2014



ANNUAL REPORT

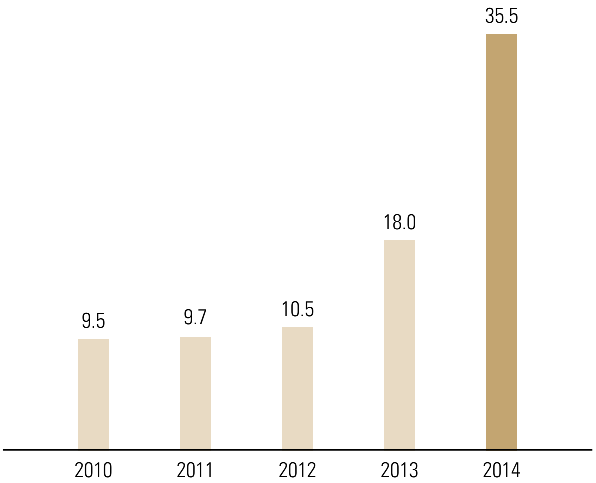
westgrund AKTIENGESELLSCHAFT

KEY DATA

	2014	2013	Change (%)
INCOME STATEMENT			
Overall performance (€ m)	119.2	41.8	185
of which revenues (€ m)	35.9	18.2	97
of which valuation of investment properties (€ m)	78.9	20.2	291
EBITA (€ m)	92.2	26.5	248
EBT (€ m)	71.6	21.3	236
Consolidated net result (€ m)	60.2	17.9	237
Funds from operations I (€ m)	5.6	1.3	319
Funds from operations II (€ m)	6.1	1.3	357
FFO I/share (undiluted) (€)	0.14	0.06	133
BALANCE SHEET (as at 31.12.)			
ASSETS			
Investment properties (€ m)	712.0	230.7	208
EQUITY AND LIABILITIES			
Equity (€ m)	287.6	76.1	278
Equity ratio (%)	35.5	30.8	4.7 PP
Long-term liabilities (€ m)	456.4	113.7	301
Balance sheet total (€ m)	809.4	247.4	227
Net asset value (NAV) (€ m)	313.5	86.5	262
NAV/share (undiluted) (€)	4.24	3.59	18.1
PORTFOLIO (investment properties as at 31.12.)			
Number of units	16,104	4,882	230
of which residential	15,874	4,756	234
of which commercial	230	126	83

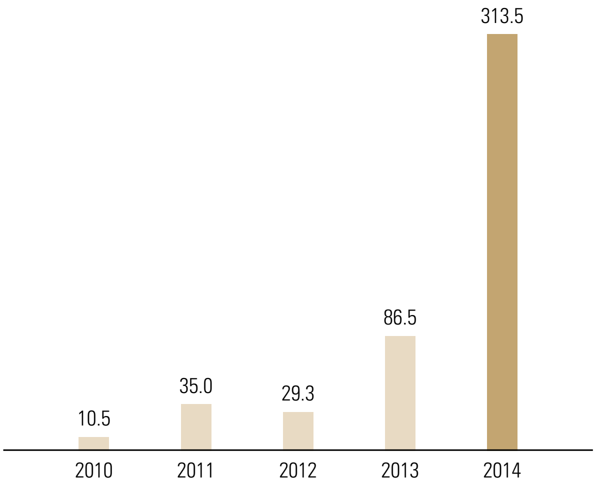
RENTAL REVENUES

in EUR million



NET ASSET VALUE

in EUR million



WESTGRUND AG focuses on the acquisition, management and development of residential properties. In 2014, thanks to the largest acquisition in the company's history, we more than tripled the total portfolio to 16,104 units. We operate exclusively in Germany, with a focus on Northern and Eastern Germany. With the exception of Berlin, we invest in residential portfolios in medium-sized and smaller towns that exhibit a stable socio-economic environment. In these locations, we offer our target group – tenants on medium to low incomes – affordable living space of standard market quality. At the same time, we maintain a low-level business risk by acquiring only portfolios that also generate a positive cash flow immediately after acquisition. This enables our shareholders to benefit from a sustainable increase in value.

CONTENTS

Arndt Krienen, Co-CEO and COO,
born in 1966, has been on the Westgrund Management Board since 2000. Prior to this, he managed the legal department of an internationally active company with a turnover exceeding EUR 300 million per year. Krienen spent many years in the USA and calls on extensive experience of the real estate industry.

Sascha Giest, Co-CEO and CFO,
born in 1971, has been CFO at WESTGRUND AG since October 2013. Previously, he led the portfolio acquisition of a large Berlin residential real estate company. Giest spent many years with JPMorgan and Barclays Capital in London where he was responsible for structuring the financing and securitisation of residential real estate.

Dear shareholders,

The 2014 financial year was pleasing and successful all round for the Westgrund Group. We successfully continued our growth course and the acquisition of the Berlinovo portfolio, numbering roughly 13,000 residential units enabled us to smoothly implement, finance and complete a transaction of an unprecedented magnitude for us.

In the past financial year, practically all key financial indicators changed substantially in line with the scope of the acquisition. The number of residential properties under management more than tripled year on year. Rental revenues likewise developed in a very positive direction, rising by 96 percent to 35.7 million euro, but were not quite in line with the development of the portfolios given that the transfer of rights and obligations for the majority of the new portfolios, took place only in the last quarter of the financial year. In addition, a portion of the new portfolios will first be integrated in 2015. This means that the effects on rental revenues and income will not be manifested fully until the 2015 financial year onwards.

We therefore anticipate further growth in the 2015 financial year. This is also due to the fact that we acquired an additional portfolio of 2,695 residential units at the end of 2014, the rights and obligations of which will be transferred in mid-2015, provided that necessary prerequisites are fulfilled.

Of course, such rapid growth also has to be underpinned by our operating activities. We have therefore substantially boosted our team in all core functions and have secured excellent employees for our company. In particular, it is thanks to the professionalism and impressively high commitment of our employees that the new properties have been so quickly and efficiently integrated into the portfolio of the Westgrund Group. We would like to take this opportunity to thank the entire Westgrund team for this fantastic achievement. We look forward to continuing our successful collaboration.

The expansion of the portfolios at the scale seen in 2014 posed a particular set of challenges with regard to financing. The financing volumes that were required in the past financial year were unprecedented for WESTGRUND AG. However, they followed the principal that, in relation to the market valuation of the acquired real estate portfolios, 60 to 70 percent of the financing should come from loans and the rest from equity. Overall, in the process of expanding the portfolio, consolidated equity increased three-fold as a result of four capital increases and on account of exercised conversion options in the context of issuing a convertible bond with a conversion obligation. This saw consolidated equity climb by 211.1 million euro to 287.2 million euro. Bank loans amounting to 285 million euro with a term of seven years were also taken up. This long-term financing enabled us to replace the short-term bridge financing that had initially been agreed to secure the acquisition.

The acquisition of the Berlinovo portfolio in 2014 saw WESTGRUND AG take a huge step towards fulfilling its objective of expanding the Group's residential portfolio to roughly 40,000 units in the medium term. With respect to this objective, we place emphasis on investing exclusively in portfolios that are a fit with our existing portfolio in terms of size, location, level of rent and rentability. WESTGRUND AG sees its unique strength in being the partner for tenants on medium to low incomes in the whole of Germany – but with a focus on Northern and Eastern Germany and only in regions that are economically stable. The property offering is focused on medium-sized and smaller towns, not on so-called "A"-location cities, – with the exception of Berlin. Growth should be pursued in line with these stipulations.

Up to now, the company has always succeeded in acquiring portfolios at prices that have enabled a solid rental yield in line with the target yield of 8 percent. In line with our objective, this approach should not change in the future either as it is the only way we will also be able to boost the earnings power of WESTGRUND AG to the desired extent by targeting growth of the residential portfolio.

The capital increases saw WESTGRUND AG gain an unprecedented standing – and proportionately increased prominence – on the capital market in 2014. The number of shares more than doubled. The free float also increased from less than 20 percent to far more than 50 percent due to the substantial decline in the number of shares held by major shareholders. This also means that a large number of new shareholders have expressed an interest in investing and have decided to invest in WESTGRUND AG. We would like to take this opportunity to thank you sincerely for the trust you have placed in the company's management in doing so.

But beyond its acquisitions and financing, WESTGRUND AG has achieved other great successes in the past financial year as well. Vacancies were reduced, the maintenance backlog on previously acquired properties was worked off and letting processes have been optimised. As a result, the rental income from properties already held in the WESTGRUND AG portfolio as at the end of 2013 was increased by a total of 4.4 percent – a highly respectable result in the residential property segment. This shows the strength of our asset management in cooperation with our internal and external managers and service providers.

The German real estate industry, to the extent that it relates to private-sector organisations, is in a phase of consolidation. This now also affects WESTGRUND AG. After the close of the financial year, ADLER Real Estate AG announced its intention to make a takeover bid to our shareholders. The Management Board and the Supervisory Board welcome this takeover bid in principle. Even though the takeover means a loss of independence, we should not overlook the fact that larger entities are able to operate more efficiently as they can take advantage of economies of scale that are not available to smaller entities.

As we anticipate economic development in Germany to remain at a robust level and interest rates to remain low for the foreseeable future, the fundamentally positive general conditions for the real estate industry are not likely to change noticeably in the short term. Nevertheless, whether WESTGRUND AG will also be able to continue its growth course in 2015 will not only depend on general market conditions but also – in the event of the aforementioned takeover – on the decisions taken by the new majority shareholder.

We, the Management Board of WESTGRUND AG, would like to take this opportunity to also thank our employees and business partners, who have played an instrumental role in enabling the company to master the challenging growth surge in 2014 so successfully and thereby become a visibly attractive takeover target for one of our competitors.

Kind regards,

Arndt Krienen Sascha Giest

Gerhard Wacker, Chairman of the Supervisory Board,
born in 1974, partner at PricewaterhouseCoopers Legal AG in the transaction advice/M&A, restructuring and capital market law division in Nuremberg. Mr Wacker advises companies and financial investors on the acquisition and sale of companies, private equity and venture capital transactions, and the clarification of issues related to company law.

Report of the Supervisory Board

Dear shareholders,

The Supervisory Board of WESTGRUND Aktiengesellschaft once again fulfilled its supervisory and advisory duties in accordance with the law and statutes with appropriate care in the 2014 financial year.

The Supervisory Board regularly advised the Management Board on the management of the company, supervised and monitored management continuously and satisfied itself that management was lawful and correct. The Management Board involved the Supervisory Board in all decisions of importance to the company in detail and at an early stage and informed it regularly, promptly and comprehensively, both verbally and in writing, of all issues of significance to the company. This applies in particular to the development of the operating and financial positions, the employment situation, planned and ongoing investments and their financing as well as fundamental issues relating to business planning and corporate strategy.

The Supervisory Board held four meetings in the 2014 financial year, on 16 April 2014, 13 June 2014, 18 September 2014 and 18 December 2014. In addition, the Supervisory Board held numerous telephone conferences in 2014. In one of these meetings on 9 July 2014, the acquisition of the “Berlinovo” portfolio was resolved and approved. The Supervisory Board had previously analysed and discussed this acquisition, the largest in the history of WESTGRUND Aktiengesellschaft, in detail at its meetings.

The Supervisory Board has thus fulfilled its duties in accordance with the law and statutes. None of the members of the Supervisory Board attended fewer than half of the meetings. Once again, there were no conflicts of interest in the last financial year involving members of the Management and Supervisory Boards that would need to be disclosed immediately to the Supervisory Board and of which the Annual General Meeting would have to be informed.

At its meeting on 9 April 2015, the Supervisory Board of WESTGRUND Aktiengesellschaft voted unanimously to approve the annual financial statements including the management report for the 2014 financial year, which had been prepared by the Management Board and issued with an unqualified auditor's opinion by DHPG Audit GmbH Wirtschaftsprüfungsgesellschaft Steuerberatungsgesellschaft, Köln on 30 March 2015, and thus to adopt the annual financial statements in accordance with Section 172 sentence 1 of the German Stock Corporation Act (AktG). It also voted unanimously on this day to approve the consolidated financial statements including the Group management report for the 2014 financial year, which had been issued with an unqualified auditor's opinion by DHPG Audit GmbH Wirtschaftsprüfungsgesellschaft Steuerberatungsgesellschaft, Köln on 30 March 2015.

The Supervisory Board of WESTGRUND Aktiengesellschaft consists of three members. No committees were formed as they would also require three members in order to constitute a quorum. At its meetings, the Supervisory Board looked in detail at the most important questions and issues affecting the company. It regularly held intensive discussions regarding the company's situation in terms of the development of liquidity, revenues and earnings. It was supported in this by the company's Management Board, which attended all Supervisory Board meetings and informed the members of the Supervisory Board in detail of the development of ongoing business and its business policy.

The Supervisory Board Chairman in particular also maintained regular contact with the Management Board between Supervisory Board meetings. The Management Board kept him informed of all key developments and decisions that were, or could have been, of importance to the company's current situation and future development. The exchange of information was particularly helpful for the preparation of Supervisory Board meetings and in enabling the Supervisory Board to offer advice and make decisions.

All measures taken by the Management Board that required the approval of the Supervisory Board in accordance with the law, statutes or operating procedures were resolved by the members of the Supervisory Board at its meetings and examined, discussed and approved on the basis of written information.

CORPORATE STRATEGY

Developments in the real estate market and in WESTGRUND Aktiengesellschaft's real estate portfolios formed a key focal point of the work of the Supervisory Board and were the subject of regular discussions.

In a series of meetings, the Supervisory Board discussed offers to acquire portfolios, made decisions and passed corresponding resolutions. Particular attention was paid to the acquisition of the "Berlinovo" portfolio, as it was of exceptional importance to the further growth of WESTGRUND AG.

The Supervisory Board also looked at options for financing the expansion of the real estate portfolio in connection with this, and discussed these extensively on the basis of reports and bank documents. The four cash capital increases and capital increases through contributions in kind that were carried out in 2014, including the largest capital increase in the company's history, the convertible bond issued in 2014 and the loans taken out as part of the procurement of outside capital were thus, of course, major issues in discussion and decision-making.

CORPORATE GOVERNANCE

The Supervisory Board regularly discussed the current and future application of the German Corporate Governance Code to the company, taking into account the amendments to the German Corporate Governance Code of 24 June 2014.

In particular, the Supervisory Board satisfied itself that the company had complied with and implemented the principles of the German Corporate Governance Code – as in its latest amendment – with the exception of the deviations set out in the declaration of compliance. On 12 August 2014, the Management and Supervisory Boards issued a joint updated declaration of compliance in accordance with Section 161 AktG, which is published on the company's website.

PERSONNEL CHANGES

There were no changes to the composition of either the Supervisory Board or the Management Board in the last financial year.

APPROVAL OF THE ANNUAL FINANCIAL STATEMENTS

DHPG Audit GmbH Wirtschaftsprüfungsgesellschaft Steuerberatungsgesellschaft audited the annual financial statements of WESTGRUND Aktiengesellschaft and the consolidated financial statements, notes to the consolidated financial statements and Group management report as at 31 December 2014. It issued both sets of financial statements with an unqualified auditor's opinion.

The consolidated financial statements were prepared in accordance with International Financial Reporting Standards (IFRS) as adopted in the European Union. The auditor conducted the audit in accordance with the principles of proper accounting as specified by Germany's Institute of Public Auditors (IDW).

The Management Board submitted the above documents to the Supervisory Board in good time for the meeting on 30 April 2015 at which the financial statements were reviewed, allowing the Supervisory Board to examine the documents carefully.

The annual financial statements, consolidated financial statements and audit report by DHPG Audit GmbH Wirtschaftsprüfungsgesellschaft Steuerberatungsgesellschaft were discussed in detail at the Supervisory Board meeting on 30 March 2015. Representatives of the audit company also attended this meeting.

Following a thorough examination, the Supervisory Board had no objections and approved the results of the audit. The annual financial statements prepared by the Management Board as at 31 December 2014 were approved and thus adopted in accordance with Section 172 sentence 1 of the German Stock Corporation Act.

DHPG Audit GmbH Wirtschaftsprüfungsgesellschaft Steuerberatungsgesellschaft confirmed to the company that, in its opinion and in accordance with the principles of correct accounting, both the annual financial statements and the consolidated financial statements of WESTGRUND Aktiengesellschaft present a true and fair view of the net assets, financial position and results of operations of the company and that the management report is in line with the annual financial statements, gives an accurate overall picture of the company's position and accurately presents the risks associated with future development.

REVIEW OF THE DEPENDENT COMPANY REPORT

The Management Board presented its dependent company report for the 2014 financial year to the Supervisory Board in good time. DHPG Audit GmbH Wirtschaftsprüfungsgesellschaft Steuerberatungsgesellschaft audited the dependent company report and issued the following audit opinion:

"Based on the results of our statutory audit and our judgment we confirm that

1. the actual information included in the report is correct and
2. the company's compensation with respect to the legal transactions listed in the report was not inappropriately high."

The report by DHPG Audit GmbH Wirtschaftsprüfungsgesellschaft Steuerberatungsgesellschaft on the review of the dependent company report was submitted to the Supervisory Board in good time. The Supervisory Board examined the dependent company report and the review report on it in detail and discussed them in depth with the Management Board and representatives from the auditor at its accounts meeting on 30 March 2015. Based on the final result of the Supervisory Board's own review of the dependent company report, the Supervisory Board has no objections to the Management Board's declaration on the dependent company report.

The Supervisory Board wishes to thank all employees of WESTGRUND Aktiengesellschaft and the Management Board for their work in the 2014 financial year.

Nuremberg, 9 April 2015

Signed

Gerhard Wacker

Chairman of the Supervisory Board

In 2014, we successfully concluded the largest acquisition in the company's history. This has elevated WESTGRUND AG to new levels of growth, with both the number and value of rental units in the portfolio increasing by a factor of more than three.

WESTGRUND AG

WESTGRUND AG on the capital market

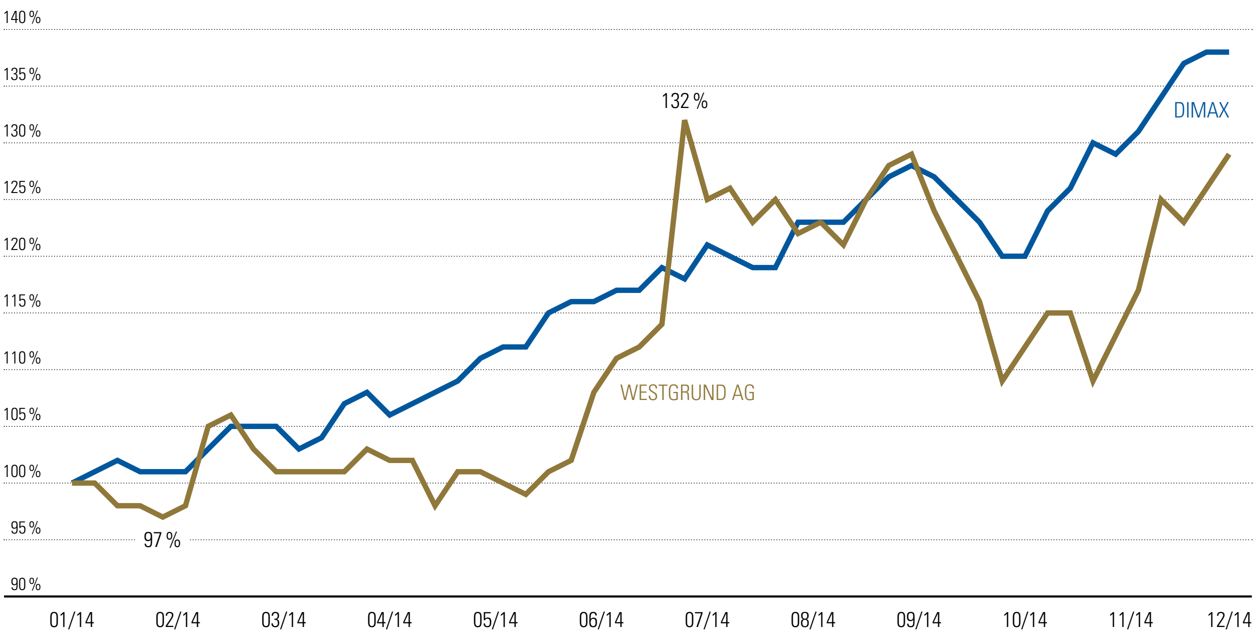
Success on the stock market depends essentiallly on a factor that, in the first instance, has little to do with a company's business model, and that is recognition. For a long time, the Westgrund share remained below the radar of the majority of institutional investors because it had not yet achieved any significant market capitalisation and the free float was small. However, with the capital increase of 140 million euro, which served to finance what was the largest acquisition in the company's history so far, the share took a decisive step over the recognition threshold during the reporting year. This saw the company, for the first time, reach a level where it was – and will continue to be – recognised by a large number of potential investors on the capital market. This is also due to the fact that the capital increase caused the number of shares held by major shareholders or strategic investors to drop considerably. The free float increased from less than 20 percent to more than 50 percent as a result. Since then, daily trading volume has been at a considerably higher level. This makes it easier for market participants to buy or sell larger amounts of Westgrund shares without undue impact on the share price. Following the capital increase, the share is now much more fungible, and thus has, for the first time, also become a serious contender for many potential investors when making their investment decisions. Last year's share performance also reflects this new quality. Capital market participants now see WESTGRUND AG as an attractive German real estate company.

The capital increase also saw the number of analysts that regularly track the Westgrund share increase to four. They all issued "Buy" recommendations in 2014.

TAKEOVER BID ANNOUNCED

After the close of the financial year, ADLER Real Estate AG announced a takeover bid. For three shares in WESTGRUND AG, ADLER Real Estate AG is offering Westgrund shareholders 9.00 euro plus 0.565 percent in a new ADLER ordinary share, the issue of which is yet to be resolved by the extraordinary shareholders meeting of ADLER Real Estate AG to be held on 29 April 2015. At the time of the announcement, the

WESTGRUND SHARE VS DIMAX*



*includes all quoted real estate companies in Germany bid equated to 5.00 euro for one Westgrund share. On 23 February 2015, ADLER Real Estate AG also announced that, pursuant to Section 25 WpHG (German Securities Trading Act), it had control of 50.1 percent of the voting rights in WESTGRUND AG via financial instruments. It is therefore likely that ADLER Real Estate AG will acquire the majority of Westgrund shares, and that, as majority shareholder, it will then determine the company's fate.

CAPITAL INCREASE

In 2014, WESTGRUND AG was active on the equity market in several ways.
In March 2014, 2.4 million new shares were issued as part of a share issue with exclusion of subscription rights (private placement). This generated proceeds of 8.1 million euro for WESTGRUND AG.

In April 2014, convertible bonds with a conversion obligation in April 2016 were issued, which entitle the holders to subscribe to a total of 6.3 million new shares. This generated proceeds of 19.9 million euro for WESTGRUND AG. The convertible bond has a coupon of 5 percent and a term of 2 years to April 2016.

In June 2014, a total of 2.8 million new shares were issued as part of a share issue against contributions in kind to finance the acquisition of a portfolio of 803 units and pay the purchase price of 9.4 million euro. In addition, 0.9 million new shares were issued to balance receivables of 2.9 million euro.

In September 2014, 40 million shares were issued to finance the acquisition of the "Berlinovo" portfolio under full consideration of shareholders' subscription rights, partly in the context of a pre-placement. With an issue price of 3.50 euro, WESTGRUND AG generated total proceeds of 140 million euro from this capital increase after consideration of emission expenses.

EXTERNAL FINANCING

To maintain a balanced financing structure in line with the objective of achieving a loan to value ratio of the properties (LTV) of 60 to 70 percent in light of the financing requirements resulting from the acquisition of additional properties in the 2014 financial year, Westgrund took up new bank loans totalling 285 million euro in 2014. 42 million euro were used to refinance expiring liabilities and 243 million euro to finance the new portfolios. However, part of the loan volume had not yet been utilised as at the balance sheet date, as the rights and obligations for some of the sub-portfolios had not yet been transferred at this time.

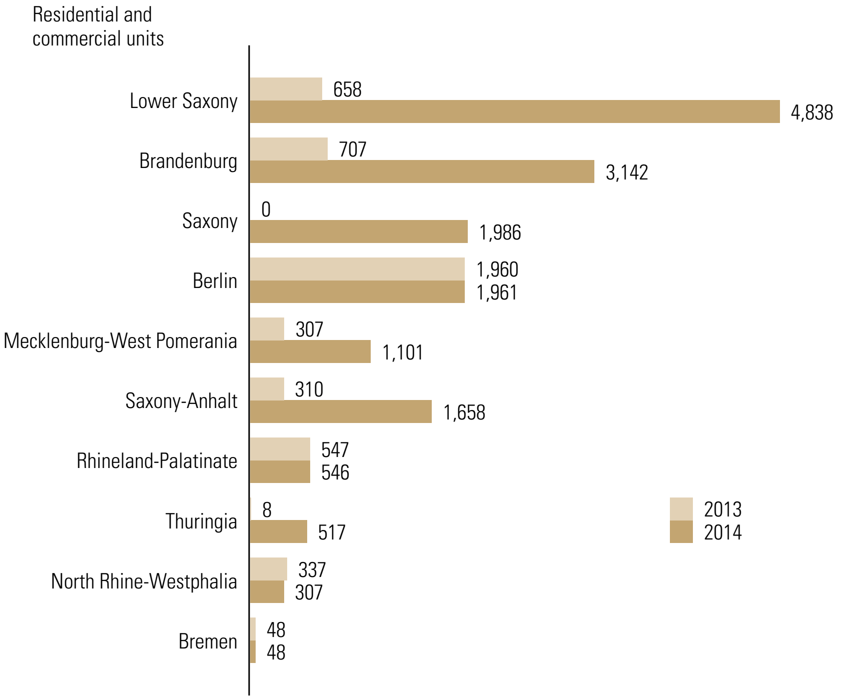
The WESTGRUND portfolio

SCOPE AND ALIGNMENT OF THE PORTFOLIO CHANGED SIGNIFICANTLY UNDER THE STRATEGY IN PLACE

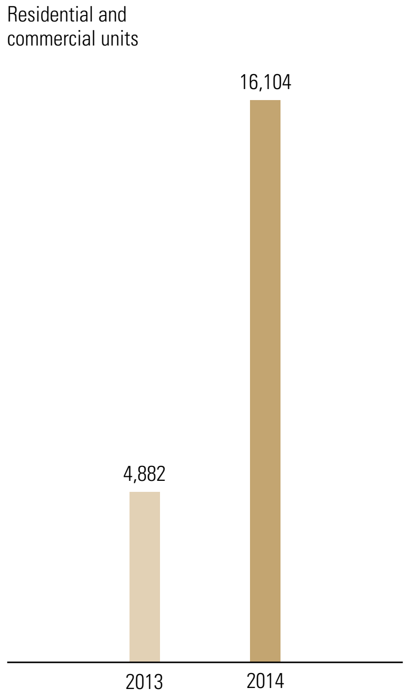
In the 2014 financial year, WESTGRUND AG accelerated its growth course considerably. This was primarily due to the acquisition of the Berlinovo portfolio towards the end of the year. Although ownership of all sub-portfolios resulting from this acquisition has not yet been transferred to WESTGRUND AG, there were more properties included in the balance sheet at the end of the year than ever before in the company's history (17,378 residential and commercial units). This means that the portfolio has more than tripled compared with the same period of the previous year (4,882 units). Of the total portfolio 1,274 units are held for sale, while 16,105 units are held as investment properties. The following analysis relates to this number.

WESTGRUND AG's portfolio has been completely realigned to the growth surge. The fact that properties were acquired in locations and regions in which the company was not previously represented has resulted in a considerable shift – primarily in regional focus areas. Nevertheless, all changes took place in the scope of the existing strategic alignment, which stipulates that all residential properties belong to a market segment that is aimed at tenants on medium to low incomes. WESTGRUND AG offers these tenants basic but good-quality living conditions at standard market prices. As such, the company's fundamental positioning has not changed in this respect.

PORTFOLIO BY FEDERAL STATE, 2014/2013



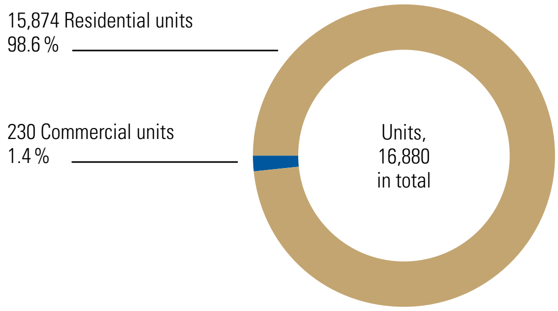
TOTAL PORTFOLIO 2014/2013



WESTGRUND AG is primarily a provider of residential properties. Of the 16,104 units in the company's total portfolio, 98.6%, or 15,874 units, are designed for residential purposes. Only 1.4 percent, or 230 units, are designed for commercial use. In the majority of cases, these properties include shops or office space in urban properties that are otherwise used predominantly for residential purposes. Given that the commercial units are not material to WESTGRUND AG's overall business, they are not discussed in detail.

PORTFOLIO, AS PER UTILISATION

as at 31.12. 2014

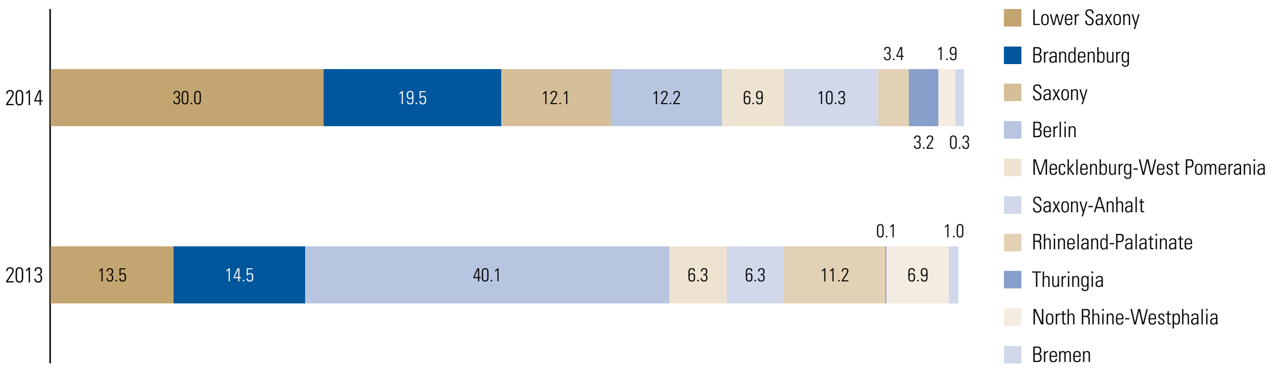


The acquisitions made in 2014 have changed the regional structure of the real estate portfolio considerably. The largest increases in terms of numbers were recorded in Lower Saxony, Brandenburg, Mecklenburg-West Pomerania and Saxony-Anhalt. WESTGRUND AG is now represented in Saxony for the first time. Whereas in the previous year the total portfolio was still largely focused on Berlin with a share of approximately 40 percent, it is now much more widely distributed with around 10 percent in each of the Federal States of Berlin, Saxony, Saxony-Anhalt and Mecklenburg-West Pomerania, almost 20 percent in Brandenburg and just under 30 percent in Lower Saxony. The regional focus is therefore clearly in Northern and Eastern Germany.

The new portfolio structure is in line with WESTGRUND AG's intention to preferably avoid or to diversify risks that always have to be considered in connection with the long-term nature of the real estate business. A regionally widely distributed portfolio is better suited to these requirements than a regionally focused portfolio. The expansion of the portfolios also follows the principle that has guided the company thus far of securing a presence in medium-sized towns where purchase prices are low but socio-economic data suggests that an increased rent can be generated in the long term along with an attractive rental yield.

PORTFOLIO AS PER SHARES OF FEDERAL STATES IN COMPARISON TO PREVIOUS YEAR

in %

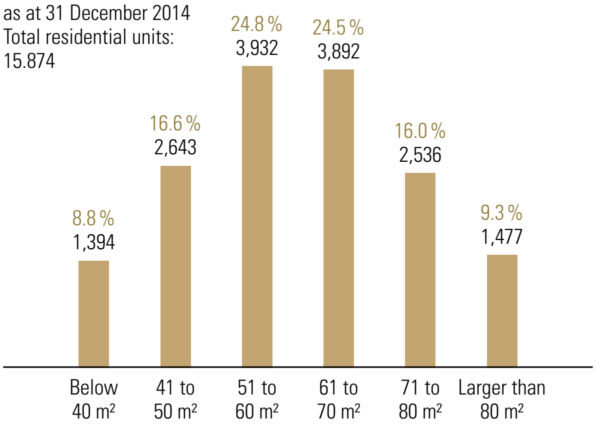


WESTGRUND AG's residential portfolio is focused on small to medium-sized residential units. This is also true after the growth surge in 2014, with half the portfolio made up of properties of between 50 and 70 square metres. About 25 percent of the properties are smaller and about 25 percent are larger. Hence, the portfolio is well tailored to suit the needs of the target group (tenants on medium to low incomes) and also to the growing number of single households.

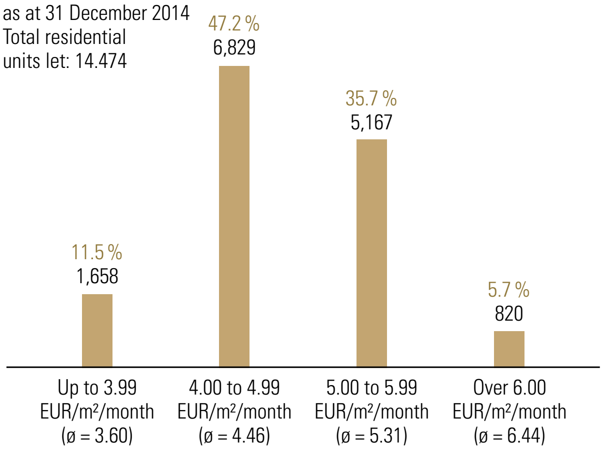
The focus on this target group also follows the logic of minimising risk. First of all, this rental category is exhibiting a high and growing demand as the number of households is continuing to rise even when demographic data is showing no additional population growth. In addition to a conventionally high degree of loyalty to location, the risk of defaults on rent is also limited by the fact that should tenants be unemployed for a relatively long period they can rely on receiving an appropriate level of support from social welfare to pay their rental arrears.

As the portfolio stood at the end of the 2014 financial year, WESTGRUND AG generated average rental revenues of 4.76 euro per square metre and per month. The average amount is therefore in the range of 4.00 euro to 4.99 euro in which 47 percent of the properties held by WESTGRUND AG fall. 36 percent of the residential units generate rent of between 5.00 euro and 5.99 euro, whereas 6 percent of the properties generate rent that is higher than 6.00 euro and 12 percent generate rent that is lower than 4.00 euro. A comparison with the average rental revenues of the previous year is not practical due to the large number of changes to the portfolio. In the majority of sub-portfolios within the previous portfolio, WESTGRUND AG was, however, able to moderately increase rent.

RESIDENTIAL UNITS AS PER AREA

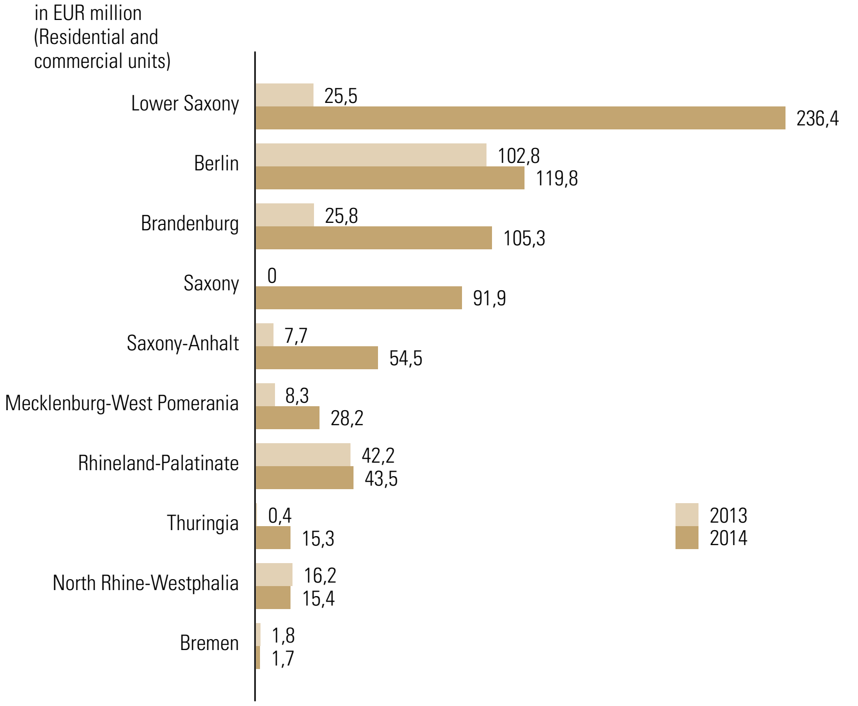


RESIDENTIAL UNITS AS PER RENT

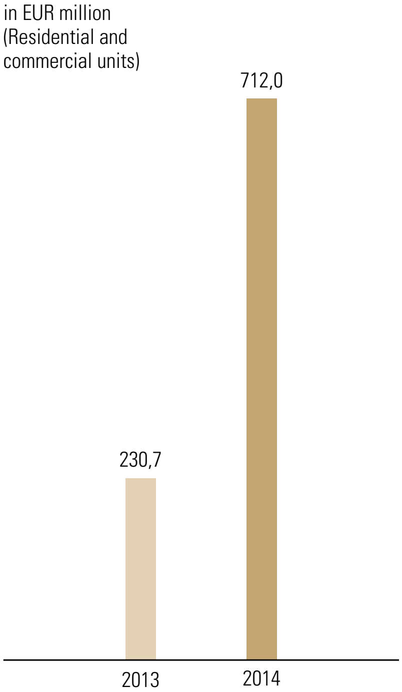


Average rent: ø = 4.76 EUR/m²/month

MARKET VALUE OF THE PORTFOLIO BY FEDERAL STATE 2014/2013



MARKET VALUE TOTAL 2014/2013



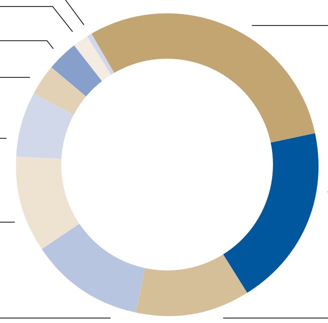
The expansion of the real estate portfolio also increased the portfolio's market value, which is calculated in accordance with IFRS, commensurately. It rose from 230.7 million euro in the previous year to 712.0 million euro in the reporting year. This equates to an increase by a factor of more than three. The increase was primarily the result of the new portfolios acquired. However, increases in value were also achieved in the existing portfolios – mainly in Berlin and Brandenburg. These increases are primarily attributable to already implemented and expected rent adjustments.

Investment properties

as at 31 December 2014

AS PER SHARES OF FEDERAL STATES

as at 31 December 2014



KEY DATA OF PORTFOLIO AS PER FEDERAL STATES

BERLIN

Residential units	1,961
Vacancy rate (%)	2.1
Rent (€/m²)	5.43
NRI (€m)	8.0
Market value (€m)	119.8

BRANDENBURG

Residential units	3,142
Vacancy rate (%)	12.1
Rent (€/m²)	4.56
NRI (€m)	8.7
Market value (€m)	105.3

BREMEN

Residential units	48
Vacancy rate (%)	10.4
Rent (€/m²)	5.19
NRI (€m)	0.1
Market value (€m)	1.7

MECKLENBURG-WEST POMERANIA

Residential units	1,101
Vacancy rate (%)	17.6
Rent (€/m²)	4.16
NRI (€m)	2.6
Market value (€m)	28.2

LOWER SAXONY

Residential units	4,838
Vacancy rate (%)	7.3
Rent (€/m²)	4.83
NRI (€m)	16.9
Market value (€m)	236.4

NORTH RHINE-WESTPHALIA

Residential units	307
Vacancy rate (%)	5.5
Rent (€/m²)	3.06
NRI (€m)	1.7
Market value (€m)	15.4

RHINELAND-PALATINATE

Residential units	546
Vacancy rate (%)	4.0
Rent (€/m²)	7.04
NRI (€m)	2.9
Market value (€m)	43.5

SAXONY

Residential units	1,986
Vacancy rate (%)	9.5
Rent (€/m²)	4.67
NRI (€m)	6.3
Market value (€m)	91.9

SAXONY-ANHALT

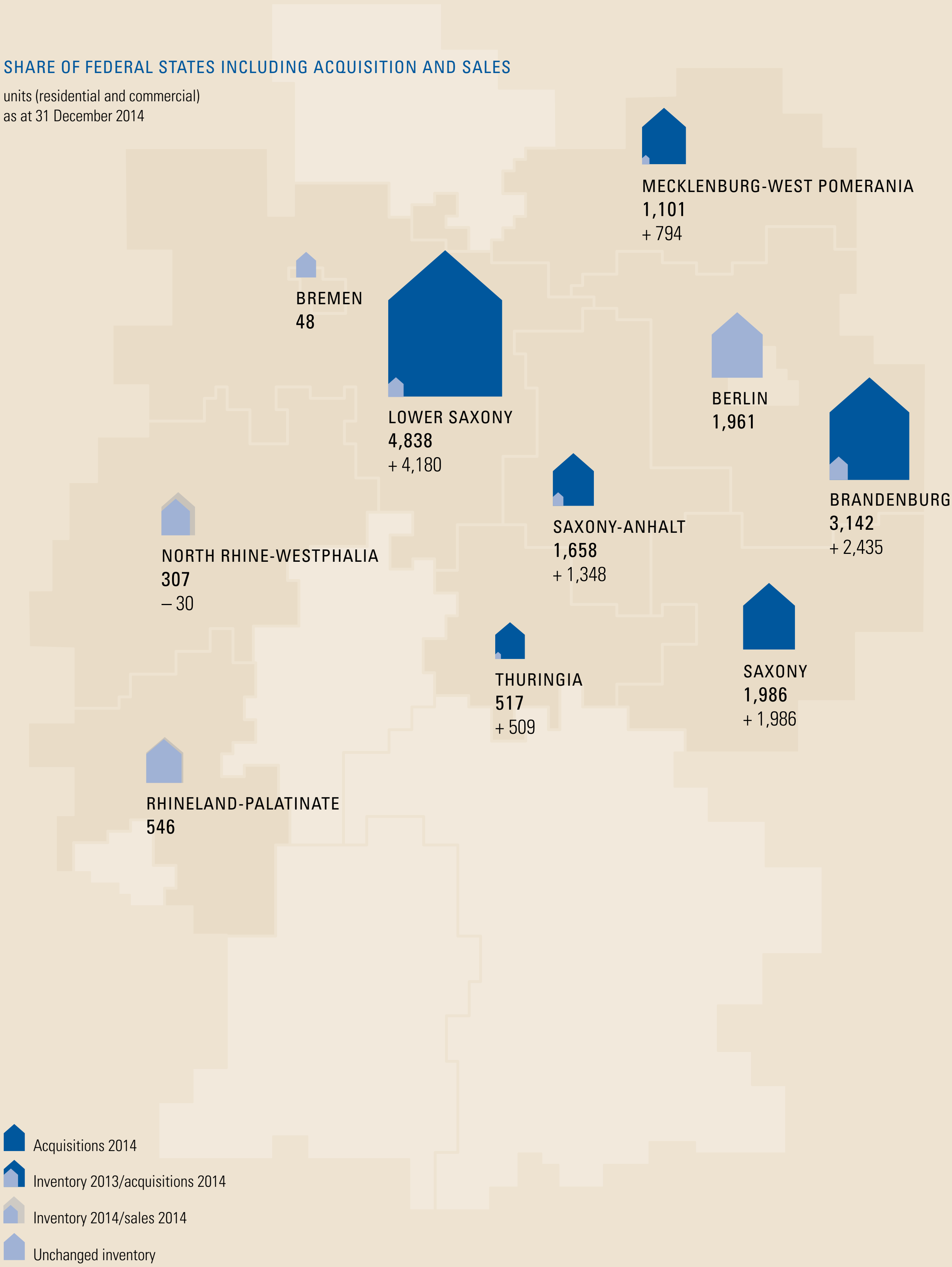
Residential units	1,658
Vacancy rate (%)	12.6
Rent (€/m²)	4.39
NRI (€m)	4.3
Market value (€m)	54.5

THURINGIA

Residential units	517
Vacancy rate (%)	7.0
Rent (€/m²)	5.55
NRI (€m)	2.0
Market value (€m)	15.3

SHARE OF FEDERAL STATES INCLUDING ACQUISITION AND SALES

units (residential and commercial)
as at 31 December 2014



In the existing portfolios, we were also in a position in 2014 to continue to reduce the vacancy rate and moderately increase rental revenues. This indicates that our tenants are satisfied with the quality of our offering.

GROUP MANAGEMENT REPORT

Basic information about the Group

WESTGRUND AG – BUSINESS MODEL

WESTGRUND AG's business activities are focused on the acquisition, management and development of residential properties. At the end of 2014, the total portfolio comprised 17,378 units of which 16,104 were held as investment properties and 1,274 were held for sale. WESTGRUND AG operates exclusively in Germany, with a focus on Northern and Eastern Germany. The company offers its target group – tenants on medium to low incomes – affordable living space of standard market quality.

WESTGRUND AG generates growth by acquiring residential portfolios, which are only acquired if they promise to generate a positive cash flow immediately after acquisition. The company does not assume risks in connection with real estate development business, commercial properties or luxury renovations.

One of the key features distinguishing WESTGRUND AG from most of its competitors is its having an extremely lean organisation. Of the total of 29 employees in the group, 14 are based at the Group headquarters. They focus their efforts on overseeing the business development of the existing portfolio of residential properties, expanding the portfolio with attractive new properties and securing financing that is as favourable as possible at standard market rates for the company's desired acquisitions.

By contrast, the operating business – including the administration of the residential units, property management and daily contact with tenants – is largely run by external partners that perform these tasks on behalf of WESTGRUND AG.

OBJECTIVES AND STRATEGIES

WESTGRUND AG has set itself the objective of roughly doubling its residential property portfolio over the next three years and increasing it to around 40,000 units. In pursuing these growth objectives, the company continues to limit itself to the German market and specifically to living space in the medium to low rent segment – the segment in which the company has the best expertise for long-term success.

Transaction volumes sought typically range between 5 million euro and 60 million euro. As such, they range between the investment criteria of private – mainly locally based – investors and those of large national companies. However, the acquisition of the "Berlinovo" portfolio in the reporting year showed that even larger transaction volumes are possible and can be financed.

Transactions are also based on criteria that are principally related to expected economic viability and the location quality of the properties. In addition to the building stock, purchase price and yield at the time of the acquisition, they are also based on the local environment of the properties in the sense of expected demographic development, economic strength of the location and its anticipated changes – i.e. essentially factors that determine whether long-term rentability is to be expected.

WESTGRUND AG does not acquire additional residential properties if they do not promise to generate a positive rental yield directly after the transfer of rights and obligations. In addition, the purchase price must not exceed 11.5 times the rental revenues. Naturally, the company shows a willingness to invest in the residential properties to an economically reasonable extent, upon or after acquisition, to maintain or increase the rental value. However, if a portfolio presents a high investment backlog and high renovation requirements associated with this, it is not given any consideration.

WESTGRUND AG is also interested in real estate portfolios if they exhibit comparatively high vacancy rates, as long as this is not due to a structural weakness in the regional environment. After all, past experience shows that vacancy rates can be reduced through professional property management, thus increasing the economic viability of the acquired properties.

CONTROL SYSTEM

All decisions taken by WESTGRUND AG are intended to increase the company's value over the long term. The company's value is determined on the basis of standards defined by the European Public Real Estate Association (EPRA) and is measured according to net asset value (NAV), which is published regularly in the course of business reporting. Net asset value is mainly defined as the difference between total assets and liabilities. The company's value can be improved in two ways.

The first is the improved management of the existing properties. The value contribution derived from the existing properties depends largely on their economic viability and, as such, primarily on the quality of property management. WESTGRUND AG has entrusted these tasks to external service providers with whom corresponding performance-related remuneration structures have been agreed. Real estate management success is measured against various performance indicators and is controlled by means of standardised monthly reporting. This allows for unexpected developments to be analysed and rectified at the relevant location. Changes to the rental situation, vacancy rates, level of rent and investments required to preserve or improve the properties not only have an effect on liquidity and income, but also directly impact the value of the properties.

Secondly, the company's value can be increased by expanding the portfolio with new properties whose purchase price is below the market value. As such, management of the total portfolio is of key importance for the company's operational success. The portfolio is essentially managed according to the aforementioned guidelines. Furthermore, certain stipulations are to be respected in terms of the financing structure with regard to the ratio of equity to borrowing. The benchmark used in this respect is a ratio of external financing to the market value of the portfolio (loan to value or LTV) of 60 to 70 percent. If all conditions are met, acquiring a new portfolio of residential properties will tend to increase NAV commensurately.

WESTGRUND AG cannot meet shareholders' demands of achieving a return on equity in line with market performance through increasing NAV alone. Rather, the relevant liquid funds must also be available, and these can only be generated through business operations. As a result, dividends are only paid if, in addition to a positive net consolidated result in the annual financial statements WESTGRUND AG also has the required liquid funds available. This means that the total surpluses from the individual sub-portfolios must be correspondingly greater than the expenses for Group headquarters. For this reason, WESTGRUND AG has set itself the objective of continuing to grow strongly over the next few years and expanding the real estate portfolio in line with the stipulated criteria to roughly double the size.

RESEARCH AND DEVELOPMENT

Research and development activities are not part of WESTGRUND AG's business model.

Economic report

GENERAL ECONOMIC AND INDUSTRY CONDITIONS

General economic conditions – moderate growth

According to the German Federal Statistical Office, the German economy grew by 1.6 percent in 2014. Growth was driven in particular by capital spending and consumption, both in the public and in the private sector. If general economic factors can at all be considered indicators for specific industry development, then for companies in the residential property segment one such factor would be the development of private consumption. Present estimates indicate that in 2014, private consumption developed at roughly the same rate as the overall economy. Consumer confidence remained slightly subdued virtually throughout the year, but brightened towards the end of the year due to the sharp drop in the crude oil price.

Industry conditions – stimulating environment

Against the backdrop of moderate general economic growth, the German housing market developed in an extremely positive fashion in 2014. It benefited from continuing positive general conditions, in particular low interest rates and, as a result, low financing costs for purchasing residential property. Trends that shaped the previous year appear to be continuing. The number of households is increasing, even though population numbers remain more or less constant. The average living space per person is also continuing to rise. There was a further rise in new construction activity, and this triggered a noticeable slowdown in the housing market – predominantly in some urban areas.

Housing market – rent and price increase at lesser rates

According to the assessment of the German real estate professional association (Immobilienverband Deutschland, Bundesverband der Immobilienberater, Makler, Verwalter und Sachverständigen e.V. (IVD)), newly concluded tenancies for existing residential properties rose by 2.1 percent on average in Germany. This is at a significantly higher rate than inflation, albeit at a lower rate than the previous year. By contrast, at 4.8 percent newly concluded tenancies for new properties were up considerably on the previous year's level for the same period. However, growth was around one percentage point below the previous year's figure in this segment, too. Consequently, the rental growth observed in previous years did not continue at the same pace in 2014. One reason for this may be that demand for owner-occupied properties rose again on account of the continuing favourable financing conditions, and this negatively impacted the rental market accordingly. Growing demand in this segment resulted in a price increase, which IVD estimates to be 4.5 percent for an owner-occupied property with average residential quality.

However, the average values for Germany mask an extremely variable regional development. Demand for and prices of rental properties continued to increase in most – but not all – urban areas and medium-sized towns, whereas this was not often the case in rural or remote regions. The same was true of residential property prices.

Real estate transaction market – volumes again increased substantially

General conditions for the German real estate transaction market also continued to remain favourable. In 2014, the market reached a volume of 52.7 billion euro, and hence continued to show strong growth. However, at 19.2 percent the increase in growth was not quite as high as one year ago.

The individual market segments also developed in an extremely mixed fashion. Whereas the transaction volume of commercial properties was down 6.6 percent on the previous year in 2014, amounting to 12.8 billion euro, the transaction volume of residential properties – the relevant market for WESTGRUND AG – increased by 30.8 percent to 39.9 billion euro. This meant that the market, which has grown year on year since 2009, was again extremely dynamic in 2014.

The further increase in transaction volumes reflects the continued positive sentiment in the German real estate transaction market. The fact that the interest rate level on the capital markets is still low is resulting in attractive financing conditions, but at the same time is making investing in various other asset classes unattractive. Furthermore, there is sufficient credit financing available. Fears that this would not be the case because banks now have to satisfy higher requirements in terms of capital adequacy have proven to be unsubstantiated.

In 2014, the real estate transaction market was again characterised by portfolio transactions, although these transactions did not reach the level of the previous year, neither on average nor in terms of peak transaction volumes. On the offer side, there were again a large number of financial investors in 2014. At the beginning of the 2000s, they had driven the market and prefer comparatively short holding periods. By contrast, the demand side was dominated by strategic investors – among them mainly listed housing companies whose business model is based on holding their portfolios and not on rapid buying and selling. If these changes result in residential portfolios being held for longer periods on average, this could mean that the real estate transaction market will not continue to develop quite as dynamically in the next few years as has been the case over the past five years.

At the same time, the consolidation process in the residential property sector continued in 2014. Already back in 2013, Deutsche Wohnen AG acquired GSW Immobilien AG, both companies figuring among the five largest providers of residential properties in Germany. The consolidation continued in 2014 with two further takeovers. Deutsche Annington Immobilien SE, the undisputed market leader, acquired GAGFAH AG, who was the number three in the German market in terms of its residential portfolio. In a smaller-scale takeover, ADLER Real Estate AG also acquired Estavis AG. The private residential property sector has thus seen substantially larger entities being formed within the past two years and there has also been a shift in the relative importance of these companies.

The consolidation process is set to continue in 2015 as well. At the start of the year, Deutsche Wohnen AG announced its intention to acquire the Austrian property company, conwert Immobilien Invest SE. ADLER Real Estate AG also announced a takeover bid for WESTGRUND AG. However, fears that this will change the conditions on the residential property market in the sense of individual competitors having increased market power seem not to be entirely justified given that the largest providers still only account for a fraction of the overall German residential property market – even after consolidation.

BUSINESS DEVELOPMENT

Income position

	2014	2013	Change	
	kEUR	kEUR	kEUR	%
Revenues	35,854	18,193	17,661	97
Changes in inventories	4,373	3,391	982	29
Market valuation of investment properties	78,941	20,213	58,728	291
Overall performance	**119,168**	**41,797**	**77,371**	**185**
Material expenses	–20,484	–12,331	8,153	66
Gross profit	**98,684**	**29,466**	**69,218**	**235**
Personnel expenses	–2,808	–1,314	1,494	114
Depreciation	–123	–73	50	68
Administrative and operating expenses	–3,861	–1,954	1,907	98
Other operating income	352	372	–20	–5
Operating result	**92,244**	**26,497**	**65,747**	**248**
Net interest result	–21,375	–4,847	16,528	341
Net result from equity interests	482	342	140	41
Amortisation	0	–300	–300	––
Net result from prior periods	223	–420	643	––
Earnings before income taxes	**71,574**	**21,272**	**50,302**	**236**
Income taxes	–11,344	–3,403	7,941	233
Consolidated net result	**60,230**	**17,869**	**42,361**	**237**

Overall performance almost tripled through acquisitions

In the 2014 financial year, the overall performance of WESTGRUND AG improved considerably, mainly as a result of major property acquisitions. It increased by 185 percent to 119.2 million euro. All three components that make up overall performance contributed to this increase. Revenues, which are identical to rental revenues except for a low percentage, increased by 17.7 million euro, or 97 percent, to 35.9 million euro. This increase is predominantly attributable to the acquisitions, even though most of the new portfolios were added only in the second half of the year and therefore contributed to rental revenues for only a few months. Moderate increases in rent throughout the portfolio likewise had a positive effect on revenues. The vacancy rate of the total portfolio stood at 9.1 percent at the end of the year, which was higher than in the previous year (7.0 percent). The fact that no improvement was made here can be explained by the extensive expansion of the real estate portfolios. The acquired portfolios presented a comparatively high vacancy rate, which more than compensated the reduced vacancy rates achieved in the existing portfolio.

The item “Changes in inventories” contains prepayments for operating costs apportionable to the tenants, which will finally be settled only in the following year. This second, significantly smaller component of overall performance increased by 1.0 million euro, or 29 percent, to 4.4 million euro.

In 2014, revenues of 78.9 million euro were generated from the market valuation of non-current investment properties. This equated to 58.7 million euro, or 291 percent, more than in the previous year (20.2 million euro). The predominant part of this amount (60.0 million euro) is attributable to portfolios that were acquired in 2014, particularly the large “Berlinovo” portfolio. This figure reflects the fact that the Westgrund Group was able to acquire a considerable amount of the new real estate portfolios at below market value. The significantly smaller percentage of the market valuation, amounting to 18.9 million euro, is attributable to the existing portfolio, meaning properties that were already capitalised on the balance sheet at the end of 2013. This increase in the revenues from valuation in 2014 is testament to the overall positive operating performance of a professional Asset Management.

Gross profit increasing in line with overall performance

After deduction of material expenses, gross profit amounted to 98.7 million euro. This corresponds to an improvement of 69.2 million euro, or 235 percent, on the figure for the same period of the previous year (EUR 29.5 million).

Growth necessitates recruitment

Personnel expenses increased in particular because of the recruitment in the second half of 2014, but also with performance-related remuneration components for the Management Board by a total of 114 percent on the previous year to 2.8 million euro (previous year: 1.3 million euro). This also includes expenses in connection with granting share options amounting to 0.4 million euro to employees and Management Board members (previous year: 0.1 million euro). New positions were created primarily in Asset Management and Controlling in order to manage the expanded portfolio appropriately and profitably. However, the organisation structure has remained lean. Due to the increased business volume, administrative and operating expenses rose by 98 percent to 3.9 million euro (previous year: 2.0 million euro).

Results more than tripled

After taking into account all items of operating expense, the operating result amounted to 92.2 million euro. This equated to 65.7 million euro, or 248 percent, more than in the previous year (26.5 million euro).

Net interest result went from –4.8 million euro in 2013 to –21.4 million euro in 2014. This was primarily due to one-off expenses from the interim financing of the "Berlinovo" portfolio amounting to 10.8 million euro and ongoing interest for additional loans that were taken up to finance acquisitions in 2013 and 2014. Because from the borrowers' perspective interest rates have been extremely low recently, the average interest rate that the Westgrund Group is paying for external financing decreased from 3.2 percent in the previous year to 2.6 percent in 2014.

Amortisation, net result from equity interests and net result from prior periods were very low – as in the previous year – resulting in earnings before taxes (EBT) that were more than three times as high as the previous year at 71.6 million euro (previous year: 21.3 million).

Tax expenses amounted to 11.3 million euro in 2014. This equated to 7.9 million euro more than in the previous year (3.4 million euro). Income tax expenses included deferred tax liabilities pursuant to IAS 40. This was primarily the result of profits from the market valuation of investment properties.

After deduction of taxes, the consolidated net result came to 60.2 million euro. This corresponds to a threefold increase, or an increase of 42.4 million euro, on the previous year (17.9 million euro). This equates to a return on overall performance of 50.5 percent (previous year: 42.8 percent).

Positive development in funds from operations (FFO)
WESTGRUND AG has been a member of the European Public Real Estate Association (EPRA) since 2014. The company has therefore committed itself to reporting certain key performance indicators in line with a calculation model developed by EPRA and recommended to all its members in Europe. This is intended to standardise and simplify international comparisons. WESTGRUND AG believes that this reporting further improves transparency in the interests of its shareholders.

Reporting on funds from operations generates an earnings figure that excludes certain components of profit or loss. This mainly concerns revenues and expenses resulting from market valuations as they constitute non-cash items, as well as income and expenses that do not result from ongoing operating business, but, for example, from the sale of properties. As such, FFO is a cash-flow-oriented earnings figure that is intended to convey a more relevant picture of ongoing, or "underlying", business. Its calculation is broken down into the individual elements in the following table:

CONSOLIDATED FUNDS FROM OPERATIONS STATEMENT

for the period from 1 January to 31 December 2014

	2014	2013
	kEUR	kEUR
Consolidated net result for the period after minorities	60,096	17,801
(+) Financial result	21,374	4,847
(+) Income taxes	11,344	3,403
EBIT	**92,814**	**26,051**
(+) Depreciation/amortisation	123	373
EBITDA	**92,937**	**26,424**
(–) Valuation result of investment properties	–78,941	–20,213
(–) Profit from real estate sales	–515	0
(–) Profit from first-time consolidations	–101	0
(+) Share option expenses	361	117
Adjusted EBITDA	**13,741**	**6,328**
(–) Net cash financial result without non-recurring effects	–8,151	–4,987
(+) Net cash income taxes	25	0
Funds from operations I (FFO I)	**5,615**	**1,341**
(+) Profit from real estate sales	515	0
Funds from operations II (FFO II)	**6,130**	**1,341**

	2014	2013
	EUR	EUR
FFO I/share (undiluted)	0.14	0.06
FFO I/share (diluted)	0.12	0.06
FFO II/share (undiluted)	0.15	0.06
FFO II/share (diluted)	0.14	0.06

According to the above, in 2014 WESTGRUND AG generated funds from operations I of 5.6 million euro. This equated to 4.3 million euro more than in the previous year (1.3 million euro). Undiluted and diluted FFO I/share also saw substantial increases from 0.06 euro to 0.13 euro (diluted) and from 0.06 euro to 0.15 euro (undiluted).

Asset position

	31.12.2014		31.12.2013		Change	
	kEUR	% of total assets	kEUR	% of total assets	kEUR	%
ASSETS						
Investment properties	712,021	88.0	230,655	93.2	481,366	208
Property, plant and equipment	235	0.0	271	0.1	– 36	– 13
Financial assets	28	0.0	28	0.0	0	0.0
Other non-current assets	2,034	0.3	809	0.3	1,225	151
Deferred tax assets	0	0.0	135	0.1	– 135	–
Non-current assets	**714,318**	**88.3**	**231,898**	**93.7**	**482,420**	**208**
Properties intended for sale	236	0.0	236	0.1	0	0
Services not yet invoiced	11,878	1.5	7,707	3.1	4,171	54
Unfinished services	737	0.1	737	0.3	0	0
Other assets	34,547	4.3	2,779	1.1	31,768	>1,000
Liquid funds	47,672	5.9	4,024	1.6	43,648	>1,000
Current assets	**95,070**	**11.8**	**15,483**	**6.3**	**79,587**	**514**
	809,388	**100.0**	**247,381**	**100.0**	**562,007**	**227**
LIABILITIES						
Subscribed capital	73,975	9.1	24,090	9.7	49,885	207
Reserves	113,130	14.0	12,288	5.0	100,842	821
Minority interests	977	0.1	332	0.1	645	194
Group unappropriated surplus	99,483	12.3	39,388	15.9	60,095	153
Equity	**287,565**	**35.5**	**76,098**	**30.8**	**211,467**	**278**
Deferred tax liabilities	19,675	2.4	9,926	4.0	9,749	98
Provisions for pensions	95	0.0	97	0.0	– 2	– 2
Non-current liabilities to banks	407,087	50.3	97,385	39.4	309,702	318
Derivatives	7,128	0.9	951	0.4	6,177	650
Bonds	17,098	0.0	0	0.0	17,098	–
Non-current leasing liabilities	4,716	0.6	4,728	1.9	– 12	0
Other non-current debt	624	0.1	658	0.3	–34	–5
Non-current debt	**456,423**	**56.4**	**113,745**	**46.0**	**342,678**	**301**
Current liabilities to banks	12,591	1.6	38,656	15.6	–26,065	–67
Other current debt	52,809	6.5	18,882	7.6	33,926	180
Current debt	**65,400**	**8.1**	**57,538**	**23.2**	**7,862**	**14**
	809,388	**100.0**	**247,381**	**100.0**	**562,007**	**227**

Investment properties tripled

The assets side of WESTGRUND AG's consolidated balance sheet mainly relates to investment property. It accounts for 88 percent of total assets. In 2014, investment property more than tripled as a result of the largest acquisition made by the Westgrund Group in the company's history. This corresponds to an increase of 481 million euro. Of this amount, 460.5 million euro is attributable to the initial recognition of the new portfolios acquired in 2014 and 20.9 million euro to market value increases of the real estate portfolio that already existed at the beginning of the year.

At the end of 2014, non-current assets amounted to 714.3 million euro, 482.4 million euro more than at the end of the previous year (231,9 million euro).

Current assets increase

Current assets, which account for less than 12 percent of total assets, also increased significantly. Services not yet invoiced went up considerably by 54 percent, which is predominantly attributable to the increased real estate portfolio. Cash and cash equivalents rose by 43.6 million euro to 47.7 million euro. This was because the cash inflows from the capital increase implemented in autumn 2014 were not yet fully utilised for purchase price payments. There was also a substantial rise in other current assets. This item was impacted by the fact that the intended sale of parts of the acquired "Berlinovo" portfolio amounting to 30.8 million could not be realised in 2014 yet.

Financing structure remains solid

On the liabilities side of WESTGRUND AG's consolidated balance sheet, the financing structure changed to benefit equity and non-current external financing after the acquisition-related extensive expansion of total assets. The equity ratio increased from 30.8 percent to 35.5 percent and the percentage of non-current debt moved up from 46.0 percent to 56.4 percent. These changes reflect the solid, long-term financing of the newly acquired real estate portfolios. The financing structure thus basically meets the target value which the Management Board deems appropriate for the business of WESTGRUND AG, considering economic and risk-related aspects.

Equity strengthened

Equity was strengthened by four capital increases (cash capital increases and increases through contributions in kind) in 2014 as well as on account of exercised conversion options in the context of the convertible bond with a conversion obligation. Subscribed capital thus increased strongly by 49.9 million euro to 74.0 million euro, and capital reserves likewise improved substantially by 100.8 million euro to 113.1 million euro. Moreover, the 2014 net consolidated result of 60.2 million euro has also contributed to the increase in equity.

Investment porperties financed nearly completely long-term

Non-current debt increased by 342.7 million euro to 456.4 million euro. The strong growth in this item mainly relates to acquisitions. The "Berlinovo" portfolio acquired in 2014, which had initially been secured through short-term interim financing, received long-term financing in December 2014 with a fixed interest rate until 2021. In addition, shifts in existing financing occurred over the course of the year. For instance, at the beginning of March 2014 long-term loan agreements amounting to over 40 million euro were concluded with NORD/LB Norddeutsche Landesbank Girozentrale AöR to refinance loans with short remaining terms. This means that almost 100 percent of the Westgrund Group's total real estate portfolio now has long-term financing.

Current debt increased by only 7.9 million euro to 65.4 million euo. Thus the percentage of current liabilities in borrowings decreased substantially. Current liabilities to banks declined by 26.1 million euro to 12.6 million euro on account of shifts in the financing structure. By contrast, other current debt increased by 33.9 million euro to 52.8 million euro in connection with the significant increase in assets held for sale. On balance, this resulted in a slight net increase in current liabilities.

Net asset value increased significantly

The equity measures and the large increases in the market valuations of investment properties also caused net asset value as specified in the EPRA calculation to rise significantly. This parameter, which is crucial for the assessment of the company value of WESTGRUND AG, developed as follows as at 31 December 2014:

	31.12.2014	31.12.2013
	kEUR	kEUR
Consolidated equity without minority interests carried on the balance sheet (IFRS)	286,589	75,766
(+) Deferred taxes	19,675	9,791
(+) Derivatives	7,240	951
EPRA NAV	**313,504**	**86,508**
EPRA NAV in EUR/share (undiluted)	**4.24**	**3.59**

As at 31 December 2014, diluted EPRA NAV amounted to EUR 4.13 per share.

Cash inflows from the cash capital increase in September 2014 were used to finance the purchase price of the “Berlinovo” portfolio. As at 31 December 2014, rights and obligations had been transferred for more than 90 percent of the portfolio. Taking into account the transfer of the remaining properties from the “Berlinovo” portfolio, which is expected to take place in the first quarter of 2015, EPRA NAV would stand at 319.6 million euro as at 31 December 2014. In relation to outstanding shares as at the 2014 balance sheet date, this would equate to an undiluted EPRA NAV of EUR 4.32 per share and a diluted EPRA NAV of EUR 4.21 per share.

Financial position

	2014	2013
	kEUR	kEuro
Cash flow from operating activities	9,403	2,059
Cash flow from investing activities	–404,536	–61,263
Cash flow from financing activities	438,538	58,284
Changes in cash and cash equivalents	**43,225**	**–920**
Reclassifications of assets held for sale	423	–501
Cash and cash equivalents at beginning of period	4,024	5,445
Cash and cash equivalents at end of period	**47,672**	**4,024**

Cash flow reflects growth

The successful growth strategy including the related financing also resulted in substantial changes in the consolidated cash flow statement. Cash flow from operating activities increased by 7.3 million euro to 9.4 million euro year on year, particularly as a result of the larger real estate portfolio.

By contrast, cash flow from investing activities fully reflects the acquisitions made in 2014. In the 2014 financial year, investment properties were acquired, which are recognised in the consolidated balance sheet as at 31 December 2014 at an amount of 460.5 million euro. There were no material investments made in property, plant and equipment, properties or other moveable objects in the financial year just ended, apart from isolated property renovations.

Investments financed externally

The significant investments were financed by four capital increases (cash capital increases and increases through contributions in kind), which resulted in an inflow of liquid funds of 140.6 million euro, by the issue of a convertible bond with a conversion obligation amounting to 19.8 million euro and by the take-up of non-current bank loans, particularly the long-term financing agreement concluded in December 2014 for the “Berlinovo” portfolio, which brought WESTGRUND AG a net cash inflow totalling 291.7 million euro.

At the end of the year, this resulted in total liquid funds of 47.7 million euro compared with 4.0 million euro in the previous year.

The solvency of WESTGRUND AG and its subsidiaries was always secured throughout the financial year and at the end of the reporting period.

Overall statement on business performance and the situation of the Group

WESTGRUND AG successfully continued its growth in the 2014 financial year. All the key performance indicators, e.g. property portfolio, consolidated earnings for the year, FFO and NAV improved substantially. However, the newly acquired properties were taken on only in the second half of the year. They therefore did not yet contribute fully to revenue or income in 2014. This will be the case only in 2015. Furthermore, WESTGRUND AG financed the growth of its property portfolio with a solid mix of equity and debt. Overall, this created a healthy foundation for the company's continuing successful development in the future.

NON-FINANCIAL PERFORMANCE INDICATORS

Network

On account of its long company history, the Westgrund Group has a broad network of high-calibre, reliable business partners in the German real estate market. In the financial year just ended, this network was a key factor in realising capital and real estate market transactions.

Employees

In a lean organisation deemed appropriate by WESTGRUND AG and put into practice in its business model at Group headquarters, there is comparatively little scope for formal incentive schemes. Such schemes are not entirely necessary either. Performance comparisons between employees with the same field of activity are difficult in a small team in terms of numbers as work areas do not overlap. Benchmarking against others is difficult because there are few other companies with the same type of lean structure. For this reason, a high level of motivation to perform and dedication to the job is achieved at WESTGRUND AG through an appropriate working environment and the shared desire to develop the company and not lose sight of taking pleasure in work. In this respect, the Management Board feels obliged to exemplify this attitude and ensure that new employees have the right type of personal skills to suit this kind of environment.

On average in the financial year just ended, the Westgrund Group employed 29 people (previous year: 21 people), of which 14 worked in the core activities of asset management, acquisition, financing and controlling. The strong growth in 2014 meant that recruitment of new employees was required, particularly in the areas of asset management and controlling. No valid statements can be made statistically with regard to fluctuation of employees given their small number. As long as the intended acquisition of the majority shareholding by ADLER Real Estate does not change WESTGRUND AG's plans, further property acquisitions are scheduled for the 2015 financial year. This would necessitate the recruitment of additional employees in asset management.

Real estate industry indicators

External partners responsible for property management are managed and supervised on the basis of financial and non-financial indicators. Property managers' monthly reporting therefore contains regular comparisons between target and actual values for a number of indicators, such as expected maintenance, vacancy rates and managers' availability. If actual values deviate to a large or permanent extent from the target values, the relevant asset management employee discusses measures to be taken together with the property manager to ensure that the difference is reduced.

Non-financial factors play a significant role in assessing and valuing acquisition opportunities. For instance, the attractiveness of a property does not depend on the current level of rent alone, but largely on future expectations. And in turn these expectations depend, for example, on the age structure of the tenants, the expected demographic development, anticipated infrastructure measures in the region, its socio-economic profile and possible changes to the region over time. These and other indicators are taken into account by the asset managers in all decision-making concerning selling or buying property.

Supplementary report

At the end of December 2014, an additional portfolio ("Ajax") numbering roughly 2,700 units was acquired. The transfer of rights and obligations for this portfolio is scheduled for the first half of 2015. This is on the condition that the necessary financing has been secured by 30 June 2015. The recoverability of the advance payment of EUR 1.4 million already made is also contingent on this.

A significant event occurred after the end of the reporting period that may – and is likely to – materially affect the future of WESTGRUND AG. On 16 February 2015, ADLER Real Estate AG announced that it intended to make a takeover bid for all Westgrund shares. On 23 February, ADLER Real Estate AG further announced that, pursuant to Section 25 WpHG (German Securities Trading Act), it had already secured control of 50.1 percent of the voting rights in WESTGRUND AG via financial instruments. Up until the reporting date, a formal offer has not been submitted yet by ADLER Real Estate AG. An assessment of what the likely takeover of the majority of shares will mean specifically for the organisational and personnel structures, the strategic direction, and the operating and financial objectives of WESTGRUND AG is not possible at the present time.

No further events occurred after the end of the 2014 financial year which are of material importance to WESTGRUND AG and could result in a changed assessment of the net assets, financial and income position of the company. Business development up until the time this management report was prepared affirms the statements made in the forecast report.

Outlook, opportunities and risk report

OUTLOOK

Now that ADLER Real Estate AG has announced its intention to make a takeover bid and at the same time disclosed that it has already secured the majority of the shares with the approval of the major shareholders, the Management Board of WESTGRUND AG is taking decisions for the company in new circumstances. As such, all statements made with regard to expected future developments at the company are subject to partial or full revision as the new majority shareholder may be able to exercise control over WESTGRUND AG.

However, WESTGRUND AG is bound by agreements and contracts that were made in the past. These include the integration of the remaining sub-portfolios from the "Berlinovo" acquisition and the acquisition of the "Ajax" portfolio. However, the company must now reassess the financing of the acquisition of the "Ajax" portfolio under the changed conditions of the takeover bid before the middle of the year. If the plans were to be implemented successfully, at the end of 2015 WESTGRUND AG would hold close to 22,000 residential and business units, which in accordance with IFRS would have an estimated fair value of around 930 million euro. This would equate to an increase of roughly 200 million euro against the comparative value as at 31 December 2014.

At the beginning of 2015, WESTGRUND AG was assessing a further portfolio of around 8,000 residential units with a view to a possible acquisition. At present, the company is unable to forecast whether a positive outcome would generate further growth for the portfolio – particularly in light of the uncertainty caused by the takeover bid.

According to existing plans, which were not influenced by a new majority shareholder, WESTGRUND AG expects to generate increased rental revenues in 2015 from the expansion of the portfolio, which are anticipated to surpass the previous year with at least a low to medium double-digit rate. The residential units that were acquired with the "Berlinovo" portfolio in 2014 will contribute to rental revenues for the year as a whole for the first time in 2015. It is also expected that the comparatively high vacancy rate of the acquired properties can be gradually reduced. In light of these conditions, the management of WESTGRUND AG also anticipates that funds from operations (FFO) – the important performance indicator for operating business assessment – will roughly double, or at least reach a figure in the double-digitmillions, given the strong lever of improved rental revenues.

An assessment of before-tax or after-tax earnings is much more difficult because they depend largely on the market valuations of investment properties. The market valuation of investment properties increased substantially in 2014, mainly on account of the strong, acquisition-driven expansion of the real estate portfolio. This effect will not be repeated to the same extent in 2015, even on the assumption that the previously planned expansion of the portfolio will be realised without modification. It can therefore be expected that earnings in 2015, both before and after tax, will be significantly lower than in 2014 and possibly even come up to only half the amount.

If these expectations are met, this would also mean that the percentage of earnings realised from current business operations via rental revenues would increase, whereas the percentage of – non-cash – earnings achieved by increasing market valuations of investment properties would decline in 2015.

A positive result in line with expectations would also result in a further increase in EPRA NAV. Provided that the existing plans will still be implemented even after the change of ownership, an increase in EPRA NAV in the magnitude of a low double-digit percentage rate would be a realistic scenario.

At the time of reporting, it cannot be determined whether and how these expectations will have to be changed in light of the anticipated takeover of WESTGRUND AG. The acquisition of the majority shareholding is not yet finalised, and the new majority shareholder has therefore not yet announced its specific intentions.

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Irrespective of whether or not WESTGRUND AG will continue to pursue its previous objectives under the new ownership structure, the general economic environment for real estate companies in Germany is likely to remain favourable, due to sustained low interest rates. Nevertheless, property prices have increased noticeably over the past few years, which decreases the propensity of potential buyers to conclude transactions. This could stunt growth on the real estate transaction market and possibly cause it to stagnate at the high level it has currently reached.

General economic developments appear to be robust on the whole, with most economic researchers projecting growth in gross national product of between one and two percent. This is coupled with the expectation that interest rates will continue to remain at a low level in 2015 and banks will offer sufficient financing. On the whole, these are likely to constitute continuing good conditions for real estate companies to stay successful and achieve good results in 2015 as well.

Owing to reasons relating to the anticipated change of control, the expectations for 2015 in this forecast are only of a limited nature. Last year was different in this respect. That is why most of the expectations formulated in the 2013 annual report for 2014 became a reality. At EUR 60.2 million, consolidated earnings in 2014 were significantly higher than the forecast 20 percent increase as against 2013. However, there was also no way of knowing at the time of reporting then that WESTGRUND AG would conclude the biggest acquisition in its history in 2014.

RISK REPORT

Risk management system

WESTGRUND AG's risk management system encompasses the entire Group, is systematically structured and is intended to maintain and strengthen the Group's competitiveness. It identifies individual risks, examines them and processes them in a transparent manner. It therefore enables the Group to provide an appropriate response to the different individual risks. The risk management system is designed to exclude risks jeopardising the continued existence of the Group as a going concern under all circumstances. However, it cannot – and does not want to – avoid fundamental business risk, which is inextricably linked to the exploitation of market opportunities as a prerequisite for lasting business success.

This is why the risk management system not only evaluates risks but also the opportunities that are linked to the risks. In the Group's areas of core competence, reasonable, minor and manageable risks are intentionally assumed if they are also expected to generate a reasonable return or are unavoidable. If it is possible to insure against such risks under economically viable conditions, the relevant insurance cover is taken up. On the other hand, risks that bear no relation to core and/or support processes are avoided if possible.

In its risk management handbook, the Group has formulated the framework conditions for proper and future-oriented risk management and regulates the specific processes using the risk management system. The objective is to systematically identify, assess, control and document all risks that exceed a threshold specified by management. Taking into account defined risk categories, it identifies risks within the business areas, operating units, key associated companies and central divisions and assesses their probability of occurrence and damage potential.

A responsible person is designated for each risk, whose task it is to develop – and initiate if required – measures to avoid, reduce or hedge against the respective risk. The material risks and initiated measures are monitored regularly. The employees responsible report regularly to the Management Board and the Supervisory Board on the identified risks. In addition to regular reporting, there is also a spontaneous intra-Group reporting requirement for any unexpected risks that may occur. The risk management system allows the Management Board to identify material risks at an early stage and introduce appropriate measures to reduce or avoid these risks.

The fundamental properties of the risk management system are applied throughout the Group. They also include processes in accounting. In this area in particular, the identified risks are evaluated and assessed as to their potential effects on reporting in the relevant financial reports. It allows the company to obtain key information at an early stage on potential changes in fair value of assets and liabilities and impending impairment as well as information required to assess and present balance sheet risks. The Group works closely together with external auditors in this regard.

At regular intervals, the appropriateness and efficiency of the risk management system and the related control system is checked and reevaluated at Management Board level. Following the expansion of the Management Board at the end of 2013 and the strengthening of key tasks as a result of the large acquisitions, the Westgrund Group's risk management system was refined further in 2014 and adapted to the changed management and company structure.

Risks

Within the scope of risk management, the following categories of risk in particular are distinguished and intensely monitored:

Supply market risk

When acquiring companies and real estate portfolios, the qualitative and quantitative properties of the individual target object have to be documented and assessed extensively. Aside from the risk of an incorrect assessment of the target object, there is also the risk that an inappropriately high purchase price may be paid. Furthermore, integrating acquired companies and real estate portfolios into existing organisation structures can also be associated with difficulties. WESTGRUND AG believes the risk of acquiring properties to be low because it employs staff with many years of relevant expertise and for impending acquisitions relies on the expertise of external real estate specialists that are familiar with property valuation.

The further growth plans of the Westgrund Group depend on the availability of a sufficient supply of attractive properties on the market at reasonable purchase prices.

A risk comparable to supply risk concerns the sale of residential portfolios: that is the risk of incorrect valuations and losses in value. However, WESTGRUND AG sees itself as a property investor, not a trader. This means that portfolios are typically held for long periods. However, it is often the case that the existing total portfolio is adjusted and sub-portfolios are sold. This typically also occurs as part of the acquisition of new real estate portfolios as it is not always the case that all residential units included in a portfolio, which appears attractive on the whole, fit in with the alignment of the WESTGRUND AG portfolio.

WESTGRUND AG tries to minimise the sale risk by determining point in time and price of any sales itself, by always working with external partners whose business is in property valuation and by looking for buyers who are in a position to pay a reasonable purchase price given their reputation and credit standing.

Economic and financial market risk

National and global real estate and financial markets are subject to continuously changing legal, economic and also political conditions. One such example is what is known as rent control (Mietpreisbremse) – legislation to limit increases in rent, primarily in agglomoration areas. Whether and to what extent this limits the Westgrund Group's freedom to act Westgrund Group's can only be determined once the announced measures have been implemented up to municipal level. However, the Management Board does not anticipate substantial limitations given that the vast majority of rents in the Westgrund real estate portfolio are significantly below the local rent level.

Changes in external factors that cannot be influenced such as economic growth, inflation, demand for living space or development of the interest rate level are important with regard to the general environment on the real estate and financial markets and thus also with respect to the business success of the Westgrund Group. As such, there is the risk that negative macroeconomic developments, particularly with respect to real estate transactions and financing conditions, may negatively impact business operations.

In the current environment of historically low interest rates, WESTGRUND AG and its subsidiaries are benefitting from favourable financing conditions. The management also expects these conditions to continue in 2015.

Changes in interest rates may also impact the market valuation of investment properties and thus the future overall performance of the Westgrund Group. This risk cannot be diversified or minimised, but instead must be borne. However, the Westgrund Group anticipates that the properties held in its portfolio and the related services provided will retain their value for the foreseeable future.

Rental and default risk

The Westgrund Group sees itself as a residential property investor. Its major source of income is therefore rental revenues. These may be lower than expected if tenants terminate their rental contracts and no replacement tenants can be found or if existing vacancy rates cannot be reduced as anticipated. This can happen if a property location deteriorates for reasons that are not within WESTGRUND AG's sphere of control, for example because the urban infrastructure changes unfavourably or major employers leave the region. However, it can also happen if measures to increase the residential quality are not implemented in the planned scope or in good time. Lost rental income can also result from justified or unjustified rent reductions. Default risks on rented properties are often due to a deterioration of the tenant's economic situation.

WESTGRUND AG counteracts the risk of high tenant fluctuation or persistent vacancy rates with measures to increase the residential quality – such as decorating, renovation works and similar, which are implemented with a focus on properties with a high vacancy rate risk. These measures are planned and implemented in close collaboration with local property management. At the same time, WESTGRUND AG targets fluctuation and vacancy rate risk generally by raising rents only moderately and exclusively at local market rates. Controlling rental and default risk plays a key role in daily business operations. It is one of the key responsibilities of the Asset Management department, whose employee numbers have been strengthened in the reporting year.

Financing and liquidity risk

The business operations of the Westgrund Group are dependent on the availability of external financing to a considerable extent. If debt cannot be secured in sufficient volume, planned growth measures – such as the acquisition of real estate portfolios – cannot be realised. Appropriate follow-up financing is also required upon the expiry of existing external financing agreements. If such financing is not available, this may force the company and the affected subsidiaries to sell their portfolios and may even jeopardise their existence. WESTGRUND AG has counteracted this risk successfully in the past. Business relations with lenders were – and are still – characterised by a high degree of transparency and mutual trust, new real estate portfolios were always acquired at attractive prices below the market value and external financing was always accompanied by an adequate level of equity. Average interest on debt of 2.6 percent is testament to the fact that WESTGRUND AG knows how to successfully address this issue.

It must also be ensured that cash operating expenses can always be covered by liquidity resources. Sufficient liquid funds are therefore required in the Westgrund Group all the time. Ongoing monitoring of financing and liquidity risks and the timely initiation of measures – if these are required – is thus a core component of the risk management process of the Westgrund Group. Daily liquidity monitoring takes place as part of short- and medium-term liquidity planning, which factors in all key anticipated and scheduled cash payments and receipts. It is the responsibility of the Controlling department, whose employee numbers were also boosted in line with the strong growth of the past year.

Personnel-related risks

The business success of WESTGRUND AG depends largely on future growth through acquiring suitable real estate portfolios. For this reason, the personnel and organisational structures within the company need to be aligned to this future growth and expanded. Consequently, there is the risk that the required structures will not be created and the personnel needed to handle this growth will not be found. However, the experience of the past year showed that the working conditions in a small, professional team which offers individuals significant freedom to develop their own capabilities were sufficiently attractive to fill new positions successfully at all times.

The small size of the company may also result in a certain dependence on people in key positions. Westgrund Group mitigates this risk by offering all employees in central functions financial incentives via share options that materialise only once a minimum length of several years' service has been reached. This fosters not only an interest in the company's business success and an increasing share price, but also in contributing to the company's further development over a longer period of time.

Organisational risks

Like all companies, the Westgrund Group is also faced with risks arising from its own organisation. It may be deficient or inefficient, areas of activity may be either duplicated or completely unmanned, information may not reach the right place at the right time, decision-making processes may be unnecessarily long or opaque, competencies may not be clearly enough defined, important controls may not exist or be insufficient.

The Westgrund Group counteracts these risks by having a lean organisation, which allows for daily contact between all employees at all times. This enables inconsistencies in workflows to be eliminated quickly and unbureaucratically. For cooperating with external property managers, who are locally responsible for the operating business and customer contacts, the company has clear guidelines with regard to rental revenues, vacancy rates and investments. These items are monitored on a monthly basis by means of comparisons between target and actual values, and as such the risks of undesirable developments are kept low.

Takeover risks

The Westgrund Group is part of an industry that has undergone a profound process of consolidation, particularly in recent years. In comparison with the sector, the company is also relatively small and is not one of the top ten German real estate companies. As such, the company was faced with an acquisition risk, which has since manifested itself. It is the conviction of the management that it must manage the company in the interests of the shareholders with the aim of increasing the company's value in the medium term. It cannot – and does not want to – influence the ownership structure. Consequently, no precautions were taken in the past for the case that an individual shareholder acquires the majority of the share capital or a takeover bid results in a change of ownership. Therefore, expensive defence measures were not taken.

Other risks

The material assets of the Westgrund Group consist of investment properties, which at the end of the financial year had a carrying amount of 712.0 million euro. This property is inevitably exposed to risks that may significantly impair its value – either due to forces of nature including fire, storms, hail, earthquakes, floods or similar, or man-made actions such as accidents, acts of terrorism or vandalism.

The Westgrund Group mitigates these risks in the context of an insurance solution, which is partly compulsory and partly taken out voluntarily. The policy covers most of these potential damages up to a contractually agreed amount. Insurance cover is also taken out for loss of income, which may arise if damage renders a property partly or fully unusable temporarily until such damage has been rectified.

Given that insurance cover against the risk of property damage is part of the daily routine of a real estate company, and is partly prescribed by law, these risks are not recorded or quantified individually in this risk report.

The Westgrund Group's business operations inevitably give rise to further risks in connection with the diverse business relations cultivated by a company of WESTGRUND AG's size. However, they are not considered critical risks given their probability of occurring and possible extent of the damage. They are therefore not discussed any further in this report. However, an ongoing assessment of these risks and their probability is carried out during the year as part of the risk management process.

Moreover, if the occurrence of a risk is considered to be largely probable, it will be indicated and recorded in the accounts in the prescribed manner – valuation allowances, provisions, etc.

The Management Board is confident that the measures taken so far have identified and adequately covered the material risks to the company. There are no risks to the continued existence of the company as a going concern. Therefore, the objective of further developing the existing risk management system is to continue to enhance the company's existing value-oriented risk culture, which forms the basis for business activities at all levels of the company, and adapt it to the permanent change in general economic conditions.

OPPORTUNITIES REPORT

The continued stable and attractive conditions on the German housing market will result in additional interesting investment opportunities for the Westgrund Group in the future. At the reporting date, portfolios containing roughly 8,000 units were being closely examined. Whether and how many of these will be acquired depends, among other things, on whether the anticipated change of ownership will change the direction of the company and whether it will retain its previous financing options. A similar situation applies to the already contractually agreed acquisition of the "Ajax" portfolio, whose 2,700 units are expected to be transferred to the Westgrund Group mid-year.

Irrespective of the likely change of ownership, WESTGRUND AG sees a considerable potential to improve results by reducing vacancy rates and adjusting rents. Good opportunities are generated in this regard, particularly through acquiring new portfolios. This is because they usually have a comparatively high vacancy rate and a comparatively low rent level when they are purchased. The management of WESTGRUND AG is convinced that in the case of the acquired portfolios there are no structural problems but rather temporary issues that can be improved significantly through enhanced professional property management. Certain renovation or maintenance measures may initially be required in some cases. Nonetheless, WESTGRUND AG has proven in the past with a number of sub-portfolios that the vacancy rate can be reduced and rental revenues can be increased by managing the properties in a more intensive manner than the previous owners did.

After the anticipated takeover by ADLER Real Estate AG, WESTGRUND AG is also likely to benefit from being part of a larger entity. This is because, as experience shows, this gives rise to economies of scale and synergy effects, which benefit all parts of the new, larger entity.

Internal control system and risk management system in relation to the group accounting process

The objective of the risk management system is to safeguard the Group's assets and increase operating efficiency. This also includes ensuring the reliability of the accounting and reporting process as well as ensuring compliance with internal guidelines and legal provisions. An internal control system was set up within the risk management system for this purpose.

This system has analysed the company's individual functional areas, organised them according to their tasks and adapted workflows to the findings obtained. Incompatible activities have been separated and appropriate control spans have been determined. Consideration is paid to overlapping responsibilities with the stipulation that task, competence and responsibility are bundled. Controls – primarily of an automated nature – are also incorporated into workflows as is the case for IT access authorisations.

The fundamental properties of the internal control system are applied in all functional areas. Structural and procedural controls in relation to accounting are set up to safeguard the data integrity of information contained in the financial reports as well as the compliance of the annual and quarterly statement with all applicable regulations.

The operating accounting of WESTGRUND AG and its subsidiaries is based on uniform Group policies. The current financial accounting for all companies is subject to regular comparison between target and actual values in WESTGRUND AG's controlling department. The staff involved in the preparation, monitoring and analysis of the annual financial statements are appropriately qualified and have the necessary property expertise.

Regulations relating to the Group's uniform account policies for companies included in the Westgrund consolidated financial statements are stipulated centrally by WESTGRUND AG. The responsibilities and controls for the preparation of the consolidated financial statements have been clearly defined.

In addition to these system-implemented controls, the individual functional areas are monitored by management staff and also, case by case, by third-party controls. The company works closely together with external auditors for these purposes who also contribute to quality control in the process of setting up the financial statements. Furthermore, quality assurance in the preparation of financial statements is provided by an external auditor.

The members of the Management Board are constantly monitoring selected items of the consolidated financial statements and the associated financial performance indicators. The reporting system, and in particular its HR structure, were adjusted in line with the larger property portfolio volume in the 2014 financial year.

The company notes explicitly that neither the risk management system nor the internal control system can determine with absolute certainty that the stipulated objectives are met. Like all decisions, even those to establish appropriate systems can be defective in principle. Controls may not work in certain cases due to simple errors or omissions, and changes to environment variables may be identified too late despite appropriate monitoring.

Risk reporting relating to the use of financial instruments

Detailed information on existing interest rate, credit and liquidity risks and their management in connection with financial instruments can be found in the notes to the consolidated financial statements.

Remuneration report pursuant to Section 315 (2) No. 4 of the German Commercial Code (HGB)

The structure of the remuneration system for members of the Management Board is defined and regularly assessed by the Supervisory Board. Remuneration for each Management Board member consists of performance-related and non-performance-related components. The non-performance-related components consist of a fixed salary and benefits in kind, whereas the performance-related components are in the form of bonuses. Management Board members also receive share options as incentives for long-term service to the company. Pension obligations were not granted to members of the Management Board.

Service agreements concluded with members of the Management Board have a standard industry term of two to four years with typical termination provisions.

Criteria regarding the appropriateness of the remuneration specifically include the role of the relevant Management Board member, their personal performance as well as the economic situation and the company's performance prospects and future outlook. The fixed component is paid as basic non-performance-related remuneration on a monthly basis in the form of a salary. Management Board members also receive benefits in kind, which relate primarily to the use of company cars. These benefits in kind need to be subjected to taxation by the Management Board members. Bonuses are granted as performance-related remuneration. Criteria for measuring performance include the overall performance of the company as well as an individual list of objectives agreed with the Supervisory Board.

With regard to exercise profits from the granted share options, a maximum remuneration threshold of five times the fair value of the share options at the time they were granted is defined in the event of extraordinary developments within the meaning of Section 87 (1), Sentence 3, Second clause of the German Stock Corporation Act (AktG).

Information regarding the total remuneration of the Management Board and Supervisory Board can be found in the notes to the consolidated financial statements.

Acquisition-related disclosures/reporting pursuant to Section 315 (4) of the German Commercial Code (HGB)

The subscribed capital of WESTGRUND AG as at the balance sheet date was 73,975,244 euro (previous year: 24,089,626 euro). It is divided into 73,975,244 no-par value bearer shares. The notional par value per share is 1.00 euro. All shares are fully paid up.

To the knowledge of the Management Board of WESTGRUND AG, there were no restrictions relating to voting rights or to the transfer of shares.

To the knowledge of the Management Board, during the 2014 financial year, there was one direct and/or indirect interest in the company with more than 10 percent of the voting rights which was reported in September 2012 in the amount of 49.7 percent of the then lower subscribed capital (Wecken & Cie, Switzerland). It continued to exist up until the time these consolidated financial statements were prepared.

There are no voting commitment agreements with employee shareholders. There are no voting rights controls for employees that have an interest in the share capital either.

Management Board members are to be appointed or withdrawn in accordance with the legal provisions laid down in Sections 84 and 85 AktG. Changes to the statutes are made in accordance with Sections 133 and 179 AktG.

The Management Board is entitled to issue shares within the scope of the 2011 share option programme resolved at the Extraordinary General Meeting on 28 February 2011 and the 2014 share option programme resolved at the Annual General Meeting on 13 June 2014. Shares were also issued to employees and to the Management Board within the scope of the 2008 share option programme. The legal restrictions set forth in Sections 71 et seq. AktG apply to buybacks of own shares.

In the event of a change of control, the resolutions on authorisation for these share option programmes allowed for the provision that subscription rights may be exercised even before the end of the waiting period within a reasonable period after a change of control occurs or may be terminated by the company if fulfilment with a cash payment is determined for this case.

The Management Board and Supervisory Board made use of these authorisations. This means that employees and members of the Management Board may request their share options to be settled in cash following the – now likely – event of a change of control. The cash payment amount depends on the WESTGRUND AG share price when the change of control occurs. Assuming a share price of 5.50 euro, the cash payment would amount to approximately 4.6 million euro and would need to be recognised under current other liabilities in the 2015 financial year. The takeover bid expected to be made by ADLER Real Estate AG in 2015 is to be considered a value-determining event in this respect.

There are no additional specific agreements with members of the Management Board or with employees relating to such compensation requirements in the event of a takeover bid.

Loan agreements concluded by companies in the Westgrund Group mostly contain no change of control clause. A special right of termination in the event of a change of control has been agreed in only one case. This relates to a loan agreement that accounts for more than half of WESTGRUND AG's total non-current liabilities to banks. If this extraordinary right of termination were to be used, the required amount of follow-up financing would not be secured immediately. However, the Management Board currently anticipates that in the event of the very likely occurrence of a change of control after the balance sheet date, the lending bank will not make use of these extraordinary rights of termination because the loans are secured in rem.

In April 2014, WESTGRUND AG issued a convertible bond with a total nominal value of EUR 19.9 million. Pursuant to Section 15, the terms of the bond stipulate that bondholders have an early conversion right in the event that a change of control is announced by the borrower in accordance with the terms of the bond that provide for this. A conversion obligation is not provided for in the event of a change of control. It arises only once the term ends on 22 April 2016.

Corporate governance declaration (Section 289a of the German Corporate Governance Code – HGB)

The corporate governance declaration pursuant to Section 289a HGB is publicly accessible on the company's website (www.westgrund.de).

Corporate governance report

WESTGRUND AG has complied with the recommendations of the Government Commission on the German Corporate Governance Code as amended on 24 June 2014 with the exceptions listed in the declaration of compliance dated 12 August 2014.

Contrary to Section 3.8 Paragraph 3 of the Code, in the D&O insurance agreement concluded for the executive bodies no retention has been agreed for the Supervisory Board. The Supervisory Board and the Management Board are of the opinion that the motivation and recognition of the Supervisory Board's duties at WESTGRUND AG would not be improved by agreeing a retention.

Contrary to Section 4.2.1 of the Code, up until 30 September 2013 the Management Board had only one member. In the opinion of WESTGRUND AG, the size of the company and its business operations had not required a Management Board comprising multiple persons up to then. For this reason, no Chairman or Spokesperson of the Management Board was appointed either. In light of the recent growth of the company, appointing two members to the Management Board now seemed appropriate. The Management Board was thus expanded to two members on 1 October 2013. Contrary to Section 4.2.1 of the Code, even after 1 October 2013 the Management Board still has neither a Chairman nor a Spokesperson of the Management Board as this is not deemed necessary in the opinion of the Supervisory Board given the current number of just two Management Board members.

Contrary to Section 5.1.2 Paragraph 2 Sentence 3, WESTGRUND AG does not stipulate an age limit for members of the Management Board. The stipulation of an age limit for Management Board members does not seem necessary at present given the age structure of the current Management Board.

Contrary to Section 4.2.2 Paragraph 1 of the Code, the Supervisory Board in its entirety deals with Management Board contracts, determines the total remuneration of the individual Management Board members, and resolves and regularly assesses the Management Board remuneration system.

Contrary to Section 4.2.3 Paragraph 6 of the Code, the members of the Supervisory Board are not required to provide information to the Annual General Meeting on the principles of the remuneration system. This is because the principles of the remuneration system and the precise amount of the relevant remunerations are already described and provided in the annual financial statements.

Contrary to Section 5.3 of the Code, the Supervisory Board has not currently formed any committees (Section 5.3.1). An audit committee (Section 5.3.2) has not been established. The duties of the audit committee are assumed by all of the members of the Supervisory Board.

Contrary to Section 5.3.3 of the Code, the Supervisory Board has not formed a nomination committee. The entire Supervisory Board deals with election proposals from suitable candidates at the Annual General Meeting. The Supervisory Board currently consists of the minimum number of three members, which is the minimum requirement laid down in the German Stock Corporation Act (AktG). Given the size of the Supervisory Board, which comprises three members, the Supervisory Board believes that it can work efficiently even with all members present and does not deem the formation of committees, which must consist of a minimum of two and at least three people to be quorate, to be appropriate for a Supervisory Board of this size.

Contrary to Section 5.4.2 of the Code, Supervisory Board members are permitted to perform executive functions or consulting activities even for key competitors of the company. The Management Board and the Supervisory Board are of the opinion that experience obtained from undertaking such activities can be used to profit WESTGRUND AG.

Contrary to Section 5.4.6 Paragraph 3 of the Code, the remuneration of the Supervisory Board members is not reported individually and subdivided according to components in the corporate governance report. The Management Board and the Supervisory Board deem it sufficient that the remuneration of the Supervisory Board is specified in the statutes.

Contrary to Section 7.1.2 of the Code, the consolidated financial statements are made accessible by means of a disclosure in accordance with legal provisions. At present, WESTGRUND AG does not see any improvement to capital market transparency if business figures were to be published more quickly than provided for by law.

Closing statement by the Management Board in the dependent company report (section 312 (3) AktG)

The Management Board prepared a dependent company report in accordance with section 312 AktG and in it made the following declaration: according to the circumstances known to the Management Board at the time at which the transactions and measures stated were executed, implemented or refrained from, the company received appropriate consideration for every transaction and was not disadvantaged by the implementation or omission of any measures.

Declaration by legal representatives

The Management Board, as the legal representative of WESTGRUND AG, hereby provides its assurance that, to the best of its knowledge and in accordance with the applicable reporting principles, the consolidated financial statements give a true and fair view of the net assets, financial and results position of the Group, that the Group management report gives a true and fair view of the performance including the results and the Group's position, and that the main opportunities and risks associated with the Group's expected development have been described.

Berlin, March 2015

WESTGRUND Aktiengesellschaft

Arndt Krienen Management Board	Sascha Giest Management Board

Despite its strong growth, WESTGRUND AG has maintained a conservative financing structure. The real estate portfolio is financed longterm, the equity ratio increased to 35.5 percent.

CONSOLIDATED FINANCIAL STATEMENTS

Consolidated balance sheet

AS AT DECEMBER 31 2014

ASSETS

	Notes	2014 EUR	2013 EUR
Non-current assets			
Intangible assets			
Trademarks and similar rights	D.1	2,872.00	15.00
Goodwill	D.2	0.00	0.00
		2,872.00	15.00
Investment properties	D.3	712,020,733.00	230,654,884.00
Property, plant and equipment	D.4		
Technical equipment, plant and machinery		199,236.00	247,472.00
Other equipment, fixtures and fittings		33,839.04	23,321.04
		233,075.04	270,793.04
Financial assets			
Security investments		27,512.00	27,512.00
Other non-current assets	D.5	2,033,636.77	809,211.07
Deferred tax assets	D.12	0.00	134,620.33
		714,317,828.81	**231,897,035.44**
Current assets			
Properties intended for sale and other inventories			
Properties intended for sale	D.7	235,891.93	235,891.93
Services not yet invoiced	D.6	11,878,365.13	7,707,194.69
Unfinished services	D.8	737,025.00	737,025.00
		12,851,282.06	8,680,111.62
Receivables and other assets	D.9		
Trade receivables		1,695,142.27	742,275.91
Tax receivables		19,528.12	46,014.16
Other assets		1,863,032.59	740,262.24
		3,577,702.98	1,528,552.31
Cash on hand, cash at banks and insurers providing capital	D.10	47,672,211.85	4,023,827.66
		64,101,196.89	**14,232,491.59**
Assets held for sale	**D.11**	**30,969,394.26**	**1,251,732.17**
		809,388,419.96	**247,381,259.20**

EQUITY AND LIABILITIES

	Notes	2014 EUR	2013 EUR
Equity			
Subscribed capital	D.13	73,975,244.00	24,089,626.00
Reserves	D.13	113,130,240.39	12,288,286.43
Shares of minority shareholders		976,469.87	332,433.44
Retained earnings		99,483,476.71	39,387,466.94
		287,565,430.97	**76,097,812.81**
Non-current liabilities			
Deferred tax liabilities	D.12	19,675,009.29	9,925,549.31
Provisions for pensions	D.17	94,642.00	97,039.00
Liabilities due to banks and capital providing insurers	D.18	407,087,314.27	97,385,305.67
Derivatives	D.20	7,127,902.01	951,367.98
Convertible bonds	D.19	17,097,572.91	0.00
Leasing liabilities	D.18	4,716,292.12	4,728,493.32
Other liabilities	D.18	623,992.74	658,288.41
		456,422,725.34	**113,746,043.69**
Current liabilities			
Liabilities to banks and capital providing insurers	D.18	12,590,728.27	38,656,074.86
Advanced payments received	D.18	12,924,720.71	7,414,294.69
Trade liabilities	D.18	2,622,923.95	1,002,382.63
Derivatives	D.20	112,123.27	0.00
Tax liabilities	D.18	47,015.24	32,467.17
Leasing liabilities	D.18	12,090.73	11,246.44
Other liabilities	D.18	11,849,490.82	9,538,331.46
		40,159,092.99	**56,654,797.25**
Liabilities related to assets held for sale	D.11	25,241,170.66	882,605.45
		809,388,419.96	**247,381,259.20**

Consolidated income statement

FOR THE PERIOD FROM 1 JANUARY TO 31 DECEMBER 2014

		1.1. – 31.12.2014	1.1. – 31.12.2013
	Notes	EUR	EUR
Revenues	E.1	35,854,321.78	18,192,799.39
Change in the inventory of services not yet invoiced or unfinished		4,373,175.80	3,391,120.11
Valuation of investment properties	D.3	78,941,403.87	20,213,288.34
Other operating income	E.2	640,303.73	434,076.20
Material expenses	E.3		
Property management		–20,484,065.81	–12,287,684.04
Sale of properties		0.00	–43,070.00
		–20,484,065.81	–12,330,754.04
Result from the sale of investment properties		0.00	51,677.63
Personnel expenses	E.4		
Wages and salaries		–2,615,572.63	–1,181,749.08
Social security contributions		–192,283.12	–132,069.71
		–2,807,855.75	–1,313,818.79
Depreciation	E.5	–123,498.51	–372,726.27
Other operating expenses	E.6	–3,927,679.80	–2,488,112.38
Income from investments		0.00	6,859.20
Other interest and similar income	E.7	27,552.08	23,930.12
Interest and similar expenses	E.7	–21,401,731.07	–4,871,075.62
Share in losses of associated companies		0.00	–125,023.55
Gain from the sale of subsidiaries		380,873.28	460,004.71
Gain from first time consolidation		101,030.05	0.00
Result of ordinary business operations		**71,573,829.65**	**21,272,245.05**
Taxes on income	E.8	–11,343,675.27	–3,403,180.30
Consolidated net result		**60,230,154.38**	**17,869,064.75**
Result attributable to minority interests		–134,144.61	–67,783.76
Result attributable to shareholders of the parent company		**60,096,009.77**	**17,801,280.99**
Consolidated result carried forward		39,387,466.94	21,586,185.95
Retained earnings		**99,483,476.71**	**39,387,466.94**
Earnings per share			
Undiluted earnings per share		1.46	0.77
Diluted earnings per share		1.35	0.77

Consolidated cash flow statement

FOR THE PERIOD FROM 1 JANUARY TO 31 DECEMBER 2014

	1.1. – 31.12.2014	1.1. – 31.12.2013
	kEUR	kEUR
Result of ordinary business operations	71,574	21,272
Financial expenses	21,402	4,871
Financial income	– 28	– 31
Depreciation (+)/write-ups (–) on non-current assets	123	73
Depreciation (+)/write-ups (–) on current assets	0	300
Increase (–)/decrease (+) of valuation of investment properties	– 78,941	– 20,213
Gain (–)/loss (+) from the disposal of fixed assets	0	– 32
Gain (–) from acquisition of companies	– 101	0
Gain (–) from sale of companies	– 381	– 460
Loss (+)/profit (–) from associated companies	0	125
Personnel expenses from share option programme (+)	361	117
Increase (+)/decrease (–) in provisions	– 2	– 32
Increase (–)/decrease (+) in other assets	– 5,958	– 3,094
Increase (+)/decrease (–) in other liabilities	8,445	4,773
Interest paid	– 7,114	– 5,603
Interest received	28	24
Taxes received (+)/paid (–)	25	– 31
Cash flow from operating activities	**9,403**	**2,059**
Cash inflows from sale of investment properties	0	427
Cash inflows from dividends	0	7
Cash inflows from repayments of financial assets	0	71
Cash outflows for investments in investment property, plant and equipment and intangible assets (–)	– 404,747	– 62,780
Cash inflows from the sale of company shares minus sale of liquid funds	249	1,206
Cash outflows for the acquisition of company shares minus acquired liquid funds	– 38	– 194
Cash flow from investing activity	**– 404,536**	**– 61,263**
Decrease in liabilities to banks	– 282,592	– 6,236
Increase liabilities to banks	574,291	56,365
Increase in liabilities from financing	21,300	4,562
Decrease in liabilities from financing	– 1,831	– 113
Cash outflows for cost of debt procurement	– 13,445	– 2,067
Cash inflows from capital increases, less transaction costs	140,635	5,773
Cash flow from financing activity	**438,358**	**58,284**
Changes in cash and cash equivalents	43,225	– 920
Of which changes in cash and cash equivalents held for sale	423	– 501
Cash and cash equivalent at the beginning of the period	4,024	5,445
Cash and cash equivalents at the end of the period	**47,672**	**4,024**
Thereof restricted	8,450	2,157
Cash and cash equivalents at the end of the period (available)	**39,222**	**1,867**

Consolidated statement of changes in equity

FOR THE PERIOD FROM 1 JANUARY TO 31 DECEMBER 2014

	Subscribed capital	Capital reserves	Profit carried forward	Minority interests	Result for the period	Total
	EUR	EUR	EUR	EUR	EUR	EUR
Balance as at 1.1.2013	18,681,517.00	8,210,360.17	17,270,812.01	225,127.73	4,315,373.94	48,703,190.85
Appropriation of profits 2012	0.00	0.00	4,315,373.94	0.00	−4,315,373.94	0.00
Change in stock option program	0.00	116,532.90	0.00	0.00	0.00	116,532.90
Cash capital increase	1,868,150.00	3,754,981.50	0.00	0.00	0.00	5,623,131.50
Costs of cash capital increase	0.00	−89,162.98	0.00	0.00	0.00	−89,162.98
Capital increase in kind	1,200,000.00	2,400,000.00	0.00	0.00	0.00	3,600,000.00
Capital increase from company funds	2,174,966.00	−2,174,966.00	0.00	0.00	0.00	0.00
Exercise of share options	165,000.00	92,400.00	0.00	0.00	0.00	257,400.00
Addition minorities	0.00	0.00	0.00	39,589.82	0.00	39,589.82
Collection of own shares	−7.00	−32.73	0.00	0.00	0.00	−39.73
Other result of the year	0.00	−21,826.43	0.00	−67.87	0.00	−21,894.30
Consolidated net result	0.00	0.00	0.00	67,783.76	17,801,280.99	17,869,064.75
Balance as at 31.12.2013	**24,089,626.00**	**12,288,286.43**	**21,586,185.95**	**332,433.44**	**17,801,280.99**	**76,097,812.81**
Status as at 01.01.2014	**24,089,626.00**	**12,288,286.43**	**21,586,185.95**	**332,433.44**	**17,801,280.99**	**76,097,812.81**
Appropriation of profits 2013	0.00	0.00	17,801,280.99	0.00	−17,801,280.99	0.00
Change in stock option program	0.00	361,319.15	0.00	0.00	0.00	361,319.15
Cash capital increase	42,392,364.00	105,741,672.60	0.00	0.00	0.00	148,134,036.60
Costs of cash capital increase	0.00	−8,675,639.76	0.00	0.00	0.00	−8,675,639.76
Capital increase in kind	3,628,368.00	8,708,084.60	0.00	0.00	0.00	12,336,452.60
Capital increase from corporate funds	3,011,036.00	−3,011,036.00	0.00	0.00	0.00	0.00
Capital increase from convertible bond	703,858.00	1,613,277.00	0.00	0.00	0.00	2,317,135.00
Exercise of stock options	150,000.00	6,000.00	0.00	0.00	0.00	156,000.00
Addition minorities	0.00	3,001.96	0.00	509,984.37	0.00	512,986.33
Collection of own shares	−8.00	0.00	0.00	0.00	0.00	−8.00
Other result of the year	0.00	−3,904,725.59	0.00	−92.55	0.00	−3,904,818.14
Consolidated net result	0.00	0.00	0.00	134,144.61	60,096,009.77	60,230,154.38
Status as at 31.12.2014	**73,975,244.00**	**113,130,240.39**	**39,387,466.94**	**976,469.87**	**60,096,009.77**	**287,565,430.97**

Consolidated statement of comprehensive income

FOR THE PERIOD FROM 1 JANUARY TO 31 DECEMBER 2014

	2014	2013
	EUR	EUR
Consolidated net resulta	**60,230,154.38**	**17,869,064.75**
Other comprehensive result of the year		
Revaluation of incentive programs	–29,855.00	–26,012.00
Revaluation of interest swaps	–4,609,349.16	0.00
Taxes on incentive programs	4,726.05	4,117.70
Taxes on interest swaps	729,659.97	0.00
Comprehensive income of the year	**56,325,336.24**	**17,847,170.45**
Thereof attributable to		
Shareholders of the parent company	56,191,284.18	17,779,454.56
Minorities	134,052.06	67,715.89

Notes to the consolidated financial statements for the financial year 2014

A. GENERAL DISCLOSURES

Basic information

Westgrund Aktiengesellschaft is the parent company of the Westgrund Group. The company's registered seat and management are located at Joachimsthaler Straße 34 in Berlin, Germany. Shares in the company are publicly traded on the stock market.

The Westgrund Group's activities include all business relating to real estate and residential property. The company covers the entire value-added chain, from the purchase of properties to their development and enhancement and their management and sale. For legal and tax reasons, most of the Westgrund Group's real estate portfolio is held by subsidiaries of WESTGRUND AG.

The "real estate management" segment is the only substantial reporting segment. There is therefore no segment reporting.

WESTGRUND AG has prepared its consolidated financial statements – consisting of the consolidated balance sheet, consolidated income statement, consolidated statement of changes in equity, consolidated cash flow statement and notes to the consolidated financial statements – for the financial year from 1 January 2014 to 31 December 2014 in accordance with international accounting regulations, International Financial Reporting Standards (IFRS) and the interpretations of the International Financial Reporting Interpretations Committee (IFRIC) as adopted by the EU. All announcements of the International Accounting Standards Board (IASB) that are to be applied as mandatory were taken into consideration. The consolidated financial statements are thus in line with IFRS. The requirements for the preparation of the consolidated financial statements according to IFRS, as adopted by the EU, in accordance with § 315a HGB (German Commercial Code) have thus been satisfied. Moreover, all mandatory regulations as set out under German commercial law were fulfilled during the preparation of the consolidated financial statements.

The consolidated financial statements have been prepared in EURO. Unless otherwise stated, all values are rounded up or down to the nearest thousand (kEUR) in line with commercial practice. The income statement is presented in line with the cost summary method.

Each significant group of items is shown separately in the consolidated financial statements. Items that do not have a similar nature or function are disclosed separately provided that they are not insignificant.

Individual items have been summarised in both the consolidated balance sheet and the consolidated income statement in order to improve clarity. These items are explained in the notes. A distinction is made in the balance sheet between non-current and current assets and between non-current and current liabilities. Assets, provisions and liabilities are considered to be current if they are due within one year or are expected to be sold within the normal business cycle.

The Management Board granted approval for the publication of the consolidated financial statements on 30 March 2015. There are no reservations regarding the publication of these financial statements.

2. Changes to accounting methods

The accounting and valuation methods used are essentially the same as those applied in the previous year, with the exception of the following new or revised standards and interpretations that came into effect on 1 January 2014:

a) Changes applied in 2014

The following new accounting standards or interpretations became mandatory for the first time in the financial year 2014:

- IAS 28: The new version of IAS 28 "Investments in Associates and Joint Ventures" regulates the inclusion of shares in associates and joint ventures using the equity method.
- IAS 32: The changes to IAS 32 "Financial Instruments: Presentation" will clarify requirements for the offsetting of financial instruments and eliminate inconsistencies in the practical application of the offsetting of financial assets and financial liabilities.
- IAS 36: The IASB approved amendments to IAS 36 "Impairment of Assets" in May 2013. With the development of IFRS 13 "Fair Value Measurement", the IASB had decided to amend IAS 36 to require the disclosure of information concerning impaired assets. The changes announced by the IASB indicate a return to its original intention of ensuring that information about the recoverable amount, when this amount is based on the fair value less costs to sell, must be disclosed only for impaired assets or cash-generating units.
- IAS 39: With the "Novation of Derivatives and Continuation of Hedge Accounting", the IASB published an addition to IAS 39 (Financial Instruments: Recognition and Measurement) in June 2013. The addition changes the rules on continuation of an existing hedge transaction in connection with the novation of derivatives. In a novation, the original parties to a derivative contract agree that a central counterparty shall take the place of their respective counterparty. The revision means that derivatives can still be used as hedging instruments in continuing hedging relationships despite a novation if certain characteristics are cumulatively fulfilled.
- IFRS 10: The IASB published IFRS 10 "Consolidated Financial Statements" in May 2011. IFRS 10 creates a standardised definition of the concept of control and thus a standardised basis for a parent/subsidiary relationship and the associated scope of consolidation. The new standard replaces the previous standards that were relevant to this, IAS 27 and SIC-12, in this respect.

- IFRS 11: The IASB published IFRS 11 "Joint Arrangements" in May 2011. IFRS 11 regulates the accounting of joint ventures and joint operations. The new standard replaces the regulations IAS 31 and SIC-13, which previously regulated the accounting of joint ventures.
- IFRS 12: The IASB published IFRS 12 "Disclosure of Interests in Other Entities" in May 2011. IFRS 12 regulates the disclosures in the notes to the consolidated financial statements regarding all forms of interest in other entities.
- The IASB published amendments to IFRS 10 and 12 and IAS 27 for investment companies in October 2012 with "Investment Entities". These shall be exempt from the obligation to consolidate certain subsidiaries in accordance with IFRS 10. Instead, they must measure them at fair value in profit or loss. In addition, the disclosures in the notes for investment companies have been extended under IFRS 12.

b) Amendments announced in 2014 that have not yet come into force

The following standards and interpretations, despite already being approved, were not relevant to the financial year 2014. They will be applied as soon as they have come into force and have been adopted by the European Commission:

- IAS 1: The IASB approved amendments to IAS 1 on 18 December 2014. There will be a stronger focus in future on the principle of materiality, and companies will have more flexibility when preparing the notes in terms of the order in which disclosures are made. Moreover, the previous specifications regarding the identification of key accounting methods as part of the disclosures in the notes have been abolished and further specifications have been provided regarding the minimum breakdown on the balance sheet. The changes apply to financial years beginning on or after 1 January 2016.
- IFRS 10, IFRS 12 and IAS 28: The changes approved on 18 December 2014 relate to the application of exceptions to consolidation when the parent company fulfils the definition of an investment company.
- Annual improvements 2012 – 2014: On 25 September 2014, the IASB approved the following changes as part of its annual improvements for 2012 – 2014:
  - IFRS 5 "Non-Current Assets Held for Sale and Discontinued Operations": No changes to accounting for transfers from "held for sale" to "held for distribution" or vice versa; separate guidelines for discontinuation of accounting as "held for distribution".
  - IFRS 7 "Financial Instruments": Disclosures: Clarification stating that management contracts constitute 'continuing involvement' and must be included in disclosures on transfers. Clarification about the information that must be provided in interim financial statements on the offsetting of financial assets and liabilities.
  - IAS 19 "Employee Benefits": Inclusion of corporate bonds in the same currency (not just the same country) when calculating the discount rate.
  - IAS 34 "Interim Financial Reporting": Addition to IAS 34 clarifying that disclosures must be made either in the interim financial statements or elsewhere in the interim report. The interim financial statements should contain an appropriate cross-reference in this case.

The changes will apply to financial years beginning on or after 1 January 2016. Some changes will apply retrospectively and others prospectively. Early adoption is permitted, provided that the changes have been adopted by the EU.

- IAS 27: The IASB approved changes to IAS 27 "Separate Financial Statements" on 12 August 2014, allowing the equity method to be used once again as an accounting option for interests in subsidiaries, joint ventures and associates in an investor's separate financial statements. An option still exists to account for these interests at cost or in accordance with IAS 39 or IFRS 9. The changes will come into effect for financial years beginning on or after 1 January 2016. Early adoption is permitted, subject to endorsement by the EU.
- IFRS 9: The IASB approved the final version of IFRS 9 "Financial Instruments" on 24 July 2014. The new IFRS 9 contains regulations on impairment of financial instruments and a new measurement category for recognition at fair value through other comprehensive income (FVOCI).
  - Impairment of financial instruments: The regulations on this will in future be based on expected losses (expected loss model). This two-step model basically involves recording 12-month-loss expectations from the time of initial recognition. If there is any significant deterioration in the credit risk, a switch to recognising total expected losses is necessary from this point onwards.
  - New measurement category FVOCI: A third measurement category for recognition at fair value through other comprehensive income is planned in future for certain debt instruments on the assets side. The conditions for FVOCI classification are that (a) the instruments concerned must fulfil the cash flow criterion, which must also be fulfilled in exactly the same way for the amortised cost measurement category, and (b) the underlying business model must allow for both holding and selling.

  The date for first-time mandatory application has been set for 1 January 2018, subject to endorsement by the EU.
- IFRS 15: On 28 May 2014, the IASB approved the new standard on the recognition of revenue, IFRS 15 "Revenue from Contracts with Customers". This new standard merges the previous standards and interpretations containing regulations on the recognition of revenue. IFRS 15 must be applied to all revenue transactions across all sectors and contains a principle-based five-step model: identification of the contract with the customer, identification of the separate performance obligations in the contract, determination of the transaction price, allocation of the transaction price to the performance obligations in the contract, recognition of revenues upon fulfilment of the performance obligations by the company. Revenue will in future be recognised upon transfer of control over the goods or services to the customer. The transfer of opportunities and risks merely constitutes an indicator. In addition, IFRS 15 contains explicit regulations on transactions with multiple components. There are also new guidelines on whether revenues should be recognised at a specific point in time or over a period of time. New revenue thresholds will be introduced for variable revenues.

After IFRS 15 comes into effect, IAS 11 “Construction Contracts” and IAS 18 “Revenue”, along with the interpretations IFRIC 13 “Customer Loyalty Programmes”, IFRIC 15 “Agreements for the Construction of Real Estate”, IFRIC 18 “Transfers of Assets from Customers” and SIC 31 “Revenue-Barter Transactions Involving Advertising Services” will no longer be valid. The new regulations will be mandatory for financial years beginning on or after 1 January 2017. Early adoption is permitted and recommended. The EU endorsement is still outstanding.

- IAS 16 and IAS 38: The IASB approved amendments to IAS 16 “Property, Plant and Equipment” and IAS 38 “Intangible Assets” on 12 May 2014. The changes include guidelines on which methods can be used for depreciations on property, plant and equipment and intangible assets. The revenue-based method is thus not a permissible method for depreciations according to IAS 16 and IAS 38. This method does not reflect the use pattern of the future economic benefit of the asset, but merely the pattern of generation of the asset’s expected future economic benefit. In a few specific cases, e.g. when film rights are acquired in the film industry, revenues can be used as the basis for determining the expected use pattern of the asset’s future economic benefit, provided that the use of this method leads to the same result as the use of a performance-related method.

  The changes will apply prospectively to financial years beginning on or after 1 January 2016. Early adoption is permitted.

- IFRS 11: The IASB approved changes to IFRS 11 “Joint Arrangements” on 6 May 2014. The changes include additional guidelines clarifying that the acquisition of shares in joint operations that constitute a business as defined by IFRS 3 “Business Combinations” must be accounted for in accordance with the regulations of IFRS 3 (i.e. in accordance with the purchase method) and other relevant standards.

  The changes will apply to financial years beginning on or after 1 January 2016.

The application of these new and revised standards and interpretations may lead in some cases to additional disclosure requirements in future consolidated financial statements. The changes are not expected to have any significant impact on the group’s net assets, financial and income position.

B. CONSOLIDATION PRINCIPLES, GROUP OF CONSOLIDATED COMPANIES AND CONSOLIDATION METHODS

a) Consolidation principles

The consolidated financial statements comprise the financial statements of WESTGRUND AG and its subsidiaries as of 31 December 2014. The financial years of all companies within the group match the calendar year.

Subsidiaries are consolidated in full from the time of acquisition, i.e. from the time at which the group gains control. Consolidation ends as soon as the parent company no longer has control. Control is understood to mean the ability to determine the subsidiary’s business and financial policies in order to draw benefits from its business activities.

It can generally be assumed that WESTGRUND AG has control if it holds the majority of voting rights in another company either directly or indirectly.

The financial statements of the subsidiaries are prepared using standardised accounting methods as at the same balance sheet date as the parent company’s financial statements.

b) Group of consolidated companies

In addition to WESTGRUND AG, 31 subsidiaries were included in the consolidated financial statements as of 31 December 2014. The group of consolidated companies, along with the proportion of shares held, was as follows as of 31 December 2014:

1	Westconcept GmbH, Berlin	100 %	
2	IMMOLETO Gesellschaft mit beschränkter Haftung, Berlin	100 %	
3	ICR Idee Concept und Realisation von Immobilienvorhaben GmbH, Berlin	94.9 %	Indirect participation
4	HKA Grundstücksverwaltungsgesellschaft mbH & Co. Kommanditgesellschaft, Berlin	94.9 %	Indirect participation
5	HKA Verwaltungsgesellschaft mbH, Berlin	94.9 %	Indirect participation
6	Westgrund Immobilien GmbH & Co. KG, Berlin	100 %	
7	Westgrund Immobilien Beteiligung GmbH, Berlin	100 %	
8	Westgrund Immobilien II. GmbH & Co. KG, Berlin	100 %	
9	Westgrund Immobilien Beteiligung II. GmbH, Berlin	100 %	
10	Westgrund Immobilien Beteiligung III. GmbH, Berlin	100 %	
11	Westgrund Westfalen Verwaltungsgesellschaft mbH, Köln	89.2 %	Indirect participation
12	Westgrund Westfalen GmbH & Co. KG, Berlin	94.6 %	Indirect participation
13	WESTGRUND Immobilien IV. GmbH, Berlin	100 %	
14	WESTGRUND Immobilien V. GmbH, Berlin	94.0 %	
15	WESTGRUND Immobilien VI. GmbH, Berlin	100 %	
16	Wiederaufbau-Gesellschaft mit beschränkter Haftung, Ludwigshafen am Rhein	99.7 %	4.9 % as an indirect participation
17	TREUHAUS Hausbetreuungs-GmbH, Ludwigshafen am Rhein	100 %	
18	WAB Hausverwaltungsgesellschaft mbH, Ludwigshafen am Rhein	99.7 %	Indirect participation
19	Liaen Lorentzen Partners AG, Zug/Schweiz	94.0 %	
20	Westgrund Wolfsburg GmbH, Berlin	100 %	
21	Westgrund Niedersachsen Süd GmbH, Berlin	100 %	
22	Westgrund Niedersachsen Nord GmbH, Berlin	100 %	
23	Westgrund Brandenburg GmbH, Berlin	100 %	
24	Westgrund VII. GmbH, Berlin	100 %	
25	WAG Görlitz GmbH, Berlin	100 %	
26	WAG Neubrandenburg GmbH, Berlin	100 %	
27	Westgrund I. Halle GmbH, Berlin	94.9 %	
28	Westgrund Halle Immobilienverwaltung GmbH, Berlin	94.9 %	Indirect participation
29	Westgrund Immobilien II. Halle GmbH & Co. KG, Berlin	94.9 %	Indirect participation
30	Westgrund VIII. GmbH, Berlin	100 %	
31	Westgrund IX. GmbH, Berlin	100 %	

The companies from number 20 onwards were founded/acquired during the financial year 2014 and are included in the consolidated financial statements for the first time in 2014.

The subsidiaries numbered 20 to 26 and 30 to 31 were acquired in 2014 as shelf companies, each with kEUR 25 in cash, at a price of kEUR 27 plus ancillary purchase costs. The first-time consolidation of these companies resulted in an overall positive difference of kEUR 33, which was immediately recognised in profit or loss.

The subsidiaries numbered 27 to 29 were incorporated into WESTGRUND AG in June 2014 by means of a capital increase through contributions in kind. The purchase price for 94.9% of shares in Westgrund I. Halle GmbH (previously Brilliant 2000 GmbH), which owns 100% of shares in both Westgrund Halle Immobilienverwaltung GmbH (previously Brillant 1816. GmbH) and Westgrund Immobilien II. Halle GmbH & Co. KG (previously Brillant 1816. GmbH & Co. Immobilienverwaltung KG) was EUR 9,433,060 and was paid in full through the issue of 2,774,429 new shares in WESTGRUND AG at a price of EUR 3.40 each. At the time the capital increase through contributions in kind was entered in the commercial register on 12 June 2014 (date of transfer), Westgrund I. Halle GmbH, including its subsidiaries, had the following consolidated assets and liabilities:

	Fair value	Carrying amount
	kEUR	kEUR
Properties	29,420	25,840
Unfinished services	262	262
Liquid funds	7	7
Other assets	209	209
Deferred tax liabilities	923	923
Liabilities to banks	18,486	18,486
Advance payments received	403	403
Other (current) liabilities	28	28
Minority interests	512	
Net assets	9,546	

The purchase price allocation for the purpose of the first-time consolidation was carried out on the basis of the findings obtained and the information available as at the balance sheet date. The fair value of the properties was calculated on the basis of an appraisal report by an independent expert. First-time consolidation resulted in a negative difference of kEUR 101, which was immediately recognised in profit or loss and shown as a separate item on the income statement. The pro-forma result for the period from 1 January 2014 to 12 June 2014 was kEUR –396.

No further shares were purchased and no further new companies were founded in the financial year 2014.

The 50% stake in the project company Deutz-Mühlheimer Straße, Köln GmbH & Co. KG, Cologne, was sold in December 2013. The deconsolidation of the project company Deutz-Mühlheimer Straße, Köln GmbH & Co. KG and its subsidiary, the project company Deutz-Mühlheimer Straße, Köln Verwaltung GmbH, Cologne, had a positive effect on net profit of kEUR 64. The two companies contributed a loss of kEUR 0 to consolidated net profit for the period from 1 January 2013 to 31 December 2013. The companies had no material assets and liabilities to third parties of kEUR 88.

The 100% holding in Westprojekt Immobilien-Servicegesellschaft mbH, Remscheid, was sold with effect from 30 November 2013. Deconsolidation had an effect on net profit of kEUR 396. Westprojekt Immobilien-Servicegesellschaft mbH contributed a profit of kEUR 30 to consolidated net profit for the period from 1 January 2013 to 30 November 2013. Material assets of the companies that were sold included a 5% stake in a non-consolidated property company, which had been shown in investment securities at a carrying amount of kEUR 832 in the previous year.

The 75% stake in Cologne Real Estate GmbH, Berlin, including the two 20% stakes held by Cologne Real Estate, was sold in January 2014 for kEUR 1 plus the agreement of a debtor warrant up to a maximum of kEUR 150. Deconsolidation in January 2014 had a positive effect on consolidated net profit of approximately kEUR 246. Cologne Real Estate GmbH contributed a loss of kEUR 0 to consolidated net profit for the financial year 2014.

c) Consolidation methods

All subsidiaries numbered 1 to 31 have been fully consolidated in the consolidated financial statements.

Capital consolidation was carried out using the purchase method in accordance with IFRS 3, by offsetting the carrying amount of investments against the pro rata remeasured equity of the subsidiaries at the time of acquisition. Any differences remaining after the allocation of hidden reserves and charges are recognised as goodwill. If the fair value of the acquired net assets exceeds the total consideration assigned, the difference will be recognised in the income statement.

With regard to the elimination of intragroup balances, amounts due as receivables or payables in respect of companies within the consolidated group have been offset against each other. There are no residual amounts. Intra-group expenses and income are also offset against each other.

Minority interests represent the portion of profit or loss and of net assets that is not attributable to the group. The share of consolidated net profit attributable to minority interests is disclosed separately in the consolidated income statement. The disclosure in the consolidated balance sheet is included under “equity”, reported separately from the shareholder equity of the parent company. Losses accrued by a subsidiary are allocated to minority interests even if this leads to a negative balance. Minority interests in partnerships are reported as debt on the basis of the termination rights set out in IAS 32.

d) Currency translation
Items in the consolidated financial statements are expressed in the group’s functional currency, which is the currency of the economic environment in which the group operates. The reporting currency of the consolidated financial statements is the EURO, which represents the functional currency of the parent company and the consolidated subsidiaries.

Transactions in foreign currencies are converted into the functional currency at the exchange rates as at the balance sheet date. Gains and losses resulting from the execution of such transactions and from the conversion of monetary assets and liabilities into foreign currency at exchange rates as at the balance sheet date are recognised in profit or loss.

C. ACCOUNTING AND VALUATION POLICIES

1. Intangible assets

All intangible assets acquired for a fee have only a limited useful life and are recognised at cost in accordance with IAS 38 and amortised on a straight-line basis over their useful lives (generally three years). There are no internally generated intangible assets.

2. Business combinations and goodwill

Business combinations are reported using the purchase method. The costs of a business acquisition are measured based on the fair value of assets received, equity instruments issued and debt incurred or assumed at the date of exchange, plus any costs directly attributable to the business acquisition. Identifiable assets acquired within the context of a business combination and debts and contingent debts that are assumed are initially recognised at their respective fair values at the time of acquisition, irrespective of the scope of any minority shareholdings.

Goodwill is valued at acquisition cost on initial recognition, which is measured as a surplus of the cost of the business acquisition over the group's share in the fair values of the identifiable assets, debts and contingent debts of the acquired business. If the acquisition costs are below the fair value of the net assets of the acquired subsidiary, the difference is entered in the income statement after a further evaluation in accordance with IFRS 3.36.

Following initial recognition, goodwill is measured at cost less any accumulated impairment losses. There is no amortisation of disclosed goodwill. For the purposes of impairment testing, goodwill acquired within the context of business combinations is allocated, from the time of acquisition, to the cash-generating units of the group that will benefit from the synergy effects of the business combination. This applies irrespective of whether other assets or debts from the acquired business are allocated to these cash-generating units.

Goodwill is tested for impairment at least once a year. An impairment test is also carried out if events or circumstances indicate that the carrying amount could be impaired. Impairment is calculated based on the recoverable amount of the cash-generating unit (or group of cash-generating units) to which the goodwill has been allocated. Insofar as the recoverable amount of the cash-generating unit (or group of cash-generating units) falls short of the carrying amount of the cash-generating unit (or group of cash-generating units) to which the goodwill relates, an impairment loss is recorded. An impairment loss recognised for goodwill may not be reversed in subsequent reporting periods.

3. Investment properties

Property holdings disclosed as "investment properties" include the group's real estate portfolio that is held to generate rental revenues and/or for the purpose of capital appreciation and that is not used for the delivery of goods or the provision of services, for administrative purposes or for sale within the context of customary business activities (IAS 40.5). It primarily concerns residential real estate; commercial properties are also let to a lesser degree. The real estate is exclusively let to third parties.

Investment properties are measured initially at cost, including any ancillary acquisition or construction costs. Within the scope of subsequent valuations, real estate is valued at fair value (IAS 40.33), ensuring compliance with the principle of consistency over time and in terms of materiality. Valuation at market values deviates from German commercial law. Gains or losses resulting from changes in the fair values of investment properties are recorded in the income statement in the year in which they arise. The same applies to gains or losses resulting from the reclassification of real estate in inventories as investment properties (IAS 40.63).

Investment properties are derecognised if they are sold or if they are no longer usable and no future financial benefit is expected from their disposal. The difference between the net sales proceeds and the carrying amount of the asset is recorded in the income statement at the time of derecognition.

4. Property, plant and equipment

Property, plant and equipment are capitalised at amortised acquisition and manufacturing cost in accordance with IAS 16 and, insofar as their use is finite, depreciated on a straight-line basis over their expected useful life. Borrowing costs are recognised as an expense in the period in which they are incurred irrespective of how the borrowings are applied, as no qualified assets are produced. The following useful lives are applied:

	Useful life in years
Outdoor facilities	10 – 18
Technical equipment and machinery	10 – 18
Other equipment, fixtures and fittings	3 – 20

5. Shareholdings in associates

The group’s shareholdings in associates are disclosed in accordance with the equity method. An associate is an entity in which the group has a significant influence and that is neither a subsidiary nor an interest in a joint venture.

In accordance with the equity method, shareholdings in associates are recorded in the balance sheet at cost, plus any changes in the group’s share in the net assets of the associate after the time of the acquisition. The goodwill relating to the associate is included in the carrying amount of the investment and is neither depreciated nor subjected to a separate impairment test.

The income statement includes the group's share in the result of the associate. Changes recognised directly in the equity of the associate are recorded by the group in the amount of its share and shown in the statement of changes in equity if applicable. Unrealised gains and losses from transactions between the group and the associate are eliminated in accordance with the group share in the associate.

The share in the result of an associate is shown in the income statement. This is the result attributable to shareholders in the associate after taxes and minority interests.

The financial statements of associates are prepared as at the same balance sheet date as the parent company's financial statements. Adjustments are made where necessary to ensure compliance with group accounting policies.

Following the application of the equity method, the group determines whether it is necessary to record an additional impairment loss for group shareholdings in associates. On each balance sheet date, the group determines whether there are objective indications that its share in an associate could be impaired. If this is the case, the difference between the recoverable amount and the carrying amount of the share in the associate is recognised in profit or loss as an impairment loss.

6. Leasing transactions

The economic ownership of movable and immovable leased objects is assigned to the party to the leasing contract that bears the substantial opportunities and risks associated with the leased object. If the lessor bears the substantial opportunities and risks (operating lease), the leased object is recognised in the lessor's balance sheet. If the lessee bears the substantial opportunities and risks associated with ownership of the leased object (finance lease), the leased object is recognised in the lessee's balance sheet.

In the case of a finance lease, the leased object is capitalised by the lessee at the lower of fair value or the present value of future minimum lease payments at the time of acquisition and – if subject to wear and tear – amortised over the shorter of its estimated useful life or the term of the lease. Changes in the residual value of the leased object must be taken into account. The lessee recognises a leasing liability at the commencement of the lease, corresponding to the carrying amount of the leased object. The leasing liability is amortised and carried forward in subsequent periods in accordance with the effective interest method. The lessor in a finance lease recognises a receivable equal to the amount of the net investment in the lease. Leasing income is divided into repayments of the leasing receivable and financial income. The receivable from the lease is amortised and carried forward in accordance with the effective interest method. Changes in the residual value of the leased object must be taken into account.

7. Services not yet invoiced

Apportionable operating expenses for let properties for which companies in the Westgrund Group have made advance payments are disclosed under “Services not yet invoiced”. The settlement of operating expenses has often not yet been carried out at the time of preparing the annual financial statements, so these advance payments that have not yet been invoiced are capitalised as ”Services not yet invoiced”. Once tenants have been invoiced for operating costs, often in the following financial year, the amount disclosed under “Services not yet invoiced” is reduced accordingly and also recorded as “Change in the stock of not settled services” in the income statement. Services not yet invoiced are measured at cost on the date of acquisition. Subsequent valuations are carried out at amortised cost, taking into account any impairment in accordance with IAS 2.9.

8. Unfinished services

The category “unfinished services” includes all current projects that have reached the stage at which, with reasonable assurance, they can be classified as assets. “Unfinished services” is disclosed at the lower of cost or net realisable value. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs to make the sale. Costs allocated for accounting purposes comprise the directly attributable costs of the projects and reasonable shares of general administrative costs.

9. Properties intended for sale

“Properties intended for sale” are initially reported at cost as at the balance sheet date. Subsequent valuations are carried out in accordance with IAS 2.9 at amortised cost, taking into account the fact that the expected net proceeds from the sale may be lower (estimated selling price less any associated costs incurred).

10. Financial assets

Financial assets, as defined by IAS 39, are disclosed at fair value at the time of initial reporting. Depending on their category, financial assets are subsequently reported at either fair value or amortised cost. Categories are assigned upon initial recognition. Insofar as no separate market value is stated in the notes, the market value corresponds to the carrying amount.

A distinction is made between the following categories:

- Assets held for trading are measured at fair value. The Westgrund Group does not hold any such assets.
- Financial investments held to maturity are measured at amortised cost. The Westgrund Group does not hold any material assets of this kind.
- Loans and receivables not held for trading are essentially reported at amortised cost. Loans and receivables are non-derivative financial assets with fixed, determinable payments, which are not quoted in an active market. In particular, these include trade receivables, loans and other assets that are not tax receivables.
- Available-for-sale financial assets are generally reported at fair value. These are debt instruments that are to be held for a certain period of time and that can be sold to satisfy the group's liquidity requirements. Cash and cash equivalents are placed in this category.
- Leasing agreements under which the group is the lessor and a leasing receivable exists as a result of a finance lease are not classified as a financial instrument in line with IAS 39.2. IAS 39 applies only with regard to derecognition and impairment.

Purchases of financial assets that are customary in the market are generally accounted for as at the settlement date, i.e. on the day of delivery. Any liabilities arising from the acquisition are recognised at the same time.

A financial asset will be derecognised if one of the following requirements has been satisfied:

- The contractual rights to the receipt of cash flows from a financial asset have expired.
- The company has transferred its contractual rights to the receipt of cash flows from the financial asset to third parties.

At each balance sheet date, it must be determined whether there are any objective indications that a financial asset or group of financial assets is impaired. A financial asset or group of financial assets is deemed to be impaired only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset and this loss event has an impact on the expected future cash flows of the financial asset or group of financial assets that can be reliably estimated. Indications of impairment may exist if there are signs that the debtor or a group of debtors has substantial financial difficulties, if interest payments or principal repayments are not made or are late, if the insolvency of a debtor or other restructuring proceedings appear likely or if observable data indicates a measurable reduction in expected future cash flows, such as changes in arrears or in economic conditions that correlate with defaults.

If there are objective indications of impairment of financial assets measured at amortised cost, the amount of the impairment loss is calculated as the difference between the carrying amount of the asset and the present value of expected future cash flows. The carrying amount of the asset is reduced using a value adjustment account and the impairment loss is recognised in profit or loss. If the amount of an estimated impairment loss increases or decreases in subsequent reporting periods as a result of an event occurring after the impairment has been reported, the previously entered impairment loss will be increased or reduced in profit or loss via an adjustment to the value adjustment account.

If there are indications of impairment of financial assets measured at fair value through profit or loss, the cumulative loss – which is calculated as the difference between the acquisition cost and the current fair value less any impairment loss on the financial asset previously recognised in profit or loss – is removed from other comprehensive income (not affecting net income) and recognised in profit or loss. Value adjustments for equity instruments are not reversed in the income statement; any subsequent increase in fair value is entered in other comprehensive income (not affecting net income).

The group enters into business only with creditworthy third parties. In particular, it concludes new rental agreements only after a credit assessment of the tenant. Rental receivables are also monitored continuously. The probability that high levels of unrecoverable rental receivables arise in respect of individual tenants is thus low. Moreover, bad debt loss risks are minimised through collateral agreements.

11. Deferred taxes

Deferred taxes are recognised in accordance with IAS 12 for all temporary differences in accounting and valuations between amounts shown in the tax accounts and the consolidated balance sheet according to IFRS. In addition, deferred tax assets on benefits from unused tax losses carried forward are to be capitalised to the extent that it can be expected with sufficient probability that the company can generate sufficient future taxable income.

The carrying amount of deferred tax assets is assessed at every balance sheet date and reduced by the amount by which it is no longer likely that sufficient taxable earnings will be generated against which the deferred tax asset can be used, at least in part. Unrecognised deferred tax assets are assessed at every balance sheet date and reported to the extent to which it has become likely that a future taxable profit will allow the deferred tax assets to be utilised.

For the deferred tax calculation – taking into account the local tax rate for the group company concerned – expected future tax rates upon the reversal of temporary accounting and valuation differences are used. The tax regulations and tax rates in force as at the balance sheet date apply. Future changes in tax rates are taken into consideration provided that the material requirements in order for them to be effective within the context of the legislative procedure have been met in full as at the balance sheet date. The tax rate of the parent company, WESTGRUND AG, is 30.2 % (previous year: 30.2 %).

Changes in deferred taxes are recognised in profit or loss provided that the original transaction was reported in profit or loss. If the effects of a transaction are offset against equity and thus have no impact on income, deferred taxes will also be adjusted via equity and will not affect income.

12. Other provisions

Provisions are recorded when the company has a legal or effective obligation towards a third party on the basis of a past event that is expected to lead to future net cash outflows. The amount will be recorded as the best possible estimate of the outflow of funds required to satisfy the current obligations on the balance sheet date. In accordance with IAS 37, provisions are only recorded where the probability of occurrence was at least 50 %. Payment obligations for which no interest is to be paid are recognised at their present value.

13. Pension obligations

An obligation from a direct pension commitment, which is already in the payment phase, is recorded. There are no further obligations. The cost of providing benefits under the defined benefit plan is determined by applying the projected unit credit method. Please also refer to Section D. 17 of these notes.

14. Financial liabilities

Financial liabilities as defined by IAS 39 can be classified as financial liabilities if they are reported at fair value in profit or loss or as loans or derivatives that have been designated as hedging instruments and are used as such. The group classifies its financial liabilities upon initial recognition.

All financial liabilities are reported at fair value upon initial recognition; the fair value of loans includes any directly attributable transaction costs.

The group's financial liabilities include trade payables, other liabilities, overdraft facilities, loans and derivative financial instruments.

The subsequent valuation of financial liabilities depends on their classification as follows:
- Financial liabilities measured at fair value through profit or loss
  Financial liabilities measured at fair value through profit or loss include financial liabilities held for trading and other financial liabilities, which are classified as measured at fair value through profit or loss upon their initial recognition. Financial liabilities are classified as held for trading if they are acquired for the purpose of sale in the near future.
- Loans
  Subsequent to initial recognition, interest-bearing loans are measured at amortised cost using the effective interest method. Gains and losses are recognised in profit or loss when the liabilities are derecognised and as part of the amortisation process in accordance with the effective interest method. Amortised costs are calculated taking into account any premium or discount at the time of acquisition, as well as any costs or fees, which are an integral component of the effective interest rate. Amortisation using the effective interest method is included in the income statement under “financing expenses”.

A financial liability is derecognised when the underlying obligation has been fulfilled or revoked or has expired.

Financial assets and liabilities are netted and the net amount reported in the balance sheet only when a current legal entitlement exists to offset the amounts against one another and when the intention is to settle on a net basis or to realise the asset and settle the associated liability simultaneously.

If an existing financial liability is exchanged for another financial liability from the same lender at substantially different contractual terms, or if the terms and conditions of an existing liability are substantially changed, such an exchange or change will be treated as derecognition of the original liability and recognition of a new liability. The difference between the respective carrying amounts is recognised in profit or loss.

Derivative financial instruments
The group uses derivative financial instruments (interest rate swaps) to hedge against interest rate risks. These derivative financial instruments are reported at fair value at the time the contract is concluded and remeasured at fair value in subsequent reporting periods. Derivative financial instruments are recognised as financial assets if their fair value is positive and as financial liabilities if their fair value is negative. All interest rate swaps concluded by the group are on a long-term basis.

Gains or losses arising from changes in the fair value of derivative financial instruments that are not classified as effective hedging instruments as defined by IAS 39 are recognised immediately in profit or loss under “Interest and similar expenses” or “Other interest and similar income”. If financial instruments are classed as effective hedging instruments as defined by IAS 39, gains and losses arising from changes in the fair value are recognised in other comprehensive income within equity.

The fair value of swap contracts is calculated with reference to current relevant market parameters. A derivative financial instrument is derecognised when the contractual rights expire or the group reassigns the rights from the derivative financial instrument.

Leasing liabilities
Leasing agreements under which the group is the lessee and a leasing liability exists as a result of a finance lease are not classified as a financial instrument in line with IAS 39.2. IAS 39 applies only with regard to derecognition.

15. Advance payments received

Advance payments made by tenants in respect of apportionable operating costs are reported under “Advance payments received” until the invoice is drawn up for the operating costs for the year in question. Upon presentation of the invoice for operating costs, the advance payments received are derecognised and offset against revenues.

16. Assets held for sale and liabilities associated with them

An individual asset is classified as held for sale when the corresponding carrying amount is realised mainly through a disposal transaction and not from continued use. The group reports assets and liabilities as a disposal group if they are to be sold or disposed of in any other manner as a group in one transaction and collectively meet the criteria specified by IFRS 5 “Non-current assets held for sale and discontinued operations”. The assets and liabilities of disposal groups are reported separately in the balance sheet under “Assets held for sale” and “Liabilities in connection with assets held for sale”. The costs and revenues of a disposal group are reported as income from continuing operations until disposal.

If initially classified as held for sale, assets will be recognised at the lower of their carrying amount and their fair value less costs to sell from the point at which they are reclassified. A disposal group will initially be measured in accordance with the relevant IFRS standards and the resulting carrying amount for the group will then be compared with the net fair value to determine the lower value that is to be recognised. Any impairment that arises due to the fact that an asset was initially classified as "held for sale" is recognised in the income statement, along with any subsequent reversals of impairment losses.

17. Stock options

Costs resulting from the granting of stock options to members of the Management Board and to employees of the group are measured at the fair value of these equity instruments at the time they are granted. Fair value is calculated on the basis of recognised option models.

Personnel costs resulting from the granting of equity instruments and the corresponding increase in shareholder equity are recorded over the period in which the conditions for exercise or performance must be fulfilled (the "vesting period"). This period ends on the day of the first vesting option, i.e. the point at which the employee concerned is irrevocably entitled to subscription. The accumulated expenses resulting from the granting of equity instruments, which are disclosed on each balance sheet date until the time of the first vesting option, reflect the elapsed portion of the vesting period and the group's best estimate of the number of equity instruments that will actually become exercisable upon expiry of the vesting period. The amount recorded as a charge or credit in the income statement reflects changes in the accumulated expenses reported at the beginning and end of the reporting period.

If individual agreements allow for cash settlement under certain conditions, the cash settlement obligation is recognised as a liability at its market value after these conditions have been fulfilled. The equity interests attributable to the liability, which up until then have been recognised in equity, will be reclassified as liabilities accordingly.

18. Treasury shares

If the group acquires treasury shares, these are recognised at cost and reported within equity on a net basis. The purchase, sale, issue or cancellation of treasury shares is reported in equity with no effect on income. Any differences between the carrying amount and the consideration paid are reported in the capital reserves.

19. Discretionary decisions, estimates and assumptions

Discretionary decisions, estimates and assumptions are made by management when preparing the consolidated financial statements that may have an impact on the income, expenses, assets and liabilities reported as at the balance sheet date, as well as on the disclosure of contingent liabilities. However, the uncertainty involved in these assumptions and estimates could lead to results that require significant adjustments to the carrying amount of the assets or liabilities concerned in future periods.

Discretionary decisions

In its application of the group's accounting policies, management has made the following discretionary decisions that have materially affected the amounts shown in the consolidated financial statements:

Accounting of leaseholds as finance leases – the group as lessee
In connection with its investment properties, the group has concluded leasehold agreements in accordance with which the right of use of the property exists for the duration of the leasehold which is limited in time. When determining the fair value of the investment properties, the leasehold properties used by the group as the lessee are therefore taken into consideration when determining the fair value. Accordingly, a leasing liability of kEUR 4,728 (previous year: kEUR 4,740) is reported for the leasehold properties used by the group.

Estimates and assumptions

The most important assumptions concerning the future and the other main sources of uncertainty in estimates as at the balance sheet date, on the basis of which there is a significant risk that a material adjustment may be necessary to the carrying amounts of assets and liabilities within the next financial year, are outlined below.

Investment properties
The Westgrund Group measures its investment properties at fair value (carrying amount as of 31 December 2014: kEUR 712,021; previous year: kEUR 230,655), whereby any changes in fair value are recognised in profit or loss.

The group commissioned independent experts to determine the fair values of let properties as of 31 December 2014. As no directly comparable market data was available owing to the nature of the investment properties, the experts used a valuation method based on income from the real estate for their measurement. The resulting fair value of the investment properties is heavily dependent on the estimated yield, which in turn is essentially dependent on the expected useful life, expected cash flows, the discount and capitalisation interest rates and the expected long-term vacancy rate. If actual income deviates from expected income or if the discount/capitalisation interest rates fall, this will have an impact on the net assets, financial and income position of the Westgrund Group.

Given the sensitivity of fair value to changes in key valuation parameters, please refer to the explanation of the balance sheet item “Investment properties”.

Properties intended for sale

To test for impairment of properties intended for sale, the net realisable value is determined. This is based on estimated selling prices, which are subject to a certain degree of uncertainty.

Deferred tax assets

Deferred tax assets (carrying amount as of 31 December 2014: kEUR 0; previous year: kEUR 135) are reported after possible netting against existing deferred tax liabilities for all unused tax losses carried forward, to the extent that it appears likely that taxable income will be available in future against which the unused tax losses carried forward can be utilised. Deferred tax assets relate to losses carried forward in relation to trade and corporation tax, both at the level of WESTGRUND AG and at the level of subsidiaries. At present it is generally assumed that it will not be possible to generate sufficient positive tax income to utilise the losses carried forward, largely owing to the special tax structures. For this reason, deferred tax assets are recognised only to the extent that these can be offset against deferred tax liabilities. If, contrary to assumptions, a positive tax result is recorded in future, this will lead to effective tax savings and will thus have a positive impact on the net assets, financial and income position of the Westgrund Group.

Pension commitments

The costs of a defined benefit pension plan and the present value of the pension obligation (carrying amount as of 31 December 2014: kEUR 95; previous year: kEUR 97) are determined based on actuarial calculations using the projected unit credit method. The actuarial valuation is based in particular on assumptions relating to discount rates, mortality and future pension increases. All assumptions are reviewed as at each balance sheet date and values are determined by an independent expert. Assumptions regarding mortality are based on the 2005 G mortality tables of Dr. Klaus Heubeck.

Fair value of financial instruments

The fair value of financial liabilities reported in the balance sheet (carrying amount of interest rate swaps as of 31 December 2014: kEUR –7,240; previous year: kEUR –951) was calculated using mathematical methods based on the market data available at the time of the calculation. The market data is subject to continuous changes and the fair value determined as a result of these calculations is heavily dependent on the parameters derived from the market data (e.g. changes in interest rates).

Provisions

The measurement of provisions (carrying amount as at 31 December 2014: kEUR 0; previous year: kEUR 0) is based on assumptions and estimates made as at the balance sheet date and extending into the future. If actual results deviate from the assumptions and estimates made, this may have an impact on the net assets, financial and income position of the Westgrund Group in the future.

Stock-based remuneration

The group measures costs resulting from the granting of equity instruments to employees at the fair value of these equity instruments at the time they are granted. In order to estimate the fair value of share-based remuneration, the most suitable valuation method for the measurement of equity instruments must be used. The most suitable method in each individual case will depend on the respective terms on which these instruments are granted. Furthermore, the data used in the measurement process, particularly with regard to the term of the options, volatility and the dividend yield, must be specified through appropriate assumptions and estimates.

20. Recognition of expenses and income

Revenues and other operating income are recorded only when the service has been provided or the goods and products delivered and the receipt of financial benefits is likely. This generally occurs when the risk has been transferred to the customer or buyer. Rental revenues and resulting income are recognised on a pro-rata basis. No revenues from long-term construction contracts are realised. Income is measured at the fair value of the amount that has been received or will be charged, less any rebates, discounts granted, sales taxes or other duties.

Revenues consist mainly of rental revenues, incidental rental charges and proceeds from the sale of real estate. Rental revenues are recorded on a monthly basis. Revenues from incidental rental charges are reported upon settlement of the incidental rental charges at the end of the respective billing period. Proceeds from the sale of real estate are reported upon fulfilment of the conditions agreed in the contract of sale for the transfer of beneficial ownership.

21. Borrowing costs

Borrowing costs that can be directly allocated to the acquisition, construction or production of an asset, for which a substantial period of time is necessary to make it ready for its intended use or sale, are capitalised as part of the acquisition or manufacturing costs of the corresponding asset. All other borrowing costs are recognised as expenses in the period in which they are incurred, or distributed over the term of the liability if the effective interest method is used. Borrowing costs are interest and other costs incurred by a company in connection with the borrowing of funds.

D. NOTES ON THE BALANCE SHEET

1. Intangible assets

Changes in individual items under intangible assets are reported in the Westgrund Group's statement of changes in assets, along with amortisation for the financial year. In the income statement, this information is disclosed under "Amortisation". This concerns only scheduled amortisation. No extraordinary write-downs were necessary.

2. Goodwill

Changes in goodwill, which originally amounted to kEUR 2,669, are shown in the Westgrund Group's statement of changes in assets. This resulted from the acquisition of Cologne Real Estate GmbH in January 2008. Impairment losses amounting to a total of kEUR 2,669 were entered on this goodwill in the financial years up to and including 2010 and were disclosed under amortisation. The carrying amount of goodwill thus amounts to kEUR 0 as of the balance sheet date. The participation in Cologne Real Estate GmbH was sold in full in January 2014.

3. Investment properties

Investment properties comprise real estate that is held to generate rental revenues or for the purpose of capital appreciation and that is not used for the delivery of goods or the provision of services, for administrative purposes or for sale during the course of normal business activities.

Investment properties are measured at cost at the time of initial recognition, including any ancillary acquisition or construction costs. The carrying amount does not include costs for ongoing maintenance of the properties. Investment properties are measured at fair value in subsequent reporting periods. Changes in the fair values of investment properties were as follows:

	2014	2013
	kEUR	kEUR
Carried forward 1 January	**230,655**	**135,453**
Additions/disposals/reclassifications	402,425	74,989
Changes in fair value		
Gains from changes in fair value	79,980	21,125
Losses from changes in fair value	–1,039	–912
Balance as at 31 December	**712,021**	**230,655**

The fair values of the properties were determined by independent real estate experts. In determining the fair values, the experts used their knowledge of the market and their expert judgement rather than relying solely on comparable past transactions. All experts commissioned have the necessary qualifications as well as relevant experience in relation to the specific properties being valued in each case.

In terms of hierarchy for determining fair values in accordance with IFRS 13, an income-based valuation method of the third level of the hierarchy is applied for the “Investment Property”.

As in the previous year, real estate appraisals were carried out for the entire portfolio of investment properties using the discounted cash flow method (DCF method), which is nationally and internationally recognised. The DCF method is the method favoured by international investors and is regularly used by them as the basis for investment decisions.

The discounted cash flows are determined for a period of ten years. At the end of the detailed planning period, a residual value, ie, the present value of all future cash flows of the property held in the portfolio is calculated.

The cash flows of each year of the detailed planning period are calculated as follows:
Projected rental revenues assuming the properties are fully let are reduced to reflect reductions in income owing to current vacancy rates. The amount thus determined represents the actual rental income. In the first year, the actual rental income corresponds to the data from the tenant list. Deduction of regular costs (administrative costs, maintenance and repair costs, brokerage costs for reletting, ground rent and non-apportionable costs) results in the annual net income. This is reduced by one-time capital expenditures (CAPEX) and costs for the renovation of vacant units. In this way, cash flow (net cash flow) before income taxes and capital services is calculated. The respective cash flows of each period are discounted to the valuation date using the discount rate.

The residual value after ten years is calculated as follows:
Generally, stabilization of cash flows can be achieved by the end of the tenth year. Because beyond this point cross-period changes in cash flow are no longer expected, the net annual income of the tenth year can serve as a basis for forecasting future cash flows. The net annual income of the tenth year will be reduced for necessary repairs and increased for maintenance work done for each property. Future costs to be paid for maintenance and associated risks of a possible omission contained per property both in the respective annual net profits of the 10th year and in the determination of the object-specific capitalization rate. Using an object-specific capitalization rate (cap rate), this annual net income is capitalized forever and thus represents an indication for future returns. The residual value resulting from the capitalization, as well as the cash flows of the detailed planning period, is discounted to the valuation date. By summing the discounted cash flows for the periods 1 – 10 and the residual value, the gross net present value on the valuation date is determined. The net present value (= fair value) results from the deduction of purchasing costs.

The DCF valuations in 2014 were based on the following key property-specific assumptions:

Regular maintenance (EUR/m^2):	EUR 5.00 – 11.50 p.a.
Administrative costs:	EUR 250 – 300/unit p.a.
Tenant fluctuation:	5 % – 12 % p.a.
Discount rate:	5.25 % – 7.25 % (commercial real estate up to 10.5 %)
Capitalisation rate:	4.4 % – 7.5 % (commercial real estate up to 9.5 %)
Discount for transaction costs:	6.0 % – 9.5 %

Calculations of the fair value of investment properties take into account leasehold properties used by the group as the lessee.

As the fair values of properties depend on the abovementioned assumptions in the expert valuations, a change in these assumptions would inevitably also lead to a change in the values. Changes in the main valuation parameters have the following effects on fair values for 2014: an increase of 25 basis points in the discount and capitalisation rates leads to a reduction in fair value of EUR 32.4 million. A 5% drop in net rental income (excluding operating costs) leads to a fair value reduction of EUR 48.9 million.

As the company is a long-term holder of real estate, rental revenues reported in the income statement mainly relate to investment properties. Rental revenues – taking into account apportioned operating costs – amounted to EUR 35.6 million (previous year: EUR 18.0 million), with apportionable and non-apportionable property management costs of EUR 20.5 million in 2014 (previous year: EUR 12.3 million).

Land charges of EUR 419.7 million (previous year: EUR 137.5 million) are entered against the properties and serve to collateralise loans that have been taken out exclusively by Westgrund Group companies. Leasehold agreements exist in only a few cases and include the customary stipulations regarding consent requirements and preemptive rights of the lessee. There are no other restrictions on the sale of the properties and no contractual obligations relating to acquisition, production, development, repair, maintenance or improvement.

Of the gains from changes in fair value, an amount of EUR 60.0 million relates to properties acquired in 2014.

Once depreciation had been netted and acquisitions and disposals taken into account, the amortised costs for investment properties increased by EUR 397.1 million to EUR 551.4 million in 2014, compared with EUR 154.3 million in 2013.

4. Property, plant and equipment

Changes in individual items under non-current assets are reported in the Westgrund Group's statement of changes in assets, along with depreciation for the financial year. In the income statement, this information is disclosed under "Depreciation". This concerns only scheduled depreciation. No extraordinary write-downs were necessary.

No substantial changes to the historic acquisition costs of the assets reported under property, plant and equipment are known, and accordingly no changes were recognised.

5. Other non-current assets

	2014	2013
	kEUR	kEUR
Asset value of reinsurance cover	184	167
Non-current tax receivables	21	24
Advance payments made on real estate acquisitions	1,735	524
Non-current receivable	94	94
	2,034	**809**

6. Services not yet invoiced

As of the balance sheet date, advance payments for operating expenses apportionable to tenants in 2014 amounted to EUR 11.9 million (previous year: EUR 7.7 million). No impairments were recorded. As operating costs for 2013 had been settled in full, services for the previous year that had not yet been settled in 2014 are recognised as an expense in changes in inventory. Operating expenses for 2014 are expected to be settled within 12 months of the balance sheet date.

7. Properties intended for sale

Properties intended for sale are expected to be sold within the short term. In contrast to the real estate portfolios reported under “investment properties”, this category primarily involves individual apartments in the cities of Hagen and Remscheid, which are not intended to be held in the portfolio in the long term.

Changes in properties intended for sale were as follows:

	2014	2013
	kEUR	kEUR
Carried forward 1 January	**236**	**279**
Impairments	0	0
Disposals	0	–43
Balance as of 31 December	**236**	**236**

Reductions in carrying amounts due to the sale of properties are entered under material expenses. Impairments are recorded following a reassessment of the sales scenarios if the projected net realisable value (estimated selling price minus associated costs) in accordance with IAS 2.9 is below the carrying amount.

No land charges were entered against the real estate as of the balance sheet date (previous year: EUR 0.2 million).

8. Unfinished services

The last project currently being implemented is reported under unfinished services. Owing to the length of the project development phase, the value of undeveloped real estate as of the balance sheet date is calculated as the value of the land less demolition costs, excluding any future contributions to results.

9. Receivables and other assets

	2014	2013
	kEUR	kEUR
Financial assets		
Trade receivables	1,695	742
Other assets	1,676	514
Non-financial assets		
Current tax assets	20	46
Other assets	187	226
	3,578	**1,528**

The maturity structure of the financial assets is as follows:

	2014	2013
	kEUR	kEUR
Carrying amount	3,371	1,256
Carrying amount of impaired receivables	958	342
Carrying amount of non-impaired receivables	2,413	914
Thereof:		
Neither overdue nor impaired	0	0
Overdue but not impaired	2,413	914

The overdue but not impaired receivables are mostly less than 30 days overdue.

The trade receivables amounting to kEUR 1,695 (previous year: kEUR 742) are used almost entirely as collateral for the respective financing agreements relating to the properties.

Where impairments were necessary, these were carried out at the level of the individual receivable and disclosed under other operating expenses. No impairments were recorded at portfolio level. All identifiable default risks (particularly impending insolvencies) were taken into account in determining impairments. Changes in itemised impairment allowances are as follows:

	kEUR
Balance as of 1 January 2013	**314**
Allocation	513
Use	–48
Reversal	–67
Balance as of 31 December 2013	**712**
Allocation	744
Use	–168
Reversal	–99
Balance as of 31 December 2014	**1,189**

10. Cash on hand and balances with banks

Apart from an amount of kEUR 8,450 (previous year: kEUR 2,157) that is pledged as collateral for bank loans, the liquid funds shown are at the free disposal of the Westgrund Group.

11. Assets held for sale and associated liabilities

Assets held for sale break down as follows as of 31 December 2013:

	kEUR
Investments in associates	750
Liquid funds	500
Other assets	1
	1,251

The assets as of 31 December 2013 were counterbalanced by other liabilities amounting to kEUR 883.

The assets held for sale and associated liabilities reported as of 31 December 2013 were sold in January 2014 through the sale of shares, which led to a gain on deconsolidation of kEUR 381.

As of 31 December 2014, assets held for sale consisted solely of parts of the Berlinovo portfolio acquired in 2014 (Görlitz and Neubrandenburg sites) that are not to be kept in the long term:

	kEUR
Real estate assets	30,710
Liquid funds	78
Other assets	181
	30,969

The assets as of 31 December 2014 were counterbalanced by other liabilities amounting to kEUR 25,241.

In accordance with contracts of sale that have already been concluded, the real estate assets, consisting of two portfolios, are expected to be sold at purchase prices of kEUR 31,550.

A sub-portfolio was sold at a price of kEUR 12,600 in January 2015, which generated a profit of approximately EUR 0.3 million. The subsidiary concerned contributed a loss of EUR −0.15 million to the consolidated net result of 2014.

The sale of the remaining sub-portfolio at a price of kEUR 18,950 is planned soon and is expected to result in a profit of around EUR 0.5 million. The subsidiary concerned contributed a loss of EUR −0.52 million to the consolidated net result of 2014.

12. Deferred tax assets/liabilities

Deferred tax assets were offset against deferred tax liabilities provided that the tax assets and liabilities related to the same tax authorities. In the previous year, kEUR 135 could not be offset in this way. Uncertainties in planning were adequately taken into account in the recognition and measurement of deferred tax assets. Please refer to the explanations concerning estimates and income tax expense.

13. Subscribed capital/capital reserves/retained earnings

The subscribed capital of WESTGRUND AG as of the balance sheet date was EUR 73,975,244.00 (31 December 2013: EUR 24,089,626.00). It is divided into 73,975,244 no-par value shares.

A cash capital increase (private placement) was carried out in March 2014, partially utilising the authorised capital while excluding subscription rights for existing shareholders. This increased the company's subscribed capital by EUR 2,392,374.00 to EUR 26,482,000.00. The issue price for the new shares was EUR 3.40.

A capital increase through contributions in kind was carried out in June 2014, partially utilising the authorised capital while excluding subscription rights for existing shareholders. This increased the company's subscribed capital by EUR 3,628,368 to EUR 30,110,368.00. A receivable of a shareholder against WESTGRUND AG amounting to EUR 2.9 million was contributed to WESTGRUND AG as part of this transaction for which a total of 853,939 shares were issued at a price of EUR 3.40. In January 2014, WESTGRUND AG had registered the acquisition of a residential real estate portfolio with a total of 803 residential units in Halle/Saale as part of a share deal with a shareholder and a third party at an arms' lenght price of EUR 9.4 million. The transaction was then completed through the issue of 2,774,429 shares at a price of EUR 3.40.

At the Annual General Meeting on 13 June 2014, a resolution was passed to increase the company's subscribed capital, which amounted to EUR 30,110,360.00 following the entry of the capital reduction of EUR 8.00 in the commercial register, by EUR 3,011,036.00 to EUR 33,121,396.00 via a capital increase from corporate funds (transfer from the capital reserves). The capital increase was carried out via the issue of 3,011,036 new no-par value bearer shares, each with a notional share of EUR 1.00 in the subscribed capital. Shareholders were entitled to the new shares in proportion to their shares in the previous subscribed capital. Profit participation for the new shares started at the beginning of the financial year 2014. The new shares were issued in July 2014.

In September 2014, the company's subscribed capital was increased by EUR 39,999,990.00 via a cash capital increase through the issue of 39,999,990 no-par value shares at an issue price of EUR 3.50 with full preservation of shareholders' subscription rights. In addition, 703,858 no-par value shares were converted in connection with the convertible bond that had been issued and 150,000 stock options exercised in 2014. Subscribed capital increased to EUR 73,975,244.00 accordingly.

A total of 41,027,852 shares were taken into account in calculating undiluted earnings per share for the financial year 2014. For the diluted earnings per share, 45,180,166 shares were taken into account. Undiluted earnings per share amounted to EUR 1.46 and diluted earnings per share to EUR 1.35.

Changes in equity in the financial year 2014 are shown in the statement of changes in equity as a separate section in these consolidated financial statements. The group's equity ratio as of the balance sheet date was 35.5%.

Capital reserves result from premiums paid in the context of capital increases and the recognition of personnel expenses arising from the granting of stock options to group employees.

14. Contingent capital

a) Stock option plan 2008 (contingent capital 2008/I)
At the Annual General Meeting on 27 August 2008, the Management Board was authorised to carry out a contingent capital increase that would increase the company's subscribed capital by up to EUR 457,000.00 by issuing up to 457,000 no-par value bearer shares (contingent capital 2008/I). A total of 330,891 options were issued from contingent capital 2008/I, of which 315,000 options had been exercised by the balance sheet date. Contingent capital as of the balance sheet date was therefore EUR 15,891.00.

b) Stock option plan 2011 (contingent capital 2011/I)
At the extraordinary General Meeting on 28 February 2011, a resolution was passed to carry out a contingent capital increase that would increase the subscribed capital of WESTGRUND AG by up to EUR 640,000.00 by issuing up to 640,000 new no-par value bearer shares (contingent capital 2011/I). The contingent capital increase serves solely to issue up to 640,000 subscription rights (stock options) as part of the Westgrund stock option plan 2011 to members of the company's Management Board, employees of the company and managing directors and employees of group companies. The contingent capital increase will be carried out only to the extent that holders of subscription rights granted under the Westgrund stock option plan 2011 exercise these rights. Each stock option entitles the holder to subscribe to one no-par value share.

The Management Board and Supervisory Board were authorised to issue subscription rights for up to 640,000 no-par value shares with a notional share in the subscribed capital of EUR 1.00 per share on one or more occasions within a period of five years after the entry of the contingent capital in the commercial register. Taking into account the capital increases carried out from corporate funds in 2013 and 2014, the total number of shares has thus risen to 774,400 no-par value shares.

Subscription rights have been awarded to Management Board members and employees of WESTGRUND AG and its dependent group companies. Management Board members and employees are each entitled to a maximum of 50% of the stock options. Each subscription right grants the holder the right to acquire one no-par value bearer share in WESTGRUND AG upon payment of the exercise price. Options can in principle be exercised only if the holder is still in employment at WESTGRUND AG or one of its group companies at the time the subscription right is exercised.

Options can be exercised only if the average of the opening and closing price of the company's shares on the XETRA® securities exchange in Frankfurt am Main (or a functionally comparable successor system) over the last five trading days preceding the day on which the subscription right from the stock option is exercised has increased by at least 20% relative to the exercise price. They can be exercised only after a four-year waiting period, which begins when the options are granted. Options can be exercised only upon payment of the exercise price. The exercise price is 100% of the average of the opening and closing price of the company's shares on the XETRA® securities exchange in Frankfurt am Main (or a functionally comparable successor system) over the last five trading days before the option is issued. The term of the options begins on the date that the options are granted and ends after five years.

The stock option plan has been fully utilised. Issues of subscription rights were distributed across financial years as follows:

Financial year	Number of subscription rights issued
2011	140,360
2012	181,500
2013	335,500
2014	117,040

c) Issuing of convertible bonds and bonds with warrants (contingent capital 2011/II)
At the Annual General Meeting on 19 December 2011, the Management Board was authorised to issue bearer and/or registered bonds up to a total nominal value of EUR 60,000,000.00 with conversion rights or bearer or registered warrants or a combination of these instruments up to a total of 4,671,560 no-par value bearer shares in WESTGRUND AG, accounting for a proportionate amount of subscribed capital of up to EUR 4,671,560.00 in total ("bonds"), on one or more occasions up to 18 December 2016.

To grant shares to the holders or creditors of convertible bonds/bonds with warrants, a contingent capital increase was carried out by issuing up to 4,671,560 no-par value bearer shares, increasing the subscribed capital by up to EUR 4,671,560 (contingent capital 2011/II). The contingent capital increase, involving the issue of up to 4,671,560 no-par value bearer shares entitled to a share in the profits from the beginning of the financial year in which they are issued, will be carried out only to the extent that holders or creditors of convertible bonds or warrants from bonds with warrants issued on the basis of the authorisation granted to the Management Board of WESTGRUND AG up to 18 December 2016 exercise their conversion/option right or fulfil their conversion/option obligation or that shares are tendered, and provided that no other forms of fulfilment are used to service these rights and obligations. The new shares will be issued at conversion/option prices to be determined in accordance with the abovementioned resolution on authorisation. The Management Board is authorised to stipulate further details of the implementation of the contingent capital increase. Taking into account the capital increases carried out from corporate funds in 2013 and 2014, the total number of shares will thus rise to 5,652,587 no-par value shares.

EUR 601,312 of contingent capital 2011/II was utilised in 2014, bringing the amount as of the balance sheet date to EUR 5,051,275.60 according to the trade register.

In the financial year 2014, further 102,546 new shares were issued. After this share issue, which was entered in the trade register on 20 January 2015, contingent capital 2011/II amounts to EUR 4,948,726.60. The contingent capital 2011/II is used to service shares from the mandatory convertible bond 2014/2016.

d) Issuing of convertible bonds and bonds with warrants (contingent capital 2012/I)
At the Annual General Meeting on 24 August 2012, the Management Board was authorised, with the approval of the Supervisory Board, to issue bearer convertible bonds and/or bonds with warrants or profit-sharing rights (referred to collectively as "bonds") with or without restrictions on their term up to a total nominal value of EUR 28,000,000 on one or more occasions up to 23 August 2017 and to grant the holders or creditors of bonds conversion or option rights on no-par value bearer shares in the company accounting for a proportionate amount of the subscribed capital of up to EUR 2,800,000, in accordance with the more detailed provisions of the conditions governing the convertible bonds/bonds with warrants. The Management Board is authorised to exclude subscription rights for shareholders in certain cases, with the approval of the Supervisory Board.

To grant shares to the holders or creditors of convertible bonds/bonds with warrants, a contingent capital increase was carried out by issuing up to 2,800,000 new no-par value bearer shares entitled to a share in the profits from the beginning of the financial year in which they are issued, increasing the subscribed capital by up to EUR 2,800,000 (contingent capital 2012/I). Taking into account the capital increases carried out from corporate funds in 2013 and 2014, the total number of shares has thus risen to 3,388,000 no-par value shares. The contingent capital increase will be carried out only to the extent that

- the holders of convertible bonds and/or bonds with warrants and/or of profit-sharing rights with exchange or subscription rights issued by the company or one of its dependent group companies in accordance with the resolution on authorisation passed at the Annual General Meeting on 24 August 2012 up to 23 August 2017 exercise their exchange or subscription rights and the company decides to service these exchange or subscription rights from this contingent capital 2012, or
- the holders of convertible bonds and/or bonds with warrants and/or of profit-sharing rights with exchange or subscription rights issued by the company or one of its dependent group companies in accordance with the resolution on authorisation passed at the Annual General Meeting on 24 August 2012 up to 23 August 2017, and who have a conversion obligation, fulfil their exchange obligation or the company exercises its right to tender for the delivery of shares and decides to deliver shares from this contingent capital 2012/I.

Contingent capital 2012/I is used to service shares from the mandatory convertible bond 2014/2016.

e) Issuing of convertible bonds and bonds with warrants (contingent capital 2014/I)
At the Annual General Meeting on 13 June 2014, the Management Board was authorised, up to 12 June 2019, to carry out a contingent capital increase that would increase the company's subscribed capital by up to EUR 3,825,000.00 by issuing up to 3,825,000 new no-par value bearer shares entitled to a share in the profits from the beginning of the financial year in which they are issued (contingent capital 2014/I). The contingent capital increase will be used to service bearer convertible bonds and/or bonds with warrants or profit-sharing rights with or without restrictions on their term up to a total nominal value of EUR 30,000,000.00. Issuing conditions can stipulate that shares from contingent capital that has yet to be decided, from existing or future authorised or contingent capital and/or from existing shares must be used, and/or that a cash settlement must be provided instead of the delivery of shares, for the servicing of conversion and subscription rights or the fulfilment of conversion and subscription obligations and in the event that shares are tendered. Further details were also decided regarding implementation and protection against dilution.

The contingent capital increase will be carried out only to the extent that
- the holders of convertible bonds and/or bonds with warrants and/or of profit-sharing rights with exchange or subscription rights issued by the company or one of its dependent group companies up to 12 June 2019 exercise their exchange or subscription rights and the company decides to service these exchange or subscription rights from this contingent capital 2014/I, or
- the holders of convertible bonds and/or bonds with warrants and/or of profit-sharing rights with exchange or subscription rights issued by the company or one of its dependent group companies up to 12 June 2019, and who have a conversion and/or subscription obligation, fulfil their exchange obligation or the company exercises its right to tender for the delivery of shares and decides to deliver shares from this contingent capital 2014/I.

f) Stock option plan 2014 (contingent capital 2014/II)
At the Annual General Meeting on 13 June 2014, the Management Board and, to the extent that members of the Management Board receive benefits, the Supervisory Board of the company were authorised to grant members of the company's Management Board, members of the management of subsidiaries and employees of the company and of subsidiaries a total of up to 2,156,000 options on a total of up to 2,156,000 shares in the company with full entitlement to dividends for the financial year in which the option is exercised, up to 12 June 2019 (granting period). Options may not be transferred, pledged or otherwise encumbered. However, the Management Board may agree to such legal transactions if there is evidence that the beneficiary has a justified interest or if the company has a justified interest, with the approval of the Supervisory Board. If the holders of stock options are members of the Management Board, the Supervisory Board is solely responsible for approval. Options are hereditary and may be bequeathed.

The up to 2,156,000 options issued on the basis of this authorisation are to be distributed between the different groups of beneficiaries as follows:

Current and future members of the Management Board of the company	up to 1,078,000 options
Current and future members of the management of subsidiaries	up to 323,400 options
Current and future employees of the company	up to 646,800 options
Current and future employees of subsidiaries of the company	up to 107,800 options

The capital increase from corporate funds carried out in 2014 has increased the total number of options to 2,371,600.

The stock options have been distributed between the above four groups in such a way that 50% have been allocated to current and future members of the Management Board of the company, 15% to current and future members of the management of subsidiaries, 30% to current and future employees of the company and 5% to current and future employees of subsidiaries of the company.

The individual beneficiaries and the number of subscription rights to be granted in each case will be determined by the Management Board or, if members of the Management Board are concerned, by the Supervisory Board of the company. The options themselves are granted free of charge.

For stock options granted to members of the Management Board of the company, the Supervisory Board must specify a cap for extraordinary developments.

Exercising subscription rights allows the holder to obtain no-par value bearer shares in the company at a ratio of one share per subscription right. A subscription price must be paid for each subscription right that is exercised, which corresponds to the average market price of shares in the company on the last five trading days before the subscription rights are granted (subscription price). The market price of shares in the company is calculated based on the closing price determined in trading on the Xetra system on the Frankfurt stock exchange.

Stock options can be exercised only if the average market price of the company’s shares in Xetra trading on the Frankfurt stock exchange over the last five trading days preceding the day on which the subscription right from the stock options is exercised has increased by at least 20% relative to the subscription price (performance target).

Subscription rights cannot be exercised until four years after they are granted (vesting period). They will expire ten years after they are granted, unless shorter terms are specified by the Management Board or, if members of the Management Board are concerned, by the Supervisory Board at the time the subscription rights are granted. They can be exercised only within 15 trading days on XETRA, beginning on the third trading day on XETRA after the publication of figures for the first quarter, the first six months, the first nine months or the full financial year and after the company's Annual General Meeting (exercise period). If provisional figures are announced, the date of publication of the provisional figures shall be regarded as the relevant date for the respective exercise period. In addition, restrictions resulting from general legal regulations, particularly the German Securities Trading Act (Wertpapierhandelsgesetz), should be complied with.

It is not permitted to exercise stock options during blocking periods. Blocking periods are as follows:
(i) the period from the date on which the company publishes an offer to its shareholders to subscribe to new shares or bonds with conversion and/or option rights on shares in the company to the date on which shares that carry these subscription rights are listed "ex-subscription right";
(ii) the period between the last banking day on which shareholders can register to attend the company's Annual General Meeting and the end of the day on which the Annual General Meeting is held.

If the beneficiary leaves the company or a subsidiary before the end of a period of at least two years after the options were granted or if the beneficiary's employment contract is terminated before this time without immediately being followed by a new employment contract with the company or a subsidiary, all options held by the beneficiary at this time will lapse. The beneficiary will not be entitled to any compensation for this lapse. The company is entitled to permit exceptions to this rule in the conditions associated with the options.

If there is a change of control (as defined below) at the company after options are granted, and if the beneficiary's employment ends after such an event, the vesting period can still be fulfilled even after employment has ended. The options will then lapse one year after the vesting period has been fulfilled and can be exercised within this year in compliance with the other conditions of the stock options. If, however, the employment contract is terminated by the beneficiary of the option themselves, the above applies only if this occurred after the change of control. For the purposes of this resolution, a change of control occurs upon publication, in accordance with Section 10 in conjunction with Section 35 of the German Securities Acquisition and Takeover Act (WpÜG), of a statement declaring that a bidder has acquired control of the company as defined by the WpÜG either directly or indirectly (with the addition of voting rights if applicable). A change of control for the purposes of this resolution of the Annual General Meeting is also the receipt of a notification by the company, in accordance with Section 21 of the German Securities Trading Act, that a party subject to reporting requirements has reached or exceeded the threshold of 50% or 75% of voting rights in the company (with the addition of voting rights if applicable), unless this notification is preceded by a publication in accordance with Section 10 in conjunction with Section 35 WpÜG. A change of control is also the receipt of a notification by the company that a party subject to reporting requirements has reached or exceeded the threshold of 30% of voting rights in the company (with the addition of voting rights if applicable), if this has been preceded by a voluntary takeover bid. The conditions of the subscription rights may stipulate that the subscription rights can be exercised before the end of the vesting period within a reasonable period after a change of control occurs, if fulfilment with a cash payment is planned for this case. Furthermore, the conditions of the subscription rights may also stipulate that the subscription rights can be terminated unilaterally by the company following a change of control, including during the vesting period, within a reasonable period in exchange for a cash payment in the amount of the difference between the subscription price and the closing price of shares in the company in trading on XETRA on the Frankfurt stock exchange on the last trading day before the date of the termination (submission of declaration of termination). Finally, the conditions of the subscription rights may also stipulate that beneficiaries have an obligation (following the approval of the Management and Supervisory Boards) to transfer the subscription rights to the bidder (as defined by WpÜG) that has submitted a voluntary takeover bid or compulsory offer for all outstanding shares in the company, provided that the price offered per subscription right for transfer of the subscription rights is at least equal to the difference between the subscription price and the price offered per share for the purchase of the outstanding shares (including any price increases). Under the abovementioned conditions, it may also be stipulated that beneficiaries are obliged to waive their subscription rights at the request of the bidder.

The conditions of the options will be adjusted if capital measures are carried out at the company during their term (protection against dilution). Any taxes incurred in connection with the granting or exercising of the options, particularly income tax (wage tax), church tax and the solidarity surcharge, must be borne by the beneficiaries themselves.

Further details of the structuring of subscription rights shall be determined by the Management Board or, if members of the Management Board are concerned, the Supervisory Board. Subscription rights can be serviced from the contingent capital that has been resolved upon and/or any other contingent capital that is resolved upon in future, from authorised capital that has already been resolved upon and/or that is resolved upon in future and/or from treasury shares that have already been acquired or that are acquired in future. A cash settlement can also be stipulated for all or some of the subscription rights.

15. Authorised capital

At the Annual General Meeting on 13 June 2014, the Management Board was authorised, up to 12 June 2019, to increase the company's subscribed capital by up to EUR 15,055,000.00 by issuing up to 15,055,000 new no-par value bearer shares in exchange for cash and/or contributions in kind, on one or more occasions, with the approval of the Supervisory Board (authorised capital 2014/I). The Management Board is authorised to exclude subscription rights for shareholders in whole or in part, with the approval of the Supervisory Board. However, exclusion of subscription rights is permitted only in the following cases:

- in the case of capital increases in exchange for contributions in cash,
  - if shares in the company are traded on the stock market (regulated market or over-the-counter market or successors to these segments),
  - the capital increase does not exceed 10% of the subscribed capital, either at the time this authorisation becomes effective or at the time it is exercised, and
  - the issue price of the new shares is not significantly lower than the market price of shares in the company of the same class and with the same features that are already traded on the stock market, in accordance with Sections 203 (1) and (2) and 186 (3) sentence 4 of the German Stock Corporation Act (AktG).

  The amount attributable to shares that are issued or sold on the basis of another similar authorisation with exclusion of subscription rights, with direct or analogous application of Section 186 (3) sentence 4 AktG, shall count towards the amount of 10% of the subscribed capital if such offsetting is required by law. For the purposes of this authorisation, the issue price shall be the amount that is to be paid by the third party/parties in the event that the new shares are taken over by an issue broker who is simultaneously obliged to offer the new shares to one or more third parties specified by the company for purchase;
- in the case of capital increases in exchange for contributions in kind, particularly for the acquisition of companies, parts of companies and interests in companies, commercial property rights such as patents, brand names or licences relating to these or other product rights or other contributions in kind, as well as bonds, convertible bonds and other financial instruments;
- if exclusion is necessary in order to grant the holders or creditors of bonds with option or conversion rights or obligations that have been issued by the company or one of its dependent group companies a subscription right to new shares to the extent to which they would be entitled after exercising their option or conversion right or fulfilling their option or conversion obligation, or
- for fractional amounts that arise as a result of the subscription ratio.

The authorised capital 2014/I was utilised in the amount of EUR 11,428,562.00 as part of the cash capital increase in September 2014, which meant that EUR 3,626,438.00 remained as of the balance sheet date.

16. Authorisation to acquire treasury shares

At the Annual General Meeting on 24 August 2012, the company was authorised, in accordance with Section 71 (1) No. 8 AktG, to acquire treasury shares representing up to 10% of the subscribed capital, other than for the purpose of trading in treasury shares, up to 23 August 2017. These purchases may be carried out using equity derivatives, i.e. call and/or put options. The purchase of shares for the purpose of trading in treasury shares is not permitted. The purchased shares, together with other treasury shares held by the company or attributable to it in accordance with Sections 71a et seq. AktG, may not at any time account for more than 10% of the current subscribed capital. The Management Board is free to decide whether to purchase the shares via the stock market or using a different method, particularly a public purchase offer. However, the purchase must take place within the limits imposed by the principles of stock corporation law and must comply with the principle of equal treatment (Section 53a AktG). In the case of a public offer, the company can stipulate either a price or a price range for the purchase.

If the shares are purchased via the stock market, the purchase price paid per share (excluding incidental costs of acquisition) may not exceed the opening price of shares in the company in trading on XETRA® on the Frankfurt stock exchange (or a successor system specified by Deutsche Börse AG) by more than 10%, and may not fall more than 20% below it, on the trading day before the purchase. If the shares are not purchased via the stock market, the purchase price paid per share (excluding incidental costs of acquisition) may not exceed the applicable value of a share in the company by more than 10% and may not fall more than 20% below it. In the case of a public purchase offer, the applicable value is the average opening price of shares in the company in trading on XETRA® on the Frankfurt stock exchange (or a successor system specified by Deutsche Börse AG) over the last five trading days before the purchase offer is publicly announced. If the market price of shares in the company deviates significantly from the applicable value after a formal offer has been announced, the offer can be adjusted. Any adjustments will be based on the average opening price of shares in the company in trading on XETRA® on the Frankfurt stock exchange (or a successor system specified by Deutsche Börse AG) over the last five trading days before the adjustment to the offer is announced. If the shares are purchased in any other way outside the stock market, the applicable value is the average opening price of shares in the company in trading on XETRA® on the Frankfurt stock exchange (or a successor system specified by Deutsche Börse AG) over the last five trading days before the conclusion of the contract on which the share purchase is based. If a public purchase offer is oversubscribed, the offer will be accepted in proportion to the shares available. Provisions may be made to give priority to the acceptance of smaller quantities of up to 100 tendered shares per shareholder and to round amounts up or down in accordance with commercial principles.

The Management Board has been authorised to resell treasury shares that it acquires, with the approval of the Supervisory Board, for purposes other than trading in treasury shares and in compliance with the principle of equal treatment (Section 53a AktG). Purchased treasury shares may be sold via the stock market. Subscription rights for shareholders are excluded. The shares can also be sold using a method other than the stock market, particularly in exchange for payments in kind, for example for the acquisition of companies, parts of companies or interests in companies, commercial property rights such as patents, brand names or licences relating to these or other product rights or other contributions in kind, as well as bonds, convertible bonds and other financial instruments. In particular, a sale outside the stock market is permitted if shares accounting for a maximum of 10% of the subscribed capital, calculated with reference to both the time at which this authorisation becomes effective and the time at which it is exercised, are sold and the treasury shares that are acquired are sold at a price that is no more than 5% below the applicable value of shares in the company with the same features (excluding incidental costs) at the time of the sale. The amount attributable to shares that are issued or sold on the basis of another similar authorisation with exclusion of subscription rights, with direct or analogous application of Section 186 (3) sentence 4 AktG, until the respective exercising of the authorisation shall count towards the amount of 10% of the subscribed capital in accordance with the previous sentence if such offsetting is required by law. The applicable value shall be the average opening price of shares in the company in trading on XETRA® on the Frankfurt stock exchange (or a successor system specified by Deutsche Börse AG) over the last five trading days before the shares are sold.

The Management Board has been authorised to offer treasury shares to shareholders for subscription on the basis of an offer directed at all shareholders, in compliance with the principle of equal treatment (Section 53a AktG). In this case, the Management Board can exclude subscription rights for fractional amounts, with the approval of the Supervisory Board. Treasury shares may also be used to fulfil the company's obligations under a stock option plan. If treasury shares are to be transferred to members of the company's Management Board as part of such a stock option plan, the decision on this is to be made by the company's Supervisory Board. With regard to stipulations concerning the distribution of subscription rights between members of the management and employees and regarding performance targets, acquisition and exercise periods and vesting periods for initial exercise, the resolutions of the Annual General Meeting that passes the resolution on the introduction of a stock option plan shall apply accordingly in each case. Subscription rights for shareholders are excluded.

The Management Board has been authorised to redeem treasury shares with the approval of the Supervisory Board without a further resolution by the Annual General Meeting. This redemption will lead to a capital reduction. In derogation from this, the Management Board can stipulate that the subscribed capital shall remain unchanged after the redemption and that the share of the other shares in the subscribed capital shall instead increase as a result of the redemption in accordance with Section 8 (3) AktG (simplified redemption process in accordance with Section 237 (3) No. 3 AktG). In this case, the Management Board is authorised to adjust the number of no-par value shares stated in the statutes.

The authorisations can be utilised in whole or in part, on one or more occasions, individually or collectively, by the company and its dependent group companies or by third parties on behalf of the company or its dependent group companies.

The authorisations also cover the use of treasury shares in the company that have been acquired on the basis of previous resolutions on authorisation in accordance with Section 71 (1) No. 8 AktG.

In May 2013, the company acquired seven treasury shares (0.0% of the subscribed capital) at a total purchase price of EUR 23.80 plus EUR 15.93 in fees. The treasury shares were purchased in order to create an even ratio for subscription rights for the planned capital increase from corporate funds. The seven treasury shares were redeemed as part of the capital increase from corporate funds.

In June 2014, the company purchased eight treasury shares at a price of EUR 3.75. The cost of this transaction came to EUR 45.97. The treasury shares were purchased in order to create an even ratio for subscription rights for the planned capital increase from corporate funds. The eight treasury shares were redeemed as part of the capital increase from corporate funds.

17. Provisions for pensions

The pension obligation consists solely of a single direct pension commitment (defined benefit pension plan) for the payment of regular pension benefits (widow's pension), currently amounting to kEUR 35 per year, to a 97-year-old beneficiary. No past service cost was therefore incurred. There are no plan assets. No salary growth factor was applied (previous year: 0.0%); a pension growth factor of 2.0% p.a. was applied (previous year: 2.0%). A discount rate of 1.75% (previous year: 3.2%) was assumed. Owing to the advanced age of the single beneficiary, any variation in the calculation parameters would have only an insignificant impact on the measurement of the obligation. The 2005 G biometric tables (probability of mortality and invalidity) drawn up by Dr. Klaus Heubeck were used for the calculations. Actuarial gains/losses due to the adjustment to life expectancy are recorded in other comprehensive income.

The change in the present value of the defined benefit obligation, shown under personnel expenses, is as follows:

	kEUR
Present value of the defined benefit obligation as of 1.1.2013	**103**
Interest expenses	2
Actuarial losses/(–) gains	26
Benefits paid	–34
Present value of the defined benefit obligation as of 31.12.2013	**97**
Interest expenses	3
Actuarial losses/(–) gains	30
Benefits paid	–35
Present value of the defined benefit obligation as of 31.12.2014	**95**

The actuarial losses of kEUR 30 after deduction of deferred taxes of kEUR 5, which are exclusively interest-rate-indexed, have been recognised in other comprehensive income outside the income statement since the 2013 financial year. The benefits paid are recognised under personnel expenses, as in the previous year. The interest expense is also reported under personnel expenses.

The group is anticipating the following contributions to the defined benefit pension plan in the financial year 2015: interest expenses of kEUR 1 and pension payments of kEUR 35.

18. Liabilities

STATEMENT OF CONSOLIDATED LIABILITIES
as of 31 December 2014

	Total amount	Expected residual terms		
		up to 1 year	1-5 years	over 5 years
	kEUR	kEUR	kEUR	kEUR
Deferred tax liabilities	19,675	0	0	19,675
(in the previous year)	(9,926)	(0)	(0)	(9,926)
Pension provisions	95	0	0	95
(in the previous year)	(97)	(0)	(0)	(97)
Convertible bond	17,098	0	17,098	0
(in the previous year)	(0)	(0)	(0)	(0)
Liabilities to banks	419,678	12,591	66,287	340,800
(in the previous year)	(136,041)	(38,656)	(8,961)	(88,424)
Advance payments received	12,925	12,925	0	0
(in the previous year)	(7,414)	(7,414)	(0)	(0)
Trade payables	2,623	2,623	0	0
(in the previous year)	(1,002)	(1,002)	(0)	(0)
Derivatives	7,240	112	926	6,202
(in the previous year)	(951)	(0)	(951)	(0)
Current tax liabilities	47	47	0	0
(in the previous year)	(32)	(32)	(0)	(0)
Leasing liabilities	4,728	12	53	4,663
(in the previous year)	(4,740)	(11)	(51)	(4,678)
Other liabilities	37,894	37,090	131	493
(in the previous year)	(11,080)	(10,421)	(131)	(528)
Total liabilities	**521,823**	**65,400**	**84,495**	**371,928**
(in the previous year)	(171,283)	(57,536)	(10,094)	(103,653)

Loans from banks are reported under “Non-current liabilities to banks” if they have a residual term of more than one year. Current liabilities to banks incur interest at rates of 0.25 % p.a. to 7.1 % p.a. They are collateralised through real estate liens, the pledging of accounts and the assignment of receivables from rental agreements.

Due to a change in the estimate and an information subsequently known regarding the maturity of a liability, a reclassification of kEUR 659 has been made from other current liabilities to other long-term liabilities in the previous year’s figures. In accordance with IAS 8, this change in presentation was made retrospectively.

The leasing liabilities are the result of leasehold agreements, which have residual terms of between 35 and 191 years as of the balance sheet date. As a rule, the leasehold agreements allow for a right to renew the leasehold in the event that a new leasehold is created after the existing agreement expires and a right of first refusal for the lessee in the event of the sale of the property and land. Ground rent is generally index-linked. Carrying amounts are determined by discounting the future cash outflows using property-specific real estate interest rates of between 4% and 7.75%.

	2014		2013	
	Carrying amount	Minimum lease payments	Carrying amount	Minimum lease payments
	kEUR	kEUR	kEUR	kEUR
Up to one year	12	316	11	316
One to five years	53	1,266	51	1,262
More than five years	4,663	41,376	4,678	41,294
	4,728	**42,958**	**4,740**	**43,872**
Less future interest expense	–	–38,230	–	–39,132
	4,728	**4,728**	**4,740**	**4,740**

19. Convertible bond

At the beginning of April 2014, a mandatory convertible bond in the amount of EUR 19,860,000 (convertible bond 2014/2016; ISIN DE000A11QPV2; WKN A11QPV) was offered to institutional investors for subscription in a private placement with no conversion premium. The convertible bond was issued on 23 April 2014 and will mature on 22 April 2016. Due to a high demand in the private placement, the convertible bond was fully placed and will bear interest of 5% p.a. on the nominal amount. The historic conversion price is EUR 3.70 (EUR 3.36 after the issue of bonus shares in July and EUR 3.14 after the cash capital increase in September 2014) for one share. The cost of issuing the bond has been deducted from the nominal amount and will be reversed in profit or loss over the term of the bond.

As interest on the bond that has been issued corresponds to interest on an unsecured corporate bond of the same rank, due to the conversion obligation, and the convertible bond is not protected against insolvency, the bond is reported entirely as debt, in accordance with the provisions of IAS 32. Only upon conversion will the corresponding amounts be recognised as equity. A total of EUR 2,317,135 had been converted as of the balance sheet date, which meant that a residual amount with a nominal value of EUR 17,542,865 was still outstanding. Please refer to the remarks on subscribed capital and contingent capital under notes 13 and 14 above.

20. Derivatives

A total of ten new interest rate derivatives with a nominal volume of EUR 83.4 million were concluded in the financial year 2014. The new interest rate derivatives will be used to hedge interest rate risks for newly incurred liabilities in 2014, whereby the structure of the derivatives is geared towards changes in the hedged liabilities (nominal amounts, interest payment dates, reference interest rates, etc.). From an economic point of view, these are synthetic fixed-rate loans. Two interest rate derivatives with a volume of EUR 7.5 million were redeemed at their fair value in 2014.

The fair values of the derivatives as of the balance sheet date were calculated using recognised mathematical methods based on market data relating to the reporting date.

The non-effective portion of changes in fair values amounting to kEUR 1,679 is recognised in the income statement under interest and similar expenses in accordance with the provisions of IAS 39. The effective portion of changes in fair values amounting to kEUR 4,609 is recognised directly in equity under other comprehensive income. The cumulative changes in value recognised for interest rate derivatives in the portfolio amount to kEUR –7,240.

21. Additional disclosures regarding financial instruments

Objectives and methods of financial risk management
The main financial liabilities used by the Westgrund Group – with the exception of derivative financial instruments – include bank loans, loans from insurance companies, overdraft facilities, trade payables, leasing liabilities and other loans granted to the company. The main purpose of these financial liabilities is to finance the group's business operations. The group has various financial assets such as trade receivables and cash and cash equivalents.

The group also has ten interest rate swaps with a volume of EUR 83.4 million. The purpose of these derivative financial instruments is to hedge against potential interest rate risks resulting from the group's business operations and its sources of financing. Appropriate coordination of the conditions of the interest rate derivatives and the development of the liabilities assigned to them (particularly nominal amounts, interest payment dates, reference interest rates, etc.) leads to the creation of synthetic fixed-rate loans from the point of view of risk.

In line with internal group guidelines, no trading in derivatives took place in the financial years 2013 and 2014 and no such trading will be carried out in the future.

Substantial risks to the group from financial instruments include interest-related cash flow risks, liquidity risks and credit risks. There are no material currency risks from the group's point of view.

Interest rate risk/hedging relationships
The risk of fluctuations in market interest rates to which the group is exposed mainly results from non-current financial liabilities with variable interest rates.

The group's interest expenses are managed using a combination of fixed-rate and variable-rate debt. To ensure a financing structure that makes sense from the group's point of view, the respective group companies take out variablerate loans, fixed-rate loans and interest rate swaps. With the interest rate swaps, the difference calculated between fixed-rate and variable-rate amounts with reference to a previously agreed nominal amount is exchanged with the contractual partner at stipulated intervals. The group's long-term fixed-rate debt (fixed-rate loans plus loans that were originally variable-rate and that have been hedged through interest rate swaps) amounted to EUR 414.2 million as of the balance sheet date.

The following table shows the sensitivity of the group's pre-tax results for each year to reasonably projected interest rate fluctuations (as a result of the impact on variable-rate loans). All other variables are left unchanged. There are no other effects on consolidated equity that are not recognised in profit or loss.

	Increase/reduction in the interest rate in basis points	Effects on pre-tax results in kEUR
2014	+20	–7
2014	–20	7
2013	+20	–183
2013	–20	182

Changes in interest rates will also lead to changes in the market values of the interest rate swaps concluded. An increase (reduction) of 20 basis points in the interest rate would have an impact of kEUR 1,192 (kEUR –1,214) on the pre-tax result for 2014. The impact on the pre-tax result for 2013 was kEUR 48 (kEUR –48).

The hedging relationships to secure cash flows were classed as partly effective and partly non-effective in 2014. A loss of kEUR 1,679 (previous year: profit of kEUR 359) was therefore recognised in profit or loss for 2014, taking into account deferred tax assets of kEUR 416 (previous year: kEUR –57). An amount of kEUR 4,609 (previous year: kEUR 0) minus deferred tax assets of kEUR 730 (previous year: kEUR 0) was recorded in other comprehensive income.

Default risk

The group enters into business only with creditworthy third parties. In particular, it concludes new rental agreements only after a prior credit assessment of the tenant. Existing receivables are also monitored continuously to ensure the group is not exposed to any significant default risk. The maximum default risk is limited to the amount shown under receivables of EUR 3.4 million (previous year: EUR 1.3 million) as of the balance sheet date. There are no significant concentrations of default risks in the group. The need for valuation allowances is analysed at each balance sheet date for major debtors based on individual receivables.

For cash and cash equivalents, the maximum default risk corresponds to the carrying amount.

Liquidity risk

The group monitors its current liquidity situation on an ongoing basis as part of short-term and medium-term liquidity planning. All expected payments and receipts are taken into account, paying attention to their respective maturities, whether from ongoing business, investments or assets.

The main priority of liquidity planning is to ensure that the group is able to fulfil all incoming payment obligations at all times. This includes ensuring that the group has the necessary financial flexibility through the use of overdraft facilities and loans.

Cash outflows arising from “Liabilities due to banks” can be broken down as follows, taking into account the contractually agreed interest payments and principal repayments. The information is provided on the basis of contractually agreed, undiscounted payment obligations:

Year	kEUR
2015	23,699
2016	23,471
2017	22,611
2018	26,878
2019	37,758
From 2020	351,908

Please refer to the illustration under D.18 for details of expected cash outflows arising from “Leasing liabilities”.

Annual fixed payments of approximately EUR 2.5 million must be made for the ten interest rate swaps concluded in 2014, until the first swaps mature in four years. The interest rate swaps have residual terms of between four and ten years, depending on the liabilities assigned to them.

For the other liabilities – with the exception of the deferred tax liabilities – the expected cash outflows in 2015 essentially correspond to the carrying amounts reported.

A number of loans have secondary conditions in relation to capital servicing in addition to interest payments and principal repayments. These conditions were complied with in full in 2014.

Capital management

The objective of the group's capital management is to achieve a capital structure that ensures the best possible balance between the need to increase enterprise value through inorganic growth and the yields that providers of equity and outside capital hope to achieve. For the specific low-risk business model of the Westgrund Group, this means maintaining an equity ratio of around 30% to 40% and, with regard to debt, focusing on keeping financing as long-term as possible and interest rates as low as possible.

Equity is composed of the no-par value bearer shares attributable to shareholders (subscribed capital) and the reserves apportionable to shareholders.

Financial liabilities for the financing of real estate investments are managed on a case-by-case basis in accordance with economically relevant parameters (particularly the market values of properties, lending values and cash flow available to service principal repayments).

The key figures developed as follows:

		31.12.2014	31.12.2013
Equity	kEUR	287,565	76,098
thereof relating to WESTGRUND AG shareholders	kEUR	286,589	75,765
Balance sheet total	kEUR	809,388	247,381
Equity ratio	in %	35.5 %	30.8 %
Cash and cash equivalents	kEUR	47,672	4,024

No significant changes were made to targets, guidelines or methods in connection with capital management in the financial years 2013 and 2014.

Carrying amounts and fair values of financial instruments by category:

		Carrying amount		Fair value	
		2014	2013	2014	2013
		kEUR	kEUR	kEUR	kEUR
Financial assets					
Investment securities	(3)	28	28	28	28
Reinsurance	(4)	184	167	184	167
Cash and cash equivalents	(3)	47,672	4,024	47,672	4,024
Receivables and other assets	(1)	3,371	1,256	3,371	1,256
Non-current receivables	(4)	94	94	94	94
Financial liabilities					
Derivatives	(5)	7,240	951	7,240	951
Liabilities due to banks	(2)	419,678	136,041	419,471	135,153
Trade payables	(2)	2,623	1,002	2,623	1,002
Other liabilities	(2)	37,894	11,080	37,894	11,080
Leasing liabilities	(6)	4,728	4,740	4,728	4,740

Category in accordance with IAS 39:
(1) Loans and receivables
(2) Liabilities reported at amortised cost
(3) Financial assets available for sale
(4) Assets held to maturity
(5) Financial liabilities measured at fair value through profit or loss
(6) Liabilities from finance leasing

The fair values are calculated as follows:
- Cash and cash equivalents, current deposits, trade receivables, trade payables and other current financial liabilities come very close to their carrying amount, mainly due to the short terms of these instruments.
- Non-current receivables/loans with fixed and variable interest rates are measured by the group based on parameters such as interest rates and creditworthiness of the individual customers. Value adjustments are carried out based on these measurements in order to reflect expected losses on these receivables. As of 31 December 2014, there was no significant difference between the carrying amounts of these receivables, minus the value adjustments, and the fair values calculated.
- Investment securities relate to shares in cooperative banks and are subject to customary fluctuations in interest rates.

- The fair value of non-listed financial instruments, bank loans and other financial liabilities is estimated by discounting future cash flows using currently available interest rates for debt with comparable conditions, credit risks and residual terms. For several non-current loans at fixed interest rates, the fair values are lower than the carrying amounts due to the fact that the interest rates are comparatively favourable in relation to current market conditions.
- The fair value of the premium refund insurance contract is calculated based on the repurchase value as of 31 December each year as communicated by the insurer. There are no indications of valuation risks.
- The group uses derivative financial instruments only from financial institutions with a good credit rating. The group has concluded ten interest rate swaps as derivatives, which are measured at fair value based on input parameters that can be observed on the market (e.g. changes in interest rates).
- The fair value of leasing liabilities is calculated based on the leasing payments arising from the respective leasing agreement and the applicable capitalisation rate. The carrying amounts correspond to the fair values.

Hierarchy of fair values

The group uses the following hierarchy to measure and report the fair values of financial instruments for each valuation method:

Level 1: Listed (unadjusted) prices on active markets for similar assets or liabilities.

Level 2: Market-price quotations that can be observed either directly or indirectly for the asset or liability and that are not stated at Level 1.

Level 3: Methods using input parameters that have a significant impact on the fair value reported, where these input parameters are not based on observable market data.

kEUR 8,450 (previous year: kEUR 2,157) of the cash and cash equivalents reported and kEUR 1,695 (previous year: kEUR 742) of trade receivables has been pledged as collateral. In the event of default, the party to whom the collateral has been assigned can seize the collateral with two weeks' warning in order to collect the debts owed to it. No warning is required in the event of insolvency.

The following net gains/(–) losses were recognised in profit or loss in the financial year 2014:

		Gain/loss 2014	Gain/loss 2013	Disclosed in income statement under
		kEUR	kEUR	
Financial assets				
Cash and cash equivalents	(3)	0	0	
Receivables and other assets	(1)	–764	–315	Other operating expenses/ income
Other financial assets	(4)	0	0	Other operating income
Financial liabilities				
Derivatives	(5)	–1,679	359	Interest and similar expenses
Liabilities to banks/bonds	(2)	0	0	
Trade payables/other liabilities	(2)	133	0	Other operating income
Leasing liabilities	(6)	0	–171	Interest and similar expenses

Category in accordance with IAS 39:
(1) Loans and receivables
(2) Liabilities reported at amortised cost
(3) Financial assets available for sale
(4) Assets held to maturity
(5) Financial liabilities measured at fair value through profit or loss
(6) Receivables/liabilities from finance leasing

E. NOTES ON THE INCOME STATEMENT

1. Revenues

Of revenues for the current financial year, kEUR 27,723 (previous year: kEUR 14,404) related to rental revenues and kEUR 7,829 (previous year: kEUR 3,585) to the settlement of apportionable operating costs. Proceeds from the sale of real estate held as current assets amounted to kEUR 150 (previous year: kEUR 42). As in the previous year, there were no other significant income categories.

2. Other operating income

Other operating income includes, in particular, income not relating to the current reporting period amounting to kEUR 288 (previous year: kEUR 115) and income from compensation paid under insurance contracts.

3. Material expenses

In particular, material expenses include real estate management costs and disposals due to the sale of properties held in the short term, which are measured at the residual carrying amount. Apportionable operating costs amounted to kEUR 11,328, while non-apportionable operating costs came to kEUR 9,156.

4. Personnel expenses

Personnel expenses comprise expenses for wages and salaries totalling kEUR 2,255 (previous year: kEUR 1,065), social security contributions amounting to kEUR 192 (previous year: kEUR 132) and expenses relating to the stock option programme amounting to kEUR 361 (previous year: kEUR 117).

5. Amortisation and depreciation

Depreciation and amortisation for the financial year includes scheduled depreciation and amortisation, which came to kEUR 90 in 2014 (previous year: kEUR 68), extraordinary write-downs on real estate held as current assets, which did not occur in 2014 (previous year: kEUR 300) and goodwill resulting from first-time consolidation amounting to kEUR 33 (previous year: kEUR 5).

6. Other operating expenses

As in the previous year, other operating expenses mainly included expenses for the group's administrative division. Other operating expenses include expenses and value adjustments to receivables not relating to the current reporting period amounting to kEUR 809 (previous year: kEUR 534).

7. Interest income and expenses

In particular, interest income includes interest income from balances at banks.

Interest expenses breakdown as follows:

	2014	2013
	kEUR	kEUR
Interest expenses for liabilities due to banks and other liabilities	–8,573	–4,740
Expenses for interim financing of the acquisition of the Berlinovo portfolio	–10,845	0
Interest expenses for leasing liabilities	–305	–490
Changes in the value of derivatives (gains +/losses -)	–1,679	359
	–21,402	**–4,871**

Financial liabilities (derivatives) reported at fair value resulted in net losses/gains of kEUR –1,679 in 2014 (previous year: kEUR 359), which were recognised in the income statement under financial expenses.

Financial liabilities reported at amortised cost resulted in interest expenses of kEUR 8,573 (previous year: kEUR 4,740). One-off expenses of kEUR 10,845 resulting from interim financing for the Berlinovo portfolio, which was acquired in 2014, were also incurred in 2014.

8. Taxes on income

	2014	2013
	kEUR	kEUR
Deferred taxes	–11,328	–3,375
Current taxes	–16	–28
	–11,344	**–3,403**

The effective tax rate for the calculation of deferred taxes at the parent company WESTGRUND AG was 30.2 %, as in the previous year (15 % corporation tax plus solidarity surcharge of 5.5 %. This was calculated on the basis of measurement used for corporation tax plus 14.35 % trade tax). At the German subsidiaries, the tax rates used to calculate deferred taxes were between 14.35 % and 31.6 %.

The following reconciliation for the group summarises the individual reconciliations drawn up for individual companies, taking into account consolidation measures. The expected tax expense/income is reconciled with the actual tax expense/income reported.

	2014	2013
	kEUR	kEUR
Earnings before taxes	71,574	21,272
Expected tax rate	30.2 %	30.2 %
Expected tax expenses/income (–)	21,616	6,424
Reduced charge owing to utilisation of extended reduction for trade tax purposes	–11,423	–3,305
Non-capitalised deferred taxes on loss carryforwards	1,057	114
Tax effects from other deviations in the assessment base	94	170
Total tax expenses	**11,344**	**3,403**

As of the balance sheet date, companies in the group had corporation tax loss carryforwards of EUR 51.1 million (previous year: EUR 18.7 million) and trade tax loss carryforwards of EUR 50.4 million (previous year: EUR 17.9 million). Due to the specifics of tax law, no deferred taxes were recognised for corporation tax loss carryforwards of EUR 0.9 million (previous year: EUR 1.3 million) and trade tax loss carryforwards of EUR 46.6 million (previous year: EUR 14.2 million), as the use of these loss carryforwards was not sufficiently likely in accordance with the criteria of IAS 12.

In accordance with current budget planning, the deferred taxes are not expected to be realised from investment property in 2015.

The temporary differences are as follows:

	Balance as of 31.12.2014	Deferred taxes (+ assets/ - liabilities)	Effect on income statement in 2014	Balance as of 31.12.2013	Deferred taxes (+ assets/ - liabilities)	Effect on income statement in 2013
	kEUR	kEUR	kEUR	kEUR	kEUR	kEUR
Investment properties	170,881	–27,894	–14,483	82,142	–13,411	–3,406
Unfinished services	111	–33	1	112	–34	90
Leasing receivables	0	0	0	0	0	–23
Pension obligations	95	15	0	97	15	–1
Leasing liabilities	4,728	1,109	–2	4,740	1,111	4
Deferred financing costs	4,949	–889	–528	2,115	–361	–361
Negative fair value of derivatives	7,240	1,144	994	951	150	–57
Non-balanced and capitalised loss carryforwards	0	0	–135	447	135	–37
Balanced deferred tax assets (corporation tax and trade tax)	43,500	6,873	4,269	16,450	2,604	459
	231,504	**–19,675**	**–9,884**	**107,054**	**–9,791**	**–3,332**
Addition from first-time consolidation			922			0
Deferred taxes on costs of the capital increase			–1,632			–39
Recognised in other comprehensive income			–734			–4
Deferred tax income/expenses in income statement			**–11,328**			**–3,375**
Balance sheet disclosure:						
Deferred tax assets		0			135	
Deferred tax liabilities		–19,675			–9,926	
		–19,675			**–9,791**	

The total amount of unrecognised temporary differences associated with shares in subsidiaries was EUR 5.4 million (previous year: EUR 2.3 million). No charges are currently expected as a result of this, as there are no plans at present to sell the shares in the subsidiaries.

9. Earnings per share

To calculate the undiluted earnings per share, the result attributable to holders of ordinary shares in the parent company is divided by the weighted average number of ordinary shares in circulation during the year.

To calculate the diluted earnings per share, the result attributable to holders of ordinary shares in the parent company is divided by the time-weighted average number of ordinary shares in circulation during the year, plus the weighted average number of ordinary shares that would result from the conversion of all potential ordinary shares with a dilutive effect into ordinary shares.

	2014	2013
	kEUR	kEUR
Consolidated net profit	60,230	17,869
Minority interests	–134	–68
Result used to determine undiluted earnings per share	60,096	17,801
Interest expense from convertible bond	684	0
Result used to determine diluted earnings per share	60,780	17,801
Average number of shares	41,027,852	23,018,099
Dilutive shares from stock option programmes/convertible bonds	4,152,314	198,748
Number of shares used to calculate the dilutive result	45,180,166	23,216,847
Earnings per share for 2014 in EUR		
Undiluted	1.46	0.77
Diluted	1.35	0.77

The authorised and contingent capital could lead to additional dilution of the earnings per share in future. Please see Sections D.14 and D.15 in connection with this.

F. CASH FLOW STATEMENT

The cash flow statement has been prepared in accordance with IAS 7. Cash flow from operating activities is presented using the indirect method.

Cash and cash equivalents comprise cash on hand and balances at banks and insurers. Apart from bank accounts totalling kEUR 8,450 (previous year: kEUR 2,157) that are pledged to the lending bank as collateral for bank loans, the amounts shown are at the free disposal of the group. As in the previous year, there were no other restrictions on disposal.

There were no significant unused credit lines as of the balance sheet date.

All liabilities due to banks are regarded as financial liabilities for the purposes of the cash flow statement. Receipts and expenditures from interest, dividends and income tax are reported separately in the cash flow statement.

As well as the liquid funds of kEUR 47,672 shown in the balance sheet, cash and cash equivalents include kEUR 78 in liquid funds that is intended for sale and is therefore reported separately under “Assets held for sale”.

kEUR 750 was received for subsidiaries sold in the financial year 2014, which was offset by cash outflows of kEUR 501. The purchase prices for subsidiaries that were acquired amounted to kEUR 258. The acquisition of these subsidiaries was associated with cash inflows of kEUR 225.

Please refer to the explanations regarding changes in the scope of consolidation for details of assets and liabilities of subsidiaries that were acquired and sold.

The purchase price of kEUR 9,445 for the acquisition of a real estate portfolio in 2014 was paid through the issue of new shares.

G. OTHER DISCLOSURES

1. Contingent liabilities, other financial liabilities and transactions not included in the balance sheet

As of 31 December 2014, other financial liabilities mainly comprised rental agreements for buildings and lease agreements for vehicles. Total rental expenses for office premises and office equipment come to approximately kEUR 236 for 2015, with a term up to 31 January 2016. Lease agreements are expected to result in expenses of kEUR 47 for the financial year 2015. The total sum of financial liabilities from rental and lease agreements amounted to kEUR 355 (previous year: kEUR 487) as of 31 December 2014.

Apart from this, there were no other contingent liabilities or other financial liabilities of significance in assessing the group’s financial position as of the balance sheet date.

WESTGRUND AG holds shares in a limited liability company (GmbH) with share capital of kEUR 25 as a trustee.

2. Number of employees

An average of 29 employees, including 9 temporary assistants (previous year: 21 employees, including 9 temporary assistants), were employed during the year.

3. Members of the Management Board and their remuneration

The members of the Management Board during the financial year 2014 were:

- Mr. Arndt Krienen, Remscheid: fixed salary (incl. benefits in kind and a bonus of kEUR 50 from 2013 and a special payment for 2014 of kEUR 150) kEUR 371 (previous year: kEUR 230); bonus entitlement for 2014: kEUR 72 (previous year: kEUR 50)
- Mr. Sascha Giest, Berlin: fixed salary (incl. benefits in kind and a bonus of kEUR 30 from 2013 and a special payment for 2014 of kEUR 150) kEUR 327 (previous year: kEUR 30); bonus entitlement for 2014: kEUR 63 (previous year: kEUR 30)

Mr. Arndt Krienen received 165,000 shares with a market value of EUR 3.10 per share for a purchase price of EUR 1.56 per share from the exercising of stock options in the financial year 2013. As at 31 December 2013, Mr. Krienen held 50,000 shares in WESTGRUND AG from the exercising of stock options in December 2013. He was granted a short-term loan of kEUR 123 in connection with the exercising of stock options, which was already fully repaid in the first quarter of 2014. As of 31 December 2014, Mr. Krienen held 50,000 shares in WESTGRUND AG and shares in a mandatory convertible bond with a nominal value of kEUR 13. A total of 749,040 stock options dated 7 September 2012, 15 November 2013, 23 May 2014 and 30 September 2014 were granted to Mr. Krienen as components of long-term variable remuneration. The total fair value of the options at the time they were granted was kEUR 1,128.

As of 31 December 2014, Mr. Sascha Giest held 13,293 shares in WESTGRUND AG and shares in a mandatory convertible bond with a nominal value of kEUR 10. A total of 776,000 stock options dated 15 November 2013, 23 May 2014 and 30 September 2014 were granted to Mr. Giest as components of long-term variable remuneration. The total fair value of the options at the time they were granted was kEUR 1,208.

4. Members of the Supervisory Board and their remuneration

The members of the Supervisory Board in the last financial year were:

- Mr. Gerhard Wacker, lawyer, Chairman
  Compensation: kEUR 25 (previous year: kEUR 15)
- Dr. Marc Schulten, businessman, Deputy Chairman
  Compensation: kEUR 17.5 (previous year: kEUR 10)
  Member of the Supervisory Board of International Campus AG, Munich
  Member of the Advisory Board of One-Group AG, Hamburg
- Mr. Günther Villing, lawyer
  Compensation: kEUR 17.5 (previous year: kEUR 10)
  Member of the Supervisory Board of ReCyTec AG, Pforzheim
  Member of the Board of Directors of Man Oil Grouß AG, Zug/Switzerland

No members of the Supervisory Board hold any shares in WESTGRUND AG.

5. Related party disclosures (IAS 24)

Related parties of the company include the Management Board and members of the Supervisory Board as well as shareholders and members of executive bodies of subsidiaries, including their close family members, as well as those companies over which the Management Board or members of the Supervisory Board of the company, or their close family members, can exert a controlling influence or in which they have a substantial share of the voting rights. Related parties also include those companies in which the company holds a stake that allows it to exert a controlling influence over the business policy of the investee, as well as the company's main shareholders.

As of 31 December 2013, the group had current liabilities of kEUR 379 towards minority shareholders in Cologne Real Estate GmbH, on which interest was charged at arms' length rates. Cologne Real Estate GmbH was sold in January 2014, which meant that the liabilities to minority shareholders no longer existed as of the balance sheet date.

In 2013 and as of 31 December 2013, WESTGRUND AG had received working capital loans totalling EUR 4.1 million from significant shareholders and their related parties, both directly and indirectly via a foreign corporation, on which interest was charged at arms' length rates. These were reported under other liabilities as of 31 December 2013. The liabilities were repaid in full during the first half of 2014. A receivable of a shareholder against WESTGRUND AG amounting to EUR 2.9 million was contributed to WESTGRUND AG by means of a capital increase through contributions in kind. A total of 853,939 shares were issued at a price of EUR 3.40 per share.

For the placement of a debt financing of a real estate portfolio in Berlin-Spandau which was acquired in 2013, a related party of a member of the Supervisory Board received a remuneration in the amount of EUR 0.5 million on an arms' length basis.

The placement of a debt financing of a property portfolio in Berlin-Kreuzberg with a volume of EUR 17.9 million which was integrated in the WESTGRUND AG by way of a capital contribution in kind was made by a person related to a shareholder. The person received a remuneration on an arms' length basis in the amount of EUR 0.5 million in 2013.

As of 31 December 2013, there was a current loan receivable of EUR 0.12 million due from the Management Board (loan to executive bodies in accordance with Section 89 AktG) as a result of wage tax to be transferred by WESTGRUND AG from the exercising of stock options in December 2013. This was a short-term loan that was repaid in full in the first quarter of 2014.

In January 2014, WESTGRUND AG registered the acquisition of a residential real estate portfolio with a total of 803 residential units in Halle/Saale as part of a share deal with a shareholder and a third party at an arms' length price of EUR 9.4 million. The transaction was then completed in June 2014 by means of a capital increase through contributions in kind, with the issue of 2,774,429 shares at a price of EUR 3.40.

For placement service in connection with the cash capital increase in March 2014, a shareholder received a remuneration in the amount of EUR 0.1 million.

In May 2014, properties were acquired in Leipzig for EUR 2.7 million at appropriate conditions from a shareholder and a related party of the shareholder.

In connection with the private placement of the mandatory convertible bond at the beginning of April 2014, a shareholder received for the placement a remuneration of EUR 0.41 million.

WESTGRUND AG received a working capital loan totalling EUR 8.2 million in July 2014 via a foreign company that is a related party of a significant shareholder, on which interest was charged at arms' length rates. The loan was repaid in full in the third quarter.

1,300 units from the Berlinovo portfolio, which includes around 13,300 units in total and was acquired in July 2014, are to be resold at arms' length conditions to FFIRE Immobilienverwaltung AG, Berlin, whose chief executive officer is a member of the Supervisory Board of WESTGRUND AG. In connection with this resale, FFIRE Immobilienverwaltung AG granted a short-term, interest-free loan to WESTGRUND AG. The full repayment of the loan is planned in 2015. Reference is made to the explanation in section D.11 regarding the assets held for sale and the associated liabilities.

As part of the cash capital increase carried out in September 2014, existing shareholders and their related parties entered into commitments to purchase the shares that were to be issued in exchange for a remuneration at arms' length. Existing shareholders and their related parties also purchased and placed shares as part of the cash capital increase, for which a remuneration at arms' length were agreed. Total remuneration in the amounts of EUR 1.4 million and EUR 1.3 million had not yet been made as of the balance sheet date and are reported under other liabilities accordingly. Also in the course of this cash capital increase a shareholder has received a fee of EUR 0.08 million for collaterals provided for the partial placement of the issue and a fee of EUR 0.04 million for services provided in connection with the cash capital increase.

Also as part of this cash capital increase, a shareholder received remuneration of EUR 0.08 million for collateral provided for the partial placement of the issue and of EUR 0.04 million for services performed as part of the cash capital increase.

Employment contracts are in place with members of the Management Board and offer appropriate total remuneration.

No further transactions to be reported in accordance with IAS 24 took place in the financial year 2014.

6. Events after the balance sheet date

Events after the balance sheet date are reported in the Group management report, which is part of these financial statements.

7. Announcements published in accordance with Section 21 of the German Securities Trading Act (WpHG) (Section 160 (1) No. 8 AktG)

The following announcements that are subject to public disclosure in accordance with Section 21 WpHG have been received by the company to date and published accordingly.

Reported by	Date	Threshold*	New share
Allianz Global Investors GmbH, Frankfurt am Main	16.03.2015	<3 %	2.98 %
Allianz Global Investors GmbH, Frankfurt am Main	16.09.2014	>3 %	4.7 %
Quartenal Investment Ltd., Cyprus	17.02.2015	<3 %	0.0 %
Joh. Berenberg Gossler & Co. KG	08.12.2014	<3 %	0.0 %
Swanepoel Ltd., Cyprus	27.10.2014	<5 %	3.9 %
Swanepoel Ltd., Cyprus	27.10.2014	>5 %	8.7 %
Quartenal Investment Ltd., Cyprus	24.10.2014	<10 %	9.7 %
Angela Lechner, Berlin	02.10.2014	<3 %	0.0 %
Orlando Real Estate GmbH, Berlin	02.10.2014	<3 %	0.0 %
British Empire Securities and General Trust plc, Great Britain	02.10.2014	<5 %	4.8 %
Joh. Berenberg Gossler & Co. KG	01.10.2014	>5 %	5.8 %
Uto Baader, Munich	17.09.2014	<3 %	0.0 %
Quartenal Investment Ltd., Cyprus	17.09.2014	<15 %	12.7 %
British Empire Securities and General Trust plc, Great Britain	17.09.2014	>5 %	5.3 %
Asset Value Investors Limited, Great Britain	16.09.2014	>5 %	6.6 %
Joh. Berenberg Gossler & Co. KG	15.09.2014	<3 %	0.0 %
Joh. Berenberg Gossler & Co. KG	12.09.2014	>20 %	24.2 %
Uto Baader, Munich	12.09.2014	>15 %	16.1 %
Wecken & Cie., Switzerland	27.09.2012	>30 %	49.7 %

* < = share dropped below the threshold; > = share exceeded the threshold

8. Fee for the auditor of the financial statements

In the financial year 2014, kEUR 30 was recognised as expenses for the audit of the annual financial statements as of 31 December 2014 and kEUR 90 for the audit of the consolidated financial statements as of 31 December 2014. Other assurance services for the financial year amounting to kEUR 198 are included under expenses.

9. Declaration in accordance with Section 161 AktG

The declaration in accordance with Section 161 AktG concerning compliance with the recommendations of the "Government Committee for the German Corporate Governance Code" as announced by the Federal Ministry of Justice in the official section of the electronic version of the Bundesanzeiger (German Federal Gazette) was submitted in 2014 and made available to shareholders on WESTGRUND AG's website. The published version is discussed in terms of content in the group management report for the financial year 2014.

10. Risk management policy

A detailed presentation of the Westgrund Group's risk management policy is provided in the Group management report for 2014, which is part of these financial statements.

11. Share-based forms of remuneration

The Westgrund Group has allowed its employees to share in the group's success since 2007 in accordance with the stock option plans approved in the financial year 2007 and subsequent years.

Stock option plan 2007
All options from the stock option plan 2007 had lapsed as of 31 December 2013.

Stock option plan 2008
Based on the existing subscribed capital of EUR 73,975,244 as of the balance sheet date (previous year: EUR 24,089,626), the situation was as follows with regard to the outstanding options as of the balance sheet date:

	2014	2013	2012	2011	2010	2009	2008
Outstanding options on 1.1.	165,891	330,891	330,891	330,891	165,000	165,000	0
Granted options	0	0	0	0	165,891	0	165,000
Surrendered options	0	0	0	0	0	0	0
Exercised options	–150,000	–165,000	0	0	0	0	0
Lapsed options	0	0	0	0	0	0	0
Outstanding options on 31.12.	15,891	165,891	330,891	330,891	330,891	165,000	165,000
Options that can be exercised on 31.12.	15,891	165,891	330,891	165,000	165,000	0	0
Exercise price in EUR (2008)	–	1.56	1.56	1.56	1.56	1.56	1.56
Exercise price in EUR (2010)	1.04	1.33	1.33	1.33	1.33	–	–
Residual term in years (2008)	0.0	0.0	0.0	0.0	0.0	1.0	2.0
Residual term in years (2010)	0.0	0.0	0.0	1.0	2.0	–	–

A total of 150,000 stock options (at the exercise date in 2013, the total was 165,000) were issued to Mr. Arndt Krienen (Management Board) in 2008. The stock options were exercised in 2013. The fair value of the options issued was calculated using the Black-Scholes model. This was based on the following parameters:

Share price on the measurement date	EUR 1.70
Target: increase in price against the exercise price	20 %
Maximum term until issue date	5 years
Expected term of the options	2 years
Exercise price on the expected exercise date	EUR 1.85
Expected dividend yield	0.0 %
Risk-free interest rate for the term	4.0 %
Expected volatility for the term	105.8 %
Expected fluctuation in option holders for the term	0.0 %

In 2010, a total of 137,100 (currently 165,891) stock options were issued to employees. The fair value of the options issued was calculated using the Black-Scholes model. This was based on the following parameters:

Share price on the measurement date	EUR 1.65
Target: increase in price against the exercise price	20 %
Maximum term until issue date	5 years
Expected term of the options	2 years
Exercise price on the expected exercise date	EUR 1.62
Expected dividend yield	0.0 %
Risk-free interest rate for the term	4.0 %
Expected volatility for the term	105.6 %
Expected fluctuation in option holders for the term	0.0 %

In 2014, 150,000 options at a price of EUR 1.04 were exercised.

Stock option plan 2011

Based on the existing subscribed capital of EUR 73,975,244 as of the balance sheet date (previous year: EUR 24,089,626), the situation was as follows with regard to the outstanding options as of the balance sheet date:

	2014	2013	2012	2011
Outstanding options on 1.1.	657,360	321,860	140,360	0
Granted options	117,040	335,500	181,500	140,360
Surrendered options	0	0	0	0
Exercised options	0	0	0	0
Lapsed options	– 121,000	0	0	0
Outstanding options on 31.12.	653,400	657,360	321,860	140,360
Options that can be exercised on 31.12.	0	0	0	0
Exercise price in EUR (2011)	2.13	2.13	2.13	2.13
Exercise price in EUR (2012)	1.97	2.21	2.21	–
Exercise price in EUR (2013)	2.95	2.95	–	–
Exercise price in EUR (2014)	2.97	–	–	–
Residual term in years (2011)	1.0	2.0	3.0	4.0
Residual term in years (2012)	1.7	2.7	3.7	–
Residual term in years (2013)	2.9	3.9	–	–
Residual term in years (2014)	3.4	–	–	–

In 2011, a total of 116,000 stock options (currently 140,360) were issued to employees. The fair value of the options issued was calculated using the Black-Scholes model. This was based on the following parameters:

Share price on the measurement date	EUR 2.54
Target: increase in price against the exercise price	20 %
Maximum term until issue date	5 years
Expected term of the options	4 years
Exercise price on the expected exercise date	EUR 2.52
Expected dividend yield	0.0 %
Risk-free interest rate for the term	4.0 %
Expected volatility for the term	114.8 %
Expected fluctuation in option holders for the term	0.0 %

In 2012, 100,000 stock options (currently 121,000) were issued to employees and 50,000 stock options (currently 60,500) to the Management Board. The fair value of the options issued was calculated using the Black-Scholes model. The following parameters were used as the basis for the issue of the three packages:

Share price on the measurement date	EUR 2.22
Target: increase in price against the exercise price	20 %
Maximum term until issue date	5 years
Expected term of the options	4 years
Exercise price on the expected exercise date	EUR 2.29
Expected dividend yield	0.0 %
Risk-free interest rate for the term	2.0 %
Expected volatility for the term	79.8 %
Expected fluctuation in option holders for the term	0.0 %

Share price on the measurement date	EUR 2.21
Target: increase in price against the exercise price	20 %
Maximum term until issue date	5 years
Expected term of the options	4 years
Exercise price on the expected exercise date	EUR 2.22
Expected dividend yield	0.0 %
Risk-free interest rate for the term	2.0 %
Expected volatility for the term	66.1 %
Expected fluctuation in option holders for the term	0.0 %

Share price on the measurement date	EUR 3.01
Target: increase in price against the exercise price	20 %
Maximum term until issue date	5 years
Expected term of the options	4 years
Exercise price on the expected exercise date	EUR 2.99
Expected dividend yield	0.0 %
Risk-free interest rate for the term	2.0 %
Expected volatility for the term	64.0 %
Expected fluctuation in option holders for the term	0.0 %

The following standardised measurement parameters were used for the 305,000 stock options issued in 2013 (currently 335,500):

Share price on the measurement date	EUR 3.50
Target: increase in price against the exercise price	20 %
Maximum term until issue date	5 years
Expected term of the options	4 years
Exercise price on the expected exercise date	EUR 3.46
Expected dividend yield	0.0 %
Risk-free interest rate for the term	2.0 %
Expected volatility for the term	72.1 %
Expected fluctuation in option holders for the term	0.0 %

The following standardised measurement parameters were used for the 117,040 stock options issued in 2014:

Share price on the measurement date	EUR 3.47
Target: increase in price against the exercise price	20 %
Maximum term until issue date	5 years
Expected term of the options	4 years
Exercise price on the expected exercise date	EUR 3.50
Expected dividend yield	0.0 %
Risk-free interest rate for the term	2.0 %
Expected volatility for the term	69.2 %
Expected fluctuation in option holders for the term	0.0 %

Stock option plan 2014

Please refer to the remarks on contingent capital for details of the structure of the stock option plan 2014 with regard to content and schedule.

Based on the existing subscribed capital of EUR 73,975,244 as of the balance sheet date (previous year: EUR 24,089,626), the situation was as follows with regard to the outstanding options as of the balance sheet date:

	2014
Outstanding options on 1.1.	0
Granted options	1,513,000
Surrendered options	0
Exercised options	0
Lapsed options	–75,000
Outstanding options on 31.12.	1,438,000
Options that can be exercised on 31.12.	0
Exercise price in EUR (2014)	3.60
Residual term in years (2014)	3.7

The following standardised measurement parameters were used for the 1,513,000 stock options issued in 2014:

Share price on the measurement date	EUR 3.55
Target: increase in price against the exercise price	20 %
Maximum term until issue date	10 Jahre
Expected term of the options	4 Jahre
Exercise price on the expected exercise date	EUR 3.60
Expected dividend yield	0.0 %
Risk-free interest rate for the term	2.0 %
Expected volatility for the term	63.2 %
Expected fluctuation in option holders for the term (excluding the Management Board)	30.0 %

Additional disclosures regarding the stock option plans 2011 and 2014

WESTGRUND AG is under no obligation as of the balance sheet date to grant the beneficiaries of option programmes a cash settlement instead of shares. As the company has no obligation to provide a cash settlement, no measurement adjustment is necessary in accordance with the provisions of IFRS 2.43. Only in the event of a future “change of control” may an obligation to provide a cash settlement arise.

The granting of options under the stock option programmes 2011 and 2014 has the following impact on the group's net assets, financial and income position:

	Fair value when granted	Income statement 2011	Income statement 2012	Income statement 2013	Income statement 2014
	kEUR	kEUR	kEUR	kEUR	kEUR
Options granted in 2011 – Stock option programme 2011	220	5	54	55	55
Options granted in 2012 – Stock option programme 2011	51	0	14	45	–29
Options granted in 2013 – Stock option programme 2011	543	0	0	17	136
Options granted in 2014 – Stock option programme 2011	177	0	0	0	27
Options granted in 2014 – Stock option programme 2014	2,232	0	0	0	172
Options outstanding on 31.12.	**3,223**	**5**	**68**	**117**	**361**

An offsetting entry for personnel expenses was made in each case under the capital reserves. The exercising of options from the stock option plans results in a liquidity inflow for WESTGRUND AG as at the exercise date in the amount of the exercise price per stock option exercised.

Future volatility during the expected terms of the stock options has been estimated on the basis of historic volatility, taking into account expected future share price performance. In principle, the annualised historic volatility over the expected term of the options is to be used, in compliance with IFRS 2.B25. This is four years for the stock option programmes 2011 and 2014. Accordingly, the historic volatility for the last four years was used as the basis for the stock options issued in 2011 and 2014.

As a change of control as defined by the stock option plans is very likely after the balance sheet date, the employees and members of the Management Board concerned can request a cash settlement for their stock options. The amount of the cash settlement depends on the price of shares in WESTGRUND AG at the time the change of control occurs. Assuming a share price of EUR 5.50, the cash settlement would be EUR 4.6 million, which would be recognised under other current liabilities.

12. Responsibility statement by the Management Board in accordance with Section 297 (2) sentence 4 of the German Commercial Code (HGB)

The Management Board, as the legal representative of WESTGRUND AG, hereby provides its assurance that, to the best of its knowledge and in accordance with the applicable reporting principles, the consolidated financial statements give a true and fair view of the net assets, financial and income position of the group, that the group management report gives a true and fair view of the performance and results of the business and the group's position, and that the main opportunities and risks associated with the group's expected development have been described.

13. Exemption from the obligation to prepare and publish annual financial statements in accordance with regulations that apply to corporations pursuant to Section 264b HGB

The following consolidated subsidiaries have exercised their right to exemption in accordance with Section 264b HGB:

- Westgrund Immobilien Beteiligung GmbH & Co. KG, Berlin
- Westgrund Immobilien II. GmbH & Co. KG, Berlin
- HKA Grundstücksverwaltungsgesellschaft mbH & Co. KG, Berlin
- Westgrund Westfalen GmbH & Co. KG, Berlin
- Westgrund Immobilien II. Halle GmbH & Co. KG, Berlin

Berlin, March 2015

WESTGRUND Aktiengesellschaft

Arndt Krienen
Management Board

Sascha Giest
Management Board

Consolidated statement of changes in fixed assets

FOR THE PERIOD FROM 1 JANUARY TO 31 DECEMBER 2014

	Acquisition/manufacturing costs				
	as at 01.01.2014	Additions	Disposals	Changes in the group of consolidated companies	as at 31.12.2014
	EUR	EUR	EUR	EUR	EUR
Intangible assets					
Trademarks and similar rights	33,879.64	2,940.00	0.00	0.00	36,819.64
Goodwill	34,445.41	0.00	0.00	33,211.00	67,656.41
	68,325.05	**2,940.00**	**0.00**	**33,211.00**	**104,476.05**
Investment properties	**191,298,761.21**	**373,024,807.60**	**0.00**	**29,420,000.00**	**593,743,568.81**
Property, plant and equipment					
Technical equipment, plant and machinery	680,526.69	0.00	0.00	0.00	680,526.69
Other equipment, fixtures and fittings	280,814.66	32,124.04	0.00	0.00	312,938.70
	961,341.35	**32,124.04**	**0.00**	**0.00**	**993,465.39**
Financial assets					
Security investment	27,512.00	0.00	0.00	0.00	27,512.00
	27,512.00	**0.00**	**0.00**	**0.00**	**27,512.00**
Total	**192,355,939.61**	**373,059,871.64**	**0.00**	**29,453,211.00**	**594,869,022.25**

Depreciation			IAS 40 Consideration		Book value	
as at 01.01.2014	Additions	as at 31.12.2014	as at 01.01.2014	Change 2014	as at 31.12.2014	as at 31.12.2013
EUR	EUR	EUR	EUR	EUR	EUR	EUR
33,864.64	83.00	33,947.64	0.00	0.00	2,872.00	15.00
34,445.41	33,211.00	67,656.41	0.00	0.00	0.00	0.00
68,310.05	**33,294.00**	**101,604.05**	**0.00**	**0.00**	**2,872.00**	**15.00**
1,960,583.49	**20,362.47**	**1,980,945.96**	**41,316,706.28**	**78,941,403.87**	**712,020,733.00**	**230,654,884.00**
433,054.69	48,236.00	481,290.69	0.00	0.00	199,236.00	247,472.00
257,493.62	21,606.04	279,099.66	0.00	0.00	33,839.04	23,321.04
690,548.31	**69,842.04**	**760,390.35**	**0.00**	**0.00**	**233,075.04**	**270,793.04**
0.00	0.00	0.00	0.00	0.00	27,512.00	27,512.00
0.00	**0.00**	**0.00**	**0.00**	**0.00**	**27,512.00**	**27,512.00**
2,719,441.85	**123,498.51**	**2,842,940.36**	**41,316,706.28**	**78,941,403.87**	**712,284,192.04**	**230,953,204.04**

Consolidated statement of changes in fixed assets

FOR THE PERIOD FROM 1 JANUARY TO 31 DECEMBER 2013

	Acquisition/manufacturing costs					
	as at 01.01.2013	Additions	Disposals	Changes in the group of consolidated companies	at equity valuation	as at 31.12.2013
	EUR	EUR	EUR	EUR	EUR	EUR
Intangible assets						
Trademarks and similar rights	42,485.23	0.00	–2,607.59	–5,998.00	0.00	33,879.64
Goodwill	2,705,781.45	0.00	0.00	–2,671,336.04	0.00	34,445.41
	2,748,266.68	**0.00**	**–2,607.59**	**–2,677,334.04**	**0.00**	**68,325.05**
Investment properties	**116,357,894.17**	**69,115,228.30**	**–553,151.58**	**6,378,790.32**	**0.00**	**191,298,761.21**
Property, plant and equipment						
Technical equipment, plant and machinery	687,195.80	1,188.95	–7,859.06	1.00	0.00	680,526.69
Other equipment, fixtures and fittings	298,896.14	21,892.81	–34,740.12	–5,234.17	0.00	280,814.66
	986,091.94	**23,081.76**	**–42,599.18**	**–5,233.17**	**0.00**	**961,341.35**
Financial assets						
Shares in associated companies	875,111.46	0.00	0.00	–750,087.91	–125,023.55	0.00
Security investment	831,759.03	0.00	0.00	–804,247.03	0.00	27,512.00
Advance payments made	51,447.04	0.00	–51,447.04	0.00	0.00	0.00
	1,758,317.53	**0.00**	**–51,447.04**	**–1,554,334.94**	**–125,023.55**	**27,512.00**
Total	**121,850,570.32**	**69,138,310.06**	**–649,805.39**	**2,141,888.17**	**–125,023.55**	**192,355,939.61**

Depreciation					IAS 40 Consideration			Book value	
as at 01.01.2013	Additions	Disposals	Changes in the group of consolidated companies	as at 31.12.2013	as at 01.01.2013	Change 2013	Disposals 2013	as at 31.12.2013	as at 31.12.2012
EUR	EUR	EUR	EUR	EUR	EUR	EUR	EUR	EUR	EUR
42,369.23	101.00	−2,606.59	−5,999.00	33,864.64	0.00	0.00	0.00	15.00	116.00
2,705,781.45	0.00	0.00	−2,671,336.04	34,445.41	0.00	0.00	0.00	0.00	0.00
2,748,150.68	**101.00**	**−2,606.59**	**−2,677,335.04**	**68,310.05**	**0.00**	**0.00**	**0.00**	**15.00**	**116.00**
2,104,308.53	**0.00**	**−143,725.04**	**0.00**	**1,960,583.49**	**21,199,905.36**	**20,213,288.34**	**−96,487.42**	**230,654,884.00**	**135,453,491.00**
392,683.08	48,146.67	−7,775.06	0.00	433,054.69	0.00	0.00	0.00	247,472.00	294,512.72
270,775.55	24,478.60	−31,955.35	−5,805.18	257,493.62	0.00	0.00	0.00	23,321.04	28,120.59
663,458.63	**72,625.27**	**−39,730.41**	**−5,805.18**	**690,548.31**	**0.00**	**0.00**	**0.00**	**270,793.04**	**322,633.31**
0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	875,111.46
0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	27,512.00	831,759.03
0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	51,447.04
0.00	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**	**27,512.00**	**1,758,317.53**
5,515,917.84	**72,726.27**	**−186,062.04**	**−2,683,140.22**	**2,719,441.85**	**21,199,905.36**	**20,213,288.34**	**−96,487.42**	**230,953,204.04**	**137,534,557.84**

Audit opinion

We have audited the consolidated financial statements prepared by WESTGRUND Aktiengesellschaft, Berlin – consisting of the balance sheet, the income statement, the statement of comprehensive income, the statement of changes in equity, the cash flow statement and the notes to the financial statements – as well as the Group management report for the financial year from 1 January to 31 December 2014. The legal representatives of the company are responsible for the preparation of the consolidated financial statements and the Group management report in accordance with IFRS, as applicable in the EU, and additionally in accordance with the applicable commercial law provisions specified under Section 315a (1) HGB as well as the additional provisions of the company's statutes. Our responsibility is to express an opinion on the consolidated financial statements and the Group management report based on our audit.

We conducted our audit of the consolidated financial statements in accordance with Section 317 HGB and the German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (IDW – Institute of Public Auditors in Germany). In accordance with these principles and standards, audits must be planned and performed in such a way as to ensure that any inaccuracies and breaches that have a material impact on the view of the net assets, financial and income position conveyed by the consolidated financial statements prepared in accordance with the applicable statutory accounting provisions and by the Group management report can be identified with a reasonable degree of assurance. Knowledge of the business activities and the economic and legal environment of the Group and evaluations of possible misstatements are taken into account in the determination of the audit procedures. The effectiveness of the internal accounting control system and the evidence supporting the disclosures in the consolidated financial statements and the Group management report are examined primarily on the basis of random samples within the framework of the audit. The audit includes the assessment of the annual financial statements of companies included in the consolidated financial statements, the scope of consolidation, the accounting and consolidation principles applied, and any significant estimates made by the legal representatives as well as the appraisal of the overall presentation of the consolidated financial statements and the Group management report. We believe our audit has provided us with a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion based on the findings of our audit, the consolidated financial statements comply with IFRS, as applicable in the EU, and additionally with the applicable commercial law provisions specified under Section 315a (1) HGB and, in accordance with these provisions, provide a true and fair view of the net assets, financial and income position of the Group. The Group management report is consistent with the consolidated financial statements, presents a true and fair view of the position of the Group overall and accurately portrays the opportunities and risks of future development.

Cologne, 30 March 2015

DHPG AUDIT GMBH
Wirtschaftsprüfungsgesellschaft
Steuerberatungsgesellschaft

(Schaidinger)	(Güntgen)
Public auditor	Public auditor

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The english version of the Annual Report 2014 is a translation of the German "Geschäftsbericht 2014". Only the German version is valid.

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