GSW IMMOBILIEN AG
ANNUAL REPORT 2011

MY BERLIN. MY HOME.

MY BERLIN. MY HOME.

The listed company GSW has been letting, administering and managing one of the largest property portfolios in Berlin for more than 85 years. Its name is synonymous with experience, stability and economic soundness.

In order to maintain and expand our market position, we permanently strive to take new paths that bridge the gap between innovation and tradition.

We continue to develop without abandoning the tried and trusted. GSW's strategy focuses on the long-term management of rental property using a systematic approach aimed at enhancing both customer satisfaction and operational efficiency.

We manage a real estate portfolio of around 53,000 residential units that was valued at EUR 2.9 billion as of 31 December 2011. A GSW subsidiary also manages around 17,500 residential and commercial units for third parties.

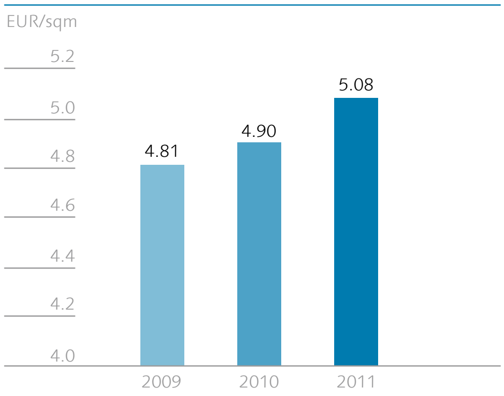
With a firm customer focus, we use all of our experience and industry expertise to conserve and increase the value of our properties.

At the same time, we are aware of our social responsibility for Berlin and are involved in social, cultural and sporting projects and for the people who live here – our tenants and employees.

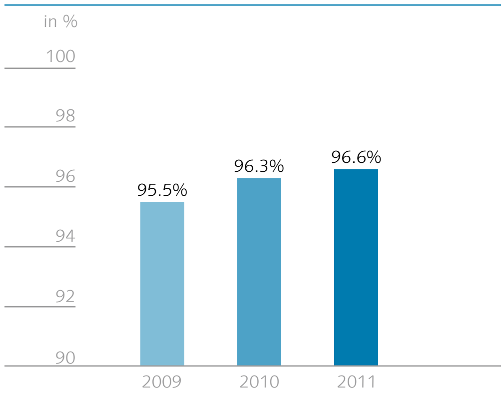
As a capital market-oriented housing company, we are bound to the interests and needs of all our stakeholders. Our duty is to identify and target shared objectives and find an appropriate and fair balance in the event of conflicting interests.

KEY FINANCIALS

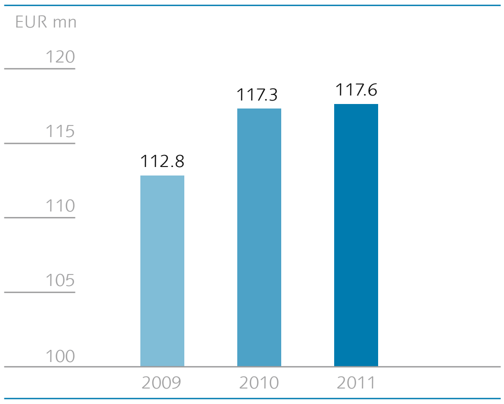
In-place rent / sqm



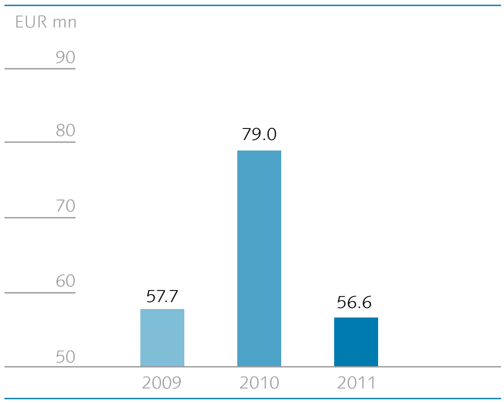
Occupancy rate (residential)



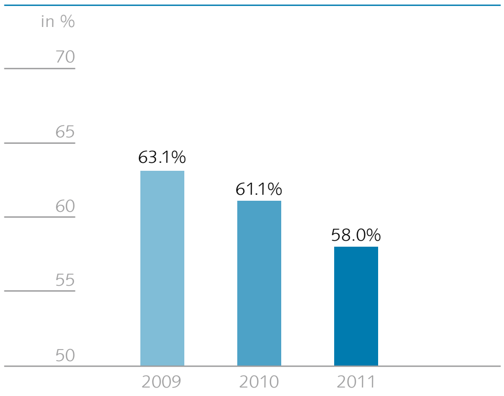
Adjusted EBITDA



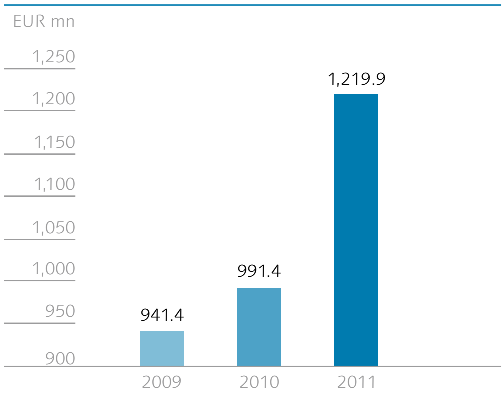
FFO I (excl. sales result)



LTV (gearing ratio)



NAV (EPRA)



HIGHLIGHTS

OPERATIONAL HIGHLIGHTS

	31.12.2011	31.12.2010
Vacancy rate (residential)	3.4 %	3.7 %
In-place rent (residential)	5.08 EUR / sqm	4.90 EUR / sqm

INCOME STATEMENT HIGHLIGHTS

EUR mn	1.1.-31.12.2011	1.1.-31.12.2010
Net rental income	141.1	139.9
Result on disposal of investment property	3.3	2.8
Net valuation result	56.2	-3.3
EBITDA	122.0	106.2
Adjusted EBITDA	117.6	117.3
Net operating profit (EBIT)	177.2	101.5
Consolidated net income for the year	105.1	49.3
FFO I (excl. sales result)	56.6	79.0
AFFO [1]	36.8	61.9
FFO II (incl. sales result)	59.9	81.9

[1] FFO I less capitalised expenses for modernisation and maintenance

BALANCE SHEET HIGHLIGHTS

EUR mn	31.12.2011	31.12.2010
Investment property	2,930.2	2,571.7
Cash and cash equivalents	62.6	70.8
Shareholders' equity	1,166.4	976.4
Financial liabilities	1,770.9	1,606.6
Total assets	3,039.7	2,681.7
EPRA NAV	1,219.9	991.4
Loan-to-Value	58.0 %	61.1 %
Equity ratio	38.4 %	36.4 %

KEY FINANCIALS PER SHARE

EUR	1.1.-31.12.2011	1.1.-31.12.2010
FFO I per share*	1.38	1.93
AFFO per share*	0.90	1.51

EUR	31.12.2011	31.12.2010
EPRA NAV per share*	29.72	24.15

* In deviation from the EPS calculation in line with IAS 33.19, this key ratio is calculated on the basis of the 41,052,630 shares outstanding as of 31 December 2011

CONTENT

MY BERLIN. MY HOME.

Potsdamer Platz

GSW Immobilien AG

Gendarmenmarkt

GSW in Charlottenburg-Wilmersdorf	
Residential units	4,599
Average rent (EUR/sqm)	5.53
Vacancy rate (%)	1.2

SELECTED GSW RESIDENTIAL PROPERTIES

Brahestraße
513 residential units
1920s to 1940s

Kissinger Platz
318 residential units
1920s

Westendallee
88 residential units
1920s to 1940s

CHARLOTTENBURG - WILMERSDORF

Charlottenburg-Wilmersdorf, known by locals as "City-West", is seen by many as the heart of western Berlin. With the Kurfürstendamm and the KaDeWe department store, the Deutsche Oper and the Olympic Stadium, this district is home to some of the city's central attractions, with plenty in the way of culture, shopping and lifestyle opportunities. There is no shortage of leisure facilities, either: with its palatial parks, the baroque-style Charlottenburg Castle is not only interesting for tourists, but also provides a popular place for recreation. Rest and relaxation can also be enjoyed in the extensive Grunewald, which is home to the most expensive properties in Berlin's chain of neighbourhoods of detached houses. Indeed, the district as a whole is known for its well-off middle-class intellectuals who enjoy a high quality of life. It was created in 2001 following the merger of Wilmersdorf and Charlottenburg and now has around 313,000 inhabitants.

Places of interest:

- Deutsche Oper
- rbb Radio and Television Centre
- Radio Tower
- KaDeWe
- Kaiser Wilhelm Memorial Church
- Kurfürstendamm
- Olympic Stadium
- Schmargendorf Town Hall
- Wilmersdorf Town Hall
- Schaubühne am Lehniner Platz
- Charlottenburg Castle and Park
- Technische Universität
- Grunewald mansion neighbourhood
- Waldbühne amphitheatre
- Wilhelmsaue (historical centre of Wilmersdorf)

Population[1]	313,166
Population growth (2006 to 2011)[1]	1.5 %
Inhabitants per sqkm [1]	4,952
Average age (years)[1]	45.7
Unemployment rate Ø[2]	11.3 %
Vacancy rate Ø[3]	3.0 %
Total inflow of inhabitants[1]	27,269
Total outflow of inhabitants[1]	26,140
Residential land[4]	20.4 %
Green areas and bodies of water[4]	41.4 %

[1] Source: Berlin-Brandenburg Statistical Office, as of 30.09.2011
[2] Source: German Federal Employment Agency
[3] Source: Techem-Empirica Index 2010, as of 2009
[4] Source: Berlin-Brandenburg Statistical Office, as of 31.12.2010

GSW in Reinickendorf	
Residential units	8,934
Average rent (EUR/sqm)	4.87
Vacancy rate (%)	3.2

SELECTED GSW RESIDENTIAL PROPERTIES

Blunckstraße
434 residential units
1960s

Huttwiler Weg
764 residential units
1920s to 1940s

Kieselbronner Weg
52 residential units
1990s

REINICKENDORF

Reinickendorf, in the green north-west of Berlin, is one of the largest districts in the city in terms of size. Lakes, forests, parks and even a nature reserve characterise the north of the district, providing opportunities for all kinds of leisure activities – including one of Berlin's most popular places to visit, the Greenwich Promenade on the banks of Lake Tegel. Reinickendorf was also an important industrial location for many years, and its landscape features buildings such as the legendary Borsigturm. The south of the district is more urban and has a good infrastructure with access to the neighbouring district of Berlin-Mitte. With a population of almost 243,000, Reinickendorf is home to large-scale housing developments such as the Märkisches Viertel, but also has neighbourhoods of detached houses and, in Lübars, the oldest village in Berlin.

Places of interest:

- "Hallen am Borsigturm" shopping centre in historical factory buildings
- Lübars family farm
- Berlin Fire Brigade Museum
- Tegel Airport
- Borsigwalde former company housing development
- Greenwich Promenade on the banks of Lake Tegel
- Tegel Castle
- Villa Borsig

Population[1]	242,973
Population growth (2006 to 2011)[1]	-0.7 %
Inhabitants per sqkm [1]	2,704
Average age (years)[1]	45.2
Unemployment rate Ø[2]	15.4 %
Vacancy rate Ø[3]	2.7 %
Total inflow of inhabitants[1]	15,204
Total outflow of inhabitants[1]	13,901
Residential land[4]	27.3 %
Green areas and bodies of water[4]	38.5 %

[1] Source: Berlin-Brandenburg Statistical Office, as of 30.09.2011
[2] Source: German Federal Employment Agency
[3] Source: Techem-Empirica Index 2010, as of 2009
[4] Source: Berlin-Brandenburg Statistical Office, as of 31.12.2010

GSW in Spandau	
Residential units	12,074
Average rent (EUR/sqm)	4.81
Vacancy rate (%)	4.2

SELECTED GSW RESIDENTIAL PROPERTIES

Jüdenstraße
54 residential units
before 1918

Maulbeerallee
2,744 residential units
1970s

Olga-Tschechowa-Straße
1,028 residential units
1990s

SPANDAU

The smallest district in Berlin in terms of population, with 219,000 inhabitants, Spandau is situated on the Havel and Spree rivers and is particularly notable for its extensive green areas and bodies of water. The symbol of the district is the Citadel, constructed in 1594, which is undoubtedly one of the most impressive fortresses in Europe and plays host to numerous art exhibitions and concerts. Spandau's historical core is like an independent town centre in its own right and is characterised by half-timbered houses, restaurants and sights such as St. Nikolai's Church and the Gothic House. Retail has picked up over recent years thanks to the competition of the Spandau Arcaden shopping centre by the railway station. Residents of other parts of town appreciate Spandau's famous Christmas market in particular – and hence are happy to overlook the long-running former rivalry between the capital city and the proud town on the Havel.

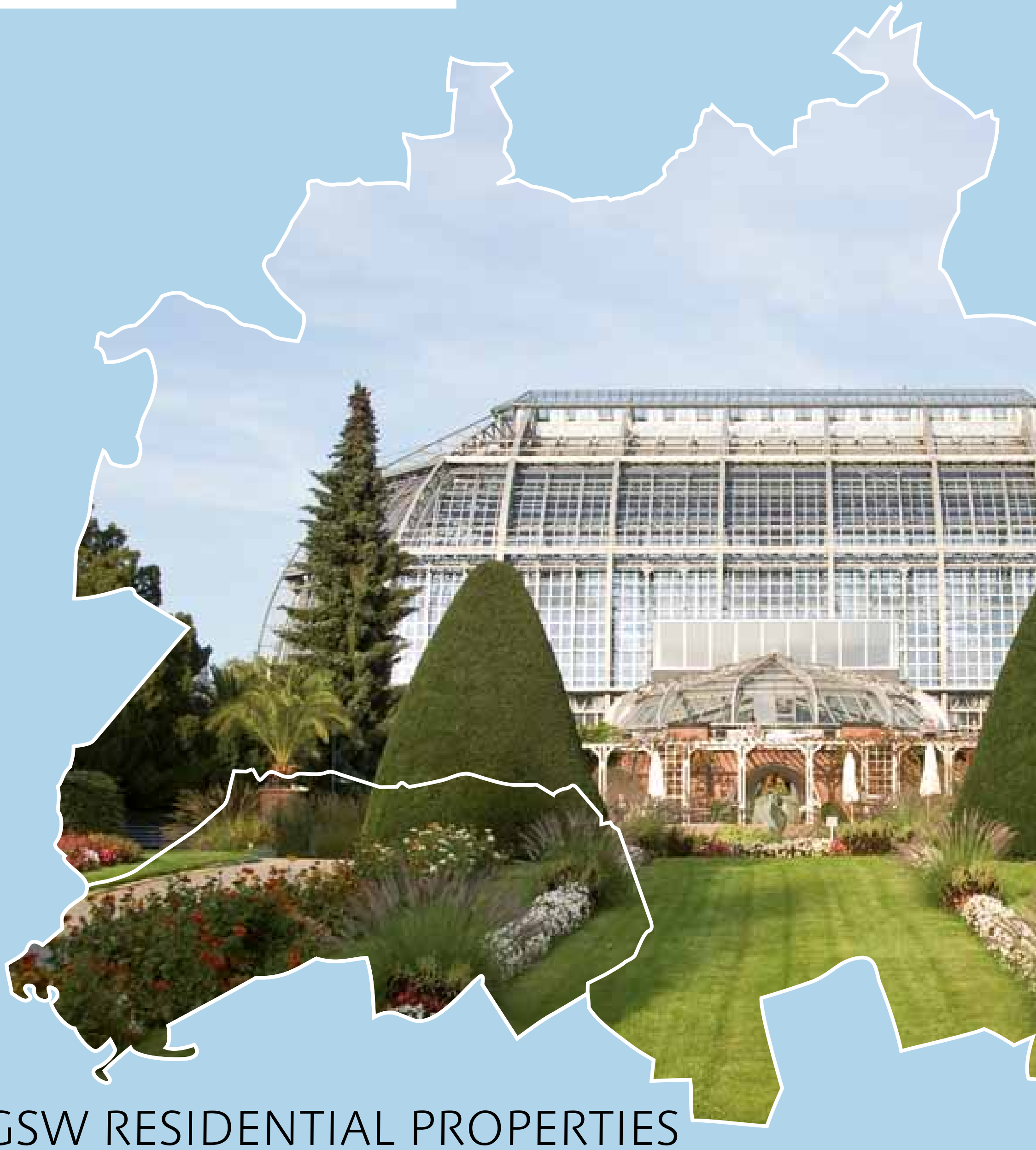
Places of interest:

- Spandau Old Town
- Gothic House
- Spandau Christmas market
- Tiefwerder Wiesen
- Spandau Citadel with open-air stage
- St. Nikolai's Church

Population[1]	219,247
Population growth (2006 to 2011)[1]	1.1 %
Inhabitants per sqkm [1]	2,463
Average age (years)[1]	44.4
Unemployment rate Ø[2]	14.8 %
Vacancy rate Ø[3]	4.2 %
Total inflow of inhabitants[1]	15,296
Total outflow of inhabitants[1]	12,232
Residential land[4]	20.3 %
Green areas and bodies of water[4]	39.3 %

[1] Source: Berlin-Brandenburg Statistical Office, as of 30.09.2011
[2] Source: German Federal Employment Agency
[3] Source: Techem-Empirica Index 2010, as of 2009
[4] Source: Berlin-Brandenburg Statistical Office, as of 31.12.2010

GSW in Steglitz-Zehlendorf	
Residential units	5,904
Average rent (EUR/sqm)	5.33
Vacancy rate (%)	2.5



SELECTED GSW RESIDENTIAL PROPERTIES

Borstellstraße
702 residential units
1960s

Lüdeckestraße
401 residential units
1960s and 1990s

Flanaganstraße
458 residential units
1950s

STEGLITZ-ZEHLENDORF

With its expansive neighbourhoods of detached houses, the highest per capita income in the city and a lot of green space, Steglitz-Zehlendorf, in the south-west of Berlin, is seen as the city's most elegant district. It is also home to a number of local recreational areas and parks, such as around the Wannsee, Krumme Lanke and Schlachtensee lakes. A theatre, a small castle and well-known museums offer cultural components, while there are plenty of shopping facilities: in the relatively urban Steglitz, the neighbourhood around Schlossstraße is the second-largest retail area in Berlin and will soon boast four large shopping centres. The district was created in 2001 following the merger of Steglitz and Zehlendorf.

Places of interest:

- Berlin Botanical Garden
- Lichterfelde-West late-19th-century mansion neighbourhood
- Titania Palast cinema
- Otto-Lilienthal-Memorial
- Pfaueninsel Castle
- Schlosspark Theatre
- Steglitz municipal bath
- Wannsee lake
- Wilhelm-Foerster-Observatory
- Wrangel Castle

Population[1]	292,358
Population growth (2006 to 2011)[1]	2.6 %
Inhabitants per sqkm [1]	2,882
Average age (years)[1]	46.0
Unemployment rate Ø[2]	10.2 %
Vacancy rate Ø[3]	3.9 %
Total inflow of inhabitants[1]	22,000
Total outflow of inhabitants[1]	18,969
Residential land[4]	28.1 %
Green areas and bodies of water[4]	44.0 %

[1] Source: Berlin-Brandenburg Statistical Office, as of 30.09.2011
[2] Source: German Federal Employment Agency
[3] Source: Techem-Empirica Index 2010, as of 2009
[4] Source: Berlin-Brandenburg Statistical Office, as of 31.12.2010

GSW in Friedrichshain-Kreuzberg	
Residential units	7,103
Average rent (EUR/sqm)	5.16
Vacancy rate (%)	3.0

SELECTED GSW RESIDENTIAL PROPERTIES

Alexandrinenstraße
1,678 residential units
1960s

Dresdener Straße
662 residential units
before 1918

Köpenicker Straße
65 residential units
1980s

FRIEDRICHSHAIN-KREUZBERG

Situated in the heart of Berlin, Friedrichshain-Kreuzberg now has more than 262,000 inhabitants. It was formed in 2001 following the merger of two relatively different areas: Friedrichshain in the east, which used to be a mainly working-class area, is now a lively, fashionable neighbourhood and the epitome of a young, dynamic Berlin. The area around the trendy Simon-Dach-Straße is a particularly good place to live: everything is within a short distance and transport links are ideal. The Oberbaumbrücke bridge connects Friedrichshain with Kreuzberg, the famous multicultural area in the west, which has always been especially well-known as a home for alternative lifestyles. The face of Kreuzberg has changed somewhat since German reunification, but its central location within the capital means that it is highly attractive, particularly for young people and families with children. Kreuzberg is also home to some of Berlin's most popular nightlife areas.

Places of interest:

- Berlinische Galerie
- Chamissoplatz
- East Side Gallery
- Engelbecken and St. Michael's Church
- Frankfurter Tor
- Jewish Museum
- Karl-Marx-Allee
- Künstlerhaus Bethanien
- Landwehr Canal
- Martin-Gropius-Building
- Oberbaumbrücke
- Riehmers Hofgarten
- Schinkel-Monument on Kreuzberg hill
- Strausberger Platz
- Tempodrom
- Volkspark Friedrichshain

Population[1]	262,434
Population growth (2006 to 2011)[1]	2.2 %
Inhabitants per sqkm [1]	13,285
Average age (years)[1]	37.2
Unemployment rate Ø[2]	16.6 %
Vacancy rate Ø[3]	2.1 %
Total inflow of inhabitants[1]	31,434
Total outflow of inhabitants[1]	31,775
Residential land[4]	21.9 %
Green areas and bodies of water[4]	16.6 %

[1] Source: Berlin-Brandenburg Statistical Office, as of 30.09.2011
[2] Source: German Federal Employment Agency
[3] Source: Techem-Empirica Index 2010, as of 2009
[4] Source: Berlin-Brandenburg Statistical Office, as of 31.12.2010

GSW in Mitte	
Residential units	1,590
Average rent (EUR/sqm)	5.26
Vacancy rate (%)	1.6

SELECTED GSW RESIDENTIAL PROPERTIES

Antwerpener Straße
365 residential units
1920s to 1940s

Togostraße
370 residential units
1920s to 1940s

Flemingstraße
119 residential units
1950s

MITTE

Mitte, the densely populated heart of Berlin, is home to the capital's most historical sights. From the Alexanderplatz and the Hackesche Höfe to the Museum Island and the Brandenburger Tor, the district boasts numerous witnesses to times gone by. Mitte residents are particularly proud of the fact that the historical Berlin was founded on the Spree Island in the heart of the district. Until it was destroyed during the Second World War, the Berlin City Palace was located here – and its reconstruction is scheduled for completion by the end of this decade. Whether shopping, touring the museums or going to the theatre, the vibrant Mitte district offers visitors everything their heart desires, and also serves as an excellent residential location with superb connections to the rest of the city. The central district of Mitte was formed in 2001 after the former district of the same name was merged with Wedding, Moabit, Gesundbrunnen and Tiergarten, and now has around 329,000 inhabitants.

Places of interest:

- Berlin City Hall and Nikolaiviertel
- Brandenburger Tor
- Television Tower and Alexanderplatz
- Friedrichstraße and Gendarmenmarkt
- Großer Tiergarten
- Hackesche Höfe
- Humboldt University
- Museum Island
- New Synagogue
- Potsdamer Platz
- Reichstag building
- Staatsoper and Komische Oper

Population[1]	328,778
Population growth (2006 to 2011)[1]	2.7 %
Inhabitants per sqkm [1]	8,442
Average age (years)[1]	39.2
Unemployment rate Ø[2]	15.2 %
Vacancy rate Ø[3]	3.8 %
Total inflow of inhabitants[1]	41,429
Total outflow of inhabitants[1]	42,894
Residential land[4]	19.2 %
Green areas and bodies of water[4]	21.5 %

[1] Source: Berlin-Brandenburg Statistical Office, as of 30.09.2011
[2] Source: German Federal Employment Agency
[3] Source: Techem-Empirica Index 2010, as of 2009
[4] Source: Berlin-Brandenburg Statistical Office, as of 31.12.2010

GSW in Pankow	
Residential units	4,221
Average rent (EUR/sqm)	5.17
Vacancy rate (%)	3.1

SELECTED GSW RESIDENTIAL PROPERTIES

Dettelbacher Weg
765 residential units
1920s to 1940s

Heinz-Bartsch-Straße
99 residential units
1920s

Schillerstraße
306 residential units
1990s

PANKOW

Pankow, in the north-east of Berlin, is a highly sought-after residential location and the largest district in the city in terms of population, with around 363,000 inhabitants. The densely populated trendy neighbourhoods of Prenzlauer Berg and Weißensee have only been part of Pankow since 2001, but the wide range of cafés, bars, clubs, theatres and small shops in these areas make the district particularly popular among young people, academics and creative types. The urban neighbourhoods are characterised by alternative art and culture, whereas the northern end of Pankow retains its suburban charm. Pankow also enjoys an excellent infrastructure, and residents can still comfortably go shopping in their own part of town.

Places of interest:

- Older housing complexes in Prenzlauer Berg
- Embassy buildings around the Bürgerpark
- Jewish Cemetery
- Kavalierhaus
- Kulturbrauerei
- Majakowskiring
- Pankow Town Hall
- Rosenkolonnaden
- Schönhausen Castle and Park
- Weißer See
- Carl Legien residential estate

Population[1]	362,650
Population growth (2006 to 2011)[1]	4.5 %
Inhabitants per sqkm [1]	3,599
Average age (years)[1]	40.7
Unemployment rate Ø[2]	10.5 %
Vacancy rate Ø[3]	2.4 %
Total inflow of inhabitants[1]	30,580
Total outflow of inhabitants[1]	26,793
Residential land[4]	20.9 %
Green areas and bodies of water[4]	27.8 %

[1] Source: Berlin-Brandenburg Statistical Office, as of 30.09.2011
[2] Source: German Federal Employment Agency
[3] Source: Techem-Empirica Index 2010, as of 2009
[4] Source: Berlin-Brandenburg Statistical Office, as of 31.12.2010

LETTER FROM THE MANAGEMENT BOARD

Andreas Segal Chief Financial Officer	Thomas Zinnöcker Chief Executive Officer	Jörg Schwagenscheidt Member of the Management Board

DEAR SHAREHOLDERS,
DEAR TENANTS,
DEAR EMPLOYEES,
LADIES AND GENTLEMEN,

we are proud to look back on an extremely successful 2011. Despite the escalating debt crisis in Europe and the turbulence affecting the capital markets, GSW remains on solid ground. This is mainly due to our long-term, optimised financing structure and our sustainable and stable business model, which is focused on the booming Berlin housing market.

In February, we successfully concluded the refinancing of our CMBS loan with a volume of EUR 890 million, which was due for repayment in 2013 at the latest. The loan was repaid early through low-interest, long-term loans from six leading banks and using cash, meaning that no significant liabilities are scheduled for refinancing between now and 2016. We are delighted to have been able to provide GSW with a stable financial footing.

Building on these solid foundations, we successfully went public early in the second quarter of 2011. On 15 April, GSW's shares were listed in the Prime Standard of the Frankfurt Stock Exchange for the first time. Despite the difficult conditions on the capital markets, our IPO – which had an issue volume of around EUR 468 million – was the largest on the Frankfurt Stock Exchange in 2011 and, internationally, one of the largest by a European real estate company in recent years. The Company also received proceeds of EUR 115 million from the capital increase. Over the remainder of the year, GSW's shares outperformed the market as a whole and were included in the SDAX on 20 June 2011 and promoted to the MDAX on 19 September 2011. This means that GSW is now one of the 80 largest listed companies in Germany. In addition, a total of 16.1 million GSW shares held by our former shareholders were successfully placed on 13 October 2011 and 12 January 2012, resulting in a significant increase in the free float to around 94%. This enhances our shares' attractiveness for institutional investors and further strengthens our excellent positioning on the German capital markets.

We have also made a step forward in terms of the implementation of our corporate strategy. In November 2011, we acquired a portfolio of around 4,800 residential units in attractive Berlin locations from a subsidiary of GAGFAH S.A. The above-average in-place rent and the low vacancy rate will have a positive impact on our profitability. Today, we manage and let one of the largest real estate portfolios in Berlin, consisting of around 71,000 residential and commercial units. This means that we are operating in a crisis-resistant environment, with experts forecasting further growth in demand for residential property in the city over the coming years. Rising demand for property ownership is also having a positive impact on our privatisation business. We sold a total of 935 residential and commercial units in the past financial year, generating a total result on disposals of EUR 3.3 million.

2011 was also an extremely successful year for us from an operating perspective. Our vacancy rate declined by a further 0.3% year-on-year to 3.4%, while our income from rents rose by 2.4% to total EUR 183.1 million. This development was also driven by the fact that we increased the average rent per sqm for existing residential units to EUR 5.08/sqm. All in all, we generated a net rental income of EUR 141.1 million in 2011 as a whole. At EUR 56.6 million, the key ratio of funds from operation (FFO I) was in line with our forecast for the period under review. The positive consolidated net income meant that the EPRA net asset value, i.e. the economic equity of the Group, increased by around 23% to EUR 1,219.9 million at the end of the financial year. This corresponds to a figure of EUR 29.72 per share as of 31 December 2011.

We would like to thank our shareholders for the confidence they placed in us during the past financial year, particularly in conjunction with our IPO. This made an important contribution to GSW's success. We will propose the payment of a dividend of EUR 0.90 per share to the General Shareholders' Meeting on 28 June 2012. Based on a total of around 41 million shares, this corresponds to a distribution ratio of 65% of FFO I.

We would like to express our particular gratitude to our employees for their high level of commitment, without which the realisation of our numerous projects and the successful continuation of our operating business would not have been possible. Accordingly, in conjunction with the IPO, we provided our employees with the opportunity to participate in the Company's success and become shareholders as part of a broad-based employee share ownership plan. Many of our colleagues took up this offer and subscribed for shares in the Company in the amount of one net monthly salary.

Finally, we would like to thank our tenants for remaining true to us over recent years. As a traditional Berlin company founded in 1924, we have a responsibility to our tenants. As part of our extensive commitment to neighbourhood and social facilities, we focus in particular on concepts for children and young people and actively promoting the balanced development of Berlin's neighbourhoods.

GSW Immobilien AG will continue to form part of Berlin's culture thanks to its clear business model, long-term corporate growth and social responsibility, and we would like to thank all those who have made this development possible.

Berlin, March 2012

THOMAS ZINNÖCKER	JÖRG SCHWAGENSCHEIDT	ANDREAS SEGAL
(CEO)	(COO)	(CFO)
GSW Immobilien AG	GSW Immobilien AG	GSW Immobilien AG

PORTRAIT OF THE MANAGEMENT BOARD

Thomas Zinnöcker, Chief Executive Officer (born 1961)

Degree in Business Administration
Active in the real estate industry since 1995

Career path / positions in the real estate industry:
- 10/1995-12/2001 Managing Director, Krantz TKT GmbH; from 04/1998 Chairman of the Managing Board
- 07/2002-12/2004 Executive Manager, Deutsche Telekom Immobilien und Service GmbH

Career path at GSW (year):
- Managing Director, CEO (01/2005-03/2010)
- Chairman of the Management Board, CEO (since 03/2010)

Jörg Schwagenscheidt, Member of the Management Board (born 1964)

Degree in Real Estate Economics (ebs European Business School), Fellow of RICS
Active in the real estate industry since 1990

Career path / positions in the real estate industry:
- 1990-1991 Advisor for construction finance, DEBEKA Versicherung und Bausparkasse
- 1991-1996 Regional Manager NRW, Dr. Lübke Immobilien GmbH, authorised signatory
- 1996-1997 Managing Director, DB Immobilien GmbH
- 1998-1999 Member of management, BBT Bau-Boden Treuhand GmbH & Co. KG
- 1999-2006 Head of Gelsenkirchen and Essen branches, Viterra AG / Deutsche Annington GmbH, authorised signatory

Career path at GSW (year):
- Executive Manager, COO (02/2006-03/2010)
- Member of the Management Board, COO (since 03/2010)

Andreas Segal, Chief Financial Officer (born 1969)

Second State Examination in Law
Active in the real estate / financial industry since 2000

Career path/positions in the real estate / financial industry:
- 2000-2003 Mergers & Acquisitions, Commerzbank AG
- 2003-2006 Executive Manager, ProMarkt Handels GmbH
- 2003-2006 Commercial Director, Wegert Holding GmbH

Career path at GSW (year):
- Head of Financing (05/2006-11/2006)
- Head of Controlling and Financing (11/2006-05/2007)
- Commercial Director (05/2007-03/2008)
- Executive Manager, CFO (03/2008-03/2010)
- Member of the Management Board, CFO (since 03/2010)

"Our IPO last April was a milestone for GSW. Our stock exchange listing and the high level of demand for our shares show that institutional investors are looking for stable, secure investment products with long-term growth potential."

Thomas Zinnöcker,
Chief Executive Officer, GSW Immobilien AG

"Berlin is Europe's most exciting housing market. This is why our strategy is to expand our professional real estate platform over the coming years through external growth."

Jörg Schwagenscheidt,
Member of the Management Board,
GSW Immobilien AG

"Our conservative business model has a long-term focus. With the refinancing of EUR 890 million early last year, we have created a long-term financing structure to match our solid business model."

Andreas Segal,
Chief Financial Officer, GSW Immobilien AG

HIGHLIGHTS IN THE 2011 FINANCIAL YEAR

01 02 03 04 05 06

TRADING YEAR 2011

15.02.2011
Successful refinancing of CMBS loan

03.03.2011
Publication of 7th GSW/CBRE Housing Market Report including HousingCostAtlas for Berlin

15.04.2011
Successful IPO of GSW Immobilien AG

18.04.2011
Inclusion in FTSE EPRA/NAREIT Global Real Estate Index Series

30.05.2011
Publication of Berlin rent index 2011

20.06.2011
Inclusion in SDAX

30.08.2011
GSW reports on successful first six months

19.09.2011
Promotion into MDAX

13.10.2011
Free float increased from 54% to 74%

01.11.2011
Purchase of around 4,800 apartments

07 | 08 | 09 | 10 | 11 | 12

HISTORY OF GSW IMMOBILIEN AG

1924
GSW is formed as the municipal "Wohnungsfürsorgegesellschaft Berlin mbH" by the City of Berlin and the Prussian State

1937
Eight previously independent municipal residential construction and housing associations are merged to form GSW

1945 end of the second world war
GSW's entire housing stock is damaged. 11,200 of its 53,000 residential units are destroyed

1948
The division of the city into East and West Berlin means that GSW loses control of almost half of its property portfolio

1961-1979
Construction of numerous large-scale housing developments, including the "Springprojekt" in Kreuzberg with 1,300 apartments, parts of the major development on Falkenseer Chaussee in Spandau with 2,540 apartments, and the "Thermometer-Siedlung" in Lichterfelde

1992-1993
GSW regains ownership of most of the apartments it lost as a result of the division of the city

1996
Establishment of property management by GSW Betreuungsgesellschaft für Wohnungs- und Gewerbebau mbH (BWG)

2004
The Federal State of Berlin sells GSW to the financial investors Whitehall and Cerberus

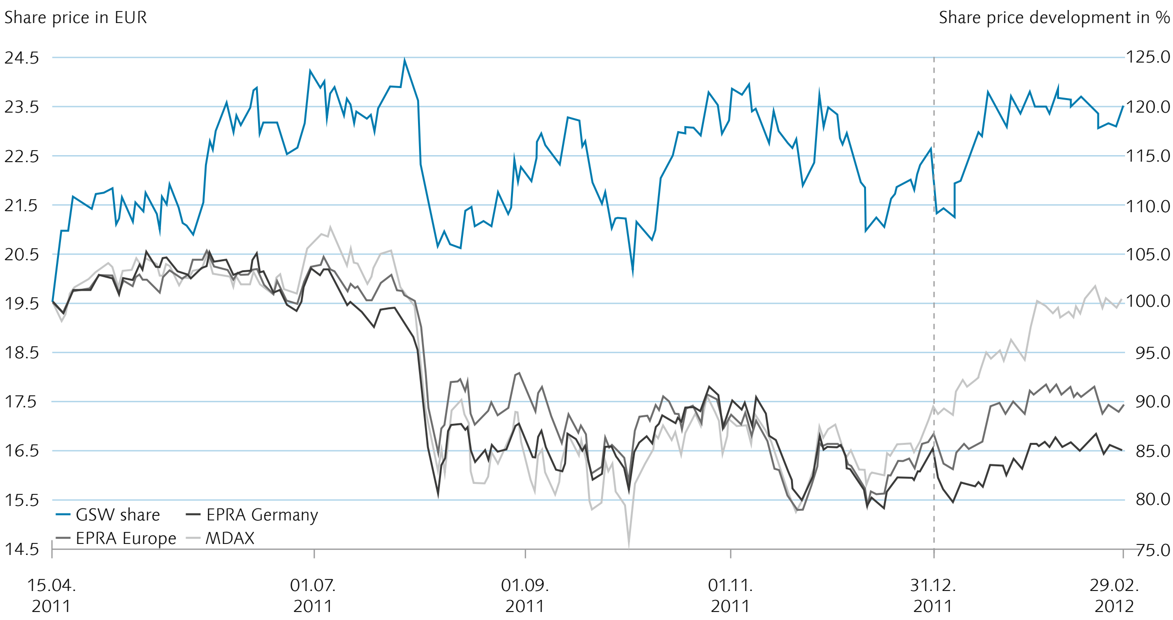
2010
Change of legal form to GSW Immobilien AG (stock corporation under German law)

2011
GSW Immobilien AG conducts successful IPO and quickly moves up to the MDAX index

SHARE

OVERVIEW

SHARE PRICE DEVELOPMENT



KEY DATA PER SHARE

Sector	**Real estate**
German securities identification number / ISIN	**GSW111 / DE000GSW1111**
Stock exchange abbreviation	**GIB**
Bloomberg	**GIB:GR**
Reuters	**GIBG.DE**
Share capital after IPO	**EUR 41,052,630**
No. of shares	**41,052,630 no-par-value individual shares**
Initial listing	**15 April 2011**
Market capitalisation (as of: 29 February 2012)	**EUR 968.8 mn**
Market segment	**Prime Standard**
Trading centres	**Frankfurt Stock Exchange, XETRA, Regulated Market (Regulierter Markt) of the Berlin Stock Exchange**
Designated sponsors	**Deutsche Bank, Goldman Sachs International and DZ Bank**
Indices	**MDAX FTSE EPRA / NAREIT Global Real Estate Index Serie**

SHARE PRICE PERFORMANCE

The global capital markets were extremely volatile in 2011. In Germany, the environmental and nuclear disaster in Fukushima (Japan) led to a downturn in the first half of the year, while the DAX was hit by the European debt crisis in the second half of the year. Following pronounced share price fluctuations in autumn, the DAX recovered from its low for the year (5,064 points on 12 September) to close the year at 5,898 points; however, this was still down 14.7 % on its closing level for the previous year (31 December 2010: 6,914 points). The uncertain environment curbed issuing activity on the German capital markets, with the number of IPOs conducted and the success they enjoyed both falling well below expectations at the start of the year. Bucking this trend, however, GSW's stock market debut allowed it to successfully position itself on the capital markets.

On 15 April 2011, GSW Immobilien AG's shares were listed on the Frankfurt Stock Exchange for the first time. The issue price was EUR 19.00 per share and the first share price was EUR 19.55. Following a significant trading volume during the course of the day, the share price reached an initial high of EUR 21.50, representing an increase of 13.2% on the first trading day. Driven by a continuous rise in interest on the part of the capital markets, GSW's share price broke the EUR 24.00 barrier in late June and reached a high for the year of EUR 24.71 on 4 July.

Despite steady growth in the trading volume, GSW Immobilien AG's shares were unable to escape the impact of the intensifying turbulence on the capital markets over the subsequent months, although the price losses they suffered were comparatively moderate. The interim low of EUR 20.60 on 15 August was followed by an upturn. The capital markets responded positively to the news that the two major shareholders, Cerberus and Whitehall, were planning to scale back their equity interests in the longer term. In mid-October, they reduced their stake from around 20.0% each to 10.0% and 9.8% respectively. A total of 8.2 million shares were placed rapidly without affecting the stability of the share price. As a result of the successful transaction, the free float of GSW's shares as defined by Deutsche Börse AG increased to around 74%, thereby making the Company even more attractive for institutional investors.

In mid-November, GSW's shares tested the EUR 24.00 barrier again, although – in line with wider market developments – they were unable to maintain this level. The closing price at the end of 2011 was EUR 22.40, representing an increase of 17.9% on the issue price of EUR 19.00. This meant that GSW's shares comfortably outperformed the relevant benchmark indices. The MDAX fell by 14.2% between the initial listing of GSW's shares and the end of the year, while the EPRA Europe and EPRA Germany real estate indices declined by as much as 15.0% and 17.7% respectively. Between its IPO in April and the end of 2011, GSW Immobilien AG's market capitalisation increased from around EUR 780.0 million to EUR 919.6 million. Free float market capitalisation, which is relevant for the Company's index classification, amounted to around EUR 679.3 million as of 31 December 2011.

GSW's shares also enjoyed a good start to the 2012 stock market year. On 12 January, the former major shareholders Cerberus and Whitehall sold their remaining 7.9 million shares in the Company, resulting in positive share price development. Following the successful placement, GSW's free float now amounts to almost 94%, a fact that is also having a positive impact on the shares' weighting in certain indices.

At EUR 23.60, GSW's share price as of 29 February 2012 was 5.4% higher than the year-end closing price for 2011.

THE 2011 STOCK MARKET YEAR

IPO

GSW Immobilien AG went public on 15 April 2011. The Company's shares were listed in the Prime Standard of the Frankfurt Stock Exchange. A total of 24,613,024 shares were placed with institutional and private investors, 6,052,630 of which came from a capital increase. With an issue price of EUR 19.00, GSW Immobilien AG generated gross proceeds of EUR 115 million from the issue; these funds have now been used to further expand its property portfolio and hence strengthen its market position.

A total of 15,350,000 shares were held by the existing shareholders Whitehall and Cerberus. A further 3,210,394 shares were placed on the market as part of a greenshoe option from existing shareholders. Accordingly, the total issue volume for GSW was around EUR 468 million.

The greenshoe was only fully absorbed by the market in one of the other 14 IPOs conducted in 2011. GSW aside, only one other stock market debutant recorded positive share price performance over the course of the year, and this was largely takeover-driven. As such, GSW Immobilien AG can be seen as having enjoyed the most successful IPO on the German capital markets in 2011. GSW's stock market debut was also the largest of any European real estate company in the last four years.

Inclusion in and promotion to EPRA Index

On 18 April 2011, GSW's shares were included by means of accelerated entry in nine share indices in the FTSE EPRA/NAREIT Global Real Estate Index series by the index provider FTSE, the European Public Real Estate Association (EPRA) and the National Association of Real Estate Investment Trusts (NAREIT). This includes the EPRA/NAREIT Global Index, the EPRA Europe Index, the EPRA EURO Zone Index, the EPRA/NAREIT Germany Index, and another five indices in the index series. The indices rank among the world's key real estate share indices and constitute important benchmarks for international institutional investors. GSW's weighting in the EPRA indices has since increased with effect from 23 January 2012. With the former major shareholders having sold their shares, GSW now has a free float of 100% in accordance with the EPRA definition.

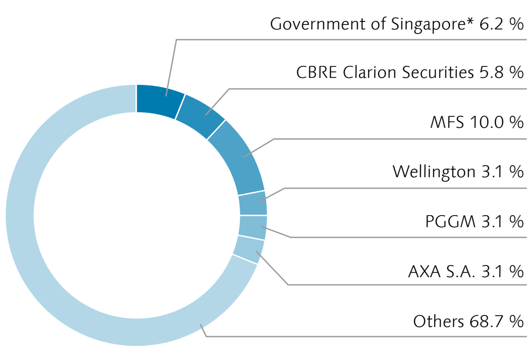
Inclusion in the SDAX and promotion into the MDAX

After only two months of being listed on the Frankfurt Stock Exchange, GSW Immobilien AG's shares were included in the German leading index SDAX with effect from 20 June 2011. This rapid inclusion in the small-cap index of the Frankfurt Stock Exchange underlined the strong performance of GSW's shares in the first months of trading and reflected the confidence of the capital markets in GSW Immobilien AG's business model.

On 19 September 2011, GSW's shares were then promoted to the next-highest index, the MDAX. This rapid development was attributable to the liquidity of the shares and the stability of the Company's free float market capitalisation. This means that GSW Immobilien AG is now one of the 80 largest listed companies in Germany. As of 19 December 2011, the shares had a weighting of 0.995% within the MDAX.

SHAREHOLDER STRUCTURE

SHAREHOLDERS WITH SIGNIFICANT HOLDINGS



As of: February 29, 2012
(on the basis of voting right notifications pursuant to WpHG of which we are aware)

* The free float of GSW AG as defined by Deutsche Börse AG accounts to roughly 94%, excluding the Government of Singapore stake

INVESTOR RELATIONS

The aim of GSW's investor relations activities is to consolidate and increase the confidence of shareholders, investors, financial analysts and all other capital market players. Accordingly, GSW pursues a policy of open, intensive dialogue with all interested parties.

In 2011, GSW participated in eight roadshows and seven capital market conferences in Germany and abroad, allowing it to present its business model with its clear focus on the portfolio management of residential properties in Berlin to a wide audience.

Analysts and investors have confirmed the extensive information content and quality of GSW's financial communications. The positive reception and the continued high level of interest on the part of the capital markets is also reflected in the large number of research houses regularly tracking GSW's shares. As of 31 December 2011, a clear majority of ten of these eleven analysts issued a "Buy" recommendation for GSW's shares, with only one issuing a "Hold" recommendation.

The good cooperation with investors and analysts and the positive feedback to GSW's financial communications are incentives for the Company to maintain and intensify its open dialogue with capital market players over the coming years. GSW intends to expand its presence on the capital markets and participate in numerous roadshows and conferences in 2012.

ANALYST RECOMMENDATIONS

Institute	Analyst	Date	Recommendation
Baader Bank	André Remke	20.02.2012	Buy
Bank of America Merill Lynch	Remco Simon	08.12.2011	Buy
Berenberg	Kai Klose	09.02.2012	Buy
Commerzbank	Thomas Rothäusler	30.11.2011	Add
Deutsche Bank	Markus Scheufler	09.11.2011	Buy
DZ Bank	Ulrich Geis	08.09.2011	Hold
Goldman Sachs	Julian Livingston-Booth	16.01.2012	Buy
HSBC Trinkaus	Thomas Martin	25.10.2011	Overweight
Kempen	Thomas van der Meij	16.01.2012	Overweight
Morgan Stanley	Bianca Riemer	10.11.2011	Buy
Warburg Research	Torsten Klingner	01.12.2011	Buy

GENERAL SHAREHOLDERS' MEETING 2011

The General Shareholders' Meeting was held in Berlin on 18 March 2011. The shareholders in attendance represented 100% of the capital and approved all of the agenda items. For further information, please refer to the "Corporate Governance" section of this report.

FINANCIAL CALENDAR

30 March 2012	**Publication of the Annual Report 2011**
2/3 April 2012	**Deutsche Bank Real Estate Conference (Frankfurt/Main)**
19 April 2012	**Commerzbank Corporate Day (London)**
21 May 2012	**Interim Report Q1-2012**
30/31 May 2012	**Kempen Conference (Amsterdam)**
28 June 2012	**Annual General Meeting (Berlin)**
20 August 2012	**Interim Report H1-2012**
12/13 September 2012	**Bank of America Global Real Estate Conference (New York)**
15 November 2012	**Interim Report 9M-2012**

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BUSINESS MODEL AND VALUE CHAIN

GSW Immobilien AG's focused business model is based on the efficient management of residential property in Germany's largest regional market, Berlin. The success of this business model can be attributed to our understanding that the key value drivers are in our own hands and efficiency synergies can be generated through detailed, value-oriented asset management, an integrated management platform and an end-to-end data management system.

As a specialist for residential property in Berlin, GSW strives to be the quality leader in a promising market that is subject to strong competition. GSW actively confronts the challenges arising from this market and, thanks to its sustainable business model, is excellently equipped to achieve this.

With its portfolio management, GSW controls its portfolio-related decision processes by developing and reviewing strategies aimed at enhancing value at the level of the individual properties.

GSW also evaluates its existing portfolios on an ongoing basis and examines measures to optimise their structure, including the selective disposal of individual units and smaller portfolios.

Periodic and ongoing maintenance measures play an important role. GSW also ensures careful diversification in terms of location and property characteristics such as size and fittings. To allow it to generate economies of scale and continuously improve the profitability of its real estate holdings, GSW expands its portfolio through targeted acquisitions. GSW's efficient operating platform enables it to integrate new residential units into its own portfolio with only marginal increases in absolute administrative expenses. At the same time, individual properties are sold selectively as part of its privatisation strategy.

By contrast, customer management focuses on ensuring that existing customers are always satisfied. To this end, customer enquiries are bundled centrally and processed using standardised procedures to the greatest possible extent. GSW applies the "three Rs": reachability, recording and resolution. Minor maintenance measures are performed on a reactive basis as necessary. A mobile customer support service unit resolves individual issues. Active receivables management and an in-house facility management unit offering janitorial services, which ensures direct on-site contact with our tenants, are further key elements of our management of existing customers.

In the area of new customer management, apartments for which the lease has been terminated are re-let quickly and efficiently with a focus on appropriate rental development. GSW has its own rental offices across Berlin and works hand-in-hand with the leading Internet distribution platforms. GSW also offers apartments specifically tailored to all tenant groups as part of its "living in all phases of life" concept: for singles, young couples and families with young children as well as families with older children, so-called "silver surfers" and pensioners. GSW's aim is to always enter into sustainable tenancies with financially sound tenants.

CORPORATE OBJECTIVES AND STRATEGY

OUR STRATEGY FOR BERLIN: PRESERVING THE TRIED AND TESTED WHILE LEVERAGING NEW OPPORTUNITIES

Berlin is the European city with the largest rental property market. Demand has been rising continuously for the past six years, and the fundamental data shows a clearly positive outlook for the future. GSW is the largest private owner of rental property in Berlin and participates in these developments on a long-term basis thanks to its business model, which involves a high degree of proximity to the market. This means it is valid to assume that there is potential for a sustainable increase in the Company's enterprise value. The following factors will play a major role:

- A clear focus on the "Living in Berlin" segment, which differentiates itself clearly and distinctly from alternative investment opportunities on account of its fragmentation, size and dynamism.
- GSW already largely serves the broad segment of tenants with low and medium household incomes. Looking at the information currently available, quantitative demand for this "basic business" is set to enjoy above-average growth over the coming years.
- The Company's property portfolio within Berlin is diversified in terms of regional distribution and the age of the properties concerned. The size and location of the majority of GSW's residential units reflect the growth in demand among one- and two-person households.
- GSW has been a part of Berlin for more than 85 years. The Company's management and employees are characterised by their awareness of tradition, their practical knowledge, their proximity to the market and the individual neighbourhoods, and their proven expertise in all matters relating to the housing industry and housing policy.
- The letting and management of more than 50,000 residential units is a mass business whose success is dependent on the degree of standardisation and the efficiency of the underlying operating platform. With its activities, GSW has not only won the Future Prize of the German real estate industry, but also generates additional economies of scale with every purchase.
- The Berlin market for residential property transactions is also one of the largest and most in-demand regional markets in Europe. With the contacts it has built up over a number of years and the trust it has gained from banks and other market participants as a result of the many transactions it has conducted, GSW enjoys an all-encompassing presence and is able to acquire suitable portfolios at appropriate prices with a view to increasing its enterprise value.
- GSW's solid financing structure is another important factor in its future success. A conservative approach to debt and long-term loans with attractive, hedged interest rates serve to protect the Company from potentially volatile developments.

On the basis of these conditions, GSW Immobilien AG is well positioned to benefit from the opportunities arising from the future development of the market. The clear objective is the continuous value development of its property portfolio and ensuring distributable cash surpluses that grow over time.

These surpluses will be used to pay shareholders a regular, appropriate and sustainable dividend in line with the Company's corporate strategy and the requirements of the capital markets.

In order to achieve these targets, all of the Company's decisions and activities must be oriented towards the principles of sustainable corporate governance. Dealing responsibly with our shareholders' capital, the social and economic situation of our customers and the interests of our long-standing partners on the bank and supplier side and taking appropriate responsibility above and beyond the Company's boundaries are key factors in achieving this.

CORPORATE RESPONSIBILITY AND SUSTAINABILITY

When starting to address the topic of sustainability, a company is faced with a number of fundamental questions: How do we define sustainability? What does it have to do with our company? What consequences should be drawn from this?

We are still answering these questions, but we have already established some key insights. In our view, sustainability should neither be equated to long-term analysis in the sense of strategic planning, nor is it a synonym for (supposedly) environmentally friendly activities; rather, it is far more than this. For a company, acting sustainably means that the decisions and the actions of all players must follow the principles of responsibility and respect towards the interests of all stakeholders.

Our Company focuses on the area of housing. We use our shareholders' capital to generate value growth and distributable cash surpluses from the efficient management of standard residential properties.

Unlike a family-run small or medium-sized business, our owners are, by definition, always in a position to sell their equity interests in order to pursue other goals and/or interests. Other groups of interested parties (e.g. tenants, employees, banks, strategic suppliers, political decision-makers) have a more long-term focus. A residential property often has a useful life of up to 100 years, while the cycles for replacement investments run to between 5 and 40 years depending on the respective property.

With our decisions, we determine the social and economic conditions of our customers and provide the framework for energy consumption, the conservation of resources and the recycling of waste. We can only achieve this by acting entrepreneurially and sustainably. Given this insight, we have resolved to align our Company towards sustainable management principles to a greater extent, as we believe this will help safeguard the Company's future.

In terms of realising this aim, we are only just at the beginning. We intend to adjust our business strategy, base our management and controlling systems on sustainable criteria, better understand the interests of all our stakeholders, and hence gradually develop a corporate culture in which each individual applies the principles of sustainability in his or her actions. One of the first measures is the preparation of a sustainability report, which will ensure the transparency of our actions both internally and externally. This will soon be available at www.gsw.de/nachhaltigkeit.

COMPLIANCE

Corporate compliance as an instrument for upholding the law and internal guidelines and ensuring their observance by the Group companies is one of the primary management and monitoring responsibilities of GSW's Management Board and Supervisory Board. Following the IPO, the requirements made of the Company in terms of transparency and compliance with the regulations of the capital markets have become more stringent. Accordingly, GSW expanded its Company-wide compliance system in 2011. A systematic process ensures that potential insider information is handled in a legally compliant manner. Individuals who have access to insider information in the course of performing their activities at GSW are included in a list of insiders. Reportable securities transactions are published throughout Europe as required.

No matters of relevance from a compliance perspective were identified in 2011.

REPORT OF THE SUPERVISORY BOARD

Dr. Eckart John von Freyend
Chairman of the Supervisory board

DEAR SHAREHOLDERS,

The preceding fiscal year has in overall been a very successful year for GSW Immobilien AG. On 15 April 2011 the primary listing of the GSW-Share took place with an issue volume of approximately EUR 470 million. This has been one of the biggest initial public offerings in Germany in 2011. Right from the beginning the share price has enjoyed positive growth. In particular, after a short time GSW Immobilien AG has been able to reasonably invest its proceeds raised from the initial public offering in the amount of approx. EUR 115 million by acquiring a real estate portfolio comprising of about 4,800 well to middle-located apartments in Berlin.

GSW Immobilien AG has established itself as an MDAX Company and has a secure long-term funding structure due to a refinancing conducted prior to the initial public offering. Therewith, GSW Immobilien AG is very well positioned within the competitive market environment.

During the period under review the Supervisory Board has carried out the duties incumbent on it by statutory law, articles of association and by-laws. We have continuously advised the Executive Board on the management of the Company and monitored its activities. The Supervisory Board has been directly involved in all fundamental decisions for the Company. The Executive Board regularly, promptly and comprehensively informed the Supervisory Board, in oral and written reports, about the business planning, the course of the business, the strategic development as well as the Group's current situation. Deviations from plans have been explained to us in detail. The Executive Board consulted us in coordinating the strategic alignment of the Company. On the basis of reports submitted by the Executive Board, we discussed in detail all business transactions of major significance to the Company. The proposals made by the Executive Board were approved after detailed examination and discussion. In total four regular and three extraordinary meetings were held.

Outside the Supervisory Board meetings, the Chairman of the Supervisory Board was in regular close contact with the Executive Board and was always informed on the current development and the key business issues. He conducted separate strategy discussions with the Executive Board on the perspectives and the future alignment of the business segments.

MAIN FOCUS OF THE ACTIVITIES OF THE SUPERVISORY BOARD PLENUM

Regular topics of discussion at the Supervisory Board's plenary meetings were revenue, profit and employment development at GSW Immobilien AG as well as GSW-Group, the financial standing as well as major shareholding and investment projects. The Executive Board reported regularly and in detail to the Supervisory Board about the corporate planning, the strategic development, the course of business activities and the overall situation of the Group.

At the meeting on 18 March 2011 – thus prior to the initial public offering – we reviewed the financial key data of the fiscal year 2010 and approved the budget for 2011. Thereby, we have in particular dealt with the audited annual financial statements and the consolidated annual report of GSW Immobilien AG and GSW-Group as of 31 December 2010 as well as with the agenda concerning the annual general meeting in 2011. Moreover, we have been concerned with the corporate governance report including the Compensation Report. In addition, regarding the initial public offering being in the course of preparation at this time, concrete targets concerning the constitution of the Supervisory Board were determined and different amendments of the Supervisory Board's as well as the Executive Board's by-laws were resolved.

At the extraordinary meeting on 30 March 2011, which was held by way of a telephone conference, the Supervisory Board has approved the initial public offering of the Company as well as the listing of the share on the stock exchange.

At an additional extraordinary meeting of the Supervisory Board on 13 April 2011, which was held by way of a telephone conference, we have approved the Executive Board's resolution dated 13 April 2011 concerning the offering price of the shares of GSW Immobilien AG offered within the framework of the initial public offering.

At the meeting on 9 June 2011 the Executive Board reported on the present business and financial situation of the Group following the first quarter of the fiscal year 2011. On this basis and in light of the implementation of the initial public offering we have resolved upon the amendment of the business plan for the fiscal year 2011 compared with the budget plan approved in December 2010.

During the minutes of the Supervisory Board's meeting on 31 August 2011, the Executive Board reported on the present business and financial situation of the Group following the first half-year of 2011. Moreover, the Executive Board presented on the basis of comprehensive information material the acquisition of a real estate portfolio comprising of about 4,800 well to middle-located apartments in Berlin as well as the sale of a partial portfolio in the residential complex Mittelheide. On this basis we have passed respective resolutions concerning the investment and the disinvestment project.

At the meeting on 1 November 2011, which was held by way of a telephone conference, the Executive Board reported again in the spirit of good corporate governance on the acquisition of the real estate portfolio comprising of about 4,800 apartments in Berlin.

During the minutes of the meeting on 8 December 2011, the Executive Board reported on the present business and financial situation of the GSW-Group following the third quarter of 2011. The business plan for the fiscal year 2012 has been approved. Moreover, the schedules of responsibilities of the Executive Board were amended. In addition, the Supervisory Board has approved the merger of GSW Grundbesitz GmbH & Co. KG to GSW Immoblien AG by way of accrual.

ACTIVITIES WITHIN THE COMMITTEES OF THE SUPERVISORY BOARD

In order to exercise its functions efficiently, the Supervisory Board has set up three committees. The committees' work involves the preparation of the resolutions of the Supervisory Board as well as all topics which have to be discussed at the plenary session. Furthermore, the Supervisory Board's powers have been delegated to committees to the extent permitted by law. The committees' chairs report to the Supervisory Board on the committees' work at the ensuing meeting.

EXECUTIVE COMMITTEE

The Executive Committee convened three times within the reporting year. Between meetings the Chairman of the Supervisory Board discussed different topics of particular importance to the Group with the members of the Executive Committee. The Executive Committee dealt with questions on Corporate Governance, the preparation of decisions to be made with regard to the Executive Board's compensation and different personnel issues.

NOMINATION COMMITTEE

There was no need to convene the Nomination Committee during the preceding fiscal year. In the light of resignations of Supervisory Board's members with effect as of 31 December 2011 as well as with effect as of 31 March 2012 the Nomination Committee will, however, convene before the general meeting scheduled for June 2012.

AUDIT COMMITTEE

The Audit Committee held in total two meetings in 2011. At the meeting on 17 March 2011, the Audit Committee dealt – in presence of the auditor and the Executive Board – with the accounts and the consolidated management report of GSW Immobilien AG as well as of the entire Group for the fiscal year 2010. This included in particular the resolution on the appropriation of profits. Moreover, the Audit Committee addressed a recommendation to the Supervisory Board on the Supervisory Board's proposal to the general meeting concerning the election of the auditor. Prior to this proposal the Supervisory Board has obtained a declaration of independence from the auditor. Furthermore, the Audit Committee gave in-depth consideration to the appointment of the auditor for the fiscal year 2011, the oversight of the auditor's independence and qualification as well as the additional services provided, the determination of its fees as well as the review of the quarterly statements and the half-year financial report. The audit assignment has been issued by the Supervisory Board. The committee members have moreover – in presence of a real estate surveyor – extensively dealt with the valuation of the real property. At the meeting of the Audit Committee on 22 November 2011, the members have disputed the accounting procedure, the risk management as well as the risk situation of the Company. Besides, the facilities, organisational assignments and the statements made by the internal revision have been discussed.

CORPORATE GOVERNANCE CODEX

The Supervisory Board has discussed the contents of the German Corporate Governance Codex. At their meeting on 18 March 2011, the Executive Board and the Supervisory Board have resolved to issue a declaration of conformity pursuant to Section 161 of the German Stock Corporation Act according to which the Company conforms and will conform – merely subject to minor exceptions listed in the declaration of conformity – with the recommendations made by the German Corporate Governance Codex. Based on the resolution of the Supervisory Board dated 16 March 2012 a declaration of conformity has been issued. The declarations of conformity have permanently been made available to the shareholders on the Company's webpage.

DETAILED DISCUSSION OF THE ANNUAL FINANCIAL STATEMENTS AND THE CONSOLIDATED FINANCIAL STATEMENTS FOR 2011

PricewaterhouseCoopers Aktiengesellschaft Wirtschaftsprüfungsgesellschaft has audited the annual financial statements and the consolidated financial statements compiled by the Executive Board as well as the consolidated management report of GSW Immobilen AG and GSW-Group as of 31 December 2011 and subsequently issued the unqualified audit certificate. The annual financial statements of GSW Immobilien AG and the consolidated management report of GSW Immobilien AG and the Group have been prepared in accordance with the requirements of the German commercial law. The consolidated financial statements have been compiled in compliance with the international accounting principles IFRS – as adopted by the European Union (EU) – as well as in compliance with the supplementary provisions relating to commercial law. The auditor performed the audit in compliance with the generally accepted German standards for the audit of financial statements determined by the Institut der Wirtschaftsprüfer (IDW - German Institute of Auditors) and in supplemental compliance with the International Standards on Auditing (ISA). The aforementioned documents and the Executive Board's proposal on the appropriation of profits was submitted to the Supervisory Board in due time. They have extensively been discussed within the Audit Committee's meeting on 26 March 2012. The audit reports issued by PricewaterhouseCoopers Aktiengesellschaft Wirtschaftsprüfungsgesellschaft have been made available to all members of the Supervisory Board and reviewed comprehensively at the Supervisory Board's meeting on 28 March 2012 in presence of the auditor. The auditor reported on the key results of its audit as well as on the fact that there are no significant weaknesses in either the internal monitoring system or the risk management system. At this meeting the Executive Board has explained the statements of GSW Immobilien AG and the Group as well as the risk management system. The auditor explained further the scope, main emphases and costs of the audit.

We agree with the results of the audit. Following the final review by the Audit Committee as well as our own revision there are no objections to be raised. The Supervisory Board has approved the annual financial statements and the consolidated financial statements as of 31 December 2011; the annual financial statements of GSW Immobilien AG are therefore adopted.

CHANGES OF THE COMPOSITION OF THE SUPERVISORY BOARD

The members of the Supervisory Board Sven Dahlmeyer and Jonathan Lurie have resigned as from 31 December 2011. With effect as of 31 March 2012 the Supervisory Board's members Thomas Wiegand and Geert-Jan Schipper will resign as well from the Supervisory Board. We would like to thank the Supervisory Board's members mentioned above for their consistently constructive collaboration on the Supervisory Board.

The Supervisory Board would like to thank all members of the Executive Board, all employees of GSW Immobilien AG and all shareholders of the Group for their high personal involvement. You all have established GSW Immobilien AG in MDAX and have made your contribution to this economically very successful year for GSW Immobilien AG.

We would moreover like to thank all shareholders for the trust you have placed in our Company.

Berlin, 28 March 2012

GSW Immobilien AG
On behalf of the Supervisory Board

Dr. Eckart John von Freyend
Chairman of the Supervisory Board

CORPORATE GOVERNANCE REPORT

Corporate Governance refers to the entire system by which a company is managed and monitored, its corporate principles and guidelines, and the system of internal and external control and supervisory mechanisms. The Management Board and Supervisory Board of GSW Immobilien AG consider good, transparent corporate governance to be a key factor in the Company's sustainable success, as well as fostering the trust of investors, employees, business partners and the public in the management and monitoring of the Company.

The Management Board and Supervisory Board submit a joint report on corporate governance at GSW Immobilien AG in accordance with the recommendation of section 3.10 of the German Corporate Governance Code in the version dated 26 May 2010. This report also contains the declaration on corporate governance required by section 289a of the German Corporate Governance Code (HGB) and the remuneration report.

DECLARATION ON CORPORATE GOVERNANCE IN ACCORDANCE WITH SECTION 289a HGB

The declaration on corporate governance contains the declaration of conformity in accordance with section 161 of the German Stock Corporation Act (AktG), relevant disclosures on the corporate governance practices applied above and beyond the statutory requirements, a description of the working practice of the Management Board and Supervisory Board and the composition and working practice of their committees. It is also published on our website at www.gsw.de as part of the 2011 Annual Report.

The declaration on corporate governance in accordance with section 289a HGB forms part of the Management Report. In accordance with section 317 (2) sentence 3 HGB, the disclosures in accordance with section 289a HGB are not included in the audit of the financial statements.

DECLARATION OF CONFORMITY IN ACCORDANCE WITH SECTION 161 (1) AktG

On 16 March 2012, the Management Board and Supervisory Board of GSW Immobilien AG issued the following declaration of conformity in accordance with section 161 (1) AktG:

The Management Board and Supervisory Board of GSW Immobilien AG declare that, since the submission of the last declaration of conformity on 18 March 2011, GSW Immobilien AG has complied with the recommendations of the Government Commission of the German Corporate Code in the version dated 26 May 2010 as published by the German Federal Ministry of Justice in the official section of the electronic Federal Gazette (Bundesanzeiger) with the following exceptions and will continue to comply with these recommendations in future with the following exceptions:

No deductible in the D&O insurance policy for the members of the Supervisory Board (section 3.8 (3) of the Code)

In accordance with section 3.8 (3) of the Code, any D&O insurance policy taken out for the Supervisory Board should include a deductible of at least 10% of the loss up to at least the amount of one and a half times the fixed annual compensation of the respective Supervisory Board member. The D&O insurance policy for members of the Supervisory Board of the Company does not provide for a deductible. The Management Board and Supervisory Board are of the opinion that a deductible of this nature would not improve the care and commitment of the members of the Supervisory Board in exercising their functions and performing their tasks.

No publication of the total compensation of each of the members of the Management Board on an individual basis (section 4.2.4 of the Code)

In accordance with section 4.2.4 of the Code (and section 285 (1) no. 9 (a) sentence 5 to 8 and section 314 (1) no. 6 (a) sentence 5 to 8 HGB), the total compensation of each of the members of the Management Board should be disclosed by name, divided into fixed and variable compensation components. Disclosure may be dispensed with if the General Shareholders' Meeting has passed a resolution to this effect by a three-quarters majority. The General Shareholders' Meeting of the Company on 14 April 2010 resolved that the total remuneration of each member of the Management Board shall not be published on an individual basis for the period from 2010 to 2014, and in any case up until 14 April 2015 at the latest.

Directorship of a member of the Supervisory Board at a competitor of the Company until 11 April 2011 (section 5.4.2 sentence 4 of the Code)

In accordance with the recommendation set out in section 5.4.2 sentence 4 of the Code, Supervisory Board members shall not act as directors or perform advisory tasks for important competitors of the Company. Dr. Reinhard Baumgarten, a member of the Company's Supervisory Board, was the Managing Director of HOWOGE Wohnungsbaugesellschaft mbH on a transitional basis for the period from 2 March 2010 to 11 April 2011. HOWOGE Wohnungsbaugesellschaft mbH, whose sole shareholder is the State of Berlin, is a potential competitor of the Company in a section of the Berlin housing market. As Dr. Baumgarten's role as Managing Director of HOWOGE Wohnungsbaugesellschaft was only temporary in nature and has already ended, we do not consider there to be a conflict of interest in this respect.

No performance-related compensation for the members of the Supervisory Board (section 5.4.6 (2) of the Code)

Section 5.4.6 (2) of the Code recommends that the members of the Supervisory Board receive fixed as well as performance-related compensation. The members of the Company's Supervisory Board receive only fixed compensation and no performance-related compensation. In the Company's opinion, the payment of only fixed compensation to the members of the Supervisory Board represents the most appropriate remuneration structure in light of the Supervisory Board's responsibility for independently monitoring and reviewing the management of the Company by the Management Board. In addition, the workload and liability risk of the Supervisory Board members does not generally change in line with the business success of the Company. Indeed, difficult periods in which the level of performance-related compensation may be lower often require the members of the Supervisory Board to perform their monitoring and advisory function particularly intensively. Accordingly, the decision not to pay performance-related compensation to the members of the Supervisory Board meets with the approval of many parties in the current corporate governance discussion and is consistent with international best practice from the Company's perspective. At its plenary session on 17 January 2012, the Government Commission of the German Corporate Code itself proposed that, in contrast to the previous recommendation, performance-related compensation be provided merely as an option alongside fixed remuneration in future.

Failure to adhere to the publication deadlines for the consolidated financial statements and interim reports (section 7.1.2 sentence 4 of the Code)

In accordance with section 7.1.2 sentence 4 of the Code, the consolidated financial statements should be publicly accessible within 90 days of the end of the financial year, while interim reports should be publicly accessible within 45 days of the end of the reporting period. The Company's consolidated financial statements are prepared and made publicly accessible within the periods prescribed by law, while the Company's interim reports are prepared and made publicly accessible within 60 days of the end of the reporting period. In addition, the obligations concerning the preparation and publication of the Company's consolidated financial statements and interim reports arising from the admission of the Company's shares to the sub-segment of the Frankfurt Stock Exchange with additional post-admission obligations (Prime Standard) are met in full. Due to the time required to prepare the consolidated financial statements and interim reports with due care, the Company cannot yet make a binding commitment to the publication deadlines set out in section 7.1.2 sentence 4 of the Code. However, the Management Board and Supervisory Board intend to review the current practice in order to determine whether the recommendation set out in section 7.1.2 sentence 4 of the Code can also be observed.

This and previous declarations of conformity are permanently available on our website (www.gsw.de).

RELEVANT DISCLOSURES ON CORPORATE GOVERNANCE PRACTICES APPLIED ABOVE AND BEYOND THE STATUTORY REQUIREMENTS

Corporate social responsibility

More so than in years gone by, companies are now expected to be good corporate citizens and to become involved in social and cultural life as part of their corporate social responsibility. With its 85-year history, GSW is committed to upholding this responsibility.

A traditional commitment to Berlin as a location is as much a part of the Company's fundamental values as sustainable social responsibility. The GSW Privatisation Code to protect tenants' rights and a commitment to social, cultural and sporting projects with a focus on children and young people are examples of sustainable investments in the future of GSW Immobilien AG and Berlin as a location. Reflecting our values and principles, we have also applied a legal and ethical framework to our day-to-day business activities in the form of internal guidelines, mission statements and principles that go above and beyond the statutory requirements.

Further information on corporate social responsibility can be found on our website.

Corporate Governance Code of the German Real Estate Industry

We also follow the recommendations and principles developed by Initiative Corporate Governance der deutschen Immobilienwirtschaft e.V., which can be accessed on its website (www.immo-initiative.de), with the exception of the recommendation set out in section 4.3.6.i (2) and section 5.5i concerning the disclosure of all private real estate transactions conducted by members of the Management Board and the Supervisory Board. As any conflict between the interests of GSW Immobilien AG and the members of its executive bodies mainly concerns substantial transactions in the Company's actual area of operations, i.e. property acquisitions and disposals and rentals in Berlin and Potsdam in particular, the duty of the members of the executive bodies to disclose private real estate transactions has been restricted accordingly in the Rules of Procedure of the Supervisory Board and the Management Board.

By contrast, at its meeting on 18 March 2011, the Supervisory Board resolved that its express approval must be obtained for real estate transactions between the Company or one of its subsidiaries and members of the Supervisory Board in accordance with the recommendation of section 3.9.i of the Corporate Governance Code of the German Real Estate Industry.

Compliance, risk management, Internal Audit

Compliance, risk management and Internal Audit are elements of the internal control system.

Compliance is intended to ensure adherence to the statutory provisions, the recommendations of the German Corporate Governance Code and the Corporate Governance Code of the German Real Estate Industry, and the Company's internal workflows and standards of conduct. In the period under review, the existing Compliance organisation was supplemented by the appointment of an additional Compliance Manager. The Chief Compliance Officer reports directly to the Management Board.

The aim of risk management is the continuous identification and evaluation of risks affecting the assets, earnings prospects and public perception of the Company on the basis of a defined risk strategy. Compliance and risk management are incorporated into the Legal, Risk Management and Compliance department.

The Internal Audit executive department is directly allocated to the CEO of the Company. Internal Audit provides support for the identification of breaches of regulations, particularly in establishing the facts of a matter, and performs audits as commissioned by the Management Board. The Management Board reports regularly to the Supervisory Board on the risk situation, risk management, risk controlling and compliance.

In addition, a qualified data protection officer ensures compliance with data protection requirements.

General terms and conditions for suppliers

In our general terms and conditions for procurement, we and our suppliers undertake to act with integrity and in a spirit of cooperation. In accordance with our additional contractual terms for the performance of construction services for individual projects, our suppliers undertake to observe the German Posted Workers Act in full and to only use employees from member states of the European Union or employees from non-EU countries who are in possession of a valid work permit. This also applies to any sub-contractors commissioned with the approval of GSW Immobilien AG.

DESCRIPTION OF THE WORKING PRACTICE OF THE MANAGEMENT BOARD AND SUPERVISORY BOARD AND THE COMPOSITION AND WORKING PRACTICE OF THEIR COMMITTEES

In accordance with the relevant statutory provisions, GSW Immobilien AG has a two-tier management and control structure. The Management Board manages the Company's operating business, while the Supervisory Board advises the Management Board on matters of corporate management and monitors its management of the Company. The competencies of the Management Board and Supervisory Board are set out in the AktG, the Articles of Association and the Rules of Procedure of the Management Board and the Supervisory Board. The Management Board and Supervisory Board of GSW Immobilien AG work in close cooperation for the benefit of the Company.

Management Board

The Management Board, which consists of three members, is responsible for managing the operating business of GSW Immobilien AG. It develops the strategic focus of the Company, reconciles this with the Supervisory Board and ensures its implementation. The Management Board discusses the status of strategic implementation with the Supervisory Board at regular intervals. In addition, the Management Board of GSW Immobilien AG ensures compliance with the relevant statutory provisions and internal guidelines and ensures that they are observed by the Group companies.

The continued development of risk management and controlling is also the responsibility of the Management Board. Each member of the Management Board manages the area allocated to him on the basis of the schedule of responsibilities independently and with departmental responsibility. Above and beyond this schedule of responsibilities, however, the members of the Management Board also bear joint responsibility for managing the Company as a whole.

The members of the Management Board are appointed by the Supervisory Board. The Supervisory Board determines the remuneration paid to the members of the Management Board. The composition of the Management Board takes into account the principles of diversity and, in particular, efforts to ensure an appropriate degree of female representation. The Management Board does not currently have any female members. The Supervisory Board will apply the principles of diversity as a key factor in any future decisions on the appointment of Management Board members.

Supervisory Board

The Supervisory Board advises and monitors the Management Board on matters of corporate management. It appoints the members of the Management Board and is authorised to dismiss them with good cause. The Supervisory Board is informed by the Management Board in a regular, timely and comprehensive manner on fundamental issues concerning corporate planning and the net assets, financial position and results of operations, profitability and business development of the Company and its subsidiaries in particular.

Article 8 of the Articles of Association states that the Supervisory Board shall consist of nine members elected by the General Shareholders' Meeting. The Supervisory Board currently consists of only seven members. Mr. Sven Dahlmeyer and Mr. Jonathan Lurie stepped down from the Supervisory Board with effect from 31 December 2011. Two further members of the Supervisory Board, Mr. Geert-Jan Schipper and Mr. Thomas Wiegand, will step down with effect from 31 March 2012.

Supervisory Board committees

To improve the efficiency of its work, the Supervisory Board formed the following committees at its meeting on 16 April 2010:

Executive Committee of the Supervisory Board
The Executive Committee of the Supervisory Board consists of the Chairman of the Supervisory Board, the Deputy Chairman and another member elected by the Supervisory Board. The Executive Committee discusses key topics and long-term succession planning for the Management Board and prepares the resolutions of the Supervisory Board, particularly those concerning the appointment and dismissal of Management Board members, the appointment of the Chief Executive Officer, the conclusion, amendment and termination of contracts of employment with the members of the Management Board, and the structure of the remuneration system for the Management Board. In addition, the Executive Committee decides on the approval of measures to be undertaken by the Management Board in place of the full Supervisory Board in cases where the Articles of Association of the Company or the Rules of Procedure of the Management Board require that such measures be approved by the Supervisory Board, any delay to such approval would be unacceptable and it would not be possible to obtain a corresponding resolution by the full Supervisory Board in good time. The Executive Committee also decides on the approval of certain transactions in which members of the Management Board or Supervisory Board or the Company's auditor are involved in cases where such approval is required in accordance with the law, the Articles of Association of the Company or the Rules of Procedure of the Management Board or the Supervisory Board.

Nomination Committee
The Nomination Committee is composed of the Chairman of the Supervisory Board and the other members of the Executive Committee. The Nomination Committee suggests suitable candidates to the Supervisory Board for its election proposals to the General Shareholders' Meeting.

Audit Committee
The Audit Committee is composed of three members elected by the Supervisory Board. The Audit Committee deals in particular with matters of accounting, risk management and compliance and prepares the resolutions of the Supervisory Board on the single-entity and consolidated financial statements and the agreements with the auditor. The Chairman of the Audit Committee is independent and has particular knowledge and experience in the application of accounting standards and internal control procedures.

ADDITIONAL DISCLOSURES ON CORPORATE GOVERNANCE

Objectives of the Supervisory Board regarding its composition and status of implementation

Section 5.4.1 of the German Corporate Governance Code states that the Supervisory Board shall specify concrete objectives regarding its composition which, whilst considering the specifics of the Company, take into account the international activities of the Company, potential conflicts of interest, an age limit to be specified for the members of the Supervisory Board, and diversity. These concrete objectives shall, in particular, stipulate an appropriate degree of female representation. At its meeting on 8 December 2010, the Supervisory Board of GSW Immobilien AG resolved to comply with this recommendation, and hence resolved the following concrete objectives at its meeting on 18 March 2011:

- Female representation of at least 10% shall be maintained until the re-election of the current Supervisory Board members in 2015.
- As part of the re-election of the Supervisory Board in 2015, the Company shall endeavour to increase the degree of female representation to at least 30%. If new members are elected to the Supervisory Board before this date, the Company shall endeavour to increase the degree of female representation as part of this election.
- The Supervisory Board must have a sufficient number of members with particular knowledge or sufficient experience of the real estate industry.
- One or more independent members of the Supervisory Board must have specialist knowledge in the areas of accounting or auditing. One or more members of the Supervisory Board must also have experience in the application of internal control procedures.
- Supervisory Board members shall not remain in office beyond the end of the General Shareholders' Meeting following their 75th birthday.
- In addition, one or more members of the Supervisory Board must be able to contribute international experience to their Supervisory Board activity on account of having studied or worked abroad.

The Supervisory Board will take these objectives into account when making proposals for the election of Supervisory Board members. The same applies for the candidates suggested to the Supervisory Board by the Nomination Committee of the Supervisory Board. The Supervisory Board is confident that, with the exception of the planned increase in the degree of female representation to 30% as part of the re-election of the Supervisory Board, it already fulfils the aforementioned objectives regarding its composition. In particular, the seven current members of the Supervisory Board include a female member, Ms. Veronique Frede. The Supervisory Board is also confident that its current composition is such that its members have the necessary knowledge, skills and professional experience to properly perform their duties.

Employee share ownership plan

In conjunction with its IPO in April 2011, the Company granted a certain number of shares of the Company on a one-off basis, voluntarily and free of charge to all employees (with the exception of the Management Board) who were in a non-terminated employment relationship with the Company at the time of the IPO. To this extent, the Company applied an amount corresponding to the regular gross monthly salary of the respective employee – including performance bonuses for employees covered by collective wage agreements – plus the corresponding employer social security contributions. The individual employees were then offered shares with a value roughly equivalent to their net monthly salary. The price of the shares and the subscription costs were borne by the Company. Employees are not permitted to access the shares granted to them until 30 June 2012 (lock-up period).

GSW Immobilien AG plans to introduce a new employee share ownership plan for the employees of the Company and its subsidiaries.

REPORTABLE SECURITIES TRANSACTIONS AND SHAREHOLDINGS OF THE MANAGEMENT BOARD AND SUPERVISORY BOARD

In accordance with section 15a of the German Securities Trading Act (WpHG), members of the Management Board and Supervisory Board and related parties are obliged to disclose reportable transactions in shares of GSW Immobilien AG or financial instruments based on these shares if the value of such transactions within a calendar year is equal to or greater than EUR 5,000 (directors' dealings). No transactions in accordance with section 15a WpHG were reported to GSW Immobilien AG for the 2011 financial year.

As of 31 December 2011, the total number of shares of GSW Immobilien AG held by all of the members of the Management Board and the Supervisory Board amounted to less than 1 % of the shares issued by the Company.

REMUNERATION REPORT

The remuneration report forms part of the Group management report and can be found on pages 84-87. It also forms part of this corporate governance report.

DEVELOPMENT OF THE HOUSING PORTFOLIO

OVERVIEW

The housing portfolio focuses exclusively on the Greater Berlin residential real estate market, one of the most attractive regions in Europe for investors. The Berlin housing market has been developing positively for years: according to the German Federal Statistical Office, the city's population grew by a total of 2.3% between 2000 and 2010, while the number of households rose by 9.1% over the same period.

GSW's portfolio management focuses on safeguarding and optimising cash flows while maintaining and developing the value of the housing portfolio. To this end, GSW optimises its operational management on an ongoing basis and pursues a sustainable investment strategy. Furthermore, its range of activities includes purchase decisions and selecting individual properties for selective sale. The basis for all strategic decisions is formed by ongoing analyses of the portfolio as a whole and each individual property within the portfolio. The knowledge gained as a result is rounded out by comprehensive market analyses and the monitoring of social trends (e.g. single households, young seniors).

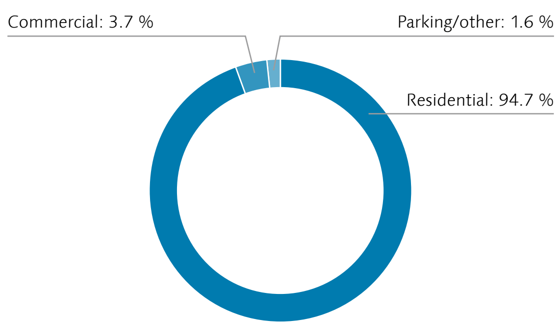
GSW is one of the biggest players on the Berlin housing market. Its portfolio is broadly diversified in terms of locations, apartment sizes and age classes. The vast majority of properties (more than 90%) are in refurbished or partially refurbished condition. The operating management performance of GSW is rising constantly and sustainably, in particular as a result of rent increases (3.7% over the previous year as at 31 December 2011) and the reduction in the vacancy rate (to 3.4% as at 31 December 2011). Further components in the optimisation of cash flows and property values are the refurbishment of apartments and buildings: In addition to the constant refurbishment of apartments for re-letting, GSW will realise a complex modernisation project in the Lichtenberg district in 2012.

GSW increased its portfolio by more than 8% through acquisitions in 2011. A key goal is to expand and optimise the housing portfolio through attractive purchases of properties. GSW's operating platform enables the Company to integrate newly acquired residential units into its existing portfolio with only marginal increases in absolute administrative expenses.

GSW also evaluates its existing portfolios on an ongoing basis and examines measures to optimise their structure, including the selective disposal of individual units and smaller portfolios. In light of market developments, GSW also does not rule out the possibility of exploiting market opportunities to sell more extensive sub-portfolios in order to enhance value.

As at 31 December 2011, GSW managed 53,704 of its own residential and commercial units, which accounted for 98.4% of total annual rental income. In addition, GSW BWG managed 17,537 units for third parties. At 71,241 units in total, GSW manages one of the capital's biggest real estate portfolios.

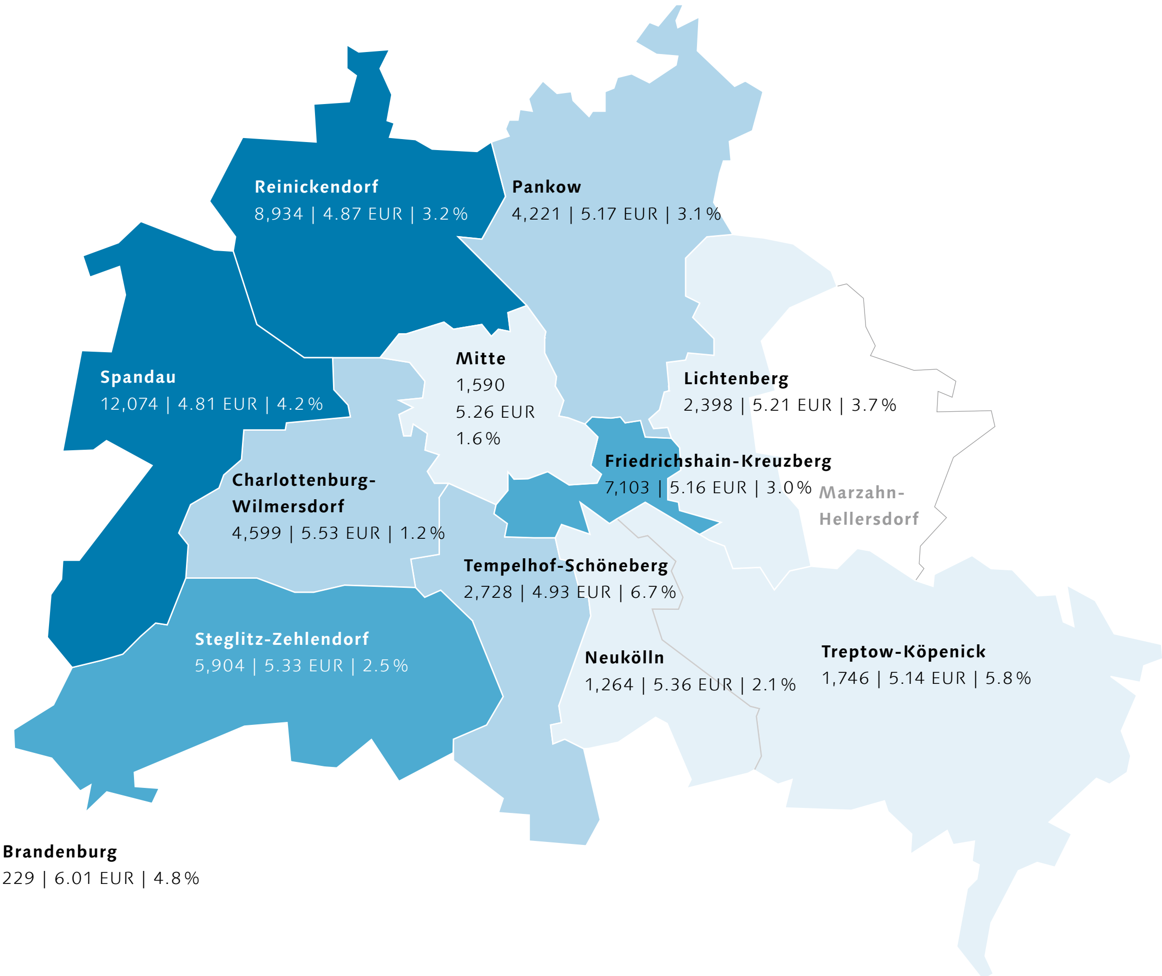
ANNUALISED ACTUAL IN-PLACE RENT



HOUSING PORTFOLIO 31.12.2011

District
No. of residential units | In-place rent in EUR / sqm | Vacancy rate[1] in %

No. of GSW residential units
0 · < 2,500 · < 5,000 · < 7,500 · > 7,500



Brandenburg
229 | 6.01 EUR | 4.8 %

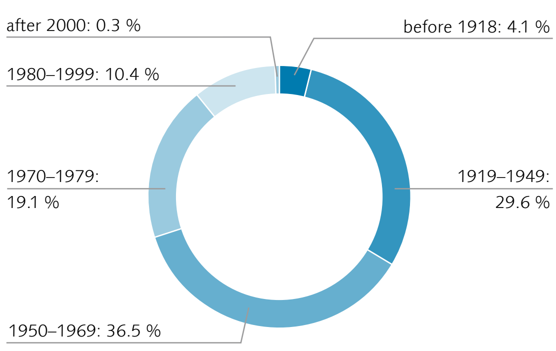
[1] The vacancy rate corresponds to the number of residential units that are not let divided by the number of residential units available for letting.

HOUSING PORTFOLIO, COMPARISON OF 2010 / 2011

District	Rental units			Share of portfolio (%)		In-place rent (EUR / sqm)			Vacancy rate in % by rental units		
	31.12.2011	31.12.2010	Difference	31.12.2011	31.12.2010	31.12.2011	31.12.2010	Change in %	31.12.2011	31.12.2010	Difference
Spandau	12,074	10,876	1,198	22.9	22.3	4.81	4.69	2.6	4.2	4.5	-0.3
Reinickendorf	8,934	8,883	51	16.9	18.2	4.87	4.75	2.5	3.2	2.6	0.6
Friedrichshain-Kreuzberg	7,103	5,518	1,585	13.5	11.3	5.16	4.96	4.0	3.0	4.2	-1.2
Steglitz-Zehlendorf	5,904	5,493	411	11.2	11.3	5.33	4.99	6.8	2.5	3.7	-1.2
Charlottenburg-Wilmersdorf	4,599	3,997	602	8.7	8.2	5.53	5.31	4.1	1.2	1.2	0.0
Pankow	4,221	4,309	-88	8.0	8.8	5.17	5.05	2.4	3.1	3.4	-0.3
Tempelhof-Schöneberg	2,728	2,592	136	5.2	5.3	4.93	4.91	0.4	6.7	7.4	-0.7
Lichtenberg	2,398	2,398	–	4.5	4.9	5.21	5.05	3.2	3.7	4.1	-0.4
Treptow-Köpenick	1,746	1,993	-247	3.3	4.1	5.14	4.83	6.4	5.8	5.3	0.5
Mitte	1,590	1,684	-94	3.0	3.5	5.26	5.14	2.3	1.6	2.8	-1.2
Neukölln	1,264	930	334	2.4	1.9	5.36	5.16	3.9	2.1	1.4	0.7
Brandenburg	229	103	126	0.4	0.2	6.01	6.17	-2.6	4.8	8.7	-3.9
Total	**52,790**	**48,776**	**4,014**			**5.08**	**4.90**	**3.7**	**3.4**	**3.7**	**-0.3**

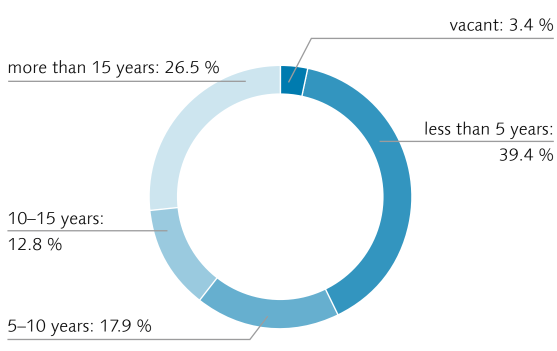
More than a third of the apartments in the portfolio were constructed in the first half of the 20th century or earlier, 37% originate from the period from 1950 to 1969, and the remaining apartments were constructed after 1970.

YEAR OF CONSTRUCTION



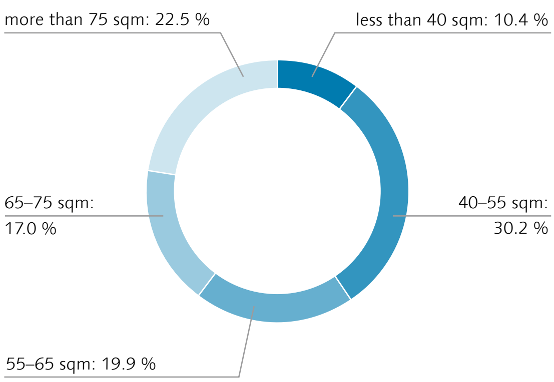
The average lease duration in the portfolio is around twelve years. In terms of the duration of tenancies, two major clusters can be observed. Around 27% of residential units have already been rented for more than 15 years; these tenants include some who have lived in their apartments for over 30 years. The share of apartments with a current tenancy of less than five years is around 39%. This reflects the success of rental operations in recent years.

LEASE DURATION



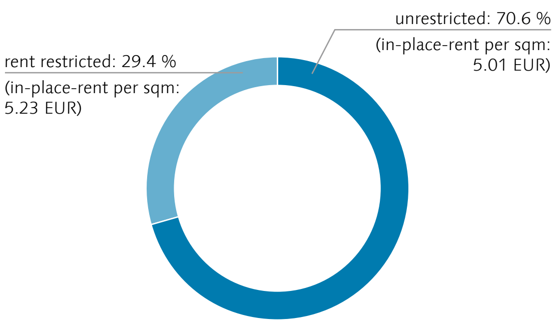
The average apartment size is 61.5 sqm. More than 40% of the apartments are smaller than 55 sqm, making single- and two-person households an important tenant target group for GSW.

APPARTMENT SIZE



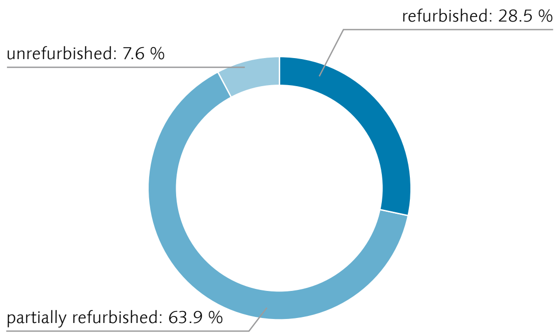
29% of all apartments are rent restricted. As at the end of the reporting period, an in-place rent of EUR 5.23/sqm was generated in these properties. This figure is above the GSW average due to the earlier years of construction. More than one-third of these apartments were built after 1980.

PRICE CATEGORY

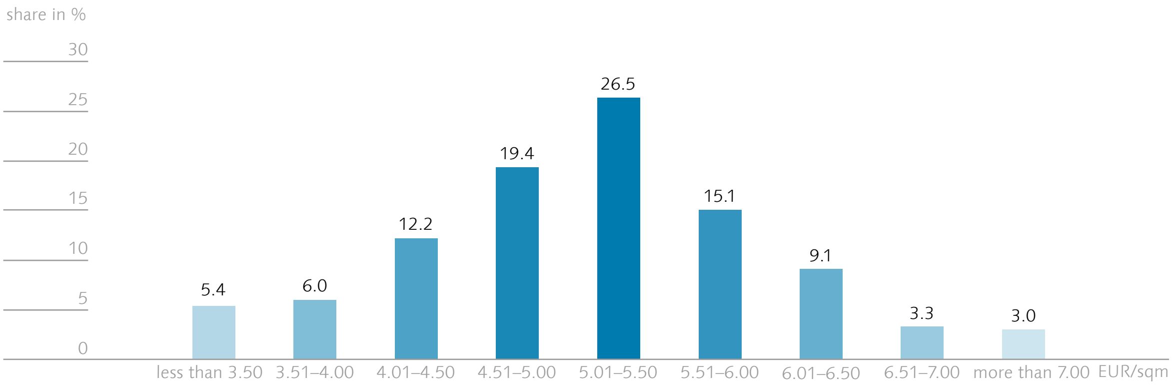


Over 90% of the portfolio has been refurbished or partly refurbished. The share of unrefurbished apartments is around 8% (approximatley 4,000 apartments). This largely relates to buildings that use oven heating. GSW's investment strategy is focusing on such properties.

PORTFOLIO CONDITION



BREAKDOWN OF ACTUAL IN-PLACE RENT IN EUR/sqm



DEVELOPMENTS IN RENT AND VACANCY

The average in-place rent for the portfolio as a whole was EUR 5.08/sqm as at 31 December 2011 (2010: EUR 4.90/sqm) and was therefore up 3.7% as against the previous year. This was contributed by rent increases for existing tenants and new rentals in addition to selective purchases. As at 31 December 2011, the in-place rent was over EUR 5.00/sqm for 57% of all portfolio properties; in the previous year, this price was achieved for just under half of the portfolio.

The vacancy rate for apartments declined over the year, from 3.7% at the end of 2010 to 3.4% as at 31 December 2011.

BERLIN MIETSPIEGEL (RENT INDEX)

The new Berlin rent index was published on 30 May 2011. As in previous years, it is a qualified rent index recognised as a reference by the Senate Department for Urban Development and key interest associations. These include the Berlin Tenant Association, the Berlin Tenant Protection Association, the Association of Berlin House and Property Owner Organisations and the Association of Berlin-Brandenburg Housing Companies. The rent index shows typical local comparative rents for unrestricted rental apartments used as the basis for rent increases in accordance with section 558 BGB. It uses the comparative parameters of the type, size, equipment, condition and location of apartments.

Compared to the last rent index, rents have increased by an average of 7.9% to EUR 5.21/sqm (2009 rent index: EUR 4.83/sqm). This rise emphasises the dynamic development of the Berlin housing market. At the same time, however, a continuing distinction can be observed, as rents range from EUR 2.82/sqm for the lowest mean average to EUR 7.36/sqm for the highest mean average. By national standards, however, Berlin's residential rents are still at the lower end of the scale.

In particular, it became more expensive to live in old buildings and in better locations. The class of buildings built before 1918 saw a strong rise in rents of 11.8% to EUR 5.04/sqm (2009: EUR 4.51/sqm). At EUR 5.92/sqm, the figure for good locations was 10.9% higher than in the previous survey (2009: EUR 5.34/sqm), while simple locations appreciated by only 5.9% to EUR 4.84/sqm. Special features are now taken into account differently, which has had a significant effect on data. For example, the mark-up for a modern kitchen of previously EUR 0.25/sqm has been completely omitted in the 2011 rent index, while the mark-up for a modern bathroom has been reduced from EUR 0.24/sqm to only EUR 0.11/sqm.

At the publication date, around 68% of apartments in GSW's portfolio (not including acquisitions in 2011) were covered by the Berlin rent index. Adjusted for vacancy and units for which no rent level was reported, around 63% of the total portfolio remains. GSW has so far achieved a rent level in excess of the rent index for 40% of these apartments (25% of the total portfolio), largely in the context of new contracts. Overall, GSW identified potential for rent increases for around 15,000 apartments, two-thirds of which has already been implemented. GSW is planning further adjustments for 2012.

MAINTENANCE AND MODERNISATION

GSW constantly invests in the fabric of its buildings and the standard of its residential units, ensuring that the portfolio remains attractive and rentable in the long term. For instance, individual residential units were modernised before being re-let to bring them into contemporary condition and thereby allow an adjustment in line with current market rents. For example, this involves new bathrooms and kitchens or new flooring. In 2011, GSW also implemented a comprehensive refurbishment project with more than 80 apartments at different locations.

In total, GSW invested around EUR 13 / sqm for maintenance and modernisation in the 2011 financial year and assumes that this level will continue in the medium term.

In addition, modernisation projects going beyond just maintenance are intended for the future. A modernisation project for 200 apartments is already being implemented in the Lichtenberg district: The residential complex, which still uses oven-heating, will be fully renovated by GSW. In addition to completely replacing the domestic engineering, improvements in floor plans and the addition of balconies are also intended. The planned insulation work and the replacement of the current ovens with a state-of-the-art heating and hot water facility will also help to reduce the housing complex's CO_2 emissions by around 60 % in future. This will create a modern quarter with notably improved environmental and living quality. At the same time, income from the management of the housing complex will increase significantly and sustainably.

THE TRANSACTION MARKET FOR RESIDENTIAL PROPERTY IN BERLIN 2011

According to the consulting firm CBRE, the German market for residential property investments grew more dynamically than in previous years in 2011. The financing environment was still favourable, demand for stable investments was high; rents were also rising in most regions of Germany, making an investment in residential property especially profitable. The current Ernst & Young trend barometer for the German real estate investment market forecasts that this development will continue in 2012. 99 % of institutional investors surveyed rated Germany as attractive or very attractive as a real estate centre (2010: 86 %); the majority are forecasting an increase in transaction volumes in residential property. In particular, those surveyed justified their forecast in that Germany is considered a safe haven against the backdrop of the euro crisis and rising inflationary expectations.

According to CBRE estimates, the transaction volume in residential property portfolios in Germany rose by almost 88 % year-on-year to around EUR 6.1 billion (2010: EUR 3.3 billion). Berlin was particularly attractive: more than one-third of the transaction volume for all of Germany was implemented here after only 13 % in the previous year. At EUR 2.3 billion, the volume was five times greater than the previous year's level (2010: EUR 0.4 billion). As well as purchases of entire portfolios, the investment total also increased for individual properties. CBRE is anticipating a volume of EUR 6.4 billion for 2011 in this area and of around EUR 8 billion for 2012. According to the Ernst & Young trend barometer for 2012, too, Berlin was the clear favourite for residential investment in Germany with an approval rating of 42 %, well ahead of its closest rival Hamburg (approval: 24 %). The local Berlin transaction market for residential property will see the highest sales in Europe in 2012, according to CBRE.

The following table provides an overview of the major transactions in 2011 (excerpt):

TRANSACTIONS IN 2011

Residential units	Residential and commercial space	Purchase price		Buyer	Seller
	sqm	EUR	EUR / sqm		
4,739	confidential	confidential	confidential	degewo / Gesobau	Corpus Sireo
4,832	296,400	330,000,000	1,113	GSW Immobilien AG	GAGFAH S.A.
2,500	162,500	152,100,000	936	Deutsche Wohnen AG	n / a
1,375	117,039	130,000,000	1,111	Berggruen Holdings	iMW Immobilien AG
907	70,000	113,400,000	1,620	Residenz Berolina GmbH & Co. KG	Invest B2B
1,600	110,000	100,000,000	909	TAG Tegernsee Immobilien- und Beteiligungs AG	Colonia Real Estate AG
362	31,000	100,000,000	3,200	Aberdeen	WGF AG
1,053	80,000	83,800,000	1,048	Foncière Développement Logements SIIC	n / a
1,083	76,381	77,500,000	1,015	n / a	Conwert Immobilien Invest SE
1,200	78,000	73,125,000	938	Deutsche Wohnen AG	n / a
685	54,326	54,000,000	994	Foncière Développement Logements SIIC	n / a
652	40,653	41,000,000	1,009	Akelius Fastigheter AB (publ)	(several sellers)
600	39,000	38,025,000	975	Caleus Capital Investors GmbH / Epsio	Zentral Boden Immobilien AG

Source: CBRE

ACQUISITIONS

GSW intends to grow sustainably and expand its excellent position on the Berlin housing market. To this end, it will seek to increase the size of its current portfolio through attractive purchases on an ongoing basis. Offers for around 71,000 apartments were considered in the 2011 financial year.

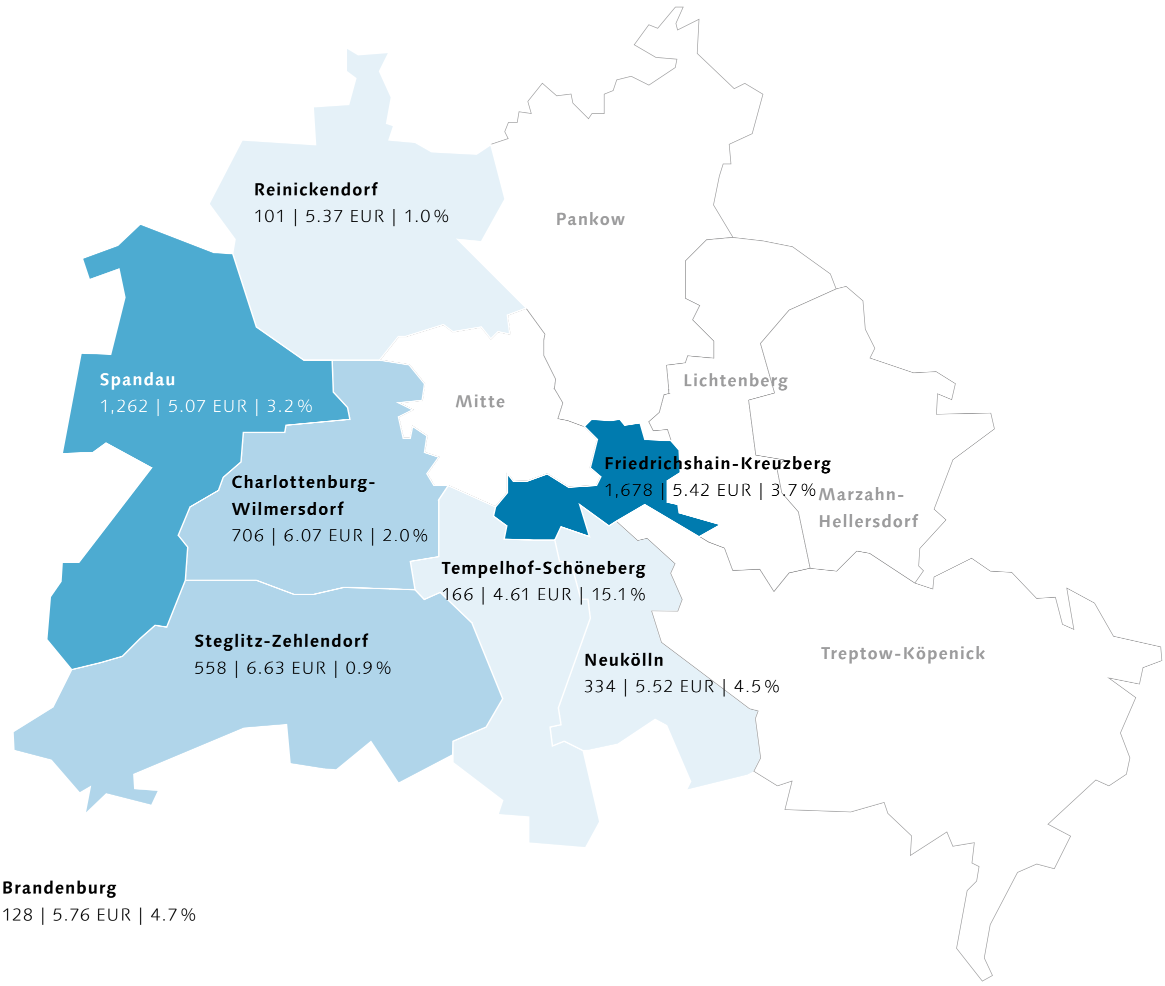
In the first quarter of the financial year alone, 101 apartments were acquired in the Reinickendorf district at a price of EUR 4 million. These are part of a refurbished housing estate with a rental area of around 4,600 sqm and an in-place rent of EUR 5.29 / sqm at the time of purchase, which was increased to EUR 5.37 / sqm over the course of 2011. The vacancy rate in the property amounted to 1.0% as at 31 December 2011.

The most extensive purchase took place in the fourth quarter: Effective 1 November 2011, GSW acquired GAGFAH Pegasus GmbH, a subsidiary of GAGFAH S. A., with 4,857 residential and commercial units with total space of around 296,400 sqm as part of a share deal. The purchase price was EUR 330 million or around EUR 1,113 / sqm. The properties are situated in attractive locations, including in particular Friedrichshain-Kreuzberg (34.7% of all apartments acquired), Spandau (26.1%), Charlottenburg-Wilmersdorf (14.6%) and Steglitz-Zehlendorf (11.5%).

ACQUISITIONS IN 2011

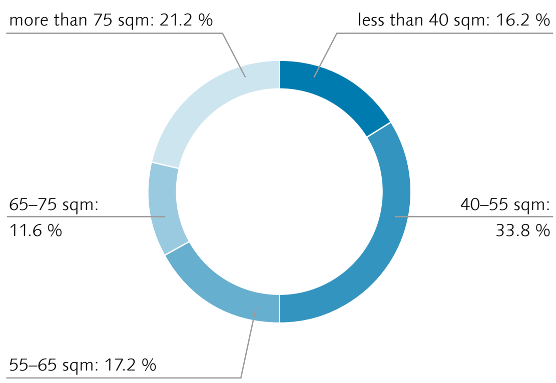
District
No. of residential units | In-place rent in EUR / sqm | Vacancy rate in %

No. of GSW residential units
0 | < 500 | < 1,000 | < 1,500 | > 1,500

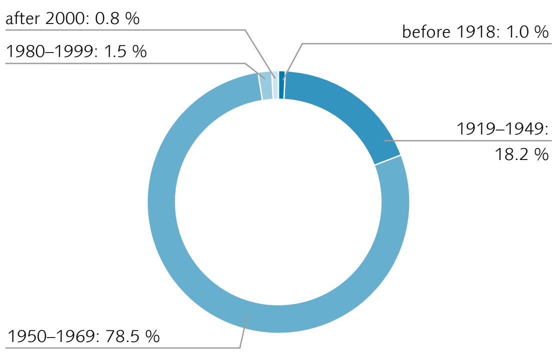


At 78.5%, by far the majority of the apartments originate from the 1950s and 1960s. Almost all properties have been refurbished (32.0%) or partially refurbished (66.6%). As in the overall GSW portfolio, around half of the acquired apartments are between 40 and 65 sqm; more than a third is larger.

BREAKDOWN OF ACQUSITIONS BY RESIDENTIAL FLOOR SPACE



BREAKDOWN OF ACQUISITIONS BY YEAR OF CONSTRUCTION



In relation to the GSW portfolio as a whole, rent is above-average in the acquired properties at around EUR 5.65 / sqm. At 3.4% as at 31 December 2011, the vacancy rate is consistent with the GSW level. GSW expects the acquisitions to have a positive impact on its income from management.

DISPOSALS

As part of its privatisation strategy, GSW sold a total of 537 units in 2011, mainly to investors and owner-occupiers. Demand for residential property has risen significantly. GSW's income from property sales therefore increased by 18.4% as against the previous year to a total of EUR 56.8 million (2010: EUR 48.0 million). The total defined privatisation stock (owner-occupied apartments) comprises around 3,300 units as at 31 December 2011. Furthermore, 398 units were sold that no longer fit with GSW's medium and long-term portfolio strategy, e.g. on account of their isolated location.

PROPERTY VALUATION

The GSW property portfolio consists of 675 developed economic units and 31 undeveloped plots of land. It was valued by the third-party service provider CBRE as at 31 December 2011.

Market values were calculated using the discounted cash flow (DCF) method, applying a detailed planning period of ten years in which net incoming payments from property management were forecast. A terminal value calculated from the capitalisation of the net annual income for the eleventh period was set after the end of the tenth year.

Standard and matching discount rates averaging 6.04% and standard capitalisation rates for perpetuity averaging 5.25% were used to discount cash flows.

A long-term feasible residential market rent of EUR 5.41 / sqm was assumed for the GSW portfolio, a figure approximately 6.5% above the current in-place rent of EUR 5.08 / sqm. In order to derive the market rent, CBRE used the current rent index, asking rents for similar properties in CBRE's internal database and current rentals of the properties being valued. An average increase in market rents of 1.05% p. a. was assumed.

Overall, the GSW portfolio had a market value as at the end of the reporting period of EUR 2,947 million. At EUR 2,924 million (EUR 873 / sqm), the preponderant portion of this relates to the developed portfolio (2010: EUR 2,556 million or EUR 822 / sqm), the undeveloped land was valued at a total of EUR 23 million. As against the previous year, the portfolio's value has risen by around EUR 51 / sqm or 6.1%. An increase in value of around 4.3% was achieved in the Spandau and Reinickendorf districts, in which around 40% of GSW's properties are situated. In addition to GSW's operating management performance, the acquisition of 4,933 new residential units and the generally positive development on the rental and transaction market also contributed to this value growth.

VALUATION OF THE HOUSING PORTFOLIO BY CBRE

District	Share of residential units	In-place rent (EUR/sqm)	Market rent (EUR/sqm) *)	Annualised in-place rent (all uses, EUR mn)	Market value (EUR mn) *)	Market value (EUR/sqm) *)	In-place rent multiplier	Year-on-year development of market value in EUR/sqm (%)
Spandau	22.9%	4.81	4.90	45.5	612.4	759	13.5	4.4 ▲
Reinickendorf	16.9%	4.87	5.13	31.2	450.4	824	14.4	4.6 ▲
Friedrichshain-Kreuzberg	13.5%	5.16	5.70	30.3	445.6	930	14.7	7.5 ▲
Steglitz-Zehlendorf	11.2%	5.33	5.91	26.4	425.8	1,030	16.1	9.8 ▲
Charlottenburg-Wilmersdorf	8.7%	5.53	5.94	17.4	252.3	954	14.5	13.0 ▲
Pankow	8.0%	5.17	5.60	14.1	221.8	953	15.7	3.1 ▲
Tempelhof-Schöneberg	5.2%	4.93	5.23	10.9	144.4	753	13.2	-0.6 ▼
Lichtenberg	4.5%	5.21	5.51	7.3	105.1	871	14.4	1.2 ▲
Treptow-Köpenick	3.3%	5.14	5.40	6.0	87.8	854	14.7	6.4 ▲
Mitte	3.0%	5.26	5.50	6.1	81.7	839	13.4	3.5 ▲
Neukölln	2.4%	5.36	5.98	5.2	77.5	978	14.9	2.2 ▲
Brandenburg	0.4%	6.01	6.46	1.1	19.5	1,236	17.4	7.0 ▲
Total/ average	**100.0%**	**5.08**	**5.41**	**201.5**	**2,924.0**	**873**	**14.5**	**6.1 ▲**

*) Source: CBRE

FINANCING

As planned, GSW successfully concluded the refinancing of a CMBS loan with a volume of around EUR 890 million in February 2011. Six bilateral loan agreements with a total volume of EUR 875 million were concluded with German banks and additional cash was used for the early repayment of the loan, which would otherwise have been due for repayment in 2013 at the latest. The weighted average term of the new loans is more than eight years, with an average initial nominal interest rate of 4.18% p.a. This means that GSW was able to ensure its long-term refinancing at favourable conditions and further diversify its financing structure.

Open interest positions in 2011 and 2012 were closed by entering into forwards. In the first half of 2011, a forward interest rate agreement was concluded for a variable-interest loan with a volume of EUR 125 million; this agreement has a term of 60 months, from 1 April 2012 until 2017, and a nominal interest rate of 4.05% p.a. The agreement will help to ensure interest rate stability for GSW in future.

This means that no significant liabilities are scheduled for refinancing between now and 2016.

As part of the acquisition of GAGFAH Pegasus GmbH (now GSW Pegasus GmbH), the existing liabilities in the amount of around EUR 265 million were refinanced through two new loans with a total volume of EUR 218.3 million. The financing is hedged using two interest rate swaps in the same amount. The loans and the interest rate swaps have a term of 7 and 8 years respectively. The initial weighted total interest rate is a nominal 4.01% p.a.

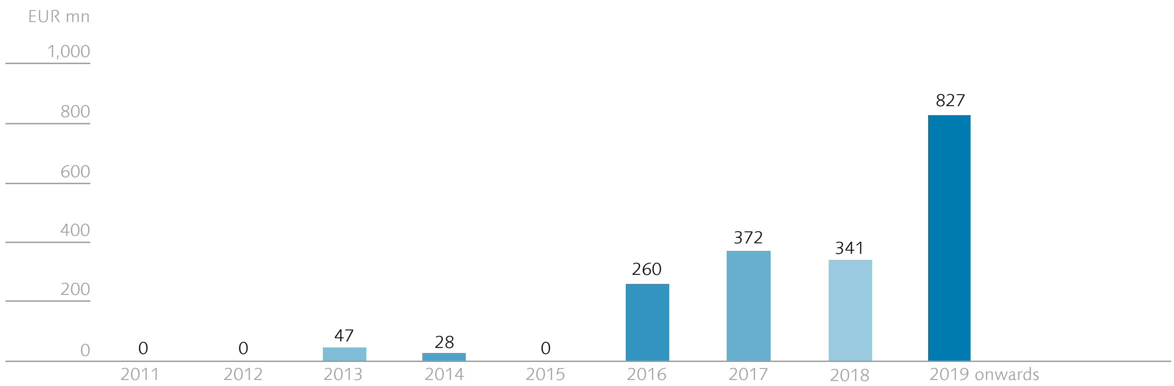
FINANCING STRUCTURE

As of 31 December 2011, the Company had loans with a total of 14 banks with a nominal volume of EUR 1,874.8 million.

GSW subjects its loan portfolio to regular, comprehensive risk analysis during the course of the year. Among other things, this analysis looks at interest rate and cluster risks, counterparty default risks, and the risks arising from loan compliance.

Following the refinancing of the CMBS loan, the balanced maturity structure means that there are no significant refinancing requirements for the coming years. The weighted average term of the Company's loans at the reporting date was 11.5 years.

MATURITY PROFILE AS OF 31.12.2011



98.75 % of the loan portfolio is hedged by means of fixed-interest agreements or interest rate swaps. Accordingly, GSW does not consider there to be any significant interest rate risk in the medium term. GSW's weighted average interest rate in 2011 was considerably lower than 4 %.

COVENANTS

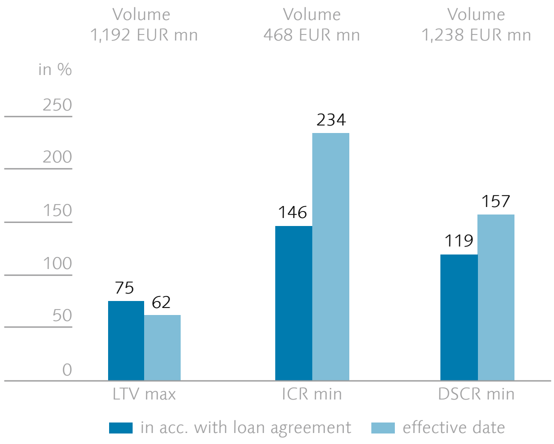
Covenants are contractually agreed key financial indicators that a borrower must maintain during the entire term of a loan agreement. GSW has agreed covenants based on the respective individual loan portfolio for 13 loan agreements with a volume of EUR 1,383.3 million as of 31 December 2011. This primarily relates to the key financial indicators of LTV, ICR and DSCR. Certain agreements also include a covenant on the vacancy rate.

The ranges of the covenants are as follows:

LTV	65 % - 90 %
ICR	120 % - 175 %
DSCR	105 % - 142 %

The following diagram shows the weighted contractually agreed covenants and the covenants achieved as of 31 December 2011.

ADHERENCE TO COVENANTS



Adherence to the covenants is continuously monitored in order to identify risks at an early stage and is controlled on a Company-wide basis. This includes regular contact with the banks and the exchange of information during the year. Each individual loan agreement is structured such that the Company has the opportunity to resolve potential breaches of covenants within defined periods.

DEFINITION OF THE COVENANTS

Key financial	Definition
Loan-to-Value (LTV)	Ratio between outstanding loan amount and market value of the respective portfolio
Loan-to-Rent (LTR)	Ratio between outstanding loan amount and net rent proceeds (after management expenses) of the respective portfolio
Interest Coverage Ratio (ICR)	Ratio between net rent proceeds (after management expenses) and interest expenses of the respective portfolio
Debt Service Coverage Ratio (DSCR)	Ratio between net rent proceeds (after management expenses) and debt service of the respective portfolio
Vacancy Rate	Ratio between vacant units and rentable units in the respective portfolio

CONSOLIDATED MANAGEMENT REPORT

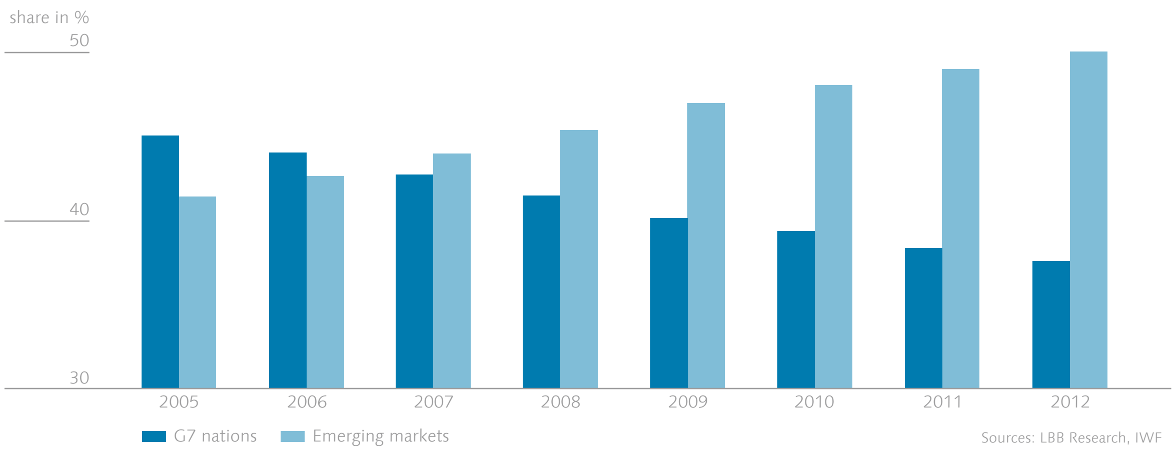
ECONOMIC REPORT

MARKET AND ECONOMIC ENVIRONMENT

Economic development

Following a good start to the year, global economic growth clearly deteriorated over the course of 2011. In the first six months, the political unrest in North Africa and the Middle East, the nuclear disaster in Fukushima (Japan) and the fiscal policy discussions in the USA had an adverse impact on sentiment. At that stage, however, a long-term downturn in the economic situation was not expected. The global economy was driven to a growing extent by emerging markets, particularly the high-growth BRIC nations:

SHARE OF GLOBAL GDP IN %, ADJUSTED FOR PURCHASING POWER

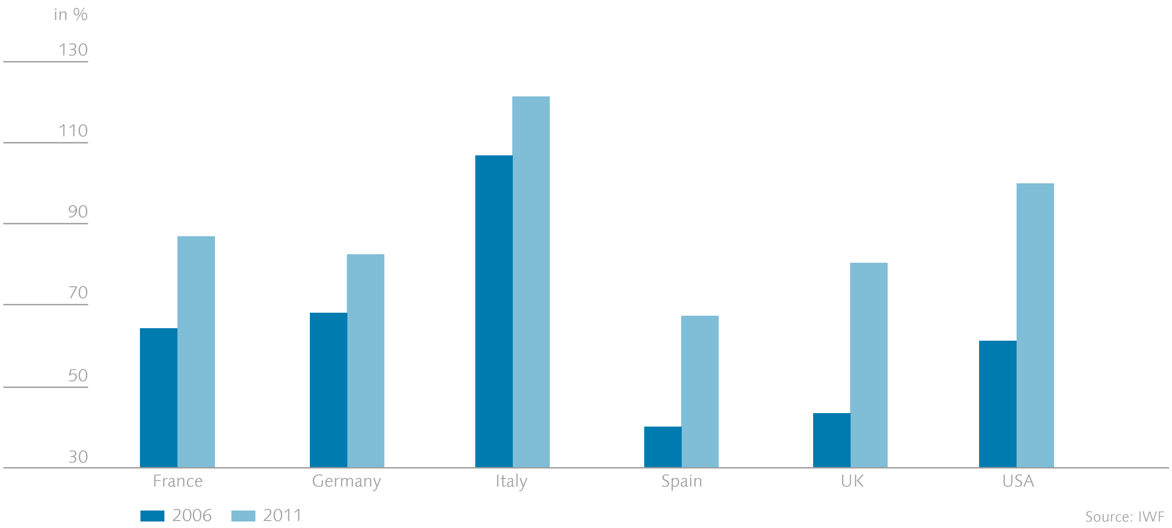


Under pressure from the European debt crisis, the upward trend in the global economy slowed significantly in the second half of the year. The Kieler Institut für Wirtschaftsforschung (IfW) is currently forecasting global economic growth of 3.8% for 2011 following 5.1% in 2010. The highest growth rates are attributable to China and India (9.5% and 6.7% respectively), with Japan and the United Kingdom bringing up the rear (-0.7% and 0.8% respectively).[1]

The World Bank is forecasting a further decline in growth to 2.5% in 2012 and a slight recession in the eurozone (-0.3%).[2] From July 2011 onwards, economic development in Europe was dominated by the debt crisis in Greece, Italy, Spain and Portugal. Discussions focused on the increasing levels of government debt and the resulting impact on the solvency of individual countries.

[1] Press release, Kieler Institut für Wirtschaftsforschung, "Sluggish World Economy", 20 December 2011 | [2] World Bank, press release 2012/236/DEC dated 18 January 2012

GOVERNMENT DEBT AS % OF GDP



The European economy was disrupted by cost-cutting measures affecting public budgets and uncertainty concerning the future of the monetary union. The IfW is forecasting economic growth of only 1.5% for the eurozone in 2011 and, like the World Bank, a slight recession in 2012. However, development within Europe was extremely varied in 2011: while the crisis-hit countries in the south saw economic stagnation or recession, the nations of Central Europe proved to be growth drivers.[3]

In 2011, the German economy in particular benefited from its strong focus on exports, with demand from abroad continuing to rise. Domestic consumption also reached a peak.[4] Following a dynamic start, however, the momentum of the German economy also slowed somewhat during the course of the year: quarter-on-quarter growth rates in the second and third quarters were comparatively low at 0.3% and 0.5% respectively, while GDP declined by 0.2% in the last three months of the year.[5] The German economy was impacted in particular by the European debt crisis.

Irrespective of this, adjusted GDP for 2011 as a whole – as forecast by the German Federal Government's Council of Economic Experts – increased by 3.0%[6], significantly higher than the European average.[7] The debt crisis is expected to have a more pronounced impact in 2012; accordingly, the German Federal Government is currently forecasting a slowdown in economic growth to 0.7%.[8]

At 2.3%, average inflation in Germany was up 1.2% on the low level recorded in the previous year.[9] In the eurozone, too, inflation accelerated over the course of the year, with the figure of 3.0% in autumn clearly exceeding the ECB's medium-term forecast of almost 2%.[10] However, the ECB's fiscal policy was largely dominated by its response to the European debt crisis. In November and December, it reversed the interest rate increases it had announced in the spring and took the headline rate back to its initial level of 1.0% in two phases.[11]

[3] Press release, Kieler Institut für Wirtschaftsforschung, "Sluggish World Economy", 20 December 2011 | [4] German Federal Statistical Office, press release no. 435 dated 24 November 2011 | [5] German Federal Statistical Office, press release no. 421 dated 15 November 2011 and first release no. 53 dated 15 February 2012 | [6] German Council of Economic Experts, Annual Report 2011/12 | [7] German Federal Statistical Office, press release no. 010 dated 11 January 2012
[8] Press handout on the Annual Economic Report 2012 of the German Federal Government, 18 January 2012 | [9] German Federal Statistical Office, press release no. 011 dated 12 January 2012 | [10] German Federal Statistical Office, press release no. 011 dated 12 January 2012; ECB Annual Report 2010 | [11] ECB website, accessed on 13 January 2012

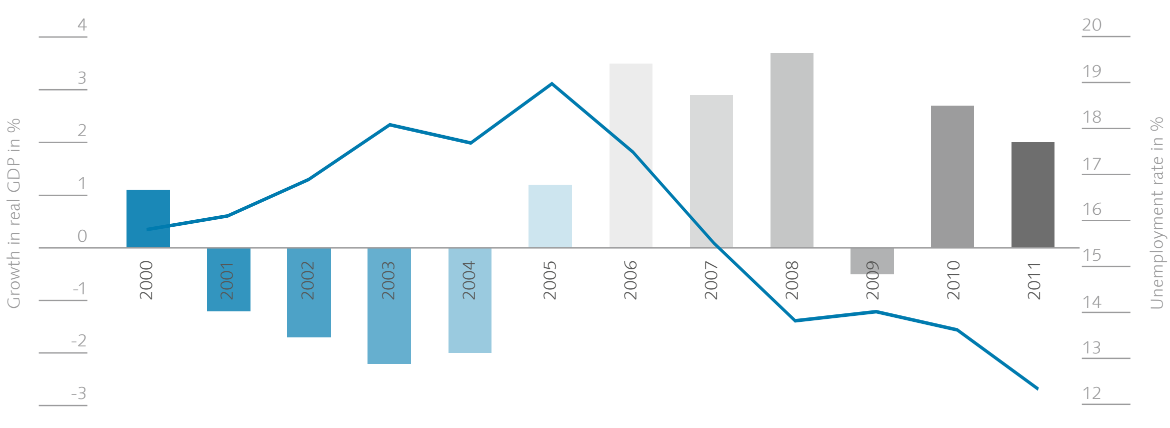
The positive trend on the German employment market continued. Unemployment fell further, reaching a new record low of just over 2.7 million in November. At 7.1%, the average unemployment rate in 2011 was the lowest since reunification.[12] According to forecasts by the German Federal Government, unemployment is set to continue to fall to 6.8% in 2012.[13]

Overall economic situation in Berlin

Since German reunification, Berlin has seen radical structural change. Today, economic activity is dominated by research, biotechnology, media, information and communications technology, and tourism. Key employers in the city include Deutsche Bahn and Deutsche Post, the Charité hospitals, Siemens and the public sector.

The overall economic environment in Berlin has improved steadily over recent years. In 2010, the Berlin economy grew by around 2.7%[14], while growth of 1.9% was recorded in the first half of 2011.[15] The labour market in the German capital has also seen healthy development: the unemployment rate as of 31 December 2011 was 12.3%, down significantly on the prior-year figure of 12.8%.[16]

ECONOMIC GROWTH AND UNEMPLOYMENT IN BERLIN



Sources: Berlin-Brandenburg Statistical Office; German Federal Employment Agency; Berlin Senate for Economics

The economic upswing is now also reflected in rising real income for employees in Berlin. In the third quarter of 2011, for example, average gross monthly household income including benefits in Berlin increased by 4.2% year-on-year to EUR 2,744. With consumer prices in the German capital rising by 2.5% in the same period, this means that earnings growth was 1.7% higher. As the rate of change was 3.3% in the first quarter of 2011 and 3.5% in the second quarter, this also shows that earnings growth, and hence purchasing power, accelerated further in the third quarter of the year.[17]

[12] Statistics from the German Federal Employment Agency, unemployment over time, as of December 2011 | [13] Press handout on the Annual Economic Report 2012 of the German Federal Government, 18 January 2012 | [14] Berlin-Brandenburg Statistical Office, press release no. 95 dated 30 March 2011 | [15] Berlin-Brandenburg Statistical Office, press release no. 308 dated 28 September 2011 | [16] German Federal Employment Agency, monthly report December 2011
[17] Berlin-Brandenburg Statistical Office, press release no. 4 dated 4 January 2012

Housing market in Berlin

HOUSING MARKET IN BERLIN

Macroeconomic key figures for Berlin	
Population[1] on 30 September 2011	3,490,445
Population growth 2000-2010 (%)	2.3
Number of residential units[1] on 31 December 2010	1,898.807
Growth in number of households 2000-2010 (%)[1]	9.1
Unemployment[2] in December 2011 (%)	12.3
Gross monthly earnings incl. benefits in Q3/2011 (EUR)[1]	2,774

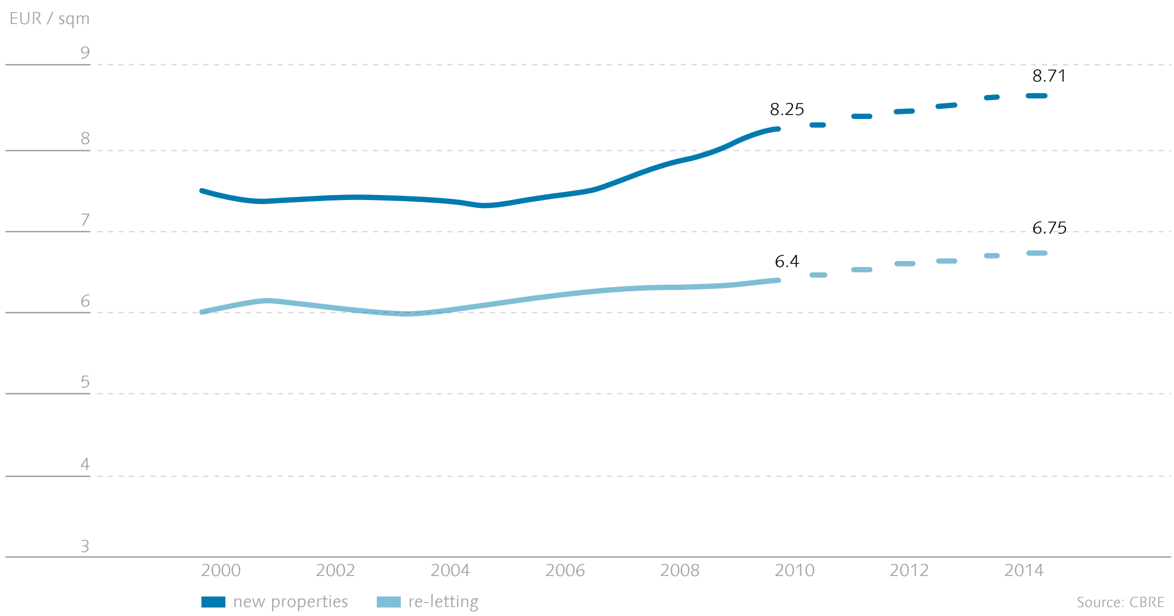
[1] Source: Berlin-Brandenburg Statistical Office
[2] Source: German Federal Employment Agency

Bucking the trend seen in many other locations in Germany, Berlin has recorded continuous population growth since 2005. According to the Berlin-Brandenburg Statistical Office, the number of inhabitants increased by 0.9% to 3,490,445 in the period to September 2011, thereby reaching the highest level since the city was reunified on 3 October 1990.[18] Together with good economic development and rising income, this demographic trend means that the conditions on the Berlin housing market are healthy. According to a study by Investitionsbank Berlin (IBB), demand for housing is also being stimulated by the rise in the number of households: the growing share of younger single-person households and older people living alone means that the average household size is falling.[19] This growth in demand has not yet been accompanied by a corresponding rise in the housing supply. As of the end of 2010, the number of residential units had increased by only 4,243 or 0.2% as against the end of the previous year; new construction activity has been lower than in comparable cities for a number of years.[20]

In recent years, this discrepancy between supply and demand has led to a continuous reduction in the vacancy rate to 5.0% (as of year-end 2010).[21] According to the IBB Housing Market Report for 2011, real estate experts are forecasting a further reduction in the housing supply over the coming years. As such, it is likely that demand will continue to rise, particularly in the lower price segment. This means that a trend towards higher rents is likely:[22]

[18] Berlin-Brandenburg Statistical Office, press release no. 18 dated 20 January 2012 | [19] IBB Housing Market Report 2011 | [20] IBB Housing Market Report 2011
[21] IBB Housing Market Report 2011 | [22] IBB Housing Market Barometer 2011 and IBB Housing Market Report 2011

IN-PLACE RENT FOR NEW PROPERTIES AND RE-LETTING



The Berlin rent index for 2011 shows average annual rental growth of around 4.0% compared with 2009. However, rents in Berlin remain low compared with other major German cities. The average monthly rent in Berlin (excluding heating) is EUR 5.21/sqm. By contrast, households in Hamburg paid EUR 7.15/sqm according to the 2011 rental index, while Munich had an average of EUR 9.79/sqm per month – almost 88% more than in Berlin. Berlin therefore remains the cheapest major city in Germany for tenants.

The positive development of the Berlin rental market has helped to significantly improve the attractiveness of the city's residential property investment market. In a survey conducted by the audit company Ernst & Young, a majority of 69% of the investors surveyed considered German residential property to be considerably more interesting than retail (51%) and office buildings (14%). In terms of their location preferences for residential property, 42% of those surveyed named Berlin, putting it well ahead of all other major German cities; its nearest rival, Hamburg, attracted 24% of the responses.[23]

The experts surveyed for the IBB Housing Market Barometer 2011 also forecast a fundamentally positive investment climate for Berlin over the coming years.[24]

General statement on economic conditions

Berlin remains in demand among tenants, with rents rising even outside the more fashionable areas such as Mitte, Prenzlauer Berg and Friedrichshain-Kreuzberg. Thanks to its broadly diversified property portfolio, GSW is benefiting from these developments, placing it in an excellent position for the coming financial years.

[23] "Berlin ist der Liebling der Immobilieninvestoren", at: WELT Online, 11 January 2012 | [24] IBB Housing Market Barometer 2011

ORGANISATION AND GROUP STRUCTURE

GSW performs its material operating activities as the parent company and the following major subsidiaries. As of 31 December 2011, the GSW Group consisted of 18 fully consolidated companies and further unconsolidated companies.

Associates are considered to be material if they account for at least 10% of consolidated equity, at least 10% of the Group's annual earnings or at least 10% of the Group's workforce.

GSW GRUNDBESITZ GMBH & CO. KG, BERLIN (GSW KG)

GSW KG is a property holding company. Its activities include holding property (land and land rights), its utilisation and exploitation. GSW KG focuses exclusively on the Berlin location. The company does not have its own staff. Its administration activities are handled by GSW Immobilien AG, its facility management by Facilita. Following the exit of the limited partner, the entire assets and liabilities of GSW Grundbesitz GmbH & Co. KG, Berlin, were transferred by merger with effect from 1 January 2012.

GSW PEGASUS GMBH, BERLIN (GSW PEGASUS)

GSW Pegasus, formerly GAGFAH Pegasus GmbH, Berlin, has been a part of the GSW Group since November 2011. It is a property holding company. Pegasus' activities focus on the acquisition, holding and management of land, land rights and equity investments and are primarily based in Berlin. The company does not have its own staff. Prior to 31 December 2011, administrative activities for GSW Pegasus were performed by a subsidiary of the GAGFAH Group.

GSW GRUNDVERMÖGENS- UND VERTRIEBSGESELLSCHAFT MBH, BERLIN (GSW VVG)

GSW VVG is a property holding company. Its activities include holding property, the transformation of properties into condominium and part ownership and their utilisation and exploitation. The company does not have its own staff. Its administrative activities are performed by GSW Immobilien AG, its facility management by Facilita and its property management by GSW BWG.

FACILITA BERLIN GMBH, BERLIN (FACILITA)

Facilita is one of the first companies on the Berlin market to offer facility management specifically for residential property. Its service range extends from cleaning, groundskeeping, caretaking and small repairs to vacancy management, vacancy refurbishment and the management of technical building services through to construction work and refurbishment projects. Facilita does not form part of GSW's core activities.

GSW BETREUUNGS-GESELLSCHAFT FÜR WOHNUNGS- UND GEWERBEBAU MBH, BERLIN (GSW BWG)

GSW BWG offers community associations expert advice on their facilities and the administration of estates in severalty. It is responsible for the GSW Group's third-party administration. GSW BWG's range of services also includes property and asset management for investors and construction management. This business area is not part of GSW's core activities. GSW is currently planning to sell GSW BWG as part of the continued development of the Group structure.

EMPLOYEES

As at 31 December 2011, the GSW Group employed a total of 611 people (including the Management Board, authorised signatories and the management teams of its subsidiaries). Of this figure, 286 are allocated to the operating activities of GSW Immobilien AG. Other employees work at the subsidiaries. A breakdown is provided in the table below:

EMPLOYEES

	Employees as of 31.12.2011	Average number of employees in 2011	Employees as of 31.12.2010	Average number of employees in 2010
GSW	320	318	322*	323*
Thereof in GSW Immobilien AG's operating business	286	285	286	287
BWG	61	59	52	54
FACILITA	230	233	240	248
GSW Group	**611**	**610**	**614**	**625**

*Including 1 employee from WohnWert Versicherungsagentur GmbH

EXPERT KNOWLEDGE: COMPETENCE AND TRAINING

The performance of each individual employee determines the success of GSW. The foundations of this are formed by the specialist expertise and market knowledge gained from over 85 years of experience in the Berlin property sector. Through its career pages on its website, GSW reaches out to talented school-leavers, students and graduates interested in a career at GSW Immobilien AG.

The Company's management attaches great importance to its employees' qualifications. The Company works every day to safeguard its expertise. Each employee should be able to develop his or her abilities accordingly and therefore receives individual advancement opportunities, such as through a broad range of further training options. GSW rewards excellent work with performance-based premiums and bonuses.

One example of GSW's training activities is its cooperation with Berlin's BBA Real Estate Industry Academy.

PROMOTING THE NEXT GENERATION: INTERNSHIPS, TRAINING AND INTEGRATED STUDY

Traditionally, GSW attaches particular importance to the training of its young employees. In 2011, eight students learned about GSW's business practices in internships or as working students. As at 31 December 2011, 27 employees at the Company completed training as real estate agents or integrated business studies degrees with a focus on the real estate sector. To make day-to-day training both varied and practical, GSW also supervises final papers, learning at work, project work and field trips.

TRAINEES

	Number
Real estate apprentices	15
Students (integrated business studies)	12
Total	**27**

GSW PRACTICES ACTIVE HEALTH MANAGEMENT

The well-being and safety of employees is a top priority at GSW. This is why we have declared health promotion to be a management responsibility.
Each employee can choose from a range of health promotion options. The programmes offered extend from the annual health day to smoking cessation programmes and active participation in sports groups.

PROPORTION OF WOMEN ON STAFF AND IN MANAGEMENT POSITIONS

We believe that a diverse workforce provides a competitive edge, and therefore especially value a high proportion of women in the workplace. 215 of the 320 employees at GSW Immobilien AG are female. At 67.2%, the share of female employees is therefore significantly higher than the national average of 45.6% in 2010.

Including with regard to the aspect of demographic change, GSW attaches great importance to promoting women to management positions. Employees perform management functions as divisional heads or heads of a sub-division. As at 31 December 2011, the proportion of women in such management positions was 41.9%, which was also higher than the national average (2010: 27.7%).

EMPLOYEES

	Number	in %
Employees of GSW	**320**	
Thereof female	215	67.2
Thereof male	105	32.8
Managers at GSW	**31**	
Thereof female	13	41.9
Thereof male	18	58.1

FLUCTUATION

At 2.5% overall, employee fluctuation at GSW Immobilien AG was down 1.9% year-on-year in 2011.

DEVELOPMENT OF OPERATING ACTIVITIES

As at 31 December 2011, the GSW Group has a portfolio of 52,790 residential units and 913 commercial units for rental, one commercial unit it uses itself and more than 8,900 garages/parking spaces.

The key driver in this increase in property holdings was the acquisition of a property portfolio of 4,857 residential and commercial units in total. The acquisition was conducted as part of a share deal in November 2011.

Thanks to further rental efforts, apartment vacancy was reduced to 3.4% as at 31 December 2011.

Average monthly net basic rent for residential space rose by 3.7%, from EUR 4.90/sqm in the previous year to EUR 5.08/sqm as at 31 December 2011. The Company leverages systematic leeway for rent increases without ignoring the solvency of tenants in the respective properties and areas.

GSW intensively monitors the general conditions of the property sector in Berlin and its immediate environs. The surveys of the Berlin residential market produced with CBRE ensure that trends and developments – and therefore opportunities and risks for GSW's own portfolio – are identified at an early stage. For example, an increase in the number of households is forecast as a result of changing lifestyles, which, in combination with a low level of new construction activity for several years, will result in a shortage of supply on the housing market and therefore an opportunity for GSW's portfolio.

GSW's property portfolio covers all districts of Berlin except for Marzahn-Hellersdorf and therefore enjoys broad risk diversification. As at 31 December 2011, the key focal areas of the property portfolio were Spandau, which accounts for around 22.9% of the portfolio, as well as Reinickendorf (16.9%) and Friedrichshain-Kreuzberg (13.5%).

The new Berlin rent index for 2011 was published in May 2011. Compared to the last rent index, rents have increased on average by 7.9% to EUR 5.21/sqm (2009: EUR 4.83/sqm). This rise emphasises the dynamic development of the Berlin housing market. As at the time of publication, around 63% of the total GSW portfolio (not including acquisitions in 2011, adjusted for vacancy and residential units for which no rent index values were reported) was covered by the Berlin rent index. GSW has so far achieved a rent level in excess of the rent index for 40% of these apartments (25% of the total portfolio), largely in the context of new contracts. In 2011, GSW identified potential for rent increases for a total of around 15,000 apartments, two-thirds of which have already been implemented. GSW is planning further adjustments for 2012.

With roughly 92% of holdings either refurbished or partially refurbished, the portfolio is well positioned on the Berlin market. Targeted investments in both the fabric of the buildings and the standard of the apartments serve to enhance the long-term rental viability of the property holdings and the attractiveness of the units available. Extensive investments will also be conducted in 2012.

GSW also works closely with the district management of the "Social City" project run by the Senate Department for Urban Development and cooperates with a number of neighbourhood and community centres.

GSW sees these activities as an opportunity to boost the Company's image and to further improve tenant satisfaction.

The development in the value of GSW's property holdings in 2011 was extremely positive. With conditions on the Berlin-Brandenburg property market remaining comparable, the stable to positive development of market value can also be assumed in future.

DEVELOPMENT OF PORTFOLIO

	Type of use	31.12.2011	31.12.2010	Change
Number of units	Residential units	52,790	48,776	4,014
	Commercial units	914	908	6
	Total of residential and commercial units	**53,704**	**49,684**	**4,020**
	Parking units	8,943	7,679	1,264
	Total	**62,647**	**57,363**	**5,284**
Lettable space (in sqm)	Residential units	3,244,039	3,003,073	240,966
	Commercial units	102,431	101,202	1,229
	Total of residential and commercial units	**3,346,471**	**3,104,275**	**242,195**
In-place rent (EUR per sqm)	Residential units	5.08 EUR	4.90 EUR	3.7%
	Commercial units	6.68 EUR	6.53 EUR	2.3%
	Total of residential and commercial units	**5.13 EUR**	**4.95 EUR**	**3.6%**
Vacancy (units)	Residential units (number)	1,766	1,811	-45
	Residential units	3.4%	3.7%	-8.1%
	Commercial units (number)	75	80	-5
	Commercial units	8.2%	8.8%	-6.8%
	Total of residential and commercial units (number)	**1,841**	**1,891**	**-50**
	Total of residential and commercial units	**3.4%**	**3.8%**	**-10.5%**

In the context of opportunistic privatisation, GSW sold 935 units in the 2011 financial year (2010: 897 units), mainly to owner-occupiers and investors. EUR 15.6 million in agreements with sales dates after the end of the financial year have already been concluded.

CORPORATE OBJECTIVES AND STRATEGY

GSW Immobilien AG's business strategy is based on a policy of sustainability with a focus on long-term customer relationships, which is why targeted maintenance measures are performed on the Company's property portfolio. Value-oriented portfolio management is centred on the long-term orientation of a responsible owner:

1. Development and implementation of portfolio strategies at the level of the individual properties
2. Modernisation measures to reflect market conditions in conjunction with new rentals
3. Ensuring the social balance of the tenant structure through active neighbourhood management
4. High degree of customer proximity to ensure long-term tenant satisfaction and retention
5. Investment in new property portfolios with development and yield potential
6. Attractive ownership opportunities for tenants, owner-occupiers and private investors
7. Permanent examination and improvement of internal processes

Above and beyond long-term value preservation, GSW pursues a strategy of continuous growth. The IPO conducted in the past year will allow the Company to steadily expand its property portfolio and realise new earnings potential. With effect from November 2011, GSW added 4,857 residential and commercial units in Berlin to its portfolio; with above-average rents and a relatively low vacancy rate, these properties will lead to a further improvement in the Company's profitability from the coming financial year onwards, allowing the Company to maintain and expand its excellent market position.

GSW also evaluates its existing portfolios on an ongoing basis and examines measures to optimise their structure, including the selective disposal of individual units and smaller portfolios.

Over the coming years, GSW intends to expand its business model with a view to generating stable cash surpluses that grow over time. These surpluses will be used to pay shareholders a regular, appropriate and sustainable dividend in line with the Company's corporate strategy and the requirements of the capital markets.

GROUP MANAGEMENT

The business processes of the GSW Group are initiated and controlled by the Management Board and management of GSW. This takes into account both financial and non-financial objectives of Group management and performance measurement. In 2011, GSW's financial objectives were measured on the basis of the indicators "operative cash performance" (OCP) and IFRS earnings adjusted for measurement effects. While the liquidity indicator OCP (income from management less maintenance and current corporate costs) shows the debt service cover of management activities, the use of IFRS earnings in corporate management also takes into account the Group's performance above and beyond the area of property management.

In particular, customer satisfaction and GSW's social commitment are used to measure non-financial objectives. This takes into account a systematic customer focus and the consistent promotion of selected projects in the fields of art, culture and social affairs.

NOTES ON BUSINESS PERFORMANCE AND ANALYSIS OF NET ASSETS, FINANCIAL POSITION AND RESULTS OF OPERATIONS

Individual terms and key performance indicators are defined in the glossary contained in the management report.

RESULTS OF OPERATIONS

Net rental income was composed as follows:

Net rental income (EUR mn)	**01.01.-31.12.2011**	**01.01.-31.12.2010**
Income from rents	183.1	178.9
Income from management activities and other income	11.1	14.2
Gross rental income	**194.2**	**193.1**
Income from direct government grants	9.9	12.9
Total rental income	**204.1**	**205.9**
Cost of materials	(40.5)	(45.6)
Personnel expenses	(18.3)	(16.3)
Other property operating expenses/income	(4.3)	(4.2)
Net rental income	**141.1**	**139.9**

In the year under review, GSW increased its income from rents by EUR 4.2 million as against 2010. This was attributable to the acquisition of a property portfolio consisting of more than 4,800 units and the further reduction in the vacancy rate, as well as ongoing rental adjustments.

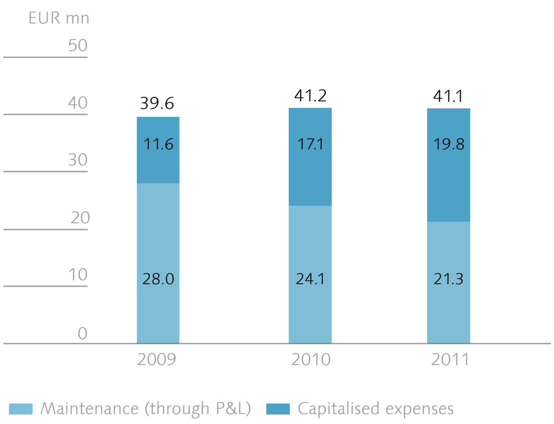
Three factors made a key contribution to this rise in income: GSW reduced vacancy in its portfolio by 0.3 percentage points to 3.4 %, while the average rent for leased apartments increased by 3.7 % to EUR 5.08/sqm as at 31 December 2011 (31 December 2010: EUR 4.90/sqm). At the same time, the acquisition of a portfolio of 4,857 residential and commercial units with effect from November 2011 further amplified the growth in income.

In line with planning, public sector subsidies decreased in the financial year and were EUR 3.0 million lower than in 2010. Other income also declined as a result of the sale of broadband cable business. Gross rental income for the financial year was therefore EUR 1.8 million lower in total than in the previous year.

The cost of materials declined by EUR 5.1 million year-on-year, particularly as a result of the reduction in expenses for maintenance and modernisation to EUR 41.1 million (2010: EUR 41.2 million) accompanied by a rise in capitalisation rates. In addition, management expenses were lower on account of the smaller average property portfolio.

The following chart shows GSW's total investments (adjusted for provision effects). EUR 19.8 million was capitalised for modernisation and maintenance work that increased the value of properties (2010: EUR 17.1 million). The rise in the capitalisation rate as against previous years resulted from the intensified implementation of specific measures aimed at enhancing value.

CAPEX AND MAINTENANCE



Staff costs rose by EUR 2.0 million as against the previous year. This was primarily due to higher provisions for premiums and current wage and salary increases.

In total, net rental income grew by EUR 1.2 million.

The sales result was broken down as follows:

Result on disposals (EUR mn)	01.01.-31.12.2011	01.01.-31.12.2010
Investment property disposal proceeds	56.8	48.0
Carrying value of investment property disposals	(44.0)	(41.9)
Operating expenses for investment property disposed	(9.5)	(3.2)
Result on disposal of investment property	**3.3**	**2.8**

GSW generated a positive result of EUR 3.3 million from the disposal of 935 residential and commercial units in 2011 (2010: 897 units). In particular, sales income was up significantly on the prior-year figure on account of the favourable demand situation in Berlin. On the other hand, higher payments to sales partners were incurred for individual sales of owner-occupied apartments, which had an offsetting effect.

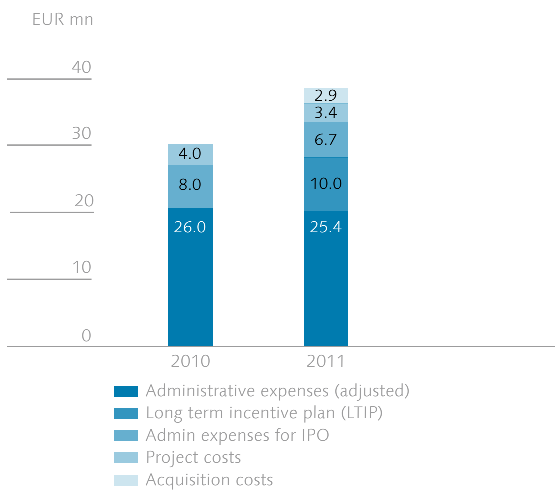
General administrative expenses developed as follows:

Administrative expenses (adjusted) (EUR mn)	01.01.-31.12.2011	01.01.-31.12.2010
Administrative expenses	(48.5)	(38.0)
Admin expenses for IPO	6.7	8.0
Long term incentive plan	10.0	0.0
Project costs	3.4	4.0
Acquisition costs	2.9	0.0
Administrative expenses (adjusted)	**(25.4)**	**(26.0)**

Administrative expenses climbed by EUR 10.5 million as against 2010 in the reporting year, amounting to a total of EUR 48.5 million.

Adjusted for non-recurring costs and extraordinary effects such as IPO costs, LTIP and project and acquisition costs, however, the figure was down by EUR 0.6 million, mainly due to lower write-downs and provision effects. A key factor influencing this trend was the decline in project costs. Firstly, the refinancing of the CMBS loan was concluded in February 2011. Secondly, IT costs for process and organisational optimisation were down in the reporting year as this work was largely completed in prior periods.

ADMINISTRATIVE EXPENSES



As acquisition activities were resumed in 2011, significant acquisition costs of EUR 2.9 million were incurred for which there is no comparative prior-year figure. In the 2011 financial year, the Management Board continued to receive compensation (LTIP) from the former shareholders for the implementation of the IPO. In accordance with IFRS, this is required to be reported at Group level.

The interest result was broken down as follows:

Interest result (EUR mn)	01.01.-31.12.2011	01.01.-31.12.2010
Interest income from valuation of derivatives and loan amortisation	15.9	7.6
Income from the disposal of a receivable (interest derivative)	10.8	0.0
Interest income on interest derivatives	11.9	2.4
Other interest income	2.2	1.2
Interest income	**40.8**	**11.2**
Interest expenses from valuation of derivatives and loan amortisation	(33.1)	(18.2)
Interest expense from derivatives	(27.4)	(12.1)
Interest expenses from the financing of investment property	(47.2)	(31.9)
Other interest expenses / finance lease	(2.4)	(3.0)
Prepayment fees	(0.2)	0.0
Interest expenses	**(110.2)**	**(65.2)**
Interest result	**(69.4)**	**(54.0)**

The Company's interest income increased several times over, from EUR 11.2 million in the previous year to EUR 40.8 million. This was largely due to the increase in non-cash effects in connection with the fair value measurement of derivatives and loans.

One extraordinary effect related to the disposal of the receivable from an interest derivative from the insolvent Lehman Brothers International Europe (LBIE). The receivable had already been written down in 2008. GSW was able to sell it as at 30 September 2011 as part of a structured bidding process; the purchase price of EUR 10.8 million was received in October 2011.

Interest expenses rose from EUR 65.2 million in 2010 to EUR 110.2 million in the reporting year. This was due to a rise in the general interest level and higher interest in connection with the refinancing of the CMBS loan. New swap agreements were concluded in conjunction with the refinancing, resulting in higher interest expenses and interest income as against the previous year. Significant remeasurement effects were also entailed from the rise in the interest level.

Net interest income after adjustment for non-cash expenses and income and non-recurring prepayment fees was as follows:

Adjusted interest result (EUR mn)	01.01.-31.12.2011	01.01.-31.12.2010
Interest income	**40.8**	**11.2**
Interest expenses	**(110.2)**	**(65.2)**
Changes in the fair value of loans	16.2	9.1
Changes in the fair value of interest derivatives	(9.9)	1.5
Less discounting	1.9	2.5
Less accrued interest for loans and derivatives	(0.5)	0.4
Cash flow net interest	**(61.7)**	**(40.5)**
Prepayment fees	1.3	0
Cash flow net interest (normalised)	**(60.4)**	**(40.5)**

Normalised interest payments (cash flow net interest) rose by EUR 19.9 million as against the previous year. This effect resulted from the refinancing of the CMBS loan at relatively higher terms.

The income statement is as follows:

Income Statement (EUR mn)	01.01.-31.12.2011	01.01.-31.12.2010
Net rental income	141.1	139.9
Result on disposal of investment property	3.3	2.8
Net valuation gains on investment property	56.2	(3.3)
Administrative expenses	(48.5)	(38.0)
Other income / other expenses	25.1	0.0
Net operating profit (EBIT)	**177.2**	**101.5**
Result from associates and joint ventures accounted for under the equity method	0.0	0.0
Net result of investments	0.1	0.1
Interest result	(69.4)	(54.0)
Profit before income taxes (EBT)	**107.8**	**47.6**
Income taxes	(2.7)	1.7
Consolidated net income for the period	**105.1**	**49.3**

With consolidated net income of EUR 105.1 million, GSW generated a significant year-on-year increase in earnings in the 2011 financial year (2010: EUR 49.3 million).

EBIT also improved to EUR 177.2 million (2010: EUR 101.5 million). This was mainly due to a positive remeasurement result of EUR 56.2 million and non-recurring effects totalling EUR 25.4 million, which primarily resulted from the sale of BMH Berlin Mediahaus GmbH ("BMH").

FFO, a key performance indicator for GSW, is determined by adjusting EBIT for write-downs, the remeasurement result, IPO, LTIP, restructuring, project and acquisition costs, the sales result and net interest and tax payments as follows:

Adjusted EBITDA / FFO (EUR mn)	01.01.-31.12.2011	01.01.-31.12.2010
EBIT	**177.2**	**101.5**
Depreciation	1.0	1.5
Net valuation gains on investment property	(56.2)	3.3
EBITDA	**122.0**	**106.2**
IPO costs	6.7	8.0
Long term incentive plan	10.0	0.0
Restructuring expenses	0.4	0.5
Project costs	3.9	5.4
Acquisition costs	2.9	0.0
Gains / losses from disposals of associates and joint ventures	(25.0)	0.0
Result on disposal of investment property	(3.3)	(2.8)
Adjusted EBITDA	**117.6**	**117.3**
Cash flow net interest (normalised)	(60.4)	(40.5)
Results of associates and joint ventures recognised at equity and other financial assets	0.1	0.1
Cash flow net taxes*	(0.7)	2.2
FFO I (excl. sales result)	**56.6**	**79.0**
Capitalised expenses for modernisation and maintenance work	(19.8)	(17.1)
AFFO (excl. capitalised expenses for modernisation and maintenance work)	**36.8**	**61.9**
Result on disposal of investment property	3.3	2.8
FFO II (incl. sales result)	**59.9**	**81.9**

*Cash flow net taxes relates to the respective year excluding payments in respect of EK02 tax liability

Operating earnings before depreciation, amortisation and property revaluation (EBITDA) amounted to EUR 122.0 million in the reporting period, EUR 15.8 million higher than in 2010. Not including non-recurring effects such as IPO and project costs and the income from the sale of BMH, this results in adjusted EBITDA of EUR 117.6 million, slightly higher than the prior-year level (2010: EUR 117.3 million).

In line with planning, the net cash flow from interest paid and received rose as against the previous year as a result of the refinancing. In the year under review, it was significantly higher than in the previous year at EUR 60.4 million (2010: EUR 40.5 million).

All in all, FFO I amounted to EUR 56.6 million in the reporting period (EUR 1.38 per share). AFFO is adjusted for capitalised investment expenses and amounted to EUR 36.8 million in 2011 (EUR 0.90 per share).

NET ASSETS

The condensed consolidated statement of financial position is as follows:

Balance sheet (EUR mn)	31.12. 2011	31.12. 2010
Non-current assets	**2,947.6**	**2,585.7**
Investment property	2,930.2	2,571.7
Other non-current assets	17.3	14.0
Current assets	**92.1**	**96.0**
Assets held for sale	17.1	9.0
Cash and cash equivalents	62.6	70.8
Receivables and other current assets	12.4	16.2
Assets	**3,039.7**	**2,681.7**
Shareholders' Equity	**1,166.4**	**976.4**
Financial liabilities	1,770.9	1,606.6
Other liabilities	102.4	98.8
Passiva	**3,039.7**	**2,681.7**

The main asset of the GSW Group is its investment property. This item accounts for around 96.4% of total assets as at the end of the reporting period (31 December 2010: 95.9%). The carrying amount of the Group's property was confirmed as at 31 December 2011 by an appraisal by the independent third-party property assessor CBRE GmbH.

As a result of the capital increase and the consolidated net profit, equity increased to EUR 1,166.4 million, a rise of roughly 19.5% as against the previous year. The equity ratio improved to 38.4% (31 December 2010: 36.4%). Consequently, EPRA NAV (net asset value) also rose by around 23.1% as against the previous year:

NAV (EUR mn)	31.12. 2011	31.12. 2010
Shareholders' Equity (before minorities)	1,166.4	976.4
Effect of exercise of options, convertibles and other equity interests	0.0	0.0
Diluted NAV	**1,166.4**	**976.4**
Fair value of financial instruments (net)*	53.6	15.0
Deferred tax**	0.0	0.0
EPRA NAV	**1,219.9**	**991.4**
Number of shares (mn)* **	**41.05**	**41.05**
NAV per share (EUR)	**28.41**	**23.78**
EPRA NAV per share (EUR)	**29.72**	**24.15**

* Netting financial assets and liabilities
** Not including deferred taxes (related to losses from the valuation of financial instruments) of EUR mn 2.7 (2010: EUR mn 0.1) accounted for in other comprehensive income.
*** In order to ensure comparability, prior-year figures are calculated on the basis of the shares outstanding as of 31 December 2011.

This results in EPRA NAV of EUR 29.72 per share.

The ratio of net debt and property assets including assets held for sale (Loan-to-Value ratio) improved significantly in the 2011 financial year:

LTV (EUR mn)	31.12. 2011	31.12. 2010
Financial liabilities	1,770.9	1,606.6
EK02 tax liability	0.0	40.1
Cash and cash equivalents	(62.6)	(70.8)
Net debt (incl. EK02 tax liability)	**1,708.3**	**1,575.9**
Investment property	2,930.2	2,571.7
Assets held for sale	17.1	9.0
Loan-to-Value ratio	**58.0 %**	**61.1 %**

Although the EK02 liability was settled in the reporting year, net debt increased by EUR 132.4 million as against the previous year. The main reason for this was higher financial liabilities on account of the acquisition of properties in November 2011, though this was offset by higher property assets.

The LTV ratio was therefore down year-on-year at 58.0 % (31 December 2010: 61.1 %), thereby underlining the Company's solid financing structure.

GSW satisfied its obligations under loan agreements at all times in the 2011 financial year.

FINANCIAL POSITION

Cash flow from operating activities for the period from 1 January to 31 December 2011 amounted to EUR -35.8 million and was mainly influenced by the payment of the EK02 tax liability (EUR 41.7 million), the rise in net interest payments of EUR 21.0 million and processing fees and prepayment fees relating to the refinancing of EUR 29.8 million. Payments for the performance of the IPO of EUR 6.7 million also served to reduce the cash flow from operating activities.

Cash flow from investing activities fell from EUR 26.6 million to EUR 2.3 million. This includes proceeds from the sale of apartments and the disposal of BMH. This was offset by payments for the acquisition of the property portfolio (EUR 62.1 million) and for capitalised maintenance work (EUR 19.8 million).

Cash flow from financing activities was up year-on-year at EUR 25.3 million (2010: EUR -44.4 million). This significant increase is attributable to the gross proceeds of the IPO less the associated transaction costs, repayments by GSW for the refinancing of the CMBS loan and the existing loan at GSW Pegasus GmbH.

ADDITIONAL DISCLOSURES IN ACCORDANCE WITH SECTION 315 (4) HGB

GSW Immobilien AG, Berlin, is a listed company within the meaning of section 264d of the German Commercial Code (HGB). Disclosures on equity, the share structure and voting rights are therefore required in accordance with section 315 (4) HGB. The disclosures required in accordance with section 315 (4) no. 1 HGB can be found in the "Equity" section of the notes to GSW's consolidated financial statements. The disclosures required in accordance with section 315 (4) no. 9 HGB can be found in the remuneration report.

There were no matters requiring disclosure in the Group management report in accordance with sections 315 (4) no. 4, 5, 8 HGB.

The following still applies: Restrictions on the transfer of shares result from the conditions of the existing employee share ownership plan. Employees are not permitted to access the shares granted to them until 30 June 2012 (lock-up period).

As of 31 December 2011, Lekkum Holding B.V. (Baarn, Netherlands), Cerberus Global Investments B.V. (Baarn, Netherlands) and other Cerberus companies held 10.02% of the voting rights. Their share of the voting rights fell below 3% in January 2012.

The Supervisory Board appoints and dismisses the members of the Management Board and determines the number of members. The General Shareholders' Meeting is responsible for amendments to the Articles of Association. Unless otherwise prescribed by law, amendments to the Articles of Association require a simple majority of the share capital present when the resolution is passed. The Supervisory Board is authorised to resolve amendments to the Articles of Association relating solely to their wording. Any resolution on the relocation of the head office of the Company requires the approval of all of the votes submitted when the resolution is passed.

The Company's share capital may be increased by a total of EUR 17.5 million through the issue of 17,500,000 shares (authorised capital) by resolution of the General Shareholders' Meeting. This authorisation is limited until 17 March 2016.

The Company is authorised to acquire treasury shares amounting to up to 10% of the share capital up until 17 March 2016.

ECOLOGICAL RESPONSIBILITY

When performing modernisation and maintenance measures, GSW complies with the relevant environmental protection regulations and strives to improve the energy efficiency of its properties.

In addition, GSW has supplied the public areas of its residential properties with electricity from renewable sources since 2011, thereby significantly reducing the CO2 emissions of its property portfolio. The favourable contractual conditions agreed with the power supplier means that tenants also benefit from lower electricity prices.

REPORT ON POST-BALANCE SHEET DATE EVENTS

Following the exit of the limited partner, the entire assets and liabilities of GSW Grundbesitz GmbH & Co. KG, Berlin, were transferred by merger with effect from 1 January 2012.

A control and profit transfer agreement requiring the approval of the General Shareholders' Meeting was concluded with GSW Acquisition 3 GmbH, Essen, with effect from 1 January 2012.

As part of its strategic planning, the Company is currently considering the disposal of its subsidiary BWG.

In January 2012, Whitehall and Cerberus, formerly the largest shareholders, sold the majority of their remaining shares in GSW Immobilien AG. Their equity interest now amounts to less than 3%.

RISKS AND OPPORTUNITIES 2011

GSW identifies opportunities for ensuring and improving the business development of the GSW Group on an ongoing basis. However, exploiting opportunities also means taking risks. This requires the operation of Group-wide risk management.

RISK MANAGEMENT

The establishment of an appropriate risk management system (RMS) is a key element of responsible corporate governance for the Management Board of GSW.

The RMS is intended to ensure that all risks to the Company are identified at an early stage, analysed, prioritised and communicated to the responsible decision-makers for the implementation of measures to deal with the respective risks. The aim is to avoid or minimise losses and help to safeguard the GSW Group as a going concern in the long term.

The following risk policy principles apply at GSW:

- Risk management is a component of day-to-day business and is communicated throughout the Company.
- Raising employee awareness of risk is a management responsibility. Each employee of GSW is required to report new potential risks or changes in them to the responsible manager or other officially named risk owner.
- Risk management is a permanent process for the identification, evaluation, controlling, reporting and monitoring of all significant risks.
- Information on significant risks must be made available in full and in a timely manner to facilitate the decision-making process.

The objective is not to avoid all potential risks, but to create the leeway for risks to be entered into consciously and responsibly on the basis of a comprehensive understanding of risks and their interactions. The aim is for potentially significant threats arising from risks to be identified in a timely manner and for suitable countermeasures to be taken.

The RMS at GSW serves the identification and active prevention of developments that could threaten the existence of GSW. It ensures that business areas at GSW are analysed and designed appropriately in terms of risk. Risk management is integrated into procedures and processes so that the continuous identification and valuation of risks can be ensured.

An annual evaluation of all risks is performed as part of the risk inventory. The aim of this is to track and update all risks and risk-handling measures. A quarterly update of the risk situation is performed on the basis of the risk inventory.

The updated risks are reported to the risk manager each quarter following plausibility checks by the divisional heads. Outside of quarterly risk reporting, risk officers and risk managers are required to report significant changes in the risk situation to the Management Board immediately. The risk manager creates a report on risk updates on the basis of risk reports and presents this to the Management Board. At its meetings, the Supervisory Board receives extensive information on all relevant developments in the Group.

In particular, the specific risks presented in the risk report are subject to continuous controlling.

As a listed stock corporation, GSW is required to undergo a prescribed audit of its risk identification system.

INTERNAL CONTROL SYSTEM AND RISK MANAGEMENT SYSTEM FOR GROUP ACCOUNTING PROCESSES

GSW has a Group-wide internal control system (ICS) that includes a risk management system for the accounting process.

The objective and purpose of the ICS is to ensure the correct and complete measurement, recognition and presentation of all business transactions in GSW's accounting. This applies both to the consolidated financial statements and the separate financial statements of all affiliated companies. The basis for accounting is formed by statutory specifications, national and international accounting standards and the Group-wide accounting policy.

The ICS implemented at GSW and the associated risk management system for Group-wide accounting processes can be summarised as follows:

- GSW has a simple and clear organisational structure with processes ensured internally and externally by control and monitoring mechanisms.
- The majority of control mechanisms in accounting are implemented automatically by standard SAP software.
- The dual control principle is applied to processes relevant to accounting.
- There are planning, reporting, controlling and early warning systems coordinated Group-wide to allow the comprehensive analysis and management of potential or actual risks.
- The functions of the Group accounting process are clearly allocated.
- The IT systems used in accounting are protected against unauthorised access.
- There is a Group-wide accounting policy that is regularly updated as required.
- The departments involved in the accounting process comply with requirements quantitatively and qualitatively.
- The completeness and accuracy of accounting data is regularly checked by way of spot checks and plausibility controls both manually and by the software used.
- Key processes relevant to accounting are subject to regular analytical review. The Group-wide risk management system in place is constantly adjusted in line with current developments and tested for functionality on an ongoing basis.
- The Supervisory Board and the Audit Committee regularly discuss relevant issues of accounting, risk management and the audit mandate and critically examine the financial statements.

RISK REPORT

Macroeconomic and strategic risks

GSW is exposed to general economic and macroeconomic influences. These also include global crises such as the financial market crisis since 2008 and the current debt crisis in Europe. Depending on the progression of such macroeconomic crises, the resulting risks could have a negative impact on the GSW Group. As GSW operates almost exclusively within Berlin, however, the Management Board is not anticipating any direct effect on operating business from the financial market and debt crisis in 2012 and beyond. The refinancing of the CMBS loan in 2011 means that there are no material short-term refinancing risks at present.

There is also an inherent risk that changing market trends on the property market may not be recognised at an early stage. As GSW's property portfolio is broadly diversified within Berlin, however, this risk is considered to be minor.

Liquidity risk

Rising vacancy, unexpected cost increases and disruptions in the sales process can have a negative impact on free liquidity.

However, this risk is considered minor as GSW generates stable income from its business activities, thereby enabling it to meet its regular financial obligations. This is also achieved by coordinating the cash flows of all companies within the GSW Group and through the Group-wide, income-optimised steering of short-, medium- and long-term liquidity.

Rolling twelve-month liquidity planning, which is updated during the year to reflect current forecasts, provides a detailed preview of the anticipated monthly cash flows at the GSW Group. Forecast figures are checked against actual figures in the weekly cash management report. This is combined with reporting on the investments conducted.

Liquidity monitoring and cash management are practiced on a daily basis. Cash management is supported by an integrated software application. Building on the working capital analysis, liquidity management is possible to the day based on daily cash flow updates.

GSW was solvent at all times in 2011. It did not utilise the credit facilities available.

Market risks

Income risk

GSW's income is predominantly determined by rental income. Changes in the general economic and business situation could negatively influence GSW's result of operations. A deterioration in the economic situation could lead to a decline in rents for new lettings, increased vacancy and defaults on rent, as well as a drop in sales figures.

Default on rent payments

Default on rent payments and rising receivables from lease obligations remained comparatively unchanged in 2011 relative to previous years, and were therefore in line with business planning.

Vacancy and letting risk

As in previous years, the Berlin housing market was characterised by extremely strong demand in the 2011 financial year. This was driven by socio-demographic developments including the trend towards single households. GSW achieved its goal of reducing vacancy through selective marketing.

Sales risk

Sales of owner-occupied apartments are stable. It is currently considered unlikely that the attractiveness of GSW properties on the market will diminish. In addition, sales objectives are ensured in terms of earnings by way of a corresponding selling agreement.

Portfolio risk

Portfolio risks can affect both individual properties and the portfolio as a whole. GSW is subject to maintenance and refurbishment risks, particularly as a result of the age of its residential properties. This can also have an impact on the value retention of the property portfolio.

GSW's property portfolio covers all districts of Berlin except for Marzahn-Hellersdorf. With more than 50,000 apartments throughout Berlin, GSW's risk is broadly diversified.

GSW feels that it has an opportunity to further improve its image as a culturally responsible entity through a wide range of commitments, both socially and in cooperation with various organisations and authorities. As such, GSW seeks to attract and maintain a tenant clientele that will have a positive long-term effect on its property portfolio.

GSW's maintenance strategy operates on a condition-based valuation of all properties and combines this analysis with findings from reactive maintenance. This is intended to ensure that the portfolio retains its value while continuing to develop. This has been confirmed by the portfolio's value performance over recent years, among other things.

Tax and general legal risks

GSW's business activities are subject to the general tax conditions in Germany, which could change disadvantageously. It is possible that GSW will have to pay additional taxes following external audits of Group companies. As more than 95% of the shares of GSW Immobilien AG have already been transferred, land transfer tax is expected to have to be paid for individual, immaterial subsidiaries.

GSW is subject to the regulations of the interest barrier. It therefore cannot be ruled out that tax expenses will result from these regulations in future. There were no discernible significant risks from changes in tax legislation or jurisdiction in 2011. The planned increase in land transfer tax in Berlin with effect from 1 April 2012 could have an effect on property valuation.

General legal risks can arise from non-compliance with legal regulations, the non-implementation of new and amended laws, non-compliance with agreements or the mismanagement of insurance policies. In particular, legal risks including liability risks can arise in connection with the acquisition of portfolios.

Financing risk

Changes in interest rates, the LTV ratio, loan compliance obligations and interest rate hedges could impair operations insofar as expiring fixed interest rates/loan agreements cannot be prolonged or refinanced at adequate conditions (refinancing risk).

GSW is not exposed to any refinancing risk resulting from interest rates, the LTV ratio, loan compliance obligations or interest rate hedges in the medium term.

Following the successful refinancing of the CMBS loan of EUR 890 million in February 2011, there are no notable refinancing requirements for the coming years owing to the Company's balanced maturity structure. The weighted average term of the Company's loans at the reporting date was 11.5 years.

The interest rate risk is considered minor given the low overall interest rates, especially as interest rate hedges are in place for more than 98% of the loan portfolio. Open interest positions in 2011 and 2012 were closed by entering into forwards.

In order to optimise its interest strategy, GSW has implemented an interest management agreement with a third-party service provider based on the value-at-risk method. Recommendations derived from this are incorporated into planning.

Financial covenants have been agreed in the respective agreements for around 74% of the loan portfolio. The loan compliance reporting requirements for banks were complied with in full in 2011. With general conditions remaining unchanged, there are no apparent points in the near future that would indicate non-compliance with the covenants of key loan agreements.

There are currently no risks from inter-company loans. The borrowers are GSW Group companies with some of whom control and profit transfer agreements are in place. GSW is therefore informed of the economic situation of its borrowers at all times. It compensates for any short-term liquidity bottlenecks as required.

Operational risks

HR risks

The professionalism, dynamism and commitment of GSW's employees are essential prerequisites for the Company to achieve its strategic and operative objectives. There is a risk of losing knowledge as a result of high fluctuation. GSW attempts to avoid this with an HR policy that gives employees responsibility while providing them with opportunities for development and ensuring satisfaction. The elements of this policy include assessments of ability and personal development plans derived on this basis, capacity planning and common goal agreements.

GSW Immobilien AG's employee fluctuation of 2.5% in 2011 suggests that employee loyalty is stable.

IT risks

The main risk for IT-based processes is system failure. GSW relies on third-party service providers to manage and minimise the risk of failure. Their performance and the IT security and backup concept were audited in 2011. The need for action identified has been incorporated in an action plan. The latest versions of software serve to increase the security standard and ensure maintenance by the respective manufacturers. In addition, GSW has launched projects and established processes to optimise the security standard on the basis of a new security policy.

OPPORTUNITIES OF FUTURE DEVELOPMENT

GSW has established itself on the capital market following a successful IPO and its inclusion in the MDAX.

With a broadly diversified portfolio of properties in Berlin, a clear focus on the residential segment and its honed administrative organisation and IT landscape, GSW is fundamentally well positioned to exploit opportunities as they arise.

Specifically, such opportunities lie in the scalability of its organisational structure and its existing platform, which allows it to manage larger property portfolios with a constant number of employees and thereby leverage economies of scale. The access to the capital markets following the IPO and the reorganisation of the financing structure means that GSW has scope for further growth in the near future.

REMUNERATION REPORT

The General Shareholders' Meeting of GSW Immobilien AG on 14 April 2010 resolved in accordance with section 286 (5) HGB that the information set out in section 285 no. 9 (a) sentences 5 to 8, particularly concerning the total remuneration of each individual member of the Management Board, will not be published for the period from 2010 to 2014, and in any case up until 14 April 2015 at the latest. Accordingly, the following report only presents total amounts for the remuneration paid to all Management Board members by GSW Immobilien AG; this is broken down into performance-related and non-performance-related components on a voluntary basis. The following remuneration report is part of the management report and the corporate governance report.

MANAGEMENT BOARD

Remuneration system

In the first quarter of the 2011 financial year, the members of the Management Board were active for GSW Immobilien AG on the basis of their employment contracts as managing directors, which were concluded prior to the change in the Company's legal form to that of a stock corporation under German law (Aktiengesellschaft). In September 2010, individual items of these employment contracts had been amended to reflect the different legal conditions resulting from the change in legal form in March 2010. In addition to a fixed salary, they prescribed a performance-related bonus component based on objective targets (gross rental income) and personal targets. They also contained long-term incentive components based on the partial or full divestment of the original shareholders and – for two Management Board members – dividend distributions.

With a view to the IPO in April, these managing director employment contracts were rescinded with effect from 31 March / 1 April 2011 and replaced by the Management Board employment contracts described as follows:

In line with the German Act on the Appropriateness of Management Board Remuneration, the new employment contracts of the members of the Company's Management Board prescribe fixed remuneration and a variable bonus, which is broken down into short-term and long-term incentive components.

The short-term incentive consists of an annual payment based on the Company's results from ordinary activities, which is measured using the following four targets: gross rental income, net rental income, EBITDA (normalised) and funds from operations. The first three targets each account for 20% of the short-term incentive, with the last target accounting for the remaining 40%. The relevant key performance indicators are redefined every year as part of the budget process and resolved by the Supervisory Board.

The long-term incentive component is offered every year and consists of three tranches that are allocated equally over a period of three years. Each of these tranches involves a performance period of two or three years, over which the achievement of two relevant targets – total shareholder return and the Company's share price performance relative to the EPRA Germany Index – is measured. The respective member's entitlement to receive the long-term incentive is determined at the end of each performance period. Advances in the amount of the respective annual tranches are paid with a lead time of one year before the end of the respective performance period; however, the full repayment of these advances may be demanded.

Neither the short-term nor the long-term incentive components prescribe for minimum payments in the event of a failure to achieve the defined targets; in extraordinary circumstances, however, the Supervisory Board may increase or decrease the respective target by up to 20% at its own discretion. For 2011, the short-term and long-term incentives are granted on a pro rata basis only.

The members of the Management Board are granted ancillary benefits in addition to the remuneration components described above. This primarily relates to taxable benefits for the private use of company cars and the assumption of insurance premiums for life and disability insurance.

Breakdown of Management Board remuneration

The total remuneration paid to the Management Board in the 2011 financial year amounted to EUR 1,926 thousand (2010 financial year: EUR 2,022 thousand). Of this figure, EUR 1,056 thousand was attributable to fixed remuneration and EUR 870 thousand to performance-related variable remuneration for the 2010 financial year. This performance-related remuneration was granted on the basis of the managing director employment contracts that have since been rescinded, and was paid in 2011.

The members of the Managing Board obtained additional claims to performance-related remuneration for the first quarter of 2011 under the terms of the managing director employment contracts that have since been rescinded. In the same way as the short-term incentive components prescribed by the new Management Board employment contracts, these remuneration components, which are calculated on a pro rata basis, are only scheduled for payment in 2012 and amount to a total of EUR 703.5 thousand for all of the members of the Management Board (assuming target achievement of 100%).

Under the terms of the Management Board employment contracts concluded with effect from 1 April 2011, the members of the Management Board are also entitled to receive a long-term incentive totalling EUR 238 thousand (first tranche) on a pro rata basis; however, this amount will only be paid in 2013 subject to target attainment of 100% and could amount to zero if the corresponding targets are not achieved.

Benefits in the event of termination of membership

If an appointment to the Management Board is withdrawn in accordance with section 84 AktG prior to 1 December 2013, the respective Management Board member shall be entitled to a special right of termination and, in conjunction with this, a settlement claim unless the respective Management Board member is responsible for the dismissal. This settlement claim shall be limited to 18 months of the member's monthly fixed remuneration and the pro rata short-term incentive component.

In the case of the early termination of the employment contract without good cause in accordance with section 84 AktG, any payment agreed may not exceed the value of two annual salaries or the remuneration payable for the remaining term of the respective contract. This is based on the total remuneration of the member of the Management Board (i.e. including performance-related components and ancillary benefits).

Other

No pension commitments have been granted to the members of the Management Board. The Company has not granted any loans to the members of the Management Board.

The members of the Management Board do not receive additional remuneration for positions held on executive bodies of Group companies. If claims for financial losses are asserted against Management Board members in connection with the performance of their activities, this liability risk is, as a matter of principle, covered by the D&O insurance concluded by the Company for the members of its Management Board. In accordance with section 93 (2) sentence 3 AktG, GSW Immobilien AG has agreed a deductible of 10% of the loss up to the amount of one and half times the fixed annual remuneration for all losses within a financial year.

SUPERVISORY BOARD

Remuneration system

The members of the Supervisory Board each receive fixed annual remuneration of EUR 30,000 payable after the end of the financial year. The Chairman of the Supervisory Board receives double this amount, while the Deputy Chairman receives one and a half times this amount. Supervisory Board members who are members of one or more Supervisory Board committees convening at least once during the financial year receive additional annual fixed remuneration of EUR 2,500 per committee, or EUR 5,000 for the Chairman of the respective committee, payable after the end of the financial year. The amounts paid for the Chairman and members of the Nomination Committee are reduced by 50%. Supervisory Board members who are only members of the Supervisory Board or a Supervisory Board committee for part of a financial year receive corresponding pro rata remuneration for the respective financial year. Variable, performance-related remuneration is not paid to the members of the Supervisory Board.

The Supervisory Board members Thomas Wiegand, Geert-Jan Schipper, Jonathan Lurie and Sven Dahlmeyer have waived their remuneration claims from GSW Immobilien AG in conjunction with their Supervisory Board membership.

The Company reimburses the members of the Supervisory Board for expenses incurred in conjunction with their membership to an appropriate extent. The value added tax on Supervisory Board remuneration is reimbursed by the Company providing that the respective member is entitled to invoice the value added tax of the Company separately and exercises the right to do so.

In addition, the Company has concluded third-party liability insurance ("D&O insurance") for the members of the Supervisory Board. In the 2011 financial year, this D&O insurance policy did not provide for a deductible as the Management Board and Supervisory Board were of the opinion that a deductible of this nature would not improve the care and commitment of the members of the Supervisory Board in exercising their functions. In order to ensure compliance with the German Corporate Governance Code to the greatest possible extent, however, D&O insurance with an appropriate deductible will be agreed for the members of the Supervisory Board in future.

Breakdown of Supervisory Board remuneration

Remuneration paid or to be paid to members of the Supervisory Board for the 2011 financial year:

Name of Supervisory Board member	Current committee memberships	Remuneration in EUR thousand (net)
Dr. Eckart John von Freyend (Chairman)	Chairman of the Executive Committee, Chairman of the Nomination Committee	65
Dr. Jochen Scharpe (Deputy Chairman)	Chairman of the Audit Committee, Member of the Executive Committee, Member of the Nomination Committee	52,5
Claus Wisser	-	30
Dr. Reinhard Baumgarten	-	30
Veronique Frede	-	30
Thomas Wiegand	Member of the Executive Committee, Member of the Nomination Committee	0 (Supervisory Board remuneration waived)
Geert-Jan Schipper	Member of the Audit Committee	0 (Supervisory Board remuneration waived)
Sven Dahlmeyer stepped down with effect from 31 December 2011	Member of the Audit Committee	0 (Supervisory Board remuneration waived)
Jonathan Lurie stepped down with effect from 31 December 2011	-	0 (Supervisory Board remuneration waived)

Other

The agreement on consulting services between the Company and AMCI GmbH, whose sole shareholder and managing director is the Supervisory Board member Dr. Jochen Scharpe, was rescinded by mutual consent with effect from 31 December 2011. No compensation was paid to AMCI GmbH in the 2011 financial year.

The Company has not granted any loans to the members of the Supervisory Board.

OUTLOOK

Following its restructuring over recent years, GSW Immobilien AG successfully concluded two large-scale projects – refinancing and the IPO – in the 2011 financial year. As a result, the Group now boasts a robust and significantly improved financing structure that will form the basis for further growth over the coming years. The purchase of a housing portfolio consisting of more than 4,800 residential units in the fourth quarter of 2011 is already having a positive impact on GSW's earnings. External growth through additional acquisitions is also planned for the future.

RENTAL INCOME

The following factors significantly determine the trends in Berlin's residential property market, thus underpinning GSW's success: Firstly, construction activity is generally low, while demand for housing space is rising, driven by the growing number of residents in the city. At the same time, the number of households is increasing on the back of the trend towards single-occupant apartments. As a result, the Company expects rents to increase further and vacancy rates to fall in the German capital. Given these circumstances, the Company can look forward to the future with confidence that rents are on a growth trend that will positively affect its rental income. In the fourth quarter of 2011, GSW realised rent increases on the basis of the 2011 rental index. Over the coming years, the Company also expects to see further growth in rental income from new and existing lettings of GSW properties accompanied by a reduction in vacancy rates.

REMEASUREMENT RESULT

Assuming the current trend towards a shortage of residential space – and hence rising rents and lower vacancy rates – continues over the coming years, the Management Board expects this to have a positive effect on the valuation of its property portfolio. The Group's aim is to support a positive remeasurement result through targeted modernisation and marketing measures.

INTEREST RESULT

Only a moderate loan volume is scheduled for refinancing and renewal over the coming years. For 2012, more than 98% of the Group's loan portfolio is hedged by way of fixed-interest agreements or interest rate swaps with an average nominal interest rate of 4%. Acquisition financing could lead to a change in this situation.

Based on these factors and the interest rate that has been secured for the coming years through refinancing, the Management Board expects to generate a consolidated net profit in both the 2012 and 2013 financial years.

ACQUISITIONS

The Management Board expects the purchase of additional property portfolios to provide further growth momentum and improved earnings.

This Management Report contains forward-looking statements and information. These forward-looking statements can be identified by phrases such as "expect", "anticipate", "intend", "will" and similar terms. Such forecasts are based on our current expectations and certain assumptions, meaning that they are subject to a range of risks and uncertainties. If it transpires that the underlying assumptions were incorrect, the actual results may deviate from those described as expected, anticipated, intended, believed or estimated in the forward-looking statements, either positively or negatively.

DECLARATION ON CORPORATE GOVERNANCE IN ACCORDANCE WITH SECTION 289a HGB

The disclosures in accordance with section 289a HGB are published on our website at www.gsw.de.

RESPONSIBILITY STATEMENT

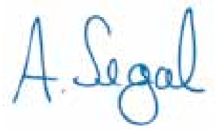
"To the best of our knowledge and in accordance with the applicable accounting principles, the consolidated financial statements give a true and fair view of the Group's net assets, financial position and results of operations, and the Group management report includes a fair review of the development and performance of the business and the position of the Group together with a description of the principal opportunities and risks associated with the expected development of the Group."

Berlin, 26 March 2012

GSW Immobilien AG
The Management Board

THOMAS ZINNÖCKER
(CEO)
GSW Immobilien AG

JÖRG SCHWAGENSCHEIDT
(COO)
GSW Immobilien AG



ANDREAS SEGAL
(CFO)
GSW Immobilien AG

GLOSSARY

general	EBIT, EBITDA, adjusted EBITDA, FFO, EPRA NAV and LTV are not recognised as performance indicators in the HGB or IFRS. The EBIT, EBITDA, adjusted EBITDA, FFO, EPRA NAV and LTV that we report here are not necessarily comparable to the performance figures published by other companies under the same or a similar designation.
EBIT	Earnings before interest and taxes.
EBITDA	Earnings before interest, taxes, depreciation and amortisation, EBITDA represents the consolidated net income for the relevant period before net interest, results of associates and joint ventures accounted for at equity, net result of investments, income taxes (excluding taxes related to EK02), depreciation and amortisation, and net valuation gains on investment property.
Adjusted EBITDA	Adjusted EBITDA represents EBITDA adjusted for capital measurements, profit from business combination, restructuring expenses, project costs, LTIP, onetime acquisition costs regarding to the purchase of investment property (asset- or sharedeals) and gains on the disposal of shares, associates and joint ventures.
FFO I (excl. Sales result)	GSW calculates FFO I („Funds from operations") by taking Adjusted EDITDA for the period and adjusting it for cash flow net interest, results of associates and joint ventures accounted for at equity, net result of investments and cash flow net taxes.
FFO II (incl. Sales result)	GSW calculates FFO II by taking FFO I for the period and adding the result on disposal of investment property.
AFFO	AFFO („Adjusted funds from operations") represents the FFO I, deducting capitalised expenses for maintenance and modernisation.
EPRA NAV	EPRA NAV is used to highlight the fair value of equity on a long-term basis and is calculated from NAV including fair value of financial instruments (net) and deferred tax. Items that have no impact on the Group's long-term, such as fair value of derivatives and deferred taxes on property fair values are excluded. EPRA NAV includes fair value adjustments of all material balance sheet items, which are not reported at their fair value as part of the NAV per the IFRS balance sheet. NAV is calculated from shareholders' equity adjusted for the effect of the exercise of options, convertibles and other equity interests.
LTV	Loan-to-Value ratio is the ratio of our financial liabilities plus EK02 tax liability, minus cash and cash equivalents, to our investment property and assets held for sale.
Project costs	Project costs are expenses for ventures, which a mostly non-recurring with a complex structure and with objectives, which are accomplished with specified funds and in a specified time frame.
Acquisition costs	Acquisition costs are expenses which are related to the purchase of Invest-ment properties conducted as an asset- or sharedeal.
LTIP	LTIP („Long term incentive plan") refers to certain parts of the board members' compensation which depend on long term achievements.
NAV	Net asset value shows the intrinsic equity value of a real estate company. It is the sum of all assets less liabilities, that is, the equity, and is adjusted for real estate related deferred taxes. Within that calculation, the property values of the real estate portfolio are adjusted to their fair values, if they are not already shown at their fair values.

CONSOLIDATED FINANCIAL STATEMENTS

BALANCE SHEET – ASSETS

EUR thousand	Note	31.12.2011	31.12.2010
Non-current assets		**2,947,551**	**2,585,706**
Investment property	(16)	2,930,249	2,571,723
Property, plant and equipment	(17)	2,365	2,578
Goodwill	(18)	1,125	1,125
Other intangible assets	(19)	396	841
Other investments	(20)	6,171	6,783
Receivables and other non-current assets		7,203	2,628
Trade receivables	(22)	502	1,602
Receivables from rental, leasing and asset management		163	234
Receivables from sales		339	1,368
Derivatives	(24)	1	0
Other financial assets	(24)	6,700	1,026
Deferred tax assets		42	28
Current assets		**92,124**	**95,996**
Development of properties and inventories	(21)	2	94
Receivables and other current assets		12,444	16,091
Trade receivables	(22)	4,825	6,567
Receivables from property management		1,218	2,581
Receivables from sales		2,404	2,325
Other trade receivables		1,203	1,661
Receivables due from related parties	(23)	1	0
Income tax receivables		3,043	2,242
Other current assets	(24)	4,575	7,282
Other financial assets		1,508	942
Other miscellaneous assets		3,067	6,340
Cash and cash equivalents		62,618	70,781
Assets held for sale	(25)	17,060	9,030
Investment property held for sale		15,592	8,726
Other assets held for sale		1,468	304
Total assets		**3,039,675**	**2,681,702**

BALANCE SHEET – EQUITY AND LIABILITIES

EUR thousand	Note	31.12.2011	31.12.2010
Equity	**(26)**	**1,166,417**	**976,369**
Total shareholders' equity		1,166,160	976,369
Subscribed capital		41,053	35,000
Additional paid-in capital		128,800	15,136
Consolidated retained earnings		1,042,428	937,301
Accumulated other comprehensive income		-46,121	-11,068
Non controlling interest		257	0
Non-current liabilities		**1,797,277**	**766,141**
Financial liabilities	(29)	1,733,821	706,748
Liabilities from financing investment property		1,732,172	704,947
Liabilities from finance leases		1,649	1,801
Employee benefits	(27)	1,893	1,960
Provisions	(28)	4,148	4,779
Trade payables		662	261
Income taxes payable		0	33,442
Other non-current liabilities	(31)	56,753	18,951
Derivatives		52,373	15,010
Other financial liabilities		505	928
Other miscellaneous liabilities		3,875	3,013
Current liabilities		**75,981**	**939,192**
Financial liabilities	(29)	37,069	899,802
Liabilities from financing investment property		36,849	899,577
Liabilities from finance leases		220	225
Provisions	(28)	1,492	2,256
Trade payables		24,307	23,551
Property management liabilities		19,844	22,758
Other trade payables		4,463	793
Payables due to related parties	(30)	20	20
Income taxes payable		376	6,793
Other current liabilities	(31)	12,053	6,752
Deferred grants		110	79
Derivatives		1,195	0
Other financial liabilities		3,719	1,031
Other miscellaneous liabilities		7,029	5,642
Liabilities associated with assets held for sale	(25)	664	18
Total equity and liabilities		**3,039,675**	**2,681,702**

INCOME STATEMENT

EUR thousand	Note	01.01.– 31.12.2011	01.01.– 31.12.2010
Net rental income	(7)	**141,112**	**139,871**
Gross rental income		194,220	193,056
Government grants		9,919	12,859
Property operating expenses		-63,027	-66,043
Result on disposal of investment property		3,291	2,840
Investment property disposal proceeds		56,830	47,979
Carrying value of investment property disposals		-43,997	-41,918
Operating expenses for investment property disposed	(8)	-9,542	-3,220
Net valuation gains on investment property		**56,172**	**-3,263**
Valuation gains on investment property		79,713	56,749
Valuation losses on investment property		-23,542	-60,011
Administrative expenses	(8)	-48,466	-37,975
Other income, net	(9)	25,090	26
Net operating profit		**177,199**	**101,500**
Net result of investments		73	97
Interest income	(10)	40,778	11,193
Interest expenses	(10)	-110,217	-65,217
Profit before income taxes		**107,832**	**47,572**
Income taxes	(11)	-2,692	1,690
Consolidated net income for the year		**105,141**	**49,262**
Thereof attributable to:			
Shareholders of GSW Immobilien AG		105,128	49,262
Non controlling interest	(26)	12	0
Earnings per share (basic and diluted), EUR	(14)	**2.67**	**1.42**

Calculation of earnings per share (EPS) has been conducted in accordance with IAS 33.19 on the basis of a weighted average number of shares within every reporting period.

STATEMENT OF COMPREHENSIVE INCOME

EUR thousand	Note	01.01.–31.12.2011	01.01.–31.12.2010
Consolidated net income for the year		105,141	49,262
Accumulative other comprehensive income			
Revaluation surplus resulting from the fair market valuation of AfS securities and other investments		-10	-1
Revaluation surplus resulting from the fair market valuation of owner-occupied property		68	48
Cumulative fair value changes of derivative interest rate contract constituting in cash flow hedges	(34)		
Fair value adjustment of derivatives in cash flow hedges		-36,912	1,460
Reclassification of interest derivatives affecting income		-875	-321
Deferred taxes	(26)	2,666	-207
Total comprehensive income for the year		**70,078**	**50,242**
Profit attributable to:			
Equity holders of the parent		70,076	50,242
Noncontrolling interest		2	0

STATEMENT OF CHANGES IN THE SHAREHOLDERS' EQUITY

				Accumulative other comprehensive income						
EUR thousand	Subscribed capital	Additional paid-in capital	Consolidated retained earnings	Revaluation surplus resulting from the fair market valuation of AfS securities and other investments	Revaluation surplus resulting from the fair market valuation of owner-occupied property	Cumulative fair value changes of derivative interest rate contract constituting in cash flow hedges	Total	Total shareholders' equity	Minority Interest	Consolidated equity
Note	(26a)	(26a)	(26b)				(26c)		(26d)	
December 31, 2009	**10,000**	**40,136**	**888,038**	**7**	**171**	**- 12,227**	**- 12,048**	**926,127**	**0**	**926,127**
Total result for the year	0	0	49,262	- 1	34	947	980	50,242	0	50,242
Changes in scope of consolidation	0	0	1	0	0	0	0	1	0	1
Proceeds in additional paid-in capital	25,000	- 25,000	0	0	0	0	0	0	0	0
December 31, 2010	**35,000**	**15,136**	**937,301**	**7**	**205**	**- 11,280**	**- 11,068**	**976,369**	**0**	**976,369**
Total result for the year	0	0	105,128	- 7	48	- 35,094	- 35,053	70,075	2	70,078
Changes in scope of consolidation	0	0	0	0	0	0	0	0	254	254
Issue of equity instruments	6,053	103,673	0	0	0	0	0	109,726	0	109,726
Additional paid in capital regarding to board compensations	0	9,990	0	0	0	0	0	9,990	0	9,990
December 31, 2011	**41,053**	**128,800**	**1,042,428**	**0**	**252**	**- 46,374**	**- 46,121**	**1,166,160**	**257**	**1,166,417**

CASH FLOW STATEMENT

EUR thousand	Note	01.01.-31.12.2011	01.01.-31.12.2010
Consolidated net income for the year		**105,141**	**49,262**
Depreciation, amortisation and impairment/write-ups of non-current assets		956	1,450
Gains (-)/losses (+) of fair value measurement of investment property		-56,172	3,263
Gains (-)/losses (+) from the disposal of intangible assets and property, plant and equipment		0	1
Gains (-)/losses (+) from the disposal of consolidated companies		-25,348	0
Gains (-)/losses (+) on the disposal of shares associates and joint ventures		0	0
Gains (-)/losses (+) from the disposal of asset held for sale and investment property		-12,833	-6,060
Decrease (-)/increase (+) in pension provisions and other long-term provisions		-697	2,794
Changes in deferred taxes		2,651	-118
Elimination of current income taxes		40	-1,572
Elimination of financial results		69,365	53,927
Other significant non-cash expenses and income		9,990	0
Increase/decrease in working capital			
Increase (-)/decrease (+) in inventories		92	0
Increase (-)/decrease (+) in receivables from property management		1,858	8,291
Increase (-)/decrease (+) in other assets		-5,164	1,156
Increase (+)/decrease (-) in current provisions		-1,150	-6,663
Increase (+)/decrease (-) in trade payables		-2,138	-11,531
Changes in receivables due from related parties and payables due to related parties		-1	4
Increase (+)/decrease (-) in other liabilities		942	329
Other changes in operating activities		-424	-878
Income tax paid		-42,466	-8,463
Income tax received		5	3,674
Interest paid net of interest received		-61,560	-40,532
Disbursements for prepayment fees from financing activities		-20,568	0
Distributions received		93	96
Disbursements for processing fees from financing activities		-9,210	0
Proceeds from the disposal of derivative receivables		10,808	0
Cash flow from operating activities		**-35,790**	**48,430**

CASH FLOW STATEMENT

EUR thousand	Note	01.01.-31.12.2011	01.01.-31.12.2010
Cash flow from operating activities		**-35,790**	**48,430**
Proceeds on disposals of intangible assets and property, plant and equipment		0	20
Proceeds on disposals of assets held for sale and investment property		57,781	48,462
Proceeds from disposals of previously consolidated companies net of cash acquired	(3)	25,699	0
Proceeds from the disposal of at equity consolidated companies		0	0
Proceeds from the disposal of other investments		950	0
Disbursements for investments in investment property		-19,424	-21,170
Disbursements for investments in intangibles assets and in property, plant and equipment		-225	-816
Expenditures for acquisitions of consolidated companies net of cash acquired	(3)	-62,085	97
Disbursements for the acquisition of other investments		-360	-16
Cash flow from investing activities		**2,336**	**26,577**
Proceeds from the issuance of equity instruments[1]		114,440	0
Transaction costs of issuing new shares		-5,274	0
Dividends paid		0	0
Repayments (-) from liabilities from financing investment property and other loans		-1,179,638	-49,731
Proceeds (+) from liabilities from financing investment property and other loans		1,096,175	5,822
Repayments of liabilities from financing leases		-412	-446
Cash flow from financing activities		**25,291**	**-44,355**
Changes in cash and cash equivalents		**-8,163**	**30,652**
Cash and cash equivalents at the beginning of the period		70,781	40,129
Cash and cash equivalents at the end of the period		**62,618**	**70,781**

[1] After deduction of employee's shares in the amount of 560 EUR thousand

CONSOLIDATED NOTES

CONSOLIDATED NOTES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS OF GSW IMMOBILIEN AG, BERLIN FOR THE 2011 FINANCIAL YEAR

GENERAL INFORMATION

1) History of the group

GSW Immobilien AG, Berlin (hereinafter "GSW") and its subsidiaries (hereinafter jointly referred to as "GSW Group") is one of the biggest housing companies in the state of Berlin. As at 31 December 2011, the portfolio consisted of 53,704 units, of which 52,790 were own residential units and 914 own commercial units. In addition, around 17,540 further residential and commercial units are managed.

GSW was founded in 1924 and has its offices at Charlottenstrasse 4, 10969 Berlin. GSW is registered in the commercial register of the Charlottenburg local court with the registration number HRB 125788 B.

Effective as of the registration in the commercial register on 29 March 2010, GSW Immobilien GmbH, Berlin was converted into GSW Immobilien AG, Berlin. Previously, the resolution passed at the meeting of shareholders of GSW Immobilien GmbH to increase the share capital from EUR 10,000 thousand to EUR 35,000 thousand was entered in the commercial register on 4 January 2010.

Effective 13 April 2011, the extraordinary shareholders' meeting of GSW passed the resolution to increase the company's share capital by EUR 6,053 thousand from EUR 35,000 thousand to EUR 41,053 thousand by issuing 6,052,630 new no-par-value ordinary bearer shares against cash contributions. On 15 April 2011, the IPO of GSW was carried out by initial listing of the shares on the regulated market (Prime standard) of the Frankfurt Stock Exchange as well as on the regulated market of the Berlin Stock Exchange.

2) Consolidation principles

The consolidated financial statements of the GSW Group include all material subsidiaries whose financial and business policies can be directly or indirectly controlled by GSW.

For companies acquired from third parties, capital consolidation is carried out at the time of acquisition using the acquisition method. The date of acquisition is defined as the date on which the means of controlling the net assets and financial and operating activities of the acquired company is transferred to the GSW Group. According to the acquisition method the cost of the acquired shares is set off against the proportionate fair value of the acquired assets, liabilities and contingent liabilities of the subsidiary at the time of acquisition. Any positive difference resulting from this process is capitalised as derivative goodwill. Negative differences resulting from capital consolidation at the time of acquisition are reversed directly to profit or loss.

Expenses and income as well as receivables and liabilities between consolidated companies have been eliminated. Intragroup transactions are eliminated.

Enterprises that take the form of a joint venture between the GSW Group and other partners, and associates, whose financial and business policies are significantly influenced by the GSW Group, without being under its control, are included in the consolidated financial statements using the equity method. Consolidation using the equity method is based on the IFRS financial statements of these enterprises. Losses from associates and joint ventures that exceed the carrying amount of the equity interest or other non-current receivables from financing these enterprises are not recognised, as long as there is no obligation to contribute additional capital.

The financial statements of GSW and of the subsidiaries, associates and joint ventures included in the reporting entity are prepared using uniform accounting policies. The financial statements of the subsidiaries, associates and joint ventures included in the reporting entity are prepared as at the end of the reporting period of GSW.

For information on the first-time inclusion of subsidiaries, associates and joint ventures in the IFRS consolidated financial statements as at 31 December 2011, please see note (3 b).

Non-controlling interests represent the share of earnings and net assets not attributable to the Group. Non-controlling interests in business partnerships are reported under other liabilities.

3) Basis of the consolidated financial statements

As a listed enterprise, GSW has prepared its consolidated financial statements in accordance with International Financial Reporting Standards (IFRS), as applicable in the European Union, and the supplementary provisions of commercial law applicable in accordance with section 315a (1) of the German Commercial Code (HGB). The financial statements constitute an annual financial report as defined in the German Transparency Directive Implementation Act (section 37 v of the German Securities Trading Act (WpHG)) dated 5 January 2007.

The requirements of the standards applied were complied with in full and give a true and fair view of the Group's net assets, financial position and results of operations.

The consolidated financial statements comprise the statement of financial position, the income statement and the statement of comprehensive income, the statement of changes in equity, the statement of cash flows and the notes. Individual items in the income statement and in the statement of financial position have been compiled to aid the clarity of presentation. These items are explained in the notes. The income statement is structured according to the cost of sales method.

The consolidated financial statements are generally prepared on the basis of accounting for assets and liabilities at amortised cost. Exceptions are investment property, owner-occupied property, securities classified as available-for-sale and derivative financial instruments recognised at fair value as at the end of the reporting period.

The financial year of GSW Immobilien AG and the subsidiaries included in the consolidated financial statements is the calendar year. The currency for the consolidated financial statements is the euro (EUR). Unless indicated otherwise, all figures are rounded to the nearest thousand EUR (EUR thousand) or million EUR (EUR million). As rounded figures are used in the calculations for presentation reasons, discrepancies between rounded and mathematically precise figures may occur in tables or references in the text.

The consolidated financial statements and the Group management report are published in the Electronic Federal Gazette.

a) Scope of consolidation

Details of the scope of consolidation in the GSW Group including GSW as parent are provided in the following table:

	31.12.2011	31.12.2010
Fully consolidated companies	18	17

The change in the scope of consolidation is the result of companies being acquired and sold. For details, please refer to paragraphs (b) and (c).

The full list of the Group's shareholdings in accordance with section 313(2) nos. 1 to 4 and (3) HGB is shown under note (35). The scope of consolidation does not include any associates or joint ventures included using the equity method.

The Weinmeisterhornweg fund, in which GSW held a 42.73 % interest in 2011 (2010: 42.27 %) was not accounted for at equity due to its immateriality.

b) Acquisitions

Following transfer of economic ownership in November 2011, GSW acquired 99.73 % of a real estate portfolio with 4,832 residential units, 25 commercial units and more than 1,300 parking spaces and garages in Berlin and Potsdam via direct and indirect equity interests from the GAGFAH Group.

On 1 November 2011, the date of first-time consolidation, the following three key equity investments were included in the scope of consolidation as fully consolidated subsidiaries:

- GSW Acquisition 3 GmbH (formerly GAGFAH Acquisition 3 GmbH), Essen,
- GSW Pegasus GmbH (formerly GAGFAH Pegasus GmbH), Berlin,
- Zisa Grundstücksbeteiligungs GmbH & Co. KG, Berlin.

The following two equity interests are not included in the scope of consolidation due to their immateriality and are therefore reported in the consolidated financial statements under other financial investments:

- Zisa Verwaltungs GmbH, Berlin,
- Zisa Beteiligung GmbH, Berlin.

The acquisitions are treated as a group of assets in the consolidated financial statements, which do not constitute a business, since the aim and intention of the transaction was solely the acquisition of the real estate portfolio owned by GAGFAH Pegasus GmbH. A business as defined in IFRS 3.3 was not acquired, since no significant business processes were acquired.

By virtue of the shareholder resolutions on 23 and 28 November 2011, the companies were renamed GSW Acquisition 3 GmbH (formerly GAGFAH Acquisition 3 GmbH) and GSW Pegasus GmbH (formerly GAGFAH Pegasus GmbH).

The significant assets and liabilities of GSW Pegasus GmbH, Berlin acquired on the date of first-time consolidation are as follows:

EUR thousand	01.11.2011
Acquired assets	
Investment property	330,000
Receivables and other non-current assets	928
Cash and cash equivalents	5,078
Assumed liabilities	
Bank loans	264,722
Provisions	319
Other liabilities	3,497

At the same time as the takeover of the companies, a loan held by GSW Pegasus GmbH (old loan) of EUR 244,051 thousand was refinanced on 23 November 2011. This was redeemed by two new bank loans totalling EUR 218,300 thousand as well as cash and cash equivalents. Prepayment penalties and processing fees of EUR 20,380 thousand were incurred for refinancing the old loan, which were already included in the assumed financial liabilities and had reduced the purchase price.

The transaction costs for raising the new loans amounted to EUR 2,057 thousand and will initially be taken into account outside profit or loss using the effective interest method and subsequently amortised over the term of the loan.

GSW Pegasus GmbH's investment property breaks down as follows as at 31 December 2011:

	31.12.2011	
	Residential property	Commercial property
Units	4,832	25
Area (in sqm)	293,893	2,521

GSW Pegasus GmbH also holds 1,304 parking spaces and twelve garages in its portfolio.

As at 31 December 2011, the fair value of GSW Pegasus GmbH's investment property amounted to EUR 335,400 thousand.

Rental and lease income of GSW Pegasus GmbH as a key equity investment is comprised as follows from 1 November 2011 to 31 December 2011:

EUR thousand	01.11.-31.12.2011
Income from rents	3,288
Cost of materials	-762
Other operating expenses	-7
Other operating income	135
Net rental income	**2,654**

The general administrative expenses of GSW Pegasus GmbH as a key equity investment acquired break down as follows for the period from 1 November 2011 to 31 December 2011:

EUR thousand	01.11.-31.12.2011
Legal and consulting expenses	-120
Costs for annual financial statements, bookkeeping and audit	-4
Other expenses	-584
Administrative expenses	**-708**

The interest result of GSW Pegasus GmbH as a key equity investment acquired breaks down as follows for the period from 1 November 2011 to 31 December 2011:

EUR thousand	01.11.-31.12.2011
Interest income on interest derivatives	300
Interest on cash in bank accounts	7
Interest income from intercompany loans	210
Interest on adjustments in loan terms	79
Interest income	**596**
Interest expenses from the financing of investment property	-1,497
Net expenses from adjustments in loan terms	-400
Interest expenses from interest derivatives	-535
Interest expenses for intercompany loans	-162
Other interest expenses	-131
Interest expenses	**-2,725**

As shareholders from outside the Group also have equity interests in GSW Pegasus GmbH, the Group has to recognise their interest as a non-controlling interest. For details, please refer to the section on equity and the relevant other sections of the annual financial statements.

The holdings of cash and cash equivalents taken over by GSW Acquisition 3 GmbH in November came to EUR 107 thousand.

c) Divestments
On the transfer date of 31 January 2011, the shares in BMH Berlin Mediahaus GmbH, in which GSW holds 100% of the shares, were sold for a purchase price of more than EUR 25 million. With the sale, property, plant and equipment in the amount of EUR 221 thousand, cash and cash equivalents in the amount of EUR 811 thousand, receivables in the amount of EUR 150 thousand and current liabilities in the amount of EUR 324 thousand were sold. BMH's earnings contribution to the Group's operating business was minor.

In addition, the shares in Berlin Immobilien Verwaltungs- und Betriebsgesellschaft von 1996 mbH (VBG 1996), a wholly-owned subsidiary of GSW, were sold for a purchase price of EUR 1 with effect from 28 September 2011. The carrying value of the assets and liabilities sold, which equalled the final holdings of cash and cash equivalents, amounted to EUR 92 thousand. VBG 1996's earnings contribution to the Group's operating business was minor.

4) Accounting and valuation methods

a) Investment property
Investment property includes the properties of the GSW Group that are held with the aim of generating rental income and capital appreciation.

In the context of the Group's privatisation strategy, individual units are sold to tenants, owner-occupiers and private capital investors.

Investment property held for sale whose sale is seen as highly probable within the next twelve months is recognised under assets held for sale in the current assets in accordance with IFRS 5; its measurement is consistent with the measurement of the investment property.

Properties, which the GSW Group both uses itself and lets to third parties, are separated, if division of the properties in question is legally possible and neither the parts used by the Group nor the parts let to third parties are immaterial. The parts let to third parties are allocated to investment property, while the owner-occupied parts are accounted for under property, plant and equipment. The ratio between the areas in question is used to allocate the components.

Investment property is measured at cost at the time of acquisition. Thereafter the properties are measured at fair value in accordance with the option provided for in IAS 40. Changes in fair value are recognised as income or expense.

According to this standard, future costs associated with adding to, partially replacing or servicing the property (IAS 40.17) are capitalised to the extent that the component approach (IAS 40.19) results in the replacement of parts of a unit and reliable measurement of the costs is possible. Furthermore, the costs are capitalised if the activities lead to an increased future benefit and reliable measurement of the costs is possible. The capitalised costs are not depreciated as depreciation is generally not applied in connection with the option under IAS 40 relating to recognition of the fair value.

As at 31 December 2011, GSW calculated the fair values with the help of an external expert. At the level of individual homogenous economic units, the properties were considered separately in respect of their location, condition, facilities, the current rent under the tenancy agreement and their potential for development. The fair values thus calculated by GSW correspond to the market values defined in accordance with the International Accounting Standard, namely the values at which properties can be exchanged between knowledgeable willing parties in an arm's length transaction (IAS 40.5 rev.).

The market values were determined on the basis of the forecast net cash flows from the management of the properties, using the discounted cash flow method (DCF method). For properties without a positive cash flow (usually plots of undeveloped land and vacant buildings) the market value was determined by means of the direct value comparison method or the liquidation value procedure where applicable. Where a property was valued according to the DCF method, a detailed planning period of ten years was taken into account. At the end of the tenth year a terminal value was recognised on the basis of the capitalisation of the predicted net profit for the year during the eleventh period.

In the first year of the detailed planning period, assumptions were based on the rental income for the property in question, as agreed in the tenancy agreement, with further value parameters specific to the property. The net basic rent of the properties let from the assets being measured is EUR 5.08/sqm (2010: EUR 4.90/sqm) at the valuation date. The trend in the annual rent was forecast on the basis of individual assumptions throughout the planning period. A distinction was made between income from existing old tenancy agreements and new leases due to predicted fluctuation. Rents under old tenancy agreements are developed within the framework permitted by law, in which – allowing for location and property-specific characteristics – an individual upper limit was also specified in deviation from the local comparative rent for the property. The market rate for new leases has been derived from the local table of rents (Mietspiegel) and the rents charged for comparable properties as well as from current leases. The market rent rises each year by an individually determined rate of increase. The recognised market-rent increases range between 0.5% and 1.65% (weighted average 1.05%) and are based on the average rates of increase in the local areas (market data) which are adjusted, where necessary, in line with the specific potential for a property. Like the rent development, the development of vacancy rates is also geared to the average values for the areas and, where necessary, was adjusted on a property-specific basis allowing for location- and property-specific characteristics. The average vacancy rate for residential and commercial real estate was 3.7% as at the measurement date (2010: 4.2%).

Publicly subsidised properties have been treated differently, depending on whether rents are capped and how long this will last. For subsidised economic units without a rent cap, rent adjustments have been made in accordance with the procedure for non-subsidised properties. For properties where the rent cap continues after 2021, rent adjustments have been provided for if the average rent under new tenancy agreements is lower than the average rent of the economic unit. In these cases, the average rent under the new tenancy agreements was recognised. Rent subsidies have been included in the valuation as cash flows at the actual expected amount.

For reactive and periodical maintenance measures, depending on the property's condition and year of construction, an average maintenance cost unit rate of EUR 8.67/sqm (weighted average) was assumed. In addition, for new leases depending on the property's condition, an additional cost unit rate for re-leasing of up to EUR 200 (weighted average EUR 39) was taken into account. Administrative expenses of between EUR 130 and EUR 400 (weighted average of EUR 159) per rental unit and EUR 31 per parking space were assumed.

Discounting of cash flows is based on standard and matching discount rates averaging 6.04 % (weighted average) (2010: 6.16 %) and standard capitalisation rates for perpetuity averaging 5.25 % (weighted average) (2010: 5.38 %), which were calculated on a property-specific basis using the actual management costs ratio and are intended to reflect the individual risk / opportunity profile for the properties. In determining an appropriate interest rate, particular account has been taken of the property type, the leasing situation, the condition of the property, its marketability and possible governmental grants, in addition to criteria concerning the location.

Undeveloped plots with an area of around 95.8 hectares (2010: 95.6 hectares) as at 31 December 2011 have been calculated on the basis of the current ground values published by Berlin's Gutachterausschuss (Appraiser Committee). The use to which the land is put and any further special features of the individual plots has been taken into account by way of discounts and surcharges.

b) Property, plant and equipment

Property, plant and equipment is capitalised at cost and depreciated using the straight-line method over its estimated useful lifetime. Subsequent expenses are capitalised if they lead to a change in the purpose or an increase in the value in use of the property, plant and equipment. Changes in the residual values or the useful lives during the time the assets are in use are taken into account in measuring the amounts to be written down.

Owner-occupied properties measured at fair value in accordance with the option in IAS 16 are not reported at amortised cost. The adjustments resulting from the revaluation are recognised in other comprehensive income if the adjustment results in the carrying amount being increased above cost. Depreciation, impairment losses and reductions in fair value are recognised in profit or loss unless this constitutes compensation for increases posted in previous periods outside profit or loss.

Gains and losses from the disposal of assets are reported under other operating income or other operating expenses.

Depreciation is based on the following useful lives, which are uniform throughout the Group:

	Useful lifetime in years
Owner-occupied properties	25
Plant and machinery	5-20
Other fittings, furniture and office equipment	3-13

In accordance with the option permitted in section 6 (2a) EStG, assets costing between EUR 150.01 and EUR 1,000.00 are allocated to an omnibus account in the year they are acquired and depreciated on a straight-line basis over five years. On the other hand, low-value items costing up to EUR 150 net are written off in full in the year they are acquired.

This treatment of low-value items is consistent with German tax law. Variances from the useful economic life are considered immaterial.

c) Intangible assets
Acquired intangible assets are capitalised at cost.

The acquired intangible assets with a determinable useful life are software licenses with expected useful lives of three years and ERP software systems with an expected useful life of five years that are amortised using the straight-line method over their expected useful lives from the time that the licenses are granted.

The acquired goodwill is capitalised at cost and valued at cost less cumulative impairment. Its useful life is indefinite.

The GSW Group has no intangible assets that are internally generated.

d) Impairment
The GSW Group reviews intangible assets and property, plant and equipment to establish whether impairment losses should be recognised in accordance with IAS 36.

Investment property is reported at fair value, it is not tested for impairment in accordance with IAS 36.

As at the end of each reporting period, the Group reviews the carrying amounts of intangible assets and property, plant and equipment as to any signs of potential impairment. In this case, the recoverable amount of the respective asset is estimated to determine the extent of any value adjustment that may be required. The recoverable amount corresponds to the fair value less selling costs or the value in use; the higher value applies. The value in use corresponds to the present value of the expected cash flows before taxes. The discount rate is based on the interest rate before taxes that is consistent with market conditions. If no recoverable amount can be calculated for an individual asset, the recoverable amount for the cash generating unit (CGU), to which the asset in question can be allocated, is determined and the independent cash flows generated.

Where an asset's recoverable amount is lower than its carrying amount, the value of the asset is adjusted immediately in profit or loss. If, at a future date, a higher recoverable amount be produced for an asset or CGU after impairment has been recognised, the write-down on the asset or CGU will be reversed to an amount not exceeding the recoverable amount. The reversal is limited to the net carrying amount that would have arisen if no adjustment had been carried out in the past. The reversal is recognised in profit or loss. Goodwill impairment cannot be reversed.

Goodwill is accounted for in accordance with the impairment only approach specified in IFRS 3. This stipulates that goodwill must be measured at cost less cumulative corrections from impairment in any subsequent measurement. As a result, any acquired goodwill may no longer be depreciated on a scheduled basis but must, just like intangible assets with unlimited useful lives, be subjected to an annual impairment test in accordance with IAS 36 irrespective of whether there are any signs of possible impairment. The obligation to test for impairment in the event of there being indications of impairment remains.

Goodwill resulting from the acquisition of companies is allocated to the CGU or groups of CGUs that are expected to benefit from the synergies generated by the acquisition. Such groups of assets represent the Group's lowest reporting level at which goodwill is monitored by management for internal control purposes. The carrying amount of a CGU, which contains goodwill, is tested for impairment annually and also on other occasions if there are indications of possible impairment. For adjustments in connection with a CGU that contains goodwill, existing goodwill is reduced first of all. If the scope of any required write-down exceeds the carrying amount recognised for the goodwill, the difference is usually distributed among the remaining non-current assets of the CGU on a pro rata basis.

e) Financial investments and securities

The GSW Group accounts for financial assets at their settlement amount.

Interests in subsidiaries not consolidated due to their immateriality and the investment fund units held by the GSW Group under other financial investments and securities are classified in accordance with IAS 39 for valuation purposes in the category "available for sale financial assets". Miscellaneous other financial investments and securities are also allocated to the category "available for sale financial assets" in accordance with IAS 39. Available for sale financial assets are recognised at fair value as at the end of the reporting period or, if this cannot be reliably determined, at cost. As the fair values of the investment fund units held by the GSW Group cannot be measured using suitable valuation methods, these fund units are recognised at cost. Interests in subsidiaries are not listed. The fair value of these instruments cannot be reliably determined since the results are subject to substantial fluctuations depending on individual assumptions. There is no market for such instruments. At present, the Group does not intend to sell such interests in the foreseeable future.

To date, the GSW Group has not exercised the option to designate financial investments and securities as financial assets at fair value through profit and loss on first-time recognition.

Available for sale financial assets are measured at fair value at the time they are acquired. The result of any subsequent remeasurement at fair value is reported separately in equity (revaluation surplus).

When a financial asset is sold, the recognised cumulative remeasurement result is reversed to profit or loss.

In the event of impairment, the impairment amount is deducted from the revaluation surplus and the relevant amount is taken into account directly in the income statement. If impairment is reversed, it is reversed in profit or loss for debt securities and outside profit or loss for equity securities. However, if available for sale financial assets are recognised at cost, since the fair value cannot be reliably determined, any impairment is then effected in profit or loss and cannot be reversed.

f) Recognition of tenancy and leasing agreements as lessee

Rented or leased assets where, according to IAS 17, the GSW Group is the beneficial owner (finance lease) are capitalised at the present value of the rent or leasing instalments or, where lower, at the fair value of the leased asset in non-current assets and depreciated on a straight-line basis. If ownership is transferred to the GSW Group at the end of the lease, the item is depreciated over its economic useful life and, if not, over the term of the lease. The present value of payment obligations resulting from future rent and lease instalments is carried as a liability and decreases as the outstanding liability is reduced through payments of rent or lease instalments.

Contracts where the GSW Group is the beneficial owner also include certain agreements where the GSW Group has been granted the right to use a certain asset and a component of the remuneration is a fee not related to use. According to IFRIC 4, contracts of this kind should be classified according to the rules of IAS 17.

Tenancy and lease agreements where the GSW Group is not the beneficial owner are classified as operating leases. The expenses resulting from these agreements are reported in accordance with the principle of causality at the time the items in question are used.

g) Recognition of tenancy and leasing agreements as lessor
The properties held by the GSW Group include both residential and commercial properties leased by the GSW Group.

The tenancy agreements for residential properties are generally characterised by rights, in accordance with the statutory provisions, which allow tenants to terminate the tenancy at short notice. These agreements are therefore to be classified as operating leases in accordance with IAS 17, as the material risks and rewards in relation to the property remain with the GSW Group. The GSW Group continues to recognise these properties at fair value as part of its portfolio in accordance with IAS 40. For commercial properties the risks and rewards are also attributable to the GSW Group, so these properties are also recognised by the GSW Group at fair value under investment property.

h) Development services for properties and other inventories
Other inventories are recognised at cost. This is done on the basis of a weighted average or the individual costs attributable to the service provided and production-related overheads. As at the end of the reporting period, inventories are measured at the lower of cost or the net realisable value.

i) Receivables and other current assets
Trade receivables and other current assets are measured at fair value plus transaction costs when recognised for the first time. They are subsequently measured at amortised cost.

To date, the GSW Group has not exercised the option of designating financial assets as financial assets at fair value through profit and loss when recognising them for the first time.

Regular way purchases and sales of financial assets are recognised on the trading day, the day on which the Group agrees to buy or sell the asset.

Appropriate allowances are made for the risk of bad debt, taking into account the expected cash flows that are calculated on the basis of experience and individual risk assessments. For financial instruments measured at amortised cost, a distinction is made between individual value adjustments and portfolio value adjustments.

The individual value adjustment relates to the value adjustment on a financial asset for which it is unlikely that all contractually agreed payments (interest and/or redemption) are achievable at maturity.

Risk assessments in the GSW Group are based on the following criteria:

(1) significant financial difficulties for the issuer or debtor;
(2) breach of contract (e.g. loss or default on interest or redemption payments);
(3) concessions granted by the lender to the borrower on economic or legal grounds associated with the borrower's financial difficulties, such as the lender would not otherwise grant;
(4) increased probability of the borrower becoming insolvent or being subject to other restructuring proceedings;
(5) the disappearance of an active market for the asset;
(6) observable data indicating a measurable reduction in the expected future cash flows from a group of financial investments since their first-time recognition, even though such reduction is not yet attributable to individual financial investments of the Group, including:
 (a) adverse changes to the payment status of debtors in the Group;
 (b) national or local conditions correlating to defaults for the Group's assets.

j) Cash and cash equivalents
Cash and cash equivalents comprise cash in bank accounts and cash on hand with an original term of not more than three months and are stated at their nominal value.

k) Assets held for sale and liabilities associated with assets held for sale
Assets held for sale include assets, which could be sold immediately in their current state on terms that are usual and customary for the sale of assets of this kind, and sale of which is viewed as highly probable within the next twelve months.

Assets held for sale can be groups of assets (disposal groups) in addition to individual non-current assets or components of an entity (discontinued operations), if their sale is viewed as highly probable within the next twelve months. Liabilities, which are supposed to be handed over together with assets in one transaction, are a component of a disposal group or a discontinued operation are also reported separately as liabilities associated with assets held for sale.

Assets held for sale are measured at the lower of their carrying amount or fair value less selling costs in accordance with IFRS 5. For investment property classified as held for sale, the transaction costs are not deducted from the fair value as the valuation rules contained in IFRS 5 are not applicable in this case.

l) Pension provisions
Provisions for pensions and similar obligations are calculated using the projected unit credit method in accordance with IAS 19, taking into account future adjustments in salary and pensions. Pension provisions in accordance with IFRS also include indirect obligations, in as far as the GSW Group becomes liable for the obligations being met by making the relevant contributions to the pension system in question and the obligations can be reliably measured.

Pension obligations are measured on the basis of expert opinions, taking into account the assets available to cover these obligations. If the actuarial gains and losses resulting from a change in the actuarial parameters exceed 10% of the higher amount of the pension obligation or the plan assets at the beginning of the financial year, the amount in excess of this 10% limit is recognised as income or expense over the remaining period in which the person entitled to benefits works for the Group.

Past service cost and realised actuarial gains and losses are recognised as staff costs. The interest component contained in pension expenses is recognised under interest expenses.

m) Other provisions
Other provisions take account of all foreseeable obligations of the GSW Group, both legal and constructive, towards third parties where settlement is likely and where the amount can be reliably estimated. The provisions are reported at the expected settlement amount in accordance with IAS 37. Non-current provisions are recognised in the statement of financial position on the basis of corresponding market interest rates at their settlement amount which is discounted to the end of the reporting period.

n) Liabilities
On first-time recognition, liabilities are measured at fair value, taking into account transaction costs as well as premiums and discounts. The fair value at the time the liability is incurred corresponds to the present value of future payment obligations on the basis of a market interest rate matching the term and the risk.

Liabilities are subsequently measured at amortised cost using the effective interest rate method, which is determined at the time that the liability is incurred.

Changes in the amount to be repaid or the time of repayment lead to a re-measurement of the carrying amount of the liability at its present value on the basis of the original effective interest rate. Gains or losses in relation to the previous carrying amount of the liability are charged to the income statement. If changes to the conditions lead to substantially different contractual terms as defined in IAS 39 AG 62, the original liability is treated as if it were repaid in full in accordance with IAS 39.40. Subsequently it is recognised at fair value as a new liability. If a change to the terms is attributable to a change in the anticipated cash outflows or inflows as defined in IAS 39 AG 8, the carrying amount of the liability is recalculated at its present value on the basis of the original effective interest rate. Gains or losses in relation to the previous carrying amount of the liability are charged to the income statement.

To date, the GSW Group has not exercised the option of designating financial liabilities as financial assets at fair value through profit and loss when recognising them for the first time.

o) Income taxes
Current income taxes are recognised in profit or loss in the year that the liability is incurred. Income tax assets and liabilities are measured at the amount at which reimbursement by or payment to the tax authority is expected. Current tax assets and liabilities are only netted if the taxes are collected by the same tax authority and can be set off against each other.

Deferred taxes are recognised in accordance with IAS 12 to take into account the future tax effects of temporary differences between the tax assessment basis of the assets and liabilities and their carrying amounts in the IFRS financial statements and tax loss carryforwards. Deferred taxes are measured on the basis of the regulations issued by the legislator for financial years in which the differences are balanced out or the loss carryforwards can probably be utilised. Deferred tax assets for temporary differences or loss carryforwards are only recognised in as far as their future realisation seems sufficiently certain.

Deferred tax assets and deferred tax liabilities are only netted in as far as the deferred taxes relate to income taxes collected by the same tax authority and which can be set off against each other.

Temporary differences between amounts stated in the IFRS and the tax accounts, which result from the first-time recognition of assets and liabilities as part of an asset deal are not recognised in compliance with IAS 12.24 (b) and IAS 12.15 (b).

p) Derivative financial instruments
The GSW Group uses derivative financial instruments to hedge the interest rate risks for property financing.

Derivative financial instruments are recognised at fair value. Changes in the fair value of the derivatives that do not meet the criteria of IAS 39 for recognition as a hedging instrument irrespective of their financial hedging effect are recognised as income or expense.

Derivatives used as hedging instruments in cash flow hedges serve to hedge uncertain future cash flows, including highly-probable future transactions. There is a particular risk regarding the level of future cash flows for liabilities with variable interest rates. The derivative financial instruments used in cash flow hedge accounting are reported at fair value. A distinction is made in the measurement result between an effective and an ineffective portion. Effectiveness in past periods is determined using the dollar offset method.

The effective portion corresponds to the portion of the measurement result which constitutes an effective hedge against the cash flow risk. The effective portion is recognised in a separate item in equity (hedge reserve) after taking into account deferred taxes; cumulative fair value changes to derivatives in cash flow hedges in the statement of changes in equity.

The ineffective portion of the measurement result is recognised in profit or loss and reported in the interest result.

Upon termination of the hedge the amounts recognised in equity are transferred to the income statement when the results associated with the previous underlying transaction are recognised as income or expense.

q) Realisation of income and expense
Rental income where the tenancy and leasing agreements are classified as operating leases is recognised over the term of the agreement using the straight-line method. Rental income from parking spaces is also recognised over the term of the agreements using the straight-line method. Rent rebates are recognised as part of general rental income and therefore also have to be considered as reducing income over the term of the tenancy or leasing agreement.

The service charges passed on to tenants are generally offset against the corresponding expense and are therefore not generally recognised as income, as the GSW Group collects these charges on behalf of third parties.

Proceeds from the disposal of property are recognised at the time the GSW Group transfers the significant risks and rewards in relation to the property to the buyer. Such a transfer can generally be assumed when the GSW Group has surrendered the rights of control usually associated with the ownership of the properties and has handed over effective control of the properties sold to the vendor. No revenues are realised if guarantees have been given regarding returns on investment, the buyer has a right of return or the GSW Group still has material obligations towards the buyer.

Proceeds from the disposal of properties where the GSW Group simultaneously concludes a contract to rent the property are recognised according to the rules for sale and leaseback transactions in accordance with IAS 17. Proceeds from the sale of the property in excess of the carrying amount previously reported for the property in question are deferred over the period of the tenancy agreement if the tenancy agreement is to be classified as a finance lease in accordance with IAS 17. If the tenancy agreement is to be classified as an operating lease, the difference between the fair value and the selling price to be deferred at the time of the sale is also recognised as income over the term of the tenancy agreement. If the carrying amount exceeds the fair value in such cases, this difference is immediately recognised as expense.

Operating expenses are charged to the income statement at the time the service is utilised or at the time that they are caused.

Interest is recognised as income or expense in the period incurred.

Income and expense from profit and loss pooling agreements are recognised at the amount of the net profit or loss calculated at the end of the financial year in accordance with German accounting standards. Dividends are recognised at the time of distribution. The distribution period is usually the same period as that in which any legal claim arises.

r) Government grants

Investment subsidies are grants that are provided for the acquisition or manufacture of an asset. In accordance with IAS 20, claims to investment subsidies are only recognised if there is sufficient certainty that the grants will be awarded and that the conditions associated with the grants will be fulfilled. Grants of this kind are deducted from the cost of the asset in the GSW Group. The grants are recognised in instalments by means of a reduced figure for depreciation over the useful life of the depreciable assets.

Rent subsidies are recognised as income in the periods for which they are granted. For subsidy loans, the interest subsidy is taken into account in the effective interest rate applied.

s) Borrowing costs

Interest associated with the purchase or construction of real estate or other property, plant and equipment is included in the cost of these assets in accordance with IAS 23.

t) Transactions in foreign currency

Purchases and sales in foreign currency are translated at the exchange rate applicable on the date of the transaction. Assets and liabilities in foreign currency are translated into the functional currency (EUR) at the exchange rate as at the end of the reporting period. The exchange rate gains and losses resulting from these translations are recognised as income / expense.

u) Fair values of financial instruments

The fair values of the financial instruments are determined on the basis of the corresponding market values or measurement methods. For cash and cash equivalents and other current, primary financial instruments, the fair values correspond approximately to the carrying amounts recognised at the end of the respective reporting periods.

For non-current receivables, other assets and liabilities, the fair value is determined on the basis of the expected cash flows using the reference rates applicable as at the end of the reporting period. The fair values of derivative financial instruments are calculated on the basis of the reference rates as at the end of the reporting period.

For financial instruments to be reported at fair value, the fair value is calculated on the basis of corresponding market or stock exchange prices.

Where no market or stock exchange prices are available, a valuation is made using normal market valuation methods allowing for instrument-specific market parameters.

The discounted cash flow method is used to calculate the fair value, with individual credit ratings and other market circumstances being taken into account in the form of normal market credit rating and liquidity spreads when calculating the present value.

When calculating the fair value of derivative financial instruments, the relevant market prices and interest rates observed at the end of the reporting period and obtained from recognised external sources are used as input parameters for the valuation models. Accordingly, derivatives are classified as level 2 of the valuation hierarchies as defined by IFRS 7.27A (valuation on the basis of observable input data).

v) Use of estimates

The preparation of the IFRS consolidated financial statements requires estimates and assumptions that influence the recognition of assets and liabilities, the disclosure of contingent liabilities as at the end of the reporting period and the recognition of income and expense. Significant estimates and assumptions have particularly been made in relation to the fair value of the properties, the likelihood of certain provisions being utilised, the determination of market interest rates at the time when non-interest-bearing or low-interest loans are granted and whether deferred tax assets can be realised.

An estimate of future interest rate trends is of particular importance for the measurement of investment property, including properties held for sale and loans borrowed to finance investment property. As regards the sensitivity of the property values in relation to interest rates, please see note (16); with respect to the goodwill impairment test, please see note 18 and regarding the fair value of the loans note (32).

The actual amounts may differ from the estimates and the amounts resulting from assumptions.

w) Capital management

The Group's capital is managed with a view to maximising income by optimising the ratio of equity to financial liabilities. The aim is to achieve an increase in the value of the overall Group, expressed in terms of its equity, while obtaining an appropriate return on equity. In this context, GSW ensures that all Group companies are able to operate in accordance with the going-concern principle.

The Management Board reviews the Group's Loan-to-Value ratio (LTV) every quarter. In the reporting year, the Group improved the LTV from 61.1 % to 58.0 %. The external minimum capital requirements (see note (34) (c)) were fulfilled.

The internal focus on the properties' performance provides the scope to increase and control the overall capital while remaining within the target corridor.

The LTV at the end of the year is as follows:

EUR thousand	31.12.2011	31.12.2010
Financial liabilities	1,770,890	1,606,550
EK02 tax liability	0	40,137
Cash and cash equivalents	-62,618	-70,781
Net debt	**1,708,272**	**1,575,906**
Investment property	2,930,249	2,571,723
Assets held for sale	17,060	9,030
Loan-to-Value Ratio	**58.0 %**	**61.1 %**

x) Segment reporting

IFRS 8 requires a management approach, in which information on individual segments is presented on the same basis that is used for the internal reporting.

The business activities of GSW are mainly focused on letting apartments in the Berlin area. Sales of portfolio properties to tenants, owner-occupiers and private investors are carried out when market conditions generate favourable opportunities for this and are recognised within the internal reporting on the letting of apartments. GSW has not generated revenues exceeding 10 % of the Group's revenues with any of their customers.

As a result, one reportable segment according to IFRS 8 was identified. This segment comprises all operating activities of the Group. The reporting of this reportable segment is consistent with the internal reporting to the chief operating decision maker. The chief operating decision maker is represented by the Management Board and the Supervisory Board.

5) Published but not yet mandatory international financial reporting standards (IFRS) and interpretations (IFRIC)

Amendments to the following standards were approved:

The amendment to IAS 1 "Presentation of Financial Statements: Presentation of Items of Other Comprehensive Income" in June 2011 introduced new rules on the presentation of other comprehensive income. Other comprehensive income must be divided into items which are recycled through profit and loss and into items which remain in equity. The amendments to IAS 1 are effective for reporting periods commencing on or after 1 July 2012. The GSW Group is currently examining the impact of their future application on the consolidated financial statements.

Furthermore, the revised version of IAS 12 "Income Taxes: Deferred Tax: Recovery of Underlying Assets" was published in December 2011. According to IAS 12, the measurement of deferred taxes depends on whether the existing differences will be realised in the context of continued use or as the result of a sale. For investment property as defined in IAS 40, which is measured at fair value, this amendment introduces the rebuttable presumption that realisation will be effected through a sale. The amendments to IAS 12 are effective for financial years commencing on or after 1 January 2012. The GSW Group is currently examining the impact of their future application on the consolidated financial statements.

IAS 19 "Employee Benefits" was comprehensively revised in June 2011. The adjustments range from fundamental amendments to mere clarifications and rewordings. A fundamental amendment relates to the removal of the corridor approach used in the GSW Group to recognise actuarial gains and losses. Actuarial gains and losses must be recognised in other comprehensive income with immediate effect. Expected income from plan assets will be calculated as a component of net interest expenditure/income in future using the interest rate that is also used to discount the obligation. There are also amendments to the recognition of past service cost, to the recognition of severance payments and to disclosures in the notes. The amendments to IAS 19 are effective for reporting periods commencing on or after 1 January 2013. The GSW Group is currently examining the impact of their future application on the consolidated financial statements.

The IASB published the amendment to IAS 27 "Separate Financial Statements" in May 2011. With the adoption of IFRS 10 and IFRS 12, the scope of IAS 27 is restricted to the reporting of investments in subsidiaries, associates and joint ventures in a company's separate financial statements. The amendment to IAS 27 is effective for financial years commencing on or after 1 January 2013. No material impact is expected for the GSW Group.

The amendment to IAS 28 "Investments in Associates and Joint Ventures" was also published in May 2011. With the adoption of IFRS 11 and IFRS 12, the scope of IAS 28, which was previously limited to associates, was extended to include the application of the equity method to joint ventures. The amendment to IAS 28 is effective for financial years commencing on or after 1 January 2013. No material impact is expected for the GSW Group.

The amendment to IAS 32 "Financial Instruments: Presentation: Offsetting Financial Investments and Financial Liabilities" published by the IASB in December 2011 clarifies the requirements for offsetting financial instruments. In particular, the significance of a current legally enforceable right to offset the amounts is highlighted here. The amendment is effective for reporting periods commencing on 1 January 2014. The GSW Group is currently examining the impact of their future application on the consolidated financial statements.

In December 2010, the IASB published the amendment to IFRS 1 "First-time Adoption of International Financial Reporting Standards: Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters". As a result of the amendment, the references to the fixed conversion date 1 January 2004 previously contained in IFRS 1 have been replaced by a reference to the date of transition to IFRS. Detailed guidance on the approach to be adopted when presenting IFRS-compliant financial statements if a company has not been able to comply with IFRS rules for some time because its functional currency was subject to severe hyperinflation was also added. The amendment is effective for reporting periods commencing on or after 1 July 2011. The amendment will have no impact on the financial statements of the GSW Group.

The amendments to IFRS 7 "Financial Instruments: Disclosures: Transfer of Financial investments" published in October 2010 relate to the extended duties of disclosure when transferring financial investments. They aim to allow a better understanding of the impact of the risks remaining with the company and the retained or assumed rights and obligations. The amendment is effective for reporting periods commencing on or after 1 July 2011. The GSW Group is currently examining the impact of their future application on the consolidated financial statements.

Furthermore, the amendment to IFRS 7 "Financial Instruments: Disclosures: Offsetting Financial Assets and Liabilities" was published in December 2011. The amendment relates to extended duties of disclosure in relation to the offsetting of financial investments and financial liabilities. The amendment is effective for reporting periods commencing on or after 1 January 2013. The GSW Group is currently examining the impact of their future application on the consolidated financial statements.

The part of IFRS 9 "Financial Instruments" published in November 2009 introduces new rules for the classification and measurement of financial investments. Only two measurement categories are provided (amortised cost and fair value). In future, the classification of financial investments will be based, firstly on the company's business model and, secondly, on characteristic features of the contractual cash flows of the respective financial investments. The part added in October 2010 regulates the classification and measurement of financial liabilities. In essence, the existing regulations in IAS 39 have been adopted here. There is a change for financial liabilities measured at fair value. For these liabilities, the part of the change to fair value that results from a change in the credit risk of the liability must be recognised in other comprehensive income and not as a profit or loss. The existing regulations in IAS 39 on the derecognition of financial instruments was also included in IFRS 9 without any changes. The IASB intends to add new rules on the impairment of financial assets measured at amortised cost and hedge accounting to IFRS 9. The amendments are effective for reporting periods commencing on or after 1 January 2015. The GSW Group is currently examining the impact of their future application on the consolidated financial statements.

The IASB published IFRS 10 "Consolidated Financial Statements" in May 2011. The standard replaces the provisions of IAS 27 on the preparation of consolidated financial statements and of SIC-12 on the inclusion of special purpose entities. It defines a standard principle of control, which will apply to all companies in future including special purpose entities. Because of the changes, the assessment of the question as to whether control can be exercised over a Group company, will require far more consideration in future than was previously the case. IFRS 10 is effective for reporting periods commencing on or after 1 January 2013. No material impact is expected on the GSW consolidated financial statements.

The IFRS 11 "Joint Arrangements" published by the IASB in May 2011 replaces the regulations of IAS 31 and SIC-13. In contrast to IAS 31, which distinguishes between jointly run companies, jointly run assets and joint operations, in future they will only be classified into joint ventures and joint operations. As the classification criteria have changed, this may affect the GSW consolidated financial statements. The previous option of consolidating joint ventures on a proportionate basis was removed; application of the equity method is mandatory for a joint venture's partner companies. IFRS 11 is effective for reporting periods commencing on or after 1 January 2013. This will not have any impact on the GSW consolidated financial statements since joint ventures are already included at equity in the consolidated financial statements.

The IASB also published IFRS 12 "Disclosures of Interests in Other Entities" in May 2011. IFRS 12 will provide uniform rules for the duties of disclosure in consolidated financial statements in future. They include disclosures about companies, which were previously regulated in IAS 27, disclosures on joint ventures and associates, which were previously contained in IAS 31 and IAS 28, as well as disclosures on structured companies (special purpose entities). The disclosure requirements will be extended as a result. IFRS 12 is effective for reporting periods commencing on or after 1 January 2013. It is expected to have an impact on the GSW consolidated financial statements.

With the publication of IFRS 13 "Fair Value Measurement" in May 2011, uniform guidelines on the calculation of fair value and the requisite disclosures in the notes on measurement at fair value will be defined in future. It focuses solely on the question as to how fair value is to be calculated properly. The standard does not address the question as to when something is to be measured at fair value. The disclosures in the notes will be extended. The standard is effective for reporting periods commencing on or after 1 January 2013. It is expected to have an impact on the GSW consolidated financial statements.

In October 2011, IFRIC 20 "Stripping Costs in the Production Phase of a Surface Mine" was published. IFRIC 20 regulates how stripping costs during the production phase of a surface mine must be accounted for. IFRIC 20 is effective for reporting periods commencing on or after 1 January 2013 and is not relevant to the GSW Group.

6) Mandatory international financial reporting standards (IFRS) and interpretations (IFRIC) applied for the first time

In the reporting year, all new and revised standards and interpretations, application of which is mandatory for the first time from 1 January 2011, which are also of relevance for the GSW Group and had not been applied early in previous periods, were taken into account in the GSW consolidated financial statements. Amendments to standards were taken into account in accordance with the transition rules. Application of these new regulations presented below for the first time had no material impact on the consolidated financial statements.

IAS 24 "Related Party Disclosures", which was revised in November 2009, was amended to the effect that public sector companies are partially exempted from certain duties of disclosure. The definition of a related party was also made more precise. Application of the amendments to IAS 24 is mandatory for reporting periods from 1 January 2011.

Furthermore, the revised version of IAS 32 "Financial Instruments" was published in October 2009. IAS 32 governs the recognition of rights issues denominated in a currency other than the functional currency. Previously, such rights were recognised as derivative liabilities. In future, rights of this kind must be classified as equity if certain circumstances apply. Application of the amendments to IAS 32 is mandatory for reporting periods from 1 January 2011.

IFRS 1 "First-time Adoption of International Financial Reporting Standards: Limited Exemption for First-time Adopters from Comparative IFRS 7 Disclosures" was supplemented to the effect that first-time adopters of IFRS are exempted from the disclosures in the notes introduced in March 2009 as a result of the amendment to IFRS 7. This ensures that the transitional rules on the application of the amended IFRS 7 also apply to first-time adopters of IFRS 7. Application of the amendments to IFRS 1 is mandatory for reporting periods from 1 July 2010.

The "Improvements to IFRS 2010" published in May 2010 represents a third collective standard to amend various IFRS. It contains amendments to six existing IFRS. They are mainly amendments, which are viewed as immaterial, such as the rectification of inconsistencies within the standards and clarification of ambiguous wording. Application of the standard is mandatory for reporting periods from 1 July 2010 and 1 January 2011.

As part of a revision in November 2009, IFRIC 14 "Payments of a Minimum Funding Requirement Amendments to IFRIC 14 IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction" was amended to the effect that companies that are subject to minimum finding requirements and pay advance contributions to comply with these minimum funding obligations may recognise the benefits arising from such an advance payment as assets. Application of IFRIC 14 is mandatory for financial years commencing on or after 1 January 2011.

IFRIC 19 "Extinguishing Financial Liabilities with Equity Instruments" was published in November 2009 and governs accounting for debt-equity swaps. In this context, entities extinguish financial liabilities either partially or entirely by issuing equities or other equity instruments. Application of IFRIC 19 is mandatory for financial years commencing on or after 1 July 2010.

NOTES ON THE CONSOLIDATED INCOME STATEMENT

7) Rental and lease income

a) Gross rental and lease income

The profit from property management activities amounts to EUR 141,112 thousand (2010: EUR 139,871 thousand).

Rental and lease income comprises the following components:

EUR thousand	2011	2010
Income from rents	183,133	178,856
Income from management activities	4,294	3,995
Other income	6,793	10,205
Gross rental income	**194,220**	**193,056**
Income from direct government grants	**9,919**	**12,859**
Total rental income	**204,139**	**205,915**

EUR 3,288 thousand of the rental income of EUR 183,133 (2010: EUR 178,856 thousand), is attributable to GSW Pegasus GmbH (see note 3 (b)). Rental income of EUR 1,754 thousand (2010: EUR 1,717 thousand) is attributable to the Charlottenstrasse property (formerly Kochstrasse).

The drop in other income of EUR 3,412 thousand is mainly the result of having sold the broad band cable systems as at 31 January 2011.

b) Income from direct government grants

This income is composed as follows:

EUR thousand	2011	2010
Direct rent subsidies	992	1,064
Direct government grants due to social housing	8,927	12,078
Other direct grants	0	-283
Income from direct government grants	**9,919**	**12,859**

c) Property operating expenses

EUR thousand	2011	2010
Cost of materials	-40,471	-45,627
Personnel expenses	-18,304	-16,254
Depreciation and amortisation	-332	-557
Other operating expenses	-12,918	-12,334
Total operating expenses	**-72,025**	**-74,772**
Other operating income	8,997	8,729
Property operating expenses	**-63,027**	**-66,043**

No disclosures can be provided of the expenses for individual apartments that are not let as the corresponding information is not available for all types of costs at the level of the individual apartments in the cost accounting of the GSW Group.

EUR 3,227 thousand (2010: EUR 3,237 thousand) of the property operating expenses relates to the Kochstraße property.

The cost of materials decreased year-on-year by EUR 5,156 thousand to EUR 40,471 thousand. This is the result of higher levels of capitalisation amounting to EUR 19,801 thousand (2010: EUR 17,126 thousand) while expenses for maintenance and modernisation remained virtually constant at EUR 41,139 thousand (2010: EUR 41,192 thousand).

The increase in staff costs is primarily the result of an increase in expenses for premium provisions.

8) Selling and general administrative expenses

The selling and general administrative expenses are composed as follows:

EUR thousand	2011	2010
Cost of goods and services	-9,100	-5,247
Personnel expenses	-519	-554
Depreciation and amortisation	0	0
Other operating expenses	-128	-98
Other operating income	205	2,679
Selling expenses relating to the disposal of investment property	**-9,542**	**-3,220**
Personnel expenses	-10,950	-11,084
Long term incentive plan	-9,990	0
Depreciation and amortisation	-644	-899
Legal and consulting expenses	-3,049	-2,415
Costs for annual financial statements, bookkeeping and audit	-917	-1,527
Expenses for postage, telecommunications and IT	-4,957	-5,294
Rent and leasing costs	-3,649	-3,674
IPO Costs	-6,728	-7,978
Other expenses	-8,571	-6,668
Other operating income	989	1,564
Administrative expenses	**-48,466**	**-37,975**

The higher level of operating expenses in connection with the disposal of investment property is primarily attributable to the rise of EUR 1,477 thousand in addition to provisions for outstanding invoices, the EUR 2,550 thousand increase in reversals of provisions for legal risks in the previous year, and changes to the sales structure.

The general administrative expenses contain expenses amounting to EUR 2,881 thousand (2010: EUR 2,845 thousand) relating to the part of the Kochstrasse property used by GSW. Of this figure, EUR 2,165 thousand (2010: EUR 2,140 thousand) is attributable to the general rent, EUR 21 thousand (2010: EUR 19 thousand) to expenses for ongoing maintenance and EUR 695 thousand (2010: EUR 686 thousand) to operating costs.

All costs incurred by the Group (including GSW Immobilien AG and all affiliated companies) for the audit of the annual financial statements in the financial year are included in the costs of the annual financial statements, accounting and auditing.

Please see note (36) for information on remuneration components with a long-term incentive effect.

9) Other income and expenses

Other income and expenses of EUR 25,090 thousand recognised in the 2011 financial year are mainly the result of selling two subsidiaries. Other income of over EUR 25 million was achieved from the sale of BMH Berlin Mediahaus GmbH. The other expenses of EUR 92 thousand recognised in the 2011 financial year result from the sale of Berlin Immobilien Verwaltungs- und Betriebsgesellschaft von 1996 mbH. Other income of EUR 26 thousand were achieved in the 2010 financial year. No other expenses incurred in the 2010 financial year.

10) Interest income and expenses

Interest income and expenses are composed as follows:

EUR thousand	2011	2010
Income from the disposal of the receivable from an interest derivative	10,808	0
Gains on changes in the fair value of interest derivatives	3,547	2,527
Interest income on interest derivatives	11,867	2,361
Interest on cash in bank accounts	1,813	573
Interest on adjustments in loan terms *	12,397	5,074
Other interest income	345	658
Interest income	**40,778**	**11,193**
Interest expenses from the financing of investment property	-47,213	-31,927
Net expenses from adjustments in loan terms *	-28,574	-14,211
Prepayment fees	-187	0
Losses on changes in the fair value of interest derivatives	-4,501	-3,999
Interest expense from interest derivatives	-27,357	-12,125
Interest expense from finance leases	-192	-206
Interest expense from the interest accrued on other provisions	-1,854	-2,428
Interest expense for other financial liabilities	-186	-197
Interest expense from changes in pension provisions	-91	-94
Other interest expenses	-63	-30
Interest expenses	**-110,217**	**-65,217**

* These P&L amounts include – besides the loan amortisation effects according to IAS 39.9 – P&L effects from changes in estimated cash flows according to IAS 39 AG 62 due to new conditions which were agreed upon or became evident only after the conclusion of the agreement as well as changes in the fair value with effect on the profit and loss statement according to IAS 39 AG 8 due to estimate modifications of cash outflow or inflow.

Interest income rose from EUR 11,193 thousand to EUR 40,778 thousand. The increase is attributable firstly to the extraordinary effect of the reversal and subsequent sale of a receivable from an interest rate derivative written-down in 2008. GSW sold this receivable, which was due from the insolvent Lehman Brothers International Europe (LBIE), in a structured bidding process on 30 September 2011. The purchase price of EUR 10,808 thousand was received in October 2011. A general increase in interest rates compared with the previous year and higher interest rates from the new swap agreements concluded in connection with the refinancing of the CMBS loan to GSW Grundbesitz GmbH & Co. KG led to higher interest income.

At the same time, interest expenses rose from EUR 65,217 thousand to EUR 110,217 thousand. This is also mainly the result of the general increase in interest rates compared with the previous year, higher interest rates as part of the refinancing of the CMBS loan to GSW Grundbesitz GmbH & Co. KG and the new swap agreements concluded in connection with the refinancing.

11) Income taxes

Income taxes include current income tax expense and income as well as deferred taxes. Income taxes are made up of trade tax on profits, corporation tax and the solidarity surcharge.

Expenses and income from income taxes are broken down as follows, according to origin:

EUR thousand	2011	2010
Current tax expense / income	-40	1,572
Deferred tax expense / income	-2,652	118
Tax expense / income	**-2,692**	**1,690**

Prior-period taxes amount to EUR 9 thousand (2010: EUR -1,596 thousand).

Deferred taxes developed as follows in the reporting year:

EUR thousand	2011	2010
Deferred taxes as of end of period	28	117
Changes affecting operating result	-2,652	118
Changes not affecting operating result (through OCI)	2,666	-207
Deferred taxes as of the end of the reporting period	**42**	**28**
Thereof long-term	41	25
Thereof short-term	1	3

Deferred tax assets were recognised by the "Facilita Berlin GmbH" subsidiary as it is expected to post positive results in future.

The theoretical income tax expense that would have resulted applying the tax rate of 30.175 % applicable to the parent company of the GSW Group (tax rate for 2010: 30.175 %) to the IFRS consolidated pre-tax income can be reconciled with the income taxes according to the statement of comprehensive income as follows:

EUR thousand	2011	2010
Pre-tax income (IFRS)	107,832	47,572
Group tax rate %	30	30
Expected tax expense	**-32,538**	**-14,355**
Changes in the impairment of deferred taxes	29,282	-65,156
Non-deductible operating expenses	-87	-225
Tax-free income	6	24
Additions and reductions in relation to trade tax	-1,435	-1,018
Tax from previous years	1,942	82,113
Other effects	137	307
Tax income / expense as reported on the income statement	**-2,692**	**1,690**

The amounts reported in the statement of reconciliation result from retrospective adjustments to the measurement of tax carrying amounts of the property portfolio. These adjustments also resulted in reconciliation effects on impairment losses on deferred tax assets.

Enterprises incorporated as corporations are subject to corporation tax at a rate of 15% (2010: 15%) plus a solidarity surcharge of 5.5% (2010: 5.5%) of the corporation tax set less amounts imputed against it. These companies and commercially active subsidiaries incorporated as partnerships are subject to trade tax levied at different rates by different municipal authorities. The trade tax rate for Berlin was 410% in the 2011 financial year (2010: 410%).

The base rate for municipal trade tax amounts to 3.5% (2010: 3.5%). Taking account of the collection rate of 410%, the trade tax rate accordingly amounts to 14.35%. In the year under review, the underlying domestic tax rate for the calculation of the deferred taxes is therefore 30.175% (2010: 30.175%).

The reconciliation effect for the changes in impairment on deferred tax assets is due to the non-recognition of deferred tax assets for temporary differences and on tax losses in the current year and the recognition of deferred tax assets on losses in previous years.

Additions in terms of trade tax result from the charges relating to interest on debt that is added to trading income on a pro rata basis. Reductions must be taken into account with respect to the properties' assessed values.

Deferred tax assets and liabilities arise from temporary differences and tax loss carryforwards as follows:

EUR thousand	31.12.2011		31.12.2010	
	Deferred tax assets	Deferred tax liabilities	Deferred tax assets	Deferred tax liabilities
Investment property	7,952	93,403	9,056	57,519
Property, plant and equipment	2,270	2,715	2,233	2,717
Investments	5	66	0	62
Development of property and inventories	2	0	1	26
Receivables and other assets	4,770	4,291	5,049	4,779
Derivatives	4,278	0	783	0
Special account with reserve characteristics	0	11,438	0	11,763
Employee benefits	101	0	103	0
Other provisions	45	19	289	1,356
Other bank loans	1,183	33,395	1,001	34,865
Trade payables	2	216	2	108
Other liabilities	2,131	4,475	4,232	4,779
Total temporary differences	**22,740**	**150,018**	**22,749**	**117,974**
Loss carry forward	127,320	0	95,253	0
Total	**150,060**	**150,018**	**118,002**	**117,974**
Offsetting	-150,018	-150,018	-117,974	-117,974
Amount recognised on balance sheet	**42**	**0**	**28**	**0**

Deferred tax assets are recognised for temporary differences and tax loss carryforwards to the extent that their realisation in the near future seems sufficiently certain. In the 2011 financial year, no deferred tax assets were recognised for temporary differences of EUR 13,132 thousand (2010: EUR 31,026 thousand), for tax loss carryforwards for corporation tax purposes of EUR 1,504,705 thousand (2010: EUR 1,723,196 thousand) and for trade tax purposes of EUR 1,755,349 thousand (2010: EUR 1,647,090 thousand) as it is not likely that sufficient taxable income will be generated for these amounts in the near future.

As at the end of the reporting period, GSW does not consider it likely that the loss carryforwards can be used. Thus, no deferred tax assets on taxable temporary differences are recognised. In general, for the purposes of the tax accounts at the end of the financial year, the operating assets must be reported in accordance with German general accounting principles (GoB) based on the German Commercial Code. However, certain tax options make it possible, in accordance with GoB, to use other valuation methods. In the past years, real estate valuations frequently led to write-downs according to the German Commercial Code and, having assessed whether the impairment was likely to be permanent, to a write-down to net present value according to tax law. Currently, there is an option to mirror the write-down to net present value in the tax accounts with regard to the authority of the HGB accounts for calculating the taxable profit.

The sum of temporary differences on interests in subsidiaries for which no deferred tax liabilities have been recognised in accordance with IAS 12.39 is EUR 234,440 thousand (2010: EUR 129,760 thousand).

Within the framework of minimum taxation in Germany, at the time of writing there is no legal restriction in terms of time on carrying tax losses forward.

12) Total auditor's fees

The total fees charged by the auditor of the annual financial statements and recognised as expense are composed as follows:

EUR thousand	2011	2010
Audit of annual financial statements	883	1,527
Thereof previous year	-44	583
Other certifications	585	1,460
Thereof previous year	0	46
Other services	109	178
Thereof previous year	5	0
Total fees	**1,577**	**3,165**

The other assurances services provided by the auditor in the 2011 financial year amounting to EUR 585 thousand (2010: EUR 1,460 thousand) also form part of the expenses incurred as part of the assessment of the company's capital market viability (see note 13).

13) Other information

In the 2011 financial year, costs totalling EUR 12,002 thousand (2010: EUR 7,979 thousand) were incurred in the context of ensuring the company's capital market viability and raising funds on the capital market. Of this figure, EUR 5,274 thousand (2010: EUR 0) was attributable to the capital increase and was netted off against the capital reserve. The other expenses amounting to EUR 6,728 thousand (2010: EUR 7,979 thousand) are recognised in general administrative expenses. All services supplied had been invoiced as at the end of the reporting period.

Non-recurring project costs[1] totalling EUR 3,922 thousand (2010: EUR 5,409 thousand) were also incurred in the reporting year. The project costs comprise expenses for third parties, which mainly relate to reorganisation projects and refinancing projects. Of the project costs, EUR 491 thousand (2010: EUR 1,425 thousand) is attributable to letting and EUR 3,431 thousand (2010: EUR 3,984 thousand) is attributable to administration. Of the project costs recognised under administration, EUR 1,671 thousand (2010: EUR 2,347 thousand) relates to the project for refinancing the CMBS loan to GSW Grundbesitz GmbH & Co. KG. In addition, costs of EUR 10,108 thousand incurred for the refinancing of the CMBS loan and the existing loan to Pegasus were deducted from the loan as transaction costs. The transaction costs are amortised over the term.

Project costs for acquisitions[2] of EUR 2,869 thousand (2010: EUR 0) were also incurred. These are mainly recognised in general administrative expenses.

[1] Project costs include expenses for ventures, which are mostly non-recurring with a complex structure and with objectives, which are accomplished with specified time frame | [2] Acquisition costs are expenses which are related to the purchase of investment property conducted as an asset-or share deal

Staff costs totalled EUR 31,116 thousand (2010: EUR 27,892 thousand) in the reporting year. These include restructuring expenses of EUR 422 thousand (2010: EUR 527 thousand).

14) Earnings per share

Basic earnings per share are calculated in accordance with IAS 33.19 by dividing consolidated net income by the weighted number of shares in circulation in the financial year.

The calculation of the weighted average of the shares in circulation in the 2011 financial year is produced as follows:

	2011
Number of issued shares as at January 1	35,000,000
Additionally issued shares on April 15	6,052,630
Number of issued shares as at December 31	41,052,630
Average number of shares outstanding (diluted and undiluted)	**39,328,045**

On the assumption that the equity instruments were already traded on a public market in the 2010 financial year, whereby one share has a nominal value of EUR 1, the calculation of the weighted average of issued shares is as follows:

	2010
Number of issued shares as at January 1	10,000,000
Additionally issued shares on January 4	25,000,000
Number of issued shares as at December 31	35,000,000
Average number of shares outstanding (diluted and undiluted)	**34,726,027**

The earnings per share amount to:

	2011	2010
Group earnings attributable to GSW's shareholders (EUR thousand)	105,128	49,262
Average weighted number of shares outstanding	39,328,045	34,726,027
Earnings per share (diluted and undiluted, EUR)	**2.67**	**1.42**

15) Net earnings by measurement category

The net profit or loss on financial instruments is due to changes in fair value, value impairment, reversals and derecognitions. In the financial year, interest income and expenses resulted for financial instruments which were measured at fair value through profit and loss. The interest on financial instruments is shown in interest income and expenses.

The GSW Group recognises the other net earnings components as follows: The impairment allowances and depreciation and amortisation on deliveries and services attributable to the "loans and receivables" measurement category are recognised in the net rental and building management income (other operating income and other operating expenses).

"Other income" (other operating income and expenses) is shown under the income from other earnings components in the loans and receivables measurement category.

The following table shows the net earnings according to measurement category:

2011			From subsequent measurement					
EUR thousand	From interest	From dividends	At fair value	Impairment allowance	Write-ups	From disposals	From other earnings components	Net earnings
LaR	1,620	0	0	-972	697	-2,977	14	-1,618
HtM	0	0	0	0	0	0	0	0
AfS	8	172	0	-39	26	25,348	0	25,515
FVTPL - FVO	0	0	0	0	0	0	0	0
FLHfT	-15,490	0	-1,829	0	10,808	0	0	-6,511
FLaC	-63,479	0	0	0	0	113	-9	-63,375
Total	**-77,341**	**172**	**-1,829**	**-1,012**	**11,531**	**22,484**	**6**	**-45,989**

2010			From subsequent measurement					
EUR thousand	From interest	From dividends	At fair value	Impairment allowance	Write-ups	From disposals	From other earnings components	Net earnings
LaR	582	0	0	-525	1,354	-3,275	206	-1,658
HtM	0	0	0	0	0	0	0	0
AfS	31	97	0	0	0	0	0	128
FVTPL - FVO	0	0	0	0	0	0	0	0
FLHfT	-9,764	0	-1,387	0	0	0	0	-11,151
FLaC	-41,284	0	0	0	0	45	-14	-41,253
Total	**-50,435**	**97**	**-1,387**	**-525**	**1,354**	**-3,230**	**192**	**-53,934**

LaR = Loans and Receivables
HtM = Held to Maturity
AfS = Available for Sale
FVTPL-FVO: Fair Value Through Profit and Loss - Fair Value Option
FLHfT: Financial Liabilities Held for Trading
FLaC = Financial Liabilities at Cost

In the 2011 financial year, the impairment losses (EUR 1,012 thousand) mainly related to the trade receivables category. The gains recognised from reversing previous impairment in 2011 include income from the sale of a receivable from an interest rate derivative of EUR 10,808 thousand (see note (10)).

NOTES ON THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION

16) Investment property, including investment property held for sale

There were the following changes to the carrying amount of investment property in the financial year:

EUR thousand	2011	2010
As of January 1	2,571,723	2,585,281
Changes in the scope of consolidation	330,000	0
Additions	24,059	18,469
Disposals	-37,388	-20,392
Reclassification according to IFRS 5	-14,316	-8,370
Fair value adjustments	56,172	-3,265
As of December 31	**2,930,249**	**2,571,723**

The changes in the scope of consolidation are the result of the acquisition of GSW Pegasus GmbH. The additions in the 2011 financial year mainly relate to the acquisition of 101 residential units in Berlin-Reinickendorf by the subsidiary Gesellschaft für Stadterneuerung mbH and additions from modernisation measures.

The investment property including property held for sale is composed as follows:

	31.12.2011		31.12.2010		31.12.2009	
	Residential property	Commercial property	Residential property	Commercial property	Residential property	Commercial property
Units	52,790	913	48,776	907	49,671	916
Area (in sqm)	3,244,039	101,672	3,003,073	100,442	3,054,251	101,076

The portfolio of the GSW Group also includes 8,943 (2010: 7,679) parking spaces.

One commercial unit used by the GSW Group is recognised in accordance with IAS 16.

The fair values of investment property, including the property held for sale accounted for in accordance with IFRS 5, can be broken down as follows:

EUR thousand	31.12.2011		31.12.2010	
	Investment property	Property held for sale	Investment property	Property held for sale
Built plots	2,907,699	15,518	2,546,939	8,726
Unbuilt plots	22,550	74	24,784	0
Total	**2,930,249**	**15,592**	**2,571,723**	**8,726**

The fair values of the properties in the portfolio (IAS 40/IFRS 5) as at 31 December 2011 would be as follows if the discount had varied by +/- 0.5% from the interest rate used as at 31 December 2011:

EUR thousand	+ 0.5 %	- 0.5 %
Built plots	2,817,779	3,034,514
Unbuilt plots*	22,624	22,624
Total	**2,840,403**	**3,057,138**

* No correlation to the discount interest rate. The assumed amount does not change.

Some of the investment property is let under commercial tenancy or lease agreements. The tenancy or lease agreements usually run for ten years with a renewal option for a maximum of five years on two occasions. Generally, the tenancy agreements concluded by the GSW Group for residential property can be terminated by the tenants subject to a notice period of three months as at the end of the month. The following payment claims from the minimum rents/leasing instalments are expected over the next few years on the basis of the agreements in place as at 31 December 2011:

EUR thousand	Up to one year	Between one and five years	More than five years
Future payments for operating leases as per Dec. 31, 2011	54,489	6,420	945
Future payments for operating leases as per Dec. 31, 2010	43,337	7,496	1,182

Actual maintenance expenses and capitalised expenses are shown in the table below:

EUR thousand	31.12.2011	31.12.2010
Maintenance expenses	21,339	24,066
Capitalisation	19,801	17,126
Total	**41,139**	**41,192**

Maintenance expenses of EUR 1,394 thousand (2010: EUR 156 thousand) were capitalised for which government assistance was received. This was deducted from the carrying amounts of the respective properties in accordance with IAS 20.

In addition, maintenance expenses of EUR 68 thousand (2010: EUR 1,500 thousand) from parked invoices were capitalised.

Overall an amount of EUR 13.01 / sqm (2010: EUR 13,08 / sqm) has been invested for maintenance and modernisation in the financial year 2011.

17) Property, plant and equipment

Please refer to the statement of changes in non-current assets as regards the development of property, plant and equipment.

18) Goodwill

In the year under review, the annual goodwill impairment test did not result in the need to recognise impairment losses as the recoverable amount exceeded the carrying amount. The goodwill is assigned to Facilita. The recoverable amount was determined on the basis of the value in use employing the DCF method. This involved using the planned cash flows (after taxes) from the five-year plan approved by the management of GSW Immobilien AG. The fifth year of the plan is used for cash flows beyond the five-year period. A growth rate of 1 % (2010: 0 %) was taken into account to explore the last year of the plan. The weighted average cost of capital used for discounting purposes is based on the risk-free interest rate of 3.25 % (2010: 3.25 %) and a market risk premium of 5 % (2010: 5 %). In addition, a beta factor derived from the respective peer group, a tax rate and the capital structure are taken into account for the CGUs. The cash flows were discounted on the basis of a pre-tax discount rate of 7.04 % (2010: 7.00 %).

The value in use of the cash generating units is generally determined on the basis of the company's planning figures. Both past data and expected market performance are included in the calculation. The carrying amount of goodwill as at 31 December 2011 was EUR 1,125 thousand (2010: EUR 1,125 thousand).

Management is of the opinion that no change to the basic assumptions made in determining the cash generating units' value in use that can reasonably be expected could lead to the carrying amounts of the cash generating units significantly exceeding their recoverable amounts.

19) Other intangible assets

The development of the individual items in the Group's intangible assets is shown in the statement of changes in non-current assets that forms an integral component of these Group notes.

20) Other financial investments

The financial instruments categorised as available for sale in other financial instruments reported under non-current assets are measured at fair value as at the end of the reporting period. If the fair value cannot be reliably measured because of the absence of an active market or using other measurement methods, they are recognised at cost. Other financial instruments are non-consolidated shares in subsidiaries and securities.

Other financial instruments are composed as follows:

EUR thousand	31.12.2011	31.12.2010
Amortised cost	6,171	5,822
Fair Value	0	961
Financial instruments of non-current assets in the "available for sale" category	**6,171**	**6,783**

The securities reported with a fair value of EUR 961 thousand in the previous year expired in the year under review.

21) Development services for properties and other inventories

Development services for properties are composed as follows:

EUR thousand	31.12.2011	31.12.2010
Development activities for properties at disposal in ordinary operating activities	2	94
Development activities for investment property and other inventories	**2**	**94**

22) Trade receivables

Trade receivables are composed as follows:

EUR thousand	31.12.2011	31.12.2010
Trade receivables (gross)	13,076	14,486
Impairment allowances for trade receivables	-7,749	-6,317
Trade receivables	**5,327**	**8,169**

The amount recognised for trade receivables breaks down as follows among the individual operating activities of the GSW Group:

EUR thousand	31.12.2011	31.12.2010
Receivables from property management	1,381	2,814
Receivables from sales of investment property	2,743	3,694
Other trade receivables	1,203	1,661
Trade receivables	**5,327**	**8,169**

The remaining terms of trade receivables are as follows:

EUR thousand	Due within one year	Due between one year and five years	Due after five years
31.12.2011	4,825	485	17
31.12.2010	6,566	1,474	129

23) Receivables from related parties

Receivables from related parties are composed as follows:

EUR thousand	31.12.2011	31.12.2010
Receivables due from shareholders	1	0
Receivables due from related parties	**1**	**0**

As in the previous year, there are no receivables due from joint ventures, associates and other related parties in the year under review.

Impairment allowances for recognisable default risks were not required as at the end of the respective reporting periods.

Receivables due from related parties are due for payment on the following dates:

EUR thousand	Due within one year	Due between one year and five years	Due after five years
31.12.2011	1	0	0
31.12.2010	0	0	0

Further information on related parties can be found in note (37).

24) Other assets

Other assets break down as follows:

EUR thousand	31.12.2011	31.12.2010
Derivatives measured at fair value	1	0
Receivables from government grants	7	2
Receivables from employees	146	137
Creditors with debit balances	451	280
Security provision for maintenance obligations	5,700	0
Miscellaneous	1,904	1,549
Other financial assets	8,208	1,968
Prepayments and deferred expenses	1,788	433
Receivables from other taxes	1,202	1,550
Advance payments	65	4,357
Others	12	0
Other miscellaneous assets	3,067	6,340
Other assets	**11,276**	**8,308**

The provision of collateral for maintenance obligations consists of a pledged credit balance for maintenance obligations that will be used within the next two years.

The remaining terms of other assets are as follows:

EUR thousand	Due within one year	Due between one year and five years	Due after five years
31.12.2011	4,575	5,777	924
31.12.2010	7,282	75	951

25) Assets held for sale and liabilities associated with assets held for sale

In accordance with IFRS 5, the assets held for sale include properties where a decision has been taken to dispose of the property as at the end of the relevant reporting period, the sale is seen as being highly probable within 12 months of the decision and active marketing efforts have been initiated.

The sale of the subsidiary GSW Betreuungsgesellschaft für Wohnungs- und Gewerbebau Berlin GmbH is also planned in 2012 and must be viewed as highly probable. This is why assets and liabilities were classified in accordance with IFRS 5. The items of BMH Berlin GSW Betreuungsgesellschaft für Wohnungs- und Gewerbebau Berlin GmbH recognised in this connection under assets held for sale and liabilities from assets held for sale as at 31 December 2011 are as follows:

EUR thousand	31.12.2011
Long-term assets	**183**
Intangible assets and property, plant and equipment	177
Accounts receivable and other current assets	6
Short term assets	**1,285**
Accounts receivable and other current assets	169
Cash and cash equivalents	1,116
Total assets	**1,468**
Long term liabilities and provisions	**16**
Long-term provisions	16
Short term liabilities and provisions	**648**
Short term provisions	14
Trade payables	78
Other liabilities	556
Provisions and liabilities	**664**
Net assets	**804**

By way of a purchase and transfer agreement dated 22 December 2010, GSW sold all shares in BMH Berlin Mediahaus GmbH effective 31 January 2011. The items of BMH Berlin Mediahaus GmbH recognised in this connection under assets held for sale and liabilities from assets held for sale as at 31 December 2010 are as follows:

EUR thousand	31.12.2010
Long-term assets	**237**
Intangible assets and property, plant and equipment	237
Short term assets	**67**
Accounts receivable and other current assets	1
Cash and cash equivalents	66
Total assets	**304**
Short term liabilities and provisions	**18**
Trade payables	18
Provisions and liabilities	**18**
Net assets	**286**

26) Equity

The changes in the components making up the Group's equity are reported in the statement of changes in consolidated equity.

a) Issued capital, capital reserves and authorised capital
The changes in equity are shown in the statement of changes in consolidated equity.

GSW's issued capital amounted to EUR 41,052,630 (2010: EUR 35,000,000). The number of ordinary shares issued as at 31 December 2011 came to 41,052,630 (2010: 35,000,000). A pro rata amount of the share capital of EUR 1.00 is attributable to each share. The shares are fully issued and fully paid. With the resolution of the Annual General Meeting on 13 April 2011, the company's share capital was increased by issuing 6,052,630 near no-par value ordinary bearer shares against capital contributions. The capital increase was entered in the commercial register.

Gross proceeds of EUR 115,000 thousand were generated from the newly issued shares.

GSW's capital reserves amount to EUR 128,800 thousand as at 31 December 2011. The income of EUR 108,947 thousand in excess of the nominal amount raised by the capital increase was netted off against the costs of EUR 5,274 thousand incurred. EUR 9,990 thousand was appropriated for share-based components in accordance with IFRS 2 (see note 36)). As a result, the capital reserves increased by EUR 113,663 thousand in total.

As part of the IPO, 29,492 shares were issued to employees gratuitously at the issuance price for the offered shares of EUR 19.00.

As a result of the resolution by the Annual General Meeting, there is an option to increase the share capital by EUR 17,500 thousand by issuing 17,500,000 shares (authorised capital). The authorisation is limited until 17 March 2016.

b) Revenue reserves

Revenue reserves include the earnings of the companies included in the consolidated financial statements in past periods and in the current period in as far as they were not distributed.

c) Other comprehensive income

Other comprehensive income, which includes the adjustments in fair value for owner-occupied properties measured according to the revaluation method and adjustments in fair value for derivatives in cash flow hedges and for securities classified as available for sale and other financial investments, developed as follows:

EUR thousand	2011	2010
Balance at January 1	**-11,068**	**-12,048**
Other equity accumulated from the fair market valuation of securities and other financial assets held for sale	-10	-1
Other equity accumulated from the fair market valuation of owner-occupied properties	68	48
Accumulated fair value changes of derivatives in cash flow hedges	-37,787	1,140
Deferred taxes	2,666	-207
	-46,131	**-11,068**
Thereof attributable to minority interests	10	0
Balance as of December 31	**-46,121**	**-11,068**

d) Non-controlling interests

The share of comprehensive income attributable to non-controlling interests is as follows as at the end of the reporting period:

EUR thousand	31.12.2011	31.12.2010
Minority interests in consolidated net profit	12	0
Minority interests in accumulated other equity	-10	0
Minority interests in total comprehensive income	**2**	**0**

e) Statement of comprehensive income

The statement of comprehensive income, which includes the fair value adjustments for the owner-occupied properties measured according to the revaluation method and the fair value adjustment for derivatives in cash flow hedges and for securities classified as available for sale and other financial investments, developed as follows:

EUR thousand	Before deferred taxes	Deferred taxes 01.01.-31.12.2011	After deferred taxes
Group earnings	105,141	0	105,141
Other equity accumulated from the fair market valuation of AFS securities and other financial assets	-10	3	-7
Other equity accumulated from the fair market valuation of owner-occupied properties	68	-20	48
Fair value adjustment of derivatives in cash flow hedges	-36,912	2,621	-34,291
Reclassification of interest derivatives with impact on the P&L	-875	62	-813
Total consolidated earnings	**67,412**	**2,666**	**70,078**

EUR thousand	Before deferred taxes	Deferred taxes 01.01.-31.12.2010	After deferred taxes
Group earnings	49,262	0	49,262
Other equity accumulated from the fair market valuation of AFS securities and other financial assets	-1	0	-1
Other equity accumulated from the fair market valuation of owner-occupied properties	48	-15	33
Fair value adjustment of derivatives in cash flow hedges	1,461	-246	1,215
Reclassification of interest derivatives with impact on the P&L	-321	54	-267
Total consolidated earnings	**50,449**	**-207**	**50,242**

27) Pension provisions

The pension systems are designed as defined contribution plans and defined benefit plans. Pension provisions are recognised for obligations due to the vested rights of certain former employees of the GSW Group and their surviving dependents. These pension commitments based on defined benefit plans relate to individual commitments involving fixed, non-recurring payments and are fully funded through provisions. Additionally there are pension commitments due to defined contribution plans which are funded through the employees in question converting salary into pension contributions.

In addition, the companies of the GSW Group are members of the Versorgungsanstalt des Bundes und der Länder (Pension Institution of the Federal Republic and the Laender). The Pension Institution of the Federal Republic and the Laender is a public corporation that grants an additional pension to employees of public corporations and certain legal entities incorporated under private law. Due to its present constitution and regulations, the Pension Institution of the Federal Republic and the Laender is to be classified as a multi-employer defined benefit plan. In accordance with IAS 19.30(a), however, the commitments made by the Pension Institution of the Federal Republic and the Laender are recognised as a defined contribution plan as, due to the information available, it is not possible to measure the pension commitments using the method required for defined benefit plans in IAS 19.

According to IAS 19, the measurement of pension provisions for defined benefit plans is carried out on the basis of actuarial assumptions. The following parameters were used in the two financial years:

in %	2011	2010
Interest rate - current pensioners	4.2 %	4.8 %
Pension trend	2.0 %	2.0 %
Salary trend	2.5 %	2.5 %

The companies of the GSW Group used the 2005G Heubeck mortality tables.

In 2011, the defined benefit plans resulted in expenses of EUR 91 thousand (2010: EUR 95 thousand) which were made up as follows:

EUR thousand	2011	2010
Past service cost	0	0
Interest expense	91	95
Realised actuarial gains	0	0
Pension expenses	**91**	**95**

The value of the provision is made up as follows:

EUR thousand	31.12.2011	31.12.2010
Present value of pension commitments	2,016	1,980
Actuarial gains and losses not realised	-123	-20
Provision	**1,893**	**1,960**

The present value of the pension commitments developed as follows in the corresponding periods:

EUR thousand	2011	2010
Present value on January 1	1,980	2,053
Pension expenses	0	0
Interest expense	91	95
Payments	-158	-164
Realisable actuarial income	103	-4
Present value of employee benefits as of December 31	**2,016**	**1,980**

In 2011, the payments made by the GSW Group to the Pension Institution of the Federal Republic and the Laender amounted to EUR 1,644 thousand (2010: EUR 1,657 thousand). The employer portion of the statutory pension came to EUR 2,216 thousand in 2011 (2010: EUR 2,194 thousand).

28) Other provisions

Other provisions are composed as follows:

2011 EUR thousand	Status at 01.01.2011	Additions from first consolidation	Additions	Interest cost	Utilised	Reversed	Reclassification according to IFRS 5	Status at 31.12.2011
Provision for onerous contracts	1,260	0	82	183	-54	-844	0	627
Provision for other employee benefits	391	0	4	9	-94	0	-18	292
Provision for litigation costs	2,886	95	711	20	-955	-1	-12	2,744
Other miscellaneous provisions	2,498	224	968	-99	-1,481	-133	0	1,977
Other provisions	**7,035**	**319**	**1,765**	**113**	**-2,584**	**-978**	**-30**	**5,640**

2010 EUR thousand	Status at 01.01.2010	Additions from first consolidation	Additions	Interest cost	Utilised	Reversed	Reclassification according to IFRS 5	Status at 31.12.2010
Provision for onerous contracts	1,171	0	60	56	-27	0	0	1,260
Provision for other employee benefits	900	0	34	0	-513	-30	0	391
Provision for litigation costs	4,390	0	984	-237	-733	-1,518	0	2,886
Other miscellaneous provisions	2,873	0	1,662	5	-2,009	-33	0	2,498
Other provisions	**9,334**	**0**	**2,740**	**-176**	**-3,282**	**-1,581**	**0**	**7,035**

The provision for onerous contracts relates to construction work obligations for properties which the GSW Group has sold to real estate funds. The construction work obligations which result from purchase and building contracts concerning residential units that have not yet been modernised, must be satisfied by GSW within an unlimited timescale.

The provisions accrued for other employee benefits include obligations in relation to part-time employment for older workers, i.e. future obligations of the GSW Group from arrears accrued during the entitled employee's active phase and from a top-up. Obligations to employees who have concluded an agreement concerning part-time employment for older workers were included in the calculation. The payments in question to satisfy these obligations will accrue up to the 2014 financial year.

The provisions for litigation costs mainly include risks relating to the removal of defects for two properties that are for sale. The provision has a remaining term of two years.

Other miscellaneous provisions include provisions for archiving business documents in an amount of EUR 649 thousand (2010: EUR 677 thousand) with a remaining term of ten years.

29) Financial liabilities

Financial liabilities are composed as follows:

EUR thousand	31.12.2011	31.12.2010
Liabilities from financing investment property	1,769,020	1,604,525
Liabilities from finance leases	1,869	2,026
Financial liabilities	**1,770,889**	**1,606,550**

a) Liabilities to banks from property financing

The liabilities due to banks predominantly result from the financing of investment property and are characterised by the following carrying amounts, interest rates and final maturities. All loans were granted in euro.

Maturity	31.12.2011 EUR thousand	31.12.2010 EUR thousand	Interest rate as % in 2011
2011	0	899,578	
2013	46,945	44,308	Euribor + mark up
2014	28,651	28,665	Euribor + mark up
2016	260,980	1,661	Euribor + mark up
2017	377,742	163,693	Euribor + mark up
2018	344,878	97,361	Euribor + mark up
2019	107,390	0	Euribor + mark up
2020 - 2021	195,262	48	4.00% - 5.75%
Without contractual maturity	407,173	369,211	0.00% - 7.37%
Total	**1,769,020**	**1,604,525**	

As in the previous year, there are no loans in the year under review with a final maturity in 2012 and 2015.

Liabilities to banks increased by EUR 164,496 thousand to EUR 1,769,020 thousand compared with 31 December 2010.

The increase is mainly the result of the real estate financing of GSW Pegasus GmbH, which was acquired in November, amounting to EUR 218,300 thousand.

Furthermore, amortisation effects from the effective interest method in accordance with IAS 39.9, as well as present value changes in accordance with IAS 39 AG 8 due to new conditions which were agreed upon or became evident only after conclusion of the agreement led to an increase in the carrying amount.

This was offset by the refinancing of the CMBS loan as at 15 February 2011, at which date it had a volume of approximately EUR 890,000 thousand. The CMBS loan was refinanced by taking on new bank loans in a volume of EUR 875,000 thousand and through payments made from the company's cash funds. In addition, scheduled repayments and non-scheduled repayments totalling EUR 37,737 thousand were made in the reporting period. New loans were taken on as part of refinancing a loan in the amount of EUR 1,791 thousand.

Liabilities are generally secured by the provision of matching collateral in rem and the assignment of rights under the tenancy agreements. All portfolio properties and properties for sale serve as collateral.

The remaining terms of liabilities to banks from property financing are as follows:

EUR thousand	Due within one year	Due between one year and five years	Due after five years
31.12.2011	36,849	455,676	1,276,496
31.12.2010	899,578	72,973	631,974

The effective rates of interest for the loans vary within the following ranges, depending on the date that the loans mature:

	31.12.2011		31.12.2010	
	Minimum	Maximum	Minimum	Maximum
1 – 5 years	1.15	5.86	1.78	6.01
6 – 10 years	1.56	6.55	2.62	6.92
11 – 20 years	3.90	6.91	3.90	7.14
21 – 30 years	3.87	8.10	4.02	8.10
> 30 years	4.44	7.27	3.87	7.27

b) Finance lease liabilities

Financial lease liabilities result from heating contracts and IT leases. Their remaining terms are as follows:

EUR thousand	Due within one year	Due between one year and five years	Due after five years
31.12.2011	220	786	863
31.12.2010	225	723	1,078

As at 31 December 2011, future payments resulting from finance leases can be reconciled with the carrying amount of recognised liabilities as follows:

EUR thousand	Due within one year	Due between one year and five years	Due after five years
Payments	397	1,315	1,073
Interest component	-177	-529	-210
Principal repayments	220	786	863

The reconciliation as at 31 December 2010 was as follows:

EUR thousand	Due within one year	Due between one year and five years	Due after five years
Payments	417	1,324	1,390
Interest component	-192	-601	-312
Principal repayments	225	723	1,078

30) Liabilities to related parties

Liabilities to related parties are composed as follows:

EUR thousand	31.12.2011	31.12.2010
Payables due to other related parties	20	20

Further disclosures on related parties can be found in note (37).

Liabilities to related parties are all due within one year.

31) Other liabilities

Other liabilities can be broken down as follows:

EUR thousand	31.12.2011	31.12.2010
Restricted dividends	110	79
Derivatives	53,568	15,010
Other financial liabilities	4,224	1,960
Accrued ground rent	1,571	1,599
Other taxes	2,293	1,338
Liabilities due to employees	4,787	3,872
Social security payments	380	369
Miscellaneous	1,873	1,476
Other miscellaneous liabilities	10,904	8,654
Other liabilities	68,806	25,703

Other liabilities have the following remaining terms:

EUR thousand	Due within one year	Due between one year and five years	Due after five years
31.12.2011	12,053	52,536	4,217
31.12.2010	6,752	16,050	2,901

32) Additional disclosures on financial instruments

Cash and cash equivalents and trade receivables predominantly have short remaining terms. Their carrying amounts as at the end of the reporting period therefore approximately match their fair value.

The financial investments class includes financial instruments with a value of EUR 6,171 thousand in the available for sale measurement category, which are not measured at fair value due to a lack of market data. These financial instruments are measured at cost.

Assets as per 31.12.2011	Valuation category according to IAS 39	Amortised cost		Fair value	Not in the scope of IFRS 7	Other non-financial instruments	Total
EUR thousand		Carrying amount	Fair Value	Carrying amount	Carrying amount	Carrying amount	Carrying amount
Securities	AfS	250	250	0	0	0	250
Other financial assets	AfS	5,921	5,921	0	0	0	5,921
Trade receivables	LaR	5,327	5,327	0	0	0	5,327
Other receivables	LaR	8,209	8,209	0	0	3,067	11,276
Derivatives [1]		0	0	0	1	0	1
Cash and cash equivalents	LaR	62,618	62,618	0	0	0	62,618
TOTAL ASSETS		**82,325**	**82,325**	**0**	**1**	**3,067**	**85,392**

Classification within fair value hierarchy according to IFRS 7.27B(a) in connection with IFRS 7.27A:
[1] Derivatives: Level 2 (valued on the basis of observable input factors / market data)

Assets as per 31.12.2010	Valuation category according to IAS 39	Amortised cost		Fair value	Not in the scope of IFRS 7	Other non-financial instruments	Total
EUR thousand		Carrying amount	Fair Value	Carrying amount	Carrying amount	Carrying amount	Carrying amount
Securities [1]	AfS	961	961	0	0	0	961
Securities	AfS	250	250	0	0	0	250
Other financial assets	AfS	5,572	5,572	0	0	0	5,572
Trade receivables	LaR	8,169	8,169	0	0	0	8,169
Other receivables	LaR	1,967	1,967	0	0	6,340	8,308
Derivatives [2]		0	0	0	0	0	0
Cash and cash equivalents	LaR	70,781	70,781	0	0	0	70,781
TOTAL ASSETS		**87,700**	**87,700**	**0**	**0**	**6,340**	**94,041**

Classification within fair value hierarchy according to IFRS 7.27B(a) in connection with IFRS 7.27A:
[1] Securities: Level 1 (valued on the basis of price quotations from an active market)
[2] Derivatives: Level 2 (valued on the basis of observable input factors / market data)

Liabilities as per 31.12.2011	Valuation category according to IAS 39	Amortised cost		Fair value	Not in the scope of IFRS 7	Other non-financial instruments	Total
EUR thousand		Carrying amount	Fair Value	Carrying amount	Carrying amount	Carrying amount	Carrying amount
Financial liabilities	FLaC	1,770,889	1,632,151	0	0	0	1,770,889
Trade payables	FLaC	24,969	24,969	0	0	0	24,969
Derivatives [1]	FLHfT	0	0	4,715	48,853	0	53,568
Other liabilities	FLaC	1,423	1,423	0	0	13,726	15,149
TOTAL liabilities		**1,797,281**	**1,658,543**	**4,715**	**48,853**	**13,726**	**1,864,574**

Classification within fair value hierarchy according to IFRS 7.27B(a) in connection with IFRS 7.27A:
[1] Derivatives: Level 2 (valued on the basis of observable input factors / market data)

Liabilities as per 31.12.2010	Valuation category according to IAS 39	Amortised cost		Fair value	Not in the scope of IFRS 7	Other non-financial instruments	Total
EUR thousand		Carrying amount	Fair Value	Carrying amount	Carrying amount	Carrying amount	Carrying amount
Financial liabilities	FLaC	1,606,550	1,616,642	0	0	0	1,606,550
Trade payables	FLaC	23,812	23,812	0	0	0	23,812
Derivatives [1]	FLHfT	0	0	2,886	12,124	0	15,010
Other liabilities	FLaC	1,979	1,979	0	0	8,654	10,634
TOTAL liabilities		**1,632,341**	**1,642,433**	**2,886**	**12,124**	**8,654**	**1,656,006**

Classification within fair value hierarchy according to IFRS 7.27B(a) in connection with IFRS 7.27A:
[1] Derivatives: Level 2 (valued on the basis of observable input factors / market data)

Trade payables and other liabilities generally have short remaining terms. The carrying amounts approximately match the fair value. The financial liabilities class comprises primary financial instruments whose fair values do not correspond to the carrying amounts (liabilities to banks from property financing).

The fair values of primary financial instruments where the fair values differ from the carrying amounts are shown in the following table:

	31.12.2011		31.12.2010	
EUR thousand	**Carrying amount**	**Fair value**	**Carrying amount**	**Fair value**
Liabilities from financing investment property	1,769,020	1,630,282	1,604,525	1,614,616

The fair values of the liabilities to banks from property financing or other financing are calculated on the basis of market interest rates which are made up of a risk-free rate plus a mark-up reflecting the credit rating and depending on the term of the loan.

The carrying amounts of other primary financial instruments correspond to their fair values. This concerns, in particular, trade receivables and trade payables, other financial assets and liabilities and receivables due from related parties.

NOTES ON THE STATEMENT OF CASH FLOWS

33) Composition of cash and cash equivalents

Financial resources correspond to the cash and cash equivalents reported in the statement of financial position and mainly consist of cash balances in bank accounts.

OTHER DISCLOSURES

34) Financial instruments

a) Risk management principles
The GSW Group considers itself exposed to default risks, liquidity risks and market risks due to its use of financial instruments. There is an effective risk management system which is supported by a clear functional organisation for the risk control process.

Financial policy is drawn up by the Management Board and monitored by the Supervisory Board. The financing department is responsible for execution of financial policy and ongoing risk management. The use of derivative financial instruments is regulated by relevant guidelines and they may only be used to hedge existing underlying transactions and transactions that are planned as long as they are sufficiently probable. These guidelines set out the responsibilities, the permissible framework for action and reporting duties. They stipulate that trading and settlement are kept strictly separate.

b) Default risks
The risk of business partners – mainly GSW's tenants – being unable to meet their contractual payment obligations counts as a loan and default risk and may lead to a loss for the GSW Group. A credit rating check is carried out to control default risks.

Default risks exist for all classes of financial instruments, particularly for trade receivables. The GSW Group does not consider itself exposed to any significant credit rating risk in relation to any individual contractual partner. The concentration of the credit rating risk is limited due to the broad and mixed customer base.

The credit rating of contractual partners is subject to ongoing monitoring. Where a contractual partner's credit rating deteriorates significantly, GSW aims to reduce the positions with such partners as swiftly as possible and refrains from entering into further positions with them.

As is shown in the following table, the carrying amounts of the financial assets shown in the statement of financial position net of any impairment allowances constitute the highest-possible default risk, not including the value of collateral received or other agreements aimed at reducing risk.

EUR thousand Maximum default risk	31.12.2011 Carrying amount after value impairment	31.12.2010 Carrying amount after value impairment
Balance sheet:		
Securities (fair value)	0	961
Securities (at cost)	250	250
Other financial assets	5,921	5,572
Trade receivables	5,327	8,169
Other receivables	8,209	1,967
Derivatives	1	0
Liquid funds	62,618	70,781
Non-balance sheet:		
Guarantees [1]	3,423	3,552

[1] With respect to guaranties, the maximum utilisation amount is reported instead of the carrying amount.

The following table presents the financial assets that had been subject to impairment as at the end of the reporting period:

		31.12.2011	
EUR thousand Class of financial instrument	Carrying amount before value impairment	Value impairment	Fair value of available collateral
Securities (at cost)	250	0	0
Other financial assets	5,959	-38	0
Trade receivables	16,118	-10,791	0
Other receivables	8,287	-78	0
Total	**30,614**	**-10,907**	**0**

EUR thousand Class of financial instrument	31.12.2010 Carrying amount before value impairment	Value impairment	Fair value of available collateral
Securities (fair value)	961	0	0
Securities (at cost)	250	0	0
Other financial assets	5,572	0	0
Trade receivables	17,782	-9,613	0
Other receivables	2,013	-45	0
Total	**26,578**	**-9,658**	**0**

Impairment developed as follows in 2011:

EUR thousand Changes in value impairment 2011	Value impairment as at January 1	Changes in value impairment recognised in the income statement	Derecognition of financial assets	Value impairment as at December 31
Securities (at cost)	0	0	0	0
Other financial assets	0	0	-38	-38
Trade receivables	-9,613	-1,464	285	-10,791
Other receivables	-45	-32	0	-78

Impairment developed as follows in 2010:

EUR thousand Changes in value impairment 2010	Value impairment as at January 1	Changes in value impairment recognised in the income statement	Derecognition of financial assets	Value impairment as at December 31
Securities (at cost)	0	0	0	0
Other financial assets	0	0	0	0
Trade receivables	-11,528	388	1,527	-9,613
Other receivables	-21	-25	0	-45

In addition, the following table shows the age structure of the financial assets which are past due but not subject to impairment as at the end of the reporting period.

With regard to the receivables which are subject neither to impairment nor defaults in payment, there are no indications as at the end of the reporting period that the debtors will be unable to meet their payment obligations.

			31.12.2011				
EUR thousand		**Thereof: neither overdue nor value-impaired as of the closing date**	**Thereof: not value-impaired as of the closing date and overdue in the following time corridors**				
Class of financial instrument	**Overall carrying amount**		**< 180 days**	**180 - 360 days**	**360 - 540 days**	**540 - 720 days**	**> 720 days**
Securities (at cost)	250	250	0	0	0	0	0
Other financial assets	5,921	5,921	0	0	0	0	0
Trade receivables	5,327	50	5,309	1,945	1,539	1,293	2,524
Other receivables	8,209	7,056	552	72	27	8	355
Total	**19,707**	**13,277**	**5,861**	**2,017**	**1,566**	**1,302**	**2,879**

			31.12.2010				
EUR thousand		**Thereof: neither overdue nor value-impaired as of the closing date**	**Thereof: not value-impaired as of the closing date and overdue in the following time corridors**				
Class of financial instrument	**Overall carrying amount**		**< 180 days**	**180 - 360 days**	**360 - 540 days**	**540 - 720 days**	**> 720 days**
Securities (fair value)	961	961	0	0	0	0	0
Securities (at cost)	250	250	0	0	0	0	0
Other financial assets	5,572	5,572	0	0	0	0	0
Trade receivables	8,169	1,411	5,523	2,314	1,809	974	2,187
Other receivables	1,967	1,602	31	18	41	70	194
Total	**16,919**	**9,796**	**5,554**	**2,332**	**1,850**	**1,044**	**2,381**

Aside from individual impairments, portfolio impairments were also carried out. These impairments were based on various impairment rates depending on the number of days the receivables were past due. From 180 days onwards, the impairment rate was 25%, rising gradually to 50%, 75% and 100% thereafter. In line with the recommendations of the German Institute of Auditors (IDW) in RS HFA 24 note 54 (as at 27 November 2009), portfolio impaired receivables were shown 100% within the time band. The amount of impairment allowances for the entire portfolio is EUR 7,354 thousand as at 31 December 2011 compared with EUR 6,101 thousand as at 31 December 2010. This analysis does not cover individually impaired receivables.

c) Liquidity risks
Liquidity risk refers to the risk of a company being unable to meet its payment obligations on a contractually agreed date.

To ensure the GSW Group always has sufficient funds to meet its liabilities for a certain period, the financing/cash management department monitor and plan the Group's liquidity requirements on an ongoing basis. Sufficient cash and cash equivalents are held at all times in order to be able to meet the Group's obligations for a defined period. The Group also has access to credit lines of approximately EUR 10,583 thousand should the need arise. The credit lines are predominantly unsecured. The secured portion of the credit line will be reduced in the event of properties being sold off.

The following table shows the contractually agreed (non-discounted) interest and principal payments on the primary financial liabilities and the derivative financial instruments with a negative fair value for the GSW Group.

		31.12.2011		
			Maturities	
Type of financial liability	**Carrying amount**	**Due within one year**	**Due between one year and five years**	**Due after five years**
Non-derivative financial liabilities				
Financial liabilities	1,770,889	94,138	661,998	1,644,952
Trade payables	24,969	24,307	635	28
Other liabilities	1,423	917	51	454
Derivative financial liabilities	53,568	10,515	47,144	-2,220
Total	**1,850,848**	**129,878**	**709,828**	**1,643,214**

		31.12.2010		
			Maturities	
Type of financial liability	**Carrying amount**	**Due within one year**	**Due between one year and five years**	**Due after five years**
Non-derivative financial liabilities				
Financial liabilities	1,606,550	935,022	223,605	863,074
Trade payables	23,812	23,551	261	0
Other liabilities	1,979	1,051	928	0
Derivative financial liabilities	15,010	7,256	8,661	-125
Total	**1,647,351**	**966,880**	**233,455**	**862,949**

This includes all instruments for which payments have already been contractually agreed as at the end of the reporting period. Budget figures for future new liabilities are not included. The variable interest payments on financial instruments are calculated on the basis of the most recent interest rates fixed prior to the end of the reporting period. Financial liabilities repayable at any time are always allocated to the earliest possible time slot.

Furthermore, there are financial guarantees amounting to EUR 3,423 thousand (2010: EUR 3,552 thousand) that are due within 1 year.

Some of GSW's loan agreements include financial covenants with the following contents:

Loan-to-Value (LTV)	Ratio between outstanding loan amount and market value of the respective portfolio
Loan-to-Rent (LTR)	Ratio between outstanding loan amount and net rent proceeds (after management expenses) of the respective portfolio
Interest Coverage Ratio (ICR)	Ratio between net rent proceeds (after management expenses) and interest expenses of the respective portfolio
Debt Service Coverage Ratio (DSCR)	Ratio between net rent proceeds (after management expenses) and debt service of the respective portfolio
Vacancy Rate	Ratio between vacant units and rentable units in the respective portfolio

In the event of non-compliance with a covenant, GSW has the opportunity to rectify the infringement. GSW's failure to rectify an infringement can entitle the bank to terminate the agreement.

As at 31 December 2011, no breaches of any covenants contained in loan agreements were identified.

d) Market risks (interest risks)

The GSW Group is exposed to a significant interest rate fluctuation risk due to its business activities. This interest rate fluctuation risk results in particular from floating rate bank loans.

In accordance with IFRS 7, interest rate fluctuation risks are depicted by means of sensitivity analyses. Within the framework of the sensitivity analysis, the effects of a change in market interest rates on interest income and expenses, on trading profits and losses and on equity as at the end of the reporting period are determined. The interest rate risk may occur both as a fair value risk (assessment as at the end of the reporting period) and as a cash flow risk (flow variables assessment).

Within the framework of the sensitivity analysis, the equity and income statement effects are taken into consideration by means of a parallel shift of the EUR yield curve by +/-50 BP. The cash flow effects resulting from the shift in the yield curve merely relate to the interest expenses and income for the coming period under review.

To minimise the risks resulting from interest rate fluctuations, selective use is made of derivative financial instruments for certain forms of financing.

The use of derivative financial instruments is regulated by relevant guidelines and they may only be used to hedge existing underlying transactions and transactions that are planned as long as they are sufficiently probable. The guidelines set out the responsibilities, the permissible framework for action and reporting duties. They stipulate that trading and settlement are kept strictly separate.

In the context of refinancing the CMBS loan, the caps concluded for GSW Grundbesitz GmbH & Co. KG were terminated as at 15 February 2011. Four interest rate swaps totalling EUR 625,000 thousand were concluded to hedge the new bank loans. The swaps have a term of 60 to 84 months. The swaps are recognised as hedging instruments in accordance with IAS 39.

In the first half of 2011, a forward interest rate agreement was concluded for a variable-rate loan of EUR 125,000 thousand for GSW Immobilien AG. The existing interest rate hedge for this loan will end in March 2012. The new interest rate agreement shall apply from 1 April 2012 for 60 months until 2017. Conclusion of this interest rate agreement at a nominal rate of 4.05% made a further contribution to stabilising the present level of interest rates for the future for the GSW Group.

As a consequence of various properties being sold and the resultant non-scheduled repayment of loans at GSW Grundbesitz GmbH & Co. KG in the course of the financial year, the layer of the hedging instrument applicable to the underlying transaction that has been repaid was removed and this layer of the hedge is no longer reported. The hedge reserve attributable to the reversed sub-amount, which had previously been recognised outside profit or loss, was reversed in profit or loss (in 2011: EUR 184 thousand).

In November, GSW Pegasus GmbH concluded two interest rate swaps totalling EUR 218,300 thousand to hedge a new real estate financing. The swaps have a term of 84 and 96 months with swap rates of 2.14% and 2.275%. This has limited the interest rate fluctuation risk up to 2018 and 2019 respectively. The swaps are recognised as hedging instruments in accordance with IAS 39.

No derivative financial instruments are used for speculative purposes.

As at 31 December 2011, the Group had the following derivative financial instruments:

Number	Nominal values EUR thousand	Strike rates	Values as per 31.12.2011 EUR thousand
15 interest rate swaps	1,125,757	1.70 % bis 4.80 %	-53,567

The cash flows arising from underlying transactions hedged in the context of cash flow hedge accounting will be due in the period 2012 to 2019 and will affect the income statement at that time.

No ineffectiveness was recognised in profit or loss for hedge accounting in 2011.

The following table shows the amount directly recognised in equity during the period under review. This corresponds to the effective portion of the fair value change:

Equity and income statement implications EUR thousand	2011
Initial status as per Jan. 1, 2011	-11,452
Recognition in equity in the reporting period	-36,912
Release from equity to the income statement	-875
Final status as per Dec. 31, 2011	**-49,238**

Equity and income statement implications EUR thousand	2010
Initial status as per Jan. 1, 2010	-12,591
Recognition in equity in the reporting period	1,460
Release from equity to the income statement	-321
Final status as per Dec. 31, 2010	**-11,452**

Within the framework of presentation of market risks, IFRS 7 also requires disclosures regarding currency risks and other price risks. The GSW Group had no relevant positions in the period under review.

On the basis of the financial instruments held or issued by the GSW Group as at the end of the reporting period, a hypothetical change in the key interest rates for the respective instruments would have had the following effects (before taxes):

2011 sensitivities:

Financial instruments		Equity effect		Income statement effect
EUR thousand	**+ 50 BP**	**- 50 BP**	**+ 50 BP**	**- 50 BP**
Primary financial instruments (fixed-interest)				
AfS instruments (fixed-interest)	-	-	-	-
FVTPL instruments (fixed-interest)	-	-	-	-
Primary financial instruments (variable-interest)				
Loans	-	-	-	-
HtM securities	-	-	-	-
Loans received	-	-	-541	541
AfS instruments (variable-interest)	-	-	-	-
FVTPL instruments (variable-interest)	-	-	-	-
Cash and cash equivalents (variable-interest)	-	-	313	-313
Derivative financial instruments & hedges				
Free-standing derivatives	-	-	1,487	-1,402
Cash flow hedges	20,833	-20,106	-	-
Total	**20,833**	**-20,106**	**1,259**	**-1,174**

2010 sensitivities:

Financial instruments		Equity effect		Income statement effect
EUR thousand	**+ 50 BP**	**- 50 BP**	**+ 50 BP**	**- 50 BP**
Primary financial instruments (fixed-interest)				
AfS instruments (fixed-interest)	5	-5	-	-
FVTPL instruments (fixed-interest)	-	-	-	-
Primary financial instruments (variable-interest)				
Loans	-	-	-	-
HtM securities	-	-	-	-
Loans received	-	-	-4,964	4,964
AfS instruments (variable-interest)	-	-	-	-
FVTPL instruments (variable-interest)	-	-	-	-
Cash and cash equivalents (variable-interest)	-	-	354	-354
Derivative financial instruments & hedges				
Free-standing derivatives	-	-	1,871	-1,931
Cash flow hedges	2,446	-2,510	1	0
Total	**2,451**	**-2,515**	**-2,738**	**2,679**

The reduction in the effects resulting from the sensitivity analysis for loans received compared with the previous year is mainly the result of the CMBS loan to GSW Grundbesitz GmbH & Co. KG, which was refinanced in 2011. This was included in the analysis in the previous year, since the reference interest rate was well below the strike price of the hedge cap. Due to the conclusion of new swap agreements as part of the refinancing, there are no interest rate fluctuation risks for the refinanced loans, meaning that, unlike the previous year, they were not included in the sensitivity analysis.

35) List of shareholdings

Affiliates that are included in the consolidated financial statements:

	Group's interest
GSW Gesellschaft für Stadterneuerung mbH, Berlin	100 %
GSW Betreuungsgesellschaft für Wohnungs- und Gewerbebau mbH, Berlin	100 %
GSW Grundvermögens- und Vertriebsgesellschaft mbH, Berlin	100 %
Stadtentwicklungsgesellschaft Buch mbH, Berlin	100 %
Grundstücksgesellschaft Karower Damm mbH, Berlin	100 %
Wohnwert Versicherungsagentur GmbH, Berlin	100 %
GSW Grundbesitz GmbH & Co. KG, Berlin	100 %
GSW Immobilien Beteiligungs GmbH, Berlin	100 %
Facilita Berlin GmbH , Berlin	100 %
Zweite GSW Verwaltungs- und Betriebsgesellschaft mbH, Berlin	100 %
GSW Acquisition 3 GmbH, Essen (from 01.11.2011)	100 %
GSW Pegasus GmbH, Berlin (from 01.11.2011)	99.7 %
Wohnanlage Leonberger Ring GmbH, Berlin	99.6 %
GSW Verwaltungs- und Betriebsgesellschaft mbH & Co. Erste Beteiligungs KG, Berlin	94.9 %
Zisa Grundstücksbeteiligungs GmbH & Co. KG, Berlin (from 01.11.2011)	94.9 %
GSW Immobilien GmbH & Co. Leonberger Ring KG, Berlin	94.0 %
GSW Verwaltungs- und Betriebsgesellschaft mbH & Co. Zweite Beteiligungs KG, Berlin	93.1 %

Affiliates that are not included in the consolidated financial statements:

	Group's interest
Zisa Verwaltungs GmbH, Berlin	100 %
GSW Berliner Asset Invest GmbH , Berlin	100 %
GSW Berliner Asset Invest GmbH & Co. KG, Berlin	100 %

Joint ventures that are not included in the consolidated financial statements:

	Group's interest
SIWOGE 1992 Siedlungsplanung und Wohnbauten Gesellschaft mbH, Berlin	50 %
GSZ Gebäudeservice und Sicherheitszentrale GmbH, Berlin	33.3 %

Associates that are not included in the consolidated financial statements:

	Group's interest
GSW-Fonds Weinmeisterhornweg 170-178 GbR, Berlin	42.7 %

Information concerning the shares held by GSW is published in the Electronic Federal Gazette in accordance with section 313 HGB. The exemption rules of section 264 (3) HGB and section 264b HGB were applied to the following companies:

- GSW Grundvermögens- und Vertriebsgesellschaft mbH, Berlin
- GSW Betreuungsgesellschaft für Wohnungs- und Gewerbebau mbH, Berlin
- Wohnwert Versicherungsagentur GmbH, Berlin
- GSW Grundbesitz GmbH & Co. KG, Berlin
- Grundstücksgesellschaft Karower Damm mbH, Berlin
- Wohnanlage Leonberger Ring GmbH, Berlin
- GSW Immobilien GmbH & Co. Leonberger Ring KG, Berlin
- GSW Verwaltungs- und Betriebsgesellschaft mbH & Co. Erste Beteiligungs KG, Berlin
- GSW Verwaltungs- und Betriebsgesellschaft mbH & Co. Zweite Beteiligungs KG, Berlin
- Zisa Grundstücksbeteiligungs GmbH & Co. KG, Berlin

In accordance with the exemption rules of section 264 (3) HGB and section 264b HGB, the company is not required to prepare and disclose annual financial statements if the relevant companies are included in the parent company's consolidated financial statements and the parent company is required to assume the relevant companies' losses. The shareholders must pass a resolution to this effect and publish said resolution in the Electronic Federal Gazette.

36) Share-based payment

a) Long-term incentive plan under old manager employment agreements (exit LTIP)
As part of the managers' employment contracts concluded with the Management Board members before the company was converted into a stock corporation, the Management Board members were granted long term incentives in the form of a long term incentive plan (LTIP).

The aim here was for Management Board members to have the option of participating in the capital appreciation achieved on capital employed by investors at the time the investors finally withdraw (exit).

Should an exit occur (e.g. IPO), the Management Board members should receive a cash payment consisting of the individually prescribed percentages of the net equity value (i.e. after deduction of costs), which results from dividend payments made to investors or the profit generated on exit.

The requirement for payment of this exit LTIP was the existence of the employment relationship at the time the exit event occurred and, in some cases, the achievement of specific additional corporate targets (e.g. internal return).

In accordance with the regulations, in the event of an exit with all targets having been achieved, the payment obligation lay with GSW Immobilien AG. For the CEO, this payment obligation was transferred from the original acquisition vehicle to what was then GSW Immobilien GmbH (before the change in legal form) as a result of an upstream merger.

b) Modification of exit LTIP agreement in previous years

With regard to the IPO in April 2011 and the special right of termination in the event of a change in shareholder (or IPO) under the old manager employment agreements, the above regulations were revoked effective 31 March / 1 April 2011. The regulations on the exit LTIP were modified such that the obligation to settle the long-term incentives no longer lies with GSW Immobilien AG but was assumed by the company's (former) sole shareholders. In particular, this was intended to prevent disadvantage to new shareholders coming to the company in the IPO. The exit LTIPs agreement with the members of the Management Board of GSW Immobilien AG was also amended in as much as that only a part of the bonus amount due on exit is paid in cash immediately and an additional bonus component will be settled by a (deferred) share transfer (share components). Thus, the members of the Management Board waived the immediate complete payment of their claims modified by the agreement as an expression of their long-term commitment to the company. The initial amount of the share components and the issue price are crucial in calculating the number of shares in GSW Immobilien AG promised. The entitlement to the share components will arise pro rata over a period of up to three years on the anniversary of the IPO. The precondition for the transfer is an employment relationship that has not been ended as a result of effective, extraordinary termination on the part of GSW Immobilien AG in accordance with section 626 of the German Civil Code (BGB).

For some of the beneficiaries, in deviation from the rules of the old exit LTIP, the total value of the payment granted by the shareholders is produced from an individually prescribed percentage of the enterprise value. For one beneficiary, this agreement also still provides for the attainment of specific performance targets.

As a result of the modification of the old exit LTIP (change of entity subject to the obligation), the payment components must no longer be treated as cash-settled share-based payment transactions from this date but in accordance with the rules on equity-settled share-based payment transactions.

The provision of EUR 700 thousand recognised on the basis of the old exit LTIP will therefore be reversed as at the date of the modification and a corresponding amount will be recognised in equity.

The total additional benefits to be granted to the beneficiaries as a result of the further modification of the old exit LTIP amounts to around EUR 12,800 thousand or (including the above EUR 700 thousand) around EUR 13,500 thousand as at the time of the amendment in March 2011 and break down as follows: Mr. Zinnöcker: EUR 9,600 thousand; Mr. Schwagenscheidt: EUR 2,200 thousand; Mr. Segal: EUR 1,700 thousand. EUR 9,990 thousand (thereof EUR 6,280 thousand cash component) of this was recognised in the 2011 IFRS consolidated financial statements as an expense. The remuneration granted to the Management Board by the shareholders cannot be reported in the HGB annual financial statements of GSW Immobilien AG. The assumptions in the formula for calculating the amount of the exit bonus expected at the date of the change were used to determine this figure.

In accordance with IAS 8.42, the exit LTIP agreement as described would require the interim reports to be adjusted as the corresponding expense was not recognised in the course of the 2011 financial year. If quarterly recognition were applied, general administrative expenses would increase and the net profit for the period, EBIT and EBITDA would each decrease by EUR 2,894 thousand in the first quarter, a further EUR 5,290 thousand in the second quarter and a further EUR 903 in the third quarter. NAV and FFO I would be unaffected by the exit LTIP. The total amount of shareholders' equity would remain unchanged, but there would be a reclassification of the aforementioned amounts between the individual equity items, with revenue reserves decreasing and capital reserves increasing accordingly.

Earnings per share would be EUR 0.08 lower for the first three months, EUR 0.14 lower for the first six months and EUR 0.23 lower for the first nine months of the year.

The cash flow from operating activities would remain unchanged. Within the presentation of the cash flow from operating activities, however, the net profit for the period would be reduced by the aforementioned amounts, with this being fully offset by a corresponding increase in other non-cash expenses and income.

c) LTI 2011
Within the framework of the new Management Board employment contracts, a new share-based payment component was introduced for the Management Board in the form of a long term incentive (LTI).

The LTI is offered as a reward each year and consists of three tranches, which are spread and paid out over a period of four years. For each of these tranches, there is a performance period of two and three years, over which the achievement of two relevant targets – total shareholder return and the performance in the company's share compared with the EPRA Germany Index – is measured. The entitlement with regard to the long term incentive is determined at the end of each performance period.

GSW is responsible for payment on achievement of the relevant targets.

d) Employee participation
As part of the IPO, 29,492 shares were issued to employees gratuitously at the issuance price for the offered shares of EUR 19.00.

The total expense from share-based payment including the employer's portion of social security contributions to be recognised in the period comes to EUR 1,078 thousand (2010: EUR 0). Of this figure, EUR 560 thousand is attributable to equity-settled share-based payment transactions (2010: EUR 0).

37) Related parties

For the GSW Group related parties within the meaning of IAS 24 are the parties that control the Group or exercise a significant influence and, conversely, parties that are controlled or significantly influenced by the Group.

This means that the shareholders, W2001 Capitol B.V. and Lekkum Holding B.V., the companies controlled by Whitehall and Cerberus, the members of GSW's Management Board and Supervisory Board and the subsidiaries, associates and joint ventures of the GSW Group are defined as related parties.

In mid-October, the two major shareholders W2001 Capitol B.V. and Lekkum Holding B.V. reduced their stakes to 9.8% and 10.0% respectively. As a result of the transaction the free float in GSW shares, as defined by Deutsche Börse AG, increased to approximately 74%.

In addition to the subsidiaries included in the consolidated financial reports through full consolidation, the following relationships with related parties existed.

a) Relations with the acquisition consortium of Whitehall and Cerberus
In the reporting year the Group had no business relations with the consortium of Whitehall and Cerberus and the other companies controlled or significantly influenced by Whitehall or Cerberus.

b) Relations with non-consolidated affiliates
With respect to the exchange of goods and services, the Group had no material relations with non-consolidated affiliates.

c) Relations with associates and joint ventures
The GSW Group does not have any relations with associates and joint ventures as at 31 December 2011.

d) Related parties
By way of resolution of the Annual General Meeting in accordance with section 286(5) HGB of 14 April 2010, it was decided that the company will not disclose individual Management Board remuneration. The resolution is effective until 14 April 2015.

The total remuneration of the members of GSW's Management Board amounted to EUR 1,760 thousand in 2011 (previous year: EUR 1,822 thousand). EUR 1,056 thousand (2010: EUR 1,012 thousand) of this relates to fixed components and EUR 704 thousand (2010: EUR 870 thousand) to variable components. Furthermore, a claim of EUR 238 thousand to a remuneration component with a long-term incentive effect was also acquired. The performance-based variable remuneration for 2010 of EUR 870 thousand was paid in 2011.

In the reporting year no benefits at the end of employment contracts were paid (2010: EUR 0). The former shareholders W2001 Capitol B.V. and Lekkum Holding B.V. shall bear the costs for a supplementary payment component offering a long term incentive (long term incentive plan, LTIP) within the framework of bilateral agreements with the Management Board members. This year, the company is reporting expense and a contribution to the capital reserves of EUR 9,990 thousand in accordance with IFRS 2, EUR 700 thousand of which relates to previous years, which was not reported in the previous year. A further EUR 3,450 thousand is expected in subsequent years, which is to be paid by the former shareholders in shares and is linked to the precondition of Management Board members remaining with GSW. These agreements do not give rise to any charge on GSW's liquidity or (re)payment obligations vis-à-vis the former shareholders. In summary, the total remuneration of the Management Board in accordance with IAS 24.17 therefore amounts to EUR 12,154 thousand.

Remuneration of former members of management and their surviving dependants amounts to EUR 157 thousand (2010: EUR 163 thousand). A provision of EUR 1,893 thousand (2010: EUR 1,960 thousand) has been recognised for retirement pensions payable to former members of management and their surviving dependants.

Regarding the compensation agreement in accordance with section 315 (4) no. 9 HGB, the Management Board member shall have a special right of termination and – associated herewith – a claim to severance in the event of his appointment to the Management Board in accordance with section 84 AktG being revoked before 1 December 2013, if the Management Board member in question is not responsible for the reason for his dismissal.

The claims to Supervisory Board remuneration acquired in the 2011 financial year amounted to EUR 208 thousand (2010: EUR 84 thousand).

In the first quarter of 2011, Dr. Scharpe reached an agreement in principle with the original shareholders that, in the event of a successful IPO, he would receive 10,000 shares in the Company from the original shareholders as consideration for his role as Chairman of the Supervisory Board in the period from 2004 to 2010. As of the date on which these financial statements were prepared, however, there had been no contractual implementation of this agreement and no shares had been allocated.

No expenses were incurred under the consultancy agreement between GSW and the Deputy Chairman of the Supervisory Board Dr. Scharpe in the financial year (2010: EUR 105 thousand). The consultancy agreement was terminated with effect from 31 December 2011.

Payment made to employee representatives in the Supervisory Board for work outside their work for the Supervisory Board was in line with the market.

The Group's average number of employees in 2011 was as follows:

Head counts[1]	**Average number of employees**
Duly authorised officers (Prokuristen)	1
Salaried employees	452
Blue-collar workers	38
Caretakers	90
Total	**581**

[1] excl. apprentices and students

38) Contingent liabilities

The Group has the following contingent liabilities:

EUR thousand	31.12.2011	31.12.2010
Warranties	3,423	3,552
Mortgages	10,635	10,635
Other liabilities	2,781	2,774

The land charges in the amount of EUR 10,635 thousand consist of contingent liabilities vis-à-vis the State of Berlin that do not serve to secure loans. Otherwise, with few exceptions, the investment property and properties held for sale are available as collateral.

39) Other financial liabilities

As at the end of the reporting period, the Group's other financial liabilities include future (net) payments due under operating leases of EUR 19,980 thousand (2010: EUR 20,357 thousand) as well as the purchase obligations for investment property and property, plant and equipment of EUR 2,875 thousand (2010: EUR 465 thousand).

Future payment commitments under operating leases that cannot be apportioned or terminated mature as follows:

EUR thousand	Due within one year	Due between one and five years	Due after five years
31.12.2011	5,420	14,560	0
31.12.2010	5,042	15,315	0

The major operating lease agreements include the master lease for the Charlottenstrasse office building (formerly Kochstrasse) and the SAP operator agreement.

40) Management and the Supervisory Board

The members of the Supervisory Board of GSW Immobilien AG are as follows:

Dr. Eckart John von Freyend	Chairman of the Supervisory Board, Management Consultant, Bonn
Dr. Jochen Scharpe	Deputy Chairman of the Supervisory Board, Managing Partner of AMCI GmbH, Munich
Mr. Thomas Wiegand	Managing Director bei Cerberus Global Investments B.V., Baarn, NL
Dr. Reinhard Baumgarten	Head of Assets Department in the Berlin Senate Finance Administration, retired
Ms. Veronique Frede	Employee Representative, Chairperson of the Works Council (exempt) at GSW Immobilien AG, Berlin
Mr. Jonathan Lurie	Director, Special Situations and Strategic Transactions Group Executive, Archon Group Deutschland GmbH, Frankfurt/Main (until December 2011)
Mr. Sven Dahlmeyer	Chief Investment Officer, Archon Group Deutschland GmbH, Frankfurt/Main (until December 2011)
Mr. Geert-Jan Schipper	Managing Director at Cerberus Global Investments B.V., Baarn, NL
Mr. Claus Wisser	Founder and owner of WISAG Service Holding GmbH & Co. KG, now Chairperson of AVECO Holding AG, retired, Frankfurt/Main

The members of the Management Board of GSW Immobilien AG were as follows in the reporting period:
Mr. Thomas Zinnoecker (CEO), Diplom-Kaufmann (business graduate)
Mr. Joerg Schwagenscheidt (COO), real estate economist
Mr. Andreas Segal (CFO), lawyer

41) Events after the end of the reporting period

Following the exit resolution of its limited partner, GSW Grundbesitz GmbH & Co. KG, Berlin, was merged with GSW Immobilien AG, Berlin, effective 1 January 2012.

A control and profit transfer agreement subject to the approval of the General Shareholders' Meeting was concluded with GSW Acquisition 3 GmbH, Essen, as at 1 January 2012.

A control and profit transfer agreement between GSW Acquisition 3 GmbH, Essen and GSW Pegasus GmbH, Berlin was concluded on the same date.

In January 2012, the two former major shareholders W2001 Capitol B.V. and Lekkum Holding B.V. each again reduced their interests to currently less than 3%.

42) Declaration of compliance in accordance with section 161 of the german stock corporation act

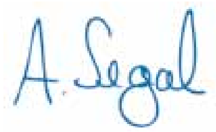
The Management Board and the Supervisory Board apply the rules of the German Corporate Governance Code with restrictions. The declaration of compliance can be accessed at all times at www.gsw.de.

Berlin, 26 March 2012

GSW Immobilien AG

THOMAS ZINNÖCKER
(CEO)
GSW Immobilien AG

JÖRG SCHWAGENSCHEIDT
(COO)
GSW Immobilien AG



ANDREAS SEGAL
(CFO)
GSW Immobilien AG

CONSOLIDATED FIXED ASSETS MOVEMENT SCHEDULE
CHANGES IN INVESTMENT PROPERTY AND PROPERTY, PLANT AND EQUIPMENT

2011	Historical acquisition and manufacturing costs				
EUR thousand	31.12.2010	Additions	Disposals	Reclassification (IFRS 5)	31.12.2011
Land, similar rights and buildings	828	0	0	0	828
Technical equipment, factory and office equipment	446	0	0	0	446
Other equipment, factory and office equipment	1,048	144	-1	-197	995
Property, plant and equipment from finance lease	2,942	63	0	0	3,005
Total	**5,264**	**207**	**-1**	**-197**	**5,273**

Low-cost assets (acquisition cost < EUR 150.00) in the amount of EUR 20 thousand are not included (2010: EUR 6 thousand)

CONSOLIDATED FIXED ASSETS MOVEMENT SCHEDULE
CHANGES IN INTANGIBLE ASSETS

2011	Historical acquisition and manufacturing costs						
EUR thousand	31.12.2010	Change in scope of consolidation	Additions	Reclassification	Disposals	Reclassification (IFRS 5)	31.12.2011
Intangible assets	4,520	0	81	103	0	-576	4,128
Total	**4,520**	**0**	**81**	**103**	**0**	**-576**	**4,128**

Accumulated amortisation / depreciation						Book value	
31.12.2010	Adjustment fair value	Depre-ciation	Disposals	Reclassi-fication (IFRS 5)	31.12.2011	31.12.2011	31.12.2010
-48	68	-58	0	0	-38	790	780
-443	0	0	0	0	-443	3	3
-646	0	-162	1	153	-654	341	403
-1,550	0	-224	0	0	-1,774	1,231	1,392
-2,686	**68**	**-444**	**1**	**153**	**-2,908**	**2,365**	**2,578**

Accumulated amortisation / depreciation							Book value	
31.12.2010	Change in scope of consoli-dation	Adjustment fair value	Depre-ciation	Disposals	Reclassi-fication (IFRS 5)	31.12.2011	31.12.2011	31.12.2010
-2,554	0	0	-495	0	443	-2,606	1,521	1,966
-2,554	**0**	**0**	**-495**	**0**	**443**	**-2,606**	**1,521**	**1,966**

CONSOLIDATED FIXED ASSETS MOVEMENT SCHEDULE
CHANGES IN INVESTMENT PROPERTY AND PROPERTY, PLANT AND EQUIPMENT

2010	Historical acquisition and manufacturing costs				
EUR thousand	**31.12.2009**	**Additions**	**Disposals**	**Reclassification (IFRS 5)**	**31.12.2010**
Land, similar rights and buildings	828	0	0	0	828
Technical equipment, factory and office equipment	3,629	17	-325	-2,875	446
Other equipment, factory and office equipment	891	233	-75	0	1,048
Property, plant and equipment from finance lease	2,882	60	0	0	2,942
Total	**8,229**	**310**	**-401**	**-2,875**	**5,264**

Low-cost assets (acquisition cost < EUR 150.00) in the amount of EUR 20 thousand are not included (2010: EUR 6 thousand)

CONSOLIDATED FIXED ASSETS MOVEMENT SCHEDULE
CHANGES IN INTANGIBLE ASSETS

2010	Historical acquisition and manufacturing costs			
EUR thousand	**31.12.2009**	**Additions**	**Disposals**	**31.12.2010**
Intangible assets	4,117	403	0	4,520
Total	**4,117**	**403**	**0**	**4,520**

Accumulated amortisation / depreciation						Book value	
31.12.2009	Adjustment fair value	Depreciation	Disposals	Reclassification (IFRS 5)	31.12.2010	31.12.2010	31.12.2009
-38	48	-58	0	0	-48	780	790
-3,106	0	-285	310	2,638	-443	3	523
-569	0	-132	55	0	-646	403	321
-1,292	0	-258	0	0	-1,550	1,392	1,590
-5,005	**48**	**-732**	**366**	**2,638**	**-2,686**	**2,578**	**3,224**

Accumulated amortisation / depreciation					Book value	
31.12.2009	Adjustment fair value	Depreciation	Disposals	31.12.2010	31.12.2010	31.12.2009
-1,837	0	-718	0	-2,554	1,966	2,281
-1,837	**0**	**718**	**0**	**-2,554**	**1,966**	**2,281**

AUDITOR'S REPORT

We have audited the consolidated financial statements prepared by the GSW Immobilien AG, Berlin, comprising the statement of financial position, the statement of comprehensive income, statement of changes in equity, cash flow statement and the notes to the consolidated financial statements, together with the group management report for the business year from January 1 to December 31, 2011. The preparation of the consolidated financial statements and the group management report in accordance with the IFRSs, as adopted by the EU, and/or the additional requirements of German commercial law pursuant to § (Article) 315a Abs. (paragraph) 1 HGB („Handelsgesetzbuch": German Commercial Code) is the responsibility of the parent Company's Board of Managing Directors. Our responsibility is to express an opinion on the consolidated financial statements and on the group management report based on our audit. We conducted our audit of the consolidated financial statements in accordance with § 317 HGB and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (Institute of Public Auditors in Germany) (IDW). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the consolidated financial statements in accordance with the applicable financial reporting framework and in the group management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Group and expectations as to possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the consolidated financial statements and the group management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the annual financial statements of those entities included in consolidation, the determination of the entities to be included in consolidation, the accounting and consolidation principles used and significant estimates made by the Company's Board of Managing Directors, as well as evaluating the overall presentation of the consolidated financial statements and the group management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

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

Berlin, March 26, 2012

PricewaterhouseCoopers
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

(sgd. Gregory Hartman)	(sgd. ppa. Dierk Schultz)
Auditor	Auditor

LIST OF ABBREVIATIONS

AFFO	Adjusted Funds from operations
AfS	Available for Sale
AG	Aktiengesellschaft (Limited Company)
AktG	German Stock Corporation Act
BGB	German Civil Code
BMH	Berliner Mediahaus GmbH
BP	Basis Points
BRIC states	Brasil, Russia, India and China
BWG	GSW Betreuungsgesellschaft für Wohnungs- und Gewerbebau mbH
CBRE	CB Richard Ellis
CEO	Chief Executive Officer
CFO	Chief Financial Officer
CGU	Cash Generating Unit
CMBS	Commercial Mortgage Backed Securities
COO	Chief Operative Officer
DAX	German Stock Index
DCF method	Discounted Cash flow method
DCGK	German Corporate Governance Codex
DSCR	Debt Service Coverage Ratio
D&O insurance	Directors and Officers Liability Insurance
EBIT	Earnings before interest and taxes
EBITDA	Earnings before interest, taxes, depreciation and amortisation
ECB	European Central Bank
EPRA	European Public Real Estate Association
ERP	Enterprise Resource Planning
EUR	Euro
EUR mn	EUR million
FFO	Funds from operations
FLaC	Financial Liabilities at Cost
FLHfT	Financial Liabilities Held for Trading
FTSE	Financial Times Stock Exchange Index
FVO	Fair Value Option
FVTPL	Fair Value Through Profit and Loss
GmbH	Gesellschaft mit beschränkter Haftung (Company with limited liability)
GoB	Grundsätze ordnungsmäßiger Buchführung (German General Accounting Principles)
HFA	Hauptfachausschuss (Main Committee of the IDW)
HGB	Handelsgesetzbuch (German Commercial Code)
HR	Human Resources
HRB	Commercial Register Section B
HtM	Held to Maturity
IAS	International Accounting Standards
IASB	International Accounting Standards Board
IBB	Investitionsbank Berlin
ICR	Interest Coverage Ratio
IDW	German Institute of Auditors
IFRIC	International Annual Reporting Interpretations Committee
IFRS	International Financial Reporting Standards
IfW	Kiel Institute for the World Economy
IPO	Initial Public Offering
IT	Information Technology
KG	Kommanditgesellschaft (Partnership Limited)
LaR	Loans and Receivables
LBIE	Lehman Brothers International (Europe)
LTR	Loan-to-Rent
LTV	Loan-to-Value
MDAX	Mid Cap German Stock Index
NAREIT®	National Association of Real Estate Investment Trusts®
NAV	Net Asset Value
NL	Netherlands
No.	Number
OCP	Operative Cash Performance
P&L	Profit and Loss
RMS	Risk Management System
RS	Stellungnahme zur Rechnungslegung (Statement on Accounting)
S. A.	Société anonyme
SAP	SAP Deutschland AG & Co. KG
SDAX	Small Cap German Stock Index
WpHG	Wertpapierhandelsgesetz (German Securities Trading Act)
XETRA	Exchange Electronic Trading

DISCLAIMER

This report contains forward-looking statements. These statements are based on current experience, estimates and projections of the management and currently available information. They are not guarantees of future performance, involve certain risks and uncertainties that are difficult to predict, and are based upon assumptions as to future events that may not be accurate. Many factors could cause the actual results, performance or achievements to be materially different from those that may be expressed or implied by such statements. Such factors include those discussed in the Risk Report from page 79. We do not assume any obligation to update the forward-looking statements contained in this report. This report does not constitute an offer to sell or the solicitation of an offer to subscribe for or buy any security, nor shall there be any sale, issuance or transfer of the securities referred to in this report in any jurisdiction in contravention of applicable law.

EDITOR´S NOTE

Rounding differences may occur in the tables.

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