



Outlook

In 2004 Deutschbau will continue to systematically increase the value of its properties and intensify its apartment-selling activities. Key elements are timely, careful planning for all the residential properties as well as housing management which is even more geared to selling apartments. On the apartment marketing side, we will be focusing more on capital investors in addition to selling individual apartments to tenants and owner-occupiers. Apartment sales should be on a par with the figure for 2002.

We are not expecting the general situation on the real estate markets in Germany to change fundamentally in 2004. The markets will still show no uniform pattern of development. In the high-price regions such as Hamburg, Frankfurt or Munich, we will be able to obtain both higher rents and higher selling prices. By contrast, the more rural areas, particularly the structurally weaker regions, are definitely tenants' and buyers' markets. The stagnation process is continuing, particularly in the north and east of Germany. Prices are stabilising at a low level. In general, living in the north and east of Germany is still much cheaper than in the south and west.

These to some extent opposing trends may mean that business will develop differently at the various Deutschbau locations in the two segments - apartment letting and selling. With approx. 41,000 apartments, Deutschbau is represented at over 200 locations and on the major regional housing markets in Germany. This wide geographical spread of our housing stock enables us to react to the patchy development of the individual markets.

Therefore, we expect Deutschbau to perform well overall in 2004.

PROJECT DEVELOPMENT

Viterra Development

VITERRA DEVELOPMENT	2003	2002	Change
	€ million	€ million	%
Sales	149.1	80.2	85.9
EBITDA	64.9	26.4	> 100
Operating profit	3.5	-11.9	> 100
Investments	4.3	4.4	-2.9
Number of employees*	140	92	52.2

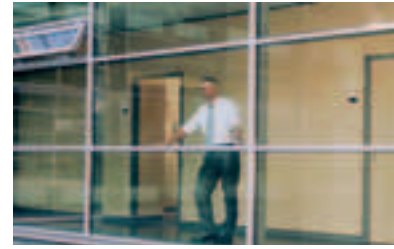
* Excluding managing directors and trainees

Project development segment extended to include apartment development activities

In 2003, we expanded the project development segment by pooling our many years of experience in office real estate and apartment development.

This involved integrating the apartment development activities of Viterra Baupartner into Viterra Development. Operational responsibility for the former Viterra Baupartner branches in Hamburg, Frankfurt/Main, Munich and the subsidiary in Warsaw had already been transferred to the branches of Viterra Commercial Properties at those locations in September 2002. We then changed the name of Viterra Commercial Properties to Viterra Development with effect from January 1, 2003.

The successful incorporation of the apartment development activities in early 2003 culminated in a new business model for our project development segment: Viterra Development focuses on the development of office real estate and owner-occupied apartments in the German metropolitan areas as well as in Warsaw and Prague.



Rudná logistics park successfully sold

At the end of 2003, Viterra Development sold the Rudná logistics park – the largest logistics park in the Czech Republic covering an area of 340,000 m² – to an investment fund of the real estate investment company Heitman LLC. Since the land was purchased in 1996, twelve construction phases with 90,000 m² of logistics and storage space and 25,000 m² of office space had been built. These units had all been fully let to several well-known international companies before the sale. The Rudná logistics park has potential for the development of a further 25,000 m² of logistics, storage and office space. Final completion of the logistics park is planned for the end of 2005.

Viterra Development recognised the Rudná site's potential at a very early stage. After purchasing the land in 1996, we developed and successfully marketed the Rudná logistics park step by step as a central logistics hub in the Czech Republic.

The Rudná logistics park is an example of our business approach when developing commercial real estate. Our aim is to quickly identify sites with high potential as locations for commercial properties, to develop them successfully and sell them at a profit.

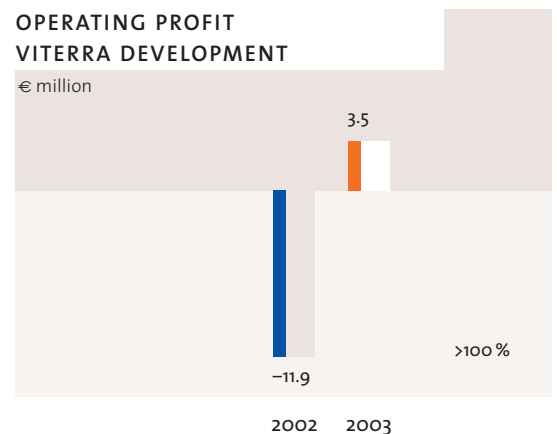
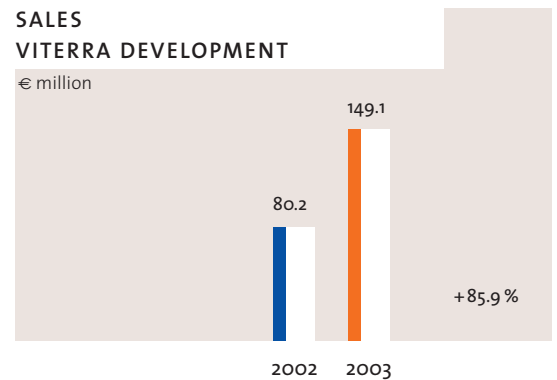
Leases signed for some 77,500 m² despite difficult market situation

In 2003, Viterra Development signed leases with users for approx. 77,500 m² of commercial space. Of this figure, approx. 14,500 m² were new leases and 63,000 m² lease renewals. In some of the lease renewal negotiations, we managed to secure very long periods of tenure. For example, the lease on an office building in the former government quarter of Bonn was extended to 2023. In the Technology Park Poing in Munich, a lease on approx. 25,000 m² of commercial space was renewed until the end of 2013.

The positive development in the letting of our commercial space is particularly pleasing given the tight market situation. One important factor is Viterra Development's concentration on a clearly user-oriented, value-enhancing concept for commercial real estate.

Sales rise sharply thanks to expansion of activities

The integration of the apartment construction activities of Viterra Baupartner had a major impact on sales performance at Viterra Development. Sales shot up by 85.9 % to € 149.1 million, mainly as a result of this change. We also managed to considerably improve the operating profit, which rose by € 15.4 million from a loss of € 11.9 million in 2002 to a profit of € 3.5 million in 2003. In addition to the sale of the Rudná logistics park, the apartment development activities also had a positive influence on the year's figures. However, decisions made as part of portfolio optimisation led to value adjustments which had a negative impact on the results.





Projects successfully launched or completed despite difficult market environment

The year 2003 was a year focusing on the expansion of our project development segment. The projects completed or started by Viterra Development despite the extremely tight market situation are clear evidence of this. With a clearly user-oriented, value-enhancing concept, we ensure the top quality and lasting functionality of our projects. This applies both to our up-market office buildings and our attractive owner-occupied apartments. The customers of Viterra Development are institutional investors such as funds, private investors as well as commercial and private users.

In 2003, Viterra Development started or completed the following commercial real estate projects:

- In We are now developing the largest four-star superior congress hotel in the centre of Germany's capital, Berlin, on behalf of the operator MARITIM Hotelgesellschaft mbH and the investor SEB Immobilien-Investment GmbH. The building in the southern Tiergarten district is to be completed by the summer of 2005. The hotel designed by the Berlin architect, Jan Kleihues, will have 505 rooms and suites and cater for events and receptions for up to 5,500 guests. Construction work started on the 12,000 m² plot of land in June 2003.
- A ten-storey, high-rise office building with approx. 4,000 m² of space for let was also completed in Berlin. The property situated in Lennéstraße, near Potsdamer Platz, was handed over to the investor, Bayerische Versorgungskammer, in early April 2003.
- In mid-July 2003, work began on construction of the first phase of the office real estate project, H2 Office, in the inner port of Duisburg. In the two construction phases, about 25,000 m² of office space is to be completed on the roughly 14,000 m² plot of land. The building, designed by the internationally well-known Hamburg architects' office, Bothe Richter Teherani, is reminiscent of the shape of a catamaran and so picks up on the maritime atmosphere of the port. The main tenant in the first construction phase, which will be finished in November 2004, is Wirtschaftsbetriebe Duisburg.

- In the centre of the Frankfurt banking district known as Westend, we revitalised an office building originally erected in the 1970s. Work was completed in early October 2003. Some 90 % of the approx. 2,000 m² of office space has now been let.

Construction of owner-occupied apartments at attractive locations

Viterra Development develops owner-occupied apartments at selected, well-established inner-city locations. The focus of the projects is on the markets of our branches in Munich, Frankfurt, Hamburg and Warsaw:

- By 2006, 185 owner-occupied apartments are to be erected in the Schwabing district of Munich for the "Parkstadt Schwabing" project. 74 units have already been completed and work started on another 33 in 2003. Construction of a further 78 apartments is to commence in 2004.
- As part of the "Ackermannbogen" urban development project, which is also in the Schwabing district of Munich, we completed a residential complex with 37 luxury apartments on a 2,100 m² plot of land at the end of the year. All units had been sold prior to completion.

In September 2003, we started work on another 20 owner-occupied apartments in a second project on the same site. Most of these units have also already been sold.

- At the end of August 2003, we started to market the 35 apartments which will be built in the first construction phase of the "taunSide" project in Frankfurt/Main. In the next few years, a total of 121 units are to be erected on a roughly two hectare piece of land on Homburger Landstraße overlooking the Taunus.

■ In Frankfurt-Sachsenhausen, we plan to build an eight-storey terraced house with 38 high-quality owner-occupied apartments. We started selling the apartments in October 2003.

■ In Ursynow, one of the most popular districts of Warsaw, we are currently constructing VitaParc, a residential complex with 227 apartments on a 11,820 m² plot of land. The first construction phase with 112 apartments was completed in January 2004. The second phase is scheduled for completion in August 2004. Nearly all the apartments have already been sold.

In Hamburg, we are also pursuing other apartment construction projects with a total of 115 housing units including the urban development project, HafenCity, as well as ones in the Bramfeld and Uhlenhorst districts.

In Munich, apart from the projects already described, we are also developing, constructing and selling a total of 204 owner-occupied apartments in the districts of Obermenzing, Oberföhring, Oberhaching and Olching. In five other projects, we are planning and developing a total of 464 owner-occupied apartments in desirable areas of Warsaw.

Portfolio restructuring continued

In 2003, Viterra Development systematically pushed ahead with restructuring its commercial real estate portfolio. Not all the properties in Viterra Development's current portfolio meet the increasing demands on return on investment. Furthermore, the portfolio has grown over the years so some buildings are no longer located in our target markets. In 2003, we successfully sold another 13 properties (2002: 15 properties) with a total land area of 500,661 m² (2002: 144,978 m²).

Outlook

All in all, we are confident that pooling of our many years of experience in the development of office buildings and owner-occupied apartments as well as focusing on attractive metropolitan areas are the recipe for success even in the current difficult market phase. Concentrating on a clearly user-oriented, value-enhancing concept for office and residential real estate will also help.



For example, in the immediate vicinity of the Düsseldorf inner city, we want to develop an impressive, forward-looking concept, the 22-storey Sky Office. The building on Kennedydamm has a gross floor area of 37,400 m². The architecture features a highly efficient ground plan design and offers a great degree of flexibility in allocating floor space. Construction will begin as soon as enough office space has been prelet. Completion is scheduled for the end of 2006.

As the current situation on the commercial real estate market is not easy, in 2004 Viterra Development will adhere to its policy of only starting construction when enough space has been prelet. We will continue to avoid speculative projects. In the transition phase, this may mean that 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 market for owner-occupied apartments is also suffering from the weak economy. It is above all a lack of job security which is making owner-occupiers and capital investors reluctant to buy residential property. Only when the economy picks up will demand start to catch up, particularly in the fast-growing metropolitan areas of Munich, Frankfurt and Hamburg.