2007 ANNUAL REPORT

DEUTSCHE ANNINGTON

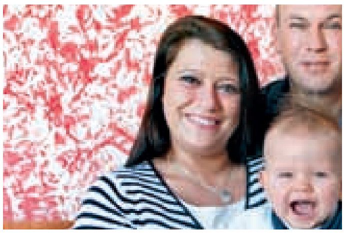
With approx. 222,000 residential units let and managed and some 1,400 employees, the **Deutsche Annington Real Estate Group** is one of the leading housing companies in Germany. We offer our customers apartments to rent or buy at some 650 locations all over Germany, backed up by customer-minded services.

We see ourselves as a service-minded property holder and intend to grow profitably in the years to come. To achieve this, we will expand our portfolio through selective acquisitions and further improve the quality of our tenants' living conditions by offering attractive services.

KEY FIGURES FOR THE GROUP

€ million	2006	2007	Change in %
Income from property management	898.8	1,075.1	19.6
Profit on disposal of properties	131.3	74.7	–43.1
Adjusted EBITDA	452.3	462.2	2.2
FFO	152.1	190.1	25.0
Investments	133.4	384.4	188.2
Cash flow from operating activities	789.9	540.6	–31.6
Cash flow from/used in investing activities	20.9	–313.9	–1,601.9
Cash flow used in financing activities	–589.1	–566.7	–3.8
Total assets	10,932.2	10,824.0	–1.0
Non-current assets	7,059.9	7,989.4	13.2
Current assets	3,872.3	2,834.6	–26.8
Total equity	1,688.7	1,739.4	3.0
Return on equity in %	15.4	16.1	4.5
Number of residential units in portfolio (as at Dec. 31)	185,438	190,221	2.6
Number of units acquired (title transferred in 2007)	3,311	8,007	141.8
Number of units sold (recorded sales)	7,601	3,945	–48.1
Number of employees (as at Dec. 31)	1,385	1,406	1.5

Close to our stakehol



Customers

"Just one phone call and we were offered four flats to choose from."

Community

» SCHOOLS NE

Performance in 2007

- Rental income increased by 2%
- Adjusted EBITDA improved and FFO expanded by 25%
- Vacancy rate cut sharply from 5.7% to 4.2%
- 3,945 residential units sold
- Some 8,000 units bought, residential portfolio increased to 190,221 units
- Investments considerably increased
- Fair values increased again: by € 198.4 million

- Customer service improved
- New service: Annington Wohnen Plus
- Quality checks of repair service introduced
- Ancillary cost savings passed on to tenants
- Further cooperation agreements signed to gain purchasing advantages for the benefit of the tenants

- Staff advancement improved
- Everybody participates in company's success
- Job rotation introduced
- berufundfamilie® audit conducted
- Balance 2010 programme launched

- Foundations and the company donate a total of € 320,000 to social causes

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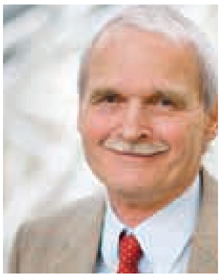

Market

"If housing companies want to survive,
they must be run on economic principles."

ED EVERYONE'S SUPPORT. «

Employees

"Sometimes I have a bet with myself –
will I manage it or not?"

Interest Groups

o sides but at
one common table."

Last year, we made good progress on the road to making Deutsche Annington the best housing company in Germany. And we will also keep our eyes firmly on this goal in 2008. Two things will help us to achieve it:

We are strong performers . . .

. . . and we are close to our stakeholders.

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Dear Readers,

We are successful if we are close to our tenants – and close to the market.

We at Deutsche Annington are working on a major goal: We want to be the best company in our industry: commercially successful and, at the same time, a company which sets standards in customer orientation and service quality. I am pleased that we again made further advances along this road last year. However, we have to be even better – and we will be even better.

We want to be more than just a pure property manager: The word service must be a central mainstay of our business, through which we make our customers the focus of our attention. We want to give our customers a home and offer them more than just a roof over their heads. For example, we offer a 24-hour repair hotline service and a free advice service, Annington Wohnen Plus. After all, we can only generate reasonable and, above all, sustained profits if we have satisfied customers. For us, socially responsible action and business success are definitely not a contradiction in terms!

I believe that only companies which have a sound structure and are commercially successful can be socially-minded and customer-oriented. Deutsche Annington meets both criteria and will continue to exploit this advantage: With drive and our ability to integrate other housing stocks smoothly into our structures, we will systematically expand our residential portfolio still further.

We see ourselves as an attentive helper at our tenants' side. We were able to demonstrate this again in 2007 by offering varied and new services to ensure that the people living in our units feel at home – at more than 650 locations throughout Germany.

What can we expect in 2008? We will improve further in all areas – seeing ourselves as a partner and modern residential property holder which aims to grow profitably.

Wijnand Donkers

On the business side, we can also look back on another successful year in 2007. By improving our business processes and further reducing our vacancy rate to 4.2 %, we managed to increase our earning power. All key financial metrics met or exceeded expectations. We bought 8,000 residential units and succeeded in selling 4,000 to private buyers. This is all the more pleasing as the business environment was anything but calm last year.

The situation on the international finance markets has changed considerably in the past months as a result of the US subprime crisis. At present, it is impossible to predict what the long-term consequences will be. However, the current changes are already having a noticeable impact on the conditions for the private housing market in Germany: For instance, it has become more difficult for further international financial investors to buy into the German market. The banks have also become much more restrictive, for example in the granting of leveraged loans for takeovers funded with borrowed capital. And they are also demanding substantial risk premiums for loans.

We run a capital-intensive business for which we need strong financial partners. But that is not the only reason why we have believed in a high degree of transparency for years. It is important to us that we are seen to be dependable partners. Therefore, this year we will intensify our efforts in this field and will also be publishing six-monthly figures for the first time. We are thus quick to follow the recommendations of the Walker Group, which is a team of experts striving to achieve greater transparency in the European private equity sector.

In 2008, we will successfully continue our stable course of growth. We will achieve this by improving our performance, enhancing efficiency and seizing the opportunities which present themselves on the transfer market. In our goals we will be helped by the Business Tax Reform which has, on balance, slightly improved the business conditions for us.

Püschel

Dr Manfred Püschel

Boards

MANAGING DIRECTORS

Wijnand Donkers
Chairman since May 10, 2007

Responsible for:
Acquisitions, Strategy, Legal Affairs and Shareholdings, Asset Management, Corporate Communications, Auditing, Human Resources Management, Procurement/Technology

Born in 1962; Master of Business Administration; international management experience at BP p.l.c. with career steps in Europe and North America; last: Managing Director, BP Gas Marketing

Dr Manfred Püschel

Responsible for:
Controlling, Finance, Accounting/Taxes, Facility Management/Undeveloped Land and Commercial Units, Deutsche Annington Informationssysteme GmbH, Deutsche Annington Verwaltungs GmbH

Born in 1953; PhD in business economics; many years of management experience in the fields of planning and finance at various companies incl. VEBA, Stinnes and Raab Karcher; from 1998 to 2005 CFO of Viterra AG; since 2005 Managing Director of Deutsche Annington

Dr Wulf Böttger
since April 1, 2008

Responsible for:
Regional subsidiaries, Deutsche Annington Service GmbH, Deutsche Annington Verwaltungs GmbH

Born in 1966; PhD in physics; international managerial experience at McKinsey and Bertelsmann AG; in 2003 moved to AXA Deutschland, last: Board member responsible for Marketing/ Sales and Property Insurance; in 2007 Board member responsible for Marketing and Sales at MLP AG; since April 2008 Managing Director of Deutsche Annington

SUPERVISORY BOARD

Guy Hands
Chairman
Chief Executive Officer of Terra Firma Capital Partners Limited, London

Joseph E. Azrack (until August 10, 2007)
President & Chief Executive Officer of Citigroup Property Investors, New York

Phillip Burns
Managing Director of Terra Firma Capital Partners Limited, London

William T. Comfort (since December 12, 2007)
Chairman of Citigroup Venture Capital, New York

Fraser Duncan
Executive Officer of Terra Firma Capital Partners Limited, London

Wolfgang König
Corporate Consultant, Esslingen

Sir Thomas Macpherson (until February 7, 2008)
Chairman of Annington Holdings PLC, London

Roger Orf (from August 10, 2007 to December 12, 2007)
Head of International Investment of Citigroup Property Investors, London

We take

Anybody who makes a decision takes responsibility. Every day, we make many decisions for our customers, the company and the stakeholders. We take responsibility for the consequences and have to account for ourselves on a regular basis. As the largest housing company in Germany, Deutsche Annington attaches great importance to responsible management. It is part of our self-perception. We do not just see ourselves as a business enterprise which has obligations towards its tenants, owners and employees but also as a company which has an obligation towards society.

RESPONSIBLE MANAGEMENT

Clear management and monitoring structure

We strictly adhere to the principles of corporate governance and therefore support the Corporate Governance initiative of the German real estate industry. The Management and Supervisory Boards exchange views on a regular basis and work hand in hand. They discuss important issues immediately. They make company decisions together. The Supervisory Board currently consists of five members. It appoints the managing directors and performs its monitoring functions diligently. Since Dr Wulf Böttger joined the company as Chief Operating Officer on April 1, the management has been made up of three managing directors: Wijnand Donkers, Dr Wulf Böttger and Dr Manfred Püschel. Responsibility for the various business segments has been changed accordingly. The management is supported by two Chief Representatives, the Head of Legal Affairs & Financial Investments, Dr Michael Bütter, and the Head of Acquisitions, Mark Ennis.

Commitment to a code of conduct

On the basis of our corporate principles, we have drawn up a code of conduct which incorporates our previous policies and rules and also sets new standards. In future, it will be the basis for all Group-wide compliance rules.

Comprehensive financial reporting

We provide comprehensive information about our business: To meet demands for transparent financial reporting, we prepare a detailed annual report according to international standards (IFRS) on a voluntary basis, which is also published on our website. Starting with the second half of 2008, we will also be publishing a regular interim report in accordance with IFRS.

Voluntary transparency in accordance with the Walker Report

We also meet the transparency requirements laid down in the Walker Report, a British catalogue of recommendations and guidelines for disclosures by private equity firms.

responsibility

CORPORATE SOCIAL RESPONSIBILTY

Motivated, efficient employees
Motivated, qualified employees are an important key to our company's success. That is why we have set ourselves such an ambitious target: We want to employ the best team in the residential real estate industry. We feel that an open management culture will enable us to achieve this. Management by Objectives is a leadership style firmly established throughout the company which supports this intention. Our HR Development department offers emerging leaders the opportunity to take responsibility and provides suitable development programmes to help them master their new assignments.

Idea culture and success for all
We support but also challenge our staff: We are always asking our employees to come up with new ideas, discuss improvements with our managers and make suggestions for new solutions. We believe in transparent and open internal communications. Anyone who takes responsibility can make a decisive contribution to our success. All our employees participate in the company's success to varying degrees.

Work-life balance
With modern employment models, we give committed employees the opportunity to develop their talents to the full. Nearly 20 % of our employees currently work on the basis of flexible working hour models. In 2007, we were certified by Federal Minister Ursula von der Leyen as a family-friendly company in the "berufundfamilie" audit conducted by the Hertie Foundation. Building on these results, we are systematically improving our attractiveness as an employer with an internal project under the motto Balance 2010.

Active corporate citizen
We maintain intensive dialogue with the interest groups in the local communities. We regularly meet with representatives from the tenants' associations, discuss on a joint committee with the representatives of Bundeseisenbahnvermögen and the railway workers' trade unions and we sit down at the table with local authorities throughout Germany, doing all we can for our residential properties. Deutsche Annington has a noticeable effect on the local environment – with campaigns on household refuse reduction or by supporting neighbourhood initiatives.

In all the commercial decisions we take, we gear ourselves first and foremost to our customers' needs. Through our regional customer centres and regular customer surveys, we find out what our customers want. Our public relations work is based on dialogue and keeps our customers informed about what is going on.

Social involvement above and beyond everyday life
Through our two foundations, we have a foundation capital of nearly € 6 million. Our foundations provide unbureaucratic help for clubs, associations, social amenities or families in need. Furthermore, the company sponsors many local events and causes in the regions, supporting neighbourhood initiatives, youth work and youth sport.

Close to our stakeholders

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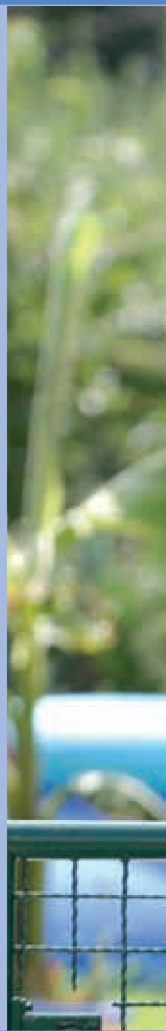


Companies like us who aspire to be leaders in any market have to meet demands for excellence at many levels. **We want to be the best residential real estate company in Germany. We achieve this by outstanding performance and closeness to the market:** We listen carefully to what our tenants and customers want. And we maintain constant dialogue with those around us: with politicians, housing market experts and interest groups. We cannot do this without efficient, motivated staff who put everything they've got into serving both the company and our customers.

“On two sides but at one common table.”

Particulars:

Andreas Müller is responsible for social affairs at the collective bargaining association TRANSNET/GdBA and therefore also for the social units of the railways, e.g. the social institution (Bahnsozialwerk) and the railways’ health insurance fund (Bahn-BKK). Since 2005 he has been a member of the Deutsche Annington Joint Committee made up of representatives of Bahn AG, the trade unions, Bundeseisenbahnvermögen (BEV) and Deutsche Annington who regularly discuss tenants’ issues.

Admittedly, TRANSNET was initially not in favour of the privatisation of the railway housing companies. Together with the Main Staff Council at Bundeseisenbahnvermögen (BEV), it tried to prevent the privatisation of the social institution “Railwaymen’s Apartments”. The dispute went as far as the Federal Administrative Court, which in June 2000 finally ruled that the sale of the railway housing companies to private investors could go ahead.

However, the resistance of the employees’ representatives had not been in vain for during the talks and negotiations many **rights of protection for the tenants** were incorporated into the agreements before the Federal Administrative Court made its ruling. These rights of protection, documented in the so-called Housing Welfare Agreement, offer the former railway housing tenants a high degree of **security** to this day. Although TRANSNET did not actually negotiate the Housing Welfare Agreement itself, it and the Main Staff Council ensured that the federal ministry responsible included many demands in the agreement.

As employee representatives, we still feel that our main task is to enforce these agreed rights of protection. However, we do not try and block everything – something which the trade unions are repeatedly accused of in other areas. On the contrary, when there are disputes about the interpretation of the agreement, we try to get a positive result for the tenants at an early stage, generally by contacting the offices of the Deutsche Annington companies direct and by cooperating on the **Joint Committee.** This committee has existed since 2002 and has an equal number of representatives of Deutsche Annington, TRANSNET and the BEV. It meets on a regular basis two to three times a year.

One example of our critical yet constructive support is the ownership programme set up by Deutsche Annington. We welcome the fact that railway workers are being given the opportunity to purchase their apartment or house if they want to. However, it is, on the other hand, our task to supervise the observance of the tenants' rights of protection and ensure that the properties are sold in a socially acceptable manner.

We have always **cooperated constructively** with Deutsche Annington **in a spirit of mutual trust.** Any problems which come to our notice are generally solved quickly in the tenants' interests. Naturally, the growth and new structure of Deutsche Annington has meant that the number of cases being dealt with has risen. Staff we have been working with for years are no longer in the company, which has also meant, for example, that questions on ancillary cost bills can only be answered after a lot of to-ing and fro-ing. In many complex cases, we often have to refer the tenants to our department which deals with tenants' rights under tenancy law.

Nevertheless, we are by and large satisfied with the present procedure as we have nearly always managed to clarify fundamental issues satisfactorily and find a solution to questions about details. Here, our annual meeting with all our local representatives where details can be discussed and solutions found is a great help.

One recent example is the question of how the term **"luxury renovation"** should be interpreted. This was important when Deutsche Annington presented new plans for modernisation work as, according to Section 3.2 of the Housing Welfare Agreement, luxury renovation work may not be carried out. At the beginning, there were two conflicting views in this case. Deutsche Annington stated that they weren't planning to install any "gold taps" but simply to improve the quality of living by providing better heat insulation and new heating systems and adding balconies. The trade union, on the other hand, felt that "anything that led to a rent increase of more than 5%" was in fact "luxury renovation". Nevertheless, after lengthy discussions the two sides also reached a viable compromise in this matter.

In general, we welcome the modernisation work since such ecologically-minded measures also reduce the tenants' energy costs in the long run – a benefit which should not be underestimated in the current times of rising oil prices. In future, the tenants and the TRANSNET service office responsible will be informed before any planned modernisation programme. If there are any justified complaints from tenants about the modernisation measures, Deutsche Annington will hold **individual talks** to try to find a mutually acceptable solution. Moreover, in cases of hardship, a joint effort will be made to find a special solution. If necessary, the non-profit Deutsche Annington Foundation may provide **unbureaucratic** help. Such renovation work should, in principle, largely be carried out in properties which are always rented. The purpose should not be to make the selling programme more attractive.

This example shows that the mechanisms which are in place work if problems arise. A solution is found either through discussions in the Joint Committee or through **direct talks between those involved.** The fact that Deutsche Annington is interested in dialogue is also demonstrated by the latest example: The company has suggested that tenants' councils should be created at the regional subsidiaries – a project which TRANSNET naturally supports.

"We have always **cooperated constructively** with Deutsche Annington **in a spirit of mutual trust."**

Ms Kalkowski, welcome to Deutsche Annington. You have been living in Marl since February, in a flat which you rented as part of the regional campaign "A Sense of Family Makes Sense". How did you hear of the campaign?

"Actually, it is not the first time I've been a Deutsche Annington tenant. I already rented a flat from them in the past and I was quite happy with them as landlords. When I saw a poster in town last autumn advertising the Sense of Family campaign, I was pleased that Deutsche Annington had launched a campaign to help families. I said to my boyfriend: That's just what we need! Since the birth of our son, Leon, ten months ago we had been half looking for a new flat. We wanted more room but we had so much to do that we never found time to seriously start studying the ads."

“Just one phone call and we were offered four flats to choose from.”

Melanie Kalkowski

shop assistant on parental leave

Wilfried Bender

fitter

Little son Leon

10 months old

And how long did you take to find a flat?

“Actually, we found one in no time at all. Just one phone call and we were offered four flats to choose from, even though I gave the customer support people a whole list of things the flat had to have: For example, it had to have two bedrooms - one for Leon - and its own garden. In December, we went to see all the flats. And one was just right for us. It was on the ground floor, had two bedrooms, and its own garden as well as a balcony. We signed the lease immediately. The previous tenant moved out in January and we moved in soon after .”

What advantages does the Sense of Family campaign give you and your family?

“For a two-bedroom flat with a balcony and garden, the rent we have to pay is relatively low. And we didn’t have to pay rent for the first month because of Leon. You get one month rent-free for every child under 14 who is living in the flat. And we have a guarantee that the rent will not go up in the next three years – which is very important to me as I’m on parental leave. I have to watch every cent while we’ve only got one wage coming in.”

What’s it like living in your new home?

“It’s really lovely to have more space for us. But we still haven’t furnished all the rooms yet and unpacked all the boxes. We have decided to furnish the rooms one by one. But we’ll certainly get the garden done before the summer starts. One thing is sure, we’ll be filling in the small pond the previous tenant put in so Leon can play safely in the garden. We’ll see about the rest afterwards.”

And what would you criticise about your landlord?

“Well, I would criticise one thing in the flat – the roller blinds. They should be replaced. The blind in the bedroom keeps going down on its own .”

Frank Schmidt-Kamann
Headmaster of Max-Wittmann school in Dortmund

» SCHOOLS NEED

The foundations at a glance	Deutsche Annington Foundation	Viterra Foundation
Founded in	2002	2002
Foundation capital (only the yield is distributed)	€ 5 million	€ 720,000
Purpose	Social work, promoting coexistence/ Helping people to help themselves/ Job training	Promoting the coexistence of different generations and cultures on our residential estates

EVERYONE'S SUPPORT. «

Our schools don't have enough money. But that's nothing new. I have been a teacher for 32 years and a headmaster for 17 of them. I enjoy my work but I can't remember a time when there wasn't a lack of funds. Over 100 teachers work at our school which is the only one for mentally handicapped children in the whole of Dortmund. We look after 400 children. The budget for teaching materials is € 15,000 for the whole year. This money has to do for postage, material for practical lessons in the workshop, photocopies – I could go on and on. With such a small budget, it is often just not possible to buy the latest books and expensive special equipment for the children who are most severely handicapped. And the parents can't always pay for all these things out of their own pockets. That's why I am all the more pleased to receive such a generous donation from the Deutsche Annington Foundation. It has made our school library much more attractive."

Frank Schmidt-Kamann has been the headmaster of Max-Wittmann school in Dortmund for two years now. In 2007, his school received some € 5,000 from the Deutsche Annington Foundation to buy books and interactive learning aids for the school library.

Last year, the two Deutsche Annington foundations donated a total of € 220,000 to some 20 institutions and 67 families in need throughout Germany. Here are some examples:

- Donation for the renovation of the playground at Neptun school in Nuremberg
- Subsidy for the extension of the sound system and the purchase of stage curtains for Harkort school in Marl
- Purchase of a container for the playground at the youth leisure centre in Dortmund-Nette
- Donation for the installation of roller blinds at the Wurzelzwerge children's day care centre in Ahrensburg
- Subsidy for organised school-holiday activities in Marl-Drewer
- Support for organised family leisure activities at the St. Augustinus children's day care centre in Essen
- Donation for the new clubhouse floor of Ruscherei Altengroden e.V. in Wilhelmshaven
- Subsidy for the circus project of Maria-Kunigunda school in Essen
- Subsidy for the street festival in the Teutoburgia housing estate in Herne
- Donation for string instrument lessons at Bonifatius school in Marl
- Subsidy for the Society for the Promotion of the Astrid Lindgren Dortmund-Rahm kindergarten to buy an awning and children's scooters
- Donation for the children's shop of Verein für Kindererziehung in Bochum to buy a roll-out lawn and a children's garden house for the outdoor area
- Donation for the redesign of the school playground of Bernetal school in Essen
- Donation for Ruhrfeld City, a centre for the integration of people from a migrant background
- Donation for the Hohenfriedbergstrasse children's day care centre in Gelsenkirchen to buy a washing machine and toys for the playground

In addition to its work through the foundations, Deutsche Annington supports a large number of local projects through its seven regional subsidiaries. For example, in 2007 € 80,000 was spent on building a new playground in Essen-Katernberg and a children's day care centre in Gelsenkirchen received rent-free rooms for five years. Furthermore, we support the youth work of many sports clubs by making cash donations for materials, tournaments and competitions as well as donations in kind. For example, we have provided six rent-free apartments near the Augsburg stadium for talented young football players of FC Augsburg.

Prof. Dr Ulrich Teichmann

"If housing companies want to survive, they must be run on economic principles."

Prof. Dr Ulrich Teichmann holds the chair in money and credit at the Technical University of Dortmund. He is the author of teaching books on the economy, growth and economic policies which have appeared in many editions. His area of research ranges from the analysis of behaviour on financial markets to the real estate industry. For many years, he was the scientific head of the German Real Estate Congress in Lübeck.

Professor Teichmann, what direction is the German housing industry currently developing in?

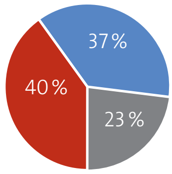
The housing industry has changed as a result of the entry of large private investors onto the market. This is speeding up greater professionalism in the industry. The principles of free enterprise are increasingly applying: All companies, whether in public or private hands, have to operate profitably. For in the end it is only with the money they earn that they can also keep their properties attractive. Today, politicians are increasingly considering how the performance of public duties can be improved by working together with private industry. The state cannot do everything alone, neither can the private sector. In the end, money is money, I would say, whether it comes from the public purse or from private enterprise. Money also helps to fuel change. Houses are immobile – they are firmly cemented in the earth and cannot be moved. They stay where they are put: in the local community as accommodation for the residents. They do not go away. But in return money comes in – and that opens up a whole new range of opportunities.

Some fear that room to manoeuvre on social matters is lost when housing passes into private hands. How do you see that?

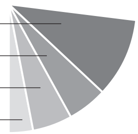
You can put clauses in the contracts to protect tenants' rights and to make sure that the buyers meet certain social requirements. There's a lot you can stipulate in a contract: investment commitments, notice-serving clauses, occupancy rights, special rights to protect the tenants, and many other things. The actual buying and selling should be what it always is: a question of price. And as far as I'm concerned, I would say the answer to the question about room to manoeuvre is as follows: You've only got room to manoeuvre if you've got money. And unprofitable housing companies certainly do not bring money in.

Ownership structures on the German residential real estate market in 2006

Residential units in Germany in million	39.6
Owner-occupiers	16.0
Small private landlords	14.5
Professional real estate companies	9.1



Of the professional real estate companies:		
Private owners	4.0	10 %
Local authority housing companies	2.1	5 %
Housing cooperatives	2.1	5 %
Others	0.9	3 %



Source: Federal Office of Construction and Regional Planning,
Publication: Housing and real estate markets in Germany in 2006

In your opinion, has the German residential real estate market changed since foreign investors started buying into it?

Yes, but in my opinion the change has been limited so far. Compared with the over 23 million rented flats in Germany, the some 650,000 sold to private investors is a very small proportion. This fact and the opportunistic behaviour of the investors have, in my opinion, also not led to this change being to the disadvantage of tenants and local authorities. These companies are looking for economic success – and they can't have that without tenants and, in the final instance, without the local authorities in which the properties are located.

What do you feel are the major future challenges for the housing industry in Germany?

In my opinion, the most important task is to run housing companies on a sound economic basis. The politicians have stopped publicly subsidised housing construction and have steadily cut back rent-controlled housing. Many local authorities are in debt and their housing companies are not particularly profitable. Large numbers of properties in Germany were built in the 1960s and 1970s at the height of subsidised housing construction. That means a great deal of money will have to be invested in these properties in the next few years – money which the town and city councils do not have. In the end, every housing company has to keep profitability in mind and make sure that its apartments are in demand. Unattractive apartments are difficult to let.

Where do you see the risks?

You can never entirely exclude the unforeseen. Risks may come from different interests. However, in this case I feel both sides have the same interests. Housing companies live from the efficiency and attractiveness of the towns and cities. And local authorities should count on financially sound companies to invest in their properties. It can be done without private investors but it is better with them.

Christina Schultze
Letting agent at Deutsche Annington Ost

"Sometimes I have a bet with myself – will I manage it or not?"

Christina Schultze has been working for Deutsche Annington for 23 years – with success

Some people can do it: They manage to turn a much criticised weakness into a strong advantage for the rest of their life. "My teacher made me switch places four times in my last year of school because I used to chat so much with my neighbour. What used to get on the teachers' nerves is now my best asset in my job," laughs Christina Schultze, a customer support clerk in the letting department of Deutsche Annington Ost. Berlin-born Christina is out and about in the German capital every day, letting flats, preparing for appointments, phoning people who want a flat – and, to her great pleasure, meeting lots of people.

She arrives in her Annington Smart for a viewing appointment with a smile on her face, which she will never lose throughout the viewing. Although the property on the Schäferstrasse estate in Spandau near Havel in the north-west of Berlin is currently her problem child ("I think the two words storage heaters say it all"), Christina Schultze jokes with the caretaker, Dago Schmolt, and warmly welcomes an elderly couple who have come to see the flat for a second time.

"It's nice to have someone who is so friendly to show you around," says Detlef Maass. He and his wife, Angelika, are looking for a smaller flat now the children are out of the house. The two-bedroom flat with a balcony is just right. The final details are negotiated in the empty living room, the windows measured for the new net curtains and then an appointment arranged to sign the lease.

Locations of the 70 service offices of Deutsche Annington

"You certainly can't get anywhere in this job if you don't talk; you have to be an extrovert. But there is a lot more to this job than just unlocking apartment doors. What customers value most is good advice," the qualified land and residential property clerk explains.

Christina Schultze learned her trade from the bottom up. In 1985, she started as a trainee at the housing company, Deutschbau, in Berlin immediately after leaving school. In those 23 years, a lot has happened at her company, but the mother of two is philosophical about it all: **"Nothing ever stands still in this world. The whole Berlin housing market has changed: It used to be the customer who came to us, now we have to look for customers. The company has changed - Deutschbau, Viterra and other companies have now become Deutsche Annington. I get paid well. And if you work well, you can be relatively sure you won't lose your job. After all, there is always a demand for accommodation, isn't there?"**

She knows the company from many sides, has worked as a clerk, then had a job calculating rents, and has also run a customer centre in her time. Then came two sons, Niklas (11) and Lukas (7), but Christina Schultze has managed to combine a job and family thanks to the flexible working hours the company offers.

Since 2003, she has been working 30 hours a week, and since 2006 she has been responsible for some 1,100 flats rented in the famous Spreeschlange in Berlin-Mitte, Theklastrasse in the Steglitz district and Schäferstrasse in Spandau. "My work is very varied and never boring. I just love the mixture of working in an office and going out to the flats and customers. And I can organise my work schedule to fall in with my husband's, who works shifts in the Berlin fire service," she says, listing all the personal advantages her job has.

Christina Schultze is in the office from 8 a.m. to 12 every day. There she sits at her desk at the head office of Deutsche Annington Ost, answering mails and phone calls from potential tenants, drawing up leases, and putting ads for apartments in newspapers. **"By the way, we are getting more and more inquiries about flats in English. Berlin is becoming more cosmopolitan,"** she says, pleased to see how her home town is developing. She arranges viewings in the afternoons and evenings.

The flexible working hours are a great boon for Christina Schultze: **"What other company would give you so much freedom to pick the hours when you work? Of course, over the last 23 years I have at times considered moving to another company. But I have never found a real alternative."** So much simply suits the daily life of the customer support clerk and mother: In the mornings the fixed time in the office, being at home when the children come back from school and then viewing appointments in the late afternoon.

Living life to the full and a disciplined approach to work – that's in Christina Schultze's nature. She puts just as much energy into her work as she does into swimming her lengths at the local pool every day – she is a passionate swimmer. And she's ambitious. **"Sometimes I make a bet with myself when I'm showing people round a flat: Will they take the flat or not? And when I do manage to convince them and have found the right tenants for Deutsche Annington, I'm really pleased with myself."** She wants to be successful. And so does the company. **"Of course, Deutsche Annington sets ambitious goals. But nowadays there is pressure at every company; the advantage at Deutsche Annington is you get a lot of freedom, too."** And sometimes a bunch of flowers from satisfied customers who would like to thank Christina Schultze for her friendly help.

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Work-life balance for Nicola Faes. Motivated, efficient high-performers: Our employees' knowledge and commitment are the cornerstones of Deutsche Annington. Our "Balance 2010" programme provides the right working conditions so that even young mothers can combine work and a family.

THE 2007 FINANCIAL YEAR

We have made good progress on the road to making Deutsche Annington the best housing company in Germany: **Last year, we did not just manage to improve our business processes. We also took the next steps in our growth strategy.**

We further strengthened our earning power in 2007. Adjusted EBITDA improved from € 452.3 million to € 462.2 million. We clearly increased our FFO by 25 % from € 152.1 million to € 190.1 million. In our core business, Property Management, we again succeeded in considerably reducing vacancy rates from 5.7 % to 4.2 %. In the Sales segment, we sold some 4,000 residential units. At the same time, we stepped up our acquisition activities and managed to buy some 8,000 apartments during the year.

With a newly formed management team, we further strengthened our leading position in a challenging market environment. The business conditions are generally good so we are expecting a satisfactory development for the current financial year.

The 2007 Financial Year
Structure and Strategy
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STRUCTURE AND STRATEGY

Structure: Deutsche Annington – Deep-rooted success

The Deutsche Annington Real Estate Group is one of the leading housing companies in Germany with some 220,000 residential units managed and approx. 1,400 employees. The Group can look back on a history of more than 100 years.

Over the years, ten housing companies have been integrated into our Group. The oldest housing company, whose portfolio we still manage today, was the Bochum-based Gesellschaft für Stahlindustrie mbH, which was founded in 1895. In 1997, it was merged as Urbana Beteiligungs GmbH with VEBA Immobilien AG, later known as Viterra AG. At the end of the 1990s and beginning of this century, companies such as Frankfurter Siedlungsgesellschaft, Wohnbau Rhein-Main AG and Deutschbau AG joined Viterra. Deutsche Annington was established as part of the takeover of railway housing companies. Germany's largest residential real estate company was born in the summer of 2005 when Viterra was taken over by Deutsche Annington. Today, the Deutsche Annington Real Estate Group has pooled the extensive know-how of all these predecessor companies under one roof.

Deutsche Annington is Germany's largest residential letting company

With a portfolio of some 222,000 apartments managed, the Deutsche Annington Real Estate Group is, today, the largest private housing company in Germany. In total, we manage 190,221 apartments of our own, 45,166 garages and parking spaces as well as 1,575 commercial units. What's more, we also manage 31,957 apartments for other owners.

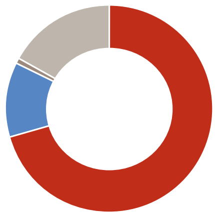
The three mainstays of business activities

Deutsche Annington's aim is to grow both profitably and over a long period of time. To achieve this, we pursue three core activities:

- Long-term, value-enhancing management: We see ourselves as a responsible landlord and offer our customers a competitive range of properties and services. We believe in providing good local services. We offer our tenants the security of a strong brand and guarantee uniform high standards.

- Selective sales of units in a socially acceptable manner, primarily to tenants: We offer residential properties at attractive prices. We only sell carefully selected units, primarily to our tenants, and secondarily to capital investors. We involve tenants and local authorities in this process at an early stage.

UNITS MANAGED BY THE DEUTSCHE ANNINGTON REAL ESTATE GROUP
(as at December 31, 2007)



Own apartments	190,221
Apartments owned by others	31,957
Commercial units	1,575
Garages and parking spaces	45,166

- Strategic acquisition of housing portfolios: As a housing company geared to long-term property management, we want to expand and carefully maintain our housing stocks throughout Germany. In doing so, we concentrate above all on portfolios in urban areas.

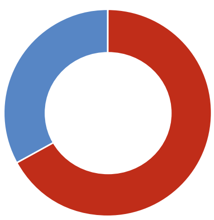
Self-perception: Social responsibility and long-term development

In our business, we believe in long-term company development and therefore sustained commitment. In order to measure our success, we have laid down standards for service quality and tenant satisfaction. We have clearly defined how we see ourselves.

- **We are a socially responsible landlord and property holder, taking our responsibility seriously**

We give over 500,000 people a home. 24% of our apartments were built with subsidies and thus have low rents for low-income tenants or employees of certain companies. Our housing stocks come from the merger of different housing companies. When we took them over, comprehensive social clauses were generally agreed to protect the tenants. We work closely in the communities with all those involved in a spirit of trust and are committed to the development of urban districts and the conclusion of individual estate agreements. We are party to numerous regional cooperation agreements throughout Germany. Through our non-profit foundations, we offer help in cases of social hardship and support child and youth projects. We promote community spirit among our tenants by supporting tenants' festivals, initiatives and clubs. Parallel to this, we sponsor social and cultural activities.

Structure of the Deutsche Annington Residential Portfolio by cities, towns and villages



Cities	67%
Towns and villages	33%

- **We focus on our tenants**

Deutsche Annington aims to provide affordable accommodation and first-class services for broad sections of the population. We do not see ourselves just as property managers but as a customer-minded service provider. Our toll-free service hotline can be called 365 days a year. We have developed the free-of-charge "Annington Wohnen Plus" service for our older customers. Our tenants benefit from nationwide service agreements which reduce ancillary costs. At the same time, we guarantee the high quality of the services our contractors provide by making quality checks.

- **We sell in moderation**

Through the selective sale of apartments, we give many tenants the chance to fulfil their dream of owning their own home as an investment and provision for retirement. As a company which focuses on keeping its housing stocks, we do not depend on income from the sale of properties. A mixture of tenants and owners in our housing estates is therefore also of advantage because it creates a stable living environment. We aim to primarily sell to tenants, owner-occupiers and small investors. We would stress that en-bloc sales are not part of our strategy. In the last ten years, some 50,000 families have bought an apartment from us or one of our predecessor companies.

- **We pursue a policy of sustained value enhancement**

The continued growth of our organisation and our real estate portfolio is a key element of our strategy. As one of the most financially strong companies in the housing industry, we pursue a policy of sustained, value-enhancing management of our residential properties. To achieve this, we continually invest in our housing stocks.

Seven regional subsidiaries ensure closeness to the customer

Deutsche Annington also pursues a policy of local presence. For us, being close to our tenants and the communities is a key to success. We have therefore organised our Group into seven regional subsidiaries. The group of companies is run centrally by Deutsche Annington Immobilien GmbH, supported by our service subsidiaries.

Housing stocks spread over 650 cities, towns and villages

Deutsche Annington offers accommodation in 650 cities, towns and villages throughout Germany. The majority of the apartments, i.e. more than 67%, are situated in cities with more than 100,000 inhabitants; roughly 33% are in medium-sized and small towns as well as villages. We are thus an important partner for many local authorities in Germany.

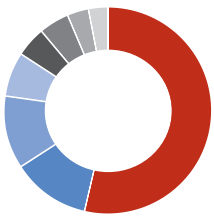
Regional focus in NRW and southern Germany

Approx. 60% of our portfolio is concentrated in 20 major cities and towns. In each of these locations, we have between 2,000 and 18,000 residential units. The four biggest locations are Dortmund, Essen, Frankfurt am Main and Berlin. The vast majority of our housing stocks are in the states of former West Germany (95.4% including the German capital, Berlin), particularly in North Rhine-Westphalia (over 53%).

Sound rent structure

With our entire portfolio, we achieve an average monthly rent of € 4.78 per square metre (2006: € 4.67 per square metre/month). 52% of our apartments have living areas of up to 64 square metres. Thus Deutsche Annington is a major provider of affordable medium-sized apartments. Industry experts are currently predicting that the best market opportunities will be in the small and medium-sized market segment since the small household segment is growing disproportionately due to the rising numbers of single people, single parents and senior citizens. Our customer satisfaction is high: On average, a tenant lives for about 15 years in a Deutsche Annington apartment; on a national average a tenancy lasts about 9 years.

STRUCTURE OF THE DEUTSCHE ANNINGTON RESIDENTIAL PORTFOLIO BY GERMAN STATES



North Rhine-Westphalia	53.7 %
Hesse	12.1 %
Bavaria and Baden-Württemberg	11.6 %
Schleswig-Holstein and Hamburg	6.9 %
Berlin	4.8 %
Five new states	4.6 %
Lower Saxony and Bremen	3.4 %
Rhineland-Palatinate and Saarland	3.0 %

Overview of the residential portfolio data of the Deutsche Annington Real Estate Group

Portfolio as at Dec. 31, 2007	Units	Share in %	Living area in m^2	Average living area per unit in m^2	Annualised net rent* in € m	Share in %	Monthly net rent per m^2* in €	Vacancy rate* in %
Deutsche Annington Nord GmbH	19,878	10.4	1,274,966	64	76.1	10.9	4.96	4.7
Deutsche Annington Ost GmbH	17,335	9.1	1,124,423	65	64.6	9.2	4.72	11.3
Deutsche Annington Rheinland GmbH	24,086	12.7	1,626,410	68	97.8	14.0	5.07	3.3
Deutsche Annington Ruhr GmbH	36,844	19.4	2,291,657	62	122.8	17.5	4.48	3.9
Deutsche Annington Süd GmbH	16,949	8.9	1,123,550	66	62.9	9.0	4.68	1.7
Deutsche Annington Süd-West GmbH	31,928	16.8	2,112,512	66	136.7	19.5	5.37	2.9
Deutsche Annington Westfalen GmbH	43,201	22.7	2,644,839	61	139.0	19.9	4.38	3.8
Total	**190,221**	**100**	**12,198,358**	**64**	**699.9**	**100**	**4.78**	**4.2**
TOP 20 CITIES AND TOWNS								
Dortmund	18,147	9.5	1,107,949	61	57.6	8.2	4.32	4.2
Essen	10,823	5.7	671,582	62	38.3	5.5	4.74	4.2
Frankfurt	10,785	5.7	671,479	62	50.1	7.2	6.18	1.3
Berlin	9,118	4.8	597,986	66	37.1	5.3	5.14	2.6
Gelsenkirchen	8,724	4.6	530,732	61	26.2	3.7	4.13	2.1
Bochum	7,715	4.1	447,914	58	24.9	3.6	4.62	2.9
Munich	5,371	2.8	356,893	66	23.7	3.4	5.53	0.5
Duisburg	4,837	2.5	292,637	60	15.4	2.2	4.36	4.4
Bonn	4,808	2.5	338,166	70	22.5	3.2	5.51	2.4
Cologne	4,758	2.5	310,505	65	20.6	2.9	5.50	2.0
Herne	4,754	2.5	292,298	61	14.6	2.1	4.16	2.1
Gladbeck	3,844	2.0	235,636	61	12.2	1.7	4.56	7.7
Herten	3,116	1.6	202,992	65	10.1	1.4	4.15	2.8
Düsseldorf	2,706	1.4	176,829	65	12.4	1.8	5.84	1.7
Marl	2,615	1.4	176,187	67	10.6	1.5	5.00	4.3
Bottrop	2,318	1.2	146,240	63	8.0	1.1	4.54	3.5
Aachen	2,263	1.2	151,044	67	8.3	1.2	4.60	2.2
Wiesbaden	2,145	1.1	139,363	65	10.9	1.6	6.27	2.8
Bergkamen	2,032	1.1	134,502	66	6.9	1.0	4.27	6.8
Kassel	2,018	1.1	125,814	62	6.4	0.9	4.21	2.9
Subtotal for top 20 cities and towns	**112,897**	**59.4**	**7,106,746**	**63**	**416.7**	**59.5**	**4.88**	**3.1**
Other locations	77,324	40.6	5,091,612	66	283.1	40.5	4.64	5.8
Total	**190,221**	**100**	**12,198,358**	**64**	**699.9**	**100**	**4.78**	**4.2**

* as at beginning of December

Strategy: All-embracing company development

For 2007 and the near future, we have focused our attention on four fields in which we are striving to achieve further improvements:

1. Growth: Selected acquisitions

We want to grow profitably by purchasing new apartments. We are looking for attractive housing stocks throughout Germany, preferably in urban centres. We can quickly and organically integrate these new portfolios into our Group. Thanks to our sound financial resources, we are also in a position to buy substantial housing portfolios at any time.

2. Employees: Stepping up personnel work

Capable, dedicated employees are a major component for our success. Thanks to our continuous vocational and further training policy, we already have a highly qualified team today. With our modern personnel work, we create a working environment which is both performance-oriented and motivating. We see success as the sum total of our employees' work.

3. Responsibility: Strengthening our social profile

We act from the long-term view and see ourselves as the partner of our customers. Therefore, we invest in customer relations and maintain dialogue. Roughly half a million people live in Deutsche Annington apartments. For us, that means we have a great responsibility as their landlord. We are very conscious of this. We and our predecessor companies have therefore made a large number of tenant protection commitments over the years. We maintain dialogue with politicians and tenants' associations. Our reliability in such matters is recognised by the German Tenants' Association and the German public alike.

4. High performance: Improving process efficiency and earning power

We pursue a value-based business model. Our goals are to continually increase the value of our housing stocks and steadily improve our results. Deutsche Annington combines a classic strategy of portfolio retention with active portfolio management. The classic property management measures include continually adjusting our rental income to market levels, reducing our voids by good services and customer retention, and enhancing our efficiency. We see active portfolio management as value-sustaining and value-enhancing investment in the quality of the housing and neighbourhood. This includes not only the modernisation of apartments but also the maintenance and care of 1,500 playgrounds. Only a residential real estate portfolio which retains its value ensures our long-term success.

ECONOMIC ENVIRONMENT

Overall economic situation: Robust German economy

After the strong economic upswing in 2006, the German economy was again buoyant in 2007. GDP rose by 2.6% despite higher VAT and general uncertainty following the onset of the US financial market crisis in the summer. Due to the uncertain effect of the financial market crisis on the economy, economic growth is likely to slow in 2008.

The good state of the German economy is not just a result of the cyclical recovery which started in 2005 but also of the comprehensive adjustment processes in the face of growing pressure from global competition. The in some cases far-reaching reforms in taxation, labour market policy and social security also contributed to this upswing.

As in the years before, the main motor of growth was foreign trade (+11.5%). Domestic demand increased by 1.5% compared with 2006. Private consumption fell slightly by 0.1%, largely as a result of the higher VAT rate introduced in 2007. Consumer prices rose in the same period by 2.1%.

The economic recovery had a positive effect on the German labour market in 2007: The unemployment rate was 9% on an annual average. It therefore fell by another 1.8 percentage points compared with 2006. In the five new states, the unemployment rate ran at 15.1% in 2007, which was again much higher than in the rest of Germany where the figure was 7.5%.

More sluggish economic growth expected for 2008

In conjunction with the good start made in 2007, GDP is expected to grow by 1.7% in 2008. The rise in economic performance will largely be driven by stronger domestic demand. Effects from abroad will cause momentum to slow. The most important factors of influence are the hard-to-predict financial market crisis, the economic development in the USA and the consequent weaker US dollar.

Business climate indicators show only a slowdown in momentum

The ifo business climate index for trade and industry cooled further in December 2007 after a slight improvement in November. The companies based in Germany were much less optimistic in their assessment of their present business situation. The index was, however, again well above the long-year average. The prospects for the first half of 2008 are still considered to be mixed. The business climate index for the construction industry, however, shows a slight rise.

Housing market: Decline in new building volume will widen the gap between supply and demand in the medium term

The number of new buildings completed fell again in 2007 due, among other things, to the increase in VAT and the abolition of reducing-balance depreciation on rented residential buildings.

Deutsche Annington estimates that in the medium term demand for residential units will be greater than supply, which will have a marked effect on prices and rents. We share this opinion with housing market experts. For example, Empirica estimates that there will be an annual demand for 330,000 new residential units in the period up to 2010. According to a study conducted by the LBS building society, only about 270,000 to 300,000 residential units will, however, be built in Germany every year from 2005 to 2010. At present, the figure is much lower.

Growing number of small households increases demand for accommodation

The demographic development in Germany is one major factor determining the demand for accommodation. According to the Federal Statistical Office, the population will start to decrease from about 2012 despite immigration. However, the number of households is predicted to rise in Germany from about 39 million today to over 40.5 million by 2020. According to the Federal Statistical Office, it is particularly the small households (single and two-person households) which will drive this growth. As Deutsche Annington has a large number of apartments in this market segment, we are expecting this trend to have a positive effect on the letting business.

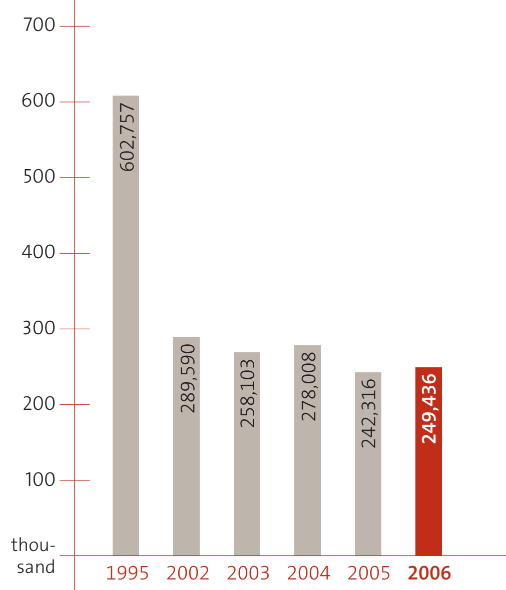
Demand for more living space increasing steadily

In the medium term, we are also expecting a further increase in the demand for more living space. For example, according to a study conducted by the LBS building society, the per capita living area will increase by 22% (that is 10 square metres) in the old German states in the next 25 years. In the five new states, a 45% increase in per capita living area is forecast (that is 17 square metres). The demand for living space is likely to vary very considerably in the different regions: Particularly strong growth is predicted for the southern German states of Bavaria and Baden-Württemberg.

Residential rents: Markets show overall rising trend

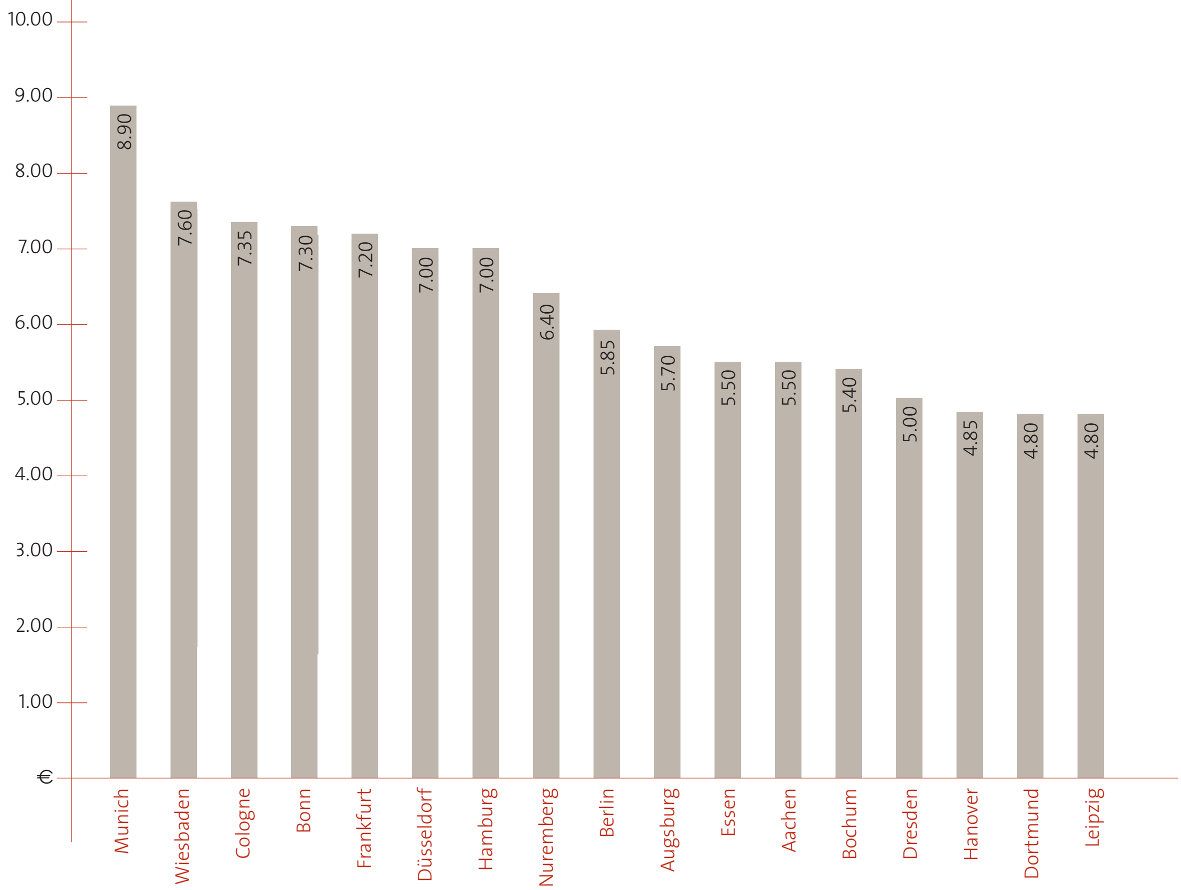
Rents in Germany rose slightly overall in 2007 – particularly in cities. They increased by an average of 1% in comparison to 2006. Rents developed differently depending on the location, segment, the standard of fittings and region.

Development of new buildings completed in Germany between 1995 and 2006



Source: Federal Statistical Office

Average market rents for apartments in an average location in selected cities



All in all, we see that in cities the trend towards higher rents is more pronounced than in smaller towns. Cities recorded average rent increases of between 1 and 2% – in smaller towns the rate of rent increases was more moderate at an average of 0.5%. In individual cases the rent rises were much higher. The rents for well-appointed apartments in good locations showed above-average increases, regardless of their age. Moreover, well-modernised existing buildings were again more in demand than new properties. The trend towards rent rises is therefore highly pronounced with existing buildings in cities with more than 300,000 inhabitants.

Given the fact that the numbers of building permits granted and buildings completed have been falling steadily in recent years, Deutsche Annington believes that rents will continue to rise, above all in cities; there the demand for existing buildings will also increase further. Here, Deutsche Annington is well-placed to meet market requirements with its residential portfolio (67% of our apartments are in cities).

Buying a home: Still a good time for private buyers

The development of apartment prices is still good for buyers. Existing properties were again much more in demand in 2007 than new properties. Generally, we believe that it is now a good time for buying a home. Nevertheless, there are great regional differences and no uniform pattern in the development of prices. The highest prices for existing apartments of an average standard are paid in the metropolitan areas of Munich, Düsseldorf, Hamburg, Cologne and Frankfurt am Main.

Acquisitions by investors: Residential properties are still in demand

It can be assumed that existing properties in average to good locations and with a good yield will continue to find buyers. Since about 2004, investors have shown high interest in acquiring large stocks of residential properties in Germany and this interest continued in 2007. The reasons for this are the relatively low home-ownership rate in Germany (2005: approx. 43%), the growing number of households and the fact that a property is an investment which promises to keep or increase its value.

BUSINESS REVIEW

Results increase again

Overall, we successfully pushed ahead with our business activities in 2007. Income from our core business segment, Property Management, jumped from € 898.8 million to € 1,075.1 million. Profit on disposal of properties fell from € 131.3 million to € 74.7 million due to our selective sales policy. Furthermore, we expanded considerably in 2007, pursuing our growth strategy by acquiring some 8,000 residential units and investing € 384.4 million, a much higher figure than in 2006.

Our two most important metrics are adjusted EBITDA (earnings before interest, taxes, depreciation and amortisation) and FFO (funds from operations). Adjusted EBITDA improved by € 9.9 million and FFO by € 38.0 million. This positive development has again demonstrated the sustained earning and financial power of Deutsche Annington.

For the reconciliation to adjusted EBITDA and FFO as well as further explanations on our key metrics, we refer you to the financial analysis starting on page 36.

Overview of the key business performance metrics of the Deutsche Annington Real Estate Group in 2007

€ million	2007	2006
Income from property management	1,075.1	898.8
Profit on disposal of properties	74.7	131.3
Adjusted EBITDA	462.2	452.3
FFO	190.1	152.1
Investments	384.4	133.4
Number of employees (as at Dec. 31)	1,406	1,385
Number of units sold (recorded sales)	3,945	7,601
Sold individually	2,599	4,763
Other sales	1,346	2,838
Number of units bought (transfer of title in 2007)	8,007	3,311
Number of residential units in portfolio (as at Dec. 31)	190,221	185,438

Property Management: Strong earnings thanks to consistent strategy

Our core business segment, Property Management, covers our letting and real estate management activities. Income from property management rose from € 898.8 million to € 1,075.1 million. This rise is mainly due to higher income from ancillary cost billing as a result of improved billing processes. Furthermore, rental income rose following the acquisition of apartments over the course of the year. The improvement in adjusted EBITDA was also due to the following operating factors: a much reduced vacancy rate, rent increases and cost savings as part of general efficiency enhancement.

Vacancy rate reduced by 25 %

Overall, 4.2% of our residential units (2006: 5.7%) were vacant at the end of 2007. We thus managed to further reduce voids. This figure includes the apartments earmarked for sale and therefore vacant: We do not re-let such apartments planned for sale as it is easier to sell empty apartments to owner-occupiers.

The regional differences in the demand for accommodation led to different vacancy rates: The residential units of our companies in the south and southwest of Germany are virtually fully let. In the Rhine-Ruhr regions the vacancy rate is less than 4%. By contrast, the vacancy rate in the new German states is significantly higher.

Rise in rental income

In 2007, we managed to increase our rental income by 2%. This is more or less the inflation rate. Given the greater rise in the inflation rate in the second half of 2007, we are also expecting a sharper increase in rents in future.

Range of services further extended in response to demographic change

One important issue in German society is demographic change. Some 19% of the population is already over 65 today. The Federal Statistical Office estimates that by 2050 this figure will have increased to 36%. Deutsche Annington has already been adjusting to this development since 2003, in particular with its senior citizens care programme "Annington Wohnen Plus", for which we have meanwhile opened our own local counselling offices in estates with large numbers of senior citizens. In view of the high demand, we carried out a customer survey in the summer of 2007 to find out what exactly our customers need and adapted our range of services accordingly.

Since October 1, 2007, we have been offering our free-of-charge counselling service "Annington Wohnen Plus" throughout Germany. We are cooperating with ÖRAG Service GmbH in Düsseldorf to provide this service. All customers of Deutsche Annington can now make use of a comprehensive range of services by dialling a toll-free 0800 phone number. Trained ÖRAG service staff arrange for nursing care, meals on wheels, domestic help or local tradesmen to convert apartments for the needs of the elderly. The arrangement of services from the time-tested service database of ÖRAG is free of charge and independent; our customers only pay for the actual services they order.

Real estate management services optimised

Deutsche Annington and its predecessor companies have sold over 50,000 apartments in the last ten years, the vast majority to former tenants. We offer these customers a real estate management service after the purchase. This service is provided by our subsidiary Deutsche Annington Service GmbH, which is based in Frankfurt am Main. It manages the common property for the apartment owners in accordance with the Condominium Act.

The company offers capital investors a full management service for their separate property. In addition, it provides the owners with services such as the maintenance and modernisation of separate and common property in apartment buildings including alterations to the apartments to suit the owners' new needs.

In the fourth quarter of 2007, we restructured Deutsche Annington Service GmbH in order to improve the quality of its services and increase its earning power. At the end of the year, Deutsche Annington Service GmbH was looking after some 1,916 (2006: 2,200) condominium owners' associations with a total of more than 53,766 (2006: 56,750) residential units and condominiums.

Sales: Strategy of selective sales continued

Profit on disposal of properties fell from € 131.3 million in 2006 to € 74.7 million in 2007. We already considerably reduced our sales programme in 2006. In 2007, we continued our strategy of selective sales, which now mainly concentrate on the individual sale of specific housing stocks. In 2007, we sold a total of 3,945 (2006: 7,601) residential units throughout Germany in this way, including 2,599 (2006: 4,763) apartments to individual buyers. In 2007, we integrated our subsidiary Deutsche Annington Vertriebs GmbH with all its functions into our holding company and the regional subsidiaries.

Acquisition: Some 8,000 new apartments integrated into our portfolio

In 2007, we also continued our acquisition strategy – however, due to the high prices, we only acted in specially selected cases: In 2007, we acquired 8,007 residential units in 27 packages, with which we were able to strengthen our market presence, particularly in the metropolitan areas along the river Rhine. In addition to the acquisitions, we systematically strengthened our acquisition power by the formation of an experienced team, regular road shows, targeted public relations work and talks with decision-makers.

Top position on German housing market consolidated

While the 2006 financial year was dominated by the integration of Viterra, in 2007 we concentrated on further improving our services, reducing costs and streamlining our internal structures. In 2007, we managed to rapidly integrate the roughly 8,000 apartments into our portfolio without any additional staff. We set new trends in HR work with the new staff motivation measures, such as the introduction of a feedback and idea culture, as well as with a programme for all employees to participate in the economic success of the company. With our certification as a family-friendly company under the work and family audit, "audit berufundfamilie®", we are launching a project to create a better work-life balance for our employees. We were also involved in social projects in our housing estates in 2007. Furthermore, we donated some € 320,000 for social and cultural purposes through our two foundations as well as through sponsoring.

EMPLOYEES

Efficiency further improved through reorganisation of the workforce structure

At the end of 2007, the Deutsche Annington Real Estate Group had 1,406 people (2006: 1,385) in its employ. In the first half of 2007, we restructured the sales departments and reorganised and strengthened the central functions acquisition and asset value management. All the personnel measures associated with this reorganisation were completed in a socially acceptable manner by December 31, 2007. The average age of employees in our Group is 42.4, the average number of years of service is 11.8.

HR development is strategically and operationally anchored in the company

In 2007, we focused in particular on personnel management. We identified four important core areas for HR work: recruiting good employees, conducting potential analyses, extending personnel development work and assuming greater responsibility for our employees:

Recruiting good employees

After having to make considerable staff cutbacks in 2006 as a result of the takeover of Viterra, we consolidated our personnel structure in 2007. The next step this year is to increasingly recruit high-performing staff by improving our recruitment drives.

Conducting potential analyses

We further improved our personnel development rounds, which were first introduced in 2006. In these rounds, we identify potential candidates for key positions and emerging leaders. The candidates with potential then attend a development centre specially designed for them. Here, their strengths and areas in need of development are determined and then a personal development interview is held to discuss options for action. Our two development programmes, Management BASIS Programme (for emerging leaders) and Annington Professionals Programme (for specialists/future project managers), were launched in the second half of 2007.

Extending personnel development work

Developing our staff and helping them to improve their qualifications is a major and increasingly strategic factor to ensure our company’s success. Operational personnel development includes the organisation of further training measures based on the company’s strategy and goals. In 2007, we performed a large number of such further training measures. The focus was on tailored, in-house training courses and a range of external seminars for specialists. We are increasingly using the instrument of job rotation as another personnel development tool.

Assuming greater responsibility for our employees

In 2007, we launched the Group-wide project, “Balance 2010”. With our range of offers for a better work-life balance, we had the “berufundfamilie®” audit performed by the non-profit Hertie Foundation and were awarded the basic certificate in June 2007. One option offered is flexible working hours: 19.3% of our employees now have a part-time job (2006: 16.5%). Other subjects identified in an employee survey are health management as well as support in finding child care places and care for employees’ relatives.

39 young people successfully completed their vocational training in 2007

In 2007, the Deutsche Annington Real Estate Group recruited 23 apprentices and trainees. 39 apprentices and trainees passed their final examinations, 28 were given a fixed-term employment contract. Trainees and apprentices make up 5.2% of the workforce.

FINANCIAL ANALYSIS

Top position further strengthened in 2007

In the past financial year, the Deutsche Annington Real Estate Group expanded its leading position still further. This is clearly reflected in the key operating metrics: Gross profit from property management rose sharply by € 40.4 million, the vacancy rate fell by one quarter to 4.2% and we managed to improve the margin on the sale of apartments from 28.9% to 30.1% despite a sluggish market. A rise in adjusted EBITDA by € 9.9 million and an increase in FFO by 25% are proof of the company’s successful course.

Explanations of the key metrics

We steer our business by means of adjusted EBITDA (earnings before interest, taxes, depreciation and amortisation) and FFO (funds from operations). Adjusted EBITDA is earnings before interest, taxes, depreciation and amortisation adjusted for changes in the value of real estate and extraordinary effects. The FFO is a metric based on the cash flow available from operating activities. In addition to adjusted EBITDA, the recurring cash-effective net interest expense and taxes on income are taken into account in the FFO. Both metrics are not determined on the basis of particular IFRS requirements but are to be seen as a supplement to the other key result figures under IFRS. In our opinion, adjusted EBITDA and FFO give greater transparency in the assessment of the sustained earning power and financial strength of our business activities.

Gross profit from property management rose by € 40.4 million in 2007

In the past financial year, Deutsche Annington significantly increased its gross profit from property management by 7.6% from € 530.9 million to € 571.3 million. We managed to make this improvement in our core business segment mainly as a result of the following operational factors: reducing voids, raising rents and enhancing efficiency.

We reduced our vacancy rate from 5.7% last year to the current figure of 4.2%. This figure also includes the residential units which are empty as they are planned for sale. At the same time, we boosted the result still further by steadily raising rents to market levels and by additional rental income from units purchased last year. Parallel to this, we made repair management more efficient. This also had a positive effect on our result.

While income from ancillary cost billing rose in 2007 as ancillary cost billing operations were stepped up, so did the cost of materials. Of the gross rental income, 65% was income from net rents and 35% from charges and costs passed on to the tenants in the ancillary cost bills in 2007. The main components of other income from property management are rent subsidies, income from condominium administration and income from property management activities for third parties.

Gross profit from property management
January 1 to December 31

€ million	2007	2006
Gross rental income	1,048.6	871.1
Other income from property management	26.5	27.7
Cost of materials	–503.8	–367.9
Gross profit from property management	**571.3**	**530.9**

Margin on the sale of properties increased to over 30%

Last year, we systematically continued our selective sales strategy and adjusted our sales programme to the changed market conditions. Despite reducing the number of apartments for sale, we managed to improve the margin on our sales programme to over 30 %. The properties for sale under our sales programme are mainly from the portfolio of residential units carried in the balance sheet under trading properties. In total, we sold 3,945 units in 2007 (2006: 7,601 units). More than 70% of the units sold were bought by our tenants and owner-occupiers.

Gross profit from sales

January 1 to December 31

€ million	2007	2006
Income from disposal of properties	248.0	454.6
Carrying value of properties sold	–173.3	–323.3
Gross profit from sales	**74.7**	**131.3**
Margin	30.1%	28.9%

Value of real estate portfolio increases again

The result of the revaluation of the investment properties and the review of the trading properties are shown under net valuation gain on property. The valuation of the real estate portfolio led to a gain of € 198.4 million in 2007. This is largely due to the positive development of rents.

As in the year before, in 2007 we calculated the fair values of our entire real estate portfolio in a detailed internal valuation. In accordance with their engagement letter, the auditors of the consolidated financial statements included these fair values in their audit of the consolidated financial statements and the Group management report. Further information on how the fair values were determined is to be found in the section Fair Values starting on page 44.

On the face of the balance sheet, we make a distinction between investment properties and trading properties. Properties held as financial investments are shown under investment properties and recognised at their fair values. Properties planned for sale are shown under trading properties and recognised at cost.

Changes in the value of the properties

January 1 to December 31

€ million	2007	2006
Net valuation gain on investment properties	197.6	360.7
Change in value of trading properties	0.8	–2.8
Net valuation gain on property	**198.4**	**357.9**

Adjusted EBITDA improved further

Overall, adjusted EBITDA rose by € 9.9 million compared with 2006. The other income and expenses which are not allocated to the different segmental results are included in the reconciliation to adjusted EBITDA. The items listed here contain non-operating expenses and income. These are in particular expenses for personnel measures, expenses for legal, tax and IT integration as well as measures geared to the capital market. After elimination of the non-operating shares of expenses and income, these other operating items were reduced by over 12% in 2007 from € 209.9 million to € 183.8 million. The lower costs demonstrate a distinct improvement in efficiency in 2007.

Reconciliation to adjusted EBITDA
January 1 to December 31

€ million	2007	2006
Gross profit from property management and sales	**646.0**	**662.2**
Other operating income	61.9	75.9
Income from investments and financial assets	3.8	3.9
Other cost of materials	–58.8	–53.5
Other operating expenses	–117.0	–150.4
Personnel expenses	–103.4	–128.2
Elimination of the non-operating result	29.7	42.4
Balance of other operating income and expenses	**–183.8**	**–209.9**
Adjusted EBITDA	**462.2**	**452.3**

FFO grows sharply by 25%

In 2007, Deutsche Annington significantly improved one of the most important metrics for economic success: FFO rose from € 152.1 million in 2006 to € 190.1 million in 2007. FFO is a financial metric not determined in accordance with IFRS which Deutsche Annington uses to show the funds generated in continuing operations. The fact that FFO rose by € 38.0 million demonstrates the economic performance and the broad earnings base of our Group.

One major factor contributing to the improved FFO was also the lower net interest expense of € 247.9 million (2006: -€ 275.7 million). Our refinancing, which we completed in mid-2006, led to better financing conditions in 2007. This and the capital repayments made resulted in lower interest expense. As the tax expense for the lump sum taxation of the EK 02 amount is a one-off special effect, this tax expense was not taken into consideration in calculating FFO.

Reconciliation to FFO

January 1 to December 31

€ million	2007	2006
Adjusted EBITDA	**462.2**	**452.3**
Net interest expense in FFO	–247.9	–275.7
Income tax expense in FFO	–24.2	–24.5
FFO	**190.1**	**152.1**

Profit from continuing operations impacted by one-off effects

The reconciliation from adjusted EBITDA to profit from continuing operations shows three main effects: the change in net valuation gain on property as well as changes in income tax expense and in deferred taxes. The higher income tax expense results from the lump sum taxation of the previously untaxed EK 02 amount. On the other hand, we believe that this new regulation will considerably improve the tax conditions for possible future profit distributions. The lower deferred tax expense in 2007 is mainly due to the 2008 Business Tax Reform (Unternehmensteuerreformgesetz).

Adjusted for the net valuation gain on property (€ 198.4 million) and extraordinary tax effects, profit on continuing operations showed a similarly positive development to that of adjusted EBITDA.

Reconciliation to profit from continuing operations

€ million	2007	2006
Adjusted EBITDA	**462.2**	**452.3**
Non-operating result	–29.7	–42.4
Net valuation gain on property	198.4	357.9
Depreciation and amortisation	–4.9	–4.0
Other interest and similar income	26.7	21.1
Interest and similar expense	–361.9	–356.2
Income tax expense from lump sum taxation of the EK 02 amount	–197.8	–
Current income tax	–23.9	–14.8
Deferred tax expense	–27.7	–182.8
Profit from continuing operations	**41.4**	**231.1**

Assets and financial situation: Capital-to-assets ratio improved again

In the past financial year, we increased the capital-to-assets ratio of the Deutsche Annington Real Estate Group once again from 15.4% in 2006 to 16.1% in 2007. Thus, equity rose from € 1,688.7 million in 2006 to € 1,739.4 million in 2007. Furthermore, we reduced the share of current liabilities in total assets from 13.6% to 9.1% by capital repayments and refinancing of non-current liabilities. In the 2007 financial year, the Deutsche Annington Real Estate Group invested a total of € 384.4 million, much more than the € 133.4 million in 2006. Some 8,000 residential units were bought in the reporting period.

Group balance-sheet structure

€ million	2007	%	2006	%
Total non-current assets	7,989.4	73.8	7,059.9	64.6
Total current assets	2,834.6	26.2	3,872.3	35.4
Total assets	**10,824.0**	**100.0**	**10,932.2**	**100.0**
Total equity	1,739.4	16.1	1,688.7	15.4
Total non-current liabilities	8,096.9	74.8	7,758.9	71.0
Total current liabilities	987.7	9.1	1,484.6	13.6
Total equity and liabilities	**10,824.0**	**100.0**	**10,932.2**	**100.0**

The acquisition of the above-mentioned residential portfolios (+ € 554.5 million) and the fair value adjustments of the investment properties in 2007 (+ € 197.6 million) led to a distinct increase in non-current assets in 2007. Furthermore, in the reporting year we reclassified trading properties which are no longer intended for sale under investment properties (+ € 236.7 million).

In 2007, current assets were well down on 2006. This decrease is mainly a result of the change in trading properties: In the 2007 financial year, Deutsche Annington sold residential units to the value of € -147.3 million. Furthermore, we reclassified € 236.7 million under investment properties. We used the cash and cash equivalents available at the end of 2006 increasingly for funding our investments as well as for the repayment of financial liabilities.

Still on growth course with investments of over € 300 million

In 2007, the Deutsche Annington Real Estate Group generated a cash flow from operating activities of € 540.6 million (2006: € 789.9 million). This figure mainly contains receipts from the letting business and from the sale of trading properties. The decrease compared with the previous year is mainly due to the cutbacks in the privatisation programme.

In 2007, we bought a larger volume of properties. This led to a cash outflow from investing activities of € 313.9 million in 2007 whilst there was a cash inflow from investing activities of € 20.9 million in 2006, above all through the sale of the Development division. The cash flow from financing activities in 2007 reflects above all the loans taken out to fund the newly acquired properties as well as capital repayments on loans.

When determining the cash flow from operating activities using the indirect method, the profit for the period was adjusted for the effects of transactions of a non-cash nature, any deferrals or accruals of past or future operating cash receipts or payments as well as items of income or expense associated with investing or financing cash flows. Therefore, direct comparison with the corresponding changes in the published consolidated balance sheets is not possible.

Statement of cash flows

January 1 to December 31

€ million	2007	2006
Cash flow from operating activities	540.6	789.9
Cash flow used in/from investing activities	–313.9	20.9
Cash flow used in financing activities	–566.7	–589.1
Net changes in cash and cash equivalents	**–340.0**	**221.7**
Cash and cash equivalents at beginning of year	706.4	484.7
Cash and cash equivalents as shown in the balance sheet	**366.4**	**706.4**

FUNDING

Financing strategy based largely on long-term loans

The financing strategy of the Deutsche Annington Real Estate Group is based on long-term loans. In addition to the classic bank loans in the form of mortgages, the Deutsche Annington Real Estate Group specifically uses structured bank and capital market financing. The mortgages have long terms in some cases and fixed interest rates.

One special form of mortgage is the loans granted by promotional banks (e.g. Wfa) under the social housing construction programme. These funds have lower interest rates than mortgages and much longer terms.

Loan terms of up to seven years are agreed under structured financing programmes. These loans often have variable interest rates based on the Euribor. In order to hedge against short-term changes in interest rates, in these cases Deutsche Annington contracts interest hedges in the form of fixed payer swaps. The term of these interest-hedging instruments depends on the term of the underlying loan.

Medium-term loan agreement for € 250 million signed

In February 2007, the Deutsche Annington Real Estate Group concluded a loan agreement for a total of € 250.0 million with Barclays Capital. This loan agreement runs until the end of 2013. The purpose of the agreement is to refinance the loan agreement for € 200.0 million concluded with Barclays Capital in December 2006 and to fund portfolio acquisitions made by subsidiaries of Deutsche Annington Immobilien GmbH. As at December 31, 2007, a total of € 235.6 million had been utilised under this loan agreement.

New acquisition credit line agreed for three years

In May 2007, the Deutsche Annington Real Estate Group concluded an acquisition line of credit with Barclays Capital and Citibank for a total of € 500.0 million. The acquisition line runs until May 2010. The purpose of this acquisition line is to fund portfolio acquisitions which have been or will be made by subsidiaries of Deutsche Annington Immobilien GmbH. In 2007, a total of € 265.5 million was utilised under this line of credit. The amount of € 234.5 million remaining as at December 31, 2007 is available for further portfolio acquisitions.

As part of the acquisition line, the borrowers provided securities in the form of land charges, account pledge agreements and assignments. Furthermore, company shares were pledged. Deutsche Annington Immobilien GmbH assumed an indemnity guarantee of € 500.0 million. Under this indemnity guarantee, Deutsche Annington Immobilien GmbH is obliged to keep net assets of at least € 500.0 million available. Interest on the drawings under this credit line is based on the 3-month Euribor rate. In order to hedge the interest rate risk over the entire term of the loan agreement, the borrowers contracted fixed payer swaps. The average interest rate for this loan is – after allowing for the interest hedges – 5.02 %. This loan agreement has no fixed capital repayment structure. However, capital repayments are mandatory if residential units are sold.

Debt-to-equity ratio of the securitisation transaction performed in 2006 reduced

The bearer bonds issued in two tranches in 2006 in connection with the securitisation transaction (GRAND plc.) had a value of € 5,309.4 million (2006: € 5,735.2 million) at the end of the 2007 financial year. Repayments of € 425.8 million and interest payments of € 191.1 million were made in 2007. The contractually agreed debt-to-equity ratio was therefore clearly undershot.

FAIR VALUES

Method for determining the fair values further refined through greater differentiation at property level

Calculating and showing the fair values gives greater transparency both outside and inside the company: It is an important instrument for the value-optimised control of the portfolio and serves as a basis for strategic decisions. The Deutsche Annington Real Estate Group calculated the fair values of its entire stock of residential buildings, small commercial units, garages/parking spaces and undeveloped land as at December 31, 2007 in an internal valuation. The following criteria were applied in the valuation of the different segments of real estate:

- **Residential real estate**

The value of the entire portfolio of residential properties was determined on the basis of the International Valuation Standard Committee's definition of market value. Portfolio premiums and discounts, which can be observed when portfolios are sold in market transactions, were not allowed for, nor were time restrictions in the marketing of individual properties. The method used by Deutsche Annington to determine fair values thus complies with IFRS standards.

In line with our business model, a distinction was made between properties to be managed and properties to be sold individually (privatisation portfolio):

Our definition of **privatisation portfolio** is properties which are being sold individually or which, in our opinion, are basically suitable for being sold individually. First, all buildings were valued according to a rating system with regard to their quality, their market attractiveness and their macro-location. The aspects considered in assessing the quality of the buildings included their age and an assessment of the technical condition of the buildings. This assessment was based on maintenance reports compiled by external companies after the properties had been inspected on a regular basis. The attractiveness was assessed on the basis of various factors including in particular the micro-location of the buildings, how built-up the area is, the average size of the apartments and the number of rooms. The quality of the macro-location was derived from the purchasing power index in the particular postal code district. For the privatisation portfolio, Deutsche Annington assumed that there are a certain number of apartments which, depending on the attractiveness, quality and macro-location, cannot be sold directly to tenants, owner-occupiers and capital investors and that these remaining apartments can only be sold at a discounted price in small packages (remainder share).

The value of the privatisation share per building was determined using the comparable method, i.e. comparable figures based on the company's own sales and extensive market research. The value of this remainder share was determined according to a method similar to the income capitalisation method and specially tailored to the product.

The **property management portfolio** was valued using the income capitalisation method. The basis of the valuation is the net annual income per building which results from the annual net rent minus non-allocable ancillary costs, maintenance expenses and administrative expenses in accordance with the II. Berechnungsverordnung (II. BV; second German Regulation on Calculations for Residential Buildings in Accordance with the Second Housing Construction Law, which stipulates how economic viability calculations for living space are to be performed) as well as any ground rent.

Voids were taken into consideration on the basis of assumed vacancy and reletting scenarios and by applying market rents. The capitalised value of potential yield returns was determined by capitalising the annual net yield at building level. The capitalised interest rates applied were derived from the current German real estate market and allocated to the buildings with the aid of the previously determined ratings. Special consideration such as long-term restricted rents, expiring rent restrictions or mining subsidence damage were allowed for by means of premiums and discounts.

- **Commercial properties**

  The commercial properties in the portfolio were measured on the basis of individual experts' opinions and offers made in the course of sales activities.

- **Undeveloped land**

  Undeveloped plots of land were measured according to their stated development, the likelihood of development and the local market situation on the basis of derived land guide prices.

Fair value amounts to € 10.3 billion

In accordance with their engagement letter, the auditors of the consolidated financial statements included these fair values in their audit of the consolidated financial statements and the Group management report. Thus, the result of this audit is included in the auditors' report on the audit of the consolidated financial statements and Group management report of the Deutsche Annington Real Estate Group for the year ended December 31, 2007.

The fair value of the real estate stocks of the Deutsche Annington Real Estate Group as at December 31, 2007 was € 10,270.0 million (2006: € 9,890.1 million).

The fair values of the real estate portfolio by region are as follows:

Fair values of the real estate portfolio of the Deutsche Annington Real Estate Group

	Residential units		Other rental units		Fair values in € million	
	2007	**2006**	**2007**	**2006**	**2007**	**2006**
Regional subsidiary						
Deutsche Annington Nord GmbH	19,878	18,370	4,975	4,232	988.9	823.8
Deutsche Annington Ost GmbH	17,335	18,073	2,964	2,803	768.1	733.3
Deutsche Annington Rheinland GmbH	24,086	19,920	8,110	6,315	1,523.5	1,270.6
Deutsche Annington Ruhr GmbH	36,844	36,991	6,452	6,296	1,724.3	1,684.9
Deutsche Annington Süd GmbH	16,949	16,966	8,169	8,285	1,146.9	1,164.1
Deutsche Annington Süd-West GmbH	31,928	31,658	8,031	7,313	1,996.1	1,940.9
Deutsche Annington Westfalen GmbH	43,201	43,460	6,465	6,477	2,024.2	1,984.5
Commercial units					15.1	207.5
Undeveloped land					82.9	80.5
	190,221	**185,438**	**45,166**	**41,721**	**10,270.0**	**9,890.1**

RISK MANAGEMENT

Framework and overall estimate

Risk management is intended to support the development of the company's value

The opportunity and risk management policy of the Deutsche Annington Real Estate Group is geared to systematically and continuously increasing the company's value. The company has codes of conduct laid down in policies and other directives for managers and staff. They are backed by a variety of different monitoring mechanisms. Speculative business transactions are not permitted.

Risk management system based on a differentiated reporting system

The company uses a comprehensive reporting system to identify and handle risks. In addition to detailed monthly controlling reports, the Chief Executive Officer and Chief Financial Officer both give monthly reports to the Supervisory Board of Deutsche Annington Immobilien GmbH. In addition to the controlling reports, there is also qualitative reporting in standardised, weekly reports which the managers submit to the managing directors of the company. In our opinion, this standardised process ensures that all managers report major issues regularly to the managing directors.

Overall estimate: No risks jeopardising the existence of the company

As things now stand, the Deutsche Annington Real Estate Group is not exposed to any risks which might directly or indirectly jeopardise the existence of the company.

Risk situation and individual risks

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

Risks from changes in the business environment

Economic forecasts predict that the demographic development of German metropolitan areas will differ: According to these forecasts, there are regions to which substantial numbers of people will migrate (e.g. the Rhine-Main region, Munich, Stuttgart). Here, the demand for accommodation is likely to rise. By contrast, there will, in our opinion, be regions from which large numbers will move away. This may include the Ruhr area. However, this development is likely to be cushioned by a shift in the individual demand for living space: The number of one and two-person households is likely to rise steadily and demand for bigger apartments will, in our opinion, also grow parallel to this. Therefore, in future there may be fewer people but they will be living in bigger homes and the number of households will increase overall. Thus, a noticeable fall in demand for rented and owner-occupier accommodation in regions like the Ruhr area from which people will migrate is not likely to occur before 2020.

Although the threshold households currently receive hardly any government subsidies when they buy a home, we are expecting demand to remain stable thanks to the continued low interest rates on mortgages. Should the interest rates increase considerably in the next few years, this might have an effect on the demand for residential properties. Changes in market prices may also affect demand for properties to buy and our acquisition strategy. Should the prices for residential portfolios increase more sharply than we expect, Deutsche Annington may possibly only be able to achieve its growth targets by incurring higher costs. However, prices are currently stabilising.

Performance/operational risks

As far as acquisitions are concerned, there are various government requirements restricting our rent increases and our sales of some of our housing stocks. Furthermore, there are also contractual and legal requirements impacting on the adjustment of our workforce structure to the changed market conditions.

In the south of the Ruhr area, the many years of coal mining have left disused mine workings near the surface, which present a risk of mining damage to Deutsche Annington’s land and buildings. At present, it is difficult to exactly estimate the associated economic risk as there are no or very few records for many of the old mine workings. Moreover, the law is still not clear on the question of liability for any damage which might occur. Deutsche Annington is countering this risk by conducting a systematic inspection of properties to identify potential mining damage. These results provide the basis for Deutsche Annington to successively take suitable remedial action and clarify the legal situation in the relevant cases.

Risk from the development of fair values

Our valuation of the fair values of our real estate is based on assumptions which may develop differently in the next few years than we currently expect. For example, the valuation included not only building-specific parameters but also the quality of the building location. Should the estimate of the micro-location of the buildings and the quality of the macro-location (purchasing power index) change adversely, the fair value of our entire real estate portfolio would also decrease. Changes in the value of our investment properties are recorded as appropriation or impairments in the income statement and therefore have a direct impact on the earnings situation of our company.

Financial risks

The companies of the Deutsche Annington Real Estate Group are financed by third-party and shareholder loans, which take current tax law and tax policies as well as the present interpretation of the law on deductibility of interest by the applicable tax authorities into account.

In its financing activities for its operational business, Deutsche Annington is exposed to risks arising from changes in interest rates. Deutsche Annington operates a systematic finance management system to limit these risks.

As a result of the US subprime crisis, the financing conditions and financing options for the Deutsche Annington Real Estate Group are not as good now. In general, this may mean that the Deutsche Annington Real Estate Group will have to provide more equity when making acquisitions and/or refinancing funds in order to finance on acceptable economic conditions. The Deutsche Annington Real Estate Group had cash on hand and deposits at banking institutions totalling € 363.5 million as at the balance-sheet date as well as credit lines of € 105.0 million so that the Deutsche Annington Real Estate Group's ability to service debt can be regarded as guaranteed at all times even in the light of the subprime crisis.

A description of the financial instruments used can be found in the Notes to the consolidated financial statements, note 35.

Risks from any change in the laws on environmental protection

When managing our portfolio, we attach great importance to sustainability and make sure that energy-saving and low-emission technologies are used when maintenance work is carried out. Further environmental requirements are currently being discussed, particularly for owners of residential properties. Deutsche Annington is following the discussions and will actively participate in the debate through the associations it belongs to.

Other risks

Other legal disputes beyond those allowed for in the balance sheet which might have a substantial negative impact on the economic situation of Deutsche Annington are neither pending nor, to our knowledge, has such a case been threatened. No major risks for Deutsche Annington can currently be identified in the information technology and human resources sectors.

OUTLOOK

Further improvements in the core business segment, Property Management, to be achieved in 2008

Deutsche Annington's clear focus continues to be the management of its housing portfolio. In 2008, we will be above all concentrating on further improving our real estate management processes. The areas where we want to further raise our performance are clear: customer satisfaction, the development of rents, vacancy rates, costs and quality. Parallel to this, we are searching for further acquisition opportunities. In the years before, we have already proved that we can successfully integrate new housing stocks and improve workflows at the same time. In 2008, we are confident that we can achieve further scale effects.

Policy of selective sales to be continued

As a supplement to our core business segment, we will be selectively selling further residential units. Deutsche Annington already reduced its sales programme in 2007 as we could not get the returns we were looking for on the current market. In view of the fact that the number of new buildings completed has fallen by two-thirds since 1995, the used residential property is indeed becoming more attractive but as long as the market conditions do not change, we do not believe that we will be expanding our sales programme in 2008, either. Given our experience in the sale of residential units to tenants in a socially acceptable manner and our knowledge of the market, we are, however, in a position to rapidly expand the Sales business segment as soon as demand rises. We still see good market opportunities for sales to tenants in Germany in the long term.

Changes in tax laws will lead to more favourable conditions

The 2008 Business Tax Reform will have both a beneficial impact on Deutsche Annington through the lowering of tax rates and a negative impact through the introduction of a new restriction on the tax deductibility of interest on debt (Zinsschranke). On balance, we feel that the changes will improve our business conditions. Furthermore, on November 30, 2007 the German Bundesrat passed the 2008 Tax Law. The main change for Deutsche Annington is the lump sum taxation of previously untaxed equity (EK 02) at a tax rate of 3%. In future, profits and retained earnings can be distributed without additional taxation like any "normal" company.

Result: Further improvement in adjusted EBITDA and FFO to be achieved in 2008

Our aim for the coming financial year is to continue on the stable course for growth and further improve our operating metrics, adjusted EBITDA and FFO. We already introduced measures to achieve this in 2007. Thus, we want to steadily simplify our processes and improve our cost structure. Moreover, in 2008 we are planning to increase our measurements of customer satisfaction in order to gain more information about where we can improve our customer service and thus our customer satisfaction. We hope that this will have positive effects on vacancy rates. Thanks to a new modernisation programme at selected locations where the demand for accommodation is high, we will be able to selectively push through above-average rent increases in 2008. At the same time, we are investing in maintaining the value of our housing stocks. We also believe that the chances of making attractive acquisitions are good.

In the medium term, we are also aiming to make further improvements in our core business segment, Property Management, as well as in the Property Sales segment in 2009. In view of the size of our business, we believe that some of the measures which we are planning for 2008 will not be reflected in the results until 2009.

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Play area for Leon and Kim. A place to live is more than just four walls and a roof over your head. Particularly our children need places where they can burn up all their energy. Deutsche Annington manages about 1,500 playgrounds on our residential estates all over Germany, spending some €300,000 on them every year.

Consolidated Income Statement

January 1 to December 31

€ million	Notes	2007	2006
Continuing operations			
Gross rental income		1,048.6	871.1
Other income from property management		26.5	27.7
Income from property management	6	**1,075.1**	**898.8**
Income from sale of trading properties		214.3	409.8
Carrying value of trading properties sold		–147.3	–286.3
Income from disposal of investment properties		33.7	44.8
Carrying value of investment properties sold		–26.0	–37.0
Profit on disposal of properties	7	**74.7**	**131.3**
Net valuation gains on investment property	8	**197.6**	**360.7**
Change in value of trading properties	9	0.8	–2.8
Cost of materials	10	–562.6	–421.4
Personnel expenses	11	–103.4	–128.2
Depreciation and amortisation	12	–4.9	–4.0
Other operating income	13	61.9	75.9
Other operating expenses	14	–117.0	–150.4
Financial income	15	30.5	25.0
Financial expenses	16	–361.9	–356.2
Profit before tax		**290.8**	**428.7**
Income tax	17	–249.4	–197.6
Profit from continuing operations		**41.4**	**231.1**
Discontinued operation			
Profit (loss) from discontinued operation (net of income tax)	32	**6.4**	**–24.0**
Profit for the period		**47.8**	**207.1**
Attributable to:			
Equity holders of DAIG		46.3	207.1
Minority interests		1.5	0.0

Also see the corresponding explanations in the Notes.

Consolidated Balance Sheet

€ million	Notes	Dec. 31, 2007	Dec. 31, 2006
Assets			
Intangible assets	18	13.7	14.5
Property, plant and equipment	19	17.1	19.1
Investment properties	20	7,870.6	6,908.6
Financial assets	21	48.1	42.7
Other assets	22	23.4	21.9
Deferred tax assets	17	16.5	53.1
Total non-current assets		**7,989.4**	**7,059.9**
Inventories	23	2,198.8	2,630.7
Trade and other receivables	24	137.6	258.3
Other financial assets	21	1.7	1.7
Other assets	22	22.9	28.5
Income tax receivables		107.2	69.7
Cash and cash equivalents	25	366.4	706.4
Assets classified as held for sale	32	–	177.0
Total current assets		**2,834.6**	**3,872.3**
Total assets		**10,824.0**	**10,932.2**
Equity and liabilities			
Subscribed capital		0.1	0.1
Capital reserves		682.2	682.2
Retained earnings		1,044.0	997.7
Other reserves		2.9	0.0
Total equity attributable to equity holders of DAIG		**1,729.2**	**1,680.0**
Minority interests		10.2	8.7
Total equity	26	**1,739.4**	**1,688.7**
Provisions	27	358.6	376.7
Trade and other payables	28	0.5	0.4
Other financial liabilities	29	6,931.9	6,755.1
Income tax liabilities	30	173.8	0.0
Other liabilities	31	4.7	3.9
Deferred tax liabilities	17	627.4	622.8
Total non-current liabilities		**8,096.9**	**7,758.9**
Provisions	27	259.6	304.8
Trade and other payables	28	38.7	32.0
Other financial liabilities	29	283.8	501.5
Income tax liabilities	30	24.0	10.0
Other liabilities	31	381.6	462.0
Liabilities classified as held for sale	32	–	174.3
Total current liabilities		**987.7**	**1,484.6**
Total liabilities		**9,084.6**	**9,243.5**
Total equity and liabilities		**10,824.0**	**10,932.2**

Also see the corresponding explanations in the Notes.

Consolidated Cash Flow Statement

January 1 to December 31

€ million	Notes	2007	2006
Profit for the period		47.8	207.1
Depreciation and amortisation	12	4.9	4.0
Interest expenses/income		344.0	343.2
Results from disposals of investment properties		–7.7	–7.8
Results from disposals of other non-current assets		–	–25.0
Result from sale of discontinued operation, net of income tax	32	–1.5	24.5
Net valuation gains on investment property	20	–197.6	–373.7
Other earnings not affecting net income	13	–7.8	–
Changes in inventories		215.8	187.0
Changes in receivables and other assets		95.3	159.1
Changes in provisions		–8.4	–47.9
Changes in liabilities		82.6	151.8
Changes in deferred taxes		28.3	183.2
Income tax paid		–55.1	–15.6
Cash flow from operating activities		**540.6**	**789.9**
Proceeds from disposals of investment properties		29.9	47.6
Proceeds from disposals of intangible assets and property, plant and equipment		0.1	0.8
Disposal of discontinued operation (net of cash disposed of)	32	14.1	60.0
Proceeds received from disposals of financial investments	13	0.1	25.5
Acquisition of investment properties	20	–359.9	–129.7
Acquisition of intangible assets and property, plant and equipment		–2.5	–3.6
Acquisition of subsidiaries (net of cash acquired)		–22.0	–0.1
Interest received		26.3	20.4
Cash flow from / used in investing activities		**–313.9**	**20.9**
Cash proceeds from issuing loans and notes	29	582.6	5.942.8
Cash repayments of financial liabilities	29	–856.4	–6,265.0
Transaction costs		–5.5	–76.6
Capital contributions from the shareholder	26	–	214.6
Interest paid		–287.4	–404.9
Cash flow used in / from financing activities		**–566.7**	**–589.1**
Net changes in cash and cash equivalents		**–340.0**	**221.7**
Cash and cash equivalents at beginning of year	25	706.4	484.7
Cash and cash equivalents at year-end	25	**366.4**	**706.4**

Also see the corresponding explanations in the Notes.

Consolidated Statement of Changes in Equity

€ million	Subscribed capital	Capital reserves	Retained earnings	Other reserves (income/expense recognised directly in equity)			Equity before minority interests	Minority interests in equity	Total equity
				Total	From cash flow hedges	From currency translation			
As of Jan. 1, 2007	**0.1**	**682.2**	**997.7**	**0.0**	**0.0**	**0.0**	**1,680.0**	**8.7**	**1,688.7**
Profit for the period			46.3				46.3	1.5	47.8
Changes in equity not affecting income				2.9	2.9		2.9		2.9
Total profit for the period			46.3	2.9	2.9		49.2	1.5	50.7
As of Dec. 31, 2007	**0.1**	**682.2**	**1,044.0**	**2.9**	**2.9**	**0.0**	**1,729.2**	**10.2**	**1,739.4**
As of Jan. 1, 2006	**0.1**	**202.7**	**784.4**	**27.7**	**27.0**	**0.7**	**1,014.9**	**16.8**	**1,031.7**
Profit for the period			207.1				207.1	0.0	207.1
Changes in equity not affecting income				–27.7	–27.0	–0.7	–27.7		–27.7
Total profit for the period			207.1	–27.7	–27.0	–0.7	179.4	0.0	179.4
Capital increase		479.5					479.5		479.5
Acquisition/disposal of minority interests			6.2				6.2	–8.1	–1.9
As of Dec. 31, 2006	**0.1**	**682.2**	**997.7**	**0.0**	**0.0**	**0.0**	**1,680.0**	**8.7**	**1,688.7**

Also see note (26) in the Notes.

ACCOUNTING POLICIES

1 Basis of Presentation

As an integrated real estate company, the Deutsche Annington Real Estate Group (referred to in the following as DAIG) pursues three core activities: the long-term, value-enhancing management of its nationwide residential real estate portfolio, the selective sale of units in a socially acceptable manner, primarily to tenants, as well as the strategic acquisition of housing portfolios to achieve a sustained increase in the company's value. Until June 14, 2007, DAIG's parent company was Deutsche Annington S.A., Luxembourg. On June 15, 2007, all DAIG shares were transferred from Deutsche Annington S.A., Luxembourg, to Monterey Holdings I S.à.r.l., Luxembourg. Deutsche Annington Immobilien GmbH is incorporated and domiciled in Germany; its registered office is located in Düsseldorf. The head office (principal place of business) is located at Philippstrasse 3, Bochum.

Deutsche Annington Immobilien GmbH has made use of the option under Section 315a, para. 3 of the German Commercial Code (HGB) and is thus not obliged to prepare consolidated financial statements in accordance with German commercial law.

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted in the EU. Allowance has also been made for the supplementary provisions in accordance with Section 315a, para. 1 HGB.

The consolidated financial statements have been prepared on the cost basis except for investment properties, derivative financial instruments, available-for-sale financial assets and financial liabilities arising from binding share purchase offers to minority shareholders, which are measured at fair value. The income statement has been prepared using the nature of expense method and follows the recommendations of the European Public Real Estate Association (EPRA).

These consolidated financial statements are presented in euro, which is the Group's functional currency. Unless stated otherwise, all figures are shown in million euros (€ million).

On April 3, 2008, the Management approved the consolidated financial statements of Deutsche Annington Immobilien GmbH for submission to the shareholders' meeting. It is the responsibility of the shareholders' meeting to examine the consolidated financial statements and declare whether it approves them.

2 Consolidation Principles

Entities that are under the control of Deutsche Annington Immobilien GmbH are included in the consolidated financial statements as subsidiaries. Control is exercised when Deutsche Annington Immobilien GmbH is able to govern the financial and operating policies of an entity so as to obtain economic benefits from its activities. Any potential voting rights are taken into account when assessing control. Subsidiaries are included in the consolidated financial statements from the date on which Deutsche Annington Immobilien GmbH obtains control until the day control ceases.

Business combinations are accounted for using the purchase method, the cost of acquisition being offset against the equity attributable to the parent company at the date of acquisition. Regardless of the share of the minority interest, the identifiable assets, liabilities and contingent liabilities of the acquiree are recognised in the consolidated financial statements at fair value, except for non-current assets (or disposal groups) classified as held for sale, which are recognised at fair value less costs to sell. Any excess of the cost of a business combination over DAIG's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities is recognised as goodwill.

If DAIG's interest in the net fair value of the identifiable assets and liabilities exceeds the cost of the business combination, the values of the assets, liabilities and contingent liabilities as well as the costs of acquisition are reassessed and any remaining excess is recognised as income in the income statement.

The shares in the net assets of subsidiaries that are not attributable to DAIG are shown as a separate component of equity under minority interests.

Further share purchases after control has been obtained, i.e. the acquisition of minority interests, are accounted for as equity transactions. Any premiums or discounts on those purchases are recognised directly in equity.

For the term during which DAIG has granted put options to minority shareholders to purchase their shares in subsidiaries, such minority interests are recognised as financial liabilities and not as a separate component of equity.

Entities over which Deutsche Annington Immobilien GmbH has significant influence but not control are accounted for as associates. This is generally the case when 20% to 50% of the voting rights are held. Investments in associates are of minor significance from a Group perspective and therefore are accounted for at amortised cost.

A special purpose entity (SPE) is consolidated if, based on an evaluation of the substance of its relationship with Deutsche Annington Immobilien GmbH and the SPE's risks and rewards, Deutsche Annington Immobilien GmbH concludes that it controls the SPE.

The effects of the business transactions between the entities included in the DAIG consolidated financial statements are eliminated. The financial statements of Deutsche Annington Immobilien GmbH and all subsidiaries are prepared according to uniform accounting policies.

3 Scope of Consolidation

In addition to Deutsche Annington Immobilien GmbH, 117 (2006: 102) domestic companies and 1 foreign company (2006: 0) have been included in the consolidated financial statements of DAIG as at and for the year ended December 31, 2007.

The list of DAIG shareholdings is appended to these notes to the consolidated financial statements (see page 118 et seq.).

The affiliated companies, Immobilienfonds Koblenz-Karthause Wolfgang Hober KG, Düsseldorf, and Deutsche Annington Revisionsgesellschaft mbH, Essen, which had not previously been consolidated, were included in the consolidated financial statements for the first time with effect from January 1, 2007.

The assets and liabilities of these companies at the time of initial consolidation break down as follows:

€ million	Carrying amount	Fair value
Investment properties	4.1	15.9
Financial assets	0.1	–
Cash and cash equivalents	0.2	0.2
Other financial liabilities	7.7	4.2
Deferred tax liabilities	–	6.4
Other liabilities	0.2	0.2
Net assets included	–3.5	5.3
Carrying amount of investment		0.8
Negative goodwill		–4.5
Profit before tax since first-time consolidation		0.6

The negative goodwill from the first-time consolidation of Immobilienfonds Koblenz-Karthause Wolfgang Hober KG, Düsseldorf, amounting to € 4.5 million was recognised under other operating income.

100% of the shares in Nawon International Estates B.V., Nieuwegen (later renamed DA DMB Netherlands B.V., registered office moved to Eindhoven), were acquired with effect from October 1, 2007.

The net assets acquired break down as follows:

€ million	Carrying amount	Fair value
Investment properties	173.0	173.0
Deferred tax assets	1.2	1.2
Inventories	10.2	10.2
Trade and other receivables	0.3	3.0
Other assets	0.1	0.1
Cash and cash equivalents	3.2	3.2
Provisions	–	0.3
Other financial liabilities	150.0	141.2
Deferred tax liabilities	2.9	7.1
Trade and other payables	1.7	1.7
Other liabilities	12.0	12.0
Net assets acquired	21.4	28.4
Purchase price		25.1
Negative goodwill		–3.3
Profit before tax since date of acquisition		0.6

The negative goodwill from the first-time consolidation of DA DMB Netherlands B.V., Eindhoven, amounting to € 3.3 million was recognised under other operating income.

The revenue generated by DA DMB Netherlands B.V., Eindhoven, since the date of acquisition amounts to € 7.4 million. If the acquisition had already taken place on January 1, 2007, the Group revenue would have been € 11.8 million higher than the revenue actually recorded. The Group profit before tax would have increased by € 1.0 million if the business combination had already taken place on January 1, 2007.

In 2007, 9 other companies were acquired (2006: 8) which were not business operations at the time of acquisition. Furthermore, 8 companies (2006: 45) were included in the consolidated financial statements for the first time as a result of their new establishment.

The purchase prices for the shares in the newly acquired companies were paid in full in cash.

The disposals in 2007 were the result of 2 mergers (2006: 16), 1 intra-Group legal reorganisation (Anwachsung) (2006: 4) and 1 liquidation (2006: 0). No companies were sold in the reporting year (2006: 17).

4 Currency Translation

In the separate financial statements of Deutsche Annington Immobilien GmbH and the subsidiaries included in the consolidated financial statements, foreign currency transactions are translated into the functional currency at the exchange rate on the date of the transaction. Monetary assets and liabilities in foreign currencies are translated at the exchange rate prevailing on the balance-sheet date. Non-monetary items that are measured in terms of historical cost are recorded on the balance-sheet date at the exchange rate on the date when they were first recognised. Non-monetary items that are measured at fair value are translated using the exchange rate on the date when the fair value was determined. Any resulting translation gains and losses are recorded in the income statement.

Financial statements of foreign subsidiaries are prepared on the basis of the currency of the primary economic environment in which the company operates (functional currency). In principle the respective national currency is taken to be the functional currency. The financial statements of consolidated companies which are denominated in foreign currencies are translated into the Group's functional currency, the euro, as follows:

The balance sheet is translated at the closing rate on the balance-sheet date and the income statement at a rate that approximates the exchange rate at the dates of the transactions (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 within equity until disposal of the subsidiary.

Following the sale of the Development division in 2006, all foreign subsidiaries whose financial statements were prepared in a foreign currency, have now been disposed of.

5 Significant Accounting Policies

[a] Recognition of income and expenses

Income from property management includes income from the letting of investment properties and trading properties which is recognised, net of discounts, sales incentives, customer bonuses and rebates granted, on a straight-line basis over the duration of the contracts when the remuneration is contractually fixed or can be reliably determined and collection of the related receivable is probable.

Furthermore, the income from property management includes payments for ancillary costs made by DAIG in the current and prior years which are billed to tenants in the current year when the cost and the amount of revenue can be measured reliably. Ancillary costs which have yet to be billed are shown under inventories. Any advance payments made by tenants on these ancillary costs are shown under other liabilities.

Income from property sales is recognised as soon as the material risks and rewards of ownership have been transferred to the buyer and DAIG has no substantive further obligations. If DAIG only retains insignificant risks of ownership, the proceeds are recognised at the time of sale and a provision is recognised for the probable risk.

Expenses are recognised when they arise or at the time they are incurred. Interest is recognised as income or expense in the period in which they are incurred using the effective interest method.

[b] Intangible assets

Acquired intangible assets are capitalised at amortised cost and internally generated intangible assets at cost provided that the requirements of IAS 38 for the capitalisation of internally generated intangible assets are met. All intangible assets of DAIG have definite useful lives and are amortised on a straight-line basis over their estimated useful lives. Software and licences are amortised on the basis of a useful life of three years. Customer bases are amortised on a straight-line basis over ten years.

[c] Property, plant and equipment

Items of property, plant and equipment are carried at amortised cost less accumulated depreciation and impairment losses and are depreciated over their respective estimated useful lives on a straight-line basis.

Subsequent costs of replacing part of an item of property, plant and equipment are capitalised provided it is probable that future economic benefits associated with the item will flow to DAIG and the cost can be measured reliably.

Real estate used by the company itself is depreciated over 50 years; equipment, fixtures, furniture and office equipment are depreciated over periods of between three and thirteen years.

[d] Investment properties

When DAIG acquires real estate properties, whether through a business combination or separately, the intended use determines whether those properties are classified as investment properties, trading properties or owner-occupied properties.

Investment properties are properties that are held for the purpose of earning rental income or for capital appreciation or both and are not owner-occupied or held for sale in the ordinary course of business. Investment properties include undeveloped land, land and land rights including buildings and land with inheritable rights of third parties. Properties which are capitalised under a finance lease in accordance with IAS 17 “Leases” and are covered by the definition of investment properties are also classified as investment properties. Property interests held under operating leases are not classified and accounted for as investment properties.

Investment properties are measured initially at cost. Related transaction costs, such as fees for legal services or real estate transfer taxes, are included in the initial measurement. Property held under a finance lease is recognised at the lower of the fair value of the property and the present value of the minimum lease payments upon initial recognition.

After initial recognition, investment properties are measured at fair value with any change therein recognised in profit or loss.

The fair value of investment properties is calculated using internationally recognised measurement methods. The main method used is the income capitalisation method, which is based on actual or market rents and a risk-adjusted capitalised interest rate. In addition, fair values are also determined by comparing market prices for comparable properties (comparable method). Both of these approaches to determine the fair values of investment properties are based on current market data. For a more detailed description of the determination of the fair values of investment properties, see note (20) Investment properties.

In line with the real estate trading strategy of DAIG, investment properties which are to be sold within the normal six-year business cycle and which are being prepared for sale, e.g. condominium declaration obtained after initial classification, are transferred to inventories. Should these properties classified as trading properties not have been sold within the six-year business cycle as intended, they are re-transferred to the investment properties category in accordance with the provisions of IAS 8 "Changes in Accounting Estimates".

Investment properties are transferred to property, plant and equipment when there is a change in use evidenced by the commencement of owner-occupation. The properties' deemed cost for subsequent accounting corresponds to the fair value at the date of reclassification.

[e] Leases

Leases are either classified as finance leases or operating leases. Leases where substantially all risks and rewards incidental to ownership are transferred to the lessee are accounted for as finance leases.

DAIG as a lessee under a finance lease

The leased asset and a corresponding liability are recognised at an amount equal to the lower of the fair value of the asset and the present value of the minimum lease payments. Subsequently, the asset is accounted for in accordance with the accounting policy applicable to that asset. The minimum lease payments are apportioned between the finance charge and the reduction of the outstanding liability.

All leases where not substantially all risks and rewards incidental to ownership are transferred are accounted for as operating leases.

DAIG as a lessor under an operating lease

Lease payments are recognised in income on a straight-line basis over the lease term. The assets subject to operating leases are presented in the balance sheet according to their nature.

DAIG as a lessee under an operating lease

Lease payments are recognised as an expense on a straight-line basis over the lease term.

[f] Impairment of intangible assets and property, plant and equipment

In accordance with IAS 36 "Impairment of Assets", intangible assets as well as property, plant and equipment are tested for impairment whenever there is an indication for an impairment. An impairment loss is recognised when an asset's recoverable amount is less than its carrying amount. If the recoverable amount cannot be determined for the individual asset, the impairment test is conducted on the cash-generating unit to which the asset belongs. Impairment losses are recorded as expenses in the income statement.

An impairment loss recognised for prior periods is reversed if there has been a change in the estimates used to determine the asset's (or the cash-generating unit's) recoverable amount since the last impairment loss was recognised. The carrying amount of the asset (or the cash-generating unit) is increased to the newly estimated recoverable amount. The carrying amount is limited to the amount that would have been determined if no impairment loss had been recorded in prior years for the asset (or the cash-generating unit).

[g] Non-derivative financial assets

Contractually acquired financial assets are recognised in the balance sheet if the resulting rewards will flow to DAIG. A financial asset is derecognised when the contractual rights to the cash flows from the financial asset expire or the financial asset is transferred and DAIG neither retains control nor retains substantially all the risks and rewards of ownership of the financial asset.

Financial investments

Shares in associates not accounted for using the equity method are measured at cost as there is no price quoted on an active market and the fair value cannot be determined reliably.

Available-for-sale financial assets

Available-for-sale financial assets are initially measured at fair value and any changes therein – other than impairment losses – are recognised in equity. The fair value of available-for-sale financial assets is based on quoted market prices at the reporting date. When the available-for-sale financial asset is derecognised, the cumulative gain or loss recognised in equity is transferred to profit or loss. Regular way purchases or sales are accounted for at the date of the economic transfer of the asset to the purchaser.

Loans and receivables

Loans and receivables are stated at amortised cost using the effective interest method. Allowance is made for all discernible risks by appropriate deductions. An appropriate valuation allowance is made when it is estimated that certain receivables will be uncollectible.

[h] Inventories

Inventories are measured at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale. The estimated selling price is calculated on the basis of current market prices of comparable real estate.

Residential properties which are to be sold within the normal six-year business cycle and for which a condominium declaration has been obtained are shown as trading properties under inventories. If these properties have not been sold within the six-year business cycle as intended, they are transferred to the investment properties category in accordance with IAS 8 "Changes in Accounting Estimates". Any difference between the fair value of the property at that date and its previous carrying amount is recognised in profit or loss.

[i] Borrowing costs

Borrowing costs are recognised as expense when incurred.

[j] Cash and cash equivalents

Cash and cash equivalents include cash on hand, cheques, deposits on bank accounts with an original term of up to three months as well as marketable securities.

[k] Taxes

Income tax

Income taxes for the current and prior periods are recognised as income tax liabilities to the extent that they have not yet been paid.

Obligations to pay lump-sum tax on the previously untaxed EK 02 amounts (see note [17] Income tax) are measured at their present value to make appropriate allowance for the interest-free nature of the obligation.

Deferred taxes

Deferred tax is recognised using the liability method, providing for all temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. A deferred tax asset is recognised to the extent that future taxable profits will be available against which the temporary difference can be utilised. The carrying amount of a deferred tax asset is reviewed at each balance-sheet date. If necessary, the carrying amount of the deferred tax asset is reduced to the extent that it is no longer probable that sufficient taxable profit will be available.

Deferred taxes are measured at tax rates that have been enacted or substantially enacted and that are expected to apply to the period when the tax asset is realised or the liability is settled. In 2007, a tax rate of 40% was used to calculate domestic deferred taxes. As a result of the 2008 Business Tax Reform (Unternehmensteuerreformgesetz 2008), the combined tax rate of corporate income tax and trade tax is reduced to 31.5% as from January 1, 2008.

Deferred tax assets and liabilities are offset against each other only if DAIG has a legally enforceable right to set off the recognised amounts, when the same tax authority is involved and when the realisation period is the same. In accordance with the regulations of IAS 12 "Income Taxes", deferred tax assets and liabilities are not discounted.

[I] Provisions

Provisions for pensions and similar obligations

The values of the pension obligations and the expenses necessary to cover these obligations are determined using the projected unit credit method according to IAS 19 "Employee Benefits" whereby current pensions and vested pension rights at the balance-sheet date as well as future increases in salaries and pensions are included in the valuation. An actuarial valuation is performed at every balance-sheet date.

The amount shown in the balance sheet is the present value of the defined benefit obligation after elimination of unrecognised actuarial gains and losses and unrecognised past service cost and after offsetting against the fair value of the plan assets.

Actuarial gains and losses arising are recognised using the corridor method. They are only recorded to income or expense when the balance of the accumulated unrecognised actuarial gains and losses determined per employer at the beginning of the business year exceeds the corridor of 10% of the greater of defined benefit obligation (DBO) and the fair value of plan assets. The excess is recognised in future periods over the expected average remaining working lives of the participating employees. If the obligations are exclusively obligations for employees who have already left the company's service, the excess is immediately recognised in the business year as there is no remaining working life.

Service cost is shown in personnel expenses. The service cost is the increase in the present value of a defined benefit obligation resulting from employee service in the reporting period. The interest expense on the annual costs is recorded in the financial result. Interest expense is the increase during a period in the present value of a defined benefit obligation which arises due to the fact that the benefit obligation is one period closer to being discharged.

Reinsurance policies that qualify as plan assets have been taken out to cover the pension obligations towards particular persons. Where the value of those reinsurance policies exceeds the related pension obligations, the excess is recognised as an asset and shown under other assets.

Other provisions

Other provisions are established when there is a present obligation, either legal or constructive, as a result of a past event, it is probable that an outflow of resources will be required to settle the obligation and the amount can be reliably estimated. Non-current provisions are discounted if the resulting effect is material. The carrying amount of discounted provisions increases in each period to reflect the passage of time and the unwinding of the discount is recognised within interest expense. The discount rate is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

Provisions for environmental remediation are recognised when it is probable that an outflow of resources will be required to settle the obligation and the amount of the liability can be reliably estimated.

Provisions for restructuring are recognised when the Group has set up a detailed formal plan for restructuring and has announced the main features of the plan to those affected.

Provisions for onerous contracts are recognised when the expected benefits from a contract are lower than the unavoidable cost of meeting the obligations under the contract. The provision is stated at the lower of the net cost of continuing with the contract and the cost of terminating the contract, i.e., a possible indemnity or fine for breach or non-fulfilment of contract.

Provisions for warranties are recognised when the related goods or services are sold. The amount recognised is based on historical warranty data.

[m] Financial liabilities

Financial liabilities under contracts are recognised if a resulting claim can be made against DAIG. Financial liabilities are derecognised when DAIG's obligations specified in the contract expire or are discharged or cancelled.

Loans bearing no interest or interest below market rates in return for occupancy rights at rents below the prevailing market rates are recorded at present value.

Liabilities from finance leases are recognised at the fair value of the leased object or the lower present value of the minimum lease payments.

With the exception of derivative financial instruments and financial liabilities arising from binding share purchase offers to minority shareholders, financial liabilities are shown at amortised cost using the effective interest method.

Financial liabilities arising from binding share purchase offers to minority shareholders are measured at fair value. Fair value is determined using mathematical financial models, e.g. the income approach; if the purchase price offered for the shares is higher than the fair value, the purchase price is recognised.

Debt discounts and debt issue costs are directly allocated to financial liabilities.

[n] Derivative financial instruments and hedge accounting

All derivative instruments, irrespective of the purpose or the intended use, are accounted for at their fair values as assets or liabilities in the balance sheet. The fair values of the derivative financial instruments are calculated using standard market valuation methods for such instruments on the basis of the market data available on the valuation date. The fair values of instruments which are used to hedge interest rate risks are determined by discounting future cash flows using market interest rates over the remaining term of the instruments.

With derivatives that are not designated as a hedging instrument, changes in the fair value are recorded in profit or loss.

With derivatives designated as hedging instruments, the recording of changes in the fair value depends on the type of hedge:

With a fair value hedge, the changes in the fair value of the derivative financial instruments and of the underlying hedged items attributable to the hedged risk are recognised in the income statement.

With a cash flow hedge, the changes in fair value of the derivative hedging instrument are recognised in equity to the extent that the hedge is effective. Amounts accumulated in equity are recycled in the income statement at the same time the underlying hedged item affects net income. To the extent that the hedge is ineffective, the change in fair value is immediately recognised in profit or loss.

[o] Government grants

The companies of DAIG receive grants from public authorities in the form of construction subsidies, expenses subsidies, expenses loans and low-interest loans.

Government grants are regularly recorded as income over the periods necessary to match them with the related costs which they are intended to compensate.

Construction cost subsidies are, where they relate to construction measures, deducted from the construction costs and amortised as income over the useful life of the relevant assets. Construction cost subsidies relating to maintenance work which cannot be capitalised are immediately recognised in income.

Expenses subsidies granted in the form of rent, interest and other expenses subsidies are recorded as income and shown within other income from property management.

The low-interest loans are grants from public authorities, which are recorded at net present value. The difference between nominal value and net present value is recognised in income over the maturity term of the corresponding loans.

[p] Contingent liabilities

A contingent liability is a possible obligation toward third parties that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity or a present obligation that arises from past events for which an outflow of resources is not probable or the amount of which cannot be estimated with sufficient reliability. According to IAS 37 “Provisions, Contingent Liabilities and Contingent Assets”, contingent liabilities are not recognised.

[q] Assets and disposal groups classified as held for sale and discontinued operations

If the carrying amount of a non-current asset or a disposal group is expected to be recovered primarily through a sale transaction rather than through continuing use, the non-current asset or disposal group is classified as held for sale. The non-current asset or the disposal group must be available for immediate sale and the sale must be highly probable.

Immediately before classification as held for sale, the carrying amounts of the non-current assets (and all assets and liabilities of a disposal group) are measured in accordance with applicable IFRSs. Upon initial classification as held for sale, non-current assets and disposal groups are recognised at the lower of carrying amount and fair value less costs to sell.

Non-current assets that are classified as held for sale or are part of a disposal group held for sale are not depreciated; however, interest and other expenses attributable to the liabilities of a disposal group classified as held for sale are recognised.

A discontinued operation is a component of an entity which represents a separate major line of business or geographical area of operations that has been disposed of or is held for sale, is part of a single, coordinated plan to dispose of a separate major line of business or geographical area of operations or is a subsidiary acquired exclusively with a view to resale.

The comparative income statement is restated as if the operation had been discontinued from the start of the comparative period.

[r] Estimates, assumptions and management judgment

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 assets and contingent liabilities at the balance-sheet date as well as reported amounts of revenues and expenditures during the reporting period. These estimates and assumptions mainly relate to the uniform definition of useful lives, the assumptions made on the value of land and buildings, the recognition and measurement of provisions as well as the realisation of future tax benefits. The actual amounts may differ from the estimates as the business environment may develop differently than assumed. In this case, the assumptions and, where necessary, the carrying amounts of the assets or liabilities affected are adjusted accordingly.

Assumptions and estimates are reviewed on an ongoing basis and are based on experience and other factors, including expectations regarding future events which appear reasonable under the given circumstances.

The estimates and assumptions which may have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities mainly relate to the determination of the fair value of investment properties.

The best evidence of fair value of investment properties is current prices in an active market for comparable properties. If, however, such information is not available, DAIG uses standard valuation techniques such as the income capitalisation method. In determining the fair value by using the income capitalisation method, DAIG takes, among others, the following assumptions into consideration: the annual net rent, future anticipated rental income, void periods and administrative and maintenance expenses. The interest rate to determine the capitalised value is derived by using a rating system. DAIG regularly compares its valuations to actual market data as well as to actual transactions.

Furthermore, in preparing consolidated financial statements, DAIG needs to estimate its income tax obligations. This involves estimating the actual tax exposure as well as assessing temporary differences resulting from differing treatment of items for tax and accounting purposes. Judgments are required in determining the consolidated provision for income taxes. During the ordinary course of business, there are transactions and calculations for which the ultimate tax determination is uncertain.

Deferred tax assets are recognised to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilised. Deferred tax assets are reviewed at each balance-sheet date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised. Judgment is required in determining the amounts of deferred tax assets and whether those assets can be utilised.

At the time when the consolidated financial statements were prepared, there was no reason to assume that the assumptions and best possible estimates made on the basis of the circumstances at the balance-sheet date would change materially.

Other judgments that DAIG's management has made in the process of applying the entity's accounting policies and that may have a significant effect on the amounts recognised in the consolidated financial statements include the following:

- Upon initial recognition, the management must determine whether real estate properties are classified as investment properties, trading properties or owner-occupied properties. The classification determines the subsequent measurement of those assets.

- DAIG measures investment properties at fair value. If management had opted to use the cost model as permitted under IAS 40, the carrying amounts of the investment properties as well as the corresponding figures in the income statement would differ significantly.

- DAIG recognises actuarial gains and losses according to the corridor method. The application of a different option to recognise actuarial gains and losses as permitted under IAS 19 would lead to a significantly different carrying amount of the recognised provision for pensions and would also have a significant effect on the income statement.

- IFRSs do not regulate the accounting treatment for further share purchases after control has been obtained, e.g. the acquisition of minority interests. In accordance with IAS 8.10, management has decided to treat such purchases as equity transactions. Increases or decreases in the ownership interest in subsidiaries without a change in control as well as any premiums or discounts are recognised directly in the parent shareholders' equity.

[s] Changes in accounting policies due to new Standards and Interpretations

The application of numerous new Standards, Interpretations and Amendments to existing standards became mandatory for the 2007 financial year.

The following Amendments were adopted by DAIG for the 2007 financial year:

Amendments to IAS 1 "Presentation of Financial Statements"

The Amendments to IAS 1 require entities to disclose additional information on changes in equity not affecting net income. Income and expense recognised in equity must be listed. Furthermore, information on capital management must be given.

IFRS 7 "Financial Instruments: Disclosures"

IFRS 7 "Financial Instruments: Disclosures" requires entities to disclose detailed information on the significance of financial instruments for the entity's financial situation and earning power as well as qualitative and quantitative disclosures on the risks associated with the financial instruments.

In compliance with IFRS 7, additional disclosures on the recognition and measurement of financial instruments, on risk reporting as well as on hedge accounting have been made in the notes to the consolidated financial statements of DAIG.

The following Interpretations became effective for the 2007 financial year but are not relevant to DAIG's operations:

- IFRIC 7 "Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflationary Economies"
- IFRIC 8 "Scope of IFRS 2"
- IFRIC 9 "Reassessment of Embedded Derivatives"
- IFRIC 10 "Interim Financial Reporting and Impairment"

[t] New Standards and Interpretations not yet adopted

Application of the following Standards, Interpretations and Amendments to existing standards was not yet mandatory for the 2007 financial year. DAIG did not choose to apply them in advance, either. Their application will be mandatory for the financial years following the dates stated in the following table:

New Standards, Interpretations and Amendments to Existing Standards		Effective date for DAIG
IFRS 8	"Operating Segments"	Jan. 1, 2009
IFRIC 11	"Group and Treasury Share Transactions"	Jan. 1, 2008
IFRIC 12	"Service Concession Arrangements"	Jan. 1, 2008 *
IFRIC 13	"Customer Loyalty Programmes"	Jan. 1, 2009 *
IFRIC 14	"IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction"	Jan. 1, 2008 *
Amendment to IAS 1 "Presentation of Financial Statements"		Jan. 1, 2009 *
Amendment to IAS 23 "Borrowing Costs"		Jan. 1, 2009 *

* not yet endorsed

IFRS 8 "Operating Segments"

IFRS 8 replaces IAS 14 and aligns segment reporting with the requirements of SFAS 131. The Standard requires an entity to adopt the "management approach" to reporting on the financial performance of its operating segments. Operating segments are defined by the Standard as components of an entity whose operating results are regularly reviewed by the entity's chief operating decision-maker to make decisions about resources to be allocated to the segment and assess its performance and for which discrete financial information is available. DAIG is currently reviewing the potential effect of the IFRS 8 on the consolidated financial statements.

IFRIC 11 "Group and Treasury Share Transactions"

IFRIC 11 requires a share-based payment arrangement in which an entity receives goods or services as consideration for its own equity instruments to be accounted for as an equity-settled share-based payment transaction, regardless of how the equity instruments are obtained. The Interpretation also provides guidance on whether share-based payment arrangements in which suppliers of goods or services of an entity are provided with equity instruments of the entity's parent should be accounted for as cash-settled or equity-settled in the entity's financial statements. IFRIC 11 is not expected to have any impact on DAIG's consolidated financial statements.

IFRIC 12 "Service Concession Arrangements"

Service concessions are arrangements whereby a government or public sector entity grants contracts for the supply of public services to private-sector operators. IFRIC 12 specifies how service concession operators should apply existing IFRSs to account for the obligations they undertake and rights they receive under those service concession arrangements. IFRIC 12 is not expected to have any impact on DAIG's consolidated financial statements.

IFRIC 13 "Customer Loyalty Programmes"

The Interpretation IFRIC 13 addresses the accounting for customer loyalty programmes which are operated by manufacturers or service providers themselves or by third parties. IFRIC 13 requires that the revenue from sales be divided into two components. One component relates to the current business which is generated by the award credits. The other component is the future business which results from the credits which the customers are to redeem. This component is to be deferred as a liability until the customers redeem the credits and the entity fulfils its obligation according to the customer loyalty programmes. IFRIC 13 is not expected to have any impact on DAIG's consolidated financial statements.

IFRIC 14 "IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction"

IFRIC 14 provides general guidance on how to assess the limit in IAS 19 "Employee Benefits" on the amount of the surplus that can be recognised as an asset. It also explains how the pensions asset or liability may be affected when there is a statutory or contractual minimum funding requirement. The Interpretation will standardise practice and ensure that entities recognise an asset in relation to a surplus on a consistent basis. IFRIC 14 is not expected to have any effect on the consolidated financial statements of DAIG.

Amendment to IAS 1 "Presentation of Financial Statements"

As part of the convergence efforts, the revised IAS 1 is to be further aligned to the US-GAAP standards and thus facilitate analysis and comparison of financial statements. The Amendment includes, among others, further disclosures on equity and changes in equity as well as changes to the terms used in the financial statements. DAIG will assess the impact of the revised IAS 1 and then decide on the time of adoption.

Amendment to IAS 23 "Borrowing Costs"

On March 29, 2007, the IASB issued a revised IAS 23 "Borrowing Costs". The main change from the previous Standard is the removal of the option of immediately recognising as an expense borrowing costs that can be attributed directly to the acquisition, construction or production of a qualifying asset. In future, an entity is therefore required to capitalise such borrowing costs as part of the acquisition costs of the qualifying assets. The revised Standard applies to borrowing costs relating to qualifying assets for which the commencement date for capitalisation is on or after January 1, 2009. The changes to IAS 23 are not expected to have any effect on the consolidated financial statements of DAIG.

NOTES TO THE CONSOLIDATED INCOME STATEMENT

6 Income from property management

The income from property management breaks down as follows:

€ million	2007	2006
Rental income	681.4	670.1
Ancillary costs (charged)	367.2	201.0
Gross rental income	**1,048.6**	**871.1**
Other income from property management	26.5	27.7
Income from property management	**1,075.1**	**898.8**

The increase in the ancillary costs charged results from the optimisation of the billing process. The ancillary costs charged in 2007 include ancillary costs from 2006 as well as from 2005.

7 Profit on disposal of properties

In 2007, a book gain of € 67.0 million (2006: € 123.5 million) was recorded from the sale of trading properties.

A book gain of € 7.7 million (2006: € 7.8 million) was realised from the disposal of investment properties.

8 Net valuation gains on investment property

Investment properties are measured according to the fair value model. That means that the carrying amount of investment properties is the fair value of those properties. Any gains or losses from a change in fair value are recognised in the income statement. As at December 31, 2007, a net valuation gain of € 197.6 million (2006: € 360.7 million) was recognised.

9 Change in value of trading properties

Properties that are held for sale in the ordinary course of business are classified as trading properties and are shown within inventories. If the carrying amount exceeds the net realisable value, trading properties are written down to net realisable value item by item. In the financial year, impairment losses totalling € 37.9 million (2006: € 2.8 million) for several properties were recognised as an expense. Impairment losses of € 1.3 million (2006: € 0.0 million) performed in prior periods were reversed. Before the retransfer of trading properties to investment properties, a fair value adjustment on these properties is performed to affect net income. The fair value adjustment on trading properties transferred to investment properties amounted to € 37.4 million in 2007 (2006: € 0.0 million).

10 Cost of materials

€ million	2007	2006
Expenses for ancillary costs	383.9	233.0
Expenses for maintenance and modernisation	119.9	134.9
Other cost of purchased goods and services	58.8	53.5
	562.6	**421.4**

The sharp increase in ancillary costs is mainly due to the substantial increase compared with the prior period in the ancillary costs charged to tenants (see note [6] Income from property management).

11 Personnel expenses

€ million	2007	2006
Wages and salaries	84.7	108.0
Social security, pensions and other employee benefits	18.7	20.2
	103.4	**128.2**

Personnel expenses contain costs for restructuring measures, pre-retirement part-time work arrangements and other severance payments totalling € 6.1 million (2006: € 15.8 million).

In the year under review, employers' contributions to the statutory pension insurances totalling € 7.2 million (2006: € 7.5 million) were paid.

As at December 31, 2007, 1,406 people (2006: 1,385) were employed at DAIG. On an annual average, 1,390 people (2006: 1,481) were employed. The figures do not include trainees.

12 Depreciation and amortisation

Amortisation of intangible assets totalled € 2.5 million (2006: € 2.5 million). Of this figure, customer bases accounted for € 1.5 million (2006: € 1.6 million). Depreciation of property, plant and equipment amounted to € 2.4 million (2006: € 1.5 million).

13 Other operating income

€ million	2007	2006
Income from the reversal of provisions	23.1	27.9
Income from compensation paid and cost reimbursements	13.2	4.0
Recognition of negative goodwill	7.8	–
Income from the reversal of impairment losses	3.5	6.6
Book gain from the disposal of investments	–	24.4
Other	14.3	13.0
	61.9	**75.9**

Income from the reversal of provisions mainly relates to the reversal of the provision established in connection with company acquisitions (€ 4.9 million), provisions for changes in land register entries and the creation of land charges (€ 4.9 million) as well as the reversal of a provision for the costs of the vacant Grugaplatz premises, Essen, (€ 3.0 million).

Income from compensation paid and cost reimbursements includes € 9.0 million in compensation paid by insurance companies (2006: € 2.0 million).

Furthermore, the other operating income includes € 7.8 million, which was attributable to the recognition of the negative goodwill from the first-time consolidation of Immobilienfonds Koblenz-Karthause Wolfgang Hober KG, Düsseldorf and DA DMB Netherlands B.V., Eindhoven.

The book gain of € 24.4 million from the disposal of investments shown in 2006 relates to the divestment of the financial investment in Rhein Lippe Wohnen GmbH, Duisburg. The carrying amount of the financial investment was € 0.6 million.

14 Other operating expenses

The other operating expenses break down as follows:

€ million	2007	2006
Additions to provisions	25.9	20.2
Auditors' and consultants' fees	16.5	18.4
Impairment losses on receivables	15.9	21.4
Rents, leases, ground rents	11.5	12.6
Advertising costs	7.1	2.1
IT and administrative services	5.7	11.2
Legal and notary costs	4.3	17.1
Sale preparation costs	4.2	8.2
Adjustment to sales of past periods	2.8	2.9
Surveying costs	1.3	2.4
Sales incidentals	0.9	2.0
Analysis and remediation costs	0.8	1.4
Real estate transfer tax	0.2	3.9
Other	19.9	26.6
	117.0	**150.4**

The advertising costs in 2007 include € 5.0 million for the setting-up of a fund for the promotion of measures and facilities in the social and cultural sectors.

In 2006, the legal and notary costs included costs of € 13.4 million for entering transfers of title connected with the restructuring and refinancing measures.

15 Financial income

€ million	2007	2006
Income from other investments	1.9	2.0
Income from non-current securities and non-current loans	1.9	1.9
Other interest and similar income	26.7	21.1
	30.5	**25.0**

16 Financial expenses

€ million	2007	2006
Interest and similar expenses	361.9	356.2
thereof from affiliated companies	–	28.2
	361.9	**356.2**

The financial expenses mainly relate to interest expense on financial liabilities measured at amortised cost.

Interest expense contains interest accretion to provisions, thereof € 10.7 million (2006: € 11.1 million) relating to provisions for pensions and € 1.7 million (2006: € 1.0 million) relating to miscellaneous other provisions.

Derivatives were measured at their fair value. To the extent that the hedge was ineffective, the change in the fair value of € 0.9 million (2006: € 0.0 million) was recognised as a reduction of interest expense.

A reconciliation of net interest to net interest from non-derivative financial instruments is shown in the table below:

€ million	2007	2006
Interest income	26.7	21.1
Interest expense	–361.9	–356.2
Net interest	**–335.2**	**–335.1**
less		
Interest income from provisions for pensions in acc. with IAS 19	10.7	11.1
Interest income from other provisions in acc. with IAS 37	1.4	0.4
Interest expense from the measurement of derivatives at fair value in acc. with IAS 39	–0.9	0.0
Net interest from non-derivative financial instruments	**–324.0**	**–323.6**

The net interest expense from non-derivative financial instruments breaks down into the measurement categories in accordance with IAS 39 as follows:

€ million	Measurement category in acc. with IAS 39 *	2007	2006
Loans and receivables	LaR	26.3	20.4
Available-for-sale assets	AfS	0.1	0.1
Financial liabilities measured at amortised cost **	FLAC	–350.4	–344.1
Net interest from non-derivative financial instruments		**–324.0**	**–323.6**

* Compare note (33) Additional disclosures on financial instruments.
** Interest flows from cash flow hedges are shown net in the financial liabilities.

17 Income tax

€ million	2007	2007
Current income tax	24.2	24.5
Lump-sum taxation of the previously untaxed so-called EK 02 amounts	197.8	–
Aperiodical current income tax	–0.3	–9.7
Deferred income tax	27.7	182.8
	249.4	**197.6**

The current tax expense is determined on the basis of the taxable income for the reporting period. For the 2007 financial year, the combined tax rate of corporate income tax and solidarity surcharge is 26.4% of earnings. Including German municipal trade tax at nearly 13.6% (in consideration of deductibility for corporate income tax purposes), the combined tax rate is 40% (rounded) in 2007.

The enactment of the 2008 Annual Tax Act (Jahressteuergesetz 2008) led to lump-sum taxation of the previously untaxed so-called EK 02 amounts at a tax rate of 3%. The resultant tax is payable as from 2008 in ten equal instalments and leads to an extraordinary tax expense of € 197.8 million in 2007.

Deferred taxes are the expected tax charges or benefits arising from the difference between the carrying amounts of assets and liabilities in the consolidated financial statements and the tax bases used to calculate the taxable income (tax balance sheet).

Deferred tax liabilities are generally recorded for all taxable temporary differences. Deferred tax assets are recognised only to the extent that the realisation of the respective benefit is probable. Based on the profits of the past and the expected profits in the foreseeable future, allowances are only accounted for if this criterion is not fulfilled.

Therefore, no deferred tax assets were recognised in the balance sheet for deductible temporary differences (excluding loss carryforwards) totalling € 44.2 million (2006: € 66.5 million) and no trade tax for deductible temporary differences of € 108.2 million (2006: € 46.8 million) as their future utilisation is unlikely.

Such deferred tax assets and liabilities are not recognised where the temporary difference arises from initial recognition of goodwill in connection with a business combination or the initial recognition (other than a business combination) of other assets and liabilities in a transaction which neither affects taxable income nor net income.

As a result of the 2008 Business Tax Reform (Unternehmensteuerreformgesetz 2008), the previous corporate income tax rate of 25% is reduced to 15% as from January 1, 2008. In consideration of the reduction in the basic trade tax rate as well as the abolition of the deductibility of trade tax, the 2008 Business Tax Reform leads to a reduction in the combined tax rate of corporate income tax and trade tax from the current 40.0% to 31.6%. Deferred taxes are therefore determined using the combined tax rate of corporate income tax and trade tax of 31.6% (2006: 40.0%). This reduction in the tax rate results in deferred tax income of € 140.0 million in 2007. The effects of the extended trade tax exemption ("erweiterte Grundstückskürzung") in accordance with the German Trade Tax Act were taken into consideration in the measurement of deferred taxes.

As a result of the enactment of the 2008 Business Tax Reform, the rules on loss carryforwards were changed in Germany so that unutilised loss carryforwards may be partly or completely lost – depending on the extent of share transfers. Furthermore, tax loss carryforwards for corporate income tax and trade tax purposes may only be offset against taxable income of € 1.0 million and 60% of taxable income exceeding € 1.0 million.

Deferred taxes on loss carryforwards are capitalised provided that it is likely that there will be sufficient income in the following years for those loss carryforwards to be utilised and loss carryforwards have not lapsed as a result of share transfers.

As at December 31, 2007, the unutilised corporate income tax loss carryforwards totalled € 885.0 million (2006: € 897.1 million) and the unutilised trade tax loss carryforwards amounted to € 469.0 million (2006: € 432.0 million), for which deferred tax assets have been established where their realisation is probable.

The measurement of deferred tax assets on tax loss carryforwards in 2007 led to tax expense of € 69.1 million (2006: € 21.3 million), mainly due to the changes in the rules on loss carryforwards in the 2008 Business Tax Reform.

Tax reductions due to the utilisation of tax loss carryforwards for which no deferred tax assets existed led in the 2007 financial year to a reduction in the tax burden of € 0.5 million (2006: € 1.8 million).

No deferred taxes were recognised in the balance sheet for unutilised corporate income tax loss carryforwards of € 817.4 million (2006: € 413.9 million). These loss carryforwards relate exclusively to German companies and, under current tax law, there are no restrictions either with regard to time or the amount of the loss carryforward. In addition, there are further trade tax loss carryforwards of € 465.5 million (2006: € 360.2 million) which have an unlimited carryforward and which have not led to deferred tax assets.

A reconciliation between actual income taxes and expected tax expense which is the product of the accounting profit from continuing operations multiplied by the average tax rate applicable in Germany is shown in the table below. The applicable tax rate for 2007 of 40% results from corporate income tax of 25% plus a solidarity surcharge of 5.5% and the average trade tax.

€ million	2007	2006
Operating profit before income taxes	**290.8**	**428.7**
Income tax rate of the company in %	40.0	40.0
Expected tax expense	**116.3**	**171.5**
Trade tax effects	–15.0	–5.0
Non-deductible operating expenses	10.4	12.9
Tax-free income	–0.3	–10.2
Effect of change in tax rate	–140.0	–
Lump-sum taxation of the untaxed so-called EK 02 amounts	197.8	–
Change in the deferred tax assets on loss carryforwards	69.1	21.3
Additional losses for which no deferred tax asset is recognised	13.0	10.0
Utilisation of loss carryforwards without deferred tax assets	–0.5	–1.8
Effects of taxes from prior years	–0.3	–1.0
Tax rate differences at foreign Group companies	0.4	–
Tax-free effect from first-time consolidations	–3.1	–
Other (net)	1.6	–0.1
Actual income taxes	**249.4**	**197.6**
Actual tax rate in %	**85.8**	**46.1**

The deferred taxes refer to temporary differences in balance sheet items and unused loss carryforwards as follows:

€ million	Dec. 31, 2007	Dec. 31, 2006
Investment properties	2.6	13.9
Property, plant and equipment	0.1	7.4
Inventories	37.8	52.3
Financial assets	0.0	2.9
Receivables	–	6.0
Prepaid expenses	9.4	23.0
Provisions for pensions	20.7	31.2
Other provisions	12.9	23.3
Liabilities	24.6	0.5
Unused loss carryforwards	12.6	137.2
Deferred tax assets	**120.7**	**297.7**

€ million	Dec. 31, 2007	Dec. 31, 2006
Intangible assets	3.5	5.1
Investment properties	517.7	509.3
Property, plant and equipment	0.9	2.6
Inventories	94.3	144.0
Receivables	1.0	0.0
Other provisions	8.9	2.3
Liabilities	99.2	149.0
Deferred income	6.1	2.7
Untaxed income (Section 6b EStG)	0.0	52.4
Deferred tax liabilities	**731.6**	**867.4**
Net deferred tax liabilities	**610.9**	**569.7**

Deferred tax assets and liabilities are netted against each other when the same company and the same tax authority are involved and the realisation period is the same. As a result, the following deferred tax assets and liabilities are stated in the balance sheet as at December 31, 2007:

€ million	Dec. 31, 2007	Dec. 31, 2006
Deferred tax assets	16.5	53.1
Deferred tax liabilities	627.4	622.8
Net deferred tax liabilities	**610.9**	**569.7**

Deferred tax assets in connection with the discontinued operation were part of the assets classified as held for sale in 2006.

First-time consolidations led to deferred tax liabilities (net) of € 12.3 million. The change in deferred taxes recognised directly in equity in 2007 amounts to € 0.8 million (2006: € 38.4 million).

Deferred tax liabilities on unremitted earnings of subsidiaries are not recognised as they are expected to be permanently invested or are not subject to taxation.

NOTES TO THE CONSOLIDATED BALANCE SHEET

18 Intangible assets

€ million	Concessions, industrial rights, licenses and similar rights	Self-developed software	Customer bases	Total
Cost				
Balance on Jan. 1, 2007	7.5	–	15.8	**23.3**
Additions	0.5	1.2	–	**1.7**
Disposals	–0.5	–	–	**–0.5**
Balance on Dec. 31, 2007	7.5	1.2	15.8	**24.5**
Accumulated amortisation				
Balance on Jan. 1, 2007	5.6	–	3.2	**8.8**
Amortisation in 2007	0.8	0.2	1.5	**2.5**
Disposals	–0.5	–	–	**–0.5**
Balance on Dec. 31, 2007	5.9	0.2	4.7	**10.8**
Carrying amounts				
Balance on Dec. 31, 2007	1.6	1.0	11.1	**13.7**
Cost				
Balance on Jan. 1, 2006	8.3	–	15.8	**24.1**
Additions	2.0	–	–	**2.0**
Disposals	–1.4	–	–	**–1.4**
Transfer to assets classified as held for sale	–0.5	–	–	**–0.5**
Other transfers	–0.9	–	–	**–0.9**
Balance on Dec. 31, 2006	7.5	–	15.8	**23.3**
Accumulated amortisation				
Balance on Jan. 1, 2006	7.4	–	1.6	**9.0**
Amortisation in 2006	0.9	–	1.6	**2.5**
Disposals	–1.4	–	–	**–1.4**
Transfer to assets classified as held for sale	–0.4	–	–	**–0.4**
Other transfers	–0.9	–	–	**–0.9**
Balance on Dec. 31, 2006	5.6	–	3.2	**8.8**
Carrying amounts				
Balance on Dec. 31, 2006	1.9	–	12.6	**14.5**

No impairment of intangible assets was identified at the balance-sheet date.

19 Property, plant and equipment

€ million	Owner-occupied properties	Technical equipment, plant and machinery	Other equipment, fixtures, furniture and office equipment	Construction in progress, pre-construction expenses	Total
Cost					
Balance on Jan. 1, 2007	13.5	0.8	25.8	1.1	**41.2**
Additions	0.0	–	0.8	–	**0.8**
Disposals	–	0.0	–3.2	0.0	**–3.2**
Transfers	–	0.1	–0.1	–1.1	**–1.1**
Balance on Dec. 31, 2007	13.5	0.9	23.3	0.0	**37.7**
Accumulated depreciation					
Balance on Jan. 1, 2007	0.2	0.7	20.4	0.8	**22.1**
Depreciation in 2007	0.2	0.1	2.2	0.0	**2.5**
Disposals	0.0	0.0	–3.2	0.0	**–3.2**
Transfers	–	0.0	0.0	–0.8	**–0.8**
Balance on Dec. 31, 2007	0.4	0.8	19.4	0.0	**20.6**
Carrying amounts					
Balance on Dec. 31, 2007	13.1	0.1	3.9	0.0	**17.1**
Cost					
Balance on Jan. 1, 2006	–	1.6	41.2	1.2	**44.0**
Additions	–	–	1.4	0.3	**1.7**
Disposals	–	–0.2	–9.4	–0.3	**–9.9**
Transfer to assets classified as held for sale	–	–	–2.3	–	**–2.3**
Other transfers	13.5	–0.6	–5.1	–0.1	**7.7**
Balance on Dec. 31, 2006	13.5	0.8	25.8	1.1	**41.2**
Accumulated depreciation					
Balance on Jan. 1, 2006	–	1.4	33.8	0.9	**36.1**
Depreciation in 2006	0.2	0.1	1.3	–	**1.6**
Disposals	–	–0.2	–9.1	–0.1	**–9.4**
Transfer to assets classified as held for sale	–	–	–1.9	–	**–1.9**
Other transfers	–	–0.6	–3.7	–	**–4.3**
Balance on Dec. 31, 2006	0.2	0.7	20.4	0.8	**22.1**
Carrying amounts					
Balance on Dec. 31, 2006	13.3	0.1	5.4	0.3	**19.1**

No impairment of property, plant and equipment was identified at the balance-sheet date.

20 Investment properties

€ million	
Balance on Jan. 1, 2007	**6,908.6**
Additions due to changes in scope of consolidation	188.9
Additions	365.6
Capitalised modernisation costs	9.2
Transfer to trading properties	–10.3
Transfer from trading properties	236.7
Transfer from property, plant and equipment	0.3
Disposals	–26.0
Fair value adjustment	197.6
Balance on Dec. 31, 2007	**7,870.6**
Balance on Jan. 1, 2006	**6,561.9**
Additions	133.8
Capitalised modernisation costs	1.7
Transfer to trading properties	–23.0
Transfer from trading properties	81.4
Transfer to assets classified as held for sale	–204.7
Other transfers	23.6
Disposals	–39.8
Fair value adjustment	360.7
Fair value adjustment on investment properties transferred to assets classified as held for sale	13.0
Balance on Dec. 31, 2006	**6,908.6**

Of the additions due to changes in the scope of consolidation, € 173.0 million relates to the first-time consolidation of DA DMB Netherlands B.V., Eindhoven, and € 15.9 million to the first-time consolidation of Immobilienfonds Koblenz-Karthause Wolfgang Hober KG, Düsseldorf. As a result of these first-time consolidations, the DAIG residential real estate portfolio increased by 3,614 residential units.

The additions of € 365.6 million relate to the acquisition of a total of 4,659 residential units.

Due to a change in the assessment of their marketability, properties totalling € 236.7 million (2006: € 81.4 million) were transferred from trading properties to investment properties.

The investment properties include leased assets which are defined as finance leases according to IAS 17 and are treated as if they were the Group's economic property. They amount to € 32.1 million (2006: € 31.7 million) and relate to the Spree-Bellevue (Spree-Schlange) property in Berlin. The property has been leased from DB Immobilienfonds 11 Spree Schlange von Quistorp KG until 2044. The leasing agreement includes an obligation to pay compensation for loss of use as agreed by contract. At the end of 2028, each fund subscriber is entitled to return his share to the property fund at a fixed redemption price. If all of the fund investors make use of this option, DAIG is obliged to acquire the property at a fixed purchase price after deduction of borrowings. If more than 75% of the shares are returned in this way, DAIG has a call option for the purchase of all fund shares. Details of minimum lease payments are given under note (29) Other financial liabilities.

The carrying amount of the investment properties is predominantly encumbered with land charges in favour of different lenders; also see note (29) Other financial liabilities.

Long-term leases

The long-term leases on commercial properties are non-cancellable operating leases. The minimum future leasing receipts from these leases are due as follows:

€ million	2007	2006
Total minimum lease payments	**23.5**	**43.5**
Due within one year	5.7	26.3
Due in 1 to 5 years	11.1	10.0
Due after 5 years	6.7	7.2

As from 2008, the minimum lease payments of Viterra Logistikimmobilien GmbH & Co. KG, Essen, are not included as the company's commercial properties were sold in December 2007.

Fair values

The fair values of the real estate portfolios were determined in accordance with IAS 40.

DAIG performed an internal valuation to determine the fair values of its entire stock of residential buildings, small commercial units, garages and parking spaces as well as undeveloped land as at December 31, 2007. The following criteria were applied in the valuation of the different segments of real estate:

Residential real estate

The value of the entire portfolio of residential properties was determined on the basis of the International Valuation Standard Committee's definition of market value. It is not permitted to take into account either portfolio premiums and discounts, which can be observed when portfolios are sold in market transactions, or time restrictions in the marketing of individual properties. The determination of fair values by DAIG thus complies with the IFRS standards.

In line with the DAIG business model, a distinction was made between properties to be managed and properties to be sold individually (privatisation portfolio):

DAIG considers properties which are being sold individually or which, in DAIG's opinion, are basically suitable for being sold individually as part of the privatisation portfolio. First, all buildings were valued according to a rating system with regard to their quality, their market attractiveness and their macro-location. The aspects considered in assessing the quality of the buildings included their age and an assessment of the technical condition of the building. This assessment was based on maintenance reports compiled by external companies for which the properties were inspected on a regular basis. The attractiveness was assessed on the basis of various factors including in particular the micro-location of the buildings, how built-up the area is, the average size of the apartments and the number of rooms. The quality of the macro-location was derived from the purchasing power index in the particular postal code district. The value of the privatisation share per building was determined using the comparable method, i.e. comparable figures based on the company's own sales and extensive market research.

For the privatisation portfolio, DAIG assumed that there are a certain number of apartments which, depending on the attractiveness, quality and macro-location, cannot be sold directly to tenants, owner-occupiers and capital investors and that these remaining apartments can only be sold at a discounted price in small packages (remainder share). The value of the remainder share was determined according to a method similar to the income capitalisation method and specially tailored to the product.

The property management portfolio was valued using the income capitalisation approach. The basis of the valuation is the net annual income per building which results from the annual net rent minus non-allocable operating costs, maintenance expenses and administrative expenses in accordance with the II. Berechnungsverordnung (German Regulation on Calculations for Residential Buildings in Accordance with the Second Housing Construction Law) and any ground rent.

Void periods were taken into consideration on the basis of assumed vacancy and re-letting scenarios and by applying market rents. The capitalised value of potential yield returns was determined by capitalising the annual net yield at building level. The capitalised interest rates applied were derived from the current German real estate market and allocated to the buildings with the aid of the previously determined ratings. Special considerations such as long-term restricted rents, expiring rent restrictions or mining subsidence damage were allowed for by means of premiums and discounts.

Commercial properties
The commercial properties in the portfolio were measured on the basis of individual experts' opinions and offers made in the course of sales activities.

Undeveloped land
Undeveloped plots of land were measured according to their state of development, the likelihood of development and the local market situation on the basis of derived land guide prices.

Results of the valuation
The fair value of DAIG's real estate portfolio as at December 31, 2007 was € 10,270.0 million (2006: € 9,890.1 million).

The fair value of the real estate portfolio by region is as follows:

	Residential units		Other rental units		Fair values in € million	
	2007	2006	2007	2006	2007	2006
Regional subsidiary						
Deutsche Annington Nord GmbH	19,878	18,370	4,975	4,232	988.9	823.8
Deutsche Annington Ost GmbH	17,335	18,073	2,964	2,803	768.1	733.3
Deutsche Annington Rheinland	24,086	19,920	8,110	6,315	1,523.5	1,270.6
Deutsche Annington Ruhr GmbH	36,844	36,991	6,452	6,296	1,724.3	1,684.9
Deutsche Annington Süd GmbH	16,949	16,966	8,169	8,285	1,146.9	1,164.1
Deutsche Annington Süd-West GmbH	31,928	31,658	8,031	7,313	1,996.1	1,940.9
Deutsche Annington Westfalen	43,201	43,460	6,465	6,477	2,024.2	1,984.5
Commercial units					15.1	207.5
Undeveloped land					82.9	80.5
	190,221	**185,438**	**45,166**	**41,721**	**10,270.0**	**9,890.1**
thereof						
Investment properties					7,870.6	6,908.6
Trading properties and owner-occupied properties					2,399.4	2,807.0
Assets classified as held for sale					0.0	174.5

Restraints on disposal

When acquiring 13,895 WohnBau Rhein-Main AG apartments in 1999, a number of commitments to Deutsche Post and Deutsche Post Wohnen were made, including an undertaking by DAIG (formerly Viterra) that it would serve no notice to vacate for personal use until 2009. Tenants and their spouses may not be served notice to vacate for personal use if they are aged 60 or over. Furthermore, when residential units are converted into owner-occupier apartments, there is an obligation to give tenants right of first refusal.

The 63,626 residential units which DAIG acquired from Bundeseisenbahnvermögen in 2000 are subject to the following restrictions on sale: Not more than 50% may be sold within the first ten years with the exception of housing stock in the new German states. If residential units in the new German states are sold, 25% of the proceeds must be paid to Deutsche Bundesbahn and a further 25% (less sales costs) must be invested in the modernisation and maintenance of the remaining housing stocks in the new German states. Furthermore, residential property used as such by a specified category of people may only be sold to them or to people named by them. Multi-family houses and owner-occupier apartments may only be sold to parties other than the specified category of people if more than half of the apartments in a block are already rented by tenants who do not fall under the specified category.

The 10,413 Frankfurter Siedlungsgesellschaft mbH residential units acquired from the German federal government in 2001 and 2002 are subject to the restriction on sale that an annual sales programme must be agreed with the government. In addition, until November 2011, residential units must first be offered for sale to the tenant. Residential units may only be sold to persons other than the tenant if 50% of the residential units in a building have previously been sold to tenants or owner-occupiers (vacant residential units). Tenants aged 65 or over whose residential unit is sold have a right to live in it for life.

In 2006/2007, DAIG acquired various housing stocks (2,773 residential units) from Corpus Immobiliengruppe and entered particularly into the following social obligations: Tenants and their spouses who have rented an apartment at various contractually stipulated times in the past may not be served notice to vacate for personal use if they are aged 60 or over. No notice may be served to other tenants until after certain contractually fixed dates. If the apartments are sold, the tenants are to be given first right of refusal until after certain contractually fixed dates.

In connection with the issuing of REF Notes to German Residential Asset Note Distribution plc. (GRAND) in 2006, DAIG is obliged to use part of the proceeds from the disposal of properties for the repayment of these notes. Overall, DAIG has to ensure that the aggregated disposal proceeds less any sales costs cover these fixed repayments. If DAIG does not meet this requirement, it will have to fund the difference out of own cash. If DAIG is not able to fund this shortfall, it will not be allowed to sell any properties.

21 Financial assets

€ million	Dec. 31, 2007 non-current	Dec. 31, 2007 current	Dec. 31, 2006 non-current	Dec. 31, 2006 current
Non-consolidated subsidiaries	–	–	0.8	–
Other investments	1.7	–	1.7	–
Loans to related companies	34.9	–	34.0	–
Long-term securities	2.3	–	2.3	–
Other long-term loans	0.7	–	0.9	–
Derivatives	6.4	–	–	–
Restricted cash	2.1	–	3.0	–
Dividends from other investments	–	1.7	–	1.7
	48.1	**1.7**	**42.7**	**1.7**

The carrying amount of financial assets is the maximum risk of loss.

The loans to related companies not yet due relate to a loan to the property fund DB Immobilienfonds 11 Spree Schlange von Quistorp KG.

The other long-term loans to employees are deducted from the salary pro rata temporis on the due date as part of payroll accounting.

Derivatives are explained in detail in note (35) Derivative financial instruments.

As part of financing, cash restrictions were imposed on DAIG in respect of credit balances with banks totalling € 2.1 million (2006: € 3.0 million). Bank deposits to which cash restrictions apply for at least twelve months after the balance-sheet date are stated as non-current financial assets.

22 Other assets

€ million	Dec. 31, 2007 non-current	Dec. 31, 2007 current	Dec. 31, 2006 non-current	Dec. 31, 2006 current
Advance payments	–	1.0	–	0.0
Insurance claims	9.2	3.5	6.9	0.9
Miscellaneous other assets	13.3	16.7	13.8	26.0
Prepaid expenses	0.9	1.7	1.2	1.6
	23.4	**22.9**	**21.9**	**28.5**

While the indirect obligation arising from pension obligations transferred to former affiliated companies of the Viterra Group is shown under provisions for pensions, a corresponding asset of € 12.9 million (2006: € 13.7 million) arising from the right to reimbursement is shown under non-current miscellaneous other assets.

23 Inventories

€ million	Dec. 31, 2007	Dec. 31, 2006
Trading properties	1,910.3	2,270.5
Land and equivalent rights excluding buildings	–	3.3
Land and equivalent rights including finished/unfinished buildings	–	1.9
Ancillary costs	288.5	355.0
	2,198.8	**2,630.7**

The change in trading properties is mainly a result of their sale as well as their transfer to investment properties; see note (7) Profit on disposal of properties.

The carrying amount of the trading properties is predominantly encumbered with land charges in favour of different lenders; see note (29) Other financial liabilities.

For information on restraints on disposal of trading properties, see note (20) Investment properties.

24 Trade and other receivables

The trade and other receivables break down as follows:

€ million	Impaired		Not impaired						Carrying amount
				past due by					
	Gross amount	Impairment losses	neither impaired nor past due	less than 30 days	between 30 and 90 days	between 91 and 180 days	between 181 and 360 days	more than 360 days	(Maximum risk of loss)
Receivables from the sale of properties	4.8	–3.3	66.9	0.0	0.5	3.9	1.9	43.9	118.6 *
Receivables from property letting	32.8	–15.5							17.3
Receivables from property management			1.5						1.5
Receivables from other supplies and services			0.2						0.2
Balance on Dec. 31, 2007	37.6	–18.8	68.6	0.0	0.5	3.9	1.9	43.9	**137.6**
Receivables from the sale of properties	6.1	–3.2	116.9	0.0	13.2	22.1	23.4	70.4	248.9 *
Receivables from property letting	26.0	–17.1							8.9
Receivables from property management			0.5						0.5
Receivables from other supplies and services			0.0						0.0
Balance on Dec. 31, 2006	32.1	–20.3	117.4	0.0	13.2	22.1	23.4	70.4	**258.3**

* The maximum risk of loss on the receivables from the sale of properties is limited to the margin and the transaction unwinding costs as the title to the properties remains with DAIG as security until receipt of payment.

The carrying amounts of current trade receivables correspond to their fair values.

As regards the trade receivables which are neither impaired nor past due, there was no indication on the balance-sheet date that the debtors would not meet their payment obligations.

The sharp decrease in total trade receivables which are all short-term to € 137.6 million (2006: € 258.3 million) is mainly due to amounts received from the sale of properties.

Receivables from the sale of properties arise in most cases on economic transfer of title. The due date of the receivable may, however, depend on the fulfilment of contractual obligations. A large number of purchase contracts provide for the purchase price to be deposited in an escrow account. Impairment losses up to the amount of the posted proceeds from sales are recorded for doubtful debts.

Receivables from property letting generally arise at the beginning of a month. Whilst an impairment loss was made on 25% of the outstanding rent receivables under existing rental contracts due at December 31, 2007, an impairment loss of the full amount of the outstanding rent receivables due under rental contracts which had ended by the balance-sheet date was made.

After considering the benefits and cost, no further breakdown of the receivables from property management and the receivables from other supplies and services by due dates has been made as this information is neither material nor relevant to the assessment of the credit risk.

Impairment losses on trade receivables developed as follows:

€ million	Trade receivables
Impairment losses as at January 1, 2007	**20.3**
Addition	10.5
Utilisation	11.9
Reversal	0.1
Impairment losses as at December 31, 2007	**18.8**

No impairment losses were made on other financial receivables either in the reporting year or in the prior period.

The following table shows the expenses for the full derecognition of receivables as well as income from the receipt of derecognised receivables:

€ million	2007	2006
Expenses for the derecognition of receivables	2.0	0.9
Income from the receipt of derecognised receivables	0.5	0.3

25 Cash and cash equivalents

Cash and cash equivalents include cash on hand, cheques and deposits at banking institutions with an original term of up to three months totalling € 363.5 million (2006: € 703.1 million). Furthermore, the item contains marketable securities of € 2.9 million (2006: € 3.3 million).

The deposits at banking institutions include an amount of € 124.2 million (2006: € 194.8 million), which was pledged in connection with borrowings. Of these accounts, € 66.4 million (2006: € 120.7 million) are restricted. The marketable securities are also restricted with regard to their use.

Bank deposits to which cash restrictions apply for at least twelve months after the balance-sheet date are stated as non-current financial assets.

26 Equity

The subscribed capital of Deutsche Annington Immobilien GmbH is unchanged at € 75,000 and has been fully paid in. Monterey Holdings I S.à.r.l., Luxembourg, has been the parent company of DAIG since June 15, 2007. On this date, all DAIG shares were transferred from the previous sole shareholder, Deutsche Annington S.A., Luxembourg, to Monterey Holdings I S.à.r.l., Luxembourg. The subscribed capital is split into shares in the nominal amounts of € 25,000, € 26,000, € 23,250 and € 750 respectively.

The capital reserve amounts to € 682.2 million and did not change during the 2007 financial year.

The development of the Group's equity is shown in the consolidated statement of changes in equity.

The other reserves contain cumulative changes in equity not affecting income. On the one hand, those changes partly arose from foreign currency differences resulting from the translation of the financial statements of foreign operations (only 2006). On the other hand, the effective portion of the cumulative net change in the fair value of cash flow hedging instruments is shown within this reserve until the underlying hedged item affects net income as well as the cumulative net change in the fair value of available-for-sale financial assets until the asset is derecognised.

The income and expenses recognised break down as follows:

€ million	2007	2006
Differences from foreign currency translation	–	–0.7
Changes in the fair value of cash flow hedges	2.9	–27.0
Income/expense recognised directly in equity	**2.9**	**–27.7**
Profit for the period	47.8	207.1
Total profit for the period	**50.7**	**179.4**
attributable to:		
Equity holders of DAIG	49.2	179.4
Minority interests	1.5	0.0

The cumulative changes in equity not affecting net income from cash flow hedges break down as follows:

€ million	2007	2006
January 1	**0.0**	**27.0**
Fair value gains in the period	3.7	96.1
Taxes on fair value gains in the period	–0.8	–38.4
Transfer to profit/loss	–	–141.1
Taxes on transfer to profit/loss	–	56.4
December 31	**2.9**	**0.0**

Shares of third parties in Group companies are shown under minority interests.

Capital management

The aims of the DAIG capital management system are to:

- ensure an adequate return for investors, taking the relevant risk situation into consideration,
- ensure that the company can service its debts at all times and
- give the company enough flexibility to implement its growth and portfolio optimisation strategy.

27 Provisions

€ million	Dec. 31, 2007 non-current	Dec. 31, 2007 current	Dec. 31, 2006 non-current	Dec. 31, 2006 current
Provisions for pensions and similar obligations	**268.4**	**–**	**272.0**	**–**
Provisions for taxes (current income taxes excl. deferred taxes)	**–**	**133.6**	**–**	**129.1**
Other provisions				
Environmental remediation	29.8	2.1	32.9	2.3
Personnel costs (excluding restructuring)	24.3	31.3	22.7	30.5
Restructuring	–	2.4	–	6.9
Contractually agreed guarantees	15.4	3.9	3.6	16.3
Outstanding trade invoices	–	17.4	–	30.9
Follow-up costs from property sales	–	2.7	–	3.5
Miscellaneous other provisions	20.7	66.2	45.5	85.3
	90.2	**126.0**	**104.7**	**175.7**
	358.6	**259.6**	**376.7**	**304.8**

Development of other provisions

€ million	Jan. 1, 2007	Additions	Reversals	Change in scope of consolidation	Transfer carryover	Interest portion	Utilisation	Dec. 31, 2007
Other provisions								
Environmental remediation	35.2	2.4	-2.2	–	–	–	-3.5	31.9
Personnel costs (excluding restructuring)	53.2	22.3	-4.1	–	-0.3	1.1	-16.6	55.6
Restructuring	6.9	2.1	-2.0	–	–	–	-4.6	2.4
Contractually agreed guarantees	19.9	4.0	-1.9	–	0.4	–	-3.1	19.3
Outstanding trade invoices	30.9	11.3	-6.0	0.0	-0.7	–	-18.1	17.4
Follow-up costs from property sales	3.5	0.8	-0.4	–	1.6	–	-2.8	2.7
Miscellaneous other provisions	130.8	35.3	-23.8	0.3	-2.5	0.3	-53.5	86.9
	280.4	**78.2**	**-40.4**	**0.3**	**-1.5**	**1.4**	**-102.2**	**216.2**

Provisions for pensions and similar obligations

DAIG has pension obligations towards various employees which are based on the length of service. Defined benefit obligations and defined contribution obligations – for which DAIG guarantees a certain level of benefit – are provided for through provisions for pensions. DAIG has taken out reinsurance contracts for individual people against payment of a one-off contribution. The conclusion of further reinsurance policies is not planned.

Pension plan obligations and the expenses necessary to cover these obligations are determined using the projected unit credit method prescribed by IAS 19, whereby current pensions and vested rights as well as expected future increases in salaries and pensions are included in the measurement. The following actuarial assumptions were made at the reporting date – in each case related to the end of the year and with economic effect for the following year. The expected return on plan assets has, on the other hand, already been taken into account in the interest expense in the respective current financial year.

Actuarial assumptions:

in %	2007	2006
Discount rate	5.50	4.25
Projected salary increases	2.75	2.75
Projected pension payment increases	2.00	1.75
Expected return on plan assets	4.50	3.25

Plan assets comprise solely reinsurance contracts. Until 2006, the expected return on plan assets was based on the interest rate guaranteed in those contracts. Since the principal insurer was able to generate interest rates of 4.5% despite the fact that interest rates have fallen in recent years, the higher rate was taken as from 2007. The value of the reinsurance contracts for certain people is higher than the related pension obligations. The expected return is only determined for the share of the value of the reinsurance policies to be classified as plan assets at the beginning of the year.

The defined benefit obligation (DBO) has developed as follows:

€ million	2007	2006
Defined benefit obligation as at Jan. 1	**291.1**	**309.9**
Interest cost	12.0	11.6
Current service cost	3.0	3.4
Actuarial gains	–32.8	–6.1
Past service cost	–	0.3
Benefits paid	–18.6	–18.3
Liabilities transferred in sale of subsidiaries	–	–9.6
Other transfers	0.0	–0.1
Transfer of transitional payments to pensions	0.3	–
Defined benefit obligation as at Dec. 31	**255.0**	**291.1**

The following table shows a reconciliation of the defined benefit obligation to the provision for pensions recognised in the balance sheet:

€ million	Dec. 31, 2007	Dec. 31, 2006
Present value of funded obligations	22.0	21.2
Present value of unfunded obligations	233.0	269.9
Total present value of obligations (DBO)	**255.0**	**291.1**
Fair value of plan assets	–17.9	–17.6
Unrecognised actuarial gains/losses	31.3	–1.5
Net liability in the balance sheet	**268.4**	**272.0**

The total net periodic pension cost comprises the following:

€ million	2007	2006
Interest cost	12.0	11.6
Current service cost	3.0	3.4
Expected return on plan assets	–0.8	–0.5
Past service cost	–	0.3
	14.2	**14.8**

The change in the fair value of plan assets is as follows:

€ million	2007	2006
Fair value of plan assets as at Jan. 1	**17.6**	**17.1**
Expected return on plan assets	0.8	0.7
Actuarial gains	0.1	0.3
Benefits paid	–0.6	–0.5
Fair value of plan assets as at Dec. 31	**17.9**	**17.6**

As at December 31, 2007, € 17.9 million (2006: € 17.6 million) was offset against the corresponding present value. The amount by which the fair value of the assets exceeds the corresponding benefit obligations totalling € 0.5 million is shown under other assets.

The present value of the defined benefit obligation, the fair value of plan assets and the corresponding funded status developed in the past four years as follows:

€ million	2007	2006	2005	2004
Present value of the defined benefit obligation	255.0	291.1	309.9	37.8
Fair value of plan assets	–17.9	–17.6	–17.1	–
Deficit in the plan	**237.1**	**273.5**	**292.8**	**37.8**

The following table shows the experience adjustments arising on the plan liability during the respective period and the difference between the actual and expected return on plan assets.

	2007	2006
Experience adjustments arising on plan liability (in %)	2.1	–2.9
Experience adjustments arising on plan assets (in %)	0.7	1.7
Difference between actual and expected return on plan assets (in € million)	0.1	0.1

The provisions for pensions contain liabilities of € 12.9 million (2006: € 13.7 million) for pension obligations transferred to former affiliated companies of the Viterra Group relating to vested rights and the payment of current pensions. A corresponding non-current receivable is shown under miscellaneous other assets.

Other provisions

Reversals of provisions are generally offset against the expense items for which they were originally established.

The provisions for environmental remediation refer to site remediation of locations of the former Raab Karcher companies. 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 personnel obligations are provisions for pre-retirement part-time work arrangements, bonuses, severance payments beyond restructuring and other personnel expenses. The other personnel expenses include a provision for the Long-Term Incentive Plan (LTIP). The DAIG compensation system for the key management and the senior managers includes not only a basic salary and variable salary components but also a long-term component, the LTIP. All individual incentive agreements previously concluded were cancelled when this LTIP was introduced in 2007. The compensation under LTIP is in part linked to the occurrence of certain events (e.g. IPO, trade sale) or to certain retention periods. The amount of compensation to be paid to the key management largely depends on DAIG's performance in the period up to the occurrence of the event(s) triggering payment.

The other provisions as at December 31, 2007 include a provision of € 9.8 million (2006: € 2.5 million) for the LTIP.

The restructuring provisions relate to personnel expenses.

During the normal course of business, Deutsche Annington Immobilien GmbH and its subsidiaries give product warranties to the buyers of owner-occupier houses and apartments, commercial buildings and land. As at December 31, 2007, provisions of € 3.4 million (2006: € 6.0 million) had been recognised for these product warranties in the DAIG consolidated financial statements. The provisions for contractually agreed guarantees have been established for debt assumptions signed with buyers relating to tax, legal and other risks as part of the divestment of companies.

Outstanding trade invoices and follow-up costs from property sales relate to unbilled goods and services as well as contractually agreed completion work.

The miscellaneous other provisions consist mainly of future costs connected with heat contracting which cannot be passed on to tenants, costs for entering transfers of title and a provision as part of cooperation agreements.

28 Trade and other payables

€ million	Dec. 31, 2007 non-current	Dec. 31, 2007 current	Dec. 31, 2006 non-current	Dec. 31, 2006 current
Liabilities				
from property letting	–	22.6	–	16.0
from other goods and services	0.5	16.1	0.4	16.0
	0.5	**38.7**	**0.4**	**32.0**

29 Other financial liabilities

€ million	Dec. 31, 2007 non-current	Dec. 31, 2007 current	Dec. 31, 2006 non-current	Dec. 31, 2006 current
Other financial liabilities				
Banks	1,428.0	84.7	864.1	273.2
Other creditors	5,503.8	192.0	5,891.0	222.9
Related companies	–	–	–	0.1
Derivatives	0.1	–	–	–
Miscellaneous other financial liabilities	–	7.1	–	5.3
	6,931.9	**283.8**	**6,755.1**	**501.5**

The maturities and average interest rates of the nominal values of the liabilities towards banks and the liabilities towards other creditors are as follows:

€ million	Nominal obligation Dec. 31, 2007	Maturity	Average interest rate	Maturity of the nominal values is as follows: 2008	2009	2010	2011	2012	from 2013
Securitisation transactions									
GRAND plc.	5,309.4	2013	3.37%	220.1	206.5	247.1	250.4	215.4	4,169.9
Hallam Finance plc.	207.5	2011	3.88%	4.6	4.8	5.0	193.1	0.0	0.0
Acquisition loans									
Acquisition financing I	235.6	2013	4.73%	0.0	0.0	0.0	0.0	0.0	235.6
Acquisition financing II	265.5	2010	5.02%	0.0	0.0	265.5	0.0	0.0	0.0
Mortgages	1,455.6	2025	2.92%	87.4	165.1	82.8	83.5	79.1	957.7
	7,473.6			**312.1**	**376.4**	**600.4**	**527.0**	**294.5**	**5,363.2**

Of the nominal obligations towards creditors, € 7,204.5 million (2006: € 7,433.7 million) are secured by land charges and other collateral (account pledge agreements, assignments, pledges of company shares and guarantees).

The nominal interest rates on the financial liabilities towards banks and other creditors are between 0.0% and 8.0% (average weighted approx. 3.4%). None of the financial liabilities contain any short-term interest change risks as they relate either to loans with long-term fixed interest rates or, in the cases of loans with variable interest rates, they are loans which are interest rate-hedged by fixed payer swaps.

Loans bearing no interest or interest below market rates in return for occupancy rights at rents below the prevailing market rates are stated at their present values in the balance sheet.

In 2007, scheduled repayments of € 613.4 million and unscheduled repayments of € 236.6 million were made. New loans of € 596.9 million were taken out. These new loans include € 503.0 million to fund acquisitions and € 14.7 million to cover liabilities assumed as part of the acquisition of housing stocks. The nominal obligations increased by € 157.7 million as a result of changes in the scope of consolidation.

In February 2007, DAIG concluded a loan agreement for a total of € 250.0 million with Barclays Capital. This loan agreement runs until the end of 2013. The purpose of the agreement is to refinance the loan agreement for € 200.0 million concluded with Barclays Capital in December 2006 and to finance portfolio acquisitions made by subsidiaries of Deutsche Annington Immobilien GmbH. As at December 31, 2007, a total of € 235.6 million had been utilised under this loan agreement. As part of the loan agreement, the borrowers provided securities in the form of land charges, account pledge agreements and assignments. Furthermore, company shares were pledged. These securities can only be realised if the borrowers substantially infringe the loan agreement (e.g. fail to fulfil the financial covenants). Interest on the utilisations is based on the 3-month Euribor rate. In order to hedge the interest rate risk over the entire term of the loan agreement, the borrowers contracted fixed payer swaps. The average interest rate for this financing is – after allowing for the interest hedges – 4.73%. However, capital repayments are obligatory when residential units are sold and to maintain the contractually agreed debt-equity ratio.

In May 2007, DAIG concluded an acquisition line of credit with Barclays Capital and Citibank for a total of € 500.0 million. The acquisition line runs until May 2010. The purpose of this acquisition line is to finance portfolio acquisitions which have been or will be made by subsidiaries of Deutsche Annington Immobilien GmbH. In the reporting year, a total of € 265.5 million was utilised under this line of credit. The amount of € 234.5 million remaining as at December 31, 2007 is available for further portfolio acquisitions. As part of the acquisition line, the borrowers provided securities in the form of land charges, account pledge agreements and assignments. Furthermore, company shares were pledged. As part of the acquisition line provided, Deutsche Annington Immobilien GmbH assumed an indemnity guarantee of € 500.0 million. Under this indemnity guarantee, Deutsche Annington Immobilien GmbH is obliged to keep net assets of at least € 500.0 million available. These securities can only be realised if the borrowers substantially infringe the loan agreement (e.g. fail to fulfil the financial covenants). Interest on the drawings under this credit line is based on the 3-month Euribor rate. In order to hedge the interest rate risk over the entire term of the loan agreement, the borrowers contracted fixed payer swaps. The average interest rate for this financing is – after allowing for the interest hedges – 5.02%. This loan agreement has no fixed capital repayment structure. However, capital repayments are essential when residential units are sold.

The bearer bonds issued in two tranches in 2006 in connection with the securitisation transaction (GRAND plc.) had a value of € 5,309.4 million (2006: € 5,735.2 million) at the end of the 2007 financial year. In 2007, capital repayments of € 425.8 million and interest payments of € 191.1 million were made. The contractually agreed debt-equity ratio was therefore clearly undercut. As part of the loan agreement, the borrowers provided securities in the form of land charges, account pledge agreements and assignments. These securities can only be realised by the secured parties if the borrowers substantially infringe the financing agreement (e.g. fail to fulfil the financial covenants).

Liabilities to other lenders include as at December 31, 2007 a liability of € 87.9 million from a finance lease (2006: € 87.5 million) (Spree-Bellevue property). The following table shows the total minimum lease payments and reconciliation to their present value.

€ million	Dec. 31, 2007 Total minimum lease payments	Dec. 31, 2007 Interest portion	Dec. 31, 2007 Present value	Dec. 31, 2006 Total minimum lease payments	Dec. 31, 2006 Interest portion	Dec. 31, 2006 Present value
Due within one year	4.5	0.3	4.2	4.5	0.2	4.3
Due in 1 to 5 years	17.3	3.0	14.3	17.4	3.0	14.4
Due after 5 years	252.9	183.5	69.4	257.3	188.5	68.8
	274.7	**186.8**	**87.9**	**279.2**	**191.7**	**87.5**

30 Income tax liabilities

Income tax liabilities as at December 31, 2007 result from the lump-sum taxation of the previously untaxed so-called EK 02 amounts at a rate of 3% introduced under the 2008 Annual Tax Act (Jahressteuergesetz 2008). The tax is to be paid starting from 2008 in ten equal annual instalments. Income tax liabilities for the 2006 financial year relate to backtax payments determined as at December 31, 2006 but not yet paid.

31 Other liabilities

€ million	Dec. 31, 2007 non-current	Dec. 31, 2007 current	Dec. 31, 2006 non-current	Dec. 31, 2006 current
Advance payments	–	307.7	–	386.8
Liabilities from deferred interest	–	42.5	–	43.4
Miscellaneous other liabilities	3.8	29.4	3.4	30.9
Deferred income	0.9	2.0	0.5	0.9
	4.7	**381.6**	**3.9**	**462.0**

The advance payments are mainly payments made in instalments by tenants for ancillary costs.

The miscellaneous other liabilities mainly include other tax liabilities of € 2.6 million (2006: € 3.7 million) and € 15.0 million (2006: € 14.4 million) from a subsequent adjustment of the acquisition cost of Viterra which is due at the beginning of 2008.

32 Assets and disposal groups held for sale and discontinued operation

In 2006, DAIG decided to focus on its core business, the letting, buying and selling of housing units, and to sell the Development division. The entire Development division was classified as a discontinued operation. The parts of the division still remaining at December 31, 2006 were classified as a disposal group held for sale and were sold in December 2007.

The results of the discontinued operation break down as follows:

€ million	2007	2006
Income	21.1	74.5
Expenses	–11.3	–63.8
Results from operating activities	**9.8**	**10.7**
Income tax	–4.9	–10.2
Results from operating activities, net of income tax	**4.9**	**0.5**
Profit/loss on sale of discontinued operation before income tax	3.8	–19.1
Income tax on profit/loss on sale of discontinued operation	–2.3	–5.4
Profit/loss on sale of discontinued operation	**1.5**	**–24.5**
Profit/loss for the period	**6.4**	**–24.0**

The cash flows from discontinued operation are as follows:

€ million	2007	2006
Net cash from operating activities	22.3	52.4
Net cash from investing activities	14.4	64.1
Net cash used in financing activities	–17.6	–16.1
Net cash from discontinued operation	**19.1**	**100.4**

The tax on discontinued operation income before tax differs as follows from the hypothetical amount arrived at by applying a tax rate of 40% to net income before tax:

€ million	2007	2006
Profit/loss before income taxes	13.6	–8.4
Income tax rate of the company in %	40.0	40.0
Expected tax income/expense	**5.5**	**–3.4**
Trade tax effects	0.7	0.6
Non-deductible operating costs	1.0	13.1
Tax-free effects from deconsolidation	–	3.8
Effects of taxes from prior years	–	1.9
Other (net)	–	–0.4
Actual income taxes	**7.2**	**15.6**
Actual tax rate in %	**52.8**	**–185.7**

The sale of the parts of the Development division still remaining in 2006 had the following effect on the items in the DAIG balance sheet:

€ million	2007
Properties	174.5
Deferred tax assets	2.5
Assets classified as held for sale	177.0
Liabilities relating to assets classified as held for sale	–167.9
Net identifiable assets and liabilities	**9.1**
Consideration received, satisfied in cash	14.7
Costs to sell (cash) attributable to discontinued operation	–0.6
Cash disposed of	–
Net cash inflow from discontinued operation	**14.1**

OTHER EXPLANATIONS AND INFORMATION

33 Additional disclosures on financial instruments

Measurement categories and classes: € million	Measurement category in accordance with IAS 39	Carrying amounts Dec. 31, 2007	Face value	Amounts recognised in balance	
				Amortised cost	Acquisition cost
Assets					
Cash and cash equivalents					
Cash and cash equivalents	LaR	**366.4**	**366.4**		
Restricted cash	LaR	**2.1**	**2.1**		
Trade and other receivables					
Receivables from the sale of properties	LaR	**118.6**		**118.6**	
Receivables from property letting	LaR	**17.3**		**17.3**	
Receivables from property management	LaR	**1.5**		**1.5**	
Receivables from other supplies and services	LaR	**0.2**		**0.2**	
Other financial receivables					
Loans to related companies	LaR	**34.9**		**34.9**	
Other long-term loans	LaR	**0.7**		**0.7**	
Dividends from other investments	LaR	**1.7**		**1.7**	
Other non-derivative financial assets					
Long-term securities	AfS	**2.3**			
Non-consolidated subsidiaries	AfS	**0.0**			**0.0**
Other investments	AfS	**1.7**			**1.7**
Hedged derivative financial assets					
Cash flow hedges	n.a.	**6.4**			
Liabilities					
Trade and other payables					
Liabilities from property letting	FLAC	**22.6**		**22.6**	
Liabilities from other goods and services	FLAC	**16.6**		**16.6**	
Other non-derivative financial liabilities					
Liabilities to banks	FLAC	**1,512.7**		**1,512.7**	
Liabilities to other lenders	FLAC	**5,607.9**		**5,607.9**	
Liabilities to related companies	FLAC	**0.0**		**0.0**	
Miscellaneous other financial liabilities	n.a.	**7.1**			
Liabilities from finance leases	n.a.	**87.9**			
Hedged derivative financial liabilities					
Cash flow hedges	n.a.	**0.1**			
thereof aggregated by measurement categories in accordance with IAS 39:					
Loans and receivables	**LaR**	**543.4**	**368.5**	**174.9**	**0.0**
Available-for-sale financial assets	**AfS**	**4.0**	**0.0**	**0.0**	**1.7**
Financial liabilities measured at amortised cost	**FLAC**	**7,159.8**	**0.0**	**7,159.8**	**0.0**
Financial assets and liabilities in accordance with IFRS 5					
Financial liabilities relating to assets classified as held for sale		0.0			
Financial liabilities not covered by IAS 39					
Provision for stock options in accordance with IFRS 2		0.0			
Employee benefits in accordance with IAS 19					
Gross presentation: right to reimbursement corresponding to indirect obligation arising from transferred pension obligation		12.9			
Amount by which the fair value of plan assets exceeds the corresponding obligation		0.5			
Provisions for pensions and similar obligations		268.4			

sheet according to IAS 39		Amounts recognised in balance sheet in accordance with IAS 17	Fair value Dec. 31, 2007	Measurement category in accordance with IAS 39	Carrying amounts Dec. 31, 2006	Face value	Amounts recognised in balance sheet according to IAS 39				Amounts recognised in balance sheet in accordance with IAS 17	Fair value Dec. 31, 2006
Fair value affecting net income	Fair value recognised in equity						Amortised cost	Acquisition cost	Fair value affecting net income	Fair value recognised in equity		
			366.4	LaR	706.4	706.4						706.4
			2.1	LaR	3.0	3.0						3.0
			118.6	LaR	248.9		248.9					248.9
			17.3	LaR	8.9		8.9					8.9
			1.5	LaR	0.5		0.5					0.5
			0.2	LaR	0.0		0.0					0.0
			34.9	LaR	34.0		34.0					36.9
			0.7	LaR	0.9		0.9					0.9
			1.7	LaR	1.7		1.7					1.7
	2.3		**2.3**	AfS	2.3					2.3		2.3
			0.0	AfS	0.8			0.8				0.8
			1.7	AfS	1.7			1.7				1.7
0.9	**5.5**		**6.4**	n.a.	0.0							0.0
			22.6	FLAC	16.0		16.0					16.0
			16.6	FLAC	16.4		16.4					16.4
			1,505.9	FLAC	1,137.3		1,137.3					1,195.0
			5,535.0	FLAC	6,026.4		6,026.4					6,047.9
			0.0	FLAC	0.1		0.1					0.1
7.1			**7.1**	n.a.	5.3				5.3			5.3
		87.9	**92.3**	n.a.	87.5						87.5	101.6
	0.1		**0.1**	n.a.	0.0							0.0
0.0	**0.0**		**543.4**	LaR	1,004.3	709.4	294.9	0.0	0.0	0.0		1,007.2
0.0	**2.3**		**4.0**	AfS	4.8	0.0	0.0	2.5	0.0	2.3		4.8
0.0	**0.0**		**7,080.1**	FLAC	7,196.2	0.0	7,196.2	0.0	0.0	0.0		7,275.4
					174.3							
					0.2							
					13.7							
					0.5							
					272.0							

Cash and cash equivalents, trade receivables and other financial assets mainly have short maturities, therefore their carrying amounts at the balance-sheet date correspond to their fair values.

The fair values of the other non-current financial assets correspond to the present values of the payments associated with the assets, taking into account the relevant current interest parameters.

Other investments and non-consolidated subsidiaries are measured at cost as there is no price quoted on an active market and the fair market value cannot be determined reliably.

As in the prior year, other investments are mainly VBW Bauen und Wohnen GmbH, Bochum, € 0.9 million (2006: € 0.9 million) as well as Hellerhof GmbH, Frankfurt am Main, € 0.3 million (2006: € 0.3 million). Immobilienfonds Koblenz-Karthause Wolfgang Hober KG, Düsseldorf, (2006: € 0.8 million), which was reported under non-consolidated subsidiaries in 2006, was included in the consolidated financial statements in 2007.

The fair values of cash flow hedges shown under derivatives are determined by discounting the future cash flows using the current interest rate structure curve at the balance-sheet date.

Liabilities from property letting and liabilities from other goods and services usually have short maturities; the values accounted for approximate the fair values.

The fair values of the other non-derivative financial liabilities are also measured by discounting the future cash flows using the current interest rate structure curve at the balance-sheet date.

Net result according to measurement categories:

				from subsequent measurement				
€ million	Measurement category in acc. with IAS 39	from interest	Income from other long-term loans	Impairment losses	Derecognised receivables	Income from other investments	Income from the disposal of other investments	Net result
2007								
Loans and receivables	LaR	26.3	1.9	–10.4	–1.5	–	–	**16.3**
Available-for-sale financial assets	AfS	0.1	–	0.0	–	1.9	0.0	**2.0**
Financial liabilities measured at amortised cost	FLAC	–350.4	–	–	–	–	–	**–350.4**
		–324.0	1.9	–10.4	–1.5	1.9	0.0	**–332.1**
2006								
Loans and receivables	LaR	20.4	1.9	–11.6	–0.6	–	–	**10.1**
Available-for-sale financial assets	AfS	0.1	–	0.0	–	2.0	24.4	**26.5**
Financial liabilities measured at amortised cost	FLAC	–344.1	–	–	–	–	–	**–344.1**
		–323.6	1.9	–11.6	–0.6	2.0	24.4	**–307.5**

In principle, DAIG records the components of the net result under financial income and financial expenses.

Impairment losses which can be assigned to the measurement category "Loans and receivables" (LaR) as well as income and expenses in connection with derecognised receivables are shown under other operating income or other operating expenses.

The income from the disposal of other investments shown under the measurement category "Available-for-sale financial assets" (AfS) related in 2006 to the sale of the financial investment in Rhein Lippe Wohnen GmbH, Duisburg. The book gain was also recognised under other operating income.

34 Risk management

In the course of its business activities, DAIG is exposed to various financial risks. The Group-wide risk management system focuses on the unpredictability of developments on the financial markets and its aim is to minimise the potentially negative impact on the financial position of the Group and avoid risk concentrations. These risks and their management are described in detail as follows:

Interest rate risks

DAIG is exposed to interest rate risks in the course of normal business. Floating-rate debt exposes DAIG to a cash flow interest rate risk. DAIG uses derivative financial instruments to limit or eliminate these risks. These derivative financial instruments are used for hedging risks connected with operational business and never for speculative purposes.

The market is continually monitored as part of the management of interest rate risks. A continual analysis verifies whether any market changes have a negative influence on DAIG's interest rate situation. Where possible and sensible, derivative financial instruments are used in these cases. Furthermore, variable interest liabilities are directly interest rate-hedged on the day of their payout with a fixed payer swap in order to safeguard the company against future interest rate fluctuations.

DAIG's policies permit the use of derivatives only if they are associated with underlying assets or liabilities, contractual rights or obligations and planned operating transactions.

Credit risks

In the Deutsche Annington Real Estate Group, there are no significant concentrations of potential credit risks. Contracts for derivative financial instruments and financial transactions are only concluded with first-rate banks. DAIG has a Group-wide policy to ensure that rental contracts are only made with tenants with a good credit history. Valuation allowances are provided for the risk of loss of financial assets.

Under the conditions of loan agreements, DAIG is obliged to fulfil certain financial covenants such as the debt service coverage ratio and debt-equity ratio. If these financial covenants are not fulfilled, the lender may call in the loan. In 2007, DAIG fulfilled all financial covenants agreed. As part of risk management, the fulfilment of these financial covenants is continually monitored on the basis of current extrapolations and budgetary accounting. On the basis of the current corporate planning, DAIG is confident that these financial covenants will also be fulfilled in future.

Market risks

(a) Currency risks
Owing to the limited internationality of DAIG's business, there are – as in 2006 – no substantive currency risks.

(b) Price risks
DAIG is – as in 2006 – exposed to property price and market rental risks.

Liquidity risks

DAIG uses a liquidity forecast and a liquidity plan to manage the liquidity risks.

The following table shows the forecast for (undiscounted) cash flows of the non-derivative financial liabilities and derivative financial instruments with positive or negative fair values:

€ million	Carrying amount as at Dec. 31, 2007	Cash flows					
		2008		2009		2010 to 2014	
		interest	repayment	interest	repayment	interest	repayment
Other non-derivative financial liabilities:							
Banks	1,512.7	57.7	73.8	75.7	144.9	235.8	783.3
Other lenders	5,607.9	201.2	238.2	175.5	231.5	702.6	5,157.6
Related companies	–	–	–	–	–	–	–
Miscellaneous other financial liabilities	7.1	–	0.0	–	0.0	–	0.0
Liabilities from finance leases	87.9	4.5	–	4.2	–	22.2	–
Derivative financial liabilities and assets:							
Hedged derivative financial liabilities							
Cash flow hedges	0.1	0.0	0.0	0.0	0.0	0.1	0.0
Hedged derivative financial assets							
Cash flow hedges	6.4	–1.6	0.0	–0.3	0.0	–5.3	0.0

In order to safeguard DAIG's solvency and financial flexibility at all times, a liquidity reserve is kept available in the form of credit lines and, where necessary, cash.

Breakdown of the credit line financing reserve:

€ million	Credit lines Dec. 31, 2007	Utilisation Dec. 31, 2007	Unutilised credit lines Dec. 31, 2007	Unutilised credit lines Dec. 31, 2006
due within:				
< 1 year	105.0	0.0	105.0	100.0
> 1 year	0.0	0.0	0.0	0.0
	105.0	**0.0**	**105.0**	**100.0**

Furthermore, unutilised amounts of € 234.5 million and € 14.4 million from two acquisition lines of credit remain as at December 31, 2007 (see note [29] Other financial liabilities).

As a result of the US subprime crisis, the financing conditions and financing options for DAIG are now not as good. In general, this may mean that DAIG will have to provide more equity when making acquisitions and/or refinancing funds in order to finance on acceptable economic conditions.

DAIG had cash on hand and deposits at banks totalling € 363.5 million as at the balance-sheet date. Given these cash and cash equivalents and the above-mentioned financing reserve from credit lines, DAIG's ability to service debt can be regarded as guaranteed at all times even in the light of the subprime crisis.

35 Derivative financial instruments

In 2007, DAIG contracted eight new interest rate swaps with a total nominal volume of € 503.1 million. The interest rate conditions vary between 4.075 % and 4.670 % with swap periods of 6.25 to 7.25 years. The fixed payer swaps are for hedging the interest rate risk of two acquisition lines of credit, which were taken out in particular to fund portfolio acquisitions by subsidiaries of Deutsche Annington Immobilien GmbH.

€ million	Nominal amount	Term beginning varies from	to	Term ending varies from	to	Average interest rate
Acquisition financing I						
Hedged item	237.2	Dec. 29, 2006			Dec. 31, 2013	3-m EURIBOR
Interest rate swaps	237.6	July 20, 2007			Oct. 20, 2013	4.205%
Acquisition financing II						
Hedged item	265.5	May 31, 2007	Nov. 30, 2007		May 3, 2010	3-m EURIBOR
Interest rate swaps	265.5	May 31, 2007	Apr. 21, 2008	Apr. 20, 2014	Apr. 20, 2015	4.365%

As part of the cash flow hedge accounting, six derivatives with positive clean present fair values totalling € 6.4 million were shown under financial assets as at December 31, 2007 and two derivatives with negative clean present fair values totalling € 0.1 million were shown under financial liabilities.

As a result of the valuation, € 2.9 million was added to equity not affecting net income. A gain from ineffectiveness in 2007 amounting to € 0.8 million, after deduction of deferred tax, was recognised in the income statement.On this basis, DAIG has used a sensitivity analysis to determine the change in equity given a hypothetical shift in the interest rate structure of 50 basis points in each case:

€ million	Change in equity		
	Other reserves not affecting net income	Ineffective portions affecting net income	Total
+ 50 basis points	+10.6	–0.5	+10.1
– 50 basis points	–9.6	–0.8	–10.4

All the derivative financial instruments used by DAIG are part of effective hedging as required by IAS 39.

36 Information on the consolidated cash flow statement

When determining the cash flow from operating activities using the indirect method, the profit for the period was adjusted for the effects of transactions of a non-cash nature, any deferrals or accruals of past or future operating cash receipts or payments, as well as items of income or expense associated with investing or financing cash flows. Therefore, direct comparison with the corresponding changes in the published consolidated balance sheets is not possible.

The income from the sale of trading properties is shown in cash flow from operating activities, the proceeds from the disposal of investment properties, intangible assets and property, plant and equipment are shown in cash flow from investing activities.

Exercising the IAS 7 option, interest received is shown under cash flow from investing activities and interest paid is shown under cash flow used in/from financing activities.

Disposal of discontinued operation within the cash flow from/used in investing activities contains the purchase price obtained in 2007 for the parts of the Development division remaining in 2006 minus the financial liabilities assignable to and disposed of with this division. Furthermore, this item also includes follow-up costs from the disposal of the Development division in 2006.

Acquisition of investment properties shows the investments adjusted for cash-neutral debt assumptions. As part of the acquisition of various housing stocks, loan liabilities of € 14.7 million (2006: € 5.7 million) were assumed. The item “Cash proceeds from issuing loans and notes” has been adjusted accordingly.

Acquisition of subsidiaries mainly shows the purchase price paid for DA DMB Netherlands B.V., Eindhoven, included in the consolidated financial statements for the first time in 2007 net of cash acquired.

The cash proceeds from issuing loans and notes mainly include the loans taken out to fund real estate newly acquired in the reporting year. They do not include loan liabilities which already existed and were assumed as part of a real estate acquisition.

Cash repayments of financial liabilities refer to the loan liabilities repaid in the reporting year. These include the repayment of the financing utilised as at December 31, 2006 from the loan agreement concluded with Barclays Capital, the refinancing of which is also reflected in the cash proceeds from issuing loans and notes.

Of the cash and cash equivalents, restraints on disposal apply to € 69.3 million (2006: € 124.0 million). These were mainly pledged bank deposits (restricted cash).

37 Contingent liabilities

Contingent liabilities exist for cases in which Deutsche Annington Immobilien GmbH and its subsidiaries give guarantees to various contractual counterparts.

Contingent liabilities towards third parties are mainly guarantees for warranty claims and contract performance guarantees. The terms are in many cases 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, the legal predecessor of the subsidiary Deutsche Annington Beteiligungsverwaltungs GmbH signed letters of indemnity with the buyers relating to tax, legal and other risks. The assurances agreed were normal for commitments given in such transactions. The terms of the agreements are generally two to three years, in a few cases also 10, 15 or max. 30 years.

In 2006, several subsidiaries and business units of the Development division were sold. As part of the agreement for sale, the vendor signed letters of indemnity with the buyers relating to tax, legal and other risks. The assurances agreed were normal for commitments given in such transactions. The terms of some of the agreements run until April 13, 2014.

38 Other financial obligations

The future minimum payment obligations arising from such agreements as a result of the fact that they are non-cancellable operating leases are due as follows:

€ million	Dec. 31, 2007	Dec. 31, 2006
Total minimum lease payments	**254.2**	**299.2**
Due within one year	12.3	16.5
Due in 1 to 5 years	39.6	40.0
Due after 5 years	202.3	242.7

Payments of € 14.2 million (2006: € 18.0 million) under rental, tenancy and leasing agreements were recognised as expenses in 2007.

The lease payments relate particularly to rented real estate and ground rent.

Furthermore, there are financial obligations from the commissioning of future services of € 151.0 million (2006: € 97.2 million).

39 Litigation and claims

DAIG 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 sales disputes.

None of these legal disputes and claims for damages will have a material effect on the balance sheet, profits or liquidity of DAIG.

In 2000, Viterra acquired eight logistics centres from Deutsche Post AG and at the same time leased them back to Deutsche Post. Deutsche Post subsequently failed to meet its contractual obligation to obtain legally valid building permits for all locations within two years from their handover. Therefore, on August 31, 2004, Viterra made use of its contractual right of rescission and demanded repayment of the original purchase price. After Deutsche Post disputed the legality of the rescission, Viterra filed an action against Deutsche Post.

The Essen regional court (Landgericht) ruled in Viterra's favour on February 17, 2005. Deutsche Post AG appealed against this lower court ruling to the appellate court (Oberlandesgericht) in Hamm on April 22, 2005. The appeal before the appellate court in Hamm was suspended as the parties were negotiating a settlement. On December 21, 2006, the parties signed a settlement recorded by a notary which, among other things, provides for Deutsche Post to repurchase the eight logistics properties from the buyer. The passing of economic ownership of the logistics properties took place on December 31, 2007. After all the obligations from the settlement agreement have been met in full, the parties will terminate the suspended proceedings before the appellate court in Hamm.

40 Related party transactions

The members of the Management and the Supervisory Board and members of their immediate families do not personally have any business relations with DAIG companies other than in their capacity as members of the Management or Supervisory Board.

There are also no business relations between DAIG companies and affiliated and associated DAIG companies or with members of the management or supervisory bodies of consolidated DAIG companies or members of their immediate families.

In 2005, consultancy agreements were signed with Terra Firma Capital Partners Limited London, and terrafirma GmbH, Frankfurt am Main. In 2007, services totalling € 1.7 million were provided (2006: € 0.9 million). As at December 31, 2007, there were no outstanding liabilities due to these companies (2006: € 0.3 million).

In 2007, Citibank N.A. and its subsidiary, Citigroup Global Markets Limited, had the following business relations with DAIG:

In May 2007, an acquisition line of credit for a total of € 500.0 million was signed with Barclays Capital and Citibank. A total of € 265.5 million of this credit line was utilised in the reporting period. A detailed description of the financing has already been given under note (29) Other financial liabilities.

For the interest hedging of these loans as well as for further acquisition financing, Citibank N.A., London Branch, provided DAIG with six fixed payer swaps totalling € 160.1 million. The interest rate conditions vary between 4.145% and 4.67%. Citibank N.A. pays the prevailing 3-month Euribor to DAIG in exchange for these fixed interest payments. The terms of these interest rate hedging agreements end on April 20, 2014, October 20, 2014, January 20, 2015 and on April 20, 2015, respectively.

In 2006, Citibank and DAIG signed cooperation agreements on future projects. The agreements end in September 2007 and March 2009. For these purposes, a provision amounting to € 10.0 million was established in the reporting year.

41 Events after the balance-sheet date

In 2007, DAIG has already signed purchase agreements, thus entering into a commitment to purchase 1,364 housing units at a price of € 69.1 million; transfer of ownership will not take place until after December 31, 2007.

42 Remunerations

The members of the Supervisory Board received € 71.4 k for their work in 2007 (2006: € 40 k).

The total remuneration of the Management amounted to € 6.7 million (2006: € 4.5 million). Of this figure, € 0.8 million (2006: € 1.4 million) was for fixed remuneration components including benefits in kind and other remunerations. The variable remuneration of € 5.9 million (2006: € 3.1 million) refers to bonuses as well as to payments under the Long-Term Incentive Plan (LTIP) amounting to € 4.5 million (2006: € 0.7 million). The claims under the LTIP are linked to the occurrence of certain events (e.g. IPO, trade sale) or to certain retention periods and depend on DAIG's performance.

The pension obligations (DBO) to former managing directors and their dependants amount to € 4.1 million (2006: € 4.0 million) and the pension obligations to current managing directors and their dependants amount to € 3.2 million (2006: € 2.9 million).

SUPERVISORY BOARD

Guy Hands, Chairman,
Chief Executive Officer of Terra Firma Capital Partners Limited, London

Joseph E. Azrack (until August 10, 2007),
President & Chief Executive Officer of Citigroup Property Investors, New York

Phillip Burns,
Managing Director of Terra Firma Capital Partners Limited, London

William T. Comfort (since December 12, 2007),
Chairman of Citigroup Venture Capital, New York

Fraser Duncan,
Executive Officer of Terra Firma Capital Partners Limited, London

Wolfgang König,
Corporate Consultant, Esslingen

Sir Thomas Macpherson (until February 7, 2008),
Chairman of Annington Holdings PLC, London

Roger Orf (from August 10, 2007 to December 12, 2007),
Head of International Investment of Citigroup Property Investors, London

The Supervisory Board does not have the rights and obligations provided for in the German Stock Corporation Law (Aktiengesetz).

MANAGEMENT

Wijnand Donkers (since May 10, 2007), Chairman

Georg Kulenkampff (until May 9, 2007)

Dr Wulf Böttger (since April 1, 2008)

Dr Manfred Püschel

Jeff E. Kirchhoff (until February 9, 2007)

Düsseldorf, April 3, 2008

Wijnand Donkers | Dr Wulf Böttger | Dr Manfred Püschel

Auditors' Report

We have audited the consolidated financial statements prepared by Deutsche Annington Immobilien GmbH, Düsseldorf, – comprising the balance sheet, income statement, statement of changes in equity, cash flow statement and the notes – together with the group management report for the financial year from January 1 to December 31, 2007. The preparation of the consolidated financial statements and the group management report in accordance with IFRSs as adopted by the EU, and the additional requirements of German commercial law pursuant to § 315a, para. 1 HGB are the responsibility of the parent company's management. Our responsibility is to express an opinion on the consolidated financial statements and on the group management report based on our audit.

We conducted our audit of the consolidated financial statements in accordance with § 317 HGB and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (IDW). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the consolidated financial statements in accordance with the applicable financial reporting framework and in the group management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Group and expectations as to possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the consolidated financial statements and the group management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the annual financial statements of those entities included in consolidation, the determination of entities to be included in consolidation, the accounting and consolidation principles used and significant estimates made by the parent company's management, as well as evaluating the overall presentation of the consolidated financial statements and the group management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion, based on the findings of our audit, the consolidated financial statements comply with IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to § 315a, para. 1 HGB and give a true and fair view of the net assets, financial position and results of operations of the Group in accordance with these requirements. The group management report is consistent with the consolidated financial statements and as a whole provides a suitable view of the Group's position and suitably presents the opportunities and risks of future development.

Essen, April 4, 2008

KPMG Deutsche Treuhand-Gesellschaft
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

signed	signed
Beumer	Huperz
Wirtschaftsprüfer	Wirtschaftsprüfer

Further Information

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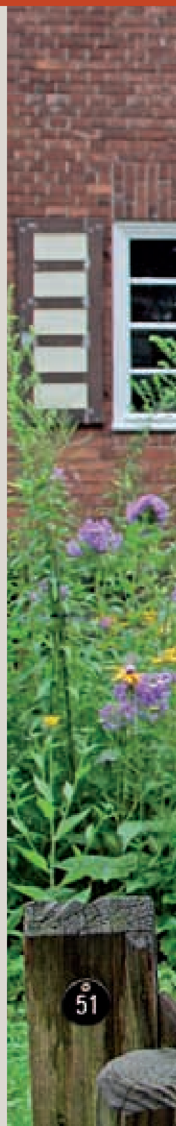

Siegfried Müller can relax and enjoy a nice little chat with his neighbour. For as a Deutsche Annington tenant, he can not only take advantage of a comprehensive range of services such as the free-of-charge 24-hour repair hotline or price discounts with cooperation partners such as Quelle, Vodafone or UCI cinema. Since the autumn of 2007, he has also been able to use the nationwide service, Annington Wohnen Plus. Trained service staff are on call round the clock to give him sound advice on daily life, leisure activities, health and care and will also arrange help for him in all situations so he can live independently in familiar surroundings to a ripe old age.

List of Shareholdings

List of DAIG shareholdings as at December 31, 2007

	Company	Seat	Interest %
	Deutsche Annington Immobilien GmbH	Düsseldorf	100.00
A.	**Consolidated companies**		
	Baugesellschaft Bayern mbH	Munich	94.90
	Bundesbahn Wohnungsbaugesellschaft Kassel Gesellschaft mit beschränkter Haftung	Kassel	94.90
	Bundesbahn-Wohnungsbaugesellschaft Regensburg mbH	Regensburg	94.90
	BWG Frankfurt am Main Bundesbahn-Wohnungsgesellschaft mbH	Frankfurt am Main	94.90
	DA DMB Netherlands B.V.	Eindhoven/NL	100.00
	Deutsche Annington Bestands GmbH & Co.KG	Düsseldorf	100.00
	Deutsche Annington Beteiligungsverwaltungs GmbH	Düsseldorf	100.00
	Deutsche Annington Bewirtschaftungs GmbH & Co.KG	Düsseldorf	100.00
	Deutsche Annington DEWG GmbH & Co.KG	Düsseldorf	100.00
	Deutsche Annington DEWG Verwaltungs GmbH	Düsseldorf	99.60
	Deutsche Annington DID Verwaltungs GmbH	Düsseldorf	99.60
	Deutsche Annington Dienstleistungen Holding GmbH i.L.	Düsseldorf	100.00
	Deutsche Annington Dritte Beteiligungsgesellschaft mbH	Düsseldorf	100.00
	Deutsche Annington EWG Augsburg GmbH & Co.KG	Düsseldorf	100.00
	Deutsche Annington EWG Augsburg Verwaltungs GmbH	Düsseldorf	99.60
	Deutsche Annington EWG Essen Bestands GmbH & Co.KG	Düsseldorf	100.00
	Deutsche Annington EWG Essen Bewirtschaftungs GmbH & Co.KG	Düsseldorf	100.00
	Deutsche Annington EWG Essen Verwaltungs GmbH	Düsseldorf	99.60
	Deutsche Annington EWG Frankfurt Bestands GmbH & Co.KG	Düsseldorf	100.00
	Deutsche Annington EWG Frankfurt Bewirtschaftungs GmbH & Co.KG	Düsseldorf	100.00
	Deutsche Annington EWG Frankfurt Verwaltungs GmbH	Düsseldorf	99.60
	Deutsche Annington EWG Karlsruhe Bestands GmbH & Co.KG	Düsseldorf	100.00
	Deutsche Annington EWG Karlsruhe Bewirtschaftungs GmbH & Co.KG	Düsseldorf	100.00
	Deutsche Annington EWG Karlsruhe Verwaltungs GmbH	Düsseldorf	99.60
	Deutsche Annington EWG Kassel Bestands GmbH & Co.KG	Düsseldorf	100.00
	Deutsche Annington EWG Kassel Bewirtschaftungs GmbH & Co.KG	Düsseldorf	100.00
	Deutsche Annington EWG Kassel Verwaltungs GmbH	Düsseldorf	99.60
	Deutsche Annington EWG Köln Bestands GmbH & Co.KG	Düsseldorf	100.00
	Deutsche Annington EWG Köln Bewirtschaftungs GmbH & Co.KG	Düsseldorf	100.00
	Deutsche Annington EWG Köln Verwaltungs GmbH	Düsseldorf	99.60
	Deutsche Annington EWG Mainz GmbH & Co.KG	Düsseldorf	100.00
	Deutsche Annington EWG Mainz Verwaltungs GmbH	Düsseldorf	99.60
	Deutsche Annington EWG München Bestands GmbH & Co.KG	Düsseldorf	100.00
	Deutsche Annington EWG München Bewirtschaftungs GmbH & Co.KG	Düsseldorf	100.00
	Deutsche Annington EWG München Verwaltungs GmbH	Düsseldorf	99.60
	Deutsche Annington EWG Nürnberg GmbH & Co.KG	Düsseldorf	100.00
	Deutsche Annington EWG Nürnberg Verwaltungs GmbH	Düsseldorf	99.60
	Deutsche Annington EWG Regensburg GmbH & Co.KG	Düsseldorf	100.00
	Deutsche Annington EWG Regensburg Verwaltungs GmbH	Düsseldorf	99.60
	Deutsche Annington Finance GmbH	Düsseldorf	100.00
	Deutsche Annington Fundus Immobiliengesellschaft mbH	Cologne	100.00
	Deutsche Annington Fünfte Beteiligungsgesellschaft mbH	Düsseldorf	100.00
	Deutsche Annington Haus GmbH	Kiel	100.00
	Deutsche Annington Heimbau Bestands GmbH & Co.KG	Düsseldorf	100.00
	Deutsche Annington Heimbau Bewirtschaftungs GmbH & Co.KG	Düsseldorf	100.00
	Deutsche Annington Heimbau GmbH	Kiel	100.00
	Deutsche Annington Heimbau Verwaltungs GmbH	Düsseldorf	99.60
	Deutsche Annington Holdings Drei GmbH	Bochum	100.00
	Deutsche Annington Holdings Eins GmbH	Düsseldorf	100.00
	Deutsche Annington Holdings Fünf GmbH	Düsseldorf	100.00
	Deutsche Annington Holdings Vier GmbH (formerly: Deutsche Annington Sechste Beteiligungs GmbH)	Düsseldorf	100.00
	Deutsche Annington Holdings Zwei GmbH	Düsseldorf	100.00
	Deutsche Annington Immobiliendienstleistung Bestands GmbH & Co.KG	Düsseldorf	100.00
	Deutsche Annington Immobilien-Dienstleistungen GmbH	Düsseldorf	100.00
	Deutsche Annington Informationssysteme GmbH	Düsseldorf	100.00
	Deutsche Annington Interim DAMIRA GmbH	Düsseldorf	100.00
	Deutsche Annington MIRA Bestands GmbH & Co.KG	Düsseldorf	100.00
	Deutsche Annington MIRA Bewirtschaftungs GmbH & Co.KG	Düsseldorf	100.00
	Deutsche Annington MIRA Verwaltungs GmbH	Düsseldorf	99.60
	Deutsche Annington Nord GmbH	Kiel	100.00
	Deutsche Annington Ost GmbH	Berlin	100.00
	Deutsche Annington Revisionsgesellschaft mbH	Düsseldorf	100.00

Company	Seat	Interest %
Deutsche Annington Rheinland GmbH	Düsseldorf	100.00
Deutsche Annington Rheinland Immobiliengesellschaft mbH	Cologne	100.00
Deutsche Annington Rhein-Ruhr GmbH & Co.KG	Essen	100.00
Deutsche Annington Ruhr GmbH	Essen	100.00
Deutsche Annington Service GmbH	Frankfurt	100.00
Deutsche Annington Süd GmbH	Munich	100.00
Deutsche Annington Süd-West GmbH	Frankfurt	100.00
Deutsche Annington Vermögensgesellschaft mbH & Co.KG	Düsseldorf	100.00
Deutsche Annington Verwaltungs GmbH	Bochum	100.00
Deutsche Annington Vierte Beteiligungsgesellschaft mbH	Düsseldorf	99.60
Deutsche Annington Westfalen GmbH	Dortmund	100.00
Deutsche Annington WOGE Drei Verwaltungs GmbH	Düsseldorf	99.60
Deutsche Annington WOGE Eins Verwaltungs GmbH	Düsseldorf	99.60
Deutsche Annington WOGE Fünf Bestands GmbH & Co. KG	Düsseldorf	100.00
Deutsche Annington WOGE Fünf Bewirtschaftungs GmbH & Co. KG	Düsseldorf	100.00
Deutsche Annington WOGE Fünf Verwaltungs GmbH	Düsseldorf	100.00
Deutsche Annington WOGE Sechs Bestands GmbH & Co.KG	Bochum	100.00
Deutsche Annington WOGE Sechs Bewirtschaftungs GmbH & Co.KG	Bochum	100.00
Deutsche Annington WOGE Sechs Verwaltungs GmbH	Bochum	100.00
Deutsche Annington WOGE Sieben Bestands GmbH & Co.KG	Bochum	100.00
Deutsche Annington WOGE Sieben Bewirtschaftungs GmbH & Co.KG	Bochum	100.00
Deutsche Annington WOGE Sieben Verwaltungs GmbH	Düsseldorf	100.00
Deutsche Annington WOGE Vier Bestands GmbH & Co.KG	Düsseldorf	100.00
Deutsche Annington WOGE Vier GmbH & Co.KG	Düsseldorf	100.00
Deutsche Annington Wohnungsgesellschaft I Bestands GmbH & Co.KG	Düsseldorf	100.00
Deutsche Annington Wohnungsgesellschaft I mbH	Essen	100.00
Deutsche Annington Wohnungsgesellschaft III Bestands GmbH & Co.KG	Düsseldorf	100.00
Deutsche Annington Wohnungsgesellschaft III mbH	Recklinghausen	100.00
Deutsche Annington Zweite Beteiligungsgesellschaft mbH	Essen	100.00
Deutsche Eisenbahn-Wohnungs-Gesellschaft mbH	Leipzig	100.00 [1)]
DREI Immobilienportfolio OI GmbH	Munich	100.00
Eisenbahn-Siedlungsgesellschaft Augsburg mbH (Siege)	Augsburg	94.90
Eisenbahn-Wohnungsbau-Gesellschaft Karlsruhe GmbH	Karlsruhe	94.90
Eisenbahn-Wohnungsbaugesellschaft Köln mbH	Cologne	94.90
Eisenbahn-Wohnungsbaugesellschaft Nürnberg GmbH	Nuremberg	94.90
Frankfurter Siedlungsgesellschaft mbH	Essen	100.00
FSG Immobilien GmbH & Co.KG	Essen	100.00
FSG Immobilien Verwaltungs GmbH	Essen	99.60
FSG-Holding GmbH	Essen	94.80
Grundstücksgesellschaft Eins Stauffenbergstraße mbH	Berlin	100.00
Immobilienfonds Koblenz-Karthause Wolfgang Hober KG	Düsseldorf	86.51
JANANA Grundstücksgesellschaft mbH & Co.KG	Grünwald	94.90
KADURA Grundstücksges. mbH & Co.KG	Grünwald	92.51
LEMONDAS Grundstücksgesellschaft mbH & Co.KG	Grünwald	94.90
LEVON Grundstücksgesellschaft mbH & Co.KG	Grünwald	94.90
MAKANA Beteiligungsgesellschaft Eins GmbH	Düsseldorf	100.00
MAKANA Beteiligungsgesellschaft Zwei GmbH	Grünwald	100.00
MAKANA Grundstücksgesellschaft mbH & Co. KG	Grünwald	94.90
MANGANA Grundstücksgesellschaft mbH & Co.KG	Grünwald	94.90
MELCART Grundstücks-Verwaltungsgesellschaft mbH	Grünwald	94.80
MIRA Grundstücksgesellschaft mbH	Düsseldorf	94.90
“Siege” Siedlungsgesellschaft für das Verkehrspersonal mbH Mainz	Mainz	94.90
Viterra Holdings Eins GmbH	Düsseldorf	100.00
Viterra Holdings Zwei GmbH	Düsseldorf	100.00
Viterra Logistikimmobilien GmbH & Co. KG	Essen	99.96
Wohnungsgesellschaft Ruhr-Niederrhein mbH Essen	Essen	94.90

	Company	Seat	Interest %	Equity € '000	Net income for the year € '000
B.	**Other investments > 20 % interest**				
	FEA Verwaltungs GmbH	Bonn	25.00	22	–1

DEUTSCHE ANNINGTON

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Deutsche Annington Ruhr GmbH

Deutsche Annington Süd GmbH

Deutsche Annington Süd-West GmbH

Deutsche Annington Westfalen GmbH

Deutsche Annington Service GmbH

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Real Estate Group

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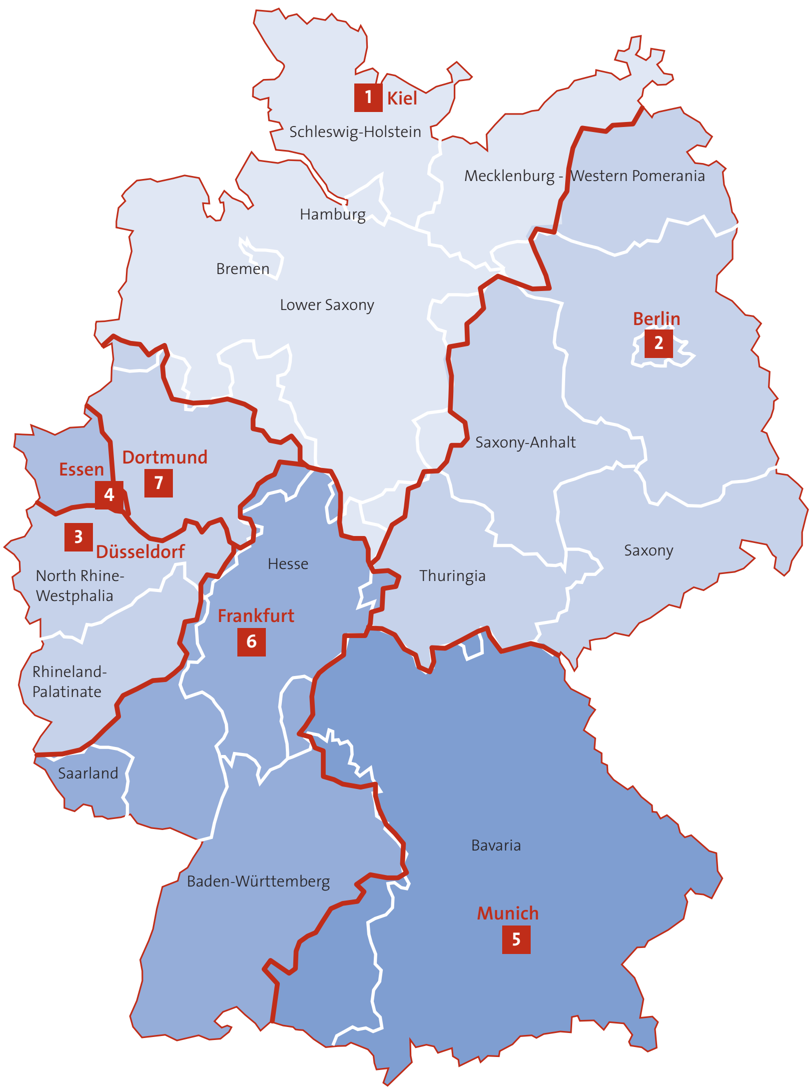
The Deutsche Annington Real Estate Group is run by a **holding company,** Deutsche Annington Immobilien GmbH. Seven regional subsidiaries located in Berlin, Dortmund, Düsseldorf, Essen, Frankfurt am Main, Kiel and Munich look after the tenants in some 70 local customer centres and service offices.

The Group also has **three service subsidiaries:** Deutsche Annington Verwaltungs GmbH provides standardised services such as tenant accounting and ancillary cost billing for all companies of the Group. Deutsche Annington Service GmbH performs condominium administration and provides property management services for some 54,000 residential units in some 1,900 owners' associations. Deutsche Annington Informationssysteme GmbH operates the IT infrastructure for the entire Group.

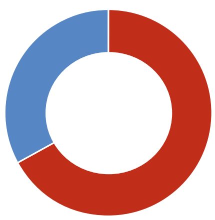
REGIONAL SUBSIDIARIES

Portfolio as at Dec. 31, 2007		Units	Share in %	Living area in m²	Average living area per unit in m²	Annualised net rent* in € m	Share in %	Monthly net rent per m²* in €	Vacancy rate* in %
Deutsche Annington Nord GmbH	1	19,878	10.4	1,274,966	64	76.1	10.9	4.96	4.7
Deutsche Annington Ost GmbH	2	17,335	9.1	1,124,423	65	64.6	9.2	4.72	11.3
Deutsche Annington Rheinland GmbH	3	24,086	12.7	1,626,410	68	97.8	14.0	5.07	3.3
Deutsche Annington Ruhr GmbH	4	36,844	19.4	2,291,657	62	122.8	17.5	4.48	3.9
Deutsche Annington Süd GmbH	5	16,949	8.9	1,123,550	66	62.9	9.0	4.68	1.7
Deutsche Annington Süd-West GmbH	6	31,928	16.8	2,112,512	66	136.7	19.5	5.37	2.9
Deutsche Annington Westfalen GmbH	7	43,201	22.7	2,644,839	61	139.0	19.9	4.38	3.8
Total		**190,221**	**100**	**12,198,358**	**64**	**699.9**	**100**	**4.78**	**4.2**

* as at beginning of December



Structure of the Deutsche Annington Residential Portfolio by cities, towns and villages



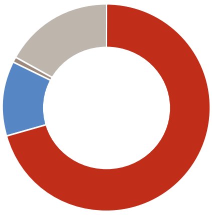
- Cities 67 %
- Towns and villages 33 %

TOP 20 CITIES AND TOWNS

Portfolio as at Dec. 31, 2007	Units	Share in %	Living area in m²	Average living area per unit in m²	Annualised net rent* in € m	Share in %	Monthly net rent per m²* in €	Vacancy rate* in %
Dortmund	18,147	9.5	1,107,949	61	57.6	8.2	4.32	4.2
Essen	10,823	5.7	671.582	62	38.3	5.5	4.74	4.2
Frankfurt	10,785	5.7	671,479	62	50.1	7.2	6.18	1.3
Berlin	9,118	4.8	597,986	66	37.1	5.3	5.14	2.6
Gelsenkirchen	8,724	4.6	530,732	61	26.2	3.7	4.13	2.1
Bochum	7,715	4.1	447,914	58	24.9	3.6	4.62	2.9
Munich	5,371	2.8	356,893	66	23.7	3.4	5.53	0.5
Duisburg	4,837	2.5	292,637	60	15.4	2.2	4.36	4.4
Bonn	4,808	2.5	338,166	70	22.5	3.2	5.51	2.4
Cologne	4,758	2.5	310,505	65	20.6	2.9	5.50	2.0
Herne	4,754	2.5	292,298	61	14.6	2.1	4.16	2.1
Gladbeck	3,844	2.0	235,636	61	12.2	1.7	4.56	7.7
Herten	3,116	1.6	202,992	65	10.1	1.4	4.15	2.8
Düsseldorf	2,706	1.4	176,829	65	12.4	1.8	5.84	1.7
Marl	2,615	1.4	176,187	67	10.6	1.5	5.00	4.3
Bottrop	2,318	1.2	146,240	63	8.0	1.1	4.54	3.5
Aachen	2,263	1.2	151,044	67	8.3	1.2	4.60	2.2
Wiesbaden	2,145	1.1	139,363	65	10.9	1.6	6.27	2.8
Bergkamen	2,032	1.1	134,502	66	6.9	1.0	4.27	6.8
Kassel	2,018	1.1	125,814	62	6.4	0.9	4.21	2.9
Subtotal for top 20 cities and towns	**112,897**	**59.4**	**7,106,746**	**63**	**416.7**	**59.5**	**4.88**	**3.1**
Other locations	77,324	40.6	5,091,612	66	283.1	40.5	4.64	5.8
Total	**190,221**	**100**	**12,198,358**	**64**	**699.9**	**100**	**4.78**	**4.2**

* as at beginning of December

Units managed by the Deutsche Annington Real Estate Group
(as at December 31, 2007)

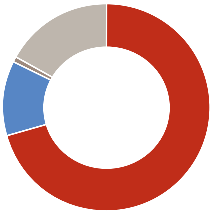


Own apartments	190,221
Apartments owned by others	31,957
Commercial units	1,575
Garages and parking spaces	45,166

Structure of the Deutsche Annington residential portfolio by German states

North Rhine-Westphalia	53.7 %
Hesse	12.1 %
Bavaria and Baden-Württemberg	11.6 %
Schleswig-Holstein and Hamburg	6.9 %
Berlin	4.8 %
Five new states	4.6 %
Lower Saxony and Bremen	3.4 %
Rhineland-Palatinate and Saarland	3.0 %

Units managed by the Deutsche Annington Real Estate Group
(as at December 31, 2007)



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Note

This Annual Report is published in German and English. The German version is always the authoritative text. Further information on the company can be found on the website at www.deutsche-annington.com.

Forward-looking statements

This present Annual Report for Deutsche Annington Immobilien GmbH contains statements on future developments. They reflect the current view of the Management and are based on appropriate evaluations and expectations. These statements are not intended as guarantees that these expectations will be fulfilled. The Annual Report has also been generated using references. These references have been carefully selected and have been taken from credible sources. We nevertheless point out that Deutsche Annington has not examined the veracity of the sources.

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