board.

The members of the Management Board receive their bonus one month after the adoption of the annual financial statements of DAIG. It is paid out in cash.

Original LTIP

Until the IPO, there was a Long-Term Incentive Plan (LTIP) for which the triggering event was the successful IPO (original LTIP).

The payments to Klaus Freiberg and Dr A. Stefan Kirsten under the original LTIP, which constitutes a cash-settled long-term incentive plan, were reimbursed by the former sole shareholder, Monterey Holdings I S.à r.l., Luxembourg. The same applies to the payments to the former chairman of the Management Board, Wijnand Donkers, subject to the fulfilment of the triggering conditions.

On June 28, 2013, the replacement of the previous LTIP agreements was resolved subject to the condition precedent of an IPO. The condition precedent occurred with the completion of the IPO on July 11, 2013.

Accordingly, the Management Board members were paid one-off remuneration of € 6.2 million at the time of the initial listing in settlement of all claims arising out of the previous LTIP. Of this figure, € 2,285,299.50 was paid to Rolf Buch, € 1,721,082.00 to Klaus Freiberg and € 2,190,474.00 to Dr A. Stefan Kirsten. Furthermore, the Management Board members received a one-off compensatory payment totalling € 300,000.00. Of this figure, Rolf Buch received € 200,000.00 and Klaus Freiberg and Dr A. Stefan Kirsten € 50,000.00 each.

In this connection, the individual Management Board members had undertaken to purchase 171,424 shares at the subscription price (€ 16.50 per share) when the IPO took place; these shares have full dividend and voting right entitlements but their disposal is restricted until the end of the respective Management Board member's employment contract (restricted shares).

The pro-rata income tax totalling € 271,463.74 (Rolf Buch: € 123,899.04, Klaus Freiberg: € 75,036.59; Dr A. Stefan Kirsten: € 72,528.11) was paid by the company as a fringe benefit.

New LTIP

Under the new LTIP, the Management Board members are granted a total of 931,030 notional shares (SARs = stock appreciation rights). The plan will run for a period of five years (five annual tranches) with a cliff vesting of 20 % per calendar year of the total number of notional shares granted. Over the five-year period, Rolf Buch receives 400,000 of these notional shares with a fair value of € 6,022,720.00 and Klaus Freiberg und Dr A. Stefan Kirsten each receive 265,515 of these notional shares, in each case with a fair value of € 3,997,806.25. In this context, the fair value corresponds to the actuarial fair value of the remuneration expected over the total five-year period. These notional shares will be converted into payout amounts for each annual tranche on the basis of a formula laid down in the LTIP agreement. Therefore, this new LTIP qualifies as a cash-settled share-based plan in accordance with IFRS 2.

Payout of the amounts of the vested tranches will be triggered as soon as and if the previous sole shareholder reduces its shareholding to below 30 %, the subsequently vested tranches will become due on July 11 of the following years, but at the latest on September 30, 2019 (long-stop date) all amounts will become due. In deviation from the above, the shares of Rolf Buch will not vest on the respective anniversary days of the initial listing but in each case on February 28 of the following years. If there is a change of control over the company before the investors in funds advised by Terra Firma have reduced the direct or indirect investment in the company to less than 50 %, all notional shares will fully vest and all claims connected therewith will become due.

The cash-settled amounts are determined from the product of the number of notional shares per tranche, the market value of the share, taking into account dividend payments in the period between the IPO and the payout date, and the level of performance target achievement for the relevant measurement period. This level of performance target achievement results from the sum of the NAV percentage, the TSR percentage and the AFFO percentage divided by three (NAV = EPRA net asset value, TSR = total shareholder return, AFFO = adjusted funds from operations). The possible performance target achievement may be between 90 % and 110 %. The following table shows the performance target achievement parameters as well as the factors influencing them:

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

Cash-effective remuneration 2013

On the basis of the remuneration structure described above, the individual Management Board members received the following remuneration for the 2013 financial year:

Cash-effective remuneration components in €	Rolf Buch CEO	Klaus Freiberg COO	Dr A. Stefan Kirsten CFO	Total
Fixed remuneration	750,000.00	550,000.00	518,000.00	**1,818,000.00**
Deferred compensation	-	110,000.00	-	**110,000.00**
Fringe benefits	30,908.90	20,400.00	35,021.64	**86,330.54**
Bonus (2012)	-	375,000.00	400,000.00	**775,000.00**
One-off payment	200,000.00	50,000.00	50,000.00	**300,000.00**
Total	**980,908.90**	**1,105,400.00**	**1,003,021.64**	**3,089,330.54**

The fixed remuneration after deferred compensation for Rolf Buch amounted to € 750,000.00 and that for Dr A. Stefan Kirsten to € 518,000.00. Klaus Freiberg received fixed remuneration amounting to € 550,000.00.

Rolf Buch and Dr A. Stefan Kirsten are paying their 20 % contractual share of € 150,000.00 and € 103,600.00 respectively, based on their fixed remuneration, into the deferred compensation scheme. Klaus Freiberg has opted for a cash payout for his entitlement of € 110,000.00. This results in a pension obligation for Rolf Buch of € 191,008.00 in accordance with HGB and € 272,689.00 in accordance with IFRS (DBO) as well as a pension obligation for Dr A. Stefan Kirsten of € 404,762.00 in accordance with HGB and € 560,144.00 in accordance with IFRS (DBO).

The other fringe benefits for Rolf Buch amount to € 30,908.90, those for Klaus Freiberg to € 20,400.00 and those for Dr A. Stefan Kirsten to € 35,021.64.

For the 2013 financial year, a provision was established for the short-term variable remuneration for Rolf Buch of € 583,333.33, for Klaus Freiberg of € 440,000.00 and for Dr A. Stefan Kirsten of € 400,000.00.

Robert Nicolas Barr received no remuneration for his service on the Management Board.

The Management Board members have not received any loans from the company.

Moreover, the Management Board members do not receive any additional remuneration for mandates held at Group companies.

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

Total remuneration of the Management Board

The total remuneration of the Management Board in the 2013 calendar year in accordance with Section 285, No. 9a), sentence 1 HGB and Section 314, para. 1, No. 6 HGB is shown in the Notes to the consolidated financial statements under note [46] Remuneration.

Payments in the event of premature termination of Management Board duties

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

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

Former Management Board members

In 2013, the total remuneration of former Management Board members amounted to € 7,284,402.00 (under the original LTIP) (2012: € 3.0 million). The figure according to IAS 24.17d amounts to € 740,750.00 (2012: € 3.0 million). The pension obligations (DBO) to former members of the Management Board and their surviving dependants amount to € 10.7 million (2012: € 12.0 million).

Remuneration of the Supervisory Board

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

By resolution of the Annual General Meeting on June 9, 2013, the system of Supervisory Board remuneration was changed.

Each member of the Supervisory Board receives annual fixed basic remuneration of € 100,000.00. The chairman of the Supervisory Board receives double this amount, a deputy chairman one-and-half times this amount.

The members of the Audit Committee receive additional annual fixed remuneration of € 40,000.00; the Audit Committee chairman receives double this amount. Supervisory Board members who are members of one or more other Supervisory Board Committees that have acted at least once a year receive additional annual remuneration of € 20,000.00 per committee; in the case of the committee chairman € 40,000.00.

The sum total of all aforementioned remunerations plus remunerations for membership in Supervisory Boards and comparable supervisory bodies of Group companies must not exceed an amount of € 300,000.00 per calendar year and Supervisory Board member.

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

The total remuneration of the Supervisory Board including attendance fees for their work in the 2013 financial year amounts to € 639,316.67 (2012: € 194,041.64) as at December 31, 2013.

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

€	Fixed remuneration 2013	Remuneration for Committee work 2013	Total remuneration 2013
Dr Wulf H. Bernotat [2, 3, 6] (since June 18, 2013) Chairman	116,666.67	58,333.33	175,000.00
Guy Hands (until June 18, 2013) Chairman	-	-	-
Robert Nicolas Barr [2, 4, 6] (from May 21, 2013; mandate dormant until May 20, 2013) Deputy Chairman	-	-	-
Arjan Breure [4, 6]	-	-	-
Fraser Duncan [2]	90,983.33	23,333.33	114,316.67
Prof. Dr Edgar Ernst [1] (since June 18, 2013)	58,333.33	46,666.67	105,000.00
Neil Hasson (until June 18, 2013)	-	-	-
Hildegard Müller [4] (since June 18, 2013)	58,333.33	11,666.67	70,000.00
Tim Pryce (since June 18, 2013)	-	-	-
Prof. Dr Klaus Rauscher	93,333.33	-	93,333.33
Clara-Christina Streit [5] (since June 18, 2013)	58,333.33	23,333.33	81,666.67
Total	**475,983.3**	**163,333.3**	**639,316.67**

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

The Supervisory Board members Robert Nicolas Barr, Arjan Breure and Tim Pryce waived their respective remuneration for the 2013 financial year.

The inclusion of prior-year figures has been dispensed with in this report owing to the changes to the remuneration structure in 2013 and thus the lack of comparability.

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

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

The Supervisory Board members have not been granted any loans by the company.

Opportunities and Risks

STRUCTURE AND INSTRUMENTS OF THE RISK MANAGEMENT SYSTEM

Accounting-related internal control and risk management system

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

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

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

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

The financial statements of all companies included in the consolidated financial statements are located in a computerised SAP environment with a uniform system configuration and are thus subject to uniform charts of account, accounting guidelines, processes and process controls. The requirement of separation of functions and the four-eyes principle is taken appropriate account of with preventive and also subsequent checks. Finally, the relevant financial statement data of the individual companies are made available to the SAP consolidation module via an integrated, automated interface with comprehensive validation rules for further processing and preparation of the consolidated financial statements. A comprehensive authorisation concept is in place granting access to the financial statements in line with the respective job profile of the employee.

The prepared consolidated financial statements and the single financial statements of the companies included then constitute the authoritative source of data for internal analysis and external communications.

The system and control environment is regularly reviewed for effectiveness by the Internal Audit department; the audit comments then trigger an improvement process.

Following the preparation of the financial statements, the annual financial statements and the consolidated financial statements as well as the combined management report are presented to the Audit Committee of the Supervisory Board for examination, which then makes a recommendation to adopt or approve. This examination may include the auditor's presence at the committee meeting and is subject to the auditor's report. The Audit Committee is continually involved in the establishment and refinement of the accounting-related internal control and risk management system. The Internal Audit department also reports to the Audit Committee.

FURTHER FEATURES OF RISK MANAGEMENT

Risk strategy

DAIG's risk management is governed by the company's business strategy. In the interests of the customers, employees and investors, the Management Board of Deutsche Annington pursues a conservative risk strategy designed for safety. Every employee must act in a risk-conscious manner, i.e. he must always have clarity about the risk situation in his area of responsibility and handle any risks identified in a responsible manner. Unreasonably high risks are always to be avoided. DAIG ensures that suitable measures are taken to avoid, reduce or transfer risks or that there is a conscious acceptance of the risks.

Responsibility

The Management Board has overall responsibility for risk management and determines the risk strategy. It decides on the organisational structures and workflows of risk management and provision of resources. It approves the documented risk management findings and takes account of them in steering the company. The Audit Committee of the Supervisory Board monitors the effectiveness of the risk management system. The senior managers are appointed as risk officers and, in this role, assume responsibility for the identification, assessment, documentation and communication of all material risks in their area of responsibility.

Risk management

DAIG has established an appropriate and effective risk management system. It not only ensures the continued existence of the company but also makes a sustainable contribution to the achievement of the company's goals. The Management Board is able at all times to identify and assess material risks within the company and in the company's environment in good time as well as to take appropriate counteraction. The Management Board of Deutsche Annington Immobilien SE currently sees no risks which might jeopardise the company's existence.

Compliance

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

The management and monitoring of Deutsche Annington is based on the relevant statutory requirements, the Articles of Association and the rules of procedure for the Supervisory Board and the Management Board. They form the basis for the company's internal rules and guidelines, which are covered by central guideline management. These rules and guidelines lay down clear organisational and monitoring structures with specified responsibilities and appropriately installed checks. The legally compliant behaviour of all employees in the business processes is ensured by suitable control procedures and supervision by the managers. This is supplemented by the Code of Conduct of Deutsche Annington, which is based on ethical values and legal requirements and reinforces the personal responsibility of the employees. An external ombudsman is available to all employees as a person of trust in questions of compliance. At present, we are not aware of any violations of laws or rules by employees.

Risk management process

The risk management system of Deutsche Annington ensures the early identification, assessment, control and monitoring of all material risks. Thus potential risks which might impair the value and/or the development of the company are identified at an early stage.

Responsibility for concrete risk control in daily business lies in each case with the person bearing operational responsibility. As part of a systematic process, the operational units and central departments regularly identify all strategic, operational, financial and legal risks. The potentially adverse effects and the probability of occurrence are evaluated before action (gross) and after action (net) for each risk and documented in a Group-wide risk register. The planning horizon is three years. Based on the probability of occurrence and the amount of damage arising from the gross and net risk assessment, a risk value is established for each risk and the risks are prioritised accordingly. The ten risks with the highest risk values form the top 10 risks.

The risk management system and the risk register are continuously updated and refined as well as adjusted to reflect changes in the company. The effectiveness of our risk management system is examined in regular audits.

Risk management is documented regularly in a half-yearly risk report which is made available to all decision-makers. The Audit Committee of the Supervisory Board is informed twice a year at its regular meetings about the risk situation in a separate risk report. The risk management system is described in a risk reporting policy which is regularly updated.

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

The risk manager coordinates the recording, assessment, documentation and communication of the risks within the DAIG as part of the risk management process. He triggers the periodic risk management process, consolidates the risk reports of the risk officers and prepares the report for the Management Board and the Supervisory Board. The Internal Audit department monitors the risk management function as part of its auditing remit.

The risk early warning system is based on detailed reporting on the operational and financial key performance indicators from Controlling. Analyses are made of the business performance compared with the plans approved by the Supervisory Board and the previous year. Furthermore, a forecast is prepared regularly which takes appropriate account of the effect of any potential risks and opportunities on the development of business. Reporting includes detailed monthly controlling reports as well as monthly reports by the Management Board to the Supervisory Board. The direct operational business is described in daily and weekly performance figure reports.

Explanation of main individual risks

The risks of DAIG have been assigned to the following five risk categories:

> Economic environment and market-related risks
> Regulatory and legal risks
> Risks related to DAIG’s business
> Financial risks
> Other risks

For the reporting period, the Management Board has specified the following particularly relevant risks out of all the risks identified:

No.	Risk	Risk category	Potential impact* (gross)
1	Damaged reputation and inadequate customer satisfaction	Economic environment and market-related risks	high
2	Wrong/uneconomic investment decisions on real estate acquisitions	Risks related to business	high
3	Incorrect determination of the fair value of our properties	Risks related to business	high
4	Incorrect decisions/wrong risk propensity with regard to significant investment decisions (not real estate acquisitions)	Risks related to business	high
5	Inadequate IT security – unauthorised external and internal access	Risks related to business	moderate
6	Negative government influence	Regulatory and legal risks	moderate
7	Inadequate monitoring of existing contract restrictions	Risks related to business	low
8	Safeguarding of public safety	Risks related to business	low
9	Adverse changes to tenancy law	Regulatory and legal risks	low
10	Selling price of properties lower than the minimum price stipulated in loan agreements	Risks related to business	low

* Potential impact: high > € 250 million, moderate > € 25 million, low > € 5 million

Economic environment and market-related risks

The continuing uncertainty regarding the development of the global economy, which is a result of the ongoing sovereign debt crises in many parts of the world and in particular in Europe, may lead to economic instability, limited access to debt and equity financing as well as possible defaults by DAIG's counterparties.

Deutsche Annington is dependent on the development of the German economy and the demand for residential properties, although a deterioration in the general economic situation generally increases the demand in our segment for affordable accommodation. Demand depends to a high degree on the expected development of interest rates. The current macroeconomic environment is characterised by low interest rates and comparatively high valuations of residential real estate portfolios in Germany. Any rise in interest rates could have adverse effects on the German real estate market and on Deutsche Annington. Should the interest rates rise considerably in the years to come or the banks become less inclined to grant loans for the acquisition of properties, this may have a negative effect on demand for residential properties.

The demand for accommodation is also governed by the demographic change (the shrinking and ageing of the population) and by the trend towards more one-person households. However, overall, the number of households will still continue to increase until 2030 although the prospects for the German conurbations differ from region to region. We respond to the risk of lower market demand with a regionally specific portfolio strategy. With the targeted sale of non-core housing stocks which do not fit into our core portfolio, we are withdrawing from regions where the demand is low. At the same time, we concentrate in our acquisition efforts on regions which people appear to be migrating to.

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

Regulatory and legal risks

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

DAIG's ability to increase rents is limited by German tenancy law **(risk 9).** This provides for substantial tenant protection and restricts the possibilities to evict tenants. Moreover, there are current political efforts to further restrict rent increases **(risk 6).** These two risks have been assessed as potentially having low to moderate damage impact.

DAIG is subject to the general tax environment in Germany. The Group's tax burden may increase as a consequence of future tax treatment of dividend payments, current or future tax assessments, tax audits or court proceedings based on changes in tax laws or changes in the application or interpretation thereof. The extent of risk in this connection depends on the relevant legislation and may vary between low and moderate.

DAIG is involved in litigation resulting from normal business activities. They are in particular tenancy law and sales disputes. None of the legal disputes will have any material effects on the net assets, financial position or results of operations of the Deutsche Annington Immobilien Group.

Risks related to DAIG's business

Deutsche Annington faces risks in connection with possible acquisitions and investments **(risk 2).** These risks include unexpected cases of liability, greater indebtedness, higher interest expenses and challenges with respect to integrating acquisitions and achieving anticipated synergies. Furthermore, portfolios or real estate companies that may be acquired in the future may not develop as favourably as expected. By applying complex, quality-assured investment models during the investment decision process, we counter the risk of uneconomic real-estate acquisitions. These models not only take the purchase price and the financing cost into consideration but also regional scenarios for regular maintenance and the development of rents. The extent of any risks which manifest themselves may be high even though comprehensive professional due diligence is performed when acquisitions are made.

The **internal determination of the fair values** of our housing stocks is subject to assumptions which may deviate from our current expectations. Should the estimate of the micro-location of the buildings and the quality of the macro-location deteriorate, the fair value of our entire real-estate portfolio would also decrease **(risk 3).** Changes in the value of our investment properties are recorded in the income statement as appreciation or depreciation in value and therefore have a direct impact on the earnings situation of our company. The associated risk of error is assessed as high.

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

The **computer systems** of Deutsche Annington are exposed to general IT security risks, in particular the risk of unauthorised access from outside and within the company **(risk 5).** There is the risk that the computer systems may not work properly or may be impaired as a result of such interference or other manipulations. This risk is assessed as moderate.

There is the risk that the management may make **wrong investment decisions** as a result of insufficient information or lack of knowledge of the facts **(risk 4).** Deutsche Annington counters this risk with clear instructions for action and rules governing powers and responsibilities. Responsibility for the business is decentralised to permit better local decision-making. Nevertheless, the risk of incorrect management decisions is assessed as high.

Some contracts on the acquisition of properties contain restrictions **(risk 7)** on **rent increases** and selling programmes and/or require minimum investments in maintenance. Any violation of these requirements could lead to significant contract penalties. The risk is assessed as low.

The **technical safety** of our housing stocks entails not only monetary risks but potentially also risks to the health and safety of our tenants and employees **(risk 8).** By conducting regular physical inspections of our housing stocks and responding quickly to information received from our tenants, defects and faults can be identified and rectified at an early stage. Deutsche Annington attaches particular importance to the prompt rectification of any faults which may have an effect on safety, regardless of the cost. The risk is assessed as low.

Financial risks

To limit the financial risks, we continuously monitor the financial markets and are also in constant contact with many different market players. Furthermore, we continually monitor all financing options available on the capital and banking markets. We expect to be able to **refinance** the necessary volumes by making use of all **financing instruments** in the future, too. Our external loans are normally subject to loan conditions customary on the market (covenants) which restrict the sale of properties or prescribe minimum selling prices **(risk 10).** Some of our borrowings are loans granted by promotional banks, which limit rent increases and thus our business options. Here, we pay strict attention to compliance with all covenants but use any scope available to us. Failed financing carries a potentially high risk.

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

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

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

Other risks

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

OVERALL ASSESSMENT OF THE RISK SITUATION

The Deutsche Annington Immobilien Group combats all material risks with suitable measures and effective controls. As far as possible, risks to the building stocks as well as from the operational business are covered by appropriate insurance. The adequacy of the insurance cover is continuously checked by an external specialist company.

The Management Board of Deutsche Annington sees, from today's point of view, no risks which the company cannot suitably combat or which may jeopardise the company's existence.

MAIN OPPORTUNITIES

Opportunities arising from societal trends

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

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

In view of these trends, demand and market opportunities for existing small and medium-sized apartments may increase. With 86 % of its entire real estate portfolio consisting of one to three-room apartments and 96 % located in the old German states including Berlin, Deutsche Annington could profit from this rising demand.

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

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

Strategic opportunities arising from the business

Today, we already provide a considerable part of the repair and maintenance services for our residential properties with our own craftsmen's organisation. We intend to extend the scope of these services to all kinds of technical work including the modernisation of buildings and apartments and thus bring added value from these services to DAIG.

Nowadays, we already supply about 43,000 households direct with a cable TV signal, which we buy from Deutsche Telekom. We expect to extend this business in the coming years and also provide broadband data access. Moreover, there might be potential for additional added value and other housing-related services which provide benefit for our customers such as heat and power generation and metering directly on site.

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

We also see the targeted acquisition of single or multiple buildings as an opportunity to improve the nature and quality of whole residential districts and thus increase the appeal of our apartments for our customers and the value of our residential properties.

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

Forecast Report

FURTHER COURSE OF THE GROUP

Expected Development of the Overall Economic Environment

Overall economic outlook

The outlook for the economy brightened further at the turn of 2013/2014. Factors which had a significant negative impact on the global economy in the past two years are becoming less important: in the USA, the consolidation process is progressing and, in the eurozone, confidence in the continued existence of the currency area is growing. With the increasing confidence of consumers and business, the expansive monetary policy will, according to the Kiel Institute for the World Economy (IfW), gradually have a stronger effect. Fiscal policy will, by and large, be less restrictive than in the past years.

The economic data in Germany also indicate expansion: after moderate growth in the past year, economic activity in 2014 and 2015 will pick up perceptibly. The IfW is expecting growth rates of 1.7 % and 2.5 %, respectively. In its January forecast, the ifo Institute is also anticipating growth of 1.9 %. As the economic upturn continues, the volume of, in some cases postponed, replacement and expansion investments should increase significantly. The extremely favourable financing environment will also further stimulate housing construction and support the emerging real estate boom. Given the better economy abroad, exports will pick up considerably. No appreciable effects on production are expected to come from foreign trade.

Encouraged by a favourable situation on the labour market, private households will significantly expand their consumer spending. Despite a good employment situation, the number of unemployed will remain at just under three million.

Housing market

According to IVD, Germany's residential real estate markets will remain stable in 2014 and offer good opportunities for buyers and sellers. An average price increase above the inflation rate is expected for owner-occupier housing. Whilst prices in cities are likely to further stabilise, the price curve in smaller towns will rise more sharply. This applies particularly to towns with a good demographic forecast.

The housing markets are not expected to overheat although the demand for housing will tend to increase compared with previous years. The main driver of the real estate markets remains low interest rates: Thanks to the good economic situation and growing employment, more Germans can afford to buy their own home and are therefore keeping demand high. With incomes rising slightly and interest rates remaining very low, the affordability of owner-occupier housing will, according to the IVD forecast, also remain good in the coming year.

The number of new building permits granted also shows a positive trend for 2014 – but on a modest level. IVD believes that the introduction of a rent ceiling announced by the German coalition government will have a negative impact on the construction of rental apartments: the researchers of the German Institute for Economic Research (DIW) also estimate that the planned ceiling on rents will considerably dampen the incentive for investors to create new rental housing. Under the current conditions, the shortage of housing will continue to worsen in future.

EXPECTED DEVELOPMENT OF BUSINESS

Comparison of the forecast made in 2012 with the results for 2013

We achieved the figures we forecast in the 2012 Group management report for adjusted EBITDA, the FFO metrics, the profit for the year and the values of our properties.

The results for 2013 confirm our previous forecast for the company. In both business segments, we succeeded in implementing our strategy and achieving our objectives. Overall, we recorded an FFO 1 of € 223.5 million and therefore slightly exceeded the forecast target of € 210 to € 220 million.

In the Rental segment, we increased the monthly in-place rent by some 2.3 % to € 5.40/m² as at the end of December 2013 (end of December 2012: € 5.28/m²). The expected increase of 1.8 to 2.0 % was therefore exceeded. As planned, we further reduced the vacancy rate of 3.9 % at the end of 2012. At the end of December 2013, it was 3.5 %. At € 728 million, rental income in 2013 was, as expected, slightly lower than the figure for the previous year of € 729.0 million.

Expenditure on maintenance and modernisation measures totalled € 228 million and was slightly higher than the prior-year figure of € 217 million. Per square metre of living area in our residential properties, the expenditure for these measures was € 19.95 and therefore comparable with the prior-year figure (€ 18.43/m²).

In 2013, we again came one step closer to our goal of high customer satisfaction. The measures implemented to improve customer care, the neighbourhoods and our residential properties also had an effect on the customer satisfaction index (CSI), which we managed to increase by 11 % in the 2013 financial year.

In the Sales segment, we continued, as planned, with the selective sale of residential units in 2013. With 2,576 units privatised, we are above the expected level of over 2,000 units. At 4,144 units, our sales in the Non-Core segment were well above the planned annual sales volume of some 2,000 units as, thanks to the additional sale of a housing portfolio, we were able to significantly accelerate the planned portfolio optimisation process.

Overall, we increased the value of the company in 2013, as planned. NAV rose from € 3,449 million at the end of 2012 to € 4,782 million at the end of 2013.

Forecast for the 2014 financial year

Our forecast for 2014 is based on the corporate planning derived from the controlling and planning instruments. Appropriate account has been taken of potential risks and potential opportunities for the future development of all business units so that this forecast reflects a realistic expectation.

Nevertheless, risks and opportunities remain regarding the future development of the Group; they will be described in the report on opportunities and risks.

The corporate planning for 2014 is based on the above-mentioned assumptions on the development of the overall economy and on the development of the real estate market in Germany.

Overall, in the coming financial year, we want to further expand Deutsche Annington's leading position in the market for affordable accommodation in Germany. To achieve this, in 2014 we will further adapt the company's organisational structure to our customers' needs and optimise our cost structure.

In the Rental segment, we will further improve the quality of our housing stocks in 2014. For the next five years, we have identified additional investment potential for the modernisation of buildings and housing units involving more than € 800 million. We plan to invest some € 150 million in 2014 and thus more than double the investment volume compared with the previous year. The focus will be on energy-efficient modernisations, the refurbishment of units to improve the standard of comfort and on senior-friendly conversions. We are expecting our spend on maintenance measures including capitalised maintenance to be approx. € 160 million.

We are expecting an increase from 2.3 % to 2.6 % in the monthly in-place rent per square metre like-for-like in 2014. Furthermore, we believe that the vacancy rate at the end of 2014 will be more or less at the year-end level for 2013 of 3.5 %. Nevertheless, due to the apartment sales made in 2013 and expected in 2014, we forecast that rental income will be slightly less than the rental income of € 728 million generated in 2013. In 2014, we are again striving to achieve a further improvement in customer satisfaction and consequently an increase in the customer satisfaction index (CSI) of up to 5 %.

Compared with the sustainable interest expense level of € 211 million excluding non-recurring items in 2013, we anticipate that there will be a considerable improvement in interest expense in 2014. This improvement will be the result of the repayment of the GRAND securitisation and the resulting interest level secured under the new financing structure as well as the reduction of our loan-to-value ratio over the course of 2013. Overall, we are expecting a clear increase in FFO 1 to between € 250 and € 265 million in 2014. In this forecast, we have not taken account of any tactical (small acquisitions) or of any major acquisitions of further housing stocks.

In the Sales segment, we will continue the selective sale of residential units. We expect the number of units sold in the Privatise segment to be significantly lower than the figure for 2013 and the step-up will also be slightly down on the prior-year figure. In the Non-Core sales segment, we will continue to sell buildings with a step-up comparable to 2013 as the opportunity presents itself.

Overall, in 2014 we are expecting the net asset value to increase compared with 2013 and be roughly at the level of the expected increase in the monthly in-place rent in 2014.

Düsseldorf, February 28, 2014

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