

Notes

BASIS OF THE CONSOLIDATED FINANCIAL STATEMENTS

Viterra has positioned itself as a focused real estate company, concentrating on its core business, residential real estate, and the additional business, project development. In the core business, residential real estate, Viterra is Germany's largest private housing company and is the market leader in the buying, letting and selling of residential real estate. Furthermore, in the project development business, which Viterra is currently building up, the company develops attractive office buildings and owner-occupied apartments. Viterra AG was established by the merger of Raab Karcher AG and VEBA Immobilien AG and is today the management company of the segment of the E.ON Group bearing the same name. There is a domination and profit-and-loss transfer agreement between E.ON AG and Viterra AG.

The consolidated financial statements of Viterra AG have been prepared in accordance with the United States Generally Accepted Accounting Principles (US GAAP). The format of the financial statements complies with German regulations for the housing industry with the cost-of-sales accounting approach used in the income statement. The format of the balance sheet does not conform with the format normally used in US GAAP financial statements, which is based on the realisation periods of the individual assets and liabilities. The necessary additional information is given in the Notes or on the face of the balance sheet.

The consolidated financial statements of E.ON AG have been deposited with the trade register at the Düsseldorf district court.

ACCOUNTING POLICIES

Scope of consolidation

In addition to Viterra AG, all substantial companies in which Viterra AG holds the majority of voting rights either directly or indirectly or which are under the control of Viterra AG have been included in the consolidated financial statements for the years ended December 31, 2003 and 2002. As in the previous years, the consolidated financial statements for 2003 also included a group of companies which was under the control of Viterra but whose shares were held by other companies of the E.ON Group. These shares were acquired at the end of 2002 and sold in 2003.

One company has been included in the consolidated financial statements as prescribed by FIN 46 "Consolidation of Variable Interest Entities, an interpretation of ARB 51". The object of this company is the acquisition, letting, management and disposal of residential real estate. The consolidated assets of the company represent approx. 6.1 % of the Group's total assets. The assets are mainly property, plant and equipment amounting to € 334.7 million which generally serve as collateral for the long-term borrowings of this company. Its creditors have no recourse to other Group assets.

In addition to Viterra AG, 34 domestic and 2 foreign companies have been included in the consolidated financial statements. The net assets, financial position and results of the operations of the Group do not include 13 subsidiaries whose financial impact is, in aggregate, insignificant. In 2003, 6 companies were included in the consolidated financial statements for the first time while 43 companies left the group of consolidated companies as a result of their merger or disposal.

Investments are accounted for using the equity method if significant influence can be exerted over them. This is generally the case when 20 % to 50 % of the voting rights are held (associated companies).

Acquisitions are recorded according to the purchase method, the cost of acquisition being offset against the stockholders' equity attributable to the parent company at the time of acquisition. 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 SFAS 142, goodwill is no longer amortised over its useful life. Instead, goodwill is to be tested for impairment at least annually and whenever there is an impairment indicator. The cut-off date for such impairment testing is September 30.

Similar consolidation policies apply to the companies accounted for using the equity method. The investments are recorded at their proportional fair value, with the difference from the purchase price considered goodwill. The changes in the revalued stockholders' equity affecting net income and the goodwill impairments, if any, are reported as Income from investments.

The items in the consolidated financial statements referring to affiliated companies not only relate to non-consolidated affiliated companies of the Viterra Group but also to other affiliated companies of E.ON AG. The effects of the business transactions between the companies included in the Viterra consolidated financial statements are eliminated.

Major acquisitions and disposals

Viterra acquired 86.3 % of the shares in Frankfurter Siedlungsgesellschaft mbH (FSG), Frankfurt/Main, from the Federal Republic of Germany and the federal state of Hesse effective January 1, 2002. The cost of acquisition was € 311.7 million. Effective January 10, 2003, Viterra acquired the remaining shares in FSG (13.7 %) from the city of Frankfurt at a purchase price of € 49.2 million. Since Viterra sold 0.2 % of the shares in FSG to an investor in December 2002, its remaining interest in FSG is now 99.8 %. With the successive share acquisition of 13.7 %, fixed assets of € 66.5 million, liabilities of € 20.8 million and other assets of € 3.5 million were acquired.

As part of its focusing strategy, Viterra sold Viterra Energy Services AG, Essen, and its subsidiaries, the group of companies providing services for the consumption-dependent billing of heat, electricity, gas and water, to a company of the CVC Capital Partners Group in 2003. The sale became effective on January 1, 2003 subject to the approval of the cartel authorities. This approval was granted on June 17, 2003, at which time the disposal was recorded.

Furthermore in March 2003 Viterra sold all its shares in Viterra Contracting, Bochum, to Mabanft GmbH, Hamburg. The cartel authorities approved the sale on March 12, 2003.

In accordance with the requirements of SFAS 144, the sale of Viterra Energy Services and Viterra Contracting is shown under Result from discontinued operations. With the sales prices of the two service activities totalling € 960.7 million and after deduction of liabilities amounting to € 112.0 million, the after-tax profit on sales was € 653.2 million. The sale of Viterra Contracting generated a loss.

The shares in Komerční zóna Rudná a.s, Rudná (Czech Republic) were sold to a company of the US Heitmann group with effect from December 9, 2003 under a share transfer agreement (balance sheet closing on December 8, 2003). A purchase price of € 86.9 million was agreed. The required cartel authority approval had already been obtained at the time of the sale. The profit from the sale totalled € 37.3 million.

Discontinued operations

In view of the planned divestment of its service activities, Viterra had reported Viterra Energy Services as Discontinued operations in 2002 in accordance with the requirements of SFAS No. 144 "Accounting for the Impairment or Disposal of Long-Lived Assets". Viterra Contracting was also reported as Discontinued operations in 2003. Both activities were sold in 2003.

The following table provides a summarised income statement for the discontinued operations for 2002 and 2003 as well as balance sheet information for 2002 (only for Viterra Energy Services):

	2003	2002
	€ million	€ million
Income Statements		
Net sales	202.2	468.5
Other income and expenses	-145.3	-370.6
Gain from the sale of discontinued operations	651.8	0.0
Pre-tax operating result	708.7	97.9
Tax on operating result	-16.9	-39.0
Operating result after tax	691.8	58.9
Profit due to minority interests	-0.1	-0.6
Income from discontinued operations	691.7	58.3

	2002
	€ million
Balance Sheet	
Intangible assets	55.5
Goodwill	65.9
Property, plant and equipment	30.4
Financial assets	1.2
Current assets	342.6
Other assets	6.1
Total assets	501.7
Liabilities	71.0
Provisions	127.0
Deferred income	159.1
Total liabilities	357.1

Currency translations

The financial statements of foreign subsidiaries included in the consolidated financial statements are translated into euros according to the functional currency method. Owing to the legal and economic independence of the foreign Group companies, the respective national currency is taken as the functional currency. 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 as a separate component of other comprehensive income within stockholders' equity.

Receivables and liabilities denominated in a foreign currency are translated at the exchange rate prevailing on the balance-sheet date. Any resulting translation gains and losses are recorded in the income statement.

Revenue recognition

Revenue is recognised net of discounts, sales incentives, customer bonuses and rebates granted when earned, the remuneration is contractually fixed or determinable and collection of the related receivable is probable. The company performs services under long-term contractual commitments (in particular property leases and service contracts); the sales are recognised according to the terms of the contracts or at the point when the relevant services have been rendered. Sales from long-term production contracts are recognised under the percentage of completion method according to the progress of work completed. If the percentage of completion method is not appropriate, sales are recognised using the completed-contract method, i.e. after completion and final acceptance of the project.

Advertising expenses

Advertising costs are expensed as incurred.

Leasing

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

Through the rental of equipment for recording and metering the consumption of energy and water, Viterra was mainly the lessor under sales-type leases in its discontinued business activities. The other leases in which Viterra is the lessor or the lessee are operating leases.

Goodwill and intangible assets

Goodwill

SFAS No. 142 "Goodwill and Other Intangible Assets" requires that goodwill is no longer amortised over its useful life but must be tested for impairment at least once a year or more frequently if certain events occur which may indicate that goodwill has been impaired.

Viterra uses a fair-value-based approach to compare the fair value of a reporting unit with its book value. If impairment is identified, the goodwill write-down is recorded separately within Income from operating activities.

The cut-off date for annual impairment testing is September 30 of the respective financial year. A two-step test is performed on the reporting units. In the first step, the fair value of each reporting unit is compared with its respective book value including goodwill. In cases where the fair value is less than the book value, the fair value of the goodwill of the respective reporting unit is compared with the carrying amount of this goodwill in a second step. If the fair value of the goodwill is less than its carrying amount, the difference is reported as an impairment. In connection with the initial application of SFAS 142, this impairment test was first performed as of January 1, 2002. The resulting impairment charge was shown in the income statement of 2002 as a charge to earnings from the initial application of SFAS 142.

Amortisable intangible assets

According to SFAS 142, intangible assets are amortised over their useful lives unless their useful lives are determined to be indefinite.

Intangible assets are divided into the following categories: marketing-related, customer-related, contract-based and technology-based intangible assets. These definite-lived intangible assets are recorded at cost of acquisition and amortised on a straight-line basis over their useful lives – 3 years in the case of continuing operations and up to 30 years in the case of discontinued operations.

Company-developed software

Software developed for internal use is accounted for in accordance with the AICPA (American Institute of Certified Public Accountants) Statement of Position (SOP) 98-1 “Accounting for the Costs of Computer Software Developed or Obtained for Internal Use”. According to the SOP, the cost of software developed for internal use is capitalised from the time when the decision to implement the software is made and all software functions, features and requirements are known. The software is amortised over a useful life of up to 5 years. The costs incurred prior to that time are immediately recorded as expenses.

Property, plant and equipment

Property, plant and equipment are valued at acquisition or production cost and, except for land, depreciated over their respective useful lives, predominantly by the straight-line method. The production costs include direct costs as well as allocatable material and manufacturing overheads. Furthermore, interest on construction finance is capitalised in the production costs of property, plant and equipment which is constructed over a long-term period. Maintenance and modernisation costs that extend the useful life of an asset or increase its functionality are capitalised.

Scheduled depreciation of residential buildings is calculated on the basis of a 40 to 50-year useful life. Useful lives of between 20 and 50 years are taken for office and other buildings. Equipment, fixtures, furniture and office equipment are depreciated over periods of between 3 and 10 years.

Financial assets

Shares in associated companies are generally accounted for according to the equity method if Viterra, through its ownership interest, exercises significant influence over the company. Other investments and securities are recorded at the cost of acquisition.

The long-term loans relate to long-term receivables with an original term of at least one year. Market interest-bearing loans are valued at face values; interest-free and low-interest loans are reported at their present values.

Impairments

Viterra evaluates its long-lived assets and performs additional write-downs, if necessary, as soon as events or changed circumstances indicate that they may be impaired in value (impairment test). Impairment charges are recorded if the estimated undiscounted net cash flows from the assets are lower than the corresponding book values. The asset is written down to its fair value which is generally derived from the market price or its discounted net cash flows.

Inventories

Inventories are valued at the lower of acquisition/production costs or market values. With long-term manufacturing orders, profits are capitalised in line with the percentage of completion provided the requirements are met. The production costs are determined in a similar manner to fixed assets. If the market price or the net realisable value of the inventories on the balance-sheet date is lower than the carrying value, the lower valuation is taken. Advance payments for inventory purchases are shown under Other assets in the accompanying balance sheet.

Receivables

The receivables and other assets are stated at face values. Valuation allowances are provided for when specific collectible risk is identified. An appropriate valuation allowance is made when it is estimated that certain receivables will be uncollectible.

Deferred taxes

According to SFAS No. 109 "Accounting for Income Taxes" deferred taxes are provided for all temporary differences between the consolidated balance sheets and the tax balance sheets (temporary concept). Furthermore, deferred tax assets are also calculated on loss carryforwards provided their realisation in the following years is likely. A valuation allowance is established when it is more likely than not that the deferred tax assets will not be realised in following years.

The deferred taxes are determined by taking the tax rates applicable according to the laws at the time of the likely realisation. The effects of changes in tax rates on deferred tax assets and liabilities are recognised in income in the year in which the law is enacted. Deferred tax assets and liabilities with the same realisation period (current or long-term) are netted against each other provided the same tax authority is involved.

Accumulated other comprehensive income

Accumulated other comprehensive income covers all changes in stockholders' equity that do not affect net income and are not transactions with the stockholders (other comprehensive income). In the case of Viterra, unrealised gains/losses from the valuation of derivative financial instruments at market prices, differences from additional minimum pension liability and foreign currency translation adjustments are included as components of the other comprehensive income in the statement of stockholders' equity.

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 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.

Actuarial gains or losses resulting from changes in assumptions are deferred. The obligation determined without allowance for expected future increases in salaries is taken as the minimum liability. If this minimum liability exceeds the unrecognised prior service cost, the difference is reported in Accumulated other comprehensive income.

Other provisions

Provisions for taxes and other provisions are recorded when an obligation to a third party has been incurred, payment is probable and the amount can be reasonably estimated. Provisions for warranties and provisions for pending losses are determined at the full production costs.

Environmental liabilities are accrued when it is probable that an obligation has been incurred and the amount of the liability can be reasonably estimated.

Liabilities

Liabilities are shown at redemption value, long-term payment obligations are recorded at their net present value. Loans bearing no interest or interest below market rates in return for occupancy rights at rents below the prevailing market rates are similarly recorded at present value. The discount is shown under Deferred income and amortised as income from housing management in the following years; in return the interest expense increases accordingly. Debt discounts are directly allocated to financial liabilities. Debt issue costs are capitalised as Prepaid expenses and released according to the interest method over the term of the loan.

Stock-based compensation

Viterra participates in the stock appreciation rights programme "SARs" of E.ON AG. The stock-based compensation programmes are accounted for in accordance with SFAS No. 123 "Accounting for Stock-based Compensation" in conjunction with the FASB interpretation No. 28 "Accounting for Stock Appreciation Rights and Other Variable Stock Option or Award Plans". Therefore, provisions are established on a prorata basis for the SARs in accordance with their intrinsic values on the balance-sheet date.

Financial instruments

Viterra only uses derivative financial instruments such as foreign currency forwards and interest rate swaps for hedging purposes. Since January 1, 2001 Viterra has applied SFAS No. 133 “Accounting for Derivative Instruments and Hedging Activities” as amended by SFAS 137, SFAS 138 and SFAS 149. SFAS No. 133 requires that all derivative instruments, irrespective of the purpose or the intended use, be accounted for at their market values as assets or liabilities. With a fair value hedge, the changes resulting from the market valuation of the financial derivatives and the underlying business transactions are recognised in income. The hedge-effective part of the change in the market value of derivative financial instruments which are classified as a cash flow hedge is first recognised in equity under Accumulated other comprehensive income (loss). The transfer to the income statement is made when the hedged underlying transaction affects net income. The hedge-ineffective part of the change in market value is immediately recognised in income.

Statement of cash flows

According to SFAS No. 95 “Statement of Cash Flows”, the statement of cash flows is divided into operating activities, investing activities and financing activities. Cash provided by and used for discontinued operations is not included in the statement of cash flows; the figures for the previous year have been adjusted accordingly. Results from the disposal of fixed assets are allocated to operating activities in line with Viterra's strategy. The effect of changes in the group of consolidated companies is shown under the investing activities section, but eliminated in the operating and financing activities. The effect of foreign exchange rates on liquid funds is shown separately.

Use of estimates

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 liabilities on the balance-sheet date as well as reported amounts of revenues and expenditures during the reporting period. Actual results may differ from those estimates.

Reclassification

Certain figures from the previous year have been reclassified to conform to those of the current year.

New accounting regulations

Statement of Financial Accounting Standard No. 132 (revised) “Employers' Disclosures about Pensions and Other Post-Retirement Benefits”

In December 2003, the FASB issued the revised SFAS No. 132 “Employers' Disclosures about Pensions and Other Post-Retirement Benefits” (“SFAS 132 revised”). Statement 132 (revised) prescribes employers' disclosures about pension plans and other post-retirement benefit plans; it does not change the measurement or recognition of those plans. The Statement retains and revises the disclosure requirements contained in the original Statement 132. It also requires additional disclosures about the assets, obligations, cash flows, and net periodic benefit cost of defined benefit pension plans and other post-retirement benefit plans.

SFAS 132 (revised) is generally effective for fiscal years ending after December 15, 2003. The Company's disclosures in Note 13 "Provisions for pensions and similar obligations" incorporate the requirements of Statement 132 (revised).

Statement of Financial Accounting Standard No. 146 "Accounting for Costs Associated with Exit or Disposal Activities"

In June 2002, the FASB issued SFAS No. 146 "Accounting for Costs Associated with Exit or Disposal Activities" which nullifies Emerging Issues Task Force (EITF) 94-3 "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring)". SFAS 146 requires that a liability for costs associated with exit or disposal activities first be recognised when the liability is incurred rather than at the date of management's commitment to an exit or disposal plan. Examples of costs covered by the standard include certain employee severance costs, contract termination costs and costs to consolidate or close facilities or relocate employees.

The provisions of the new standard are effective for exit or disposal activities initiated after December 31, 2002. The adoption of SFAS 146 had no material impact on the consolidated financial statements.

Statement of Financial Accounting Standard No. 148 "Accounting for Stock-Based Compensation – Transition and Disclosure"

In December 2002, the FASB issued SFAS No. 148 "Accounting for Stock-Based Compensation – Transition and Disclosure" – an amendment of FASB Statement No. 123 "Accounting for Stock-Based Compensation". SFAS 148 provides alternative methods of transition for a voluntary change to the fair-value-based method of accounting for stock-based employee compensation. In addition, SFAS 148 amends the disclosure requirements of SFAS 123 to require more prominent and more frequent disclosures in financial statements about the effects of stock-based compensation. In particular, the use of the fair-value-based method is to underline the effects on net income ("pro-forma effects"), regardless of the accounting method used.

SFAS 148 is effective for fiscal years ending after December 15, 2002. According to the provisions of SFAS 123, which are basically unaffected by SFAS 148, the expenses for stock-based compensation programmes determined using the fair-value-based method are either to be recorded in the income statement or, if another valuation method was used, explained in the Notes with the relevant effects on net income ("pro-forma effects").

Statement of Financial Accounting Standard No. 149 "Amendment of Statement 133 on Derivative Instruments and Hedging Activities"

In April 2003 the FASB issued SFAS No. 149 "Amendment of Statement 133 on Derivative Instruments and Hedging Activities". This statement amends the accounting and reporting requirements under SFAS 133 for derivative financial instruments, including certain derivatives embedded in other contracts. Generally, this statement is effective for contracts entered into or modified after June 30, 2003. The initial application of SFAS 149 did not have a material impact on the assets, financial position and results of Viterra.

Statement of Financial Accounting Standard No. 150 “Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity”

In May 2003 the FASB issued SFAS No. 150 “Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity”. This statement establishes new standards for the classification and measurement of certain financial instruments with characteristics of both liabilities and equity. The adoption of SFAS 150 had no effect on the assets, financial position and results of Viterro.

FASB Interpretation No. 45 “Guarantor’s Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others”

In November 2002, the FASB issued FASB Interpretation No. 45 “Guarantor’s Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others” (FIN 45). This interpretation clarifies certain aspects of standards No. 5, 57 and 107 and nullifies FASB Interpretation 34.

Under certain guarantees, the guarantor is required to recognise a liability for the fair value of an obligation assumed at the time the guarantee is issued. The recognition requirements of FIN 45 are to be applied to guarantees issued or modified after December 31, 2002 with the exception of product warranties.

The previous reporting and valuation requirements still apply to product warranties. The other guarantees are mainly guarantees, letters of comfort and contractually agreed indemnification clauses. Moreover, FIN 45 clarifies and expands the information to be given in the Notes on guarantee obligations and product warranties.

Viterro has previously provided all the disclosure requirements of FIN 45 in its consolidated financial statements for the fiscal year 2002. In 2003, the application of FIN 45 had an effect on the valuation of contingent liabilities.

FASB Interpretation No. 46 “Consolidation of Variable Interest Entities”

In January 2003, the FASB issued FASB Interpretation No. 46, “Consolidation of Variable Interest Entities, an interpretation of ARB 51.” This interpretation sets out the consolidation and reporting requirements for variable interest entities (VIEs) if there is the possibility of a significant economic impact. Such companies must now be consolidated not only on the basis of voting control, but also if the interest in a variable interest entity results in the Company being a primary beneficiary.

The requirement to disclose certain information also exists when there is a significant economic interest (variable interest) in a variable interest entity with no primary beneficiary. FIN 46 is applicable immediately for entities created after January 31, 2003. For entities established before February 1, 2003, FIN 46 is to be applied no later than the reporting period ending after December 15, 2003. It was first applied at Viterro with effect from July 1, 2003. The adoption of FIN 46 did not result in the reporting of a cumulative effect of changes in accounting principles in the income statement.

In December 2003 a revised version of the interpretation was published as “FIN 46 revised”. FIN 46 (revised) clarifies and interprets FIN 46. The revised version is applicable at the latest for reporting periods ending after March 15, 2004. Viterra does not anticipate any material effects on the consolidated financial statements from the application of FIN 46 (revised).

In line with the requirements of FIN 46, one variable interest entity was consolidated from the time it started business operations in 2003.

EITF 01-8 “Determining Whether an Arrangement Contains a Lease”

In May 2003, the EITF (“Emerging Issues Task Force”) reached a consensus on EITF No. 01-8, “Determining Whether an Arrangement Contains a Lease”, which applies to new or modified arrangements in fiscal periods beginning after May 28, 2003. Guidance in the consensus requires that both parties to an arrangement determine whether a service or supply contract includes a lease within the scope of SFAS 13, whereby the right to use property, plant and equipment is conveyed to the purchaser. The application of the consensus did not have an impact on the Group’s accounting.

EITF 00-21 “Final EITF Consensus on Multiple Deliverables”

In December 2002, the EITF (“Emerging Issues Task Force”) published the final consensus on multiple deliveries and services. This consensus determines at which time and under which conditions the delivery or performance of individual components of a contract has taken place and therefore sales are to be recognised. Each separate component is an independent unit to be accounted for individually. According to the provisions of EITF 00-21, sales must be recognised separately for each component of a contract covering multiple deliveries when the particular component is delivered. Consequently, individually identifiable deliverables or accounting units can lead to earlier sales recognition. The basic accounting principles for sales recognition are not affected.

The consensus requires the accounting method used for multi-component contracts to be disclosed in the Notes. It must be stated what deliveries or services of a contract are defined as individual components. Furthermore, the contractual agreements and the progress of deliveries are to be explained in detail.

The consensus is effective for fiscal years beginning after June 15, 2003. Viterra does not anticipate any material effects on the consolidated financial statements from the application of EITF 00-21.

NOTES ON THE CONSOLIDATED INCOME STATEMENTS

1 Net sales

	2003	2002
	€ million	€ million
Net sales		
Germany	1,063.4	1,196.5
Rest of Europe	21.2	17.6
	1,084.6	1,214.1

There are no individual customers or suppliers whose business volume is material to the total business volume of the Group.

2 Other operating income and expenses

Other operating income and expenses consist of the following:

	2003	2002
	€ million	€ million
Other operating income		
Income from property sales	433.0	363.8
Income from deconsolidation	37.3	0.0
Income from the reversal of provisions	17.5	17.0
Income from the reversal of valuation allowances	3.9	0.9
Income from other asset disposals	0.8	0.7
Other	28.7	22.9
	521.2	405.3
Other operating expenses		
Write-downs of receivables	16.7	20.6
Environmental protection	11.9	5.0
Litigation risks	11.8	1.2
Additions to provisions	10.9	12.7
Analysis and remediation costs	3.8	2.0
Losses from disposal of assets	3.7	0.9
Project losses / restructuring	2.9	10.6
Losses from interest rate derivatives	0.7	0.0
Other	19.2	13.2
	81.6	66.2

The income from property sales results mainly from the sale of apartments and multi-family houses.

3 Financial result

	2003	2002
	€ million	€ million
Income from investments in associated companies	0.0	2.7
Losses from investments in associated companies	0.0	-1.6
Losses from profit-and-loss transfer agreements (thereof from affiliated companies)	-0.8 (-0.8)	-0.6 (-0.4)
Income from other investments	2.0	2.7
Income from investments	1.2	3.2
Income from long-term securities and long-term loans	0.1	0.1
Other interest and similar income (thereof from affiliated companies)	33.3 (8.8)	25.5 (0.7)
Interest and similar expenses (thereof from affiliated companies)	-183.0 (-30.4)	-198.4 (-39.6)
Net interest expense	-149.6	-172.8
Write-downs of financial assets and marketable securities	-3.7	-3.9
Financial result	-152.1	-173.5

Under long-term construction programmes, interest of € 0.4 million was capitalised in the 2003 financial statements (2002: € 0.3 million). Interest and similar expenses were reduced accordingly.

4 Income taxes

The income from operating activities attributable to domestic and foreign companies consists of the following:

	2003	2002
	€ million	€ million
Germany	290.6	137.0
Abroad	4.2	3.3
	294.8	140.3

The current taxes not only relate to taxes where Viterra AG or Viterra Group companies are subject to tax but also to income tax levies with which E.ON credits or debits Viterra. E.ON is liable for these taxes as head of the group of companies for corporate income tax and trade tax purposes (Organschaft). These tax levies are in general determined as if Viterra was independently taxable. For the current year, this resulted in a tax credit of € 301.6 million. To the extent the tax levies received relate to divestments which will be effective in the future, the relevant amount is deferred with regard to property, plant and equipment.

The following tax benefit was determined on this basis:

	2003	2002
	€ million	€ million
Current taxes		
Germany	278.3	72.3
Abroad	-1.4	-1.5
	276.9	70.8
Deferred taxes		
Germany	-228.0	-66.4
Abroad	0.0	0.0
	-228.0	-66.4
	48.9	4.4

A total tax rate of 39 % has been taken for determining deferred taxes on temporary differences (current or long-term). This tax rate is made up of corporate income tax including a solidarity surcharge of 26 % and trade tax, which amounts to 13 % after deduction of corporate income tax. Notwithstanding the above, the short-term deferred taxes as at December 31, 2002 were calculated at 40 % as a result of the Flood Victim Solidarity Act.

The following table shows a reconciliation from the expected to the actual tax expense in the years 2002 and 2003. To determine the expected tax expense, the 26.5 % tax rate valid in Germany in 2003 (2002: 25 %) is multiplied by the income from operating activities.

	2003	2002
	€ million	€ million
Expected tax expense	-78.1	-35.0
Foreign tax-rate differential	-0.1	-0.2
Tax-free income	107.6	71.5
Adjustments to deferred taxes as a result of changes in tax law or tax rates	-0.3	0.2
German trade tax, net of corporate income tax	8.0	-3.1
Change in the valuation allowance on deferred tax assets	1.4	-19.4
Other	10.4	-9.6
Income tax benefit	48.9	4.4

As at December 31, 2003, the domestic corporate income tax loss carryforwards in the Group amounted to € 222.1 million (2002: € 249.0 million) and the domestic trade tax loss carryforwards totalled € 66.5 million (2002: € 85.2 million); foreign loss carryforwards amounted to € 0.4 million (2002: € 0.1 million). According to the tax legislation applicable on December 31, 2003, domestic losses still have no time limit.

As a result of the Law on the Implementation of the Protocol Declaration of the German Government on the Conciliation Recommendation on the Phasing-out of Tax Concessions Law (the so-called Korb II law) passed on December 22, 2003, the system for the treatment of losses under German tax law has been fundamentally changed. In future, corporations can only offset tax loss carryforwards against a maximum of 60 % of their taxable income. Unlimited set-off is only possible for up to € 1 million (so-called threshold). The minimum taxation provision is generally effective from January 1, 2004 and applies similarly to trade tax loss carryforwards. The possibility to carry foreign losses forward is partially restricted. The decrease in loss carryforwards is mainly due to the utilisation of tax loss carryforwards in 2003.

A valuation allowance on deferred tax assets of € 51.7 million (2002: € 53.1 million) was applied. A tax benefit is not expected to be realised for this amount. In determining these amounts, all discernible positive and negative effects on anticipated future tax results were taken into consideration. No deferred taxes are calculated for differences between the carrying value and the tax book values which are attributable to the special treatment of former non-profit housing companies.

The recognised deferred tax assets and liabilities based on the above principles are shown below in relation to the corresponding balance-sheet items:

	2003	2002
	€ million	€ million
Property, plant and equipment	9.2	16.7
Financial assets	3.3	2.5
Inventories	2.4	0.3
Receivables	1.0	1.1
Provisions	38.6	17.3
Liabilities	14.3	13.3
Tax carryforwards	66.5	76.5
	135.3	127.7
Valuation allowance	-51.7	-53.1
Deferred tax assets	83.6	74.6
Property, plant and equipment	194.4	10.7
Financial assets	0.0	0.2
Inventories	0.3	5.1
Receivables	2.9	1.1
Provisions	26.7	2.0
Liabilities	0.5	8.7
Untaxed reserves	305.0	271.8
Deferred tax liabilities	529.8	299.6

After netting, the deferred tax liabilities are as follows:

	2003	2002
	€ million	€ million
Deferred tax assets	31.4	68.5
(thereof long-term)	(28.9)	(46.2)
Deferred tax liabilities	477.6	293.5
(thereof long-term)	(475.2)	(280.3)
Net deferred tax liability	446.2	225.0
(thereof long-term)	(446.3)	(234.1)

The tax effects on stockholders' equity are as follows:

	2003	2002
	€ million	€ million
Result from continuing operations	48.9	4.4
Result from discontinued operations	-16.9	-39.3
Accumulated other comprehensive income	5.9	9.4
	37.9	-25.5

Other information

The personnel costs contained in the expense items amount to € 150.9 million for 2003 and € 157.3 million for 2002.

On an annual average, 1,919 people were employed in the Group (2002: 2,449). This figure does not include 68 trainees and apprentices (2002: 87).

The advertising expenses recognised in 2003 amounted to € 3.3 million (2002: € 3.8 million).

NOTES ON THE CONSOLIDATED BALANCE SHEETS

5 Intangible assets

The intangible assets shown in addition to goodwill and totalling € 0.9 million (2002: € 3.1 million) are made up solely of contract-based intangible assets (in 2002: € 2.8 million as well as € 0.3 million in customer-related intangible assets).

Amortisation of € 0.8 million was recorded for the intangible assets in 2003 (2002: € 2.0 million).

In 2003 net goodwill changed as follows:

	2003	2002
	€ million	€ million
January 1	2.9	58.0
Impairment from initial application of SFAS 142	0.0	-28.8
Change in group of consolidated companies	-2.2	0.0
Discontinued operations	0.0	-26.5
Other	0.0	0.2
December 31	0.7	2.9

6 Property, plant and equipment and financial assets

The development of fixed assets in 2003 summarised in the balance sheet is shown in the Statement of Fixed Assets Movements.

In the 2003 fiscal year, 6 companies relating mainly to the core business, residential real estate, as well as the additional business, project development, were consolidated for the first time. These were newly established companies or companies which either started up or extended their business operations in 2003. Successive acquisitions of shares in a company in the amount of € 49.9 million were made exclusively in cash as were the acquisitions in 2002 (€ 312.2 million). In all cases they were accounted for using the purchase method. Goodwill was not acquired in any of these transactions.

In 2003 impairments of € 32.5 million (2002: € 6.7 million) were recorded. They relate to the balance-sheet items "Land and land rights including commercial and other buildings" (€ 26.1 million), "Land and land rights including residential buildings" (€ 4.0 million) as well as "Land and land rights excluding buildings" (€ 2.4 million), whose market values were less than their carrying values. The market values were determined using the discounted cash flow method. Furthermore, an impairment of € 3.6 million was recorded on one company shown under Other investments.

All assets for which an impairment was recorded are classified as assets to be held and used. The impairments are mainly recorded in Cost of sales in the income statements.

As of December 31, 2003, future revenue from non-cancellable operating leases was due as follows:

	2004	2005	2006	2007	2008	from 2009
	€ million	€ million	€ million	€ million	€ million	€ million
Future leasing receipts	36.7	33.4	33.6	33.6	33.6	38.7

The net book values of all leased assets (cancellable and non-cancellable operating leases) amount to €4,642.4 million compared to €4,955.8 million in 2002. The corresponding gross book values as at December 31, 2003 are €7,487.2 million (2002: €7,819.1 million).

7 Inventories

	Dec. 31, 2003	Dec. 31, 2002
	€ million	€ million
Land and equivalent rights excluding buildings	97.5	115.3
Costs in preparation for construction	15.4	10.4
Land and equivalent rights including unfinished buildings	19.9	70.7
Land and equivalent rights including finished buildings	41.2	81.7
Earnings in accordance with the percentage-of-completion method	0.0	2.9
Other work in progress	267.8	260.9
Other inventories	1.2	4.9
	443.0	546.8

The other work in progress includes 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.

In accordance with the requirements of ARB 43, each project is valued and accounted for using the completed-contract method. The advance payments received are offset against the project costs incurred. After offset of advance payments of €3.7 million against capitalised project costs of €6.0 million, other work in progress totalled €2.3 million. Under the advance payments on the liabilities side, project costs of €39.3 million are set off against advance payments of €59.8 million, giving an advance payment surplus on development projects of €20.5 million.

8 Trade receivables

	Dec. 31, 2003	Dec. 31, 2002
	€ million	€ million
Trade receivables		
■ from the sale of land	262.2	199.9
■ from lettings	7.0	7.0
■ from property management activities	0.1	0.5
■ from other supplies and services	25.4	29.4
Value adjustments	-24.3	-17.5
	270.4	219.3

Receivables of € 0.4 million (2002: € 0.9 million) have a remaining term of more than one year.

9 Other receivables and other assets

	Dec. 31, 2003	Dec. 31, 2002
	€ million	€ million
Accounts receivable		
■ Affiliated companies	192.1	2.4
■ Associated companies	0.4	2.0
Other assets	395.9	345.8
Value adjustments	-10.6	-6.2
	577.8	344.0

Accounts receivable from affiliated companies relate virtually exclusively to the investment of liquid funds in a company of the E.ON Group.

Other assets include € 209.6 million in receivables from the tax authorities for the refund of tax payments for prior years. These result from the tax authorities view that, regarding former non-profit housing companies, part of the profit transferred under a domination and profit-and-loss transfer agreement is to be treated as a dividend and taxed. In December 2002, the Federal Fiscal Court ruled in three related cases against the tax authorities. However, so far the tax authorities have made no refunds to Viterra.

Furthermore, Other assets include € 96.3 million (2002: € 77.6 million) already paid by buyers of apartments into the trust account of a notary public. These monies are not released to Viterra until title has been transferred. Other receivables totalling € 10.1 million (2002: € 10.2 million) relate to advance payments made on land purchases.

€ 18.5 million (2002: € 0.9 million) of the Other receivables and other assets have a remaining term of more than one year.

10 Liquid funds

Liquid funds 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 € 69.3 million (2002: € 18.0 million) as well as marketable securities of € 2.9 million (2002: € 2.7 million).

11 Stockholders' equity

The capital stock of Viterra AG amounts to € 182 million and consists of 70,000,000 shares. 94.5 % of the shares are owned by E.ON Viterra-Beteiligungsgesellschaft GmbH, Düsseldorf, and 5.5 % by E.ON AG, Düsseldorf. There is still a domination and profit-and-loss transfer agreement with E.ON AG.

At the end of December 2003, Viterra acquired a loan from E.ON AG which had been granted by E.ON to the consolidated company Deutschbau-Holding GmbH, Düsseldorf. This acquisition is treated as a transaction under common control in which the book value carried in the financial statements of the selling company has to be taken over in the financial statements of the buying company. The amount of € 12.4 million, by which the purchase price exceeded the book value, was transferred to retained earnings without affecting earnings.

The additional paid-in capital amounts to € 228.9 million and results exclusively from the transfer of premiums.

According to commercial law, the result of Viterra AG is transferred to E.ON AG on the basis of the domination and profit-and-loss transfer agreement without a special resolution on the appropriation of net income being required; this part of the consolidated net income of Viterra is shown as an addition or disposal in the stockholders' equity of the Group.

The components of the Accumulated other comprehensive income developed as follows:

	2003			2002		
	Before taxes	Tax effect	After taxes	Before taxes	Tax effect	After taxes
	€ million	€ million	€ million	€ million	€ million	€ million
Minimum pension liability adjustment	-15.9	6.2	-9.7	0.5	-0.2	0.3
Unrealised gains (losses) from derivative financial instruments	1.0	-0.3	0.7	-24.7	9.6	-15.1
Foreign currency translation adjustments	-4.7	-	-4.7	-2.3	-	-2.3
Other comprehensive income	-19.6	5.9	-13.7	-26.5	9.4	-17.1

12 Minority interests

The minority interests of € 377.0 million (2002: € 384.9 million) relate primarily to the core business, residential real estate. The minority interests include profits of € 19.6 million for 2003 (2002: € 38.4 million) and losses of € 6.6 million (2002: € 28.8 million including discontinued operations).

13 Provisions for pensions and similar obligations

As a general rule, pension plan obligations are based on the length of employee service. Performance-linked benefit obligations – for which the company guarantees a certain level of benefit – are provided for through a provision for pensions. Viterra has not separately funded its pension obligations.

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 SFAS 87, whereby current pensions and vested rights as well as future increases in these parameters are included in the valuation.

The change in the projected benefit obligation is as follows:

	2003	2002
	€ million	€ million
Projected benefit obligation as of January 1	198.9	201.3
Service cost	1.7	2.4
Interest cost	11.6	11.1
Business combinations	0.0	5.2
Actuarial losses	19.8	0.3
Benefits paid	-15.3	-14.9
Discontinued operations	-1.3	-6.9
Transfer of pension commitments	1.1	0.4
Projected benefit obligation as of Dec. 31	216.5	198.9

With some Group companies, the accumulated benefit obligation exceeds the unfunded accrued benefit pension costs. For this reason, provisions for pensions have been increased by an additional minimum liability of € 33.7 million (2002: € 17.7 million) which does not affect net income. The accumulated benefit obligation totals € 211.8 million (2002: € 194.7 million).

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

	2003	2002
	€ million	€ million
Projected benefit obligation	216.5	198.9
Unrecognised actuarial loss	-38.3	-21.4
Unfunded accrued benefit cost	178.2	177.5
Additional minimum liability	33.7	17.7
Provisions for pensions disclosed in the balance sheet	211.9	195.2

The total net periodic pension cost comprises the following:

	2003	2002
	€ million	€ million
Service cost	1.7	2.4
Interest cost	11.6	11.1
Net amortisation of gains/losses	2.3	0.3
Net periodic pension cost	15.6	13.8

The provisions for pensions were calculated on the basis of the following assumptions:

	2003	2002
Discount rate	5.50 %	5.75 %
Projected salary increases	2.75 %	2.75 %
Projected pension payment increases	1.25 %	1.25 %

Pension costs were calculated on the basis of the following assumptions:

	2003	2002
Discount rate	5.75 %	5.75 %
Projected salary increases	2.75 %	2.75 %
Projected pension payment increases	1.25 %	1.25 %

The cut-off date for the determination of pension obligations is September 30.

14 Other provisions

	Dec. 31, 2003	Dec. 31, 2002
	€ million	€ million
Provisions for taxes	514.0	334.9
(thereof for deferred taxes)	(477.6)	(293.5)
Provisions for		
■ environmental remediation	41.2	34.4
■ contractually agreed guarantees and warranties	40.9	20.8
■ personnel costs	39.6	33.5
■ outstanding trade invoices	29.0	21.8
■ litigation risks	13.3	0.0
■ final settlement of real estate development invoices	12.9	26.7
■ early repayment penalties	10.3	0.0
■ maintenance obligations under leases	5.6	5.1
■ restructuring	7.1	12.9
■ project losses	3.1	2.6
■ miscellaneous	60.2	58.8
	777.2	551.5

The provisions for environmental remediation refer to tank storage site remediation of locations of the former Raab Karcher Tanklager. 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 contractually agreed guarantees and warranties relate to product warranties and other contingent liabilities explained in Note 21.

The remaining expenses in connection with real estate development refer to outstanding invoices from building contractors as well as contractually agreed completion work.

The provisions for staff restructuring measures developed as follows:

	2003	2002
	€ million	€ million
Provisions as of January 1	12.9	11.7
Additions	0.6	8.0
Use	-9.2	-8.8
Release	0.0	-0.9
Change in group of consolidated companies	0.0	2.9
Provisions as of December 31	4.3	12.9

Of the 158 employees for whom a staff restructuring provision was established as of December 31, 2002 amounts are still set aside for 43 as of December 31, 2003. The other 115 employees have received their benefits. No new staff restructuring measures took place in 2003. Therefore as of December 31, 2003 restructuring provisions had been set up for 43 employees.

Additional exit costs of € 2.8 million relating to vacant office space are included in the restructuring costs.

15 Financial liabilities

	Dec. 31, 2003				Dec. 31, 2002	
	Total	of which remaining term			Total	of which remaining term over 1 year
		up to 1 year	1 – 5 years	over 5 years		
	€ million	€ million	€ million	€ million	€ million	€ million
Liabilities						
■ banks	2,054.5	341.9	618.1	1,094.5	2,053.0	1,956.7
■ other creditors	425.4	26.0	42.9	356.5	498.5	482.4
■ affiliated companies	690.0	411.5	102.3	176.2	790.2	569.4
■ Nominal volume	3,169.9	779.4	763.3	1,627.2	3,341.7	3,008.5
■ Discounting of interest-free and low-interest loans	-363.2				-400.9	
Financial liabilities	2,806.7				2,940.8	

Loans bearing no interest or interest below market rates in return for occupancy rights at rents below the prevailing market rates appear at the present value in the balance sheet. The difference to the nominal values amounting to € 363.2 million (2002: € 400.9 million) is reported as Deferred income.

The interest rates on the financial liabilities towards banks and other creditors are between 0 and 10% (on average approx. 3.8 %). Viterra has credit lines with banks totalling € 471.3 million, of which € 321.9 million is still available.

In addition to the long-term loans from banks and other creditors, Viterra has received extensive funding from its stockholder, E.ON AG. To finance current business, Viterra was granted a credit line of € 550.0 million running until January 31, 2004, which was prolonged in January 2004 with an amount of € 150.0 million to November 30, 2004. As at the balance-sheet date, the € 550.0 million credit line had not been utilised. The average interest rate in 2003 was 2.31 % for overnight money and 2.66 % for six-month time deposits.

In addition, E.ON has granted Viterra a long-term loan of € 102.3 million (2002: five loans totalling € 407.9 million) with the interest rate fixed until October 1, 2007. The interest rate on this loan is 5.98 %. Four long-term loans for a total of € 305.6 million were repaid in 2003.

Of the financial liabilities, € 273.8 million are reported as short-term because, under the terms of these loans, the company expects that the financial liabilities must be repaid within one year.

Furthermore, there are financial liabilities towards E.ON Group companies totalling € 587.1 million of a variable interest entity to be included in the Viterra consolidated financial statements. Some of these liabilities (€ 411.1 million) have a variable interest rate (currently 2.906%) and are to be repaid by August 29, 2004. The other € 176.0 million can be repaid after 2008.

Viterra is part of the cash pooling system of E.ON. In addition, Viterra is obliged to utilise the available services of E.ON with regard to interest and foreign exchange transactions.

Of the financial liabilities, a nominal amount of € 1,661.9 million (2002: € 1,801.3 million) is secured by mortgages on real estate. Furthermore, other collateral has been provided for financial liabilities with a nominal value of € 464.0 million. Moreover, for financial liabilities of € 154.0 million, Viterra undertook to provide collateral in the form of a pledging of shares until June 30, 2004

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

	2004	2005	2006	2007	2008	from 2009
	€ million	€ million	€ million	€ million	€ million	€ million
Financial liabilities	779.4	94.8	235.6	344.3	88.6	1,627.2

16 Other liabilities

	Dec. 31, 2003				Dec. 31, 2002	
	Total	of which remaining term			Total	of which remaining term over 1 year
		up to 1 year	1 – 5 years	over 5 years		
	€ million	€ million	€ million	€ million	€ million	
Advance payments	295.4	275.0	20.4	–	298.2	1.1
Liabilities						
■ from letting of property	27.7	27.7	–	–	11.4	–
■ from property management activities	0.2	0.2	–	–	0.9	–
■ from accounts payable to affiliated companies	26.8	25.3	1.5	–	36.6	2.1
■ to associated companies	3.5	3.5	–	–	5.0	–
Miscellaneous liabilities	5.7	5.7	–	–	4.3	–
Miscellaneous liabilities	85.9	46.2	17.8	21.9	65.4	38.8
Other liabilities	445.2	383.6	39.7	21.9	421.8	42.0

The advance payments include amounts for development projects which are explained under Note – Inventories.

The miscellaneous liabilities include negative market values of interest swaps of € 37.7 million (2002: € 36.6 million), tax liabilities of € 22.4 million (2002: € 3.0 million) and liabilities for social insurance contributions of € 2.4 million (2002: € 2.8 million).

17 Deferred Income

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 amounting to € 363.2 million (2002: € 400.9 million). In total deferred income of € 24.1 million (2002: € 12.1 million) is to be classified as short term.

OTHER INFORMATION

18 Stock-based compensation

Viterra participates in the stock appreciation rights programme “SARs” of E.ON AG. The stock-based compensation programme is accounted for in accordance with SFAS No. 123 “Accounting for Stock-Based Compensation” in conjunction with FASB “Interpretation No. 28 Accounting for Stock Appreciation Rights and Other Variable Stock Option or Award Plans”. Thus provisions are to be established on a prorata basis for the SARs in line with their intrinsic value on the balance-sheet date.

The SARs of all tranches have the following common features:

- When exercising SARs, qualified executives also receive a cash bonus. Possible dilution effects of capital-related measures and dividend payments between the time of issue and exercise of the options are taken into consideration when calculating the compensation.
- All SARs issued are non-transferable and may be exercised prematurely only if certain conditions apply when the qualified executive leaves the Group, or according to the conditions for the options on the next possible exercise date. Otherwise, the options expire.
- If a qualified executive leaves the Group at his own wish, the SARs expire if the blocking period has not elapsed or the executive does not exercise the options on the next possible exercise date.
- Options have a limited term of 7 years. SARs which remain unexercised on the last exercise date of the relevant tranche are considered as having been exercised automatically on such date.
- The number of SARs granted to the members of the Board of Management of Viterra AG and qualified executives of the Group companies was established by the relevant executive committee of the Supervisory Board or the stockholders' meeting.

In 2003, Viterra participated in the fifth tranche of the E.ON SAR programme, which has been in existence since 1999. Since the first tranche (1999 – 2003) was fully exercised in 2002, there were only obligations from the second to fifth tranches in 2003. The table below shows the details of these tranches:

Stock appreciation rights	5th tranche	4th tranche	3rd tranche	2nd tranche
Issue date	Jan. 2, 2003	Jan. 2, 2002	Jan. 2, 2001	Jan. 3, 2000
Term	7 years	7 years	7 years	7 years
Blocking period	2 years	2 years	2 years	2 years
Base price (in €)	42.11	54.95	62.95	48.35
Participants in year of issue	24	32	33	18
Number of SARs granted (in thousands)	177	179	211	193
Exercise threshold (%)	10	10	20	20
Exercise threshold (minimum quotation in €)	46.32	60.45	75.54	58.02
Intrinsic value as of Dec. 31, 2003 (in €)	9.63	-3.21	-11.21	3.39
SARs outstanding as of Dec. 31, 2003 (in thousands)	177	161	186	141
Provision (in € million)	0.8	0.0	0.0	0.5
Exercise gains in 2003 (in € million)	0.0	0.0	0.0	0.0
Expense in 2003	0.8	0.0	0.0	0.5

The exercise gain is the difference between the E.ON share price at the time of exercise and the base price, multiplied by the number of options exercised. The base price of the fourth and fifth tranches is the arithmetic mean of E.ON's quotations on the XETRA electronic stock trading system in December of the previous year. For the second and third tranches, the base price is the share price on the issue date.

Two conditions must be met before E.ON SARs may be exercised:

- Between the date of issue and exercise, E.ON's share price must outperform the Stoxx Utility Suppliers Price Index on at least ten consecutive business days and
- E.ON's share price on the exercise date must be at least 10 % (second and third tranches 20 %) above the base price.

Between expiry of the blocking period and the date of maturity, qualified executives may exercise all or a portion of the SARs issued to them within predetermined exercise windows, i.e. four weeks after the publication of an E.ON interim report or the consolidated financial statements. SARs can only be issued if the qualified executive owns a certain number of E.ON shares which must be held until the date of maturity or full exercise of the SARs issued.

It is planned to introduce a ceiling for exercise gains from SARs from future tranches to put an upper limit on the effect from extraordinary unforeseen developments. However, no adjustments in favour of the beneficiaries are planned if such events have a negative effect.

The intrinsic values of the SARs from the third and fourth tranches were negative on the balance-sheet date so it was not necessary to establish provisions for obligations arising thereunder. The intrinsic value of the SARs from the second and fifth tranches was € 3.39 and € 9.63 respectively. Therefore, a provision of € 1.3 million was established for obligations arising from these tranches.

The SAR programme of E.ON has developed as follows in the Viterro Group since 2000.

Development of the SAR programme	5th tranche	4th tranche	3rd tranche	2nd tranche
Outstanding on January 1, 2000				
Granted 2000				192,800
Cancelled 2000				7,000
Outstanding on December 31, 2000				185,800
Granted 2001			210,500	0
Outstanding on December 31, 2001			210,500	185,800
Granted 2002		179,000	0	0
Exercised 2002		0	0	18,400
Cancelled 2002		0	8,000	0
Outstanding on December 31, 2002		179,000	202,500	167,400
Granted 2003	176,500	0	0	0
Change in group of consolidated companies	0	18,000	17,000	26,800
Outstanding on December 31, 2003	176,500	161,000	185,500	140,600
SARs exercisable at year-end	0	0	0	0

On the balance-sheet date, the SARs of all tranches could not be exercised either because the blocking periods had not yet elapsed (fifth tranche) or because the exercise conditions had not yet been met (tranches two to four).

19 Information on the consolidated statement of cash flows

Cash provided by operating activities includes interest payments of € 149.2 million (2002: € 173.5 million). Income tax payments amounted to € 31.8 million (2002: € 2.9 million).

20 Related party transactions

The financing and tax-group relationships with E.ON AG are explained separately in the Notes to the income statement and balance sheet.

A loan with a nominal volume of € 153.4 million exists between a subsidiary of the Viterra Group and its minority stockholders. Expenses of € 9.2 million resulted therefrom in 2003.

Furthermore, Viterra performs management services for real estate companies of the E.ON Group which mainly cover the purchase and sale, letting and leasing of land, the granting and administration of long-term leaseholds and administrative work. The compensation amounted to € 6.8 million for 2003 (2002: € 11.4 million). Viterra was charged rental and lease expenses of € 21.6 million (2002: 18.7 million) by these companies.

Viterra incurred expenses of € 11.8 million from an energy supply agreement with Stadtwerke Essen (related company since 2003). In 2003, expenses of € 5.0 million (2002: € 5.1 million) resulted from framework agreements on the billing of heating supplies between an E.ON company and four Viterra companies.

The Viterra administration buildings in Essen and Bochum are on long-term leases from an E.ON company; the rents amounted to € 4.4 million in 2003 (2002: € 4.2 million). Viterra in turn generated earnings of € 3.0 million (2002: € 0.9 million) from the leasing of office space to various related parties.

In 2003, land was bought from various companies of the E.ON Group for a total purchase price of € 30.0 million (2002: € 57.2 million). Furthermore, E.ON AG, HIBERNIA Industrierwerte GmbH & Co. oHG, Düsseldorf, and Induboden GmbH & Co. Grundstücksgesellschaft, Düsseldorf, have the irrevocable right to sell or transfer to Viterra AG or a company of the Viterra Group nominated by Viterra AG by unilateral written declaration parts of their real property not sold by December 31, 2006.

21 Contingent liabilities

During the normal course of business, Viterra AG and its subsidiaries give product warranties to the buyers of owner-occupier houses and apartments, commercial buildings and land. Provisions are established for these product warranties in the Viterra consolidated financial statements. These provisions have developed as follows:

	2003	2002
	€ million	€ million
January 1	20.8	10.5
Addition	6.8	15.1
Release/use	-6.9	-3.4
Change in group of consolidated companies (incl. discontinued operations)	0.0	-1.4
Transfers	0.5	0.0
December 31	21.2	20.8

Furthermore, there are contingent liabilities for a large number of cases where Viterra AG and its subsidiaries give guarantees to various contractual counterparts. Viterra has established an appropriate provision according to the likelihood of the expected cash outflows. The obligations of the Viterra Group as a guarantor are shown in the following table.

	Maximum liability Dec. 31, 2003	Accrued provisions in the balance sheet Dec. 31, 2003
	€ million	€ million
Contingent liabilities towards third parties	28.6	0.0
Exemption agreements	196.5	21.8
Pension obligations transferred to former affiliated companies	12.1	0.0
Other contingent liabilities	4.2	0.2
	241.4	22.0

The contingent liabilities towards third parties are mainly letters of comfort and guarantees for warranty claims. In case of utilisation, Viterra will, in accordance with the contracts, be indemnified and held harmless in the amount of € 26.3 million. 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, Viterra 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 maximum liability constitutes the undiscounted future payments which can be derived directly from the agreements. The terms of the agreements are generally two to three years, in a few cases also 10, 15 or max. 30 years.

The contingent liabilities from pension obligations transferred to former affiliated companies relate to vested pension benefit obligations and the payment of current pensions.

Of the total amount recorded of € 43.2 million, € 40.9 million has been reported under Provisions.

The intragroup contingent liabilities for securing liabilities of consolidated subsidiaries towards third parties are eliminated from the consolidated financial statements as the underlying obligations at the subsidiaries are either already reported in the financial statements or constitute a pending contract.

The contingent liability for owner-occupied houses and apartments which have been conveyed but the title not yet transferred to the purchasers is not a liability risk for the Viterra Group.

Furthermore there is unlimited liability in connection with interests in seven companies constituted under civil law.

22 Other financial obligations

Payments of € 10.2 million (2002: € 23.2 million) under rental, tenancy and leasing agreements were recorded as expenses in 2003. The future obligations arising from such agreements which are classified as operating leases and have an original term of more than one year total € 327.8 million (2002: € 347.3 million) and are spread over the following years:

	rental, tenancy and leasing obligations	thereof towards affiliated companies
	€ million	€ million
2004	13.4	4.4
2005	12.7	4.4
2006	11.9	4.4
2007	11.2	4.4
2008	9.9	4.4
from 2009	268.7	42.9

Total future purchase commitments amount to € 103.5 million (2002: € 12.3 million).

Viterra AG has made an irrevocable offer to the other shareholders of Deutschbau-Holding GmbH, Düsseldorf, for the purchase of all shares of these shareholders, also in portions. This offer can only be accepted if certain conditions are fulfilled and not before September 30, 2007; Viterra must be notified in writing of the acceptance of the offer at least one year prior to acceptance. Another contract also gives Viterra or a third party named by Viterra an option to purchase the rest of the shares, which can also not be exercised before September 30, 2007. The conditions for this option to purchase are different. Viterra must give notice of the acceptance of the offer at least six months before the exercise date and acceptance can only be given for all shares.

Other obligations from the commissioning of services amounting to € 14.1 million for 2004 and € 12.6 million for each of the years 2005 to 2007 exist.

Bayerische Hypo- und Vereinsbank AG has the irrevocable right (option) to sell and transfer to Vittera by unilateral declaration all the shares it still holds in WBRM-Holding GmbH (currently 5.01%) on the date of exercise of the option; Vittera or a third party named by Vittera will purchase and take over from Bayerische Hypo- und Vereinsbank AG the shares on the date of the exercise of the option. The option can only be exercised on October 1, 2004. In a letter dated February 6, 2004, Bayerische Hypo- und Vereinsbank AG exercised the option effective on October 1, 2004.

23 Litigation and claims

The tax authorities maintain that, regarding former non-profit housing companies, part of the profit transferred under a domination and profit-and-loss transfer agreement is to be treated as a dividend and taxed. As in previous years, Vittera is of the same opinion as various experts who consider that the tax authorities' view is untenable and contravenes the civil and tax law principles of a single-entity company for corporate income tax purposes (Organschaft). This was confirmed by the positive developments in three related court cases brought before German fiscal courts. In December 2002, the Federal Fiscal Court ruled against the tax authorities, however, Vittera has yet to receive any legally binding, amended tax assessment notices from the tax authorities.

Furthermore, Vittera 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 Development segment.

Where claims are made against Vittera, 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 used. None of these legal disputes and claims for damages will have a material effect on the balance sheet, profits or liquidity of Vittera.

24 Derivative financial instruments

Strategy and aims

The Vittera Group is exposed to interest rate risks during the normal course of business. These risks result in cash flow fluctuations. The Vittera Group has developed strategies to eliminate or limit these risks by using derivative financial instruments.

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

Cash flow hedges

In line with the financial guidelines of the Vittera Group, 17 interest rate swaps are used to limit the interest rate risk arising from floating-rate debt. By using these swaps, the company hedges payments in euros from interest-bearing loans and liabilities by using cash flow hedge accounting in the functional currency of the respective Vittera company. Vittera pays fixed interest and receives floating interest.

These interest rate swaps are concluded with first-rate banks. The nominal volume of these swaps is € 699.6 million at a negative market value of € 37.7 million, which is shown under Other liabilities.

The interest rate swaps are due as follows:

2004:	€ 132.2 million
2005:	€ 23.8 million
2006:	€ 132.2 million
2007:	€ 109.1 million
2008:	€ 8.0 million
2009:	€ 84.3 million
2012:	€ 210.0 million

In 2003, no expenses were incurred in the income statement as a result of ineffective hedge components (2002: € 17,000).

The company estimates that hedging transactions in 2004 will lead to an increase in interest expense of € 18.3 million. This effect has already been allowed for in the accumulated other comprehensive income and must therefore be reclassified to affect net income.

Valuation of derivative financial instruments

The fair value of derivative 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. 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 swap amounts are recorded to affect income on the date of payment or accrual.

25 Significant differences between German and United States generally accepted accounting principles

Goodwill and intangible assets

According to the German Commercial Code (HGB) and US GAAP, purchased intangible assets are to be capitalised. However, according to the German Commercial Code it is not permitted to capitalise intangible assets which have not been purchased or which have been developed by the company itself.

According to US GAAP, there is a capitalisation option for directly allocatable external costs incurred in the production of intangible assets: For example, ancillary costs incurred in the filing and obtaining of patents and know-how protected by law may be capitalised. In addition, direct expenses which are incurred in the development of software for internal use by the company are to be capitalised.

According to US GAAP, goodwill from the acquisition of a company is no longer to be amortised over its useful life but must be tested for impairment at least once a year and amortised if necessary. According to HGB, amortisation over the useful life or set-off against reserves not to affect income is possible.

Interest on construction finance

Pursuant to the German Commercial Code, it is permitted under certain circumstances but not required to capitalise interest on construction finance as part of the cost of production. Under US GAAP, interest on borrowings must be capitalised both on the acquisition and on the production of an asset provided such assets are qualifying assets, i.e. assets whose acquisition or production covers a substantial period of time.

Write-ups

If impairment to the lower market value has been performed on an asset, this lower value may not be retained if the reasons for the unscheduled depreciation no longer apply at a later balance-sheet date (requirement to reverse write-downs in accordance with Section 280 HGB).

According to SFAS 141 and 142, it is generally not permitted to reverse write-downs, i.e. to compensate for previous impairment if the reason for such impairment no longer applies.

Leasing

Under German accounting, due to the absence of provisions in the German Commercial Code, reference is generally made to the leasing decrees of the German Inland Revenue Service. Under US GAAP, there are extensive regulations for the accounting of leases. Under US GAAP, a difference is made between capital lease and operating lease depending on who bears the substantive risks and rewards and is therefore regarded as the economic owner. In the case of a capital lease, the asset is to be capitalised in the balance sheet of the lessee as the economic owner and in the case of an operating lease in the balance sheet of the lessor.

Long-term production contracts

According to the German Commercial Code, revenue may only be recognised, even on long-term contracts, when the entire order has been delivered and accepted. Under US GAAP, revenue is recognised under the percentage-of-completion method provided it is possible to reasonably estimate the total revenue, total costs and degree of completion under the terms of the contract.

Receivables and liabilities in foreign currency

According to the German Commercial Code, unhedged receivables and liabilities in foreign currency are valued at the exchange rate on the date of occurrence or at the less favourable exchange rate prevailing on the balance-sheet date. By contrast, according to US GAAP, receivables and liabilities in foreign currency are, according to SFAS 52, to be translated at the exchange rate prevailing on the balance-sheet date, which means that any unrealised exchange rate gains also affect net income.

Derivative financial instruments

According to the German Commercial Code, there is no mandatory approach with respect to the measurement and accounting of derivative financial instruments. Hence, valuation of these instruments is based on the historical cost concept, the realisation rule and the imparity principle.

According to a common interpretation of the German Commercial Code, with a macro-hedge the balance-sheet items affected are stated at the hedged value. By contrast, according to US GAAP, all derivative instruments and the underlying transactions must be accounted for at fair value.

According to US GAAP, special accounting treatment, in which fluctuations in fair values are recognised in stockholders' equity rather than directly affecting earnings, is applied when specific restrictive criteria are met. The application of hedge accounting depends on the nature of the underlying transactions and financial instruments used for hedging those transactions.

If the criteria for hedge accounting are not met, the fluctuations in fair value of the derivatives are posted to expense or earnings in the period of occurrence. Macro-hedges are not considered hedge accounts in accordance with US GAAP.

Deferred taxes

According to the provisions of the German Commercial Code, deferred taxes are to be calculated for all timing differences between valuation amounts in the tax and consolidated balance sheets (timing concept). For quasi-permanent differences that are released over a very long period of time or only during the course of a company's divestment or liquidation, deferred taxes can only be recognised if future reversal is probable. Deferred tax assets on loss carryforwards may not be capitalised.

Under US GAAP, deferred taxes are provided for all temporary differences between the tax and consolidated balance sheets (temporary concept). The temporary concept also applies to quasi-permanent differences. Furthermore, under US GAAP deferred taxes are calculated for loss carryforwards and for accounting and valuation adjustments required under US GAAP. Deferred taxes are calculated using the applicable future tax rate based on the legal situation on the balance-sheet date. A valuation allowance is established when it is more likely than not that the deferred tax assets will not be realised.

Consolidation of variable interest entities

In contrast to the provisions of the German Commercial Code, under US GAAP variable interest entities are, according to FASB interpretation 46, under certain circumstances to be fully consolidated even if they are not controlled through voting interests.

Minority interests

According to US GAAP, current year minority interests are not included in the income for the year nor are cumulative minority interests included in stockholders' equity. In line with the parent company point of view, they are shown as a separate item in the balance sheet after stockholders' equity and the share in the profit attributable to minority interests is disclosed as expense or the loss attributable to minority interests as income in the income statement.

Provisions for pensions and similar obligations

With some Group companies, due to changes in the basis for calculation of the provisions for pensions, the accumulated benefit obligation exceeds the accrued pension provisions. In such cases, under US GAAP, provisions for pensions are increased by an additional minimum liability not to affect net income. According to provisions of the German Commercial Code, this amount is immediately recognised in the income statement of the current year.

Guarantees

According to US GAAP, certain guarantees are to be accrued at their market values at the time they are granted even if their payment is improbable. According to the German Commercial Code, provisions are established to cover the anticipated payment obligations according to the principle of prudence.

Other provisions

According to the German Commercial Code, so-called provisions for expenses can be established according to commercial principles and taking the prudence concept into consideration. According to US GAAP, provisions may only be established when an obligation to a third party has been incurred, the payment is probable and the amount can be reasonably estimated. The most probable amount is to be taken, in the case of a range of equally probable amounts, the lowest amount.

Discontinued operations

According to Section 246, para. 2 HGB, expenses may not be set off against income and assets against liabilities. Therefore, the separate disclosure of the items allocated to discontinued operations is not permitted. By contrast, according to US GAAP, the individual items in the income statement and balance sheet are, in accordance with SFAS 144, to be adjusted for the amounts attributable to the discontinued operations.

The adjusted result of the current year and that of the previous year are to be shown separately in balanced form in a line “result of discontinued operations”. The assets and liabilities of the current year are each shown in one line on the assets and liabilities side, respectively.

Format requirements

The format of the balance sheet is the format prescribed in Section 266 HGB to meet the requirement of conformity with the 4th and 7th EU Directives. Therefore, it does not comply with the format used in US financial statements which is based on the realisation periods of the individual assets and liabilities. However, to ensure that the information otherwise to be found in the US GAAP format is given, additional details on the realisation periods of individual items are provided in the Notes or in the balance sheet drawn up in accordance with the HGB format.

According to Section 268, para. 2 HGB, a statement of fixed assets movements is to be shown separately whereas in US accounting practice there is no obligation to provide such information. To conform with the EU Directives, a statement of fixed assets movements is also provided in the Notes.

26 Members of the Supervisory Board and Board of Management as well as their remuneration

The members of the Supervisory Board and the Board of Management are listed on page 5.

The total remuneration of the Supervisory Board in 2003 amounted to € 0.5 million (2002: € 0.5 million).

The total remuneration of the Board of Management amounted to € 3.1 million (2002: € 2.2 million). Of this figure, € 1.2 million (2002: € 1.1 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 € 1.9 million (2002: € 1.1 million) refers to provisions for the 2003 bonus as well as other special payments.

At the beginning of 2003, the Board of Management received a total of 101,500 stock appreciation rights from the fifth tranche of the stock appreciation rights programme described under Note 18 hereinabove. On the balance-sheet date, the SARs issued in the second and fifth tranches would have had a value if exercised. The SARs issued in the third and fourth tranches would have had no value if exercised as the share price on that date was well below the base prices.

Retired members of the Board of Management and their beneficiaries received a total of € 2.5 million (2002: € 2.5 million). As at December 31, 2003, provisions of € 25.8 million (2002: € 22.5 million) were provided for the pension obligations of Viterra to retired members of the Board of Management and their beneficiaries.