



Development of Business in 2003

DEVELOPMENT OF BUSINESS	2003	2002*	Change
	€ million	€ million	%
Net sales	1,084.6	1,214.1	-10.7
EBITDA	643.0	559.0	15.0
Operating profit	294.8	203.1	45.1
Investments	124.4	377.9	-67.1
Number of employees**	1,887	2,453	-23.1
Number of housing units sold	13,369	9,861	35.6
Number of housing units	151,836	164,992	-8.0

* After adjustment for discontinued operations

** Excluding Board members, managing directors and trainees

Systematic focus on real estate business

In the past twelve months, we systematically pushed ahead with our strategy of focusing on the real estate business. In view of the planned separation from our current owner, E.ON, by 2007 at the latest, Viterra continued to prepare itself for the capital market.

The capital market now demands focused companies with a clear strategy for the future. Companies which want to be attractive for the capital market must position themselves with a plausible, convincing, long-term business model. We have decided to position ourselves as a focused real estate company:

Viterra concentrates on

- the core business, residential real estate and
- the additional business, project development.

In our core business, residential real estate, the focus is on our trading strategy: buying rented accommodation, enhancing its value by efficient management and then selling it at a profit to tenants, owner-occupiers and capital investors. The residential real estate we offer for sale ranges from owner-occupied apartments and single-family houses to multi-family houses and blocks of apartments.

As an addition to our core business, we also develop office and apartment buildings in our project development segment.

In 2003 Viterra continued to rapidly implement its strategy of focusing on the real estate business, making significant advances in this regard: For example, we

- successfully completed our withdrawal from the real estate services sector with the sale of Viterra Energy Services and Viterra Contracting;
- further improved the management structures of our company by merging Viterra Wohnen AG with Viterra AG;
- substantially increased apartment sales in line with our trading strategy;
- permanently reduced the disproportionately high percentage of apartments in the Ruhr area;
- expanded the additional business, project development, by integrating our successful apartment construction activities;
- wound up the business operations of Viterra Baupartner (construction of row and semi-detached houses) at the end of the year.

Withdrawal from the real estate services sector successfully completed

In line with our strategy, we systematically proceeded with the sale of our services operations which we had already initiated in 2002: At the beginning of 2003, we sold our heating services provider, Viterra Contracting, to Mabanafit GmbH. The sale of Viterra Energy Services was then successfully completed in June 2003. The financial investor, CVC Capital Partners, acquired the

company with retroactive effect from January 1, 2003. The sales price for the two companies was € 960.7 million. After deducting liabilities of € 112.0 million, Viterra made a total net profit after taxes of € 653.2 million.

These two sales, which followed the divestment of Viterra Sicherheit + Service and WIS Consult in previous years, marked the company's final withdrawal from the services business.

Focusing strategy brings changes to organisational structure

Parallel to withdrawal from the real estate services business, further structural changes were necessary in connection with the implementation of the focusing strategy. In the first half of 2003, Viterra Wohnen AG was merged with Viterra AG. This cut out one hierarchical layer as the branches in the Ruhr area (Bergkamen, Bochum, Dortmund, Essen, Gelsenkirchen and Recklinghausen) as well as the subsidiary Wohnungsgesellschaft Hüls are now directly managed by Viterra AG. Through this move, we have geared our management structure in the core business, residential real estate, even more closely to operational business.

In its new structure, Viterra AG performs the service and customer support functions for the branches in the Ruhr area as well as the management and controlling functions for the entire Group. This restructuring has enabled us to channel our energies, assign responsibilities more efficiently and systematically focus our resources on the real estate business.

Substantially more apartments sold

TOTAL NUMBER OF HOUSING UNITS SOLD	2003	2002	Change %
Branches in the Ruhr area	11,060	7,682	44.0
Viterra Rhein-Main	1,000	974	2.7
Deutschbau	1,309	1,205	8.6
Viterra total	13,369	9,861	35.6



We managed to substantially increase apartment sales by more than a third to 13,369 units in 2003:

We achieved this mainly by:

- stepping up marketing activities in all segments: selling owner-occupied apartments and single-family houses to tenants, owner-occupiers and capital investors as well as selling multi-family houses and blocks of apartments to investors;
- consistently gearing our housing management activities to the ultimate sale of the properties.

Another measure which was part of the redoubling of our marketing efforts was the sale of apartment portfolios which did not fit in with our strategy. These include housing stocks which Viterra believes cannot be sold through its own sales strategy. In 2003, we took a great leap forward in reducing these housing stocks.

Share of apartments in the Ruhr area reduced

Furthermore, we sold a portfolio of 27,058 apartments to one investor. This considerably reduced the share of Viterra apartments in the Ruhr area, which for historical reasons is disproportionately high. As regional real estate markets do not develop uniformly, we have now come much closer to our aim of achieving qualitatively and regionally balanced housing stocks.

The apartments sold to the investor, MIRA Grundstücksgesellschaft mbH & Co. KG (MIRA), were, in Viterra's opinion, not suitable for selling off individually to tenants and prospective owner-occupiers. The apartments were transferred at the end of the year. MIRA has commissioned Viterra with the future management of and sales activities within these properties.



In accordance with US accounting practice, the 27,058 apartments are still to be consolidated in the Viterra balance sheet. They are therefore shown as Viterra housing stock in the financial statements.

Project development segment reinforced

The project development segment is an attractive addition to our core business, residential real estate. It has good growth prospects and high earnings potential. We have now reinforced this business segment. Viterra Commercial Properties, with its many years of experience in office real estate development, took over the apartment development activities of Viterra Baupartner. Viterra Commercial Properties was renamed Viterra Development at the beginning of 2003.

We successfully completed integration of the apartment development activities in the first six months of 2003. Operational responsibility for the Viterra Baupartner branches in Hamburg, Frankfurt/Main, Munich as well as the subsidiary in Warsaw had already been transferred to Viterra Commercial Properties in the previous September.

The measures performed were important steps on the way to a new business model: Viterra Development now concentrates on the development and sale of office real estate and owner-occupied apartments. The focus is on inner-city locations in the German metropolitan areas of Munich, Frankfurt/Main, Düsseldorf, Hamburg, Berlin as well as Warsaw and Prague. The company has branches or subsidiaries at these locations, which all have high market volumes and growth potential.

All in all, we feel that Viterra Development is therefore well positioned. The pooling of experience in office real estate and apartment development formed the basis for a pleasing business performance in 2003. Despite the difficult market situation, Viterra Development was able to start building three commercial real estate projects with a total volume of approx. € 210 million. In addition, several apartment building construction projects were successfully completed and new projects started.

Viterra Baupartner ceases trading

Following a strategic review of our business activities, Viterra decided to discontinue the development of row and semi-detached houses. The winding-down of Viterra Baupartner, which was responsible for this business, had already begun in the second half of 2002.

Viterra Baupartner ceased trading at the end of 2003. All the row and semi-detached houses left in the portfolio at the end of 2002 had meanwhile been sold and the land holdings reduced by approx. 75 %. Viterra AG has been handling any warranty claims and the sale of the remaining plots of land since January 1, 2004.

Trading strategy in the core business, residential real estate, now on a broad footing

An important element in the trading strategy we are pursuing in our core business, residential real estate, is to purchase and successfully market housing stocks. Viterra has the necessary know-how to effectively manage large housing stocks and successfully sell them to tenants, owner-occupiers and investors.

We have bought roughly 69,000 apartments since 1997. The biggest acquisitions were

- the 50 % interest in Deutschbau in 1997,
- the step-by-step purchase of WohnBau Rhein-Main (WBRM) starting in 1999 as well as
- the acquisition of virtually all the shares in Frankfurter Siedlungsgesellschaft (FSG).

At the beginning of 2003, Viterra took over FSG virtually completely. 86.3 % of the shares had already been bought with effect from January 1, 2002. At the same time, we merged the activities of FSG and WBRM to form a new subsidiary, Viterra Rhein-Main. This decisively strengthened our market position in the Rhine-Main growth region where Viterra Rhein-Main is one of the biggest regional housing companies.

In 2003, we geared Deutschbau even more to our strategic approach: The company's structures were adapted and improved. One important prerequisite for this was the takeover of business control in 2002.

Thanks to the acquisition of Deutschbau, FSG and WBRM and their successful integration, we managed to place our trading strategy on a broader footing. We also further improved our strong position in the apartment marketing business.

With a total of approx. 152,000 housing units, Viterra is represented on the major housing markets in Germany. Regional responsibilities have been clearly assigned. In the core business, residential real estate, Viterra's housing stock is managed and sold

- in the Ruhr area by Viterra AG with six branches and the subsidiary Wohnungsgesellschaft Hüls (approx. 90,000 apartments),
- in the Rhine-Main region by Viterra Rhein-Main (approx. 21,000 apartments) and
- in the rest of Germany by Deutschbau (approx. 41,000 apartments).

The steady increase in apartment sales, the generally pleasing performance of Viterra Rhein-Main and Deutschbau and the successful marketing of our housing stocks in the Ruhr area are proof that our trading strategy is sound.



Market values improve transparency and are an important control instrument

2002 was the first year in which Viterra had the market values of its real estate assets reviewed and verified for plausibility by an independent expert. In 2003, we went one step further: We have now included the independently verified market values as of December 31, 2003 in the Management Report to provide voluntary and highly detailed information about our real estate assets. This has improved the transparency of our business still further.

For us, determining and updating the market values is an important instrument for the value-optimised control of our housing stock. The market values are the basis for controlling our housing portfolio as part of our property management system.

In 2003, we calculated the market value of Viterra's entire stock of residential buildings, small commercial units, garages and undeveloped land.

The properties are valued every year on the basis of the definition of market value given by the European Group of Valuers Association using the internationally recognised discounted cash flow method. With this method, future cash flows are translated into net present values by discounting at a reasonable discount rate. Only rental income was included and not possible proceeds from the sale of individual apartments. Furthermore, where necessary, the sales comparison approach was used.

To ensure objectivity, the parameters used for the valuation and the results of the valuation were examined in detail by Ernst & Young Real Estate GmbH, which also verified the correct determination of the market values by Viterra (see pages 100/101).