



The market value of our stock of apartments, small commercial units, garages and undeveloped land as of December 31, 2003 was approx. € 6.1 billion (2002: approx. € 6.6 billion). This includes approx. 34,345 housing units and other rental units held by companies in which Viterra has a 50 % interest.

Total values fell in 2003 compared with the previous year. This was mainly due to apartment sales and the stagnating housing market in the Ruhr area.

The 27,058 apartments sold to an investor in 2003 are still consolidated in the Viterra balance sheet in accordance with US accounting practice. Therefore these apartments are also included in the market values.

The market value of the Viterra housing stock by region is as follows:

HOUSING STOCK OF THE VITERRA GROUP AS OF DEC. 31, 2003			
Region*	Housing units	Other rental units**	Market value
			€ million
Nord Rhine-Westphalia (of which in the Ruhr area)	102,476 (89,238)	15,813 (12,480)	3,613 (2,922)
Rhine-Main region	20,221	1,423	1,025
Eastern Germany and Berlin***	11,577	2,238	551
Northern Germany	9,093	1,535	379
Southern Germany	8,469	4,665	504
Undeveloped land			39
<b>Total</b>	<b>151,836</b>	<b>25,674</b>	<b>6,111</b>

\* Including 27,058 apartments and 3,519 other rental units which were sold to an investor in 2003 and are recorded in the financial statements of Viterra in accordance with US Generally Accepted Accounting Principles

\*\* Other rental units refer to small commercial units and garages

\*\*\* Including apartments valued at € 42.4 million on land, leased under a long-term sale and leaseback agreement

## Corporate Governance

In February 2002, the government commission appointed by the Federal Ministry of Justice presented the German Corporate Governance Code. The recommendations and suggestions in this Code reflect the recognised standards for good and responsible governance. Viterra AG also subscribes to the general principles laid down in the Code.

**High concurrence with the provisions of the Code.** For listed companies, compliance with the requirements of the Code has been mandatory since July 26, 2002. For unlisted companies, the provisions of the Code, which was updated again last year, are only recommendations.

We have reviewed our internal rules and procedures with regard to the interaction of the Board of Management and the Supervisory Board, the accounting and reporting principles and preparation of the financial statements. The result of this review shows high concurrence of our procedures with the requirements of the Code.

Furthermore, since Viterra AG belongs to E.ON AG, the Corporate Governance rules anchored in the Sarbanes-Oxley Act in the USA are also important for us.

By documenting the internal reviews within the reporting process and having effectiveness tests performed by the internal audit department, we already fulfilled a large proportion of the requirements in 2003.

**Board of Management and Supervisory Board work closely together.** The Viterra Board of Management acts in accordance with the Company's Internal Rules of Procedure. All the members of the Board of Management are jointly responsible for conducting the company's business. The Board of Management determines the company's goals, strategic direction and corporate policy.

The Supervisory Board monitors the actions of the Board of Management and renders advice. The Board of Management gives the Supervisory Board regular and detailed information on the development of the company's business. For further details on cooperation between the Board of Management and the Supervisory Board, we refer to the Report of the Supervisory Board.



### High transparency of financial reporting.

Viterra strives to make its external reporting transparent for the public. The Viterra consolidated financial statements are prepared in accordance with United States Generally Accepted Accounting Principles (US GAAP). The financial statements of Viterra AG are prepared in accordance with the German Commercial Code (HGB). The auditors are selected as prescribed by law and present a statement to the Chairman of the Supervisory Board confirming their independence. Furthermore, the independence of the auditors is ensured by the establishment of the qualitative and quantitative scope of their work and continuous checks of services which require approval or are prohibited.

**Code of conduct provides a guideline for internal and external cooperation.** We also associate the Corporate Governance idea with the integrity and reliability of all Viterra employees as well as all service providers and suppliers working for Viterra. Therefore, we strive to identify and report any possible conflicts of interest at an early stage. We have stipulated the demands we place on the conduct of our employees, service providers and suppliers in a Viterra Employee Code and a Viterra Code for Suppliers.

In the Employee Code, the employees undertake to quickly report any possible conflicts of interest or attempts of third parties to exert influence. They also undertake to only use the company's resources for company purposes.

We have made contracts with service providers and suppliers contingent on their express recognition of the Viterra Code for Suppliers. Thus our partners once again expressly undertake to behave in an economically and legally correct manner. This includes not trying to exert an unfair influence on Viterra employees.

In its audits, the internal audit department also checks whether these codes of conduct is being complied with.

## Financial Analysis

For a better understanding of the development of Viterra's sales and results, it must be remembered that only income from the management of our apartments and the sale of development projects from current assets are shown as Sales. The apartments sold which were formerly rented are generally not shown under Sales but in the income statement as Other operating income from property sales. Therefore, it is obvious that, as operating profit rises as a result of the sale of apartments, the number of rented apartments and thus sales fall. This can only be partly offset by raising rents and buying more apartments.

At Viterra, the operating profit is used for internal management purposes and as an indicator of the sustained earning power of our business activities. The operating profit is obtained by adjusting the pre-tax result from operating activities for extraordinary effects. The second most important measure of earnings is EBITDA. It shows the operating result before interest, tax, depreciation and amortisation. It gives a better picture of the operational situation, particularly of the more recent acquisitions, Deutschbau, WohnBau Rhein-Main and Frankfurter Siedlungsgesellschaft, compared with the branches in the Ruhr area and Viterra Development. The financing costs of these company acquisitions and relevant depreciation and amortisation – which are much higher due to the carrying of real estate effectively at market values – are adjusted for in EBITDA. The operating results are by contrast considerably affected by these expenses.

The two key figures, operating profit and EBITDA, are not determined on the basis of a special US GAAP accounting standard but are to be seen as additional to the other earnings figures reported under US GAAP and give a better understanding of the development of the Group's results. In the following these non-GAAP financial measures are reconciled to the figures reported under US GAAP and are explained in more detail.

GROUP KEY FIGURES	2003	2002*	Change
	€ million	€ million	%
<b>Sales</b>	<b>1,084.6</b>	<b>1,214.1</b>	<b>-10.7</b>
<b>Group operating profit</b>	<b>294.8</b>	<b>203.1</b>	<b>45.1</b>
+ depreciation affecting operating profit	187.0	172.1	8.7
+ net interest income affecting operating profit **	161.2	183.8	-12.3
<b>EBITDA</b>	<b>643.0</b>	<b>559.0</b>	<b>15.0</b>

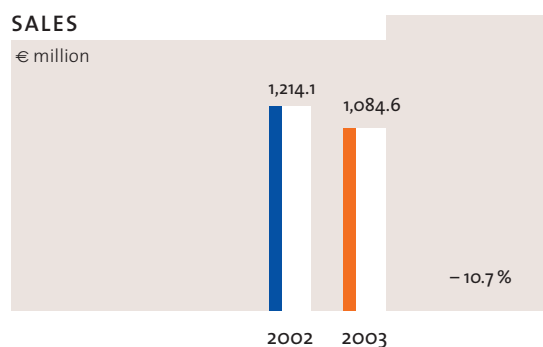
\* After adjustment for discontinued operations

\*\* Including share of interest from long-term provisions



### Sales fell due to lower income from housing management following further apartment sales

In 2003, sales dropped by 10.7 % to € 1,084.6 million. This decrease resulted from the development of core business, residential real estate, as well as the discontinuation of the Viterra Baupartner business operations at the end of the year.



SALES	2003	2002*	Change
	€ million	€ million	%
Branches in the Ruhr area	467.7	522.8	-10.5
Viterra Rhein-Main	117.8	134.4	-12.3
Deutschbau	262.8	267.4	-1.7
Viterra Development	149.1	80.2	85.9
Others / Consolidation	87.2	209.3	-58.3
<b>Total</b>	<b>1,084.6</b>	<b>1,214.1</b>	<b>-10.7</b>

\* After adjustment for discontinued operations

In the core business segment, residential real estate, sales of the Ruhr area branches, Viterra Rhein-Main and Deutschbau all showed the same pattern of development.

Sales of the Ruhr area branches fell by 10.5 % to € 467.7 million. Here the lower income from housing management following the sharp rise in apartment sales had a negative impact. The number of apartments sold in 2003 jumped by 44 % to 11,060 units.

Viterra Rhein-Main also saw sales decrease by 12.3 % to € 117.8 million mainly as a result of the transfer of the management of 1,100 apartments in Berlin and eastern Germany to Deutschbau as well as apartment sales.

The subsidiary Deutschbau managed to increase its income from housing management, largely due to the takeover of 1,100 apartments in Berlin and eastern Germany from Viterra Rhein-Main. Nevertheless, sales fell slightly overall by 1.7 % to € 262.8 million. The figure for 2002 contained higher income from the sale of stock held for resale.



The branches in the Ruhr area improved their operating profit by 17.2 % to € 289.8 million. This rise was mainly due to the sharp increase in apartment sales by 44 % to 11,060 apartments and the resultant lower depreciation charge. A fall in income from property management and higher expenses resulting from the early repayment of mortgages on apartments sold had a negative impact.

At € 0.1 million, the operating result of Viterra Rhein-Main was well up on the previous year's figure of - € 8.0 million. The main factor was the positive influence on results from lower interest expense relating to the financing of the acquisition of the shares in WohnBau Rhein-Main and Frankfurter Siedlungsgesellschaft. The 2.7 % increase in apartment sales to 1,000 units and lower selling expenses also had a positive impact. By contrast, operating profit was hit by the transfer of the management of 1,100 apartments to Deutschbau.

In the project development segment, Viterra Development's sales rose sharply by 85.9 % to € 149.1 million. This jump was largely attributable to the takeover of the apartment development activities from Viterra Baupartner at the beginning of 2003.

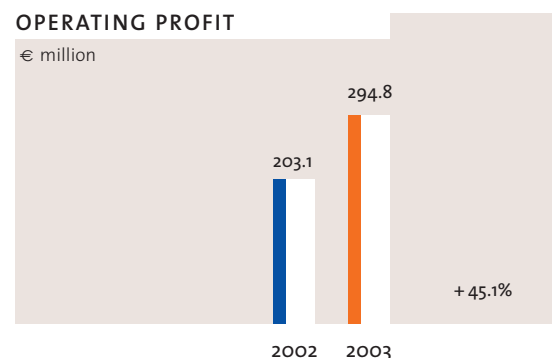
Sales in the "Others/Consolidation" segment plunged by 58.3 % to € 87.2 million. This substantial decline was mainly due to the cessation of Viterra Baupartner's business operations at the end of 2003. Viterra Baupartner's sales fell by 62 % to € 81.5 million. They came mainly from the sale of owner-occupied houses and plots of land not sold the previous year. In 2003, we managed to sell all 168 remaining units.

### Operating profit well up on previous year's figure

Viterra substantially increased operating profit by 45.1 % to € 294.8 million in 2003, continuing the positive trend of recent years. The sharp jump was mainly a result of higher apartment sales in the core business, residential real estate. Overall, the number of apartments sold rose by approx. 36 % to 13,369 units.

OPERATING PROFIT	2003	2002*	Change
	€ million	€ million	%
Branches in the Ruhr area	289.8	247.2	17.2
Viterra Rhein-Main	0.1	-8.0	> 100
Deutschbau	26.7	11.7	> 100
Viterra Development	3.5	-11.9	> 100
Others / Consolidation	-25.3	-35.9	29.3
<b>Total</b>	<b>294.8</b>	<b>203.1</b>	<b>45.1</b>

\* After adjustment for discontinued operations





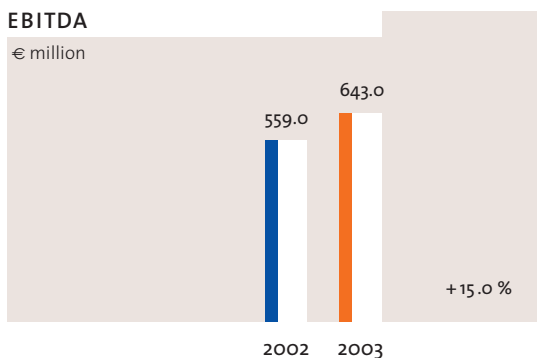
Deutschbau more than doubled its operating profit to € 26.7 million in 2003. This jump was mainly attributable to higher profits from apartment sales and lower interest expense. Apartment sales rose by 8.6 % to 1,309 units.

Viterra Development considerably improved its operating result by € 15.4 million to € 3.5 million, particularly through the sale of the Rudná logistics park. The takeover of the apartment development activities from Viterra Baupartner also had a positive effect. By contrast, value adjustments performed as part of portfolio optimisation had a negative impact.

The operating result of the “Others/Consolidation” segment increased by 29.3 % to - € 25.3 million. € 13.9 million of this improvement was due to lower interest expense and depreciation. By contrast, higher expenses, particularly in connection with former Group activities, had a negative impact. This effect could not be entirely offset by the lower loss incurred in connection with Viterra Baupartner, whose activities were ceased at the end of 2003.

### EBITDA up by 15 %

In 2003, we increased EBITDA overall by 15 % to € 643.0 million. The major contributory factors were the positive performance of the branches in the Ruhr area and Viterra Development as well as a lower loss as a result of the discontinuation of the Viterra Baupartner business operations.



EBITDA	2003	2002*	Change
	€ million	€ million	%
Branches in the Ruhr area	392.0	348.4	12.5
Viterra Rhein-Main	69.3	72.2	-4.0
Deutschbau	152.6	144.3	5.7
Viterra Development	64.9	26.4	▶ 100
Others/Consolidation	-35.8	-32.3	-10.8
<b>Total</b>	<b>643.0</b>	<b>559.0</b>	<b>15.0</b>

\* After adjustment for discontinued operations



The substantial increase in apartment sales boosted EBITDA of the branches in the Ruhr area. It was well up on the previous year's figure, rising sharply by 12.5 % to € 392.0 million.

At Viterra Rhein-Main, EBITDA fell slightly by 4 % to € 69.3 million. Here, the effect of the transfer of management of 1,100 apartments to Deutschbau was felt.

By contrast, Deutschbau increased EBITDA by 5.7 % to € 152.6 million. The crucial factors here were high profits from the sale of apartments as well as higher rental income as a result of the takeover of management of 1,100 apartments from Viterra Rhein-Main.

Viterra Development managed to more than double EBITDA to € 64.9 million, mainly through the sale of the Rudná logistics park.

EBITDA reported under "Others/Consolidation" fell by 10.8 % to - € 35.8 million.

## Reconciliation

CONSOLIDATED NET INCOME	2003	2002*	Change
	€ million	€ million	%
<b>Operating profit</b>	<b>294.8</b>	<b>203.1</b>	<b>45.1</b>
Non-operating result	0.0	-62.8	-
<b>Income from operating activities before tax</b>	<b>294.8</b>	<b>140.3</b>	<b>&gt;100</b>
Income taxes	48.9	4.4	>100
Minority interests	-13.0	-9.9	-31.3
<b>Result from continuing operations</b>	<b>330.7</b>	<b>134.8</b>	<b>&gt;100</b>
Result from discontinued operations	691.7	58.3	>100
Result from the initial application of SFAS 142	0.0	-28.8	-
<b>Consolidated net income</b>	<b>1,022.4</b>	<b>164.3</b>	<b>&gt;100</b>

\* After adjustment for discontinued operations

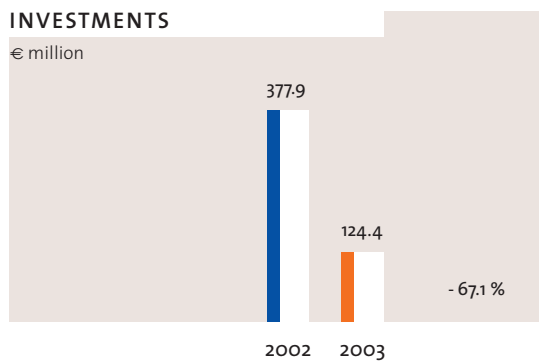
As well as operating profit, the result from operating activities before taxes increased by € 154.5 million to € 294.8 million, mainly as 2002 had contained once-off winding-up costs in relation to Viterra Baupartner shown under non-operating result. The result from continuing operations also rose to € 330.7 million partly due to an improved tax result.

The high level of consolidated net income is due to the proceeds from the sale of Viterra Energy Services AG and Viterra Contracting GmbH amounting to € 653.2 million, which are shown under the result from discontinued operations. After deduction of taxes and income due to minority shareholders, these activities generated results of € 38.5 million in the period up to their sale.



## INVESTMENTS

€ million



## Investments mainly in the core business, residential real estate

INVESTMENTS	2003	2002*	Change
	€ million	€ million	
Branches in the Ruhr area	51.3	87.9	-41.6
Viterra Rhein-Main	58.5	278.1	-79.0
Deutschbau	8.4	5.7	45.8
Viterra Development	4.3	4.4	-2.9
Others/Consolidation	1.9	1.8	5.6
<b>Total</b>	<b>124.4</b>	<b>377.9</b>	<b>-67.1</b>

\* After adjustment for discontinued operations

Viterra invested less in 2003 than originally planned as many of the apartments available for purchase did not fit in with our strategy. At € 124.4 million, investments were down approx. 67 % on the previous year's figure, which contained € 273.2 million for the acquisition of an 86.3 % stake in FSG.

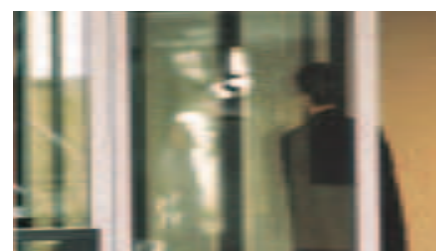
Our core business, residential real estate, accounted for the majority of investments in 2003. They included the purchase of further shares in FSG (€ 49.2 million) as well as the acquisition of land under long leaseholds (€ 29.3 million). Overall, we invested € 74.2 million in property, plant and equipment (59.6 %) and € 50.2 million in financial assets (40.4 %).

In 2003, capital expenditure by the branches in the Ruhr area mainly focused on the acquisition of land under long leaseholds. At € 51.3 million, it was 41.6 % down on the previous year's figure as less modernisation work was carried out.

At Viterra Rhein-Main, investments fell by 79 % to € 58.5 million. Of this figure, € 49.2 million went into the purchase of the remaining shares in FSG. The higher figure for 2002 contained the acquisition of the 86.3 % stake in FSG (€ 273.2 million).

Deutschbau increased the amount spent on upgrading its residential properties in 2003. This was the main reason why investments rose overall by € 45.8 % to € 8.4 million.

In the project development segment, Viterra Development's capital expenditure decreased slightly by 2.9 % to € 4.3 million. Most of the investments went into the Rudná logistics park project.



## Group balance sheet structure

GROUP BALANCE SHEET STRUCTURE	2003		2002	
	€ million	%	€ million	%
Fixed assets	4,722.1	77.1	5,085.1	74.9
Current assets	1,363.4	22.3	1,130.8	16.6
Assets of discontinued operations	0.0	0.0	501.7	7.4
Deferred taxes and prepaid expenses	35.4	0.6	76.0	1.1
<b>TOTAL ASSETS</b>	<b>6,120.9</b>	<b>100.0</b>	<b>6,793.6</b>	<b>100.0</b>
Stockholders' equity	996.8	16.3	1,402.1	20.6
Minority interests	377.0	6.2	384.9	5.7
Provisions	511.5	8.3	453.2	6.7
Liabilities	3,251.9	53.1	3,362.6	49.5
Liabilities of discontinued operations	0.0	0.0	357.1	5.3
Deferred taxes and deferred income	983.7	16.1	833.7	12.2
<b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>	<b>6,120.9</b>	<b>100.0</b>	<b>6,793.6</b>	<b>100.0</b>

The sale of the discontinued services operations (Viterro Energy Services and Viterro Contracting) led to another substantial change in the balance sheet structure in 2003. These two divestments reduced total assets by € 550.6 million. However, the capital-to-assets ratio fell from 20.6 % to 16.3 % mainly as a result of the elimination of substantial intergroup results. In the coming years, their recognition will have the opposite effect with a corresponding influence on equity ratios.

The cover ratio of long-term assets was also affected by the change in equity. Of the long-term assets, 20.3 % are covered by equity (2002: 26.5 %). Including the long-term borrowed capital, this cover ratio is 95.9 % (2002: 103.2 %).



## Information on the statements of cash flows

STATEMENTS OF CASH FLOWS	2003	2002*
	€ million	€ million
Cash provided by operating activities of continuing operations	458.6	367.0
Cash provided by/used for investing activities of continuing operations	873.9	-239.4
Cash used for financing activities of continuing operations	-1,281.2	-164.8
<b>Change in liquid funds of continuing operations</b>	<b>51.3</b>	<b>-37.2</b>
Liquid funds of continuing operations at beginning of year	18.0	71.2
Liquid funds of discontinued operations at year-end	0.0	-15.8
Changes in current financial investments at year-end	2.9	2.7
Effects of foreign exchange rates on liquid funds	0.0	-0.2
<b>Liquid funds on December 31 as shown in the balance sheet</b>	<b>72.2</b>	<b>20.7</b>

\* After adjustment for discontinued operations

The effect of the changes in the balance sheet on the cash flow provided by operating activities needs to be adjusted to eliminate the effects of changes in the group of consolidated companies, currency translations as well as changes due to the separate disclosure of discontinued operations. Therefore, direct reconciliation with the corresponding changes in the published consolidated balance sheets is not possible.

The statement of cash flows for 2003 and 2002 shown above only relates to cash flows from continuing operations. Therefore, the figures for the previous year have been adjusted accordingly.

The very successful business performance in 2003 is also reflected in the cash provided by operating activities. It is well up on the figure for 2002 at € 458.6 million. The increase is mainly due to the cash realisation of increases in the value of portfolios sold. This also confirms the success of our trading strategy.

The cash provided by operating activities together with the proceeds from the sale of Viterro Energy Services made it possible for Viterro to not only repay loans in 2003 but also invest funds with an E.ON Group company. Part of the money invested was assigned to E.ON and offset against the liability arising from the profit-and-loss transfer agreement. Thus the transfer of profit already affected cash in the current financial year. The funds remaining as a financial investment were shown under cash generated from investing activities.

## Risk Management

### Risk management system

We use a multi-staged risk management system to identify and handle risks at an early stage which may be of significance to the economic situation of Viterra. As an instrument for preventing risks, it is closely linked with the organisational structure and operations of the Group, particularly with the planning and controlling processes. Furthermore, Viterra is integrated in the group-wide risk management system of E.ON AG.

The risk management system covers risk identification, risk analysis and evaluation, the development of preventive measures as well as reports to the Board of Management and the Supervisory Board. By standardising the process, we ensure that all companies evaluate existing risks at least once a quarter and report substantial risks to the Board of Management. The main aim is to take appropriate action to deal with the risks. External and internal auditors also include risk management in their audits, which strengthens the system.

### Risk situation and individual risks

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

Major risk areas or risks for the Group have been identified in the following fields:

### Risks from changes in the business environment

The German government's decision to reduce **subsidies** for first-time home-buyers has made the purchase of residential real estate more difficult for many potential owner-occupiers. At present, it is impossible to predict what effect this decision will have on demand for residential real estate, particularly from threshold households, in 2004. Viterra is following the market situation very closely and will, if necessary, react to this risk by stepping up sales promotion measures.



The change in the tax treatment of **stockholder debt financing**, which came into effect on January 1, 2004, may lead to higher tax expenses for Viterra. It is not yet clear how the tax authorities will interpret this new regulation. Therefore, concrete effects cannot be predicted.

It is still not certain that the tax authorities will not continue to maintain that, with former non-profit housing companies, some of the profit transferred under profit-and-loss transfer agreements is to be **treated and taxed as a dividend**. The Federal Court of Finance ruled against the tax authorities in three sample cases in December 2002. However, Viterra has yet to receive any legally binding, amended tax assessment notices from the tax authorities. Should the matter nevertheless result in a tax expense for Viterra, E.ON AG will reimburse Viterra through the profit-and-loss transfer agreement.

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 is rising steadily and demand for bigger apartments is also growing. Therefore, in future there will be fewer people but they will be living in bigger homes and the number of households will initially increase overall. Thus a noticeable fall in demand for rented and owner-occupied accommodation is not likely to occur before 2015, even in the regions like the Ruhr area which people are leaving. We are countering this risk, mainly by value-enhancing portfolio restructuring to increase the number of housing units in regions where attractive economic development is forecast.

The **overall strained economic situation** in Germany has caused a sharp drop in demand for office real estate. 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 will not become involved in speculative projects and will concentrate on locations where demand is expected to be high. Last but not least, we are stepping up our marketing activities.