WESTGRUND Aktiengesellschaft,

Berlin

Consolidated balance sheet as at 31 December 2013

ASSETS

		€	€	Previous year: EUR k
A.	**Non-current assets**			
I.	**Intangible assets**			
	Chargeable concessions, industrial			
	and similar rights and values			
	Licences for such rights and values		1.00	0
II.	**Property, plant and equipment**			
1.	Land, land rights and buildings,			
	including buildings on land owned by others	3,553,273.46		3,584
2.	Technical equipment and machinery	1.00		0
3.	Other assets, plant and equipment	7,692.00	3,560,966.46	11
III.	**Financial assets**			
1.	Shares in affiliated companies	27,498,133.15		29,140
2.	Advance payments for investments	0.00	27,498,133.15	51
B.	**Current assets**			
I.	**Inventories**			
1.	Land earmarked for sale	235,891.93		279
2.	Work in progress	176,608.92	412,500.85	204
II.	**Receivables and other assets**			
1.	Trade receivables	106,150.07		140
2.	Receivables from affiliated companies	26,280,037.52		10,756
3.	Other assets	337,829.67	26,724,017.26	82
III.	**Cash on hand and cash at banks**		2,447,839.88	4,652
C.	**Prepayments and accrued income**		23,448.74	22
			60,666,907.34	48,921

LIABILITIES

		€	€	Previous year: EUR k
A.	**Equity**			
I.	**Subscribed capital**	24,089,626.00		18,682
II.	**Capital reserve**	11,467,847.05		7,395
III.	**Revenue reserves**			
	Other revenue reserves	687,663.82		688
IV.	**Accumulated losses**	-2,109,439.42		0
			34,135,697.45	
B.	**Provisions**			
	Other provisions		442,127.15	382
C.	**Liabilities**			
1.	Liabilities due to banks	16,051,514.60		16,521
2.	Payments received on account	174,173.73		165
3.	Trade accounts payable	210,266.13		107
4.	Liabilities to affiliated companies	4,647,612.00		4,671
5.	Other liabilities	5,005,516.28	26,089,082.74	310
	- thereof from taxes: €143,599.40 (previous year:			
	- thereof for social security contributions: €1,230.62			
	(previous year: €0,000)			
			60,666,907.34	48,921

WESTGRUND Aktiengesellschaft
Berlin

Consolidated Income Statement for the period from 1 January to 31 December 2013

				Previous year:
		€	€	EUR k
1.	Net sales		659,660.85	702
2.	Decrease in the level of work in progress and completed work		-27,247.64	-3
3.	Other operating income		1,194,766.63	581
4.	Cost of goods and services purchased			
a)	Expenses relating to property management	-419,928.40		-397
b)	Expenses for properties held for sale	-43,070.00	-462,998.40	-22
5.	Personnel expenses			
a)	Wages and salaries	-683,785.27		-709
b)	Social security contributions and expenses for pensions schemes and support - thereof for pensions: €6,537.20 (previous year: €7000)	-58,807.14	-742,592.41	-61
6.	Depreciation			
a)	of intangible assets and property, plant and equipment	-107,790.68		-262
b)	of current assets, where this exceeds ordinary depreciation for the corporation	-159,072.91	-266,863.59	-530
7.	Other operating expenses		-2.903.068,07	-1.480
8.	Income from profit transfer agreements		831,095.43	843
9.	Other interest and similar income - thereof from affiliated companies: €516,283.89 (previous year €144,000)		543,049.06	183
10.	Interest and similar expenses - thereof to affiliated companies: €145,375.03 (previous year: €144,000)		-934,872.28	-772
11.	Profit from ordinary business activities		-2.109.070,42	-1,927
12.	Other taxes		-369.00	0
13.	Annual net loss		-2.109.439,42	-1,927
14.	Loss carry-forward		0,00	-11,281
15.	Withdrawals from capital reserves		0,00	13,208
16.	Accumulated losses		-2,109,439.42	0

WESTGRUND AG,
Berlin

Notes to financial statements for the 2013 financial year

A. Preliminary remarks

The purpose of the company and the Westgrund Group are all transactions within the scope of the property and housing industry, whereby the entire value added chain is covered from purchasing the property and its refinement through to the sale.

As in the previous year, the annual financial statements have been prepared in accordance with the provisions of the German Commercial Code (HGB) and the German Stock Corporation Act (AktG) as well as generally accepted accounting principles. The applied accounting policies correspond to those of the previous year.

The income statement is structured using the total costs method taking into account the regulations for housing companies.

B. Accounting policies

1. Intangible assets

Acquired intangible assets are recognised at their purchase price and depreciated according to plan using the straight-line method over their useful lives based on a useful life of up to five years.

2. Property, plant and equipment

The property, plant and equipment is valued at acquisition cost less planned straight-line depreciation. The following useful lives are applied:

Useful life in years:

Building	25 - 50
Outdoor facilities	10 - 18
Technical equipment and machinery	10 - 18
Other assets, office and plant equipment	3 - 20

Land and land rights are recognised at acquisition cost unless a lower value had to be assigned to them on the balance sheet date. In financial year 2013 write-ups of €72,000 were carried out and no unscheduled depreciation was effected. The cumulative unscheduled depreciation amounted to €162,000 on the balance sheet date.

3. Financial assets

The financial assets are recognised at acquisition cost unless a lower value had to be assigned to the assets on the balance sheet date. The modified lowest value principle is observed in this case.

4. Inventories

Inventories are recognised at acquisition or production cost. The lowest value principle is observed in this case.

5. Receivables and other assets

Receivables and other assets are recognised at their nominal value or at their lower fair value on the balance sheet date. Corresponding individual valuation allowances are formed for identifiable default risks.

6. Other provisions

Provisions are made for contingent liabilities to the extent necessary to settle the obligation based on reasonable commercial judgement.

7. Liabilities

Liabilities are recognised at the settlement amount.

8. Currency conversion

The currency conversion takes place at the time of initial recognition at the rates prevailing on the balance sheet date. On the balance sheet date assets and liabilities denominated in foreign currencies are converted at the mean spot exchange rate, whereby assets and liabilities with a residual term of more than one year are recognised at most at the rate on the date of acquisition (section 256a HGB).

C. Notes to the balance sheet

1. Non-current assets

The development of the individual fixed asset items and details of the depreciation in the financial year are presented in the fixed asset schedule.

As of the balance sheet date 31 December 2013 Westgrund AG held the following shareholdings:

- Westconcept GmbH, Berlin
    - Shares: 100%
    - Share capital: €26,000
    - Equity capital: €-198,000
    - Annual net loss 2013: €0

- IMMOLETO Gesellschaft mit beschränkter Haftung, Berlin
    - Shares: 100%
    - Share capital: €6,884,000
    - Equity capital: €6,792,000
    - Annual net loss 2013: €- 3,000

- ICR Idee Concept und Realisierung von Immobilienvorhaben mbH, Berlin
    - Shares: 94.9% (indirect holding)
    - share capital: €410,000
    - Equity capital: €2,084,000
    - Annual net loss 2013: €- 416,000

- HKA Grundstücksverwaltungsgesellschaft mbH & Co. KG, Berlin
    - Shares: 94.9% (indirect holding)
    - Limited liability capital: €26,000
    - Equity capital: €9,779,000
    - Annual net loss 2013: €- 11,000

- HKA Grundstücksverwaltungs GmbH, Berlin
    - Shares: 94.9% (indirect holding)
    - Share capital: €26,000
    - Equity capital: €87,000
    - Annual net profit 2013: €3,000

- Westgrund Immobilien Beteiligung GmbH, Berlin
    - Shares: 100%
    - Share capital: €25,000
    - Equity capital: €38,000
    - Annual net profit 2013: €2,000

- Westgrund Immobilien GmbH & Co. KG, Berlin
    - Shares: 100%
    - Limited liability capital: €9,000
    - Equity capital: €829,000
    - Annual net profit 2013: €191,000

- Westgrund Immobilien Beteiligung II. GmbH, Berlin
    - Shares: 100%
    - Share capital: €25,000
    - Equity capital: €37,000
    - Annual net profit 2013: €2,000

- Westgrund Immobilien Beteiligung II. GmbH & Co. KG, Berlin
    - Shares: 100%

  - Limited liability capital: €1,000
  - Equity capital: €- 409,000
  - Annual net loss 2013: €- 374,000

- Westgrund Immobilen III. GmbH
  - Shares: 100%
  - Share capital €25,000
  - Equity capital: €-592,000
  - Annual net loss 2013: €-296,000

- Liaen Loritzen Partners AG, Zug/Switzerland
  - Shares: 94.0 %
  - Share capital: €61,000
  - Equity capital: €-365,000
  - Annual net loss 2013: €- 90,000

- Wiederaufbau-Gesellschaft mit beschränkter Haftung, Ludwigshafen
  - Shares: 99.7% incl. indirect shares
  - Share capital: €600,000
  - Equity capital: €2,464,000
  - Annual net profit 2013: €0 (according to profit and loss transfer agreement)

- Treuhaus Hausbetreuungs-GmbH, Ludwigshafen
  - Shares: 99.7% (indirect holding)
  - Share capital: €80,000
  - Equity capital: €293,000
  - Annual net profit 2013: €23,000

- WAB Hausverwaltungsgesellschaft mbH, Ludwigshafen
  - Shares: 99.7% (indirect holding)
  - Share capital: €26,000
  - Equity capital: €50,000
  - Annual net profit 2013: €1,000

- Cologne Real Estate GmbH, Berlin
  - Shares: 75.0%
  - Share capital: €25,000
  - Equity capital: €- 1,086,000
  - Annual net loss 2013: €- 71,000

- Westgrund Westfalen GmbH & Co. KG, Berlin
  - Shares: 94.6% (indirect holding)
  - Limited liability capital: €1,000
  - Equity capital: €715,000
  - Annual net profit 2013: €60,000

- Westgrund Westfalen Verwaltungsgesellschaft GmbH, Berlin
    - Shares: 89.2% (indirect holding)
    - Share capital €25,000
    - Equity capital: €26,000
    - Annual net loss 2013: €- 1,000

- Westgrund Immobilien IV. GmbH, Berlin
    - Shares: 100.0%
    - Share capital: €25,000
    - Equity capital: €- 1,567,000
    - Annual net loss 2013: €-1,592,000

- Westgrund Immobilien V. GmbH, Berlin
    - Shares: 94.0 %
    - Share capital: €40,000
    - Equity capital: €1,066,000
    - Annual net loss 2013: €-58,000

- Westgrund Immobilien VI. GmbH, Berlin
    - Shares: 100.0 %
    - Share capital: €25,000
    - Equity capital: €23,000
    - Annual net loss 2013: €- 2,000

The company still holds shares in a fiduciary capacity in a limited liability company endowed with share capital of €25,000.

2. Inventories

Capitalised inventories relate to housing stocks earmarked for sale predominantly in Remscheid and advance payments for operating expenses by Westgrund AG.

3. Receivables and other assets

Receivables and other assets relate in particular to outstanding rent receivables, receivables from property managers, affiliated companies and Management Board members as well as tax refund claims and offsetting receivables from a purchase price adjustment. Receivables from affiliated companies relate to other receivables.

There are receivables with a residual term of more than one year of €14,000.

4. Cash on hand and cash at banks

The cash at banks is held at German banks and is freely available to the company up to a sum of €1,976,000.

5. Prepayments and accrued income

Prepayments and accrued income amounting to €21,000 refers to time-related capital market costs and insurance contributions.

6. Deferred taxes

The capitalisation of deferred taxes was waived in accordance with section 274 (1) sentence 2 HGB due to the loss carry-forwards eligible for offset in the next five years. The tax rate for corporation tax and trade tax totals approximately 30.2%. As of 31 December 2013 the company had loss carry-forwards for corporation tax of €13.6 million and loss carry-forwards for trade tax of €12.6 million. There are temporary differences on the liabilities side for shares in affiliated companies of around €3.9 million.

7. Equity

On the balance sheet date the authorised capital of Westgrund AG amounted to €24,089,626 (previous year: €18,681,517). It is subdivided into 24,089,626 no par value shares each with a nominal value of €1.00, which are fully paid up.

In January 2013 the company's share capital was increased by €1,868,150 shares to €20,549,667 in the course of the cash capital increase by partially utilising the authorised capital to the exclusion of the subscription rights of the existing shareholders. The issue price for the new shares was €3.01. After deducting the costs for the capital increase the company received proceeds of €5,531,000.

In July 2013 the capital increase in connection with the acquisition of the Berlin Kreuzberg portfolio from November 2012 was completed. In addition, the 7 company shares acquired in the first half-year 2013 were included. The share capital of Westgrund AG thereafter amounted to €21,749,660.

At the ordinary shareholders' meeting on 15 July 2013 it was resolved to raise the company's share capital, which amounted to €21,749,660.00 after registration of a capital reduction of €7.00 in the commercial register, by €2,174,966.00 to €23,924,626.00 through a capital increase from company funds (withdrawal from the capital reserve). The capital increase was carried out by issuing 2,174,966 new no-par value bearer shares each with an arithmetical share of EUR 1.00 of the share capital. The new shares are available to the shareholders in proportion to their interests in the existing share capital. The new shares will be entitled to draw profit from the beginning of financial year 2013.

In addition, the share capital of Westgrund AG increased by €165,000.00 to €24,089,626.00 in December 2013 due to the exercise of stock options by the Management Board.
The capital reserve is the result of premiums paid in the course of capital increases.

The equity capital developed as follows in financial years 2012 and 2013:

	Subscribed capital	Capital reserves	Revenue reserves	Accumulated annual loss	Total
	EUR k	EUR k	EUR k	EUR k	EUR k
As at 1.1.2012	11,414	11,881	688	-11,281	12,702
Cash capital increase	7,268	8,722	0	0	15,990
Withdrawal from capital reserve	0	-13,208	0	13,208	0
Annual net loss 2011	0	0	0	-1,927	-1,927
As at 31.12.2012	18,682	7,395	688	0	26,765
Cash capital increase	1,868	3,755	0	0	5,623
Capital increase through contributions in kind capital increase from	1,200	2,400	0	0	3,600
Company funds	2,175	-2,175	0	0	0
Exercise of stock options	165	92	0	0	257
Annual net loss 2013	0	0	0	-2,109	-2,109
As at 31.12.2013	24,090	11,467	688	-2,109	34,136

8. Conditional capital

a) <u>Issue of convertible bonds and warrant bonds (Conditional Capital III)</u>

At the ordinary shareholders' meeting on 19 December 2011 the Management Board was authorised to issue on one or several occasions until 18 December 2016 bearer and/or registered bonds with an aggregate face value of up to €60,000,000.00 with conversion rights or with bearer or registered warrants or a combination of these instruments up to a total of 4,671,560 Westgrund AG no-par value bearer shares with a pro rata amount of the share capital up to a total of €4,671,560.00 (the "bonds").

To grant shares to the holders or creditors of convertible bonds/warrant bonds the share capital was conditionally increased by up to €4,671,560 by issuing up to 4,671,560 bearer no-par value shares (Conditional Capital 2011/1). The conditional capital increase will be implemented by issuing up to 4,671,560 no-par value bearer shares with participating rights from the beginning of the financial year when they are created only to the extent that the holders or creditors of convertible bonds or warrant bonds issued on the basis of the authorisation of the Management Board of Westgrund AG until 18 December 2016 to exercise their conversion/option right, fulfil their conversion/option obligation or shares are tendered and provided no other forms of fulfilment are used to service these rights. The new shares shall be issued at the conversion/option prices determined in each case in accordance with the above-mentioned authorization resolution. The Management Board is authorised to specify the further details with regard to the implementation of the conditional capital increase. With the inclusion of the capital increase from company funds carried out in 2013 the number of shares will increase to 5,138,716 no-par value shares.

b) <u>Issue of convertible bonds and warrant bonds (Conditional Capital V)</u>

At the ordinary shareholders' meeting on 24 August 2012 the Management Board was authorised until 23 August 2017, with the approval of the Supervisory Board, to issue on one or several occasions bearer convertible bonds and/or warrant bonds or participating rights (collectively the "bonds") with or without limitation of maturities up to an aggregate nominal amount of €28,000,000 and to grant the holders or creditors of bonds conversion and/or option rights to no-par value bearer shares of the company with a pro rata amount of the share capital of up to a total of €2,800,000 in accordance with the more detailed provisions of the conversion and/or warrant bond terms and conditions. The Management Board is authorised, with the approval of the Supervisory Board, to exclude shareholders' subscription rights for bonds in certain cases.

To grant shares to holders or creditors of convertible/warrant bonds, the share capital was conditionally increased by up to €2,800,000 by issuing up to 2,800,000 new no-par value bearer shares with participating rights as of the beginning of the financial year in which they are issued (Conditional Capital 2012/1). Taking into account the increase in capital from company funds carried out in 2013 the number of shares will increase to no-par value shares. The conditional capital increase shall be implemented only to that extent that

- the holders of convertible and/or warrant bonds and/or participating rights with exchange or subscription rights that were issued by the company or its subordinate group company until 23 August 2017 on the basis of the authorisation resolution adopted at the shareholders' meeting of 24 August 2012 exercise their exchange or subscription right and the company decides to utilise the exchange or subscription rights from this conditional capital 2012, or

- the holders of convertible and/or warrant bonds and/or participating rights with exchange or subscription rights that were issued by the company or its subordinate group company until 23 August 2017 on the basis of the authorisation resolution adopted at the shareholders' meeting of 24 August 2012 fulfil their obligation to exchange or the company exercises its right to provide shares and the company decides to provide shares for this from this conditional capital 2012.

c) **<u>Stock Option Plan 2011 (Conditional Capital IV)</u>**

At the ordinary shareholders' meeting on 28 February 2011 it was decided to conditionally increase the share capital of Westgrund AG by up to €640,000.00 by issuing up to 640,000 new no-par value bearer shares (Conditional Capital IV). The sole purpose of the conditional capital increase is to issue up to 640,000 subscription rights (stock options) within the scope of the Westgrund Stock Option Plan 2011 to members of the Management Board of the company and to employees of the company as well as to managing directors and employees of group companies. The conditional capital increase shall be implemented only to the extent that within the scope of the Westgrund Stock Option Plan 2011 the holders of the subscription rights exercise these rights. Each stock option entitles the holder to subscribe to a no-par value share.

The Management Board and Supervisory Board were authorised to issue on one or several occasions within a period of five years after registration of the conditional capital IV in the commercial register subscription rights to up to 640,000 no-par value shares with an arithmetical share of the share capital of €1.00 per no-par value share. With the inclusion of the capital increase from company funds carried out in 2013 the number of shares will increase to 704,000 no-par value shares.

The group of beneficiaries includes members of the Management Board (up to 50%) and employees (up to 50%) of Westgrund AG and its group companies. Each subscription right entitles the person with a subscription entitlement to purchase a bearer no-par value share of Westgrund AG in return for payment of the exercise price. The option rights may only be exercised if the beneficiary is still in the employ of Westgrund AG or a group company at the time of exercising the subscription right.

The option rights may only be exercised if the average of the opening and closing prices of the company shares in XETRA trading on the stock exchange in Frankfurt am Main (or any functionally comparable system that may succeed and replace the Xetra system) on the last five trading days prior to the date of exercising the subscription right from the stock option has risen by at least 20% compared to the strike price. They may be exercised for the first time at the end of a four-year waiting period. The waiting period shall commence when the options are granted. The option rights may only

be exercised against payment of the strike price. The strike price amounts to 100% of the average of the opening and closing prices of the company shares in XETRA trading on the stock exchange in Frankfurt am Main (or any functionally comparable system that may succeed and replace the Xetra system) on the last five trading days before the option is issued. The term of the options starts on the date when the options are granted and ends after five years.
In financial year 2013/2012 305,000/165,000 subscription rights were issued from this stock option plan.

9. Authorised capital

At the ordinary shareholders’ meeting on 15 July 2013 the Management Board was authorised, with the approval of the Supervisory Board, to increase the share capital of the company in the period up until 14 July 2018 on one or several occasions against cash contributions or contributions in kind by up to a total of €11,960,000.00 by issuing new no-par value bearer shares with a mathematical share of the share capital of €1.00 per share (Authorised Capital 2013/I). The Management Board did not make use of this authorisation in financial year 2013. All the previously existing authorised capital has been revoked.

In the case of Authorised Capital 2012/I the Management Board is also authorised to decide, with the approval of the Supervisory Board, whether to exclude shareholders’ subscription rights in whole or in part. Exclusion of subscription rights is however only permitted

- if the capital is increased against cash contributions and the total pro rata amount of share capital represented by the new shares in respect of which the shareholders' subscription rights are excluded does not exceed 10% of the existing share capital and the issue price of the new shares is not substantially below the stock exchange price of already listed shares of the same class carrying the same rights,
- for capital increases against contributions in kind, in particular to acquire a company, parts of companies or participating interests in companies, industrial property rights, such as patents, trademarks or licences thereto, or other product rights or other contributions in kind, also bonds, convertible bonds and other financial instruments,
- provided this is necessary in order to grant the holders or creditors of the bonds with option or conversion rights or obligations issued by the company or its group companies subscription rights to new shares to the extent to which the holders or creditors of these conversion or option rights would be entitled after they had exercised their right,
- to eliminate fractional amounts that arise as a result of the subscription ratio.

10. Authorisation for the acquisition of treasury shares

Except for the purposes of trading in treasury shares, the company was authorised at the ordinary shareholders’ meeting on 24 August 2012 pursuant to section 71 (1) No. 8 AktG to acquire by 23 August 2017 treasury shares amounting to up to 10% of the share capital. The purchase may also be carried out using equity derivatives, i.e. from call and/or put options. Trading in treasury shares is excluded as the purpose of the share purchase. Together with other treasury shares that are either

held by the company or have to be added to shares the company holds according to section 71a et seq. AktG; the acquired shares may at no time exceed 10% of the existing share capital. The shares shall be acquired at the discretion of the Management Board and within the limits based on the criteria of the German Stock Corporation Act in accordance with the principle of equal treatment (section 53a AktG) via the stock exchange or off-market, in the latter case in particular through a public purchase offer. In the event of a public offer the company may stipulate either a price or a price range for the purchase.
If the shares are acquired via the stock exchange, the purchase price paid for each share (excluding incidental purchase costs) may be neither 10% more nor 20% less than the opening price for the company shares in XETRA® trading on the Frankfurt Stock Exchange (or a comparable successor system specified by Deutsche Börse AG) on the respective trading day prior to the purchase. If the shares are acquired off-market, the purchase price paid for each share (excluding incidental purchase costs) may be neither 10% more nor 20% less than the relevant value of a company share. The relevant value is the average of the opening prices for the shares of the company in XETRA® trading on the Frankfurt Stock Exchange (or a comparable successor system specified by Deutsche Börse AG) on the last five trading days prior to the public announcement of the purchase offer. If the share price deviates significantly from the relevant value after the notification of a formal offer, the offer can be adjusted. In the event of an adjustment the price shall be based on the average of the opening prices for the company shares in XETRA® trading on the Frankfurt Stock Exchange (or a comparable successor system specified by Deutsche Börse AG) on the last five trading days prior to the publication of the adjusted offer. In the event of an acquisition of shares by means other than via the stock exchange the relevant value is the average of the opening price for the shares of the company in XETRA® trading on the Frankfurt Stock Exchange (or a comparable successor system specified by Deutsche Börse AG) on the last five trading days prior to the conclusion of the contract that forms the basis for the purchase. If in the case of a public purchase offer the subscription volume exceeds the volume of the offer, the offer shall be accepted on a quota basis. Smaller lots of up to 100 shares per shareholder may by accepted on a preferential basis and the number of shares may be rounded according to commercial principles.

The Management Board was authorised to resell the acquired treasury shares for purposes other than trading in treasury shares in accordance with the principle of equal treatment (section 53a AktG) with the approval of the Supervisory Board. The sale of the acquired company shares may take place via the stock exchange. The subscription right of shareholders is excluded. In addition, the sale may also be carried out by means other than via the stock market, in particular also against contributions in kind, for instance to acquire a company, parts of companies or participating interests in companies, industrial property rights, such as patents, trademarks or licences thereto, or other product rights or other contributions in kind, including bonds, convertible bonds and other financial instruments. An off-market sale is also in particular permitted provided shares up to a maximum of 10% of the share capital are sold, calculated both at the time when this authorisation takes effect and at the time when the authorisation is exercised, and the acquired company shares are sold at a price that does not fall below the relevant value of shares of the company of the same class at the time of the sale by more than 5% (excluding incidental costs). The amount of 10% of the share capital pursuant to the sentence above must include the amount relating to shares issued or disposed of on the basis of a different corresponding authorisation under exclusion of the subscription right under direct or indirect application of section 186 (3) sentence 4 AktG until the respective exercise of the existing authorisation, if such inclusion is required by law. The relevant value is the average of the opening prices for the shares of the company in XETRA® trading on the Frankfurt Stock Exchange (or a comparable successor system specified by Deutsche Börse AG) on the last five trading days prior to the sale of the shares.

The Management Board has been authorised to offer treasury shares to the shareholders for subscription on the basis of an offer aimed at all the shareholders in accordance with the principle of fair treatment (section 53a AktG). In this case the Management Board may exclude the subscription right for fractional amounts with the approval of the Supervisory Board. Furthermore, utilisation to fulfil the company's obligations from a stock option plan is also possible. If within the scope of such a stock option plan company shares are to be transferred to members of the company's Management Board, the relevant decision shall be made by the Supervisory Board. As regards the stipulations for the allocation of the subscription rights to members of the management and employees, performance targets, acquisition and exercise periods and waiting times for the first issue the resolutions of the shareholders' meeting, which will adopt the resolution on the introduction of a stock option plan, will apply accordingly. The subscription right of shareholders is excluded.

The Management Board was authorised to call in treasury shares with the consent of the Supervisory Board without any additional shareholders' meeting resolution. The recall will lead to a capital reduction. In derogation of the foregoing, the Management Board may stipulate that the share capital will remain unchanged when the shares are recalled and that instead as a result of the recall the proportion of the share capital represented by the other no-par value shares will increase pursuant to section 8 (3) AktG (simplified recall procedure pursuant to section 237 (3) No. 3 AktG). In this case the Management Board is authorised to adjust the indication of the number of no-par value shares in the articles of association.

The authorisations may be utilised in full or in tranches, once or several times, individually or jointly by the company, by its group companies or by third parties for its or their account.

The authorisations also cover the appropriation of the company's treasury shares that were acquired on the basis of previous authorisation resolutions in accordance with section 71 (1) No. 8 AktG.

In the previous financial year the company acquired seven company shares in May 2013 (0.0% of the share capital) at a total purchase price of €23.80 plus €15.93 in charges. The background to the purchase of the company shares was the establishment of an even subscription rights ratio for the planned capital increase from company funds. The seven company shares were called in during the course of the capital increase from company funds. The company did not buy or sell any of its treasury shares in financial year 2012.

11. Other provisions

The other provisions developed as follows:

	As at 01.01.13 EUR k	Consumption EUR k	Dissolution EUR k	Increase EUR k	As at 31.12.13 EUR k
Preparation and audit of the financial statements/preparation of the audit report	170	151	19	200	200
Provisions for personnel expenses	145	58	2	109	194
Other	67	42	9	32	48
Total	382	251	30	341	442

12. Liabilities

The remaining terms for the liabilities are as follows:

	Total Amount EUR k	up to 1 year EUR k	1 to 5 Years EUR k	Over 5 years EUR k
Liabilities to banks	16,052	15,643	183	226
(in the previous year)	*(16,521)*	*(559)*	*(15,728)*	*(234)*
Pre-payments received	174	174	0	0
(in the previous year)	*(165)*	*(165)*	*(0)*	*(0)*
Trade liabilities	210	210	0	0
(in the previous year)	*(107)*	*(107)*	*(0)*	*(0)*
Liabilities due to associated companies	4,648	4,648	0	0
(in the previous year)	*(4,671)*	*(4,671)*	*(0)*	*(0)*
Other liabilities	5,005	5,005	0	0
(in the previous year)	*(310)*	*(310)*	*(0)*	*(0)*
Total	26,089	25,680	183	226
(in the previous year)	*(21,774)*	*(5,812)*	*(15,728)*	*(234)*

The amounts owed to banks are, as in the previous year, fully secured by mortgages, pledging of bank accounts, and assignment of claims from rental income.

The liabilities to associated companies fall under other liabilities.

C. Income statement disclosures

1. Gross margin

Since Westgrund AG is largely configured as a holding company, it has only achieved minor revenues. Sales revenue in 2013 were comprised of EUR 42 k resulting from the sales of residential units and land and EUR 618 k from collected rent. The remaining book value, included under material costs, of the residential units sold amounted to EUR 43 k, resulting in a gross profit of EUR 1 k from the sale of residential properties. The costs of property management amounted to EUR 420 k, which resulted in a profit contribution of EUR 198 k.

2. Other operating income

Other operating income concerns in particular the intergroup management fees of EUR 1,080 k and revenue not relating to the accounting period from the reversal of provisions (EUR 30 k) and the write-up of property assets (EUR 72 k). Furthermore the Other operating expenses also include income unrelated to the accounting period of EUR 0 k.

3. Depreciation and amortisation

The depreciation and amortisation for the financial year includes scheduled depreciation and amortisation amounting to EUR 108 k. Non-scheduled depreciation of receivables from associated companies of EUR 159 k is also included.

4. Other operating expenses

Other operating expenses include losses from the sale of investments (EUR 853 k), financing costs (EUR 150 k), valuation allowances and bad debt losses (EUR 50 k), accounting and auditing costs (EUR 200 k), costs of valuation reports (EUR 107 k), legal and consulting expenses (EUR 261 k), capital market costs (EUR 102 k), rental costs (EUR 211 k), accounting fees (EUR 84 k), costs from non-deductible input taxes (EUR 145 k), capital increase costs (EUR 128 k), PR costs (EUR 91 k), travel expenses (EUR 83 k), prospectus costs (EUR 141 k), shareholders' meeting costs (EUR 40 k) and Supervisory Board remuneration (EUR 35 k). Expenses related to the accounting period include EUR 10 k.

5. Interest and interest-related expenses

Interest and similar expenses are primarily generated from ongoing amounts owed to banks.

6. Income from the profit and loss transfer agreement

Income from the profit and loss transfer agreement resulted from a profit and loss transfer agreement completed and implemented in 2013 as in previous years with Wiederaufbaugesellschaft mbH Ludwigshafen.

D. Other information

1. Other financial commitments and contingent liabilities

On 31 December 2013, the other financial commitments essentially resulted from the tenancy agreement for the office premises in Berlin. The total rental expenses for office premises and office equipment amounted to approximately EUR 227 k in 2014 with a term ending on 31 January 2016. Costs of EUR 3 k are expected to arise from leasing agreements for financial year 2014. The total financial obligations from rental and leasing agreements amounted to EUR 477 k as of 31 December 2013 (previous year: EUR 36 k).

In addition, Westgrund AG has obligations to the financing banks of Westgrund Immobilien GmbH & Co. KG, Westgrund Immobilien II. GmbH & Co. KG, ICR Idee, Concept und Realisation von Immobilienvorhaben GmbH, Westgrund Immobilien III GmbH, Westgrund Immobilien IV GmbH, Westgrund Immobilien V GmbH and Wiederaufbaugesellschaft mbh through mortgages, guarantees and the furnishing of cash deposits up to a total sum of EUR 28.6 million.

In addition, Westgrund AG submitted subordination and comfort letters with a volume of EUR 0.7 million to subsidiaries with a trade balance deficit, regardless of the existence of any existing hidden reserves, which have to be taken into account when auditing overindebtedness under insolvency law, to eliminate any insolvency-related doubts.

Liabilities exist exclusively with associated companies. Westgrund AG does not anticipate any claims from the companies given their sufficient assets.

Westgrund AG is liable to an unlimited extent for the losses under commercial law of Wiederaufbaugesellschaft mbH, Ludwigshafen, based on the profit transfer agreement concluded with Wiederaufbaugesellschaft mbH, Ludwigshafen, in 2011.

Furthermore, no significant obligations existed on the balance sheet date of any relevance to the evaluation of company's financial position.

2. Average number of employees

The company employed an average of 5 employees over the year.

3. Members of the Management Board and remuneration

The members of the Management Board during financial year 2013 were

- Mr. Arndt Krienen, Remscheid: Fixed remuneration (incl. remuneration in kind and bonuses of EUR 50 k from 2012) EUR 230 k (previous year: EUR 157 k); bonus entitlement 2013: EUR 50 k (previous year: EUR 50 k)
- Mr. Sascha Giest, Berlin (since 1 October 2013): Fixed remuneration (incl. remuneration in kind) EUR 30 k (previous year: EUR 0 k); bonus entitlement 2013: EUR 30 k (previous year: EUR 0 k)

Mr 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 exercise of share options. As of the balance sheet date Mr Krienen had 50,000 shares in Westgrund AG from the exercise of share options in December 2013. In connection with the exercise of share options he was granted a short-term loan for EUR 123 k, which was already repaid in full in the first quarter of 2014. As a long-term variable remuneration element Mr Arndt Krienen was granted share options totalling EUR 385,000 on 17 December 2008, 7 September 2012 and 15 November 2013. The present value of the options at the time they were granted amounted in total to EUR 468 k. No share options were granted to the Management Board in 2009, 2010 and 2011.

Mr Sascha Giest received share options as a long-term variable remuneration element on 15 November 2013. The present value of the options at the time they were granted was EUR 194 k. Mr Giest holds no shares in Westgrund AG.

4. Members of the Supervisory Board and remuneration

Over the past business year, the Supervisory Board comprised:

- Mr. Gerhard Wacker, Attorney, Chairman
  - Remuneration: EUR 15 k (previous year: EUR 15 k)
- Dr. Marc Schulten, Entrepreneur, Deputy Chairman
  - Remuneration: EUR 10 k (previous year: EUR 10 k)
  - Member of the Supervisory Board of International Campus AG, Munich
  - Member of the Advisory Board of One-Group AG, Hamburg
- Günther Villing, Attorney
  - Remuneration: EUR 10 k (previous year: EUR 10 k)

Dr. Schulten held 157,142 shares in Westgrund AG as of the balance sheet date via a company with which he is associated. None of the members of the Supervisory Board own shares in Westgrund AG.

5. Relations with related parties

Persons and companies related to the company include the Management Board and the Supervisory Board as well as the shareholders and board members of the subsidiaries, in all cases including their close family members and those companies on which the members of the Boards of the companies or their close family members can exert a significant influence or companies where they have significant voting rights. In addition, the related parties include those companies in which the company holds a participation that enables it to exert a significant influence over the business policies of the participating company as well as the main shareholders of that company.

In 2013 and as of the balance sheet date Westgrund AG received operating loans totalling EUR 4.1 million from major shareholders and these related parties directly and indirectly via a foreign corporation, which were subject to interest at the customary market rates. They were disclosed on the balance sheet date under other liabilities.

In January 2014 Westgrund AG registered the acquisition of a residential property portfolio with a total of 803 housing units in Halle/Saale through the share deal of a shareholder's associated company at the normal market purchase price of EUR 9.4 million. It is planned to complete the transaction in the first half-year of 2014 as part of a capital increase through contributions in kind at a share issue price of EUR 3.40.

6. Notices published in accordance with section 21 WpHG (section 160 Para. 1 (8) AktG)

To date the company has received the following notices subject to public disclosure under section 21 WpHG, which were published accordingly:

Reported by	Date	Threshold *	New share
Angela Lechner, Berlin	22.10.2013	>10%	10.2%
Orlando Real Estate GmbH, Berlin	17.07.2013	>5%	5.5%
Wecken & Cie., Switzerland	27.09.2012	>30%	49.7%
Quartenal Ltd. Cyprus	13.12.2011	>20%	20.6%

* < = falls below threshold; > = exceeds threshold

7. Auditor's fees

In financial year 2013 EUR 30 k were recorded as the costs for auditing the annual financial statements as of 31 December 2013 and EUR 70 k for auditing the consolidated financial statements as of 30 December 2013. The expenses include other attestation services in the financial year of EUR 2 k.

8. Declaration in accordance with section 161 AktG

The statement of compliance according to section 161 AktG in respect of the recommendations of the German Commission on the German Corporate Governance Code published in the official section of the Electronic Federal Gazette by the Federal Ministry of Justice was issued for 2013 and made available to the shareholders on the website of Westgrund AG.

9. Assurance of the Management Board as required by section 264 Para. 2 clause 3 HGB

As legal representatives of Westgrund AG, the Board hereby affirms that to the best of its knowledge, the annual financial statements present a true and fair reflection of the company's asset, financial and earnings positions whilst complying with the generally accepted accounting principles.

10. Proposal for the appropriation of net profit

The financial year 2013 closed with an annual net loss of EUR 2,109,432.42, which will be carried forward to the new account.

Berlin, March 2014

Westgrund
Aktiengesellschaft

Arndt Krienen	Sascha Giest
Board Member	Board Member

Fixed asset movement schedule

		Historical acquisition costs					Accumulated depreciation					Carrying amount	
		Carry forward 01.01.2013 EUR	Addition EUR	Transfer EUR	Disposal EUR	As at 31.12.2013 EUR	Carryforward 01.01.2013 EUR	Additions EUR	Write-up EUR	Disposal EUR	As at 31.12.2013 EUR	As at 31.12.2013 EUR	As at 31.12.2012 EUR
Non-current assets													
I.	**Intangible assets**												
	Chargeable concessions, industrial property rights and similar rights and values Werte and licences for such rights and assets	15,166.81	0.00	0.00	-2,642.04	12,524.77	15,164.81	0.00	0.00	-2,641.04	12,523.77	1.00	2.00
		15,166.81	0.00	0.00	-2,642.04	12,524.77	15,164.81	0.00	0.00	-2,641.04	12,523.77	1.00	2.00
II.	**Property, plant and equipment**												
1.	Land, rights to land and buildings including buildings on third-party land	6,637,912.10	0.00	0.00	0.00	6,637,912.10	3,054,162.64	103,085.27	-72,609.27	0.00	3,084,638.64	3,553,273.46	3,583,749.46
2.	Technical plant and machinery	96,396.18	0.00	0.00	0.00	96,396.18	96,386.46	8.72	0.00	0.00	96,395.18	1.00	9.72
3.	Other equipment, furniture, fixtures	198,306.62	4,048.69	0.00	-186,569.24	15,786.07	187,249.62	4,696.69	0.00	-183,852.24	8,094.07	7,692.00	11,057.00
		6,932,614.90	4,048.69	0.00	-186,569.24	6,750,094.35	3,337,798.72	107,790.68	-72,609.27	-183,852.24	3,189,127.89	3,560,966.46	3,594,816.18
III.	**Financial assets**												
1.	Shares in affiliated companies	31,722,716.56	306,638.10	51,447.04	-2,025,000.00	30,055,801.70	2,582,667.55	0.00	0.00	-24,999.00	2,557,668.55	27,498,133.15	29,140,049.01
2.	Prepayments made on equity investments	51,447.04	0.00	-51,447.04	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	51,447.04
		31,774,163.60	306,638.10	0.00	-2,025,000.00	30,055,801.70	2,582,667.55	0.00	0.00	-24,999.00	2,557,668.55	27,498,133.15	29,191,496.05
Total		38,721,945.31	310,686.79	0.00	-2,214,211.28	36,818,420.82	5,935,631.08	107,790.68	-72,609.27	-211,492.28	5,759,320.21	31,059,100.61	32,786,314.23

WESTGRUND Aktiengesellschaft,
Berlin

Management Report for financial year 2013

I. Basis of the company

Westgrund AG is the parent company of the Westgrund Group of companies comprising a total of 20 companies on 31 December 2013.

1. Group's business model

The main focus of the company's activities is on the management of associated companies, the purpose of which is to acquire and manage German residential properties. As a result of the restructuring of the group's business activities in financial year 2010 the project development segment was completely discontinued. The business model has stayed unchanged compared to the previous year and represents the basis for planned future growth.

2. Goals and strategies

The Westgrund Group is a niche player specialising in residential property. The aimed for transaction volumes between EUR 5 and EUR 50 million from the investment criteria of private, mainly locally active, investors and those of large trans-regionally active companies. Increasingly the focus is also on transaction volumes over EUR 50 million as a result of the continual growth.

The company is able to react quickly and effectively because of its lean organisational structure. In contrast to potential competitors the properties are not managed by the company's own staff. This particularly has the advantage that if all or part of the portfolio is sold the apportionable costs are completely eliminated immediately when closing the transaction and are therefore totally variable. Equally the growth achieved in the last two years and the aspired to growth in the property management sector can be converted more quickly and effectively than if resources are tied up with the recruitment, development and training of staff.

The primary goal is to put together regional theme portfolios each comprising approximately 2,000 housing units with transaction volumes larger than EUR 5 million. The future overall portfolio of the Westgrund group is to be spread over five to six selected target regions. This will in particular include Berlin and the surrounding area, North Rhine-Westphalia, Rhineland-Palatinate and Lower Saxony.

The Westgrund Group operates almost exclusively on the market for German residential property. As a result of the continued intense investor interest in this sub-market in 2013, which is also reflected in the renewed increase in transaction volumes in 2013, this market still offers very good investment opportunities. Of particular interest are housing portfolios with significant value appreciation potential through a possible reduction in vacancy rates and/or rent increases. The focus is on what is known as the micro-location investment approach, which means that investors mainly look at the locational quality of the residential complex within the respective town. Along with the building substance, purchase price and return at the time of acquisition, the local surroundings of the property, which lead one to expect sustained and long-term rentability regardless of any forecast negative demographic trends in the region, are the decisive criteria for a purchase. In this case it is important to correctly assess the regional market cycles and evaluate them accordingly.

3. Control system

The control system used within the company was further developed and refined in the last financial year. The majority of the property-specific operational activities, such as local property management, are carried out by external local service providers and partner companies, with whom mainly performance-based remuneration structures are agreed. The remuneration is in particular based on the success of the property management, which is in particular measured on the basis of the following key figures and performance indicators:

- net rents excluding heating and their development
- operating costs that cannot be passed onto tenants and their development
- letting ratios and their development
- status of outstanding receivables and their development
- market value of property and its development

The external property service providers are controlled by the standardised monthly reporting and monitoring accordingly by means of audits carried out at irregular intervals.

The standardised reporting of the external service providers is recorded centrally at the company's headquarters and condensed accordingly. The financing costs are also recorded centrally and assigned to the individual properties. The liquidity planning and control is also carried out centrally. Unusual location-related developments are analysed on the basis of the relevant key figures and a corresponding list of measures is developed, approved and implemented if certain thresholds are exceeded. The central reporting key indicator for determining the value of the company is the net asset value (EPRA) and its development.

Asset management and the planning, calculation and approval of investments in the property is carried out in close cooperation and consultation with the Group's head office in Berlin.

4. Research and development

In the Westgrund Group the property portfolios are incorporated in a permanent monitoring system with regard to existing optimisation potential. No research and development activities in the traditional sense took place in the Westgrund Group during the last financial year.

II. Economic report

1. Macro-economic and industrial conditions

a. Macro-economic situation in Germany

The German economy proved largely stable in 2013 and was only influenced to a small degree by the continuing recession in some European countries and the weak global economic trend. German gross domestic product rose in real terms by 0.4%, after increasing by 0.7% in 2012 and by 3.3% in 2011. Strong domestic demand was only able to partially compensate for the weak European and global economic climate. However, the economic situation improved in the course of 2013 after the weak phase last winter (source: Federal Office for Statistics).

The positive trend on the labour market continued in 2013. The number of gainfully employed persons reached a new record high of 41.8 million for the seventh year in succession. The unemployment rate was only 5.2% as an annual average and has therefore halved since its highest level of 10.5% in 2005 and is at an all-time low in unified Germany (source: German Federal Statistical Office).

The disposable income of private households increased by 2.1%. Consumer spending rose by 2.5%, which led to a decline in the savings ratio by 0.3% to 10.0%. The savings ratio was therefore at its lowest level since 2001, which is especially due to the historically low interest rates (source: German Federal Statistical Office).

A characteristic of the price trend in Germany in 2013 was a noticeably weaker rise in consumer prices. While the inflation rate was still at 2.0% in 2012, it was 1.5% on average in the year under review. The moderate price hike was the result of opposing trends: on the one hand the temporarily strong increase in food prices and the further increase in electricity prices as a result of the levy under the Renewable Energy Sources Act (EEG levy) drove up prices. On the other hand, the prices of oil-based products fell and the abolition of the practice fee at the beginning of 2013 also had an inflation-reducing impact as a special effect (source: German Federal Statistical Office).

National budgets are still on a consolidation course. The government, federal states, local authorities and social security institutions achieved a virtually balanced budget with a deficit ratio of -0.1% in 2013. At the same time, spending (+ 2.8%) was somewhat higher than revenues (+ 2.5%). Above all taxes, which account for roughly half of revenues, and social security contributions made for well-filled government coffers in the course of the favourable development of the domestic economy and labour market. In 2013 Germany fell well short of the reference value of -3% which was specified in the Maastricht Treaty for the ratio between the public deficit and gross domestic product for the third year in succession. After a small surplus was even generated in 2012 for the first time since 2007, the government can boast a virtually balanced budget for 2013 (source: German Federal Statistical Office).

The German economy has gathered pace again. The expansion of overall economic output which was suspended for a time due to the escalation of the debt crisis in the eurozone is continuing. However, the driving forces are changing. While in the recovery phase after the financial and economic crisis impetus from foreign trade predominated, the domestic economy has recently come to the fore. The positive state of the German economy plays a role here, and is expressed in the low unemployment rate, the continuing employment growth and noticeable increases in earnings. The low interest rates have also had a favourable effect. These factors support private consumption and drive on housing construction. On the other hand, foreign trade has recently tended to be rather weak. With the further economic upturn in the industrialised countries and the perceptible improvement in the eurozone exports and consequently corporate investment and imports should however increase. Under these conditions the German economy might grow in the coming year by 1.7% and by 2.0% in the following year. A further increase in employment levels can also be expected. The current account surplus fell to the level prior to the escalation of the sovereign debt crisis. The sustained improvement in the labour market situation compared to the last decade is reflected in increased wage growth, which can be viewed as normalisation. The risks for the forecast are on the one hand evident in the foreign trade environment. The effects of the debt crisis in the eurozone have been successfully contained and key reforms have been introduced, but the vulnerability of the European and global economy is still high due to the crushing indebtedness and the continuing structural problems. On the other hand, there are also risks relating to the domestic economy. A number of the measures adopted in the coalition agreement have the potential to damage the efficiency of the labour and goods markets and the fiscal course will probably be weakened (source: Deutsche Bundesbank, Monthly Report 12/2013).

Given the European Central Bank’s role as a backbone of efforts to manage the credit crisis, it may be expected that interest rates will remain low in order to prevent endangering the financial system’s stability and the stabilisation of the economy more generally.

b. Industry-related conditions

The regionally highly differentiated rise in property prices in Germany continued in 2013. Investor interest in German property remains high given an increased risk propensity compared to the previous year. In contrast to the situation in many other European countries, the German housing market avoided a roller-coaster ride over the past ten years. Price increases on the German market have been quite modest since 1995 based on international comparisons and property prices only started to rise significantly again in 2010. Property prices and disposable income have roughly risen in tandem recently. The overwhelming consensus amongst experts, therefore, is that there is no danger of a general real estate bubble.

The low level of units completed, low interest rates, solid economic developments on the whole and the interest amongst many investors for securing their money in solid “brick and mortar” investments all continue to contribute to a housing boom in certain regions. The inner city became a more expensive place to live, especially in metropolitan areas where sporadic price bubbles are also occurring. These sub-markets are currently not attractive as investment products.

Already high demand for housing has continued to rise constantly in recent years as a result of the continual decline in the average household size over the course of several decades. There are currently more than 40 million households in Germany, some 5 million more than at the time of re-unification. In addition, the average living space per capita is increasing, so that for now a further increase in demand for living space can be assumed despite a forecast declining population. However, there are still considerable differences when differentiated at a regional level.

On the German property investment market a rise in transaction volumes for commercial and residential property portfolios was recorded for the fifth time in succession in 2013. On the commercial property market, transaction volumes totalled EUR 30.5 billion in 2013 after EUR 25.0 billion in 2012 and EUR 23.0 billion in 2011. In the case of residential portfolios the figure was EUR 13.7 billion after EUR 11.0 billion in 2012 and EUR 6.0 billion in 2011. In 2014 the overall transaction volume is expected to stay at roughly the same level at between EUR 42.0 and 47.0 billion. The transaction-related conditions continue to be positive.

Transaction volume in 2013 developed as follows in the course of the year:

in EUR billions	**Commercial**	**Residential**	**Total**
Q 1	6.9	1.8	8.7
Q 2	6.0	4.1	10.1
Q 3	6.1	2.4	8.5
Q 4	11.5	5.4	16.9
	30.5	13.7	44.2

Source: Trendbarometer Immobilien -Investmentmarkt
Deutschland 2014: Ernst & Young

Large-scale transactions in the last quarter of 2013 led to a very good year-end result. An inadequate product offering in the core segment prevented an even higher transaction volume.

On the German residential property transactions market financial investors and banks were the key seller groups in 2013. The strongest buyer groups were listed property companies and institutional investors, whereby the proportion of foreign investors as a percentage of the transaction volume rose slightly again. German investors still dominate the German residential property transactions market. The number of large-scale portfolio transactions increased in 2013. In addition, more capital market activity could be observed.

Overall, the real estate market within Germany remains stable. Germany has maintained its reputation as a “safe haven”. In the opinion of market players this will not change even under the new federal government.

Market participants’ expectations were markedly better when it came to economic developments in Germany as compared to neighbouring European countries and tended to parallel positive expectations regarding the real estate investment market specifically. Germany is seen by 99% of market participants to be an attractive or very attractive location for real estate investments. The ongoing uncertainties surrounding capital markets and low interest rates, as well as concerns regarding inflation, continue to make property investment attractive for investors. However, following sharp price increases in recent years, a regionally differentiated strategy is required. The German real estate market is positioned very favourably on the international stage due to its attractive property portfolio and has become the strongest national European real estate market.

A considerable number of large-scale transactions can also be expected in 2014. Given the attractive climate within the German property market, overall there are currently too many buyers and too few products in the core segment, which will particularly have a positive effect on the smaller property investment market. The risk propensity of investors can also be expected to rise further in a climate of attractive financing costs. The current low-interest phase will lead to considerably higher property prices and therefore increase the resale risk. Stability aspects will therefore pay an increasing role compared with return aspects.

The provision of sufficient borrowed capital is a fundamental requirement for a functioning real estate market. Despite the more relaxed monetary policy of the European Central Bank, there is still no sign of a sustained improvement in lending to the real economy. The banks continue to be relatively restrained in terms of the mortgage business. Alternative capital providers will therefore probably further extend their market shares. The general revitalisation of the securitisation market is also expected in 2014. (Source: Trendbarometer Immobilien Investmentmarkt Deutschland 2014: Ernst & Young).

2. Business activity

a) Income situation

			Previous year		Change in terms of revenue	
	EUR k	%	EUR k	%	EUR k	%
Sales turnover	660	104.3	702	100.4	-42	-6.0
Inventory changes	-27	-4.3	-3	-0.4	-24	
Total operating performance	633	100.0	699	100.0	-66	-9.4
Cost of materials	-463	-73.1	-419	-59.9	-44	-10.5
Gross profit	170	26.9	280	40.1	-110	-39.3
Personnel expenses	-743	117.4	-770	-110.2	27	3.5
Misc. expenses	-2,047	-323.4	-1,480	-211.7	-567	-38.3
Misc. income	1,093	172.7	491	70.2	602	
EBITDA	-1,527	-241.2	-1,479	-211.6	-48	-3.2
Depreciation and amortisation	-108	-17.1	-133	-19.0	25	18.8
EBIT	-1,635	-258.3	-1,612	-230.6	-23	-1.4

Financial result	439	69.4	255	36.5	184	72.2
Neutral result	-913	-144.3	-570	-81.6	-343	
Profit for the year	-2,109	-333.2	-1,927	-275.7	-182	-9.4

Westgrund AG is currently structured as a holding company with no significant operational business of its own. The majority of the company's profits are therefore attributable to those of Westgrund AG's associated companies. In the future Westgrund AG will still only be able to show significant earnings contributions in the form of profit distributions and transfers from its subsidiaries.

Profits from shares in the management of subsidiary companies amounted to EUR 1,080 k in the 2013 financial year.

Personnel expenses remained virtually unchanged compared to the previous year. The company's structure remains lean and the holding company's personnel costs are still low in relation to the Group's business activities.

In 2013 "Other expenses" included as special effects in particular the loss from the sale of a shareholding (EUR 853 k), financing costs (EUR 150 k) and prospectus costs (EUR 141 k), which therefore led to a significant increase.

The profit and loss transfer agreement with one subsidiary company allowed for a profit of EUR 831 k, with a corresponding EUR 539 k financial gain. Expenses unrelated to this accounting period of EUR 220 k and income unrelated to this accounting period of EUR 103 k are included in the neutral result. The loss for the year stood at EUR - 2.1 million after EUR -1.9 million in the previous year.

At group level the positive effects from the necessary revaluation of existing property (EUR 16.9 million included deferred taxes) particularly had an impact on the IFRS consolidated annual net profit of EUR 18.0 million.

b) Assets

			Previous year:		Change	
	EUR k	%	EUR k	%	EUR k	%
Fixed assets	3,561	5.9	3,595	7.3	-34	-0.9
Financial assets	27,498	45.3	29,191	59.7	-1,693	-5.8
Fixed assets	31,059	51.2	32,786	67.0	-1,727	-5.3
Inventories	413	0.7	483	1.0	-70	-14.5
Trade receivables	106	0,2	140	0.3	-34	-24.3
Receivables from associated companies	26,280	43.3	10,756	22.0	15,524	
Other assets	361	0.6	104	0.2	257	

Liquid assets	2,448	4.0	4,652	9.5	-2,204	-47.4
Current assets	29,608	48.8	16,135	33.0	13,473	83.5
ASSETS	60,667	100.0	48,921	100.0	11,746	24.0

			Previous year:		Change	
	EUR k	%	EUR k	%	EUR k	%
Subscribed capital	24,090	39.7	18,682	38.2	5,408	28.9
Capital reserve	11,467	18.9	7,395	15.1	4,072	55.1
Revenue reserves	688	1.1	688	1.4	0	0.0
Distributable profit	-2,109	-3.5	0	0	-2,109	
Equity	34,136	56.2	26,765	54.7	7,371	27.5
Bank liabilities	402	0.7	15,962	32.6	-15,560	-97.5
Medium and long-term borrowed capital	402	0.7	15,962	32.6	-15,560	-97.5
Provisions	442	0.7	382	0.8	60	15.7
Bank liabilities	15,649	25.8	559	1.2	15,090	
Advances received	174	0.3	165	0.3	9	5.5
Trade liabilities	210	0.3	107	0.2	103	96.3
Liabilities due to affiliated companies	4,648	7.7	4,671	9.6	-23	-0.5
Other liabilities	5,006	8.3	310	0.6	4,696	
Short-term borrowed capital	26,129	43.1	6,194	12.7	19,935	
CAPITAL	60,667	100.0	48,921	100.0	11,746	24.0

The property held in order to produce long term rental income previous year unchanged reported under property, plant and equipment.

Financial assets were reduced by EUR 2.0 million due to the sale of a subsidiary and were only partially compensated for by additions.

The book value of inventories fell due to further sales of real estate. Also included under inventory were advanced payments of operating costs for which renters had not yet been billed.

Despite the negative annual results, equity capital rose in 2013 as a result of an increase in cash capital and capital in kind.

The bank liabilities are overwhelmingly in the form of a loan that was taken out to finance the acquisition of shares in a subsidiary company.

Loans from shareholders amounting to EUR 4.1 million are reported under Other liabilities.

c) Financial situation

Westgrund AG and its subsidiary companies maintained their ability to pay throughout the financial year and on the reporting date.

The following break-down of developments in cash and cash equivalents offers a picture of the group's financial situation. The cash and cash equivalents in the case presented here are defined solely by liquid assets. Changes in the amount of cash and cash equivalents are evident in the following cash flow statement. This cash flow has been compiled in accordance with principles of the Deutschen Rechnungslegungsstandards [German accounting standards] No. 2 (DRS 2), whereby the inflow of funds and the outflow of funds in the course of ongoing business activities are reported according to the indirect method:

		EUR k	Previous year: EUR k
	Net income for the period before extraordinary items and before the transfer of profit or loss	-2,940	-2,770
+/-	Depreciation/write-ups on non-current assets	36	262
+	Losses from asset disposal from accretion	0	1
+	Losses from disposal of financial assets	853	0
+	Losses from disposal of property, plant, and equipment	2	0
+/-	Depreciation/write-ups on current assets	159	530
+/-	Increase/decrease in provisions	60	-97
+	Other non-cash expenses	328	0
=	**Cash flow**	-1,502	-2,074
-/+	Increase/decrease in inventories, trade receivables and other assets that are not related to investment or financial activities	-153	83
+/-	Increase/decrease in inventories, trade liabilities and other liabilities that are not related to investment or financial activities	331	-295
=	**Cash-flow from ongoing business activities**	-1,324	-2,286

		EUR k	Previous year: EUR k
+	Income from the sale of financial assets	1,147	0
-	Payments for investments in property, plant, and equipment	-4	-6
-	Payments for investments in financial assets	-280	-51
=	**Cash flow from investing activities**	863	-57

		EUR k	Previous year: EUR k
+	Receipts from injections of equity finance (cash capital increases, sale of treasury shares, etc.)	5,880	15,990
+/-	Change in receivables from/liabilities to associated companies	-11,275	-8,005
+	Contributions from bond issues and raising of (financing) credit	4,235	0
+	Payments for repayment of loans and (financing) credit	-583	-2,981
=	**Cash-flow from financing activities**	-1,743	5,004
	Changes in cash and cash equivalents with an effect on net income	-2,204	2,661
+	Cash and cash equivalents at period start	4,652	1,991
=	**Cash and cash equivalents at period end**	2,448	4,652

Of the cash and cash equivalents a partial amount of EUR 1,973 k is not freely available to the company.

Significant events from a financing point of view were the cash capital increase in January 2013 and a capital in kind increase in July 2013. Moreover short term liabilities were refinanced in March 2014, so that virtually all the property portfolio of the Westgrund Group is financed in the long term. Further comments on refinancing can be found in the supplementary report as an integral part of this management report.

d) Development in the Westgrund AG shares

Westgrund AG's share price (XETRA) rose over the past financial year, from around EUR 3.00 at the beginning of the year to around EUR 3.50 at the end. This corresponds to an increase of around 17% without taking into account the bonus shares issued in 2013 in a ratio of 10:1. The positive performance is also a reflection of the proven enhanced potential of the already managed property along the property value added chain. The additional sales already achieved in 2013 and 2014 indicate that the stock still has further upside potential.

The successful capital increases in the year under review and the property purchases effected on attractive terms and conditions have meant that the stock is also increasingly the focus of the broader financial market community. In addition, the attention paid to listed property companies has risen considerably due to their comparatively attractive business model in the current economic climate.

The current performance of Westgrund AG's shares provide both individual investors and institutional investors with a good opportunity to enter into long-term engagement with the company. Lasting favourable stimuli for the share price are anticipated from the planned expansion of the real estate portfolio for 2014. This expectation is confirmed by the assessment of two independent analyst firms with upside targets of EUR 4.50.

3. Non-financial performance indicators

a) Network

Thanks to its long company history, the Westgrund Group benefits from a network of high-quality and trustworthy business partners on the German real estate market.

b) Employees

According to the annual average for the past financial year, the Westgrund Group employed 5 people (previous year: 7 employees). Employee fluctuation is at a low level. The Management Board has been strengthened due to the increased business volume and the planned growth strategy by Mr Sascha Giest. Despite the real estate purchases that have already taken place and that are planned for the near future, no further new staff are expected to be hired in the 2014 financial year.

The company offered options for training and professional development, which employees gladly made use of.

c) Property market indicators

A range of data is recorded at an operational level, which plays only a minor role in the short term as regards the financial performance of the respective property portfolios and only starts to gain significantly in importance in the medium to long term. These include, for example, the demographic trend, the age structure of the tenants or the structural state of the property.

III. Supplementary report

At the beginning of April a mandatory convertible bond for EUR 19,860 k (Convertible Bond 2014/2016) was offered to institutional investors for subscription as part of a private placement. The convertible bond is to be issued on 23 April 2014 and reaches maturity on 22 April 2016. Owing to the high demand in the course of the private placement the convertible bond has already been placed in full with interest of 5% p.a. on its nominal value. The conversion price is EUR 3.70 for one no par value share. The funds acquired from the convertible bond are to be used in particular to finance the further growth of the Westgrund Group.

The Management and Supervisory Boards decided on 19 March 2014 to increase, partly by means of available capital, the company's shareholder equity by 10% whilst excluding existing shareholders' options on bonus shares. This capital increase lifted shareholder equity from EUR 2,392,374 to EUR 26,482,000. The issue price for the new shares was EUR 3.40.

In January 2014 a further equity holding with a residential property portfolio comprising 803 housing units in total in Halle/Saale was acquired by way of a share deal. With this acquisition the Westgrund Group is extending its residential property portfolio in the metropolitan region of Leipzig/Halle. With more than 230,000 inhabitants, Halle along with Leipzig is one of the up-and-coming cities in the new German federal states. The newly acquired portfolio has a rental space of

45,600 square metres and currently generates an annual net rent excluding bills of around EUR 2.4 million. All of the buildings have been extensively and enthusiastically refurbished in recent years and are in good condition. The current occupancy rate is 95% and underlines the quality of the housing portfolio. The transaction will be completed in 2014 in the course of a capital in kind increase. In addition to taking on long-term financing, the purchase price will be paid for by issuing up to 2.5 million no par value bearer shares at an issue price of EUR 3.50 per share. Given the capital in kind increase, it is not necessary to obtain additional equity to fund the transaction.

Overall the Westgrund Group's stock of residential property will increase by around 7,000 units after completion of all the currently notarised acquisitions. The annual net rent excluding heating of the Westgrund Group is therefore approximately EUR 24.9 million with a total living space of around 460,000 square metres.

At the beginning of March 2014 credit agreements were concluded with NORD/LB Norddeutsche Landesbank totalling over EUR 40 million, in order to refinance existing loans with short residual terms. In doing so, the historically low interest rates were used to secure favourable interest rates in the long term and therefore further reduce the financing risks. The average residual term of loans in the Westgrund Group has risen as a result of the refinancing by two to just under 8 years with a broad spread of due dates. Therefore, virtually all the property portfolio of the Westgrund Group is financed in the long term. The Group-wide average interest rate is 3.2%.

No other events took place following the close of financial year 2013 that significantly affect the company and/or would alter any assessment of the company's position. The course of business up until the date of production of this management report confirmed the statements made in the forecast report.

IV. Forecasts, Opportunities and Risk report

1. Forecast

In 2014, the German residential real estate market continued to enjoy high levels of popularity with both domestic and foreign investors. Overall economic development in Germany remains positive, in contrast to the situation in neighbouring European countries, and this trend is expected to continue. In Germany, there has been no fall in prices like those witnessed elsewhere in foreign real estate markets. Thanks to its positive macroeconomic context, the German real estate market has proven to be crisis-resistant. This applies in particular to the German residential property market.

Rising prices and transaction volumes are strong signals that the "German" brand continues to be attractive when it comes to real estate. This is particularly true in times of crisis, when many investors view real estate as a useful and comparatively safe investment. The continued stability evident in demand ensures that even if recession-like developments were to appear or the European debt crisis were to worsen again, there would be no reason to expect a slump in the German residential real estate market.

Continued positive, sustainable development in real estate markets cannot be assured, however, if stable development in the financial markets is not a given. Therefore, one can only hope that in 2014 the situation on the financial markets will increasingly ease and that any European or international regulatory efforts will not have any lasting negative effects on the property markets.

As a company working in a global environment, the Westgrund Group cannot dissociate itself from the economic circumstances affecting local and international real estate markets. With regard to the interests of institutional real estate investors, Westgrund AG competes with global investment opportunities. Thanks to the positive developments in the German residential real estate markets and increased interest on the part of investors in stock exchange-listed real estate companies, the Westgrund Group sees itself very well positioned strategically.

Over the last two years the Westgrund Group has sensibly extended and managed the property held long term in the portfolio following the final implementation of the purchase agreements concluded by December 2013 and now has around 6,200 units. A further 800 apartments in Halle/Saale were already notarised at the beginning of 2014. The portfolio has been made even more attractive by targeted small acquisitions, at attractive initial net rates of return, in Berlin and the surrounding region as well as in select mid-sized towns. Significant increases in value should be achieved in the coming years from an active real estate asset management policy. An active programme of real estate asset management aims to further increase the portfolio’s value over the course of the next few years. Additional capital measures are planned to follow those already undertaken in 2013 and at the beginning of 2014. Short-term resales of real estate portfolios will only be seriously considered if the sales price already meets or exceeds a defined minimum.

Investment in larger real estate portfolios and reducing vacancies as well as restructuring existing financing will work to create added value, which should also create a sustainable positive cash flow. The primary aim is to build up a Group residential real estate portfolio to permanently enhance the sustainability of earnings. Investments are made exclusively in portfolios that will generate a positive cash flow after any restructuring that may be necessary and that are hence also capable of generating payments in principle over the long-term and positively contributing to the Company's bottom line.

Concrete measures planned for the future and the time frame in which they may be implemented are currently determined to a high degree by ongoing developments in the real estate and financial markets, which is why the Westgrund Group, taking several future scenarios into account, has developed strategies for dealing with a variety of possible future market situations. The paramount objective is to ensure sustainable growth for the company, whilst taking risk aspects into full account and acknowledging the current circumstances and developments in real estate and financial markets, and preventing this growth from being dependent on external factors to the lowest possible extent. Due to the capital measures adopted in 2013 and early 2014, the necessary underlying conditions for financing have already been established.

A moderate increase in personnel and material costs is expected for WESTGRUND AG in 2014 due to the intended purchases. At the same time, it is planned to increase the income from management fees so that in the individual financial statements a loss of around EUR 2 million is expected once again in 2014.

A very positive result is expected for the Group as a whole in 2014. The positive Group result should be in the region of +/- 20% of the result achieved in financial year 2013 provided the targeted level of growth continues through further purchases in the same order of magnitude and on conditions comparable with those which applied in 2013. As expected, a very positive result was achieved in the Group in the years 2012 and 2013, which was essentially characterised by the performance of the property held.

2. Risk report

a) Risk management system

The company-wide systematic management of risk serves to increase security and improve the Group's competitiveness by appropriately managing individual risks and preparing for them in a transparent manner. It ensures the early identification and management of risks before they become serious. This is foundational for the company's continued success since risks are necessarily connected to the company's business.

Westgrund AG's risk policies are embedded in its corporate strategy and characterised by the effort to protect the Group's assets and to contribute to the continual and sustainable growth of the company's value.

The risk strategy is based on assessing risks and their related opportunities. When it comes to the company's area of core competencies, appropriate, straightforward and manageable risks are accepted if there is the expectation of an appropriate reward or if they are unavoidable. Risks in ancillary business activities are outsourced to other risk bearers as the case may be. One concrete example of this is securing residential building insurance policies. Other risks that are not associated with key and/or supportive processes are in contrast avoided if possible.

Westgrund AG has outlined the conditions appropriate to a proper and forward-thinking risk management policy in its risk management manual. The manual sets down the concrete processes belonging to risk management. The objective is the systematic identification, assessment, management and documentation of risks. Taking into account pre-defined categories of risk, those risks relevant to business areas, operational units, significant associated companies and central areas are identified and assessed in terms of the likeliness of their occurrence and the potential damages associated with them. The report is guided by maximum and minimum values defined by management.

Responsible parties are also charged with developing and implementing, when necessary, measures to avoid, reduce and safeguard against risks. Significant risks and countermeasures introduced are monitored regularly. The employees responsible for these tasks regularly report to the Management and Supervisory Boards on risks that have been identified. In addition to the regular reporting mechanisms, there is a reporting responsibility internal to the company in cases when unexpected risks arise. The risk management system allows the Management Board to identify significant risks at an early stage and to put measures in place to counteract them.

The risk management system's significant characteristics are utilised throughout the company. When it comes to accounting, the identified risks are analysed and assessed especially with respect to the possible impact they may have on financial reporting. Early information about possible changes in the current value of assets and liabilities is hereby made available, impending depreciations are identified and important information regarding the estimation and portrayal of risks to the balance sheet is produced. The company works closely with external auditors in this respect.

The Management Board monitors the appropriateness and efficiency of risk management and the related control system, and re-assesses it as appropriate. The Westgrund Group's risk management was further refined in financial year 2013 and adapted to the management and company structures. Especially as a result of the implementation of a second board member a dynamic process of adjustment and optimisation of the existing reporting and control system has been initiated, which will be continued in the financial year 2014.

b) Risks

The following risks are currently subject to particularly close attention as part of the risk management process:

Procurement market risk

When acquiring company and real estate portfolios, the target of the acquisition must be comprehensively analysed and assessed in terms of qualitative and quantitative characteristics. In addition to the risk that the object to be acquired is incorrectly assessed, the risk also exists that a relevant offer on attractive investment opportunities is simply not available on the market at the time or that an unreasonably higher purchase price would be demanded. There may additionally be difficulties related to integrating acquired companies and real estate portfolios into the existing organisational structures. The Westgrund Group's development plans assume that there will be a sufficient number of attractive real estate properties available on the market at reasonable prices.

Economic risk and financial market risk

National and international real estate and financial markets are subject to constantly changing regulatory and economic conditions and lastly also political conditions. One example is the currently discussed brake on rent prices. Changes in external factors beyond investors' control, such as economic growth, price trends and interest rates, are critical in determining conditions in the real estate and financial markets as well as the company's economic success. The risk therefore exists that negative macro-economic trends in these markets could have a negative impact on business activity, especially in the areas of real estate transactions and financing conditions. The Westgrund Group assumes, however, that it will be able to maintain the value of its property holdings and the associated services on offer in light of future changes in the relevant conditions affecting the markets.

Rent risk and debt default risk

Rent defaults could result first and foremost from justifiable or unjustifiable reductions in rent as well as from vacancies in the properties, both those related to normal fluctuations and those that are more structural in nature. Defaults related to properties that have been let may principally be attributed to renters' economic circumstances. The monitoring of rent risk and debt default risk have become an increasingly important aspect of the risk management process given the increased focus on property holdings in the company's strategy.

Risks related to financing and liquidity

The company's business activities and those of its subsidiaries are overwhelmingly dependent on the availability of borrowed capital. The continued existence of the Group and the individual companies is made insecure insofar as the sufficient provision of borrowed capital cannot be assured. The availability of sufficient liquid funds must additionally be ensured in order to cover the operating costs of the Group and the companies at any and all times. Therefore, the ongoing monitoring of risks related to financing and liquidity are a central aspect of the Group's and the company's risk management process. Because of the increased importance of inventory in the Group's strategy, the monitoring of risks related to financing and liquidity has become a more crucial part of the Group's risk management process.

Dependence on key individuals and internal control of growth

The future success of the company significantly depends on strong growth in the acquisition of appropriate real estate holdings. The company's human resources and organisational structure should be adapted to and expanded in accordance with future growth. The risk therefore arises that sufficient structures may not be created to an appropriate extent and, especially given the smaller size of the company, key roles in the organisation may go unfilled.

Profit and loss transfer agreements

In 2011, Westgrund AG concluded a profit and loss transfer agreement with Wiederaufbaugesellschaft mbH, Ludwigshafen in which the subsidiary promised to transfer its profits. For its part, Westgrund AG agreed to completely offset any losses incurred by the subsidiary.

Additional risks

Additional risks related to the business activities of the Group as a whole have been deemed not critical when viewed against the backdrop of the entirety of the Group's activities and considering both the likelihood that the risks will arise and the extent of damages that could be expected. This analysis is subject to periodic re-assessment.

The Group's entire risk situation is expected to change over the course of the next several years due to the growth strategy currently being pursued and the more prominent emphasis placed on real estate holdings. These expected changes have already been accounted for by means of hiring additional qualified staff and extending the Management Board. We therefore do not currently see any circumstances that could put the existence of the company at risk.

The Management Board is confident that the measures already enacted are able to manage the company's risks and offer adequate coverage. The objective of the continued evolution of the existing risk management system is therefore the ongoing development of the company's risk culture with its focus on value, which is the basis of the company's approach to all of its business activities, and the continual adaptation to changing economic circumstances.

3. Opportunities report

Given the continued very stable and attractive German residential property market, further interesting investment opportunities will also open up for the Westgrund Group in the future. The main focus will continue to be on expanding the approximately 7,000 properties (after final completion of the transactions from 12/2013 and 1/2014) currently being managed. The goal over the short term is a total holding of 10,000 units. An increase in investor interest could be felt in 2013, and so the course has also been set on the financing side for further portfolio expansion. Now, as before, the focus remains especially on those holdings with potential that has not yet been fully exploited, which will particularly involve sustainable real estate industry analyses and conceptions. In the short to medium term the properties to be acquired should allow optimisation potential, e.g. for rent increase or the targeted reduction of vacancy rates. The Westgrund Group has been able to achieve a sustainable increase in value in very short order on the properties that have already been acquired, thereby also creating sufficient resources and sustainable structures for additional expansions in the Group’s real estate holdings.

Foreign investors are continuing to show considerable interest in German listed property companies, which is particularly demonstrated by the numerous capital measures implemented in 2013 with conditions predominantly close to the net asset value (NAV). Many other capital-raising measures are therefore also expected in 2014, which will be necessary to finance high transaction volumes, which are expected to remain high.

V. Internal Control System (ICS) and Risk management system in relation to the Group accounting process

The objective of the ICS that has been established is to secure the Group’s assets via the implemented methods and measures and to improve the company’s operational efficiency. The ICS is meant to ensure the reliability of the methods of calculation and reporting as well as compliance with internal rules and legal requirements.

The implementation of the ICS involves analyses of individual business areas within the company, which included an assessment of the probability and potential for losses.

Units were newly organised based on the analyses’ findings and the assessments that were produced, and units’ work processes were adapted in line with those findings as well. Activities that were incompatible with one another have been separated and appropriate monitoring activities now exist. Particular attention is paid to responsibilities that do not overlap, with the proviso that the task, competency and responsibility are treated as bundled together. In addition, predominantly automated monitoring mechanisms, such as access authorisations in IT, have been incorporated into the regular work flow.

Essential aspects of the ICS are made use of in all areas of operational activity. The implementation of structural and procedural monitoring measures related to accounting ensure the integrity of the data used in the production of the financial reports.

In addition to the mechanisms implemented as part of this system, individual operational areas are consistently monitored by members of management as well as third parties on an ad hoc basis. The company works closely with external auditors to this end.

It must be stated that neither the ICS nor the RMS can absolutely ensure that the objectives that have been set will in the end be met. As is the case with all discretionary decisions, these systems, appropriate at the time of implementation, may yet reveal fundamental defects. Monitoring mechanisms may end up not functioning in certain cases due to simple errors or mistakes or changes in environmental variables may not be recognised until a late stage in spite of the monitoring measures in place.

VI. Risk reporting in relation to the use of financial instruments,

Aims and methods of financial risk management

The main financial liabilities used by the Westgrund Group include bank loans and current accounts, trade liabilities and granted loans. The main purpose of these financial liabilities is to finance the company's business activities. The Group has various financial assets such as trade receivables and cash and cash equivalents.

In accordance with the internal guidelines, there were no dealings with derivatives in the 2012 or 2013 financial years nor will there be in the future.

The significant risks to the Group resulting from the financial instruments comprise interest-related cash flow risks, liquidity and credit risks. In the Group's view, there are no significant exchange rate risks.

Interest risk/Hedging

The risk to which the company is exposed from fluctuations in the market interest rates is primarily due to the long-term financial liabilities with variable interest rates.

The company manages its interest expense through a combination of fixed and variable interest rate debts. To achieve a good financing structure from the Group's perspective, the Group completes interest rate swaps where at set intervals, the Group swaps the difference between fixed and variable interest rate amounts with reference to a previously arranged nominal value with a contracting party. The company had not completed any interest rate swaps as at the balance sheet date.

Risk of default

The Group only concludes transactions with creditworthy third parties. New lease agreements in particular are only entered into following a prior tenant credit check. Accounts receivable are also monitored on a continuous basis, meaning that the company is not exposed to any significant risk of default. The maximum default risk is limited to the amount of receivables recorded on the balance sheet date. The need for impairment provisions is analysed as at each balance sheet date for the significant debtors on the basis of individual receivables.

Property investments in the respective Group companies are partially funded by Westgrund AG. In addition, guarantees are given by Westgrund AG for loan agreements concluded by subsidiaries with financial institutions. The default risk therefore includes claims based on the deferred liability commitments in addition to the reported receivables.

For the payment methods the maximum credit risk equates to the book value in the event of the default of a counterparty.

Liquidity risk

The company constantly monitors the risk of a liquidity bottleneck using a liquidity planning tool. This tool takes into account the terms of the financial investments and of the financial assets for the whole corporate group along with expected cash flow from business activities.

The objective of the Group is to ensure that there is a balance between continuous coverage for the financial requirements and the financial flexibility required by using overdrafts and loans.

Capital management

The overriding objective of capital management in the Group is optimisation of the capital structure for the purposes of increasing the company's value and being able to state a good equity ratio. Both the capital measures as well as the dividend policy are structured with due regard to this overriding objective.

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

The assumption of financial liabilities to finance real estate investments is managed on an individual case-by-case basis with due regard to economically relevant parameters (in particular market values for the real estate, mortgage lending values and free cash flow for servicing the loan).

VII. Compensation report (in accordance with section 289 Para. 2 no. 5 HGB)

The Supervisory Board is responsible for determining the structure of the system of compensation for the members of the Management Board and for periodically reviewing it. Compensation for each member of the Management Board is comprised of both performance-related and performance-independent components. The performance-independent components are the fixed salary and benefits, whilst performance-related components are awarded as bonuses. The Management Board additionally receives share options as a means of ensuring long-term connection to the company. There are no pension commitments for members of the Management Board.

The service contract concluded with a member of the Management Board has an industry-standard term of three years and incorporates customary regulations regarding termination.

Criteria for determining the appropriate level of compensation for a member of the Management Board include his or her responsibilities and personal performance, the economic situation and the company's prospects of success and for the future. The performance-independent compensation of the fixed salary is paid monthly. The Management Board members are additionally entitled to benefits, including the use of a company car. These benefits in kind have to be taxed by the board member. No advances or loans were paid to Management Board members during the financial year. Bonuses are awarded on the basis of performance. Performance is measured in terms of the overall success of the company as well as in terms of individual performance as compared to a catalogue of targets which has been agreed to by the Supervisory Board.

Further information on the total remuneration for members of the Management and Supervisory Boards may be found in the Notes.

VIII. Report in accordance with section 289 Para. 4 HGB

On the balance sheet date the authorised capital of Westgrund AG amounted to €24,089,626 (previous year: €18,681,517). It is divided into 24,089,626 no-par value bearer shares (shares without par value). The theoretical par value per share is EUR 1.00. All shares are fully paid up.

The Management Board of Westgrund AG is not aware of any limitations related to voting power or the transfer of shares.

As far as the Management Board is aware, during the 2013 financial year there were direct and indirect stakes in the company holding over 10% of voting stock amounting to 49.7% (Wecken & Cie, Switzerland), 20.6% (Quartenal Ltd., Cyprus) and 10.2% (Angela Lechner, Berlin).

No vote pooling agreements exist with employee shareholders. Furthermore, there are no voting controls for employees who have invested in the company.

Members of the Management Board are named and recalled in accordance with the regulations set out in sections 84, 85 AktG. Changes to the statutes are made in accordance with sections 133, 179 AktG.

The Management Board is entitled, in accordance with the share option programme established at the extraordinary general meeting on 28 February 2011 (Aktienoptionsprogramm 2011), to issue shares. Shares have already been issued to employees as well as members of the Management Board under the auspices of the 2007 and 2008 share option programmes. Share repurchases are regulated by sections 71 et seq. AktG.

The authorisation resolutions reached by the general meeting regarding the use of share options for the purchase or issue of shares (2007, 2008 and 2011 share option programmes) have established the following special provisions for cases in which there is a takeover bid or a change of control: Provisions regarding purchase rights may allow for purchase rights to be utilised before the waiting period within a reasonable time frame after the change of control has ended insofar as this takes place by means of cash payment. The provisions regarding purchase rights also permit the purchase rights to be cancelled unilaterally by the company after the change of control process has begun and during the waiting period, but within an appropriate time period, by means of a cash payment in the amount that equals the difference between the exercise price and the closing price of the company’s stock on the XETRA trading platform on the Frankfurt am Main stock exchange (or a functionally equivalent platform that replaces it) on the last trading day before cancellation (issuing the notice of cancellation).

The provisions related to purchasing rights may also stipulate that those with purchasing rights may be required (following agreement by the management and Supervisory Boards before the fact) to transfer purchasing rights to the bidder (in accordance with the German Securities Acquisition and Takeover Act, WpÜG) who submits a voluntary takeover bid or compulsory bid on all remaining shares not held by the company, insofar as the price offered for this transfer of purchasing rights per purchasing right is no less than the difference between the exercise price and the price offered per share for the purchase of the remaining shares (excluding possible price increases). The conditions set forth above may also require the individual with subscription rights to refrain from exercising these rights on the request of the bidder.

The Management and Supervisory Boards have taken advantage of these authorisations.

There exist no other special agreements with members of the Management Board or employees regarding compensation required in the case of a takeover bid.

IX. Statement on the company management (section 289a of the German Commercial Code (HGB))

A statement on the company management, as required per section 289a HGB, is publicly available on the company's website (www.westgrund.de).

X. Corporate governance report

Westgrund AG has complied with the recommendations of the governmental commission on the German Corporate Governance Code as amended on 13 May 2013 with the exceptions mentioned in the compliance declaration of 6 June 2013.

By way of deviation from clause 3.8 Para. 3 of the Code no excess has been agreed for the Supervisory Board with respect to the D&O insurance agreement concluded for the officers. The Supervisory and Management Boards are of the opinion that the motivation and the performance of tasks at Westgrund AG could not be improved by agreeing an excess.

By way of deviation from clause 4.2.1 of the Code, the Management Board of Westgrund AG currently only comprises one person (the situation changed in this respect with the appointment of a second board member in October 2013). The Supervisory and Management Boards are of the opinion that the size of the company justifies this. Nevertheless the Management and Supervisory Boards will regularly review whether the development of the company merits an extension of the board. In the event that the Management Board of Westgrund AG, which may consist of one or several persons, consists of several persons, it will have no chairman or spokesperson. The members of the Management Board will be assigned individual departments by the Supervisory Board as soon as it consists of several persons. In this case the corporate strategy of Westgrund AG will be developed in close consultation with the board members. Rules of procedure exist which regulate the cooperation in the Management Board as soon as it consists of several persons.

By way of deviation from clause 4.2.2 Para. 1 of the Code, the Supervisory Board in its entirety deals with the Management Board contracts, sets the total remuneration for the individual Management Board members and adopts and regularly reviews the remuneration system for the Management Board.

By way of deviation from clause 4.2.3 Para. 6 of the Code, the obligation of the chairman of the Supervisory Board to inform the Annual General Meeting about the principles of the remuneration system is waived.

By way of deviation from clause 5.3 of the Code, the Supervisory Board has currently not formed any committees (clause 5.3.1). An audit committee (clause 5.3.2) has not been set up. The tasks of the audit committee will be performed by all of the members of the Supervisory Board (clause 5.3.2). The Supervisory Board currently comprises the minimum number of three members, as is prescribed under the German Stock Corporation Act. The number of Supervisory Board members is not suitable for forming an audit committee or other committees.

By way of deviation from clause 5.3.3. of the Code the Supervisory Board has not formed a nomination committee. The entire Supervisory Board concerns itself with nominating suitable candidates for the consideration of the shareholders at the Annual General Meeting.

Currently the only deviation from clause 5.4.1 merely relates to an appropriate degree of female representation when it comes to the composition of the Supervisory Board. In the course of new elections the Supervisory Board will take into account the corresponding provisions of the Code with regard to nominating suitable candidates for the consideration of the shareholders at the Annual General Meeting.

Contrary to clause 5.4.2 Supervisory Board members may also hold a corporate office or perform advisory services for the company's key competitors. The Management Board and the Supervisory Board are of the opinion that the experience gained from such activities can be profitably used for Westgrund AG.

By way of deviation from clause 5.4.6 Abs. 3 of the Code, the remuneration of the Supervisory Board members is not reported individually, but rather broken down by components in the Corporate Governance Report. The Supervisory Board's remuneration is based on the statutes.

By way of deviation from clause 7.1.2 of the Code, public availability of the Group's consolidated financial statements is determined by the legal provisions on disclosure. Westgrund AG currently does not see any improvement in capital market transparency when business figures are published faster than required by law.

XI. Assurance of the Management Board as required by section 289 Para. 1 clause 5 HGB

As the legal representative of Westgrund AG, the Management Board hereby assures that this management report portrays, to the best of its knowledge, Westgrund AG's business activities, including operating results and Westgrund AG's current situation, in a manner that accurately reflects the actual existing conditions as well as accurately reflecting the main opportunities and risks.

Berlin, April 2014
Westgrund Aktiengesellschaft

Arndt Krienen Board Member	Sascha Giest Board Member

WESTGRUND Aktiengesellschaft,
Berlin,

Auditor's report

We have audited the annual financial statements, consisting of the balance sheet, income statement and notes to the annual financial statements, together with the accounts and management report of Westgrund Aktiengesellschaft, Berlin, for the financial year from 1 January to 31 December 2013. The accounts and preparation of the annual financial statements and management report in accordance with the requirements of German commercial law is the responsibility of the company's statutory representatives. Our responsibility is to express an opinion on the financial statements, including the book-keeping and management report based on our audit.

We conducted our audit of the annual financial statements in accordance with Section 317 of the German Commercial Code (HGB) and the generally accepted standards for auditing financial statements promulgated by the German Institut der Wirtschaftsprüfer (IDW). These state that the audit is to be planned and implemented in such a way that mistakes and errors having a significant effect on the presentation of the picture of the assets, financial and earnings position ascertained by means of the annual financial statements and the management report – whilst complying with the principles of proper accounting – may be recognised with a sufficient degree of certainty. In the definition of the audit procedures, the knowledge of the business activities and of the economic and legal environment of the company as well as the expectations of possible errors are taken into consideration. As part of the audit, the effectiveness of the internal accounting control system and evidence for the information provided in respect of the accounting, financial statements, summarised management report and Group management report are assessed mainly on the basis of samples. The audit includes assessing the accounting principles used and significant estimates made by the Company´s legal representatives, as well as evaluating the overall presentation of the annual financial statements and the management report. We believe that our audit constitutes a sufficiently reliable basis for our audit opinion.

Our audit did not lead to any objections.

On the basis of the our findings from the audit, we are satisfied that the annual financial statements comply with the legal requirements and the supplemental provisions of the articles of association and provide a picture of the company's assets, financial and earnings position which is in keeping with the actual facts and complies with the principles of proper accounting. The management report agrees with the annual financial statements and provides overall a correct account of the company's position and correctly presents the risks relating to future development.

Cologne, 16 April 2014

DHPG AUDIT GMBH
Wirtschaftsprüfungsgesellsc
haft
Steuerberatungsgesellschaft

(Alefelder)	(Güntgen)
Auditor	Auditor