2005 Annual Report

Profile

Deutsche Annington is Germany's largest housing company. Since last year's take-over of Viterra AG, we have been managing some 228,000 housing units throughout Germany . We offer our customers these units for rent or purchase. Our name stands for an attractive range of residential properties and first-class customer service.

In the years to come, we will continue expanding our housing portfolio. We have set ourselves the challenging goal of doubling our housing units in the medium term. We will achieve this by playing to our strengths: **creativity and modernisation skills, excellent knowledge of the industry and social responsibility.**

Key Figures for the Group

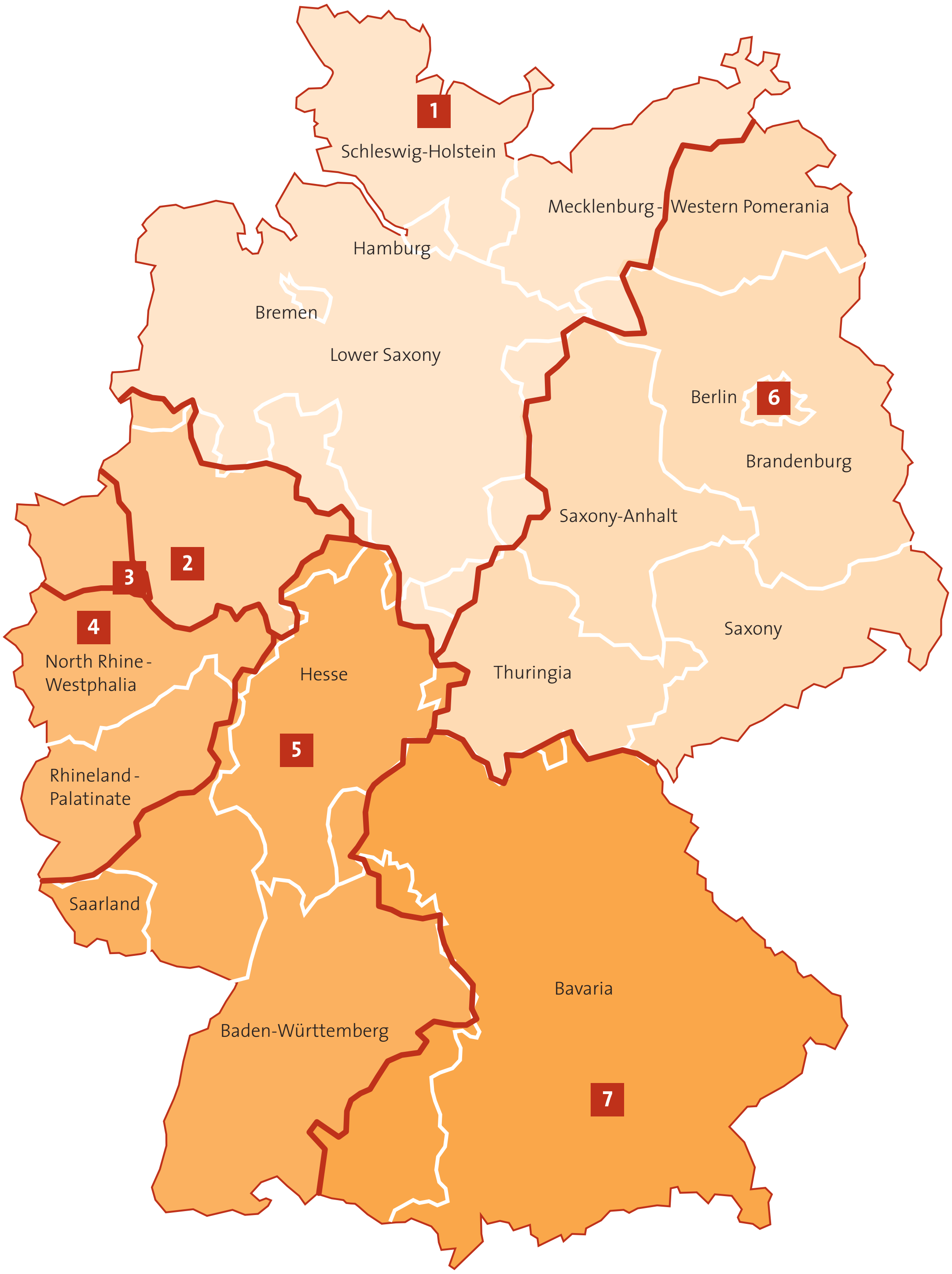
	2005	2004
	€ million	€ million
Profit on disposal of properties	243.6	119.8
Proceeds from property management	699.5	315.4
EBITDA	354.5	192.1
Profit before tax	37.2	41.5
Profit for the year	140.9	17.1
Total assets	10,342.6	2,646.4
Non-current assets	6,328.7	1,625.3
Current assets	4,013.9	1,021.1
Total equity	615.0	431.5
Return on equity in %	5.9	16.3
Liabilities	9,727.6	2,214.9
Investments	3,556.9	184.8
Cash flow from operating activities	549.5	348.1
Cash flow from investing activities	-3,354.5	-177.9
Cash flow from financing activities	3,165.2	-125.1
Number of employees (as at Dec. 31)	1,889	521
Number of housing units in portfolio (as at Dec. 31)	189,886	64,966
Number of units sold	12,378	3,460
- of which sold individually	7,072	2,985
- of which sold en bloc	5,306	475

Deutsche Annington's housing portfolio is spread all over Germany. It is managed by seven regional companies. The main regions are North Rhine-Westphalia and the Rhine-Main region.

1. **Deutsche Annington Nord GmbH**
   located in Kiel
2. **Deutsche Annington Westfalen GmbH**
   located in Dortmund
3. **Deutsche Annington Ruhr GmbH**
   located in Essen
4. **Deutsche Annington Rheinland GmbH**
   located in Düsseldorf
5. **Deutsche Annington Süd-West GmbH**
   located in Frankfurt/M.
6. **Deutsche Annington Ost GmbH**
   located in Berlin
7. **Deutsche Annington Süd GmbH**
   located in Munich

We successfully combine real estate portfol

2001	2003	2004
Acquisition of 11 railway housing companies with roughly 65,000 units from the German state	Acquisition of some 10,000 units from Heimbau AG, Kiel	Acquisition of about 4,500 units from RWE Systems, Essen



ios throughout Germany.

2005	Goal
Take-over of Viterra AG, Essen, with its approx. 138,000 units	To considerably expand the portfolio

Contents

modern
classic
public spirited
efficient
fast
experienced
sound
powerful

Interview with the Managing Directors

2005 was the most successful business year in the short history of the Deutsche Annington Real Estate Group. After its rapid rise to become the largest real estate group in Germany, the company is now centre stage in the German real estate business. Today, 2006, the company has again set itself new goals. They raise questions which the managing directors now answer.

Dr Riebel, looking back on the past year, how would you rate it?
Two words sum it up: highly successful. With the acquisition of Viterra, we tackled one of the biggest projects in the German housing industry and successfully handled the most extensive integration process in the history of the German real estate industry. With approx. 228,000 housing units managed, we are the industry's undisputed leader. We are the only housing



company which is represented throughout Germany, meanwhile at some 700 locations. Today, Deutsche Annington is excellently placed and focused on the customer. And let's not forget: Parallel to the restructuring of the Group, we have of course been running our day-to-day business operations profitably – and extremely successfully. In 2005 alone, we sold 12,400 housing units, mainly to tenants or capital investors, and signed nearly 19,000 new tenancy agreements.

Dr Püschel, the take-over of Viterra was also a major project financially speaking. Where does Deutsche Annington now stand after the take-over?
The take-over of Viterra was soundly financed. In 2000, about € 500 per square metre was paid. In 2005, it was about € 700. Many investors see yet more potential for increasing value. By merging Deutsche Annington and Viterra, we have united two modern, economically strong and competitive companies and created Europe's leading residential real estate company. Thus we have pooled the strengths of two big companies and positioned ourselves as market leader in one stroke. However, we do not just want to further expand our leading market position by growing in size but also by setting new standards in today's housing market. All our efforts focus on our customers. After all, we can only be successful when our tenants are satisfied.

Dr Riebel, the acquisition of Viterra has catapulted Deutsche Annington to the top of the European housing industry. What is special about Deutsche Annington's policy?
Size has no particular value in itself. Naturally, our powerful position in the market helps us to gain an advantage when buying in services, which means we can keep ancillary costs down in the interest of our tenants. We see ourselves first and foremost as a housing

company in the classic sense of the word whose strategy is geared to the long term. As the biggest property letting company in Germany, we are very conscious of our social responsibility and want to be a reliable partner for our customers, the local authorities and our business partners. We believe that only companies which make a long-term commitment to the German housing industry can be successful. For us this means that we respect our tenants' rights, look after our housing stocks and wherever possible try to sell our units to the tenants.

Dr Söhngen, what makes the residential real estate business so attractive for Deutsche Annington?

In a certain sense, we foresaw the current boom in the housing industry - you could say we even triggered it: When we took over the roughly 65,000 apartments and houses for railway workers in 2001, it was at that time the largest real estate transaction ever in Germany. It attracted a lot of attention and naturally criticism as well. However, in the meantime even our critics have had to admit that it is possible for a housing company owned by a financial investor to pursue a sound, long-term business policy. In the last five years, the housing industry has changed at a tremendous speed and is becoming increasingly interesting for private investors. There are several reasons for this interest. The prices of apartments and houses in Germany are still much lower than in other countries. The percentage of people who own their own home is also below the European average at 43 %. In addition, more and more Germans are buying property as a way of providing for retirement, which is understandable given the uncertainty surrounding state pensions. All this is creating growing demand. And we mustn't forget the stable income from property letting, either. After all, behind our investors are thousands of small

investors who put their savings into pension funds. For them, stable, reliable income is the most important thing.

Dr Püschel, the industry has been waiting for REITs for some two years now. How do you rate the chances of REITs being allowed in Germany?

The discussion surrounding REITs (Real Estate Investment Trusts) shows us that politicians are finally recognising the need to act for the real estate industry. The establishment of professional conditions for the real estate industry would promote change and at the same time create an interesting and highly secure form of investment for investors. However, the current political discussion about the final form the REITs would take does not seem to be over yet. So we can again only point to what's happening abroad: The UK has announced that it will be introducing REITs at the beginning of 2007.

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Dr Söhngen, Deutsche Annington intends to more than double his housing portfolio by 2010. What is most important to you when purchasing housing stocks?

After the successful purchase of Viterra, we are planning further acquisitions and continually examining new offers. We are geared to operating all over Germany but we mainly concentrate on fairly large portfolios in urban centres.

Here the percentage of home owners is still much lower than in rural areas. We can of course perfectly understand the local authorities' reservations. However, the crucial thing is who buys and what the buyer wants to do: Is he pursuing a long-term strategy or does he want to resell the apartments quickly? In the last five years, we have consistently demonstrated our policy of long-term commitment.

Dr Riebel, what concrete goals has Deutsche Annington set for itself this business year?

Let me put it in a nutshell: high-level growth. Once the integration of Viterra is successfully completed, we want to further expand and improve our local services. We are introducing new services such as the "Annington Wohnen Plus" programme. It enables our customers to spend their old age in their own four walls if they decide to. We are standardising our services because we want our tenants and buyers to be able to rely on the Deutsche Annington standard wherever they are in Germany. In short, we are creating a strong brand in the German housing industry. Suitable marketing measures support our branding throughout Germany. We still represent a moderate rent policy but with professional management ensure low vacancy rates. And with our ownership programme, we offer attractive apartments for our customers. Buying their own four walls is a great opportunity for our tenants. And our excellent sales figures in recent years show they agree with us.

Boards

Managing Directors

Dr Volker Riebel (born in 1955)
Senior Managing Director

Responsible for:
Strategy, Corporate Development, Acquisitions, Communications and Public Relations, Human Resources, Portfolio Management and Procurement

Dr Manfred Püschel (born in 1953)

Responsible for:
Finance, Accounting and Controlling, Legal Affairs and Shareholdings, Auditing, IT

Dr Ludwig Söhngen (born in 1946)

Responsible for:
Sales Control, Planning,
Deutsche Annington Vertriebs GmbH,
Deutsche Annington Service GmbH

Supervisory Board

Guy Hands
Chairman
Terra Firma Capital Partners Limited
London

David Pascall
Deputy-Chairman
(since August 16, 2005)
terrafirma GmbH
Frankfurt/M.

Joseph E. Azrack
(since August 16, 2005)
Citigroup Property Investors
New York

Phillip Burns
(since August 9, 2005)
terrafirma GmbH
Frankfurt/M.

Fraser Duncan
Terra Firma Capital Partners Limited
London

Sir Thomas Macpherson
Annington Homes Boustead
London

Dr Volker Riebel
PhD in economics; many years of management experience in the real estate industry; until 2001 managing director of TreuHandStelle für Bergmannswohnstätten; senior managing director since 2001

Dr Manfred Püschel
PhD in business economics; many years of management experience in big German companies; last CFO of Viterra AG, Essen; managing director since 2005

Dr Ludwig Söhngen
Joint degree in economics and engineering and PhD in engineering; many years of experience in management consulting; managing director since 2001

We combine speed with expertise.

As a young company, we think and act dynamically. We make decisions fast and act resolutely. The expertise we have gained over the years gives us the confidence to know we are doing the right thing.

With Deutsche Annington, we have established something new in the German housing industry in the space of just five years - a company financed by private investors with a long-term housing model. With some 228,000 housing units managed, we are and will continue to be an important property letting company. At the same time, we are currently the company which is giving the largest number of people in Germany an opportunity to buy their own home. Letting and selling do not automatically preclude each other. We are convinced that you can only be successful in the housing industry if you act in a socially acceptable and service-minded manner.

We combine the classic and the modern.

Deutsche Annington is a classic housing company with a modern ownership structure. We manage our housing stocks according to conservative principles, but with modern methods. We are modernising the perception of the housing industry.

That's why we're improving our repair service response times and have at the same time introduced a central complaint management system. Regular analysis of customer satisfaction by external specialists helps us to identify any weaknesses. Bundling services gives us advantages when buying in property management services, which keeps ancillary costs low for our tenants and home owners. We create new offers, such as Annington Wohnen Plus, tailored to the needs of the growing target group of senior citizens.

We combine public spirit with profitability. We provide wide sections of the population with accommodation at affordable prices – for rent or purchase. We focus our attention on our customers and calculate long-term solutions. We are commercially successful – and act in a socially responsible manner.

Last year alone about 12,400 customers bought their homes from Deutsche Annington. When selling properties, preference is given to our tenants. But no tenant has to worry about losing his home: all tenants have comprehensive occupancy rights and we keep to any guarantees given. But people who do not want to buy a property can also find the right accommodation in the Deutsche Annington housing portfolio. With our own letting teams, we ensure that we provide a comprehensive and fast local service - at meanwhile over 700 locations. Success proves us right. In 2005 alone, we signed over 19,000 new tenancy agreements and steadily reduced our vacancy rates.

We combine soundness and strength.

Our properties are spread all over Germany. They have a stable intrinsic value with great potential. We are developing this potential – with our modernisation skills, financial strength and the ability to forge structures.

Germany's biggest housing company has a sound base and the kind of accommodation the market is looking for. Just under two-thirds of our housing stock is located in large cities. Today, experts are already predicting that people will migrate from rural areas to the cities in the years to come. By putting together two focused companies, we have become the market leader not only in size but also experience. Our aim is not only to double our housing stocks in the medium term by acquiring further housing portfolios but also to continually improve our methods.

Management Report

Economic Environment

German economy: After weak development, slight recovery expected in 2006

The German economy was again sluggish in 2005 with gross domestic product growing by just 0.8% (compared with 1.6% in 2004). There was no broad-based, self-propelling economic recovery. Although exports continued to develop well, they failed to trigger any upswing on the domestic market. As the number of people in work and paying social insurance contributions steadily declined, private consumption fell. The moderate increase in investments in plant and equipment seen in the previous year continued in 2005 although it failed to pick up any appreciable speed. Investment in construction, which had already acted as a brake on economic recovery in recent years, declined yet again and 2005 saw no reversal of the trend.

In its annual report for 2005/6, the government's Council of Economic Experts expects no great change in the picture in 2006. It forecasts gross domestic product to increase by 1%. According to the experts, the continued weak growth of gross domestic product, persistently high unemployment and the desperate financial situation of the public authorities will present great economic challenges for Germany in the current legislation period.

At the same time, the changes to the labour market, the social insurance systems and the tax system already introduced by the government are showing promise of providing a good basis for a long-term economic upswing. The steady rise in the ifo business climate index in the second half of 2005 (both in manufacturing industry and in the services sector) can be regarded as an indication that the current fragile upswing will become stronger in the short to medium term.

Housing construction: Number of building permits back to low level again

The number of housing units completed in 2005 was more or less back on par with the low figures for previous years. The debate about the possible phasing-out of subsidies for first-time buyers had fuelled a boom in the number of building permits granted at the end of 2003 and beginning of 2004. However, as 2005 progressed, construction activity on the residential real estate market weakened distinctly again. The main reasons for this reluctance to invest are still people's fears of losing their jobs and the very small rise in incomes.

Against this backdrop, the total number of housing units in Germany is hardly increasing at all: There are currently some 39 million housing units in Germany and in recent years less than 300,000 new units have been completed each year. Considering the fact that housing units are also lost, for example through demolition, the number of dwellings is only increasing by approx. 0.6% a year.

Purchasing property: Used housing is becoming more attractive

As far as investments are concerned, used housing is playing an increasingly important role. Whilst fewer and fewer new homes are being built, the amount of money invested in used housing is rising sharply. In western Germany, most of the investments in residential buildings (both new and old) now go into the maintenance and modernisation of existing residential properties. At the same time, more used owner-occupier apartments have been sold in recent years whilst the number of newly built owner-occupier apartments has fallen.

This trend is being promoted by steady low mortgage rates and people's strong desire to own their own home, especially given the fact that, at about 43%, home ownership in Germany is relatively low compared with the rest of Europe.

A residential property in an average to good location can still be expected to find a buyer in future as it represents an asset with a good return and low volatility. The further sharp rise in the number of foreign financial investors in 2005 underscores the increasing attractiveness of German residential real estate. This is also reflected in the rise in the average prices paid in large real estate transactions.

Purchasing a home: No uniform trend in the prices for residential property

As in recent years, prices for owner-occupier apartments with an average standard of comfort stagnated once again in 2005. There are sharp regional differences in prices. For example, in North Rhine-Westphalia, the prices for residential real estate do not vary greatly in the biggest cities of the Ruhr area. By contrast, there is a marked price divide in the Rhine city belt. The price levels in the cities of Düsseldorf and Cologne and the surrounding areas are much higher than those in the more rural areas. This matches the general trend throughout Germany. Much higher prices are fetched for housing in structurally sound regions like Munich, Stuttgart, Frankfurt/Main, Cologne and Hamburg as here demand often well exceeds the supply of reasonably priced properties.

Rents: Slight rise overall but regional patterns differ

With the economy only picking up slightly, rents in Germany rose marginally by just half a percent on average. Disproportionately high rises were recorded in non-prime locations and in cities with more than 100,000 inhabitants, i.e. areas where a considerable number of our housing units are located.

As in past years, average rents varied from region to region. For example, they have risen steadily in Hesse in recent years. In Bavaria, the trend is also upwards although the rate of increase is slowing. By contrast, rents in North Rhine-Westphalia are falling slightly although they are tending to rise in the cities on the Rhine. However, in the states of eastern Germany the situation is still dramatic and, given the fact that vacancy rates are still rising in some areas, the market here is not expected to recover in the medium term.

However, we are expecting a moderate increase in rents in the medium term, particularly in the metropolitan areas of western Germany, since people are likely to migrate to these areas as they have a greater chance of finding work there. The resultant recovery of rents should be helped by a decline in the number of new properties being built. In future, new residential properties are expected to be in short supply, especially since the level of rents will remain relatively low.

Increasing number of households leads to greater demand for accommodation

The demographic development in Germany is a major factor determining demand for accommodation. According to a forecast of the Federal Office of Statistics, the population of Germany can be expected to start falling from around 2012 onwards despite immigration. However, far more important than the number of inhabitants is the number of households as it directly determines the demand for housing. This figure is likely to continue rising for quite some time to come, even though the population is already decreasing, as the average size of accommodation is steadily growing. Therefore, we are expecting a further increase in the demand for living space in the medium term. In western Germany, it is forecast to rise until about 2030. However, growth will already start to slow over the next decade. Particularly strong growth is to be expected in the south German states, Bavaria and Baden-Württemberg.

Overall, the regions will show very different patterns of development. Whilst the east German states and structurally weak regions of western Germany will have to contend with vacancy problems, the growth regions of western Germany such as the Rhine-Main, the big cities in southern Germany as well as the cities on the Rhine and Hamburg will see a higher demand for housing which will not be matched by an increase in the supply of accommodation. Therefore, we believe that this will increase the attractiveness of apartments as a way of providing for retirement and as a capital investment.

Office real estate: Markets record upturn despite pressure on prices

After some difficult years, the situation on the German office real estate market improved in 2005. The volume of office space which changed hands in the five big regions, Hamburg, Berlin, Düsseldorf, Frankfurt/Main, and Munich, rose compared with the previous year by a good 15% although there were regional differences: Frankfurt/Main recorded a growth rate of 41%, whilst the turnover of office space in Hamburg fell by just under 5% after an extremely good year in 2004. In Berlin and Munich, the figures were up by 23 and 15% respectively, a sharp improvement on 2004. In Düsseldorf, demand remained on a par with 2004. The volumes also developed well in the foreign markets in which we operate. In Prague, for example, turnover of office space rose by approx 43%.

Overall, the office real estate markets in the metropolitan regions are still dominated by a large surplus of high-quality office space. The reasons for this are low office space absorption as well as speculative construction projects, although there is now much less speculation. The vacancy rate is particularly high in Frankfurt/Main where it is running at just under 18%, followed by Düsseldorf, Berlin and Munich with rates of between 9% and a good 11%. At about 8%, Hamburg has a moderate amount of office space unlet, and also fairs well in comparison to other European cities. After peaking in 2004, the vacancy rate in Prague fell again last year to just under 13%. Due to the surplus of office space, rents had dropped sharply in recent years. However, in 2005 they stabilised and even started to rise again in some locations. Even though this is an indication for us that the market is slowly recovering, there is as yet no leeway for any appreciable rent rises in the near future.

Project developers are still cautious about planning and implementing new projects without the office space already being let in advance. However, at 56%, the letting rate at the end of 2005 was again 8 percentage points down on the figure for 2004, which would again indicate a certain increase in the number of speculative development projects.

Structure and Strategy

Deutsche Annington Group: New structure, time-tested strategy

With effect from January 1, 2006, Deutsche Annington changed its name to Deutsche Annington Real Estate Group. The Group now consists of seven regional companies registered as limited liability companies under German law – supported by Deutsche Annington Service GmbH, Deutsche Annington Verwaltungs GmbH, Deutsche Annington Informationssysteme GmbH and Deutsche Annington Vertriebs GmbH as well as the 21 property holding companies. The Group is managed by Deutsche Annington Immobilien GmbH. The local companies run the local business and at the same time profit from the centralisation of key business functions, the exploitation of synergies and the establishment of competence centres which perform the specific management functions. This enhances the efficiency of the Group and accelerates integration of newly acquired stocks.

Acquisition of Viterra: Milestone on the way to becoming Europe's leading real estate group

Our company acquired Essen-based Viterra AG with effect from August 15, 2005. Thanks to this acquisition, we greatly expanded our position on the European residential real estate market. With a portfolio of some 228,000 housing units managed, the Deutsche Annington Real Estate Group is now the biggest housing company in Germany and is also one of the leading housing companies in Europe. This is a position which we intend to expand even further in 2006.

With its housing stocks spread throughout Germany but focused on metropolitan areas, the former Viterra had an attractive portfolio which ideally complements the portfolio of Deutsche Annington. The business model of the newly integrated company also fits in with the structure of Deutsche Annington. Viterra had positioned itself as a focused real estate company and concentrated largely on the same core business segments.

The focus of the Deutsche Annington Group is still on the profitable letting as well as the buying and selling of apartments. This means buying rented accommodation, enhancing its value by efficient management and then selling it at a profit to tenants, owner-occupiers and capital investors. In the past, Viterra also pursued a parallel strategy of trying to sell housing units en bloc. However, following the integration of Viterra into our Group, this is no longer company policy. Furthermore, through its subsidiary, Deutsche Annington Service GmbH, Deutsche Annington also offers residential property management services.

New acquisition brings well-established portfolio and expertise

The former Viterra AG had steadily built up its housing portfolio over the years: The company had acquired some 69,000 apartments since 1997. The biggest acquisitions were the purchase of a 99.1% interest in Deutschbau, the acquisition of WohnBau Rhein-Main (WBRM), which was completed in several steps from 1999 onwards, as well as the purchase of nearly all shares in Frankfurter Siedlungsgesellschaft (FSG) in 2002 and 2003. The activities of FSG and WBRM were merged to form Viterra Rhein-Main in 2003. With the take-over of Viterra, we have not only considerably expanded our portfolio but also acquired extensive housing industry expertise.

Status: Housing portfolio in promising locations throughout Germany

The Deutsche Annington stocks are now spread all over Germany in more than 680 cities, towns and communities. About 65% are located in towns with more than 100,000 inhabitants and 54% in 15 cities. The focus is on western Germany (94%) and particularly on North Rhine-Westphalia (over 50%), Germany's most populated state. Most of the housing units in eastern Germany are concentrated around the metropolitan area of Berlin and in Saxony.

Aims: Market leader in the letting, sale and management of residential real estate

When purchasing housing stocks, our strategy is to buy housing units which can be sold individually, integrate them into our portfolio, manage them efficiently and gradually offer them for sale to the tenants, other owner-occupiers and capital investors while observing all statutory and additionally agreed provisions for the protection of tenants. Our business model has the following focuses:

1. Strategic purchase of housing portfolios: As a housing company with a long-term view, we want to expand our housing portfolio in Germany in the medium term by making further acquisitions.

2. Long-term, value-enhancing property management: As an efficient landlord with an attractive range of properties, we aim to provide a first-class service for our tenants.

3. Selling rented apartments in a sociably acceptable manner, mainly to tenants: As a socially responsible company, we offer wide sections of the population the chance to own their home at affordable prices. We have made a voluntary commitment giving our tenants special protection rights above and beyond what the law prescribes.

4. Professional management of residential real estate: To the benefit of our customers, we provide a professional property management service for owners of residential real estate.

Business Review

Operational performance

	2005 € million	2004 € million
Profit on the sale of trading properties	188.8	118.8
Profit on the disposal of investment properties	54.8	1.0
Profit on disposal of properties	**243.6**	**119.8**
Proceeds from property management	699.5	315.4
EBITDA	354.5	192.1
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Number of units sold en bloc	5,306	475
Number of units sold (recorded sales)	**12,378**	**3,460**
Number of housing units in portfolio (as at Dec. 31)	189,886	64,966

Acquisition of Viterra creates Germany's biggest real estate group

The Deutsche Annington Real Estate Group had another highly successful year in 2005 with its business model. The past twelve months were dominated by the acquisition of Viterra and its integration into our Group. Through the purchase of Viterra in August 2005, we managed to expand our real estate portfolio from roughly 65,000 to over 190,000 housing units. With economic effect from January 1, 2005, we had previously acquired 4,365 housing units from RWE Systems and also integrated them into our portfolio.

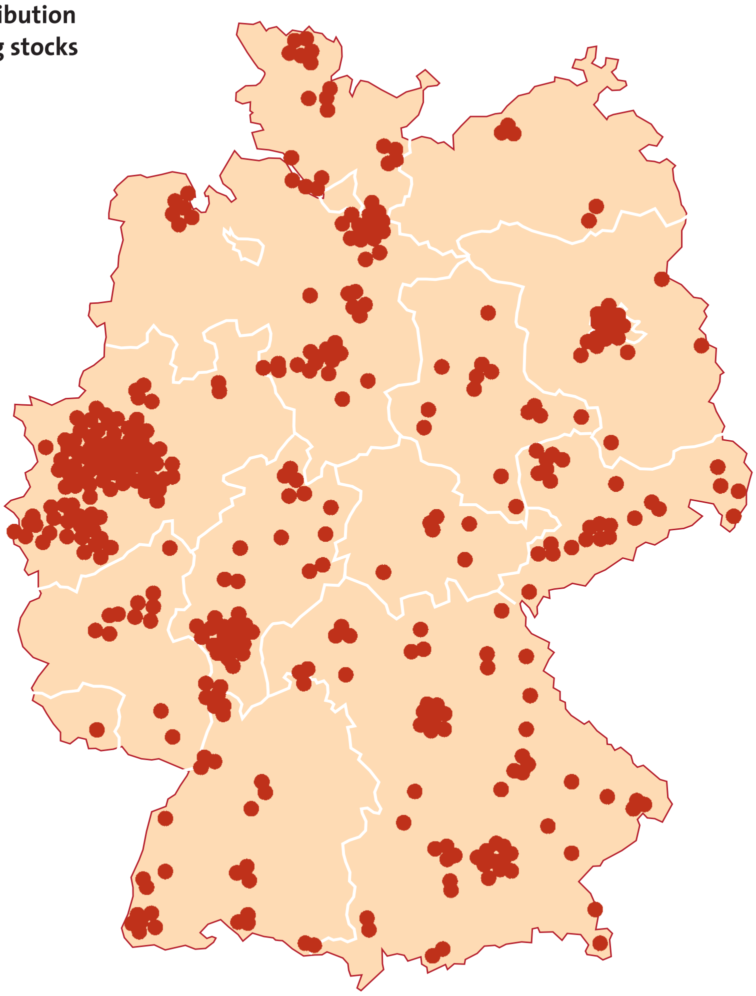
As a result of the acquisition of the RWE units as of January 1, 2005, and the first-time consolidation of Viterra with effect from August 15, 2005, any meaningful comparison of the operating figures for the 2005 business year with those for 2004 is limited. The figures for 2004 only contain the business figures for the Deutsche Annington Real Estate Group for 2004 according to IFRS. In 2005, the consolidated financial statements include the Viterra business figures for the months of August to December 2005.

Sales and property management developed well

Profit on disposal of properties increased from € 119.8 million in 2004 to € 243.6 million in 2005. The number of housing units sold which were included in the consolidated financial statements rose by approx. 358% to a total of 12,378 (2004: 3,460). This figure includes 5,306 units which were sold en bloc to new owners after August in line with the former strategy of Viterra AG.

Proceeds from property management jumped from € 315.4 million in 2004 to € 699.5 million last year. In addition to lower vacancy rates, higher rents and a much larger number of properties managed contributed to this pleasing result. Including the properties managed for third parties, the operating companies of our Group were taking care of over 228,000 housing units at the end of 2005. These units are located all over Germany.

Regional distribution of the housing stocks



Our core activities

Letting: Sharp rise in number of housing units managed

Through our acquisitions in the past year, we not only considerably increased the number of housing units in our portfolio but also expanded our housing stocks to include futher important regions of Germany at the same time. Deutsche Annington is thus the only major housing company which operates throughout Germany. Our 190,000 housing units are spread over the country as follows: One main focus in the west of Germany is the Ruhr area and the Rhineland (that is to say North Rhine-Westphalia) where some 98,500 apartments are located. In the north, we have about 18,000 apartments (Hamburg, Bremen, Lower Saxony and Schleswig-Holstein). In addition, there are some 21,200 housing units in the east (eastern Germany and Berlin), about 23,300 in the south (Baden-Württemberg and Bavaria) and roughly 29,000 in the southwest (Hesse, Rhineland-Palatinate and Saarland).

Efficiency enhanced and vacancy rate sharply reduced

In the past year, we substantially reduced the number of vacant housing units awaiting relet. We managed to achieve this by additional promotional activities such as advertising on regional property exchanges, taking part in real estate fairs as well as by stepping up customer-targeted measures; for example, we held a number of successful service evenings at our service centres.

We also separated the property management and property letting activities organisationally from each other. Since April 2003, property letting has been handled by our own staff who concentrate solely on this business.

With the aid of targeted marketing campaigns such as apartments for a fixed price for students (known under the name “Wohnsinn”) and for families (called “Child’s Play”), we managed to successfully stem the rise in vacancy rates, particularly in the Ruhr area.

We also managed to reduce the vacancy rates of Deutsche Annington residential properties in eastern Germany but they are still well above the average for Germany. By contrast, the units in the south and southwest of Germany are virtually fully let. In the other regions, particularly in the Rhine/Ruhr metropolitan area, the vacancy rate has dropped significantly and is now below the average for the market.

Deutsche Annington has a stable tenant base: On average, a Deutsche Annington tenant lives in his apartment for about 16 years. The majority of the units are standard apartments with 60 square metres of living space and more (58%). There is plenty of demand for such apartments if they are in inner-city locations or in the suburbs.

Maintenance optimised by new concept

On the maintenance side, we have developed a modular maintenance concept. This means that, when work has to be done, our technical department only orders previously defined maintenance modules from our service partners, thus avoiding unnecessary work being done. This has led to better fine-tuning of our investments and at the same time lower maintenance costs.

On the operating cost side, we managed to reduce the volume of household refuse from our properties by 27% throughout Germany in 2005 by using an external service provider to advise the residents of our properties on how to prevent waste. This led to considerable savings on refuse collection charges which were passed on to our tenants.

Marketing: Number of housing units sold well up

We were extremely successful in increasing the number of housing units sold in 2005. The following tables give an overview of the development of property sales broken down into the Viterra portfolio and the DAIG old portfolio. Table 1 shows the number of housing unit sales included in the consolidated financial statements. This includes the sales from the Viterra portfolio between August and December 2005. Table 2 shows the respective sales over the whole year.

Consolidation figures: Inclusion of Viterra from August to December 2005

	2005*	2004
Viterra portfolio		
Housing units sold individually	3,410	-
Housing units sold en bloc	4,068	-
Total sales - Viterra portfolio	**7,478**	**-**
DAIG old portfolio		
Housing units sold individually	3,662	2,985
Housing units sold en bloc	1,238	475
Total sales - DAIG portfolio	**4,900**	**3,460**
DAIG Group		
Housing units sold individually	7,072	2,985
Housing units sold en bloc	5,306	475
	12,378	**3,460**

*Viterra in 2005: months 8-12, in 2004 DAIG old portfolio

Total number of units sold by Deutsche Annington and Viterra in 2004 and 2005

	2005 *	2004
Viterra portfolio		
Housing units sold individually	5,643	5,071
Housing units sold en bloc	6,320	8,978
Total sales - Viterra portfolio	**11,963**	**14,049**
DAIG old portfolio		
Housing units sold individually	3,662	2,985
Housing units sold en bloc	1,238	475
Total sales - DAIG portfolio	**4,900**	**3,460**
DAIG Group		
Housing units sold individually	9,305	8,056
Housing units sold en bloc	7,558	9,453
	16,863	**17,509**

* whole year

In 2005, we successfully increased the number of housing units sold to tenants. We believe that sales to tenants are so popular because of the thorough advice we give our tenants on the advantages of buying their own home, our careful handling of the selling process and the intensive support we give to the new owners' associations.

In addition to selling to tenants and owner-occupiers, in 2005 we also sold some housing units en bloc, largely properties from the Viterra portfolio. In future, we will be concentrating on selling units to tenants.

Project development: Successful despite difficult market

For Viterra, the project development business segment was a supplement to the residential real estate business. Viterra Development, the company responsible for these activities, concentrates on the development and sale of office real estate and owner-occupier apartments in inner-city locations of German metropolitan areas such as Hamburg, Berlin, Düsseldorf, Frankfurt/Main and Munich. Outside Germany, Viterra Development is also active in the two capital cities, Warsaw and Prague. In 2005, this business segment managed to defend its position in a persistently difficult market. Its policy was to concentrate on clearly defined, promising locations and only construct projects after a sufficient percentage of space had been sold or let. When we acquired Viterra in 2005, we reduced the number of new plots of land we acquired for the development of owner-occupier apartments or office buildings.

In the commercial development segment, Viterra Development is currently implementing projects in Hamburg, Berlin, Düsseldorf, Duisburg, Essen, Frankfurt/Main, Munich and Prague. The Maritim Hotel project in Berlin was handed over to the investor as planned in the autumn of 2005. Two large-volume projects are currently being planned in Munich and Essen. The portfolio was systematically reduced in 2005. Properties and plots of land were successfully sold in Poing near Munich, Weimar, Bochum and Warsaw. Furthermore, efforts were made to improve the marketability of the properties in our current portfolio. There is no uniform pattern of development in the apartment construction business at the locations of our branches. As in 2004, demand in Munich continued falling, whilst the trend in Hamburg and Frankfurt/Main was more positive. Therefore, Viterra Development has further adjusted its project activities in the apartment construction business to reflect this development and is cautious about implementing new projects in Munich. On the other hand, new projects were successfully started in Hamburg. Overall, development shows that Viterra Development is well positioned with its current business model, even in times of tight real estate markets.

Service: Deutsche Annington Service expands its range

The professional management of an apartment block after tenants have bought their apartments is crucial if they are to remain satisfied with their purchase. Therefore, our subsidiary, Deutsche Annington Service GmbH, Frankfurt/Main, manages the common property for apartment owners in accordance with the German Condominium Act. It handles the efficient management of the entire property, implements the decisions of the owners' associations and is the contact for owners at the interface between separate property and common property. Deutsche Annington Service offers capital investors a full management service for their separate property. In addition, it provides the owners with a wide range of services for the maintenance and modernisation of separate and common property in apartment buildings including alterations to the apartments to suit the owners' new needs as they get older.

At the end of 2005, Deutsche Annington Service already looked after approx. 800 (2004: 570) owners' associations with a total of more than 19,000 housing units. From January 1, 2006, Deutsche Annington Service will also be taking over the owners' associations previously managed by the Viterra companies with a total of 33,000 housing units. In future, the company will also be offering its services throughout Germany to owners' associations whose owners did not buy their apartments from Deutsche Annington.

Helping the elderly to organise their everyday lives: Annington Wohnen Plus

We offer elderly customers a special service through Annington Wohnen Plus. In estates with a large number of elderly residents, we set up advice centres with specially trained staff. The advice service is free for Deutsche Annington tenants. We launched a pilot project in Duisburg: Here we created 24 sheltered accommodation units for elderly people in a multi-family house. Now that we have successfully introduced the Annington Wohnen Plus concept in Frankfurt/Main, we will also be opening advice centres in Essen, Nuremberg, Cologne and Geesthacht in 2006.

Promoting local projects which support social interaction

One focus of our social and cultural involvement is to promote community life. We attach particular importance to helping children and teenagers: Since 1998, we have donated a total of € 157,000 to Stiftung Kinderzentrum Ruhrgebiet. This is a foundation which was set up to raise money for the construction of a social paediatric out-patients unit in Bochum. The centre was opened in May 2005 and is the only unit of its kind in the Ruhr area, providing therapy for and promoting the development of handicapped babies and small children at an early stage. Since 2004, we have been giving particular support to the work of Deutscher Kinderschutzbund. This help has included donating computers and learning materials, the construction of a new playground for the “Blauer Elefant” house in Essen-Katernberg as well as cash donations now totalling over € 60,000. We will continue providing this support for the local community in 2006.

One important social involvement with a regional connection is our membership of Initiativkreis Ruhrgebiet. Initiativkreis is actively helping to shape the structural change which the Ruhr area is undergoing. Furthermore, we are supporting the city of Essen’s application to become European cultural capital in 2010.

We also help to deal with the concrete concerns of our tenants’ associations with foundations which we run together with the German Tenants’ Association, “Foundation to Foster Community Life in Viterra Residential Complexes” and the Deutsche Annington Foundation. Whilst the Deutsche Annington Foundation focuses on helping tenants who have fallen on hard times, the Viterra Foundation concentrates on social interaction in our residential estates.

The above are just a few of our many social activities. For example, our companies and branches often have close ties with their towns and regions and are involved in charity work there.

Organisation

Legal merger at the beginning of 2006

Deutsche Annington acquired Viterra from E.ON AG in August 2005. As a result of the purchase, the companies and branches of Viterra and Deutsche Annington were legally and organisationally merged to form one company. The new organisation has been in effect since the beginning of 2006.

Restructuring to establish one uniform organisation already started in August

On the day Viterra was taken over in August, we immediately started integrating the two companies. In the first step, we re-grouped our stocks of real estate according to regions: Since January 1, 2006, Deutsche Annington has been made up of seven regional companies, three service companies, as well as Deutsche Annington Informationssysteme and Viterra Development. In addition, the legal organisation includes 21 property holding companies. One company – the Deutsche Annington Real Estate Group – was formed from the formerly five regions of Deutsche Annington (North, East, South, Southwest and West) and the three management units of Viterra AG (Viterra, Viterra Rhein-Main and Deutschbau). The three head offices were merged at the main location in Bochum. Parallel to developing the target structure, we pushed ahead with standardising the IT landscape. Our restructuring project will be completed in the course of 2006.

Employees

Acquisition of Viterra makes restructuring project necessary

The integration of Viterra into the Deutsche Annington Real Estate Group last year involved a large number of structural changes. This also required adjustments to the workforce structure. The measures resulting from the organisational restructuring and changes in the branches had a direct or indirect impact on staff jobs and in some cases led to redundancies.

In extensive negotiations with the works councils, we managed to find a socially acceptable solution for those affected and agreed on a social plan in December 2005. The agreements help to substantially cushion the blow for the employees hit by the restructuring measures.

The restructuring measures laid down in the social plan provide for 121 staff to be made redundant. However, those employees will have the opportunity to move to a so-called transfer company for 12 months. Dismissal protection of up to 9 years was agreed for some of the remaining employees based on their age and years of service. Some of the staff already have such dismissal protection. Moreover, a fund of € 1 million was set up for cases of hardship.

Of the 121 employees, so far 94 have agreed to move to the transfer company so the number of redundancies will be very small. Previously 136 employees had agreed with the company in a so-called voluntary round that their contracts would be cancelled. Of these 136, 49 moved to the transfer company.

Overall, the plans are for 575 full-time jobs to be cut. Most of these cuts can be achieved by natural wastage and the signing of pre-retirement part-time work contracts. The necessary staff reductions will have been fully implemented by December 31, 2006.

Transfer company actively helps staff find new jobs

The transfer company established as part of the social plan has close contacts with potential new employers. This considerably increases the employees' chances of finding new jobs. The company implements measures which help the staff get better qualifications and find new employment.

Pay-for-performance system to be introduced as management instrument throughout Group

In the Deutsche Annington Group, there are different performance-related bonus systems for different function groups. Following Viterra's takeover by Deutsche Annington in 2005, there is in future to be one performance-related pay system for all non-pay-scale staff together with a uniform target agreement system for all function groups. In order to achieve this, we standardised the key performance figures which had previously determined the bonuses under the different systems.

The "Management by Objectives" system successfully employed at Viterra so far is now to be used throughout the Deutsche Annington Group. The introduction will be accompanied by training courses for managers at the level of central department head. Further seminars will then be held as required. Management by Objectives is a structured target agreement process which cascades the company's goals into all levels of the workforce. Alongside the target agreements, the process also ensures staff further training and personnel development.

Staff numbers adjusted to new structures

At the end of 2005, 1,889 people were employed in the Deutsche Annington Group. 73.7% of the staff were taken over into the newly structured Group.

Quality assurance in training

As a result of the acquisition of Viterra, the number of trainees in the Deutsche Annington Group increased from 20 to 100, which is 5.3% of the workforce. As in the past, our focus will be on quality assurance and the constant optimisation of in-service training at Deutsche Annington.

In 2005, a total of 31 trainees were recruited in the Deutsche Annington Group. 28 trainees passed their final exams. Of this figure, 12 were given a fixed-term and 9 a permanent employment contract.

Financial Analysis

Special information on consolidation

Due to the acquisition of Viterra, comparison of the figures for the 2005 and 2004 financial years has limited informative value. The figures of the former Viterra AG are included in the consolidated financial statements from August 15, 2005, which considerably increases the volume of business for 2005. The figures for 2004 only contain the business figures of the Deutsche Annington Real Estate Group for 2004 according to IFRS without pro-forma adjustments.

Profit on disposal of properties

Profit on disposal of properties rose from € 119.8 million in 2004 to € 243.6 million in the year under review. At € 188.8 million, profit on the sale of trading properties made up the largest share (2004: € 118.8 million), which was an increase of 59%. Profit on the disposal of investment properties totalled € 54.8 million and thus increased sharply compared with 2004 (€ 1.0 million) by € 53.8 million. The basis for these positive figures is the considerable rise in sales of housing units. The number of housing units sold and included in the consolidated financial statements jumped to 12,378 (2004: 3,460). In 2005, we managed to sell 7,072 housing units to tenants. Moreover, other residential properties were sold en bloc, mainly to restructure the housing portfolio. These measures involved the sale of 5,306 units.

Sharp rise in proceeds from property management

In 2005, proceeds from property management more than doubled from € 315.4 million in 2004 to € 699.5 million. The reasons for this increase were lower vacancies, higher rents and the sharp rise in the number of properties managed due to the inclusion of the newly acquired housing units. The number of DAIG housing units managed rose from approx. 65,000 at the end of 2004 to approx. 190,000 at the end of 2005. Including the properties managed for third parties (rental apartments, management of owner-occupier apartments and management of small commercial units), over 228,000 units were managed by the Deutsche Annington Real Estate Group at the end of 2005.

EBITDA considerably increased

The Deutsche Annington Real Estate Group recorded EBITDA of € 354.5 million in 2005. This is an increase of € 162.4 million over the previous year, mainly as a result of the acquisition of the Viterra portfolio. In addition to the contribution made by the residential real estate segment, the figure includes EBITDA of € 26.1 million from the consolidation of the development activities of Viterra.

Consolidated net income

	2005 € million	2004 € million
EBITDA	354.5	192.1
Depreciation and amortisation	-64.3	-26.0
EBIT	**290.2**	**166.1**
Interest expense/income	-253.0	-124.6
Profit before tax	**37.2**	**41.5**
Income taxes	103.7	-24.4
Profit for the year	**140.9**	**17.1**
of which DAIG share	140.6	16.6
of which minority interests	0.3	0.5

Compared with the previous year, EBITDA jumped by 84.5% to € 354.5 million. This is above all due to the first-time inclusion of Viterra AG with effect from August 15, 2005. This is also the main reason for the increase in EBIT from € 166.1 million to € 290.2 million. Profit before tax fell by 10.4% to € 37.2 million compared with 2004. While the inclusion of Viterra had a positive effect, the financing costs connected with the acquisition and the property transfer tax which had to be paid as a result of measures performed under German company law had a negative impact. Furthermore, these measures under company law led to a different assessment of whether existing loss-carryforwards could be used. The recording of deferred tax assets led to a positive income tax charge. The profit for the year is thus well up on the figure for 2004.

The 2005 financial year was dominated by the acquisition and integration of Viterra. Our business operations had a successful year. Consolidated net income developed well despite the impact of special effects (acquisition of Viterra, refinancing measures under company law).

Assets and Financial Situation

Group balance-sheet structure

	2005		2004	
	€ million	%	€ million	%
Total non-current assets	6,328.7	61.2	1,625.3	61.4
Total current assets	4,013.9	38.8	1,021.1	38.6
Total assets	**10,342.6**	**100.0**	**2,646.4**	**100.0**
Total equity	615.0	5.9	431.5	16.3
Total non-current liabilities	8,650.0	83.6	1,905.1	72.0
Total current liabilities	1,077.6	10.4	309.8	11.7
Total equity and liabilities	**10,342.6**	**100.0**	**2,646.4**	**100.0**

Balance-sheet structure

In 2005, the Deutsche Annington Group invested a total of € 3,556.9 million (2004: € 184.8 million). Of this figure, the majority was spent on the acquisition of Viterra.

With stockholders' equity rising, the capital-to-assets ratio decreased to 5.9% after 16.3% in 2004 due to the sharp increase in total assets. The rise in total assets is mainly a result of the first-time inclusion of Viterra. Any comparison of the items in the 2005 balance sheet with the figures for 2004 has limited informative value due to the acquisition of Viterra.

In line with the real estate trading strategy of the DAIG Group, the current assets include residential real estate earmarked for sale for which an official declaration of partition has been obtained.

Information on the cash flows statement

Cash flows statement

	2005	2004
	€ million	€ million
Cash flow from operating activities	549.5	348.1
Cash flow from investing activities	-3,354.5	-177.9
Cash flow from financing activities	3,165.2	-125.1
Net changes in cash and cash equivalents	**360.2**	**45.1**
Cash and cash equivalents at beginning of year	66.3	21.2
Other current financial investments at year-end	58.2	-
Cash and cash equivalents as shown in the balance sheet	**484.7**	**66.3**

The effect of the changes in the balance sheet on the cash flow from operating activities has been adjusted to eliminate the effects of changes in the group of consolidated companies and currency translations. Therefore, direct comparison with the corresponding changes in the published consolidated balance sheets is not possible.

At € 549.5 million, the cash flow from operating activities is well up on the figure for the previous year and contains above all receipts from sales of trading properties. The rise in comparison to the previous year is mainly a result of the inclusion of the cash flow from the operating activities of Viterra since the date of first consolidation.

The cash flow from investing activities dropped sharply compared with the previous year by € 3,176.6 million to -€ 3,354.5 million. The decrease was mainly due to the purchase price paid for the acquisition of Viterra.

The sharp increase in cash flow from financing activities reflects the financing of the company acquisitions in 2005.

Financing: Interest agreements signed for the loan of € 4.3 billion

At the beginning of August 2005, Praetorium 36. VV GmbH, Praetorium 40. VV GmbH and Viterra Holdings II GmbH signed a loan agreement for € 4,327.6 million with a consortium of six banks. Further Viterra companies have entered into this agreement. As borrowers under this loan agreement, the Viterra companies used a total of € 765.1 million to repay acquisition financing (€ 715.1 million) as well as for market adjustment resulting from the transfer of interest rate swaps (€ 50 million). The remaining loan amount of € 3,562.5 million was used by Atrium EINHUNDERTERSTE VV GmbH (€ 3,366.6 million) and Praetorium 40. VV GmbH (€ 195.9 million) for the acquisition of Viterra. An amortising swap agreement was signed with two banks for the entire loan sum of € 4.3 billion.

Further refinancing agreements signed

As part of a comprehensive refinancing measure, Deutsche Annington Immobilien GmbH signed a credit line agreement for € 1,670.0 million with a consortium of three banks at the beginning of August 2005. Part of this credit facility amounting to € 1,527.6 million was drawn on August 12, 2005 and a further € 43.3 million on December 29/30, 2005. These funds were used to repay company financing and also partly to finance the Viterra acquisition.

In connection with the refinancing of the Helaba/KfW syndicated loan, Deutsche Annington Immobilien GmbH transferred a swap of € 306.8 million used for interest hedging this loan to Citibank NA London. For this, market adjustment of € 25.0 million was paid. An amortising swap agreement to the value of € 1,576.0 million was signed with two banks to provide security for the new credit facility.

Fair values

Fair values increase transparency and are an important control instrument

As part of the first-time recognition according to IFRS in 2005, the fair values of the real estate portfolios were determined in accordance with IAS 40.

Fair values of the real estate portfolio of the DAIG Group

Dec.31, 2005	Housing units	Other rental units	Fair values € million
Region			
North	18,731	4,497	848.6
East	20,707	3,355	727.0
Rhineland	18,805	5,339	1,061.5
Ruhr	37,249	7,230	1,667.9
South	18,190	7,948	1,127.8
Southwest	32,430	7,367	1,781.8
Westphalia	43,774	6,590	1,825.3
Small commercial units	-	-	234.0
Undeveloped land	-	-	76.7
	189,886	**42,326**	**9,350.6**

Details on how the fair values were determined are to be found in the Notes to the consolidated financial statements under Note 13, Investment Properties.

Risk Management

Risk management system

The company uses a comprehensive reporting system to identify and handle risks at an early stage which may be of significance to the economic situation of Deutsche Annington. In addition to detailed monthly controlling reports, the Chief Executive Officer and the Chief Financial Officer both give monthly reports to the Supervisory Board of Deutsche Annington. In addition to the quantitative reporting in the controlling reports, there is also qualitative reporting in standardised, weekly reports which the managers submit to the managing directors of the company. This standardised process ensures that all managers of the subsidiaries and the heads of department of the holding report major issues regularly to the managing directors.

Risk situation and individual risks

Overall risk: No risk to survival discernible

We are not aware of any risks which might jeopardise the survival of Deutsche Annington – be it a risk to the assets or the liquidity of the company.

Major risk fields or risks for the Deutsche Annington Real Estate Group have been identified in the following areas:

Risks from changes in the business environment

It is impossible to predict to what extent the government's intention to stop subsidies for first-time home buyers will lead to a fall in demand for residential real estate, particularly from threshold households in the next few years. Deutsche Annington is monitoring the market situation very closely and will, if necessary, react to this risk by stepping up sales promotion activities.

Economic forecasts predict that the demographic development of German metropolitan areas will differ greatly: According to these forecasts, there will be regions to which substantial numbers of people will migrate (e.g. Rhine-Main, Munich, Stuttgart) and lead to rising demand for accommodation. By contrast, there will be regions, including the Ruhr area, from which large numbers will move away. The population will also decrease here as a result of falling birth rates. However, this development will be cushioned by a shift in the type of accommodation required: The number of one and two-person households will rise steadily and demand for bigger apartments will also grow. Therefore, in future there will be fewer people but they will be living in bigger homes and the number of households will increase overall. Thus a noticeable fall in demand for rented and owner-occupier accommodation is not likely to occur before 2015, even in the regions like the Ruhr area which people are leaving.

The overall strained economic situation in Germany has meant that the demand for office real estate has remained weak. We are limiting the marketing risks associated with commercial real estate development projects by not starting construction until leases have been signed for a certain percentage of the office space as well as by limiting project volumes. Furthermore, we are concentrating on locations where demand is expected to be high.

Performance/Operational risks

In the south of the Ruhr area, the many years of coal mining have left disused mine workings near the surface, which present a risk of mining damage to Deutsche Annington's land and buildings. At present, it is difficult to estimate the associated economic risk as there are no or very few records for many of the old mine workings. Moreover, the law is not clear on the question of liability for any damage which might occur.

Deutsche Annington is countering this risk by conducting a systematic analysis to identify potential mining damage. These results will provide the basis for Deutsche Annington to take suitable remedial action and clarify the legal situation where necessary.

Financial risks

In its financing activities for its operational business, Deutsche Annington is exposed to risks arising from changes in interest rates and exchange rates. Deutsche Annington operates a systematic finance management system to limit these risks. Apart from other measures, we also use interest rate swaps as derivative instruments.

A description of the financial instruments can be found in the Notes to the consolidated financial statements, Note 24.

Other risks

Through the acquisition of Viterra, Deutsche Annington also took over eight logistics centres which Viterra bought from Deutsche Post AG in December 2000 and at the same time leased back to Deutsche Post and Danzas. In our opinion, Deutsche Post subsequently failed to meet its contractual obligation from the acquisition in 2000, namely to obtain legally valid building permits for all locations within two years from their handover. Therefore, on August 31, 2004, Viterra made use of its contractual right of rescission and demanded repayment of the original purchase price. Deutsche Post failed to comply. Therefore, Viterra filed an action for reimbursement of the purchase price and the regional court of Essen found against the defendant. Deutsche Post has appealed against this first-instance judgement.

On February 22, 2006, the Federal Court of Justice made a landmark ruling on the subject of contracting in another Viterra case. In this ruling, the Federal Court of Justice confirms that contracting is only admissible if it is provided for in the tenancy agreement. A final assessment of the effects of this judgement can only be made when the court's opinion has been examined. Provisions have been established in the financial statements for any risks which may result from this ruling of the Federal Court of Justice.

Other legal disputes beyond those shown in the balance sheet which might have a substantial negative impact on the economic situation of Deutsche Annington are neither pending nor, to our knowledge, has such a case been threatened. No major risks for Deutsche Annington can currently be identified in the information technology and human resources sectors.

Outlook

Market development: Residential real estate will increasingly be managed by private companies

In the last five years, some 500,000 apartments have been sold by large companies and public authorities. We assume that this trend will continue. Private companies are increasingly concentrating on their core business and raising their liquidity by selling their real estate portfolios. Local authorities and state-run companies are also increasingly offering housing stocks for sale. Since there is now enough housing available in Germany, they no longer see the provision of reasonably priced accommodation as a responsibility of the state. We estimate that in Germany about one million apartments will change hands in the next five years.

Trend towards home ownership will continue

In future, buying a used property will become increasingly important to people as a way of acquiring assets and providing for retirement. The sale of individual apartments, mainly to tenants, is becoming more and more popular. This trend is being promoted by the current low mortgage rates and a sharp fall in the number of new houses being built.

At about 43%, home ownership in Germany is still relatively low compared with the rest of Europe (65%). Parallel to this, the number of households and the living area per capita are increasing. General forecasts predict that the population in metropolitan areas will grow: Not only will young people move to the urban centres in search of better job opportunities, old people will also be increasingly attracted to the urban centres and their infrastructure which offer them better everyday amenities. Against this backdrop, we feel we are well positioned in the market. After all, about two thirds of our housing portfolio is located in towns with more than 100,000 inhabitants.

Loss of the subsidy for first-time home owners will only have a limited impact on the market

Even though the German government has ceased to directly promote home ownership by cancelling the subsidy for first-time buyers, there are still a number of indirect subsidies, above all the mortgages obtainable from the Kreditanstalt für Wiederaufbau (Reconstruction Loan Bank) at very low interest rates. In North Rhine-Westphalia, the state provides about one billion euros in low-interest, in some cases even interest-free, loans with its own Accommodation Promotion Programme. It not only supports young families in the purchase of an apartment or house but also promotes the refurbishment of old residential buildings and, for the first time, also the conversion of accommodation to meet the needs of the elderly.

By European comparison, the prices of German residential properties are low. For example, in the neighbouring countries Italy, France, the United Kingdom and Spain, prices have risen in the last ten years, in some areas by more than 150%. In our opinion, all these factors speak for growing demand.

Introduction of REITs will open up new opportunities for the German real estate market

Im January 2005, the German government launched an initiative to introduce real estate investment trusts (REITs) in Germany. If the tax conditions were right, registration of Deutsche Annington as a REIT would be an attractive form of investment for many international investors.

Main goal for 2006: Successful completion of the integration process

In the coming months, we will pool the strengths of Deutsche Annington and Viterra and further develop the company to ensure its long-term success. To achieve this, we will push the integration process initiated in the summer of 2005 forward as quickly as possible. We are confident that the merger process will be completed by the middle of the year.

Trading strategy to stay: Core business, residential real estate, will be further expanded

In our core business, residential real estate, we will be continuing our trading strategy. We will further expand sales of individual housing units to tenants and owner-occupiers. In future, we will, by and large, not be selling housing units en bloc.

The acquisition of Viterra AG has considerably expanded our share of the private housing market sector in Germany. This year we will also examine further opportunities to buy housing stocks which can be sold individually. The decisive criterion is always whether the housing stocks on offer fit in with our strategy.

Our aim is to enlarge our housing portfolio even more in the medium term. Deutsche Annington is, in our opinion, the only company in Germany which has many years of experience in the purchase, integration and resale of large housing portfolios. This strength will stand us in good stead when competing with other bidders for properties.

Creating a new brand in the housing industry

Our entire company has been operating on the market under the name Deutsche Annington since January 2006. Therefore, in future, the one umbrella brand will be used for all our internal and external communications. One important goal for the current year is to give the brand a strong position, both internally and externally. The attributes of socially acceptable solutions, social competence, reliability and high-quality service will be the main branding features.

One of our most important aims is to win and keep the trust of our customers. We want customers to always feel, “It’s nice to live here”, and demonstrate this service idea to the public. Therefore, on January 1, 2006, we introduced a new look for all regions and service centres at the approx. 700 locations, a new website as well as one single customer newspaper for all tenants (with 230,000 copies, one of the largest media in this market in the whole of Germany). Since December 2005, the combined Intranet has been informing all staff of Deutsche Annington about the latest news and developments. In the first half of 2006, we are planning to anchor the brand concept in external communications with a number of promotional measures.

Improved service and innovative marketing to cut vacancy rate

In 2006, one of our main goals will again be a reduction in the vacancy rate. One important factor is customer satisfaction. In order to raise satisfaction levels, we have restructured complaint management. This will help us to further improve our services. Thanks to successful marketing campaigns such as an internet property exchange advertising apartments for rent and sale, apartments for a fixed rent for students and apprentices, apartments with reasonable rents for families with children and the Annington Wohnen Plus initiative for the elderly, we already managed to boost letting rates last year. We will also continue these measures in 2006.

Potential for raising rents is limited but there are regional differences

In 2006, we are again expecting that there will be no uniform pattern of development in the rents of the Deutsche Annington housing units. Thanks to careful management, we have managed to steadily bring the rents up to market prices in the last few years. We get fair market rents for approx. 90% of our freely financed apartments. Thanks to our centralised rent management, we keep an eye on developments in the local markets and raise rents where we can. As a responsible landlord, we always keep strictly to the law. We are expecting rents to rise moderately in 2006 but the pattern of development to differ from region to region. Whilst we see chances for higher rents in growth regions like Hamburg, Frankfurt/Main and Munich, we believe that rents in the Ruhr area will stagnate or only rise slightly.

Energy prices will keep operating costs high

In 2005, the sharp rise in oil and gas prices and therefore the prices for district heat determined the development of operating costs. Basically, there will be no reversal of the situation in 2006. We expect energy prices to stay high.

Development business to be sold as part of the concentration process

The performance of our project development business segment in 2005 has shown that Viterra Development is well positioned as a project developer for office real estate and apartment buildings. The current projects and those in the planning stage are a good basis for the continued positive development of business. However, as we have decided to concentrate solely on our core business, residential real estate, we will be selling the project development segment by mid-2006.

Company looks to the future with confidence

The acquisitions in 2005 were an important step, setting the future course for our company. In 2005, we managed to enhance our efficiency and make decisive improvements to our work processes. We are building on this and preparing for further acquisitions. We are keeping our aim of expanding the portfolio in the medium term firmly in our sights.

As we have decided not to sell housing units en bloc and want to get a higher return on sales, we do not expect to sell as many units in 2006 as in the year under review. As far as EBITDA is concerned, we are expecting earnings to increase in 2006, also as it will be the first time that the Viterra activities will be included in the consolidated financial statements for the full year. We are expecting further improvements in EBITDA in the medium term.

Our housing stocks are being continually maintained and modernised. In order to reduce our financing costs, we will be refinancing this year, probably in the form of a securitisation.

Consolidated Financial Statements to IFRS

Consolidated Income Statement

€ million	Notes	2005	2004
Proceeds from the sale of trading properties		615.0	251.7
Book value of trading properties sold		-426.2	-132.9
Proceeds from the disposal of investment properties		246.7	3.5
Book value of investment properties sold		-191.9	-2.5
Profit on disposal of properties	1	**243.6**	**119.8**
Rental proceeds		680.2	311.0
Other proceeds from property management		19.3	4.4
Proceeds from property management	2	**699.5**	**315.4**
Cost of materials	3	-444.7	-180.4
Personnel expenses	4	-113.7	-35.8
Depreciation	5	-64.3	-26.0
Other operating income	6	139.5	9.6
Other operating expenses	7	-170.4	-37.3
Financial income	8	18.3	3.6
Financial expenses	9	-270.6	-127.4
Profit before tax		**37.2**	**41.5**
Income tax	10	103.7	-24.4
Profit for the period		**140.9**	**17.1**
Of which DAIG share		140.6	16.6
Of which minority interests		0.3	0.5

The profit for the period relates solely to continuing activities.

Consolidated Balance Sheet

€ million	Notes	Dec. 31, 2005	Dec. 31, 2004
Assets			
Intangible assets	11	15.1	0.2
Plant and equipment	12	7.9	3.4
Investment Properties	13	6,121.3	1,601.8
Financial investments	14	42.0	0.3
Other receivables and other assets	15	79.3	0.0
Deferred tax assets	10	63.1	19.6
Total non-current assets		**6,328.7**	**1,625.3**
Inventories	16	2,902.7	627.7
Accounts receivable	17	492.5	144.4
Other receivables and other assets	15	68.6	182.0
Income tax receivable		65.4	0.7
Cash and cash equivalents	18	484.7	66.3
Total current assets		**4,013.9**	**1,021.1**
Total assets		**10,342.6**	**2,646.4**
Liabilities			
Capital stock		0.1	0.1
Reserves		598.4	412.2
Stockholders' equity		**598.5**	**412.3**
Minority interests		16.5	19.2
Total equity	19	**615.0**	**431.5**
Provisions	20	375.9	44.2
Trade accounts payable	21	1.3	0.2
Financial liabilities	22	7,880.2	1,744.8
Other liabilities	23	52.1	86.9
Deferred tax liabilities	10	340.5	29.0
Total non-current liabilities		**8,650.0**	**1,905.1**
Provisions	20	389.8	16.4
Trade accounts payable	21	44.2	30.0
Financial liabilities	22	157.6	131.4
Income tax liability		9.6	0.0
Other liabilities	23	476.4	132.0
Total current liabilities		**1,077.6**	**309.8**
Total liabilities		**9,727.6**	**2,214.9**
Total equity and liabilities		**10,342.6**	**2,646.4**

Consolidated Cash Flows Statement

€ million	2005	2004
Profit for the period (DAIG share)	140.6	16.6
Minority interests	0.3	0.5
Depreciation of fixed assets	64.3	26.0
Interest expenses/income	253.8	119.8
Results from investment property disposals	-54.8	-1.0
Other earnings not affecting net income	-109.5	-
Changes in inventories	439.6	121.2
Changes in receivables and other assets	-200.0	7.3
Changes in provisions	128.5	7.8
Changes in liabilities	42.4	28.8
Changes in deferred taxes	-122.9	23.1
Income tax paid	-32.8	-2.0
Cash flow from operating activities	**549.5**	**348.1**
Proceeds received from disposals of fixed and intangible assets	247.2	4.0
Proceeds received from disposals of consolidated companies and financial investments	0.2	0.1
Acquisition of fixed and intangible assets	-10.4	-111.2
Acquisition of consolidated companies and financial investments	-3,546.5	-73.6
Changes in current financial investments	-55.0	-
Interest income received	10.0	2.8
Cash flow from investing activities	**-3,354.5**	**-177.9**
Increase in financial liabilities	5,904.9	235.5
Repayment of financial liabilities	-2,389.2	-254.6
Other financing transactions	-3.2	56.4
Interest expense paid	-347.3	-162.4
Cash flow from financing activities	**3,165.2**	**-125.1**
Net changes in cash and cash equivalents	**360.2**	**45.1**
Cash and cash equivalents at beginning of year	66.3	21.2
Cash and cash equivalents at year-end	**426.5**	**66.3**
Other current financial investments at year-end	58.2	-
Cash and cash equivalents as shown in the balance sheet	**484.7**	**66.3**

Further information about the cash flows statement compare with notes no. 27.

Statement of Changes in Consolidated Equity

€ million	Subscribed capital	Capital reserves	Revenue reserves	Cumulative changes in equity not affecting net income: Total	From cash flow hedges	From currency translation	Equity before minority interests	Minority interests in equity	Total (group and minority interests)
As of Jan. 1, 2004 to IFRS	**0.0**	**125.0**	**208.8**	**-14.0**	**-14.0**	**0.0**	**319.8**	**39.1**	**358.9**
Consolidated surplus			16.6				16.6	0.5	17.1
Changes in equity not affecting net income	0.1	76.7		-0.9	-0.9		75.9	-20.4	55.5
Overall result after taxes	*0.1*	*76.7*	*16.6*	*-0.9*	*-0.9*	*0.0*	*92.5*	*-19.9*	*72.6*
As of Dec. 31, 2004 to IFRS	**0.1**	**201.7**	**225.4**	**-14.9**	**-14.9**	**0.0**	**412.3**	**19.2**	**431.5**
As of Dec. 31, 2004 to IFRS	**0.1**	**201.7**	**225.4**	**-14.9**	**-14.9**	**0.0**	**412.3**	**19.2**	**431.5**
Consolidated surplus			140.6				140.6	0.3	140.9
Changes in equity not affecting net income		1.0	2.0	42.6	41.9	0.7	45.6	-3.0	42.6
Overall result after taxes		*1.0*	*142.6*	*42.6*	*41.9*	*0.7*	*186.2*	*-2.7*	*183.5*
As of Dec. 31, 2005 to IFRS	**0.1**	**202.7**	**368.0**	**27.7**	**27.0**	**0.7**	**598.5**	**16.5**	**615.0**

Further information about the statement of changes in consolidated equity compare with notes no. 19.

Notes

Basis of the Consolidated Financial Statements

The Deutsche Annington Real Estate Group has positioned itself as a focused real estate company and concentrates on its core business, residential real estate. The company's focus is on the profitable letting, buying and selling of housing units. The acquisition of the Viterra Group from E.ON AG with effect from August 15, 2005 made the Deutsche Annington Real Estate Group the largest private housing company in Germany. The parent company of the Deutsche Annington Real Estate Group is Monterey Capital I S.à.r.l., Luxembourg. Deutsche Annington Immobilien GmbH (DAIG) is domiciled in Düsseldorf.

DAIG has made use of the option under Section 315a, para. 3 of the German Commercial Code (HGB) and is thus not obliged to prepare consolidated financial statements in accordance with German commercial law.

DAIG has prepared its first fully consolidated IFRS financial statements for the year ended December 31, 2005. They comply with all the International Financial Reporting Standards (IFRS) applying in the EU and with the interpretations of the International Financial Reporting Interpretations Committee (IFRIC). Allowance has also been made for the supplementary provisions in accordance with Section 315a, para. 1 of the German Commercial Code (HGB). The income statement has been prepared using the nature of expense method and follows the recommendations of the European Public Real Estate Association (EPRA).

The financial statements of DAIG and its subsidiaries are prepared according to uniform accounting policies. The following accounting policies have been applied uniformly to all periods shown in these consolidated financial statements as well as to the preparation of the IFRS opening balance sheet as at January 1, 2004.

The consolidated IFRS financial statements are denominated in euros. Unless stated otherwise, all figures are shown in million euros (€ million).

On April 3, 2006, the Management approved the consolidated financial statements of DAIG for submission to the shareholders' meeting. It is the responsibility of the shareholders' meeting to examine the consolidated financial statements and declare whether it approves them.

Consolidation Principles

In addition to DAIG, all substantial companies in which DAIG holds the majority of voting rights either directly or indirectly or which are under the control of DAIG have been included in the consolidated IFRS financial statements. Control is exercised when DAIG is able to determine a company's financial and business policies so as to gain economic benefit therefrom. Any potential voting rights are taken into consideration in determining whether or not there is a controlling interest.

In contrast to the general principle that the IFRS effective at the reporting date are to be applied to the opening balance sheet, IFRS 1 "First-time Adoption of International Financial Reporting Standards" provides an optional exemption whereby IFRS 3 "Business Combinations" does not have to be applied to business combinations which were classified according to other accounting standards before the date of transition. DAIG makes use of this optional exemption and has retained the consolidation of subsidiaries and associated companies from business combinations prior to the date of transition, January 1, 2004.

Acquisitions are recorded according to the acquisition method, the cost of acquisition being offset against the stockholders' equity attributable to the parent company at the time of acquisition. The identified assets, liabilities and contingent liabilities of the subsidiaries are stated at their full fair value including minority interests.

After adjustments to the fair values of assets acquired and liabilities assumed, any resultant positive difference is capitalised in the balance sheet as goodwill. In accordance with IFRS 3, goodwill is not amortised over its useful life. Instead, goodwill is tested for impairment at least annually and whenever there is an impairment indication. In cases where the impairment test shows that the fair value of the assets and liabilities exceeds the cost of acquisition, the values of the assets, liabilities and contingent liabilities as well as the costs of acquisition must be reassessed and then any remaining excess must be recognised as income in the income statement.

Increases or decreases in shareholdings in fully consolidated companies in which a majority holding continues to be held are stated as equity transactions. Thus any differences are offset directly in equity.

Investments are accounted for using the equity method if significant influence can be exerted. This is generally the case when 20% to 50% of the voting rights are held. Due to their minor significance, associated companies are carried under other investments at their amortised costs.

The effects of the business transactions between the companies included in the DAIG consolidated financial statements are eliminated.

Scope of Consolidation

In addition to DAIG, 83 domestic (2004: 18) and 3 foreign (2004: 0) companies have been included in the consolidated IFRS financial statements. The net assets, financial position and results of the operations of the Group do not include 7 subsidiaries (2004: 2), whose financial impact is, in aggregate, insignificant. The list of DAIG shareholdings is appended to these Notes to the consolidated financial statements.

In the year under review 75 companies have been included in the consolidated financial statements for the first time, including other acquisitions. In 2005, the disposals were the result of 5 mergers and 2 intra-Group legal reorganisations (Anwachsung).

As part of a uniform transaction, a 100% shareholding in Viterra GmbH, Essen (formerly: Viterra AG) and indirectly the dormant equity interest in MIRA Grundstücksgesellschaft mbH & Co. KG, Grünwald (MIRA), were acquired at a total purchase price of € 4,116.9 million with effect from August 15, 2005. These acquisition costs also include conditional purchase price components. MIRA is fully consolidated as a variable interest entity within the meaning of IAS 27 in conjunction with SIC-12 as the Deutsche Annington Real Estate Group bears the main rewards and risks from MIRA and its business activities. A reduction in the purchase price was realised in the transaction which has resulted in a negative goodwill of € 109.5 million in first-time consolidation.

Through this transaction, a total of 49 companies were included in the consolidated financial statements for the first time. The object of the acquired companies is to construct, acquire, manage and sell buildings in all legal structures and forms of use.

After their first-time consolidation on August 15, 2005, the Viterra Group and MIRA generated an operating profit of € 44.5 million in 2005 including all one-off integration costs.

With the acquisition of the Viterra Group and MIRA, DAIG acquired the following assets and assumed the following liabilities:

	Viterra Group		MIRA		Total	
€ million	Carrying amount of company acquisitions	Fair value of the assets and liabilities acquired	Carrying amount of company acquisitions	Fair value of the assets and liabilities acquired	Carrying amount of company acquisitions	Fair value of the assets and liabilities acquired
Intangible assets	0.9	0.9	0.0	0.0	**0.9**	**0.9**
Property, plant and equipment	6.6	6.6	0.0	0.0	**6.6**	**6.6**
Investment Properties	1,654.8	4,211.9	426.9	625.1	**2,081.7**	**4,837.0**
Financial investments	37.7	41.1	0.0	0.0	**37.7**	**41.1**
Inventories	1,193.5	2,460.5	25.5	25.5	**1,219.0**	**2,486.0**
Receivables and other assets	248.3	248.3	4.5	4.5	**252.8**	**252.8**
Deferred tax assets	37.7	50.8	0.0	0.0	**37.7**	**50.8**
Cash and cash equivalents	498.5	498.5	50.6	50.6	**549.1**	**549.1**
Provisions	508.7	508.7	10.1	10.1	**518.8**	**518.8**
Financial liabilities	2,522.8	2,374.7	257.7	249.5	**2,780.5**	**2,624.2**
Other liabilities	430.6	430.6	31.3	31.3	**461.9**	**461.9**
Deferred tax liabilities	53.5	355.8	0.0	37.2	**53.5**	**393.0**
Net assets acquired	162.4	3,848.8	208.4	377.6	**370.8**	**4,226.4**
Total purchase price						**4,116.9**
Negative goodwill						**-109.5**

Furthermore, DAIG acquired all shares in Deutsche Annington Fundus Immobiliengesellschaft mbH, Cologne (previously: “Fundus” Wohnungsbau und Wohnungsverwaltung GmbH, Cologne) (acquisition costs: € 17.1 million) and in Deutsche Annington Rheinland Immobiliengesellschaft mbH, Cologne (previously: Rheinbraun Immobilien GmbH, Cologne) (acquisition costs: € 39.5 million).

In 2004, advance payments of € 53.9 million were made on these acquisitions which were shown under other assets and liabilities. The transfer of benefits and burdens took place at the beginning of 2005. With the first-time consolidation of these companies, DAIG took over the following assets and liabilities:

	Others	
€ million	Carrying amount of company acquisitions	Fair value of the assets and liabilities acquired
Intangible assets	0.0	15.8
Investment Properties	13.1	36.9
Inventories	12.4	41.4
Receivables and other assets	0.6	0.6
Cash and cash equivalents	0.1	0.1
Provisions	3.1	3.1
Financial liabilities	5.8	5.8
Deferred tax liabilities	1.8	29.3
Net assets acquired	15.5	56.6
Purchase price		56.6
Goodwill		**0.0**
Operating profit after first-time consolidation		**3.5**

The purchase price for the shares in the companies acquired was paid in full in cash.

Due to extensive system change-overs and restructuring, it is impossible to state the sales revenues and profits or losses which would have been generated if all companies acquired had already been included in the scope of consolidation from January 1, 2005.

Currency Translation

In the separate financial statements of DAIG and the subsidiaries included in the consolidated financial statements, foreign currency transactions are translated into the functional currency at the exchange rate on the date of the transaction. Monetary assets and liabilities in foreign currencies are translated at the exchange rate prevailing on the balance-sheet date. Any resulting translation gains and losses are recorded in the income statement. Non-monetary items are recorded on the balance-sheet date at the exchange rate on the date when they were first booked.

Financial statements of foreign subsidiaries are prepared on the basis of the currency of the primary economic environment in which the company operates (functional currency). In principle, the respective national currency is taken to be the functional currency. The financial statements of con–solidated companies which are denominated in foreign currencies are translated into the Group's functional currency, the euro, as follows:

The balance sheet is translated at the spot rate on the balance-sheet date and the income statement at the weighted average rate of the reporting period. Differences resulting from currency translation of assets and liabilities between the prior year-end and the current year-end as well as differences between balance sheet and income statement translation do not affect income and are included within stockholders' equity until disposal of the subsidiary.

Currency translation was based on the following exchange rates:

	Balance-sheet date **Dec. 31, 2005**	Average for **2005**
1 Polish zloty	€ 0.2591	€ 0.2486
100 Czech crowns	€ 3.4483	€ 3.3577

Accounting and Measurement Policies

Revenue and expense recognition

Revenue from letting and property management is recognised net of discounts, sales incentives, customer bonuses and rebates granted according to the terms of the contracts when the remunera-tion is fixed or can be reliably determined and collection of the related receivable is probable.

Profit on property sales is recognised as soon as the material risks and rewards of ownership have been transferred to the buyer and DAIG has no substantive obligations. If any remaining obliga-tions are limited by the purchase contract, the profit is recognised after provision for the probable risk. Proceeds from construction contracts are recognised under the percentage-of-completion method according to the progress of work completed. The progress of work is determined using the cost-to-cost method. If the percentage-of-completion method is not appropriate, sales are recog-nised using the completed-contract method, i.e. after completion and final acceptance of the project.

Operating expenses are posted as expense when they arise or at the time they are incurred. Inter-est is stated in the reporting period as income or expense on the basis of the effective interest method.

Intangible assets
Intangible assets are carried at amortised cost of acquisition or production. All intangible assets of the DAIG Group have definite useful lives and are amortised on a straight-line basis over their useful lives. Software and licences are always amortised on the basis of a useful life of three years. The customer bases included in the balance sheet as part of the first-time consolidation of Fundus and Rheinland are amortised on a straight-line basis over 10 years.

Property, plant and equipment
Property, plant and equipment are valued at amortised cost of acquisition or production and depreciated over their respective useful lives by the straight-line method. Borrowing costs are not capitalised as part of the acquisition or production costs but are recognised as expense when incurred.

Subsequent acquisition or production costs are capitalised provided they extend the useful life of an asset or increase its functionality.

Equipment, fixtures, furniture and office equipment are depreciated over periods of between 3 and 13 years.

Investment Properties
Investment Properties are properties that are held for the purpose of earning rental income or increasing the value of the property and are not owner-occupied. Investment properties include undeveloped land, land and land rights including buildings, and land with inheritable rights of third parties. Properties which must be capitalised under a finance lease in accordance with IAS 17 and are covered by the definition of investment properties must also be classified as investment properties.

In line with the real estate trading strategy of the DAIG Group, investment properties which are to be sold within the normal six-year business cycle and which are being prepared for sale, e.g. condominium declaration obtained after initial classification, are transferred to inventories. Should these properties classified as trading properties not have been sold within the six-year business cycle as intended, they are re-transferred to the investment properties category in accordance with the provisions of IAS 8 (Changes in Accounting Estimates).

Investment Properties are recorded at amortised cost of acquisition or production and, except for land, depreciated over their respective useful lives by the straight-line method. Borrowing costs are not capitalised as part of the acquisition or production costs but recognised as expense when incurred. Maintenance and modernisation costs that extend the useful life of an asset or increase its functionality are capitalised. Scheduled depreciation of investment properties is calculated on the basis of a 20 to 50-year useful life.

The fair value of investment properties is stated in these Notes and is calculated using internationally recognised measurement methods. One such method is the income approach, which is based on actual or market rents and a risk-adjusted capitalised interest rate. In addition, fair values are also determined by comparing market prices for comparable properties (sales comparison method). Both of these approaches to determine the fair values of investment properties are based on current market data.

Leased properties that are classified as financial investments are stated at the lower of fair value and present value of their minimum leasing payments and are depreciated on a straight-line basis over their anticipated useful lives or shorter contract terms.

Leases
Depending on the terms of the agreements, leases are considered either finance leases or operating leases. Leases where all substantive risks and rewards from the use of the leased object have been transferred to the lessee are accounted for as finance leases. The leased asset is capitalised in the financial statements of the lessee along with a corresponding liability due to the lessor. All other leases are accounted for as operating leases.

Impairment of intangible assets, property, plant and equipment and investment properties
For the impairment test, goodwill is first assigned to the cash-generating unit which profits from the respective business combination. If the carrying amount of the cash-generating unit exceeds the fair value, the goodwill assigned to the cash-generating unit is first reduced by the difference. Any further write-down required is performed by proportionately reducing the carrying amounts of the other fixed assets. Every impairment loss is immediately recognised to affect net income. Reversals of impairment losses on goodwill are not permitted.

In accordance with IAS 36, other intangible assets, property, plant and equipment and investment properties are tested for impairment whenever there is an impairment indication. An impairment loss is recognised when an asset's recoverable amount is less than its carrying amount. If the recoverable amount cannot be determined for a particular asset or it does not generate cash flows which are largely independent of other assets, the impairment test is conducted on the cash-generating unit to which the asset belongs. Impairment losses are recorded as expense in the income statement.

If an impairment loss is subsequently reversed, the carrying amount of the asset (or the cash-generating unit) is increased to the newly estimated recoverable amount. The carrying amount is limited to the amount that would have been determined if no impairment loss had been recorded in prior years for the asset (or the cash-generating unit). A reversal of the impairment loss is recorded as income under depreciation in the income statement.

Financial investments
Shares in associated companies are not included in the consolidated financial statements using the equity method but measured at their amortised cost of acquisition and shown under other investments owing to their minor significance. Other investments are always measured at their amortised cost of acquisition as there is no price quoted on an active market and the fair value cannot be reliably determined.

The long-term loans relate to long-term receivables with an original term of at least one year. Interest-free and low-interest loans are reported at their present values while all other interest-bearing loans are recorded at their amortised cost.

Receivables and other assets
The receivables and other assets are stated at amortised cost of acquisition. Allowance is made for all discernible risks by appropriate deductions. An appropriate valuation allowance is made when it is estimated that certain receivables will be uncollectible.

Customer-specific construction contracts are, when certain conditions are met, recognised under the percentage-of-completion method according to the progress of work completed. Construction contracts where the balance shows an amount owed by the customer are shown under trade receivables. Any negative balance on a construction contract is recorded under other liabilities as advance payments made on construction contracts.

The percentage of completion is determined in accordance with the expenses incurred (cost-to-cost method). Anticipated losses from orders are covered by value adjustments or provisions; they are determined allowing for all discernible risks. The contractual proceeds are shown as proceeds from contracts in line with the percentage of completion under proceeds from the sale of trading properties.

Reinsurance contracts have been taken out to cover the pension benefit obligations towards particular persons. Where the plan assets of pension benefit obligations exceed the benefit obligations, the excess is shown under other assets.

Inventories
Inventories are measured at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the normal course of business less the costs incurred up to sale. Borrowing costs are not capitalised as part of the acquisition or production costs but are recorded as expenses in the period in which they are incurred.

In line with the real estate trading strategy of the DAIG Group, residential properties which are to be sold within the normal six-year business cycle and for which a condominium declaration has been obtained are shown under inventories. If these properties have not been sold within the six-year business cycle as intended, they are transferred to the investment properties category in accordance with the provisions of IAS 8 (Changes in Accounting Estimates).

Cash and cash equivalents
Cash and cash equivalents are recorded at their amortised purchase costs. Cash and cash equivalents in foreign currencies are translated at the closing rate.

Deferred taxes

In accordance with IAS 12 "Income Taxes", deferred tax assets and liabilities are provided for all temporary differences between the consolidated balance sheets and the tax balance sheets as well as on consolidation measures affecting net income. Furthermore, deferred tax assets are also calculated on loss carryforwards provided their realisation in the following years is likely. An impairment test is performed on deferred tax assets at the balance-sheet date.

The deferred taxes are determined by taking the tax rates which apply or are expected according to the laws of the respective countries at the time of the realisation. A tax rate of 40% is taken to calculate domestic deferred taxes. In addition to corporate income tax and the solidarity surcharge together totalling 26.4%, the average trade earnings tax rate in the Group was taken into consideration.

Deferred tax assets and liabilities are netted against each other for each company or group of companies for corporate income tax and trade tax purposes.

Provisions

Provisions for pensions and similar obligations

The value of the pension obligations and the expenses necessary to cover these obligations are determined using the projected unit credit method in accordance with IAS 19 "Employee Benefits" whereby current pensions and vested pension rights on the balance-sheet date as well as future increases in salaries and pensions are included in the valuation. An actuarial valuation is performed at every balance-sheet date.

The amount shown in the balance sheet is the present value of the defined pension obligation after elimination of unrecognised actuarial gains and losses and past service cost and after offsetting against the fair value of the plan assets.

In contrast to the general principle that the IFRS effective at the reporting date are to be applied to the opening balance sheet, IFRS 1 "First-time Adoption of International Financial Reporting Standards" provides an optional exemption whereby actuarial gains and losses from all defined benefit obligations arising prior to the date of transition can be recognised ("fresh start"). DAIG has made uniform use of this exemption option for all defined benefit plans.

Actuarial gains and losses arising after the date of transition are taken into consideration using the corridor method. They are only recorded to income or expense, when the balance of the accumulated unrecognised actuarial gains and losses exceeds the corridor of 10% of the greater of defined benefit obligation (DBO) and the fair value of plan assets. The excess is recognised in future periods over the expected average remaining working lives of the participating employees.

Service cost is shown in personnel expenses. The interest share of the addition to provisions is recorded in the financial result.

Other provisions

Other provisions are established where there is a present obligation, either legal or constructive, as a result of a past event, payment is probable and the amount can be reasonably estimated. Provisions for warranties and provisions for onerous contracts are determined at the full construction costs. Provisions for liabilities are reported when the related cash outflow is probable and its amount can be reliably expected.

Provisions for environmental liabilities are set up when it is probable that an obligation has been incurred and the amount of the liability can be reliably estimated.

Provisions for restructuring expenses are recognised when the Group has set up a detailed formal plan for restructuring and has announced the main features of the plan to those affected.

Provisions for onerous contracts are stated at the lower of the present value of the fulfilment obligation and a possible indemnity or fine for breach or non-fulfilment of contract.

Long-term provisions are discounted if the resulting effect is substantial. The carrying amount of the provision increases in each period to reflect the passage of time and the unwinding of the discount is recognised within interest expense.

Liabilities

With the exception of derivative financial instruments, liabilities are shown at amortised acquisition cost taking the effective interest method into consideration.

Loans bearing no interest or interest below market rates in return for occupancy rights at rents below the prevailing market rates are recorded at present value. The discount is shown under deferred income and amortised as other proceeds from property management in the following years; in return the interest expense increases accordingly.

Debt discounts and debt issue costs are directly allocated to financial liabilities. Liabilities from finance leasing are accounted for at the fair value of the leased object or the lower present value of the minimum lease payments.

Derivative financial instruments and hedge transactions

All derivative instruments, irrespective of the purpose or the intended use, are accounted for at their fair values as assets or liabilities in the balance sheet.

With non-hedged derivatives, changes in the fair value are recorded in the income statement to affect net income.

With hedged derivatives, recording of changes in the fair value depends on the type of hedge:

With a fair value hedge, the changes in the fair value of the derivative financial instruments and of the underlying hedged items attributable to the hedged risk are recognised in the income statement in the period incurred.

With a cash flow hedge, the hedge-effective portion of unrealised gains and losses is first recognised in equity. Amounts accumulated in equity are reclassified to the income statement at the same time the underlying hedged item affects net income. The hedge-ineffective portion of the change in fair value is immediately recognised in income.

Government grants
The companies of the DAIG Group receive grants from public authorities in the form of construction subsidies, expenses subsidies, expenses loans and low-interest loans.

Government grants are regularly recorded as income over the periods necessary to match them with the related costs which they are intended to compensate.

Construction cost subsidies are, where they relate to construction measures, deducted from the construction costs and amortised as income over the useful life of the relevant assets. Construction cost subsidies relating to maintenance work which cannot be capitalised are immediately recognised in income.

Expense subsidies granted in the form of rent, interest and other expense subsidies are recorded as income and shown within other income from property management.

The low-interest loans are grants from public authorities which are recorded at net present value. The discount is shown under deferred income and amortised as income from property management in the following years, the interest expense increasing accordingly.

Contingent liabilities
A contingent liability is a possible obligation toward third parties that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity or a present obligation that arises from past events for which an outflow of resources is not probable or the amount of which cannot be estimated with sufficient reliability. According to IAS 37, contingent liabilities are not recognised.

Estimates and assumptions
The preparation of the consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent receivables and contingent liabilities at the balance-sheet date as well as reported amounts of revenues and expenditures during the reporting period. These estimates and assumptions mainly relate to the uniform definition of useful lives, the assumptions made on the value of land, buildings and goodwill, the recognition and measurement of provisions as well as the realisation of future tax benefits. The actual amounts may differ from the estimates as the business environment may develop differently than assumed. In this case, the assumptions and, where necessary, the carrying amounts of the assets or liabilities affected are adjusted accordingly.

Assumptions and estimates are continually revised and are based on historical experience and other factors, including expectations regarding future events which appear reasonable under the given circumstances.

At the time when the consolidated financial statements were prepared, there was no reason to assume that the assumptions and best possible estimates made on the basis of the circumstances at the balance-sheet date would change materially.

New accounting policies

Application of the following standards, interpretations and amendments to existing standards approved by the IASB and the IFRIC was not yet mandatory for the 2005 financial year. DAIG did not choose to apply them in advance, either. Their application will be mandatory for the financial years following the dates stated in the following table:

	New Standards and Interpretations and Amendments to Existing Standards	Mandatory from
IFRS 6	"Exploration for and Evaluation of Mineral Resources"	Jan. 1, 2006
IFRS 7	"Financial Instruments: Disclosures"	Jan. 1, 2007
IFRIC 4	"Determining Whether an Arrangement Contains a Lease"	Jan. 1, 2006
IFRIC 5	"Rights to Interests Arising from Decommissioning, Restoration and Environmental Funds"	Jan. 1, 2006
IFRIC 6	"Liabilities Arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment"	Dec. 1, 2005
IFRIC 7	"Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflationary Economies"	March 1,2006
IFRIC 8	"Scope of IFRS 2"	May 1, 2006
Amendment to IAS 1 "Presentation of Financial Statements" – Capital Disclosures		Jan. 1, 2007
Amendment to IAS 19 "Employee Benefits" – Stating Actuarial Gains and Losses, Multi-Employer Plans and Disclosures		Jan. 1, 2006
Amendment to IAS 21 "The Effects of Changes in Foreign Exchange Rates" – Net Investment in a Foreign Business Operation		Jan. 1, 2006
Amendment to IAS 39 "Financial Instruments: Recognition and Measurement" – Cash-flow Hedge Accounting of Forecast Intra-group Transactions		Jan. 1, 2006
Amendment to IAS 39 "Financial Instruments: Recognition and Measurement" – Regulations on the Use of the Fair Value Option		Jan. 1, 2006
Amendment to IAS 39 "Financial Instruments: Recognition and Measurement" and IFRS 4 "Insurance Contracts" – Financial Guarantee Contracts		Jan. 1, 2006
Amendment to IFRS 1 "First-time Adoption of International Financial Reporting Standards" and the Basis for the Conclusions on IFRS 6 "Exploration for and Evaluation of Mineral Resources"		Jan. 1, 2006

IFRS 6 “Exploration for and Evaluation of Mineral Resources”
IFRS 6 regulates the accounting treatment of expenditure incurred after prospecting rights for mineral resources have been acquired but before the technical and economic feasibility of extracting the resource can be proven.

IFRS 6 is unlikely to have any effect on the consolidated financial statements of DAIG as none of the companies included in the consolidated financial statements is engaged in the extraction of mineral resources and will also not be involved in such activities in the foreseeable future.

IFRS 7 “Financial Instruments: Disclosures”
Disclosures relating to financial instruments, which were previously regulated in IAS 30 “Disclosures in the Financial Statements of Banks and Similar Financial Institutions” and IAS 32 “Financial Instruments: Disclosure and Presentation”, are now incorporated in a single standard, the new IFRS 7. Furthermore, some disclosure requirements have been changed or supplemented.

IFRS 7 will, when it is first adopted by DAIG in its financial statements for the 2007 financial year, lead to more detailed disclosures on financial instruments.

IFRIC 4 “Determining Whether an Arrangement Contains a Lease”
This interpretation provides guidance for determining whether an arrangement is or contains a lease which is to be accounted for in accordance with IAS 17 “Leases”.

The interpretation can optionally be applied either retroactively in full or to arrangements existing at the beginning of the earliest period for which comparative figures are shown in the financial statements.

The first-time adoption of this interpretation in the 2006 financial year is unlikely to have any material effect on the consolidated financial statements of DAIG.

IFRIC 5 “Rights to Interests Arising from Decommissioning, Restoration and Environmental Funds”
IFRIC 5 contains regulations governing the accounting of interests in funds in which companies with decommissioning and/or restoration obligations segregate assets either alone or together with other companies which have such an obligation in order to fund the subsequent cost of decommissioning and/or restoration from the fund’s assets.

IFRIC 5 is unlikely to have any effect on the consolidated financial statements of DAIG as the company holds no interests in decommissioning, restoration and environmental funds.

IFRIC 6 “Liabilities Arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment”
This interpretation deals with the accounting of provisions established in connection with the obligation to dispose of certain electrical equipment to which either the EU Directive on Waste Electrical and Electronic Equipment or its translation into national law apply.

The first-time adoption of this interpretation in the 2006 financial year is unlikely to have any effect on the consolidated financial statements of DAIG as the company does not sell any electrical or electronic equipment and will also not do so in future.

IFRIC 7 "Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflationary Economies"

IFRIC 7 provides guidance on how to apply the requirements of IAS 29 "Financial Reporting in Hyperinflationary Economies" in the first year an entity identifies the existence of hyperinflation in the economy of its functional currency.

The first-time adoption of this interpretation is unlikely to have any effect on the consolidated financial statements of DAIG as none of the consolidated companies has the currency of a hyperinflationary country as its functional currency and this is expected to be the case in the future.

IFRIC 8 "Scope of IFRS 2"

IFRIC 8 clarifies the scope of IFRS 2 and states that IFRS 2 also applies to share-based payment transactions in which the company cannot specifically identify some or all of the goods or services received.

The first-time adoption of this interpretation is unlikely to have any effect on the consolidated financial statements of DAIG as none of the consolidated companies has performed any transactions of the kind mentioned in the interpretation, nor will do so in the foreseeable future.

Amendment to IAS 1 "Presentation of Financial Statements" – Capital Disclosures

In connection with the publication of IFRS 7 "Financial Instruments: Disclosures," the IASB has announced an amendment to IAS 1. It specifies that companies must provide disclosures in their financial statements that enable users to evaluate the company's objectives, policies and processes for managing capital.

The first-time adoption of this amendment to IAS 1 by DAIG in the 2007 financial year will lead to additional explanatory disclosures in the Notes to the consolidated financial statements.

Amendment to IAS 19 "Employee Benefits" – Stating Actuarial Gains and Losses, Multi-Employer Plans and Disclosures

The amendment to IAS 19 introduces another recognition option for actuarial gains and losses. This new option allows actuarial gains and losses to be recognised directly in equity in the period in which they occur. Furthermore, with multi-employer plans which due to insufficient information are accounted for as defined contribution plans, receivables or liabilities must be recorded to net income in accordance with the contractual agreements. Furthermore, there are changes in the presentation of defined benefit plans that share risks between entities under common control as well as the disclosures on defined benefit plans.

DAIG's first-time adoption of the amendment to IAS 19 in the 2006 financial year will probably lead only to changes in disclosures on defined benefit plans in the Notes to the consolidated financial statements. Actuarial gains and losses are determined using the corridor approach, a change to recognition in equity is currently not planned. There are no multi-employer pension plans.

Amendment to IAS 21 "The Effects of Changes in Foreign Exchange Rates" – Net Investment in a Foreign Business Operation

Monetary assets and liabilities of a parent company or one of its subsidiaries in connection with a foreign business operation are in future to be classified as part of net investment in a foreign business operation regardless of the underlying currency. The resultant exchange differences are to be recognised as a separate component of equity.

The amendment is unlikely to have any effect on the consolidated financial statements of DAIG.

Amendments to IAS 39 "Financial Instruments: Recognition and Measurement" – Cash-flow Hedge Accounting of Forecast Intra-Group Transactions, Regulations on the Use of the Fair Value Option, Financial Guarantee Contracts (in Combination with an Amendment to IFRS 4)

The amendment to IAS 39 permits an entity, under certain conditions, to regard future intra-group transactions that are highly likely to occur and are denominated in a foreign currency as underlying business transactions in the consolidated financial statements. In future, such transactions can be designated as hedged underlying transactions under foreign currency cash flow hedges, provided they are concluded in a currency which is not the functional currency of the entity which performs the transaction and currency risk has an effect on the results of the Group.

The classification of financial assets taken over from the EU under the classification category "measured at fair value with gains and losses recognised in profit or loss" is limited by the amendment to IAS 39 and admissible for financial liabilities under certain conditions.

Unless stated that financial guarantees are treated as reinsurance contracts, these guarantees will in future not fall under the scope of IFRS 4 but under the scope of IAS 39. The measurement of financial guarantees is also regulated in IAS 39.

The amendments to IAS 39 and IFRS 4 are unlikely to have any effect on the consolidated financial statements of DAIG.

Amendment to IFRS 1 "First-time Adoption of International Financial Reporting Standards" and the Basis for the Conclusions on IFRS 6 "Exploration for and Evaluation of Mineral Assets"

The amendment to IFRS 1 extends under certain conditions the convenience of disclosing comparable figures from the previous year to the entire scope of IFRS 6.

This amendment is unlikely to have any effect on the consolidated financial statements of DAIG.

Notes to the Consolidated Income Statement

1 Profit on disposal of properties

In the year under review, a book gain of € 188.8 million (2004: € 118.8 million) was recorded from the sale of trading properties. The proceeds contain proceeds from long-term construction contracts of € 42.7 million. Advance payments received of € 12.6 million were offset against the costs incurred of € 33.6 million. The profit from long-term construction contracts amounts to € 9.1 million.

A book gain of € 54.8 million (2004: € 1.0 million) was realised from the disposal of investment properties.

2 Proceeds from property management

The proceeds from property management of € 699.5 million (2004: € 315.4 million) contain in particular rents, billed ancillary costs and service charges.

3 Cost of materials

€ million	2005	2004
Decrease in inventories of finished goods and work in progress	30.0	0.8
Cost of purchased goods and services	414.7	179.6
	444.7	**180.4**

The decrease in inventories of finished goods and work in progress mainly relates to changes in inventories in connection with the billing of operating costs. The cost of purchased goods and services relates in particular to operating cost expenses and maintenance expenses.

4 Personnel expenses

€ million	2005	2004
Wages and salaries	97.3	28.1
Social security, pension and support contributions	16.4	7.7
	113.7	**35.8**

In the year under review, employers' contributions to the statutory pension insurances totalling € 5.3 million (2004: € 2.2 million) were paid.

As at December 31, 2005, 1,889 people (2004: 521) were employed in the DAIG Group. On an annual average, 1,036 people (2004: 503) were employed. This increase was due mainly to the acquisition of the Viterra Group, which employed 1,482 people as at August 15, 2005. Viterra Group employees were only included in this total on a pro rata basis; the figures do not include trainees.

5 Depreciation and amortisation

Amortisation of intangible assets totalled € 2.0 million (2004: € 0.3 million). Of this figure, customer bases capitalised in connection with acquisitions in the financial year accounted for € 1.6 million. Depreciation of investment properties amounted to € 60.3 million (2004: € 24.3 million) and depreciation of property, plant and equipment amounted to € 2.0 million (previous year: € 1.4 million).

6 Other operating income

Other operating income breaks down as follows:

€ million	2005	2004
Recognition of negative goodwill	109.5	-
Income from the reversal of provisions	9.7	2.4
Income from compensation paid and cost reimbursements	3.3	2.8
Income from the reversal of valuation allowances	1.9	0.3
Other	15.1	4.1
	139.5	**9.6**

The other operating income includes € 109.5 million (2004: € 0.0 million), which is attributable to the immediate recognition of the negative goodwill from the first-time consolidation of the Viterra Group and MIRA Grundstücksgesellschaft mbH & Co. KG, Grünwald, as income.

7 Other operating expenses

The other operating expenses break down as follows:

€ million	2005	2004
Real estate transfer tax	81.0	-
Auditors' and consultants' fees	15.4	3.4
IT and administrative services	11.3	3.6
Additions to provisions	10.0	4.0
Rents, leases, ground rents	12.3	2.0
Valuation allowance on receivables	10.5	3.7
Sale preparation costs	6.9	-
Analysis and remediation costs	2.6	-
Surveying costs	2.5	-
Partial lifting of sale restrictions	-	12.5
Other	17.9	8.1
	170.4	**37.3**

The real estate transfer tax paid results from intra-Group restructuring.

8 Financial income

€ million	2005	2004
Income from other investments	0.7	0.8
Income from long-term securities and long-term loans	0.8	-
Other interest and similar income	16.8	2.8
	18.3	**3.6**

9 Financial expenses

€ million	2005	2004
Interest and similar expenses	270.6	127.4
(thereof from affiliated companies)	(27.0)	(35.3)
	270.6	**127.4**

Interest expense contains interest included in additions to provisions totalling € 6.5 million (2004: € 1.9 million).

10 Income tax

€ million	2005	2004
Current income taxes	-27.6	-1.3
Deferred tax assets/liabilities	131.3	-23.1
	103.7	**-24.4**

The current tax expense is determined on the basis of the taxable income for the assessment period. For the 2005 assessment period, the combined tax rate of corporate income tax and solidarity surcharge is 26.4%. Including German trade earnings tax at nearly 13.6% (net), the tax rate on the German companies' earnings was 40% (rounded) in 2005.

Deferred taxes are the expected tax charges or benefits arising from the difference between the carrying amounts of assets and liabilities in the consolidated financial statements and the valuation amounts taken to calculate the taxable income (tax balance sheet).

Deferred tax liabilities are generally recorded for all taxable temporary differences. Deferred tax assets are recognised only to the extent that it is probable that future taxable profits will be available against which the deductible temporary differences can be utilised. Such assets and liabilities are not provided where the temporary difference arises from goodwill or the initial recognition (other than a business combination) of other assets and liabilities in a transaction which neither affects taxable income nor net income. The effects of the extended trade tax cuts within the meaning of the German Trade Tax Act on plant and equipment were taken into consideration in the measurement of deferred taxes.

Deferred taxes are determined at the respective national tax rates which are between 19% and 40% for the 2005 financial year. Any tax rate changes decided by governments at the balance-sheet date are also considered.

Deferred taxes on loss carryforwards are capitalised provided it is likely that there will be sufficient income in the following years for these loss carryforwards to be utilised. The restriction on loss deductions under German tax law was taken into consideration in the measurement of the tax receivable on loss carryforwards (Section 10d of the German Income Tax Act (EStG)).

As at December 31, 2005 the unutilised corporate income tax loss carryforwards totalled € 762.9 million (2004: € 420.3 million) and the unutilised trade tax loss carryforwards amounted to € 356.0 million (2004: € 207.3 million), for which deferred tax assets have been established where their realisation is probable.

The measurement of deferred tax assets on tax loss carryforwards in 2005 led to tax income of € 107.7 million.

Tax reductions due to the utilisation of tax loss carryforwards for which no deferred tax assets existed led in the year under review to a reduction in the tax burden of € 2.9 million.

No deferred taxes were capitalised in the balance sheet for unutilised corporate income tax loss carryforwards of € 204.6 million (2004: € 393.3 million).

€ million	Dec. 31, 2005	Dec. 31, 2004
Expiry date within		
1 year	-	-
2 years	-	-
3 years	-	-
after 3 years	2.6	-
unlimited carryforward	202.0	393.3
	204.6	**393.3**

Of the aforementioned corporate income tax loss carryforwards, € 2.6 million (2004: € 0.0 million) are attributable to foreign companies. In addition, there are further trade tax loss carryforwards of € 155.0 million (2004: € 178.2 million) which have an unlimited carryforward and which have not led to deferred tax assets.

No deferred tax assets were capitalised in the balance sheet for deductible temporary differences (excluding loss carryforwards) totalling € 371.0 million (2004: € 665.7 million) as their future utilisation is unlikely.

In the following reconciliation for the Group, the individual reconciliations made for each company using the respective national tax rates are combined taking consolidation measures into account. The table shows reconciliation from the expected to the actual tax expense. To determine the expected tax expense, the total tax rate of 40% in 2005 is multiplied by the income from operating activities before taxes.

€ million	2005	2004
Profit before income taxes	**37.2**	**41.5**
Income tax rate of the company in %	40.0	40.0
Expected tax expense	**14.9**	**16.6**
Trade tax effects	3.8	3.9
Non-deductible operating costs	3.8	0.2
Tax-free income	-53.9	-0.1
Tax rate differences at foreign Group companies	0.3	-
Effect arising from Section 6b of the German Income Tax Act (EStG)	8.4	-
Change in the deferred tax assets on loss carryforwards	-75.7	3.5
Utilisation of loss carryforwards without deferred tax assets	-2.9	-
Effects of taxes from prior years	-1.2	-
Other (net)	-1.2	0.3
Actual income taxes	**-103.7**	**24.4**
Actual tax rate in %	**-278.8**	**58.8**

The amounts shown under the deferred tax assets and liabilities break down as follows:

€ million	Dec. 31, 2005	Dec. 31, 2004
Investment Properties	298.2	156.0
Inventories	149.1	-
Financial investments	3.6	-
Receivables	-	14.1
Prepaid expenses	24.3	28.2
Provisions for pensions	33.0	4.3
Other provisions	6.9	5.8
Liabilities	-	10.0
Tax loss carryforwards	165.7	11.1
Deferred tax assets	**680.8**	**229.5**

€ million	Dec. 31, 2005	Dec. 31, 2004
Intangible assets	3.8	-
Investment Properties	497.3	-
Inventories	248.6	212.3
Receivables	8.0	-
Special items in accordance with Section 6b EStG	89.7	25.3
Other provisions	-	1.3
Liabilities	110.8	-
Deferred tax liabilities	**958.2**	**238.9**
Net deferred tax liabilities	**277.4**	**9.4**

Deferred tax assets and liabilities are only netted against each other when the same tax authority is involved and the realisation period is the same. As a result, the following deferred tax assets and liabilities are netted against each other as at December 31, 2005:

€ million	Dec. 31, 2005	Dec. 31, 2004
Deferred tax assets	63.1	19.6
Deferred tax liabilities	340.5	29.0
Net deferred tax liabilities	**277.4**	**9.4**

The netted deferred taxes from first-time consolidations totalled € 371.5 million. The deferred taxes recognised in equity in the year under review amounted to € 28.0 million.

As at December 31, 2005 no deferred tax liabilities were recognised for temporary differences between the carrying amount or the undistributed profits and the tax base of foreign investments. Tax will be payable on these amounts when profits are distributed by the subsidiaries or when the subsidiaries are sold. The amount of this unposted deferred tax liability for undistributed profits cannot be reliably estimated.

Notes to the Consolidated Balance Sheet

11 Intangible assets

€ million	Concessions, industrial rights and similar rights as well as licences in such rights	Customer bases and similar	Total
Cost of acquisition or construction			
Balance on Jan. 1, 2005	1.5	-	**1.5**
Change in scope of consolidation	6.8	15.8	**22.6**
Additions	0.1	-	**0.1**
Disposals	0.1	-	**0.1**
Balance on Dec. 31, 2005	8.3	15.8	**24.1**
Accumulated amortisation			
Balance on Jan. 1, 2005	1.3	-	**1.3**
Change in scope of consolidation	5.8	-	**5.8**
Amortisation in 2005	0.4	1.6	**2.0**
Disposals	0.1	-	**0.1**
Balance on Dec. 31, 2005	7.4	1.6	**9.0**
Carrying amounts			
Balance on Dec. 31, 2005	0.9	14.2	**15.1**

Cost of acquisition or construction			
Balance on Jan. 1, 2004	1.5	-	**1.5**
Additions	0.1	-	**0.1**
Disposals	0.1	-	**0.1**
Balance on Dec. 31, 2004	1.5	-	**1.5**
Accumulated amortisation			
Balance on Jan. 1, 2004	1.1	-	**1.1**
Amortisation in 2004	0.3	-	**0.3**
Disposals	0.1	-	**0.1**
Balance on Dec. 31, 2004	1.3	-	**1.3**
Carrying amounts			
Balance on Dec. 31, 2004	0.2	-	**0.2**

The intangible assets of the Viterra companies first included in the consolidated financial statements as at August 15, 2005 are shown as additions through changes in the scope of consolidation.

Customer bases of € 15.8 million were capitalised as a result of the first-time consolidation of Deutsche Annington Fundus Immobiliengesellschaft mbH, Cologne, and Deutsche Annington Rheinland Immobiliengesellschaft mbH, Cologne. Amortisation was performed on a straight-line basis over the expected useful life of 10 years.

In the year under review, scheduled amortisation of € 2.0 million (2004: € 0.3 million) was performed on the intangible assets.

No impairment of intangible assets was identified at the balance-sheet date.

12 Property, plant and equipment

€ million	Technical equipment, plant and machinery	Other equipment, fixtures, furniture and office equipment	Construction in progress, costs in preparation for construction	Total
Costs of acquisition or construction				
Balance on Jan. 1, 2005	0.1	8.5	0.1	**8.7**
Change in scope of consolidation	1.7	36.5	1.8	**40.0**
Additions	-	1.1	1.1	**2.2**
Transfers	-	-	-1.7	**-1.7**
Disposals	0.2	4.9	0.1	**5.2**
Balance on Dec. 31, 2005	1.6	41.2	1.2	**44.0**
Accumulated depreciation				
Balance on Jan. 1, 2005	0.1	5.2	-	**5.3**
Change in scope of consolidation	1.5	31.2	0.9	**33.6**
Depreciation in 2005	0.1	1.9	-	**2.0**
Disposals	0.3	4.5	-	**4.8**
Balance on Dec. 31, 2005	1.4	33.8	0.9	**36.1**
Carrying amounts				
Balance on Dec. 31, 2005	0.2	7.4	0.3	**7.9**

€ million	Technical equipment, plant and machinery	Other equipment, fixtures, furniture and office equipment	Construction in progress, costs in preparation for construction	Total
Costs of acquisition or construction				
Balance on Jan. 1, 2004	0.2	6.8	0.2	**7.2**
Additions	-	1.9	0.1	**2.0**
Transfers	-	-	-0.2	**-0.2**
Disposals	0.1	0.2	-	**0.3**
Balance on Dec. 31, 2004	0.1	8.5	0.1	**8.7**
Accumulated depreciation				
Balance on Jan. 1, 2004	0.1	3.9	-	**4.0**
Depreciation in 2004	-	1.4	-	**1.4**
Disposals	-	0.1	-	**0.1**
Balance on Dec. 31, 2004	0.1	5.2	-	**5.3**
Carrying amounts				
Balance on Dec. 31, 2004	-	3.3	0.1	**3.4**

The property, plant and equipment of the Viterra companies included in the consolidated financial statements for the first time as at August 15, 2005 are shown as additions through changes in the scope of consolidation.

Scheduled depreciation of € 2.0 million (2004: € 1,4 million) was performed on property, plant and equipment in the year under review. No impairment of property, plant and equipment was identified at the balance-sheet date.

13 Investment Properties

€ million	
Costs of acquisition or construction	
Balance on Jan. 1 , 2005	1,684.7
Change in scope of consolidation	4,873.9
Additions	8.1
Transfers	-122.7
Disposals	200.1
Balance on Dec. 31, 2005	6,243.9
Accumulated depreciation	
Balance on Jan. 1 , 2005	82.9
Depreciation in 2005	60.3
Transfers	-12.4
Disposals	8.2
Balance on Dec. 31, 2005	122.6
Carrying amounts Balance on Dec. 31, 2005	6,121.3

€ million	
Costs of acquisition or construction	
Balance on Jan. 1, 2004	1,976.8
Additions	3.4
Transfers	-293.0
Disposals	2.5
Balance on Dec. 31, 2004	1,684.7
Accumulated depreciation	
Balance on Jan. 1, 2004	69.5
Depreciation in 2004	24.3
Transfers	-10.9
Balance on Dec. 31, 2004	82.9
Carrying amounts	
Balance on Dec. 31, 2004	1,601.8

Investment properties of the Viterra companies which were consolidated for the first time as at August 15, 2005 are shown as additions through changes in the scope of consolidation.

In the year under review, investment properties of € 186.4 million (2004: € 282.1 million) were transferred to inventories. Other assets totalling € 74.3 million (2004: € 0.0 million) were transferred to investment properties. They were the housing stock of RWE Systems Immobilien GmbH & Co. KG, Essen, acquired the previous year which were shown in 2004 in current assets under advance payments as benefits and burdens had yet to be transferred. Transfers from property, plant and equipment to investment properties totalled € 1.8 million (2004: € 0.0 million).

In 2005, depreciation of € 60.3 million (2004: € 24.3 million) was recorded. No impairment of investment properties was identified at the balance-sheet date.

The investment properties include leased assets amounting to € 48.2 million (2004: € 0.0 million) which as finance leases as defined in IAS 17 are the Group's economic property. The assets relate to the Spree-Bellevue (Spree-Schlange) property in Berlin. It has been leased from DB Immobilienfonds 11 Spree Schlange by Quistorp KG until 2044. The leasing agreement includes an obligation to pay compensation for loss of use as agreed by contract. At the end of 2028, each fund subscriber is entitled to return his share to the property fund at a fixed redemption price. If all of the fund investors make use of this option, the DAIG Group is obliged to acquire the property at a fixed purchase price after deduction of borrowings. If more than 75% of the shares are returned in this way, DAIG has a call option for the purchase of all fund shares. Details of minimum lease payments are given in the notes on financial liabilities.

The long-term leases on commercial properties are non-cancellable operating leases. The minimum future leasing receipts from these leases are due as follows:

€ million	
Total minimum lease payments	**154.0**
due within one year	28.9
due within 1 to 5 years	89.2
due after 5 years	35.9

The non-cancellable operating leases are long-term leases on commercial properties.

The net carrying amounts of all leased investment properties (cancellable and non-cancellable operating leases) amount to € 6,121.3 million (2004: € 1,601.8 million). The corresponding gross carrying amounts as at December 31, 2005 are € 6,243.9 million (2004: € 1,684.7 million).

As part of the first-time IFRS reporting in 2005, the fair values of the real estate portfolios were determined in accordance with IAS 40.

In 2005, we calculated the fair value of Deutsche Annington's entire stock of residential buildings, small commercial units, garages and undeveloped land.

Residential real estate
The value of the entire portfolio of residential properties was determined using valuations prepared by external experts separately for the portfolio of the Deutsche Annington Real Estate Group and the acquired Viterra portfolio on the basis of the International Valuation Standards Committee's definition of market value. Portfolio premiums and discounts which can be seen when portfolios are sold in market transactions were not allowed for, nor were time restrictions in the marketing of individual properties.

In the case of residential properties where some of the apartments have already been sold to tenants or owner-occupiers, the remaining apartments in the property still belonging to the DAIG Group are measured as the rest of the residential real estate portfolio.

Commercial properties
The commercial properties in the portfolio were measured on the basis of individual opinions, offers made during current sales activities or estimates of internal experts.

Undeveloped land
Undeveloped plots of land were measured according to their state of development, the likelihood of development and the local market situation on the basis of derived reference figures for land prices.

The fair values of the stocks of housing units, small commercial units, garages and undeveloped land as at December 31, 2005 was approx. € 9.4 billion. The comparable carrying amount of these real estate stocks is € 8.6 billion. Of this figure, € 6.1 billion is shown as investment properties and € 2.5 billion as trading properties.

The fair value of the real estate portfolio of the Deutsche Annington Real Estate Group by region is as follows:

	Dec. 31, 2005		
Region	Housing units	Other rental units	Fair value € million
North	18,731	4,497	848.6
East	20,707	3,355	727.0
Rhineland	18,805	5,339	1,061.5
Ruhr	37,249	7,230	1,667.9
South	18,190	7,948	1,127.8
Southwest	32,430	7,367	1,781.8
Westphalia	43,774	6,590	1,825.3
Small commercial units			234.0
Undeveloped land			76.7
	189,886	**42,326**	**9,350.6**

Of these fair values, € 9,039.8 million (2004: € 0.0 million) was valued by external, independent valuers.

The 38,000 DEUTSCHBAU Wohnungsgesellschaft mbH apartments acquired from the German federal government in 1997 are subject to restrictions on sale until December 31, 2007. The restrictions specify that apartments may only be sold to capital investors if in blocks with more than 10 apartments 60% of the tenants (owner-occupiers if apartments are vacant) and in blocks with up to 10 apartments 50% of the tenants have already purchased their apartments. Tenants who were 65 or over at the time of sale cannot be served regular notice to vacate or notice to vacate for personal use. The sale of entire blocks is ruled out as a matter of principle until December 31, 2007.

When acquiring 13,895 WohnBau Rhein-Main AG apartments in 1999, Viterra made a number of commitments to Deutsche Post and Deutsche Post Wohnen, including an undertaking that it would serve no notice to vacate for personal use until 2009. Tenants and their spouses may not be served notice to vacate for personal use if they are aged 60 or over. Viterra also gave an undertaking that if apartments were sold off as private property they would first be offered for sale to tenants.

The 63,626 housing units which Deutsche Annington Immobilien GmbH acquired from Bundesbahn stock in 2000 are subject to the following restrictions on sale: not more than 50% may be sold within the first 10 years with the exception of housing stock in eastern Germany. If housing units in eastern Germany are sold, 25% of the proceeds must be paid to Deutsche Bundesbahn and a further 25% (less sales costs) must be invested in the modernisation and maintenance of the remaining housing stocks in eastern Germany. Furthermore, residential property used as such by a specified category of people may only be sold to them or to people named by them. Multi-family houses and owner-occupier apartments may only be sold to parties other than the specified category of people if more than half of the apartments in a block are already rented by tenants who do not fall under the specified category. At least € 12.78 per square metre per year must be invested in maintenance and modernisation in the first five years after acquisition. The obligation only applies to housing units which DAIG does not intend to sell and which are occupied by tenants who belong to the specified category of people.

The 10,413 Frankfurter Siedlungsgesellschaft mbH housing units acquired from the German federal government in 2001 and 2002 are subject to the restriction on sale that an annual sales programme must be agreed with the government. In addition, until November 2011 housing units must first be offered for sale to the tenant. Housing units may only be sold to persons other than the tenant if 50% of the housing units in a building have previously been sold to tenants or owner-occupiers (vacant housing units). Tenants aged 65 or over whose housing unit is sold have a right to live in it for life. Furthermore, no housing units in the Rhine-Main region for which the federal government is entitled to name tenants may be sold before December 31, 2006.

14 Financial investments

€ million	Dec. 31, 2005	Dec. 31, 2004
Non-consolidated companies	1.0	-
Other investments	3.5	-
Loans to related companies	34.0	-
Long-term securities	2.3	0.1
Other long-term loans	1.2	0.2
	42.0	**0.3**

The loans to related companies relate to a loan to the property fund DB Immobilienfonds 11 Spree Schlange by Quistorp KG.

15 Other receivables and other assets

	Dec. 31, 2005		Dec. 31, 2004	
€ million	non-current	current	non-current	current
Derivatives	48.3	-	-	-
Advance payments	-	36.3	-	157.6
Restricted cash	12.2	-	-	-
Insurance claims	2.8	1.4	-	1.0
Miscellaneous other assets	14.7	28.2	-	23.3
Prepaid expenses	1.3	2.7	-	0.1
	79.3	**68.6**	**-**	**182.0**

The carrying amounts of other receivables and other assets which are carried at amortised acquisition cost, largely correspond to their fair values.

As at the balance-sheet date, there was a positive fair value of € 48.3 million for the interest rate swaps concluded as part of the new financing (2004: negative fair value of € 24.9 million; see under other liabilities)

As part of the transfer of benefits and burdens from the acquisition of the housing stock of RWE Systems Immobilien GmbH & Co. KG, Essen, at the beginning of 2005, most of the advance payments made in the previous year were transferred to investment properties and inventories.

As part of financing, cash restrictions were imposed on the company in respect of credit balances with banks totalling € 12.2 million (2004: € 0.0 million). Cash and cash equivalents to which cash restrictions apply for at least 12 months after the balance-sheet date must be stated as non-current other assets.

While the indirect obligation arising from pension obligations transferred to former affiliated companies of the Viterra Group is shown under provisions for pensions, a corresponding asset of € 14.4 million (2004: € 0.0 million) is shown under other non-current assets.

16 Inventories

€ million	Dec. 31, 2005	Dec. 31, 2004
Trading properties	2,511.7	537.3
Land and equivalent rights excluding buildings	59.0	1.2
Costs in preparation for construction	7.8	-
Land and equivalent rights including finished/ unfinished buildings	27.3	4.3
Work in progress	296.4	84.2
Other inventories	0.5	0.7
	2,902.7	**627.7**

Residential properties available for sale in the normal course of business are shown under inventories.

Work in progress includes in particular heating costs and operating charges which have yet to be billed and which are offset by advance payments made by the tenants. These advance payments are shown under other liabilities.

For information on disposal restrictions, reference is made to Note 13, Investment properties.

17 Trade receivables

€ million	Dec. 31, 2005 current	Dec. 31, 2004 current
Trade receivables from		
the sale of properties	444.1	140.2
percentage-of-completion orders	36.3	-
letting	9.1	3.3
property management	0.4	0.2
other supplies and services	2.6	0.7
	492.5	**144.4**

The carrying amounts of current trade receivables correspond to their fair values.

Receivables from percentage-of-completion orders show construction contracts for which the costs of manufacture incurred, including profit mark-up, exceed the total losses shown and the partial billing of work.

18 Cash and cash equivalents

Cash and cash equivalents include cash on hand, cheques and balances on Bundesbank accounts as well as at other banking institutions with an original term of up to three months totalling € 481.5 million (2004: € 66.3 million).

Furthermore, the company has marketable securities of € 3.2 million (2004: € 0.0 million).

The balances at banking institutions include € 117.6 million, which was pledged in 2005 in connection with borrowings. Of these accounts, € 55.0 million are subject to restraints on disposal. The marketable securities are restricted with regard to their use.

19 Stockholders' equity

The subscribed capital of DAIG, Düsseldorf, is unchanged at € 75,000 and is held entirely by Monterey Holdings I S.à.r.l., Luxembourg.

The capital reserve amounts to € 202.7 million (2004: € 201.7 million). In the course of the reporting year, the shareholder made a contribution of € 1.0 million to the capital reserve (2004: € 76.7 million).

The development of the stockholders' equity of the Group is shown in the statement of changes in stockholders' equity.

The other comprehensive income from cash flow hedges is as follows:

€ million	2005	2004
January 1	-14.9	-14.0
Fair value gains/losses in the period	45.0	-1.5
Taxes on fair value gains/losses	-18.0	0.6
Transfer to profit	24.8	0.0
Taxes on transfer to profit	-9.9	0.0
December 31	**27.0**	**-14.9**

The difference of € 2.0 million resulting from increases in equity investments held in fully consolidated companies in which a majority interest was already held and from decreases in equity investments without loss of control was transferred to revenue reserves.

Shares of third parties in Group companies are shown under minority interests.

The decrease in other comprehensive income of € 3.0 million results from increases in equity investments held in fully consolidated companies in which a majority shareholding was already held and from decreases in equity investments without loss of control (€ -14.8 million) and from first-time consolidation (€ +11.8 million).

The management has proposed that the net income of DAIG totalling € 138.2 million for the 2005 financial year be carried forward.

20 Provisions

	Dec. 31, 2005		Dec. 31, 2004	
€ million	non-current	current	non-current	current
Provisions for pensions and similar obligations	**285.6**	**-**	**35.9**	**-**
Provisions for taxes (current income taxes excl. deferred taxes)	**-**	**170.3**	**-**	**3.4**
Other provisions				
Environmental remediation	36.0	2.7	-	-
Personnel costs (excluding restructuring)	14.5	28.3	-	8.8
Restructuring	-	22.5	-	-
Contractually agreed guarantees	8.2	21.6	-	-
Outstanding trade invoices	-	35.7	-	-
Follow-up costs from property sales	0.2	4.0	-	-
Miscellaneous other provisions	31.4	104.7	8.3	4.2
	90.3	**219.5**	**8.3**	**13.0**
	375.9	**389.8**	**44.2**	**16.4**

Development of provisions

€ million	Jan. 1, 2005	Additions	Reversals	Change in scope of consolidation	Exchange rate adjustment transfers/ Carryover	Interest portion/ Change interest rate	Utilisation	Dec. 31, 2005
Provisions for pensions and similar obligations	**35.9**	**2.3**	**-**	**254.1**	**-3.9**	**5.8**	**-8.6**	**285.6**
Provisions for taxes (current income taxes excl. deferred taxes)	**3.4**	**107.7**	**-**	**62.4**	**-**	**-**	**-3.2**	**170.3**
Other provisions								
Environmental remediation	-	4.5	-1.2	36.3	0.1	0.2	-1.2	38.7
Personnel costs (excluding restructuring)	8.8	18.6	-3.3	33.9	0.6	-	-15.8	42.8
Restructuring	-	21.2	-2.5	4.7	0.2	-	-1.1	22.5
Contractually agreed guarantees	-	10.7	-2.6	23.9	-0.4	-	-1.8	29.8
Outstanding trade invoices	-	23.6	-4.0	25.7	1.7	-	-11.3	35.7
Follow-up costs from property sales	-	3.4	-0.3	2.0	0.9	-	-1.8	4.2
Miscellaneous other provisions	12.5	40.5	-16.6	110.8	-2.8	0.5	-8.8	136.1
	21.3	**122.5**	**-30.5**	**237.3**	**0.3**	**0.7**	**-41.8**	**309.8**
	60.6	**232.5**	**-30.5**	**553.8**	**-3.6**	**6.5**	**-53.6**	**765.7**

Provisions for pensions and similar obligations
As a general rule, pension plan obligations are based on the length of employee service.

Defined benefit obligations – for which the company guarantees a certain level of benefit – are provided for through provisions for pensions. DAIG has taken out reinsurance contracts for individual people.

Pension plan obligations, mainly for staff located in Germany, and the expenses necessary to cover these obligations are determined using the projected unit credit method prescribed by IAS 19, whereby current pensions and vested rights as well as expected future increases in salaries and pensions are included in the measurement. The following actuarial assumptions were made:

%	Dec. 31, 2005	Dec. 31, 2004
Discount rate	4.00	4.50
Projected salary increases	2.75	2.75
Projected pension payment increases	1.75	1.75
Expected return on plan assets	3.25	3.25

The cut-off date for the determination of the economic valuation parameters is December 31 of a year. Staff numbers are determined on the inventory date, September 30, and are updated to December 31 if any material changes occur.

The defined benefit obligation (DBO) has developed as follows:

€ million	2005			2004
	Total	DAIG	Viterra	DAIG
Calculated DBO as at Jan, 1	35.9	35.9	-	34.9
First-time consolidation	254.1	0.4	253.7	-
Service cost	2.3	1.1	1.2	1.0
Interest cost	5.8	1.7	4.1	1.7
Adjustment reinsurance contracts	-3.8	-	-3.8	-
Benefits paid	-8.5	-1.7	-6.8	-1.7
Additions and disposals	-0.2	-	-0.2	-
DBO recognised as at Dec. 31	**285.6**	**37.4**	**248.2**	**35.9**

The following table shows a reconciliation of the defined benefit obligation to the provisions for pensions recognised in the balance sheet:

€ million	Dec. 31, 2005	Dec. 31, 2004
DBO as at December 31 prior to offsetting against plan assets	309.9	37.8
Plan assets	-17.1	-
Funded status	**292.8**	**37.8**
Unrecognised actuarial loss	-7.2	-1.9
Provisions for pensions recognised as at December 31	**285.6**	**35.9**

The fair value of the divested plan assets compared with the benefit obligations developed as follows:

€ million	2005	2004
Fair value of divested plan assets as at Jan. 1	-	-
First-time consolidation of Viterra as at Aug. 15, 2005	17.6	-
Actual return on plan assets	0.4	-
Employer contributions	-	-
Benefits paid	-0.2	-
Fair value of divested plan assets as at Dec. 31	**17.8**	**-**

As at December 31, 2005, € 17.1 million was offset against the corresponding provision for pensions. The amount by which the fair values of the plan assets exceed the benefit obligations is shown under other assets.

The total net periodic pension cost (for Viterra companies from August 15, 2005) comprises the following:

€ million	2005	2004
Service cost	2.3	1.0
Interest cost	5.8	1.7
Expected return on plan assets	-0.2	-
Net periodic pension cost	**7.9**	**2.7**

The provisions for pensions contain liabilities of € 14.4 million (2004: € 0.0 million) for pension obligations transferred to former affiliated companies of the Viterra Group relating to vested rights and the payment of current pensions. A corresponding non-current receivable is shown under miscellaneous other assets.

Other provisions
Provisions are reversed against the expense items for which they were originally established.

The provisions for environmental remediation refer to site remediation of locations of the former Raab Karcher companies. Remediation has either already begun or an agreement has been reached with the authorities as to how the damage is to be remedied. The cost estimates are based on expert opinions detailing the anticipated duration of the remediation work and the anticipated cost.

The personnel obligations are provisions for pre-retirement part-time work arrangements, bonuses, stock options, anniversary obligations and other personnel expenses.

The stock option provision amounts to € 2.2 million. Until leaving the E.ON Group, Viterra participated in the stock appreciation rights programme (SARs) of E.ON AG. Now that Viterra is a member of the DAIG Group, it no longer participates in the SARs programme, but Viterra still has an obligation to offer a cash settlement in accordance with the terms of the option programme.

The amount of this obligation depends on the fair value and is recalculated on every balance-sheet date during the qualifying period and until final exercise on the basis of an option price model and taking changes in the valuation parameters into account. Any resulting changes in value are recorded to net income. The exercise period for the last tranche expires in 2010.

During the normal course of business, DAIG and its subsidiaries give product warranties to the buyers of owner-occupier houses and apartments, commercial buildings and land. As at December 31, 2005, provisions of € 14.0 million (2004: € 0.0 million) had been recognised for these product warranties in the DAIG consolidated financial statements. The provisions for contractually agreed guarantees have also been established for exemption agreements which Viterra GmbH signed with buyers relating to tax, legal and other risks as part of the divestment of companies.

The unbilled goods and services and follow-up costs for sold properties relate to outstanding invoices as well as contractually agreed completion work

The restructuring provisions relate to personnel expenses.

The other provisions consist mainly of a conditional purchase price commitment, costs of changes in land register entries and costs of the vacant Grugaplatz premises in Essen.

21 Trade payables

	Dec. 31, 2005		Dec. 31, 2004	
€ million	non-current	current	non-current	current
Liabilities				
from property letting	-	11.0	-	3.8
from other goods and services	1.3	33.2	0.2	26.2
	1.3	**44.2**	**0.2**	**30.0**

22 Financial liabilities

	Dec. 31, 2005		Dec. 31, 2004	
€ million	non-current	current	non-current	current
Financial liabilities				
Banks	7,114.8	110.8	1,473.5	71.4
Other creditors	555.7	32.1	61.6	6.4
Related companies	209.7	0.1	209.7	53.6
Miscellaneous other financial liabilities	-	14.6	-	-
	7,880.2	**157.6**	**1,744.8**	**131.4**

The financial liabilities towards related companies include a shareholders' loan of € 209.7 million (2004: € 263.3 million) granted by Monterey Holdings I S.à.r.l., Luxembourg,.

Loans bearing no interest or interest below market rates in return for occupancy rights at rents below the prevailing market rates are stated at their present values in the balance sheet. The difference to the nominal values amounting to € 46.2 million (2004: € 62.0 million) is reported as deferred income under other liabilities.

The financial liabilities taken over as part of the acquisition of the Viterra Group were stated as at August 15, 2005 at their fair values and projected to December 31, 2005 using the effective interest method.

The interest rates on the financial liabilities towards banks and other creditors are between 0 and 12% (on average approx. 3.85%).

In the year under review, subsidiaries signed a loan agreement for a total of € 4,327.6 million with a consortium of six banks. This loan facility was used mainly to finance the Viterra acquisition (€ 3,562.5 million). In addition, financial liabilities of € 715.1 million were repaid and the market adjustment was financed by transferring € 50.0 million in interest rate swaps. An amortizing swap agreement was concluded with two banks for a loan of € 4,300.0 million.

As part of a comprehensive refinancing measure, DAIG signed a credit line agreement for € 1,670.0 million with a consortium of three banks. So far a total of € 1,570.9 million has been drawn under this credit line facility. These funds were used to repay company financing and, in part, to finance the Viterra acquisition. In connection with this refinancing, market adjustments were necessary owing to the assignment of interest hedges. An amortising swap agreement of € 1,576.0 million was signed with two banks to provide security for the new credit facility.

DAIG has granted the creditors land charges on the majority of the investment properties and the trading properties and given other collateral to provide security for the total volume of loans.

Maturity of the nominal value of the financial liabilities is as follows:

€ million	2006	2007	2008	2009	2010	ab 2011
Financial liabilities	278.8	237.3	175.3	277.8	4,284.8	3,016.4

Liabilities to other lenders include as at December 31, 2005 leasing obligations of € 87.0 million from finance lease (2004: € 0.0 million) (Spree-Bellevue property). The following table shows the total minimum leasing payments and reconciliation to their present value.

€ million	Dec. 31, 2005 Total minimum lease payments	 Interest	 Present value
Due within one year	4.4	0.2	4.2
Due in 1 to 5 years	17.5	3.0	14.5
Due after 5 years	261.7	193.4	68.3
	283.6	**196.6**	**87.0**

23 Other liabilities

	Dec. 31, 2005		Dec. 31, 2004	
€ million	non-current	current	non-current	current
Advance payments	-	307.9	-	87.9
Liabilities from deferred interest	-	123.4	-	17.0
Derivatives	-	-	24.9	-
Miscellaneous other liabilities	3.5	29.5	-	26.6
Deferred income	48.6	15.6	62.0	0.5
	52.1	**476.4**	**86.9**	**132.0**

The advance payments are mainly payments made in instalments by tenants on heating, operating and ancillary costs.

Of the liabilities from deferred interest, € 27.0 million (2004: € 8.0 million) are for liabilities towards the shareholder.

In connection with the repayment of previous financing, the negative fair values of interest rate swaps were written off in 2005.

The miscellaneous other liabilities include other tax liabilities of € 6.0 million (2004: € 4.3 million) and liabilities for social insurance contributions of € 1.9 million (2004: € 0.0 million).

Deferred income contains primarily the discount to nominal value of loans bearing no interest or interest below market rates in return for occupancy rights at rents below the prevailing market rates.

Other explanations and information

24 Risk management

In the course of its business activities, the DAIG Group is exposed to various financial risks. The Group-wide risk management system focuses on the unpredictability of developments on the financial markets and its aim is to minimise the potentially negative impact on the financial position of the Group. Derivative financial instruments are used for hedging risks connected with operational business and must never be used for speculative purposes.

Interest rate risks

The DAIG Group is exposed to interest rate risks in the course of normal business. Floating-rate debt exposes the DAIG Group to a cash flow interest rate risk. The DAIG Group uses derivative financial instruments to limit or eliminate these risks.

The company's policies permit the use of derivatives if they are associated with underlying assets or liabilities, contractual rights or obligations and planned operating transactions.

In line with the financial guidelines of the DAIG Group, interest rate swaps are used to limit the interest rate risk arising from floating-rate liabilities. The company uses these swaps to hedge payments in euros from interest-bearing liabilities by using cash flow hedge accounting in the functional currency of the respective DAIG company. The DAIG Group companies pay fixed interest and receive floating interest.

Credit risks

In the DAIG Group, there are no significant concentrations of potential credit risks. Contracts for derivative financial instruments and financial transactions are only concluded with first-rate banks. Valuation allowances are provided for the risk of loss of financial assets.

The carrying amount of the financial assets is the maximum risk of loss.

In the acquisition financing agreements, the DAIG Group committed itself to fulfilling certain covenants. Based on current corporate planning, we believe that these covenants can be fulfilled.

Currency risk

Owing to the limited internationality of the Group's business, there are no substantive currency risks.

25 Derivative financial instruments

Cash flow hedges

10 interest rate swaps are used in the DAIG Group to limit the interest rate risk from floating-rate debt. These interest rate swaps are concluded with first-rate banks. The nominal volume of these swaps is € 5,876.0 million at a positive fair value (stripped present value) of € 48.3 million, which is shown under other receivables and assets.

As at the balance-sheet date, there were interest rate swaps with a notional volume of € 5,432.6 million hedging corresponding underlying transactions and interest rate swaps with a notional volume of € 443.4 million not used for hedging. The changes in the fair value of these parts of the interest rate swaps were recognised in net income in the year under review.

The interest rate swaps are due as follows:

€ million	2006	2007	2008	2009	2010
	445.6	612.0	580.0	514.0	3,724.4

Measurement of derivative financial instruments

The fair value of derivative financial instruments is sensitive to movements in the underlying market rates and variables. The fair value of interest rate derivatives is determined and monitored at regular intervals. The fair value for all derivative financial instruments is the price at which one party would assume the rights and/or obligations of another party. The fair values of the derivative financial instruments have been calculated using standard market valuation methods on the basis of the market data available on the valuation date.

The fair values of existing instruments to hedge interest rate risks were determined by discounting future cash flows using market interest rates over the remaining term of the instruments. Discounted cash values are determined for interest rate swaps for each individual transaction as at the balance-sheet date. Interest rate swap amounts are recorded to income on the date of payment or accrual.

26 Non-derivative financial instruments

The carrying amount of financial liabilities as at December 31, 2005 was € 8,037.8 million. The fair value of the financial liabilities amounted to € 8,094.6 million at the balance-sheet date and was determined on the basis of financial calculations using the market information available on the balance-sheet date. The figure shown is not necessarily the figure which DAIG could achieve under current market conditions.

The fair values of the other financial instruments approximate the carrying amounts as these financial instruments are short-term.

27 Information on the consolidated cash flows statement

The proceeds from the sale of trading properties are shown in cash flow from operating activities, the proceeds from the disposal of investment properties and other assets are shown in cash flow from investing activities.

Exercising the IAS 7 option, interest received is shown under cash flow from investing activities and interest paid is shown under cash flow from financing activities.

The item "Cash paid for the acquisition of consolidated companies" under cash flow from investing activities mainly relates to company acquisitions explained under scope of consolidation after deduction of cash and cash equivalents acquired. The sharp increase in cash flow from financing activities in turn reflects the financing of the company acquisitions in the 2005 financial year.

The current financial investments contain balances at banks as well as marketable securities which are both subject to restraints on disposal and are shown under cash and cash equivalents.

28 Contingent liabilities

There are contingent liabilities for a large number of cases where DAIG and its subsidiaries give guarantees to various contractual counterparts.

Contingent liabilities towards third parties are mainly letters of comfort and guarantees for warranty claims. The terms of the guarantees and letters of comfort are mainly limited to an agreed time or depend on the term of the loan to which they apply. In some cases, the term is unlimited.

As part of the divestment of companies, the subsidiary, Viterra GmbH, signed exemption agreements with the buyers relating to tax, legal and other risks. The exemptions agreed were normal for commitments given in such transactions. The terms of the agreements are generally two to three years, in a few cases also 10, 15 or max. 30 years.

29 Other financial obligations

Payments of € 6.5 million (2004: € 2.8 million) under rental, tenancy and leasing agreements were recognised as expenses in 2005.

The future minimum payment obligations arising from such agreements due to the fact that they are non-cancellable operating leases are due as follows:

€ million	Dec. 31, 2005	Dec. 31, 2004
Total minimum lease payments	352.3	6.4
Due within one year	13.7	2.4
Due in 1 to 5 years	42.0	4.0
Due after 5 years	296.6	0.0

The expected total future minimum payments from non-cancellable subleases are € 0.3 million (2004: € 0.0 million).

The lease payments relate particularly to rented real estate and ground rent.

Current purchase commitments within the Group amount to € 35.6 million (2004: € 0.0 million).

Furthermore, there are financial obligations from compensations for use of € 219.0 million (2004: € 0.0 million), long-term purchase commitments of € 36.2 million (2004: € 0.0 million) as well as financial obligations from the commissioning of services of € 96.3 million (2004: € 0.0 million)

30 Litigation and claims

DAIG is involved in litigation resulting from operating activities, both as the plaintiff and the defendant. These legal disputes and claims for damages are routine resulting from the normal course of business. They are in particular disputes under the Law of Tenancy and claims for damages/ contract penalty claims in the Project Development segment.

Where claims are made against DAIG, it has a right of recourse against general contractors or subcontractors which is secured by amounts retained as collateral or guarantees. Should, in isolated cases, recourse not be possible, the provision for guarantees calculated on the basis of historical values is utilised. None of these legal disputes and claims for damages will have a material effect on the balance sheet, profits or liquidity of DAIG.

In 2000, Viterra acquired eight logistics centres from Deutsche Post AG and at the same time leased them back to Deutsche Post and Danzas. Deutsche Post subsequently failed to meet its contractual obligation to obtain legally valid building permits for all locations within two years from their handover. Therefore, on August 31, 2004, Viterra made use of its contractual right of rescission and demanded repayment of the original purchase price. After Deutsche Post disputed the legality of the rescission, Viterra filed an action against Deutsche Post. The Essen regional court (Landgericht) ruled in Viterra's favour on February 17, 2005. Deutsche Post AG appealed against this lower court ruling to the appellate court (Oberlandesgericht) in Hamm on April 22, 2005. At present, it is impossible to predict the outcome of the case.

On February 22, 2006, the Federal Court of Justice made a landmark ruling on the subject of contracting in a Viterra case. In this ruling, the Federal Court of Justice confirmed that contracting is only admissible if it is provided for in the tenancy agreement. A final assessment of the effects of this judgement can only be made when the court's opinion has been examined. Provisions have been recognised in the consolidated financial statements for risks which may result from this ruling of the Federal Court of Justice.

31 Related party transactions

The members of the management and the supervisory board and members of their immediate families do not personally have any business relations with DAIG Group companies other than in their capacity as members of the management or supervisory board.

There are also no business relations between DAIG companies and affiliated and associated DAIG Group companies or with members of the management or supervisory bodies of consolidated DAIG companies or members of their immediate families.

As at December 31, 2005 there was a shareholders' loan of € 209.7 million granted by Monterey Holdings I S.à.r.l., Luxembourg. In the year under review, € 8.0 million was paid in interest and interest expense of € 27.0 million is shown under other liabilities as a liability for deferred interest. The loan is not secured and has a fixed term running until February 14, 2017. However, the borrower may pay back the loan within two working days. The interest rate is 12% p.a.

In 2005, consultancy agreements were signed with Terra Firma Capital Partners Limited London, and terrafirma GmbH, Frankfurt am Main. In 2005, services totalling € 2.5 million were provided, of which € 2.2 million has already been paid.

As at December 31, 2005 there is a loan with a nominal value of € 30.7 million granted to the property fund DB Immobilienfonds 11 Spree Schlange by Quistorp KG. The loan has a fixed term and runs until August 31, 2044. The interest rate is 6% p.a.

32 Events after the balance-sheet date

There were no substantial events after the balance-sheet date which have an impact on the earnings situation of the company.

33 Remunerations

The members of the supervisory board did not receive any remuneration for their work in 2005.

The total remuneration of the Management amounted to € 7.3 million. Of this figure, € 1.6 million was for fixed remuneration components including compensation for the performance of supervisory functions at subsidiaries as well as benefits in kind and other remunerations. The variable remuneration of € 5.7 million refers to the 2004 bonus, the exercising of share options as well as other special payments.

Provisions of € 1.6 million (2004: € 0.0 million) have been provided for the pension obligations to retired managing directors and their surviving dependants.

Supervisory Board

Guy Hands, Chairman,
Chief Executive Officer of Terra Firma Capital Partners Limited, London

Fraser Duncan, Deputy-Chairman,
Executive Officer of Terra Firma Capital Partners Limited, London

Sir Thomas Macpherson, Deputy-Chairman,
Chairman of Annington Homes, London

David Pascall (since August 16, 2005),
Managing Director of Terra Firma Capital Partners Limited, London,
Managing Director of terrafirma GmbH, Frankfurt am Main

Phillip Burns (since August 9, 2005),
Managing Director of Terra Firma Capital Partners Limited, London

Joseph E Azrack (since August 16, 2005),
President & Chief Executive Officer of Citigroup Property Investors, New York

The Supervisory Board does not have the rights and obligations provided for in the German Stock Corporation Law (Aktiengesetz).

Managing Directors

Dr Volker Riebel, Senior Managing Director

Dr Michael Hermes (August 15 to November 30, 2005)

Uwe Michalowski (April 6 to August 15, 2005)

David Pascall (until August 15, 2005)

Dr Manfred Püschel (since August 15, 2005)

Dr Ludwig Söhngen

Reconciliation to IFRS 1

Explanations of the changes from the reconciliation from HGB to IFRS – Equity and Profit
The following reconciliations of equity and profit for the period show all changes resulting from the different accounting requirements under IFRS and HGB.

Reconciliation of consolidated equity from HGB to IFRS as at January 1, 2004	€ million
Equity as at Jan. 1, 2004 (HGB)	330.2
Adjusting item for minority interests (disclosure under IFRS in equity)	+39.1
Adjusted equity as at Jan. 1, 2004 (HGB)	**369.3**
Write-off of goodwill	-0.2
Write-off of capitalised start-up expenses	+5.1
Provisions for pensions "Fresh Start"	-8.8
Other provisions	+3.8
Measurement of derivative financial instruments	-23.3
Deferred taxes	+13.0
Equity as at Jan. 1, 2004 (IFRS)	**358.9**

Reconciliation of consolidated equity from HGB to IFRS as at December 31, 2004	€ million
Equity as at Dec. 31, 2004 (HGB)	437.0
Adjusting item for minority interests (disclosure under IFRS in equity)	+19.2
Adjusted equity as at Dec. 31, 2004 (HGB)	**456.2**
Write-off of goodwill	-0.2
Write-off of capitalised start-up expenses	+10.1
Transfer of Investment Properties to Inventories	+6.5
Provisions for pensions "Fresh Start"	-10.0
Other provisions	+3.1
Measurement of derivative financial instruments	-24.8
Deferred taxes	-9.4
Equity as at Dec. 31, 2004 (IFRS)	**431.5**

Reconciliation of the consolidated profit for the period from January 1, 2004 to December 31, 2004 from HGB to IFRS	€ million
Consolidated profit for the period from Jan. 1 to Dec. 31, 2004 under HGB (share DAIG)	30.0
Minority interests	+0.5
Adjusted consolidated profit for the period from Jan. 1 to Dec. 31, 2004 (HGB)	**30.5**
Change in goodwill	+0.0
Capitalised start-up expenses	+5.0
Transfer of Investment Properties to Inventories	+6.5
Provisions for pensions "Fresh Start"	-1.2
Other provisions	-0.8
Deferred taxes	-22.9
Consolidated profit for the period from Jan. 1 to Dec. 31, 2004 (IFRS)	**17.1**

The **goodwill on capital consolidation** amounting to € 0.2 million has not been recognised in the IFRS reconciliation balance sheet due to its minor significance.

Business start-up and expansion expenses capitalised under HGB cannot be recognised in accordance with IAS 38 "Intangible Assets" and have therefore been written off in full.

Under IAS 40 properties held for capital appreciation and/or held to earn rentals are to be treated as **"Investment Properties".** These properties held as financial investments also include land which is held on a long-term basis for capital appreciation and land which is held for a currently undecided future use.

Properties held for resale are shown under **Inventories** in accordance with IAS 2.

The properties of the DAIG Group were classified accordingly for the purposes of the IFRS reconciliation balance sheet as at January 1, 2004. According to HGB, these properties were shown under property, plant and equipment. Therefore € 1,907.5 million have been reclassified from property, plant and equipment to Investment Properties and € 357.0 million from property, plant and equipment to Inventories.

Investment properties are initially measured at cost of acquisition or production in the opening balance-sheet. For measurement subsequent to initial recognition, IAS 40 permits entities to choose between a cost and a fair value model. The DAIG Group has chosen the cost model. Therefore, investment properties are measured at amortised acquisition or production cost and, to the extent subject to wear, reduced by scheduled straight-line depreciation. Scheduled depreciation of investment properties is calculated on the basis of a useful life of 20 to 50 years. There were no reasons for impairment losses on investment properties under IAS 36.

In accordance with IAS 2, the trading properties have initially been measured in the reconciliation balance sheet as at January 1, 2004 at the lower of cost and net realisable value. The net realisable value is redetermined in each subsequent period. The write-downs on property, plant and equipment to be performed under HGB are not made under IFRS.

According to IFRS, **provisions for pensions** are determined using the projected unit credit method whereby current pensions and vested pension rights on the balance-sheet date as well as future increases in salaries and pensions are included in the valuation. Under HGB, the measurement of provisions for pensions is determined exclusively by the conditions prevailing at the balance-sheet date. Future increases in salaries and pensions may not be taken into account. While under HGB provisions for pensions are discounted at a rate of 6%, according to IFRS provisions for pensions as at January 1, 2004 are discounted at a discount rate of 5% and as at December 31, 2004 at a discount rate of 4.5%. Salary increases were taken into account at 2% in each case plus 0.75% for projected career developments and pension increases at 1.75%.

Provisions for deferred maintenance cannot be recognised under IFRS as they are considered to be an internal commitment by the company. According to HGB, these provisions for maintenance may be stated at the amount required according to reasonable commercial assessment.

Under IFRS, **long-term provisions** are to be discounted at a risk-adjusted interest rate which takes adequate consideration of the duration of the future expected payment obligations. According to HGB, discounting may only be performed when the underlying obligation includes interest.

Derivative financial instruments not used for hedging are, according to IFRS, recorded at their fair value to net income whereas according to HGB they are measured according to the imparity principle. The IFRS criteria differ from those of HGB for hedge accounting.

According to IFRS, **loans bearing no interest or interest below market rates** in return for occupancy rights at rents below the prevailing market rates are recorded at present value. The discount is shown under deferred income and amortised as other income from property management in the following years; in return the interest expense increases accordingly. According to HGB, there is no discounting of interest-free and low-interest loans and therefore no deferred income is recorded.

Under IFRS, **deferred taxes** are provided for all differences in the measurement of assets and liabilities between the commercial balance sheets and the tax balance sheets. Quasi-permanent differences are also included. Deferred tax assets are also to be stated when tax benefit entitlements result from the expected utilisation of tax loss carryforwards. Deferred tax assets are, however, only recognised to the extent that it is probable that future taxable profits will be available against which the deductible temporary differences can be utilised.

According to HGB, only deferred tax liabilities must be stated. Recognition of deferred tax assets is optional. Tax accruals are assessed on the basis of the income statement, with no statement of accruals for “quasi-permanent” differences.

Explanation of the changes from reconciliation from HGB to IFRS – cash flows statement
According to HGB, proceeds from changes in inventories are shown under cash flow from operating activities whereby inventories include work in progress (allocatable operating and heating costs which have not yet been billed) and other inventories (stocks of heating oil and repair materials). Under HGB, proceeds from investment property disposals were shown under cash flow from operating activities, investment properties and those properties which, under IFRS, are now shown in inventories as properties held for resale (trading properties) were classified under property, plant and equipment.

The net interest was shown under HGB under cash flow from operating activities.

According to IFRS, proceeds from the sale of trading properties are shown in the cash flow from operating activities. Furthermore, the residential properties which, in line with the DAIG Group's strategy, are to be resold within the normal business cycle of 6 years and for which a partition declaration has been obtained are also shown under inventories.

Proceeds from the disposal of investment properties as well as other assets are shown according to IFRS in the cash flow from investing activities.

Exercising the option provided for in IAS 7, interest income received is shown in the cash flow from investing activities and interest expense paid is shown in the cash flow from financing activities.

According to IFRS, advance payments on investment properties, trading properties and on investments in affiliated companies are to be shown under other assets. The corresponding payments are recorded under acquisition of consolidated companies and financial investments.

Düsseldorf, April 3, 2006

Dr Volker Riebel Dr Manfred Püschel Dr Ludwig Söhngen

Independent Auditors' Report

We have audited the consolidated financial statements of Deutsche Annington Immobilien GmbH, comprising the consolidated balance sheet, the consolidated income statements, the consolidated statement of changes in equity, the consolidated cash flow statement and the notes to the consolidated financial statements, together with the group management report for the fiscal year from January 1 to December 31, 2005. The preparation of the consolidated financial statements and the group management report in accordance with IFRSs as adopted by the EU, and the additional requirements of German commercial law pursuant to § 315a, para. 1 HGB, are the responsibility of the parent company's management. 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 § 317 HGB and German generally accepted standards for the audit of financial statements promul-gated 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 the parent company's 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 IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to § 315a, para. 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 requirements. 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.

Essen, April 7, 2006

KPMG Deutsche Treuhand-Gesellschaft
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

Beumer
Wirtschaftsprüfer

Huperz
Wirtschaftsprüfer

List of Shareholdings

List of shareholdings of the DAIG Group as at December 31, 2005

Company	Seat	Interest %
Deutsche Annington Immobilien GmbH	Düsseldorf	100.00
A. Consolidated companies		
An den Gärten Projektentwicklungsgesellschaft mbH	Essen	100.00
Atrium Einhunderterste VV GmbH	Düsseldorf	100.00
Atrium Einhundertzweite VV GmbH	Düsseldorf	100.00
Atrium Einhundertdritte VV GmbH	Düsseldorf	100.00
Atrium Einhundertvierte VV GmbH	Düsseldorf	100.00
Atrium Einhundertfünfte VV GmbH	Düsseldorf	100.00
Baugesellschaft Bayern mbH	Munich	94.87
Bundesbahn-Wohnungsbaugesellschaft Kassel mbH	Kassel	94.91
Bundesbahn-Wohnungsbaugesellschaft Regensburg mbH	Regensburg	94.90
BWG Frankfurt am Main Bundesbahn-Wohnungsgesellschaft mbH	Frankfurt/M.	94.90
Cybernetyki Business Park Sp. z o.o.	Warsaw	100.00
DA Heimbau Beteiligungs GmbH & Co.KG	Kiel	94.74
DEUTSCHBAU Immobilien Verwaltungs GmbH	Düsseldorf	100.00
Deutsche Annington Beteiligungsverwaltungs GmbH (formerly: Viterra AG)	Essen	100.00
Deutsche Annington Dienstleistungen Holding GmbH (formerly: Viterra Dienstleistungen-Holding GmbH)	Essen	100.00
Deutsche Annington Dritte Beteiligungsgesellschaft mbH (formerly: Viterra Erste Beteiligungsgesellschaft mbH)	Essen	100.00
Deutsche Annington Erste Beteiligungsgesellschaft mbH	Essen	100.00
Deutsche Annington Erste Wohnungsbeteiligungs- und Verwaltungs GmbH & Co.KG	Essen	100.00
Deutsche Annington EWG Frankfurt Verwaltungs GmbH (formerly: Deutsche Annington Süd-West GmbH)	Frankfurt/M.	100.00
Deutsche Annington Fundus Immobiliengesellschaft mbH	Cologne	100.00
Deutsche Annington Haus GmbH	Kiel	100.00
Deutsche Annington Heimbau GmbH	Kiel	100.00
Deutsche Annington Immobilien-Dienstleistungen GmbH (vor Umfirmierung: DEUTSCHBAU Immobilien-Dienstleistungen GmbH)	Düsseldorf	100.00
Deutsche Annington Informationssysteme GmbH (formerly: Viterra Informationssysteme GmbH)	Essen	100.00
Deutsche Annington Nord GmbH	Kiel	100.00
Deutsche Annington Ost GmbH	Berlin	100.00
Deutsche Annington Rheinland GmbH	Düsseldorf	100.00
Deutsche Annington Rheinland Immobiliengesellschaft mbH	Cologne	100.00
Deutsche Annington Rhein-Ruhr GmbH & Co.KG	Essen	100.00
Deutsche Annington Ruhr GmbH	Essen	100.00
Deutsche Annington Service GmbH	Frankfurt/M.	100.00
Deutsche Annington Süd GmbH	Munich	100.00
Deutsche Annington Süd-West GmbH (vor Umfirmierung: Viterra Rhein-Main GmbH)	Frankfurt/M.	100.00
Deutsche Annington Vermögensgesellschaft mbH & Co.KG (formerly: Viterra Immobilien GmbH & Co.KG)	Essen	100.00
Deutsche Annington Vertriebs GmbH	Bochum	100.00
Deutsche Annington Verwaltungs GmbH	Bochum	100.00
Deutsche Annington Westfalen GmbH	Dortmund	100.00
Deutsche Annington Wohnungsgesellschaft I mbH (formerly: Viterra Wohnungsgesellschaft I mbH)	Essen	100.00
Deutsche Annington Wohnungsgesellschaft III mbH (formerly: Viterra Wohnungsgesellschaft III mbH)	Recklinghausen	100.00
Deutsche Annington Zweite Beteiligungsgesellschaft mbH	Essen	100.00
Deutsche Annington Zweite Wohnungsbeteiligungs- und Verwaltungs GmbH & Co.KG	Essen	100.00
Deutsche Eisenbahn-Wohnungs-Gesellschaft mbH	Leipzig	100.00
Eisenbahn-Siedlungsgesellschaft Augsburg mbH (Siegau)	Augsburg	94.90
Eisenbahn-Wohnungsbau-Gesellschaft Karlsruhe GmbH	Karlsruhe	94.90
Eisenbahn-Wohnungsbaugesellschaft Köln mbH	Cologne	94.91
Eisenbahn-Wohnungsbaugesellschaft Nürnberg GmbH	Nuremberg	94.91
Frankfurter Siedlungsgesellschaft mbH	Essen	100.00
FSG Immobilien GmbH & Co.KG	Essen	100.00
FSG Immobilien Verwaltungs GmbH	Essen	99.60
FSG-Holding GmbH	Essen	94.80
Grundstücksgesellschaft Drei Stauffenbergstraße mbH	Berlin	100.00

Company	Seat	Interest %
Grundstücksgesellschaft Eins Stauffenbergstraße mbH	Berlin	100.00
Grundstücksgesellschaft Zwei Stauffenbergstraße mbH	Berlin	100.00
Grundstücksverwaltungsgesellschaft Lennéstraße A3 mbH	Berlin	90.00
Grundstücksverwaltungsgesellschaft Westendstraße 28 Frankfurt mbH	Essen	94.00
HVG-Heimbau-Verwaltungsgesellschaft mbH	Kiel	100.00
JAMUNA Grundstücksgesellschaft mbH & Co.KG	Grünwald	94.90
KADURA Grundstücksgesellschaft mbH & Co.KG	Grünwald	92.51
Kronen sechshundertachtundachtzig GmbH	Düsseldorf	100.00
Kronen sechshundertneunundachtzig GmbH	Düsseldorf	100.00
Kronen sechshundertdreiundneuzig GmbH	Düsseldorf	100.00
LEMONDAS Grundstücksgesellschaft mbH & Co. KG	Grünwald	94.90
LEVON Grundstücksgesellschaft mbH & Co.KG	Grünwald	94.90
MIRA Acquisitions GmbH & Co.KG	Grünwald	100.00
MIRA Grundstücksgesellschaft mbH & Co.KG	Grünwald	
Praetorium 36. VV GmbH	Düsseldorf	100.00
Praetorium 37. VV GmbH	Düsseldorf	100.00
Praetorium 38. VV GmbH	Düsseldorf	100.00
Praetorium 39. VV GmbH	Düsseldorf	100.00
Praetorium 40. VV GmbH	Düsseldorf	100.00
"Siege" Siedlungsgesellschaft für das Verkehrspersonal mbH Mainz	Mainz	94.94
Viterra Baupartner GmbH	Bochum	100.00
Viterra Development Ceská spol. s.r.o.	Prague	100.00
Viterra Development GmbH	Essen	100.00
Viterra Development Polska Spólka z o.o.	Warsaw	100.00
Viterra Gewerbeimmobilien dritte Projektentwicklungsgesellschaft mbH	Essen	100.00
Viterra Gewerbeimmobilien erste Projektentwicklungsgesellschaft mbH	Essen	100.00
Viterra Gewerbeimmobilien fünfte Projektentwicklungsgesellschaft mbH	Essen	100.00
Viterra Gewerbeimmobilien vierte Projektentwicklungsgesellschaft mbH	Essen	100.00
Viterra Grundstücke Verwaltungs GmbH	Essen	100.00
Viterra Holdings Eins GmbH (formerly: Petersberg 225 VV GmbH)	Bonn	100.00
Viterra Holdings Zwei GmbH (formerly: Petersberg 195 VV GmbH)	Bonn	100.00
Viterra Logistikimmobilien GmbH & Co. KG	Essen	99.96
Viterra Projektentwicklungsgesellschaft Knorrstraße mbH & Co.KG	Essen	99.80
Viterra Wohnpartner Ventures GmbH	Bochum	100.00
Wohnungsgesellschaft Ruhr-Niederrhein mbH Essen	Essen	94.91

B. Subsidiaries not included in the consolidated financial statements

Immobilienfonds Koblenz-Karthause Wolfgang Hober KG	Düsseldorf	86.51
Viterra Gewerbeimmobilien zweite Projektentwicklungsgesellschaft mbH	Essen	100.00
Zeppelinstraße Projektentwicklungs GmbH	Essen	100.00
V.I.M.G. VIAG Immobilien-Management GmbH	Essen	100.00
Raab Karcher Security International Sp. z o.o.	Warsaw	100.00
Deutsche Annington Revisionsgesellschaft mbH (formerly:Viterra Revisionsgesellschaft mbH)	Essen	100.00
VITERRA FRANCE S.A.	Paris	100.00

C. Other investments > 20 % interest

Viktoria Quartier Verwaltungs GmbH i. L.	Berlin	50.00
Viktoria Quartier Entwicklungsgesellschaft mbH & Co. KG i. L.	Berlin	50.00
Risinghill B.V. i. L.	The Hague	50.00
FEA Verwaltungs GmbH	Bonn	25.00

Our Locations

DEUTSCHE ANNINGTON

REGIONAL SUBSIDIARIES

Deutsche Annington Nord
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Deutsche Annington Nord GmbH

Deutsche Annington Ost GmbH

Deutsche Annington Ruhr GmbH

Deutsche Annington Westfalen GmbH

Deutsche Annington Rheinland GmbH

Deutsche Annington Süd-West GmbH

Deutsche Annington Süd GmbH

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Vertrieb Ruhr
Virchowstrasse 99
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IMMOBILIEN GMBH

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Since January 1, 2006 Deutsche Annington has been operating under its new name – Deutsche Annington Real Estate Group. The Group consisting of seven regional subsidiaries is supported by Deutsche Annington Service GmbH, Deutsche Annington Verwaltungs GmbH, Deutsche Annington Vertriebs GmbH and Deutsche Annington Informationssysteme GmbH. The company is managed by Deutsche Annington Immobilien GmbH.

With a large number of customer centres and service offices, the seven regional companies concentrate on the local housing markets, portfolio maintenance and customer care. Key business functions are pooled in the competence centres of Deutsche Annington Immobilien GmbH and Deutsche Annington Verwaltungs GmbH. This enhances efficiency in the Group. At the same time, strategic innovations can be implemented quickly and new housing portfolios integrated without delay.

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