Deutsche Annington Finance B.V., Amsterdam

Financial Report 2014

<u>Content</u>

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1. Management report 2014

Early 2013 the senior management of Deutsche Annington Immobilien SE, Düsseldorf („DAIG“) defined the respective new financing strategy for the Deutsche Annington Immobilien SE – Group (“DAIG group”) which is based on a balanced equity and debt financing with solid equity and LTV (loan – to – value) ratios.

As a first step DAIG has applied in June 2013 for the permission of an initial public offering to trade its shares on the Frankfurt and Luxembourg Stock Exchange which was granted on 19 June and 10 July by the German oversight authorities (Bafin). The initial public offering (IPO) occurred on 11 July 2013 in the Prime Standard Segment of the Frankfurt Stock Exchange (WKN: A1ML7J; Ticker Symbol: ANN) and on 3 September 2014 in the MDAX.

With the closing of the IPO and the obtained proceeds the rating agency Standard & Poor's (S&P) released for DAIG a corporate credit rating long-term BBB and short-term A2 with stable outlook (investment grade rating BBB). The successful IPO and the investment grade rating from S&P opened the doors for a fundraising through the international equity and debt markets. On 1 December 2014 S&P renewed its credit rating from 2013, however with a positive outlook concerning the successful completion of the announced GAGFAH takeover based on the respective public offering from 19 December 2014.

Simultaneously to the IPO Deutsche Annington Finance B.V., Amsterdam, (“company” or “DA FINANCE B.V.”) was founded as a fully-owned subsidiary on 21 June 2013 as part of the post-IPO finance strategy of Deutsche Annington Immobilien SE, Düsseldorf, Germany, in order to act as a financing company and to arrange for debt financings on the international debt capital markets, primarily through the issuance of bonds. Making use of a Dutch financing company is in line with international practice.

In 2013 the company implemented a so called European Medium Term Notes Program (EMTN-Program) which allows the DAIG group to raised funds through DA FINANCE B.V. on a short term basis without significant administrative efforts. The EMTN-Program was updated in 2014 and increased up to a total issuance volume of € 5.000 m based on the approval from 30 June 2014 of the oversight authorities of the Grand Duchy of Luxembourg CSSF.

In 2013 DA FINANCE B.V. issued unsecured and unsubordinated bonds of in total € 2.540 m, thereof € 500 m under the EMTN-Program. The US-$ denominated bonds are protected against currency and interest fluctuations through cross-currency derivatives. During 2014 the company rose for the second time € 500 m under the EMTN–Program. Furthermore the company rose in total € 1.700 m through issuing of two so called Hybrid bonds. Hybrid bonds are unsecured but subordinated and long-term to unlimited in duration with comparable higher nominal interest rates.

The fundraisings are being on-lended to the DAIG group entities at an arm's length basis in the context of the group financing.

The unsecured and unsubordinated bonds share the same BBB investment grade rating like DAIG, the hybrid bonds have a regular two notches lower rating with BB+. These achievements are a clearly unique distinguishing competitive advantage for a German residential real estate business.

After the repayment of the GRAND securitization early 2013 finally through the bond proceeds, structured financings and the successful IPO DAIG has essentially achieved the main objectives of its financing strategy with the balanced mixture of equity and unsecured, unsubordinated bonds with free access to the equity and debt markets based on an investment grade rating. This translates in an overall LTV of around 50%. The fund raisings in 2014 including the innovative use of hybrid bonds opened further financing spheres and supported essentially DAIG´s extension strategy in financing the acquisitions of DeWAG (closing 1 April 2014), Vitus (closing 1 October 2014) and GAGFAH (expected closing mid-March 2015).

DAIG serves within the DAIG group as management holding and cash-pool leader. DA FINANCE B.V. is an integral part of the DAIG risk and control management system and is monitored by the middle office of the DAIG treasury department which in particular takes care of the main business risks of DA FINANCE B.V. as there are the interest rate risk, the liquidity risk and the counterparty risk and to a certain degree the currency risk. DAIG treasury is also responsible for the execution of a reasonable hedging of the before mentioned risks. These fees related to these tasks are recharged to DA FINANCE B.V. on an arm length basis.

The results of 2014 are negatively affected by the first time losses from the contracted cross-currency swaps. The swaps have been purchased to support the North-American fundraising, the first bond placed in the US through a European residential real estate company with which DAIG group got access to the North-American debt markets. The company applies hedge accounting to hedge currency risk on borrowings and lending.

Besides that, the results of DA FINANCE B.V. should be driven by the margin obtained on the on-lending less certain charges for central service provided through DAIG. Finally DA FINANCE B.V. is supported by the unconditional and unlimited guarantee of DAIG as the credit and market risk is limited to EUR 5 m for DA FINANCE B.V. Also in the future the earnings will be determined by income items associate by the on-lending of raised funds and the profitability will be based on the margins obtained from the on-lending in excess of the interest to be paid on the notes and the service charges. Based on that DA FINANCE B.V. will achieve a reasonable profit under these circumstances.

DAIG senior management has the clearly articulated intention to raise further funds through DA FINANCE B.V. by issuing further bonds to obtain debt financings to complement equity financing for further internal as well as external growth (through acquisitions). Acquisitions are an integral part of the DAIG strategy and DA FINANCE B.V. therefore an important tool to execute the DAIG strategy. On this account the issuing of additional bonds and transactions within the DA FINANCE B.V. can be expected as the company has executed a bridge financing for up to EUR 6.500 m. Associated with a further expansion of the business volume the organizational structure of the company will be continually developed. DA FINANCE B.V. does not engage in any research and development activities.

The company employs four employees, of which are three male and one female. The management board of two people comprises only men. As at 1 January 2013, a new law on management on supervision (Wet Bestuur en Toezicht) came into effect in the Netherlands. The purpose of this law is to attain a balance (at least 30% of each gender) between men and women in the board of directors of large entities (as defined in the said law). After taking cognisance of the current nature and activities of the group and the knowledge and expertise of the current board members, the existing composition of the board of directors is considered to be appropriate. However, the new law will be taken into account while appointing the future members of the Board of Managers.

The year 2014 ends for the company with a positive net result of KEUR 3.808. The function of DA FINANCE B.V. as a financing vehicle of DAIG-Group in essentially constructed, that it earns a margin in excess of the own borrowing cost which in a way should leave the company with sufficient residual earnings and cash flows. The liquidity of the company as per year end is ensured through the cash-pool of DAIG-group. The net increase in cash and cash equivalents amounts to KEUR 4.460 at the end of period. Finally the company has an unlimited and unconditional guarantee of DAIG. The going concern of the DA FINANCE B.V. is therefore ensured.

DA FINANCE B.V. is incorporated in the consolidated financial statements of DAIG prepared under IFRS as endorsed in the EU.

Manager responsibility statement

All managers confirm that, to the best of his or her knowledge:

- The financial statements for the fiscal year 2014 which have been prepared in accordance with the Netherlands Civil Code, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company.
- The Management report includes a fair review of the development and performance of the business and the position of the company, together with a description of the principal risks and uncertainties they face as required pursuant to section 5:25d(8)/(9) of the Dutch Financial Markets Supervision Act ("Wet op het financieel toezicht").

Amsterdam, 9 March 2015

Original has been signed by
Rick van Dijk

Original has been signed by
Lars Schnidrig

2. Financial Statements

a. Balance Sheet as at December 31, 2014
(before appropriation of result)

Assets	Note		**Dec. 31, 2014**	**Dec. 31, 2013**
		EUR´000	EUR´000	EUR´000
Fixed assets				
Tangible fixed assets	5	13		12
Financial fixed assets				
Receivables from affiliated and parent companies	6	4.717.760		2.527.126
Receivables from derivatives	20	50.577		-
Deferred tax assets	7	10.399		2.545
			4.778.749	2.529.683
Current assets				
Receivables from shareholder	6	47.610		21.620
Other assets	8	19.927		-
Cash and cash equivalents	4.4	6.460		2.000
			73.997	23.620
Total assets			4.852.746	2.553.303

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Equity and Liabilities			**Dec. 31, 2014**	**Dec. 31, 2013**
	Note	EUR´000	EUR´000	EUR´000
Equity				
Subscribed capital		18		18
Share premium reserve		5.000		2.000
Cash flow hedge reserve		-17.855		-
Other reserves		-6.992		-
Unappropriated profits		3.808		-6.992
Total shareholders' equity			-16.021	-4.974
Long-term liabilities				
Hybrid bond			993.034	-
Total capital base	9		977.013	-4.974
Long-term liabilities				
Bonds	10	3.795.518		2.507.856
Derivative financial liabilities	20	-		24.657
			3.795.518	2.532.513
Current liabilities				
Trade payables		-		613
Accrued liabilities	11	11.100		-
Other liabilities	11	69.115		25.151
			80.215	25.764
Total equity and liabilities			4.852.746	2.553.303

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b. Income statement for the period from January 1 to December 31, 2014

			Jan.-Dec.2014	Jun.-Dec. 2013
	Note	EUR´000	EUR´000	EUR´000
Income				
Interest and similar income	12		158.308	34.324
Expenses				
Interest and similar expenses	12		-152.647	-43.720
Financial result			5.661	-9.396
Other operating income	13		11	-
Personnel expenses	14	-160		-45
Depreciation of tangible fixed assets	15	-2		-1
Other operating expenses	16	-446		-102
Total expenses			-608	-148
Profit before taxation / loss before taxation			5.064	-9.544
Income taxation	17		-1.256	2.552
Profit / loss for the period			3.808	-6.992

c. Cash flow statement for the period 1 January until 31 December, 2014

		Jan.-Dec 2014		Jun.-Dec 2013	
	Note	EUR´000	EUR´000	EUR´000	EUR´000
Net Income for the period			**3.808**		**-6.992**
Cash flows from operating activities					
Adjustments for:					
Cash flow hedge reserve		-17.855		-	
Bonds	10	1.287.662		2.507.856	
Hybrid (perpetual)		993.034		-	
Receivables to affiliated and parent companies	6	-2.216.624		-2.548.746	
Derivative Financial Instruments	20	-75.234		24.657	
Deferred tax assets	7	-7.854		-2.545	
Other Assets	8	-19.927		-	
Trade Payables		-613		613	
Other Liabilities	11	55.064		25.151	
Net cash (used in)/ generated from operating activities			**-2.347**		**6.986**
Cash flows from investing activities					
Adjustment for:					
Tangible Fixed Assets	5	-1		-12	
Net cash (used in) / generated from investing activities			**-1**		**-12**
Cash flows from financing activities					
Adjustment for:					
Capital Contributions	9	3.000		2.018	
Net cash (used in) / generated from financing activities			***3.000***		***2.018***
Net increase in cash and cash equivalents			**4.460**		**2.000**

Movements in cash and cash equivalents can be broken down as follows:

	2014	2013
Balance as at 1 January	2.000	-
Movements during the year	4.460	2.000
Balance as at 31 December	**6.460**	**2.000**

2d. Notes to the financial statements 2014

1 General Information

1.1 Activities

The business subject of Deutsche Annington Finance B.V. (DA FINANCE B.V.) with its statutory domicile in Amsterdam is to raise funds on the international debt markets through the issuance of unsecured and unsubordinated bonds as well as through unsecured and subordinated Hybrid-bonds for and on behalf of Deutsche Annington Immobilien SE, Düsseldorf (DAIG) and its affiliated companies and to on-lend the raised funds to the DAIG and its group companies for the purposes of group financing. The head office (principal place of business) is located at Vondelstraat 73, 1054GK Amsterdam, Netherlands.

The rating agency Standard and Poor's (S&P) has granted to DAIG a corporate credit rating long-term BBB and short-term A2 with stable outlook. This has to be considered as basis for the activities of DA FINANCE B.V. on the international debt markets combined with an unlimited and unconditional guarantee of DAIG. The rating was confirmed by Standard and Poor's last on the 1 December 2014 with positive credit watch to BBB+ upon the successful completion of the public offering for the GAGFAH takeover.

The operations of DA FINANCE B.V. comprise therefore:

- participation in, finance or hold any other interest in, or to conduct management of, other legal entities, partnerships or enterprises
- to furnish guarantees, provide security, warrant performance or in any other way assume liability, whether jointly or severally or otherwise, for or in respect of obligations of Group Companies or other legal parties; and
- to do anything which in the widest sense of words, is connected with or may be conducive to the attainment of these objects.

1.2 Group Structure

DA FINANCE B.V. is a member of the Deutsche Annington Immobilien SE (DAIG) - Group. The ultimate parent company of this group is DAIG with its legal domicile in Düsseldorf, Germany. The financial statements of DA FINANCE B.V. are included in the consolidated financial statements under IFRS, as endorsed in the EU, of DAIG. These financial statements are published in the German legal gazette and they are available on the website of Deutsche Annington Immobilien SE under www.deutsche-annington.com.

1.3 Going concern

The Company generated for the first time a net profit of KEUR 3.808 in 2014, which together with the negative hedge accounting impact resulted in a negative net equity of KEUR 16.021 as at 31 December 2014 (2013: KEUR 4.974). In the future the earnings of the Company will be determined by income items associate by the on-lending of raised funds and the profitability will be based on the margins obtained from the on-lending in excess of the interest to be paid on the notes and the service charges. Based on that DA FINANCE B.V. will achieve a reasonable profit under these circumstances. Finally, DA FINANCE B.V. is supported by the unconditional and unlimited guarantee of DAIG. The accounts have therefore been prepared based upon the going concern principle.

1.4 Related party transactions

All legal entities that can be controlled, jointly controlled or significantly be influenced are considered to be a related party. Also, entities which can control the company are considered a related party. In addition, statutory directors, other key personnel of DA FINANCE B.V. or of the shareholder or ultimate parent company and close relatives are regarded as related parties.

Significant and or material transactions between the company and related parties are disclosed in the notes insofar as they are not transacted under normal market conditions. The nature, extent and other information is disclosed if this is required for to provide the true and fair view.

1.5 Estimates

Preparing financial statements and the application of relevant rules may require the use of critical accounting estimates which requires therefore exercising professional judgment. Estimates used in these financial statements are limited to the use of provisions for general expenses and taxes based on experience and sound professional judgment.

If necessary to provide a view in accordance with art. 2:360 part 1 DCC of the Dutch Civil Code, the nature of these estimates and judgments, including the related assumptions, is disclosed in the notes to the financial statement items in question.

Unless explained otherwise, the estimates made by the management in preparing the Financial Statement are similar to those used in 2013.

1.6 Change in accounting policy

Under Dutch Accounting Standard 140.207 a change in accounting policy is allowed to align the accounting with the parent company. DA FINANCE B.V. applied a change in accounting policy regarding its hedge accounting of the US-$-Bonds and the respective cross currency interest rate swaps. Up to 31 December 2013, fair value hedge accounting was applied. Thereafter it was accounted for as cash flow hedge to align the accounting policies to the ones applied by the ultimate parent company, being DAIG.

The comparative figures have not been adjusted as management considers the change in accounting policy not to material to the financial statements, because the result of the change amounts to KEUR 625.

1.7 Accounting policies for the cash flow statement

The cash flow statement has been prepared using the indirect method. The cash items disclosed in the cash flow statement comprise cash at banks and in hand except for deposits with a maturity longer than three months. Cash flows denominated in foreign currencies have been translated at average estimated exchange rates. Exchange differences affecting cash items are shown separately in the cash flow statement. Interest paid and received deferred tax assets are included in cash from operating activities. Transactions not resulting in inflow or outflow of cash, including finance leases, are not recognised in the cash flow statement.

2 Principles of valuation for assets and liabilities

2.1 General

The financial statements are prepared in accordance with the statutory provisions of Part 9, Book 2 of the Dutch Civil Code and the firm pronouncements in the Guidelines for Annual Reporting in the Netherlands as issued by the Dutch Accounting Standards Board.

The financial statements are denominated in EUR.

In general, assets and liabilities are stated at the amounts at which they were acquired or incurred, or fair value. If not specifically stated otherwise, they are recognized at the amounts at which they were acquired or incurred.

The balance sheet, income statement and cash flow statement include references to the notes.

2.2 Comparison with prior year

The company was incorporated in June of 2013. Therefore a comparison of the income statement 2014 of DA Finance B.V. amounts with prior year is limited or not possible.

2.3 Foreign currencies

Functional currency
Items in the financial statements of group companies are stated with due observance of the currency of the primary economic environment in which the respective group company operates (the functional currency) and as this is Europe the functional currency is the EURO.

The functional currency of the entity as well as for the DAIG-Group is the EURO.

Transactions, receivables and liabilities
Monetary assets and liabilities denominated in foreign currencies are translated at the closing rate prevailing on the balance sheet date. Investments in participations are stated at the historical exchange rate. Transactions denominated in foreign currencies in the reporting year are recognized in the financial statements at exchange rate ruling at the transaction date.

In the income statement foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates are recognized, except when deferred in equity as qualifying hedges.

Translation differences on non-monetary assets held at cost are recognized using the exchange rates prevailing at the dates of the transactions.

Translation differences on non-monetary assets such as equities held at fair value through profit or loss are recognized through profit or loss as part of the fair value gain or loss.

Exchange differences arising upon the settlement or conversion of monetary items are recognized in the income statement in the period that they arise, unless they are hedged.

Hedging
In respect of any positions in the balance sheet that are covered by cross currency interest rate swaps or by foreign exchange forward contracts, the differences in values calculated at mid-rates at the end of the year and contract rates are allocated to the respective principals of the loans. If the loan taken is denominated in a currency other than EUR, the respective correction is allocated to this loan. Otherwise the respective loan granted is corrected. The underlying exchange rate EUR/USD at 31/12/2013 is fixed at 1,3791 and at 31/12/2014 is fixed at 1,2141.

2.4 Tangible fixed assets

Tangible fixed assets are valued at historical cost or production cost including directly attributable costs, less straight-line depreciation based on the expected future life and impairments.

For computer hardware a depreciation period of 3 years is used.

2.5 Financial fixed assets

Loans, in particular loans to affiliated companies
Loans and receivables to group companies with an original term of more than one year are treated as financial fixed assets. They are valued initially at fair value of the amount owed, which normally consists of the face value, net of any provisions considered necessary. Subsequently they are measured at their amortized cost value.

2.6 Impairment of fixed assets

On each balance sheet date, the company tests whether there are any indications of tangible assets being subject to impairment. If any such indications are present, the realizable amount of the asset is determined. If this proves to be impossible, the recoverable amount of the cash-generating unit to which the asset belongs is identified. An asset is subject to impairment if its carrying amount is higher than its realizable value; the realizable value is the higher of the fair value less costs of disposal and the value in use.

An impairment loss is directly recognized in the income statement while the carrying amount of the asset concerned is concurrently reduced.

The fair value less costs of disposal is initially based on a binding sale agreement; if there is no such agreement, the fair value less costs of disposal is determined based on the active market, whereby usually the prevailing bid price is taken as market price. For the determination of the value in use, an estimate is made of the future net cash flow in the event of continued use of the asset.

If it is established that an impairment that was recognized in the past no longer exists or has reduced, the increased carrying amount of the asset concerned is set no higher than the carrying amount that would have been determined if no impairment value adjustment for the asset concerned had been reported.

The company assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. If any such evidence exists, the impairment loss is determined and recognized in the income statement.

The amount of an impairment loss incurred on financial assets stated at amortized cost is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss shall be reversed. The reversal shall not result in a carrying amount of the financial asset that exceeds what the amortized cost would have been had the impairment not been recognized at the date the impairment is reversed. The amount of the reversal shall be recognized through profit or loss.

At the balance sheet date no fixed assets were subject to impairments.

2.7 Current assets

Receivables
Trade receivables are recognized initially at fair value and subsequently measured at amortized cost. If payment of the receivable is postponed under an extended payment deadline, fair value is measured on the basis of the discounted value of the expected revenues. Interest gains are recognized using the effective interest method. When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables.

Current receivables are due and will be received within one year.

2.8 Cash and cash equivalents

Cash and cash equivalents include cash on hand, bank balances and deposits held at call with maturities under twelve months. Bank overdrafts are shown as borrowings under current liabilities. Cash and cash equivalents are stated at face value.

2.9 Long-term liabilities

Bonds
The bonds initial measurement is at fair value and subsequent at amortized cost net of transaction costs. Released transaction costs led to an altered subsequent measurement. All long-term amounts due from bonds have a maturity of over one year. Debt issuance costs are netted against nominal amount. The in 2014 issued Hybrid Bond with nominal volume of € 1,0 bn will be explained in section 11 Bonds.

Other liabilities
Other liabilities are initially valued at fair value and subsequently at amortized costs.

Long-term debt
On initial recognition long-term debts are recognized at fair value. Transaction costs which can be directly attributed to the acquisition of the long-term debts are included in the initial recognition. After initial recognition long-term debts are recognized at the amortized cost price, being the amount received taking into account premiums or discounts and minus transaction costs.

The difference between stated book value and the mature redemption value is accounted for as interest cost in the income statement on the basis of the effective interest rate during the estimated term of the long-term debts.

2.10 Current liabilities

Short term liabilities with a remaining maturity of within one year are initially recognized at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortized cost, being the amount received taking account any premium or discount, less transaction cost.

Bonds
The bonds are valued at their amortized cost value net of transaction cost. All short-term amounts payable from bonds within one year are disclosed under current liabilities. This are in particular accrued interests.

Other liabilities
On initial recognition current liabilities are recognized at fair value. After initial recognition current liabilities are recognized at the amortized cost price, being the amount received, taking into account premiums or discounts, less transaction costs. This usually is the nominal value.

Current and deferred income tax
The current Dutch nominal tax rate of 25% has been applied.

Other accrued liabilities
The accruals are stated at the amount required, based on sound business judgment and valued at the expected costs. Accrued liabilities comprise outstanding invoices.

2.11 Provisions

Provisions are recognized for legally enforceable or constructive obligations existing at the balance sheet date, the settlement of which is probable to require an outflow of resources whose extent can be reliably estimated.

Provisions are measured on the basis of the best estimate of the amounts required to settle the obligations at the balance sheet date. Unless indicated otherwise, provisions are stated at the present value of the expenditure expected to be required to settle the obligations.

Where some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement shall be recognized when, and only when, it is virtually certain that reimbursement will be received if the entity settles the obligation. The reimbursement shall be treated as a separate asset.

2.12 Financial instruments

Securities included in financial and current assets, as well as liabilities and derivative financial instruments, are stated at fair value. The company applies hedge accounting to hedging currency risk on borrowings and lendings. While the derivative is stated at fair value, the hedged item is measured at amortized cost. The gain or loss relating to the ineffective portion is recognized in the income statement within finance cost.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. If no fair value can be readily and reliably established, fair value is approximated by deriving it from the fair value of components or of a comparable financial instrument, or by approximating fair value using valuation models and valuation techniques. Valuation techniques include using recent arm's length market transactions between knowledgeable, willing parties, if available, reference to the current fair value of another instrument that is substantially the same, discounted cash flow analysis and option pricing models, making allowance for entity-specific inputs.

The company applies hedge accounting. The Company documents at the inception of the transaction the relationship between hedging instruments and hedged items. The Company also tests its assessment, both at hedge inception and on an ongoing basis, or whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

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

The Company shall discontinue prospectively hedge accounting if:

- the hedging instrument expires or is sold, terminated or exercised;
- the hedge no longer meets the criteria for hedge accounting;
- the company revokes the designation.

To measure the cross currency swaps, future cash flows are calculated and then discounted. The calculated cash flows result from the contract conditions and the US-$ forward rates (development of exchange rates expected by the market). Discounting is based on market interest rate data as at the reporting date for comparable instruments (EURIBOR rate of the same tenor). The fair value contains the credit risk of the cross currency swaps and therefore allows for adjustments for the company's own credit risk or for the counterparty credit risk.

2.13 Deferred Taxes

Deferred income tax assets are recognized to provide for temporary differences between the tax bases of assets and liabilities, and their carrying amounts in the financial statements, on the understanding that deferred income tax assets are recognized only to the extent that it is probable that future taxable profit will be available against which the temporary differences and fiscal losses can be utilized.

Deferred income tax is determined using tax rates that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realized.

Deferred income taxes are recognized at face value.

3 Principles for recognition of income and expenses

3.1 General

Result is determined as the difference between the realizable value of services rendered and the costs and other charges for the period. Results on transactions are recognized in the period in which they are realized; losses are taken as soon as they are foreseeable.

3.2 Revenue recognition, financial income and expenses

Revenue from interest income and cost from interest expenses is allocated to the reporting period in which it occurs following the matching principle. Interest income and expense is recognized on a pro rata basis, taking into account the effective interest rate of the assets and liabilities concerned. When recognizing the interest charges, the transaction cost on the loans received is taken into account.

3.3 Exchange rate differences

Exchange rate differences arising upon the settlement of monetary items are recognized in the income statement in the period that they arise unless hedged.

3.4 Other operating income and expenses

Other operating income and expenses include income and expenses that are not directly attributable to the interest income and expenses and are valued at the realizable value. Gains and losses upon the sale of tangible fixed assets are included in other operating income or other operating expenses respectively.

3.5 Depreciation of tangible fixed assets

Intangible fixed assets are amortized and tangible fixed assets are depreciated over their expected useful lives as from the inception of their use. Future depreciation is adjusted if there is a change in estimated useful life.

3.6 Taxation

Profit tax is calculated on the profit before taxation in the income statement, taking into account any losses carried-forward from previous financial years (insofar as these are not included in deferred tax assets), tax-exempt items and non-deductible expenses. Account is also taken of changes in deferred tax assets and deferred tax liabilities owing to changes in the applicable tax rates.

4 Financial instruments and risks

Risks associated with financial instruments are subject to the risk management system of DAIG group and is in particular monitored through the middle office located in the DAIG Group Finance department.

4.1 Market risk

Currency risk
The currency rate risks from bonds denominated in foreign currency are hedged with an adequate cross-currency hedge.

Interest rate risk
Risks associated with movements in interest rates are addressed through adequate interest rate hedges. Loans to affiliated companies are in general on fix terms.

4.2 Credit risk

The risk of default arising from financial assets and derivative financial instruments involves the risk of default by counterparties. The maximum loss from derivative instruments equals their positive fair value. Risk is additionally limited by a limit system based on credit assessments by the treasury middle office based on announcements from international rating agencies.

4.3 Liquidity risk

The company uses several banks which are selected at group level. The liquidity risk is monitored by assuring that the critical terms of the relevant items match. Finally DA FINANCE B.V. is supported by the unconditional and unlimited guarantee of DAIG.

4.4 Cash and cash equivalents

Cash and cash equivalents are not restricted with regard to their use.

4.5 Notes to the cash flow statement

Under the receipts from operating activities in the cash flow from operating activities a cash outflow of KEUR 2.347 has been included with regard to securities.
Under the investments in tangible fixed assets only the investments are included for which in 2014 cash was paid.

5 Tangible fixed assets

Tangible fixed assets comprising office equipment subject to scheduled depreciation.

	31/12/2014 EUR'000	31/12/2013 EUR'000
Acquisition Cost beginning of period	13	-
Additions	3	13
Disposals	-	-
Acquisitions Cost end of period	16	13
Accumulated depreciation beginning of period	1	-
Depreciation of the period	2	1
Accumulated depreciation disposals	-	-
Accumulated depreciation end of period	3	1
Total bookvalue	**13**	**12**

6 Receivables from affiliated and parent companies

Receivables from affiliated companies are related to the group financing. The receivables from intercompany loans bear interest per 31/12/2014 at 3,469% for all intercompany loans and have an unlimited term, from this follows that all intercompany loans are long term loans. In addition there are receivables from the cash pool agreement with DAIG, these bear interest at EONIA -0,25%. Receivables from cash pooling are classified as current assets in the balance sheet.

In order to finance the planned takeover of GAGFAH, DA FINANCE B.V., successfully placed a hybrid bond in December 2014 in the amount of € 1 billion and passed the liquidity on to DAIG.

	31/12/2014 EUR'000	31/12/2013 EUR'000
Deutsche Annington Immobilien SE	1.631.646	290.200
Deutsche Annington Beteiligungsverwaltungs GmbH	1.551.784	2.101.784
Deutsche Annington Acquisition Holding GmbH	290.200	-
Kieler Wohnungsbaugesellschaft GmbH	204.265	-
Bremische Ges. f. Stadtern.-entw.& W.Bau GmbH	163.847	-
Beamten Baugesellschaft Bremen GmbH	121.550	-
Deutsche Annington Holdings Zwei GmbH	119.952	-
Deutsche Annington DMB Netherlands B.V.	116.337	-
DAIG 1. Objektgesellschaft mbH	78.036	-
Deutsche Annington Wohnungsgesellschaft III mbH	62.953	62.953
DAIG 9. Objektgesellschaft B.V.	50.068	-
Bundesbahn-Wohnungsbaugesellschaft Kassel GmbH	47.268	-
Deutsche Annington EWG Kassel Bestands GmbH & Co. KG	-	27.658
Deutsche Annington EWG Kassel Bewirtschaftungs GmbH & Co.KG	-	19.610
DAIG 21. Objektgesellschaft B.V.	27.831	-
DAIG 20. Objektgesellschaft B.V.	26.322	-
Deutsche Annington Heimbau GmbH	24.921	5.941
Deutsche Annington Heimbau Bestands GmbH & Co.KG	-	18.980
DAIG 13. Objektgesellschaft mbH	24.635	-
Deutsche Annington DMB Eins GmbH	21.547	-
DAIG 19. Objektgesellschaft B.V.	21.404	-
DAIG 2. Objektgesellschaft mbH	20.896	-
DAIG 11. Objektgesellschaft B.V.	19.909	-
DAIG 4. Objektgesellschaft mbH	19.109	-
DAIG 22. Objektgesellschaft B.V.	14.475	-
DAIG 10. Objektgesellschaft B.V.	12.078	-
DAIG 3. Objektgesellschaft mbH	11.061	-
DAIG 24. Objektgesellschaft B.V.	9.167	-
DAIG 23. Objektgesellschaft B.V.	7.979	-
DAIG 17. Objektgesellschaft B.V.	6.322	-
Börsenhof A Besitz GmbH	5.648	-
DAIG 18. Objektgesellschaft B.V.	4.534	-
DAIG 25. Objektgesellschaft B.V.	1.071	-
DAIG 12. Objektgesellschaft mbH	945	-
	4.717.760	**2.527.126**
Deutsche Annington Immobilien SE Cash-Pooling	47.610	21.620
Total	**4.765.370**	**2.548.746**

The fair value of the receivables from affiliated and parent companies is EUR 170 million higher than the amortized cost value due to the decrease of the market interest rate.

Loans to affiliated and parent companies

	31/12/2014 EUR'000	31/12/2013 EUR'000
Balance as at 1 January	**2.527.126**	**-**
Additions	3.885.979	2.527.126
Terminations	-785.510	-
Repayments during the year	-909.835	-
Balance as at 31 December	**4.717.760**	**2.527.126**

7 Deferred tax assets

The deferred tax assets are based on temporary differences with respect to the First time loss from the Cross-currency swap. Even more the deferred tax assets are depended on change of the currency rate from US-$-Bond. The position is completely a long term item.

The deferred tax assets will be use in the future.

	31/12/2014 EUR'000	31/12/2013 EUR'000
Total deferred tax assets	**10.399**	**2.545**

8 Other assets

The other assets in the amount of KEUR 19.927 mainly pertains to prepaid bank fees for new loans planned in 2015.

9 Capital base

The authorized share capital of the large company DA Finance B.V. amounts to EUR 18.000 and consists of 18.000 ordinary shares with a nominal value of EUR 1. In the financial year the shareholder Deutsche Annington Immobilien SE made a share premium payment of KEUR 3.000 increasing the capital reserve to KEUR 5.000.

Statement of Changes in Capital Base (in EUR`000)

	Subscribed capital	Share premium reserve	Cash flow hedge reserve	Other reserves	Unappropriated profits	Total shareholders' equity	Hybrid bond	Total capital base
As at 1 January 2014	18	2.000	-	-	-6.992	-4.974	-	-4.974
Shareholder's capital contributions		3.000				3.000	-	3.000
Capital increase						-	993.034	993.034
Other reserves				-6.992	6.992	-		-
Unappropriated profits					3.808	3.808		3.808
Assignment to Cash flow hedge reserve			-17.855			-17.855	-	-17.855
As at 31 December 2014	18	5.000	-17.855	-6.992	3.808	-16.021	993.034	977.013

PricewaterhouseCoopers Accountants N.V. For identification purposes only

There is no position cash flow hedge reserve as at 1 January 2014 because of our change in the accounting policy.

Presentation of the hybrid bond
In December 2014, DA FINANCE B.V. issued a hybrid bond with a nominal volume of € 1,0 billion. In order to finance the takeover of GAGFAH, the proceeds from the issue were passed on from DA FINANCE B.V. to Deutsche Annington Immobilien SE as part of a loan agreement. This subordinated hybrid bond is of unlimited duration and can only be terminated by DA FINANCE B.V. on certain contractually fixed dates or for certain contractually fixed purposes. Up until the first termination date in December 2021, the hybrid bond shall bear interest at a rate of 4,0 % p.a. If DA FINANCE B.V. does not exercise its termination right at this point, the interest rate that will apply until the next termination date in December 2026 will correspond to the five-year swap rate plus a margin of 339 basis points. The mark-up will increase by 25 basis points as of December 2026 and by another 75 basis points as of December 2041. The agreements reached allow interest payments to be suspended. Suspended interest payments shall not bear interest.
Pursuant to Dutch Accounting Standard 240, the presentation of the hybrid bond in the financial statements follows the legal form of the instrument. The hybrid bond is therefore presented as a liability under the capital base.

10 Bonds

The long-term liabilities comprising the bonds, issued within 31 December 2014, as there are:

Bond	**Face Value**	**Coupon**	**Maturity**
Eurobond 1	€ 100 k	2,125% listed	7-2016
Eurobond 2	€ 100 k	3,125% listed	7-2019
Yankeebond 1	US-$ 50 k	3,200% unlisted	10-2017
Yankeebond 2	US-$ 50 k	5,000% unlisted	10-2023
EMTN Drawdown 1	€ 1.000	3,625% listed	10-2021
EMTN Drawdown 2	€ 1.000	2,125% listed	7-2022
Hybrid Bond	€ 100 k	4,625% listed	4-2074
Hybrid Bond(perpetual)	€ 100 k	4,000% listed	-

The bonds issued are unsecured and unsubordinated, only the Hybrid Bonds are subordinated.

The Eurobond is listed on the Frankfurt Stock Exchange, the EMTN are listed on the Luxembourg Stock Exchange as well as the Hybrid Bonds.

The Yankeebond has been issued in a private placement exclusively to qualified investors in accordance with Rule 144A under the U.S. Securities Act.

	Bookvalue 31/12/2014 EUR'000	**Bookvalue 31/12/2013 EUR'000**	**Marketvalue 31/12/2014 EUR'000**	**Marketvalue 31/12/2013 EUR'000**
Eurobond 1	697.435	695.956	720.069	711.883
Eurobond 2	597.154	596.607	659.505	614.055
Yankee bond 1	614.933	540.845	632.178	552.390
Yankee bond 2	202.758	178.183	221.508	178.073
EMTN Drawdown 1	496.669	496.265	577.600	514.200
EMTN Drawdown 2	494.493	-	530.275	-
Hybrid Bond	692.076	-	736.684	-
Total	**3.795.518**	**2.507.856**	**4.077.819**	**2.570.601**
Hybrid Bond(perpetual)	993.034	-	1.025.000	-
Total	**4.788.552**	**2.507.856**	**5.102.819**	**2.570.601**

The valuation of the Yankee bonds are calculated using standard market valuation methods for such instruments on the basis of the market data provided by an accredited market data vendor.

The determined rates were verified with respect to the implicit risk premiums.

DAIG has given a guarantee for the liabilities of its subsidiary DA FINANCE B.V. These liabilities result from the issuance of bonds in the amount of € 4,8 billion.

11 Accrued and other liabilities

Obligations with a maturity within one year are disclosed as current liabilities.

The current liabilities as of 31 December 2014 result from accrued interest liabilities on the issued bonds.

			31/12/2014	31/12/2013
			EUR'000	EUR'000
Bond	**Coupon**	**Interest Payment**		
Eurobond	2,125%	annual 25 July	6.521	6.480
Eurobond	3,125%	annual 25 July	8.168	8.168
Yankee bond	3,200%	semi-annual 2 October/2 April	4.887	4.254
Yankee bond	5,000%	semi-annual 2 October/2 April	2.545	2.216
EMTN Drawdown 1	3,625%	annual 8 October	4.171	4.171
EMTN Drawdown 2	2,125%	annual 9 July	5.094	-
Hybrid Bond	4,625%	annual 8 April	23.771	-
Total			55.157	25.289
Compensation with the Cross-currency Swap			- 1.264	-371
Other tax liabilities			553	3
Accrued liabilities			11.100	-
Liabilities for invoices 2014			14.669	-
Total			**80.215**	**24.921**

The fair value of the current liabilities approximates the book value due to its short term character.

Term loan
On September 16, 2014, DA FINANCE B.V. concluded a term loan subject to interest on the basis of EURIBOR with Barclays Bank PLC and J.P. Morgan Limited in the amount of € 475 million, which was paid out in full on September 26, 2014, to finance the Vitus acquisition. The loan liability was repaid in full on October 27, 2014.

Syndicated bridge facility
On December 1, 2014, Deutsche Annington Immobilien SE concluded an agreement on a syndicated bridge facility amounting to EUR 6.500 million via DA FINANCE B.V. with JPMorgan Chase Bank, N.A. for the interim financing of the acquisition of the GAGFAH Group. This credit line has a maximum term of 24 months and is subject to interest on the basis of EURIBOR plus a mark-up. The credit line had not yet been drawn on as at December 31, 2014.

12 Interest and similar income and expenses

	Jan.-Dec.2014 EUR'000	Jun.-Dec.2013 EUR'000
Interest income from affiliated and parent companies	123.571	27.229
Interest income from third parties	34.737	6.470
Other interest income	-	625
Total interest and similar income	**158.308**	**34.324**
Interest expenses from affiliated companies	- 1.674	- 2
Interest expenses to third parties	- 147.139	- 32.706
Interest expenses from First Time loss	- 3.834	- 11.012
Total interest and similar expenses	**-152.647**	**-43.720**
Total financial result	**5.661**	**- 9.396**

In connection with the initial valuation of the cross currency swaps interests are expensed in the P&L statement due to the difference between the net present value and the fair value.

They are attributable to the stringent financial risk management strategy, which does not allow to hold open a currency risk in connection with the issuance of the USD bonds even temporarily.

13 Other operating income

	Jan.-Dec.2014 EUR'000	Jun.-Dec.2013 EUR'000
Total release of other provisions	**11**	**-**

14 Personnel expenses

	Jan.-Dec.2014 EUR'000	Jun.-Dec.2013 EUR'000
Total personnel expenses are disbursed for employees	**160**	**45**

15 Depreciation of tangible fixed assets

Depreciation expenses of KEUR 2 (2013: KEUR 1) are related to the schedule depreciation of tangible assets which are comprising in office equipment.

16 Other operating expenses

	Jan.-Dec.2014 EUR'000	Jun.-Dec.2013 EUR'000
General and administrative expenses	78	18
Audit fees of the financial statements	60	47
Other audit procedures	-	-
Tax services	120	-
Other non-audit services	188	37
Total	**446**	**102**

The audit fees of the financial statements are based on invoices and estimated work orders for accounting services from PricewaterhouseCoopers Accountants N.V. occurred in the reporting period 2014.

17 Income taxation

The taxation on result on ordinary activities can be specified as follows:

	Jan.-Dec.2014 EUR'000	Jun.-Dec.2013 EUR'000
Result before taxation	5.064	-9.544
Taxation	-1.256	2.552
Total	**3.808**	**-6.992**

Effective tax rate 24,8% (2013: 26,7%)
The nominal tax rate is 25,0% (2013: 25,0)

18 Related parties

In accordance to the business purpose of the company, namely raising funds from the debt capital markets and on lending of the funds to DAIG or its affiliated companies respectively reflects the related party relationships and are therefore related to this group financing activities.

All loans are granted to group companies for group financing purposes. The interest income is mainly stemming from these group companies. The interest rates charged to the group companies are comprised from a weighted mix of interest rates from the issued bonds plus a service charge margin on an arm's length basis.

The company obtains services from the shared service center of DAIG, for which in the start-up period no service fees have been charges as setting up of the entity and setting in place the operational activities was in the sole interest of DAIG as main beneficiary.

Therefore any receivables and liabilities to DAIG or its affiliated companies are related to the above mentioned financing activities.

19 Average numbers of employees

As at 31 December 2014 the company has four employees (2013: one), of which are three male (2013: one) and one female (2013: zero). They are all working in the Netherlands. Zero employees are working outside the Netherlands. The management board of two people comprises only men, one off both is working in the Netherlands and the other one in Germany. Services are obtained by the shared service functions of DAIG.

The company employs four employees, of which are three male and one female.

20 Financial instruments

The company's policy is to fully hedge its interest rate and exchange rate exposures, which relates to the Yankee bonds. The financial instruments of the company had the following nominal amounts:

	31/12/2014 EUR'000	31/12/2013 EUR'000
Total Interest/ Currency swaps	**739.809**	**739.809**

The financial instruments of the company had the following positive or negative market values. The carrying amounts as the balance sheet date correspond to their fair market values:

	31/12/2014 EUR'000	31/12/2013 EUR'000
Total Interest/ Currency swaps	**50.577**	**- 24.657**

The positive clean present market value of the currency swaps consist out of an effective amount of KEUR -61.070 and an ineffective amount of KEUR 10.493.

21 Directors

Management Board:

- Rick van Dijk, Rotterdam
- Lars Schnidrig, Düsseldorf

The Management has received a remuneration for 2014 that amounts to KEUR 13 (2013: KEUR 0).

The management board has declared that to the best of its knowledge:

1. The financial statements give a true and fair view of the assets, the liabilities, the financial position and the results of the company; and

2. The management report gives a true and fair view of the company's situation on the balance sheet date, the events that occurred during the period and the risks to which the company is exposed.

3. As at 1 January 2013, a new law on management on supervision (Wet Bestuur en Toezicht) came into effect in the Netherlands. The purpose of this law is to attain a balance (at least 30% of each gender) between men and women in the board of directors of large entities (as defined in the said law). After taking cognisance of the current nature and activities of the group and the knowledge and expertise of the current board members, the existing composition of the board of directors is considered to be appropriate. However, the new law will be taken into account while appointing the future members of the Board of Managers.

3. Other information

a. Profit appropriation according to the Articles of Association

The company's Articles of Association, article 20 provide that appropriation of accrued profit is subject to the decision of the shareholders at the general meeting of shareholders. The company can only make distributions to the shareholders and other persons entitled up to an amount which does not exceed the amount of the distributable reserves. The general meeting may resolve to pay dividends from legally distributable reserves.

b. Proposed appropriation of profit

The Management Board has proposed to charge the net profit of EUR 3.807.579,07 to the other reserves.

c. Subsequent events

The company has initiated a drawdown under the termloan facility in March 2015 with an amount of EUR 923 m out of the total facility of EUR 6.500 m. These funds will be on lended to DAIG SE to finance the GAGFAH acquisition.

Amsterdam, 09 March 2015

Management Board

Original has been signed by
Rick van Dijk

Original has been signed by
Lars Schnidrig

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Independent auditor's report

To: the general meeting of shareholder of Deutsche Annington Finance B.V.

Report on the financial statements 2014

Our opinion

In our opinion the financial statements give a true and fair view of the financial position of Deutsche Annington Finance B.V. as at 31 December 2014, and of its result for the year then ended in accordance with Part 9 of Book 2 of the Dutch Civil Code.

What we have audited

We have audited the financial statements 2014 of Deutsche Annington Finance B.V., Amsterdam ('the company'). The financial statements include the consolidated financial statements and the company financial statements. The financial statements comprise:

- the balance sheet as at 31 December 2014;
- the income statement for the year then ended;
- cash flow statement for the year then ended; and
- the notes, comprising a summary of the accounting policies and other explanatory information.

The financial reporting framework that has been applied in the preparation of the financial statements is Part 9 of Book 2 of the Dutch Civil Code.

The basis for our opinion

We conducted our audit in accordance with Dutch law, including the Dutch Standards on Auditing. Our responsibilities under those standards are further described in the "Our responsibilities for the audit of the financial statements" section of our report.

We are independent of Deutsche Annington Finance B.V.. in accordance with the "Verordening inzake de onafhankelijkheid van accountants bij assurance-opdrachten" (ViO) and other relevant independence requirements in the Netherlands. Furthermore, we have complied with the "Verordening gedrags- en beroepsregels accountants" (VGBA).

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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Our audit approach

Overview

We designed our audit by determining materiality and assessing the risks of material misstatement in the financial statements. As in all of our audits, we also addressed the risk of management override of internal controls, including evaluating whether there was evidence of bias by the directors that may represent a risk of material misstatement due to fraud.

The main purpose of the company is the financing of companies belonging to the Deutsche Annington Immobilien SE group. The company is financing these loans through bond offerings on the international capital markets. The repayment of these bonds to the investors is guaranteed by Deutsche Annington Immobilien SE as disclosed in note 11 to the financial statements. Loans are issued to group companies with financial instruments in place to mitigate both the interest rate risk as well as the currency risk.

Materiality

The scope of our audit is influenced by the application of materiality. Our audit opinion aims on providing reasonable assurance about whether the financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered to be material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the nature, timing and extent of our audit procedures and to evaluate the effect of identified misstatements on our opinion.

Based on our professional judgement we determined the materiality for the financial statements as a whole at € 24,250,000 (2013: € 12,750,000) The general benchmark is 1% of total assets, based on our professional judgement we have used 0.5% of total assets, to ensure that all relevant balance sheet and income statement items are in scope. We use total assets given the company's main activity is intra-group lending. The materiality level 2014 increased compared to 2013 due to the higher level of financing transactions in 2014 and more outstanding loans resulting in an increase of total assets. The company facilitates the Deutsche Annington Immobilien SE group in its financing activities for which it receives a margin.

We also take misstatements and/or possible misstatements into account that, in our judgment, are material for qualitative reasons.

We agreed with the management board that we would report to them misstatements identified during our audit above € 1,200,000 (2013: € 635,000) as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

The scope of our audit

The company is financing companies belonging to the Deutsche Annington Immobilien SE group, which activities are covered by our audit procedures. For the confirmation process we perform on a sample basis testing on loan confirmations by contacting directly management of local group companies to confirm the outstanding intercompany loan.

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Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in the audit of the financial statements. We have communicated the key audit matters to the management board, but they are not a comprehensive reflection of all matters that were identified by our audit and that we discussed. We described the key audit matters and included a summary of the audit procedures we performed on those matters.

The key audit matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon. We do not provide a separate opinion on these matters.

Key audit matter	*How our audit addressed the matter*
Valuation of the loans issued We consider the valuation of the loans issued, as disclosed in note 6 to the financial statements for a total amount of € 4,765,370,000, a key audit matter. This is due to the size of the loan portfolio and given that an impairment may have a material effect on the income statement. Management did not identify any impairment triggers regarding the loans issued to Deutsche Annington Immobilien SE group companies.	Loans are initially recognized at its fair value and subsequently measured at amortized cost using the effective interest method. We have performed detailed audit work addressing the existence and valuation of the loans issued to Deutsche Annington Immobilien SE group companies, through testing on a sample basis the input of contracts in Deutsche Annington Finance B.V.'s treasury management system, confirmation procedures, margin analysis, analysis of the financial situation of the group companies to which loans have been provided, testing of data input to calculate the fair value and reconciliation of the treasury management system with the general ledger, and assessed whether there were any impairments triggers. We also did not identify any impairment triggers and therefore concur with management that no impairment losses are required to be recognised.
Derivative valuation We consider the fair value of the derivatives portfolio as disclosed in note 20 to the financial statements of € 50,577,000 and used in its hedge effectiveness testing as a key audit matter. This is due to the nature of the portfolio that includes longer dated interest rate swaps and cross currency interest rate swaps. The market for these swaps is not always fully liquid. In addition, the recent market developments including the volatility of the currency basis spread further increases the subjectivity of the valuation of these instruments as well as the number of input factors to take into account in the valuation.	We have tested the valuation of derivatives as well as the valuation of hedged items in hedge accounting relations by testing on a sample basis the input of contracts in Deutsche Annington Finance B.V.'s valuation system. We have reconciled the interest rate curves and other market data with our own independent sources. We have assessed whether the settings used in the valuation system and the models used are in line with market practice. We have also assessed the mathematical accuracy of the models used.

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Key audit matter	*How our audit addressed the matter*
Derivative accounting We consider the accounting for derivatives as a key audit matter, refer to note 20. This is due to the detailed formal and technical requirements that are applicable to the application of hedge accounting and that inappropriate application of these requirements can lead to a material effect on the income statement.	We have tested on a sample basis whether hedge documentation and hedge effectiveness testing meet the requirements of RJ 290 *Financial Instruments* and whether the hedge effectiveness test is mathematically correct. We have reconciled the outcome of the effectiveness testing for the derivative portfolio as a whole to the financial statements.
Accounting for the Hybrid financial instrument as debt We consider the classification of the hybrid bond financial instrument portfolio as disclosed in note 9 of € 993,034,000 as debt as a key audit matter. Incorrect classification of the hybrid financial instrument could result in non-compliance with Dutch law and Dutch accounting standards according to RJ 240 *Equity*. Considering the substance of this instrument, it has some characteristics of equity. Under IFRS (IAS 32), the instrument would qualify as equity. For this reason management of the company is of the opinion that in order to reflect the substance of the instrument it is, under Dutch law and Dutch accounting standards, appropriate to include a separate line in the balance sheet, 'total capital base' which consists of the shareholders' equity and the hybrid bond.	We have reviewed the offering memorandum of the hybrid financial instrument, the associated terms and conditions as well as the company's own assessment of the classification. Additionally, we have consulted on the matter with PwC accounting specialists. Pursuant to Dutch law and Dutch accounting standards the presentation of the hybrid bond in the financial statements follows the legal form of the instrument. The hybrid bond is therefore presented as a long-term liability. We concur with managements view that it is appropriate to include a separate line in the balance sheet: 'total capital base' to reflect the substance of the financial instruments of the company.

Responsibilities of management

Management is responsible for:

- the preparation and fair presentation of the financial statements in accordance with Part 9 of Book 2 of the Dutch Civil Code, and for the preparation of the directors' report in accordance with Part 9 of Book 2 of the Dutch Civil Code, and for
- such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

As part of the preparation of the financial statements, management is responsible for assessing the company's ability to continue as a going concern. Based on the financial reporting framework mentioned, management should prepare the financial statements using the going concern basis of accounting unless management either intends to liquidate the company or to cease operations, or has no realistic alternative but to do so. Management should disclose events and circumstances that may cast significant doubt on the company's ability to continue as a going concern in the financial statements.

Our responsibilities for the audit of the financial statements

Our responsibility is to plan and perform an audit engagement to obtain sufficient and appropriate audit evidence to provide a basis for our opinion. Our audit has been performed with a high but not absolute level of assurance which makes it possible that we did not detect all errors and frauds.

A more detailed description of our responsibilities is set out in the appendix to our report.

Report on other legal and regulatory requirements

Our report on the directors' report and the Other information

Pursuant to the legal requirements of Part 9 of Book 2 of the Dutch Civil Code (concerning our obligation to report about the directors' report and other information):

- We have no deficiencies to report as a result of our examination whether the directors' report, to the extent we can assess, has been prepared in accordance with Part 9 of Book 2 of this Code, and whether the information as required by Part 9 of Book 2 of the Dutch Civil Code has been annexed.
- We report that the directors' report, to the extent we can assess, is consistent with the financial statements.

Our appointment

We were appointed as auditors of Deutsche Annington Finance B.V. in July 2013 by the management board and has been renewed annually by shareholders representing a total period of uninterrupted engagement appointment of 2 years.

Rotterdam, 9 March, 2015
PricewaterhouseCoopers Accountants N.V.

Original has been signed by: M.P.A. Corver RA
Partner

Appendix to our auditor's report on the financial statements 2014 of Deutsche Annington Finance B.V.

In addition to what is included in our auditor's report we have further set out in this appendix our responsibilities for the audit of the financial statements and explained what an audit involves.

The auditor's responsibilities for the audit of the financial statements

We have exercised professional judgment and have maintained professional scepticism throughout the audit in accordance with Dutch Standards on Auditing, ethical requirements and independence requirements. Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error. Our audit consisted, among others of:

- Identifying and assessing the risks of material misstatement of the financial statements, whether due to fraud or error, designing and performing audit procedures responsive to those risks, and obtaining audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the intentional override of internal control.
- Obtaining an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control.
- Evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.
- Concluding on the appropriateness of the management's use of the going concern basis of accounting, and based on the audit evidence obtained, concluding whether a material uncertainty exists related to events and/or conditions that may cast significant doubt on the company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report and are made in the context of our opinion on the financial statements as a whole. However, future events or conditions may cause the company to cease to continue as a going concern.
- Evaluating the overall presentation, structure and content of the financial statements, including the disclosures, and evaluating whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the management board regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We provide the management board with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

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From the matters communicated with the management board, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, not communicating the matter is in the public interest.