



Outlook

Continued focus on the real estate business

Focused companies with a clear strategy for the future are attractive for the capital market. Companies should be positioned so they can present a convincing, long-term and transparent business model. Therefore, in 2003 we continued to push ahead with realigning our company to focus on the real estate business by implementing far-reaching changes. Viterra is now concentrating on the core business, residential real estate, and the additional business, project development. Our focus on the real estate business will also determine the road we take in 2004.

One important part of this strategy is to adapt the organisational structure. In 2003, we streamlined our management structure by merging Viterra Wohnen AG with Viterra AG. At the same time, placing the branches in the Ruhr area directly under it has made Viterra AG more operations-oriented.

In 2004, we will keep reviewing our organisational structure. Our resources must be concentrated even more effectively on the real estate business. Our aim is to further improve Viterra's efficiency and optimise workflows.

The announcement by our parent company, E.ON, that it would be divesting Viterra by 2007 at the latest was crucial to determining the future course of our company. Regardless of any future ownership structure, Viterra is now preparing to stand alone under the motto "capital market readiness".

Trading strategy central element

In the core business, residential real estate, we will again be concentrating on the implementation of our trading strategy in 2004. One focal element is the greater gearing of property management to enhancing the value of and marketing our housing stock. At the same time, we want to step up individual sales of apartments, preferably to tenants, owner-occupiers and capital investors, increasing the percentage of our housing units sold.

Apartment sales rose by approx. 47 % in 2002 and 36 % in 2003. These rates of increase recorded in the last two years are exceptionally high and will be difficult to repeat. Therefore, we are expecting sales of apartments to fall short of these figures in 2004. The government's decision to make changes to the tax law – in particular to the subsidies for first-time buyers – is having an influence on the business environment for the real estate industry. At present, it is impossible to predict what effect these changes will have on our marketing activities.

Basically, it is safe to assume that people will see buying used residential real estate as an important way of acquiring assets and providing for retirement – not least because of the sharp fall in the number of newly built houses and apartments. At the same time, individual apartment sales, primarily to tenants, is also becoming increasingly accepted. Furthermore, given the fact that, at 42 %, home ownership in Germany is relatively low compared with the rest of Europe, the selling of rented accommodation is of sociopolitical significance.

We are anticipating rents for residential real estate to again show no uniform pattern of development in 2004. With demand persistently weak, rents can hardly rise even though there are few new residential properties being built. Nevertheless, substantial rent rises are to be expected in high-price regions such as Hamburg, Frankfurt and Munich. By contrast, rents in the Ruhr area should remain unchanged or only increase minimally.



Viterra Development well positioned for difficult market phase

In 2003, we enlarged the project development segment. Viterra Commercial Properties with its many years of experience in office real estate development took over the apartment development activities of Viterra Baupartner. Viterra Development has adopted a new business model: the development and marketing of office real estate and owner-occupied apartments.

Given the tight market situation, we will adhere to our policy of only starting construction when enough space has been prelet. In the transition phase this may mean that office real estate development projects will take some time before they are implemented. However, we are confident that demand will pick up again as more office space will be needed in the period up to 2006.

The signs of slight recovery on the market for owner-occupied apartments are expected to continue in the metropolitan areas of Munich, Frankfurt and Hamburg. Rising rents, a larger population as well as sluggish building activity in the apartment development segment are indicators that demand should rise. Viterra Development has branches in these markets and will further expand its apartment development activities here as well as in Warsaw.

All in all, Viterra Development is well positioned as a project developer for office real estate and owner-occupied apartments. The successful build-up phase in 2003 with commercial projects started in Berlin, Duisburg and Frankfurt as well as projects for the development of owner-occupied apartments in Munich, Hamburg and Warsaw is a good foundation for the further development of business despite the present extremely difficult market situation.

Operating profit will not reach the exceptionally high level of 2003

In view of the forthcoming separation from E.ON, our plans for 2004 with regard to the acquisition of new housing stocks are cautious. Nevertheless, in line with our trading strategy we will continue to look for opportunities to purchase housing stocks which can be split up and sold. The main criteria here are whether the apartments fit in with our strategy and whether their purchase makes economic sense for Viterra.

Focusing on the real estate business is an important step in increasing the value of Viterra in the long term. Overall, we expect this strategy to produce a sustained return of over 7 %, based on the market value of our assets.

For 2004, we are anticipating a slight drop in sales. In the core business, residential real estate, sales will decline as a result of falling rental income due to apartment sales. We will not be able to completely offset this decrease by higher sales from the project development segment.

We will probably not manage to repeat the exceptionally high operating profit recorded in 2003.