Consolidated Group Financial Statements 2008

GSW Immobilien GmbH

Group Management Report 2008

Preliminary remarks

Any graphics presented in publications of the report are not an integral part of the audited group management report and are only included for illustration purposes.

A Business and general conditions

1. General economic situation in Berlin in addition to industry development

The purchasing power of consumers of real estate in Berlin showed a positive development in 2008. The number of people in employment rose between the third quarter of 2007 and the same time period in 2008 by 2.1 per cent to 1.6447 million – one of the highest growth rates in Germany. The average rate of unemployment fell by 27,300 to 233,700 in 2008 and the rate of unemployment, based on the entire civilian labor force, decreased from 14.2 per cent on December 31, 2007 to 12.9 per cent at the end of 2008.

Berlin will indeed also not be shielded from the worldwide recession in 2009. However, the very thing that was previously considered to be a structural weakness of the city will now lead to a gentler downturn than in other cities: crisis-sensitive sectors such as export-heavy industry and industry-dependent service providers make up a lesser part of the local economy than elsewhere. In contrast, there are strong fields of occupation that have been less hit by the crisis: for example, public services and organizations, tourism, local service providers and small traders, science and culture.

The federal government construction programs could be particularly effective because both the free capacity in the construction industry as well as the capital investment requirements in the public sector are substantial.

Effect of the crisis in the financial markets

The financial crisis that was sparked in the United States impacted the German real estate market in 2008. European banks have been forced to write off debts from mortgages. Additionally, according to a study by the rating agency Moody's, the capital markets' trust in securitization remains damaged. As a result, banks were unable to securitize debts in securities and had to retain them on their own books. As a reaction to the changing financial environment, it is becoming increasingly more difficult to obtain mortgages. While credit volumes are sinking, the banks are demanding increasingly more equity and are offering the credit often only at higher risk premiums. As potential buyers were unable obtain financing, a number of planned transactions never came into being.

GSW was affected by these repercussions to the extent that an interest rate hedge had to be renegotiated with another counter-party. Furthermore, the lending practice of the banks affected the number of apartment purchases. The number of sales fell from 452 to 280 in 2008.

2. Company performance

In 2008 GSW was able to leverage from its new organizational structure and strengthen its position as a modern, sustainable real estate firm.

The results can be read in the number of new real estate tenancies for the GSW Group, which were in 2008, as in the previous year, considerably higher than the number of tenancy terminations. Due to the increased number of new tenancies, the vacancy rate from 2007 (6.7%) was once again considerably reduced to the figure of 5.3% as at December 31, 2008.

The annual average inventory rent per square meter for GSW's rented apartments rose in 2008 from 4.50 €/m^2 by 3.6% to 4.66 €/m^2. The company employed its scope for systematic increases in rent without however ignoring the liquidity of the tenants in the respective buildings and accommodations.

In total, consolidated net income for the year 2008 was 107.7 million €. The result was considerably improved in comparison to last year, because in 2007 an extraordinary taxation burden of almost 55.0 million Euro was incurred due to changes in tax legislation with regard to flat rate withholding tax for EK 02.

With effect as of 12.29.2008, GSW Immobilien GmbH reacquired the 49 percent stake of WISAG Facility Management Holding GmbH & Co. KG in Facilita Berlin GmbH at a purchase price of 125,501.00 €. Experience during the previous financial year demonstrated that the requirements for residential facility management services could not be completely harmonized with the experience of industrial facility management. Due to the importance of janitorial services for the customer orientation to which GSW aspires, the shares were reacquired.

Furthermore, GSW Immobilien GmbH sold its 49% stake in MVV Energiedienstleistungen Wohnen GmbH & Co. KG to MVV Energiedienstleistungen Wohnen GmbH with effect dated October 1, 2008 for the price of 13 million Euro. As a result of the complete takeover by MVV Energiedienstleistungen, good foundations have been laid to benefit over the long-term from the experience of MVV in contracting and technical facility management. The partnership between MVV and GSW allows for targeted management of the forthcoming challenges of the development in energy prices, the development of the total service charges as well as energetic renovation of the current housing stock.

Acquisitions and Sales

During 2008, GSW was offered around 96,000 apartments for purchase, of which around 45,000 were earmarked for a closer due diligence exercise. Because the real estate owners have not reacted satisfactorily to the changed market and financial environment in the area, there currently exists a gap between the average offered and bid prices. As a result of distortions in the financial markets, it can be assumed that the gap between the expectations of buyers and sellers will continue to close. GSW will also intensively monitor this market in 2009. For the whole of 2009, we expect a further reduced transaction volume as well as successive leveling of supply and demand. We therefore assume that the first half of 2009 will continue as present and then will pick up in the second half of 2009.

Real estate management

In the core business of real estate management, the average net rent excluding service charges for rented apartments rose from 4.58 EUR/m^2 as of December 31, 2007 by 2.6% to 4.70 EUR/m^2 of living area/month as of December 31, 2008.

The rate of fluctuation in the housing inventory stood at 10.5% over that of 2007 (9.8%). The results for renting in 2008 were positive, i.e., the number of new tenancies was above the number of terminations.

The receivables (rents receivable for rented housing) increased in comparison with the previous year, in particular through additional charges for utility costs from 2006 and 2007. The percentage share of outstanding rents on the rent liabilities is at 2.0% once again at the level of December 2006 (1.93%). Between these periods, the value had fallen to 1.42% as of December 31, 2007.

Industrial rentals remained constant in comparison to 2007 levels. Thus, the level of vacant buildings was on average slightly over 11% (previous year: average of slightly over 10%). The contractually agreed net rent before service charges stayed annual averaged practically unchanged at circa 8.60 EUR/m^2.

Personnel development

For 2008, the average number of employees was 645. As at December 31, 2008 GSW employed 625 full-time equivalent employees. Currently, 26 trainees from the university of cooperative education are being trained to BA level with majors in real estate management, real estate sales and IT specialists.

When including the Facilita Berlin GmbH in the consolidated financial statement as at December 31,2007, 70 employees (full-time equivalent) left the company as of December 31, 2007 within the framework of balance of interest and the social plan of 04.24.2007.

The rate of fluctuation – after consideration of all departures - amounted to 12.8% in 2008. When only the number of employees who resigned is taken into consideration, the rate of fluctuation amounted to 2.5%.

GSW has a social fund at its disposal from which social benefits are financed. Payments to the employees can, for example, be granted in the form of smaller loans for unavoidable emergency expenditure, in the form of non-repayable emergency assistance in extraordinarily extreme cases, or as assistance with regard to the birth of a child.

Based on the personnel strategy of 2007, a competence management framework was adopted. An integral element of this is the establishing of processes, the execution of competence planning and adjustment at the respective levels as well as the development and the application of a “competence and employee feedback discussion” instrument with self-assessment by the employee.

Competence management forms the basis for the execution of systematic qualification and development measures and in this way ensures over the long-term the maintenance and the expansion of the human capital.

3. Group management

The business processes of the GSW Group are centrally initiated and managed from the headquarters. In this way, both financial as well as non-financial targets are drawn together for group management and measurement of success. The financial targets in 2008 were measured in particular with the aid of the FFO figures (funds from operation) and the value proposition. While the FFO is measured as a liquidity ratio from changes in liquidity of the running business before assignation to amortization and other strategic investment and de-investment decisions, the value proposition is calculated from the difference between the Return on Invested Capital and the Weighted Average Cost of Capital.

In order to measure the success of non-financial targets, customer satisfaction and the social involvement of GSW were taken into account. This includes consistent customer orientation as well as systematic promotion of selected projects in the arts, culture and social areas.

B Results of operations, financial position and net assets

4. Results of operations

The GSW Group operations results are in particular dependent on the development in the residential rental market of the sales results aligned with the portfolio strategy as well as on the interest rate trend. In the business year 2008, GSW was able to increase its results from rentals and leasing to 129.3 million € (2007: 118,5 million €).

At 67.9 million €, the result on disposal of investment property represented a gain of 16.2 million € or 31.5% (2007: 32.8%) over the calculated market value pursuant to IAS 40. As a result, the strategy that was pursued, to maintain only a small inventory and to sell it at a considerably better price, continues to be a success. With cost of sales at the same time sinking (2008: 6.9 million €, 2007: 11.5 million €), sales results grew from 6.6 million € in 2007 to 9.3 million € in 2008. Against the background of the financial market crisis, the possibilities for purchasers to get financing have been negatively influenced so that only a reduced number of sales could be secured.

A further significant part of the operations results is made up of the real estate portfolio. For the financial year 2008, with a Fair Value of 774 €/m^2 (2007: 748 €/m^2), there has been an increase in value in comparison with the previous year's level of 3.4%. In contrast to the current market situation in the Berlin investment market, the increase in value can be justified above all by the positive operating results of 2008, where the net rents before services charges for the assessed capital up to the reporting date could be increased to an average of 4.67 €/m^2 (2007: 4.55 €/m^2) while at the same time the rate of vacancies could be reduced from 7.4% to currently 5.8%. Concurrently, the starting basis for 2007 in contrast with the total market was moderate. The actual transactions evaluated by the Berlin advisory committee for 2008 point to an average sales price of 917 €/m^2 (2007: 876 €/m^2).

In contrast to 2007, the present market situation showed an uneven development in 2008. Consequently, the growth in value was not distributed evenly across all real estate types. A decline in the price performance was observed in lower class areas with real estate built in the 70s, while growth could be registered in other real estate in good or mid-class areas and in a good or mid-class condition. The growth in value is not least also the result of repeated above-average high investment in the inventory in the past financial year. Despite the scope for further rental increases in the inventory arising from the rent index, the increase in rents from new tenancies in Berlin, and with it the continuation of the positive trend in the rental and vacancy development, taking into account the current economic and worldwide business scenario, we assume that there will be no further positive developments in 2009. With sharply declining turnover volumes and a declining purchase price development on the Berlin market, 2008 already showed a taste of developments to come.

Around 42% / 9.7 million € of the administrative expenses of 23.0 million € (2007: 39.2 million €) are due to personnel expenditure. The sharp decrease can be explained by the completion of ongoing projects, which had significantly influenced administrative costs in the previous year.

At 10.3 million, the other income contain almost exclusively the gain from the sale of stake in MVV Energiedienstleistungen Wohnen GmbH & Co. KG. The decline is based in essence on the first consolidation effect of the GSW Verwaltungs- and Betriebsgesellschaft mbH & Co Erste und zweite Beteiligung KG declared in 2007 in the amount of 26.0 million EUR.

The increase in interest income by 13.8 million € to 84.2 million € is offset by the rise in the interest expense (by 20.7 million € to 162.8 million €), so that a total interest expense of 78.6 million € was incurred. The changes mirror in particular the changes in the evaluation of the financial instruments.

Net operating profit exceeds the interest expense, so that total earnings before tax of 107.8 million € (2007: 129.9 million €) were achieved.

	2008	2007
	TEUR	TEUR
Net rental income	129,273	118,469
Result on disposal of investment property	9,317	6,568
Net valuation gains on investment property	59,904	74.021
Administrative expenses	-23,042	-39,186
Other income, net	10,259	38,045
Net operating profit	**185,711**	**197,916**
Results of associates and joint ventures	0	2,888
Net results of investments	581	731
Interest income	84,234	70,450
Interest expense	-162,762	-142,043
Profit before income taxes	**107,764**	**129,943**
Tax on income and earnings	-91	-57,709
Consolidated net income for the year	**107,673**	**72,234**

5. Financial position

Regarding the specific developments in the financial position, we would like to draw your attention to the detailed cash flow statement contained in the annual financial statement. In summary, cash flows were as follows:

	2008	2007
Cash flow from operating activities	72.950	30.410
Cash flow from investing activities	58.441	-70.691
Cash flow from financing activities	-70,943	17.208
Changes in cash and cash equivalents	**60.448**	**-23.073**
Cash and cash equivalents at the beginning of the period	47,767	70,840
Cash and cash equivalents at the end of the period	**108,215**	**47,767**

In addition to a considerably higher consolidated net income, the cash flow from current activities results essentially results from improved turnover of the inventory management and concurrent reduction in the associated costs.

The positive cash flow from investing activities is considerably influenced by the result on disposal of investment property, which in the financial year is not offset by any cash outflow due to acquisitions.

The negative cash flow from financing activities results from cash outflow from principal repayments and unscheduled repayments as well as through the new investment in an interest rate cap (13.4 million) due to the financial crisis. Significant cash inflows through new borrowings cannot be set off against this.

Overall, the Group has a satisfactory liquidity with current assets of 500 million € at the end of 2008 in order to be able to cover short-term debts (87.1 million €) in time. After deduction of the planned repayment of shareholder loans (358.2 million €), second-degree liquidity amounts to 164.3% (previous year: 130.3%), working capital 54.7 million € (previous year: 29.1 million €). Additionally, in the long-term, a liquidity ratio of 2 against an increased value of 116.5% (previous year: 101,0%) from the previous year, indicates complete financing of the fixed assets by equity and of any long-term debts.

6. Net assets

The balance sheet total grew from the previous year by 2.0% / 58.1 million € to a current 3,007 million €. In the non-current assets, the fixed assets grew due to a positive development in the market value and modernization measures (81.5 million €) while reductions through disposals of investment properties fell (22.0 million €). In the current assets, the growth in liquidity was significant (refer to statements on the financial position), offset by the decline in investment property held for sale.

On the liabilities side, the prorata of equity rose further from 37.8% as of December 31, 2007 to 40.3% as of December 31, 2008. Long-term loan financing decreased by 30.2 million € within the frame of the contractually agreed normal amortization as well as unscheduled repayments.

The non-current assets continue to be completely financed over the long term by equity and loans.

Significant pension reserves were not included in the balance sheet because the GSW Group covers retirement provisions via the federal and national state pension systems (Versorgungsanstalt des Bundes und der Länder (VBL)). Legal entitlement of employees to statutory performance is addressed primarily by the VBL and not the company, while in the GSW Group the payments directed to the VBL are basically deducted from wages and salaries and are contained in personnel expenses.

	December 31, 2008	December 31, 2007
ASSETS	TEUR	TEUR
Non-current assets	**2,506,460**	**2,823,602**
Fixed assets	2,491,734	2,437,817
Investments in associates and joint ventures	0	2,864
Other investments	7,979	8,184
Receivables and other non-current assets	6,607	374,737
Deferred tax assets	140	0
Current assets	**500,058**	**124,864**
Development of properties and inventories	717	832
Trade and other receivables	381,068	44,561
Cash and cash equivalents	108,215	47,767
Assets held for sale	10,058	31,704
Total assets	**3,006,518**	**2,948,466**
LIABILITIES		
Equity	**1,211,551**	**1,114,853**
Subscribed capital	10,000	10,000
Additional paid-in capital	40,136	40,136
Consolidated retained earnings	1,162,586	1,054,945
Revaluation surplus resulting from the fair market valuation of owner-occupied property	-1,171	9,772
Non-current liabilities	**1,707,848**	**1,737,802**
Financial liabilities	1,648,611	1,678,847
Employee benefits	2,087	2,046
Provisions	2,293	2,510
Trade payables	282	1,069
Other non-current liabilities	54,576	53,329
Current Liabilities	**87,119**	**95,810**
Financial liabilities	27,021	28,370
Provisions	3,194	10,844
Other current liabilities	56,904	56,596
Total equity and liabilities	**3,006,518**	**2,948,466**

Up to the preparation of this balance sheet, there have been no significant changes in the net assets, financial position and results of operations.

C Supplementary report

There have been no significant business transactions since the balance reporting date.

D Risk report 2008

At the forefront of GSW's risk policy is the recognition, avoidance and management of risk. The risk policy is oriented towards the following corporate targets:

Sustainable aspiration towards:

- Position as a leading residential housing company in Berlin and Brandenburg
- Value orientation in portfolio and asset management
- Efficiency and customer orientation in property management
- Intelligent and profitable investment in company-owned real estate inventory
- Targeted and acceptably priced acquisition of new inventory with perspective for development.

GSW reworked its risk management system in this year and established a group-wide integrated risk management system that ensures the continual identification and assessment of risks relating to the:

- assets,
- earnings prospects and
- image

of GSW on the basis of a defined risk strategy. To this effect, the company uses a comprehensive, system-controlled reporting system that encompasses all corporate activities, that, along with the monthly and/or fixed-deadline financial controlling reports, via quarterly risk reporting, represents a systematic and continual approach to achieving the company goals and business success. This allows for prompt consideration of aspects of opportunity and risk in management decisions.

Internal developments and external general conditions, in particular those created by the financial crisis caused by the real estate crisis in the USA, demand ongoing adjustment and further development of risk management. Due to the dynamic development of GSW after the corporate restructuring in order to concentrate on its core business:

- Renting,
- Tenant care,
- Tenancy agreement management, operation expense management,
- Asset and portfolio management,
- Purchasing, Investment control,
- Sales control,
- Financing,

the systematic implementation of the risk management system, controlled by a risk manager, took place. Assigned to the area of legal and audit, the risk manager can at all times gain direct access to the GM.

Proactive opportunity and risk management shall ensure the growth of company value. The risk management process is described in a manual on internal control system. Risk management is understood by GSW as a process that comprehensively brings the mutual relationships of the parts of the organization together and underpins the significance of risk aggregation.

The risk management process encompasses:

- Creation of awareness of risks and opportunities in the internal environment of the company,
- The ongoing consideration of set targets when identifying occurrences in order to use risk and opportunity management,
- The appraisal,
- Management,
- The control of identified risks,
- Counter-measures to these risks and
- IT-supported information and communication.

Identified categorized risks are recorded in a continuously updated risk list and are continually monitored. Evaluation occurs according to defined classes of danger and thresholds with consideration for probability of occurrence and the expected level at which they will occur. Mitigation measures are enacted in alignment with the level of risk. Low-level risks are not subjected to any further action or monitoring until the next annual check. Measures for the mitigation of middle to high risk potential are monitored at appropriate intervals according to the potential for adverse effects.

Risks subject to ongoing monitoring include:

- Liquidity risk,
- Renting risk,
- Vacant building risk
- Portfolio risk,
- Earnings risk,
- Sale risk,
- Financing risk.

Liquidity risk

The interaction of the various companies within the Group is of particular importance to liquidity development. A large share of the available liquid assets has been generated by both GSW Grundbesitz GmbH & Co. KG and GSW Grundvermögens- und Vertriebsgesellschaft mbH.

Monitoring of liquidity and disposition of cash inventories occurs daily, rolling liquidity planning occurs weekly through the software application MONETA (SAP), introduced in 2006. Furthermore there is monthly reporting (investors’ report) that is structured according to cash factors and depicts all cash-relevant aspects. Any influences of the financial crisis are accounted for via ongoing forecasts in this report.

Due to stable earnings from rents, the flow of liquidity is not endangered. In 2008, the solvency of the company was at all times assured due to cash inventory and the ongoing cash flow. Credit facilities were not used.

Rent risks

No reliable statements can be made about the effects of the turbulence in the international real estate market. Our own investigations have discovered that recessive phases had no impact in general on real estate rental business. An already ascertained reduction in house moving in central areas and rising rents in almost all market sectors of Berlin, in particular for small and old buildings, as well as a lack of residential properties in the lower segments, confirm this expectation. This opportunity refers in particular to the residential housing inventory of GSW in the lower third of the market segment. Planned and actual figures are constantly compared, and the development scrupulously monitored.

The jurisdiction of the Federal Court on invalid clauses concerning cosmetic repair has an impact on the cost of tenant fluctuation. The apartments are frequently in a worse than expected condition. With rental activities such as “rent freezing” and granting rent reductions in return for taking on renovation at the start of the tenancy, an attempt to limit the damage is being made.

Social demographic trends, in particular an aging population and an increasing income gap, the attraction of young and creative people and internationalization could raise the demand for GSW’s small, cheap apartments and also the acceptance of apartments with lower standards of quality.

In the increasingly important demand for sheltered accommodation, GSW sees a chance to advance the trend started in 2008 and not only give large apartments to big families but also to support residential communities for senior citizens in cooperation with social services.

Vacant building risk

During the year, the rate of vacancies was reduced by 1.4% points from 6.7% to 5.3%. With this rate of vacancies, GSW is well positioned compared to the average rate of vacancies of 6% in Berlin. The opportunities from the demand for accommodation is to be taken with further professionalization and special programs in the area of rented accommodation so that a further reduction in the vacancy rate can be expected in 2009.

Portfolio risk

The general conditions of the Berlin and Brandenburg real estate market are intensively monitored by GSW. The survey of the Berlin residential property market, jointly undertaken with Jones Lang LaSalle, ensures early recognition of the trends and developments and therefore the opportunities and risks of our own inventory.

The GSW real estate portfolio is to be found in all districts of Berlin with the exception of the Marzahn-Hellersdorf district. With over 50,000 apartments, GSW is widely diversified in terms of risk. The main focus, with a share of the portfolio of around 22%, is the district of Spandau, and with around 18% the district of Reinickendorf.

Through improvement in residential and living conditions in the large settlements in Spandau, Reinickendorf, Lichtenrade and Lichterfelde, the residential inventory is to be further developed as attractive living and residence areas for households with children, for old people, but equally as well for young people who move to the area.

To this effect, GSW is working closely with the accommodation management of the “Social City” project of the senate administration for city development. In addition, GSW is cooperating with a host of neighborhood and suburban centers. Furthermore, the GSW tenants’ club and the GSW club offer neighborhood-promoting measures and discounts for GSW tenants for various leisure activities and retailers. GSW sees in its activities a chance to further strengthen the image of GSW and promote itself to potential tenants, which will have a long-term positive impact on the real estate portfolio.

At 4.70 EUR/m^2, the average apartment rent of the portfolio in 2008 lies under the average rent 4.75 m^2level of the Berlin rent index for 2007. Due to its size and distribution relative to the Berlin market, this indicates an upward scope for development. With around 89% of the inventory in the key two-room apartment sector renovated and/or partly renovated, the portfolio is well positioned in the Berlin market.

The increase in households through changes in living styles, the lack of new buildings and scarcity in the market are to be seen by GSW as an opportunity for its inventory. The development in value of the GSW real estate inventory with regards to the financial crisis can only be carefully forecast with respect to the development of the Berlin-Brandenburg real estate market. A significantly long-running loss in value is not currently expected.

Earnings risk

The net earnings stem essentially from income from rents and are dependent on the further development of the residential housing market. A changed market has an effect on the rent development. In the coming year, due to the recession, it must be envisaged that even using the legally allowed scope for increases in rent, the desired income for rent will be difficult to achieve on the market. This fact was taken into account during the calculation.

Rents receivable and increasing debts from rent liabilities, which go over an average bad debt of 2% remained relatively unchanged in 2008 in comparison with the previous year. An increase in unemployment is expected, which increases the risk that tenants will not be able to fulfill their monthly payments, and supplementary payments for service charges will not be paid. Increased monitoring of the current rent receivables and intensive cooperation with job centers should forestall non-payments and evictions due to rent arrears.

One event that could affect the net earnings of the real estate industry is the proposed directive of the European Council on the use of renewable energy sources, whose framework is being worked out by a commission composed of states and councils, who began their work in December 2008. The argument has already started about whether energy and climate protecting measures on buildings can be passed on to the rent or only be eligible for tax benefits. GSW has and will further take an active part in the discussions. As practical working results are only expected to be presented during 2009, a risk assessment and evaluation would be premature.

Sales risk

The international financial crisis has made itself strongly felt in the area of sales. Tenants and owner-occupiers are generally holding back. The market for investors has almost completely collapsed. Where sales took place, in contrast with the general trend towards falling prices, the sales prices were on the level of the previous year.

The drastic breakdown in productivity requires a focus of the sales model on only one sales partner. This is a further step in the continuation of the consistent implementation of the core business strategy of GSW which it began in 2006.

Sales from the inventory of the GSW Grundbesitz GmbH & Co. KG currently present a challenge. As a result of the insolvency of Lehmann Brothers Special Financing (a subsidiary of Lehman Brothers International), the lender of GSW Grundbesitz GmbH & Co. KG, land register related transactions could only be settled with difficulty.

Financing risk

The crisis of trust in inter-bank trading, the lack of competition in the banking market as well as the associated refinancing and security premiums have had no significant effects on GSW, because in the short-term there is no need for refinancing. Management are looking into refinancing options for the loan due in the GSW Grundbesitz GmbH & Co. KG and an option to extend to 2013.

As a result of its insolvency, Lehman Brothers dropped out as contract partner for GSW Grundbesitz GmbH & Co. KG as an existing credit assurance company. This business was promptly replaced with a solvent contract partner. In connection with this, costs of 15 million € were incurred.

Potential (shortfall) risks in the case of insolvency of contractual partners, in particular from existing interest rate hedges (Cap / swap agreements), were identified and checked as part of the continuously executed risk analyses. The further development is pursued promptly and in a focused manner in order to recognize as soon as possible any risks that may develop and to take appropriate counter-measures at the right time. Legal opinions were called for to examine possibilities for termination or for off-setting demands with counter claims. Currently, off-setting only seems possible if the contractual partners are identical and the demands stand in absolutely synallagmatic reciprocity to each other.

Basically, it can be concluded that aside from the described cap problematic, the financial crisis has had basically no significant effect on GSW's business financing because the existing credit conditions were not endangered by creditor insolvency.

The comprehensive risk analysis for the complete credit portfolio of the GSW group was checked and updated on the respective quarterly reporting date. The contents of the examination were, among others, the consideration of interest rate risks, correlation risk and risks from loan compliance as well as the recommended action that ensued from this. Furthermore, GSW carried out an interest rate management workshop with an external service provider in order to validate the results and to further extend the internal know how.

The reporting obligations from loan compliance for the lenders were completely fulfilled in 2008.

The interest rate risk is assessed as extremely low for the existing financing because less than 1% of the variable rate interest loan portfolio is without an interest hedge. The existing interest rate agreements for a loan volume of only 10.7 million EUR end in 2009.

The low interest rate is equally an opportunity for repayment phase begun in 2009 for certain expenditure loans from the Berlin residential building promotion.

As the interest on the expenditure loans to a great extent lies under the current market level, GSW intends to only use a small part of the opportunities from the current low interest rate for a refinancing.

Compliance

The definition of a code of conduct and the comprehensive description of the process ensure the obligations of compliance of the recommendations of the Initiative Corporate Governance of the Deutschen Immobilienwirtschaft e.V (German Real Estate Society), to which the management have pledged themselves.

Insurance

The GSW Group is insured to the necessary extent against the usual risks of operational management and housing management. Care and control of the insurance programs are done through Wohnwert-Versicherungsagentur GmbH, a 100% subsidiary of GSW Immobilien GmbH. Damage incurred in the previous year were covered by the insurance, where this insurance cover applied.

Risk position

After investigation of the risk position up to the reporting date of December 31, 2008, there are no risks which threaten the net assets, the financial position and the results of operations. At this time, no inventory-endangering risks were discernible.

E Forecast

The newly established working processes at GSW, begun and practically completed in 2007, were further refined in 2008.

In a strategic partnership with Accentro GmbH, a subsidiary of the publicly listed Colonia Real Estate AG, we will continue to offer apartments for sale in a very careful manner and only in selected residential areas. It was and remains no essential value driver for GSW's business success.

Of course, even in Berlin we must expect a downturn in the GDP and income in 2009. This does not necessarily have to be reflected one-to-one on the residential property market. Here also, two characteristics that were previously considered to be structural weaknesses have had a dampening effect: due to the relatively low level of rents, fewer households than elsewhere are reliant on higher incomes in order to pay for their apartments. And due to the low rate of house ownership, the share of households with financial liabilities is low.

The forecast for the coming business years will be further developed on the basis of a 5-year plan. The central focus for 2009 is the reduction of the vacancies, which is accompanied by one-off expenditures. We assume that, in 2010, income from rents will sink in real terms due to the ending of the general rental agreements for modernization funds. From a relative position, a continual rise in income through increases in rents is expected while expenditures for the elimination of empty apartments will reduce.

Overall, we expect positive annual results for 2009 and 2010.

Political discussions on the climate in Germany will be further pursued and followed in order to bring us actively into the discussion. We will actively counteract the potentially one-sided burden on the owners of real estate.

Berlin, February 26, 2010

GSW Immobilien GmbH

Thomas Zinnöcker Jörg Schwagenscheidt Andreas Segal

GSW Immobilien GmbH, Berlin
Consolidated Balance Sheet

ASSETS	Note	Dec 31, 2008 EUR thousands	Dec 31, 2007 EUR thousands
Non-current assets		**2.506.460**	**2.823.602**
Investment property	(15)	2.484.668	2.431.503
Property, plant and equipment	(17)	4.144	5.346
Goodwill		1.125	0
Other intangible assets	(16)	1.797	968
Investments in associates and joint ventures accounted for at equity	(18)	0	2.864
Other investments	(18)	7.979	8.184
Receivables and other non-current assets		6.607	374.737
Trade receivables	(20)	2.066	12.220
Receivables due from related parties	(21)	0	340.153
Other financial assets	(22)	4.541	22.364
Deferred tax assets		140	0
Current assets		**500.058**	**124.864**
Development of properties and inventories	(19)	717	832
Receivables and other current assets		381.068	44.561
Trade receivables	(20)	15.374	18.441
Receivables from property management		9.632	14.357
Receivables from sales		1.665	3.231
Other trade receivables		4.077	853
Receivables due from related parties	(21)	358.240	18.219
Income tax receivables		2.331	1.787
Other current assets	(22)	5.123	6.114
Other financial assets		1.770	3.068
Other miscellaneous assets		3.353	3.046
Cash and cash equivalents	(30)	108.215	47.767
Assets held for sale	(23)	10.058	31.704
Investment property held for sale		10.058	31.704
Total assets		**3.006.518**	**2.948.466**

The attached notes are an integral part of the consolidated financial statements.

GSW Immobilien GmbH, Berlin
Consolidated Balance Sheet

EQUITY AND LIABLITIES	Note	Dec 31, 2008 EUR thousands	Dec 31, 2007 EUR thousands
Equity	(24)	**1.211.551**	**1.114.853**
Subscribed capital		10.000	10.000
Additional paid-in capital		40.136	40.136
Consolidated retained earnings		1.162.586	1.054.945
Accumulated other comprehensive income		-1.171	9.772
Non-current liabilities		**1.707.848**	**1.737.802**
Financial liabilities	(27)	1.648.611	1.678.847
Liabilities from financing investment properties		1.646.517	1.676.728
Liabilities from finance leases		2.094	2.119
Employee benefits	(25)	2.087	2.046
Provisions	(26)	2.293	2.510
Trade payables		282	1.069
Property management liabilities		282	1.069
Income taxes payable		41.843	48.075
Other non-current liabilities	(29)	12.733	5.254
Other financial liabilities		11.106	1.309
Other miscellaneous liabilities		1.627	3.945
Current liabilities		**87.119**	**95.810**
Financial liabilities	(27)	27.021	28.370
Liabilities from financing investment properties		26.565	28.186
Liabilities from finance leases		456	184
Provisions	(26)	3.194	10.844
Trade payables		32.404	36.350
Property management liabilities		31.430	34.889
Liabilities from services		5	150
Other trade payables		969	1.311
Payables due to related parties	(28)	20	2.093
Income taxes payable		15.256	8.595
Other current liabilities	(29)	9.224	9.557
Other financial liabilities		1.112	4.933
Other miscellaneous liabilities		8.112	4.624
Total equity and liabilities		**3.006.518**	**2.948.466**

The attached notes are an integral part of the consolidated financial statements.

GSW Immobilien GmbH

Consolidated Income Statement

EUR thousand	Note	01.01.-31.12.2008	01.01.-31.12.2007
Net rental income	(7)	129.273	118.469
Gross rental income		189.764	185.607
Government grants		15.624	19.361
Property operating expenses		-76.115	-86.499
Result on disposal of investment property		9.317	6.568
Investment property disposal proceeds		67.854	73.151
Carrying value of investment property disposals		-51.612	-55.076
Selling expenses relating to the disposal of investment property	(8)	-6.925	-11.507
Net valuation gains on investment property		59.904	74.021
Valuation gains on investment property		112.417	182.054
Valuation losses on investment property		-52.513	-108.033
Administrative expenses	(8)	-23.042	-39.186
Other income, net	(9)	10.259	38.045
Other income		10.334	38.638
Other expenses		-76	-593
Net operating profit		**185.711**	**197.916**
Results of associates and joint ventures	(10)	0	2.888
Net result of investments		581	731
Interest income	(11)	84.234	70.450
Interest expenses	(11)	-162.762	-142.043
Profit before income taxes		**107.764**	**129.943**
Income taxes	(12)	-91	-57.709
Consolidated net income for the year		**107.673**	**72.234**

GSW Immobilien GmbH, Berlin

Statement of changes in the shareholders' equity

	Subscribed capital	Additional paid-in capital	Consolidated retained earnings	Accumulative other comprehensive income: Revaluation surplus from step acquisitions (IFRS 3)	Accumulative other comprehensive income: Revaluation surplus resulting from the fair market valuation of owner-occupied property	Accumulative other comprehensive income: Cumulative fair value changes of derivative interest rate contract constituting in cash flow hedges	Total	Minority Interest	Consolidated equity
December 31, 2006 - as reported	**10.000**	**40.136**	**976.044**	**1.981**	**104**	**5.607**	**1.033.872**	**0**	**1.033.872**
Restatement			9.241	-771	-41	-2.181	6.249		**6.249**
December 31, 2006 - restated	**10.000**	**40.136**	**985.285**	**1.210**	**64**	**3.426**	**1.040.121**	**0**	**1.040.121**
Consolidated net income for the year - as reported			72.805				72.805		**72.805**
Restatement			-571				-571		**-571**
Consolidated net income for the year - restated			72.234				72.234		**72.234**
Change in the fair values of owner-occupied properties					138		138		**138**
Change in the fair values of derivative interest rate contract in cash flow hedges						8.145	8.145		**8.145**
Deferred tax - as reported							0		**0**
Restatement				771	-33	-1.969	-1.231		**-1.231**
Deferred tax - restated				771	-33	-1.969	-1.231		**-1.231**
Total result for the year	0	0	72.234	771	106	6.177	79.287	0	**79.287**
Changes in scope of consolidation			-2.574	-1.981			-4.554		**-4.554**
Proceeds in additional paid-in capital							0		**0**
Other changes							0		**0**
December 31, 2007	**10.000**	**40.136**	**1.054.945**	**0**	**169**	**9.602**	**1.114.854**	**0**	**1.114.854**
Consolidated net income for the year - restated			107.673				107.673	0	**107.673**
Change in the fair values of owner-occupied properties					59		59		**59**
Change in the fair values of derivative interest rate contract in cash flow hedges						-13.769	-13.769	0	**-13.769**
Deferred taxes - as reported						2.793	2.793		**2.793**
Restatement					-18	-8	-25		**-25**
Deferred taxes - restated					-18	2.785	2.767		**2.767**
Total result for the year	0	0	107.673	0	42	-10.984	96.731	0	**96.731**
Changes in scope of consolidation							0		**0**
Proceeds in additional paid-in capital						0	0		**0**
Other changes			-33				-33		**-33**
December 31, 2008	**10.000**	**40.136**	**1.162.585**	**0**	**211**	**-1.382**	**1.211.551**	**0**	**1.211.551**

* Prior years' figures have been restated

GSW Immobilien GmbH
Consolidated cash flow statement

EUR thousand	31.12.2008	31.12.2007
Consolidated net income for the year	107.673	72.234
Depreciation, amortization and impairment/write-ups of non-current assets	2.082	2.067
Gains (-) /losses (+) on fair value measurement of investment property	-59.904	-74.021
Gains resulting from the excess of net fair values acquired over cost in business combinations	0	-26.016
Results from associates and joint ventures accounted for at equity	-370	-2.888
Gains (-) /losses (+) from the disposal of intangible assets and property, plant and equipment	40	-12.479
Gains on the disposal of shares associates and joint ventures	-10.147	0
Gains (-) /losses (+) from the disposal of assets held for sale and investment property	-16.242	-18.075
Decrease in pension provisions and other long-term provisions	-761	-3.173
Gains (-) /losses (+) from the fair value measurement of derivatives	26.748	1.408
Changes in deferred taxes	2.998	0
Elimination of current income taxes	4.695	2.727
Elimination of financial results	51.931	66.566
Increase /decrease in working capital		
Increase / decrease in inventories	115	1.425
Increase / decrease in receivables from property management	4.677	-4.899
Increase / decrease in receivables from sales of property	11.769	7.380
Increase / decrease in other assets	11.581	2.691
Increase / decrease in current provisions	-8.261	2.183
Increase / decrease in trade payables	-5.221	-8.576
Changes in receivables due from related parties and payables due to related parties	-327	-110
Increase / decrease in other liabilities	-16.440	56.690
Other changes in operating activities	-6.703	10.713
Income tax paid	-6	-5
Income tax received	172	0
Interest paid net of interest received	-27.305	-46.167
Distributions received	156	735
Cash flows from operating activities	**72.950**	**30.410**
Proceeds on disposals of intangible assets and property, plant and equipment	672	0
Proceeds on disposals of assets held for sale and investment property	68.590	59.839
Proceeds from the disposal of consolidated companies	0	15.100
Proceeds from the disposal of at equity consolidated companies	13.000	0
Proceeds from the disposal of other investments	582	0
Disbursements for investments in investment property	-23.122	-139.962
Disbursements for investments in intangible assets and in property, plant and equipment	-2.327	-683
Net cash inflow (+) /outflow (-) from the acquisition of shares in consolidated companies	1.348	-4.985
Disbursements for the acquisition of shares in associates and joint ventures	-1	0
Disbursements for the acquisition of other investments	-301	0
Cash flows from investing activities	**58.441**	**-70.691**
Proceeds (+) /repayments (-) from liabilities from financing investment property and other loans	-56.847	17.518
Disbursements from interest derivatives	-13.440	0
Repayments of liabilities from finance leases	-656	-310
Cash flows from financing activities	**-70.943**	**17.208**
Changes in cash and cash equivalents	**60.448**	**-23.073**
Cash and cash equivalents at the beginning of the period	47.767	70.840
Cash and cash equivalents at the end of the period	**108.215**	**47.767**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS OF GSW IMMOBILIEN GMBH FOR THE FINANCIAL YEAR ENDED DECEMBER 31, 2008 (IFRS)

GENERAL INFORMATION

(1) THE GROUP'S HISTORY

GSW Immobilien Berlin GmbH (in the following: “GSW”) and its subsidiaries (in the following referred to jointly as the “GSW Group”) are among the largest housing companies in the State of Berlin. As of December 31, 2008, the Group was responsible for administering and managing its own 50,108 apartments in Berlin and the surrounding area. In addition to managing its own residential properties, 942 commercial properties were also included in the Group’s portfolio. GSW, which was formed in 1924, has its business premises at Charlottenstrasse 4, 10969 Berlin, and is registered in the commercial register of the Charlottenburg local court under the number, HRB 418 B.

Under a contract of sale dated May 27, 2004, Cerberus/Whitehall AcquiCo GmbH (“AcquiCo”) acquired an 84 % interest in GSW. The contract provided for a further 10 % to be acquired by Contest Beteiligungs GmbH and 3 % by W2001Capitol B.V. and Lekkum Holding B.V. respectively. The latter are associated with the investment fund companies, Whitehall and Cerberus. This acquisition severed GSW's ties under company law with the regional government of Berlin. AcquiCo acquired its interest in Contest Beteiligungs GmbH under a share purchase and transfer agreement dated July 27, 2004. The interests in GSW and its affiliated companies were transferred to AcquiCo and its affiliated companies on July 29, 2004.

Under a merger agreement, approved by resolutions of the AcquiCo shareholders on March 28, 2006, AcquiCo was merged with GSW, its assets being transferred to the latter and the company closed. At the time of the merger, Lekkum Holding B.V. held 50 % of the shares in AcquiCo, with W2001 Capitol B.V. holding 49 % and Archon Group Deutschland GmbH 1 %. In compensation for the shares forfeited as a result of the merger, AcquiCo's shareholders were given the GSW shares previously held by AcquiCo, so that on the completion of the merger Lekkum Holding B.V. held two shares totaling EUR 5,000,000 (50.00 %), W2001 Capitol B.V. two shares totaling EUR 4,911,350 (49.11 %) and Archon Group Deutschland GmbH one share of EUR 88,650 (0.89 %). The transfer between AcquiCo and GSW took place internally on January 2, 2006. The merger was recorded in the commercial register on May 23, 2006.

(2) CONSOLIDATION PRINCIPLES

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

For companies acquired from third parties, the initial consolidation is carried out at the time of acquisition according to the purchase method of accounting. The date of acquisition is defined as the date when it becomes possible for the GSW Group to exercise control over the net assets and the financial and operating activities of the acquiree. According to the purchase 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 capitalized as goodwill. Negative differences resulting from the purchase price allocation at the time of acquisition are immediately recognized in income.

Expenses and income as well as receivables and payables between consolidated companies have been eliminated. Profits resulting from intragroup transactions were eliminated.

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

The financial statements of GSW and of the subsidiaries, associates and joint ventures included in the reporting entity are prepared according to uniform accounting policies. The financial statements of the subsidiaries, associates and joint ventures included in the reporting entity are prepared with the same closing date as that of GSW.

Subsidiaries, associates and joint ventures included for the first time in the IFRS consolidated financial statements as of December 31, 2008 are disclosed in to Note 0(3)(b).

(3) BASIS OF THE PREPARATION OF THE CONSOLIDATED FINANCIAL STATEMENTS

GSW's consolidated financial statements as of December 31, 2008 have been prepared in accordance with International Financial Reporting Standards (IFRS) adopted and published by the International Accounting Standards Board (IASB), as to be applied in the European Union. The consolidated financial statements have been prepared in accordance with EC Regulation no. 1606/2002 of the European Parliament and the Council of July 19, 2002 concerning the application of international accounting standards, in connection with section 315a (3) of the German Commercial Code (*HGB*), taking into account the supplementary provisions of commercial law. The IFRS requirements have been complied with in every respect, leading to the presentation of a true and fair view of the assets, financial position and earnings of the GSW Group.

Individual items in the income statement and in the balance sheet have been brought together to improve the clarity of the presentation. These items are explained in the Notes. The income statement is structured according to the cost of sales method.

The currency of the consolidated financial statements is the EURO. In the absence of any indication to the contrary, all amounts are in EUR thousand.

The consolidated financial statements are generally prepared by accounting assets and liabilities at amortized cost. Exceptions are investment property, owner-occupied property and derivative financial instruments, which are recognized at fair value as of the balance sheet date.

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

The GSW has changed the corporate policy in order to harmonize with today's market custom. Relating to this GSW has made certain retroactive changes to its financial statements, including adjustments, reclassifications and other editorial modifications. These changes were subject to a supplementary audit. The description of the modifications are disclosed in notes (4) (v) and (w).

(a) Reporting entity

The scope of consolidation of the GSW Group is shown in the following table:

	Dec. 31, 2008	Dec. 31, 2007
Fully consolidated companies	15	14
Associates included according to the equity method	0	1
Joint ventures included according to the equity method	0	1

The list of subsidiaries, joint ventures and associates included in the scope of consolidation is shown in Note (33).

(b) Acquisitions

Under the supplementary agreement dated July 24, 2008 to the joint venture contract, GSW, who already held a 51% share in Facilita Berlin GmbH, was granted a unilateral purchase option expiring on December 31, 2008 to acquire the remaining 49% share from WISAG Facility Management Holding GmbH. With the completion of this agreement, as GSW now held an option to acquire all voting rights and control over Facilita Berlin GmbH, in accordance with IAS 27.14 and 27.15 the acquisition date was deemed to be July 24, 2008. As a result, the accounting of the investment in Facilita Berlin GmbH changed from the equity method to the full consolidation method on July 24, 2008.

GSW exercised the unilateral purchase option on December 10, 2008 and acquired the shares from WISAG Facility Management Holding GmbH & Co. KG at a cost of EUR 125,501.00. Of this total, EUR 122,501.00 represented the purchase price and EUR 3,000.00 related to costs directly attributable to the transaction. The purchase price was paid to the seller on December 29, 2008. No contingent consideration was contemplated in the agreement.

Had the acquisition occurred at the beginning of the period, revenues of the combined group for the year would have been higher by EUR 5,747 thousand at EUR 376,271 thousand.

Had the acquisition occurred at the beginning of the period, the net income of the combined group for the year would have been lower by EUR 426 thousand at EUR 107,249 thousand.

The fair values of the assets and liabilities acquired as a result of the transaction, including the reconciliation with the cash flows from the acquisition, were as follows:

Facilita Berlin GmbH	Carrying amount (EUR thousand)	Fair value (EUR thousand)
Intangible assets and property, plant and equipment	58	58
Deferred tax assets	371	371
Trade receivables	792	792
Other receivables and financial assets	218	218
Cash and cash equivalents	1,474	1,474
Provisions	-1,196	-1,196
Trade payables	-760	-760
Other liabilities	-1,956	-1,956
Net assets acquired	**-999**	**-999**
Excess of purchase price over net assets acquired (Goodwill)		1,125
Purchase price		**126**
Less cash and cash equivalents acquired		-1,474
Cash flow (-/+) from acquisition		**-1,348**

(c) Company sales

With the Limited Partner Share Sale and Assignment Agreement dated October 30, 2008 and the Supplementary Agreement to the Limited Partner Share Sale and Assignment Agreement dated January 20, 2009, GSW disposed of its entire 49% share in MVV Energiedienstleistungen Wohnen GmbH & Co. KG in favor of MVV Energiedienstleistungen GmbH with effect as of October 1, 2008. As a result of this transaction, GSW lost its significant influence over MVV Energiedienstleistungen Wohnen GmbH & Co. KG and therefore the investment ceased to be accounted for using the equity method.

The selling price for the investment was EUR 13,000 thousand and was transferred by the buyer to GSW on December 29, 2008.

The book value of the investment as of October 1, 2008 was EUR 2,853 thousand.

(4) NOTE ON ACCOUNTING POLICIES

(a) Investment property

Investment property includes the properties of the GSW Group that are held in order to generate rental income and for capital appreciation.

Investment property held for sale and whose sale is seen as highly probable within the next 12 months are recognized under assets held for sale in the current assets in accordance with IFRS 5; they are measured consistently with the investment property.

In the case of properties partly used by the GSW Group for its own use and partly for rental income, a distinction is made, in as far as it is legally possible and neither the self-occupied nor the rental components are immaterial, to divide property in question. The areas that are used to generate rental income are allocated to investment property, while the owner-occupied areas 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. The properties are measured at fair value in accordance with the option provided for in IAS 40. Changes in fair value are recognized in the Income Statement.

In accordance with these principles, subsequent costs to add to, replace part of, or service a property (IAS 40.17) are capitalized to the property, to the extent that under the components' approach (IAS 40.19) the replacing parts of a unit can be measured reliably. In addition, costs may be capitalized if it is probable that future economic benefits that are associated with the investment property will be increased and the costs can be reliably measured. The capitalized costs will not be subject to regular depreciation as, is consistent with the fair value option under IAS 40.

GSW calculates the fair value using a standardized and certified valuation model. 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 the potential for development. The fair values calculated by GSW correspond to the market values at which properties can be exchanged between knowledgeable willing parties in an arm's length transaction in accordance with International Accounting Standards (IAS 40.5 rev.).

The market values were determined on the basis of the forecasted 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 unbuilt 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 selling value is estimated on the basis of the capitalization of the predicted net cash flows for the year during the eleventh period.

In the first year of the detailed planning period, assumptions are 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 monthly net rent before utilities of the properties included in the investment properties, that were let as at year end was EUR 4.67/sqm (2007: EUR 4.55/sqm). The development of annual rent is forecasted on the basis of individual assumptions for the planning period. A distinction was made between income from existing tenancy agreements and new leases due to predicted fluctuation. Development of rents for the old tenancy agreements are in accordance with what is permitted by law; with consideration to location and property specific characteristics an individual upper limit was set in deviation from the benchmark rent for the property’s location. 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 increases each year by an individually determined rate of increase. The recognized market-rent increases are within a range of between 0.0 % and 2.5 % and are based on the average rates of increase of the sub-locations (market data) which are adjusted, as necessary, in line with the specific potential for a property. Like the development of rent, the development of vacancies is also consistent with the average values for the locations and, where necessary, are adjusted on a property-specific basis with consideration of the location- and property specific characteristics. The average vacancy rate for residential and commercial real estate was 6.1 % as of the valuation date (2007: 7.5 %).

Publicly subsidized properties have been treated differently depending on whether rents are capped and how long this will last. In the case of subsidized economic units without a rent cap, rent adjustments have been made in accordance with the procedure for non-subsidized properties. In the case of properties where the rent cap ends before 2017, the same procedure was followed upon expiry of the rent cap. In the case of properties where the rent cap continues after 2017, rent adjustments in both directions have been provided for within the ten years if the rent under a significant number of new tenancy agreements concluded in 2008 differs from the average rent of the economic unit. Rent subsidies are included in the valuation as cash inflows at the actual amount expected.

For reactive and periodical maintenance measures, depending on the property's condition and year of construction, a maintenance cost unit rate of between EUR 7.00/sqm and EUR 12.00/sqm was assumed. In addition, for new leases, depending on the property's condition, an additional cost unit rate for re-leasing of between EUR 25.00/sqm and EUR 35.00/sqm was assumed. Administrative expenses of EUR 220.00 per rental unit p.a. and EUR 31.35 per parking space p.a. were assumed. The predicted rent loss risk is 1.75 % (2007: 2.0 %).

The potential sale of economic units or individual apartments to tenants, owner-occupiers or investors is not included in the valuations.

Discounting of cash flows is based on normal market discount rates with identical maturities averaging 5.73 % (2007: 5.87 %) and normal market perpetuity capitalization rates averaging 5.24 %. These were calculated on the basis of the actual management costs ratio on a property-specific basis and are intended to reflect the individual risk/opportunity profile for the real estate. In determining an appropriate interest rate, particular consideration has been given to property type, leasing situation, condition of the property, its marketability and possible governmental grants, in addition to criteria concerning the location.

The fair value of unbuilt plots with an area of around 105 hectares as of December 31, 2008 (2007: 106 hectares) has been estimated on the basis of the current ground values published by Berlin's *Gutachterausschuss* (Appraiser Committee). Consideration has been given to the use to which the land is put and of any further special features of the individual plots.

(b) Intangible assets

Acquired intangible assets are capitalized at cost.

The acquired intangible assets with a determinable useful life are software licenses with expected useful lives of 3 years and ERP software systems with an expected useful life of 5 years, and are amortized using the straight-line method over their expected useful lives from the time that the licenses are granted.

The acquired Goodwill is recognized at acquisition cost and valued at historical cost less cumulated impairments.

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

(c) Property, plant and equipment

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

Owner-occupied properties measured at fair value in accordance with the option in IAS 16 are not reported at amortized cost. The adjustments resulting from the revaluation are credited to equity, without affecting income, in as far as the adjustment results in an increase in value greater than cost. Depreciation, impairments and reductions in fair value are charged to the income statement to the extent that they do not represent reversals of fair value increases previously recorded without effecting net income.

Gains or losses from the disposal of assets are shown under “other operating income” or “other operating expenses”.

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

	Useful life in years
Owner-occupied properties	25
Plant and machinery	5 - 10
Other fittings, furniture and office equipment	3 – 13

According to the new statutory scheme for depreciation of low-value items (effective of January 1, 2008) items of up to EUR 150 (net) are written down in full in the year of acquisition. Assets with an acquisition cost between EUR 150.01 and EUR 1,000 are classified into annual groups and written down over a period of five years.

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

(d) Impairment losses on intangible assets and property, plant and equipment

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

An impairment loss on intangible assets and property, plant and equipment is recognized if, as a result of certain events or developments, the carrying amount of an asset exceeds its expected fair value less expected cost to sell or the discounted net cash flow from continued use. The cash flow is also discounted at the cost of capital based on that of comparable enterprises. If it is not possible to ascertain the recoverable amount for individual assets, the cash flow is determined for the next highest group of assets for which such a cash flow can be ascertained.

Reversals of impairment losses are made when the reasons for the initial impairment loss no longer exist in subsequent periods. The carrying amount resulting from the reversal is no higher than what the carrying amount would have been if no impairment loss had been recognized.

In the financial year 2008, no impairment losses were recognized on intangible assets or on property, plant and equipment.

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

(e) Investments and securities

In the GSW Group, financial assets are generally recognized at the settlement date.

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”. The sundry 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 recognized at their fair value on the balance sheet date. If their fair value cannot be reliably determined, they are recognized at amortized cost. As the fair values of the investment fund units held by the GSW Group cannot be measured using suitable valuation methods, these fund units are recognized at amortized cost. The shares in subsidiaries are not listed. The fair value of these instruments cannot be reliably determined, since the results can vary depending on individual assumptions. For the instruments, there is no market. Currently there is no intention to sell such participations in the near future.

In the fiscal year 2008, assets in the category "Available-for-sale" with a book value of EUR 2,853 thousand (2007: EUR 2,621 thousand) were sold, the resulting gain amounted to EUR 10,147 thousand (2007: EUR 12,479 thousand).

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

At the time of initial recognition “AFS financial instruments” are measured at fair value. The outcome of subsequent measurement at fair value is reported in a separate equity position (revaluation surplus) without affecting income.

In the event of a sale of the financial asset, the cumulative valuation result shown in revaluation surplus is released and the realized result is recorded in the income statement.

In the event of impairment, the impairment amount is deducted from the revaluation surplus and the relevant amount is directly reported into the income statement. If subsequently an appreciation in value occurs, then it is recorded through net income and through other comprehensive income. If impairment relates to AFS financial instruments recorded at initial cost, because the fair value is not reliably determinable, then the impairment is recorded through net income and no future appreciation of value is allowed.

(f) Recognition of tenancy and leasing agreements as lessee

Rented or leased assets where the GSW Group has substantially all the risks and rewards of ownership according to IAS 17 (finance leases) are capitalized at the lower of the present value of the minimum lease payments and the fair value of the item in the non-current assets and amortized using the straight-line method. If the GSW Group attains ownership of the item at the end of the lease, the item is amortized over its useful life, if not then over the term of the lease. The present value of minimum lease payments is carried as a liability and decreases as the outstanding liability is reduced through payments of rent or leasing installments.

Contracts where the GSW Group has economic ownership 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, such contracts should be classified according to the rules of IAS 17.

Tenancy and leasing agreements where the GSW Group does not have economic ownership are classified as operating leases. The expenses resulting from these agreements are recorded at the time that the items in question are used.

(g) Recognition of tenancy and leasing agreements as lessor

The properties owned by the GSW Group include both residential and commercial properties let by the GSW Group.

Rights which allow tenants to terminate the tenancy at short notice are usually attached to the tenancy agreements for residential properties in accordance with statutory provisions. These agreements are therefore classified as operating leases in accordance with IAS 17, as the material risks and rewards in relation to the property remain with the GSW Group. The GSW Group recognizes these properties at fair value as part of its portfolio in accordance with IAS 40. In the case of commercial properties the risks and rewards are also attributable to the GSW Group, and therefore these properties are also recognized by the GSW Group at fair value under investment property.

(h) Development of properties held for sale and inventories

The other inventories are recognized at cost. This is done on the basis of a weighted average or the individual costs attributable to the work and overheads in relation to production. On the balance sheet date the inventories are measured at cost or the net realizable value, whichever is lower.

(i) Trade receivables and other assets

Trade receivables and other assets are measured at fair value on initial recognition plus transaction costs. They are subsequently measured at amortized cost.

To date, the GSW Group has not yet made use of the option to designate financial assets as financial assets at fair value through profit and loss at their initial recognition.

Appropriate allowances are made for the risk of bad debt, taking into consideration the expected cash flows. These allowances are calculated on the basis of experience and individual risk assessments. For financial instruments measured at amortized cost a distinction is made between individual value adjustments and lump-sum value adjustments.

The risk assessments are made on the basis of the following criteria:

(1) significant financial difficulties for the issuer or debtor;

(2) breach of contract (e.g. loss or default on interest or redemption payments);

(3) concessions granted by the lender to the borrower on economic or legal grounds associated with the borrower's financial difficulties, such as the lender would not otherwise grant.

(4) increased probability of the borrower becoming insolvent or being subject to other reorganization proceedings;

(5) the disappearance of an active market for the asset;

(6) observable data indicating a measurable reduction in the expected future cash flows from a group of financial assets since their first-time recognition, even though such reduction is not yet attributable to individual financial assets of the Group, including:

  (a) detrimental changes to the payment status of debtors in the group;

  (b) national or regional economic conditions correlating to losses for the Group's assets.

The individual value adjustment relates to the value adjustment on a financial asset for which it is not probable that all contractually agreed payments (interest and/or redemption) are achievable at maturity.

(j) Cash and cash equivalents

The cash and cash equivalents include cash in bank accounts and on hand.

(k) Assets held for sale

Investment property is reported under assets held for sale, to the extent that the sale of the property is regarded as being highly probable within the next 12 months. A classification in accordance with IFRS 5 is only made if the property is available for immediate sale in its present condition subject only to terms that are usual and customary for sale of such assets. The properties are measured at the lower of the book value and the fair value in accordance with IFRS 5.

(l) Employee benefits

Provisions for pensions and similar obligations are calculated according to the Projected Unit Credit Method in accordance with IAS 19, taking into account future adjustments in salary and pensions. Pension provisions in accordance with IFRS also include indirect obligations, to the extent that the GSW Group is liable for the obligations being met by making the relevant contributions to the pension plan in question.

Pension obligations are measured on the basis of actuarial reports, taking into account the assets available to cover these obligations. If the actuarial gains and losses resulting from a change in the actuarial parameters exceed 10 % of the greater of the pension obligation or the plan assets at the beginning of the financial year, the amount in excess of this 10 % limit is recognized in income over the expected average remaining working lives of the relevant employees.

Past service cost and realized actuarial gains and losses are recognized as personnel expenses. The interest cost of the pension obligation is recognized under interest expense.

(m) Other provisions

The other provisions take into 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 fulfillment amount in accordance with IAS 37. Long-term provisions are shown in the balance sheet on the basis of corresponding market interest rates with their fulfillment amount which is discounted to the balance sheet date.

(n) Liabilities

On initial recognition, liabilities are measured at fair value taking into account transaction costs, agios and disagios. The fair value at the time when the liability is incurred corresponds to the present value of future payments on the basis of a market interest rate consistent with the term and the risk.

Liabilities are subsequently measured on the basis of amortized 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 amounts are charged to the income statement.

To date, the GSW Group has not yet made use of the option to designate financial liabilities at their initial recognition as financial assets at fair value through profit and loss.

(o) Income taxes

Current income taxes are recognized in the income statement in the year that the liability is incurred.

Current tax assets and liabilities are only offset to the extent that the tax is collected by the same taxation authority and such assets and liabilities can be set off against each other.

Deferred taxes are recognized to take into account the future tax consequences of temporary differences between the tax basis of the assets and liabilities and their measurement in the IFRS financial statements and for tax loss carry forwards. Deferred taxes are measured on the basis of the tax rates enacted by the end of the financial year for the financial years in which the differences are expected to reverse or the loss carry forwards are expected to be utilized. Deferred tax assets for temporary differences or loss carry forwards are only recognized to the extent that their future realization seems sufficiently certain.

Deferred tax assets and deferred tax liabilities are only offset if they relate to income taxes collected by the same taxation authority and can be set off against each other.

(p) Derivative financial instruments

The GSW Group uses derivative financial instruments to hedge the interest-rate risks for financing investment properties.

Derivative financial instruments are recognized 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 are recognized as income or expense, irrespective of their economic hedging effect.

Derivatives used as hedging instruments in cash flow hedges serve to hedge uncertain future cash flows, including highly-probable future transactions. There is a particular risk regarding the level of future cash flows for variable-interest liabilities. The derivative financial instruments representing cash flow hedges are reported at their fair value. A distinction is made in the valuation result between the effective and ineffective portion.

The effective portion corresponds to the portion of the valuation result which constitutes an effective hedge against the cash flow risk. The effective portion is recognized in a separate equity position (hedge reserve) after consideration of deferred taxes, without affecting income.

The ineffective portion of the valuation result is recognized in the income statement and reported in the interest result.

Upon termination of the hedge, the amounts recorded in equity will be transferred to the income statement whenever results associated with the previous underlying transaction are recognized as income or expense.

(q) Realization of income and expense

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

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

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

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

Operating expenses are charged to the income statement at the time of the work or service or at the time that they are incurred.

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

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

(r) Government grants

Claims from investment subsidies are recognized as soon as the GSW Group has sufficient certainty that such subsidies will be granted and that the conditions attached to the grant of the subsidy will be met. Government grants in connection with the modernization of properties are recognized as income at the time when the subsidized costs are recognized as expense in as far as these are not costs that can be capitalized. Grants for the portions of modernization costs that can be capitalized are recognized as income on the expiry of the terms for the grant. Rent subsidies are recognized as income in the periods for which they are granted. In the case of loans with government grants in the form of subsidized interest rates, the grants are accounted for using the application of the effective interest rate.

(s) Interest on borrowed capital

The GSW Group does not include interest in connection with the purchase or construction of real estate and other property, plant and equipment in the cost of these assets, but recognizes it as an expense when it arises.

(t) Transactions in foreign currency

Purchases and sales in foreign currency are translated at the exchange rate on the date of the transaction. Assets and liabilities in foreign currencies are translated into the functional currency (EUR) at the exchange rate on the balance sheet date. The exchange rate gains and losses resulting from these translations are recognized in the income statement.

(u) Fair values of financial instruments

The fair values of the financial instruments are determined on the basis of the corresponding market values or measurement methods. For cash and cash equivalents and other current, financial instruments, the fair values correspond approximately to the carrying amounts recognized on the closing dates.

In the case of 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 on the balance sheet date. The fair values of the derivative financial instruments are calculated on the basis of the reference rates on the balance sheet date.

In the case of financial instruments to be reported at fair value, the fair value will generally be determined on the basis of relevant market or stock exchange prices.

Where no market or stock exchange prices are available, a valuation is made using normal market valuation methods with consideration given to instrument-specific market parameters.

The fair value calculation will be in accordance with the “Discounted Cash Flow Method”, whereby individual credit ratings and other market circumstances are taken into consideration in the form of normal market credit rating and liquidity spreads when calculating the present value.

For the calculation of the fair value of derivative financial instruments, the relevant market prices and interest rates observed on the balance sheet date and obtained from recognized external sources are used as initial parameters for the valuation models.

(v) Retroactive restatements

In the reporting year, GSW Immobilien GmbH modified the algorithm used in valuing loans with subsidized components. As a result of this modification, government grants, which are used in the assumption of the redemption of a loan, are no longer included in the appraisal of loans with subsidized components according to IAS 39. The modification is treated retrospectively according to IAS 8.41 et seq. Out of this change results a lower value of the loans of EUR -6,249 thousand as of January 1, 2007 which in equity. In 2007, the rental income is decreased and the loans are increased by the directly related government grants (EUR 609 thousand). In 2008 the effect amounts to EUR 600 thousand. Those changes are indicated in the relevant components of the annual financial statements.

The optimization of the intercompany reconciliation process in 2008 identified an amount of EUR 1.281 thousand in cost of materials that had not previously been considered in the intercompany reconciliation. In accordance with IAS 8.41 and subsequent, a retroactive restatement of the 2007 financial statements was performed for this item. As a result, cost of materials for 2007 was increased by EUR 1,193 thousand. Those changes are indicated in the relevant components of the annual financial statements and tables.

In addition, a restatement of the deferred taxes without affecting the net income also took place. The restatement affected deferred tax liabilities with the offsetting entries going to the relevant components of the statement of changes in shareholders' equity. In accordance with IAS 8.41 and subsequent, the restatement was made retroactively. As a result, the consolidated retained earnings as at December 31, 2007 increased by EUR 2,992 thousand with corresponding decreases in the revaluation surplus from step acquisitions (IFRS 3), the revaluation surplus resulting from the fair market valuation of owner-occupied property and the cumulative fair value changes of derivative interest rate contract constituting in cash flow hedges. As a result of the creation of deferred tax liabilities and the corresponding value of deferred tax assets on loss carry forwards comprehensive income for 2007 increased by EUR 1,231 thousand. In 2008, the impact was an increase in the tax expense of EUR -2,767 thousand. The changes are indicated in the relevant financial statements and tables.

(w) Changes in financial statement presentation

During the current year, GSW has broadened the revenues from rental and leasing to include the revenues and expenses from service charges. The restatement was made retroactively in accordance with IAS 8.14b in connection with IAS 8.22. Accordingly, service charges are now designated as expenses of the company. As a result, the expenses of the company increased by of EUR 72 thousand for 2007 and in by EUR 724 thousand in 2008.

There has been a clarification of the disclosure applied by the company for rental expenses for properties simultaneously let to third parties. In a retrospective adjustment, these rental expenses are now disclosed within the property operating expenses and no longer within other expenses because these costs are primarily related to rental income.

Furthermore, during the year, GSW Immobilien GmbH has decided to change its policy for the recording of expenses for modernization and maintenance of investment properties. Henceforth, the expenses for modernization and maintenance which fulfill the requirements of IAS 40.19 will be capitalized in investment property. As a result the property operating expenses decreased along with a corresponding decrease in net valuation gains on investment property. In 2007 the amount result from the component approach totaled EUR 25,831 thousand and EUR 21,246 thousand in 2008.

(x) Use of estimates

The preparation of the IFRS consolidated financial statements requires making estimates and assumptions that influence the recognition of assets and liabilities, the disclosure of contingent liabilities at the balance sheet date 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 utilized, 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 realized.

An estimate of future interest rate trends is of particular importance for the measurement of investment property, including properties held for sale and loans taken out to finance investment property. The sensitivity of the property values in relation to interest rates is disclosed in Note (15) and Note (30) in connection with disclosures regarding to the fair value of loans.

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

(y) Capital management

The Group's capital is managed with the goal of maximizing stakeholder returns in the company by optimizing the equity/borrowed capital ratio. The aim is to achieve an increase in the value of the overall Group, expressed in terms of its equity, while obtaining an appropriate equity return. It is thereby also ensured that all Group companies are able to operate in accordance with the going-concern principle.

In addition to the Group's equity and liabilities, its cash and cash equivalents and interest-bearing outstanding debt obligations are also included in its capital.

The management reviews the Group's net equity ratio (ratio of equity to net liabilities) on a quarterly basis for compliance with the projected target corridor of 70 % to 80 %. The internal focus on the properties' performance provides the scope to increase and control the overall capital while remaining within the target corridor. In 2008 the net equity ratio of 91,2 % exceeds management's target.

The net equity ratio at the end of the year is as follows:

EUR thousand	Dec. 31, 2008	Dec. 31, 2007
Liabilities	1,794,967	1,833,612*
Cash and cash equivalents	-108,215	-47,767
Interest-bearing monetary receivables	-358,240	-356,849
Net liabilities	**1,328,512**	**1,428,996***
Equity	1,211,551	1,114,853*
Ratio of equity to net liabilities	**91.2%**	**78.0%***

* Restatement of prior year figures: Liabilities decreased by EUR 5,641 thousand (repayment of government grants) and equity decreased accordingly by EUR 4,448 thousand (EUR 5,641 from the repayment of government grants and offset by a reduction of EUR -1,193 from the restatement of cost of materials related to intercompany reconciliation).

The Group's overall strategy is unchanged since the financial year 2007.

(5) PUBLISHED BUT NOT YET MANDATORY INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS) AND INTERPRETATIONS (IFRIC)

In December 2006 the IASB published IFRS 8 “Operating Segments”, which replaces IAS 14 and is mandatory for financial years commencing on or after January 1, 2009. IFRS 8 is based on the “management approach”, according to which the segments are defined and the segment information is displayed on the basis of the internal reporting to the group’s highest decision-making committee. At present the GSW Group is not obliged to apply IFRS 8 as it is not currently a listed company.

In 2007 and 2008 amendments of the following standards were approved:

IAS 23 removes the option in accounting of either capitalizing borrowing costs directly attributable to the financing of the acquisition, construction or production of a qualifying asset or immediately recognizing those borrowing costs as an expense and now requires capitalization. This standard is mandatory for financial years commencing on or after January 1, 2009. The changes will have no effect on the assets, financial position and earnings of the Group.

In September 2007, as part of phase A of its joint project with the US-American FASB, the IASB published the revised version of IAS 1 “Presentation of Financial Statements”. The new version of the standard prescribes new designations for the components of annual financial statements. There will also be a clearer distinction between non-owner changes in equity and owner changes in equity. The income and expenses recognized in equity without affecting net income (“other comprehensive income”, "OCI") must therefore be reported in a “statement of comprehensive income”. A presentation together with owner changes in equity, in the form of a statement of changes in equity is no longer permitted. Dividends are no longer shown in the income statement and are instead exclusively reported as owner changes in equity in the statement of changes in equity or in the notes.

The mandatory presentation in the statement of comprehensive income of the income and expenses recognized in equity without affecting net income may optionally be continued within the framework of a single overall statement (statement of comprehensive income with the result for the period as a subtotal) or two statements (income statement and statement of comprehensive income). The statement of comprehensive income distinguishes between the individual components of the OCI; reclassification adjustments must be separately presented upon realization into the income statement of income and expenses previously recognized as not affecting net income. In addition, for each component the applicable income tax amount must be stated.

The revised IAS 1 is mandatory for financial years commencing on or after January 1, 2009. The standard will affect the presentation of the financial statements but not the assets, financial position and earnings of the Group.

In 2008 the revised versions of IFRS 3 “Business Combinations” and IAS 27 “Consolidated and Separate Financial Statements” were published. The new IFRS 3 comprises rules regarding the scope of applicability, purchase-price components, the treatment of minority shares and goodwill and the scope of the reportable assets, liabilities and contingent liabilities. The standard also includes rules for the reporting of loss carry forwards and classification of contracts of an acquired company.

The new IAS 27 "Consolidated and Separate Financial Statements" requires mandatory application of the “economic entity approach” for treatment of share purchases and sales once the possibility of control has been acquired and maintained. This means that such minority transactions are to be deemed shareholder transactions and recognized in equity without affecting income. In case of share sales leading to the loss of the possibility of control a disposal gain or loss will be recognized in the income statement. Where shares are still held following the loss of the possibility of control, the remaining shares will be reported at their fair value. The difference between the previous carrying amount of these remaining shares and their fair value will be incorporated in the disposal result and recognized in the income statement and will be reported separately in the notes at the relevant revaluation amount for the remaining share. In the case of step acquisitions or pro rata disposals, the standard requires re-measurement at fair value of the shares already held or remaining, with recognition in the income statement. In addition, future losses on minority interests which exceed their balance sheet value are to be shown as negative book values in the consolidated retained earnings.

IFRS 3 and IAS 27, which were revised in January 2008, are essentially to be applied prospectively for financial years commencing on or after July 1, 2009. Depending on the type and volume of future transactions, the changes may have consequences for the assets, financial position and earnings of the GSW Group which it is not possible to assess at the present time.

Likewise in 2008, several changes to IFRS 2 “Share-based Payment” for “Vesting Conditions and Cancellations” were published. The new rules feature clarifications of terms and a more precise definition of the conditions for exercising option rights in share-based payment transactions. According to these new rules, exercise conditions include conditions addressing the issue of whether the company has received the services granting the counterparty a legal entitlement to receive cash, other assets or equity instruments of the company. Nonetheless, conditions which do not constitute exercise conditions must be taken into consideration for the measurement of equity instruments granted under share-based payment transactions. The new rules also prescribe how the company is to handle annulments of share-based payment transactions. The changes to IFRS 2 are applicable for financial years commencing on or after January 1, 2009. The changes have no effect on the assets, financial position and earnings of the Group.

Furthermore, the revised version of IAS 32 "Financial Instruments: Presentation" was released in January 2008. The standard defines whether a financial instrument has to be classified as equity or liability by the issuer. Under certain conditions, the revised IAS 32 even allows the recognition of callable financial instruments as equity. From this fact also results a corresponding change of IAS 1. The changes to IFRS 32 are applicable for financial years commencing on or after January 1, 2009.

In July 2008 the Board amended IAS 39, by *Eligible Hedged Items*, to clarify how the principles that determine whether a hedged risk or portion of cash flows is eligible for designation should be applied in particular situations (one-sided risks and inflation as a hedged risk). An entity shall apply the amended version retrospectively for annual periods beginning on or after 1 July 2009; earlier application is permitted. GSW expects no material effects from this amendment.

In May 2008, amendments to IFRS 1 "First-time Adoption of International Financial Reporting Standards” and to IAS 27 were released. The amendments to the existing standards simplify the rules for the evaluation of investments in subsidiaries in IFRS Financial Statements. The amendments to IAS 32 apply to fiscal years beginning on or after January 1, 2009. The amendment will not have any impact on the Group’s financial statements.

IFRS 1 was restructured in the context of the new modifications in November 2008. There were no substantive changes made. The new IFRS 1 must be applied for fiscal years beginning on or after January 1, 2009.

In addition, during 2007 and 2008 the IASB released new interpretations which were adopted by the European Union:

- IFRIC 13 "Customer loyalty programs" clarifies the accounting treatment of goods or services sold together with a customer loyalty incentive. IFRIC 13 is applicable for fiscal years beginning on or after July 1, 2008.
- IFRIC 14 "IAS 19 - the limit on a defined benefit asset, minimum funding requirements and their interactions" provides guidance on assessing the limit in IAS 19 on the amount of the surplus that can be recognized as an asset. It also explains how the pension asset or liability may be affected by a statutory or contractual minimum funding requirement. IFRIC 14 is applicable to fiscal years beginning on or after January 1, 2009.
- IFRIC 15 "Agreements for the Construction of Real Estate", regulates the accounting of real estate sales, where the sales contract is signed before completion of the work. IFRIC 15 is applicable for

financial years beginning on or after January 1, 2009. The impact from the future application of this interpretation on the consolidated financial statements is currently being investigated.

- IFRIC 16 'Hedges of a net investment in a foreign operation"; relates to the accounting for the hedging of foreign currency risks between a company and its foreign operations. IFRIC 16 is applicable for fiscal years beginning on or after October 1, 2009.
- IFRIC 17 "Distribution of Non-cash Assets to Owners", contains provisions regarding the recognition and measurement of distributions. IFRIC 17 is applicable for fiscal years beginning on or after July 1, 2009.
- IFRIC 18 "Transfers of Assets from Customers", clarifies the requirements for agreements in which an entity received equipment (or cash, only for the purchase or production of tangible assets related to use) from a customer that the entity must then use either to connect the customer to a network or to provide the customer with ongoing access to a supply of goods or services. IFRIC 18 is applicable for fiscal years beginning on or after July 1, 2009.

IFRIC 13, 14, 16, 17 and 18 have no impact on the financial statements of the Group.

(6) FIRST-TIME MANDATORY INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS) AND INTERPRETATIONS (IFRIC)

In the reporting year, all new and revised standards and interpretations which were applicable and relevant for financial years commencing on or after January 1, 2008 were adopted throughout the GSW Group. The adoptions of the new standards and interpretations were applied according to the applicable transitional rules. The first time adoption of these new standards and interpretation did not have a material effect on the group financial statements.

Against the background of the current financial crisis the IASB released a revision of IAS 39 "Financial Instruments: Recognition and Measurement" and of IFRS 7 "Financial Instruments: Disclosure" which are to be applied retroactively as of July 1, 2008. These revised standards are consistent with the current changes in capital markets and intend to eliminate current variances between IFRS and US-GAAP regarding the reclassification of certain financial instruments. The first time adoption of those revisions did not have any material effect on the group financial statements.

NOTES TO THE CONSOLIDATED INCOME STATEMENT

(7) NET RENTAL INCOME

(a) Gross rental income

Gross rental income is as follows:

EUR thousand	2008	2007
Income from rents	176,769	169,048
Income from management activities	4,167	4,947
Income from restoration work	0	170
Other income	8,828	11,442
Gross rental income	**189,764**	**185,607**
Income from direct government grants	**15,624**	**19,361***
Total rental income	**205,388**	**204,968***

* restated prior year figures

Of the rental income amounting to EUR 176,769 thousand (2007: EUR 169,048 thousand), EUR 6,443 thousand (2007: EUR 6,190 thousand) relates to the modernization funds, an amount of EUR 1,792 (2007: EUR 1,750 thousand) relate to the headquarters Kochstraße.

(b) Income from direct government grants

This income is as follows:

EUR thousand	2008	2007
Direct rent subsidies	1,239	1,200
Direct grants in the case of low-interest loans	14,361	17,697*
Other direct grants	24	464
Income from direct government grants	**15,624**	**19,361***

* restated prior year figures

(c) Expenses in connection with rental income

EUR thousand	2008	2007
Cost of materials	-53,885	-67,209*
Personnel expenses	-14,922	-18,929
Depreciation and amortization	-923	-1,233
Other operating expenses	-14,063	-11,675*
Total operating expenses	**-83,793**	**-99,046**
Other operating income	7,678	12,548
Property operating expenses	**-76,115**	**-86,498**

* Prior year restatement: cost of materials decreased by EUR 1.193 thousand due to the restatement of cost of materials related to the intercompany reconciliation, by EUR 25,831 thousand due to capitalization of modernization and maintenance and repair expenses, by EUR 72 thousand due to incidental expenses, by EUR 2,111 thousand due to regrouping of rents for the sublet of the headquarters at Kochstraße previously reported in other operating expenses as well as by EUR 1,028 thousand due to marketing costs for property management.

No disclosures can be made of the expenses for individual apartments that are vacant as the corresponding information is not available for all types of cost on the level of the individual apartments in the cost accounting system of the GSW Group. Applying the average vacancy rate of 5.29 % in 2008 would result in expenses of EUR 4,433 thousand that are attributable to vacant apartments.

The material costs contain costs of modernization and maintenance and repair in the amount of EUR 31.292 thousand (2007: EUR 23.084 thousand), that weren't classified as subsequent acquisition and production costs according to IAS 40.19.

The property operating expenses include EUR 7,326 thousand (2007: EUR 6,343 thousand) for the modernization funds and EUR 3.891 thousand (2007: EUR 3.642 thousand) for the headquarters Kochstraße.

(8) SELLING AND ADMINISTRATIVE EXPENSES

The selling and administration expenses are as follows:

EUR thousand	2008	2007
Cost of goods and services	-7,402	-8,533
Personnel expenses	-563	-1,997
Depreciation and amortization	-4	-8
Other operating expenses	-1,306	-2,647
Other operating income	2,350	1,678
Selling expenses relating to the disposal of investment property	**-6,925**	**-11,507**
Personnel expenses	-9,657	-16,200
Depreciation and amortization	-1,160	-900
Legal and consulting expenses	-5,190	-10,253
Costs for annual financial statements, bookkeeping and audit	-1,223	-1,685
Expenses for postage, telecommunications and IT	-4,291	-4,242
Rent and leasing costs	-2,529	-2,884
Other expenses	-4,150	-8,228
Other operating income	5,158	5,206
Administrative expenses	**-23,042**	**-39,186**
Selling and administrative expenses	**-29,967**	**-50,693**

Included in selling and administrative expenses are EUR 2,533 thousand (2007: EUR 2,572 thousand) for the owner occupied spaces of the headquarters Kochstraße. These expenses can be broken down as EUR 2,066 thousand (2007:1,922) for general rent, EUR 45 thousand (2007: EUR 65 thousand) for maintenance and EURO 422 thousand (2007: 584) for operating costs.

(9) OTHER INCOME AND EXPENSES

In the financial year 2008, other income in the amount of EUR 10,259 thousand (2007: EUR 38,045 thousand) resulted mainly from the sale of the as available for sale presented investment in MVV Energiedienstleistungen Wohnen GmbH & Co. KG for EUR 10,147 thousand.

(10) RESULTS OF ASSOCIATES AND JOINT VENTURES

Due to the changes in the ownership of Facilita Berlin GmbH and MVV Energiedienstleistungen Wohnen GmbH & Co. KG these investments are no longer consolidated at equity in the group financial statements as of December 31, 2008.

In the financial year the results of at-equity consolidated companies was EUR 0 thousand (2007: EUR 2,888 thousand).

Because of immateriality of the investment in Fonds Weinmeisterhornweg (21.16 %) it was not consolidated at equity.

(11) INTEREST INCOME AND EXPENSES

The interest income and expenses are as follows:

EUR thousand	2008	2007
Interest on loans to shareholders	35,626	32,353
Gains on changes in the fair value of interest derivatives	9,672	694
Interest income on interest derivatives	17,499	8,806
Interest on cash in bank accounts	2,630	2,123
Interest on receivables	611	1,111
Interest on adjustments in loan terms	17,852	24,987
Other interest income	344	376
Interest income	**84,234**	**70,450**
Interest expenses from the financing of investment property	85,226	76,949
Net expenses from adjustments in loan terms	27,464	49,967
Early redemption penalties	567	2,229
Losses on changes in the fair value of interest derivatives	36,420	1,425
Interest expense from interest derivatives	9,070	4,954
Interest expense from finance leases	238	1,136
Interest expense from the interest accrued on other provisions	3,190	4,705
Interest expense for other financial liabilities	386	432
Interest expense from changes in pension provisions	103	64
Other interest expense	98	182
Interest expense	**162,762**	**142,043**

(12) INCOME TAXES

Income taxes include current income taxes paid by or owed to the Group and deferred taxes. The income taxes are made up of trade tax on profits, corporation tax and the solidarity surcharge.

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

EUR thousand	2008	2007
Current tax expense	-5	-58,940
Current tax income	2,912	0
Deferred tax expense	-2,998	0
Deferred tax income	0	1,231*
Tax expense	**-91**	**-57,709**

*Restated prior year figures

An amount of EUR 2,907 thousand represents current taxes from prior years. The amount mainly results from a new change in corporate income tax legislation applicable retroactively on certain income components not subject to taxation under the previous corporate income tax legislation ("EK02"). Also included are other current tax income unrelated to the reporting period 2008 of EUR 314 thousand.

In the reporting year deferred taxes are as follows:

EUR thousand	2008	2007
Deferred taxes as of Dec. 31 (prior year)	0	0
Changes affecting operating result	-2,998	1,231*
Changes not affecting operating result	2,767	-1,231*
Recorded in the course of PPA not affecting operating result	371	0
Tax expense	**140**	**0**
- of which long-term	63	0
- of which short-term	77	0

*Restated prior year figures

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

The theoretical income tax expense that would have resulted applying the tax rate of 30.175 % applicable to the parent company of the GSW Group (tax rate for 2007: 38.9 %) to the IFRS consolidated pre-tax income is as follows:

EUR thousand	2008	2007
Pre-tax income (IFRS)	107,764	129,943
Group tax rate as %	30	39
Expected tax expense	**-32,518**	**-50,548**
Tax rate changes	0	-215,895
Deviating tax rate	375	11
Permanent differences	0	-2,906
Changes in the impairment of deferred taxes	34,373	265,683*
Non-deductible operating expenses	-9	-1,982
Tax-free income	13	10,153
Additions and reductions in relation to trade tax	-5,071	-4,977
Tax from previous years	2,907	-54,968
Other effects	-161	-2,280
Tax expense as reported on the income statement	**-91**	**-57,709**

*Restated prior year figures

Incorporated enterprises are subject to corporation tax at a rate of 15 % (2007: 25 %) plus a solidarity surcharge of 5.5 % (2007: 5.5 %) of the assessed corporation tax amount net of credits. In addition, these companies and commercially active subsidiaries that have the legal form of a partnership are subject to trade tax levied at different rates by different municipal authorities. The trade tax municipal factor for Berlin was 410 % in financial year 2008 (2007: 410 %).

Due to the corporate taxation reform, trade tax is no longer deductible from January 1, 2008 onward.

The uniform base amount of trade tax amounts to 3.5 % from January 1, 2008 onwards (2007: 5 %). Due to the municipal factor of 410 % from 2008 the trade tax rate amounts to 14.35 %. In the reporting year, the underlying domestic tax rate for calculation of the deferred taxes is therefore 30.175 % (2007: 38.9 %).

Due to the taxation provisions of section 8b of the German Corporation Tax Act (*KStG*), making certain capital gains on disposals and dividends tax-free and capital losses on disposals non-deductible for tax purposes, there is a reconciliation effect with regard to equity interests which was separately shown as a permanent difference in the prior year's reconciliation statement.

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

Additions in relation to trade tax result from payments on non-current debts to be added on a pro-rata basis to the taxable amount for purposes of trade tax and from voluntary contributions. Reductions are taken into consideration with regard to the ratable value of the properties and deductible voluntary contributions.

The deferred tax assets and deferred tax liabilities result from temporary differences and loss carry forwards as shown below:

EUR thousand	Dec. 31, 2008		Dec. 31, 2007	
	Deferred tax assets	Deferred tax liabilities	Deferred tax assets	Deferred tax liabilities
Investment property	39,989	11,888	42,987	13,408
Property, plant and equipment	1,903	2,843	334	45
Investments	199	0	0	75
Development of properties and inventories	127	0	0	0
Receivables and other assets	5,515	2,961	1,097	4,101*
Accumulated other comprehensive income	-11	1,467	0	4,223*
Employee benefits	87	6,510	107	0
Other provisions	0	1,615	6,580	0
Other bank loans	3,879	42,624	0	39,133*
Trade payables	1,849	59	453	3
Miscellaneous liabilities	1,345	5,331	1,275	53
Liabilities from finance leases	0	0	0	2,617
Total temporary differences	**54,882**	**75,298**	**52,833**	**63,658**
Loss carry forwards	20,556	0	10,825	0*
Total	**75,438**	**75,298**	**63,658**	**63,658**
Offsetting	-75,298	-75,298	-63,658	-63,658
Amount recognized on balance sheet	**140**	**0**	**0**	**0**

* Restatement of prior year figures

Deferred tax assets are recognized for temporary differences and loss carry forwards to the extent that their realization in the foreseeable future seems sufficiently certain. In the financial year 2008 no deferred tax assets were recognized for temporary differences of EUR 10,093 thousand (2007: EUR 13,843 thousand) and for tax loss carry forwards of EUR 1,569,678 thousand (2007: EUR 2,423,854 thousand) for purposes of corporate tax and of EUR 1,351,003 thousand (2007: EUR 2,176,020 thousand) for purposes of trade tax, as it is not likely that sufficient taxable income will be generated for these amounts in the foreseeable future.

The total temporary differences for interests in subsidiaries for which no deferred tax liabilities have been recognized pursuant to IAS 12.39 is EUR 0 thousand.

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

(13) MISCELLANEOUS DISCLOSURES

The individual functional areas contain the following types of costs:

EUR thousand	2008	2007
Personnel expenses	25,142	37,343
Depreciation and amortization	2,086	2,141
Cost of materials	61,287	67,606

The personnel expenses include restructuring costs of EUR 1,619 thousand (2007: EUR 9,341 thousand).

During the year, one-time project costs of EUR 5,382 thousand (2007: EUR 9,380 thousand) were incurred.

One-time project costs include expenses for third party consultants relating to software implementation, significant upgrades and other restructuring projects.

(14) NET EARNINGS BY VALUATION CATEGORY

The net earnings on financial instruments are due to changes in fair value, impairments, write-ups and write-offs. In the financial year, interest income and expenses were experienced for financial instruments which were measured at their fair value which were not recognized as income and expense. The interest on financial instruments is shown in the interest income and expenses.

The GSW Group records the other net earnings components as follows: The impairment allowances and depreciation and amortization for deliveries and performances attributable to the “loans and receivables” valuation category are recognized in the net rental and building management income (other operating income and other operating expenses). Write-downs and impairment allowances on other receivables for financial instruments are recorded under the general expenditure on administration.

The “other income” (other operative income and expenses) is shown under the income from other earnings components in the “loans and receivables” valuation category.

The following table shows the net earnings by valuation category:

Dec. 31, 2008 EUR	from interest	from dividends	from subsequent measurement			from disposal	from other earnings components	net earnings
			at fair value	impairment allowance	write-up			
Loans & receivables	36,118,206	0	0	-3,374,452	731,916	-2,658,797	37,071	30,853,944
HTM	0	0	0	0	0	0	0	0
AFS	56,627	526,177	0	0	0	10,199,165	0	10,781,969
FVTPL - FVO	0	0	0	0	0	0	0	0
FAHFT and FLHFT	8,428,521	0	-27,711,154	0	1,190,432	0	0	-18,092,201
Other liabilities (at cost)	-97,088,103	0	0	0	0	397,577	-67,799	-96,758,325
Total	**-52,484,749**	**526,177**	**-27,711,154**	**-3,374,452**	**1,922,348**	**-7,937,945**	**-30,728**	**-73,214,613**

Dec. 31, 2007 EUR	from interest	from dividends	from subsequent measurement			from disposal	from other earnings Compo-nents	net earnings
			at fair value	impairment allowance	write-up			
Loans & receivables	33,540,069	0	0	-4,080,096	1,070,093	-3,491,933	22,379	27,060,512
HTM	0	0	0	0	0	0	0	0
AFS	23,371	3,117,190	0	-3,574	0	0	0	3,136,987
FVTPL - FVO	0	0	0	0	0	0	0	0
FAHFT and FLHFT	3,852,497	0	676,048	0	0	0	0	4,528,545
Other liabilities (At cost)	- 111,582,226	0	0	0	0	556,405	-114,338	-111,140,159
Total	**-74,166,289**	**3,117,190**	**676,048**	**-4,083,670**	**1,070,093**	**-2,935,528**	**-91,959**	**-76,414,115**

HTM = held to maturity AFS = available for sale FVTPL-FVO: fair value through profit and loss-fair value option FAHFT/FLHFT: financial assets/liabilities held for trade

FAHFT/FLHFT: financial assets held for trading/financial liabilities held for trading.

The impairment losses (2008: EUR 3,374 thousand) accounted related almost exclusively to trade receivable

NOTES TO THE CONSOLIDATED BALANCE SHEET

(15) INVESTMENT PROPERTY, INCLUDING INVESTMENT PROPERTY HELD FOR SALE

For the development of investment property in financial years 2007 and 2008 please refer to the GSW Group's statement of changes in non-current assets.

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

	Dec. 31, 2008		Dec. 31, 2007		Dec 31, 2006	
	Residen-tial property	Commercial property	Residen-tial property	Commercial property	Residen-tial property	Commercial property
Units	50,108	942	51,086	949	49,512*	842
Area (in sqm)	3,082,874	104,302	3,144,009	104,868	3,029,117*	93,861

* Restatement of the figures disclosed in 2006

The portfolio of the GSW Group also includes 7,560 parking spaces.

The additions to investment property included in the statement of changes in investment property and property, plant and equipment for 2008 relate only to capitalized modernizations and maintenance and repair according to IAS 4019. There were no acquisitions of property during the year.

The investment property, including the property held for sale, can be broken down as follows:

EUR thousand	Dec. 31, 2008		Dec. 31, 2007	
	Investment property	Property held for sale	Investment property	Property held for sale
Built plots	2,455,167	8,794	2,400,951	30,434
Unbuilt plots	29,501	1,264	30,552	1,270
Total	**2,484,668**	**10,058**	**2,431,503**	**31,704**

The fair values of the properties in the portfolio (IAS 40/ IFRS 5) as of December 31, 2008 would be as follows if the discounting rate were to vary by +/- 0.5 % vis-à-vis the interest rate applied as of December 31, 2008:

EUR thousand	+ 0.5 %	- 0.5 %
Built plots	2,375,990	2,566,328
Unbuilt plots*	30,765	30,765
Total	**2,406,755**	**2,597,093**

* No correlation to the discount interest rate. The estimated amount remains unchanged.

Some of the investment property is leased under commercial tenancy or lease agreements. The tenancy or lease agreements usually run for 10 years with a renewal option for a maximum of five years on two occasions. The tenancy agreements of the GSW Group for residential property generally provide for the tenant to give three months' notice as of the end of a month if the agreement is to be terminated. The following payment claims from the minimum rents/leasing installments are expected over the next few years on the basis of the agreements existing as of December 31, 2008:

EUR thousand	Up to one year	Between one and five years	More than five years
Future payments for operating leases as of December 31, 2008	44,935	4,915	787
Future payments for operating leases as of December 31, 2007	46,680	8,708	1,219

(16) INTANGIBLE ASSETS

The development of the individual items of the Group's intangible assets is shown in the statement of changes in non-current assets.

(17) PROPERTY, PLANT AND EQUIPMENT

Reference is made to the statement of changes in non-current assets with regards to the development of property, plant and equipment.

(18) INVESTMENTS

The significant financial statement captions of associates and joint ventures recognized under the equity method are as follows:

EUR thousand	Associates		Joint ventures	
	2008	2007	2008	2007
Revenue	0	32,524	0	20,589
Income	0	2,685	0	-2,050
	Dec. 31, 2008	Dec. 31, 2007	Dec. 31, 2008	Dec. 31, 2007
Non-current assets	0	25,484	0	32
Current assets	0	41,525	0	7,418
Non-current liabilities	0	18,549	0	300

Current liabilities	0	39,225	0	9,135

Non-consolidated interests in subsidiaries and financial instruments in the “Available for sale” category contained in the other financial instruments of non-current assets are measured at fair value at the balance sheet date or at amortized cost, if the fair value cannot be reliably measured due to the lack of an active market or by means of other measurement methods.

EUR thousand	Dec. 31, 2008	Dec. 31, 2007
Amortized cost	7,979	8,184
Financial instruments of non-current assets in the “Available for sale” category	**7,979**	**8,184**

(19) DEVELOPMENT OF PROPERTIES AND INVENTORIES

The development of properties and inventories is as follows:

EUR thousand	Dec. 31, 2008	Dec. 31, 2007
Developments of properties sold in the course of ordinary operating activities	717	832
Development of properties and inventories	**717**	**832**

(20) TRADE RECEIVABLES

Trade receivables are as follows:

EUR thousand	Dec. 31, 2008	Dec. 31, 2007
Trade receivables (gross)	26,438	39,494
Impairment allowances for trade receivables	-8,998	-8,833
Trade receivables	**17,440**	**30,661**

The amount recognized for trade receivables is divided up as follows among the individual business activities of the GSW Group:

EUR thousand	Dec. 31, 2008	Dec. 31, 2007
Receivables from property management	9,794	14,470
Receivables from sales of investment property	3,569	15,338
Other trade receivables	4,077	853
Trade receivables	**17,440**	**30,661**

The due dates of the trade receivables are as follows:

EUR thousand	Due within one year	Due between one and five years	Due after five years
December 31, 2008	15,374	1,677	389
December 31, 2007	18,441	10,665	1,554

(21) RECEIVABLES DUE FROM RELATED PARTIES

The receivables due from related parties are as follows:

EUR thousand	Dec. 31, 2008	Dec. 31, 2007
Receivables due from shareholders	358,240	356,816
Receivables due from joint ventures and associates	0	1,523
Receivables due from other related parties	0	33
Receivables due from related parties	**358,240**	**358,372**

No impairment allowances for recognizable credit risks on the closing dates in question were required.

The receivables due from related parties bear the following due dates:

EUR thousand	Due within one year	Due between one and five years	Due after five years
December 31, 2008	358,240	0	0
December 31, 2007	18,219	340,000	153

Further disclosures concerning related parties can be found in Note (34).

(22) OTHER ASSETS

The other assets are as follows:

EUR thousand	Dec. 31, 2008	Dec. 31, 2007
Derivatives measured at fair value	4,086	21,176
Advance payments (1)	0	1,772
Receivables from government grants	501	864
Receivables from employees	196	241
Creditors with debit balances	328	89
Miscellaneous	1,200	1,290
Other financial assets	**6,311**	**25,432**
Prepayments and deferred expenses	1,140	1,225
Receivables from other taxes	1,542	1,810
Advance payments (1)	671	0
Miscellaneous	0	11
Other miscellaneous assets	**3,353**	**3,046**
Other assets	**9,664**	**28,478**

(1) the advance payments were reclassified from other financial assets to other miscellaneous assets in 2008.

The other assets bear the following due dates:

EUR thousand	Due within one year	Due between one and five years	Due after five years
December 31, 2008	5,123	3,522	1,019
December 31, 2007	6,114	20,740	1,624

(23) ASSETS HELD FOR SALE

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

(24) EQUITY

The changes in equity are reported in statement of changes in shareholders' equity.

(a) Subscribed capital and additional paid-in capital

GSW's subscribed capital amounts to EUR 10,000,000. The allocation of the shares among GSW's shareholders is disclosed in Note (1).

(b) Consolidated retained earnings

The consolidated retained earnings include the earnings of the companies included in the consolidated financial statements in past periods and in the current period to the extent that they were not distributed.

(c) Accumulated other comprehensive income

The accumulated other comprehensive income, which includes the adjustments in fair value for owner-occupied properties measured according to the revaluation method, moved as follows:

EUR thousand	2008	2007
Balance at January 1	**9,772**	**4,700**
Revaluation reserve from the fair market valuation of owner-occupied properties	59	138
Revaluation reserve in accordance with IFRS 3 from successive acquisitions	0	-1,980
Accumulated fair value changes in derivatives constituting cash flow hedges	-13,769	8,145
Deferred taxes	2,767	-1,231*
Status as of December 31	**-1,171**	**9,772**

*Restatement of prior year figures

(25) EMPLOYEE BENEFITS

The pension plans are designed as defined contribution plans and defined benefit plans. Pension provisions are formed for obligations due to the vested rights of certain active employees in the GSW Group and their surviving dependents. Those pension commitments due to defined benefit plans are based on individual commitments with fixed, non-recurring payments and are fully funded through provisions. Additionally there are pension commitments due to defined contribution plans which are funded through deferred compensation of the affected employees.

In addition, the companies of the GSW Group are members of the *Versorgungsanstalt des Bundes und der Länder* (Federal and State Government Employees Retirement fund). The Federal and State Government Employees Retirement fund is a public law-institution that grants an additional pension to employees of public corporations and certain legal persons under private law. Due to its present constitution and regulations, the Federal and State Government Employees Retirement fund 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 Federal and State Government Employees Retirement fund are recognized as a defined contribution plan as, based on the information available, it is not possible to measure the pension commitments using the method required for defined benefit plans in IAS 19.

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

%	2008	2007
Interest rate - future pensioners	6.0 %	5.7 %
Interest rate - current pensioners	6.2 %	5.5 %
Salary trend	2.5 %	2.5 %
Pension trend	2.0 %	1.8 %

For mortality rates, the companies of the GSW Group used the guideline tables 2005G by Dr. Klaus Heubeck.

The defined benefit plans resulted in expenses of EUR 118 thousand (2007: EUR 547 thousand) which are as follows:

EUR thousand	2008	2007
Past service cost	14	94
Retrospective offset for past service cost	0	389
Interest expense	103	64
Realized actuarial gains	1	0
Pension expense	**118**	**547**

The value of the provision is made up as follows:

EUR thousand	Dec. 31, 2008	Dec. 31, 2007
Present value of pension commitments	1,866	1,864
Actuarial gains and losses not realized	221	182
Provision	**2,087**	**2,046**

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

EUR thousand	2008	2007
Present value on January 1	2,046	1,574
Pension expense	14	94
Retrospective offset for past service cost	0	389
Interest expense	103	64
Payments	-75	-75
Realizable actuarial income	-1	0
Present value of employee benefits as of December 31	**2,087**	**2,046**

The payments made by the GSW Group to the Federal and State Government Employees Retirement fund amounted to EUR 1,597 thousand in 2008 (2007: EUR 1,036 thousand).

(26) OTHER PROVISIONS

The other provisions are as follows:

EUR thousand	Status at Jan 1, 2008	Disposal from initial consolida-tion	Additions	Interest cost	Used	Reversed	Status at Dec. 31, 2008
Provision for onerous contracts	2,980	0	0	-399	-1,108	0	1,473
Provision for employee benefits	2,086	791	87	0	-342	-670	1,952
Provision for government grants	1,136	0	0	0	-1,136	0	0
Provision for restructuring	4,070	0	60	35	-3,581	-524	60
Provision for litigation costs	1,649	0	507	0	-915	-502	739
Other miscellaneous provisions	1,433	104	206	-81	-38	-362	1,262
Other provisions	**13,354**	**895**	**860**	**-445**	**-7,120**	**-2,058**	**5,486**

The provision for onerous contracts has been accrued in relation to obligations from rent guarantees under general tenancy agreements concluded by the GSW Group where obligations are expected to exceed rights, and to construction work obligations for properties which the GSW Group has sold to real estate funds. The amount and timing of the unwinding of the provision particularly depend on the development of rents for the properties covered by the general tenancy agreements. The general tenancy agreements expire in the financial year 2009. The construction work obligations which result from purchase and building contracts regarding not yet modernized apartments have to be satisfied by GSW without a limit of time.

The provisions accrued for employee benefits include obligations in relation to partial retirement, i.e. future obligations of the GSW Group from accrued arrears during the active phase of the entitled employee and from a top-up. Obligations to employees who have already concluded an agreement concerning partial retirement and the number of employees who, on the basis of an estimate, will probably conclude such an agreement, have been included the calculation. The corresponding payments to meet these obligations will be made by financial year 2014, taking into account the individual agreements expected to be concluded by this time.

(27) FINANCIAL LIABILITIES

The financial liabilities are as follows:

EUR thousand	Dec. 31, 2008	Dec. 31, 2007
Liabilities from financing investment properties	1,673,082	1,704,914*
Liabilities from finance leases	2,550	2,303
Financial liabilities	**1,675,632**	**1,707,217***

* Restatement of prior year figures: Liabilities from financing investment properties decreased by EUR 5,641 thousand (amortization of government grants - "Subventionstilgung").

(a) Liabilities from financing investment properties

The liabilities from financing investment properties are characterized by the following carrying amounts, interest rates and maturities. All loans are denominated in EUR.

Maturity	Dec 31, 2008 (EUR thousand)	Dec 31, 2007 (EUR thousand)	Interest rate as % in 2008
2008	0	28,186	
2009	26,565	3,871	EURIBOR + margin
2010	7,682	0	4.4 to 5.5
2011	920,858	919,778*	EURIBOR + margin
2012	0	134,151	0
2013	42,071	37,058	EURIBOR + margin
2014	27,196	28,226	EURIBOR + margin
2017 to 2027	269,945	158,659	EURIBOR + margin
without contractual maturity	378,765	394,985	0.0 to 7.37
Total	**1,673,082**	**1,704,914***	

* Restatement of prior year figures: Liabilities from financing investment properties without contractual maturities decreased by EUR 5,641 thousand (amortization of government grants - "Subventionstilgung").

The liabilities are generally secured by collateral and by assigning rights under the tenancy agreements. Virtually all investment property, including investment property held for sale, has been given as collateral.

Under a loan agreement dated March 31, 2008 GSW Grundvermögens- und Vertriebsgesellschaft mbH was provided with a loan of EUR 114 million which was used to refinance existing liabilities. The loan matures on March 31, 2018. It bears interest at the 3-month Euribor rate plus a markup of 0.7 % p.a.

The liabilities from financing investment properties have the following due dates:

EUR thousand	Due within one year	Due between one and five years	Due after five years
December 31, 2008	26,565	965,571	680,946
December 31, 2007	28,186	1,052,158*	624,569

* Restatement of prior year figures: Liabilities from financing investment properties without contractual maturities decreased by EUR 5,641 thousand (amortization of government grants - "Subventionstilgung") and EUR -152 thousand (changes in prior years presentation).

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

	Dec. 31, 2008		Dec. 31, 2007	
(percent)	minimum	maximum	minimum	maximum
1 – 5 years	3.82	6.40	3.82*	7.04
6 – 10 years	3.52	5.97	3.52	5.91
11 – 20 years	3.90	6.92	3.89*	6.92
21 – 30 years	4.02	8.10	4.02	6.91
> 30 years	3.87	7.05	3.87*	7.27

* Prior year figures were restated

(b) Liabilities from finance leases

The liabilities from finance leases have the following due dates:

EUR thousand	Due within one year	Due between one and five years	Due after five years
December 31, 2008	456	640	1,454
December 31, 2007	184	513	1,606

Future payments for liabilities from finance leases can be reconciled with the carrying amount of recognized liabilities as follows as of December 31, 2008:

EUR thousand	Due within one year	Due between one and five years	Due after five years
Payments	675	1,361	2,020
Interest component	-219	-721	-566
Principal repayments	**456**	**640**	**1,454**

The reconciliation as of December 31, 2007 was as follows:

EUR thousand	Due within one year	Due between one and five years	Due after five years
Payments	408	1,285	2,330
Interest component	-224	-772	-724
Principal repayments	**184**	**513**	**1,606**

(28) PAYABLES DUE TO RELATED PARTIES

The payables due to related parties are up as follows:

EUR thousand	Dec. 31, 2008	Dec. 31, 2007
Payables due to joint ventures and associates	0	2,073
Payables due to other related parties	20	20
Payables due to related parties	**20**	**2,093**

Further disclosures concerning related parties can be found in Note (34).

The payables to related parties are all due within one year.

(29) OTHER LIABILITIES

The other liabilities are as follows:

EUR thousand	Dec. 31, 2008	Dec. 31, 2007
Liabilities due to employees (1)	0	4,425
Miscellaneous	12,218	1,818
Other financial liabilities	**12,218**	**6,243**
Accrued ground rent	1,655	1,683
Deferred income	2,081	4,331
Deferred rent	208	587
Liabilities due to employees	4,430	0
Other taxes	1,022	1,699
Social security payments	289	250
Miscellaneous	54	18
Other miscellaneous liabilities	**9,739**	**8,568**
Other liabilities	**21,957**	**14,811**

(1) Reclassified to other miscellaneous liabilities for 2008.

Miscellaneous financial liabilities include derivatives of EUR 10,241 thousand (2007: EUR 436 thousand).

The other deferred income includes the remuneration that the GSW Group has received from investment funds for granting or concluding general tenancy agreements.

The other liabilities have the following due dates:

EUR thousand	Due within one year	Due between one and five years	Due after five years
December 31, 2008	9,224	11,218	1,515
December 31, 2007	9,557	2,402	2,852

(30) ADDITIONAL DISCLOSURES ON FINANCIAL INSTRUMENTS

Cash and cash equivalents and trade receivables generally have short-term due dates. Their carrying amounts as of the closing date therefore approximately match their fair value.

The investments class includes financial instruments with a value of EUR 8 million in the “Available For Sale” measurement category; these have not been measured at fair value due to a lack of market data. These financial instruments are measured at amortized cost.

Assets at Dec. 31, 2008	Amortized cost		Fair value				Total
Valuation category EUR	Loans and receivables	HTM Financial investments held to maturity	AFS Financial assets available for disposal	FVTPL Financial assets/liabilities measured at fair value and charged to the income statement: Trade (HFT)	FVTPL: Fair value option	Derivatives in hedges acc. IAS 39	
Class of financial instruments	**Carrying amount/fair value**	**Carrying amount/fair value**	**Carrying amount/fair value**	**Carrying amount/fair value**	**Carrying amount/fair value**	**Carrying amount/fair value**	**Carrying amount/fair value**
Investments	0	0	7,979,493	0	0	0	7,979,493
Trade receivables	17,439,195	0	0	0	0	0	17,439,195*
Other receivables	360,465,429	0	0	0	0	0	360,465,429
Derivatives	0	0	0	3,187,956	0	897,727	4,085,683
Cash and cash equivalents	108,214,687	0	0	0	0	0	108,214,687
TOTAL ASSETS	**486,119,311**	**0**	**7,979,493**	**3,187,956**	**0**	**897,727**	**498,184,487**

Assets at Dec. 31, 2007	Amortized cost		Fair value				Total
Valuation category EUR	Loans and receivables	HTM Financial investments held to maturity	AFS Financial assets available for disposal	FVTPL Financial assets/liabilities measured at fair value and charged to the income statement: Trade (HFT)	FVTPL: Fair value option	Derivatives in hedges acc. IAS 39	
Class of financial instruments	**Carrying amount/fair value**	**Carrying amount/fair value**	**Carrying amount/fair value**	**Carrying amount/fair value**	**Carrying amount/fair value**	**Carrying amount/fair value**	**Carrying amount/fair value**
Investments	0	0	11,048,409	0	0	0	11,048,409
Trade receivables	30,660,854	0	0	0	0	0	30,660,854*
Other receivables	360,867,425	0	0	0	0	0	360,867,425
Derivatives	0	0	0	1,726,868	0	19,448,997	21,175,865
Cash and cash equivalents	47,766,908	0	0	0	0	0	47,766,908
TOTAL ASSETS	**439,295,187**	**0**	**11,048,409**	**1,726,868**	**0**	**19,448,997**	**471,519,461**

* Restatement of prior year figures: reclassification of cash and cash equivalents in the category loans and receivables

Other receivables (EUR 360,465 thousand; 2007: EUR 360,867 thousand) each relate almost exclusively the shareholders' loans - see also note (34).

Equity and liabilities at Dec. 31, 2008 Valuation category EUR	Amortized cost Other liabilities		Fair value FVTPL Financial liabilities measured at fair value and charged to the income statement Trade (HFT)		Fair value option		Derivatives in hedges acc. IAS 39		Total	
Class of financial instruments	**Carrying amount**	**Fair value**	**Carrying amount**	**Fair value**	**Carrying amount**	**Fair value**	**Carrying amount**	**Fair value**	**Carrying amount**	**Fair value**
Financial liabilities	1,675,631,509	1,416,754,012	0	0	0	0	0	0	1,675,631,509	1,416,754,012*
Trade payables	32,686,460	32,686,460	0	0	0	0	0	0	32,686,460	32,686,460
Derivatives	0	0	0	0	0	0	10,240,753	10,240,753	10,240,753	10,240,753
Other liabilities	6,426,847	6,426,847	0	0	0	0	0	0	6,426,847	6,426,847
TOTAL equities and liabilities	**1,714,744,816**	**1,455,867,319**	**0**	**0**	**0**	**0**	**10,240,753**	**10,240,753**	**1,724,985,569**	**1,466,108,072**

Equity and liabilities at Dec. 31, 2007 Valuation category EUR	Amortized cost Other liabilities		Fair value FVTPL Financial liabilities measured at fair value and charged to the income statement Trade (HFT)		Fair value option		Derivatives in hedges acc. IAS 39		Total	
Class of financial instruments	**Carrying amount**	**Fair value**	**Carrying amount**	**Fair value**	**Carrying amount**	**Fair value**	**Carrying amount**	**Fair value**	**Carrying amount**	**Fair value**
Financial liabilities	1,707,216,526	1,734,217,944	0	0	0	0	0	0	1,707,216,526	1,734,217,944*
Trade payables	38,714,516	38,714,516	0	0	0	0	0	0	38,714,516	38,714,516
Derivatives	0	0	0	0	0	0	436,388	436,388	436,388	436,388
Other liabilities	5,806,448	5,806,448	0	0	0	0	0	0	5,806,448	5,806,448
TOTAL equities and liabilities	**1,751,737,490**	**1,778,738,908**	**0**	**0**	**0**	**0**	**436,388**	**436,388**	**1,752,173,878**	**1,779,175,296**

*Restatement of prior year figures

Trade payables and other liabilities generally have short-term due dates. The carrying values approximately match the fair value. The financial liabilities class comprises financial instruments whose fair values do not correspond to the carrying amounts (liabilities from financing investment properties).

The fair values of financial instruments where the fair values differ from the carrying amounts are shown in the following table:

EUR thousand	Dec. 31, 2008		Dec. 31, 2007	
	Carrying amount	Fair value	Carrying amount	Fair value
Liabilities from financing investment properties	1,673,082	1,414,204	1,704,913*	1,726,730

* Restatement of prior year figures: Liabilities from financing investment properties decreased by EUR 5,641 thousand (repayment of government grants).

To calculate the fair values of the liabilities from financing investment properties or other financings the following market interest rates were used (in percent). These interest rates are made up of a risk-free rate plus a mark-up reflecting the credit rating and depending on the maturity of the loan:

(percent)	Dec. 31, 2008	Dec. 31, 2007
Liabilities from financing investment properties	7.99 to 9.30	5.06 to 6.47

The carrying amounts of the other financial instruments correspond to their fair values. This concerns, in particular, the trade receivables and trade payables, the other financial assets and liabilities and the receivables due from related parties.

NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

(31) COMPOSITION OF CASH AND CASH EQUIVALENTS

The financial resources correspond to the cash and cash equivalents reported in the balance sheet and mainly consist of credit at bank accounts.

OTHER DISCLOSURES

(32) FINANCIAL INSTRUMENTS

(a) Risk management principles

The GSW Group considers itself exposed to credit risk, liquidity risk and market risk due to its use of financial instruments. There is an effective risk management system in place which is supported by a clear functional organization for the risk control process.

Financial policy is drawn up by the management and monitored by the supervisory board. The financing department is responsible for execution of the 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 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 make a strict separation between trading and settlement.

(b) Credit risk

The risk of business partners – mainly GSW's tenants – being unable to meet their contractual payment represent credit risk and may lead to a loss for the GSW Group. A credit rating check is made to control the credit risks.

Credit risks exist for all classes of financial instruments, particularly for trade receivables. The GSW Group does not consider itself to be exposed to any significant credit risk in relation to any individual contractual partner. The concentration of the credit risk is limited due to the broad and mixed customer base.

For cash and cash equivalents and derivatives, GSW generally deals only financial institutions with good credit ratings. The creditworthiness of the parties is continuously monitored. With a significant deterioration in the credit quality of a counter party, GSW is committed to quickly reduce existing positions and ceases to enter into new transactions.

Contrary to the risk strategy of GSW to limit the credit risk for derivative financial instruments in that relevant contracts are only concluded with contractual partners and credit institutions with very good credit ratings, in reporting year 2008 a cap issued by Lehman Brothers with a book value of TEUR 15,732 had to be written off.

As shown in the following table, the carrying amounts of the financial assets shown in the balance sheet net of any impairment allowances constitute the highest-possible credit risk, not including the value of collateral received or other risk-decreasing agreements.

For the receivables from shareholder loans (EUR 358,240 thousand; 2007: EUR 356,815 thousand), we estimate the default risk to be low as the loans will probably be repaid in full in 2009.

Maximum credit risk	Carrying amount after impairment (in EUR)	Carrying amount of the assets with new conditions (in EUR)	Carrying amount after impairment (in EUR)	Carrying amount of the assets with new conditions (in EUR)
	Dec. 31, 2008	Dec. 31, 2008	Dec. 31, 2007	Dec. 31, 2007
Investments	7,979,493	0	11,048,409	0
Trade receivables	17,439,195	0	30,660,854	0
Other receivables	360,465,429	0	360,867,426	0
Derivatives	4,085,682	0	21,175,865	0

Cash and cash equivalents	108,214,687	0	47,766,908	0
Warranties (1)	6,812,000	0	12,979,000	0

(1) For warranties, the value presented represents the maximum possible amount and not the book value.

The following table shows the financial assets found to be impaired at the closing date:

Class of financial instrument Dec. 31, 2008	Carrying amount before impairment (in EUR)	Impairment (in EUR)	Fair value of available collateral (in EUR)
Investments	7,979,493	0	0
Trade receivables	30,542,509	-13,103,314	0
Other receivables	360,465,812	-383	0
Total	**398,387,814**	**-13,103,697**	**0**

Class of financial instrument Dec. 31, 2007	Carrying amount before impairment (in EUR)	Impairment (in EUR)	Fair value of available collateral (in EUR)
Investments	11,059,893	-11,484	0
Trade receivables	46,209,781	-15,548,927	0
Other receivables	364,625,551	-3,758,125	0
Total	**421,895,225**	**-19,318,536**	**0**

In addition, the following table shows the age structure of the financial assets which are overdue but not subject to impairment as of the closing date.

In respect of the stock of receivables which are subject neither to an impairment nor a default in payment, there are no indications as of the closing date that the debtors will be unable to meet their payment obligations.

Class of financial instrument Dec. 31, 2008 (in EUR)	Overall carrying amount	of which: neither overdue nor impaired as of the closing date	of which: not impaired as of the closing date and overdue in the following time corridors				
			< 180 days	180 - 360 days	360 - 540 days	540 - 720 days	> 720 days
Investments	7,979,493	7,979,493	0	0	0	0	0
Trade receivables	17,439,195	6,011,636	6,055,636	3,842,603	497,836	362,717	668,767
Other receivables	360,465,429	360,410,016	54,830	553	30	0	0
Total	**385,884,117**	**374,401,145**	**6,110,466**	**3,843,156**	**497,866**	**362,717**	**668,767**

Class of financial instrument Dec. 31, 2007 (in EUR)	Overall carrying amount	of which: neither overdue nor impaired as of the closing date	of which: not impaired as of the closing date and overdue in the following time corridors				
			< 180 days	180 - 360 days	360 - 540 days	540 - 720 days	> 720 days
Investments	11,048,409	11,048,409	0	0	0	0	0
Trade receivables	30,660,854	25,262,245	1,077,283	988,068	3,229,426	54,411	49,421
Other receivables	360,867,426	359,672,580	810,145	218,031	20,559	0	146,111
Total	**402,576,689**	**395,983,234**	**1,887,428**	**1,206,099**	**3,249,985**	**54,411**	**195,532**

Impairments are determined on the basis of how long the relevant receivable is overdue. From 180 days overdue, an impairment of 25% is made. Thereafter, the impairment increases progressively to 50%, 75% and to 100%.

(c) Liquidity risk

The liquidity risk refers to the risk of a company being unable to meet its payment obligations on a contractually agreed date.

There is permanent monitoring and planning by the financing/cash management department to ensure that the GSW Group always has sufficient liquid assets to meet its liabilities for a certain period. At all times the GSW Group holds sufficient cash and cash equivalents in order to be able to meet the Group's obligations for a defined period. The Group also has access to credit lines and overdraft facilities in the approx. amount of EUR 20.45 million should the need arise. Approximately half the credit lines are secured and approximately half are unsecured. The secured portion of the credit line will be reduced in the event of property sell-offs.

The following table shows the contractually agreed (non-discounted) interest and redemption payments on the financial liabilities and the derivative financial instruments with a negative fair value for the GSW Group.

Type of financial liability (in EUR) Dec. 31, 2008	Carrying amount	Residual maturities		
		< 1 year	1 - 5 years	> 5 years
Non-derivative financial liabilities	0	0	0	0
Financial liabilities	1,675,632,137	77,871,597	1,215,929,833	999,291,688
Trade payables	32,686,460	32,404,642	281,818	0
Other liabilities	1,996,847	1,131,722	865,125	0
Derivative financial liabilities	10,240,753	2,628,283	7,705,500	588,045
Total	**1,720,556,197**	**114,036,244**	**1,224,782,276**	**999,879,733**

Type of financial liability (in EUR) Dec. 31, 2007	Carrying amount	Residual maturities		
		< 1 year	1 - 5 years	> 5 years
Non-derivative financial liabilities	0	0	0	0
Financial liabilities	1,707,216,138	124,092,471	1,283,184,163	942,528,460
Trade payables	37,419,516	36,350,054	1,069,462	0
Other liabilities*	7,900,448	7,027,438	873,010	0
Derivative financial liabilities	436,388	31,952	409,065	55,500
Total	**1,752,972,490**	**167,501,915**	**1,285,535,700**	**942,583,960**

*Prior year figures were restated.

This includes all instruments for which payments have already been contractually agreed as of the balance sheet date. Target 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 balance sheet date. Financial liabilities repayable at any time are always allocated to the earliest possible time schedule.

(d) Market risks (interest risks)

GSW is exposed to a significant interest-rate fluctuation risk due to its business activities. This interest-rate fluctuation risk results in particular from variable-interest 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 the market interest rates on the interest income and expenses, on trading profits and losses and on equity as of the balance sheet date are determined. The interest rate risk may occur both as a fair value risk (closing date assessment) and as a cash flow risk (flow variability assessment).

Within the framework of the sensitivity analysis, for the GSW Group the equity and income statement effects are taken into consideration by means of a parallel shift of the EUR interest-rate curve by +/-50 BP. The cash flow effects resulting from the shift of the interest-rate curve merely relate to the interest expenses and income for the coming period under review.

To minimize the risks resulting from interest-rate fluctuations, the GSW Group makes selective use of derivative financial instruments for certain forms of financing.

The use of derivative financial instruments is regulated by relevant guidelines and they may only be used to hedge 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 provide for a strict separation between trading and settlement. Derivatives may only be traded through banks with a first-class credit rating.

An interest rate cap agreement amounting to EUR 685,586,243 was terminated due to the insolvency of Lehman Brothers. To provide security to the underlying transaction a new cap with identical conditions was entered into. There were no other changes in the portfolio of swaps and caps.

No derivative financial instruments are used for speculative purposes.

On December 31, 2008 the Group had the following hedging instruments (cash-flow hedge) outstanding:

Number	Nominal values EUR	Strike rates	Values at Dec. 31, 2008 EUR
7 interest swaps	210,100,000	3.92 % to 4.80 %	-10,240,753
3 caps	1,134,618,408	3.77 % to 4.75 %	4,085,682

Cash flows resulting from the hedged item and from the hedging instrument that will occur from 2009 to 2027 will be simultaneously recorded in the income statement.

In 2008, the ineffective portion of hedges recorded in the income statement, amounted to less than EUR 1 thousand.

The following table shows the amount directly recognized in equity during the reporting period. This corresponds to the effective portion of the fair value change.

Equity and income statement implications	Fair value in the reporting year (EUR)
Initial status at Jan. 1, 2008	13,752,049
Recognition in equity in the reporting period	0
Release from equity to the income statement	-1,190,432
Release from equity to cost/carrying amount	-12,578,569
Final status at Dec. 31, 2008	**-16,952**

Equity and income statement implications	Fair value in the reporting year (EUR)
Initial status at Jan. 1, 2007	5,606,787
Recognition in equity in the reporting period	8,145,262
Release from equity to the income statement	0
Release from equity to cost/carrying amount	0
Final status at Dec. 31, 2007	**13,752,049**

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 on the closing date, a hypothetical change in the interest rates for the respective instruments would have had the following effects:

2008 sensitivities:

Financial instruments (in EUR)	Equity effect		Income statement effect	
	+ 50 BP	- 50 BP	+ 50 BP	- 50 BP
Primary financial instruments (fixed-interest)				
AfS instruments (fixed-interest)	-	-	-	-
FVTPL instruments (fixed-interest)	-	-	-	-
Primary financial instruments (variable-interest)				
Loans	-	-	-	-
HtM securities	-	-	-	-
Loans received	-	-	-352,687	352,687
AfS instruments (variable-interest)	-	-	-	-
FVTPL instruments (variable-interest)	-	-	-	-
Cash and cash equivalents (variable-interest)	-	-	13,061	-13,061
Derivative financial instruments & hedges				
Free-standing derivatives	-	-	2,435,157	-1,429,340
Cash flow hedges	4,865,440	-4,716,323	7,527	-4,386
Total	**4,865,440**	**-4,716,323**	**2,103,058**	**-1,094,100**

2007 sensitivities:

Financial instruments (in EUR)	Equity effect		Income statement effect	
	+ 50 BP	- 50 BP	+ 50 BP	- 50 BP
Primary financial instruments (fixed-interest)				
AfS instruments (fixed-interest)	-	-	-	-
FVTPL instruments (fixed-interest)	-	-	-	-
Primary financial instruments (variable-interest)				
Loans	-	-	-	-
HtM securities	-	-	-	-
Loans received	-	-	-234,431*	234,431*
AfS instruments (variable-interest)	-	-	-	-
FVTPL instruments (variable-interest)	-	-	-	-
Cash and cash equivalents (variable-interest)	-	-	10,582*	-10,582*
Derivative financial instruments & hedges				
Free-standing derivatives	-	-	2,163,855	-1,656,904
Cash flow hedges	15,281,736	-13,379,504	5,670,375	-5,670,375
Total	**15,281,736**	**-13,379,504**	**7,610,381**	**-7,103,430**

* Prior year figures restated

(33) MATERIAL SUBSIDIARIES

At December 31, 2008 the Group has the following material subsidiaries:

	Group's interest
Subsidiaries	
GSW Gesellschaft für Stadterneuerung mbH, Berlin	100 %
GSW Betreuungsgesellschaft für Wohnungs- und Gewerbebau mbH, Berlin	100 %
GSW Grundvermögens- und Vertriebsgesellschaft mbH, Berlin	100 %
Stadtentwicklungsgesellschaft Buch mbH, Berlin	100 %
Grundstücksgesellschaft Karower Damm mbH, Berlin	100 %
GSW Verwaltungs- und Betriebsgesellschaft mbH, Berlin	100 %
Wohnwert Versicherungsagentur GmbH, Berlin	100 %
GSW Grundbesitz GmbH & Co. KG, Berlin	100 %
GSW Immobilien Beteiligungs GmbH, Berlin	100 %
Facilita Berlin GmbH, Berlin (from July, 24, 2008)	100 %
Wohnanlage Leonberger Ring GmbH, Berlin	99.6 %
GSW Verwaltungs- und Betriebsgesellschaft mbH & Co. Erste Beteiligungs KG, Berlin	94.9 %
GSW Immobilien GmbH & Co. Leonberger Ring KG, Berlin	94.0 %
GSW Verwaltungs- und Betriebsgesellschaft mbH & Co. Zweite Beteiligungs KG, Berlin	93.1 %

The exemption rules in section 264 (3) and section 264b of the German Commercial Code (*HGB*) were applied to the following companies:

- GSW Grundvermögens- und Vertriebsgesellschaft mbH, Berlin
- GSW Betreuungsgesellschaft für Wohnungs- und Gewerbebau mbH, Berlin
- Wohnwert Versicherungsagentur GmbH, Berlin
- GSW Grundbesitz GmbH & Co. KG, Berlin
- Grundstücksgesellschaft Karower Damm mbH, Berlin
- Wohnanlage Leonberger Ring GmbH, Berlin
- GSW Immobilien GmbH & Co. Leonberger Ring KG, Berlin
- GSW Verwaltungs- und Betriebsgesellschaft mbH & Co. Erste Beteiligungs KG, Berlin
- GSW Verwaltungs- und Betriebsgesellschaft mbH & Co. Zweite Beteiligungs KG, Berlin

According to the exemption rules of § 264 paragraph 3 HGB and § 264b HGB, the Company may waive the preparation and disclosure of financial statements if these companies are included in the consolidated financial statements of the parent and the parent is obligated to assume losses incurred by these companies. Furthermore, the shareholders must make a resolution to publish the consolidated financial statements of the parent in the electronic Federal Gazette.

Information concerning the shares held by GSW is published in the Electronic Federal Gazette pursuant to section 313 of the German Commercial Code (*HGB*).

(34) RELATIONSHIPS WITH RELATED PARTIES

For the GSW Group, related parties in the meaning of IAS 24 are the parties that control or exercise a significant influence on the group and, conversely, parties that are controlled or significantly influenced by the Group.

This means that the shareholders, W2001 Capitol B.V. and Lekkum Holding B.V., the companies controlled or significantly influenced by Whitehall and Cerberus, the members of GSW's management board and supervisory board and the subsidiaries, associates and joint ventures of the GSW Group are defined as related parties.

In addition to the subsidiaries included in the reporting entity through full consolidation, there were the following relationships with related parties.

(a) Relationships with the acquisition consortium of Whitehall and Cerberus

In the financial year 2008 the Group had the following business relationships with the consortium of Whitehall and Cerberus and the other companies controlled or significantly influenced by Whitehall or Cerberus:

Balance sheet (EUR thousand)	Dec. 31, 2008	Dec. 31, 2007
Receivables from shareholders	358,240	356,849
Income statement (EUR thousand)	**2008**	**2007**
Interest income	35,626	32,353

The shareholder loans bear interest at the 12-month Euribor + 5.5%. The loans have fixed maturity of five years.

(b) Relationships with non-consolidated associates

The Group had no material relationships with non-consolidated associates in relation to the exchange of goods and services.

(c) Relationships with associates and joint ventures

Balance sheet (EUR thousand)	Dec. 31, 2008	Dec. 31, 2007
Receivables from joint ventures	0	1,005
Receivables from associates	0	501
Payables due to joint ventures	0	2,074
Payables due to associates	0	821
Income statement (EUR thousand)	**2008**	**2007**
Revenues from joint ventures	428	1,237
Operating expenses for joint ventures	3,336	2,412
Interest expense for joint ventures	0	2
Revenues from associates	92	3,872
Other operating expenses for associates	4,331	1,756

Transactions with related parties are concluded on the terms normal for external third parties.

(d) Relationships with related persons

The total compensation paid to GSW's management amounted to EUR 1,863 thousand in 2008 (2007: EUR 1,990 thousand). Of this EUR 1,169 thousand (2007: EUR 1,170 thousand) was accounted for by fixed salary components and EUR 694 thousand (2007: EUR 820 thousand) by variable components. In the reporting year no benefits at the end of employment contracts were paid (2007: EUR 125 thousand).

Compensations to former members of management and their surviving dependents amount to EUR 56 thousand (2007: EUR 53.8 thousand). A provision of EUR 2,087 thousand (December 31, 2007: EUR 1,600 thousand) has been formed for pensions payable to former members of management and their surviving dependants.

In financial year 2008 the compensations paid to the members of the supervisory board amounted to EUR 18.4 thousand (2007: EUR 19.8 thousand).

The Group’s average number of employees in 2008 was as follows:

	Average number of employees
Duly authorized officers (*Prokuristen*)	3
Clerical employees	436
Blue-collar workers	89
Caretakers	117
Total	**645**

(35) CONTINGENT LIABILITIES

The Group has the following contingent liabilities:

EUR thousand	Dec. 31, 2008	Dec. 31, 2007
Warranties	6,812	12,797
Mortgages	10,635	10,635

The Mortgages of EUR 10,635 thousand relate to contingent liabilities towards the federal government of Berlin, which do not act as securities for financial liabilities. Apart from that position, generally all investment property, including investment property held for sale, has been given as collateral.

(36) OTHER FINANCIAL OBLIGATIONS

The Group's other financial obligations are as follows:

EUR thousand	Dec. 31, 2008	Dec. 31, 2007
Future payments in operating leases	30,634	36,079
Purchase commitment in relation to investment property and property, plant and equipment	0	135

Future payments under non-cancellable operating leases can be broken down as follows:

EUR thousand	Due within one year	Due between one and five years	Due after five years
December 31, 2008	5,235	18,375	7,024
December 31, 2007	5,487	19,549	11,043

(37) SUPERVISORY BOARD AND MANAGEMENT

The supervisory board of GSW Immobilien GmbH is comprised of the following members:

Dr. Jochen Scharpe	Chairperson, *Diplom-Kaufmann* (business graduate), Munich
Prof. Dr. Frank Richter	Deputy Chairperson, Vice President of Goldman Sachs & Co. OHG, Frankfurt
Mr. Thomas R. Arnold	Managing Director at Cerberus Real Estate Capital Management LLC, New York
Mr. Thomas E. Wagner	Managing Director at Cerberus Real Estate Capital Management LLC, New York
Dr. Reinhard Baumgarten	Head of Assets Department in the Senate Administration for Finance, Berlin
Mr. Chris Nelson	Director of Investment Management at Archon Group Deutschland GmbH, Berlin

Mr. Michael Günther	Workers' representative, clerk at GSW Immobilien GmbH (since May 2008), Berlin
Mr. Helmut Mencke	Workers' representative, clerk at GSW Immobilien GmbH (since May 2008), Berlin
Mr. Ralf Wittig	Workers' representative, blue-collar worker at Facilita Berlin GmbH, Berlin
Mr. Matthias Fine-Vizy	Workers' representative, clerk at GSW Immobilien GmbH (until April 2008), Berlin
Mrs. Regina Könecke	Workers' representative, clerk at GSW Immobilien GmbH (until April 2008), Berlin

In the financial year 2008 the management of GSW is comprised of the following members:

Mr. Thomas Zinnöcker (CEO), Diplom-Kaufmann (business graduate)

Mr. Jörg Schwagenscheidt, Real Estate Economist

Mr. Andreas Segal, Jurist (since March 2008)

The compensation of the management board and of the supervisory board is disclosed in Note (34).

(38) EVENTS AFTER THE BALANCE SHEET DATE

There were no transactions or events of material importance after the balance sheet date.

Berlin, February 26, 2010

GSW Immobilien GmbH

Thomas Zinnöcker Jörg Schwagenscheidt Andreas Segal

GSW Immobilien GmbH, Berlin
Consolidated fixed assets movement schedule for the year ended December 31, 2008
Statement of changes in intangible assets

2008	Historical acquisition and manufacturing costs							Accumulated amortization/depreciation							Book value	
EUR thousand	01.01.2008	Change in scope of consolidation	Additions	Reclassifications	Disposals	Reclassifications (IFRS 5)	31.12.2008	01.01.2008	Change in scope of consolidation	Adjustment fair value	Additions	Disposals	Reclassifications (IFRS 5)	31.12.2008	31.12.2008	01.01.2008
Intangible assets	1.516	0	2.609	0	-17	0	4.109	-549	0	0	-654	16	0	-1.187	2.922	968
Total	1.516	0	2.609	0	-17	0	4.109	-549	0	0	-654	16	0	-1.187	2.922	968

GSW Immobilien GmbH, Berlin
Consolidated fixed assets movement schedule for the year ended December 31, 2008
Statement of changes in investment property and property, plant and equipment

2008	Historical acquisition and manufacturing costs							Accumulated amortization/depreciation									Book value	
EUR thousand	01.01.2008	Change in scope of consolidation	Additions	Reclassifications	Disposals	Reclassifications (IFRS 5)	31.12.2008	01.01.2008	Change in scope of consolidation	Adjustment fair value	Additions	Disposals	Zuschrei-bungen	Anpassung Zeitwert	Reclassifications (IFRS 5)	31.12.2008	31.12.2008	01.01.2008
Investment property	2.104.263	0	23.122	0	-15.848	-6.809	2.104.728	327.240	0	57.492	0	-5.454			663	379.941	2.484.668	2.431.503
Land, similar rights and buildings	828	0	0	0	0	0	828	76	0	59	-58	0	0		0	77	905	903
Technical equipment and machinery	3.643	0	0	0	-8	0	3.635	-2.177	0	0	-555	5	0		0	-2.727	908	1.466
Other equipment, factory and office equipment	2.245	70	155	0	-1.639	0	832	-1.022	-12	0	-350	921	0		0	-463	369	1.223
Property, plant and equipment from finance lease	2.099	0	665	0	0	0	2.764	-346	0	0	-455	0	0		0	-801	1.963	1.753
Total	2.113.077	70	23.942	0	-17.496	-6.809	2.112.785	323.771	-12	57.552	-1.419	-4.528	0	0	663	376.027	2.488.812	2.436.849