ANNUAL REPORT 2012

GSW IMMOBILIEN AG

GSW

MY BERLIN. MY HOME.

My Berlin. My Home.

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

We manage a real estate portfolio of around 60,000 residential and commercial units that was valued at EUR 3.3 billion as of 31 December 2012.

In order to maintain and expand our market position, we take new paths that bridge the gap between innovation and tradition. We continue to develop without abandoning the tried and trusted.

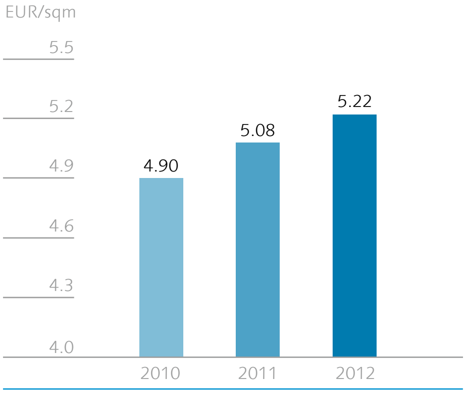
GSW's corporate strategy focuses on the long-term management of rental property using a systematic approach aimed at enhancing customer and employee satisfaction, operational efficiency and the value of our properties.

At the same time, we assume social responsibility for Berlin and are involved in social, cultural and sporting projects.

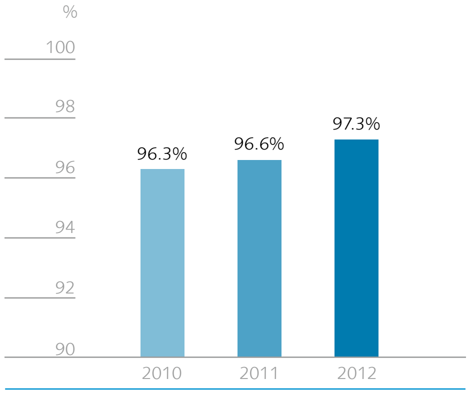
As a capital market-oriented housing company, we are bound to the interests and needs of all our stakeholders. Our duty is to identify and target shared objectives. We take responsibility for finding an appropriate and fair balance in the event of conflicts of interest.

Key Financials

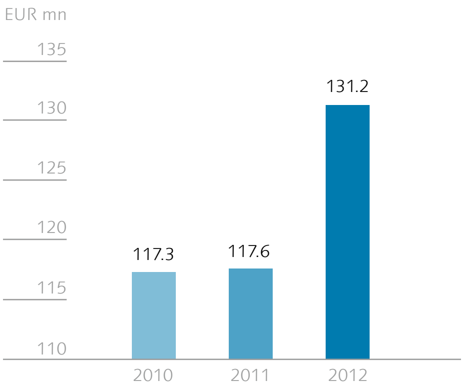
IN-PLACE RENT / sqm



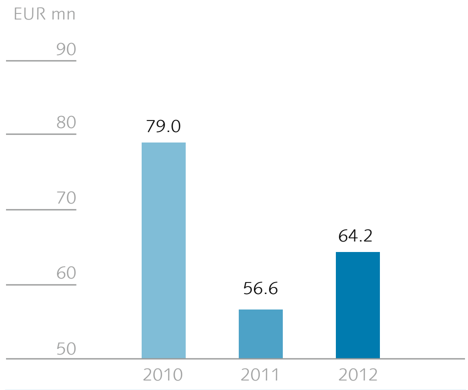
OCCUPANCY RATE (RESIDENTIAL)



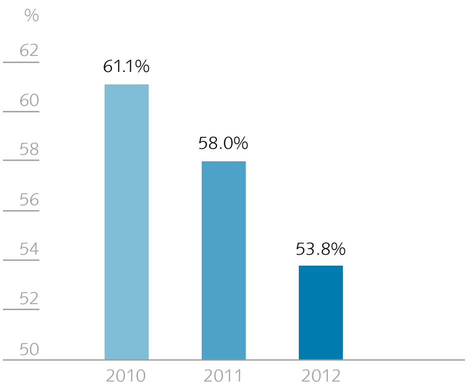
ADJUSTED EBITDA



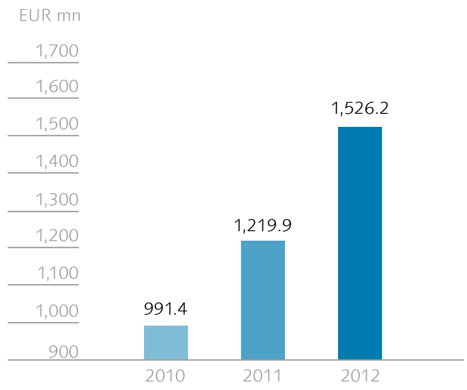
FFO I (EXCL. SALES RESULT)



LTV (GEARING RATIO)



EPRA NAV



Highlights

OPERATIONAL HIGHLIGHTS

	31.12.2012	31.12.2011
Vacancy rate (residential)	2.7 %	3.4 %
In-place rent (residential)	5.22 EUR / sqm	5.08 EUR / sqm

INCOME STATEMENT HIGHLIGHTS

EUR mn	1.1.-31.12.2012	1.1.-31.12.2011
Net rental income	160.0	141.1
Result on disposal of investment property	9.6	3.3
Net valuation gains on investment property	76.4	56.2
EBITDA	138.8	122.0
Adjusted EBITDA	131.2	117.6
Net operating profit (EBIT)	214.4	177.2
Consolidated net income for the year	143.3	105.1
FFO I (excl. result on disposal of investment property)	64.2	56.6
AFFO[1]	37.9	36.8
FFO II (incl. result on disposal of investment property)	73.8	59.9

[1] FFO I excl. capitalised maintenance expenses

BALANCE SHEET HIGHLIGHTS

EUR mn	31.12.2012	31.12.2011
Investment property	3,302.2	2,930.2
Cash and cash equivalents	167.7	62.6
Shareholders' equity	1,441.0	1,166.4
Financial liabilities	1,967.5	1,770.9
Balance sheet total	3,569.9	3,039.7
EPRA NAV	1,526.2	1,219.9
Loan-to-Value	53.8 %	58.0 %
Equity Ratio	40.4 %	38.4 %

KEY FINANCIALS PER SHARE

EUR	1.1.-31.12.2012	1.1.-31.12.2011
FFO I per share[2]	1.35	1.44
AFFO per share[2]	0.80	0.93

EUR	31.12.2012	31.12.2011
EPRA NAV per share[3]	30.21	29.72
EPRA NAV per share (diluted)[4]	30.32	-

[2] Based on an average number of shares outstanding in the respective period following IAS 33.19 (regarding to calculation please refer to the notes)

[3] Based on the number of shares outstanding on reporting date | [4] Assumption that the convertible bond would have been converted into 5,05 mn new GSW shares on reporting date

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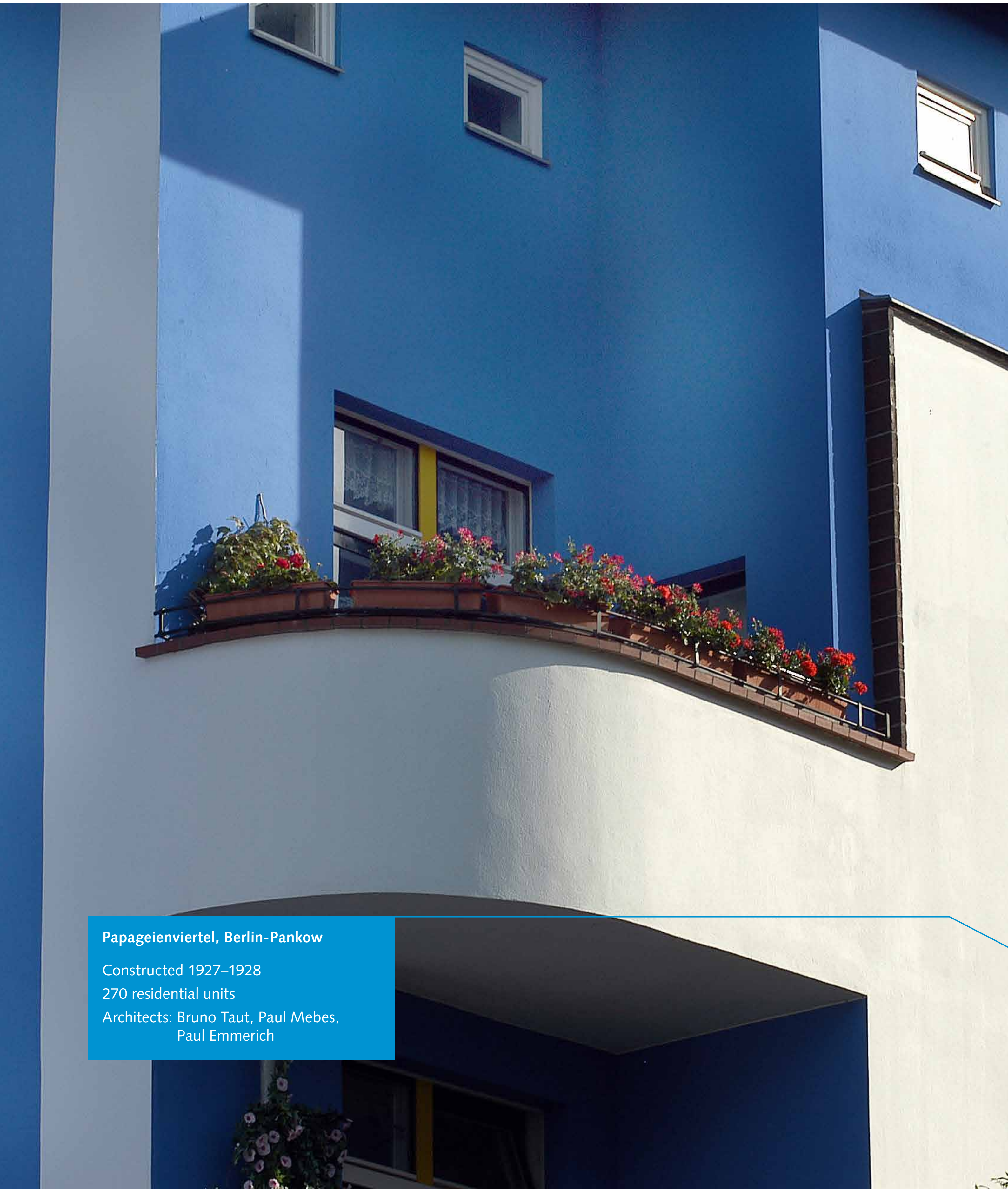
GSW –
a piece of architectural history

The 1920s and 1930s marked a significant turning point in architectural history. The need for housing was great, many blue-collar and white-collar employees had to cope with poor living conditions in densely populated tenements, and social aspects started to play an increasingly important role. Political upheaval prompted architecture and art to turn away from historicism, an approach that was characterised by the imitation of traditional styles and elements. At a technical level, modern industrial construction materials such as steel, glass and concrete increased the freedom available to designers. At the end of the Weimar Republic in 1933, it was political and ideological reasons that led to a countermovement against these modern trends. Many architects had to emigrate so as not to risk being persecuted. Their blueprints were either realised with significant restrictions or had to be temporarily put back on the shelf. These tense conditions ensured that the inter-war period became the cradle of modern architecture.

Today, we manage a number of residential buildings that date back to this period. In addition to their economic importance, they have a cultural, historical and social relevance for us – and for the architects who designed them. They were devised by the likes of Bruno Taut, Hans Scharoun, Paul Rudolf Henning and Richard Ermisch. Many of the design principles developed by these men are nowadays considered to be the globally accepted standards for architecture and urban planning.

In addition to economic and social requirements, ecological compatibility has now become a core element of successful architecture. Matthias Sauerbruch and Louisa Hutton are international pioneers for ecologically sustainable architecture. The Sauerbruch Hutton architecture firm designed the GSW tower in Berlin which is now the Company's head office. The properties we manage and use ourselves reflect our desire to build a bridge between the past and the future.



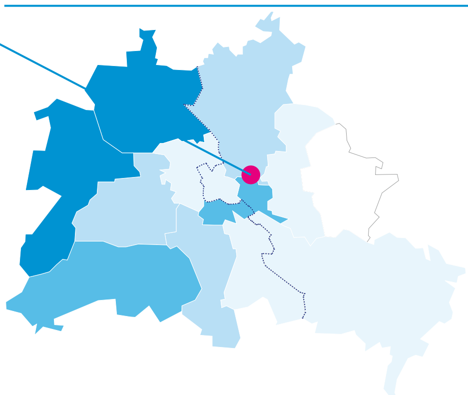
Papageienviertel, Berlin-Pankow

Constructed 1927–1928
270 residential units
Architects: Bruno Taut, Paul Mebes,
Paul Emmerich

Bruno Taut

* 4 May 1880 † 24 December 1938

Bruno Taut was born in 1880 in Kaliningrad (then Königsberg), where he went to technical construction college. In 1909, he and Franz Hoffmann founded the architecture firm Taut & Hoffmann. In 1912, they were joined by Taut's brother Max, four years Bruno's junior. At first, the firm primarily received public works contracts for the construction of tenement buildings and warehouses. This was soon followed by neighbourhoods of workers' housing inspired by the British garden city movement, as well as administrative and commercial buildings where the now common north-south orientation for better air and light conditions was introduced. Bruno Taut was able to escape military service during the First World War by serving as the site manager for the construction of a gunpowder factory in Brandenburg. During this time, he mainly focused on theoretical considerations on the "New Objectivity". After the war ended, Taut & Hoffmann resumed its activities and was contracted with the construction of large-scale housing developments. Shortly afterwards, in 1919, the unorthodox thinker Bruno Taut came together with like-minded architects and artists to form the "Glass Chain", a group of artists who exchanged their ideas and visions in an anonymous chain letter, mostly using pseudonyms. Participants included names such as Walter Gropius and Hans Scharoun. The chain letter focused in particular on social aspects of the "New Objectivity". From 1921 to 1924, Taut moved to Magdeburg, where he drew up a development plan as head of the municipal urban planning office. Instead of grey uniformity, Taut opted for multi-coloured façades in strong colours, which led to the city becoming known as "Colourful Magdeburg". Within eight years 12,000 apartments were built in Berlin by his drafts. Taut completed his best-known work after his time in Magdeburg. This includes the "Horseshoe Estate" in Berlin-Britz (1925-1933), which has been a UNESCO World Heritage Site since 2008, and the "Onkel Toms Hütte" estate on the edge of the Grunewald forest in Berlin-Zehlendorf (1926-1932). In the early 1930s, National Socialism put a temporary end to modern architectural trends. Bruno Taut left the country, living in Switzerland then Japan. In 1936, he moved to Turkey, which was looking for European architects to help modernise the country; one of the many educational institutions he constructed was the University of Ankara. In Istanbul, he was the head of the architecture department at the Academy of Fine Arts, as well as being in charge of the construction department of the Ministry of Education in Ankara.



The Glass Chain
The "Glass Chain" was a chain letter between avant-garde artists and architects in 1919 and 1920. It was initiated by Bruno Taut. Using pseudonyms, the participants in the chain letter exchanged opinions on the importance of architecture in revolutionising society and art. The discussion focused on the social aspects of the "New Objectivity", utopian concepts and expressionistic visions of architecture. The "Glass Chain" was originally intended to remain secret. However, Bruno Taut eventually published a number of the letters in his magazine "Frühlicht". The participants included Hans Scharoun, Walter Gropius, Bruno Taut's younger brother Max Taut, Hans and Wassili Luckhardt, and Adolf Behne.

Siemensstadt, Berlin-Charlottenburg-Wilmersdorf / Berlin-Spandau

Mainly constructed in the 1930s, 1950s and 1960s

3,160 residential units

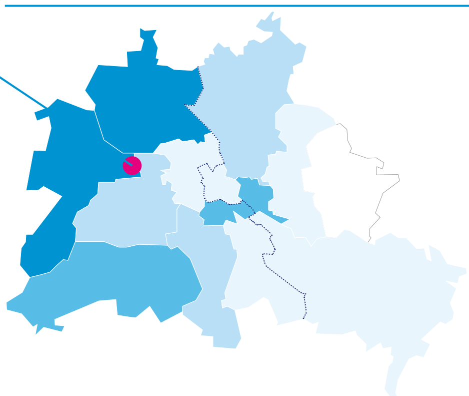
Architects:
Hans Scharoun, Walter Gropius, Otto Bartning, Hugo Häring, Fred Forbat, Paul Rudolf Henning

Hans Scharoun

* 20 September 1893   † 25 November 1972

The son of a merchant, Hans Scharoun was born in 1893 in Bremen. He studied architecture at the Technical University of Berlin-Charlottenburg until 1914. Between 1915 and 1918, he assisted in the reconstruction of East Prussia following the effects of the war. During this time, he became a member of the German Work Federation. Scharoun subsequently worked until 1925 as a self-employed architect in Insterburg, East Prussia, where he took over the office of his then mentor Paul Kruchen. Between 1925 and 1932, he taught at the Breslau Academy for Arts and Crafts. In the late 1920s, he was responsible for drawing up the development plan for the Siemensstadt estate in Berlin. He added design elements from the world of shipbuilding to the housing block at the entrance to the estate, thereby giving it the nickname "armoured battleship" (see photos above). The sociable and modest architect always preferred to live in buildings he had designed himself, and he moved into an apartment in the Siemensstadt in 1930. He later lived in a studio in the Charlottenburg North estate he designed in the 1950s. Many of Scharoun's colleagues and friends left Germany during the National Socialist years. Scharoun stayed in Berlin but had to hold back on his visionary concepts and restrict his activities to the construction of a small number of detached houses. After the end of the Second World War, Scharoun was responsible for the reconstruction of the city as head of the urban planning office. From 1947 onwards, Scharoun entered a number of architecture competitions, taking first prize five times up until 1955. In 1956, Scharoun was commissioned to construct the new Berlin Philharmonic concert hall. Now his best-known work in the city, the concert hall was built between 1956 and 1963. His concepts involved socially diverse neighbourhoods with mixed-function living and working areas. These principles remain a core element of all large-scale urban renovation and planning projects. From 1946 to 1958, Hans Scharoun was a professor and holder of the chair for urban planning at TU Berlin, as well as the head of the Institute of Architecture at the German Academy of the Sciences in East Berlin. In the period from 1955 to 1968, he was a member and president – and later honorary president – of the Academy of the Arts.



The "New Objectivity"

The New Objectivity originated in the 1910s and was a dominant new trend in architecture and urban planning until the 1930s. Unlike the historicism of the 19th century, the preferred forms, types of construction and materials involved in this movement were based on the principles of functionality and technical progress. Notable features of this style include cubic, right-angled shapes, iron skeletal structures and concrete structures using prefabricated modules, brick elements, protracted ribbon windows and the obligatory flat roofs. The new style also had a social background: creating living space on an industrial scale was intended to resolve the acute need for housing.

Siemensstadt, Berlin-Charlottenburg-Wilmersdorf / Berlin-Spandau

Mainly constructed in the 1930s, 1950s and 1960s

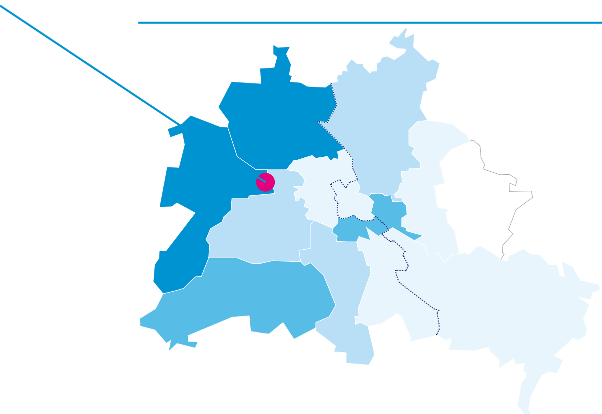
3,160 residential units

Architects:
Hans Scharoun, Walter Gropius, Otto Bartning, Hugo Häring, Fred Forbat, Paul Rudolf Henning

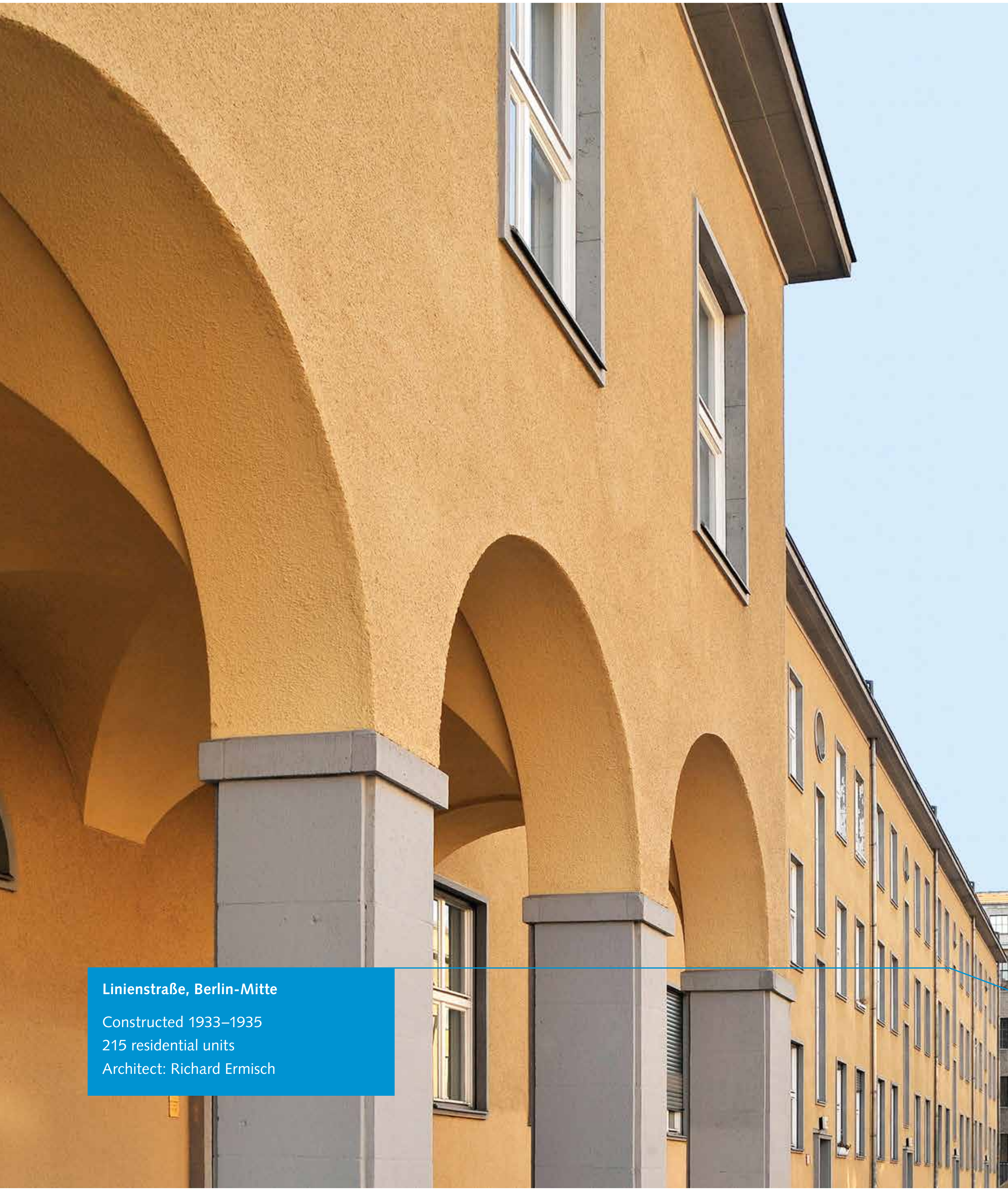
Paul Rudolf Henning

* 16 August 1886 † 11 Oktober 1986

Paul Rudolf Henning studied architecture and sculpture at the Technical University of Berlin and the Academy of Arts of the Technical University of Dresden. He then started his career with his own studio in Berlin, where he worked as a sculptor and ceramic artist. In the 1920s, Henning began designing large-scale residential properties, including houses and housing blocks in the Baumschulenweg, Treptow and Mitte areas of Berlin. The style of his designs was initially influenced by expressionistic elements. Later, he would become a proponent of architectural rigour and force based on the principles of the New Objectivity. In 1928, Henning became an advisory member of the Secretariat of the International Federation for Housing and Planning and a member of the Residential Construction Committee of the Association of German Architects. He participated in numerous exhibitions and reached the highlight of his career as an architect in 1930/31. Together with Walter Gropius and Hans Scharoun, he was responsible for constructing the large-scale Siemensstadt estate in the 1930s. The rows of houses around the Heckerdamm street in the northern part of the estate, which date back to 1930 and 1931, are among Henning's best-known works. Just like Hans Scharoun, he was one of the few modern architects and artists to stay in Berlin between 1933 and 1945. However, he had to scale back his activities substantially, as his design ideas were too revolutionary for the political environment of the time. During the National Socialist years, Henning focused on the construction of industrial buildings, detached houses and housing blocks. It was only after the Second World War that he was able to resurrect his progressive concepts and incorporate them into urban planning for housing estate projects.



German Work Federation
The German Work Federation was founded in 1907 in Munich. An association of artists, architects, craftsmen, industrialists, merchants and writers, it established itself as a protest movement against historicism and the growing distance between the product and its creator. With the principles of proper materials, functionality, tastefulness and sustainability, the German Work Federation supported the emergence of new artistic, moral and social norms. Its members included famous architects such as Ludwig Mies van der Rohe, Bruno Taut, Hans Scharoun, Hugo Häring and Walter Gropius, who took on board the ideas and intentions of the German Work Federation when forming the Bauhaus school in 1919.



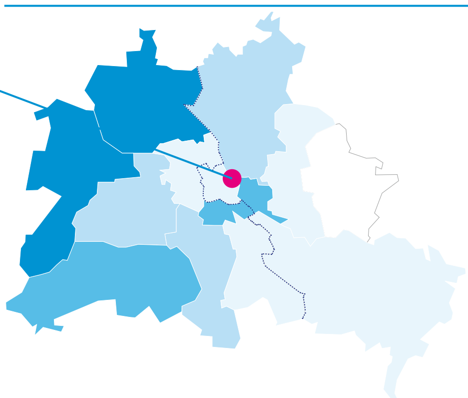
Linienstraße, Berlin-Mitte

Constructed 1933–1935
215 residential units
Architect: Richard Ermisch

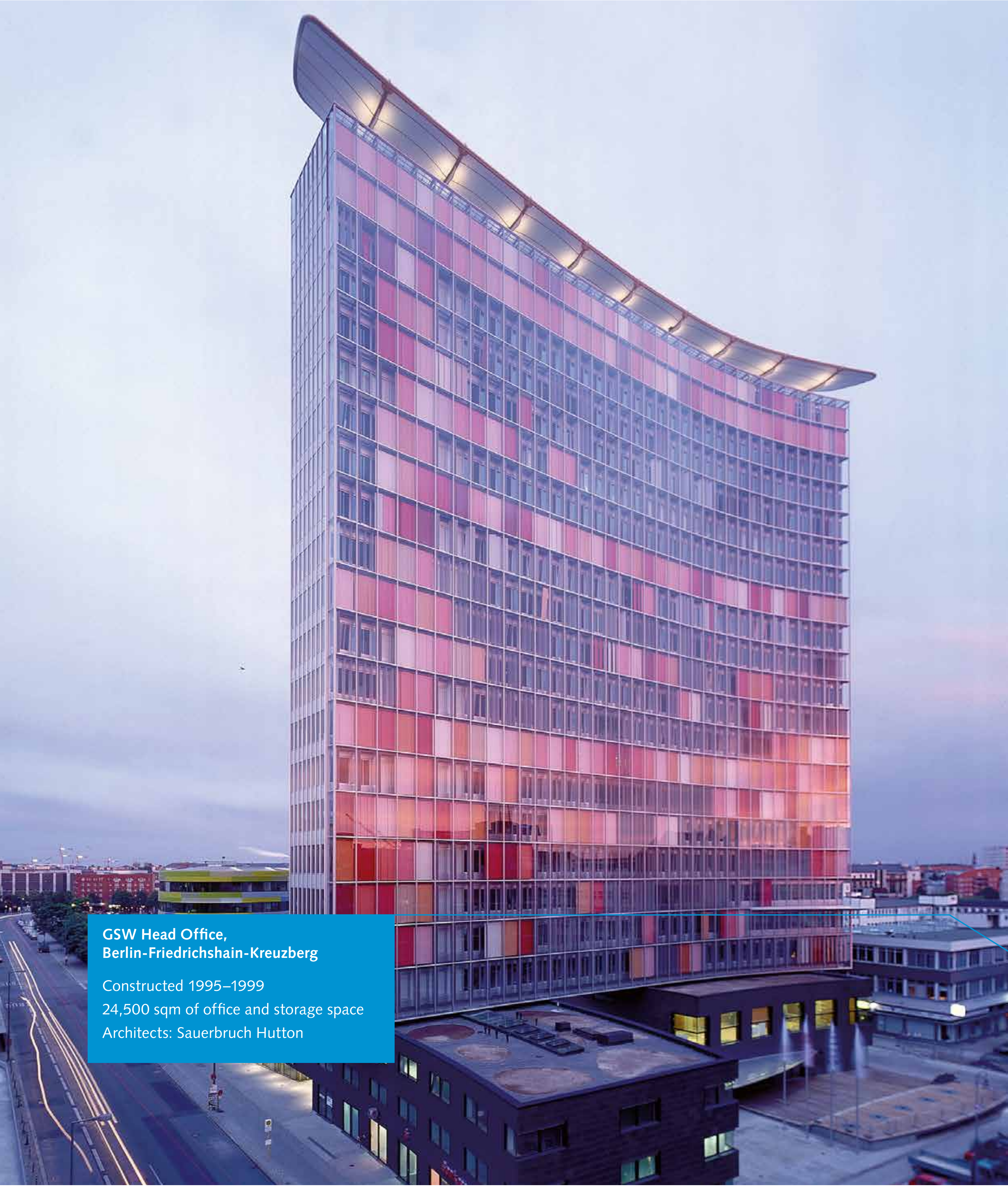
Richard Ermisch

* 17 June 1885 † 7 December 1960

The architect and artist Richard Ermisch was born in 1885 in Halle an der Saale as the elder of two sons of a gold and silversmith. From 1903, he attended the Royal Prussian School of Building Trades in Erfurt. In 1906, he moved to Berlin, where he worked at Karl Doflein's architecture firm. One year later, he moved to the Charlottenburg construction department, where he was responsible for constructing school buildings under the management of Heinrich Seeling, head of the urban planning office. He became responsible for hospital design in 1910 and was appointed to the urban planning office in 1921. Shortly thereafter, he began his career with the Berlin public building authorities. He was appointed as chief building officer in 1929 and later became head of the municipal urban planning authorities and director of urban planning. Richard Ermisch retired in 1950. In the early 1920s, his work was strongly influenced by expressionistic trends. Characteristics elements of this period included protruding and recessed façades and window fronts, peaks, spires, bay windows, towers, broken lines and zigzag patterns. In the late 1920s, Ermisch turned to the New Objectivity. Smooth, abstract-looking walls, narrow contours, horizontal separation and flat roofs now dominated architects' designs. The bathing beach in Wannsee in 1929 and 1930 is one of Richard Ermisch's most important works. The functionally oriented design of the buildings reflects the leitmotif of the New Objectivity: "form follows function". 1933 was marked by a break in this development: the New Objectivity was incompatible with the new political ideology, and the design vocabulary used by architects became increasingly mundane once again. This restraint is illustrated by the residential complex in Berlin-Mitte, near the Volksbühne theatre, which was designed by Richard Ermisch and constructed in 1934 and 1935 (see photos). In the years that followed, most buildings with a public or representative function were designed in monumental style with modern and neo-classical elements. Two well-known Ermisch designs, Tiergarten Town Hall in Berlin-Moabit and the 35-metre monumental-style main hall at the Funkturm trade fair site, bear these stylistic characteristics.



Expressionist architecture
The expressionist phase in architecture lasted from the end of the First World War to the early 1930s. It represented a contrast to the stylistic clarity, rigour and force of the New Objectivity in terms of design, but shared the same approach to architecture as an expression of emotion. The characteristics of expressionism included curved, serrated and, in some cases, acute-angled shapes. Façades were designed with ornaments and reliefs, some of which featured art nouveau influences, including sculptures in some cases. The preferred materials were brick and, later, concrete. From the 1930s onwards, expressionism in art was repressed at a political level, whereas expressionism in architecture remained relatively untouched.



GSW Head Office,
Berlin-Friedrichshain-Kreuzberg

Constructed 1995–1999
24,500 sqm of office and storage space
Architects: Sauerbruch Hutton

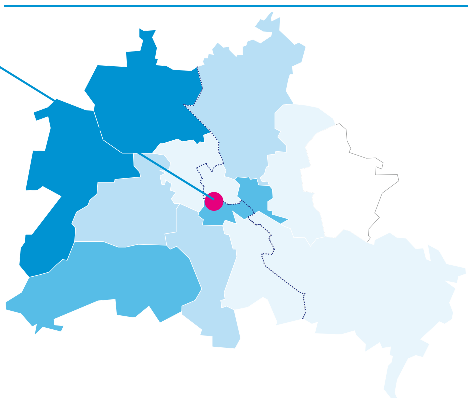
Louisa Hutton

* 21 November 1957

Matthias Sauerbruch

* 4 Februar 1955

Louisa Hutton and Matthias Sauerbruch got to know each other as students at the Architectural Association in London. After Louisa Hutton had worked for Alison and Peter Smithson and Matthias Sauerbruch had worked at the Rem Koolhaas's Office for Metropolitan Architecture, they came together to form their own firm, Sauerbruch Hutton, in London. After being commissioned with the renovation of various buildings in London, they became internationally famous overnight in 1990 after they won the competition to design GSW's head office in Berlin. The building is located near Checkpoint Charlie and the former path of the Berlin Wall. It is the world's first ecological high-rise building and one of the most notable new construction projects in Berlin since the fall of the Wall. The prize-winning design by Sauerbruch Hutton is now part of the collection of the Museum of Modern Art in New York. Louisa Hutton and Matthias Sauerbruch's firm has had its head office in Berlin since 1991 and now has more than 90 employees. The German Federal Environment Agency in Dessau and the Brandhorst Museum in Munich, which was completed in 2008, are further milestones in sustainable construction designed by Sauerbruch Hutton. In 2011, their high-rise building for Kreditanstalt für Wiederaufbau in Frankfurt / Main was named as the "Best Tall Building Worldwide" by the Council of Tall Buildings and Urban Habitat (CTBUH). Over the past 20 years, Sauerbruch Hutton have redefined colour as a design medium in architecture. The colours, shapes and energies of the surrounding city are concentrated in the polychromatic façades of their buildings. Acting as a picture and a sculpture simultaneously, the façades hide the complex technical realities of the buildings behind the sensory experience of colour and space. Sauerbruch Hutton's designs are consistent with the demands of sustainability while also developing clear aesthetics.



Sustainable construction
Construction is one of the most resource-intensive industries and has a particularly long-term impact on account of the long useful life of the buildings constructed. Sustainable construction means taking the three dimensions of sustainability – ecological, economic and social – into account and ensuring a careful balance at every stage in a building's life, from construction and usage through to dismantling. Sustainable construction requires that buildings are incorporated within the urban environment in a sensitive manner, that users are offered the greatest possible benefit in terms of health, well-being and identification over several generations, and that resource-friendly technical quality is assured.

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ANDREAS SEGAL
CFO

THOMAS ZINNÖCKER
CEO

JÖRG SCHWAGENSCHEIDT
COO

DEAR SHAREHOLDERS, LADIES AND GENTLEMEN,

We can look back on a very successful 2012 financial year. GSW has established itself on the capital market as a sound and successful M-DAX company. The successful capital increase in April, the placement of a convertible bond in November and the acquisition of 7,000 residential units, which enhanced the value of our portfolio, by the end of the year contributed to this. Since the IPO in April 2011, we have grown in terms of both quality and quantity and have achieved all the targets set and announced.

This success is certainly attributable in part to the continuous improvement in the market environment in Berlin. The Berlin economy also posted further growth in 2012. As a result, the region ranks among the fastest growing federal states in Germany. Falling numbers of unemployed, rising real incomes and a significant increase in population provide the foundation for this growth. This also had positive implications for the Berlin property market. Demand was strong for both rented residential units and owner-occupied residential units last year. The trend in new construction activity was also positive but it cannot satisfy the steady increase in demand for housing space. Consequently, rents and purchase prices rose across all price segments in 2012. This is also confirmed by our current Housing Market Report 2013 for Berlin, which we have now published for the ninth time in collaboration with the property service provider CBRE. Objective, sound analysis shows that while the Berlin housing market is performing very well, there are major differences between specific micro-locations and reasonably priced housing space is still available in every district.

As the owner and manager of a property portfolio worth over EUR 3.3 billion, we are familiar with the capital intensive nature and the long-term investment cycles of our business. Our success is based, first and foremost, on the principles of sustainable corporate governance with the aim of ensuring the continued existence of the Company. We presented these principles in our first sustainability report, which was published at the beginning of the year.

Our business model is focused on the management of residential properties for a broad segment of the population in Berlin. High operating standards and a conservative financing structure means that the risks inherent in the business are relatively low and generate an adequate return. Our aim is to combine sustainable growth with an attractive dividend policy to be positioned for different investors' requirements.

In 2012, the following events have helped us to make further progress on our path:

- At the end of April 2012, we carried out a capital increase successfully. In the process, about 9.5 million no-par-value ordinary shares were placed generating cash inflows of about EUR 191 million.

- With the issue on 15 November 2012, we successfully placed a convertible bond on the capital market for the first time. It has a term of seven years and pays a coupon of 2 % p.a. The Company received cash and cash equivalents of approx. EUR 180 million from the transaction. This allowed us to demonstrate our ability to raise finance once again.

- In the past financial year, we used these funds to continue to expand and acquired 7,000 additional residential units in total. The rental income that they generate will have a positive impact on the Company's results from 2013. At the end of the year, we manage one of the largest property portfolios in Berlin comprising about 60,000 residential and commercial units in total.

- At our first ordinary Annual General Meeting (AGM) as a listed company on 28 June 2012, the payment of a dividend of EUR 0.90 per dividend-bearing share for the 2011 financial year was resolved and subsequently paid.

- We have also withdrawn from property management for third parties with the sale of BWG to STRABAG at the beginning of October. We are therefore continuing to concentrate on our core business: the sustainable management of our own rental property portfolio.

The past year was also extremely successful from an operational perspective. In the 2012 financial year, our income from rents increased by about EUR 19.0 million to EUR 202.1 million – a significant increase of 10.4 %. This was primarily attributable to the acquisition of a real estate portfolio in the fourth quarter of 2011, which impacted on earnings throughout the year in 2012. Higher average rents and the lower vacancy compared with the previous year also made a contribution to this improvement in earnings. In total, net rental income rose by about 13.4 % to EUR 160.0 million in comparison with 2012. At the same time, we again reduced the vacancy rate significantly by 0.7 percentage points to 2.7 %, while the in-place rent increased by 2.8 % to EUR 5.22 per square metre in the same period. The exceptionally good result on disposals is worth mentioning. Due to the extremely strong demand for properties in Berlin at present, we increased our result on disposals by EUR 6.3 million to EUR 9.6 million.

Funds from Operations (FFO I), which are of relevance for the 2012 dividend payment, were particularly pleasing. FFO I rose by 13.5 % and, at EUR 64.2 million, slightly exceeded our forecast thanks to non-recurring effects. The positive development of operating business and market rents was also reflected in the net valuation result of EUR 76.4 million and had a positive impact on the GSW Group's economic equity. The EPRA net asset value (EPRA NAV) rose by about 25.1 % to EUR 1,526.2 million by the end of the financial year. This equates to a figure of EUR 30.21 per share as at 31 December 2012.

However, these successes in the past financial year would not have possible without the confidence of our shareholders, for which we should like to express our sincere thanks. On the basis of the strong business performance and positive non-recurring effects, such as the sale of BWG, we shall propose keeping the dividend payment per share constant and consequently again paying a dividend of EUR 0.90 per share to the Annual General Meeting (AGM) on 18 June 2013.

In the course of our consistent growth path, the GSW staff count has increased by approximately 5% to 337 employees. In addition to the recruitment of high-quality specialists and managers from other sectors, such as banking, auditing and consultancy, we also attach particular importance to the targeted qualification and professional development of our employees and the development of our young talented junior staff. We offer a performance-related remuneration that reflects market conditions and a working environment that helps to achieve a good work-life balance. In return, we are supported in all our activities by the considerable personal commitment of our managers and employees, for which we are particularly grateful.

Last but not least, we must also thank our tenants. Many of them have been with us many years. 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.

Dear shareholders, ladies and gentlemen, our company has performed very well in 2012 and has created the foundations for further success in future. We wish you much enjoyment in reading the annual report. Your normal contacts are available for any suggestions, questions and hints.

Berlin, March 2013

ANDREAS SEGAL
CFO

THOMAS ZINNÖCKER
CEO

JÖRG SCHWAGENSCHEIDT
COO

Portrait of the Management Board

Thomas Zinnöcker, Chief Executive Officer (born 1961)

Degree in Business Administration

Active in the real estate industry since 1995

Positions in the real estate industry:

- 1995–2001: Managing Director at Krantz TKT GmbH, later Chairman of the Managing Board
- 2001–2004: Executive Manager at Deutsche Telekom Immobilien und Service GmbH

Positions at GSW:

- 2005–2010: Managing Director, CEO
- Since 2010: Chairman of the Management Board, CEO

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

Positions in the real estate industry:

- 1991–1996: Regional Manager NRW at Dr. Lübke Immobilien GmbH, authorised signatory
- 1996–1997: Managing Director at DB Immobilien GmbH
- 1998–1999: Member of management at BBT Bau-Boden Treuhand GmbH & Co. KG
- 1999–2006: Head of Gelsenkirchen and Essen branches at Viterra AG / Deutsche Annington GmbH, authorised signatory

Positions at GSW:

- 2006–2010: Executive Manager, COO
- Since 2010: Member of the Management Board, COO

Andreas Segal, Chief Financial Officer (born 1969)

Second State Examination in Law

Active in the real estate / financial industry since 2000

Positions in the real estate / financial industry:

- 2000–2003: Mergers & Acquisitions at Commerzbank AG
- 2003–2006: Executive Manager at ProMarkt Handels GmbH
- 2003–2006: Commercial Director at Wegert Holding GmbH

Positions at GSW:

- 2006: Head of Finance
- 2006–2007: Head of Controlling and Finance
- 2007–2008: Member of management, CFO
- 2008–2010: Executive Manager, CFO
- Since 2010: Member of the Management Board, CFO

"Following the departure of our former shareholder in early 2012, we have justified the confidence placed in us. Our shareholders have benefited in particular from the first-time payment of a dividend of EUR 0.90 per share and the rise in our share price of more than 45 %, which means that we have outperformed even the MDAX."

Thomas Zinnöcker,
Chief Executive Officer, GSW Immobilien AG

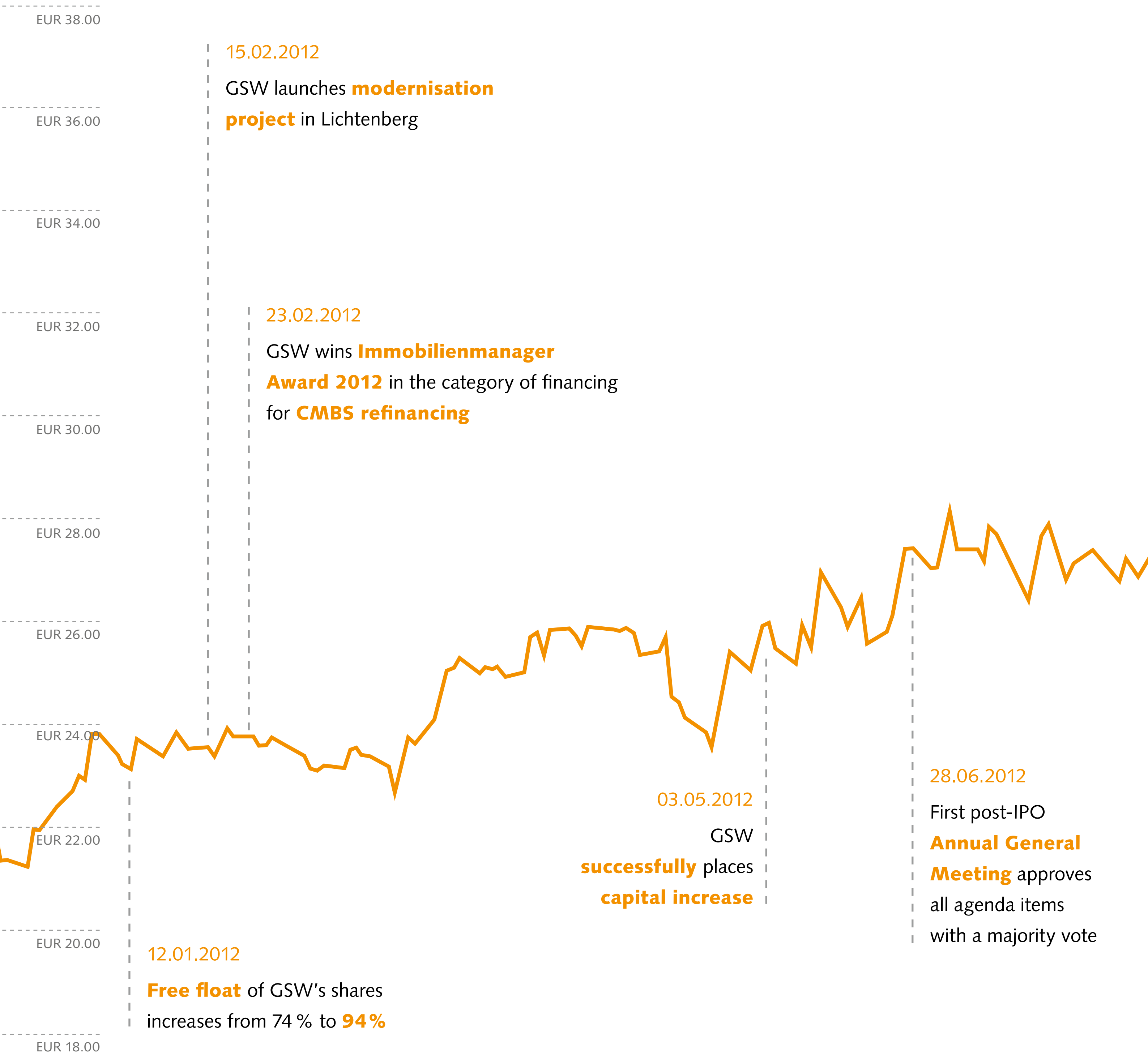
"The Berlin market for residential property again enjoyed strong popularity in 2012. We remained on our growth path with the acquisition of 7,000 residential units, expanding our portfolio by more than 10 %."

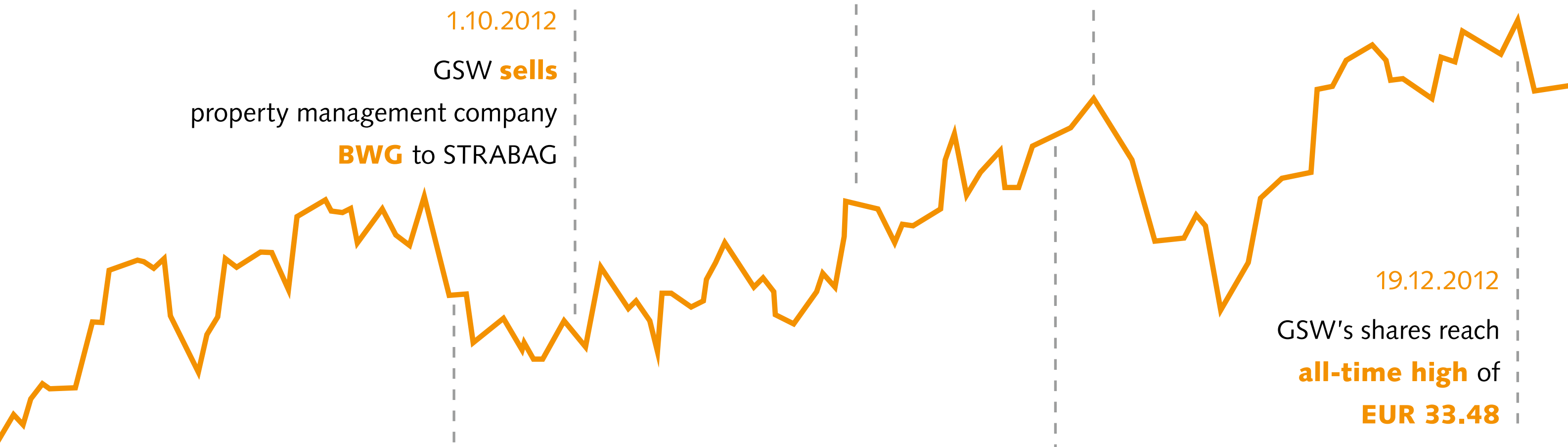
Jörg Schwagenscheidt,
Member of the Management Board,
GSW Immobilien AG

"In 2012, GSW placed a successful capital increase and a convertible bond at attractive conditions. In both cases, investors demonstrated their great confidence in our business model."

Andreas Segal,
Chief Financial Officer, GSW Immobilien AG

Highlights in the 2012 financial year





25.10.2012

GSW **expands** its property portfolio in Berlin by around **4,400 residential units**

22.11.2012

GSW **buys** real estate portfolio with around **2,600 residential units**

1.10.2012

GSW **sells** property management company **BWG** to STRABAG

19.12.2012

GSW's shares reach **all-time high** of **EUR 33.48**

15.11.2012

GSW successfully places **convertible bond** for **EUR 182.9 million**

24.09.2012

GSW's shares are included in the **TR/GPR Global 100 Index EUR**

History of GSW

2012

Growth of 7,000 residential units realised through two successful capitalisation measures

2011

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

2010

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

2004

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

1992 to 1993

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

1961 to 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

1948

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

1945

End of the Second World War: GSW's entire housing stock is damaged. 11,200 of its 53,000 residential units are destroyed

1937

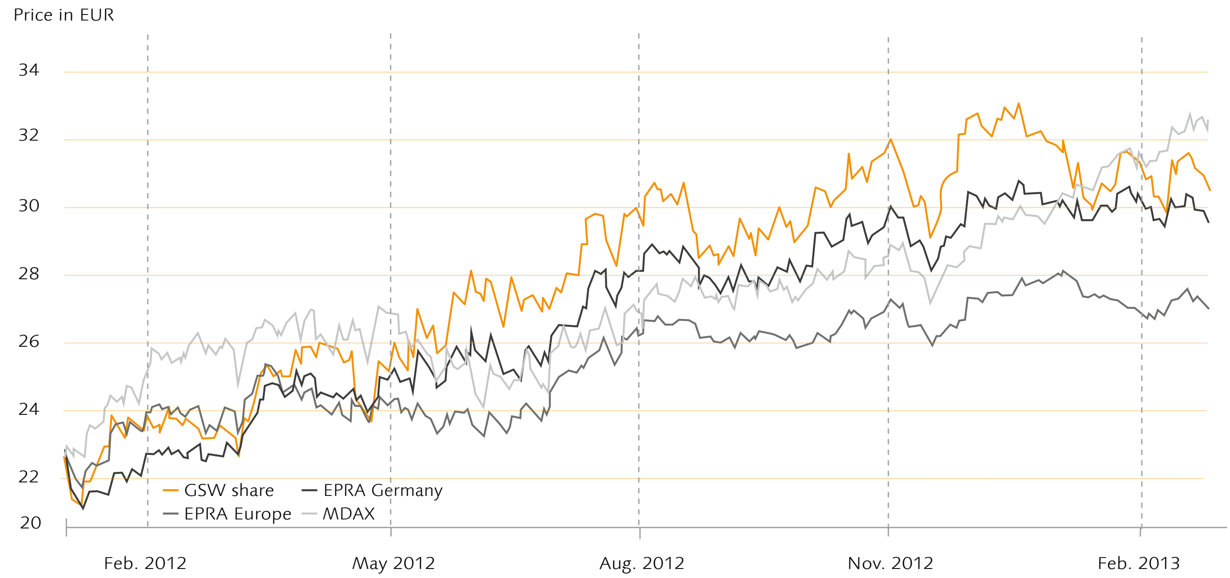
Eight previously independent municipal residential construction and housing associations are merged to form GSW

1924

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

Share

SHARE PRICE PERFORMANCE



KEY DATA

Sector	**Real estate**
ISIN	**DE000GSW1111**
German Securities Code Number (WKN)	**GSW111**
Stock exchange symbol	**GIB**
Reuters	**GIBG.DE**
Bloomberg	**GIB:GR**
Initial listing	**15 April 2011**
Market segment	**Prime Standard**
Trading centres	**Frankfurt Stock Exchange** **XETRA** **Regulated Market (Regulierter Markt) of the Berlin Stock Exchange**
Indices	**MDAX** **FTSE EPRA / NAREIT Global Real Estate Index Series** **GPR 250, STOXX Europe 600** **TR / GPR Global 100 Index EUR**
Designated sponsors	**Deutsche Bank** **Goldman Sachs International** **DZ Bank**

KEY SHARE DATA

	2012	2011
Share capital (in EUR)	50,526,314	41,052,630
Number of shares as of 31 December	50,526,314	41,052,630
Closing price as of 31 December (XETRA, in EUR)	32.00	22.40
High (XETRA, in EUR)	33.48	24.71
Low (XETRA, in EUR)	21.19	19.55
Market capitalisation as of 31 December (in EUR)	1,616,842,048	919,578,912
Average daily trading volume (XETRA, in EUR)	3,415,065	2,013,059
Dividend per share (in EUR)	0.90	-

The stock exchange year 2012

The capital markets remained volatile in 2012, but saw largely positive development in spite of the debt crisis affecting the euro zone. Following a good start to the year, the DAX reached a temporary low of less than 6,000 points in early June before recovering in the second half of the year. On 20 December, it reached a high for the year of 7,672 points – which was also its highest level in the past five years. The MDAX enjoyed even stronger performance, reaching 12,086 points on 19 December to mark the highest level since the index was launched in 1996. In particular, this development was driven by the ECB's introduction of unlimited bond-buying from crisis-hit member states.

GSW's shares significantly outperformed the market as a whole. They closed the year at EUR 32.00 on 28 December 2012, up 42.2 % compared to the start of the year (EUR 22.50), thereby clearly distancing themselves the low for the year as a whole of EUR 21.19 that was recorded on 9 January. By contrast, the DAX and the MDAX closed at 7,612 and 11,914 points respectively, up 25.3 % and 30.7 % on the start of the year. GSW's market capitalisation amounted to around EUR 1,617 million on 31 December 2012.

At the beginning of 2013, GSW's shares relented a bit. The share price of EUR 30.53 on 28 February 2013 was 7.5 % lower than the closing price at year-end 2012.

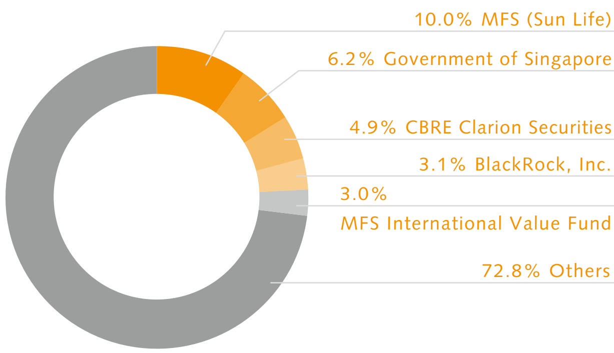
In January 2012, the former major shareholders Cerberus and Whitehall each successfully placed around 4 million GSW shares on the capital markets. Since then, the free float as defined by Deutsche Börse AG has been 94 %.

On 27 April 2012, GSW's share capital was increased by EUR 9,473,684 by way of a capital increase involving the issue of new shares. Since then, the number of ordinary shares outstanding has been 50,526,314. All of the new shares were fully entitled to receive dividends for the 2011 financial year; existing shareholders were able to acquire them at a subscription price of EUR 21.30 per share and a subscription ratio of 13:3. A total of 99.7 % of the new shares were placed through the exercise of subscription rights. The new shares for which no subscription rights were exercised were sold via the stock exchange. On 3 May 2012, the date of initial listing of the new shares, the share price of EUR 26.05 was already significantly higher than the issue price for the capital increase.

GSW Immobilien AG generated gross proceeds of EUR 201.8 million from the capital increase. These funds have now been used to further expand its property portfolio and hence strengthen its market position. The successful placement of the new shares and the large degree of acceptance among existing shareholders serve to demonstrate the confidence shown by the capital markets in the stability and continuity of GSW's business model.

As of 28 February 2013, GSW had a weighting in the MDAX of 1.5 %. Since April 2011, GSW's shares have also been included in a number of real estate share indices calculated by the European Public Real Estate Association (EPRA) and the National Association of Real Estate Investment Trusts (NAREIT). GSW's share price outperformed the EPRA Europe and EPRA Germany indices, in which GSW had a weighting of 1.4 % and 14.7 % respectively as of 28 February 2013. Both indices are important benchmarks for the investment strategy of international institutional investors and saw growth of 22.6 % and 33.0 % respectively in 2012. GSW's shares were also included in the TR / GPR Global 100 Index EUR with effect from 24 September 2012.

SHAREHOLDER STRUCTURE AS OF 28 FEBRUARY 2013



Investor Relations

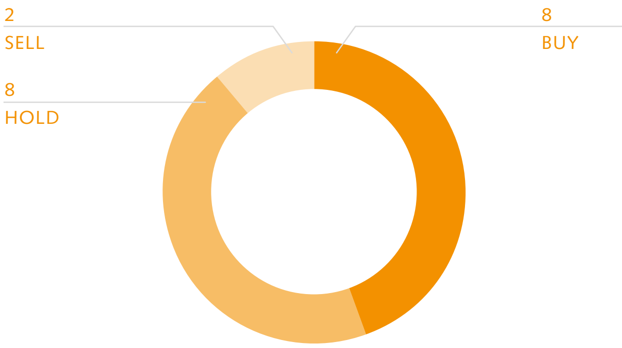
The aim of GSW's investor relations activities is to consolidate and increase the confidence of shareholders, investors, financial analysts and journalists, and all other capital market players. GSW pursues an open, continuous and intense exchange of information with the capital markets and interested members of the wider public.

Accordingly, the "Investor Relations" section of GSW's website offers a comprehensive range of information, including financial publications, mandatory disclosures, press releases and share information, as well as presentations and the fact sheet. Information on GSW, the Annual General Meeting and corporate governance are also provided. Webcasts take place on days when company figures are published.

In 2012, GSW's Management Board and IR team participated in 18 roadshows and 11 capital market conferences in Germany and abroad, including in Frankfurt / Main, Munich, London, Amsterdam, Zürich and New York. GSW had the opportunity to present its attractive business model, with its focus on the portfolio management of residential properties in the Berlin metropolitan area, to a large number of investors. GSW also held a number of tours of its portfolio properties for interested investors and analysts.

Analysts and investors have confirmed the broad information content and high quality of GSW's financial communications. The positive perception and the high level of interest on the part of the capital markets is also reflected in the fact that GSW's shares are currently being regularly analysed by 18 research houses, including 7 analysts who started coverage in the year under review. A large majority of these analysts are currently recommending that investors buy or hold GSW's shares, with only 2 research houses issuing a sell recommendation. The target prices range from EUR 25 to EUR 36.70.

ANALYST RECOMMENDATIONS AS OF 28 FEBRUARY 2013



Professional cooperation with investors and analysts and the positive feedback to GSW's financial communications are incentives for the Company to further intensify its open dialogue with all capital market players over the coming years. In 2013, GSW will again be represented at a number of roadshows and conferences.

Annual General Meeting

The first Annual General Meeting following the IPO in April 2011 was held in Berlin on 28 June 2012. The Annual General Meeting adopted all of the agenda items with a majority vote, including approving the actions of the Management Board and the Supervisory Board for the 2011 financial year with 99.9 % of the votes cast. The payment of a dividend of EUR 0.90 per dividend-bearing share for the 2011 financial year was also approved almost unanimously. This corresponds to a total dividend payment of around EUR 45.5 million. Compared with the weighted average price for 2011 of EUR 21.80, this represents a dividend yield of 4.1 %. The Annual General Meeting also resolved to reduce the size of the Supervisory Board from nine to six members with a clear majority of the votes cast. Ms. Gisela von der Aue, former Senator of Justice of the State of Berlin, was elected as the sixth member of the Supervisory Board of GSW Immobilien AG. More detailed information on the composition of the Supervisory Board can be found on page 147 of this Annual Report.

Contingent and authorised capital

In order to secure the future growth path and the financial flexibility of GSW for the long term, the Annual General Meeting resolved to create new authorised capital in the amount of EUR 17 million and contingent capital in the amount of EUR 7.5 million with majorities of 92.38 % and 89.78 % respectively.

The authorised capital means that the Management Board is authorised, with the approval of the Supervisory Board, to increase GSW's share capital on one or more occasions by a total of up to EUR 17 million up to and including 27 June 2017. Up to 17 million new no-par value bearer shares may be issued in exchange for cash and / or non-cash contributions to this end. As a matter of principle, shareholders' will be granted pre-emptive subscription rights for the new shares. However, the Management Board may disapply shareholders' pre-emptive subscription rights with the approval of the Supervisory Board. The contingent capital has a volume of EUR 7.5 million. Bearer and / or registered convertible bonds and / or bonds with warrants and / or profit participation rights and / or participating bonds with a total nominal amount of up to EUR 250 million may be issued on one or several occasions up to and including 27 June 2017.

On 15 November 2012, GSW utilised this authorisation to issue convertible bonds with a nominal amount of EUR 182.9 million and a term to November 2019 as part of a private placement solely involving institutional investors outside the United States of America, Canada, Australia and Japan. More detailed information on the convertible bond issue can be found on pages 53 et seq. of this Annual Report.

Financial calendar

FINANCIAL CALENDAR

22 March 2013	**Publication of the Annual Report 2012**
22–24 April 2013	**Roadshow (London)**
25 April 2013	**Roadshow (Amsterdam)**
15 May 2013	**Interim Report Q1 2013**
29 May 2013	**Kempen European Property Seminar (Amsterdam)**
18 June 2013	**Annual General Meeting (Berlin)**
15 August 2013	**Interim Report H1 2013**
15 November 2013	**Interim Report 9M 2013**

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Corporate objectives and strategy

Preserving the tried and tested while leveraging new opportunities

Berlin is the Western European city with the largest residential rental market. The number of inhabitants has been rising steadily for the past seven years and, according to recent forecasts by the Senate Department for Urban Development, is set to grow by a quarter of a million to 3.75 million between now and 2030. This means that there is a positive outlook with regard to the continuous development of demand for housing. Letting and managing around 60,000 residential units, GSW is the largest private owner of residential property in the German capital. As such, we expect this fundamental sociodemographic data to have a positive impact on GSW's business development.

GSW's business model is based on sustainable corporate governance with the aim of ensuring the continued existence of the Company. With our focus on property management for a broad segment of the population in Berlin and our conservative financing structure, we deliberately adopt a low risk profile with a high degree of security and an appropriate dividend yield for investors.

Traditional and close to the market

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 knowledge and expertise, their proximity to the market and the individual neighbourhoods, and their proven expertise in all matters relating to the housing industry. Since 2007, GSW has prepared the Housing Market Report Berlin, which breaks the developments on the Berlin housing market down to the level of the individual postcodes. We have long-standing, trust-based contacts with all of the stakeholders in Berlin and on the international banking and capital markets. This gives us a comprehensive presence and allows us to benefit from attractive investment opportunities in a timely manner.

Political focus increasingly turning towards housing

Discussions on issues such as affordable rents, the development of service charges, renovations to improve energy efficiency and the growing shortage of housing in major conurbations mean that the topic of housing is increasingly coming into the focus of politics at a national, state and municipal level. Although we are not directly affected by these matters, we consider it our responsibility and obligation not only to observe these discussions, but also to actively shape them. Our aim is to achieve a mutual understanding of the interests of politics, tenant representatives and the real estate industry. We believe that the transparency generated as a result will lead to the establishment of stable long-term conditions that take into account the social, economic and ecological demands of all interested parties to an equal extent. To encourage this exchange, we are members of GdW Bundesverband deutscher Wohnungs- und Immobilienunternehmen e.V. and ZIA Zentraler Immobilien Ausschuss e.V. at a national level, the Association of Berlin and Brandenburg Housing Companies (BBU) at a regional level, and various neighbourhood initiatives in the individual districts of Berlin. We organise regular meetings with the politically interested public in order to discuss the need for a balanced housing policy for all population groups in Berlin.

In this environment, GSW's business model and strategy are characterised by the following parameters:

- **Standardised processes and a strong service focus**
  Letting and managing around 60,000 residential units requires an efficient organisation without sacrificing a focus on the customer. As such, standardised processes are a prerequisite for generating economies of scale. We have achieved this. Our current organisational, technical and staff structure is designed to ensure that we generate additional efficiency gains in the management of our property portfolio every time we make a new acquisition, while guaranteeing availability of more than 95 % for our tenants from 8 a.m. to 6 p.m., every day of the week. Every additional move along our growth path allows us to use our capacities even more efficiently in order to continuously develop our service and our reliability for tenants and their interests.

- **Management of portfolio residential properties in Berlin as core business**
  We are focused on the standardised mass business of letting and managing residential units for lower and middle income brackets in Berlin. The risk profile of this business differentiates itself clearly and positively from alternative usage types in Berlin on account of its fragmentation and its size. Social and demographic development means that demand can be easily anticipated, making it low-risk. Accordingly, our activities are not aimed at more volatile target groups, usage types or stages in the value chain. As a pure portfolio manager, we focus on value-generating activities such as portfolio management, the acquisition of new customers, support for existing customers, financial management and maintenance controlling, all of which we perform using our own employees.

- **Solid, long-term equity and debt financing and modern financial management**
  Managing portfolio properties is a capital-intensive business with long-term maintenance and management cycles. As such, solid, long-term equity and debt financing and modern financial management are important criteria for a sustainable business model. This provides security for tenants, employees and the continued existence of the Company. Our loan-to-value ratio is conservative and long-term loans at attractive, secured interest rates mean that we are protected from volatile developments on the financial markets. We make use of the various options for capital procurement in order to ensure the greatest possible flexibility when it comes to company and acquisition finance. This includes capital increases on the equity side as well as a portfolio of short-term, medium-term and long-term loans and alternative financing instruments such as convertible bonds.

Growth and sustainable corporate governance: the pillars of future development

GSW is optimally positioned to leverage all of the opportunities presented by future market development. Our clear objectives are continuous growth in our property portfolio in Berlin and sustainable corporate governance. We intend to grow by investing in new property portfolios with development and yield potential in line with the premises of liquidity and value growth and by ensuring distributable cash flows. These surpluses will allow us to pay regular, substantial dividends to our shareholders, further optimise our financing structures and make value-enhancing investments in our property portfolio in order to reflect market conditions.

Our principle of sustainable corporate governance involves dealing responsibly with our shareholders' capital, the social and economic situation of our employees and tenants, the interests of long-standing partners on the bank and supplier side, and regulatory and sociopolitical concerns at national, state and district level. We seek to achieve a high degree of customer proximity in order to ensure long-term tenant satisfaction and retention, and we perform active neighbourhood management with a view to providing social balance in the tenant structure.

It is our conviction that long-term business success is only possible by balancing the needs of all of GSW's investor groups.

Corporate responsibility and sustainability

There is a clear relationship between value-oriented management and sustainable business success. Values stabilise a company and provide orientation for all concerned. The most important value may well be trust. Trust is generated where moderation is exercised, credibility is demonstrated and courage is shown, where individuals are honest and brave enough to listen to their own conscience. And this closes the circle with the justified expectations of our many stakeholders.

Over the past year, we have made significant progress with regard to answering questions such as how to define sustainability, what this has to do with our Company and what consequences should be drawn as a result. Accordingly, we published our first Sustainability Report in January 2013.

This dedicated publication presents our sustainability strategy and describes how it is being implemented in concrete terms. For us, sustainability is more than just a marketing buzzword. Our decisions and actions are geared towards the principle of dealing responsibly and respectfully with the interests of all stakeholders and the continued existence of the Company, including for future generations.

Our history and our local roots mean that we have a particular responsibility towards the City of Berlin. Demographic change, income development, environmental protection targets and the risk to social systems are just some of the major social and industry-specific challenges that we must also face. Housing must remain affordable for people on lower and medium incomes in particular, and an intensive drive towards building renovation with a view to energy optimisation is necessary. In light of these challenges, the conflicting interests of our stakeholders must be balanced in some cases. Our approach to this area of potential conflict is characterised by daily deliberations.

However, we can only take social and ecological responsibility by maintaining and expanding the economic success of our Company. As a stock corporation whose equity comes from our large shareholder base, we are also obliged to take account of their interests at all times – something we achieve by generating cash surpluses and growth in the value of our property portfolio in order to allow us to invest, repay debts, make acquisitions and distribute dividends.

Economic success is a basic prerequisite if we are to negotiate tasks such as ensuring a balanced portfolio in terms of energy efficiency, employee qualifications and diversity, providing housing that reflects the prevailing social structure, or corporate citizenship. We are on the right path. With our clear focus on sustainability, we have laid the strategic foundations for a successful future: for investors, employees, and the more than 100,000 people who live happily and feel at home in GSW's properties.

With our "living in all phases of life" concept, we are addressing the target groups for new rentals with a particular focus on their individual living situations – from students and young families to housing for older people. In his function as Vice-President of Zentraler Immobilien Ausschuss (ZIA), GSW CEO Thomas Zinnöcker played a major role in the development of an industry code of conduct under which a large number of companies from the real estate industry undertake to incorporate sustainable action as a key principle of their business activities. In Berlin, we support various projects in the areas of young people, culture and sport with a particular view to benefiting socially disadvantaged people. For example, we support neighbourhood and local centres and initiatives and campaigns for leisure activities in Berlin by providing premises and paying staff costs. Our tenant association for social responsibilities supports people requiring assistance concerning their tenancy agreements, while we provide several hundred residential units a year for people who have become homeless.

We are measured by these and many other activities in the truest sense of the word. With this in mind, our Sustainability Report, which is published every two years, includes key performance indicators for the areas of social, ecological and economic sustainability.

In the past financial year, we made considerable progress towards our objective of gaining the confidence of all our stakeholders and retaining it in the long term. Gradually developing a corporate culture in which each individual applies the principles of sustainability in his or her actions – this is the criterion by which GSW will be measured in future.

Report of the Supervisory Board

Dr. Eckart John von Freyend
Chairman of the Supervisory Board

Dear shareholders,

2012 was an extremely successful year for GSW Immobilien AG. The Company's business model, with its focus on residential property in Berlin, proved its worth. The Berlin housing market is attractive and dynamic. GSW Immobilien AG used the opportunities provided by the capital markets to implement a capital increase in April 2012 and issue a convertible bond in November 2012. The proceeds from these capitalisation measures were used to successfully realise the Company's growth strategy through the acquisition of a further 7,000 residential units. GSW currently has a total portfolio of around 60,000 residential and commercial units.

GSW Immobilien AG has established itself as a listed company and enjoyed extremely positive development.

During the period under review, the Supervisory Board carried out the duties incumbent on it in accordance with the law, the Articles of Association and the by-laws, and the German Corporate Governance Code. We continuously advised the Management Board on the management of the Company and monitored its activities. The Supervisory Board was immediately involved in all decisions of fundamental importance. The Management Board regularly, promptly and comprehensively informed the Supervisory Board, in oral and written reports, about business planning, the course of business, strategic development and the Group's economic and financial situation. The Supervisory Board satisfied itself as to the legitimacy, regularity and fitness for purpose of the Company's management by the Management Board. The Management Board consulted us in coordinating the strategic alignment of the Company. On the basis of reports and presentations by the Management Board, we discussed in detail all business transactions of major significance to the Company.

Outside the Supervisory Board meetings, the Chairman of the Supervisory Board was in regular close contact with the Management Board and was informed about current developments and key transactions at all times. He conducted separate strategy discussions with the Management Board on the outlook and the future alignment of the Company.

Main focus of the activities of the full Supervisory Board

A total of four regular and four extraordinary meetings of the Supervisory Board were held in 2012, some of which took the form of telephone conferences. Regular topics of discussion at the meetings of the full Supervisory Board included revenue, earnings and business development at GSW Immobilien AG and the GSW Group, the financial and liquidity position, risk management and major acquisition projects. The capitalisation measures implemented by the Company were reviewed and discussed in detail. The Management Board informed the Supervisory Board as to its assessment of events on the market and opportunities and risks. The resolutions proposed by the Management Board for measures requiring approval were approved after detailed examination and discussion.

The Supervisory Board examined the implementation of the recommendations of the German Corporate Governance Code and subsequently resolved the declaration of conformity in accordance with section 161 of the German Stock Corporation Act (AktG) on 16 March 2012.

The Supervisory Board meeting on 28 March 2012 discussed the single-entity and consolidated financial statements for the 2011 financial year and the report by the Audit Committee. Following a detailed discussion, the single-entity financial statements were adopted and the consolidated financial statements for the 2011 financial year were approved. The agenda items for resolution by the 2012 Annual General Meeting were also discussed.

The Supervisory Board resolved the report by the Supervisory Board to the Annual General Meeting and the Corporate Governance Report for the 2011 financial year.

An extraordinary Supervisory Board meeting was held by telephone conference on 17 April 2012 to approve the increase in the share capital of the Company utilising authorised capital and the issue of 9,473,684 new no-par value bearer shares. At the same time, the Supervisory Board resolved a corresponding change to the Articles of Association effective from the date of entry of the capital increase in the commercial register.

The regular meeting on 8 May 2012 discussed current business development, the remuneration system for the Management Board and the Supervisory Board, and preparations for the Annual General Meeting.

At an extraordinary meeting on 14 May 2012, the Supervisory Board resolved a new remuneration system for the members of the Management Board and the variable remuneration for the 2011 financial year. This meeting also changed the periods of appointment of the Management Board members by mutual consent and resolved the conclusion of new contracts of employment. At the recommendation of the Audit Committee, the Supervisory Board recommended that the Annual General Meeting elect PricewaterhouseCoopers as the auditor of the single-entity and consolidated financial statements for the 2012 financial year. The Supervisory Board also resolved to propose Ms. Gisela von der Aue for election as a new member of the Supervisory Board at the recommendation of the Nomination Committee. The Supervisory Board approved the other resolutions to be proposed to the Annual General Meeting and resolved a revised declaration of conformity in accordance with section 161 AktG. The declarations of conformity have permanently been made available to the shareholders on the Company's website.

The results for the first half of 2012, economic development and the outlook for the second half of the year were addressed at the regular meeting on 29 August 2012. The full Supervisory Board also discussed acquisition projects and other measures requiring approval.

At an extraordinary meeting held by telephone conference on 16 October 2012, the Supervisory Board addressed the acquisition of property portfolios and approved the acquisitions proposed by the Management Board.

At the extraordinary meeting held by telephone conference on 30 October 2012, the Supervisory Board approved the acquisition of a further portfolio of around 2,500 residential units.

The last regular meeting for the 2012 financial year was held on 20 December 2012. The Supervisory Board discussed and adopted the budget proposed by the Management Board for 2013. The Supervisory Board also acknowledge the medium-term planning (2014 to 2017) presented by the Management Board. The full Supervisory Board discussed the criteria for the independence of Supervisory Board members. Following an extensive discussion, the Supervisory Board resolved that 50 % of its members should be independent. In the context of the meeting, the Supervisory Board established that all Supervisory Board members are currently independent, and hence that these criteria are fulfilled.

Supervisory Board committees

In order to perform its tasks more efficiently, the Supervisory Board established three permanent committees in the 2012 financial year: the Executive Committee, the Audit Committee and the Nomination Committee. The committees' work involves preparing the resolutions of the Supervisory Board and topics to be discussed by the full Supervisory Board. Individual decision-making powers of the Supervisory Board have also been delegated to the committees to the extent permitted by law. The chairs of the committees report to the full Supervisory Board on the committees' work at the next meeting.

Executive Committee

The Executive Committee met three times in the year under review. Between meetings, the Chairman of the Supervisory Board discussed topics of particular importance with the members of the Executive Committee. The Executive Committee dealt with corporate governance issues, developed proposals for a new system of Management Board remuneration and addressed various human resources issues. At an extraordinary meeting on 15 November 2012, the Executive Committee of the Supervisory Board approved the issue of a convertible bond with a volume of around EUR 182.9 million and a term until November 2019.

Nomination Committee

The Nomination Committee consists of the members of the Executive Committee. In the 2012 financial year, the Nomination Committee developed a proposal to the full Supervisory Board for the election of a new Supervisory Board member.

Audit Committee

The Audit Committee held four meetings in 2012. At its meeting on 26 March 2012, it discussed the single-entity and consolidated financial statements and the management report for the 2011 financial year with the auditors and the members of the Management Board. This meeting also discussed the proposal for the appropriation of profits. The members of the Supervisory Board also extensively discussed the valuation of the Group's real estate portfolio in the presence of the real estate surveyor.

At its meeting on 8 May 2012, the Audit Committee addressed the election of the auditor for the 2012 financial year and, on the basis of a selection procedure, issued the Supervisory Board with a recommendation for the proposal to the Annual General Meeting on the election of the auditor. The Supervisory Board had obtained a declaration of independence from the auditor prior to issuing this proposal.

The Audit Committee also gave extensive consideration to the audit assignment for the 2012 financial year, the oversight of the auditor's independence and qualifications as well as the additional services provided, the determination of the auditor's fees, and the review of the quarterly financial statements and the half-year financial report. The audit assignment was issued by the Supervisory Board.

At its meeting on 29 August 2012, the Audit Committee primarily discussed financing instruments on the capital markets.

At the meeting of the Audit Committee on 29 November 2012, the members addressed the accounting process, the risk management system and the Company's risk situation, as well as the facilities, organisational assignment and the findings of Internal Audit.

Project Committee for Determining the Location of GSW's Head Office

In December 2012, the Supervisory Board resolved the establishment of a temporary project committee. In 2013, this committee will address the project initiated by the Management Board with a view to determining the location of GSW's head office following the expiry of the current lease in 2015. The project committee will advise the Management Board and prepare the necessary resolutions by the full Supervisory Board.

Management Board remuneration

The German Corporate Governance Code recommends the regular review of the remuneration system for the Management Board. In the 2012 financial year, the Supervisory Board commissioned an independent remuneration consultant to review the remuneration system and make proposals for its further development. The results of the review and the proposals by the remuneration consultant were discussed in detail at the Supervisory Board meetings on 8 and 14 May 2012. Based on the results of its discussions, the Supervisory Board resolved a new remuneration system for the Management Board that is presented in detail in the remuneration report.

Corporate governance

In the 2012 financial year, the Supervisory Board continuously addressed the further development of corporate governance at the Company and the requirements of the German Corporate Governance Code. The declaration of conformity in accordance with section 161 AktG was resolved on 16 March 2012. In light of the change in practices at the Company and the resolutions to be proposed to the Annual General Meeting, the Supervisory Board decided to submit a revised declaration of conformity on 14 May 2012 stating that the Company complies with, and will continue to comply with, the recommendations of the German Corporate Governance Code with a small number of exceptions as explained in the declaration of conformity.

The changes to the German Corporate Governance Code were discussed in particular at the Supervisory Board meeting on 20 December 2012. More detailed information on corporate governance at the Company can be found in the Corporate Governance Report, which forms part of the Annual Report.

The members of the Supervisory Board inform the Supervisory Board about potential conflicts of interest. In the 2012 financial year, there were two matters in which it was not possible to fully exclude an isolated conflict of interest concerning a member of the Supervisory Board. One of the conflicts of interest related to a planned acquisition that was ultimately not realised, while the other related to the initiation of contractual negotiations with a property service provider whose Supervisory Board Chairman is a member of GSW's Supervisory Board. As a precautionary measure, the Supervisory Board and the members concerned took measures aimed at ensuring that these isolated conflicts of interest did not affect the discussions and resolutions of the Supervisory Board and its committees.

Single-entity and consolidated financial statements 2012

PricewaterhouseCoopers Aktiengesellschaft Wirtschaftsprüfungsgesellschaft has audited the single-entity and consolidated financial statements prepared by the Management Board as well as the consolidated management report of GSW Immobilien AG and the GSW Group for the year ended 31 December 2012 and issued them with an unqualified audit opinion. 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 German commercial law. The consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards (IFRS) as adopted by the European Union (EU) and the supplementary provisions of German commercial law. The auditor performed the audit in accordance with the generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (IDW – German Institute of Auditors) and the International Standards on Auditing (ISA).
The aforementioned documents and the Management Board's proposal for the appropriation of profits were submitted to the Supervisory Board in good time. They were discussed extensively at the meeting of the Audit Committee meeting on 18 March 2013. The audit reports issued by PricewaterhouseCoopers Aktiengesellschaft Wirtschaftsprüfungsgesellschaft were made available to all members of the Supervisory Board and were discussed in detail at the Supervisory Board meeting on 21 March 2013 in the presence of the auditor. The auditor reported on the key findings of its audit and confirmed that there were no significant weaknesses in either the internal control system or the risk management system. At the same meeting, the Management Board discussed the financial statements of GSW Immobilien AG and the Group and the risk management system. The auditor also outlined the scope, focal points and costs of the audit.

The Supervisory Board agrees with the findings of the audit. Based on the final review by the Audit Committee as well as our own examination, no objections were raised. The Supervisory Board has approved the single-entity and consolidated financial statements for the year ended 31 December 2012; the annual financial statements of GSW Immobilien AG are therefore adopted. The Supervisory Board approved the Management Board's proposal of a dividend payment of EUR 0.90 per share.

Changes in the composition of the Supervisory Board

The Supervisory Board members Geert-Jan Schipper and Thomas Wiegand stepped down with effect from 31 March 2012. We would like to thank Mr. Schipper and

Mr. Wiegand for their consistently constructive cooperation as members of the Supervisory Board. Mr. Wisser was elected as Mr. Wiegand's successor on the Executive Committee. Dr. Baumgarten and Dr. John von Freyend were elected as members of the Audit Committee.

Changes in the composition of the Management Board

During the 2012 financial year, there were no changes in the Management Board.

By resolution of 18 March 2013, the Supervisory Board agreed to Thomas Zinnöcker's request to terminate his appointment as CEO with effect from the end of 15 April 2013. The Supervisory Board would like to express its particular thanks to Thomas Zinnöcker for his many years of successful work at GSW Immobilien AG.

By resolution of 18 March 2013, the Supervisory Board appointed Dr. Bernd Kottmann as new CEO with effect from 16 April 2013.

The Supervisory Board would like to thank the members of the Management Board and the employees of GSW Immobilien AG and all of the Group companies for their high degree of personal commitment. They have made an important contribution to this extremely successful financial year for GSW Immobilien AG.

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

Berlin, 21 March 2013
GSW Immobilien AG

For 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 report jointly on corporate governance at GSW Immobilien AG in accordance with the recommendations of section 3.10 of the German Corporate Governance Code (the "Code") in the version dated 15 May 2012, as published in the Federal Gazette (Bundesanzeiger) on 15 June 2012. This report also contains the declaration on corporate governance in accordance with section 289a of the German Commercial Code (HGB).

Cooperation between the Management Board and the Supervisory Board

Details on the Management Board, the Supervisory Board and the cooperation between the two executive bodies can be found in the Report of the Supervisory Board and in the declaration on corporate governance in accordance with section 289a HGB.

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

The Supervisory Board of GSW Immobilien AG has six members and is composed in accordance with the provisions of the German Stock Corporation Act (AktG).

Section 5.4.1 (2) 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, the number of independent Supervisory Board members, 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. The Supervisory Board of GSW Immobilien AG resolved the following concrete objectives:

- Female representation of at least 30 % shall be maintained until the re-election of the current Supervisory Board members in 2015.
- 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 Annual General 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 must always have three members who are independent within the meaning of section 5.4.2 of the Code. At its meeting on 20 December 2012, the Supervisory Board established that all Supervisory Board members are currently independent within the meaning of the aforementioned provision. At the same meeting, the Supervisory Board decided that at least 50 % of the members of the Supervisory Board must be independent.

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 of the opinion that its current composition complies with these objectives. The reduction in the size of the Supervisory Board from nine to six members and the election of Ms. Gisela von der Aue as a Supervisory Board member by the Annual General Meeting on 28 June 2012 means that the level of female representation on the Supervisory Board is already 33 %. In particular, the Supervisory Board believes that it has an appropriate number of independent members. 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.

Activities of the Supervisory Board and conflicts of interest

The members of the Supervisory Board inform the Supervisory Board about potential conflicts of interest. In the 2012 financial year, there were two matters in which it was not possible to fully exclude an isolated conflict of interest concerning a member of the Supervisory Board. One of the conflicts of interest related to a planned acquisition that was ultimately not realised, while the other related to the initiation of contractual negotiations with a property service provider whose Supervisory Board Chairman is a member of GSW's Supervisory Board. As a precautionary measure, the Supervisory Board and the members concerned took measures aimed at ensuring that these isolated conflicts of interest did not affect the discussions and resolutions of the Supervisory Board and its committees.

Conflicts of interest can also arise when Supervisory Board members hold positions on executive bodies of other companies within the real estate industry. Dr. Jochen Scharpe, member and Deputy Chairman of the Supervisory Board of the Company, is also a member of the Supervisory Board of FFIRE Immobilienverwaltung AG, Berlin, and a member of the Supervisory Board of LEG Immobilien AG, Düsseldorf, which has been a listed company since February 2013.

LEG Immobilien AG's business activities are focused on the housing market in North Rhine-Westphalia state, whereas GSW Immobilien AG concentrates on the housing market in Berlin and the surrounding area. As the activities of the two companies currently only overlap in marginal areas at most and competition on the Berlin market is characterised by a large number of investors and housing companies, the Management Board and Supervisory Board of GSW Immobilien AG do not see LEG Immobilien AG as a significant competitor to the Company based on their own examination.

The corporate strategies of GSW Immobilien AG and FFIRE Immobilienverwaltung AG are fundamentally different. GSW Immobilien AG is a property holding company, while the core business activities of FFIRE Immobilienverwaltung AG are crisis management for real estate and services for individual real estate investors. In isolated situations, a competitive situation may arise on the Berlin market when it comes to third-party acquisition mandates of FFIRE Immobilienverwaltung AG. However, in the estimation of the Management Board and Supervisory Board of GSW Immobilien AG this is not sufficient to classify FFIRE Immobilienverwaltung AG as a significant competitor to GSW Immobilien AG.

The Supervisory Board is of the opinion that the experience and extensive industry expertise of Dr. Scharpe is an important element of its activities. Dr. Scharpe has confirmed to the Supervisory Board of GSW Immobilien AG that his positions on the Supervisory Boards of LEG Immobilien AG and FFIRE Immobilienverwaltung AG do not give rise to any material or long-term conflicts of interest. The Management Board and the Supervisory Board are confident of Dr. Scharpe's ability to exercise his position on the Supervisory Board of GSW Immobilien AG in the Company's interests at all times. With the consent of Dr. Scharpe, the Supervisory Board has also taken precautionary measures to ensure that any isolated conflicts of interest will not affect the discussions and resolutions of the Supervisory Board and its committees.

Shareholders and Annual General Meeting

The shareholders of GSW Immobilien AG exercise their rights at the Annual General Meeting, which is held once a year. Each share confers an equal voting right on the holder. The Annual General Meeting decides on the tasks assigned to it by law, including the appropriation of profits, the approval of the actions of the Management Board and the Supervisory Board, the appointment of the auditor, the election of Supervisory Board members, changes to the Articles of Association and capitalisation measures. As a matter of principle, the Annual General Meeting is chaired by the Chairman of the Supervisory Board. In order to make it easier for shareholders to exercise their rights in person, the necessary documents are published online after the Annual General Meeting is convened. Shareholders have the option of appointing a proxy and issuing them with instructions for exercising their voting rights.

Accounting and auditing

The consolidated financial statements for the 2012 financial year are prepared in accordance with the International Financial Reporting Standards (IFRS) as applicable in the EU. The single-entity financial statements are prepared in accordance with the German Commercial Code (HGB). The Annual General Meeting on 28 June 2012 appointed PricewaterhouseCoopers Aktiengesellschaft Wirtschaftsprüfungsgesellschaft as the auditor of the single-entity and consolidated financial statements for the 2012 financial year. The audit assignment was issued by the Supervisory Board. The Supervisory Board had obtained a declaration of independence from the auditor prior to issuing this proposal.

Stock option plans and similar share-based incentive schemes of the Company

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. The holding period, during which employees were not permitted to dispose of the shares allocated to them, ended on 30 June 2012.

The Management Board is examining the introduction of a share-based employee participation programme for the employees of GSW Immobilien AG and the Group companies.

Reportable securities transactions

In accordance with section 15a of the German Securities Trading Act (WpHG), members of the Management Board and the 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). The corresponding notifications can be found on GSW Immobilien AG's website (www.gsw.de).

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 2012 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 are not included in the audit of the financial statements.

Declaration of conformity in accordance with section 161 (1) AktG

On 14 May 2012, the Management Board and Supervisory Board of GSW Immobilien AG issued the following declaration of conformity in accordance with section 161 (1) AktG:

With this revised declaration of conformity, the Management Board and Supervisory Board of GSW Immobilien AG hereby declare that, since 14 May 2012, 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 Federal Gazette (Bundesanzeiger) with the following exceptions and will continue to comply with these recommendations in future with the following exceptions:

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 the Company's website (www.gsw.de).

Relevant disclosures on the 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.

GSW Immobilien AG places particular value on the careful use of natural resources and the ecological compatibility of its economic activity. Our efforts to preserve the fundamental conditions for life and to reduce emissions are documented in our Sustainability Report, which is available on our website together with additional information on the topic of corporate social responsibility.

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.

The Supervisory Board has 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 and Internal Audit

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

For GSW Immobilien AG, its Group companies and its employees, compliance is an important factor in retaining the trust of shareholders, customers and contractual partners.

Compliance covers the implementation and long-term adherence to the principles and rules of responsible corporate governance. These are 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 rules of conduct. GSW Immobilien AG has appointed a Chief Compliance Officer, who reports directly to the Management Board. The Compliance Officer manages the Company's list of insiders.

In 2012, GSW further expanded its Company-wide compliance system and took the following measures in particular:

- All of the Company's divisions are being made aware of compliance risks, new compliance risks are being identified and existing risks adjusted, and measures for risk reduction are being developed as part of regular communication. The results are reported to the Management Board and Supervisory Board at regular intervals.

- GSW has developed a training concept for corruption prevention covering all areas of the Company and a guideline on gifts and donations. The Company has also conducted further compliance training. The contract development and management manual, which regulates and guarantees the transparency and traceability of GSW Immobilien AG's procurement activities, is currently being revised.

- A whistleblower program is currently being prepared and is scheduled to be implemented in 2013. An external lawyer will be mandated as an ombudsman.

For GSW's Management Board, the operation of an appropriate risk management system is a key element of responsible corporate governance. 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. GSW has a simple and clear organisational structure with processes ensured internally and externally by control and monitoring mechanisms. The Group-wide risk management system in place is constantly adjusted in line with current developments and tested for functionality on an ongoing basis. GSW's risk management system is presented in detail in the management report.

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 full Supervisory Board and the Audit Committee 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 subcontractors 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 and acts as the Company's legal representative. 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 and the schedule of responsibilities 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 six members elected by the Annual General Meeting.

The members of the Supervisory Board are each appointed for the period until the end of the Annual General Meeting that resolves on the approval of their actions for the 2014 financial year.

The Supervisory Board has appointed Dr. Jochen Scharpe as an independent Supervisory Board member with expertise in the areas of accounting and auditing in accordance with section 100 (5) AktG.

Supervisory Board committees

The Supervisory Board has established the following permanent committees in order to improve the efficiency of its work:

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 Annual General 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, the proposal to the Annual General Meeting on the appointment of the auditor and the agreements with the auditor. The Audit Committee discusses the principles of compliance, risk identification and the appropriateness and functionality of the internal control systems with the Management Board. The Chairman of the Audit Committee is independent and has particular knowledge and experience in the application of accounting standards and internal control procedures.

A temporary project committee was also established in December 2012. In 2013, this committee will address the project initiated by the Management Board with a view to determining the location of GSW's head office following the expiry of the current lease in 2015. The project committee will advise the Management Board and prepare the necessary resolutions by the full Supervisory Board.

Further information on the activities of the Supervisory Board and its committees can be found in the Report of the Supervisory Board.

Remuneration of the Management Board and Supervisory Board

For GSW Immobilien AG, transparent and comprehensible reporting on the remuneration paid to the members of the Management Board and Supervisory Board is a key element of good corporate governance. Further information can be found in the comprehensive remuneration report that also forms part of the consolidated management report.

Development of the Housing Portfolio

Overview

GSW's business model is focused on managing residential property in Berlin with the aim of generating stable cash surpluses that grow steadily over time. As one of Germany's most attractive residential real estate markets, Greater Berlin offers excellent background conditions. In contrast to the national average, Berlin has been characterised by positive demographic trends for a number of years.

One of the Company's key strategic components is active, value-oriented portfolio management with the objective of generating sustainable, rising yields in order to ensure the value retention of the portfolio and GSW's competitiveness in the long term. Among other things, this includes the continuous development of the company's own housing stock by means of maintenance and modernisation measures and efficiency improvements that add value while maintaining a clear customer focus in property management.

In the 2012 financial year, GSW focused on continuing to optimise the management of its real estate portfolio and to further improve its position through targeted acquisitions. As forecast, the economic data of the portfolio is developing well, particularly in terms of the continuous development of rents and the optimisation of the vacancy rate.

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, particularly as a result of rent increases (2.8 % year-on-year as at 31 December 2012) and the reduction in the vacancy rate (to 2.7 % as at 31 December 2012). 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 realised a complex modernisation project in Lichtenberg district in 2012.

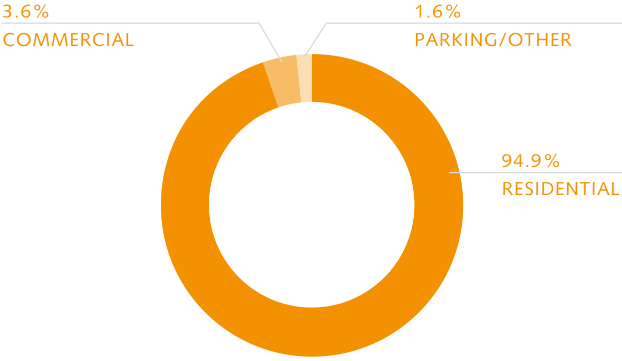
GSW increased its portfolio by more than 11 % through acquisitions in 2012. GSW's operating platform allows it to expand and optimise its real estate portfolio through attractive acquisitions and at the same time, to integrate newly acquired residential units into its existing portfolio with only marginal 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 residential units and smaller portfolios. In light of market developments, GSW is not ruling out the possibility of utilising market opportunities to sell more extensive sub-portfolios in order to enhance value.

Portfolio overview

GSW manages one of the largest real estate portfolios in Berlin with 59,661 of its own residential and commercial units, which accounted for 98.4 % of total annual rental income.

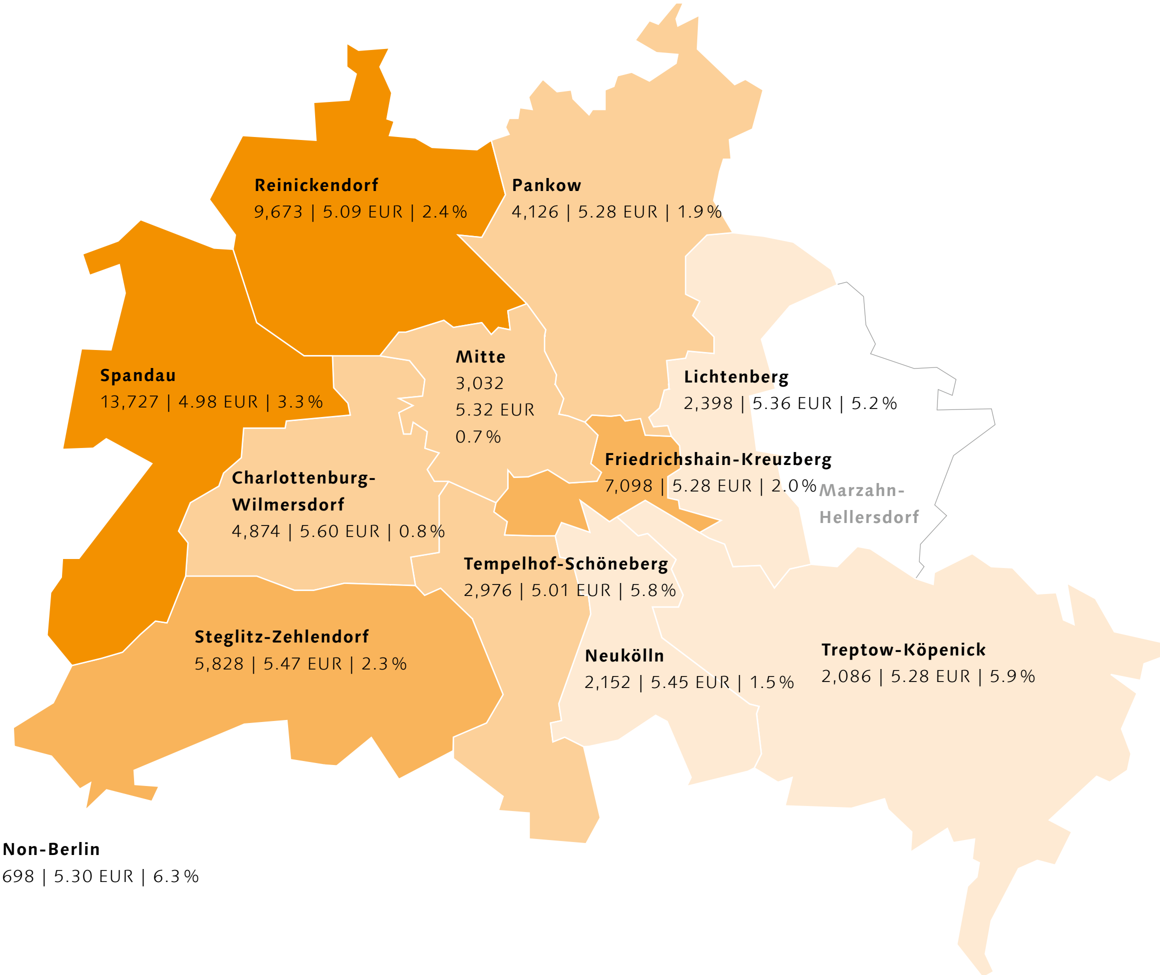
ANNUALISED IN-PLACE RENT



HOUSING PORTFOLIO 31.12.2012

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



Non-Berlin
698 | 5.30 EUR | 6.3 %

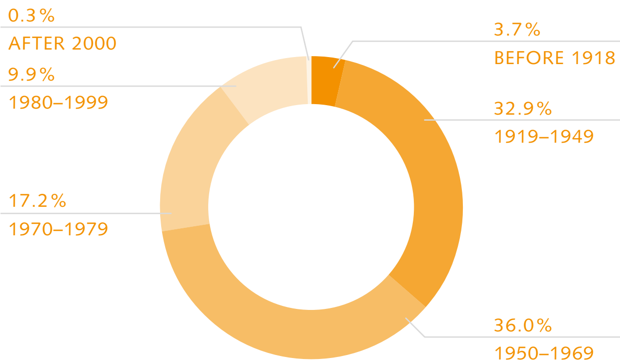
[1] The vacancy rate represents the ratio of vacant units to total lettable units in the respective portfolio.

HOUSING PORTFOLIO, COMPARISON OF 2011 / 2012

District	Rental units			Share of portfolio (%)		In-place rent (EUR / sqm)			Vacancy rate in % by rental units		
	31.12.2012	31.12.2011	Difference	31.12.2012	31.12.2011	31.12.2012	31.12.2011	Change in %	31.12.2012	31.12.2011	Difference
Spandau	13,727	12,074	1,653	23.4	22.9	4.98	4.81	3.5	3.3	4.2	-0.9
Reinickendorf	9,673	8,934	739	16.5	16.9	5.09	4.87	4.5	2.4	3.2	-0.8
Friedrichshain-Kreuzberg	7,098	7,103	-5	12.1	13.5	5.28	5.16	2.3	2.0	3.0	-1.0
Steglitz-Zehlendorf	5,828	5,904	-76	9.9	11.2	5.47	5.33	2.6	2.3	2.5	-0.2
Charlottenburg-Wilmersdorf	4,874	4,599	275	8.3	8.7	5.60	5.53	1.3	0.8	1.2	-0.4
Pankow	4,126	4,221	-95	7.0	8.0	5.28	5.17	2.1	1.9	3.1	-1.1
Mitte	3,032	1,590	1,442	5.2	3.0	5.32	5.26	1.1	0.7	1.6	-0.8
Tempelhof-Schöneberg	2,976	2,728	248	5.1	5.2	5.01	4.93	1.6	5.8	6.7	-1.0
Lichtenberg	2,398	2,398	0	4.1	4.5	5.36	5.21	2.9	5.2	3.7	1.5
Neukölln	2,152	1,264	888	3.7	2.4	5.45	5.36	1.7	1.5	2.1	-0.5
Treptow-Köpenick	2,086	1,746	340	3.6	3.3	5.28	5.14	2.7	5.9	5.8	0.1
Non-Berlin	698	229	469	1.2	0.4	5.30	6.01	-11.8	6.3	4.8	1.5
Total	**58,668**	**52,790**	**5,878**			**5.22**	**5.08**	**2.8**	**2.7**	**3.4**	**-0.7**

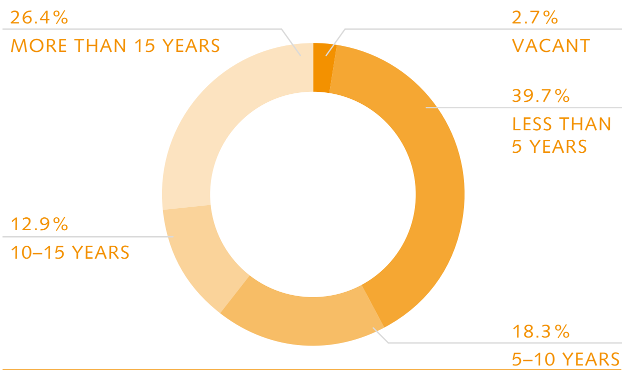
Around 37 % of the residential units in the portfolio were built in the first half of the 20th century or earlier, meaning that they belong to one of the most attractive clusters in terms of their year of construction. A further 36 % date back to the period from 1950 to 1969. The remaining units were constructed after 1970.

YEAR OF CONSTRUCTION



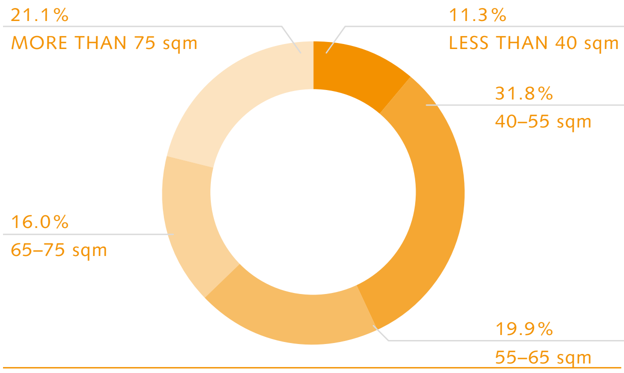
The average lease duration in the portfolio is around twelve years. In terms of the duration of tenancies, two major clusters can be observed. Around 26 % of residential units have already been rented for more than 15 years; these tenants include some who have lived in their apartments for over 30 years. Apartments with a current tenancy of less than five years account for around 40 % of all residential units . This reflects the success of rental operations in recent years.

LEASE DURATION

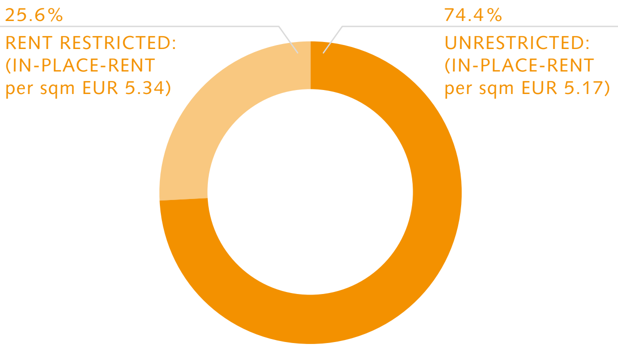


The average apartment size is 60.5 sqm. Around 43 % of the residential units are smaller than 55 sqm. The demographic trend clearly shows a growing number of single-person and two-person households, meaning that GSW's real estate portfolio is well positioned to meet the needs of this important target group in future.

APARTMENT SIZE



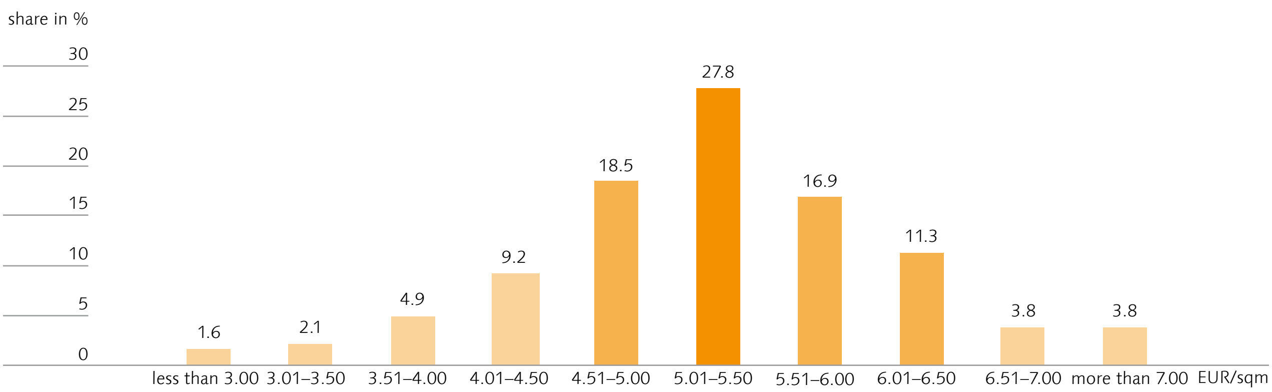
PRICE CATEGORY



Approximately 26 % of all apartments are rent-restricted. At the reporting date, an in-place rent of EUR 5.34 / sqm was generated from these properties. This figure is above the GSW average due to the younger years of construction: more than one-third of rent-restricted apartments were built after 1980.

More than 90 % of the portfolio has been refurbished or partly refurbished. The proportion of non-refurbished apartments is around 8 % (approximately 4,900 apartments). This largely relates to buildings that use oven heating. GSW's investment strategy is focusing on such properties. Targeted investments can leverage potential for rental growth and sustainably improve the often below-average property management key figures for these properties.

BREAKDOWN OF IN-PLACE RENT IN EUR / sqm



Rent and vacancy development

The average in-place rent for the portfolio as a whole was EUR 5.22 / sqm as at 31 December 2012 (2011: EUR 5.08 / sqm), and was therefore 2.8 % higher than in the previous year. Among other things, this development was driven by rent increases for around 6,500 existing tenants and new rentals, as well as targeted acquisitions. New rentals in the non-subsidised portfolio were concluded at rents that were around 12 % higher than previously. As at 31 December 2012, the in-place rent was over EUR 5.00 / sqm for almost two-thirds of all portfolio properties. In the previous year, this price was achieved for only around 57 % of the portfolio.

Over the course of the year, GSW reduced the vacancy rate for apartments from 3.4 % at year-end 2011 to 2.7 % as at 31 December 2012.

Maintenance and modernisation

GSW makes continuous investments in the fabric of its buildings and the standard of its residential units in order to ensure that the portfolio remains attractive in the long term. For instance, part of the residential units get modernised before being re-let to bring them into a contemporary condition and thereby allow an adjustment in line with current market rents. This can involve new bathrooms and kitchens or new flooring, among other things.

In total, GSW invested around EUR 14 / sqm in maintenance and modernisation in the 2012 financial year, and it expects this level to continue in the medium term.

In addition, modernisation projects going above and beyond the mere maintenance or modernisation of individual residential units are planned for the future. In 2012, for example, a modernisation project was realised for 200 apartments in Lichtenberg district: The oven-heated residential complex was fully renovated. In addition to completely replacing the domestic engineering, this involved improvements to the floor plans and the addition of balconies. Insulation work and the replacement of the current coal-burning furnaces 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. Following the renovation, the largely small one- and two-room apartments were re-let at an in-place rent of between EUR 8.00 and EUR 8.50 / sqm.

The transaction market for residential property in Berlin in 2012

According to the consulting firm CBRE, the German market for residential property investment saw further dynamic growth in 2012. The financing environment was still favourable, while demand for stable investments was high; rents also increased in most regions of Germany, making investments 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 2013. As in the previous year, 99 % of institutional investors surveyed rated Germany as attractive or very attractive as a real estate location, with the majority expecting to see an increase in the range of available transactions. Above all, those surveyed justified their forecasts with the fact that Germany is still considered a safe haven in terms of its attractive conditions in particular.

According to CBRE estimates, the transaction volume for residential property portfolios in Germany rose by almost 84 % year-on-year to around EUR 11.25 billion (2011: EUR 6.1 billion). As in the previous years, Berlin was particularly attractive, accounting for around one-quarter of the transaction volume for Germany as a whole. At EUR 2.75 billion, this represents a year-on-year increase of 20 % (2011: EUR 2.3 billion). As well as acquisitions of entire portfolios, there was growth in the investment volume for detached and semi-detached houses, owner-occupied apartments and apartment buildings. CBRE is anticipating a Germany-wide volume of around EUR 8.5 billion in this area in 2012 compared with EUR 7.7 billion in 2011. Furthermore, the Ernst & Young trend barometer for 2013 again classifies Berlin as the clear favourite for residential investment in Germany with an approval rating of 44 %, well ahead of its closest rivals Hamburg, Frankfurt / Main and Munich (approval rating: 24 %). According to CBRE, Berlin will be the local transaction market for residential property with the highest sales in Europe in 2013.

The following table provides an overview of the major transactions in Berlin in 2012 (excerpt):

TRANSACTIONS 2012

Units	Space	Purchase price		Buyer	Seller
	sqm	EUR	EUR / sqm		
6,500	350,000	450,000,000	1,300	Deutsche Wohnen AG (DW AG) *	Barclays Bank PLC (BauBeCon)
3,000	235,000	200,000,000	850	Corestate Capital AG	Berlin III A / S
4,000	205,000	176,000,000	860	GSW Immobilien AG	ei invest
2,600	152,000	147,000,000	970	GSW Immobilien AG **	ZBI Wohn- und Gewerbeimmobilien AG
4,500	300,000	130,000,000	450	Blackstone Group L.P. *	Liquidation liabilities of Level One
1,250	81,000	115,000,000	1,400	Taliesin Property Fund & closed German funds	Corestate Capital AG
3,100	201,000	110,000,000	550	Estavis AG	Kristensen Properties
2,100	135,000	97,500,000	720	GEWOBAG	FFIRE Investment GmbH (Subsidiaries)
1,500	98,000	93,000,000	950	Howoge Wohnungsbaugesellschaft mbH	Prelios Residential Investments (Resident Berlin 1 P & K GmbH)
950	61,000	75,000,000	1,250	immeo Wohnen Gruppe	n / a (foreign funds)
1,300	87,000	65,000,000	750	conwert Immobilien Invest SE	Prelios
600	43,200	47,000,000	1,100	Industria Wohnen (Subsidiary of Degussa)	(Luxembourg company)
600	35,000	40,000,000	1,150	(property company of Italian pension fund)	(Luxembourg investment company)
150	12,400	37,000,000	3,000	Bayerische Apothekerversorgung	NCC Deutschland
420	22,000	30,000,000	1,350	Westgrund AG	(property company)
215	14,000	29,000,000	2,100	Estavis AG	(foreign funds)
400	27,000	27,000,000	1,000	GSW Immobilien AG	(private investor)
300	18,000	26,500,000	1,450	n / a	JV Benson Elliot Capital Management / Hirling Capital Investment Services

* Berlin share I ** incl. Non-Berlin share of 470 units
Source: CBRE

Acquisitions

In addition to optimising its current portfolio, GSW is planning to conduct targeted and appropriately priced acquisitions of new housing stock with good development and yield prospects, providing that these involve only a slight increase in administrative expenses. Potential acquisitions involving more than 65,000 residential and commercial unit were examined in the 2012 financial year.

With effect from 31 December 2012 / 1 January 2013, GSW expanded its portfolio by 7,000 units as a result of five individual transactions, with more than 6,500 of the units located in Berlin. The majority of the units acquired are located in direct proximity to GSW's existing residential properties, thereby serving to optimally supplement the overall portfolio. They are situated in attractive locations with a low vacancy rate (2.1 %), and in particular in Spandau (27.7 %), Mitte (23.9 %), Neukölln (12.7 %) and Reinickendorf (11.6 %). GSW also acquired a sub-portfolio of around 500 units outside Berlin as part of one transaction (6.7 %). The Company plans to resell this sub-portfolio.

Acquisition highlights:

- The in-place rent for the Berlin-based housing stock amounted to EUR 5.42 / sqm at the acquisition date (EUR 5.38 / sqm for all of the units acquired), thereby further increasing GSW's rental level.
- The units acquired in Mitte have increased the share of GSW's portfolio located in this popular district to more than 5 %.
- A good two-thirds of the units acquired were constructed prior to 1949, meaning that they belong to the most attractive age category; the share of GSW properties attributable to this cluster has increased to approximately 37 % as a result.
- At around 54 sqm, the average size of the units acquired is below the average for GSW's portfolio as a whole, thereby strengthening the Company's range of residential properties for smaller households – the segment with the highest growth rate in Berlin.

The total residential space of the portfolio is 376,900 sqm. At around EUR 350 million, or around EUR 912 / sqm, the purchase price for the units acquired was slightly higher than GSW's average total market value as at 31 December 2012. The acquisitions will have a positive impact on GSW's earnings from 2013 onwards, as the transfer of the risks and rewards and ownership was only completed at the turn of the year.

Disposals

As part of its privatisation strategy, GSW sold a total of 920 units in 2012, mainly to investors and owner-occupiers. Following the positive trend in the previous years, demand for property ownership remained high in 2012. GSW's income from property sales increased by 20.6 % year-on-year to a total of EUR 68.5 million (2011: EUR 56.8 million). The total defined privatisation stock (owner-occupied apartments) comprised around 2,500 units as at 31 December 2012.

Property valuation

GSW's property portfolio consists of 722 developed economic units and 32 undeveloped plots of land. It was valued by the third-party service provider CBRE as at 31 December 2012.

Market values were calculated using the discounted cash flow (DCF) method, applying a detailed planning period of ten years over 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 6.07 % and standard capitalisation rates for perpetuity averaging 5.23 % were used to discount cash flows.

A long-term feasible residential market rent of EUR 5.84 / sqm was assumed for residential units in the GSW portfolio, a figure approximately 12 % above the current in-place rent of EUR 5.22 / 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 1.06 % p. a. was assumed.

All in all, the GSW portfolio had a market value of EUR 3,348 million at the reporting date. At EUR 3,327 million (EUR 909 / sqm), the vast majority of this figure relates to the developed portfolio (2011: EUR 2,924 million or EUR 873 / sqm); the undeveloped land was valued at a total of around EUR 21 million. The value of the portfolio has increased by around EUR 36 / sqm or 4.1 % as against the previous year. In Spandau and Reinickendorf districts, which are home to around 40 % of GSW's properties, value growth amounted to around 4.3 %. In addition to GSW's operating management performance, this development was driven by the acquisition of 6,791 new residential units and the generally positive performance of the rental and transaction markets. Excluding acquisitions and disposals, the value of the portfolio increased by 3.2 % per sqm.

KEY FIGURES AND RESULTS OF PROPERTY VALUATION BY CBRE

District	Share of residential units in %	In-place rent for residential units (EUR / sqm)	Market rent for residential units (EUR / sqm)	Vacancy rate (%)	Annualised in-place rent (all uses, EUR mn)	Market value (EUR mn) *)	Market value (EUR / sqm) *)	In-place rent multiple	Year-on-year development of market value in EUR / sqm (%)
Spandau	23.4	4.98	5.25	3.3	52.9	707.2	785	13.4	3.5 ▲
Reinickendorf	16.5	5.09	5.58	2.4	35.0	504.6	870	14.4	5.7 ▲
Friedrichshain-Kreuzberg	12.1	5.28	6.34	2.0	31.3	459.3	959	14.7	3.1 ▲
Steglitz-Zehlendorf	9.9	5.47	6.37	2.3	26.8	428.8	1,051	16.0	2.0 ▲
Charlottenburg-Wilmersdorf	8.3	5.60	6.25	0.8	18.4	266.0	966	14.5	1.3 ▲
Pankow	7.0	5.28	6.16	1.9	14.2	229.2	1,008	16.1	5.8 ▲
Mitte	5.2	5.32	6.17	0.7	10.6	158.0	949	14.9	13.1 ▲
Tempelhof-Schöneberg	5.1	5.01	5.28	5.8	12.5	170.6	803	13.7	6.6 ▲
Lichtenberg	4.1	5.36	6.11	5.2	7.4	118.1	979	15.9	12.4 ▲
Neukölln	3.7	5.45	6.49	1.5	8.5	133.8	1,051	15.7	7.5 ▲
Treptow-Köpenick	3.6	5.28	5.99	5.9	7.0	110.8	942	15.8	10.3 ▲
Non-Berlin	1.2	5.30	5.62	6.3	2.8	40.7	889	14.5	
Total / Average	**100.0**	**5.22**	**5.84**	**2.7**	**227.4**	**3,327.1**	**909**	**14.6**	**4.1 ▲**

*) Source: CBRE

Financing

Developments in 2012

With the issue of its first convertible bond in November 2012, GSW successfully diversified its financing sources and further increased its entrepreneurial flexibility. The high demand enabled GSW to secure long-term liquidity at attractive conditions and to gain a large number of new institutional investors. The total issue volume of the convertible bond was EUR 182.9 million. The bond has a maturity of seven years, with an investor put option in the fifth year, and bears a coupon of 2.00 % p. a. The initial conversion price of EUR 36.205 as set on the issue date represented a premium of 22.5 % over the reference price of EUR 29.555 and a premium of 29.5 % over the NAV for the third quarter of 2012 of EUR 27.950.

Loan agreements with a volume of around EUR 31 million were restructured in connection with interest payment dates and refinanced for a further ten years in 2012.

The conclusion of a forward rate agreement in the second half of 2012 served to secure the follow-up conditions for a fixed interest rate expiring in 2015 for the period until 2021. The interest rate swap with a volume of EUR 188.0 million has a term of 72 months from 31 January 2015 and a nominal interest rate of 1.958 %. The agreement will help ensure stable interest rates for GSW in future.

In connection with the portfolio acquisitions, an existing loan of EUR 90.0 million nominal value was assumed with effect from 31 December 2012. The loan has a fixed interest rate of 4.0 % p. a. and a term until 31 October 2015.

With the exception of the aforementioned loan, no significant liabilities are scheduled for refinancing between now and 2016.

Financing structure

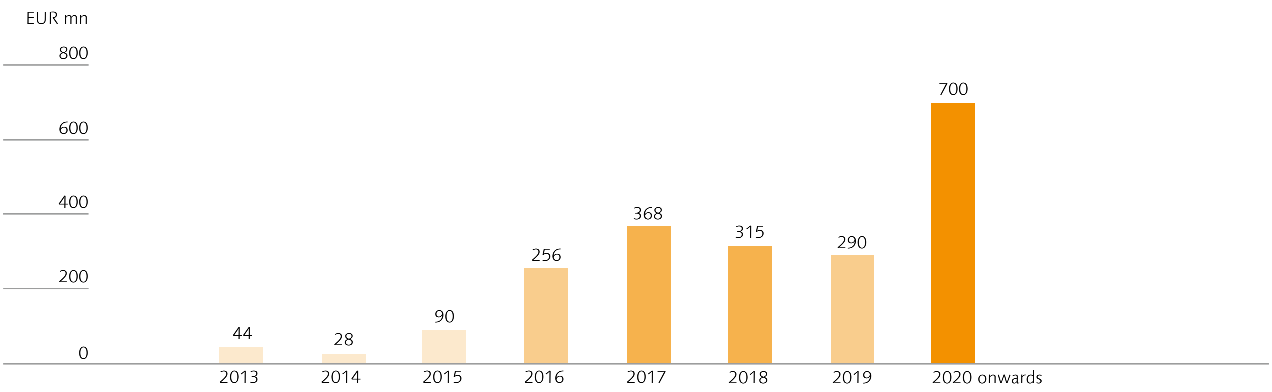
As of 31 December 2012, the Company had loans with a total of twelve banks with a nominal volume of EUR 1,907.0 million, as well as liabilities from the convertible bond in the amount of EUR 182.9 million.

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.

The balanced maturity structure means that there are no significant refinancing requirements for the coming years.

At the reporting date, the weighted average term of the Company's liabilities was 10.2 years.

MATURITY PROFILE AS OF 31 DECEMBER 2012



99.8 % of the liabilities, including the convertible bond, are hedged by means of fixed-interest agreements or interest rate swaps. As such, GSW does not consider there to be any significant interest rate risk in the medium term. In 2012, GSW's weighted average interest rate was again considerably lower than 4 %.

Covenants

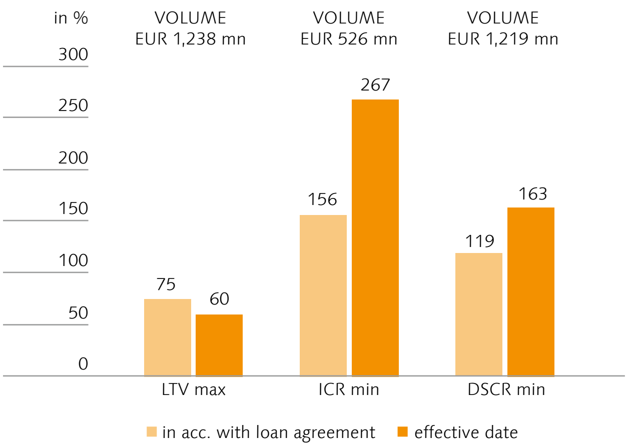
GSW has agreed covenants based on the respective individual loan portfolio for a total of 14 loan agreements with a volume of EUR 1,392.9 million as of 31 December 2012. This primarily relates to the key financial indicators of LTV, ICR and DSCR. Certain agreements also include a covenant on the vacancy rate.

The ranges of the covenants are as follows:

- LTV: 65 %–90 %
- ICR: 120 %–215 %
- DSCR: 105 %–142 %

The following diagram shows the weighted contractually agreed covenants and the covenants achieved as of 31 December 2012.

COMPLIANCE WITH COVENANTS AS OF 31 DECEMBER 2012



Compliance with 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 COVENANTS

Loan-to-Value (LTV)	Ratio of the outstanding loan amount to the market value of the respective portfolio
Interest Coverage Ratio (ICR)	Ratio of net rent proceeds (after management expenses) to interest expense for the respective portfolio
Debt Service Coverage Ratio (DSCR)	Ratio of net rent proceeds (after management expenses) to debt service for the respective portfolio
Vacancy Rate	Ratio of vacant units to total rentable units in the respective portfolio

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Economic report

Market and economic environment

Economic development

Global economic growth deteriorated further over the course of 2012. In emerging markets, the economy posted less dynamic growth than in previous years. Growth was also depressed by the recession in Europe, which is due to cost-cutting measures to deal with some countries' substantial debts, and largely subdued growth in the USA. The Kiel Institute for the World Economy (IfW) expects growth in the global economy of 3.4 % for 2013 after 3.2 % in the previous year. China and India should grow most strongly (8.0 % and 6.5 % respectively), while only slight growth is forecast for Japan's economy (0.5 %) and a fall in economic output of 0.2 % is even forecast for the euro zone.[1]

In the euro zone, the economy was also shackled by the government debt of several member states and the cost-cutting measures associated therewith in 2012. As a result, GDP in the euro zone fell by 0.5 %. The IfW is also forecasting a fall of 0.2 % for 2013. Growth in economic output of 0.9 % is expected not before 2014.[2] The headline rate in the euro zone has been at a historic low of 0.75 % since 5 July 2012 because of the ECB's expansionary monetary policy. The interest rate on the deposit facility at which banks can invest funds with the ECB temporarily has been at 0.0 % since then for the first time.[3]

Germany was also affected by the difficult situation in the euro zone in the year under review: Following strong growth in the first quarter of 2012, the German economy lost momentum over the course of the year. The growth rates of the second and third quarter compared with the previous quarter were comparatively low, at 0.3 % and 0.2 % respectively. Here, a reluctance to invest among companies had an adverse effect, while the trade balance and private and government consumer spending increased.[4] In 2012 as a whole, the increase in price-adjusted GDP amounted to 0.7 % and was again well above the European average.[5] For 2013, however, the IfW expects repercussions from the European situation and is assuming economic growth of only 0.3 % in its current forecast. The IfW does not expect to see stronger growth of 1.5 % again until 2014.[6]

At 2.0 %, the inflation rate in Germany was 0.3 percentage points down on the prior-year figure.[7] The IfW expects the inflation rate to remain at 2.0 % in 2013, this figure is expected to trend upwards to 2.6 % in 2014 because of the ECB's expansionary monetary policy.[8]

The positive trend on the employment market weakened somewhat over the course of the year. However, at 6.8 % on average, the unemployment rate was the lowest it has been since reunification and 0.3 percentage points below the prior-year figure.[9] The IfW expects only a slight increase to 7.0 % for 2013.[10]

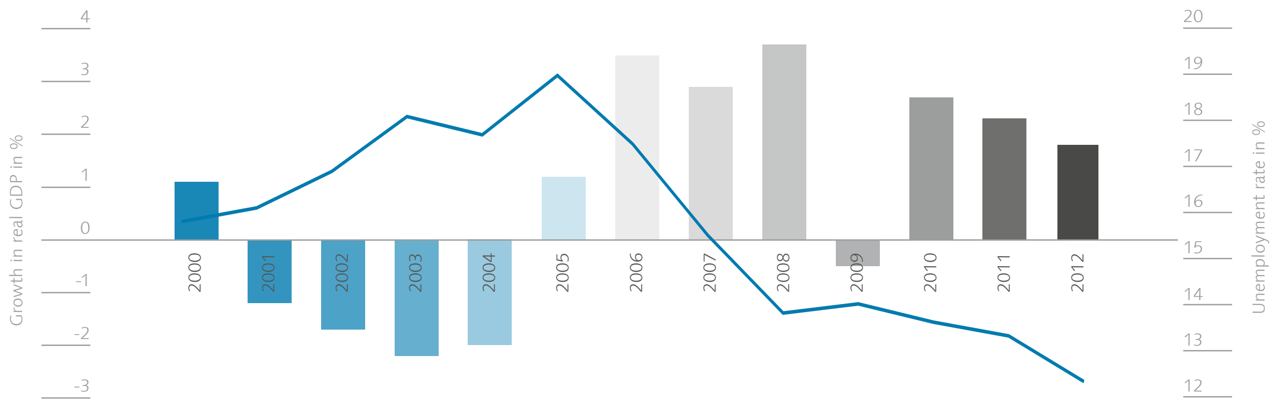
Overall economic situation in Berlin

Since German reunification, Berlin has seen radical structural change. Key employers in the city include Deutsche Bahn, Deutsche Post, the Charité hospitals, Siemens and the public sector. With Bayer, Berlin Chemie and Pfizer, the pharmaceuticals sector has now become one of the strongest – in terms of turnover – local industrial sectors in addition to electrical engineering, mechanical engineering and biotechnology. Start-ups and the fashion sector are also becoming increasingly important in Berlin. Tourism, which has become one of the key economic factors for Berlin, is also playing a larger role: According to statements from the German Chamber of Commerce and Industry, the city ranks third behind London and Paris in the number of people staying overnight. The number of overnight stays grew by 5.7 % on average per year between 1992 and 2011; this boom also continued in 2012.[11]

[1] Kiel Institute for the World Economy, "World Economy in Winter 2012", 18 December 2012 I [2] Kiel Institute for the World Economy, "World Economy in Winter 2012", 18 December 2012 I [3] ECB website, download: 7 February 2013 I [4] Federal Office for Statistics, Press Release No. 287 dated 23 August 2012 and Press Release No. 407 dated 23 November 2012 I [5] Federal Office for Statistics, Press Release No. 017 dated 15 January 2013 I [6] Kiel Institute for the World Economy, "German Economy in Winter 2012", 18 December 2012 I [7] Federal Office for Statistics, Press Release No. 018 dated 15 January 2013 I [8] Kiel Institute for the World Economy, "German Economy in Winter 2012", 18 December 2012 I [9] Federal Employment Agency, Employment Market in Figures, Unemployment during 2012, 3 January 2013 I [10] Kiel Institute for the World Economy, "German Economy in Winter 2012", 18 December 2012 I [11] IBB Economic Barometer, January 2013

The economic environment in Berlin has improved continuously over recent years. Having grown by 2.3 % in 2011,[12] Berlin's GDP grew by only 1.8 % in the first half of 2012, albeit proving itself to be the fastest growing federal state in Germany in the process.[13] The employment market also performed well: in 2012, the unemployment rate of 12.3 % on average was well down on the prior-year figure of 13.3 %. This means that a longstanding trend is continuing: The unemployment rate has fallen continuously since its high in 2005 and is currently at its lowest level since 1994.[14] The number of people in gainful employment rose by 2.5 % in 2012, which is more than any other German federal state.[15]

ECONOMIC GROWTH AND UNEMPLOYMENT IN BERLIN



Sources: Unemployment rate, cf. footnote 9 I GDP growth: Berlin-Brandenburg Statistical Office, GDP and gross value added in Berlin by economic sectors 1991–2010, cf. footnotes 12 and 13

The real incomes of Berlin's employees have risen once again: The average gross monthly income per employee including benefits was EUR 2,846 in the third quarter of 2012[16] which is 2.6 % up on the prior-year figure. Consumer prices in the German capital rose by 2.4 % in 2012,[17] meaning that real incomes rose by 0.2 %.

MACROECONOMIC KEY FIGURES FOR BERLIN

Population on 30 September 2012*	3,531,000
Population growth 2001-2011 (%)*	3.4
Number of residential units on 31 December 2011**	1,903,231
Unemployment rate 2012 (%)**	12.3
Gross monthly earnings including benefits in Q3 / 2012 (EUR)*	2,846

* Source: Berlin-Brandenburg Statistical Office, cf. footnotes 16, 18 and 22

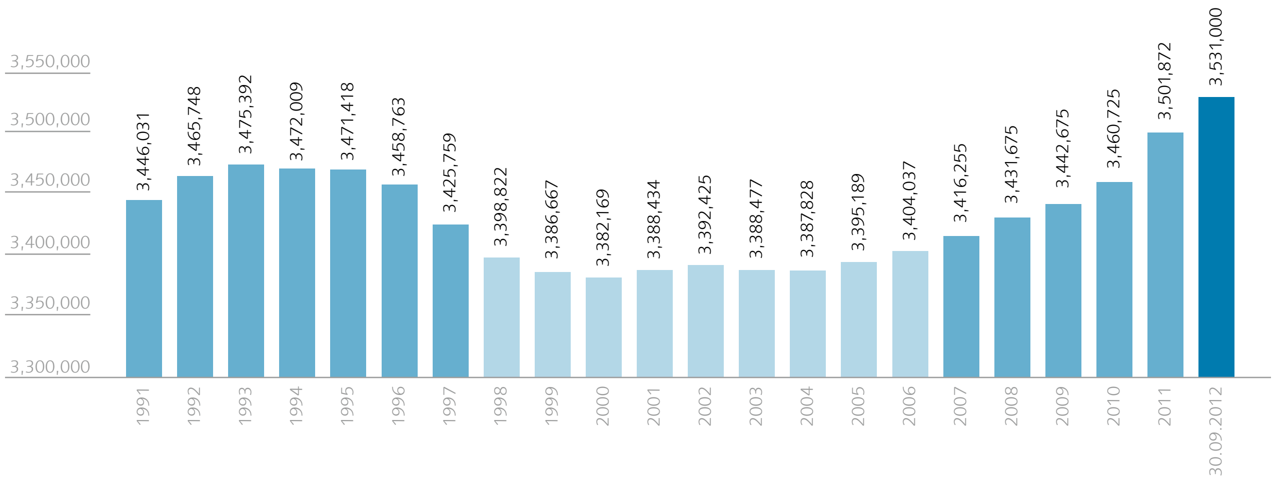
** Source: German Federal Employment Agency, cf. Footnote 14

Residential real estate market

The appeal of Berlin as a place to live is clear from the trend in population: Berlin's population has been growing continuously since 2005 – in contrast to many other parts of Germany. In the first nine months of 2012, the population rose by 0.8 % compared with the beginning of the year to number 3,531,000. This is the highest level since the city's reunification in 1990.[18] Together with the increase in purchasing power, this trend produced favourable conditions on the Berlin housing market.

[12] Office for Statistics Berlin-Brandenburg, http://www.vgrdl.de/Arbeitskreis_VGR/tbls/tab.asp?lang=de-DE&tbl=tab02, downloaded on 30 January 2013 I [13] Office for Statistics Berlin-Brandenburg, Press Release No. 298 of 24 September 2012 I [14] Federal Employment Agency, Employment Market in Figures. Unemployment during 2012, 3 January 2013 I [15] Office for Statistics Berlin-Brandenburg, Press Release No. 17 dated 24 January 2013 I [16] Office for Statistics Berlin-Brandenburg, Press Release No. 22 dated 29 January 2013 I [17] Office for Statistics Berlin-Brandenburg, Press Release No. 2 dated 3 January 2013 I [18] Office for Statistics Berlin-Brandenburg, Press Release No. 24 dated 30 January 2013

POPULATION IN BERLIN



Source: Office for Statistics Berlin-Brandenburg, Population in Berlin as at 30 September 2012, cf. footnote 18

Demand for housing is also stimulated by the increasing number of households: The proportion of younger and older single households has been rising for years; the average household size has been falling accordingly. In 2011, the average size of Berlin households was more or less at the level of the last ten years, at 1.7 inhabitants, while the proportion of single-person households in all forms of households rose by 3.4 percentage points in the same period to 54.1 %.[19]

The increase in demand for housing has not been matched by a corresponding increase in supply so far. In 2011, 3.9 % more residential units were completed through new construction or construction work on existing buildings than in 2010; however, the number of newly constructed buildings fell by 3.6 % compared with the previous year.[20] Both figures were well down on the figures for the Federal Republic, where 14.6 % more residential units were completed in 2011 and 15.1 % more new residential buildings were constructed than in the previous year.[21] At the end of the 2011, the number of residential units in Berlin was only 0.2 % up on the prior year-figure. Consequently, the trend of the last ten years in which the number of residential units in Berlin rose overall by a comparatively low 1.8 % continued.[22]

The construction of 5,085 new residential units was approved in the first nine months of 2012; this equates to an increase of 19.6 % compared with the previous year. However, this figure is not likely to be sufficient to offset the increase in demand caused by immigration.[23]

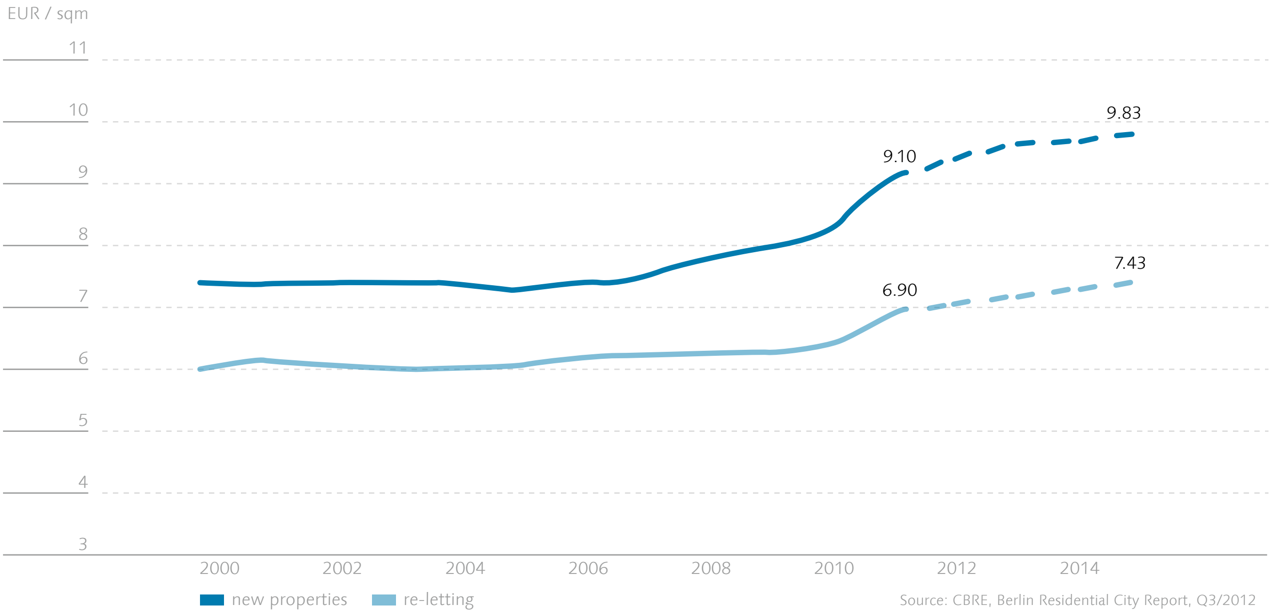
In view of the increase in population, the economic upturn and the positive income situation enjoyed by private households, the experts questioned in the IBB Housing Market Barometer 2012 also expect a further reduction in the supply of housing over the next three years.[24] The result of this shortage of supply is higher rents and purchase prices. The median rent quoted per square metre rose by 4.5 % from 2009 to 2010, by 7.8 % in 2011 and even by 13.8 % in 2012. The median purchase price per square metre for apartment buildings increased by 17 % between 2011 and 2012 and by even 19.9 % for owner-occupied residential units.[25] However, this does not necessarily imply a property bubble for Berlin given that Berlin property prices stagnated over many years. Rather the Berlin property market was long regarded as undervalued and is currently adjusting to fundamental factors.[26]

Berlin is particularly appealing to foreign investors: Prices and acquisition yield, but in particular rentals remain

[19] Office for Statistics Berlin-Brandenburg, Press Release No. 157 dated 30 May 2012 I [20] Office for Statistics Berlin-Brandenburg, Press Release No. 134 dated 11 May 2012
[21] Federal Office for Statistics, Press Release No. 208 dated 15 June 2012 I [22] Office for Statistics Berlin-Brandenburg, Press Release No. 187 dated 26 June 2012
[23] Office for Statistics Berlin-Brandenburg, Press Release No. 333 dated 7 November 2012 I [24] IBB Housing Market Barometer 2012 I [25] CBRE Housing Market Report 2013
[26] IBB, "IBB expects further growth after a brief slowdown", Press Release dated 20 December 2012

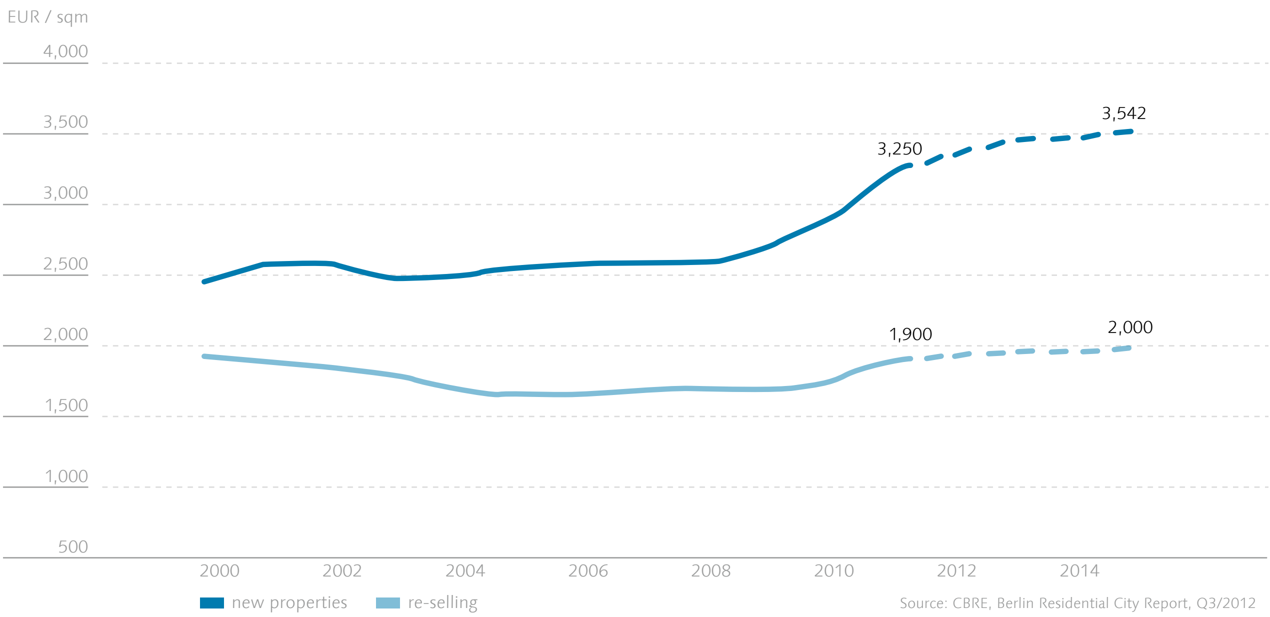
moderate – particularly in comparison with other German cities, first and foremost Munich and Hamburg.[27] The great importance of Berlin is particularly clear with regard to transactions on the housing market. According to the GEWOS Institute, Berlin recorded the greatest sales upturn in the owner-occupied residential units segment among German cities in 2012. Transaction volume for Berlin rose by 25 % from EUR 3.4 billion in 2011 to EUR 4.3 billion in 2012 and is thus ahead of Munich unlike previous years.[28]

AVERAGE IN-PLACE-RENT IN BERLIN 2000–2015



Source: CBRE, Berlin Residential City Report, Q3/2012

AVERAGE PURCHASE PRICES FOR APARTMENTS IN BERLIN 2000–2015



Source: CBRE, Berlin Residential City Report, Q3/2012

[27] CBRE Press Release dated 7 January 2013 | [28] GEWOS IMA 2012/2013 Study

General statement on economic conditions

Having posted rather anaemic growth over a long period, Berlin's growth was well above the national average in 2012. Falling numbers of unemployment and rising real incomes also provide outstanding conditions for the real estate sector. The increase in new construction activity cannot keep pace with demand for housing space meaning that rents and purchase prices are rising across all price segments. Given that purchase prices are comparatively low, this means that above average rental yields can be achieved. GSW benefited from this development through the expansion and diversification of its own property portfolio in the past financial year and is promisingly positioned in view of the positive market forecasts.

Organisation and Group structure

The GSW Group performs its operating activities as GSW Immobilien AG and Facilita Berlin GmbH. At the end of the reporting period, the GSW Group consisted of 16 consolidated companies. The following comments provide an overview of GSW's material subsidiaries. GSW Group companies are considered to be material, if they account for at least 10 % of consolidated equity or contribute at least 10 % to the Group's annual earnings or employ at least 10 % of the GSW Group's workforce.

Facilita Berlin GmbH, Berlin ("Facilita")

Facilita offers facility management specifically for residential property. Its range encompasses the following services in particular:

- Industrial cleaning
- Groundskeeping
- Caretaking
- Small repairs
- Vacancy management
- Vacancy refurbishment
- Management of technical building services through to construction work and refurbishment projects.

The Management Board of GSW has decided to integrate Facilita, as an important service company owned by the Group, more closely within the Group. In this respect, it is currently no longer pursuing its original intention to sell the company.

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 AG, its facility management by Facilita and its property management by STRABAG Residential Property Services GmbH, the former GSW BWG.

GSW Pegasus GmbH, Berlin ("GSW Pegasus")

GSW Pegasus, Berlin has been part of the GSW Group since November 2011. It is property holding company, which focuses on the acquisition, holding and management of land, land rights and equity investments. Pegasus' activities are primarily based in Berlin. The company does not have its own staff. GSW Pegasus's administration activities are handled by GSW Immobilien AG, its facility management by Facilita.

GSW Corona GmbH, Berlin ("GSW Corona")

GSW Corona, formerly ei invest L1 - Berlin I GmbH, is a property holding company, which has been part of the GSW Group since 31 December 2012. GSW Corona's activities are primarily based in Berlin. The company does not have its own staff, its administrative activities and facility management activities are handled by STRABAG Residential Property Services GmbH (formerly GSW BWG) and Facilita.

Employees

GSW Immobilien AG has pursued its consistent growth path in 2012 and acquired 7,000 residential units. At the same time, the staff count has only increased by 17 employees. At Facilita, the number of staff was even reduced by focusing more closely on core business.

In total, 557 people (including the Management Board, authorised signatories and the management teams of its subsidiaries) were employed in the GSW Group as at 31 December 2012. Of this figure, 303 are allocated to the operating activities of GSW Immobilien AG. The total number of employees in the Group was reduced by the sale of GSW Betreuungsgesellschaft für Wohnungs- und Gewerbebau mbH (BWG), renamed as STRABAG Residential Property Services GmbH to Ilbau Liegenschaftsverwaltung GmbH, Hoppegarten, as at 1 October 2012. The Group's employees are consequently divided as follows between GSW and the subsidiary Facilita:

EMPLOYEES

	31.12.2012	31.12.2011
GSW	337	320
Thereof in GSW Immobilien AG's operating business	303	286
BWG	-*	61
Facilita	220	230
GSW Group	**557**	**611**

*As at 30 September 2012: 58 employees lost through the sale of BWG

Recruitment and the acquisition of talented junior staff

While the Group's growth in 2012 was achieved without a significant increase in employee numbers, the company was strengthened in terms of quality over the same period through targeted recruitment - both within and from outside the real estate sector. Attractive conditions within the Group plus the prospects for growth of the MDAX-listed company allowed the recruitment of high-quality specialists and managers from other sectors, such as banking, auditing and consultancy, who will enhance GSW's performance through additional specialist expertise.

In addition to the recruitment of experienced employees, GSW attaches importance to the promotion of young colleagues as well as talented junior staff. At the start of each new academic year, the company gives up to nine young people the opportunity to join the real estate industry – either by training as real estate agents or pursuing integrated business studies degrees with a focus on the real estate sector or through internships and vacation employment.

Apprentices

APPRENTICES

	Number
Real estate apprentices	17
Students (integrated business studies degrees with a focus on the real estate sector)	12
Total	**29**

New forms of learning to boost meta-competence were also included in training in 2012. In 2012 for the first time, students and apprentices in the second year of training prepared the content for a summer academy on a topic personally set by the Management Board – "The development of GSW Immobilien AG following the successful IPO" – organised it, found internal lecturers and finally presented their findings directly to the Management Board.

Compensation policy: stable outlook

Another stepping-stone towards achieving success with the long-term growth strategy is GSW's performance-focused compensation system, which is incorporated in a flexible, company-related collective wage agreement.

It helps all employees focus on the achievement of corporate objectives and ensures that employees are paid in a manner that reflects both their performance and conditions in the market. The conclusion of the new collective compensation agreement for all employees employed on this basis in October 2012, which runs until the end of 2015, also created a solid basis for planning for the next few years.

GSW has also incorporated these principles in the compensation policy for specialist staff and management. In 2012, a management consultancy company again carried out separate checks to verify whether specialists and management were receiving compensation that reflected market conditions and was commensurate with the internal value of their functions and confirmed this was the case.

EMPLOYEES AND MANAGEMENT

	Absolute	in %
Employees of GSW Immobilien AG	**337**	
Thereof male	117	34.7 %
Thereof female	220	65.3 %
Management of GSW Immobilien AG	**37**	
Thereof male	24	64.9 %
Thereof female	13	35.1 %

Employee loyalty and work-life balance

GSW also focuses on its position as an attractive employer to ensure employees remain loyal to the company long-term. In addition to compensation that reflects both market conditions and performance, GSW offers its employees a working environment that helps them to achieve a good work-life balance. This is why GSW obtained certification under the “berufundfamilie” (work-life balance) audit run by the charitable Hertie Foundation on 30 August 2012. As part of this audit, the existence of aids to foster a good work-life balance was examined and more extensive measures for a family-friendly personnel policy were defined in a target agreement, which will be implemented in the next three years. This aims to allow long-standing employees and young staff to dovetail their professional and personal lives more effectively. Individual measures were implemented in 2012, such as the opening of a parent-child office.

The appeal of GSW as an employer that supports a good work-life balance is also reflected in the high proportion of women in specialist and management positions. 220 of the 337 employees at GSW Immobilien AG are female. At over 65 %, the proportion of women is therefore well above the national average of 46 % in 2011. GSW also attaches a great deal of importance to employing women in management positions. As at 31 December 2012, the proportion of women in management positions was 35.1 %, which was also considerably higher than the national average (2011: 20.3 %).

GSW practises active health management

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

Fluctuation

The success of all these measures is apparent in a particularly low fluctuation rate. At 0.9 %, employee fluctuation decreased in 2012 compared with the previous year (2011: 2.5 %). The average period of employment currently stands at 12 years.

Development of operating activities

Conditions in the real estate industry were very positive in Berlin in 2012. As in the previous year, 2012 was also characterised by strong demand for properties in Berlin, both in the case of rented residential units and owner-occupied residential units. This was primarily due to the numbers of people moving to Berlin, the trend towards individual households and the fact that construction of new properties remains low compared with demand.

This strong demand is currently leading to a shortage of supply on the housing market and consequently to rents and purchase prices trending upwards.

GSW monitors market developments intensively. The surveys of the Berlin residential market produced with CBRE thus ensure that trends and developments and therefore opportunities and risks for GSW's own portfolio are identified at an early stage.

The present situation on the real estate market in Berlin is also reflected in the trend in rents in GSW's property portfolios. Average monthly in-place rent in GSW's property portfolio (excluding the effects of sales and acquisitions in 2012) rose to EUR 5.20 / sqm for residential space as at 31 December 2012 (2011: EUR 5.08 / sqm). In this respect, GSW leverages systematic leeway for rent increases without ignoring the solvency of tenants in the respective properties and areas.

A fall in the vacancy rate[29] in the residential portfolio (excluding the effects of sales and acquisitions in 2012) to 2.8 % was also recorded as at 31 December (2011: 3.4 %).

Following the transfer of economic ownership as at 31 December 2012, GSW acquired several property portfolios comprising about 6,800 residential units in total. The acquisition of a portfolio with about 4,000 residential units took place in a share deal through which GSW Corona GmbH, Berlin was acquired. The other residential units, numbering about 2,800, were acquired as asset deals. Another 200 residential units or so will be transferred to the GSW portfolio as at 1 January 2013. About 460 residential units outside Berlin were also acquired as part of a portfolio acquisition. However, they are not part of the GSW strategy and are to be rapidly resold.

Including the property portfolios acquired as at 31 December 2012, the rent for GSW property portfolios was slightly higher at the end of the reporting period, at EUR 5.22 / sqm for residential space, and the vacancy rate was 2.7 %.

As at 31 December 2012, the GSW Group has a portfolio of 58,668 residential units, 993 commercial units and about 9,500 garages / parking units.

HOUSING PORTFOLIO, COMPARISON OF 2011 / 2012

	Type of use	31.12.2012	31.12.2011	Change
Number of units	Residential units	58,668	52,790	5,878
	Commercial units	993	914	79
	Total of residential and commercial units	**59,661**	**53,704**	**5,957**
	Parking units	9,502	8,943	559
	Total	**69,163**	**62,647**	**6,516**
Lettable space (in sqm)	Residential units	3,547,266	3,244,039	303,227
	Commercial units	107,708	102,431	5,277
	Total of residential and commercial units	**3,654,974**	**3,346,471**	**308,503**
In-place rent (EUR per sqm)	Residential units	5.22	5.08	0.14
	Commercial units	6.87	6.68	0.19
	Total of residential and commercial units	**5.26**	**5.13**	**0.13**
Vacancy (units)	Residential units (number)	1,594	1,766	-172
	Residential units (%)	2.7	3.4	-0.7
	Commercial units (number)	91	75	16
	Commercial units (%)	9.2	8.2	1.0
	Total of residential and commercial units (number)	**1,685**	**1,841**	**-156**
	Total of residential and commercial units (%)	**2.8**	**3.4**	**-0.6**

[29] Number of residential units that are not let in relation to residential units available for letting

GSW's property portfolio covers all districts of Berlin except for Marzahn-Hellersdorf and therefore enjoys broad risk diversification. As at 31 December 2012, the key local areas of the property portfolio were Spandau, which accounts for about 23.4 % of the portfolio, as well as Reinickendorf (16.5 %) and Friedrichshain-Kreuzberg (12.1 %).

With about 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.

GSW's property portfolio appreciated in value by about EUR 76.4 million in total in the 2012 financial year. This was confirmed by the appraisal of the independent property evaluator CBRE GmbH. With conditions on the Berlin-Brandenburg property market remaining comparable, a stable to positive trend in market values can be expected at present.

In the context of opportunistic privatisation, GSW sold 920 units in the 2012 financial year (2011: 935 units) to owner-occupiers and investors and consequently achieved investment proceeds of EUR 68.5 million. Contracts worth EUR 45.3 million where the transfer of risks and rewards will not take place until after the end of the past financial year have already been agreed.

GSW sold its equity investment in GSW Betreuungsgesellschaft für Wohnungs- und Gewerbebau mbH, Berlin, effective 1 October 2012. GSW shall continue to retain an equity interest equal to one voting right.

GSW carried out a capital increase at the end of April 2012. In the process, about 9.5 million no-par-value ordinary shares were placed at an issue price of EUR 21.30 per share. The company generated net cash inflows of about EUR 191 million from this transaction.

At the Annual General Meeting (AGM) on 28 June 2012, distribution of the dividend for the 2011 financial year of EUR 0.90 per share entitled to receive dividends or of EUR 45.5 million in total was decided and subsequently distributed.

With the issue on 15 November 2012, GSW placed a convertible bond on the capital market for the first time. It has a term of seven years and pays a coupon of 2 % p. a. After deduction of transaction costs, the company received cash and cash equivalents of around EUR 180 million from the transaction.

An amended collective wage agreement for GSW's salaried employees was concluded in the fourth quarter of 2012 following agreement by all the parties to the agreement. This led to increases in salary averaging about 2.4 % p. a. from 1 October 2012 and will run until at least 31 December 2015. A gross payment of up to EUR 1,200 was also made to the employees covered by the collective agreement in December 2012.

Corporate objectives and strategy

GSW's business model is based on sustainable corporate governance with the aim of ensuring the continued existence of the Company. Through the focus on property management for a broad segment of the population in Berlin and our conservative financing structure, GSW deliberately adopts a low risk profile with a high degree of security and an appropriate dividend yield for investors.

The business model and strategy are distinguished by the following parameters:

- **Standardised processes and a strong service focus**
  Letting and managing about 60,000 residential units requires an efficient organisation without sacrificing a focus on the customer. As such, standardised processes are a prerequisite for generating economies of scale. GSW's current organisational, technical and staff structure is designed to ensure that additional efficiency gains in the management of our property portfolio can be generated every time a new acquisition is made, while guaranteeing availability of greater than 95 % for our tenants from 8 a.m. to 6 p.m., every working day of the week.

- **Management of portfolio residential properties in Berlin as core business**
  GSW is focused on the standardised mass business of letting and managing residential units for lower and

middle income brackets in Berlin. The risk profile of this business differentiates itself clearly and positively from alternative usage types in Berlin on account of its fragmentation and its size. Social and demographic development means that demand can be easily anticipated, making it low-risk. Accordingly, the company's activities are not aimed at more volatile target groups, usage types or stages in the value chain. As a pure portfolio manager, the company focuses on value-generating activities such as portfolio management, the acquisition of new customers, support for existing customers, financial management and maintenance controlling, all of which are performed using the company's own employees.

- **Growth and sustainable corporate governance: the pillars of future development**
  The company's clear objectives are continuous growth in its property portfolio in Berlin and sustainable corporate governance. The company intends to grow by investing in new property portfolios with development and yield potential in line with the premises of liquidity and value growth and by ensuring distributable cash flows. These surpluses will allow us to pay regular, substantial dividends to our shareholders, further optimise our financing structures and make value-enhancing investments in our property portfolio in order to reflect market conditions.

Group management

The business processes of the GSW Group are initiated and controlled by the Management Board and senior management. This takes into account both financial and non-financial objectives of Group management and performance measurement.

For GSW, the financial targets were measured using the indicators "FFO I / AFFO" and "NAV growth" in particular in 2012. While the liquidity indicators FFO I / AFFO show the capacity of management activities to cover repayments, disbursements and project costs, the use of NAV growth in corporate management also takes into account the Group's performance above and beyond the area of property management.

In particular, factors such as customer satisfaction, social commitment and ecological targets are used to measure non-financial objectives. GSW has published a Sustainability Report about the pursuit of non-financial objectives of this kind.

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.-31.12.2012	01.01.-31.12.2011*
Income from rents	202.1	183.1
Income from management activities and other income	9.8	11.1
Gross rental income	**212.0**	**194.2**
Income from direct government grants	7.9	9.9
Total rental income	**219.8**	**204.1**
Cost of materials	(36.6)	(36.4)
Personnel expenses	(17.6)	(18.2)
Other property operating expenses / income	(5.7)	(8.4)
Net rental income	**160.0**	**141.1**

* Changes in the presentation of the corresponding amounts for cost of materials, personnel expenses and other property income from the previous year. In favour of a better presentation, provisions will be reversed against the item that was originally created from financial year 2012 on.

In the 2012 financial year, net rental income increased by EUR 18.9 million compared with the previous year. This was primarily attributable to the acquisition of a property portfolio in the fourth quarter of 2011, which was depicted throughout the year in 2012.

Higher average rents and the lower vacancy compared with the previous year also made a contribution to this increase in earnings. The average rent for leased residential units (excluding the effects of sales and acquisitions in

2012) increased to EUR 5.20 / sqm as at 31 December 2012 (31 December 2011: EUR 5.08 / sqm). The vacancy rate for these properties decreased to 2.8 % (31 December 2011: 3.4 %).

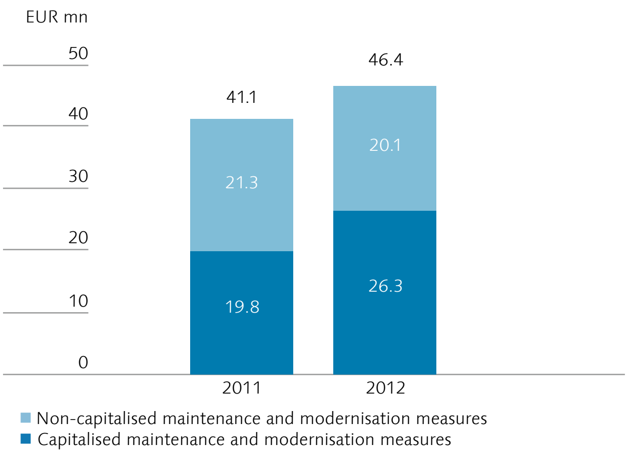
Because of the sale of the equity interest in GSW Betreuungsgesellschaft für Wohnungs- und Gewerbebau mbH (BWG), Berlin, as at 1 October 2012, there was no income from management activities for external owners from the fourth quarter of 2012.

Income from government grants decreased as planned to EUR 7.9 million (2011: EUR 9.9 million).

The cost of materials rose by EUR 0.2 million year on year. This is the result of the following material factors: the fall in non-capitalised expenses for maintenance (EUR -1.3 million) and in operating expenses on the one hand (EUR -2.0 million) and the loss of income from provision effects in the previous year (EUR +3.9 million).

The following chart shows total investments for maintenance and modernisation measures (excluding provision effects).

INVESTMENTS FOR MAINTENANCE AND MODERNISATION MEASURES



Total investments for modernisation and maintenance measures rose to EUR 46.4 million in the 2012 financial year (2011: EUR 41.1 million). This equates to investments of EUR 14.00 / sqm (2011: EUR 13.01 / sqm). Thereof EUR 26.3 million was capitalised for measures that increased the value of the existing portfolio (2011: EUR 19.8 million).

Non–capitalised expenses add EUR 20.1 million to the cost of materials (2011: EUR 21.3 million). The increase in capitalisation rates has reduced the cost of materials by EUR 1.3 million compared with the previous year. The rise in the capitalisation rate resulted from the intensified implementation of specific measures aimed at enhancing value.

Expenses for operating costs fell compared with the previous year, primarily because of the reduction in the vacancy rate as well as a higher invoicing result from invoicing operating costs and a reduction in holdings of owner-occupied residential units, for which expenses are no longer incurred.

On the other hand, the fall in expenses is offset on the other hand by the decline in income from the reversal of provisions of EUR 3.9 million in 2011, which reduced the cost of materials in the previous year.

The fall in personnel expenses is mainly the result of the sale of BWG from the fourth quarter of 2012 (58 employees as at 30 September 2012). This was offset by the increase in collectively agreed salaries under the new collective compensation agreement from the fourth quarter of 2012.

The result on disposals was broken down as follows:

RESULT ON DISPOSALS

EUR mn	01.01.-31.12.2012	01.01.-31.12.2011
Investment property disposal proceeds	68.5	56.8
Carrying amount of investment property disposals	(49.5)	(44.0)
Operating expenses for investment property disposed	(9.4)	(9.5)
Result on disposal of investment property	**9.6**	**3.3**

In the 2012 financial year, GSW sold 920 residential and commercial units including the transfer of risks and rewards in 2012 (2011: 935 units). Due to the extremely strong market demand for properties in Berlin at present, the prices of owner-occupied property also rose in the 2012 financial year. This had a positive impact on GSW's result on disposals which increased by EUR 6.3 million.

General administrative expenses developed as follows:

GENERAL ADMINISTRATIVE EXPENSES

EUR mn	01.01.-31.12.2012	01.01.-31.12.2011
General administrative expenses	**(37.2)**	**(48.5)**
Other operating expenses for capital measures	0.0	6.7
LTIP	2.5	10.0
Project costs (pro rata)	1.1	3.4
Acquisition costs	3.5	2.9
Administrative expenses (adjusted)	**(30.2)**	**(25.4)**

Unadjusted general administrative expenses decreased by EUR 11.3 million compared with the previous year. Among other things, the decrease in administrative expenses is due to the non-recurring expenses incurred in the previous year, particularly for the IPO and the refinancing of the CMBS loan. The expenses for the Long Term Incentive Plan (LTIP) were also significantly higher than in the 2012 financial year.

Adjusted for extraordinary effects, general administrative expenses increased to EUR 30.2 million (2011: EUR 25.4 million). This increase is mainly due to higher personnel expenses because of the increase in staff numbers and the increase in collectively agreed salaries from the fourth quarter of 2012. Higher expenses were also incurred in connection with the company's IPO, such as the Annual General Meeting (AGM), annual report and designated sponsoring.

Net interest income is composed as follows:

NET INTEREST INCOME

EUR mn	01.01.-31.12.2012	01.01.-31.12.2011
Income from valuation of derivatives and loans	12.6	15.9
Income from the disposal of an interest derivative receivable	0.0	10.8
Interest income from derivatives	8.0	11.9
Other interest income	2.8	2.2
Interest income	**23.3**	**40.8**
Expenses from valuation of derivatives and loans	(19.5)	(33.1)
Interest expenses from derivatives	(29.3)	(27.4)
Interest expenses from financing of investment property	(47.9)	(47.2)
Other interest expenses / finance lease	(1.1)	(2.4)
Interest expenses for convertible bond	(0.8)	0.0
Prepayment fees	(0.2)	(0.2)
Interest expenses	**(98.8)**	**(110.2)**
Net interest income	**(75.5)**	**(69.4)**

The company's interest income decreased by EUR 17.5 million year on year to EUR 23.3 million. This was primarily attributable to the non-recurring effect from the disposal of a receivable that was recognised in interest income in the previous year (EUR 10.8 million). Valuation and interest income from derivatives also decreased as a result of the generally low level of interest rates.

Interest expenses decreased by EUR 11.4 million to EUR 98.8 million compared with the previous year. This fall was mainly attributable to a reduction in valuation expenses. This was offset by higher interest expenses due to the larger volume of properties and derivatives as a result of property acquisitions.

Net interest income fell by EUR 6.1 million in the 2012 financial year to EUR -75.5 million.

Adjusted for non-cash interest expenses and income as well as non-recurring disbursements, the net cash outflow for interest payments is made up as follows:

ADJUSTED NET INTEREST INCOME

EUR mn	01.01.-31.12.2012	01.01.-31.12.2011
Interest income	23.3	40.8
Interest expense	(98.8)	(110.2)
Changes in the fair value of loans	4.6	16.2
Changes in the fair value of interest derivatives	2.4	(9.9)
Less discounting	0.9	1.9
Less non-cash expenses convertible bond	0.8	-
Less accrued interest for loans and derivatives	(1.2)	(0.5)
Less non-cash interest receivables	(0.7)	-
Cash flow net interest	**(68.8)**	**(61.7)**
Prepayment fees and non-recurring processing fees	0.2	1.3
Cash flow net interest (normalised)	**(68.6)**	**(60.4)**

Normalised interest disbursements (cash flow net interest) increased by EUR 8.2 million compared with the previous year, since the loan volume is larger than in the previous year because of the portfolio acquisitions.

The income statement is as follows:

INCOME STATEMENT

EUR mn	01.01.-31.12.2012	01.01.-31.12.2011
Net rental income	160.0	141.1
Result on disposal of investment property	9.6	3.3
Net valuation gains / losses on investment property / / Valuation result	76.4	56.2
General administrative expenses	(37.2)	(48.5)
Other income and expenses	5.7	25.1
Net operating profit (EBIT)	**214.4**	**177.2**
Net result of investments	1.2	0.1
Net interest income	(75.5)	(69.4)
Profit before income taxes (EBT)	**140.1**	**107.8**
Income taxes	3.2	(2.7)
Consolidated net income for the year	**143.3**	**105.1**

Overall consolidated net income for the year rose by EUR 38.2 million to EUR 143.3 million.

Consolidated net income for the year contains a non-recurring gain of about EUR 5.7 million from the sale of the equity investment in BWG as at 1 October 2012. However, the prior-year figure was also influenced by non-recurring effects such as the gain on the disposal of the broadband cable business in January 2011 (EUR 25.4 million) and expenses in connection with the IPO in April 2011 (EUR 6.7 million).

Adjusted for these non-recurring effects, EBIT increased substantially by EUR 40.8 million, as a result of the higher net rental income and result on the disposal of investment property as well as net valuation gains.

The net result of investments rose year on year as a result of non-recurring income from the outstanding dividend payment of a former subsidiary in the amount of EUR 1.1 million. The interest on this outstanding receivable of EUR 0.2 million is recognised in net interest income.

Income taxes include current tax expense in the amount of EUR 0.1 million and income from deferred taxes in the amount of EUR 3.3 million.

FFO I is a key performance indicator for GSW and its shareholders. This liquidity-related indicator is derived from EBIT and shows the level of earnings from GSW's core business (not including the result on disposals) in the relevant period. Non-recurring effects and non-cash influences are eliminated here.

ADJUSTED EBITDA / FFO

EUR mn	01.01.- 31.12.2012	01.01.- 31.12.2011
Net operating profit (EBIT)	**214.4**	**177.2**
Depreciation and amortisation	0.8	1.0
Fair value adjustment of investment properties	(76.4)	(56.2)
EBITDA	**138.8**	**122.0**
Costs for capital measures	0.0	6.7
LTIP	2.5	10.0
Restructuring expenses	0.1	0.4
Project costs	1.6	3.9
Acquisition costs	3.5	2.9
Gains / losses from the disposal of disposals of shares, property, plant and equipment and intangible assets	(5.7)	(25.0)
Result on disposals	(9.6)	(3.3)
Adjusted EBITDA	**131.2**	**117.6**
Cash flow net interest (normalised)	(68.6)	(60.4)
Net result of investments	1.2	0.1
Cash flow net taxes	0.4	(0.7)
FFO I (excl. sales result)	**64.2**	**56.6**
Capitalised expenses for modernisation and maintenance work	(26.3)	(19.8)
AFFO (excl. capitalised expenses for modernisation and maintenance work)	**37.9**	**36.8**
Result on disposals	9.6	3.3
FFO II (FFO I incl. sales result)	**73.8**	**59.9**

The increase in adjusted EBITDA of EUR 13.6 million reflects higher net rental income compared with the previous year, which is partly offset by higher administrative expenses.

In line with planning, current interest payments increased as against the previous year due to the acquisition financing in the fourth quarter of 2011 and the CMBS refinancing, thereby resulting in a higher net cash outflow. Adjusted for interest and tax payments, FFO I for the 2012 financial year amounted to EUR 64.2 million (2011: EUR 56.6 million).

AFFO takes into account the necessary investments in the property portfolio to maintain the long-term asset value, which must be paid from FFO I on an ongoing basis. After the deduction of capitalised modernisation and maintenance expenses from FFO I, AFFO amounted to EUR 37.9 million.

Net assets

The condensed balance sheet is as follows:

BALANCE SHEET

EUR mn	31.12.2012	31.12.2011
Non-current assets	**3,324.0**	**2,947.6**
Investment property	3,302.2	2,930.2
Other non-current assets	21.8	17.3
Current assets	**245.9**	**92.1**
Receivables and other current assets	32.8	12.4
Cash and cash equivalents	167.7	62.6
Assets held for sale	45.3	17.1
Total assets	**3,569.9**	**3,039.7**
Equity	**1,441.0**	**1,166.4**
Non-current liabilities	**1,991.9**	**1,797.3**
Financial liabilities	1,888.8	1,733.8
Other liabilities	103.1	63.5
Current liabilities	**137.0**	**76.0**
Financial liabilities	78.7	37.1
Other liabilities	58.4	38.9
Total equity and liabilities	**3,569.9**	**3,039.7**

The main asset of the GSW Group, accounting for about 92.5 % of total assets (2011: 96.4 %) is its investment property. The property portfolio expanded, primarily as a result of the acquisition of 6,791 residential units as at 31 December 2012. The value of the properties also rose by EUR 76.4 million in the 2012 financial year. This is confirmed by the appraisal by the independent external property assessor CBRE GmbH.

As a consequence of the property purchases, GSW's financial liabilities also increased. In 2012, liabilities from the convertible bond issued in November 2012 (EUR 158.7 million) are recognised for the first time as part of financial liabilities.

Equity increased by EUR 274.6 million in total in the 2012 financial year, largely as a result of the positive consolidated net income and the capital increase in May 2012. The use of international accounting methodology for the hybrid financing instrument, namely the convertible bond, increased capital reserves by EUR 15.0 million. This was, however, offset by negative effects from the valuation of derivatives and the dividend disbursement for the 2011 financial year of EUR 45.5 million in June 2012.

Adjusted for the negative fair value of financial instruments and the deferred taxes associated therewith, which are recognised in other comprehensive income (OCI), the EPRA NAV rose year on year.

From the 2012 financial year, GSW will include the deferred taxes accounted for in other comprehensive income in the calculation of the EPRA NAV. Since 31 December 2012, the additional calculation means that effects resulting from the convertible bond are presented in a diluted EPRA NAV.

NAV

EUR mn	31.12.2012 Undiluted	31.12.2012 Effect of exercising the convertible bond	31.12.2012 Diluted	31.12.2011 Undiluted
Equity (before non controlling interests)	**1,441.0**		**1,441.0**	**1,166.4**
Effect of exercise of options, convertibles and other equity interests	0	158.7	158.7	0
NAV	**1,441.0**		**1,599.7**	**1,166.4**
Fair value of financial derivatives (net)	91.2		91.2	53.6
Deferred taxes	(6.0)		(6.0)	(0)*
EPRA NAV	**1,526.2**		**1,684.9**	**1,219.9**
Number of shares (mn)	50.53	5.05	55.58	41.05
EPRA NAV per share (EUR)	**30.21**		**30.32**	**29.72**

* Reporting methodology amended since 2012. Deferred taxes (related to losses from the valuation of financial instruments) of EUR 5.8 million, which are accounted for in other comprehensive income, were included in the calculation for the first time. If deferred taxes had been included using the same methodology in the previous year (31.12.2011: EUR 2.7 million), the EPRA NAV per share would have amounted to EUR 29.65.

Loan-to-value ratio

GSW's loan-to-value ratio decreased in the 2012 financial year as follows:

LOAN-TO-VALUE

EUR mn	31.12.2012	31.12.2011
Financial liabilities	1,967.5	1,770.9
Cash and cash equivalents	(167.7)	(62.6)
Net debt	**1,799.8**	**1,708.3**
Investment property	3,302.2	2,930.2
Assets held for sale	45.3	17.1
Loan-to-Value Ratio	**53.8%**	**58.0%**

The reduction in the loan-to-value ratio is the result of disproportionate increase in property assets in relation to net debt.

GSW satisfied its obligations under loan agreements at all times in the 2012 financial year.

Financial position

CASH FLOW STATEMENT

EUR mn	01.01.-31.12.2012	01.01.-31.12.2011
Cash flow from operating activities	25.5	(35.8)
Cash flow from investing activities	(189.0)	2.3
Cash flow from financing activities	268.6	25.3
Changes in cash and cash equivalents	**105.1**	**(8.2)**
Cash and cash equivalents at the beginning of the period	62.6	70.8
Cash and cash equivalents at the end of the period	**167.7**	**62.6**

Cash flow from operating activities increased by EUR 61.3 million year on year to EUR 25.5 million. This was primarily attributable to higher net rental income in 2012 and the non-recurring effect of the repayment of the EK02 tax liabilities in the 2011 financial year (EUR 41.7 million). In the previous year, the operating cash flow was also impacted by disbursements for the preparation and implementation of refinancing and the IPO.

The cash flow from investing activities decreased by EUR 191.3 million to EUR -189.0 million. The substantial disbursements were largely attributable to the acquisition of property portfolios in the fourth quarter of 2012 and investment in maintenance (EUR 263.5 million). This was offset by net cash inflows from the disposal of residential properties (EUR 69.8 million) and BWG (EUR 4.8 million).

Cash flow from financing activities rose to EUR 268.8 million year on year. This increase is attributable to the capital increase, which was implemented in May 2012 and generated a net cash inflow of EUR 191.2 million (2011: net cash inflow from the IPO of EUR 109.7 million) and the issue of a convertible bond, which took place in November 2012 and generated a net cash inflow of EUR 180.0 million.

The net cash outflow from the repayment and refinancing of loans amounted to EUR 57.1 million. The payment of the dividend for the 2011 financial year (EUR 45.5 million), which was resolved at the Annual General Meeting (AGM) on 28 June 2012, reduced cash flow from financing activities.

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. 2, 4, 5, 8 HGB.

The following disclosures must be made in accordance with sections 315 (4) no. 3, 6, 7:

As at 31 December 2012, Massachusetts Financial Services Company (MFS) (Boston, U.S.A.) held 10.04 % of the voting rights.

The Supervisory Board appoints and dismisses the members of the Management Board and determines the number of members. The Annual General Meeting (AGM) 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.

As at 31 December 2012, there are the following authorisations to issue or buy back shares:

The Management Board is authorised, with the approval of the Supervisory Board, to increase the company's share capital on one or more occasions by a total of up to EUR 17,000,000.00 up to and including 27 June 2017 by issuing up to 17,000,000 new no-par value bearer shares in exchange for cash and / or non-cash contributions.

The Management Board is authorised to issue bearer and / or registered convertible bonds and / or bonds with warrants and / or profit participation rights and / or participating bonds with or without conversion rights or options or conversion obligations or a combination of these instruments, with or without a restriction on their term, with a total nominal amount of up to EUR 250,000,000.00 on one or more occasions up to and including 27 June 2017, and to grant the holders or bearers of such instruments conversion rights or options for the subscription of up to 7,500,000 new no-par value bearer shares of GSW Immobilien AG with a total nominal interest in the share capital of up to EUR 7,500,000.00 (Contingent Capital 2012).

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

Ecological responsibility

GSW is facing up to the challenges of ecologically sustainable property management. Here, it focuses on the issues of energy consumption, the conservation of resources and the recycling of waste, which are continuously reviewed to identify opportunities for improvement.

For instance, GSW has supplied the public areas of its residential properties with electricity from renewable sources since 2010, thereby significantly reducing the CO_2 emissions of its property portfolio on the one hand. On the other hand, the favourable contractual conditions agreed with the power supplier means that tenants also benefit from lower electricity prices.

When performing modernisation and maintenance measures, GSW complies with the relevant environmental protection regulations and strives to improve the energy efficiency of its properties. As a very effective measure, GSW invests here, for example, in the conversion to modern and efficient heating systems.

In January 2013, GSW published a sustainability report for the first time, which also presents ecological issues within the Group.

Report on post-balance sheet date events

By means of a transfer of risks and rewards dated 1 January 2013, GSW acquired a property portfolio in Berlin-Siemensstadt consisting of about 200 residential units.

By resolution of 18 March 2013, the Supervisory Board agreed to Thomas Zinnöcker's request to terminate his appointment as CEO with effect from the end of 15 April 2013.

By resolution of 18 March 2013, the Supervisory Board appointed Dr. Bernd Kottmann as new CEO with effect from 16 April 2013.

Risks and opportunities report

The GSW Group identifies opportunities through which it can improve its business development on an ongoing basis. However, exploiting opportunities also means taking risks. GSW has a Group-wide risk management system (RMS) to control risks and recognise opportunities.

Risk management

For GSW's Management Board, the operation of an appropriate risk management system (RMS) is a key element of responsible corporate governance. As a listed stock corporation, GSW is required to undergo a prescribed audit of its risk identification system by an auditor.

The RMS is intended to ensure that all existing and potential risks to the company are identified at an early stage, analysed, prioritised and communicated to the responsible decision-makers so that measures to deal with or prevent risks can be adopted. 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.

Internal control system and risk management system for the Group accounting process

GSW has established 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 as well as 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 for an ICS 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.

Company risks

Macroeconomic and strategic risks

GSW is exposed to general economic and macroeconomic influences. These also include global crises such as the financial market crisis in 2008 and the current debt crisis in Europe. Depending on the progression of a crisis, 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 effects on its operating business from the financial market and debt crisis in 2013 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 2012. 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. There are no signs of consequences from the current political debate about limiting the scope for rent increases at present but it may also impact on the future trend in income.

DEFAULT ON RENT PAYMENTS

Default on rent payments and rising receivables from lease obligations remained comparatively unchanged in 2012 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 2012 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. There was also less fluctuation among tenants in 2012 meaning that fewer residential units were available for reletting as a result of tenants giving notice.

SALES RISK

Sales of owner-occupied residential units have risen in recent years because of strong demand. They are sold through a specialist external service provider with whom certain quantities and minimum sales values, which reflect market conditions, can be agreed as a part of a service contract. If the quantities are not achieved, the service provider must pay penalty payments to GSW.

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. With almost 60,000 apartments throughout Berlin, GSW's risk is broadly diversified. The property portfolio covers all districts of Berlin except for Marzahn-Hellersdorf and is evenly spread among properties of all ages.

GSW feels that it has an opportunity to further consolidate 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 long-term 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 ongoing maintenance. This is intended to ensure that the portfolio retains its value while continuing to develop. This has been confirmed by the portfolio's positive value performance over recent years, among other things.

General legal and tax risks

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 occur in connection with the acquisition of portfolios.

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. The external audit for the years following 2004 is not yet concluded.

Changes to the shareholder and organisational structure of GSW may also trigger taxes.

GSW is subject to the regulations of the interest barrier, which limits the deductibility of interest expenses against tax when calculating taxable income. It is therefore possible that these regulations may give rise to tax liabilities in future, since this has not yet been the subject of external audits at GSW.

There were no discernible significant risks from changes in tax legislation or jurisdiction in 2012.

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).

For GSW, no refinancing risk resulting from interest rates, the LTV ratio, loan compliance obligations or interest rate hedges is discernible in the medium term. The weighted average term of the Company's loans at the reporting date was 10.2 years.

The interest rate risk is considered minor given the low overall interest rates, especially as interest rate hedges (fixed rate and swap agreements) are in place for more than 99.8 % of the loan portfolio.

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 (percentage of remaining capital loans with covenants in the total loan volume) are agreed in the respective loan agreements for about 73.0 % of the loan portfolio. The loan compliance reporting requirements for banks were complied with in full in 2012. 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.

Under a convertible bond issued in the 2012 financial year, the bondholders have the option of premature cancellation after five years (put option). In this case, GSW would have to repay the tendered bonds at the nominal amount plus accrued interest and would therefore have to have sufficient liquidity at this point. Given the conditions currently prevailing on the capital market, we would consider it unlikely that a major portion of the bondholders would exercise the put option.

Operational risks

HR RISKS

The professionalism, dynamism and commitment of GSW's employees are a key success factor for the Company to achieve its strategic and operative objectives. There is a risk of losing knowledge as a result of high fluctuation. GSW counters this risk with an HR policy that allows its employees responsibility while providing them with opportunities for development and ensuring satisfaction. Fair remuneration that reflects performance, the active promotion of individual development on the basis of assessments of ability and a strong focus on achieving a good life-work balance are key elements of this HR policy.

GSW Immobilien AG's employee fluctuation of 0.9 % in 2012 suggests that employee loyalty is stable.

IT RISKS

Given the extent to which processes are automated, the stability of IT systems is very important. GSW relies on third-party service providers to manage and minimise the risk of failure. The systems and processes for dealing with emergencies and crises in the central computer centre were reviewed as part of an audit at the beginning of 2012. The measures identified and implemented have made a material contribution to minimising the stability risks for GSW's critical processes. In addition, GSW has launched projects and established processes to further 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. Among other things, this allows GSW flexible and rapid access to equity to support its continual growth strategy.

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 integrated platform, which allow it to manage even an expanding property portfolio efficiently with a relatively constant number of employees and thereby leverage economies of scale. GSW's existing financing structure with its long-term focus also creates a stable base to pursue its growth targets further.

Efficient asset management and sensible acquisitions will produce further opportunities for adding value to the property portfolio, which is also supported by the current positive trend on the Berlin property market. The Company expects rents to increase further and vacancy rates to fall in the German capital. Given these circumstances, the company can look forward with optimism and confidence that rental income will be on a growth trend which will positively affect the company's revenue and earnings.

Remuneration report

In accordance with the legal provisions and the recommendations of the German Corporate Governance Code in the version dated 15 May 2012, the remuneration report explains the structure of the remuneration system for the Management Board and Supervisory Board of GSW Immobilien AG as well as the remuneration of individual members of the Management Board and Supervisory Board. The remuneration report is part of the management report.

For the 2012 financial year, the Supervisory Board commissioned an independent external remuneration consultant to analyse the existing remuneration system for the Management Board and the Supervisory Board and to submit proposals for developing the remuneration systems further. Having evaluated the remuneration consultant's report in detail and checked the target annual income of Management Board members, the remuneration system for the Management Board was amended and new contracts of employment were concluded, which provide for changes to their remuneration with effect from 1 January 2012.

The remuneration of the Supervisory Board was amended by resolution of the Annual General Meeting (AGM) on 28 June 2012 at the suggestion of the Management Board and Supervisory Board.

Remuneration system of the Management Board

The remuneration system for the Management Board and the remuneration of individual Management Board members is set by the Supervisory Board at the suggestion of the Executive Committee and regularly reviewed. The remuneration system for the Management Board is supposed to be geared to the normal market remuneration in comparable companies as well as the economic situation and future earnings prospects of GSW Immobilien AG. The remuneration structure must be focused on sustainable corporate development.

The total remuneration of Management Board members consists of a fixed basic remuneration and two variable remuneration components, the annual performance-related remuneration (Short Term Incentive) and the multi-annual performance-related remuneration (Long Term Incentive). Members of the Management Board are also granted other benefits in kind.

Fixed basic remuneration

The basic remuneration of Management Board members consists of a fixed amount, which is disbursed in twelve equal monthly instalments. The fixed annual basic remuneration amounts to EUR 395,000.00 per annum for an ordinary Management Board member. The CEO receives a fixed annual basic remuneration of EUR 490,000.00.

Annual performance-related remuneration (Short Term Incentive)

In addition to the basic remuneration, members of the Management Board receive an annual performance-related remuneration, which awards the Management Board member's performance in the past financial year in line with the Company's short-term performance. In principle, the amount of the annual performance-related remuneration is calculated in accordance with the extent to which the annual targets set in writing in a target agreement between the Supervisory Board and the respective Management Board member for the relevant financial year have been achieved. Firstly a uniform target figure defined for all Management Board members for AFFO (Adjusted Funds from Operations) and secondly two individual targets for each Management Board member are set as targets. Of the maximum achievable Short Term Incentive, 60 % is attributable to the AFFO target figure and 40 % to achievement of the individual targets, which are independent thereof. A six stage scale with the target achievement grades 0 %, 50 %, 75 %, 100 %, 110 % and 120 % with a linear increase in the achievable amount is defined for the individually agreed targets in the target agreement. For the AFFO, there is a target range between 80 % and 120 % of the target figure. Below 80 %, the target achievement for the portion of the Short Term Incentive attributable to the AFFO is zero. If the target achievement exceeds 120 %, there is no further increase in the annual performance-related remuneration.

Following the end of each financial year, the Supervisory Board decides after due consideration on the extent to which each individual target variable has been achieved.

The annual performance-related remuneration (Short Term Incentive) is limited to a maximum of EUR 237,000 gross for an ordinary Management Board member and to a maximum of EUR 294,000 gross for the CEO (total cap).

The annual performance-related remuneration is paid as a cash benefit. The annual payments are made pro rata temporis if the Management Board member has not been appointed to the Board for the entire financial year.

Multi-annual performance related remuneration (Long Term Incentive)

The Long Term Incentive is intended to reward long-term, sustained performance by Management Board members and, as a share-based remuneration element, emphasise correlation with the interests of shareholders in a positive share price performance. As multi-annual performance-related remuneration, each Management Board member is promised a certain number of the Company's shares (performance shares) at the end of each financial year. The number of shares promised equals the amount of annual performance-related remuneration paid for the past financial year divided by the market price of the GSW share.

Three years after the end of the financial year for which the Management Board was promised the shares in each case, the Supervisory Board stipulates the number of shares actually to be granted. This will be decided by the average performance of the GSW Immobilien AG share price in the respective three year period compared with the performance of the EPRA Germany Index. If the performance equals 100 %, the Management Board member will be granted the number of shares that he was originally promised. If the performance of the GSW share price amounts to below 95 % of the comparative figure, the Management Board member will receive no shares. If the performance equals 120 % or more, 120 % of the promised shares are granted (cap). The number of shares to be granted increases on a linear basis between a performance of 95 % and 100 % and between a performance of 100 % and 120 %. If a capital increase is carried out at an issue price below the market price in a financial year within the period under consideration, the performance of the share price until the announcement of the capital increase and from this date is weighted to each other pro rata temporis and compared with the performance of the EPRA Germany Index.

The granting of performance shares does not presuppose that the appointment of the Management Board member to the Board or his contract of employment will continue until the date of allocation. The termination of the appointment to the Board or the termination of the contract of employment will not lead to the shares being granted early or to the loss of other preconditions applicable to the multi-annual share-based remuneration.

The Management Board members may not dispose of the promised shares until they are granted. Neither are they entitled to hedge the granting of the shares in any form.

Other benefits in kind

The other benefits in kind, which members of the Management Board are granted, include in particular a company car, which may also be used privately and the conclusion of a D&O insurance policy with an appropriate deductible and the conclusion of invalidity insurance.

Management Board remuneration in the 2012 financial year

TOTAL REMUNERATION

The total remuneration of Management Board members for the 2012 financial year amounts to EUR 2,682 thousand (2011: EUR 1,998 thousand).

On the basis of the Management Board contracts of employment applicable from 1 January 2012, the individual members of the Management Board received the following remuneration for their work in the 2012 financial year:

MANAGEMENT BOARD REMUNERATION IN THE 2012 FINANCIAL YEAR

EUR thousand	Gross basic remuneration	Gross annual performance-related remuneration (Short Term Incentive)	Multi-annual performance related remuneration (Long Term Incentive)	Gross ancillary benefits	Total
Thomas Zinnöcker (CEO)	490	258	258	22	1,028
Jörg Schwagenscheidt	395	208	208	20	831
Andreas Segal	395	208	208	12	823
Total	**1,280**	**674**	**674**	**54**	**2,682**

As multi-annual performance related remuneration, members of the Management Board were promised a certain number of GSW Immobilien AG shares in 2016 depending on the performance of the GSW Immobilien AG stock market price. The individual members of the Management Board were promised the following number of shares here:

PERFORMANCE RELATED REMUNERATION

Management Board member	Number of shares promised as part of the Long Term Incentive
Thomas Zinnöcker (CEO)	8,214
Jörg Schwagenscheidt	6,622
Andreas Segal	6,622
Total	**21,458**

NOTE REGARDING THE DISCLOSURES ON THE MANAGEMENT BOARD'S REMUNERATION IN THE 2011 FINANCIAL YEAR

The Annual General Meeting (AGM) of GSW Immobilien AG on 14 April 2010 had 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, would not be published for the period from 2010 to 2014, and in any case up until 14 April 2015 at the latest. This resolution was rescinded at the Annual General Meeting of the Company on 28 June 2012 in as much as the disclosures demanded in section 285 no. 9 (a) sentence 5 to 8 and section 314 (1) no. 6 (a) sentence 5 to 8 HGB (if applicable in conjunction with section 315a (1) HGB) are to be made for the first time in the annual financial statements and consolidated financial statements of GSW Immobilien AG for the financial year ending on 31 December 2012 and in subsequent financial years. The resolution on rescission does not apply to the 2011 financial year meaning that only total figures for the remuneration of all Management Board members of GSW Immobilien AG can be provided as comparative amounts for the 2011 financial year in the annual report 2012. Of the total remuneration in the previous year of EUR 1,988 thousand, EUR 1,056 thousand is attributable to fixed remuneration and EUR 942 to performance-related variable remuneration.

Benefits in the event of employment ending prematurely

If the appointment as a member of the Management Board is revoked more than six months before the normal end of the contract of employment for good cause for which the Management Board member is not responsible, the contract of employment may be terminated by both parties subject to a notice period of six months as at the end of the month. In this case the Management Board member will receive a severance payment. The amount of the severance period is determined according to the remaining term which the contract of employment would have had if it had not been terminated but is limited to the amount of a pro rata fixed remuneration and an annual performance related remuneration for a period of 18 months.

In the case of the early termination of the employment contract without good cause in accordance with section 84 AktG, any agreed payments to the Management Board member including ancillary benefits may not exceed the value of two annual salaries or the remuneration payable for the remaining term of the respective contract (severance cap). The total remuneration of the past financial year and, if applicable, the probable total remuneration for the current financial year must be used to calculate the severance cap.

Other

Members of the Management Board were not granted any benefits under occupational pension plans in the 2012 financial year. Members of the Management Board received no loans from the company.

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.

During the term of their appointment, members of the Management Board are obliged to hold a portfolio of at least 10,000 GSW Immobilien AG shares; the portfolio must be built up by 30 June 2014. Evidence of the shareholdings must be provided at the end of each financial year starting on 31 December 2012.

Remuneration system for the Supervisory Board

The system of remuneration for the Supervisory Board was reviewed in the 2012 financial year and was amended in accordance with the Articles of Association by resolution of the Annual General Meeting on 28 June 2012 at the suggestion of the Management Board and Supervisory Board. The Supervisory Board's remuneration is regulated in Article 8 of the Articles of Association and consists of two elements:

Fixed remuneration

Each member of the Supervisory Board receives fixed annual remuneration of EUR 40,000.00 payable after the end of the financial year.

Additional compensation for the exercise of certain functions

Additional compensation is paid for the additional workload associated with the exercise of certain functions within the Supervisory Board: The Chairman of the Supervisory Board receives EUR 100,000; a Deputy Chairman receives EUR 60,000 as a fixed annual basic remuneration. Supervisory Board members who are members of one or more Supervisory Board committees convening at least once during the year receive additional annual fixed remuneration of EUR 7,500.00 per committee, or EUR 15,000.00 for the Chairman of the respective committee, payable after the end of the financial year. No remuneration is paid for membership and chairmanship of the Nomination Committee.

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 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 members of the Supervisory Board with a deductible of 10 % of the respective loss. The deductible is limited to one and a half times the fixed annual remuneration of the respective Supervisory Board member for all losses arising within one insurance year.

Supervisory Board compensation in the 2012 financial year

The Supervisory Board compensation for the 2012 financial year was resolved by the AGM on 28 June 2012 and is calculated pro rata temporis according to the regulations in the Articles of Association, which have applied until the resolution on the amendment of the Supervisory Board compensation.

In detail this resulted in the following compensation for the Supervisory Board members for the 2012 financial year:

SUPERVISORY BOARD COMPENSATION

EUR thousand (net)		2012	2011
Dr. Eckart John von Freyend (Chairman)	Chairman of the Executive Committee, Chairman of the Nomination Committee Member of the Audit Committee (from 1 April 2012)	96.2	65.0
Dr. Jochen Scharpe (Deputy Chairman)	Chairman of the Audit Committee, Member of the Executive Committee, Member of the Nomination Committee	68.4	52.5
Claus Wisser	Member of the Executive Committee (from 1 April 2012), Member of the Nomination Committee (from 1 April 2012)	39.8	30.0
Dr. Reinhard Baumgarten	Member of the Audit Committee (from 1 April 2012)	39.5	30.0
Veronique Frede		35.1	30.0
Gisela von der Aue (from 28 June 2012)		20.4	0
Geert-Jan Schipper (until 31 March 2012)	Member of the Audit Committee (until 31 March 2012)	(Supervisory Board remuneration waived)	(Supervisory Board remuneration waived)
Thomas Wiegand (until 31 March 2012)	Member of the Executive Committee (until 31 March 2012), Member of the Nomination Committee (until 31 March 2012)	(Supervisory Board remuneration waived)	(Supervisory Board remuneration waived)

The Supervisory Board members Geert-Jan Schipper and Thomas Wiegand waived their remuneration claims from GSW Immobilien in conjunction with their Supervisory Board membership.

Other

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

Outlook

GSW Immobilien AG closed the 2012 financial year successfully. The Group boasts a robust financing structure that will form the basis for further growth over the coming years. The purchase of 7,000 residential units as at 31 December 2012 / 1 January 2013 will have a positive impact on GSW's results of operations. External growth through additional acquisitions is also planned for the future.

Net rental income

The following trends, which significantly determine the Berlin housing market at present, form the basis for the future growth in net rental income: as a result of increasing numbers of people moving to the German capital and the trend towards single households, demand for housing space is increasing; this cannot be offset by new construction activity at present. GSW therefore expects rents to continue rising and vacancy rates to continue falling in Berlin.

Against this backdrop, the company expects rents for its own property portfolio to trend upwards, which will have a positive impact on the company's net rental income. 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.

Net valuation result

If the current trend towards a shortage of residential space and rising rents and lower vacancy rates continues over the coming years, the Management Board expects this to have a further 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.

Net interest income

Only a moderate loan volume is scheduled for refinancing and renewal over the coming years. For 2013, more than 99 % of the Group's loan portfolio is hedged by way of fixed-interest agreements or interest rate swaps with a nominal interest rate of well below 4 %. Through the issue of a convertible bond, GSW has also secured long-term financing at a favourable rate of interest. Acquisition financing could lead to changes in this situation. However, the financing structure will also be adjusted in line with market circumstances in future, to recognise and exploit opportunities and risks with regard to optimising financial results.

Acquisitions

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

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 2013 and 2014.

Declaration on corporate governance in accordance with section 289a HGB

The disclosures in accordance with section 289a HGB are published as part of the Corporate Governance report on our website 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, 18 March 2013

GSW Immobilien AG
The Management Board

ANDREAS SEGAL
CFO

THOMAS ZINNÖCKER
CEO

JÖRG SCHWAGENSCHEIDT
COO

Glossary

GLOSSARY	
general	EBIT, EBITDA, adjusted EBITDA, FFO, EPRA NAV and LTV are not recognised as performance indicators in the HGB or IFRS. The EBIT, EBIDA, 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 and results on investments.
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 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 expenses, LTIP, onetime acquisition expenses regarding to the purchase of investment properties (asset or share deals) 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 normalised cash flow net taxes.
AFFO	AFFO ("adjusted funds from operations") represents the FFO I, deducting capitalised expenses for maintenance and modernization
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.
NAV	NAV ("net asset value") shows the intrinsic equity value of a real estate company on the respective reporting date.
EPRA NAV (basic and diluted)	EPRA NAV is used to highlight the fair value of equity on a long-term basis and is calculated from NAV. 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. Diluted 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 financial liabilities minus cash and cash equivalents to our investment properties and assets held for sale.
Project expenses	Project expenses 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 expenses	Acquisition costs are expenses which are related to the purchase of Investment properties conducted as an asset- or share deal.
LTIP	LTIP ("long term incentive plan") refers to certain parts of the board members' as well as one supervisory board members' compensation which depend on long term achievements under an agreement with former shareholders in the course of the IPO.
LTI	LTI ("long term incentive") refers to certain parts of the board members' compensation which depend on long term achievements.

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.

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Consolidated Balance Sheet

CONSOLIDATED BALANCE SHEET – ASSETS

EUR thousand	Note	31.12.2012	31.12.2011
Non-current assets		**3,324,001**	**2,947,551**
Investment property	(17)	3,302,195	2,930,249
Property, plant and equipment	(18)	2,130	2,365
Goodwill	(19)	1,125	1,125
Other intangible assets	(20)	203	396
Other investments	(21)	6,087	6,171
Trade receivables	(22)	321	502
Receivables from rental, leasing and asset management		133	163
Receivables from sales		188	339
Other non-current assets	(24)	11,926	6,701
Derivatives		0	1
Other financial assets		11,926	6,700
Deferred tax assets		14	42
Current assets		**245,869**	**92,124**
Development of properties and inventories		0	2
Trade receivables	(22)	6,920	4,825
Receivables from property management		4,998	1,218
Receivables from sales		1,264	2,404
Other trade receivables		658	1,203
Receivables due from related parties	(23)	505	1
Income tax receivables		2,787	3,043
Other current assets	(24)	22,595	4,575
Other financial assets		1,661	1,508
Other miscellaneous assets		20,934	3,067
Cash and cash equivalents		167,737	62,618
Assets held for sale	(25)	45,325	17,060
Investment property held for sale		45,325	15,592
Other assets held for sale		0	1,468
Total assets		**3,569,870**	**3,039,675**

CONSOLIDATED BALANCE SHEET – EQUITY AND LIABILITIES

EUR thousand	Note	31.12.2012	31.12.2011
Equity	**(26)**	**1,440,958**	**1,166,417**
Total shareholders' equity		1,440,612	1,166,160
Subscribed capital		50,526*	41,053
Additional paid-in capital		328,722	128,800
Consolidated retained earnings		1,140,207	1,042,428
Accumulated other comprehensive income		(78,843)	(46,121)
Non controlling interest		346	257
Non-current liabilities		**1,991,874**	**1,797,277**
Financial liabilities	(29)	1,888,817	1,733,821
Liabilities due to banks from financing investment properties		1,728,578	1,732,172
Other loans		158,728	0
Liabilities from finance leases		1,511	1,649
Employee benefits	(27)	1,822	1,893
Provisions	(28)	3,055	4,148
Trade payables		483	662
Other non-current liabilities	(31)	97,434	56,753
Derivatives		90,952	52,373
Other financial liabilities		507	505
Other miscellaneous liabilities		5,975	3,875
Deferred tax liabilities		263	0
Current liabilities		**137,038**	**75,981**
Financial liabilities	(29)	78,687	37,069
Liabilities due to banks from financing investment properties		78,449	36,849
Liabilities from finance leases		238	220
Provisions	(28)	3,039	1,492
Trade payables		31,029	24,307
Property management liabilities		30,351	19,844
Other trade payables		678	4,463
Payables due to related parties	(30)	29	20
Income taxes payable		191	376
Other current liabilities	(31)	24,063	12,053
Derivatives		265	1,195
Other financial liabilities		6,971	3,719
Other miscellaneous liabilities		16,827	7,139
Liabilities associated with assets held for sale	(25)	0	664
Total equity and liabilities		**3,569,870**	**3,039,675**

* Contingent capital of EUR 7.5 million as at 31 December 2012 (previous year: EUR 0).

Consolidated Income Statement

CONSOLIDATED INCOME STATEMENT

EUR thousand	Note	01.01.-31.12.2012	01.01.-31.12.2011
Net rental income	**(8)**	**159,987**	**141,112**
Gross rental income		211,963	194,220
Government grants		7,876	9,919
Property operating expenses		(59,852)	(63,027)
Result on disposal of investment property	**(9)**	**9,602**	**3,291**
Investment property disposal proceeds		68,493	56,830
Carrying value of investment property disposals		(49,462)	(43,997)
Operating expenses for investment property disposed		(9,429)	(9,542)
Net valuation gains on investment property		**76,351**	**56,172**
Valuation gains on investment property		133,841	79,713
Valuation losses on investment property		(57,490)	(23,542)
Administrative expenses	(10)	(37,248)	(48,466)
Other income and expense	(11)	5,728	25,090
Net operating profit (EBIT)		**214,420**	**177,199**
Net result of investments		1,163	73
Interest income	(12)	23,282	40,778
Interest expenses	(12)	(98,760)	(110,217)
Profit before income taxes		**140,105**	**107,832**
Income taxes	(13)	3,193	(2,692)
Consolidated net income for the year		**143,298**	**105,141**
Thereof attributable to:			
Shareholders of GSW Immobilien AG		143,251	105,128
Non controlling interest	(26d)	47	12
Earnings per share (basic), EUR	**(16)**	**3.02**	**2.67**
Earnings per share (diluted), EUR	**(16)**	**2.77**	**2.67**

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.

Consolidated statement of comprehensive income

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

EUR thousand	Note	01.01.-31.12.2012	01.01.-31.12.2011
Consolidated net income for the year		**143,298**	**105,141**
Accumulative other comprehensive income			
Thereof non recycling			
Revaluation of properties classified as IAS 16		38	68
Deferred taxes		(11)	(21)
Thereof recycling			
Revaluation surplus resulting from the fair market valuation of AfS securities and other investments		0	(10)
Cumulative fair value changes of derivative interest rate contract constituting in cash flow hedges	(34d)		
Fair value adjustment of derivatives in cash flow hedges		(36,681)	(36,912)
Reclassification of interest derivatives affecting income		854	(875)
Deferred taxes	(13)	3,032	2,686
Total comprehensive income for the year		**110,530**	**70,078**
Profit attributable to:			
Shareholders of GSW Immobilien AG		110,530	70,076
Non controlling interest		0	2

Consolidated statement of changes in the shareholders' equity

CONSOLIDATED STATEMENT OF CHANGES IN THE SHAREHOLDERS' EQUITY

EUR thousand	Subscribed capital	Additional paid-in capital	Consolidated retained earnings
Note	(24a)	(24a)	(24b)
December 31, 2010	**35,000**	**15,136**	**937,301**
Total result for the year	0	0	105,128
Changes in scope of consolidation	0	0	0
Issuance of equity instruments	6,053	106,647	0
Transaction costs for issuing equity instruments	0	(2,974)	0
Additional paid-in capital regarding to board compensations	0	9,990	0
December 31, 2011	**41,053**	**128,800**	**1,042,428**
thereof classified as Non-recycling	0	0	0
thereof classified as Recycling	0	0	0
December 31, 2011	**41,053**	**128,800**	**1,042,428**
Total result for the year	0	0	143,251
Changes in scope of consolidation	0	0	0
Issuance of equity instruments	9,474	192,439	0
Transaction costs for issuing equity instruments	0	(10,748)	0
Issuance of convertibles	0	14,980	0
Dividend distribution	0	0	(45,474)
Additional paid in capital regarding to board compensations	0	3,252	0
December 31, 2012	**50,526**	**328,722**	**1,140,207**
thereof classified as Non-recycling	0	0	0
thereof classified as Recycling	0	0	0

Accumulative other comprehensive income						
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 accumulative other comprehensive income	Total shareholders' equity	Minority Interest	Consolidated equity
			(24c)		(24d)	
205	**7**	**(11,280)**	**(11,068)**	**976,369**	**0**	**976,369**
48	(7)	(35,094)	(35,053)	70,075	2	70,078
0	0	0	0	0	254	254
0	0	0	0	112,700	0	112,700
0	0	0	0	(2,974)	0	(2,974)
0	0	0	0	9,990	0	9,990
252	**0**	**(46,374)**	**(46,121)**	**1,166,160**	**257**	**1,166,417**
252	0	0	252	0	0	0
0	0	(46,374)	(46,374)	0	0	0
252	**0**	**(46,374)**	**(46,121)**	**1,166,160**	**257**	**1,166,417**
27	0	(32,748)	(32,721)	110,530	0	110,530
0	0	0	0	0	89	89
0	0	0	0	201,913	0	201,913
0	0	0	0	(10,748)	0	(10,748)
0	0	0	0	14,980	0	14,980
0	0	0	0	(45,474)	0	(45,474)
0	0	0	0	3,252	0	3,252
279	**0**	**(79,122)**	**(78,843)**	**1,440,613**	**346**	**1,440,958**
279	0	0	279	0	0	0
0	0	(79,122)	(79,122)	0	0	0

Consolidated cash flow statement

CONSOLIDATED CASH FLOW STATEMENT

EUR thousand	Ziffer	01.01.- 31.12.2012	01.01.- 31.12.2011
Consolidated net income for the year		143,298	105,141
Elimination of current income taxes	(13)	(3,193)	2,691
Elimination of financial results		74,315	69,365
Depreciation, amortisation and impairment / write-ups of non-current assets		756	956
Result of fair value measurement of investment property		(76,531)	(56,172)
Result from the disposal of assets held for sale and investment property		(19,030)	(12,833)
Result from the disposal of intangible assets and property, plant and equipment		(11)	0
Result from the disposal of consolidated companies		(5,728)	(25,348)
Changes in inventories, receivables and other assets		(27,614)	(3,215)
Changes in provisions		(1,196)	(1,847)
Changes in payables		7,062	(1,196)
Other non-cash expenses and income	(38)	3,310	9,566
Operating cash flow		**95,618**	**87,108**
Income tax paid / received		(566)	(42,461)
Interest paid[1]		(72,198)	(93,229)
Interest received		1,991	1,891
Distributions received		1,246	93
Proceeds from the disposal of derivative receivables		(590)	10,808
Cash flow from operating activities		**25,501**	**(35,790)**
Proceeds on disposals of investment property		69,784	57,781
Disbursements for investments in investment property		(183,838)	(19,424)
Proceeds on disposals of intangible assets and property, plant and equipment and other investments		16	950
Disbursements for investments in intangibles assets and in property, plant and equipment and other investements		(96)	(585)
Proceeds from disposals of previously consolidated companies net of cash acquired	(5c)	4,820	25,699
Expenditures for acquisitions of consolidated companies net of cash acquired	(5b)	(79,707)	(62,085)
Cash flow from investing activities		**(189,021)**	**2,336**

[1] Thereof cash outflows for prepayment fees of EUR 187 thousand (2011: 20,568) and for non-recurring processing fees of EUR 1,461 thousand (2011: 9,210)

CONSOLIDATED CASH FLOW STATEMENT

EUR thousand	Ziffer	01.01.- 31.12.2012	01.01.- 31.12.2011
Proceeds from the issuance of equity instruments[2]	(26)	201,913	114,440
Transaction costs of equity instruments		(10,695)	(5,274)
Dividends paid		(45,474)	0
Proceeds from convertible loans	(26)	182,900	0
Transaction costs of convertible loans		(2,862)	0
Repayments from loans		(90,945)	(1,180,050)
Proceeds from loans		33,802	1,096,175
Cash flow from financing activities		**268,639**	**25,291**
Changes in cash and cash equivalents		**105,119**	**(8,163)**
Cash and cash equivalents at the beginning of the period		**62,618**	**70,781**
Cash and cash equivalents at the end of the period		**167,737**	**62,618**

[2] In 2011 after deduction of employee's shares in the amount of EUR 560 thousand

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Notes to the consolidated financial statements of GSW Immobilien AG, Berlin for the 2012 financial year

General information

1. GSW

GSW Immobilien AG (hereinafter "GSW") is a listed stock corporation domiciled in Berlin. Together with its subsidiaries (hereinafter the "GSW Group"), it is one of the biggest housing companies in the federal state of Berlin.

GSW was founded in 1924 and has its offices at Charlottenstrasse 4, 10969 Berlin. The company is registered with the commercial register of the Charlottenburg Local Court under HRB 125788 B. Since 15 April 2011, GSW has been listed on the Regulated Market (Prime Standard) of the Frankfurt Stock Exchange and the Regulated Market of the Berlin Stock Exchange. The company's shares have also been included in the MDAX segment of the Frankfurt Stock Exchange since September 2011. The GSW Group's business activities primarily involve the management of company-owned residential and commercial properties with a focus on the core region of Berlin.

GSW prepared its consolidated financial statements on 18 March 2013. They are expected to be approved by the Supervisory Board on 21 March 2013.

2. Principles 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 37v 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 balance sheet, the statement of comprehensive income, the statement of changes in equity, the cash flow statement and the notes. Individual items in the income statement and in the statement of financial position have been combined 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 Federal Gazette.

3. 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 17; with respect to the goodwill impairment test, please see note 19 and regarding the fair value of the loans note 33.

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

Purchases and sales in foreign currency are translated at the exchange rate applicable on the date of the transaction.

When recognising the convertible bond issued in 2012 for the first time, the debt components to be reported were calculated on the basis of the terms of comparable financial instruments without a conversion option when recognised for the first time.

4. Presentational changes in the consolidated financial statements

To improve transparency, GSW has decided to make the following presentational changes from the 2012 annual financial statements:

- Provisions will be reversed against the item that was originally created. The presentation of the comparative amounts from the previous year was amended accordingly.

- The presentation of administrative expenses in the notes was made more detailed and expanded. This has resulted in changes to the presentation of the corresponding comparative amounts from the previous year.

- The deferred grants from an item that was previously managed separately in the statement of financial position are reclassified into the item for “other miscellaneous liabilities”. This has resulted in a corresponding change to the presentation of the comparative amount from the previous year.

5. 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 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.

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 2012, please see note (5b).

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.

a) Scope of consolidation

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

	31.12.2012	31.12.2011
Fully consolidated companies	16	18

The change in the scope of consolidation is mainly the result of companies being acquired and sold. For details, please refer to paragraphs (b) and (c). There have also been changes to the scope of consolidation as a result of transformations.

Following the exit resolution of its limited partner, the former GSW Grundbesitz GmbH & Co. KG, Berlin, was merged with GSW effective 1 January 2012.

Furthermore, following the exit resolution of its general partner, the former GSW Verwaltungs- und Betriebsgesellschaft mbH & Co. Erste Beteiligungs KG, Berlin, was merged with GSW effective 1 May 2012.

The scope of consolidation was also reduced by the sale of GSW Betreuungsgesellschaft für Wohnungs- und Gewerbebau mbH, Berlin on 1 October 2012.

By contrast, the acquisition of the newly acquired GSW Corona GmbH, Berlin (previously ei invest L1 - Berlin I GmbH) increased the scope of consolidation effective 31 December 2012.

The full list of the Group's shareholdings in accordance with section 313 (2) no. 1 to 4 and (3) HGB is shown under note (37). The scope of consolidation does not include any associates or joint ventures included using the equity method.

b) First consolidation

Following transfer of economic ownership on 31 December 2012, GSW acquired 99.7 % of a real estate portfolio with more than 4,000 residential and commercial units in Berlin via direct and indirect equity interests.

The equity investment acquired, GSW Corona GmbH, Berlin (previously ei invest L1 - Berlin GmbH), was included in the scope of consolidation as a fully-consolidated subsidiary on 31 December 2012, the date of first-time consolidation.

The first consolidation was 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 contained in the investment company. A business as defined in IFRS 3.3 was not acquired, since no significant business processes were acquired.

By virtue of the shareholder resolution on 4 December 2012 and registration on 4 January 2013, the company was renamed GSW Corona GmbH.

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

EUR thousand	31.12.2012
Acquired assets	
Investment property	181,620
Receivables and other current assets	694
Cash and cash equivalents	2,719
Assumed liabilities	
Liabilities due to banks	94,388
Other provisions	855
Liabilities due to GSW Immobilien AG	53,293
Other liabilities	2,401

A bullet repayment bank loan held by the company was acquired at a fair value of EUR 93,488 thousand with the acquisition of GSW Corona GmbH. There are also liabilities of EUR 53,293 thousand to GSW Immobilien AG from an interest-bearing Group loan. This was disbursed by the Group parent for the repayment of loan previously held by Corona GmbH and a bond liability.

GSW Corona GmbH's investment property breaks down as follows as at 31 December 2012:

	31.12.2012	
	Residential properties	Commercial properties
Units	4,031	62
Area (in sqm)	200,888	3,580

GSW Corona GmbH also holds 333 other economic units, such as car parking spaces in its portfolio.

As at 31 December 2012, the fair value of GSW Corona GmbH's investment property amounted to EUR 181,620 thousand.

Income and expenses from GSW Corona GmbH's ongoing business operations are not yet included in the GSW consolidated financial statements for the 2012 financial year, since the first consolidation for reasons of materiality took place on 31 December 2012.

As shareholders from outside the Group also have indirect equity interests in GSW Corona 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.

c) Disvestments

By way of a purchase and transfer agreement dated 25 June 2012, GSW sold the shares in GSW Betreuungsgesellschaft für Wohnungs- und Gewerbebau mbH, Berlin ("BWG") in which GSW held all the shares for a purchase price of over EUR 5.8 million.

The transfer of economic ownership of the equity investment took place effective 1 October 2012. In accordance with the terms of the agreement, GSW retains an equity interest of EUR 500.

With the sale, property, plant and equipment in the amount of EUR 38 thousand, intangible assets in the amount of EUR 53 thousand, cash and cash equivalents in the amount of EUR 680 thousand, receivables and other current assets in the amount of EUR 377 thousand as well as current liabilities in the amount of EUR 1,044 thousand were sold. BWG's earnings contribution to the Group's operating business was minor.

6. Accounting policies

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 2012, 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 Standards, 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 in-place rent of the properties let from the assets being measured is EUR 5.22 / sqm (2011: EUR 5.08 / 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 0.45 % and 1.50 % (weighted average 1.06 %) 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. Just 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 vacancy rate for residential and commercial real estate was 3.1 % as at the measurement date (2011: 3.7 %).

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 9.16 / 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 57) was taken into account. Administrative expenses of between EUR 180 and EUR 400 (weighted average of EUR 197) per rental unit and EUR 31 per parking space were assumed.

Discounting of cash flows is based on standard and matching discount rates averaging 6.07 % (weighted average) (2011: 6.04 %) and standard capitalisation rates for perpetuity averaging 5.23 % (weighted average) (2011: 5.25 %), 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 94.7 hectares (2011: 95.8 hectares) as at 31 December 2012 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 are also measured at fair value in accordance with the option in IAS 16 ("revaluation model"). The adjustments resulting from the revaluation are recognised in accumulated other comprehensive income outside profit and loss if the adjustment to fair value exceeds the amortised cost. Depreciation and amortisation, impairment losses and reductions in fair value are recognised in profit or loss unless this constitutes compensation for reversals of impairments posted in previous periods outside profit or loss.

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

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

	Useful life in years
Owner-occupied properties	25
Technical equipment, factory and office equipment	5-20
Other fittings, furniture and office equipment	3-13

The treatment of low-value items is consistent with the provisions of section 6 (2a) EStG. Accordingly, assets costing between EUR 150 and EUR 1,000 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.

c) Intangible assets

Acquired intangible assets are capitalised at cost.

The acquired intangible assets with expected useful lives of three and five years are mainly software licences and ERP software systems. These are amortised on a straight-line basis over their expected useful lives from the time that the licences are granted.

The acquired goodwill was capitalised at cost and valued at its recoverable amount on an ongoing basis in accordance with IAS 36. Its useful life is indefinite.

There are no internally generated intangible assets.

d) Impairment

Intangible assets and property, plant and equipment are reviewed to establish whether impairment losses should be recognised in accordance with IAS 36 (impairment test). On the other hand, investment property is not subject to an impairment test in accordance with IAS 36, since it is reported at fair value.

At the end of each reporting period, the carrying amounts of intangible assets and property, plant and equipment are reviewed for any signs of potential impairment. In this case, the recoverable amount of the asset in question is below the reported carrying amount. The difference represents the amount by which the value of the asset must be adjusted. The recoverable amount of the asset equals the higher of fair value less the costs of disposal and the value in use. 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) Investments and securities

In the GSW Group, regular way purchases or sales of financial assets are reported in principle on the settlement date, i.e. on the date on which the financial asset is delivered.

Interests in subsidiaries not consolidated due to their immateriality and the investment fund units held by the GSW Group under other investments and securities are classified in accordance with IAS 39 for valuation purposes in the category "available for sale financial assets". Miscellaneous other 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 measured at fair value, which usually equals the transaction price plus any transaction costs incurred, at the time they are acquired. "Available for sale financial assets" are subsequently measured at cost if the fair value cannot be determined or cannot be reliably determined. If there is objective evidence of impairment, impairment amounts are recognised in profit or loss. There is no reversal for financial assets measured at cost in accordance with IAS 39.66.

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 investments and securities as financial assets at fair value through profit and loss on first-time recognition.

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. A liability will be recognised here either in the amount of the fair value of the leased asset or, if lower, at the present value of the payment obligations resulting from the future rent and lease instalments. The recognised liability will be reduced over the term of the lease 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 lease instalments resulting from these agreements are reported as expense 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 lessor. For commercial properties, the risks and rewards are also attributable to the GSW Group. Residential and commercial properties in the portfolio continue to be measured at fair value in accordance with IAS 40. Lease income realised from property management is recognised on a straight-line basis over the term of the leases.

h) Development of properties and inventories

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 allocated to the "loans and receivables" category in accordance with IAS 39. These 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 date, 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 lump-sum individual 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 repayment) are achievable at maturity.

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

1. Considerable solvency problems on the part of the debtor
2. Breach of contract (e.g. loss or default on interest payments or repayments)
3. Observable data indicating a measurable reduction in the expected future cash flow
4. Adverse changes to the payment status of debtors
5. Local economic conditions correlating to defaults.

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

As a rule, investment property or operations or disposal groups for which there is a specific intention to sell and their sale is viewed as highly probable within the next twelve months are shown under assets held for sale in the consolidated financial statements of GSW.

Accordingly, liabilities, which are to be transferred together with these assets, are shown 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) Employee benefits

Provisions for employee benefits 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. Employee benefits 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 any assets available to cover these obligations (plan assets). 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. Long-term provisions are discounted on the basis of corresponding market interest rates and recognised at their present value.

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.

For details of the reporting of the convertible bond, please refer to the information under note 29 (b).

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) Derivatives
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 are accounted for 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 (hedging reserve); cumulative fair value changes of derivative interest rate contract constituting 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. Rent rebates are considered as reducing total rental 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 when the significant risks and opportunities in relation to the property have been transferred to the buyer. The transfer of economic ownership can generally be assumed when the significant rights of ownership and use as well as the effective control of the property have been transferred to the purchaser. No revenues are realised as long as there are still material obligations towards the buyer or he has been given guarantees regarding returns or has a right of return.

Profits from the sale of properties, which are re-let simultaneously, are accounted for as sale and leaseback transactions in accordance with IAS 17. If the tenancy agreement is to be classified as a finance lease, the gains on the sale are deferred over the term of the tenancy agreement and reversed in instalments. If it is classified as an operating lease, in principle any gain or loss is recognised immediately through profit and loss.

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

Government grants are recognised if there is sufficient certainty that the grants will be awarded and that the Company will fulfil the conditions associated with the grants. They must be recognised on a systematic basis as income over the periods required to be able to offset them against the expenses, for which the government grants are intended to compensate.

Investment subsidies are grants that are provided for the acquisition or manufacture of an asset. They 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.

Current grants in the form of maintenance, rental and expenses grants are recognised through profit and loss. They are recognised in net rental income as income from directly awarded grants.

The expenses and below-market rate loans are property loans, which are reported as financial liabilities. Both feature benefits compared with market loans such as low interest rates or periods in which no interest payments and repayments are required. They are recognised at present value on the basis of the market interest rate at the time they were raised. The difference is allocated to a deferred item, which is reversed in favour of the expenses from repaying the loans using the straight-line method over the remaining term of the loans.

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) 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).

u) 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 58.0 % to 53.8 %. For information on the calculation of the LTV, please see note (7.3) of the management report. 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.

v) Segment 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.

Accordingly, one reportable segment has been identified in accordance with the criteria of IFRS 8, which contains all of the Group's operating activities and about which reports are regularly submitted to the chief operating decision makers, namely the Management Board and Supervisory Board (management approach).

w) Share-based payment

For information on the presentation of share-based payment, please refer to section 38 and to the remuneration report in the management report.

7. Application of IFRS in the 2012 financial year

GSW has continued both the accounting policies applicable in the previous year and the duties of disclosure unchanged in the 2012 consolidated financial statements, unless new standards or interpretations were mandatory.

a) The following changes to standard were applicable in the consolidated financial statements of GSW in the 2012 financial year

Standard / Interpretation	Contents	To be applied for financing years starting on
IAS 1	"Amendments to IAS 1 Presentation of Items of Other Comprehensive Income"	1 July 2012

- 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. Accordingly, other comprehensive income must be divided into items which are recycled through profit and loss („recycling") and into items which remain in equity ("non-recycling") (IAS 1.82A). GSW already applies the standard voluntarily as at 31 December 2012 and divides other comprehensive income.

b) The following published but not yet mandatory standards (IFRS) and interpretations (IFRIC) will affect GSW in future:

Standard / Interpretation	Contents	To be applied for financing years starting on
IAS 19	"Amendments to IAS 19 Employee Benefits"	1 January 2013
IAS 32	"Amendments to IAS 32 Financial Instruments: Presentation - Offsetting Financial Assets and Financial Liabilities"	1 January 2014
IFRS 7	"Amendments to IFRS 7 Financial Instruments: Disclosures - Offsetting Financial Assets and Financial Liabilities"	1 January 2013
IFRS 12	"Disclosures of Interests in Other Entities"	1 January 2014
IFRS 13	"Fair Value Measurement"	1 January 2013
IFRS 9	"Financial Instruments and subsequent Amendments to IFRS 9 and IFRS 7"	Expected on 1 January 2015 (not yet endorsed)
IFRS 10, 11 and 12	"Transition Guidance (Amendments to IFRS 10, IFRS 11 and IFRS 12)"	1 January 2013 (not yet endorsed)
Annual Improvements 2009-2011		1 January 2013 (not yet endorsed)

- The adjustments to IAS 19 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 will have an impact on how pension commitments are accounted for at GSW.

- The amendment to IAS 32 clarifies the requirements for offsetting financial instruments. In particular, the significance of a current legally enforceable right to offset the amounts is highlighted here. GSW is examining the possible effects at present.

- In particular, the amendment to IFRS 7 comprises quantitative information on financial instruments which were offset against each other in the balance sheet and on financial instruments, which are subject to netting, irrespective of whether they were offset or not. GSW is examining the possible effects at present.

- The new 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). GSW expects this to affect the disclosures in the notes.

- The new IFRS 13 will define uniform guidelines on the calculation of fair value in future and on the requisite disclosures in the notes on measurement at fair value. It focuses on the question as to how fair value is to be calculated properly. Consequently, the disclosures in the notes will also be extended. GSW expects this to have an effect on the consolidated financial statements, which is currently being quantified.

- The published IFRS 9 provides new rules on the classification and measurement of financial assets. Only three measurement categories are provided. 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. In essence, the existing regulations in IAS 39 will be adopted for the classification and measurement of financial liabilities. 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. GSW expects this to affect the consolidated financial statements.

c) The following statements published by the IASB and IFRIC will have no impact on the consolidated financial statements of GSW:

Standard / Interpretation	Contents	To be applied for financing years starting on
IAS 12	"Amendments to IAS 12 Income Taxes - Deferred Tax: Recovery of Underlying Assets"	1 January 2013
IAS 27	Limitation of the Standard to "Separate Financial Statements" (previous contents now regulated in IFRS 10 and 12)	1 January 2014
IAS 27, IFRS 10, IFRS 12	"Investment Entities (Amendments to IFRS 10, IFRS 12 and IAS 27)"	1 January 2014 (not yet endorsed)
IAS 28	Extension of the Standards to "Investments in Associates and Joint Ventures" (new regulation after adoption of IFRS 11 and 12	1 January 2014
IFRS 1	"Amendments to IFRS 1: First-time Adoption of International Financial Reporting Standards - Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters"	1 January 2013
IFRS 1	"Government loans (Amendments to IFRS 1)"	1 January 2013 (not yet endorsed)
IFRS 7	"Amendments to IFRS 7 Financial Instruments: Disclosures - Transfer of Financial Assets"	1 July 2011
IFRS 10	"Consolidated Financial Statements"	1 January 2014
IFRS 11	"Joint Arrangements"	1 January 2014
IFRIC 20	"Stripping Costs in the Production Phase of a Surface Mine"	1 January 2013

Notes to the consolidated income statement

8. Net rental income

Net rental income amounts to EUR 159,987 thousand (2011: EUR 141,112 thousand) and is composed as follows:

EUR thousand	2012	2011
Income from rents	202,148	183,133
Income from management activities	3,519	4,294
Other income	6,295	6,793
Gross rental income	**211,963**	**194,220**
Direct rent subsidies	862	992
Direct government grants due to social housing	7,013	8,927
Income from direct government grants	**7,876**	**9,919**
Total rental income	**219,839**	**204,139**
Cost of materials	(36,593)	(36,429)
Personnel expenses	(17,587)	(18,215)
Depreciation and amortisation	(312)	(332)
Other operating expenses	(11,268)	(12,655)
Other operating income	5,908	4,603
Property operating expenses	**(59,852)**	**(63,027)**
Net rental income	**159,987**	**141,112**

In the 2012 financial year, net rental income increased by EUR 18,875 thousand as against the previous year. This was primarily attributable to the acquisition of a real estate portfolio in the fourth quarter of 2011, which was depicted throughout the year in 2012. Higher average rents and the lower vacancy compared with the previous year also made a contribution to this increase in earnings.

Because of the sale of the equity interest in GSW Betreuungsgesellschaft für Wohnungs- und Gewerbebau mbH (BWG), Berlin, as at 1 October 2012, there was no income from management activities for external owners from the fourth quarter of 2012.

Income from government grants decreased, as planned, to EUR 7,876 thousand (2011: EUR 9,919 thousand).

The cost of materials is composed as follows:

EUR thousand	2012	2011
Total expenses for maintenance and modernisation	(46,391)	(41,139)
Capitalised expenses for maintenance and modernisation	26,332	19,801
Non-capitalised expenses for maintenance and modernisation	**(20,059)**	**(21,339)**
Non-reversible operating expenses	(8,289)	(9,453)
General leases	(2,113)	(2,150)
Marketing expenses	(1,590)	(1,510)
Legal expenses	(3,395)	(3,397)
Other	(1,148)	1,419
Cost of materials	**(36,593)**	**(36,429)**

The cost of materials increased by EUR 165 as against the previous year. This is mainly the result of the fall in non-capitalised expenses for maintenance of EUR 1,279 thousand and in operating costs of EUR 1,164 thousand combined with the simultaneous loss of income from provision effects in the previous year (EUR 3,942 thousand).

Income from rents of EUR 1,780 thousand (2011: EUR 1,754 thousand) and property operating expenses of EUR 3,207 (2011: EUR 3,227 thousand) relate to the Charlottenstraße (formerly Kochstraße) property.

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.

9. Result on disposal of investment property

The result on the disposal of investment property is composed as follows:

EUR thousand	2012	2011
Investment property disposal proceeds	**68,493**	**56,830**
Carrying amount of investment property disposals	**(49,462)**	**(43,997)**
Cost of goods and services	(8,899)	(9,052)
Personnel expenses	(504)	(519)
Depreciation and amortisation	(2)	0
Other operating expenses	(69)	(92)
Other operating income	45	121
Operating expenses for investment property disposed	**(9,429)**	**(9,542)**
Result on disposal of investment property	**9,602**	**3,291**

In the 2012 financial year, GSW sold 920 residential and commercial units including the transfer of risks and rewards in the same year (2011: 935 units). Due to the extremely strong market demand for properties in Berlin at present, the prices for owner-occupied property also rose in the 2012 financial year. This led to an increase in the result on disposal of investment property of EUR 6,311 thousand.

10. General administrative expenses

General administrative expenses are composed as follows:

EUR thousand	2012	2011
Personnel expenses	(13,257)	(10,908)
Long term incentive plan (LTIP)	(2,484)	(9,990)
Depreciation and amortisation	(445)	(644)
Expenses for IT and telecommunication	(4,627)	(4,573)
Expenses for annual financial statements and audit	(619)	(403)
Rental and leasing expenses	(3,645)	(3,594)
Legal and consulting expenses	(3,748)	(3,378)
Sponsoring	(591)	(421)
Insurance	(310)	(366)
Expenses for acquisitions	(3,486)	(2,869)
Expenses for capital measures	(43)	(6,728)
Contributions and fees	(560)	(802)
Office expenses	(775)	(689)
Financial communication	(477)	(122)
Other expenses	(2,677)	(3,496)
Other operating income	496	517
General administrative expenses	**(37,248)**	**(48,466)**

General administrative expenses decreased by EUR 11,218 thousand to EUR 37,248 thousand as against the previous year. The fall is mainly attributable to the decrease in expenses for capital measures and the expenses for the long term incentive plan. Please see note (38) for information on remuneration components with a long-term incentive effect.

The general administrative expenses contain expenses amounting to EUR 2,975 thousand (2011: EUR 2,881 thousand) relating to the part of the Kochstrasse property used by GSW. Of this figure, EUR 2,231 thousand (2011: EUR 2,165 thousand) is attributable to the general rent, EUR 59 thousand (2011: EUR 21 thousand) to expenses for ongoing maintenance and EUR 685 thousand (2011: EUR 695 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 and auditing.

11. Other income and expenses

Other income in the 2012 financial year resulted from the following non-recurring effects:

A major part of the equity investment in GSW Betreuungsgesellschaft für Wohnungs- und Gewerbebau mbH (BWG), Berlin, was sold effective 1 October 2012 generating a capital gain of more than EUR 5.7 million.

In the previous year, this encompassed income from the sale of shares in BMH Berlin Mediahaus GmbH (about EUR 25 million) as well as expenses from the sale of Berlin Immobilien Verwaltungs- und Betriebsgesellschaft von 1996 mbH (EUR 0.1 million).

12. Net interest income

Net interest income is composed as follows:

EUR thousand	2012	2011
Income from writing up a receivable from an interest derivative	0	10,808
Interest income from financial receivables	734	0
Interest income from amortisation of loan	12,534	12,397
Income from valuing interest derivatives at fair value	34	3,547
Interest income from interest derivatives	7,960	11,867
Interest income from bank deposit	1,596	1,813
Other interest income	424	345
Interest income	**23,282**	**40,778**
Interest expenses from financing of investment property	(47,927)	(47,213)
Interest expenses from amortisation of loan	(17,105)	(28,574)
Expenses from valuing interest derivatives at fair value	(2,387)	(4,501)
Interest expenses from interest derivatives	(29,284)	(27,357)
Interest expenses from convertible bonds	(772)	0
Breakage costs from financing activities	(187)	(187)
Other interest expenses	(1,098)	(2,386)
Interest expenses	**(98,760)**	**(110,217)**
Net interest income	**(75,478)**	**(69,439)**

Interest income decreased by EUR 17,496 thousand as against the previous year to EUR 23,282 thousand. The decrease is primarily attributable to a non-recurring effect in the previous year of EUR 10,808 thousand from writing up and subsequently selling an adjusted receivable due from the insolvent Lehman Brothers International Europe (LBIE) from an interest derivative. In addition, a fall in the general level of interest rates as against the previous year and a reduction in the number of interest derivatives led to lower interest income from interest derivatives.

At the same time, interest expenses decreased by EUR 11,457 thousand to EUR 98,760 thousand. This is also primarily due to the general fall in the level of interest rates compared with the previous year combined with an increase in loans and a reduction in the number of interest derivatives.

13. Income taxes

Expenses and income for current income taxes as well as deferred taxes are reported as income taxes. Current income taxes result from corporation tax and the solidarity surcharge as well as trade taxes.

Corporations are subject to corporation tax at a rate of 15 % (2011: 15 %) plus a solidarity surcharge of 5.5 % (2011: 5.5 %) of the corporation tax set less amounts imputed against it.

Corporations and commercially active partnerships are also subject to trade tax levied at different rates by different municipal authorities. The trade tax rate for Berlin was 410 % in the 2012 financial year (2011: 410 %).

Taking account of the collection rate and the base rate for municipal trade tax of 3.5 % (2011: 3.5 %), the trade tax rate accordingly amounts to 14.35 %.

Consequently, the domestic tax rate used to calculate deferred taxes and for the GSW Group's anticipated (theoretical) tax expense amounts to 30.175 % in the year under review (2011: 30.175 %).

Income taxes in the 2012 financial year can be broken down as follows:

EUR thousand	2012	2011
Current tax expense	(120)	(40)
Deferred tax expense / tax income	3,314	(2,652)
Tax expense/tax income	**3,193**	**(2,692)**

There were the following changes to deferred tax assets in the financial year:

EUR thousand	2012	2011
Deferred tax assets as of the end of the reporting period	42	28
Changes affecting operating result	3,577	(2,652)
Changes in equity not affecting operating result	(6,625)	0
Changes not affecting operating result (through OCI)	3,021	2,666
Deferred tax assets as of the end of the reporting period	**14**	**42**
Thereof non-current	14	41
Thereof current	0	1

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

There were the following changes to deferred tax liabilities in the financial year:

EUR thousand	2012	2011
Deferred tax liabilities as of the end of the reporting period	0	0
Changes affecting operating result	263	0
Changes not affecting operating result (through OCI)	0	0
Deferred tax liabilities as of the end of the reporting period	**263**	**0**
Thereof non-current	263	0
Thereof current	0	0

Deferred tax liabilities were recognised by the subsidiary "GSW Immobilien Beteiligungs GmbH" on temporary differences arising from properties acquired in the year under review.

The (theoretical) income tax expense can be reconciled with the income taxes according to the statement of comprehensive income as follows:

EUR thousand	2012	2011
Profit before income taxes (IFRS)	140,105	107,832
Group tax rate in %	30.175	30.175
Expected tax expense	**(42,277)**	**(32,538)**
Change in deferred tax assets not recognised	47,572	29,282
Non-deductible operating expenses	(124)	(87)
Tax-free income	24	6
Additions and reductions in relation to trade tax	(1,685)	(1,435)
Tax from previous years	583	1,942
Effect of share-based payment	(982)	(3,014)
Other effects	81	3,151
Tax income/expense as reported on the income statement	**3,193**	**(2,692)**

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:

	31.12.2012		31.12.2011	
EUR thousand	Deferred tax assets	Deferred tax liabilities	Deferred tax assets	Deferred tax liabilities
Investment property	4,787	137,741	7,952	93,403
Property, plant and equipment	0	445	2,270	2,715
Investments	7	42	5	66
Development of properties and inventories	0	0	2	0
Receivables and other current assets	4,436	1,968	4,770	4,291
Derivatives	7,761	0	4,278	0
Special account with reserve characteristics	0	11,114	0	11,438
Employee benefits	90	0	101	0
Other provisions	153	0	45	19
Liabilities (banks)	917	32,391	1,183	33,395
Liabilities (convertible bonds)	0	7,294	0	0
Trade payables	14	303	2	216
Other liabilities	2,553	2,092	2,131	4,475
Total temporary differences	**20,718**	**193,390**	**22,740**	**150,018**
Loss carry forward	172,422	0	127,320	0
Total	**193,140**	**193,390**	**150,060**	**150,018**
Offsetting	(193,126)	(193,126)	(150,018)	(150,018)
Amount recognised on balance sheet	**14**	**263**	**42**	**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 2012 financial year, no deferred tax assets were recognised for temporary differences of EUR 21,009 thousand (2011: EUR 13,132 thousand) as well as for tax loss carryforwards for corporation tax purposes of EUR 1,366,994 thousand (2011: EUR 1,504,705 thousand) and for trade tax purposes of EUR 2,015,422 thousand (2011: EUR 1,755,349 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 1,827 thousand (2011: EUR 234,440 thousand). The result is mainly the result of two subsidiaries being merged with the parent company.

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.

14. 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	2012	2011
Audit of annual financial statements	936	883
Other assurance services	537	585
Tax consultation services	6	0
Other services	73	109
Total fees	**1,552**	**1,577**

The other assurance services provided by the auditor in 2012 amounting to EUR 521 thousand also form part of the costs for capital measures relating to the capital increase in the 2012 financial year. The other assurance services provided by the auditor in 2011 amounting to EUR 585 thousand also form part of the costs for capital measures relating to the other costs for the company's IPO in the 2011 financial year (see note 15).

15. Other information

Based on the IFRS figures, the non-recurring expenses incurred in the financial year from non-recurring effects with the relevant function are shown in the following table.

EUR thousand	2012	2011
Letting	**(602)**	**(913)**
Non-recurring project expenses[1]	(515)	(491)
Restructuring expenses	(87)	(422)
Administration	**(7,063)**	**(23,018)**
Non-recurring project expenses[1]	(1,050)	(3,431)
Expenses for capital measures	(43)	(6,728)
Expenses for acquisitions[2]	(3,486)	(2,869)
LTIP	(2,484)	(9,990)

[1] Project expenses 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.

[2] Acquisition expenses are expenses which are related to the purchase of Investment properties conducted as an asset- or share-deal.

Therefore, after adjusting for the non-recurring effects, the reconciliation for the functions was as follows:

EUR thousand	2012	2011
Property operating expenses according to the income statement	(59,852)	(63,027)
Less non-recurring effects	602	913
Property operating expenses (adjusted)	**(59,250)**	**(62,114)**
General administrative expenses according to the income statement	(37,248)	(48,466)
Less non-recurring effects	7,063	23,018
General administrative expenses (adjusted)	**(30,185)**	**(25,448)**

Personnel expenses totalled EUR 31,348 thousand (2011: EUR 30,985 thousand) in the reporting year.

16. Earnings per share

a) Basic earnings per share

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

The weighted average number of shares in circulation in the respective financial year is calculated as follows:

	2012	2011
Number of shares outstanding at the beginning of the period	41,052,630	35,000,000
Additional shares outstanding as at 15 April	0	6,052,630
Additional shares outstanding as at 27 April	9,473,684	0
Number of shares outstanding at the end of the period	50,526,314	41,052,630
Weighted average number of shares	**47,497,841**	**39,328,045**

Accordingly, the undiluted earnings per share amount to:

	2012	2011
Group earnings attributable to GSW's shareholders (EUR thousand)	143,251	105,128
Average weighted number of shares outstanding	47,497,841	39,328,045
Earnings per share (basic), EUR	**3.02**	**2.67**

b) Diluted earnings per share

Diluted earnings per share are calculated on the basis of the average number of shares outstanding and the assumption of full utilisation of conversion rights into shares. At the same time, the annual net profit is adjusted by the reduction in expenses for interest payments resulting from complete conversion and the resulting tax effect.

At the end of the reporting period, GSW has potentially diluting shares outstanding from a convertible bond. This authorises bondholders to convert bonds into up to about 5.05 million new GSW shares.

The diluted earnings per share amount to:

EUR thousand	2012	2011
Consolidated net income for the period attributable to GSW's shareholders (EUR thousand)	143,251	105,128
Coupon on the convertible bond after taxes* (EUR thousand)	2,554	-
Consolidated net income for the period for diluted earnings per share	145,805	105,128
Average weighted number of shares outstanding	47,497,841	39,328,045
Number of potential new shares if the convertible bond is exercised	5,051,788	-
Number of shares for diluted earnings per share	52,549,629	39,328,045
Diluted earnings per share, EUR	**2.77**	**2.67**

* 2 % on EUR 182.9 million after deduction of the Group tax rate of 30.175 %

Notes to the consolidated balance sheet

17. 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	2012	2011
Carrying amount on 1 January	**2,930,249**	**2,571,723**
Change in scope of consolidation	181,620	330,000
Additions	193,116	24,059
Disposals	(33,888)	(37,388)
Reclassification in accordance with IFRS 5	(45,253)	(14,316)
Fair value adjustments	76,351	56,172
Carrying amount on 31 December	**3,302,195**	**2,930,249**

The changes in the scope of consolidation in the year under review are the result of the acquisition of GSW Corona GmbH with a total of 4,031 residential units and 62 commercial units.

The additions in the 2012 financial year mainly relate to the purchase of two additional property portfolios. Under a purchase agreement dated 16 November 2012, 99 residential units and 6 commercial units in Essen, Magdeburg and Erfurt were acquired by the subsidiary Gesellschaft für Stadterneuerung mbH, a further 371 residential units and 4 commercial units in Duisburg by GSW Immobilien Beteiligungs GmbH as well as 2,087 residential units and 9 commercial units in Berlin by GSW Immobilien AG. In addition, GSW acquired 203 residential units in Berlin-Spandau under a purchase agreement dated 17 October 2012.

The transfer of economic ownership for a third property portfolio with 209 residential units and 9 commercial units in Berlin-Spandau, which was also acquired under the purchase agreement dated 17 October 2012, did not take place until 1 January 2013. Advance payments of EUR 19.2 million were reported for this purpose.

There were also additions from modernisation measures. In the 2012 financial year, expenses for maintenance and modernisation totalling EUR 46,391 thousand (2011: EUR 41,139 thousand (see note 8) were incurred; this equates to expenses and investment of about EUR 14.00 / sqm (2011: EUR 13.01 / sqm).

Expenses for maintenance amounting to EUR 26,332 thousand (2011: EUR 19,801 thousand) were capitalised. EUR 28 thousand (2011: EUR 1,394 thousand) of these related to expenses for maintenance for which government assistance was received. This was deducted from the carrying amounts of the respective properties in accordance with IAS 20.

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

	31.12.2012		31.12.2011	
	Residential properties	Commercial properties	Residential properties	Commercial properties
Units	58,668	992	52,790	913
Area (in sqm)	3,547,266	106,949	3,244,039	101,672

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	31.12.2012		31.12.2011	
	Investment property	Property held for sale	Investment property	Property held for sale
Developed plots	3,281,110	45,249	2,907,699	15,518
Undeveloped plots	21,085	77	22,550	74
Total	**3,302,195**	**45,325**	**2,930,249**	**15,592**

The fair values of the properties in the portfolio (IAS 40 / IFRS 5) as at 31 December 2012 would be as follows if the discount had varied by + / - 0.5 % from the interest rate used as at 31 December 2012:

EUR thousand	+ 0.5 %	- 0.5 %
Developed plots	3,205,451	3,454,304
Undeveloped plots *	21,162	21,162
Total	**3,226,613**	**3,475,466**

* 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 2012:

EUR thousand	Due within one year	Due between one year and five years	Due after five years
Future cash flows expected for operating leases as of 31 December 2012	58,207	6,806	612
Future cash flows expected for operating leases as of 31 December 2011	54,489	6,420	945

18. Property, plant and equipment

There have been the following changes to property, plant and equipment in the financial year:

EUR thousand	Land, similar rights and buildings	Technical equipment, factory and office equipment	Other equipment, factory and office equipment	Property, plant and equipment from finance lease	Total
Cost of acquisition or manufacture as at 1 January 2011	**828**	**446**	**1,048**	**2,942**	**5,264**
Accumulated depreciation and amortisation as at 1 January 2011	**(48)**	**(443)**	**(646)**	**(1,550)**	**(2,686)**
Net carrying amount as at 1 January 2011	**780**	**3**	**403**	**1,392**	**2,578**
Additions	0	0	144	63	207
Reclassification in accordance with IFRS 5	0	0	(44)	0	(44)
Fair value adjustments	68	0	0	0	68
Depreciation and amortisation	(58)	0	(162)	(224)	(444)
Cost of acquisition or manufacture as at 31 December 2011	**828**	**446**	**995**	**3,005**	**5,273**
Accumulated depreciation and amortisation as at 31 December 2012	**(38)**	**(443)**	**(654)**	**(1,774)**	**(2,908)**
Net carrying amount as at 31 December 2011	**790**	**3**	**341**	**1,231**	**2,365**
Additions	0	0	48	102	150
Disposals	0	0	(3)	0	(3)
Fair value adjustments	38	0	0	0	38
Depreciation and amortisation	(58)	0	(149)	(213)	(420)
Cost of acquisition or manufacture as at 31 December 2012	**828**	**446**	**818**	**3,107**	**5,199**
Accumulated depreciation and amortisation as at 31 December 2012	**(58)**	**(444)**	**(581)**	**(1,987)**	**(3,069)**
Net carrying amount as at 31 December 2012	**770**	**3**	**237**	**1,119**	**2,130**

19. 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 % (2011: 1 %) 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 2.25 % (2011: 3.25 %) and a market risk premium of 6.5 % (2011: 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 4.40 % (2011: 7.04 %).

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 2012 was EUR 1,125 thousand (2011: 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.

20. Other intangible assets

There have been the following changes to intangible assets in the financial year:

EUR thousand	2012	2011
Cost of acquisition or manufacture as at 1 January	**3,003**	**3,395**
Accumulated depreciation and amortisation as at 1 January	**(2,606)**	**(2,554)**
Net carrying amount as at 1 January	**396**	**841**
Additions	48	81
Reclassification in accordance with IFRS 5	0	(133)
Reclassification	0	103
Depreciation and amortisation	(241)	(495)
Cost of acquisition or manufacture as at 31 December	**2,969**	**3,003**
Accumulated depreciation and amortisation as at 31 December	**(2,766)**	**(2,606)**
Net carrying amount as at 31 December	**203**	**396**

21. Other investments

The financial instruments contained in the “available for sale financial assets” in the amount of EUR 6,087 thousand contained in other non-current investments are measured at cost at the end of the reporting period since there is no active market for these financial assets or the fair value cannot be reliably determined using other measurement methods. This item contains non-consolidated shares in subsidiaries and securities from subsidiaries, in which liquidity currently not needed is invested.

For information on the composition of other investments, please see section 33 “Additional disclosures on financial instruments”.

22. Trade receivables

Trade receivables are composed as follows:

EUR thousand	31.12.2012	31.12.2011
Trade receivables (gross)	15,786	13,076
Impairment allowances for trade receivables	(8,545)	(7,749)
Trade receivables	**7,241**	**5,327**

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

EUR thousand	31.12.2012	31.12.2011
Receivables from property management	5,131	1,381
Receivables from sales	1,452	2,743
Other trade receivables	658	1,203
Trade receivables	**7,241**	**5,327**

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
31.12.2012	6,920	299	22
31.12.2011	4,825	485	17

23. Receivables due from related parties

In the year under review, there are receivables due from related parties of EUR 505 thousand (2011: EUR 1 thousand). The receivables due from related parties mainly relate to receivables under the profit transfer from the equity investment in GSW Betreuungsgesellschaft für Wohnungs- und Gewerbebau mbH (BWG), Berlin, which was sold as at 1 October 2012.

Impairment allowances for recognisable default risks were not required as at the end of the respective reporting periods. As in the previous year, receivables due from related parties are due within one year.

Further information on related parties can be found under note (39).

24. Other current assets

Other current assets break down as follows:

TEUR	31.12.2012	31.12.2011
Derivatives	**0**	**1**
Receivables from employees	112	146
Creditors with debit balances	482	451
Provision of collateral for maintenance obligations	10,977	5,700
Miscellaneous	2,016	1,911
Other financial assets	**13,587**	**8,208**
Prepayments and deferred expenses	461	1,788
Receivables from other taxes	1,129	1,202
Advance payments	19,343	65
Miscellaneous	1	12
Other miscellaneous assets	**20,934**	**3,067**
Other current assets	**34,521**	**11,276**

The provision of collateral for maintenance obligations consists of pledged credit balances in favour of banks to hedge maintenance measures, which are not available short-term.

The advance payments are payments as part of the purchase of new properties where the transfer of risks and rewards will take place in the 2013 financial year.

The remaining terms of other current assets are as follows:

EUR thousand	Due within one year	Due between one year and five years	Due after five years
31.12.2012	22,595	7,176	4,750
31.12.2011	4,575	5,777	924

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.

In the previous year, the assets and liabilities of the subsidiary held for sale GSW Betreuungsgesellschaft für Wohnungs- und Gewerbebau mbH (BWG), Berlin were reported in this balance sheet item in addition to the properties held for sale. BWG was transferred to the purchaser with the transfer of economic ownership on 1 October 2012 (see note 5c).

As at the end of the reporting period, there are no other assets and liabilities held for sale apart from properties held for sale.

26. Equity

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

a) Subscribed capital, capital reserves and authorised capital

At the end of the reporting period, GSW's subscribed capital amounts to EUR 50,526,314 (2011: EUR 41,052,630) and is divided into an equal number of ordinary shares issued at a nominal value of EUR 1.00 each. The shares are fully issued and fully paid.

Effective 17 April 2012, the Management Board of GSW resolved, with the approval of the Supervisory Board, to carry out a capital increase against cash contributions with indirect subscription rights for the shareholders. Using the existing authorised capital, the share capital was increased by EUR 9.5 million to EUR 50.5 million against cash contributions by issuing 9,473,684 new ordinary bearer shares.

Cash contributions of EUR 21.30 per share were made for 99.72 % of the newly issued shares. The remaining shares, for which the subscription right was not exercised, were sold via the stock exchange at a price of EUR 25.95. In total, gross proceeds before the deduction of transaction costs of EUR 201.9 million were generated. The capital increase was entered in the Commercial Register on 27 April 2012.

Premiums paid-in connection with the capital increase meant that capital reserves increased by EUR 192.4 million. The transaction costs incurred for the capital increase were offset against capital reserves in accordance with IAS 32.

GSW's capital reserves also increased in the period under review as a result of the share-based remuneration for Management Board members (EUR 2,973 thousand) and Dr Scharpe (EUR 279 thousand) in accordance with IFRS 2.

GSW issued a convertible bond with a nominal volume of EUR 182,900,000 on 15 November 2012. It grants bondholders the right to convert the bonds into a total of up to 5.05 million new GSW shares up to 2019. Since it is a hybrid financial instrument, the convertible bond must be divided into an equity component and a debt component in accordance with the regulations in IAS 32.31. The transaction costs incurred for the issue were offset against both components pro rata (IAS 32.38).

Capital reserves have increased by an equity component of EUR 14,980 thousand from the issue of the convertible bond to stand at EUR 328,594 thousand at the end of the reporting period. These consist of the equity component from the convertible bond of EUR 21,605 thousand and the deferred taxes attributable thereto of EUR 6,625.

In accordance with the resolution by the Annual General Meeting (AGM) on 28 June 2012, a dividend of EUR 0.90 per share (totalling EUR 45.5 million) was distributed from retained earnings for the 2011 financial year.

Additional resolutions:

By resolution of the Annual General Meeting (AGM), new authorised capital (Authorised Capital 2012) was created including the option to disapply shareholders' subscription rights. Under this resolution, the Management Board is authorised, with the approval of the Supervisory Board, to increase the company's share capital on one or more occasions by a total of up to EUR 17,000,000.00 up to and including 27 June 2017 by issuing up to 17,000,000 new no-par value bearer shares in exchange for cash and / or non-cash contributions.

The Annual General Meeting (AGM) also authorised the Management Board to issue bearer and / or registered convertible bonds and / or bonds with warrants and / or profit participation rights and / or participating bonds with or without conversion rights or options or conversion obligations or a combination of these instruments, with or without a restriction on their term, with a total nominal amount of up to EUR 250,000,000.00 on one or more occasions up to and including 27 June 2017, and to grant the holders or bearers of such instruments conversion rights or options for the subscription of up to 7,500,000 new no-par value bearer shares of GSW Immobilien AG with a total nominal interest in the share capital of up to EUR 7,500,000.00 (Contingent Capital 2012). Consolidated retained earnings

b) Consolidated retained earnigs

Consolidated retained earnings 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) Accumulated other comprehensive income

Accumulated other comprehensive income, which includes the adjustments in fair value for owner-occupied properties measured according to the revaluation method and the fair value changes of derivative interest rate contract constituting in cash flow hedges and for securities classified as available for sale and other financial investments, developed as follows:

EUR thousand	2012	2011
Balance as at 1 January	**(46,121)**	**(11,068)**
Revaluation surplus resulting from the fair market valuation of AfS securities and other investments	0	(10)
Revaluation surplus from the fair market valuation of owner-occupied properties	38	68
Cumulative fair value changes of derivative interest rate contract constituting in cash flow hedges	(35,827)	(37,787)
Deferred taxes	3,020	2,666
	(78,890)	(46,131)
Thereof attributable to non controlling interests	47	10
Balance as of 31 December	**(78,843)**	**(46,121)**

d) Non controlling interests

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

EUR thousand	31.12.2012	31.12.2011
Non controlling interests in consolidated net income for the year	47	12
Non controlling interests in accumulated other comprehensive income	(47)	(10)
Non controlling interests in total comprehensive income for the year	**0**	**2**

Non controlling interests in accumulated other comprehensive income of EUR -47 thousand (2011: EUR -10 thousand) relates to the change in the fair value of interest derivatives in cash flow hedges.

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 changes of derivative interest rate contract constituting in cash flow hedges and for securities classified as available for sale and other financial investments, developed as follows:

	01.01.-31.12.2012		
EUR thousand	Before deferred taxes	Deferred taxes	After deferred taxes
Consolidated net income for the year	143,298	0	143,298
Revaluation surplus from the fair market valuation of owner-occupied properties	38	(11)	27
Fair value adjustment of derivatives in cash flow hedges	(36,681)	3,104	(33,577)
Reclassification of interest derivatives affecting income	854	(72)	782
Total comprehensive income for the year	**107,509**	**3,021**	**110,530**

	01.01.-31.12.2011		
EUR thousand	Before deferred taxes	Deferred taxes	After deferred taxes
Consolidated net income for the year	105,141	0	105,141
Revaluation surplus resulting from the fair market valuation of AfS securities and other investments	(10)	3	(7)
Revaluation surplus 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 affecting income	(875)	62	(813)
Total comprehensive income for the year	**67,412**	**2,666**	**70,078**

27. Employee benefits

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 employee benefits for defined benefit plans is carried out on the basis of actuarial assumptions. The following parameters were used in the two financial years:

in %	2012	2011
Interest rate - current pensioners	2.5	4.2
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 2012, the defined benefit plans resulted in expenses of EUR 81 thousand (2011: EUR 91 thousand) which were made up as follows:

EUR thousand	2012	2011
Past service cost	0	0
Interest expense	81	91
Realisable actuarial income	0	0
Pension expenses	**81**	**91**

The value of the provision is made up as follows:

EUR thousand	31.12.2012	31.12.2011
Present value of pension commitments	2,345	2,016
Actuarial gains (+) and losses (-) not realised	(523)	(123)
Provision	**1,822**	**1,893**

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

EUR thousand	2012	2011
Present value as at 1 January	2,016	1,980
Pension expenses	0	0
Interest expense	81	91
Payments	(152)	(158)
Unrealisable actuarial income	400	103
Present value of employee benefits as at 31 December	**2,345**	**2,016**

In 2012, the payments made by the GSW Group to the Pension Institution of the Federal Republic and the Laender amounted to EUR 1,638 thousand (2011: EUR 1,644 thousand). The employer portion of the statutory pension came to EUR 2,176 thousand in 2012 (2011: EUR 2,216 thousand).

28. Other provisions

Other provisions are composed as follows:

EUR thousand	As at 01.01.12	Addition from first-time consolidation	Additions	Interest cost	Utilised	Reversed	Reclassified	As at 31.12.2012
Provision for onerous contracts	627	0	91	114	(57)	0	0	775
Provision for other employee benefits	292	0	63	8	(45)	0	0	318
Provision for litigation costs	2,744	0	768	267	(1,010)	(1,471)	15	1,313
Other miscellaneous provisions	1,977	855	1,778	149	(710)	(346)	(15)	3,688
Other provisions	**5,640**	**855**	**2,700**	**538**	**(1,822)**	**(1,817)**	**0**	**6,094**

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 791 thousand (2011: EUR 649 thousand) with a remaining term of ten years, as well as provisions for sales commissions amounting to EUR 528 thousand (2011: EUR 0) and provisions for outstanding invoices from third-party service providers in an amount of EUR 2,039 thousand (2011: EUR 630 thousand) each with a remaining term of one year.

29. Financial liabilities

Financial liabilities are composed as follows:

EUR thousand	31.12.2012	31.12.2011
Liabilities due to banks from financing investment properties	1,807,027	1,769,020
Liabilities from convertible bonds	158,728	0
Liabilities from finance leases	1,749	1,869
Financial liabilities	**1,967,504**	**1,770,889**

a) Liabilities due to banks from financing investment properties

The liabilities due to banks are predominantly the result of financing for investment properties. All loans were granted in euro. Some 99.81 % of liabilities (2011: 98.75 %) carry a fixed rate of interest or are hedged via interest-rate swaps.

Liabilities to banks increased by EUR 38,007 thousand to EUR 1,807,027 thousand compared with the previous year.

The increase is mainly the result of the property financing of the newly acquired GSW Corona GmbH, which amounts to a nominal EUR 90,000 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. These developments were offset by scheduled repayments and non-scheduled repayments.

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
31.12.2012	78,449	843,147	885,431
31.12.2011	36,849	455,676	1,276,496

b) Liabilities from convertible bonds

At the end of the reporting period, convertible bonds with a carrying amount of EUR 158,728 thousand (2011: EUR 0) are reported.

GSW issued a convertible bond for the first time in the 2012 financial year. After deduction of transaction costs of EUR 2,922 thousand, the net proceeds of the issue of EUR 179,978 thousand were divided into an equity component and a debt component (IAS 32.28). The debt component was accounted for at present value on the date of issue, 15 November 2012, on the basis of a comparable bond without a conversion option. The liabilities from the convertible bond will subsequently be measured at amortised cost using the effective interest method. The bond has a seven year maturity.

At the end of the reporting period, there are also liabilities from the deferment of the coupon, since disbursement did not take place until the following year.

In addition to the conversion option, the convertible bond contains embedded derivatives, which are not separable because the bond conditions allow both the issuer and the bondholder to terminate the bond under certain preconditions.

c) 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
31.12.2012	238	886	625
31.12.2011	220	786	863

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
31.12.2012			
Payments	401	1,336	755
Interest component	(163)	(450)	(130)
Repayment component	**238**	**886**	**625**
31.12.2011			
Payments	397	1,315	1,073
Interest component	(177)	(529)	(210)
Repayment component	**220**	**786**	**863**

30. Payables due to related parties

In the year under review, there are payables due to related parties of EUR 29 thousand (2011: EUR 20 thousand). Payables due to related parties are all due within one year.

Further information on relations with related persons and companies can be found in note (39).

31. Other liabilities

Other liabilities can be broken down as follows:

EUR thousand	31.12.2012	31.12.2011
Derivatives	91,217	53,568
Other financial liabilities	7,478	4,224
Accrued ground rent	1,543	1,571
Other taxes	11,785	2,293
Liabilities due to employees	4,361	4,787
Social security payments	403	380
Miscellaneous	4,710	1,983
Other miscellaneous liabilities	22,802	11,014
Other liabilities	**121,497**	**68,806**

Other liabilities have the following remaining terms:

EUR thousand	Due within one year	Due between one year and five years	Due after five years
31.12.2012	24,063	91,837	5,597
31.12.2011	12,053	52,536	4,217

Notes to the cash flow statement

32. Information on the cash flow statement

The cash flow statement presents the change in cash and cash equivalents as a result of cash inflows and outflows in accordance with IAS 7. The cash flows from operating activities are derived indirectly from the consolidated net income for the period, while cash flows from investing and financing activities are determined directly.

The Group's cash and cash equivalents encompass EUR 167,737 thousand and are freely available.

Other disclosures

33. 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 6,087 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. The fair value of finance lease liabilities matches the reported carrying amount.

31.12.2012	Measurement category as per IAS 39	Amortised cost		Fair value	No measurement category in accordance with IAS 39	Not financial instruments in accordance with IAS 32	Total balance sheet items
EUR thousand		Carrying value	Fair Value	Carrying value	Carrying value	Carrying value	Carrying value
Securities (at cost)	AfS	250	250	0	0	0	250
Other investments	AfS	5,837	5,837	0	0	0	5,837
Trade receivables	LaR	7,241	7,241	0	0	0	7,241
Other receivables	LaR	13,759	13,759	0	0	21,268	35,027
Derivatives[1]		0	0	0	0	0	0
Cash and cash equivalents	LaR	167,737	167,737	0	0	0	167,737
Total financial assets		**194,824**	**194,824**	**0**	**0**	**21,268**	**216,091**
Financial liabilities	FLaC	1,807,027	1,878,202	0	0	0	1,807,027
Liabilities from convertible bonds	FLaC	158,728	169,975	0	0	0	158,728
Liabilities from finance leases		0	0	0	1,749	0	1,749
Trade payables	FLaC	22,342	22,342	0	0	9,169	31,511
Derivatives[1]	FLHfT	0	0	6,205	85,013	0	91,217
Other liabilities	FLaC	5,861	5,861	0	0	24,447	30,309
Total financial liabilities		**1,993,958**	**2,076,380**	**6,205**	**86,762**	**33,617**	**2,120,541**

Classification within fair value hierarchy in accordance with IFRS 7.27B(a) in conjunction with IFRS 7.27A: [1] Derivatives: Level 2 (valued on the basis of observable input factors / market data)

31.12.2011	Measurement category as per IAS 39	Amortised cost		Fair value	No measurement category in accordance with IAS 39	Not financial instruments in accordance with IAS 32	Total balance sheet items
EUR thousand		Carrying value	Fair Value	Carrying value	Carrying value	Carrying value	Carrying value
Securities (at cost)	AfS	250	250	0	0	0	250
Other investments	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 financial assets		**82,325**	**82,325**	**0**	**1**	**3,067**	**85,392**
Financial liabilities	FLaC	1,769,020	1,630,282	0	0	0	1,769,020
Liabilities from finance leases		0	0	0	1,869	0	1,869
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 financial liabilities		**1,795,412**	**1,656,674**	**4,715**	**50,722**	**13,726**	**1,864,574**

Classification within fair value hierarchy in accordance with IFRS 7.27B(a) in conjunction with IFRS 7.27A: [1] Derivatives: Level 2 (valued on the basis of observable input factors / market data)

34. Net earnings by measurement category

In accordance with IFRS 7.20 (a) net profits and losses on financial instruments must be disclosed for each measurement category defined in IAS 39. The effects on earnings of finance leases and derivatives used in hedges are not included, since these are either not covered by IAS 39 or are accounted for in accordance with special provisions and therefore cannot be allocated to any of the measurement categories specified in IAS 39.

Net earnings from financial instruments, classified according to the individual measurement categories specified in IAS 39, are as follows:

EUR thousand	Measurement category as per IAS 39	2012	2011
Loans and receivables	LaR	(111)	(1,618)
Available for sale financial assets	AfS	33	167
Financial assets or liabilities (held for trading purposes) measured at fair value through profit and loss	FLHfT	(3,496)	7,409
Financial liabilities measured at amortised cost	FlaC	(52,568)	(63,375)
Total		**(56,141)**	**(57,417)**

Net earnings from the measurement category loans and receivables contain interest income from cash and cash equivalents, impairments and write-ups from the reversal of impairments on rent owed as well as depreciation on rent owed.

Net earnings from the measurement category available for sale financial assets contain dividend payments from affiliates as well as depreciation of investments reported at amortised cost.

Net earnings from the measurement category financial instruments held for trading purposes contain interest expenses and income for derivative financial instruments without an effective hedge and the results of measuring these derivatives at market values.

Net earnings from the measurement category financial liabilities measured at amortised cost contain interest expenses for current debt service and the convertible bond as well as result from amortisation of loan.

35. Risks arising from 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 Corporate Finance 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.

The highest possible default risk is equal to the carrying amount of the financial assets not including the value of collateral received or other agreements aimed at reducing risk. The maximum amount that the company may be called upon for guarantees it has assumed for subsidiaries and investment companies comes to EUR 3,397 thousand.

The following table presents the financial assets that had been subject to impairment as at the end of the reporting period:

	31.12.2012	
EUR thousand	Carrying amount before impairment	Impairment
Securities (at cost)	250	0
Other investments	5,916	(79)
Trade receivables	18,709	(11,468)
Other receivables	13,799	(40)
Total	**38,673**	**(11,587)**

EUR thousand	31.12.2011 Carrying amount before impairment	Impairment
Securities (at cost)	250	0
Other investments	5,959	(38)
Trade receivables	16,118	(10,791)
Other receivables	8,287	(78)
Total	**30,614**	**(10,907)**

There are gross receivables from rental and leasing totalling EUR 12.6 million. There is collateral of EUR 5.9 million (essentially rent deposits) for receivables of EUR 5.8 million, which may be used to offset outstanding receivables if the legal preconditions are met. There is excess collateral of EUR 2.8 million resulting from the fact that the rent deposits provided in each case are larger than the existing receivables. There is a shortfall in collateral for outstanding receivables of EUR 3.0 million resulting from the fact that the rent deposits provided in each case are smaller than the existing receivables. There is also non-cash collateral (mainly guarantees and pledges). Collateral received was neither sold nor passed on as collateral up to the end of the reporting period and will be returned to the respective tenant at the end of the tenancy, unless there are receivables due against which it can be offset.

Impairment developed as follows in 2012:

EUR thousand	Impairment at the start of the period	Change in impairment affecting profit and loss	Derecognition of financial assets	Impairment at the end of the period
Securities (at cost)	0	0	0	0
Other investments	(38)	0	(41)	(79)
Trade receivables	(10,791)	(766)	88	(11,468)
Other receivables	(78)	(17)	55	(40)

Impairment developed as follows in 2011:

EUR thousand	Impairment at the start of the period	Change in impairment affecting profit and loss	Derecognition of financial assets	Impairment at the end of the period
Securities (at cost)	0	0	0	0
Other investments	0	0	(38)	(38)
Trade receivables	(9,613)	(1,464)	285	(10,791)
Other receivables	(45)	(32)	0	(78)

The following table shows the receivables that are past due but not subject to impairment at the end of the reporting period. Securities and investments classified as available for sale are not due at the end of the reporting period.

31.12.2012	Total carrying amount	Thereof: neither impaired nor past due at the end of the reporting period	Thereof: past due and not impaired at the end of the reporting period				
EUR thousand		Carrying value	< 180 days	180 - 360 days	360 - 540 days	540 - 720 days	> 720 days
Trade receivables	7,241	3,599	2,546	8	19	8	187
Other receivables	13,759	13,171	154	5	63	37	323
Total	**21,000**	**16,770**	**2,699**	**13**	**82**	**44**	**511**

31.12.2011	Total carrying amount	Thereof: neither impaired nor past due at the end of the reporting period	Thereof: past due and not impaired at the end of the reporting period				
EUR thousand		Carrying value	< 180 days	180 - 360 days	360 - 540 days	540 - 720 days	> 720 days
Trade receivables	5,327	50	4,260	8	31	0	533
Other receivables	8,209	7,056	552	72	27	8	355
Total	**13,537**	**7,106**	**4,812**	**81**	**58**	**8**	**888**

The previous year's figures were adjusted so that rent due that is subject to lump-sum individual value adjustments is no longer included in this presentation. The latter 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.

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 treasury 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 a short-term credit line of EUR 10 million should the need arise. The credit line is unsecured.

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.

31.12.2012 EUR thousand	Carrying value	Maturities Due within one year	 Due between one year and five years	 Due after five years
Primary financial liabilities				
Liabilities due to banks from financing investment properties	1,807,027	124,355	993,721	1,228,388
Liabilities from convertible bonds	158,728	3,658	14,632	190,216
Liabilities from finance leases	1,749	401	1,336	755
Trade payables	22,342	21,859	483	0
Other liabilities	5,861	5,354	507	0
Derivative financial liabilities	**91,217**	**23,451**	**68,586**	**1,063**
Total	**2,086,924**	**179,078**	**1,079,265**	**1,420,422**

31.12.2011 EUR thousand	Carrying value	Maturities Due within one year	 Due between one year and five years	 Due after five years
Primary financial liabilities				
Liabilities due to banks from financing investment properties	1,769,020	93,741	660,683	1,643,879
Liabilities from finance leases	1,869	397	1,315	1,073
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**

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 3,397 thousand (2011: EUR 3,423 thousand) that are due within 1 year.

Some loan agreements include financial covenants, which, in the event of non-compliance, will allow the bank to terminate the agreement unless the infringements are rectified.

As at 31 December 2012, no breaches of any covenants 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. No derivative financial instruments are used for speculative purposes.

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.

GSW terminated two existing swap agreements early with effect from 30 March 2012. The term for one further interest rate swap expired on the same date.

In addition, GSW concluded a forward swap agreement with a term of six years on 26 September 2012. The interest swap will start on 31 January 2015. The swap is recognised as a hedging instrument in accordance with IAS 39.

As a consequence of property sales and the resultant non-scheduled repayment of loans at GSW 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 the amount of EUR 15 thousand (2011: EUR 184 thousand).

As at 31 December 2012, the Group had the following derivative financial instruments:

EUR thousand	Nominal value	Swap rates	FV as at 31.12.2012
13 interest rate swaps	1,164,357	1.70 % to 4.80 %	(91,217)

The cash flows arising from underlying transactions hedged in the context of cash flow hedge accounting will be due in the period 2013 to 2021 and will affect the income statement at that time.

In 2012, losses resulting from instances of ineffectiveness totalling EUR 9 thousand (2011: EUR 0 thousand) were recognised in the income statement.

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	2012	2011
Initial status as per 1 January	(49,238)	(11,452)
Recognition in equity in the reporting period	(36,681)	(36,912)
Release from equity to the income statement	854	(875)
Final status as per 31 December	**(85,065)**	**(49,238)**

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):

2012 sensitivities:

	Equity effect		Income statement effect	
EUR thousand	+ 50 BP	- 50 BP	+ 50 BP	- 50 BP
Primary financial instruments				
Loans received	–	–	(337)	337
Cash and cash equivalents	–	–	839	(839)
Derivative financial instruments & hedges				
Free-standing derivatives	–	–	1,234	(1,130)
Cash flow hedges	23,710	(24,743)	(9)	11
Total	**23,710**	**(24,743)**	**1,727**	**(1,621)**

2011 sensitivities:

	Equity effect		Income statement effect	
EUR thousand	+ 50 BP	- 50 BP	+ 50 BP	- 50 BP
Primary financial instruments				
Loans received	–	–	(541)	541
Cash and cash equivalents	–	–	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)**

36. 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 15,333 thousand (2011: EUR 19,980 thousand) as well as the purchase obligations for investment property and property, plant and equipment of EUR 4,496 thousand (2011: EUR 2,875 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 year and five years	Due after five years
31.12.2012	5,410	9,923	0
31.12.2011	5,420	14,560	0

The major operating lease agreements include the master lease for the Charlottenstrasse office building (formerly Kochstrasse) and the SAP operator agreement.

37. List of shareholdings

GSW had the following shareholdings as at 31 December 2012:

EUR thousand	Shareholders' equity	Share of the capital	Result
Affiliates, fully consolidated			
GSW Grundvermögens- und Vertriebsgesellschaft mbH, Berlin[1]	90,256	100.0 %	0
Facilita Berlin GmbH, Berlin	980	100.0 %	341
GSW Gesellschaft für Stadterneuerung mbH, Berlin	286	100.0 %	(103)
Stadtentwicklungsgesellschaft Buch mbH, Berlin	2,204	100.0 %	(56)
Grundstücksgesellschaft Karower Damm mbH, Berlin[1]	189	100.0 %	0
GSW Acquisition 3 GmbH, Essen	75,456	100.0 %	10,478
GSW Immobilien Beteiligungs GmbH, Berlin	11	100.0 %	(6)
Zweite GSW Verwaltungs- und Betriebsgesellschaft mbH, Berlin	37	100.0 %	3
Wohnwert Versicherungsagentur GmbH, Berlin[1]	26	100.0 %	0
GSW Corona GmbH, Berlin	(11,439)	99.7 %	(14,454)
GSW Pegasus GmbH, Berlin[1]	(15,662)	99.7 %	7,483
Wohnanlage Leonberger Ring GmbH, Berlin[1]	(530)	99.6 %	0
Zisa Grundstücksbeteiligungs GmbH & Co. KG, Berlin[1]	23	94.9 %	(15)
GSW Immobilien GmbH & Co. Leonberger Ring KG, Berlin[1]	406	94.0 %	44
GSW Verwaltungs- und Betriebsgesellschaft mbH & Co. Zweite Beteiligungs KG, Berlin[1]	(27,481)	93.1 %	1,293
Affiliates, not consolidated			
Zisa Verwaltungs GmbH, Berlin2	19	100.0 %	(5)
GSW Berliner Asset Invest Verwaltungs GmbH, Berlin[2]	23	100.0 %	(2)
GSW Berliner Asset Invest GmbH & Co. KG, Berlin[2]	9	100.0 %	(4)
DCM GmbH & Co. KG Renditefonds 506 KG, Munich[3]	32	99.0 %	0
DCM GmbH & Co. KG Renditefonds 507 KG, Munich[3]	276	99.0 %	0
DCM GmbH & Co. KG Renditefonds 508 KG, Munich[3]	84	99.0 %	0
DCM GmbH & Co. KG Renditefonds 510 KG, Munich[3]	272	99.0 %	0
Joint ventures, not consolidated			
SIWOGE 1992 Siedlungsplanung und Wohnbauten Gesellschaft mbH, Berlin[2]	4,361	50.0 %	86
GSZ Gebäudeservice und Sicherheitszentrale GmbH, Berlin[2]	140	33.3 %	57
Associates, not consolidated			
Zisa Beteiligungs GmbH, Berlin[2]	25	49.0 %	(4)
GSW-Fonds Weinmeisterhornweg 170 -178 GbR, Berlin[2]	(7,569)	44.4 %	19

[1] Utilisation of the exemption rules according to section 264 (3) HGB and section 264b HGB | [2] Due to immateriality not consolidated and reported as an equity investment
[3] No consolidation since control excluded under the Articles of Association

38. Shared 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 downstream 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 LTIP s 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 the remaining part of the bonus 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 was therefore reversed as at the date of the modification in 2011 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 about EUR 12.8 million or (including the above EUR 0.7 million) about EUR 13.5 million as at the time of the amendment in March 2011 and break down as follows: Mr Zinnöcker: EUR 9.6 million; Mr Schwagenscheidt: EUR 2.2 million; Mr Segal: EUR 1.7 million. EUR 2,205 thousand (2011: EUR 9,990 thousand) of this was recognised in the 2012 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.

c) LTI (multi-annual share-based payment) 2012

As part of the revision of the employment contracts for members of the Company's Management Board, the share-based component of their remuneration in the form of the LTI was also revised. As multi-annual performance related remuneration, each Management Board member is promised a certain number of the Company's shares (performance shares) at the end of each financial year. The number of shares promised equals the amount of the annual performance-related remuneration paid for the past financial year divided by the stock exchange price of the GSW share. Three years after the end of the financial year for which the Management Board member was promised the shares, the Supervisory Board will set the number of shares actually to be granted. This will be decided by the average performance of the GSW Immobilien AG share price in the respective three-year period compared with the performance of the EPRA Germany Index. The granting of performance shares does not presuppose that the Management Board member's appointment to the Board of his employment contract will continue until the date on which they are allocated.

Please see the remuneration report in the management report for more information on share-based payment.

39. Relations with related persons and companies

For the GSW Group, related parties in accordance with 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.

Accordingly, the members and related dependents of members of the Management Board and Supervisory Board of GSW, members of the management with key management roles and the subsidiaries, associates and joint ventures of the GSW Group are defined as related parties.

In addition to the subsidiaries included in the consolidated financial reports through full consolidation, the following relations with related persons and companies existed:

a) Relations with related persons

By way of resolution of the Annual General Meeting (AGM) in accordance with section 286 (5) HGB of 14 April 2010, it was decided that the company will not disclose individual Management Board remuneration for 2011.

The total remuneration of the members of GSW's Management Board amounted to EUR 2,682 thousand in 2012 (total remuneration previous year: EUR 1,998 thousand).

EUR thousand (gross)	Gross basic remuneration	Gross annual performance-related remuneration (short term incentive)	Multi-annual performance related remuneration (long term incentive)	Gross ancillary benefits	Total
Thomas Zinnöcker (Chief Executive Officer)	490	258	258	22	1,028
Jörg Schwagenscheidt	395	208	208	20	831
Andreas Segal	395	208	208	12	823
Total	**1,280**	**674**	**674**	**54**	**2,682**

For the entire Management Board, EUR 1,056 thousand related to fixed components and EUR 704 thousand to variable components for 2011. Furthermore, a claim of EUR 238 thousand to a remuneration component with a long-term incentive effect was also acquired in 2011. The performance-based variable remuneration for 2011 finally amounted to EUR 684 thousand and was paid in 2012.

In the reporting year no benefits at the end of employment contracts were paid (2011: 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 reported expenses and a contribution to the capital reserves of EUR 2,205 thousand (2011: EUR 9,990 thousand) in accordance with IFRS 2. A further EUR 1,245 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 4,984 thousand (2011: EUR 12,154 thousand).

Remuneration of former members of management and their surviving dependants amounts to EUR 152 thousand (2011: EUR 157 thousand). A provision of EUR 1,822 thousand (2011: EUR 1,893 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 2012 financial year amounted to EUR 299 thousand (2011: EUR 208 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. Shares in the company were allocated in the financial year.

Payment made to employee representatives in the Supervisory Board for work outside their work for the Supervisory Board was in line with the market.

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 2012.

40. Contingent liabilities

The Group has the following contingent liabilities:

EUR thousand	31.12.2012	31.12.2011
Warranties	3,397	3,423
Mortgages	10,635	10,635
Other liabilities	2,864	2,781

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.

41. Management and the Supervisory Board

The members of the Management Board of GSW Immobilien AG were as follows in the reporting period:

	Memberships of supervisory boards and other supervisory bodies as defined in section 285 no. 10 HGB in conjunction with section 125 (1) sentence 5 AktG
Thomas Zinnöcker, Business graduate, Chief Executive Officer (CEO)	taskforce - Management on Demand GmbH (Deputy Chairman of the Supervisory Board)
Jörg Schwagenscheidt, Real estate economist, Chief Operating Officer (COO)	none
Andreas Segal, Lawyer, Chief Financial Officer (CFO)	none

The members of the Supervisory Board of GSW Immobilien AG are as follows:

	Memberships of supervisory boards and other supervisory bodies as defined in section 285 no. 10 HGB in conjunction with section 125 (1) sentence 5 AktG
Dr. Eckart John von Freyend, Chairman of the Supervisory Board, Corporate consultant, Bonn	Memberships of Supervisory Boards: Hamborner REIT AG (Chairman of the Supervisory Board), Hahn Immobilien-Beteiligungs AG (Deputy Chairman of the Supervisory Board), EUREF AG (Chairman of the Supervisory Board), VNR Verlag für die Deutsche Wirtschaft AG (Member of the Supervisory Board), Investmentaktiengesellschaft für langfristige Investoren TGV (Member of the Supervisory Board), AVECO Holding AG (Member of the Supervisory Board) Other memberships: FMS Wertmanagement AöR (Member of the Board of Directors), Bundesanstalt für Immobilienaufgaben (Member of the Board of Directors)
Dr. Jochen Scharpe, Deputy Chairman of the Supervisory Board, Managing Director of AMCI GmbH, München	LEG Immobilien AG LEG NRW GmbH (Chairman of the Supervisory Board) LEG Wohnen NRW GmbH (Chairman of the Supervisory Board) FFIRE AG (Deputy Chairman of the Supervisory Board)
Claus Wisser Founder of WISAG Facility Service Holding GmbH & Co.KG	Chairman of the Supervisory Board of AVECO Holding AG DFV Deutsche Familienversicherung AG (Member of the Supervisory Board)
Gisela von der Aue (since June 2012), former Senator of Justice for the State of Berlin	none
Dr. Reinhard Baumgarten, "Senatsdirigent" Senate Department of Finance Berlin, retired	BCIA GmbH (Chairman of the Supervisory Board) BEHALA Berliner Hafen- und Lagerhausgesellschaft mbH (Deputy Chairman of the Supervisory Board, until fall 2012)
Veronique Frede, Chairperson of the Works Council (exempt) at GSW Immobilien AG	none
Geert-Jan Schipper (until March 2012), Managing Director bei Cerberus Global Investments B.V., Baarn NL	none
Thomas Wiegand (until March 2012), Managing Director bei Cerberus Global Investments B.V., Baarn NL	none

42. Group employees

The Group's average number of employees in 2012 was as follows:

Headcount	Average number of employees
Duly authorised officers (Prokuristen)	4
Salaried employees	450
Blue-collar workers	23
Caretakers	86
Total	**563**

43. Events after the end of the reporting period

By means of a transfer of risks and rewards dated 1 January 2013, GSW acquired a property portfolio in Berlin-Siemensstadt consisting of about 200 residential units.

By resolution of 18 March 2013, the Supervisory Board agreed to Thomas Zinnöcker's request to terminate his appointment as CEO with effect from the end of 15 April 2013.

By resolution of 18 March 2013, the Supervisory Board appointed Dr. Bernd Kottmann as new CEO with effect from 16 April 2013.

44. 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, 18 March 2013
GSW Immobilien AG, Berlin

THOMAS ZINNÖCKER
CEO

JÖRG SCHWAGENSCHEIDT
COO

ANDREAS SEGAL
CFO

Auditor's report

We have audited the consolidated financial statements prepared by the GSW Immobilien AG, Berlin, comprising the statement of financial position, the income statement and 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, 2012. 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 18, 2013

PricewaterhouseCoopers
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

Thomas Kieper	ppa. Frederik Mielke
Wirtschaftsprüfer	Wirtschaftsprüfer
(German Public Auditor)	(German Public 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
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
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)
HGB	Handelsgesetzbuch (German Commercial Code)
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)
LTI	Long Term Incentive
LTIP	Long Term Incentive Plan
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
OCI	Other comprehensive income
P&L	Profit and Loss
RMS	Risk Management System
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 of this annual report. 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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Photos

GSW – a piece of architectural history

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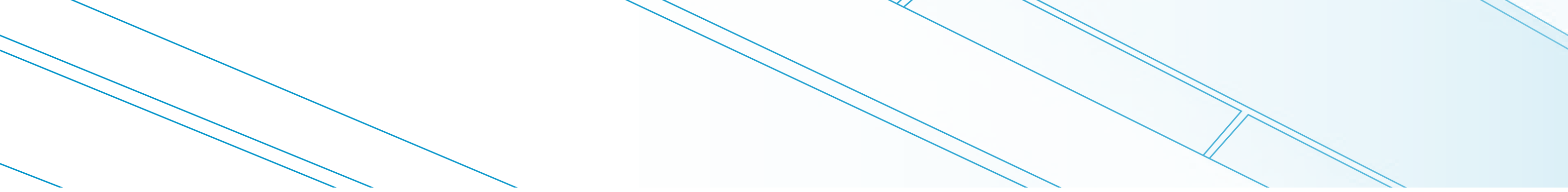

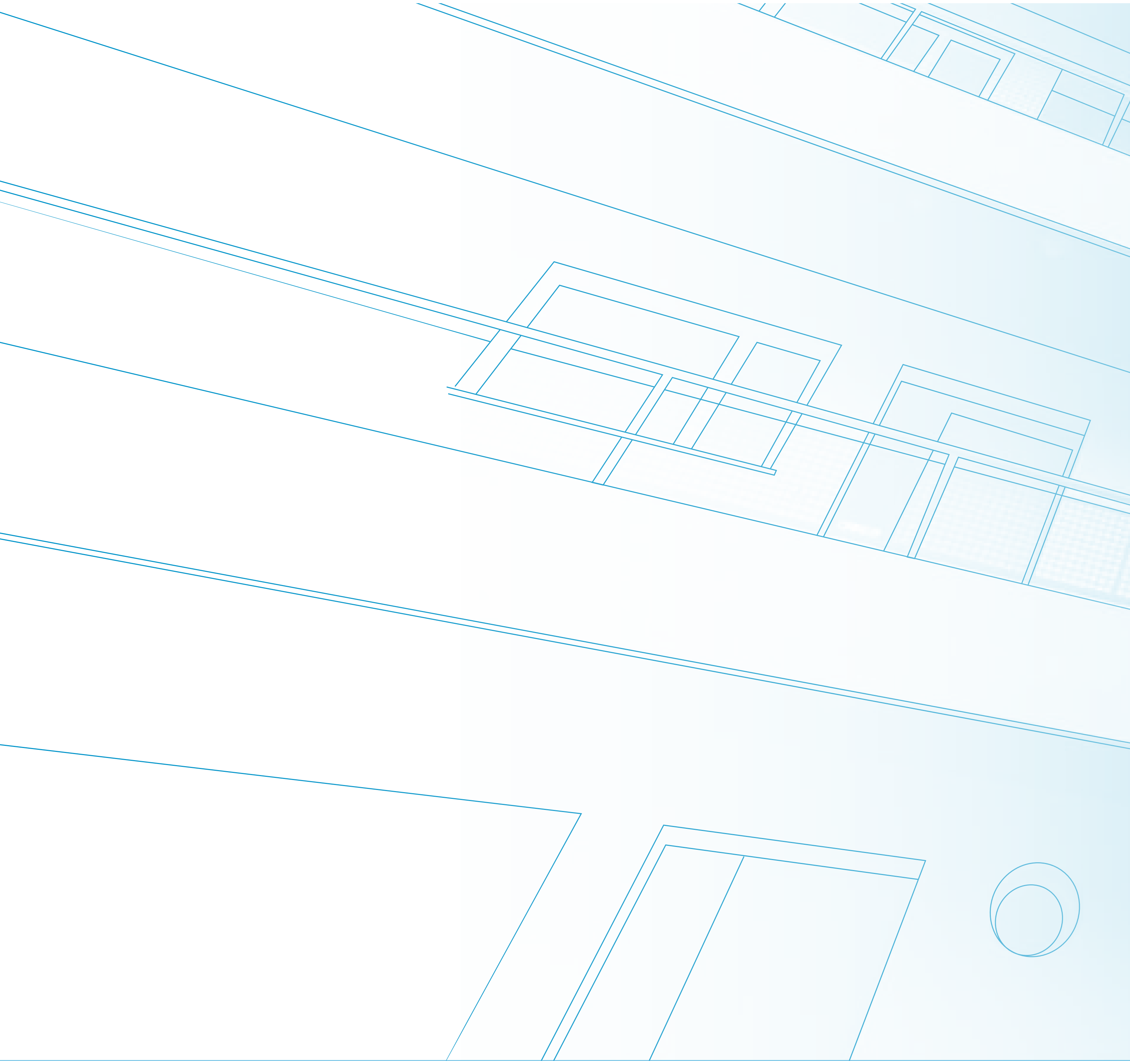

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