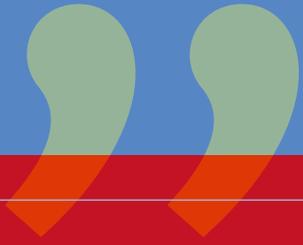


THE DEUTSCHE ANNINGTON REAL ESTATE GROUP IN THE FIRST HALF OF 2008

- German economy develops steadily, unemployment falls again to 7.5 %
- Credit crunch impacts on the real estate sector
- Overall performance of the Group develops to plan, strong core business segment, Property Management, drives growth
- Some € 200 million earmarked for modernisation and maintenance programme in 2008



The Deutsche Annington Real Estate Group is again on target to achieve its business objectives for 2008. However, our focus is not only on our key business metrics but also on the continuous improvement of our quality and levels of customer satisfaction. We want to be the best housing company in Germany.





MAJOR ECONOMIC DEVELOPMENTS

- The raw material price hikes and the crisis in the financial markets, triggered by the American subprime crisis, slowed down growth of the world economy in the first half of 2008. Although gross domestic product rose by 0.7% in the euro zone in the first quarter of 2008, and in Germany by 1.3%, this trend has already been reversed. In the second quarter of 2008, the German economy started to shrink for the first time in almost four years. Gross domestic product – price and seasonally adjusted – was lower than in the first quarter. However, the consensus prediction is still for overall growth of 1.7% for 2008 as, although consumer spending is weakening, the strong performance of companies outside the banking and insurance sectors has cushioned the impact of the financial crisis on the economy. Despite this, the world economic outlook, combined with rising inflation and the higher bank base rates set by the European Central Bank in June has now dampened the upbeat mood of early 2008, and this has been reflected in the ifo business climate index.

- The number of new buildings completed is still on the decline: In 2007, 210,700 new dwellings were completed in Germany, 15.5% or 38,700 fewer than in the previous year. As a result, the housing market remains tight as the rising demand for residential units cannot be met by the falling supply. At present, this development is still only having a minor effect on the market for rented accommodation. Above-average rises in rents are so far only being seen in major cities like Munich and Hamburg and urban areas like the Rhine-Main region.

- The current sharp rise in the cost of living (especially the cost of energy) has resulted in accommodation being more expensive, although rents (excluding ancillary costs) in 2008 are once again not likely to show above-average rises but merely increase in line with inflation. According to the latest figures published by the Federal Statistical Office, apartment rents only rose by 1% from 2002 to 2006, whereas the cost of heating and hot water jumped by almost 30% between 2002 and 2006, and the so-called cold running costs (such as water, refuse collection etc.) by 7%. On average, tenants spent roughly 23% of their net household income on rent in 2006. The general rise in prices, especially energy prices, which have

**CRISIS IN THE FINANCIAL MARKETS
AND RISING INFLATION SLOW DOWN
ECONOMY**

**NUMBER OF NEW BUILDINGS
COMPLETED CONTINUES TO FALL**

**RENTS RISES CURRENTLY BELOW
THE INFLATION RATE**



continued to increase sharply since 2006, will have an even greater impact on rents in the medium term. Furthermore, as goods and services become more expensive, many landlords will be forced to pass on these cost increases to their tenants.

BUSINESS DEVELOPMENT

- A combination of moderate rent increases (within the legal framework) and further improvements in property management that reduced costs led to an improved operating cash flow. In addition, Deutsche Annington is continuously focusing on further process improvements to reduce costs. For example, it has launched a pilot project aimed at speeding up and thus reducing the cost of handling billing complaints by offering tenants a generous monetary incentive to settle quickly. Given recent energy price rises and increased regulation, the number of tenant billing enquiries about energy costs has risen significantly, and now numbers in the thousands. This has resulted in increased administrative work for Deutsche Annington, purely for passing on these energy costs.

- The German government, by introducing the new energy-saving regulation, is seeking to reduce CO₂ emissions and save energy. This regulation has put in place new obligations but provides no subsidies for energy-saving measures. An example of the new regulation is that owners of residential buildings are now obliged to provide an energy performance certificate giving information on the kilowatt-hour heat consumption of the building when new leases or purchase contracts are signed. For the tenant, this information is of limited value as what is important to them is the level of advance monthly payments which indicate actual energy costs. Nevertheless, Deutsche Annington satisfies these requirements at an approximate cost to the Group of € 2 million over the next ten years.

Deutsche Annington has stepped up its expenditure on maintenance and modernisation in 2008. As a result of a € 200 million investment, Deutsche Annington will be able to cut the CO₂ emissions of its properties by 12,000

**KEY BUSINESS UNIT, PROPERTY
MANAGEMENT, PERFORMS WELL**

**PROTECTING THE CLIMATE THROUGH
MODERNISATION**



tonnes this year alone. A positive result of this investment is the increased attractiveness of the housing portfolio to tenants which ensures sustained earnings.

- At the beginning of 2008, we introduced a new regional and restructured organisation for its subsidiary, Deutsche Annington Service (DASG). This subsidiary manages the common property for the apartment owners in accordance with the Condominium Act. With a centralised billing system and simplified processes, DASG is developing well, resulting in improved service and a higher revenue.

- Having already reduced our selling programme last year, we will again be putting up fewer residential units for sale this year. Rents are stable to rising and demand for residential properties is stagnating, partly as a result of rising interest rates and higher costs of living, Deutsche Annington's clear focus is on maintaining its portfolio. Given rising inflation (and still low interest rates), it remains to be seen whether buying real estate will become more attractive again to the consumer.

- Deutsche Annington purchased 650 units in the first half of 2008. The recent sale of Landesentwicklungsgesellschaft NRW demonstrates that prices for large portfolios might now be stabilising, whilst a decline in the number of apartments that are changing hands also indicates a cooling-down of the market. We believe the inflated market of 2005 and 2006 has come to an end. However, Deutsche Annington has always scrutinised each acquisition on an individual basis to ensure the quality of the apartments is to the standard required to deliver optimal returns, rather than focusing solely on square metre pricing. We believe that the mere square-metre price says little about future returns. As in previous years, the value of German residential real estate is again remaining stable in 2008. Whereas the financial markets crisis has caused prices to plummet on other European markets, such as the United Kingdom and Spain, we are still seeing moderate increases in the values of residential property in Germany. However, there are regional differences. For example, in growth regions, like the metropolitan area of Munich, rents are still rising at an above-average rate and consequently property values are also set to increase more than elsewhere.

**CONDOMINIUM ADMINISTRATION
SERVICE BUSINESS REORGANISED**

**CORE BUSINESS SEGMENT, SALES,
DEVELOPING AS EXPECTED**

**PRICES FOR ACQUISITIONS
DROPPING**



- The subprime crisis which has continued since mid-2007 has, to date, had no direct effect on Deutsche Annington's day-to-day activities. The company has a sound and long-term financing structure and a rising capital-to-assets ratio. With a letting rate of over 95%, the company generates steady cash flow. In addition, Deutsche Annington has sufficient liquidity for further acquisitions in the course of this year as we have yet to use our credit lines in full.

- This April, Deutsche Annington further enhanced the management team with the appointment of Dr Wulf Böttger as the Chief Operating Officer. Dr Wulf Böttger has extensive experience in a range of industries and is widely recognised as an expert in customer focus. At Bertelsmann AG, he was, among other things, responsible for the end customer business in the German-speaking countries and eastern Europe. In the Axa Group Dr Böttger was the Board member responsible for Marketing, Sales and the Private Customer business. He was last the Board member at MLP responsible for Sales and Marketing. Support for the senior management has been further strengthened with the appointment of two Chief Representatives, the Head of Legal Affairs, recently hired Dr Michael Bütter, and the Head of Acquisitions, Mark Ennis.

RESPONSIBILITY

- In the first six months of 2008, Deutsche Annington further developed its work-life balance project, which was initiated in 2007. In June, the company launched a broad-based health management programme called "body & mind" which offers programmes such as stop-smoking courses, health check-ups, massages at the workplace and sports activities at special rates to its employees.

- Our foundations and the company, Deutsche Annington, invested some € 100,000 in social activities in the first half of 2008 alone. Our focus continues to be the support of people in need and the promotion of projects and initiatives involving children and teenagers.

FINANCING STRUCTURE STABLE AND SECURED THROUGH LONG-TERM CREDIT LINES

MANAGEMENT TEAM STRENGTHENED

HEALTH MANAGEMENT FOR ALL EMPLOYEES

STRONG SOCIAL COMMITMENT