2014
ANNUAL REPORT

KWG
KOMMUNALE WOHNEN AG

REALISING SYNERGIES
– SUCCESS THROUGH PARTNERSHIP

KWG AT A GLANCE

STATEMENT OF COMPREHENSIVE INCOME		2014	2013*	*Change*
Revenue	€ million	61.9	55.7	*11%*
Rental income	€ million	43.5	45.7	*–5%*
Funds from operations I (excl. sales)	€ million	5.6	5.4	*4%*
Funds from operations II (incl. sales)	€ million	8.0	5.8	*38%*
EBIT	€ million	16.3	12.7	*28%*
Consolidated net profit	€ million	5.2	1.2	*n/a*

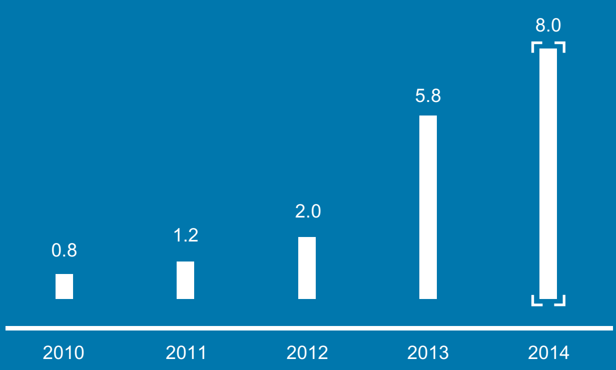
STATEMENT OF FINANCIAL POSITION		31/12/2014	31/12/2013*	*Change*
Property assets	€ million	421.5	424.5	*–1%*
Equity	€ million	179.9	174.9	*3%*
Financial liabilities	€ million	229.6	235.5	*–2%*
Total assets	€ million	432.7	436.0	*–1%*
Loan-to-value	%	54.5	55.5	*–2%*
Equity ratio	%	41.6	40.1	*4%*

SHARE		31/12/2014	31/12/2013*	*Change*
Closing price of KWG shares	€	6.40	6.36	*1%*
Number of shares	million	15.9	15.9	—
Market capitalisation	€ million	101.8	101.1	*1%*
NAV per share	€	10.75	10.47	*3%*
Earnings per share	€	0.35	0.34	*4%*
FFO II per share	€	0.50	0.37	*35%*

PORTFOLIO		31/12/2014	31/12/2013*	*Change*
Residential and commercial units	Number	8,627	9,332	*–8%*
Parking spaces	Number	2,304	2,542	*–9%*
Total space	sqm	540,224	586,939	*–8%*
Property assets	€/sqm	780	723	*8%*
Vacancy rate	%	9.82	12.51	*–22%*
Average rent	€/sqm	5.10	5.01	*2%*

** The previous year's figures were adjusted; see consolidated notes.*

FUNDS FROM OPERATIONS (IN € MILLION)



FUNDS FROM OPERATIONS

- Acquisitions and investments in the portfolio have increased KWG's profitability significantly in recent years, highlighting the encouraging performance of the company's portfolio.
- The strategic streamlining of its portfolio through property sales enhanced KWG's profitability further in 2013 and 2014. Most of the cash surplus from the property sales has been invested in the renovation of existing properties.
- The Management Board expects a further increase in funds from operations in 2015.

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Numerous amounts and percentage rates were rounded, and totals can therefore differ arithmetically from the sum of the individual amounts.

LETTER FROM THE MANAGEMENT BOARD

Gabriela Zraunig has been a member of the Management Board of KWG Kommunale Wohnen AG since 1 February 2014. Her main priorities are the successful integration of KWG into the conwert Group and the realisation of synergies arising from this constellation for KWG. Before joining KWG, Gabriela Zraunig held executive positions in finance at publicly traded companies.

GABRIELA ZRAUNIG
Member of the Management Board

"KWG provides answers to pressing questions of our time. "Why should the housing shortage in urban centres be met only with expensive new construction if high-quality living space can be created for people through economically efficient renovations? Why not invest in energy-related refurbishment, if it benefits tenant, property owner and the environment alike? At KWG not only do we generate sustainable returns for our shareholders, but we also solve current social problems with our daily work. We create value."

Dear Ladies and Gentlemen,
dear Shareholders!

I am pleased to present you with the 2014 Annual Report of KWG Kommunale Wohnen AG. Financial year 2014 was a very challenging yet successful year for KWG. Not only did we reach all our goals, but we also set important milestones for KWG's success in the future. Our objective is to further increase the quality and profitability of KWG's portfolio – something we believe was fully accomplished in 2014. For one thing, we reduced our portfolio's overall vacancy rate to below 10 % for the first time. At the same time, we further increased our average rent per square metre to € 5.10 and started to implement important measures that lead us to be optimistic about the future. Worthy of particular mention in this context are the two large-scale projects in Bochum and Oberhausen, where we are refurbishing two housing estates with 352 residential units in an energy-efficient manner and creating high-quality living space for our tenants.

We also successfully moved the strategic streamlining of our portfolio forward, divesting ourselves of properties that are not a perfect fit for our portfolio strategy from a regional or structural point of view. The cash surplus generated by the sales have been used to reduce debt and to update our property holdings. The fact that funds from operations stemming from the letting of our portfolio rose to € 5.6 million from € 5.4 million in the previous year in spite the disposal of properties makes us particularly optimistic. Including the property sales, we generated funds from operations of € 8.0 million (previous year: € 5.8 million). This gave KWG's profitability a major boost.

In the 2014 reporting period, we further optimised KWG's financial structure and improved its gearing, reducing the loan to value to 54.5 % (previous year: 55.5 %) and increasing our equity year-on-year. This improved our financial stability, giving us a solid platform for continuing our successful development. The steady rise in the quality of our properties, the increasing profitability of our portfolio and our sound balance sheet structure strengthen our conviction that we are on the right path and make us optimistic about the future. For the current financial year I expect to see advances in all forecast revenue and earnings figures – net basic rent, funds from operations, loan to value and EBIT. This is one of the reasons we are looking forward with confidence.

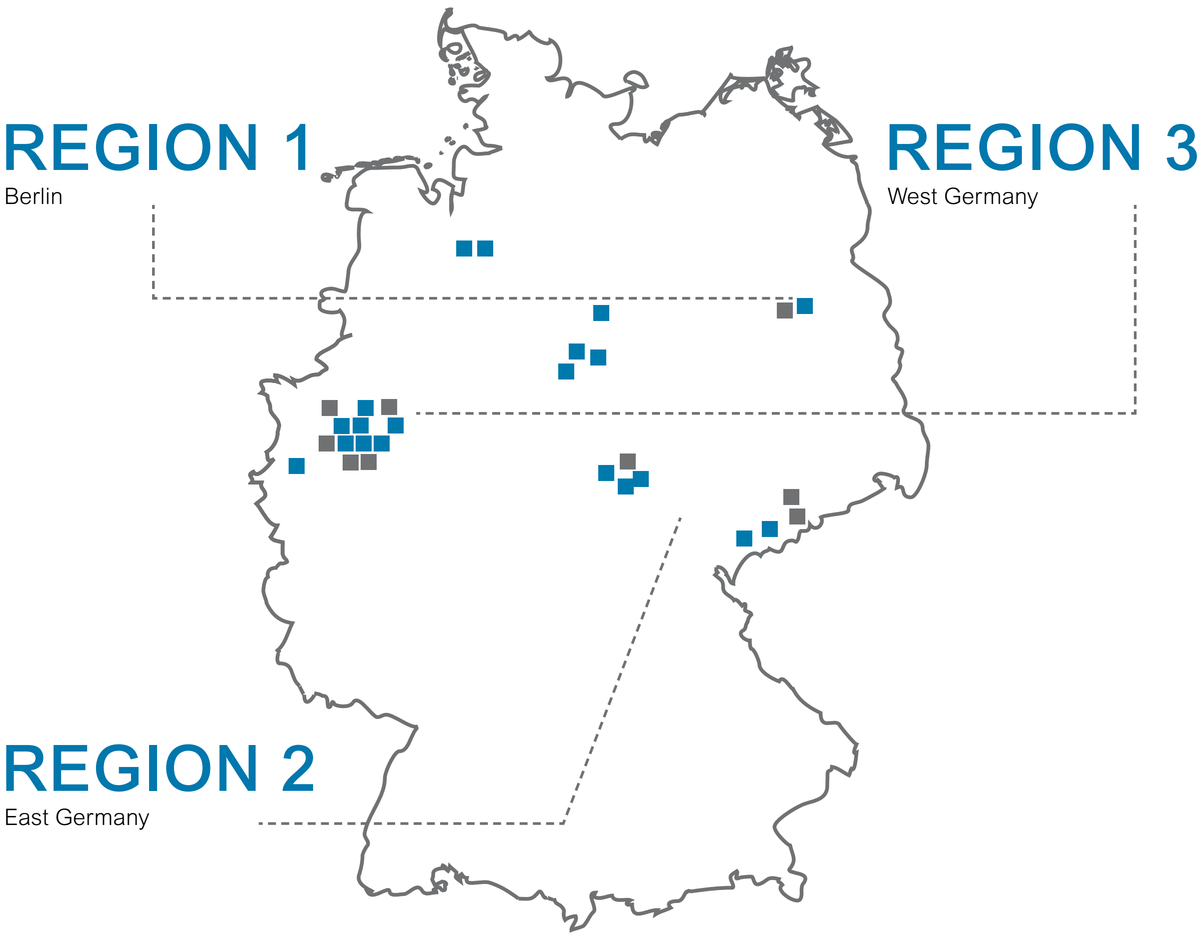
We hope that you will continue to support our company on this exciting journey, and we are grateful for your continued trust in us. We hope you enjoy reading this annual report.

Sincerely,

G. Zraunig

GABRIELA ZRAUNIG
Member of the Management Board

OUR PROPERTIES



More information about our property portfolio can be found on the Internet.

PROPERTY PORTFOLIO

KWG AG has a portfolio of approx. 8,600 residential and commercial units. The focus of the portfolio is on the growth regions of Berlin and North Rhine-Westphalia. KWG also has property holdings in Lower Saxony, Saxony and Thuringia. KWG structures its portfolio according to regional criteria, dividing it into three regions: Berlin, East Germany and West Germany.

By diversifying its portfolio regionally, KWG reduces regional risks and benefits from the generally positive, stable development of the German property market.

PROPERTY PORTFOLIO

		Region 1 – Berlin 31/12/2014	Region 2 – Germany 31/12/2014	Region 3 – West Germany 31/12/2014	Total 31/12/2014	Total 31/12/2013	*Change*
Residential units	No.	964	2,428	5,031	8,423	9,063	*–7.1%*
Commercial units	No.	49	27	128	204	269	*–24.2%*
Parking spaces	No.	32	541	1,731	2,304	2,542	*–9.4%*
Net basic rent	€ million	4.17	6.5	19.73	30.4	31.1	*–2.3 %*
Average rent	€/sqm/mth	5.54	4.93	5.08	5.10	5.01	*1.8%*
Usable space	sqm	63,543	130,586	346,095	540,224	586,939	*–8.0%*
Vacancy rate	%	1.1	16.0	9.1	9.82	12.51	*–21.5%*
Vacancies	sqm	684	20,889	31,467	53,041	73,415	*–27.8%*

REPORT OF THE SUPERVISORY BOARD

Dear Shareholders!

KWG Kommunale Wohnen AG (KWG) can look back on a successful 2014 financial year. The vacancy rate for the company's entire portfolio fell below the important 10 % mark for the first time. Important projects for the future – the renovation projects in Bochum and Oberhausen – were also initiated. With its successful performance in 2014 and the good prospects for the portfolio, KWG is well positioned for the future.

WORKING WITH THE MANAGEMENT BOARD

In the 2014 financial year, the company's Supervisory Board performed its duties with due care as required by law, the company's Articles of Association and the rules of procedure for the Supervisory Board. It regularly advised the Management Board on its management of KWG and closely monitored all related management activities. The Supervisory Board was also involved, directly and at an early stage, in all decisions material to the development of KWG.

The Management Board provided the Supervisory Board with regular, timely and comprehensive reports on corporate planning and strategy, material risks, business development and risk management. Deviations between actual and planned developments were discussed in detail. In addition, all significant transactions in the reporting period were coordinated with the Supervisory Board.

Outside of the meetings of the Supervisory Board and its committees, the Chairman of the Supervisory Board and other members of this Board also maintained regular contact with the Management Board to discuss issues relating to KWG's development. In the reporting year, there were no conflicts of interest on the part of members of the Management and Supervisory Boards, which must be disclosed immediately to the Supervisory Board and the Annual General Meeting.

SUPERVISORY BOARD MEETINGS

At five Supervisory Board meetings held in the course of the financial year, the Supervisory Board discussed the company's business development, individual major business transactions and measures that required the Management Board's approval. In 2014, all Supervisory Board members attended the Supervisory Board meetings except in one case, where a Supervisory Board member's schedule presented him from attending one meeting. At the individual meetings, the Supervisory Board approved the transactions submitted for its approval where necessary following an in-depth examination and detailed discussion in each case.

DISCUSSION OF THE AUDIT OF THE ANNUAL AND CONSOLIDATED FINANCIAL STATEMENTS

Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft, Hamburg, which were appointed as the company's auditors by the Annual General Meeting on 13 June 2014 and were engaged by the Supervisory Board, audited the annual financial statements of KWG,

CLEMENS SCHNEIDER
Chairman of the Supervisory Board

the consolidated financial statements and the management report of the Group as of 31 December 2014, which were prepared by the Management Board, and issued unqualified audit opinions for them.

The annual financial statements of KWG Kommunale Wohnen AG, the consolidated financial statements, the management reports for the Group, and the auditors' reports were distributed to all members of the Supervisory Board immediately after their preparation. The auditors attended the Supervisory Board meeting on 17 March 2015 at which the 2014 results were discussed. At this meeting the auditors reported on the main findings of their audit and were available to answer questions and provide supplementary information to the members of the Supervisory Board. The Supervisory Board examined the annual financial statements, the consolidated financial statements, the Group management report, the proposal on the appropriation of net retained profits and the auditors' reports with due care. No objections were raised. The Supervisory Board then approved the annual and consolidated financial statements for the year ended 31 December 2014, which were prepared by the Management Board. The annual financial statements are therefore adopted. The Supervisory Board agreed with the appropriation of the net retained profits proposed by the Management Board.

DEPENDENT COMPANY REPORT

The Management Board prepared its report on the company's relationships with affiliated companies and presented it to the Supervisory Board for examination immediately after completion. At the end of the report, the Management Board submitted the following declaration:

“With respect to the transactions and measures listed in the report on relationships with affiliated companies, according to the circumstances known to us at the time the transactions were carried out or the measures performed, our company received appropriate compensation for every transaction and has not been disadvantaged by any measures performed.”

The Supervisory Board’s examination of the dependent company report prepared by the Management Board did not result in any objections. On completion of its examination, the Supervisory Board has no objections to raise with respect to the concluding declaration by the Management Board in the report on KWG’s relationships with affiliated companies.

CHANGES ON THE SUPERVISORY BOARD

Johannes Rudnay stepped down from KWG’s Supervisory Board with effect from 28 April 2014 by mutual agreement. Furthermore, the Supervisory Board members Prof. Dr. Peer Witten, Franz-Josef Gesinn and Johannes Meran each resigned from office with effect from the end of the company’s Annual General Meeting on 13 June 2014. The Chairman of the Supervisory Board thanks these gentlemen for their positive collaboration and their work for the company.

At the Annual General Meeting on 13 June 2014, Clemens Schneider, Jörg-Dieter Krbetz, Rolf Schneider, Andreas Schorr and Lutz Menzel were elected to the company’s Supervisory Board. At the inaugural meeting of the Supervisory Board held immediately after the Annual General Meeting, Clemens Schneider was elected Chairman of the Supervisory Board. Thomas Doll was appointed his deputy.

CHANGES ON THE MANAGEMENT BOARD

The Supervisory Board appointed Gabriela Zraunig as the new Chief Financial Officer of KWG with effect from 1 February 2014.

On 31 October 2014, Torsten Hoffmann stepped down from the Management Board at his own request and in agreement with the Supervisory Board. This has not changed the company’s situation from either a strategic or an operational perspective.

The Supervisory Board would like to thank the Management Board and the employees for their hard work in the reporting year.

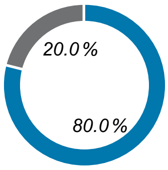
Berlin, 17 March 2015

For the Supervisory Board

CLEMENS SCHNEIDER
Chairman of the Supervisory Board

KWG'S SHARE

SHAREHOLDER STRUCTURE



- conwert Immobilien Invest SE
- Free float

KWG's share price increased slightly in financial year 2014. At a XETRA closing price of €6.40 on 30 December 2014, it was up 0.6 % year-on-year (30/12/2013: €6.36).

MARKET CAPITALISATION AND TRADING VOLUMES AT PREVIOUS YEAR'S LEVEL

The market capitalisation stood at approximately € 102 million on 31 December 2014. Despite a drop in free float to around 20 % as of 31 December 2014, the liquidity of the KWG share remained at the previous year's level. In the reporting period, an average of 8,600 shares changed hands per day on XETRA.

ANALYSTS RAISE PRICE TARGETS

The KWG shares were monitored by analysts of Institut Otto Seydler in 2014. The average published price targets were about 30 % above the XETRA closing price of 31 December 2014; all of the research reports recommended "buy". A total of seven research reports were published during the reporting period, all of which are available on the website of the company.

KWG's triple net asset value (NNNAV) as of 31 December 2014 was € 11.76 per share. This shows that the share's closing price for the year is discounted at around 46 % compared with the NNNAV (31/12/2013: 44 %). The NAV per share (NNNAV incl. deferred taxes and swaps) as of the reporting date was € 10.75, which represents a discount of 40 % compared to the year-end share price.

CLEAR VOTE AT ANNUAL GENERAL MEETINGS

KWG AG held its Annual General Meeting on 13 June 2014. The company's proposals for resolution were adopted almost unanimously. You can find more information on our Web site under Investor Relations.

KEY KWG SHARE DATA	Current as of: 31/12/2014
ISIN	DE0005227342
German SIN (WKN)	522734
Number of shares	15,881,234
Share capital	€ 15,881,234
Free float	20.0 %
Stock exchange segment	Entry Standard
Designated sponsor	ODDO SEYDLER BANK AG

GROUP MANAGEMENT REPORT

FUNDAMENTAL INFORMATION ABOUT THE GROUP

BUSINESS MODEL

The integrated business model combines three operating divisions

KWG Kommunale Wohnen AG (KWG) is a residential property management and development company with a long-term commitment to its property portfolio in Germany. The company specialises in the acquisition of residential properties that have development potential and offer a good potential for return if bought at attractive prices. KWG develops its property portfolio based on an integrated business model that combines three operating divisions: Portfolio and Asset Management, Construction Management and Property Management.

PORTFOLIO AND ASSET MANAGEMENT	CONSTRUCTION MANAGEMENT	PROPERTY MANAGEMENT
Reducing vacancies and optimising rental income	Modernising, maintaining and renovating the property portfolio	Portfolio management with regional offices
Focusing the portfolio through strategic sales		Commonhold management and management of apartment buildings
Optimising the portfolio in terms of earnings and costs	Leveraging upside potential	Efficient property management

Planning, management and monitoring is handled from Berlin

Portfolio and Asset Management

Based in Berlin, Portfolio and Asset Management plans, manages and monitors all operating processes related to residential property in our portfolio; the division also manages all sales. Its main function is to safeguard and maximise the capital invested in properties, thereby exploiting all upside potential. In doing so, Portfolio and Asset Management records the whole performance of the entire property cycle, on the basis of which it prepares a strategy aimed at a sustainable optimisation of income and costs. This also includes optimising the portfolio through strategic sales.

Construction Management

Construction Management is responsible for all renovation and rehabilitation work on KWG properties. Integrating construction management activities into the Group enables KWG to carry out construction and ongoing maintenance work much more cost-efficiently than would be the case if both planning and construction management were outsourced. This enables KWG to leverage the properties' upside potential quickly.

Property Management

The KWG Group has a decentralised, lean and modern administrative structure. With regional offices in the most important property locations, Property Management is focused on the specific needs and special features of the regional tenant markets. This regional presence enables KWG to react to tenant matters quickly and efficiently. The services it offers cover both commonhold management and management of apartment buildings.

COMPETITIVE ADVANTAGES

KWG's competitive advantages include in particular:

- many years of expertise and experience in the acquisition, development and optimisation of portfolios in profitable secondary and tertiary locations,
- a balanced portfolio that on the one hand has rent potential, which makes it possible for KWG to grow sustainably and purposefully by investing in existing properties; on the other hand, KWG also has high-quality properties that are nearly fully let in attractive markets that generate stable cash flows,
- a conservative balance sheet structure with low gearing compared to the industry, which affords KWG additional financial flexibility,
- a strong, strategic majority shareholder that offers new potential for KWG with its comprehensive network, financial resources and technical expertise,
- scalability of the business platform and thus potential to increase cost-efficiency through further growth.

GROUP STRUCTURE

KWG is responsible for asset and construction management as well as for acquisitions and disposals

KWG is a stock corporation under German law and acts as the parent of the KWG Group. In addition to the management of the Group, KWG is responsible for all asset and construction management as well as for acquisitions and disposals. In the reporting period, the operating subsidiaries were involved in the administration and management of the portfolio:

- Barmer Wohnungsbau AG
  Management of the property portfolio in North Rhine-Westphalia
- KWG Wohnwert GmbH
  Management of the property portfolio in Berlin, Bremen, Lower Saxony, North Rhine-Westphalia, Saxony and Thuringia

At the beginning of 2015, Barmer Wohnungsbau Verwaltungs GmbH, a subsidiary of Barmer Wohnungsbau AG (BWAG), took over building administration agendas and now manages the existing properties in North Rhine-Westphalia.

Its individual portfolios are allocated to project companies that were included in the consolidated financial statements. As at 31 December 2014, the Group had a total of 30 subsidiaries (31/12/2013: 30). The individual investees are listed in the notes to these consolidated financial statements.

PORTFOLIO

Portfolio management

Berlin-based Portfolio and Asset Management is responsible for the planning, management and monitoring of all housing-related processes in the property portfolio. Investments in the maintenance and renovation of KWG's properties are made by Construction Management.

The objective of portfolio management is to increase the value of the existing property portfolios and achieve a long-term positive operating cash flow from letting activities.

Increase of the net basic rent to €5.10

In the 2014 financial year, the average monthly net basic rent was increased from €5.01 to €5.10. This increase is mainly attributable to the successful refurbishments. Based on the entire portfolio of the KWG Group, the vacancy rate was reduced to below 10% at the end of 2014 for the first time. In addition, the strategic portfolio adjustments were successfully moved forward and the cash surplus from the property sales was used to reduce debt and to modernise KWG's property holdings.

Development of the property portfolio

As of 31 December 2014, the KWG portfolio included a total of 8,627 units with a usable space of 540,224 square metres as well as 2,304 parking spaces.

In the past, KWG divided the portfolio into the modernised core portfolio, the investment portfolio yet to be renovated and the disinvestment portfolio, i.e. the properties designated for sale in the medium term for reasons of portfolio strategy.

Properties with an above-average vacancy rate were sold

In 2014, KWG sold a total of 57 properties with 681 units and 227 parking spaces, spanning a total usable space of 45,948 square metres. At 38%, the vacancy rate in these properties was disproportionately high, which meant that their disposal had a positive effect on the vacancy rate of the entire Group.

In a like-for-like comparison of the portfolio as of 31 December 2014 compared with the previous year, the vacancy rate was reduced from 10.70% to 9.82%.

PORTFOLIO		Core portfolio 31/12/2014	Investment portfolio 31/12/2014	Dis-investment portfolio 31/12/2014	Total 31/12/2014	Total 31/12/2013	*Change*
Residential units	No.	5,569	1,758	1,096	**8,423**	9,063	*–7.1%*
Commercial units	No.	71	84	49	**204**	269	*–24.2%*
Parking spaces	No.	1,008	763	533	**2,304**	2,542	*–9.4%*
Net basic rent	€ million	21.07	6.85	2.48	**30.4**	31.1	*–2.3%*
Average rent	€/sqm/mth	5.17	5.10	4.64	**5.10**	5.01	*1.8%*
Usable space	sqm	349,857	124,924	65,442	**540,224**	586,939	*–8.0%*
Vacancy rate	%	2.9	17.7	31.9	**9.82**	12.51	*–21.5%*
Vacancies	sqm	10,068	22,071	20,902	**53,041**	73,415	*–27.8%*

KWG now structures its portfolio according to regional criteria, dividing it into three regions: Berlin, East Germany and West Germany.

In accordance with the new portfolio structure, the properties are distributed as follows:

PORTFOLIO		Region 1 – Berlin 31/12/2014	Region 2 – East Germany 31/12/2014	Region 3 – West Germany 31/12/2014	Total 31/12/2014	Total 31/12/2013	*Change*
Residential units	No.	964	2,428	5,031	**8,423**	9,063	*–7.1%*
Commercial units	No.	49	27	128	**204**	269	*–24.2%*
Parking spaces	No.	32	541	1,731	**2,304**	2,542	*–9.4%*
Net basic rent	€ million	4.17	6.5	19.73	**30.4**	31.1	*–2.3%*
Average rent	€/sqm/mth	5.54	4.93	5.08	**5.10**	5.01	*1.8%*
Usable space	sqm	63,543	130,586	346,095	**540,224**	586,939	*–8.0%*
Vacancy rate	%	1.1	16.0	9.1	**9.82**	12.51	*–21.5%*
Vacancies	sqm	684	20,889	31,467	**53,041**	73,415	*–27.8%*

REPORT ON ECONOMIC POSITION

ECONOMIC ENVIRONMENT

Macroeconomic conditions

The global macroeconomic environment in 2014 was marked by extremely low interest and inflation rates in the industrialised countries and a slowdown in growth in the emerging market economies. In addition, the geopolitical hot spots triggered palpable uncertainty, which stifled growth. The second half of the year was dominated by the sharp drop in oil prices. Contrary to the original expectations, the pace of expansion of the global economy, which the International Monetary Fund (IMF) puts at 3.3 % for 2014, did not pick up.

Moderate economic growth in the euro area

The euro area registered only modest growth of 0.8 % in 2014 despite an expansionary monetary policy. The investment climate remained subdued and private consumption received little stimulus due to the persistently high unemployment in the euro area. In response to the weak growth and waning price pressure, the ECB reduced its key rate to an historically low 0.05 % and announced a further easing of monetary policy. The euro came under perceptible downward pressure in the second half of the year.

The German economy got off to a strong start in 2014, mainly on the back of favourable weather conditions. However, the upswing stalled in the second half of the year, when investments were halted by the escalation of the crisis between Russia and Ukraine. Germany's economy was nevertheless in good shape, recording growth of 1.5 % fuelled by a positive contribution from net exports and higher investments in equipment and construction. This trend was driven primarily by the high level of consumer spending. The number of people in work increased to an average of 42.7 million (+ 0.9 %), the eighth consecutive year with a new record. As consumer prices rose by just 0.9 %, real wages and the purchasing power of private households increased. Against this backdrop, private consumption rose by 1.1 % in real terms.

Conditions in the property sector

Positive development of the property sector

The property sector in Germany witnessed further growth in 2014, buoyed by the consistently positive parameters and the robust domestic economy. Both rental prices and property prices saw an uptrend, though marked regional differences were apparent once more. Demand was still particularly high for properties in cities and good microlocations, where housing needs frequently exceeded the volume of new construction. Due to the urbanisation, which is leading to population growth in urban centres and a rising number of single-person households in metropolitan areas, the markets remained strained, especially in the cities.

According to calculations by the Federal Statistical Office, net basic rent in 2014 rose by an average of 1.5 %, outstripping the extremely low increase in consumer prices. After adjusting for the noticeable drop in energy costs (motor fuels: –4.4 %, household energy costs: – 0.9 %), inflation climbed 1.3 %. Net basic rent thus increased at a slightly faster pace than the adjusted price increase in Germany. In 2014, however, rents in administratively independent cities rose at a higher rate of 2.8 % (2013: 4.0 %). According to estimates by DG Hyp, the top seven locations recorded rental price increases for first-time occupancy of as much as 3.1 % in 2014 (2013: 4.3 %), with Berlin and Düsseldorf seeing increases of 3.7 % and 2.5 %, respectively. First-time occupancy rents in the top seven cities rose by an average of 12.3 % per square metre (2013: 11.9 %).

Demand for property in major cities continues unabated

In spite of the vigorous construction activity, housing needs in the large cities were not met. The shortage of supply and rising rents also forced those looking to rent into cheaper districts and out into the surrounding area. Ownership was another alternative, facilitated by the low interest rates. In total, the prices for residential properties also increased sharply. The decoupling of property prices and rents is continuing. Since 2010, prices have risen disproportionately highly. In 2014, prices for freehold flats in administratively independent cities were up 6.6 % (2013: 6.0 %).

Financial situation

Financial year 2014 for KWG continued to be dominated by improvements in the quality of its property portfolio. At € 421.0 million, the carrying amount of investment properties was virtually unchanged compared with the previous year (31/12/2013: € 420.3 million). Necessary negative value adjustments (€ 11,019 thsd), precipitated for the most part by changes in micro-political conditions, were offset by positive value adjustments in accordance with IAS 40 amounting to € 11,022 thsd. Properties with carrying amounts of € 15.1 million were sold in the 2014 financial year in connection with the strategic streamlining of the portfolio. The additions of € 12.2 million mostly relate to investments for modernising KWG's existing properties.

The strategic streamlining of the property portfolio is already well advanced in terms of the properties held for sale. These properties have an aggregate value of € 0.5 million (31/12/2013: € 4.2 million), which is reported under current assets.

Trade accounts receivable decreased from € 3.0 million to € 2.4 million. Specific and global valuation allowances were recognised based on past experience to provide for any defaults on receivables. The measures taken to process existing claims which arose in particular in connection with the purchase of the Tower portfolio in the 2012 financial year were stepped up considerably in the reporting period with the establishment of a receivables management system that adequately takes into account the risks arising in connection with defaults on receivables.

Other assets (other assets and other financial assets) edged up by € 0.1 million to € 1.1 million. Cash and cash equivalents also rose by € 0.2 million to € 7.2 million at the balance sheet date.

Other current liabilities decreased in the financial year just ended from € 4.2 million to € 2.2 million.

Besides the scheduled redemption of loans, non-current financial liabilities were reduced by 9.2 % to € 203.0 million, due in particular to disposals of property.

Total assets decreased from € 436.0 million to € 432.7 million, though the equity ratio increased slightly to 41.6 % (31/12/2013: 40.0 %). This means that KWG has a very comfortable equity base for a property company.

The balanced ratio of financial liabilities to property assets is also reflected in the lower LTV (loan-to-value), which improved from 55.5 % in the previous year to 54.5 % as of 31 December 2014.

Earnings before tax (EBT) amounted to € 6.3 million in the 2014 financial year (2013: € 2.9 million).

Revenue increased to € 61.9 million

Revenue increased by 11.2 % year-on-year, from € 55.7 million to € 61.9 million, with rental income accounting for € 43.5 million of this figure (2013: € 45.7 million). The decline in rental income can be attributed to the continued strategic streamlining of the portfolio, which was begun in 2013. The sales comprised 681 units and 227 parking spaces, generating proceeds of € 18.3 million (2013: € 10.0 million). Some of the cash surplus from property sales was reinvested in the development of the portfolio in order to improve the quality of the existing properties. The net gain from the adjustment of the fair value amounted to around € 3,000 (2013: net loss of € 1.8 million).

In spite of the decrease in rental income year-on-year, income from the management of the properties rose by € 0.4 million to € 23.5 million as a result of lower maintenance costs.

Personnel expenses increased by € 0.6 million in 2014 to € 3.9 million. This was due to the need for new hires following KWG's takeover of the property management for the Tower portfolio in mid-2013, expenses for severance payments to former KWG executives and severance payments made in connection with KWG's relocation from Hamburg to Berlin.

KWG's net profit or loss is significantly influenced by interest payments and expenses. The financial result for 2014 was negative at just under € (10.0) million, compared with € (9.8) million in the previous year.

Consolidated net profit after taxes thus amounted to € 5.2 million in 2014 compared with € 1.2 million in 2013.

Financing structure

KWG's overall financing volume as of the 31 December 2014 reporting date was € 229,646 thsd (31/12/2013: € 235,474 thsd). Of this figure, long-term loans accounted for € 203,004 thsd (31/12/2013: € 223,504 thsd) and short-term loans for € 26,642 thsd (31/12/2013: € 11,971 thsd).

Overview of loans and borrowings:

31 DECEMBER 2014	Nominal interest rate (in %)	Effective interest rate, (in %) weighted	Average remaining term, weighted	Carrying amount (in € thsd)
Variable-interest loans and borrowings				
Term ending in 2015	2.91	2.97	0.7	8,476
Term ending in 2016–2019	1.45	1.47	2.5	8,158
Term ending after 2019				
Fixed-interest loans and borrowings				
Term ending in 2015	6.17	6.17	0.7	13,796
Term ending in 2016–2019	6.24	6.25	4.1	11,229
Term ending after 2019	3.58	3.59	13.6	187,044
Finance leases				
Term ending after 2019	4.51	4.51	11.9	943
Total				**229,646**

Effective reference date interest rate of 3.82%

As of the 31 December 2014 reporting date, the loans had an average remaining term of 11.5 years (31/12/2013: 11.9 years). Of the overall financing volume, 92.8 % had a fixed rate of interest and 7.2 % had a variable rate of interest. Due to the fact that KWG entered into interest rate hedges, a total of 94.4 % of the financial liabilities were hedged against interest rate risks at the reporting date. Including hedging costs, the effective reference date interest rate for the financing volume was 3.82 % (31/12/2013: 3.82 %). The loans and borrowings were denominated exclusively in euros; there were no loan liabilities denominated in foreign currencies.

Maturity of loans and borrowings (before deduction of transaction costs)

(in € thsd)	Extension volumes
2015	22,271
2016	4,351
2017	—
2018	4,848
2019	10,205
2020	28,989
2021	12,120

The maturity structure of loans and borrowings due within one year breaks down as follows:

(in € thsd)	Extension volumes
1st half of 2015	8,407
2nd half of 2015	13,864
Total	**22,271**

In the interests of diversification of risk, KWG is careful to maintain a broad financing structure; it borrows money from large banks with international operations and mortgage lenders, but also from smaller savings banks with regional operations.

Cash flows

Strong consolidated net profit improves cash flow

In 2014, KWG was able to meet its financial obligations at all times. At € 20.1 million, the cash flow from operating activities covered the net cash used in investing and financing activities amounting to € 19.9 million. The year-on-year improvement in the cash flow is mainly attributable to the high consolidated net profit of € 5.2 million.

KWG's statement of cash flows shows the strategically motivated decrease in the company's investing activities compared with the previous year. Investments in existing properties in 2014 amounted to € 12.2 million and related exclusively to modernisation and refurbishment projects. The capital expenditure of € 96.8 million in 2013 had been mainly destined for the modernisation and refurbishment of properties from the acquisitions made in the 2012 financial year. As a consequence, borrowings were reduced from € 75.3 million in 2013 to € 7.6 million in the financial year ended. The amount of cash used to service the debt rose slightly by € 1.2 million to € 25.6 million.

Financial key performance indicators

KWG's management and Management Board use financial and non-financial key performance indicators (KPIs) to assess the company's performance. The achievement of financial goals is measured in particular with the help of the key figures net basic rent, funds from operations (FFO), net asset value (NAV) and loan-to-value (LTV). While the key liquidity figures net basic rent and FFO represent the capacity of property management activities to cover principal repayments, dividend distributions and project costs, NAV and LTV provide information on KWG's asset base.

Net basic rent

Net basic rents on a level with the previous year

In line with the previous year's forecast, net basic rent hovered around the stable level recorded in the previous year, amounting to € 30.4 million in 2014 (2013: € 31.1 million).

- Occupancy rate: The occupancy rate was given a further boost, reaching 90.2 % in December 2014 (31/12/2013: 88.3 %) thanks to significant investments in existing properties and an active asset management strategy. As a consequence, the vacancy rate fell below 10 % for the first time. This development is mainly due to new lets.

- Apartment refurbishments: KWG refurbished 409 apartments in the reporting period. These units were fully let as of 31 December 2014.
- Major refurbishments: In 2014, KWG began its energy-efficient refurbishment of two large-scale projects in Bochum and Oberhausen with a total of 352 residential units. In addition to the energy-related improvements, the refurbishment entails the modernisation of the staircases and lift installations as well as the landscaping of the grounds. KWG expects the occupancy rate to increase significantly once the work has been completed.

Funds from operations

Funds from operations (FFO) is an important key figure for KWG and its shareholders. This liquidity-oriented key figure is derived from consolidated net profit and shows the net profit or loss from KWG's core business. Non-recurring effects and non-cash items are eliminated.

FFO I and FFO II shown for the first time

Due to the increased importance of the strategic sales in the 2014 financial year and to create transparency for the company's shareholders, KWG is reporting FFO I and FFO II for the first time. Whereas FFO I on the income side considers only cash earnings before sales income (EBT), FFO II also includes cash earnings from the property sales.

FFO I increased to € 5.6 million (2013*: € 5.4 million). Thanks to the positive trend in the property market, FFO II rose to € 8.0 million (2013*: € 5.8 million). This means that KWG reached its forecast target of increasing FFO.

(in € million)		2014	2013*
	EBT	6.3	2.9
–	Less difference between sales and carrying amount of sold properties	(3.2)	(0.2)
+	Operating expenses of sales income	0.8	0.2
–	Revaluation gain/loss	0.0	1.8
+	Depreciation and value adjustments	0.1	0.2
+	Non-cash components of net financial income and other non-cash costs/income	1.6	0.5
=	**FFO I (excl. sales)**	**5.6**	**5.4**
+	Difference between sales and carrying amount of sold properties	3.2	0.2
–	Less operating expenses of sales income	(0.8)	0.2
=	**FFO II (incl. sales)**	**8.0**	**5.8**
–	Cash taxes	0.2	0.0
=	**FFO II (incl. sales) excl. cash taxes/cash profit**	**7.8**	**5.8**

** The previous year's figures were adjusted to reflect the Group's calculation method; see consolidated notes.*

Net asset value (NAV)

NAV and NNNAV shown to ensure the greatest possible transparency and best possible comparability with market participants

KWG reports its NAV and NNNAV in order to ensure the greatest possible transparency and best possible comparability with market participants. Both key figures are applied in particular to present the long-term fair value of equity. The NAV is calculated on the basis of equity before non-controlling interests. The NNNAV is calculated as the NAV adjusted for deferred taxes and swaps. As of 31 December 2014, the NAV amounted to € 10.75 per share and the NNNAV per share amounted to € 11.76.

(in € million, unless indicated otherwise)		31/12/2014	31/12/2013*
	Equity including non-controlling interests	179.9	174.9
–	Non-controlling interest	(5.8)	(5.9)
=	**NAV**	**174.1**	**169.0**
+	Deferred taxes and fair value swaps	16.5	15.4
=	**NNNAV**	**190.5**	**184.4**
/	Number of shares incl. extraordinary items	16.2	16.2
=	**NAV / share (in €)**	**10.75**	**10.47**
=	**NNNAV / share (in €)**	**11.76**	**11.38**

** The previous year's figures were adjusted; see consolidated notes.*

NNNAV per share rose from € 11.38 as of 31 December 2013 to € 11.76 as of 31 December 2014 and is calculated by dividing adjusted consolidated equity before non-controlling interests (plus the reserve for market valuation and deferred tax liabilities less deferred tax assets) by the number of shares issued and still to be issued as part of the capital increase resolved.

Loan-to-value (LTV)

KWG strives for stable and permanent growth, whereby the LTV takes on an important role as a measurement of the corporate group's gearing. With an LTV of 54.5 % as of 31 December 2014, KWG exhibited a conservative level of debt also in financial year 2014 and thus comfortably met its forecast of holding its LTV below a level of 60 %.

(in € million, unless indicated otherwise)	31/12/2014	31/12/2013*
Investment property	421.0	420.3
+ Properties held for sale	0.5	4.2
= Property assets	**421.5**	**424.5**
Non-current financial liabilities	203.0	223.5
+ Current financial liabilities	26.6	12.0
= Net financial liabilities	**229.6**	**235.5**
= LTV (in %)	**54.5**	**55.5**

** The previous year's figures were adjusted; see consolidated notes.*

NON-FINANCIAL KEY PERFORMANCE INDICATORS

Sustainable action plus responsible use of existing and future resources is one of KWG's long-term, permanent goals. The company continued its ongoing commitment to social, environmental and cultural issues in the 2014 financial year. The scope and success of the measures taken is calculated in measurable quantities that are incorporated into KWG's reporting as key performance indicators (KPIs).

Energy savings

The building sector is playing an increasingly important role in issues such as energy efficiency and climate protection because buildings account for around 40 % of the total final energy demand. Significant savings can be generated from the heat supply in particular.

KWG achieved savings of between 42 % and 71 % in primary energy consumption by refurbishing buildings based on special energy concepts.

Investments in energy-related improvements in the major refurbishment project Oberhausen completed in 2014

KWG completed its investments in energy-related improvements in the major refurbishment project Oberhausen (102 residential units) in 2014. The major refurbishment project in Bochum comprising 250 residential units is expected to be completed in the course of 2015. The focus in each building is on the energy-related upgrade of the building envelope with the installation of a thermal insulation system on the façades, the insulation of the roofs and basement ceilings, as well as the installation of energy-efficient windows.

Architectural heritage

KWG believes it has a duty to preserve architectural heritage. At the same time, the company is striving to improve the energy efficiency of its buildings, especially older buildings that in some cases are also listed. The demands that architects and urban planners place on architectural heritage today are not incompatible with the returns expected by property investors. Indeed, in property development, meeting design quality criteria can result in a win-win situation which will both ensure successful marketing and satisfy the desire for excellence in the built environment of towns and cities.

LISTED KWG PROPERTIES

8 units	Bad Langensalza
15 units	Chemnitz
13 units	Düsseldorf
146 units	Gelsenkirchen
164 units	Glauchau
9 units	Hainichen
238 units	Wuppertal

Demographics

Demographic change is an important consideration in striving for investments that create value.

Modernisation projects take into account demographic change

Today, a great many of our tenants are more than 60 years old and the average age of the population is set to rise further in the coming years. Since people wish to live in their own apartments for as long as possible, KWG invests in the design of residential units adapted to senior citizens and takes their needs into consideration in corresponding modernisation projects. This development was taken into account in 2014 in several residential projects.

At the same time, it can be observed that increasing numbers of young people are arriving in Germany as a result of immigration and crowding into the urban centres. This trend is increasing the demand for apartments for one- to two-person households equipped with state-of-the-art communication connections. KWG also takes this trend into account.

EMPLOYEES

Employees form the basis of KWG's successful performance. For this reason, having an expert, highly motivated workforce that is determined to deliver top performance is very important for KWG. A modern-day company structure, flat hierarchies and a high level of personal responsibility facilitate rapid decision-making processes. This combination provides the cornerstone for entrepreneurial thinking and action among KWG's staff.

In the 2014 financial year, the head office of KWG was moved from Hamburg to Berlin.

The Group had 78 employees on average in the reporting year (2013: 67), of whom 18 (previous year: 19) were part-time staff. At the end of 2014, the KWG Group had 74 active employees (excluding employees on paternal leave and trainees) as well as one Management Board member. The Group also had three trainees as of 31 December 2014.

CORPORATE GOVERNANCE

KWG follows the recommendations of the German Corporate Governance Code. However, as a company listed in the Entry Standard of the Frankfurt Stock Exchange, it is not required to submit a formal declaration of conformity. The company has decided not to submit to the Code with a formal declaration of conformity.

REPORT ON EXPECTED DEVELOPMENTS

MARKET EXPECTATIONS

Planning for financial year 2015 and the subsequent years is based on the following assumptions about the operating environment:

Economic factors of influence

KWG's assumptions follow the estimation of most leading economic researchers that the global economy will see just a modest recovery in 2015. Given the persistent crises, the increasingly divergent monetary policies in the industrialised countries and possible new tensions in the euro area, the global economy will remain fragile. According to the forecast by the International Monetary Fund (IMF), global growth will accelerate only slightly in 2015 to 3.5 %.

In the euro area, the tentative recovery will continue in 2015 providing the aforementioned risks are contained. The IMF is projecting growth of 1.2 %. To provide further stimulus and to avert the risk of deflation, the ECB adopted a massive government bond-buying programme in January 2015. Considering the increasingly divergent interest rates, the euro's external value is likely to fall further. According to the ECB, euro area interest rates will remain extremely low for some time.

The Kiel Institute for the World Economy (IfW) is forecasting growth for Germany of 1.7 % in 2015 and 1.9 % in 2016. The pent-up investing activity will gain momentum and the temporary standstill in housing construction will dissipate. The main driving force behind this will initially be private consumption, supported by a robust labour market, a rise in real wages and increased purchasing power. According to the IfW, the number of people in gainful employment will rise by around 265,000 in 2015, reducing unemployment slightly once again to just under 2.9 million. Low oil prices, the minimum wage and the pension package will also increase the willingness to consume. Private consumption will additionally benefit from the population growth in the face of negative demographics. Due to the positive net migration, the number of people living in Germany rose from 80.8 million to 81.1 million in 2014, the fourth consecutive increase. Overall, the IfW estimates that private consumption will pick up perceptibly in 2015, climbing 2.8 % after adjusting for price increases.

Property-specific factors of influence

The environment for the German property market remains positive on the strength of persistently low interest rates and population growth, especially in large towns and cities.

In spite of the rent cap that was introduced recently, the company believes that further, albeit lower rent increases are likely to occur. DG Hyp estimates that in 2015 rents for first-time occupancy will rise by an average of 1.8%. The forecast for Berlin is also 1.8%, while an increase of 1.6% is expected for Düsseldorf. Based on rent per square metre on first-time occupancy, the experts from DG Hyp calculate that in the top seven locations rent will rise by 12.5% on average in 2015.

In view of these market developments, property prices are also likely to rise further. According to empirica, there is an increased risk of a bubble forming for property prices in some local markets.

BUSINESS DEVELOPMENT

KWG plans to continue its successful development and boost its profitability

Assuming that the positive economic and property-specific factors of influence are confirmed, KWG is planning to continue its successful development and boost its profitability. Furthermore, KWG assumes that the company will continue as a going concern and does not see any risks to its continued existence at the present time. Possible risks and opportunities of the Group's future development have been evaluated and appropriately taken into consideration in the forecast.

In this connection, KWG has set itself the following goals:

Rent development

KWG anticipates net basic rent of marginally above €30 million in the 2015 financial year. Active reduction of the vacancy rate, the modernisations initiated and the slight increase in rental income per square metre as a result are expected to more than compensate for the revenue shortfalls caused by past and planned sales of property.

Profitability and use of funds

We expect to record an increase of around 2% in funds from operations (FFO) arising from rental income in the 2015 financial year. Cost savings in the administration of the holding company, synergy effects through the new portfolio management structure and the optimisation of the portfolio are expected to contribute to the uptrend. In spite of the projected decrease in cash inflows as a consequence of the portfolio adjustments, investments will be made in the development of the existing portfolio in order to further increase its profitability.

Consolidated profit

In the 2015 financial year, we expect earnings before interest and taxes adjusted for valuation effects to exceed the prior-year figure by around 20 %. This estimate is based on the positive effects of the measures implemented to optimise the portfolio together with a sustained improvement in property assets.

Financing structure

The loan-to-value (LTV) ratio should remain at a stable level of 50 % to 60 %. At the same time, the continuing low interest rate level will be used to refinance existing loan commitments at favourable terms. All in all, we expect to further optimise our financing costs with a stable financing structure.

	Forecast for 2014	**Profit/loss 2014**	**Expectation 2015**
Net basic rent	~ € 30 mn	€ 30.4 mn	> € 30 mn
Funds from operations I (excl. sales)	> € 5.4 mn	€ 5.6 mn	> € 5.6 mn
Loan-to-value	50 – 60 %	54.5 %	50 – 60 %
EBIT*	–	€ 16.3 mn	> € 16.3 mn

** Adjusted for valuation effects.*

REPORT ON POST-BALANCE SHEET DATE EVENTS

There were no material events after the balance sheet date to report.

REPORT ON RISKS AND OPPORTUNITIES

RISK MANAGEMENT AND INTERNAL CONTROL SYSTEM

Every business venture entails opportunities and risks due to uncertainties existing within and outside the Group. As part of its sustainable, future-oriented corporate policy, the company therefore deliberately exposes itself to various risks that may have an impact on KWG's operations. The aim of KWG's risk management system (RMS) and internal control system (ICS) is to ensure that all relevant risks that have been taken are identified, recorded, analysed and assessed as well as communicated in the correct form to the competent decision-makers.

The economic benefit of the RMS lies not only in the fact that it provides transparency and ensures an early-warning function, but also in that it increases planning reliability and reduces risk costs. The RMS and ICS generally also cover processes relating to accounting and financial reporting, as well as all accounting-related risks and controls.

KWG's RMS and ICS for accounting and financial reporting processes are designed to ensure objective identification and assessment of individual risks that could impede the regulatory compliance of the consolidated financial statements. Identified risks are analysed and assessed so that their potential impact on the consolidated financial statements can be ascertained. The objective of the ICS is to implement appropriate control mechanisms to provide assurance that the consolidated financial statements comply with regulatory requirements, taking into account the risks identified.

Both the RMS and the ICS include all consolidated subsidiaries together with all processes of relevance for the preparation of the financial statements. The accounting-related controls are focused in particular on the risk of material misstatements in KWG's financial reporting. The assessment of materiality is based on the likelihood of occurrence as well as the financial impact on the key financial indicators.

Key elements for risk management and control in accounting and financial reporting are the clear allocation of responsibilities and controls in the preparation of financial statements, transparent requirements, appropriate access regulations in the IT systems of relevance for the financial statements, and a clear regulation of responsibilities in the involvement of external specialists. The principle of dual control for entering into agreements and the approval of invoices are other important control principles.

In order to early identify and measure risks to the KWG Group, a databank-supported risk management system (RMS) was installed in the reporting period and a corresponding risk manual was drawn up. KWG uses the RMS as a control instrument for early risk identification.

RISK REPORT

The following individual risks, in particular, are closely monitored as part of the risk management process.

MARKET RISKS

The KWG Group's business activities are concentrated on the German property market, whose development is as robust as it is sustainable. Experts believe that the economy's positive development will continue apace, though some corners of the press are already warning of a real estate bubble. If, however, the economic situation on the German market were to slow down or the financing terms were to worsen, property prices and market rents could stagnate or decline as a result. What is more, a stagnating or shrinking economy may cause unemployment to rise, limiting tenants' financial means and increasing the risk of defaults.

PROPERTY PRICES

While KWG subjects residential properties on offer to intensive reviews and performs a detailed due diligence before acquiring them, the fair values of properties in its portfolio may decline nonetheless due to outside influences. KWG counteracts this risk through targeted investments in its portfolio and proactive asset management. But the Group cannot escape global declines in property prices that arise from inherent factors.

LIQUIDITY RISKS

The active development of KWG's portfolio requires outside capital besides equity for both investing in existing properties and acquiring additional portfolios of residential properties. These activities entail the risk that banks may not be able or willing to renew maturing loans. Refinancing also regularly entails one-off financing costs. Employees of the Group regularly monitor the risk of a potential liquidity bottleneck based on liquidity planning.

DEFAULT RISKS

Strong expansion of the property portfolio through acquisitions

KWG substantially expanded its property portfolio in financial year 2012, in particular through the acquisition of around 2,900 units. As part of this acquisition, all claims on the part of the previous owner against its tenants (rent receivables and receivables based on operating costs billed in previous years) were transferred to KWG at a cost of zero. These receivables exhibit significant risk with respect to their collectability. The receivables were recorded in the rent accounting ledger at the carrying amounts stated by the previous owner – but recognised in the financial accounting at a value of zero. The processing of existing claims from 2013 as well as the enforcement of claims existing since before 31 December 2012 has not yet been completed. The risk that it may be necessary to recognise further valuation allowances or impairment losses on receivables, which can amount to approx. € 1.4 million, is offset by opportunities of approximately the same value. These are based on the fact that payments may still be collected on receivables that have already been written off. The management of KWG is making every effort to collect all receivables and utilise all possible opportunities.

INTEREST RATE RISKS/CURRENCY RISKS

KWG is exposed to interest rate fluctuations, especially in connection with its funding. This directly affects the Group's net interest income. In particular, interest rate risks also make themselves felt in connection with the extension of existing loans. KWG counteracts these risks through proactive loan management by performing regular forecasts of interest rate trends. At this time, there are no foreign currency cash flows at KWG. The Group thus is not exposed to currency risks.

PROPERTY RISKS

Property risks can arise at the level of individual properties or the portfolio: At the level of the properties, these risks include in particular neglect on the part of the property investor, structural damage, pollutants in building materials or wear and tear of the property by tenants. KWG reduces these risks through intensive maintenance of the properties with technical portfolio managers. At the level of the portfolio, risks arise in particular as a result of concentration in the portfolio structure. This can manifest itself in particular in a strong dependency on the development of regional market segments. In order to reduce this risk, KWG pushed ahead with its portfolio streamlining in financial year 2014, disposing of individual properties that are not a perfect match for the company's portfolio strategy.

RISKS TO THE STRUCTURAL INTEGRITY OF BUILDINGS

With respect to larger renovation projects, KWG is exposed to the risk of rising costs due to the effects of weather or previously unknown structural deficiencies. The risk is reduced through local inspections, analysis of the relationships and the detailed calculation of construction project costs. At the same time, additional costs for the company cannot be ruled out during the performance of the planned major renovations in Bochum and Oberhausen.

OCCUPANCY RISKS

A negative vacancy trend or default on receivables with respect to rental income can lead to decreasing operating cash flows and result in costs that may not be allocable to tenants. In order to reduce defaults on receivables from tenants, a standardised credit assessment of potential tenants is carried out for new leases. In addition, the reduction of vacancies by means of active asset management is one of the KWG Group's strategic goals. Receivables management also ensures the continuous receipt of payments and can counter potential defaults in a timely manner.

IT RISKS

There are IT risks because the majority of KWG's business processes are based on information technology. This also includes all required data privacy and protection measures. KWG protects its IT system from unauthorised access and loss of data by means of technical precautions. In addition, the IT system is continuously reviewed and adapted to the development of the state of the art.

LEGAL RISKS

Legal risks may arise from the diverse range of statutory requirements that affect the companies of the KWG Group and, in certain circumstances, might trigger financial losses. Based on current information, KWG does not see any legal risks that would have a relevant impact on its net assets, financial position and results of operations.

A review of the company's risk exposure as of the 31 December 2014 reporting date showed that there are no risks that could pose a going-concern risk to the company and the Group or materially undermine their performance. We have not presently identified any risks of this nature for the future.

REPORT ON OPPORTUNITIES

KWG further increased the quality of its portfolio in 2014 and initiated important projects for the future of the Group. The Management Board believes that KWG has the following opportunities in particular:

EFFECTIVE EXPLOITATION OF MARKET OPPORTUNITIES

In light of the positive market environment, the Management Board is basing its planning on the assumption that the positive operating development will continue. Business processes are permanently adjusted to the changing conditions with a focus on the consistent optimisation of the portfolio. KWG intends to consistently utilise the market opportunities with permanent portfolio development and a flexible organisational structure.

ACQUISITION OF PORTFOLIOS AT ATTRACTIVE PRICES

KWG sees further opportunities in the acquisition of property where payments on the related loans are in arrears (non-performing loans). In particular, this concerns highly leveraged properties that were bought in the past years. In the future, creditors are likely to seek out solvent buyers for their properties with non-performing loans. KWG perceives itself as a potential partner for such creditors.

POSITIVE DEVELOPMENT OF SECONDARY AND TERTIARY LOCATIONS

The portfolio as it stands places particular emphasis on secondary and tertiary locations, which analysts expect to show an exceptionally favourable development. KWG will benefit from this trend by generating higher rental income and revaluation gains. A good mix was also achieved in the portfolio in terms of micro-locations, apartment sizes and tenant structure, leading KWG to expect constant, stable growth in rental income.

Berlin, 12 March 2015

KWG Kommunale Wohnen AG

Gabriela Zraunig
Member of the Management Board

CONSOLIDATED INCOME STATEMENT

FOR THE PERIOD FROM 1 JANUARY TO 31 DECEMBER 2014

(in € thsd)	01/01/ – 31/12/2014	01/01/ – 31/12/2013*	Note
1. Rental income	43,475	45,673	4.1
2. Proceeds from the disposal of properties held for sale	6,337	330	
3. Proceeds from the disposal of investment properties	12,004	9,686	
4. Revenue from property services	87	0	
5. Revenue	**61,903**	**55,689**	
6. Property expenses	(19,934)	(22,503)	4.1
7. Expenses from the disposal of properties held for sale	(3,669)	(141)	
8. Expenses from the disposal of investment properties	(11,460)	(9,713)	5.1
9. Subtotal of 5. to 8.	**26,840**	**23,332**	
10. Gains from fair value adjustments	11,022	2,219	
11. Losses from fair value adjustments	(11,019)	(3,970)	
12. Net gain/loss from fair value adjustments	**3**	**(1,751)**	5.1
13. Depreciation, amortisation and impairment charges	(126)	(215)	
14. Other operating income	782	1,366	
15. Personnel expenses	(3,927)	(3,316)	4.2
16. Other operating expenses	(7,261)	(6,722)	4.3
17. Operating result (EBIT)	**16,311**	**12,694**	
18. Finance income	12	440	4.4
19. Finance costs	(9,989)	(10,240)	4.5
20. Financial result	**(9,977)**	**(9,801)**	
21. Earnings before tax (EBT)	**6,334**	**2,893**	
22. Income tax expense / income	(1,106)	(1,651)	4.6
23. Profit/loss for the period after tax	**5,228**	**1,241**	
Thereof attributable to non-controlling interests	(1)	53	
Thereof attributable to equity holders of the parent	5,229	1,188	
Earnings per share in € (basic and diluted)	0.32	0.07	4.7

** Adjusted; for an explanation of the adjustments, see chapter 2.3.*

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS OF 31 DECEMBER 2014

ASSETS

(in € thsd)	31/12/2014	31/12/2013*	01/01/2013*	Note
A. Non-current assets				
Investment properties	421,022	420,293	423,915	5.1
Intangible assets	9	12	72	
Other property, plant and equipment	318	415	483	
Other financial assets	0	1	5	
Deferred tax assets	80	0	0	5.4
Total non-current assets	**421,429**	**420,720**	**424,476**	
B. Current assets				
Properties held for sale	515	4,183	4,169	5.2
Trade accounts receivable	2,364	2,977	1,397	5.6
Other financial assets	997	996	5,110	5.6
Other assets	165	49	2,068	5.6
Cash and cash equivalents	7,238	7,043	30,327	5.6
Total current assets	**11,279**	**15,249**	**43,071**	
TOTAL ASSETS	**432,708**	**435,969**	**467,547**	

EQUITY AND LIABILITIES

	31/12/2014	31/12/2013*	01/01/2013*	Note
C. Equity				**5.3**
Share capital	15,881	15,881	15,881	
Capital reserves	67,312	67,312	67,312	
Retained earnings	91,708	86,454	84,451	
Other reserves	(812)	(640)	(834)	
Equity attributable to equity holders of the parent	174,089	169,008	166,811	
Non-controlling interests	5,834	5,879	6,453	
Total equity	**179,923**	**174,887**	**173,264**	
D. Non-current liabilities				
Loans and borrowings	203,004	223,504	161,492	5.6
Provisions	1,805	1,664	1,762	5.5
Deferred tax liabilities	15,916	14,775	13,329	5.4
Other non-current financial liabilities	691	715	931	
Total non-current liabilities	**221,416**	**240,658**	**177,514**	
E. Current liabilities				
Loans and borrowings	26,642	11,971	16,157	5.6
Trade accounts payable	2,398	4,092	93,799	
Income tax liabilities	85	166	299	
Other current financial liabilities	1,363	3,533	2,244	5.6
Other current liabilities	881	663	4,269	5.7
Total current liabilities	**31,369**	**20,424**	**116,769**	
TOTAL EQUITY AND LIABILITIES	**432,708**	**435,969**	**467,547**	

** Adjusted; for an explanation of the adjustments, see chapter 2.3.*

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE PERIOD FROM 1 JANUARY TO 31 DECEMBER 2014

(in € thsd)	01/01/ – 31/12/2014 Equity holders of the parent	01/01/ – 31/12/2014 Non-controlling interests	01/01/ – 31/12/2014 Total	01/01/ – 31/12/2013 Equity holders of the parent	01/01/ – 31/12/2013 Non-controlling interests	01/01/ – 31/12/2013 Total
Profit/loss for the period after tax	**5,229**	**(1)**	**5,228**	**1,188**	**53**	**1,241**
Actuarial gains/losses	(229)	(22)	(250)	26	2	28
Deferred taxes on actuarial gains/losses	37	3	40	(4)	0	(5)
Total non-reclassifiable other comprehensive income	**(192)**	**(18)**	**(210)**	**22**	**2**	**24**
Cash flow hedges	24	0	24	205	0	205
Tax effect of cash flow hedges	(4)	0	(4)	(32)	0	(32)
Total reclassifiable other comprehensive income	**20**	**0**	**20**	**173**	**0**	**173**
Total other comprehensive income	**(172)**	**(18)**	**(190)**	**194**	**2**	**196**
Total comprehensive income for the period	**5,057**	**(20)**	**5,038**	**1,382**	**55**	**1,437**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE PERIOD FROM 1 JANUARY TO 31 DECEMBER 2014

(in € thsd)	Share capital	Capital reserves	Retained earnings
Balance as of 01/01/2013	**15,881**	**67,312**	**84,451**
Profit/loss for the period (after tax)	0	0	1,188
Other comprehensive income	0	0	0
Total comprehensive income for the period	**0**	**0**	**1,188**
Withdrawals for transaction costs due to a subsidiary's equity transaction	0	0	0
Cash receipts from non-controlling interests	0	0	0
Cash withdrawals by non-controlling interests	0	0	0
Acquisition of non-controlling interests without change of control	0	0	815
Balance as of 31/12/2013	**15,881**	**67,312**	**86,454**
Balance as of 01/01/2014	**15,881**	**67,312**	**86,454**
Profit/loss for the period (after tax)	0	0	5,229
Other comprehensive income	0	0	0
Total comprehensive income for the period	**0**	**0**	**5,229**
Acquisition of non-controlling interests without change of control	0	0	24
Balance as of 31/12/2014	**15,881**	**67,312**	**91,708**

Reserve for derivatives	Other reserves	Equity holders of the parent	Non-controlling interests	Total equity
(728)	**(106)**	**166,811**	**6,453**	**173,264**
0	0	1,188	53	1,241
173	21	194	2	196
173	**21**	**1,382**	**55**	**1,437**
0	0	0	(2)	(2)
0	0	0	304	304
0	0	0	(7)	(7)
0	0	815	(924)	(109)
(555)	**(85)**	**169,008**	**5,879**	**174,887**
(555)	**(85)**	**169,008**	**5,879**	**174,887**
0	0	5,229	(1)	5,228
20	(192)	(172)	(18)	(190)
20	**(192)**	**5,057**	**(20)**	**5,038**
0	0	24	(26)	(2)
(535)	**(277)**	**174,089**	**5,834**	**179,923**

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE PERIOD FROM 1 JANUARY TO 31 DECEMBER 2014

(in € thsd)	01/01/ – 31/12/2014	01/01/ – 31/12/2013*	Note
Profit/loss for the period after tax	**5,228**	**1,241**	
Financial result	9,978	9,801	
Income tax expense / income	1,106	1,651	4.6
Net gain/loss from fair value adjustments	(3)	1,751	5.1
Depreciation, amortisation and other impairment charges	126	215	
Other non-cash effects on earnings	0	(196)	
Gain/loss from the sale of investment properties	(544)	30	
Changes in long-term provisions	140	(98)	
Income tax paid	180	0	
Interest received	12	32	
Subtotal	**16,223**	**14,427**	
Changes in			
Properties held for sale	3,669	(4,183)	
Receivables and other financial assets	497	(940)	5.6
Trade accounts payable	49	163	5.6
Other liabilities and provisions	(95)	132	5.6
Other financial liabilities	(236)	0	
Cash flow from operating activities	**20,106**	**9,599**	
Payments for the acquisition of investment properties	(12,186)	(96,766)	5.1
Payments for the acquisition of investments in other property, plant and equipment	(25)	(150)	
Cash inflows from the sale of investment properties	10,261	13,468	
Cash outflows for the acquisition of subsidiaries, less cash and cash equivalents acquired	(2)	0	
Cash flow from investing activities	**(1,952)**	**(83,448)**	
Cash receipts from non-controlling interests	0	304	
Payments made for the acquisition of non-controlling interests	0	(609)	
Cash receipts from borrowings	7,588	75,261	
Payments made for the repayment of loans	(15,720)	(14,605)	
Interest paid	(9,826)	(9,786)	
Cash flow from financing activities	**(17,958)**	**50,565**	
Change in cash and cash equivalents	**195**	**(23,284)**	
Cash and cash equivalents			
Cash and cash equivalents at the beginning of the period	7,043	30,327	5.6
Cash and cash equivalents at the end of the period	7,238	7,043	5.6
Change in cash and cash equivalents	**195**	**(23,284)**	

** Adjusted; for an explanation of the adjustments, see chapter 2.3.*

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

AS OF 31 DECEMBER 2014

1 INFORMATION ABOUT THE COMPANY

KWG Kommunale Wohnen AG (“KWG”) is a stock corporation under German law that trades in the Entry Standard of the Frankfurt Stock Exchange. In the 2014 financial year, the registered office of KWG AG was moved from Hamburg to Leipziger Platz 9, Berlin, Germany. The company is listed in the commercial register of the Charlottenburg District Court under the number HRB 160196B.

As of 31 December 2014, conwert Immobilien Invest SE, Vienna/Austria, directly held 80.04 % (31/12/2013: 76.96 %) of the share capital and voting rights of KWG AG. Thus, the company is a dependent of conwert Immobilien Invest SE, Vienna/Austria, as defined under Section 17 of the German Stock Corporation Act (Aktiengesetz, AktG). The KWG Group is included in the consolidated financial statements of conwert Immobilien Invest SE.

The KWG Group’s business activities primarily comprise the acquisition, construction and sale of residential property; investments in property companies, especially not-for-profit, municipal and co-operative housing association; as well as rental and management of its own properties.

2 ACCOUNTING POLICIES

2.1 GENERAL PRINCIPLES

The Management Board of KWG was responsible for the preparation of these consolidated financial statements in accordance with the guidelines set forth in International Financial Reporting Standards (IFRSs) as adopted by the European Union (EU) and the supplementary provisions applicable in accordance with Section 315 (1) German Commercial Code (Handelsgesetzbuch, HGB). The consolidated financial statements were prepared on a historical cost basis, which was modified to include the measurement of investment property and derivative financial instruments at fair value.

The consolidated financial statements are prepared in thousand euros (€ thsd). Numerous amounts and percentage rates presented in the consolidated financial statements were rounded, and totals can therefore differ arithmetically from the sum of the individual amounts.

2.2 BASIS OF CONSOLIDATION

The consolidated financial statements comprise KWG Kommunale Wohnen AG as the ultimate parent company and the companies listed under Note 11.

There were no significant changes in KWG’s basis of consolidation in the 2014 financial year.

2.3 CHANGES IN PRESENTATION

In the current financial year, the reporting of the KWG Group was brought into line with that of the conwert Group by changing the presentation in the income statement, the statement of financial position, the statement of changes in equity and the statement of cash flows. The comparative figures were also adjusted accordingly.

KWG KOMMUNALE WOHNEN AG BERLIN (in € thsd)	01/01/ – 31/12/2013 Not adjusted	Adjustment
Revenue	45,673	0
Sales proceeds from the disposal of properties	330	0
	0	9,686
	0	0
Cost of materials	(14,951)	14,951
Expenses from investment properties	(8,574)	8,574
	0	(22,503)
Expenses from the disposal of properties	(141)	0
	0	(9,713)
	0	0
Income from the fair value measurement of investment properties	(1,751)	0
Depreciation, amortisation and impairment charges	(215)	0
Other operating income	2,408	(1,042)
Personnel expenses		0
a) Wages and salaries	(2,844)	(472)
b) Social security and retirement benefit costs	(472)	472
Other operating expenses	(5,049)	(1,673)
Profit/loss from associates	(4)	4
		0
Income from investment securities	3	(3)
Other interest and similar income	29	411
Interest and similar expenses	(9,971)	(270)
Profit attributable to non-controlling interests	11	(11)
Result from ordinary activities	**4,481**	**(1,588)**
Income taxes	(1,651)	0
Other taxes	(1,588)	1,588
Consolidated net profit for the period	**1,241**	**0**

01/01/ – 31/12/2013 Adjusted		
45,673	1.	Rental income
330	2.	Proceeds from the disposal of properties held for sale
9,686	3.	Proceeds from the disposal of investment properties
55,689	5.	Revenue
0		
0		
(22,503)	6.	Property expenses
(141)	7.	Expenses from the disposal of properties held for sale
(9,713)	8.	Expenses from the disposal of investment properties
23,332	9.	Subtotal of 5. to 8.
(1,751)	12.	Net gain/loss from fair value adjustments (Subtotal of 10. and 11.)
(215)	13.	Depreciation, amortisation and other impairment charges
1,366	14.	Other operating income
(3,316)	15.	Personnel expenses
0		
(6,722)	16.	Other operating expenses
0		
12,694	**17.**	**Operating result (EBIT)**
440	18.	Finance income
(10,240)	19.	Finance costs
0		
(9,801)	**20.**	**Financial result**
2,893	**21.**	**Earnings before tax (EBT)**
(1,651)	22.	Income tax expense/income
0		
1,241	**23.**	**Profit/loss for the period after tax**

KWG KOMMUNALE WOHNEN AG BERLIN

ASSETS

(in € thsd)	01/01/2013 Not adjusted		01/01/2013 Adjusted	
B. Current assets				
Inventories	99	(99)	0	
Properties held for sale	4,169	0	4,169	
Trade accounts receivable	1,397	0	1,397	
Receivables from affiliates	0	0	0	
Tax assets	73	(73)	0	
Other financial assets	0	5,110	5,110	
Other receivables and assets	9,208	(7,140)	2,068	
Liquid funds	30,327	0	30,327	
Total current assets	**45,272**	**(2,202)**	**43,071**	
TOTAL ASSETS	**469,748**	**(2,202)**	**467,547**	

EQUITY AND LIABILITIES

	01/01/2013 Not adjusted		01/01/2013 Adjusted	
C. Equity				
Issued capital	15,881	0	15,881	
Capital reserves	65,031	2,281	67,312	
Contributions related to the implementation of the capital increase	326	(326)	0	
Share premium related to the implementation of the capital increase	1,955	(1,955)	0	
Revenue reserves	3,728	(3,728)	0	
Market valuation reserve	(728)	728	0	
Consolidated net retained profits	80,617	3,834	84,451	
Other reserves	0	(834)	(834)	
Equity attributable to shareholders of the parent	166,811	0	166,811	
Non-controlling interests in equity	6,453	0	6,453	
Total equity	**173,264**	**0**	**173,264**	
D. Non-current liabilities				
Financial liabilities	160,945	547	161,492	
Provisions for pensions	1,762	0	1,762	
Deferred tax liabilities	13,329	0	13,329	
Trade accounts payable	916	15	931	
Non-current borrowings (third-party interests in commercial partnerships)	66	(66)	0	
Total non-current liabilities	**177,018**	**496**	**177,514**	
E. Current liabilities				
Financial liabilities	16,157	0	16,157	
Trade accounts payable	4,286	89,513	93,799	
Liabilities to affiliates	0	0	0	
Tax liabilities	4,568	(4,269)	299	
Other current liabilities	94,455	(92,211)	2,244	
	0	4,269	4,269	
Total current liabilities	**119,467**	**(2,698)**	**116,769**	
TOTAL EQUITY AND LIABILITIES	**469,748**	**(2,202)**	**467,547**	

31/12/2013 Not adjusted		31/12/2013 Adjusted	
			B. Current assets
303	(303)	0	
4,183	0	4,183	Properties held for sale
3,493	(516)	2,977	Trade accounts receivable
223	(223)	0	
109	(109)	0	
0	996	996	Other financial assets
1,178	(1,129)	49	Other assets
7,028	15	7,043	Cash and cash equivalents
16,518	**(1,269)**	**15,249**	**Total current assets**
437,238	**(1,269)**	**435,969**	**TOTAL ASSETS**

31/12/2013 Not adjusted		31/12/2013 Adjusted	EQUITY AND LIABILITIES
			C. Equity
15,881	0	15,881	Share capital
65,031	2,281	67,312	Capital reserves
326	(326)	0	
1,955	(1,955)	0	
4,564	(4,564)	0	Treasury shares
(555)	555	0	
81,805	4,649	86,454	Retained earnings
0	(640)	(640)	Other reserves
169,008	0	169,008	Equity attributable to equity holders of the parent
5,879	0	5,879	Non-controlling interests
174,887	**0**	**174,887**	**Total equity**
			D. Non-current liabilities
223,098	405	223,504	Loans and borrowings
1,664	0	1,664	Provisions
14,775	0	14,775	Deferred tax liabilities
812	(97)	715	Other non-current financial liabilities
55	(55)	0	
240,405	**253**	**240,658**	**Total non-current liabilities**
			E. Current liabilities
12,332	(362)	11,971	Loans and borrowings
3,438	654	4,092	Trade accounts payable
2,004	(2,004)	0	
260	(95)	166	Income tax liabilities
3,911	(379)	3,533	Other current financial liabilities
0	663	663	Other current liabilities
21,946	**(1,522)**	**20,424**	**Total current liabilities**
437,238	**(1,269)**	**435,969**	**TOTAL EQUITY AND LIABILITIES**

The main changes in the presentation in the consolidated income statement are summarised below:

- Sales proceeds and the derecognition of carrying amounts of investment property sold are now presented in separate items. Previously, any gain from such disposals was shown in other operating income.
- Before the adjustments, expenses from other taxes were recognised as a separate item under earnings before tax (before the adjustments: result from ordinary activities) and are now shown in other operating expenses. Where other taxes relate to operating costs, these are shown in the property expenses.
- Before the adjustments, finance costs and finance income, for example borrowing costs, were partly carried under other operating income and other operating expenses and are now shown in full under “Finance income” and “Finance costs”.
- The consolidated statement of comprehensive income was divided into a separate consolidated income statement and a consolidated statement of comprehensive income.

The main changes in the presentation in the consolidated statement of financial position are summarised below:

- Deferred operating costs and prepayments received on operating expenses are now presented net.
- As of 31/12/2013, liabilities from negative fair values of derivatives amounting to € 660 thsd were reported under other current liabilities. These negative fair values are now presented in other non-current financial liabilities.
- Deferred borrowing costs of € 407 thsd, which in accordance with IAS 39 are considered part of the effective rate of interest on loans, were reported under other receivables and assets as of 31/12/2013. This deferred item is now shown under non-current loans and borrowings.
- In equity, the contributions related to the implementation of the capital increase and the share premium related to the implementation of the capital increase were reclassified to the capital reserves. In addition, revenue reserves were reclassified to retained earnings. The other reserves are composed of the reserve for derivatives in the amount of € 555 thsd and the reserve for actuarial gains and losses in the amount of € 85 thsd.

The main changes in the presentation in the consolidated statement of cash flows are summarised below:

- Following the adjustments, interest paid is presented under the cash flow from financing activities. This reduces the cash flow from financing activities by € 9,786 thsd after adjustments.
- Following the adjustments, payments for investments in and proceeds from the sale of property held for sale are shown under the cash flow from operating activities. This increases the cash flow from investing activities by € 3,994 thsd after adjustments.

2.4 NEW AND REVISED STANDARDS AND INTERPRETATIONS

The following new or revised standards and interpretations were applied for the first time in financial year 2014:

STANDARD/ INTER-PRETATION		Effective date*	Material effects on the consolidated financial statements
IAS 27	New version: Separate Financial Statements	01/01/2014	no
IAS 28	New version: Associates	01/01/2014	no
IFRS 10	Consolidated Financial Statements	01/01/2014	no
IFRS 11	Joint Arrangements	01/01/2014	no
IFRS 12	Disclosure of Interests in Other Entities	01/01/2014	no
IAS 32	Financial Instruments: Disclosure and Presentation (change: offsetting)	01/01/2014	no
IAS 36	Impairment of Assets (change: recoverable amount disclosures for non-financial assets)	01/01/2014	no
IAS 39	Financial Instruments: Recognition and Measurement (change: novation of derivatives and continuation of hedge accounting)	01/01/2014	no
IFRIC 21	Levies	14/06/2014	no
Various	Investment Entities Amendments to IFRS 10, IFRS 12 and IAS 27	01/01/2014	no

** Applicable to financial years beginning on or after the date stated.*

The following new or revised standards and interpretations have been announced by the IASB but do not require mandatory application because they have not yet been adopted by the EU or only require mandatory application in a later financial year.

STANDARD/ INTER-PRETATION		Effective date*	Material effects on the consolidated financial statements
IFRS 9	Financial Instruments	01/01/2018	being analysed
IAS 19	Employee Benefits (change: defined benefit plans – employee contributions)	01/07/2014	no
IFRS 14	Regulatory Deferral Accounts	01/01/2016	no
IFRS 11	Amendments: Joint Arrangements	01/01/2016	no
IFRS 16 and IAS 38	Amendments: Property, Plant and Equipment and Intangible Assets	01/01/2016	no
IAS 16 and IAS 41	Amendments: Property, Plant and Equipment, and Agriculture	01/01/2016	no
IAS 27	Amendments: Separate Financial Statements	01/01/2016	no
IFRS 10 and IAS 28	Amendments: Consolidated Financial Statements and Investments in Associates	01/01/2016	no
IFRS 15	Revenue Recognition	01/01/2017	no
Various	Improvements to IFRSs, 2010-2012	01/07/2014	no
Various	Improvements to IFRSs, 2011-2013	01/07/2014	no
Various	Improvements to IFRSs, 2012-2014	01/01/2016	no

** Applicable to financial years beginning on or after the date stated.*

IFRS 9, which was issued in July 2014, replaces the guidelines currently provided by IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 contains revised guidelines for the classification and measurement of financial instruments, including a new expected credit loss impairment model for financial assets and new general accounting requirements for hedges. It also adopts the IAS 39 guidelines for the recognition and derecognition of financial instruments. IFRS 9 is applicable to financial years beginning on or after 1 January 2018; early application is permitted.

2.5 SEGMENT REPORTING

Operating segments were identified based on information regularly used by the company's primary chief operating decision maker with respect to decisions on the allocation of resources and the assessment of profitability. The chief operating decision maker of the KWG Group is the entire Management Board. Internal reports to the entire Management Board are made on the basis of a long-term oriented property investor in German properties. In accordance with IFRS 8, separate segment reports are not prepared for this reason, since the KWG Group is only operates a single line of business as a segment – namely letting. The properties are located exclusively in Germany.

2.6 PRINCIPLES OF CONSOLIDATION

2.6.1 General

All companies controlled by the parent are included in the consolidated financial statements by consolidation. A company is initially consolidated when control is transferred to the parent and deconsolidated when control ends. All transactions between companies included by consolidation were eliminated, i. e. income and expenses, receivables and liabilities, and unrealised interim profits.

In accordance with the principle of a uniform reporting date, the consolidated financial statements are prepared as of the same reporting date as the financial statements of the parent company, KWG. The separate financial statements of all companies included in consolidation were prepared as of the reporting date used for the consolidated financial statements.

2.6.2 Business combinations

Business combinations are accounted for according to the acquisition method described in IFRS 3, unless the acquired units do not represent a business. At the acquisition date, the company must classify a transaction as the purchase of assets or a business. An acquired unit is generally classified as a business if it has personnel and/or activities such as property management or asset management that are also taken over.

If an acquisition involves the purchase of a group of assets or liabilities that do not represent a business, the acquisition costs are allocated between the individual identifiable assets and liabilities in the acquired unit based on their relative fair value at the acquisition date.

If an acquisition involves the purchase of a business, the subsidiary is initially recognised by applying the acquisition method; this involves the recognition of the identifiable assets and liabilities at fair value together with any goodwill.

2.7 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.7.1 Property assets

2.7.1.1 Investment properties

Classification and measurement
Investment properties represent assets that are held to generate rental income or for capital appreciation and are not used for the production or supply of goods or services or for sale in the ordinary course of business. Investment properties can represent land and/or buildings or parts thereof.

Investment properties are initially recognised at cost, including any transaction or production costs as defined in IAS 16. Borrowing costs incurred during the development of investment properties are capitalised at an amount equal to the directly attributable interest expense. These assets are subsequently measured at fair value based on IFRS 13 in connection with IAS 40. Fair value represents the amount that would be paid for the sale of a property in an orderly transaction between market participants on the balance sheet date. Since the determination of fair value is generally based on non-observable input factors, the fair value of investment property is classified under level three on the IFRS 13 fair value hierarchy.

Changes in fair value are recognised through profit or loss and reported on the income statement. Investment property is derecognised when it is sold or permanently withdrawn from use, and no future economic benefits are expected from its disposal. Properties are reclassified from investment properties to properties held for sale only if there is a change in use. A change in use is assumed to occur at the time when the responsible corporate bodies of the KWG Group decide to sell the respective property assets.

Determination of fair value
The fair value of properties is determined each year by independent experts, who have the necessary qualifications and experience for this work. The applied valuation techniques meets the requirements of the valuation standards defined by the Royal Institution of Chartered Surveyors (RICS) and the requirements of IFRS 13.

As of 31 December 2014, 99.9 % (31/12/2013: 99.1 %) of the fair value shown on the statement of financial position was determined using the discounted cash flow (DCF) method. The DCF method involves the preparation of monthly forecasts for the future income and expenditures connected with the valuation object over a detailed planning period of ten years. The cash flows at the beginning of each month are discounted back to the valuation date to determine the specific effects of relevant incoming and outgoing payments during the forecast period on the market value of the property as of the valuation date.

The discount rate used for the calculation reflects the expected return of a potential investor as well as the forecast uncertainty connected with future cash flows and was derived from actually realised comparable transactions and alternative investment forms. Since the weighting of future cash flows decreases and forecast uncertainty increases during the forecast period due to the discounting, the stabilised net profit is normally capitalised after ten years based on a growth-implicit capitalisation rate and discounted back to the valuation date.

Key input factors for the determination of fair value

The following table shows the average values of the key input factors, including the fair value of the properties by region.

31/12/2014	Carrying amount in € thsd	Discount rate in %	Maintenance costs (in €/sqm/month)	Structural vacancies in %	Target rent (in €/sqm/month)
Berlin	75,180	4.8	0.6	2.0	5.8
East Germany	87,357	4.6	0.5	3.3	3.6
West Germany	258,484	5.9	0.6	3.6	5.4
Total	**421,022**				

31/12/2013	Carrying amount in € thsd	Discount rate in %	Maintenance costs (in €/sqm/month)	Structural vacancies in %	Target rent (in €/sqm/month)
Berlin	69,705	4.9	0.6	1.7	5.4
East Germany	102,042	4.7	0.5	0.8	3.9
West Germany	284,545	5.8	0.6	1.7	5.2
Total	**420,293**				

The fair value of property assets would increase – all other factors held constant – as a result of a

- decrease in the discount rate,
- decrease in maintenance costs per square metre,
- decrease in structural vacancies,
- increase in target rent per square metre.

A sensitivity analysis on these parameters is provided under Note 3.1.

2.7.1.2 Properties held for sale

Properties are classified as held for sale if their sale is planned during the ordinary course of business or the property is under construction for sale at a later date in the ordinary course of business.

Properties held for sale are initially recognised at cost, including transaction or production costs as defined in IAS 2. Investment properties are only reassigned to this category when there is a change in use; reclassification takes place at the fair value on the reclassification date.

In accordance with IAS 2, properties designated for sale are subsequently measured at the lower of carrying amount and net realisable value. The net realisable value represents the estimated selling price less any outstanding production costs and the expected costs for the sale.

Properties available for sale are derecognised when the risks and rewards are transferred.

2.7.2 Intangible assets

Intangible assets acquired separately are initially recognised at cost and measured in subsequent periods at cost less accumulated amortisation and any accumulated impairment losses. Amortisation is based on the useful economic life of the asset.

Straight-line amortisation is based on the following useful lives:

Software:	3 years

2.7.3 Other property, plant and equipment

Other property, plant and equipment are carried at cost, less accumulated depreciation and any accumulated impairment losses.

Straight-line depreciation is based on the following useful lives:

Technical equipment, furniture, fixtures and office equipment:	5–10 years

2.7.4 Leases

KWG acts as a lessor when it rents the properties it owns to tenants and as a lessee. The existing leases are operating leases.

The determination of whether an arrangement represents a lease is based on the substance of the arrangement on the date it is concluded. This determination requires an estimate of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets and whether the arrangement conveys a right to use the assets. A renewed evaluation after the start of the lease is only possible if the requirements of IFRIC 4 are met.

Leases that transfer all risks and rewards incidental to ownership are classified as finance leases. Leases that do not transfer all risks and rewards incidental to ownership from the Group to the lessee are classified as operating leases and accounted for accordingly.

When classifying a lease of land and buildings, the land and buildings elements are considered separately. In order to classify and account for a lease of land and buildings, the minimum lease payments are allocated between the land and the buildings elements in proportion to the relative fair values of the leasehold interests in the land element and buildings element of the lease at the inception of the lease. The land and building components are classified as an operating lease or a finance lease in accordance with the criteria defined in IAS 17.

Operating lease payments are recognised as an expense in profit or loss on a straight-line basis over the term of the lease. In cases where the transfer of ownership at the end of the lease is not reasonably certain, the leased asset is depreciated over the shorter of the estimated useful life and the lease term.

2.7.5 Financial instruments

Financial instruments are classified as financial assets or financial liabilities based on the economic characteristics of the relevant contract. Financial assets and liabilities are only netted out when there is a legal right to offset these amounts and plans call for settlement on a net basis or the settlement of the related liability concurrently with the realisation of the related asset.

The fair value of financial instruments that are traded in organised markets is determined by the quoted market bid price (Level 1 – fair value) as of the balance sheet date. The fair value of financial instruments for which there is no active market is established through accepted valuation techniques. Valuation techniques based on input factors that are observable on the market are classified as Level 2 – fair value. Classification under Level 3 – fair value represents the use of input factors that are not observable on the market.

The interest, dividends, gains and losses arising from these financial instruments are reported under financial results as income or expenses (excl. gains and losses on derivatives used for cash flow hedging).

Receivables and other financial assets

Trade accounts receivable, other receivables and other financial assets represent non-derivative financial instruments that are not traded on an active market and are not designated for sale. They are assigned to the measurement category “Loans and receivables” (L&R). These assets are initially recognised at fair value and subsequently measured at amortised cost based on the effective interest rate method, less any adjustments to reflect impairment.

The impairment of receivables and other assets is determined on the basis of the dunning process, the time overdue, the credit standing of the debtor and any collateral provided. An impairment charge is only recognised when there is objective evidence that the receivable will not be collected in full. Receivables are derecognised when they become uncollectible. Payments subsequently received on receivables that were previously written off are recognised through profit or loss and included under “other operating income”.

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, demand deposits with financial institutions and time deposits with an original term not exceeding three months.

Interest-bearing liabilities

Interest-bearing liabilities are assigned to the category “Financial Liabilities at Amortised Cost” (FLAC) and initially recognised at the actual amount received less transaction costs. Any difference between the amount received and the amount to be repaid is allocated over the term of the financing according to the effective interest rate method and included under finance costs or, if the requirements of IAS 23 are met, capitalised as part of production cost.

Non-interest bearing financial liabilities

Other financial liabilities, e. g. trade accounts payable, are classified as “Financial Liabilities at Amortised Cost” (FLAC). These liabilities are initially recognised at fair value and subsequently measured at amortised cost. The fair value of current non-interest bearing liabilities normally corresponds to the estimated total of all future payments. Non-current, non-interest bearing liabilities are initially recognised at fair value and compounded at market interest rates.

Derivative financial instruments

The KWG Group uses derivative financial instruments (interest rate swaps) to hedge interest rate risks. Derivative financial instruments are initially recognised at fair value when the respective contract is concluded and measured at fair value in subsequent periods. Derivative financial instruments are classified as a non-current asset or non-current liability when the instrument has a remaining term of more than twelve months and is not expected to be realised or settled within this period. It is shown under other financial assets or other financial liabilities in accordance with its market valuation.

For derivative financial instruments that qualify as hedges for future cash flows (CFH – cash flow hedge), the effective portion of the change in fair value is recognised under other comprehensive income, i. e. under equity without recognition through profit or loss. The ineffective portion is recognised immediately as an expense and included in the financial result. The measurement results of cash flow hedges recognised in equity are transferred to the consolidated income statement in the period in which the hedged item is recognised through profit or loss or when the anticipated cash flows are no longer expected. If the hedge expires or is sold, terminated or exercised without replacement or rollover, or if the hedge no longer meets the criteria for hedge accounting, the amounts previously recognised in other comprehensive income remain as a separate component of equity until the forecast transaction or the firm commitment has occurred. The relationship between the hedge and the hedged item as well as the related effectiveness is evaluated and documented at the conclusion of the contract and on a regular basis thereafter.

Measurement
The fair value of derivatives is determined by discounting the future cash flows from variable payments based on generally recognised actuarial models. The discounting of cash flows reflects the market interest rate curve as well as the counterparty risk of the financial institution with which the derivative was concluded and the counterparty risk of the KWG Group. Counterparty risk is determined on the basis of the DRSK function published by the financial service provider Bloomberg, which is based on observable market data.

Therefore, the fair value of derivative financial instruments corresponds to level 2 (fair value) in the valuation hierarchy defined by IFRS 13.

2.7.6 Provisions, contingent liabilities and receivables
A provision is recognised if and only if the company has a present obligation arising from a past event; if it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and if the amount of the obligation can be reliably estimated.

Contingent liabilities are not recognised in the statement of financial position, but are disclosed in the notes. They are not disclosed if the possibility of an outflow of resources embodying economic benefits is improbable.

Contingent receivables are not recognised in the statement of financial position, but are disclosed if the inflow of resources embodying economic benefits is probable.

2.7.7 Provisions for pensions
Provisions for pensions are measured using the projected unit credit method for defined benefits set out in IAS 19 Employee Benefits. This method reflects both the pensions and acquired benefits known at the balance sheet date and expected future increases in salaries and pensions. The 2005 G mortality tables developed by Klaus Heubeck are used as the biometric basis for the measurement. Actuarial gains or losses resulting from the difference between the expected pension obligations reflected in the annual financial statements and the actual obligation calculated are recognised directly in other comprehensive income. The interest rate used for the calculation is derived from the yield on premium corporate bonds.

2.7.8 Revenue recognition
Revenue is recognised when it is probable that the economic benefits will flow to the Group and revenue can be reliably measured. Revenue is measured at the fair value of the consideration received, excluding discounts, rebates and value added tax or other duties.

Rental income is recognised on a straight-line basis over the full term of the underlying rental agreement, unless another allocation is more appropriate. Incentives, e. g. rent-free periods, reduced rent for a specific period or one-off payments, are considered part of rental income. Consequently, these incentives are allocated on a straight-line basis over the full term of the rental agreement. Regular adjustments called for by a rental agreement are also allocated on a straight-line basis over the full term of the rental agreement. In contrast, inflation-based adjustments are not allocated.

Revenue from the sale of properties is recognised in accordance with the transfer of dangers and risk as specified in the underlying contract, when the major risks and opportunities associated with ownership have been transferred to the buyer.

2.7.9 Income tax expense/income

Income tax expense is based on annual profit before tax and includes current as well as deferred taxes.

Current tax assets and tax liabilities for the current and prior reporting periods are recorded at the amount expected to be received from or paid to the taxation authorities. The calculation of these amounts is based on the tax rates and tax regulations in effect as of the balance sheet date. Current taxes relating to items recognised in other comprehensive income are not recognised in profit or loss, but recognised in other comprehensive income.

Deferred taxes are calculated using the balance sheet liability method. They reflect the tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts of these items as defined by the applicable tax regulations.

Deferred tax assets and deferred tax liabilities are calculated using the tax rates that are expected to apply to taxable income in the year the temporary differences are settled. This calculation applies the tax rates (and tax laws) that have been enacted as of the balance sheet date. The amount of the deferred tax assets and deferred tax liabilities reflects the tax effects that the Group would expect as of the balance sheet date if the carrying amounts of the assets were realised and the liabilities were settled.

Deferred tax assets and deferred tax liabilities are generally recognised for all temporary differences and tax loss carryforwards, with the exception of the following:

- Deferred tax liabilities and deferred tax assets arising from the initial recognition of goodwill, assets or liabilities relating to a transaction that is not a business combination and, at the time of the transaction, did not have an effect on net profit for the year as calculated according to commercial law or on taxable profit, and
- deferred tax liabilities and deferred tax assets arising from temporary differences that are related to investments in subsidiaries, associates or joint ventures, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax assets are created if it is probable that sufficient taxable profit will be available when the deductible temporary differences and/or tax loss carryforwards are realised. The unrecognised deductible temporary differences and/or tax loss carryforwards as well as the carrying amount of deferred tax assets are reassessed as of each balance sheet date. Unrealised deferred tax assets are recognised if it has become probable that future taxable profit will allow the deferred tax asset and/or tax loss carryforward to be recovered. In contrast, the carrying amount of deferred tax assets is reduced if it is no longer probable that sufficient taxable profit will be available in the future to utilise the deductible temporary differences or tax loss carryforwards.

Deferred taxes relating to items recognised in other comprehensive income are not recognised in profit or loss, but recognised in other comprehensive income.

Deferred tax assets are offset with deferred tax liabilities as of the balance sheet date if:

- these assets and liabilities relate to the same taxation authority, and
- these assets and liabilities fall under the existing tax assessment and group contract for the entities, which establishes a legally enforceable right to offset the items.

3 JUDGEMENTS AND ESTIMATION UNCERTAINTY

The following section describes the most important future-oriented assumptions and other key sources of estimation uncertainty as of the balance sheet date, which have a significant risk of resulting in a material adjustment to the carrying amount of assets and/or liabilities during the next financial year.

3.1 PROPERTY VALUATION

The fair value of the properties owned by the KWG Group is determined by appraisals prepared by independent experts. These appraisals are based on different valuation models which, in turn, include estimates and assumptions for a variety of parameters. It cannot be excluded that a negative change in one or more of these assumptions and/or parameters could lead to a decrease in the value of a property, and consequently to a negative effect on the net assets, financial position and results of operations of the Group. The applied assumptions and parameters are selected carefully and with the best possible judgement by the appraisers and management based on the prevailing market conditions and updated at every valuation date, which may lead to significant fluctuations in the value of property assets.

The following table shows the sensitivity of the fair value of property assets to changes in the key input factors as of 31/12/2014. The sensitivity of the fair value in respect of these parameters has not changed materially compared with the previous year.

CHANGE IN FAIR VALUE (in € thsd)	Discount rate +/– 1 percentage point	Maintenance costs +/– 5%	Structural vacancies +/– 1 percentage point	Target rents +/– 5%
Increase in parameter	(70,679)	(3,943)	(5,433)	28,076
Decrease in parameter	107,096	4,068	5,388	(28,684)

4 INCOME STATEMENT DISCLOSURES

4.1 RENTAL INCOME AND NET INCOME FROM PROPERTY MANAGEMENT

(in € thsd)	2014	2013
Net rental income	30,361	31,088
Operating costs charged to tenants	13,115	14,586
Rental income	**43,475**	**45,673**
Less property expenses		
Operating costs	(16,327)	(17,156)
Maintenance	(2,705)	(4,801)
Management services	(31)	(547)
Other	(871)	0
Property expenses	**(19,934)**	**(22,503)**
Net income from property management	**23,541**	**23,170**

4.2 PERSONNEL EXPENSES

The KWG Group had an average of 78 employees in the financial year ended (2013: 67), including 18 (2013: 19) part-time employees.

(in € thsd)	2014	2013
Wages and salaries	3,357	2,844
Expenses for legally required duties and contributions	486	472
Miscellaneous	84	0
Total	**3,927**	**3,316**

4.3 OTHER OPERATING EXPENSES

(in € thsd)	2014	2013
Write-off of uncollectible receivables and impairment charges to receivables	1,696	1,539
Commissions	805	167
Expenses for legal proceedings	688	437
Rental and leasing expenses	493	425
IT expenses	381	164
Legal advising and notaries public	377	518
Communication and advertising	301	291
Motor vehicle expenses	292	216
Expenses for temporary personnel	275	110
External accounting and tax advising	271	80
Other consulting expenses	262	100
Auditing fees	240	333
Office operations	233	189
Travel expenses	94	120
Supervisory Board remuneration	79	128
Expert opinions	71	70
Bank charges	64	39
Insurance	47	61
Loss from the disposal of fixed assets (excl. property)	31	63
Other taxes and duties	20	37
Miscellaneous other operating expenses	540	1,635
Total	**7,261**	**6,722**

The auditor's fee billed or to be billed for financial statement auditing services for the financial year is € 211 thsd (2013: € 150 thsd).

4.4 FINANCE INCOME

(in € thsd)	2014	2013
Interest income	12	427
Other interest income	0	13
Total	**12**	**440**

4.5 FINANCE COSTS

(in € thsd)	2014	2013
Interest expense	9,706	10,232
Interest expense from affiliated companies	104	4
Other finance costs	179	4
Total	**9,989**	**10,240**

4.6 INCOME TAX EXPENSE/INCOME

This item includes income taxes paid or owed by the individual Group companies as well as deferred taxes.

(in € thsd)	2014	2013
Current tax expense	(48)	(242)
Deferred tax expense from the recognition and reversal of temporary differences	(1,057)	(387)
Deferred tax expense from the elimination of loss carryforwards due to change of shareholders	0	(1,023)
Total	**(1,106)**	**(1,651)**

The reconciliation between the effective tax rate and the legal corporation tax rate of 15.825 % in Germany (2013: 15.825 %) is shown below:

(in € thsd)	2014	2013
Earnings before tax (EBT) for the Group	6,334	2,893
Anticipated income tax expense at group tax rate (15.825 %)	(1,002)	(458)
Trade tax expense	(204)	(73)
Elimination of loss carryforwards due to change of shareholders	0	(1,023)
Other effects	101	(97)
Income tax expense	**(1,106)**	**(1,651)**

The legal corporation tax rate is composed of a corporation tax rate of 15 % plus a solidarity surcharge of 0.825 % (5.5 % of 15 %).

4.7 EARNINGS PER SHARE

Earnings per share (as reported in the consolidated income statement) are calculated by dividing the profit attributable to the equity holders of the parent by the weighted average number of common shares outstanding during the financial year.

As in the previous year, KWG's share capital is € 15,881 thsd. It is divided into 15,881,234 no-par bearer shares. Since there were no dilutive effects for the common shares in the reporting period, basic earnings per share correspond to diluted earnings per share.

(Number)	2014	2013
Total number of shares outstanding as of the balance sheet date	15,881,234	15,881,234
Weighted average number of shares issued or to be issued	16,207,093	16,207,093

The weighted average number of shares issued or to be issued during the reporting period differs from the total number of shares outstanding at the end of the reporting date. This is because portions of the consideration to be transferred in connection with business combinations must be issued in the form of common shares and the relevant capital increase has not yet been recorded in the commercial register.

5 STATEMENT OF FINANCIAL POSITION DISCLOSURES

5.1 INVESTMENT PROPERTIES

(in € thsd)	Berlin	East Germany	West Germany	Total 2014
Carrying amount at the beginning of the financial year	**69,705**	**102,043**	**248,545**	**420,293**
Reclassification	0	(16,536)	16,535	0
Additions to existing properties	1,065	1,369	9,752	12,186
Disposals	0	0	(11,460)	(11,460)
Net gain/loss from fair value adjustments	4,410	481	(4,888)	3
Carrying amount the end of the reporting period	**75,180**	**87,357**	**258,484**	**421,022**

(in € thsd)	Berlin	East Germany	West Germany	Total 2013
Carrying amount at the beginning of the financial year	**65,470**	**101,700**	**256,745**	**423,915**
Reclassification	0	0	20	20
Additions from the expansion of the basis of consolidation	1,591	4,207	2,024	7,822
Disposals	0	(1)	(9,712)	(9,713)
Net gain/loss from fair value adjustments	2,644	(3,863)	(532)	(1,751)
Carrying amount the end of the reporting period	**69,705**	**102,043**	**248,545**	**420,293**

Investment properties of € 421,022 thsd (31/12/2013: € 420,293 thsd) serve as collateral for loans; the related mortgages total € 224,180 thsd (31/12/2013: € 228,523 thsd).

The reclassification in 2014 results from an adjustment of internal reporting.

5.2 PROPERTIES HELD FOR SALE

Properties held for sale are carried at the lower of cost and their net realisable value. As in the previous year, neither impairments nor revaluations were recognised in 2014.

Properties held for sale in the amount of € 515 thsd (31/12/2013: € 4,183 thsd) serve as collateral for loans and other liabilities; the related mortgages total € 656 thsd (31/12/2013: € 2,242 thsd).

5.3 EQUITY

Share capital

The company's share capital amounts to € 15,881 thsd (31/12/2013: € 15,881 thsd) and is divided into 15,881,234 (31/12/2013: 15,881,234) no-par bearer shares, each of which represents an equal share of share capital. The share capital is fully paid in.

The Management Board is authorised, subject to the approval of the Supervisory Board, to increase the company's share capital until 30 July 2017, once or repeatedly, by a total of up to € 7,941 thsd by issuing new no-par bearer shares in return for cash or non-cash contributions (Authorised Capital 2012). The Management Board may utilise this authorisation for any legally permissible purpose. In certain circumstances, the Management Board is authorised to exclude shareholders' subscription right, in whole or in part, with the Supervisory Board's approval.

The share capital was conditionally increased by up to € 7,940,616 through the issue of up to 7,940,616 new no-par bearer shares (Contingent Capital 2013). The contingent capital increase serves the granting of no-par bearer shares to the bearers of convertible bonds or bonds with warrants (or combinations of these instruments) respectively with conversion or option rights or with conversion or option obligations that are issued until 16 June 2018 by the company or a Group company of KWG AG as defined under Section 18 AktG based on the authorisation resolved by the Annual General Meeting on 17 June 2013. No corresponding rights have been issued to date.

Capital reserves

The capital reserves include € 326 thsd in contributions and € 1,955 thsd in premiums paid for the purpose of carrying out the capital increase as resolved, and the shares to be granted from Authorised Capital to the sellers in connection with the acquisition of the interests in HvD I Grundbesitzgesellschaft mbH, Hamburg; Viva I Immobilien u. Verwaltungs GmbH, Hamburg; and KWG Grundbesitz CV GmbH & Co. KG, Hamburg. A portion of the purchase price for these shares was paid to the sellers in the form of an equity component consisting of no-par bearer shares of KWG AG with a notional value of € 1 per share. The plan is to issue the shares to be transferred in 2015.

5.4 DEFERRED TAXES

Deferred tax assets and deferred tax liabilities as of 31 December 2014 and 2013 are the result of the following temporary differences between the carrying amounts of assets and liabilities in the IFRS consolidated financial statements and the tax bases of these items:

	2014		2013	
(in € thsd)	Assets	Equity and liabilities	Assets	Equity and liabilities
IAS 40 measurement of investment property	0	16,462	0	15,106
Pension provisions	117	0	86	0
Adjustments to the fair value of other liabilities	111	820	104	811
Tax loss carryforwards	1,218	0	952	0
Tax assets/liabilities	**1,447**	**17,283**	**1,142**	**15,917**
Offsetting of deferred tax assets and liabilities	(1,367)	(1,367)	(1,142)	(1,142)
Net deferred tax assets and liabilities	**80**	**15,916**	**0**	**14,775**

All changes in deferred tax assets and deferred tax liabilities were recognised through profit or loss, with the exception of deferred taxes on the changes in cash flow hedges and the reserve for actuarial gains and losses totalling € 36 thsd (31/12/2013: € 37 thsd).

Deferred tax assets were not recognised on tax loss carryforwards of € 1,396 thsd (31/12/2013: € 950 thsd) as of the reporting date. The existing loss carryforwards may be carried forward indefinitely.

5.5 PROVISIONS FOR PENSIONS

Provisions for pension obligations relate to pension commitments on the part of Barmer Wohnungsbau Aktiengesellschaft, Wuppertal, for the benefit of former and current employees. The provisions consist of the following:

	2014		2013	
	Number	€ thsd	Number	€ thsd
Active beneficiaries	0	0	1	37
Vested past beneficiaries	1	102	1	66
Pensioners and surviving dependants	9	1,702	8	1,562
Present value of the benefit obligation	**10**	**1,804**	**10**	**1,664**

The defined benefit obligations changed as follows in the reporting period:

(in € thsd)	2014	2013
Balance on 1 January	**1,664**	**1,762**
Interest expense	53	53
Retirement benefits paid	(123)	(123)
Actuarial losses (previous year: gains)	210	(28)
– of which adjustment of financial assumptions	*199*	*(37)*
– of which experience adjustments	*12*	*9*
Balance on 31 December	**1,805**	**1,664**

Current service cost was reported under "personnel expenses", while interest expense was carried under "finance costs".

The benefits are financed internally through the accrual of provisions for pensions; funded plans that meet the requirements of IAS 19.7 regarding plan assets do not exist.

The calculation of pension obligations is based on the following actuarial assumptions:

(in %)	2014	2013
Discount rate p.a.	2.3	3.3
Wages and salary trend p.a.	2.0	2.0
Pension trend p.a.	2.0	2.0

Interest expense of € 39 thsd (previous year: € 53 thsd) and retirement benefits payable in the amount of € 122 thsd (previous year: € 123 thsd) are calculated for the subsequent reporting period.

5.6 FINANCIAL INSTRUMENTS

5.6.1 Fair value of financial instruments by category*

31/12/2014

(in € thsd)	L&R	Total
Current assets		
Trade accounts receivable	2,364	2,364
Other financial assets	997	997
Cash and cash equivalents	7,238	7,238
Total	**10,600**	**10,600**

31/12/2013

(in € thsd)	L&R	Total
Non-current assets		
Other financial assets	1	1
Current assets		
Trade accounts receivable	2,977	2,977
Other financial assets	996	996
Cash and cash equivalents	7,043	7,043
Total	**11,016**	**11,016**

31/12/2014

(in € thsd)	HfT&CFH	FLAC	Total	Fair value
Non-current liabilities				
Loans and borrowings	0	203,004	203,004	218,034
Other non-current financial liabilities	636	55	691	n/a
Current liabilities				
Loans and borrowings	0	26,642	26,642	26,977
Trade accounts payable	0	2,398	2,398	n/a
Other current financial liabilities	0	1,363	1,363	n/a
Total	**636**	**233,462**	**234,098**	**245,011**

31/12/2013

(in € thsd)	HfT&CFH	FLAC	Total	Fair value
Non-current liabilities				
Loans and borrowings	0	223,504	223,504	219,968
Other non-current financial liabilities	660	55	715	n/a
Current liabilities				
Loans and borrowings	0	11,971	11,971	12,017
Trade accounts payable	0	4,092	4,092	n/a
Other current financial liabilities	0	3,533	3,533	n/a
Total	**660**	**243,155**	**243,815**	**231,985**

** L&R: Loans & Receivables; HfT & CFH: Held for Trading & Cash flow Hedge; FLAC: Financial Liabilities at Amortised Cost)*

All financial instruments measured at fair value are derivative financial instruments. As in the previous year, all derivative financial instruments were measured based on inputs factors that are observable either directly or indirectly (e. g. interest rate curves or foreign exchange forward rates). This corresponds to Level 2 in the valuation hierarchy defined in IFRS 7.27A.

The fair value of the loans and borrowings shown in the table corresponds to Level 2 fair value according to IFRS 13. The fair value of the loans and borrowings is measured by discounting the future cash flows with market interest rates. The fair value of the other financial assets and liabilities essentially corresponds to the carrying amount.

5.6.2 Trade accounts receivable and other current financial assets

(in € thsd)	31/12/2014	31/12/2013
Rent receivables	1,421	2,332
Receivables from operating costs	943	645
Trade accounts receivable	**2,364**	**2,977**
Maintenance reserve	822	654
Miscellaneous	176	342
Other current financial assets	**997**	**996**
Total	**3,362**	**3,973**

At the time this report was prepared, the following impairment charges were recognised to rent receivables with a nominal value of € 2,939 thsd (2013: € 4,364 thsd). conwert holds cash deposits of € 2,780 thsd (2013: € 2,583 thsd) from tenants as security for these outstanding positions. These trust assets are offset by trust liabilities in the same amount.

The changes in the impairment charges are as follows:

(in € thsd)	2014	2013
Balance as of 1 January	**1,387**	**674**
Impairment of receivables – addition	759	1,387
Derecognition to reflect non-collectability / reversal to reflect payment	(623)	(674)
Balance as of 31 December	**1,523**	**1,387**

The following table shows the aging structure of the gross rent receivables as of 31 December 2014 and 2013, respectively:

(in € thsd)	31/12/2014	31/12/2013
Past due up to 60 days	866	1,916
Past due for 60 days	2,073	2,964
Total	**2,939**	**4,880**

5.6.3 Financial liabilities

(in € thsd)	31/12/2014	31/12/2013
Non-current liabilities		
Liabilities due to financial institutions	203,004	223,504
Other financial liabilities		
Derivatives	636	660
Other	55	55
	691	**715**
Total	**203,695**	**224,219**
Current liabilities		
Liabilities due to financial institutions	26,642	11,971
Trade accounts payable	2,398	4,092
Other financial liabilities		
Liabilities to affiliates	15	2,004
Miscellaneous	1,348	1,529
	1,363	**3,533**
Total	**30,403**	**19,596**

The following table presents the key conditions of the interest-bearing loans and borrowings:

31/12/2014	Nominal interest rate (in %)	Effective interest rate, (in %) weighted	Average remaining term, weighted	Carrying amount (in € thsd)
Variable-interest loans and borrowings				
Term ending in 2015	2.91	2.97	0.7	8,476
Term ending in 2016 – 2019	1.45	1.47	2.5	8,158
Fixed-interest loans and borrowings				
Term ending in 2015	6.17	6.17	0.7	13,796
Term ending in 2016 – 2019	6.24	6.25	4.1	11,229
Term ending after 2019	3.58	3.59	13.6	187,044
Finance leases				
Term ending after 2019	4.51	4.51	11.9	943
Total				**229,646**

31/12/2013	Nominal interest rate (in %)	Effective interest rate, (in %) weighted	Average remaining term, weighted	Carrying amount (in € thsd)
Variable-interest loans and borrowings				
Term ending in 2015 – 2018	2.39	2.54	2.4	22,947
Fixed-interest loans and borrowings				
Term ending in 2014	5.09	5.10	1.0	3,074
Term ending in 2015 – 2018	6.14	6.19	1.9	15,224
Term ending after 2018	3.76	3.78	13.9	193,315
Finance leases				
Term ending after 2018	4.51	4.51	12.9	914
Total				**235,474**

The amounts in the above tables are based on the remaining term of the loans and borrowings; the above-mentioned loans and borrowings with cancellation rights are also included according to their contractual terms.

With the exception of loans and borrowings with a variable interest rate in the amount of € 5,000 thsd (31/12/2013: € 5,022 thsd), all loans and borrowings secured by collateral in the form of mortgages. In addition, current and future rent receivables have been assigned.

Derivative financial instruments and hedges

As of 31 December 2014 KWG held the following derivative financial instrument, whose change in value was recognised as a cash flow hedge outside profit or loss in accordance with IAS 39:

Financial institution	Derivative	Beginning	End	Reference value 31/12/2014 (€ thsd)	Fixed interest rate (in %)	Reference interest rate	Market value 31/12/2014 (in € thsd)	Market value 31/12/2013 (in € thsd)
Commerzbank AG	Interest rate swap	31/10/2008	31/10/2018	3,810	4.6	1-M-EURIBOR	(636)	(660)

5.7 OTHER CURRENT LIABILITIES

(in € thsd)	31/12/2014	31/12/2013
Tax liabilities	223	36
Other	658	627
Total	**881**	**663**

The tax liabilities mainly concern VAT liabilities.

6 OPERATING LEASES AND OTHER OBLIGATIONS

6.1 LESSOR

KWG has concluded operating leases with tenants as part of its letting business. These operating leases generally represent standard rental agreements for commercial, office and/or residential properties and have different terms in accordance with the respective customer relationship.

The total of future minimum lease payments under non-cancellable operating leases and the related maturities are shown in the following table. There were no material changes compared to the previous year.

(in € thsd)	Total	Thereof up to 1 year	Thereof between 1 and 5 years	Thereof more than 5 years
2014	16,580	9,409	6,965	206

6.2 LESSEE

In cases in which the KWG Group acts as the lessee, the leases are recognised by the lessor, who is the economic owner. As a result, the KWG Group recognises all lease payments due in full as expenses in the consolidated statement of comprehensive income.

The total of future minimum lease payments under non-cancellable operating leases is as follows:

(in € thsd)	31/12/2014	31/12/2013
Up to one year	187	284
More than one year and up to five years	657	637
More than five years	20,665	20,140
Total	**21,509**	**21,060**

A total of €840 thsd (2013: €258 thsd) in fixed lease expenses was recognised and paid for these leases in the 2014 financial year. These expenses are shown in the item “Other operating expenses”.

The table above also includes a total of €20.7 million (2013: €20.8 million) in obligations under long-term leasehold agreements, some of which will not expire until 2207.

7 OBJECTIVES AND POLICIES OF FINANCIAL RISK MANAGEMENT

The Group's major risks arising from the use of financial instruments are interest-based cash flow risks as well as liquidity risk and credit risk. In order to manage the individual types of risk, management has developed and implemented the following strategies and processes.

Interest rate risk

Fair value interest rate risks, i.e. potential changes in the fair value of financial instruments due to changes in market interest rates, arise especially in connection with non-current liabilities that carry fixed interest rates. Because these financial instruments are always recognised at amortised cost and not at the fair value, this does not directly affect either equity or earnings.

In contrast, the KWG Group is exposed to cash flow interest rate risks in connection with items of the statement of financial position and financial derivatives that are based on variable interest rates. This applies, in particular, to the KWG Group's variable-rate financial liabilities. Interest rate hedges are entered into as necessary to minimise this risk.

Risks of this nature do not arise in connection with the fixed-rate loans. In this context, a cash flow interest rate risk arises only when fixed-interest periods expire or less expensive financing gives competitors an advantage.

Of the variable interest financing amounting to € 16,634 thsd (31/12/2013: € 22,947 thsd) approx. € 3,810 thsd (31/12/2013: € 3,897 thsd) is hedged. As a result, approx. 94.4 % (31/12/2013: 91.9 %) of KWG's total loan volume is hedged against future interest rate changes.

Overview of interest rate risk

The following table shows the sensitivity of consolidated earnings before tax to a reasonably possible change in interest rates.

	Effects on earnings before tax	
Increase/decrease (in basis points) (in € thsd)	**31/12/2014**	**31/12/2013**
+ 50	(34)	(7)
+ 100	(69)	(13)
(10)	7	1
(25)	17	3

The following table shows the sensitivity of equity to a reasonably possible change in interest rates.

Increase/decrease (in basis points) (in € thsd)	Effects on equity 31/12/2014	31/12/2013
+50	41	87
+100	80	172
(10)	(8)	(18)
(25)	(21)	(44)

Credit risks

Credit risk represents the risk that a business partner will be unable to meet the obligations arising from a financial instrument or framework contract, and consequently bring about a financial loss. Business operations expose the KWG Group to counterparty credit risk as well as various risks connected with financing activities, e.g. deposits with banks and financial institutions, foreign currency transactions and other financial instruments. Credit risk, or the risk of delayed payment by a contract partner, is managed through credit reviews, credit limits and verification routines. Since KWG only works with financial partners whose ratings have reflected a sound credit standing up to now, credit risk is limited. However, even financial partners with excellent credit ratings may carry a certain degree of credit risk and we therefore monitor developments on capital markets continuously. The maximum – but unlikely – credit risk from receivables and deposits amounted to € 10,764 thsd as of 31 December 2014 (31/12/2013: € 11,065 thsd).

Liquidity risk

KWG uses a special planning tool to continuously monitor liquidity and thereby prevent a liquidity shortage. The objective of this process is to establish a balance between continuously meeting financing requirements and maintaining financial flexibility by using overdrafts and bank loans. Property sales are generally formalised through a notary public or attorney as the trustee. Incoming payments are monitored with a treasury software tool.

The maturities of the financial liabilities are shown in the following table. Disclosures are based on the contractual, non-discounted payments. The cash flows of derivative financial instruments are included in the cash flows of non-current loans and borrowings.

31/12/2014 (in € thsd)	Total	Thereof remaining term up to 1 year	Thereof remaining term between 1 and 5 years	Thereof remaining term more than 5 years
Loans and borrowings	302,810	35,138	64,213	203,459
Thereof derivatives	612	153	459	0
Trade accounts payable	2,398	2,398	0	0
Other current financial liabilities	1,363	1,363	0	0
Total	306,571	**38,899**	**64,213**	**203,459**

31/12/2013 (in € thsd)	Total	Thereof remaining term up to 1 year	Thereof remaining term between 1 and 5 years	Thereof remaining term more than 5 years
Loans and borrowings	316,844	16,656	84,413	215,775
Thereof derivatives	643	159	484	
Trade accounts payable	4,092	4,092	0	0
Other current financial liabilities	3,533	3,533	0	0
Total	324,469	**24,281**	**84,413**	**215,775**

Of the loans and borrowings with a remaining term of more than five years in the amount of € 203,459 thsd (31/12/2013: € 215,775 thsd), € 64,283 thsd (31/12/2013: € 66,487 thsd) have a remaining term over ten years.

Capital management

KWG monitors its capital structure with the help of the gearing ratio, which is net financial liabilities divided by equity. Internal financing guidelines call for a 40:60 ratio of equity to debt financing, which represents a gearing ratio of 150 %. This optimal financing structure will be reached over the short to medium term through additional property refinancing. Net financial liabilities comprise non-current interest-bearing liabilities plus current trade and other payables, less cash and cash equivalents and current trade and other receivables. Equity comprises equity attributable to the equity holders of the parent and non-controlling interests.

(in € thsd, unless indicated otherwise)	31/12/2014	31/12/2013
Cash and cash equivalents	7,238	7,043
Current trade and other receivables	3,526	4,022
Current trade and other payables	(31,369)	(20,424)
Total current net financial surplus	**(20,605)**	**(9,359)**
Non-current payables	(203,695)	(224,219)
Total net debt	**(224,300)**	**(233,578)**
Equity	**179,923**	**174,887**
Gearing (as a percentage of equity)	124.7	133.6

KWG also calculates and monitors the loan-to-value (LTV) ratio of its property portfolio on a regular basis. The LTV ratio shows the relationship between borrowings and the related collateral. The loan volume comprises non-current and current liabilities as well as all other types of interest-bearing loans and borrowings.

(in € thsd, unless indicated otherwise)	31/12/2014	31/12/2013
Investment properties	421,022	420,293
Properties held for sale	515	4,183
Project-related financing	229,646	235,475
LTV ratio (in %)	54.5	55.5

The loan agreements concluded with financing partners often include so-called covenants, which require KWG to maintain certain financial indicators at the individual loan level. These financial indicators are generally based on the ratio between the fair value of the property and the outstanding loan balance (LTV – loan to value) or on the earnings generated by the project that are available to service the respective loan obligations (interest coverage or debt coverage). These requirements are recorded in the information systems used by KWG. The various financial covenants are monitored separately for each loan because of the different calculation requirements and parameters.
As of 31 December 2014 KWG met all of its financing covenants.

8 RELATED PARTY TRANSACTIONS

In the KWG Group, transactions with related parties are divided into transactions with key management and transactions with the conwert Group. Key management comprises the members of the Supervisory Board and Management Board of KWG. The conwert Group comprises in particular conwert Immobilien Invest SE as the ultimate parent company of KWG and its affiliated companies as well as the companies controlled by key management.

8.1 TRANSACTIONS WITH THE KEY MANAGEMENT OF THE KWG GROUP

Total remuneration of € 617 thsd (2013: € 334 thsd) was paid to the members of the Management Board for their activities both in the parent company and its subsidiaries. This amount is distributed as follows:

	2014			2013		
(in € thsd)	Annual fixed salary	Variable remuneration	Total remuneration	Annual fixed salary	Variable remuneration	Total remuneration
Stavros Efremidis	0	0	0	37	40	77
Torsten P. Hoffmann	194	240	434	219	38	257
Gabriela Zraunig	183	0	183	0	0	0
Total	**377**	**240**	**617**	**256**	**78**	**334**

Remuneration of € 61 thsd was paid to the members of the Supervisory Board in the financial year just ended (2013: € 88 thsd).

8.2 TRANSACTIONS WITH THE CONWERT GROUP

Services

A total of € 73 thsd was charged in the 2014 financial year (2013: € 131 thsd) for staff leases, rents and other administrative services as well as the sale of items of property, plant and equipment to members of the conwert Group. The conwert Group charged € 269 thsd in the same period (2013: € 27 thsd) for IT, payroll and other administrative services and € 104 thsd (2013: € 4 thsd) for interest on loans to the KWG Group.

Loans and their repayment

As of 31 December 2014, the Group had liabilities to members of the conwert Group in the amount of € 15 thsd (31/12/2013: € 2,004 thsd) and receivables from members of the conwert Group of € 0 thsd (31/12/2013: € 223 thsd). The liabilities principally relate to loans received.

9 INFORMATION ON CORPORATE BODIES

The members of the Management Board are listed below:

- Gabriela Zraunig, born 26/04/1964 (since 01/02/2014)
- Torsten P. Hoffmann, born 04/01/1962 (from 15/06/2010 to 31/10/2014)

The members of the Supervisory Board are listed below:

- Clemens Schneider, born 10/04/1964 – Chairman since 13/06/2014
- Thomas Doll, born 27/12/1965 – Deputy Chairman since 13/06/2014
- Jörg-Dieter Krbetz, born 31/12/1965 – member since 13/06/2014
- Rolf Schneider, born 07/06/1965 – member since 13/06/2014
- Andreas Schorr, born 24/05/1964 – member since 13/06/2014
- Lutz Menzel, born 14/06/1956 – member since 13/06/2014
- Prof. Dr. Peer Witten, born 10/04/1945 – Chairman from March 2008 to 13/06/2014
- Johannes Meran, MBA, born 22/02/1972 – Deputy Chairman from 11/04/2013 to 13/06/2014
- Franz-Josef Gesinn, born 02/05/1948 – Deputy Chairman from March 2008 to 13/06/2014
- Johannes Rudnay, born 20/12/1979 – member from 17/06/2013 to 28/04/2014

10 EVENTS AFTER THE BALANCE SHEET DATE

There were no other events of material significance between the balance sheet date and the date of these consolidated financial statements.

11 GROUP COMPANIES OF KWG KOMMUNALE WOHNEN AG

COMPANIES INCLUDED BY CONSOLIDATION	Consolidation	Land	Registered office	Investment (in %)
KWG Kommunale Wohnen AG (parent company)	Full consolidation	DE	Berlin	100.00
Barmer Wohnungsbau AG	Full consolidation	DE	Wuppertal	91.29
Barmer Wohnungsbau Grundbesitz I GmbH	Full consolidation	DE	Wuppertal	100.00
Barmer Wohnungsbau Grundbesitz II GmbH	Full consolidation	DE	Wuppertal	100.00
Barmer Wohnungsbau Grundbesitz III GmbH	Full consolidation	DE	Wuppertal	100.00
Barmer Wohnungsbau Grundbesitz IV GmbH	Full consolidation	DE	Wuppertal	100.00
Hainichener Wohnungsgesellschaft mit beschränkter Haftung	Full consolidation	DE	Hainichen	100.00
HvD I Grundbesitzgesellschaft mbH, Hamburg	Full consolidation	DE	Berlin	100.00
KWG Grundbesitz CI GmbH & Co. KG	Full consolidation	DE	Berlin	99.90
KWG Grundbesitz CII GmbH & Co. KG, Hamburg	Full consolidation	DE	Berlin	100.00
KWG Grundbesitz CIII GmbH & Co. KG	Full consolidation	DE	Berlin	95.41
KWG Grundbesitz CIV GmbH & Co. KG	Full consolidation	DE	Berlin	100.00
KWG Grundbesitz CV GmbH & Co. KG	Full consolidation	DE	Berlin	100.00
KWG Grundbesitz CVI GmbH & Co. KG, Hamburg	Full consolidation	DE	Berlin	100.00
KWG Grundbesitz CVII GmbH & Co. KG	Full consolidation	DE	Berlin	100.00
KWG Grundbesitz CVIII GmbH & Co. KG	Full consolidation	DE	Berlin	100.00
KWG Grundbesitz I Verwaltungs GmbH	Full consolidation	DE	Berlin	100.00
KWG Grundbesitz III GmbH	Full consolidation	DE	Berlin	100.00
KWG Grundbesitz VI GmbH, Hamburg	Full consolidation	DE	Berlin	100.00
KWG Grundbesitz VII GmbH	Full consolidation	DE	Berlin	100.00
KWG Grundbesitz VIII GmbH	Full consolidation	DE	Berlin	100.00
KWG Grundbesitz IX GmbH	Full consolidation	DE	Berlin	100.00
KWG Grundbesitz X GmbH	Full consolidation	DE	Berlin	100.00
KWG Grundbesitz XI GmbH	Full consolidation	DE	Berlin	100.00
KWG Grundbesitz XII GmbH	Full consolidation	DE	Berlin	100.00
Barmer Wohnungsbau Grundbesitz V GmbH	Full consolidation	DE	Wuppertal	100.00
Barmer Wohnungsbau Verwaltungs GmbH	Full consolidation	DE	Wuppertal	100.00
KWG Immobilien GmbH	Full consolidation	DE	Hamburg	100.00
KWG Wohnwert GmbH	Full consolidation	DE	Glauchau	90.00
Siedlungs- und Wohnhausgesellschaft Sachsen GmbH	Full consolidation	DE	Glauchau	100.00
Viva I Immobilien u. Verwaltungs GmbH	Full consolidation	DE	Berlin	100.00

These consolidated financial statements were prepared by the Management Board on the date given below and will be presented to the Supervisory Board for review on 17 March 2015.

Berlin, 12 March 2015

The Management Board
of KWG Kommunale Wohnen AG

Gabriela Zraunig

RESPONSIBILITY STATEMENT

To the best of our knowledge, and in accordance with the applicable reporting principles, the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of the Group, and the Group management report includes a fair review of the development and performance of the business and the position of the Group, together with a description of the material opportunities and risks associated with the expected development of the Group.

KWG Kommunale Wohnen AG

Gabriela Zraunig
Member of the Management Board

AUDITORS’ REPORT

We have issued the following auditor’s report for the consolidated financial statements and the Group management report:

“We have audited the consolidated financial statements of KWG Kommunale Wohnen AG, Berlin (formerly: Hamburg), comprising the consolidated income, the consolidated statement of comprehensive income, the consolidated statement of financial position, the consolidated statement of changes in equity, the consolidated statement of cash flows and the consolidated notes as well as the Group management report for the financial year from 1 January to 31 December 2014. The preparation of the consolidated financial statements and the Group management report in accordance with the IFRSs, as adopted by the EU, and the additional requirements of German commercial law pursuant to Section 315a (1) German Commercial Code (Handelsgesetzbuch, HGB) are the responsibility of the Company’s Management Board. Our responsibility is to express an opinion on the consolidated financial statements and the Group management report based on our audit.

We conducted our audit of the consolidated financial statements in accordance with Section 317 HGB and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (Institute of Public Auditors in Germany) (IDW). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the consolidated financial statements in accordance with the applicable financial reporting framework and in the Group management report are detected with reasonable assurance.

Knowledge of the business activities and the economic and legal environment of the Group and expectations as to possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the consolidated financial statements and the Group management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the annual financial statements of those entities included in consolidation, the determination of entities to be included in consolidation, the accounting and consolidation principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements and the Group management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion based on the findings of our audit the consolidated financial statements comply with the IFRSs, as adopted by the EU, and the additional requirements of German commercial law pursuant to Section 315a (1) HGB and give a true and fair view of the net assets, financial position and results of operations of the Group in accordance with these provisions. The Group management report is consistent with the consolidated financial statements and as a whole provides a suitable view of the Group's position and suitably presents the opportunities and risks of future development."

Hamburg, 13 March 2015

Ernst & Young GmbH
Wirtschaftsprüfungsgesellschaft

Kreninger	Rinck
Wirtschaftsprüferin	Wirtschaftsprüfer
(German Public Auditor)	(German Public Auditor)

GLOSSARY

ANNUALISED RENTS

The annualised net basic rents correspond to the monthly rental income as of the reporting date, multiplied by twelve months.

BARMER WOHNUNGSBAU AG

Barmer Wohnungsbau AG (BWAG) is a residential property company that has let apartments in the Wuppertal metropolitan area for 135 years. KWG acquired a controlling interest in BWAG and consolidated the company as of 1 May 2012.

BARMER WOHNUNGSBAU VERWALTUNGS GMBH

Die Barmer Wohnungsbau Verwaltungs GmbH (BWVG) is a subsidiary of BWAG and began managing the property portfolio in North Rhine-Westphalia in early 2015.

CONWERT IMMOBILIEN INVEST SE

Austrian conwert Immobilien Invest SE (conwert) is the majority shareholder of KWG. The Management Board of KWG welcomes the involvement of conwert with the aim of forming a group of leading real estate companies, especially in Germany.

CORE PORTFOLIO

The core portfolio comprises all residential and commercial units in the KWG portfolio that do not require major refurbishment or maintenance work.

DISINVESTMENT PORTFOLIO

The disinvestment portfolio comprises residential and commercial units that KWG wants to sell in the medium-term for portfolio-strategic reasons. The sales proceeds are to be reinvested in developing the investment portfolio.

FAIR VALUE

The fair value or market value of properties is the amount for which properties could be exchanged between knowledgeable, willing parties in an arm's length transaction.

FFO I – FUNDS FROM OPERATIONS I

Cash from operations before sales income, i. e.:
earnings before tax (EBT)
– the difference between sales and carrying amount of properties sold
+ operating expenses of sales income
– revaluation gains/losses plus depreciation, impairment and value adjustments
+ non-cash components of net financial income and other costs

FFO II – FUNDS FROM OPERATIONS II

Cash from operations after sales income, i. e.:
Cash from operations before sales income (FFO I)
+ the difference between sales and carrying amount of properties sold
– operating expenses of sales income
+ the difference between capital gains and IFRS capital gains

FINANCIAL COVENANTS

Financial covenants are part of the conditions of some loan agreements whereby the borrowing firm undertakes to achieve certain financial key figures.

INVESTMENT PORTFOLIO

The investment portfolio comprises all residential and commercial units in the KWG portfolio that require major refurbishment or maintenance work or that will have to undergo refurbishment work within the period under review.

LTV – LOAN-TO-VALUE

The LTV is an indicator of property companies' level of debt. It is expressed as the ratio of the property's actual value to the value of the loan financing the purchase.

NAV – NET ASSET VALUE

The NAV indicates the intrinsic value of a property company. It represents the present value of all of a company's assets less its liabilities.

NET BASIC RENT/NET RENT

The net basic rent is the contractually agreed basic rent.

NNNAV – TRIPLE NET ASSET VALUE

The NNNAV is calculated as the NAV adjusted for deferred taxes.

POTENTIAL FOR RENT INCREASES

The potential for rent increases describes the difference between current rental income and potential rental income, provided that all vacant units are let at the achievable market rents.

FINANCIAL CALENDAR 2015, PUBLISHING INFORMATION

FINANCIAL CALENDAR 2015

Results 1-3/2015	19 May 2015
Annual General Meeting, Berlin	28 May 2015
Results 1-6/2015	13 August 2015
Results 1-9/2015	12 November 2015
Annual financial statements 2015	19 April 2016

Current as of: 17 March 2015; subject to changes.

The current financial calendar is available at www.kwg-ag.de/investor-relations/finanzkalender

PUBLISHING INFORMATION

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Disclaimer

This report contains forward-looking estimates and statements that were made on the basis of the information available at the time. These forward-looking statements usually involve terms such as “expect”, “estimate”, “plan”, “anticipate”, “assume”, “should”, “supposed to”, “can”, etc. Forward-looking statements reflect the point of view at the time they are made.

Please be aware that the circumstances and, consequently, the actual results realised at a later date may differ from the forecasts presented in this report for a variety of reasons.

Misprints and errors cannot be entirely ruled out.
Current as of: March 2015:

KOMMUNALE WOHNEN AG

KOMMUNALE WOHNEN AG

ANNUAL REPORT 2014

KWG KOMMUNALE WOHNEN AG

2014
ANNUAL REPORT

KWG
KOMMUNALE WOHNEN AG

REALISING SYNERGIES
– SUCCESS THROUGH PARTNERSHIP

KWG AT A GLANCE

STATEMENT OF COMPREHENSIVE INCOME		2014	2013*	Change
Revenue	€ million	61.9	55.7	*11 %*
Rental income	€ million	43.5	45.7	*–5 %*
Funds from operations I (excl. sales)	€ million	5.6	5.4	*4 %*
Funds from operations II (incl. sales)	€ million	8.0	5.8	*38 %*
EBIT	€ million	16.3	12.7	*28 %*
Consolidated net profit	€ million	5.2	1.2	*n/a*

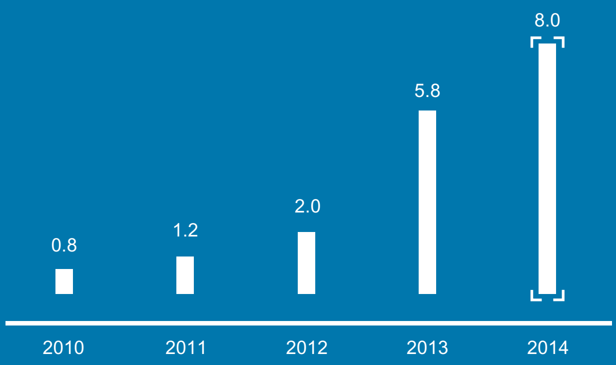
STATEMENT OF FINANCIAL POSITION		31/12/2014	31/12/2013*	Change
Property assets	€ million	421.5	424.5	*–1 %*
Equity	€ million	179.9	174.9	*3 %*
Financial liabilities	€ million	229.6	235.5	*–2 %*
Total assets	€ million	432.7	436.0	*–1 %*
Loan-to-value	%	54.5	55.5	*–2 %*
Equity ratio	%	41.6	40.1	*4 %*

SHARE		31/12/2014	31/12/2013*	Change
Closing price of KWG shares	€	6.40	6.36	*1 %*
Number of shares	million	15.9	15.9	—
Market capitalisation	€ million	101.8	101.1	*1 %*
NAV per share	€	10.75	10.47	*3 %*
Earnings per share	€	0.35	0.34	*4 %*
FFO II per share	€	0.50	0.37	*35 %*

PORTFOLIO		31/12/2014	31/12/2013*	Change
Residential and commercial units	Number	8,627	9,332	*–8 %*
Parking spaces	Number	2,304	2,542	*–9 %*
Total space	sqm	540,224	586,939	*–8 %*
Property assets	€/sqm	780	723	*8 %*
Vacancy rate	%	9.82	12.51	*–22 %*
Average rent	€/sqm	5.10	5.01	*2 %*

** The previous year's figures were adjusted; see consolidated notes.*

FUNDS FROM OPERATIONS (IN € MILLION)



FUNDS FROM OPERATIONS

- Acquisitions and investments in the portfolio have increased KWG's profitability significantly in recent years, highlighting the encouraging performance of the company's portfolio.
- The strategic streamlining of its portfolio through property sales enhanced KWG's profitability further in 2013 and 2014. Most of the cash surplus from the property sales has been invested in the renovation of existing properties.
- The Management Board expects a further increase in funds from operations in 2015.