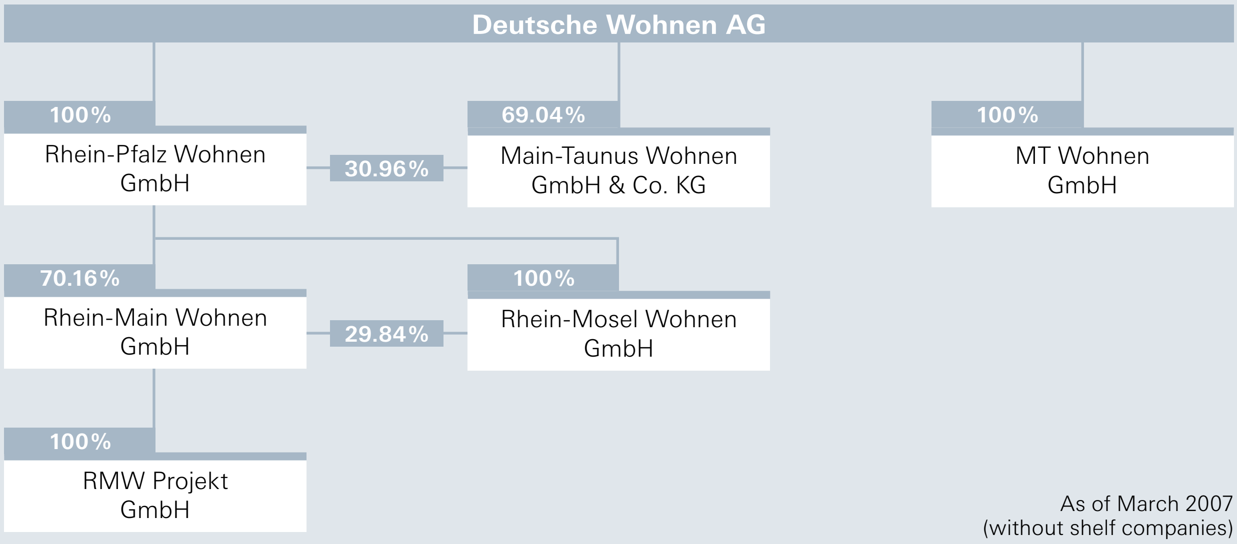
ANNUAL REPORT 2006

Deutsche Wohnen

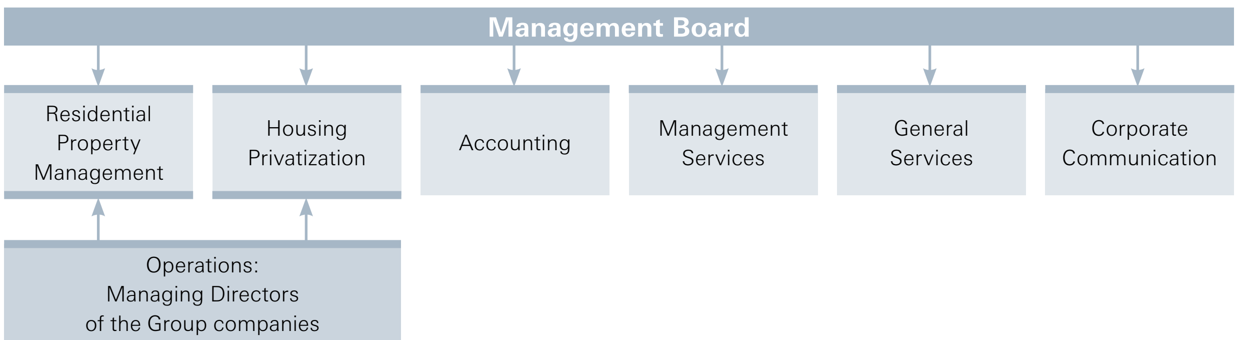


GROUP

Deutsche Wohnen Group was formed in 1998/99 when the residential property stocks of the former Hoechst AG and the Heimstätte Rheinland-Pfalz Group were acquired. In addition to Deutsche Wohnen AG, the Group is composed of six companies with 271 permanent employees. The Group also includes shelf companies that do not currently engage in business operations (not presented here; see Management Report). Deutsche Wohnen AG itself acts as a financial and management holding company. The initial public offering of Deutsche Wohnen shares took place in November 1999. The shares have been listed in the SDAX since September 2006.

As of June 30, 2006, the control agreement existing between Deutsche Wohnen AG and DB Real Estate Management GmbH since 1998 was terminated. As a result, Deutsche Wohnen AG is no longer included in the consolidated financial statements of Deutsche Bank Group.

Responsibilities



Key figures – Deutsche Wohnen shares		Dec 31, 2006	Dec 31, 2005	Dec 31, 2004
Share price	EUR	48.48	195.30	139.52
Market capitalization	EUR m	970	781	558
Free float	%	100	100	100

Net Asset Value		Dec 31, 2006	Dec 31, 2005	Dec 31, 2004
Fair value – group	EUR m	1,326.00*	1,180.28*	1,226.41*
Fair value per m²	EUR	872.58*	860.51*	855.78*
Net Asset Value – group	EUR m	725.89	757.30	787.51
Net Asset Value per share	EUR	36.29	189.32	196.88

Dividend		2006	2005	2004
Dividend	EUR m	35.2	35.0	35.0
Dividend per share	EUR	1.76**	8.75	8.75
Dividend yield***	%	3.63	4.48	6.27

* Calculated in accordance with International Financial Reporting Standards (IAS 40).
** Dividend for second short fiscal year 2006 (July 1 to December 31, 2006) EUR 0.88 per share, subject to approval by the Annual General Meeting on June 21, 2007.
*** At year end.

**The period from January 1 to December 31, 2006 consisted of two short fiscal years.
The following figures represent the accumulated results of both short fiscal years.**

Key figures – Group (IFRS)		Jan 1 to Dec 31, 2006	Jan 1 to Dec 31, 2005	Jan 1 to Dec 31, 2004
Segment result – residential property management	EUR m	46.0	46.2	49.3
Segment result – housing privatization	EUR m	30.1	25.0	26.5
Profit before tax	EUR m	31.3	17.0	24.7
Profit after tax	EUR m	31.1	16.0	16.8
EBIT	EUR m	46.2	39.4	53.1
EBITDA	EUR m	68.0	56.8	70.8
Gross operating cashflow (funds from operations)*	EUR m	101.8	78.2	81.6

Consolidated balance sheet figures (IFRS)		Dec 31, 2006	Dec 31, 2005	Dec 31, 2004
Noncurrent assets	EUR m	1,003.4	887.6	931.9
Current assets	EUR m	136.1	125.9	154.0
Equity	EUR m	395.6	416.9	436.1
Liabilities incl. provisions	EUR m	744.0	596.7	649.8
– thereof to banks	EUR m	547.7	462.1	498.6
Total assets	EUR m	1,139.5	1,013.5	1,085.9
Return on equity	%	7.01	3.66	3.69
Equity ratio	%	34.71	41.13	40.16
Asset cover ratio I	%	41.16	49.34	49.04
Asset cover ratio II	%	109.12	107.33	110.32
Liquidity ratio	%	160.60	120.43	150.02
Interest cover ratio		2.95	2.63	2.42

* Profit after tax + depreciation and amortization + decreases in book value – income from initial consolidation of DB Immobilienfonds 14 (DB IF 14).

Residential property stock*		Dec 31, 2006	Dec 31, 2005	Dec 31, 2004
Residential stock	units	23,630	21,780	22,779
Total residential space	m^2	1,508,138	1,387,923	1,452,820

* As of December 31, 2006, incl. DB IF 14

SUMMARY

- We are one of the largest listed German residential property stock corporations, based on the market value of our properties and our market capitalization.

- The focus of our residential property portfolio is on the western and southwestern regions of Germany, which feature above-average stability in property values.

- Our core competencies are portfolio management, residential property management and housing privatization.

- Our most important aims are the structural and financial optimization and expansion of our residential property portfolio.

- This enables us to maintain stable income and values and therefore create the conditions necessary for sustainably high dividends.

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LETTER FROM THE MANAGEMENT BOARD

Dear Shareholders, Ladies and Gentlemen,

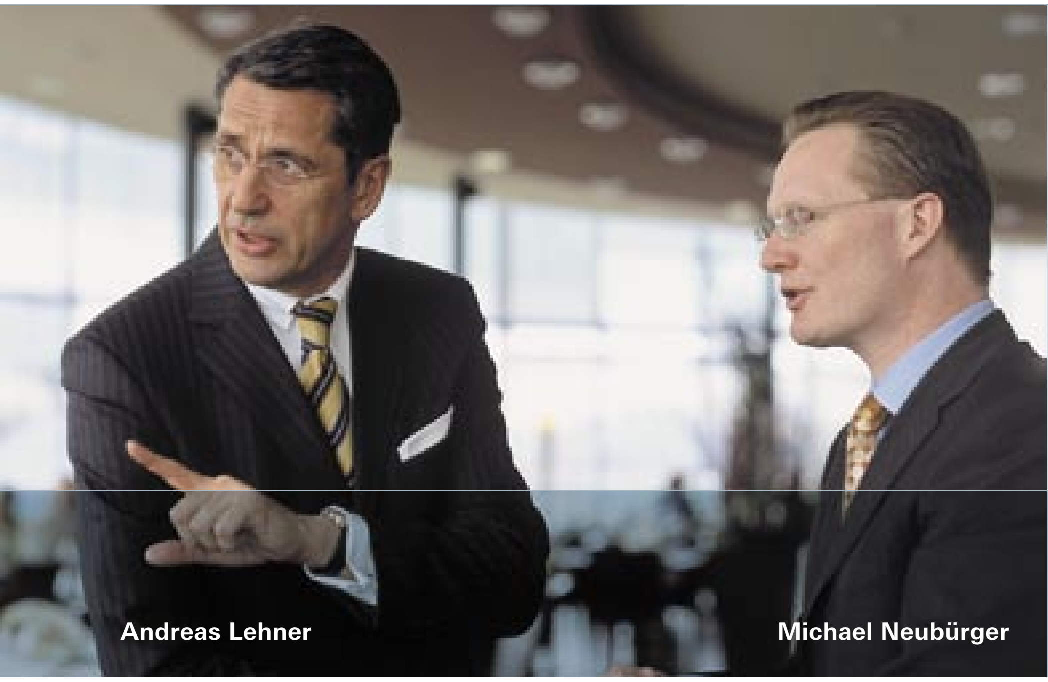
In accordance with the resolutions adopted by the General Meetings in March and August 2006, the 2006 calendar year consisted of two short fiscal years. This made it possible to deconsolidate Deutsche Wohnen from Deutsche Bank Group as of the end of the first short fiscal year.

To ensure comparability with previous years, the image section of this annual report combines the two short fiscal years into one fiscal year. By contrast, the Management Report, the financial statements of Deutsche Wohnen AG and the consolidated financial statements only relate to the second short fiscal year 2006.

The 2006 fiscal year was an important and successful one in many respects. Following the resolution adopted by the Extraordinary General Meeting held in March 2006, where a majority of around 99% of the shareholders represented at the General Meeting voted in favor of terminating the control agreement, around 95% of shareholders have waived their right to tender to date. This creates the conditions for the Company's further growth.

Following the replacement of our registered shares by bearer shares, we have been traded on the Official Market in Frankfurt am Main and in the Prime Segment of Deutsche Börse AG since July 2006. This demonstrates that we fulfill the highest capital market transparency requirements. Our bearer shares are now listed in the SDAX, following a resolution of the Index Committee of Deutsche Börse AG. With a view to increasing the tradability of the shares, the General Meeting of August 2006 resolved a 1:5 share split, which was implemented in September 2006.

In 2006, the share price increased and dividends led to a total return for shareholders of currently around 30%. Share liquidity has also risen continuously in the past few years, from around 650 thousand shares in 2003 to around 2,650 thousand shares in 2005. The number of shares traded in 2006 is also expected to be just below the 2005 level. Following the share split and the listing on the SDAX, we currently have an average daily XETRA trading volume of around EUR 2.2 million.



The capital market continues to have high expectations of Deutsche Wohnen's future performance. We are regarded as a focused, competent and financially sound company. This view is supported by our debt ratio of approximately 40% of the fair value of the residential property portfolio, as well as by the Company's authorized and contingent capital.

The 2006 fiscal year can be summarized as follows:

| Profit before tax was EUR 31.3 million, around 84% more than the EUR 17.0 million generated in 2005. Profit after tax was EUR 31.1 million, around 94% more than the EUR 16.0 million generated in 2005.

| EBIT was around EUR 6.8 million higher than in the year before.

| The segment result from residential property management declined year-on-year to EUR 46.0 million. The segment result from housing privatization, by contrast, improved significantly, from EUR 25.0 million in 2005 to EUR 30.1 million in 2006.

| Net finance costs declined by a substantial EUR 1.2 million year-on-year to around EUR 23.0 million, due to optimized loan management.

We have thus significantly exceeded the results expected at the time of the General Meeting in December 2006. Our dividend policy will always be based on the tax environment, the size of the contribution account for tax purposes, the results of operations and our efforts to strengthen our internal funding. According to our liquidity plans, we will continue to be able to pay attractive dividends.

Residential property management is part of the core business of the Deutsche Wohnen Group and is always considered as an economic alternative to privatization. There is a particularly strong emphasis on establishing strong tenant relationships, with four regional offices. The clear structuring of responsibilities with onsite customer support and team service ensures that tenants can make direct contact.

Housing privatization is another area of Deutsche Wohnen Group's core business. The target groups are tenants, private owner-occupiers and private investors. Deutsche Wohnen's housing privatization activities are largely the responsibility of its in-house team. This ensures close contact with the market and enables tailored target group strategies. Lower prices were accepted in the first six months of 2006 for sales activities aimed at streamlining the portfolio in the west and southwest of Rhineland-Palatinate.

The situation on the German residential property market will have a sustained influence on Deutsche Wohnen's further development. For years, residential property prices in the end customer business have hardly shown any movement. In international terms, the German residential property market is considered to be significantly undervalued. Only purchase prices have responded to this so far, rising by around 50% since 2000. This means that an anticipated increase in values in residential property management has already been factored into purchasing prices.

Another value driver, in our view, is privatization with its effect on volumes and prices. An effect on volumes can be seen for the first half of 2006. In this context, it is worth mentioning purchases stimulated by a desire to secure or top up private retirement provision. When looking at the price effect, however, one must bear in mind that there has only been a slight rise in real incomes, which act as a driver for residential property prices. The same also applies to rental prices. Positive sentiment is discernible in the economic and political environment. A realistic assessment of fundamental data shows that disposable incomes can now be expected to rise for large sections of the population.

Deutsche Wohnen has a lot to offer in this complex environment. It still is one of only a few listed residential property stock corporations in Germany with a long-term investment focus. It has a proven performance record based on a portfolio with above-average earnings capabilities in the

Rhine-Main area and in Rhineland-Palatinate. These characteristics are of particular interest to institutional owners of residential property stocks wishing to convert their direct holdings into indirect ones. The insurance industry in particular is an interesting target group for us in this regard.

Moreover, there are increasing signals that various financial investors want to exit the German residential property market. Here, too, Deutsche Wohnen represents a capital market platform that could be a suitable alternative to an IPO. Our planned investments are aimed at doubling Deutsche Wohnen's market capitalization in the next three years. Our aim is to make various anchor investments in Germany that will take us beyond our existing core regions. This will give us broader access to local authorities as a basis for further acquisitions.

However, growth is not an end in itself for Deutsche Wohnen, in order to generate stock market news at any price. In the past two years, we acquired around 2,400 residential units with an internal rate of return of 10 to 24% after tax, with 75% of the purchase price financed by borrowing. We intend to integrate these acquisitions seamlessly into our existing core portfolio in the Rhine-Main/Rhineland-Palatinate region.

The maxim for the Management Board of Deutsche Wohnen continues to be: profitability before quantity. Overhasty and overpriced acquisitions would mean that the capital market expectations regarding Deutsche Wohnen's internal rate of return could not be met. In this context, 2007 is a decisive year for Deutsche Wohnen.

The Management Board would like to express its thanks to its shareholders, employees and business partners for their support during recent months and is convinced that Deutsche Wohnen's repositioning will lead to growth and add shareholder value in the coming years.

Andreas Lehner
Chairman of the
Management Board

Michael Neubürger
Member of the
Management Board

A NEW BEGINNING

In all beginnings dwells a magic force, says Hermann Hesse.
We say it’s good to know your own home is not the result of magic,
but can be the solid foundation for your life.

GROUP STRATEGY

Group strategy, with its portfolio management, residential property management and housing privatization operations, comprises all measures aimed at structurally and financially optimizing and expanding our residential property portfolio.

The Group's strategy can be summarized as follows:

- Focus on our own residential stock
- Concentration on portfolio management, residential property management and housing privatization
- Increasing our enterprise value by optimizing, streamlining and expanding our residential property portfolio
- Consistent distribution of free cash flows within a balanced financing structure

Focus

Deutsche Wohnen focuses on the residential property market and more specifically on the portfolios in which it holds financial interests or plays a management role. This focus means that Deutsche Wohnen avoids possible conflicts of interest and ensures that it is well-equipped for future market and business developments.

Concentration

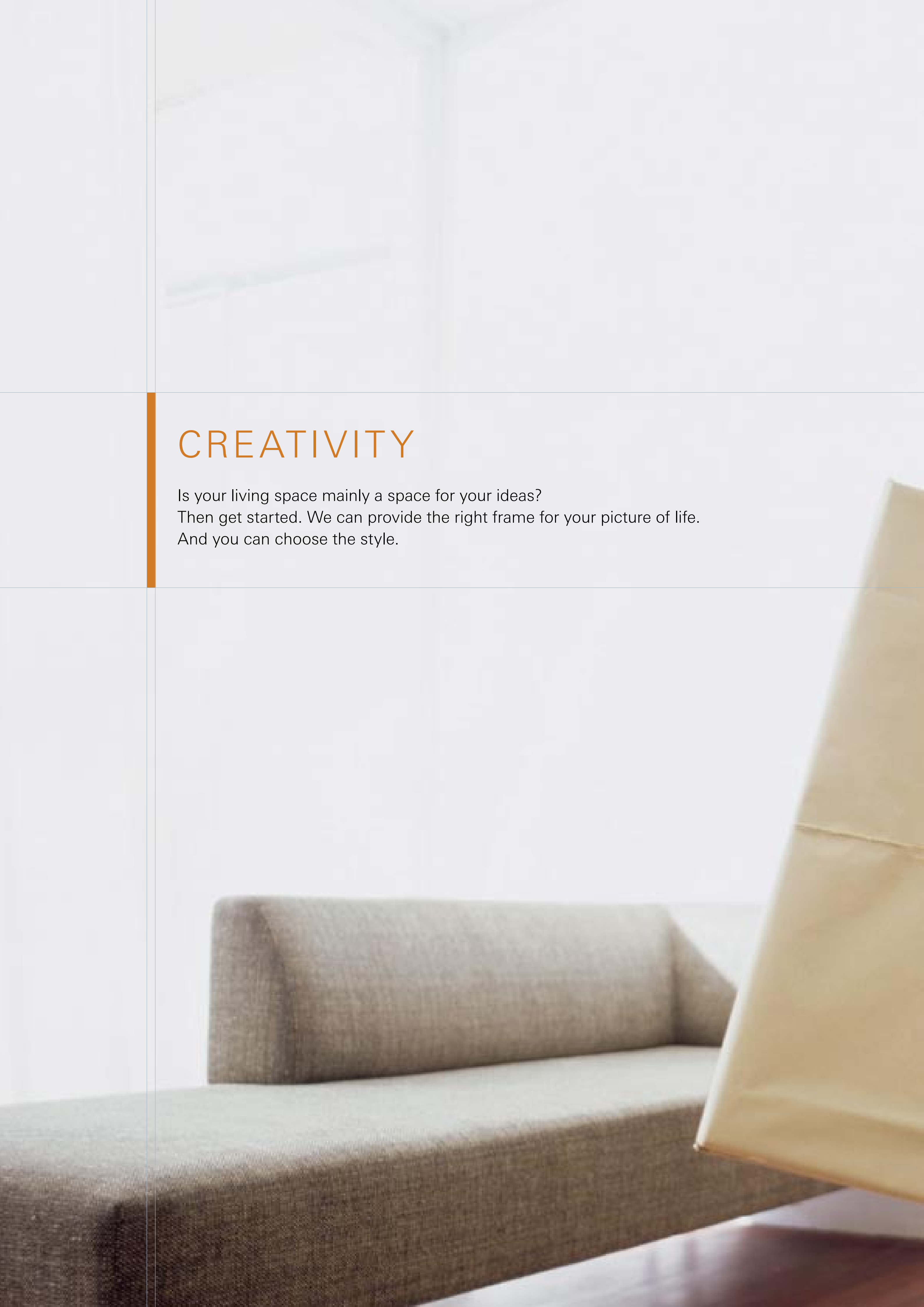
Company's concentration on portfolio management, residential property management and housing privatization supports its market focus. Additional activities in related business segments, such as new construction or project development, are avoided. All employees, business processes, tools and processes are focused on a single goal.

Growth in enterprise value

Deutsche Wohnen's goal is to increase the Net Asset Value of the company. The risk- and demand-adjusted development of the company's own portfolio and the privatization of apartments through their sale to tenants, other owner-occupiers and relatively small investors with regional activities results in the realization of hidden reserves and in distributable cash flows. The acquisition of residential property portfolios with development potential must increase the Net Asset Value.

Consistent dividends

Our market is the capital market. Currently, around 2,200 institutional and private shareholders trust us with their money, which is why we feel obligated to produce an above-average return on these investments while maintaining a balanced financing structure.

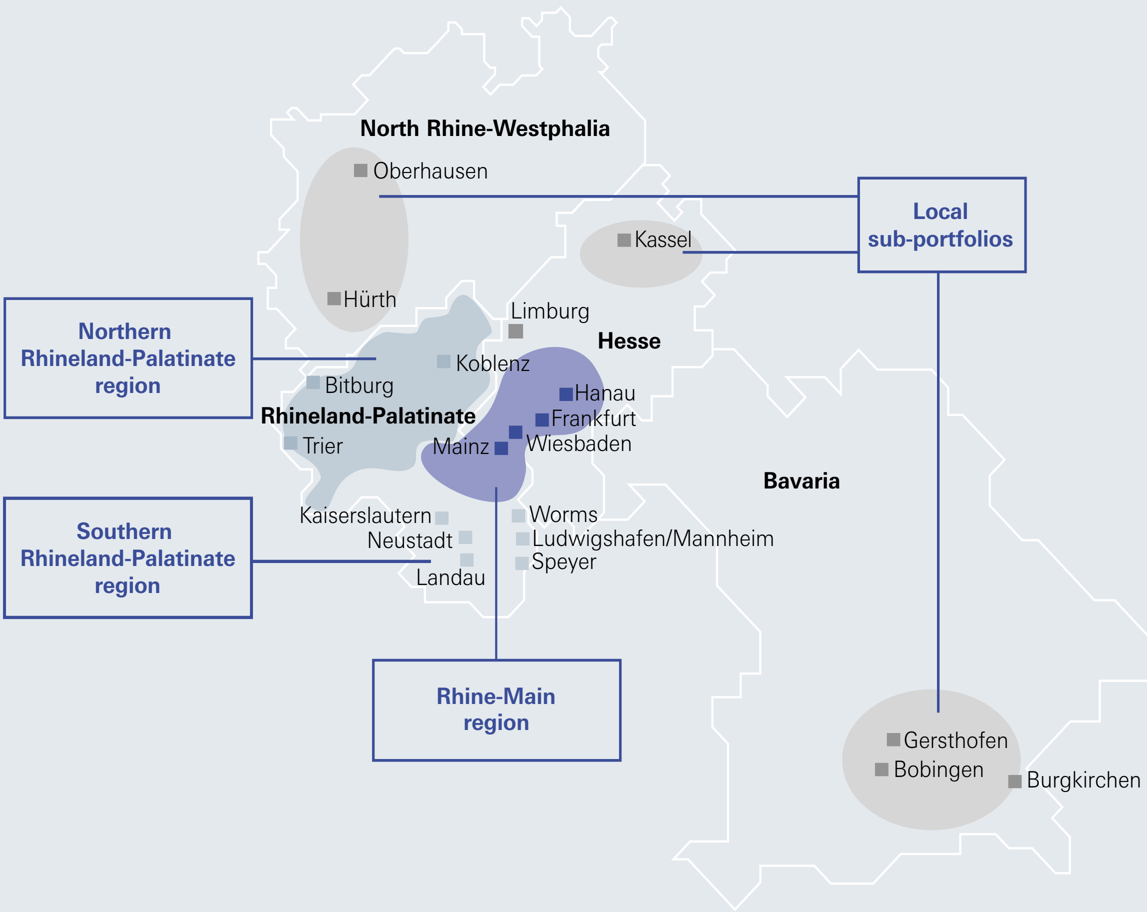


CREATIVITY

Is your living space mainly a space for your ideas?
Then get started. We can provide the right frame for your picture of life.
And you can choose the style.

RESIDENTIAL PROPERTY PORTFOLIO

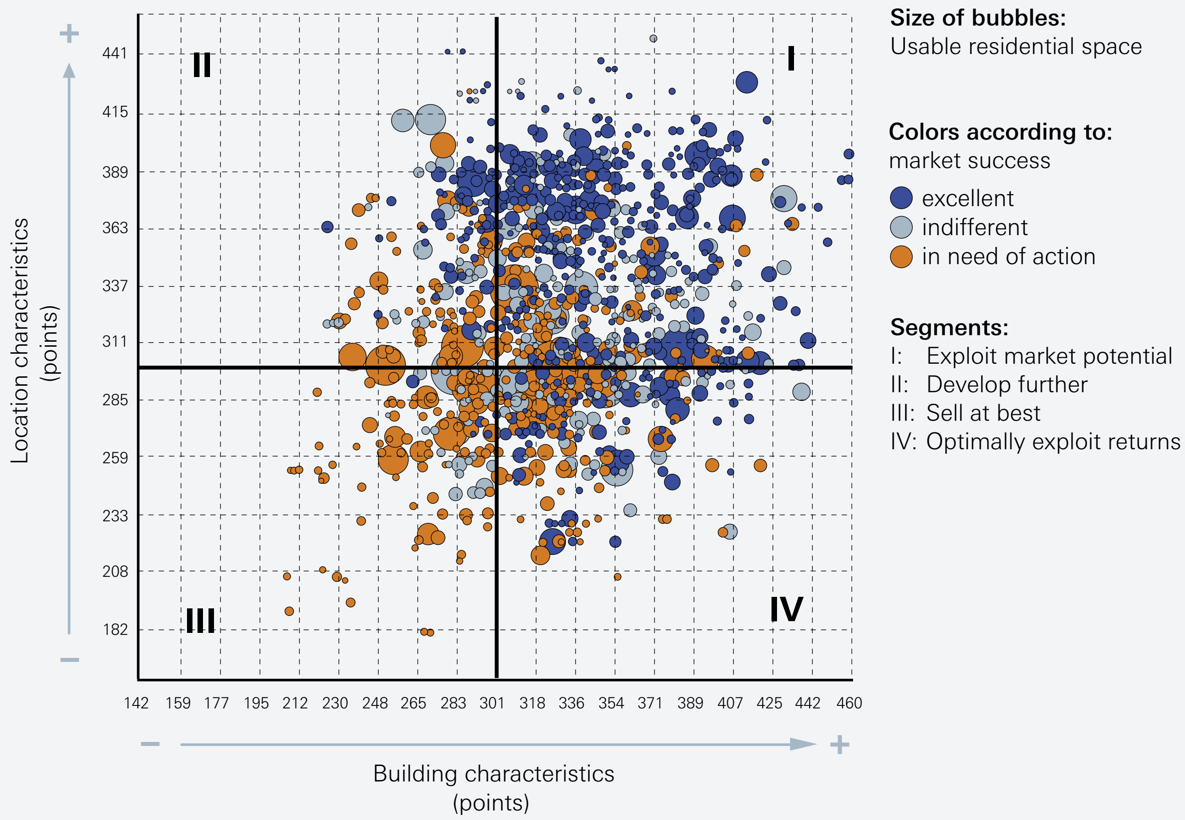
Deutsche Wohnen's residential property portfolio currently comprises three core and various peripheral regions (see map); overall, the core regions are among those in Germany with above-average stability in property values.



Regional distribution		Rhineland-Palatinate Southern	Rhineland-Palatinate Northern	Rhine-Main	Local sub-portfolios	Group
Own residential stock (incl. DB IF 14)						
Number of own residential units (incl. DB IF 14)	units	7,329	4,823	9,992	1,486	23,630
Residential space	m^2	450,458	309,883	657,866	89,931	1,508,138
New residential stock acquired	units	184	0	699	0	883
New residential space acquired	m^2	9,254	0	35,548	0	44,802
Market value of core portfolio	EUR thou.	332,423	225,680	721,663	46,216[1]	1,325,982[1]
Market value of core portfolio	EUR per m^2	728.71	727.05	1,037.09	808.41[1]	872.58[1]
Market value of other properties	EUR thou.	1,657	2,292	22,005	7,271	33,225
Book value of core portfolio	EUR thou.	271,314	172,022	460,300	28,418[1]	932,054[1]
Book value of other properties	EUR thou.	1,151	2,136	19,414	3,094	25,795
Rental income[3]						
Average planned rent	EUR per m^2	4.33	4.51	5.80[2]	4.03	5.05[1,2]
Return based on planned rent	%	8.01	7.69	6.44[2]	6.79[1]	6.99[1,2]
Vacancy rate[3]						
Vacancies due to leasing (incl. modernization)	%	5.42	2.66	3.06[2]	17.72	3.72[1,2]
Vacancies due to sale (incl. development)	%	4.23	4.14	2.42[2]	10.13	3.58[1,2]
Overall vacancy rate	%	9.65	6.80	5.49[2]	27.85	7.29[1,2]
Maintenance[3]						
Maintenance, total	EUR thou.	4,822	4,163	8,204	510	17,699
Maintenance	EUR per m^2	13.05	15.01	13.89[2]	5.05	13.43[1,2]
Amount capitalized, total	EUR thou.	1,214	323	1,491	136	3,164
Amount capitalized	EUR per m^2	3.29	1.17	2.52[2]	1.35	2.43[1,2]
Building age[3]						
< 1950	%	5.94	4.27	16.75	22.95	11.51
1951–1970	%	51.96	58.34	55.66	71.00	56.21
1971–1990	%	38.08	33.69	20.97	5.45	27.44
> 1991	%	4.02	3.71	6.61	0.61	4.84
Unit sizes[3]						
< 39 m^2	%	6.65	0.89	3.65	6.59	4.17
40–54 m^2	%	34.42	33.03	23.99	33.58	29.55
55–74 m^2	%	41.70	45.30	48.70	48.52	45.96
75–89 m^2	%	14.09	17.03	16.32	7.60	15.20
> 90 m^2	%	3.14	3.75	7.35	3.70	5.13
Proportion of publicly subsidized housing[3]	%	39.44	38.68	22.14[2]	0.94	29.28[2]
Number of sales recognized on the balance sheet in 2006[3]	units	183	230	877	355	1,645

[1] Excluding North Hesse portfolio.
[2] Excluding Hanau.
[3] Excluding DB IF 14.

Portfolio segmentation



In addition, we have analyzed the strategic structure of the residential property stock in the Rhine-Main/Rhineland-Palatinate core portfolio in a 4-field matrix. The stock has been categorized by the characteristics of the property concerned (a property is a building or building complex) and also by its structural condition, visual appearance and fixtures and fittings. The matrix also shows location characteristics such as the transport and services infrastructure, noise pollution and residential attractiveness.

The graph shows the core portfolio with a total of around 1,400 properties (each building is represented by a bubble). The larger the bubble, the greater the usable residential space. The colors indicate economic potential (blue = excellent). The segmentation serves as the basis both for the ongoing valuation of the property portfolio and for formulating differentiated strategic action plans. The top right segment with the most stable property values contains 48 % of all the residential units. Around another 14 % of the property portfolio suitable for development is located in the top left segment. This will be the focus of renovation activities in the coming years. In the bottom part of the portfolio, block sales are increasingly being made to customers who undertake the renovation of the buildings themselves with the help of neighbors, usually with the aim of occupying the building themselves.

The following table gives key data for the core property portfolio in accordance with the distribution by segment shown in the matrix, in the same format as the key figures by region presented above:

Key figures for the 4-field portfolio matrix (core property portfolio only, excluding North Hesse portfolio)		Segment I	Segment II	Segment III	Segment IV	Un-allocated	Total
Number of residential units (incl. DB IF 14)	units	11,098	3,222	2,404	5,398	870	22,992
Number of residential units (incl. DB IF 14)	%	48	14	10	23	4	100
Residential space (incl. DB IF 14)	m^2	734,165	204,901	149,243	340,819	45,116	1,474,244
Market value of core property portfolio (incl. DB IF 14)	EUR m	785.7	156.1	75.1	254.9	54.2	1,326.0
Market value of core property portfolio (incl. DB IF 14)	EUR per m^2	1,045	752	502	741	807	873
Book value of core property portfolio (incl. DB IF 14)	EUR m	514.5	106.8	62.5	208.0	40.3	932.1
Book value of core property portfolio (incl. DB IF 14)	EUR per m^2	685	515	418	604	600	613
Average planned estimated rent*	EUR per m^2	5.39	4.81	4.05	4.47	4.01	5.05
Rental yield based on planned rent*	%	6.23	7.70	9.70	7.84	3.82	6.99
Vacancies due to leasing (incl. modernization)*	%	2.48	4.45	5.86	4.46	20.16	3.72
Vacancies due to sale (incl. development)*	%	3.20	1.68	6.06	4.45	8.52	3.58

* Excluding Hanau, excluding DB IF 14.

INDIVIDUALITY

Fashion, the color of a wall, a rare antique, or grandma's old armchair?
What would go best in the new rooms which could soon be your own property?
Relax and give it some thought, we'll take care of everything else.

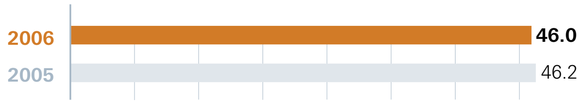
RESIDENTIAL PROPERTY MANAGEMENT

The responsibilities of residential property management employees include all activities associated with renovation and maintenance, lease management and tenant services.

SEGMENT RESULT

| The segment result of the residential property management business area is dependent on the performance and success of housing privatization. This is because when they are sold, residential units cease generating rental income for the residential property management business area, including pro rata for the current period. This was the main reason for the EUR 0.2 million decline in the segment result for 2006, which fell from EUR 46.2 million in 2005 to EUR 46.0 million.

Segment result for Residential Property Management in accordance with IFRS (EUR m)



RENTAL INCOME

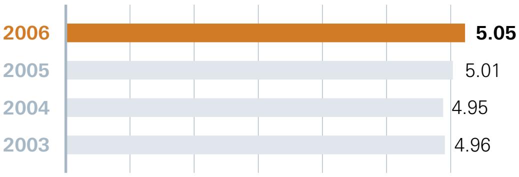
| Planned rent is a major component of the revenue from residential property management item in the consolidated income statement of Deutsche Wohnen Group.

| Planned rent is the rent payable by tenants to the company based on existing leases. The rental income from residential units sold is no longer included in the planned rent for the subsequent period. The difference between the planned rent and the income shortfalls due to vacancies is equal to the actual rent generated.

| Planned rent fell to EUR 85.2 million (2005: EUR 89.1 million) as a result of privatizations, while actual rent for fiscal year 2006 declined to EUR 77.5 million due to income shortfalls. Rent increases were able to offset the effects of both these factors to some extent.

| The continuing fall in rental income was part of Deutsche Wohnen's business model, although the intended acquisition of residential property portfolios in the future may once again increase rental cash flow, which to date has been declining from year to year.

Average rent (EUR per m² and per month)

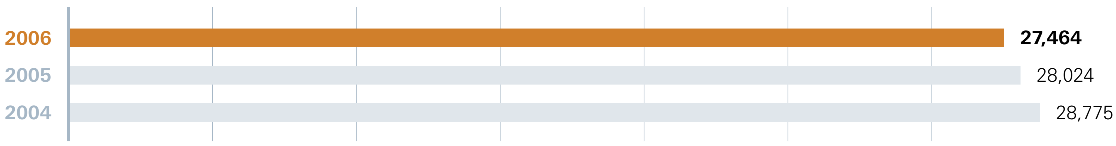


| In addition to the actual rent of EUR 77.5 million, the second major item in revenue from property management in the year under review was heating and operating costs, which were charged to tenants in the amount of EUR 28.9 million. Total revenue in 2006 amounted to EUR 106.4 million (2005: EUR 110.4 million).

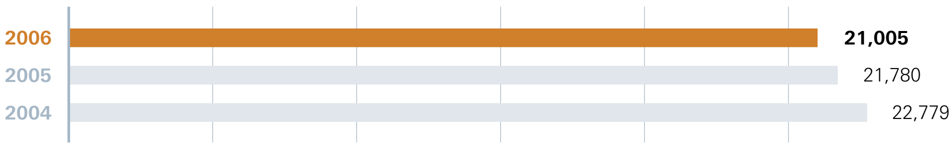
Rental income (in accordance with IFRS, incl. North Hesse, in EUR m)	2006	2005
Planned rent	85.2	89.1
Income shortfalls	7.7	8.1
Actual rent	77.5	81.0

PORTFOLIO STRUCTURE

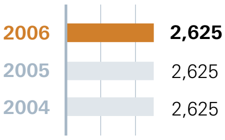
Total residential property stock



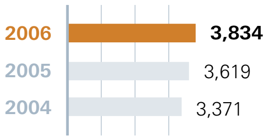
Of which own units (excl. DB IF 14)



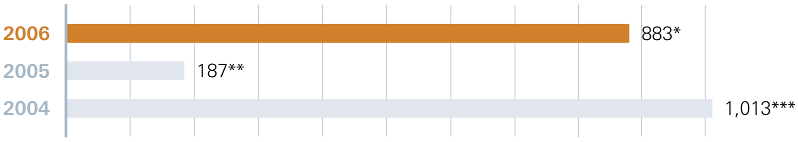
Of which DB Immobilienfonds 14



Of which units managed for third parties



Aquired property portfolios contained in own residential property stock



* Hanau, Mannheim, Kandel.
** Landau.
*** North Hesse.

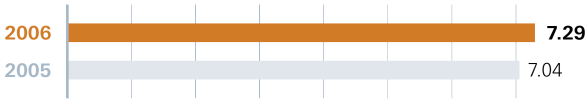
Area		2006	2005
Total residential space (own units)	millions of m²	1.33	1.39
Avg. unit size (own units)	m²	63	64
Commercial space	m²	26,539	24,804
Undeveloped space	m²	423,162	451,725

VACANCIES

| As of December 31, 2006, 92,090 m² of the core portfolio stood empty. Based on the total residential space of Deutsche Wohnen's own residential units, this was equivalent to a vacancy rate of approximately 7.29 %. This figure is made up of a vacancy rate for rental property amounting to 3.72 % and a vacancy rate for property held for sale of 3.58 %.

| The vacancy rate is not a cause for concern. On the contrary, the vacancies are intentional and serve to increase income in both the residential property management and the housing privatization areas.

Vacancy rate in % (on reporting date by residential space):



MAINTENANCE

| Maintenance expenses in the Rhine-Main/Rhineland-Palatinate core property portfolio amounted to EUR 17.5 million (EUR 13.43 per m^2; 2005: EUR 17.5 million or EUR 12.82 per m^2). The change per m^2 is within the general multi-year fluctuation margin. The maintenance program is determined based on ongoing portfolio analyses. Individual projects exceeding EUR 40 thousand are discussed and resolved by the management committee using the discounted cash flow (DCF) method. Projects that fall below this limit are evaluated using a simplified, but also standardized, method of calculation and are the responsibility of the regional business areas within their annual budgets.

| In line with portfolio strategy and based on ongoing, systematic market and demand studies by portfolio management, we focus our investments on buildings for which they can be refinanced from rental income within a ten-year period. This is the situation generally to be found in macro and micro locations of above-average quality in our portfolio for which the buildings offer as yet unutilized development (see portfolio matrix on page 16).

| Based on this investment strategy, we have been able to adjust our maintenance levels (measured in EUR per m^2) in line with the property management and privatization potential on an ongoing basis since 2000. As can be seen from the rental income and sale proceeds generated, this has not led to a deterioration in the quality of our residential property stock.

Core portfolio maintenance (IFRS accounting since 2005)	EUR m	per m^2
2006	**17.5**	**13.43**
2005	17.5	12.82
2004	19.1	12.90
2003	22.6	14.44

FOCUS

Update your ideas about modern property management. Because we take care of many of the jobs and problems that come with your property – our aim is to let you enjoy the benefits of your own four walls: security, comfort, room to live and create your own environment.

HOUSING PRIVATIZATION

Housing privatization employees are tasked with preparing and implementing the privatization process, which includes duties such as researching customer groups, declarations of partition and their entry in the land register, and managing company's own and external employees during the customer acquisition and contract settlement processes.

SEGMENT RESULT

| The improvement in the segment result from sales is attributable to the around 40% increase in the sale of residential units. The 1,645 privatizations recorded represent the highest amount since 1999.

| The segment result in accordance with IFRS for housing privatization in 2006 amounted to EUR 30.1 million, which represents an increase of around EUR 5.1 million or approximately 20% compared with 2005 (EUR 25.0 million). The overall segment result from privatization includes unrealized gains from the privatization of residential units in the core portfolio (EUR 36.3 million), the North Hesse result (EUR 1.4 million) and the result of the development properties (EUR 5.4 million), as well as pre-sale expenses (EUR 8.0 million). These comprise repair and renovation costs relating to privatization, as well as commission payments to external sales partners.

Key figures for housing privatization (incl. North Hesse)		2006	2005
Number of housing sales recognized on the balance sheet	units	1,645	1,177
Average selling price in core portfolio	EUR per m^2	1,027	1,009
Unrealized gains from unit sales	EUR m	43.2	36.4
Selling and pre-sale expenses	EUR m	8.0	6.5
Costs of vacancies due to sales	EUR m	5.0	4.9
Segment result from sales, total	**EUR m**	**30.1**	**25.0**

SUCCESSFUL PRIVATIZATION

| 1,645 housing privatization projects were recognized on the balance sheet for 2006 – a significantly higher number of units than in 2005 (1,177 units sold). The high number of housing privatizations recognized is partly due to the 173 housing privatizations notarized in 2005 but not included in the 2005 consolidated financial statements, which were carried forward to 2006. As in previous years, we owe these successful privatization activities to our highly committed employees and the mix of predominantly internal as well as external sales staff.

| At EUR 1,027 per m^2 for the core portfolio the average selling price of sales recognized on the balance sheet was up slightly on last year (EUR 1,009 per m^2). This is due to the regional distribution of the privatization program. Significantly higher selling prices are achieved in the Rhine-Main region than in the regional and local centers in Rhineland-Palatinate.

| Sales measures intended to streamline the portfolio in Rhineland-Palatinate again served to optimize the structure of the residential property portfolio.

INDEPENDENCE

How to feel new-born? By becoming independent and waking up every morning in your own home. We can help with ideas and solutions we've slept on and which can make your dreams come true.

CORPORATE MANAGEMENT FUNCTIONS

The corporate management activities do not themselves generate a directly measurable contribution to Group's results. But they are nevertheless essential, because they reveal both areas with the potential for long-term success and possible risks.

PORTFOLIO MANAGEMENT

| The instruments and procedures employed by portfolio management enable strategic action plans to be defined for property management and privatization across the whole property portfolio. Moreover, the system allows us to create scenarios showing the effect of these strategies on our business plans.

| The portfolio matrix shown earlier (see page 16) illustrates one aspect of the work of the portfolio management system. This information, which can only be obtained through close cooperation between portfolio management on the one hand and residential property management and housing privatization on the other, allows the preparation of joint investment and privatization programs.

| Portfolio management is involved in the annual calculation of the fair value of the property portfolio and the Net Asset Value for the Group. This unit is becoming increasingly involved in due diligence activities relating to residential properties already purchased and the planned expansion of the existing residential property portfolio.

RISK MANAGEMENT AND FINANCIAL CONTROL

| Financial control and risk management are further areas that support corporate management. The Financial Controlling department is responsible for operating and strategic business planning (rolling 5-year plan) and prepares budgets as well as variance and risk analyses.

| In the operating business, the focus is on financial control relating to rental income, repairs and sales activities and also, in close cooperation with the Personnel area, on the financial control of employee and administrative expenses. Market, financial and liquidity risks are monitored in conjunction with the subject-specific results of the work carried out by portfolio management and the Finance department.

| Risk management procedures are continually being improved and adapted to reflect internal events and changes in the external environment. The risk management system is reviewed annually by the auditors in the course of the audit of the consolidated financial statements.

PARTNERSHIP

Why not give your relationship a makeover? We're talking about your new home of course, the one you own. You'll be in love with this partner for life. And we'll make sure you fall in love and live happily together.

RESULTS IN 2006

The consolidated financial statements of Deutsche Wohnen as of December 31, 2006 have been prepared in accordance with the International Financial Reporting Standards (IFRS). In accordance with the resolutions adopted by the General Meetings in March and August 2006, last year consisted of two short fiscal years. This made it possible to deconsolidate Deutsche Wohnen from Deutsche Bank Group as of June 30, 2006.

The following paragraphs explain some of the major changes relating to items in the consolidated income statement (IFRS) compared with the previous year. The figures presented below are cumulative figures for the two short fiscal years:

Revenue from residential property management

In addition to heating and operating costs billed (EUR 28.9 million), planned rent of EUR 85.2 million represents the largest item within total from residential property management revenue (EUR 106.4 million). Planned rent was around EUR 3.9 million lower than in 2005, mainly as a result of continuing housing privatizations (see the section on residential property management).

Profit from housing privatization

The “profit from housing privatization” item in the income statement (EUR 41.8 million) is the difference between sale proceeds generated (EUR 97.2 million) and the carrying amounts of assets disposed (EUR 55.4 million). Sale proceeds and profit from privatization improved significantly year-on-year due to the approx. 40 % increase in residential units recognized on the balance sheet.

Cost of residential property management

The cost of residential property management totaling EUR 50.4 million mostly comprises operating costs of EUR 31.5 million (2005: EUR 30.9 million) and maintenance expenses of EUR 17.7 million (2005: EUR 17.8 million).

Other operating expenses

Other operating expenses in 2006 amounted to EUR 20.8 million, EUR 12.7 million lower than the prior year figure (EUR 33.5 million). This is because of the one-time surplus payment prior to the establishment of the consolidated tax group in 2005. The main items under this caption include EUR 8.0 million for selling and pre-sale expenses and EUR 10.3 million for general and administrative expenses.

Income from initial consolidation of DB IF 14

The income from the initial consolidation of DB IF 14 (EUR 8.8 million) are a result of the purchase price allocation, after adjustment for the acquisition cost, the fair values of assets and liabilities, as well as deferred taxes.

Net interest expense

The net interest expense, which reflects the netting of interest income and interest expenses, improved by EUR 1.2 million compared with the prior year to EUR 23.0 million. This resulted in particular from the streamlining and redemption of borrowings.

Profit before tax

The consolidated profit before tax for 2006 rose by around EUR 14.3 million to EUR 31.3 million. This represents an 84% rise as against the previous year (EUR 17.0 million).

Corporate income and trade tax expense

Corporate income and trade tax for 2006 led to a tax expense of EUR 0.2 million in the consolidated income statement (previous year: EUR 11.9 million tax credit). The change in deferred taxes of EUR 3.1 million had a positive effect. The income tax expense relating to the operating business was EUR 3.5 million, an increase of EUR 0.5 million compared with 2005 (EUR 3.0 million).

Profit after tax

In fiscal year 2006, we generated a consolidated profit after tax of EUR 31.1 million, an increase of EUR 15.1 million or 94% compared with 2005 (EUR 16.0 million). To achieve comparability with the previous year the non-recurring effect of the initial consolidation of DB IF 14 amounting to EUR 8.8 million has to be deducted; this results in consolidated profit after tax for the year of EUR 22.3 million.

Key figures for the Group in accordance with IFRS (EUR m)	Jan 1 to Dec 31, 2006	Jan 1 to Dec 31, 2005
EBIT	46.2	39.4
EBITDA	68.0	56.8
Profit before tax	31.3	17,0
Profit after tax	31.1	16.0
Gross operating cash flow (including privatization)	101.8	78.2

The significant increase in EBIT, EBITDA and gross operating cash flow (funds from operations – FFO) is mainly due to the improved sales result in 2006. The increase in profit before and after tax is attributable to the improved sales result and the non-recurring gains from the initial consolidation of DB IF 14.

Deutsche Wohnen AG (holding company)

On a single-entity basis, Deutsche Wohnen AG recorded a net loss of EUR 13.0 million for the twelve months of 2006, a decline of EUR 1.8 million compared with the previous year (2005: net loss for the year of EUR 11.2 million). This was mainly due to higher personnel and administrative expenses resulting from the two short fiscal years and the deconsolidation from Deutsche Bank Group.

A withdrawal from capital reserves led to net retained profits of EUR 17.6 million in the income statement as of December 31, 2006 (second short fiscal year 2006). The full amount of these net retained profits is earmarked for distribution to shareholders. The General Meeting to be held on June 21, 2007, will vote on a corresponding proposal on the distribution of profits by the Management Board and the Supervisory Board.

RENEWAL

Preserving what's good is always a precondition for having a home where you really feel at home. Constant renovation and maintenance allow us to respond to the situations and needs of the moment.

SHARE AND DIVIDEND

Investor and public relations activities involve external reporting (Annual and Interim Reports), organizing and conducting the General Meeting and answering quickly and completely all inquiries by shareholders, investors, journalists and analysts.

DECONSOLIDATION FROM DEUTSCHE BANK GROUP

The first six months of 2006 were dominated by Deutsche Wohnen's deconsolidation from Deutsche Bank Group. As of June 30, 2006, the control agreement existing between Deutsche Wohnen AG and DB Real Estate Management GmbH since 1998 was terminated. This made it necessary to break 2006 into two short fiscal years. As a result, a total of three General Meetings were held in 2006: in March, August and December.

SHARE

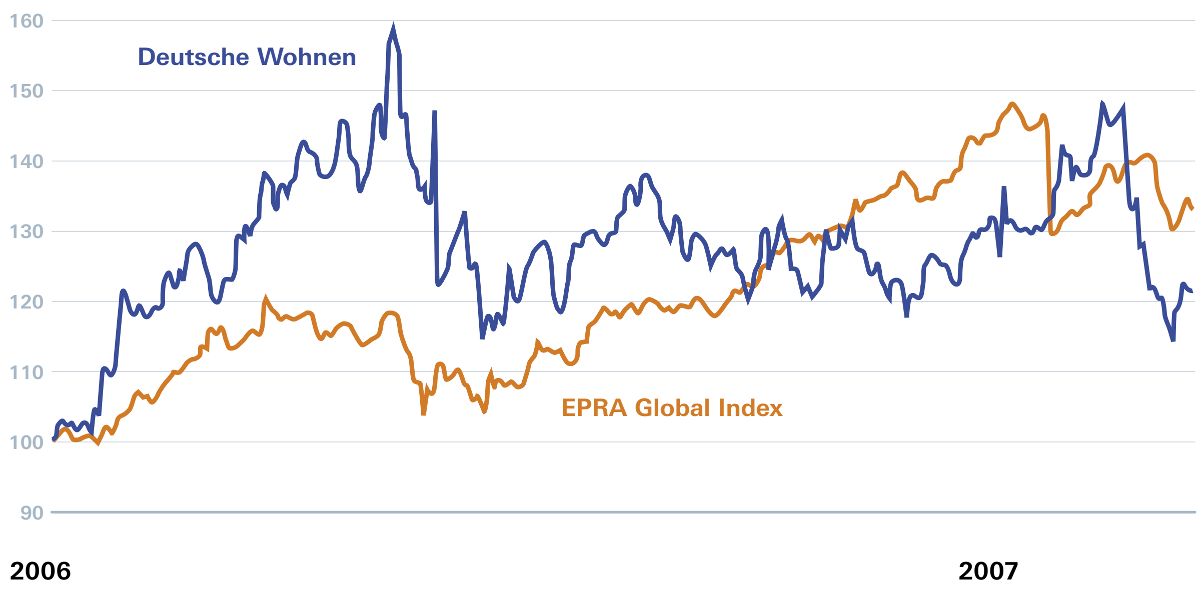
Shareholder structure

Approximately 80% of Deutsche Wohnen shares are held by institutional investors and the remaining 20% by private investors. Around 60% of the 20 million bearer and registered shares in Deutsche Wohnen are owned by foreign shareholders. In particular, the proportion of British and American shareholders with a predominantly mid- to long-term investment horizon rose again in 2006.

Share price performance

Following the conversion to date of around 96% of the registered shares to bearer shares, both the bearer shares and the remaining registered shares have been listed since March 27, 2006. After Deutsche Wohnen's deconsolidation from Deutsche Bank Group, the price of the bearer shares remained within the EUR 45.0 to EUR 53.0 range. In the first three months of 2007, Deutsche Wohnen's shares proved volatile in comparison with the overall residential property management sector. In mid-March 2007, the bearer shares were trading at approx. EUR 46.0.

Deutsche Wohnen vs. EPRA Global Index (US-dollars) from January 1, 2006 to March 13, 2007



| Stock market liquidity

Trading volumes performed worse in the first six months of 2006 than in the corresponding period of 2005. The average daily volume traded on XETRA was at times significantly below EUR 1.0 million. We attribute this temporary decline in trading volumes to the process of deconsolidation from Deutsche Bank Group. In addition to company's performance, the share split and admittance to the SDAX are significant factors governing the future development of the stock market liquidity. By the end of March 2007, the average daily volume traded on XETRA had risen to around EUR 2.3 million.

DIVIDEND

| The amount of the dividend is decided on the basis of the profit for the year, gross cash flow (funds from operations) as well as the maintenance of a risk-adjusted equity ratio.

| Dividend payments by Deutsche Wohnen are tax-exempt for shareholders. The reason for this is the structure of the contribution account for tax purposes (formerly "EK-04"), which is an item classified under the capital reserves or equity of the AG. This cash item was funded in 1999 by DB Real Estate prior to the private placement of the shares and since then has been reduced by means of withdrawals each year.

| Based on the closing price on December 31, 2006, the dividend yield amounts to 3.63%, which corresponds to a distribution per share of EUR 1.76.

| In view of the size of company's capital reserves (December 31, 2006: EUR 170.1 million) and in light of current tax law, we assume that we can maintain tax-exempt dividend payments for several years to come based on the current funding of the contribution account for tax purposes.

NET ASSET VALUE

| The Net Asset Value of the company, representing the value of the net operating assets of the Group, was calculated as of December 31, 2006.

| The property portfolio was remeasured in accordance with IAS 40 using the discounted cash flow method over a ten-year planning period. The properties in the sales program (around 20% of residential stocks) were treated as investment properties. The residual value was determined on the basis of the "perpetual annuity", taking the condition of the buildings into consideration.

| The discount rate was derived from the market rate of interest in accordance with IFRS. This rate is based on a current return adjusted for inflation, a property risk premium, and a regionally specific market risk premium. As a result, the discount rate rose from the previous 4.74% to an average of 4.98%, with the range being between 4.76% and 5.26%.

| The measurement concurs with the independent measurement performed by Jones Lang LaSalle as of December 31, 2006. The measurement was also tested on a sample basis as part of the audit of the 2006 annual financial statements by Ernst & Young.

| It resulted in a fair value of EUR 872.58 per m^2 (previous year: EUR 860.51 per m^2) and a Net Asset Value of EUR 36.29 per share (previous year: EUR 37.86 per share). These figures include the initial consolidation of the properties owned by DB IF 14 (2,625 residential units) and acquisitions of around 900 residential units in 2006.

The slight reduction in Net Asset Value per share is primarily attributable to the increased dividend payment during the two short fiscal years in 2006. The positive effects on the Net Asset Value of the acquisitions will become apparent as the property portfolio develops in the coming years.

The closing share price for 2006 of EUR 48.48 represented a premium of around 34% to the Net Asset Value. As a result of share price movements, this premium fell to approximately 30% as of the end of March 2007.

NAV as of December 31, 2006 (incl. DB IF 14)

		Dec 31, 2006	Dec 31, 2005
Leasable space (core business)	m²	1,519,608	1,371,600
Fair value of properties (core business)	**EUR per m²**	**872.58**	**860.51**
Fair value of properties (core business)	**EUR**	**1,325,982,000.00**	**1,180,282,000.00**
Plus: Other noncurrent and current assets	EUR	164,656,000.00	189,946,000.00
Of which: development property	EUR	33,225,000.00	46,809,000.00
Total assets	EUR	1,490,638,000.00	1,370,228,000.00
Less: liabilities	EUR	737,781,000.00	594,764,000.00
Less: present value of overhead costs	EUR	26,965,000.00	18,168,000.00
Net Asset Value	**EUR**	**725,892,000.00**	**757,296,000.00**
Divided by outstanding shares	EUR	20,000,000	20,000,000*
Net Asset Value per share	**EUR**	**36.29**	**37.86**

* For reasons of comparability.

FREEDOM

Freedom within four walls is the best way to create freedom in your mind. The possibilities are unlimited, just like our offer to help you find the right place to live and let live.

CORPORATE GOVERNANCE

The Management Board and Supervisory Board of Deutsche Wohnen AG issue the following declaration in accordance with section 161 of the *Aktiengesetz* (German Stock Corporation Act):

| In the past few years, Corporate Governance has become one of the most frequently discussed management topics, both nationally and internationally. The Corporate Governance system comprises the entire management and monitoring system of a company, its business policies and principles, as well as its system of internal and external control and monitoring mechanisms. Internal rules and control mechanisms that ensure responsible corporate management in cooperation with the external control mechanism represented by the market are a prerequisite for good Corporate Governance.

| Consistent alignment with the framework of the German Corporate Governance Code guarantees that Deutsche Wohnen Group is managed and controlled with a focus on creating value. Transparency is the key requirement for winning the trust of our investors, customers and partners and for an appropriate share price. Reliability and continuity helped us in the past build the trust that is our capital and that is now one of our most important competitive advantages.

| Deutsche Wohnen has a Compliance Officer to ensure compliance with the standards and norms of behavior set out in the German Corporate Governance Code. This officer keeps an insider register and informs management, employees and business partners of the relevant legal framework and of the consequences of non-compliance with insider regulations.

| Should members of the Management Board and Supervisory Board deal in Deutsche Wohnen shares in the future, Deutsche Wohnen will comply fully with the rules on Directors' Dealings. Currently, members of the Management Board and Supervisory Board do not hold any shares in Deutsche Wohnen.

The Management Board and Supervisory Board of Deutsche Wohnen AG issue the following declaration in accordance with section 161 of the *Aktiengesetz* (German Stock Corporation Act):

Deutsche Wohnen AG complied and continues to comply with the recommendations of the Government Committee on the German Corporate Governance Code (in accordance with the version of the German Corporate Governance Code dated June 12, 2006), with the following four exceptions:

- A collective directors and officers insurance policy from CNA Insurance Company Ltd. exists for the members of the Management Board and the Supervisory Board (Code section 3.8).

- No Supervisory Board committee has been set up to specifically handle accounting and auditing issues. We think it is appropriate for all six Supervisory Board members to handle these issues (Code section 5.3.2).

- (Single-entity and consolidated) annual, semi-annual and quarterly financial statements are published within the legal timeframes. The lead times required to produce financial statements and company reports with due care make it impossible to publish them any earlier (Code section 7.1.2 sentence 2).

- At the end of the year, the members of the Supervisory Board receive appropriate remuneration which is laid down by resolution of the General Meeting. The remuneration of the Supervisory Board does not include a performance-related component in view of the oversight function of the Supervisory Board (Code section 5.4.7 sentence 4).

ANNUAL FINANCIAL STATEMENTS OF DEUTSCHE WOHNEN AG (HGB – GERMAN COMMERCIAL CODE)

BALANCE SHEET AS OF DECEMBER 31, 2006

Assets in EUR	Dec 31, 2006	June 30, 2006
A. Fixed assets		
Financial assets		
Shares in affiliated companies	286,262,676.03	285,556,890.59
Fixed assets	**286,262,676.03**	**285,556,890.59**
B. Current assets		
I. Receivables and other assets		
1. Receivables from affiliated companies	177,880,522.06	240,429,938.61
2. Other assets	109,772.83	225,720.27
II. Cash funds		
Bank balances	2,004,025.28	737,551.59
Current assets	**179,994,320.17**	**241,393,210.47**
C. Prepaid expenses	**0.00**	**70,756.78**
Total assets	**466,256,996.20**	**527,020,857.84**

Equity and liabilities in EUR	Dec 31, 2006	June 30, 2006
A. Equity		
I. Subscribed capital	20,000,000.00	10,225,837.62
II. Capital reserves	170,156,470.37	206,454,487.62
III. Revenue reserves (legal reserve)	1,022,583.76	1,022,583.76
IV. Net retained profits	17,600,000.00	52,600,000.00
	208,779,054.13	**270,307,909.00**
B. Provisions		
Other provisions	1,624,896.00	1,733,206.40
	1,624,896.00	**1,733,206.40**
C. Liabilities		
1. Liabilities to banks	251,977,834.65	251,215,667.73
2. Trade payables	6,606.20	0.00
3. Liabilities to affiliated companies	32,130.09	28,079.86
4. Other liabilities	3,836,475.13	3,740,994.85
	255,853,046.07	**254,984,742.44**
Total equity and liabilities	**466,256,996.20**	**527,020,857.84**

INCOME STATEMENT FOR THE PERIOD JULY 1 TO DECEMBER 31, 2006

In EUR	July 1 to Dec 31, 2006	Jan 1 to June 30, 2006
1. Other operating income	95,616.61	602,273.97
2. Personnel expenses	1,055,640.17	859,092.13
a) Wages and salaries EUR 1,051,270.00 (previous year EUR 864,860.00)		
b) Social security EUR 4,370.17 (previous year EUR 4,232.13)		
3. Other operating expenses	1,252,620.96	1,990,480.19
4. Income from investments	0.00	4,778,073.65
– thereof from affiliated companies EUR 0.00 (previous year EUR 4,778,073.65)		
5. Other interest and similar income	111,644.17	99,089.42
– thereof from affiliated companies EUR 82,590.42 (previous year EUR 93,969.43)		
6. Interest and similar expenses	7,175,716.52	6,688,155.81
– thereof from affiliated companies EUR 27,833.52 (previous year EUR 235.55)		
7. Income from profit transfer	352,862.00	0.00
8. Net loss for the year	**–8,923,854.87**	**–4,068,291.09**
9. Retained profits brought forward	0.00	35,000,000.00
10. Withdrawals from capital reserves	26,523,854.87	21,668,291.09
11. Net retained profits	**17,600,000.00**	**52,600,000.00**

I. GENERAL INFORMATION ON THE ANNUAL FINANCIAL STATEMENTS

Deutsche Wohnen AG is a listed corporation whose registered office is in Germany. Since the deconsolidation of Deutsche Wohnen AG from Deutsche Bank Group, which was completed on June 30, 2006, company's operations have been limited to its holding activities for the entities that make up Deutsche Wohnen Group. Until this date, Deutsche Wohnen AG was included in the consolidated financial statements of Deutsche Bank AG, Frankfurt am Main. company's deconsolidation from Deutsche Bank AG's consolidated Group means that disclosures on balance sheet and income statement items relating to its former affiliates in this consolidated Group have been discontinued.

The Extraordinary General Meeting held on March 23, 2006 changed company's fiscal year. This previously began on July 1 of one year and ended on June 30 of the following year. A short fiscal year was established for the period from January 1, 2006 to June 30, 2006.

The Ordinary General Meeting on August 10, 2006 again resolved to change the fiscal year. It now begins on January 1 and ends on December 31 of each year. The period between July 1, 2006 and December 31, 2006 is also a short fiscal year.

Based on the above-mentioned resolutions, Deutsche Wohnen AG's 2006 calendar year is divided into two short fiscal years.

The accompanying annual financial statements were prepared in accordance with the accounting requirements of the *Handelsgesetzbuch* (HGB – German Commercial Code) and the supplementary provisions of the *Aktiengesetz* (AktG – German Stock Corporation Act). The income statement is classified using the total cost (nature of expense) format.

Deutsche Wohnen's AG results of operations are largely dominated by the net interest expense in the amount of EUR 7.1 million (January 1 – June 30, 2006: EUR 6.6 million). The main reason for this, apart from the payment of interest on liabilities to banks, is the financing of its directly and indirectly held subsidiaries using short-term, low-interest rate loans.

Due to the fact that there are two short fiscal years, the amounts reported in the income statements for the two half years in 2006 are compared.

II. ACCOUNTING POLICIES

Fixed assets

Shares in affiliated companies are generally measured at cost or, in the event of permanent impairment, at the lower fair value. The list of shareholdings in accordance with section 285 no. 11 HGB is included as Annex 1 to the Notes.

Current assets

Receivables are generally carried at their principal amount. Uncollectible receivables are written off.

Other provisions and liabilities

Provisions are recognized to take account of identifiable risks and uncertain obligations. They are carried in the amount deemed necessary at the balance sheet date on the basis of prudent business judgment. Liabilities are recognized at the amounts repayable.

III. BALANCE SHEET DISCLOSURES

Fixed assets

Shares in affiliated companies are reported as "Financial assets" in the company's fixed assets. The addition in the second short fiscal year 2006 is due to the acquisition of shares of the subsidiary Rhein-Pfalz Wohnen GmbH.

STATEMENT OF CHANGES IN FIXED ASSETS

In EUR thousand				Historical cost	Depreciation, amortization and write-downs	Book value	
	Opening balance as of July 1, 2006	Additions	Disposals	Balance as of Dec 31, 2006	Balance as of Dec 31, 2006	Dec 31, 2006	June 30, 2006
Financial assets							
Shares in affiliated companies	285,557	706	0	**286,263**	**0**	**286,263**	285,557

Receivables and other assets

Receivables from affiliated companies principally comprise loans receivable from subsidiaries within Deutsche Wohnen Group in the amount of EUR 177.5 million (June 30, 2006: EUR 226.6 million). As in the previous year, other assets mainly comprise tax refund claims.

Equity

Following a capital increase from retained earnings, the registered share capital now amounts to EUR 20.0 million (June 30, 2006: EUR 10.2 million). The capital increase was resolved by the Ordinary General Meeting on August 10, 2006 and made possible by a withdrawal from the capital reserves amounting to EUR 9,774,162.38. The capital increase was implemented without issuing new shares.

Following a 1:5 share split, the share capital was reclassified and now comprises 20,000,000 no-par value shares. All shares were held as free float as of the reporting date.

In accordance with the resolution of the Extraordinary General Meeting on March 23, 2006, new shares will only be issued as bearer shares under the amended Articles of Association. company's shareholders were able to convert their registered shares into bearer shares upon written demand and with the consent of the Management Board.

The bearer shares resulting from the share conversion have been listed on the stock exchange since July 3, 2006. Approximately 96% of the total of 20,000,000 shares outstanding are currently bearer shares and 4% are registered shares.

EUR 17.6 million of the net retained profits as of June 30, 2006 was distributed in accordance with the resolution of the Ordinary General Meeting on December 7, 2006.

The Management Board and the Supervisory Board will also propose a total dividend of EUR 17.6 million for the short fiscal year from July 1 to December 31, 2006 to the General Meeting. The net retained profits required for this were withdrawn from the capital reserves.

The General Meeting authorized the Management Board, with the consent of the Supervisory Board, to increase the share capital on one or several occasions in the period up to August 9, 2011 by up to an aggregate of EUR 10.0 million of authorized capital by issuing up to 10,000,000 new ordinary bearer shares against cash or non-cash contributions.

The Management Board is also authorized, with the consent of the Supervisory Board, in the period up to August 9, 2011 to issue bearer or registered bonds with warrants or convertible bonds as well as profit participation rights in the aggregate principal amount of up to EUR 500.0 million and a maximum term of 20 years, and to grant creditors or holders of the bonds subscription or conversion rights for up to 10,000,000 new shares of the company with a notional value of up to EUR 10.0 million subject to the conditions of the relevant bonds with warrants or convertible bonds or of the profit participation rights.

The share capital can be contingently increased by up to EUR 10.0 million through the issue of up to 10,000,000 new no-par value bearer shares carrying dividend rights from the beginning of the fiscal year in which they were issued (contingent capital). The capital increase serves to grant shares to creditors or holders of bonds with warrants or convertible bonds, as well as profit participation rights with conversion or subscription rights.

Additionally, in observance of the principle of equal treatment, the Management Board is authorized to acquire up to 2,000,000 shares of the company in the period up to February 9, 2008, corresponding to 10% of the share capital.

The shareholders listed below have informed us that they hold more than 5% of the shares of Deutsche Wohnen AG:

Shareholder	Date of notification	Equity interest/ Share of voting rights in %	Share of voting rights in registered share capital, in EUR thousand
Deutscher Herold Lebensversicherung AG, Bonn	April 8, 2002	6.70	1,340
Newton Investment Management Limited, London	January 12, 2006	5.88	1,176
Insight Investment Management (Global) Limited, Edinburgh	January 3, 2007	6.53	1,306

We received the following notification in accordance with section 160(1) no. 8 AktG from Julius Bär Investment Management LLC, New York, on December 22, 2006 via Julius Bär Holding AG, Zurich:

“We hereby notify you in accordance with section 21(1) WpHG that our share of the voting rights in Deutsche Wohnen AG fell below the 5% threshold on December 18, 2006 and amounted to 4.97%. The voting rights are attributable to us in accordance with sections 21(1) and 22(1) sentence 1 no. 6 WpHG.”

We received the following notification in accordance with section 160(1) no. 8 AktG from HBOS plc., Edinburgh, and its subsidiaries HBOS Insurance & Investment Group Limited, West Yorkshire, Insight Investment Management Limited, London, and Insight Investment Management (Global) Limited, London, on January 3, 2007 via Linklaters, Frankfurt am Main:

Disclosure on behalf of HBOS plc:

We wish to make the following disclosure in accordance with section 21(1) and section 22 of the *Wertpapierhandelsgesetz (WpHG)* on behalf of HBOS plc:

"HBOS plc's share of the voting rights in Deutsche Wohnen AG exceeded 5% on December 28, 2006 and amounted to 6.53%. The voting rights are attributable to our client in accordance with section 22(1) sentence 1 no. 6, and (1) sentence 2 WpHG."

Disclosure on behalf of HBOS Insurance & Investment Group Limited:

"HBOS Insurance & Investment Group Limited's share of the voting rights in Deutsche Wohnen AG exceeded 5% on December 28, 2006 and amounted to 6.53%. The voting rights are attributable to HBOS Insurance & Investment Group Limited in accordance with section 22(1) sentence 1 no. 6, and (1) sentence 2 WpHG."

Disclosure on behalf of Insight Investment Management Limited:

"Insight Investment Management (Global) Limited's share of the voting rights in Deutsche Wohnen AG exceeded 5% on December 28, 2006 and amounted to 6.53%. The voting rights are attributable to Insight Investment Management (Global) Limited in accordance with section 22(1) sentence 1 no. 6 WpHG."

We received the following notification in accordance with section 160(1) no. 8 AktG from Asset Value Investors Limited, London, on January 16, 2007:

"After selling 42,854 shares we make the following disclosure in accordance with section 21(1) of the *Wertpapierhandelsgesetz* (WpHG): As of August 17, 2006 our stake in Deutsche Wohnen went below the threshold of 5% and amounted to 4.95%. The voting rights are attributable to Asset Value Investors in accordance with section 22(1) sentence 1 no. 6 WpHG."

Other provisions

Among other things, provisions are recognized for the variable compensation paid to the members of the Management Board in the amount of EUR 1.04 million (June 30, 2006: EUR 0.7 million).

LIABILITIES

Maturity structure of liabilities (in EUR thousand)	Total	thereof with a residual maturity of		
		less than 1 year	1 to 5 years	over 5 years
Liabilities to banks (previous year ended to June 30, 2006)	251,978 (251,216)	1,189 (427)	91,061 (91,061)	159,728 (159,728)
Liabilities to affiliated companies (previous year ended to June 30, 2006)	32 (28)	32 (28)	0 (0)	0 (0)
Trade payables and other liabilities (previous year ended to June 30, 2006)	3,843 (3,741)	3,843 (3,741)	0 (0)	0 (0)
Total (previous year ended to June 30, 2006)	255,853 (254,985)	5,064 (4,196)	91,061 (91,061)	159,728 (159,728)

For the liabilities to banks, the subsidiaries provided collateral by way of real estate liens in the amount of EUR 140 million for the first time to cover liabilities of Deutsche Wohnen AG.

Other liabilities again relate primarily to a residual liability to Hoechst AG, Frankfurt am Main (EUR 3.6 million). This item also contains tax liabilities in the amount of EUR 125 thousand (June 30, 2006: EUR 116 thousand).

IV. INCOME STATEMENT DISCLOSURES

Other operating income

Among other things, other operating income contains prior-period income in the amount of EUR 35 thousand (June 30, 2006: EUR 15 thousand).

Other operating expenses

Other operating expenses include consulting and audit costs (EUR 0.4 million; June 30, 2006: EUR 1.0 million) plus the costs of the General Meeting and for the maintenance of the share register (EUR 0.2 million; June 30, 2006: EUR 0.2 million). This item also contains prior-period expenses amounting to EUR 47 thousand.

Other interest and similar income

Intragroup interest rates were reduced in previous years in order to comply with the requirements of section 8a *Körperschaftsteuergesetz* (German Corporation Tax Act).

V. CONTINGENT LIABILITIES

As of the reporting date, two corporate guarantees totaling EUR 1.14 million had been issued for Rhein-Pfalz Wohnen GmbH and MT Wohnen GmbH for the benefit of R&V Versicherungs AG, Wiesbaden.

In addition, the Company issued comfort letters for a total of EUR 301 million to Deutsche Kreditbank AG, Berlin, for Rhein-Main Wohnen and Rhein-Mosel Wohnen and to Landesbank Rheinland-Pfalz, Mainz, for Rhein-Main Wohnen, Rhein-Mosel Wohnen, Rhein-Pfalz Wohnen and Main-Taunus KG.

VI. OTHER FINANCIAL OBLIGATIONS

The service agreements entered into with Rhein-Pfalz Wohnen GmbH in 2005 with regard to the provision of services in the areas of IT, finance and accounting, financial control and investor and public relations result in other financial obligations in the amount of EUR 0.1 million p.a. for a period of 24 months.

VII. OTHER DISCLOSURES

The fee for the auditors for the audit of the financial statements recognized as an expense amounted to EUR 108 thousand.

The total compensation of the Management Board of Deutsche Wohnen AG for the period July 1 to December 31, 2006 can be broken down as follows (in EUR thousand):

In EUR thousand	Total compensation	Compensation component	
		fixed	variable
Andreas Lehner	644	93	551
Michael Neubürger	448	84	364

Remuneration granted to members of the Supervisory Board amounted to EUR 42 thousand in the short fiscal year.

SUPERVISORY BOARD

a) Membership of other statutory supervisory boards

b) Membership of comparable supervisory bodies in companies in Germany and abroad

Helmut Ullrich
– Chairman –
Managing Director DB Real Estate Management GmbH, Eschborn

a) **DB Real Estate Spezial Invest GmbH,** Eschborn (until July 31, 2006)
JADE Residential Property AG, Eschborn – Chairman – (since July 18, 2006)

b) **Main-Taunus Wohnen GmbH & Co. KG,** Eschborn (until September 26, 2006)
MT Wohnen GmbH, Frankfurt am Main (until September 26, 2006)
Rhein-Main Wohnen GmbH, Frankfurt am Main (until September 26, 2006)
Rhein-Mosel Wohnen GmbH, Mainz (until September 26, 2006)
Rhein-Pfalz Wohnen GmbH, Mainz (until September 26, 2006)

Dr. rer. pol. Andreas Kretschmer
– Deputy Chairman –

Managing Director of Ärzteversorgung Westfalen-Lippe Einrichtung der Ärztekammer Westfalen-Lippe
– Körperschaft des öffentlichen Rechts –

a) **BIOCEUTICALS Arzneimittel AG,** Bad Vilbel
Oppenheim Immobilien-Kapitalanlagegesellschaft mbH, Wiesbaden
Private Life Biomed AG, Hamburg

b) **TRITON,** St. Helier/Jersey

Jens Bernhardt
Managing Director
Oppenheim Vermögenstreuhand GmbH, Oberursel

Matthias Hünlein
Managing Director Tishman Speyer, Frankfurt am Main

Hans-Werner Jacob
Member of the Management Deutsche Bank AG, Private Banking

a) **Leoni AG,** Nuremberg

Dr. Florian Stetter
Managing Director, DeTe Immobilien GmbH, Frankfurt am Main

MANAGEMENT BOARD

a) Membership of other statutory supervisory boards

b) Membership of comparable supervisory bodies in companies in Germany and abroad

Andreas Lehner
– Chairman –

a) BIH Berliner Immobilien Holding GmbH, Berlin

b) Main-Taunus Wohnen GmbH & Co. KG,
Eschborn
– Chairman –
MT Wohnen GmbH, Frankfurt am Main
– Chairman –
Rhein-Main Wohnen GmbH, Frankfurt am Main
– Chairman –
Rhein-Mosel Wohnen GmbH, Mainz
– Chairman –
Rhein-Pfalz Wohnen GmbH, Mainz
– Chairman –

Michael Neubürger

b) Main-Taunus Wohnen GmbH & Co. KG,
Eschborn
– Deputy Chairman –
(from September 27, 2006)
MT Wohnen GmbH, Frankfurt am Main
– Deputy Chairman –
(from September 27, 2006)
Rhein-Main Wohnen GmbH, Frankfurt am Main
– Deputy Chairman –
(from September 27, 2006)
Rhein-Mosel Wohnen GmbH, Mainz
– Deputy Chairman –
(from September 27, 2006)
Rhein-Pfalz Wohnen GmbH, Mainz
– Deputy Chairman –
(from September 27, 2006)

CONSOLIDATED FINANCIAL STATEMENTS

The Company is the Group parent and prepares consolidated financial statements which are filed with the commercial register of Frankfurt am Main Local Court (Reg. no. HRB 42388).

CORPORATE GOVERNANCE

The Management Board and Supervisory Board have issued the declaration of conformity with the German Corporate Governance Code required in accordance with section 161 AktG, which has been made permanently available to shareholders in the Internet under www.deutsche-wohnen.de

Frankfurt am Main, February 9, 2007

Deutsche Wohnen AG

Andreas Lehner – Chairman of the Management Board –	Michael Neubürger – Member of the Management Board –

SHAREHOLDINGS AS OF DECEMBER 31, 2006 IN ACCORDANCE WITH SECTION 285 NO. 11 OF THE HGB

	Equity interest in %		Equity	Profit/loss*
	total	indirect	in EUR thou.	in EUR thou.
1. Main-Taunus Wohnen GmbH & Co. KG, Eschborn	100.00	69.03	12,617.6	8,271.5
2. MT Wohnen GmbH, Frankfurt am Main**	100.00	100.00	25.6	352.8
3. Rhein-Pfalz Wohnen GmbH, Mainz	100.00	100.00	37,823.7	901.5
4. Rhein-Mosel Wohnen GmbH, Mainz***	100.00	0.00	94,946.6	8,890.6
5. Rhein-Main Wohnen GmbH, Frankfurt am Main***	100.00	0.00	230,248.7	49,943.7
6. RMW Projekt GmbH, Frankfurt am Main****	100.00	0.00	11,034.0	–10.5
7. Deutsche Wohnen Asset Immobilien GmbH, Frankfurt am Main	100.00	0.00	23.9	–1.1
8. Deutsche Wohnen Beteiligung Immobilien GmbH, Frankfurt am Main	100.00	0.00	23.9	–1.1
9. Deutsche Wohnen Corporate Immobilien GmbH, Frankfurt am Main	100.00	0.00	23.9	–1.1
10. Deutsche Wohnen Direkt Immobilien GmbH, Frankfurt am Main	100.00	0.00	23.9	–1.1
11. Deutsche Wohnen Eigentum Immobilien GmbH, Frankfurt am Main	100.00	0.00	23.9	–1.1
12. DB Immobilienfonds 14 Rhein-Pfalz Wohnen GmbH & Co. KG, Eschborn	24.59	0.00	40,212.9	–538.0

* In accordance with the annual financial statements as of December 31, 2006.
** Profit transfer agreement with Deutsche Wohnen AG.
*** Large corporation in which more than 5% of the voting rights are held.
**** Profit and loss transfer agreement with Rhein-Main Wohnen GmbH.

IFRS CONSOLIDATED FINANCIAL STATEMENTS AND COMBINED MANAGEMENT REPORT

CONSOLIDATED BALANCE SHEET AS OF DECEMBER 31, 2006

Assets in EUR		Note	Dec 31, 2006	June 30, 2006
A.	Noncurrent assets			
I.	Investment property	(1)	956,579,764.60	799,434,870.60
II.	Property, plant and equipment	(2)	3,897,897.89	4,067,833.85
III.	Intangible assets	(3)	188,805.00	31,643.00
IV.	Noncurrent financial assets	(4)	172,921.87	23,845,180.63
V.	Noncurrent receivables and other noncurrent assets		145,326.00	2,216,850.70
VI.	Deferred tax assets	(16)	42,420,000.00	40,417,000.00
	Total noncurrent assets		**1,003,404,715.36**	**870,013,378.78**
B.	Current assets			
I.	Properties held for sale and other inventories	(5)		
	a) Land without buildings		2,479,657.75	2,503,417.92
	b) Land with finished buildings		5,907,943.42	7,545,573.15
	c) Work in progress, other inventories		28,152,724.93	30,835,566.79
			36,540,326.10	**40,884,557.86**
II.	Current receivables and other current assets	(6)		
	a) Receivables from rental activities		4,284,329.28	4,087,612.73
	b) Receivables from property sales		47,160,064.98	3,458,371.15
	c) Current tax receivables		1,652,277.65	1,067,680.08
	d) Current receivables and other current assets		10,249,862.73	18,023,183.19
	e) Derivatives		0.00	6,144,000.00
			63,346,534.64	**32,780,847.15**
III.	Cash and bank balances	(7)	**33,515,685.27**	**54,356,434.35**
C.	Noncurrent assets held for sale	(8)	**2,709,053.66**	**8,505,438.77**
	Total current assets		**136,111,599.67**	**136,527,278.13**
Total assets			**1,139,516,315.03**	**1,006,540,656.91**

Equity and Liabilities in EUR		Note	Dec 31, 2006	June 30, 2006
A.	Equity	(9)		
I.	Subscribed capital		20,000,000.00	10,225,837.62
II.	Capital reserves		170,754,317.92	207,052,559.57
III.	Retained earnings		29,702,430.21	29,553,878.21
IV.	Consolidated net retained profits		175,098,444.00	171,830,233.52
	Total equity		**395,555,192.13**	**418,662,508.92**
B.	Noncurrent liabilities			
I.	Bank loans and overdrafts	(10)	503,587,203.03	407,160,671.16
II.	Liabilities to other lenders	(10)	58,599,066.68	20,703,195.48
III.	Derivatives	(11)	54,795.07	0.00
IV.	Post-employment benefit obligation	(12)	5,083,618.00	5,121,280.00
V.	Other noncurrent provisions	(13)	254,480.27	4,180,493.86
VI.	Liabilities to fund limited partners	(14)	49,783,237.83	0.00
VII.	Other noncurrent liabilities	(15)	219,139.70	5,341,389.79
VIII.	Deferred tax liabilities	(16)	6,179,849.51	2,190,000.00
IX.	Deferred income	(10)	35,446,554.16	36,189,965.46
	Total noncurrent liabilities		**659,207,944.25**	**480,886,995.75**
C.	Current liabilities			
I.	Bank loans and overdrafts	(10)	9,004,049.09	6,132,837.57
II.	Liabilities to other lenders	(10)	2,499,798.29	1,405,276.00
III.	Current tax liabilities	(13)	4,184,292.00	6,278,661.89
IV.	Other current provisions	(13)	599,197.02	881,340.33
V.	Prepayments received	(17)	32,763,820.82	41,276,916.32
VI.	Liabilities from rental activities	(18)	10,401,092.18	8,219,781.02
VII.	Trade payables and other liabilities	(19)	25,300,929.25	35,683,339.11
VIII.	Derivatives	(20)	0.00	7,113,000.00
	Total current liabilities		**84,753,178.65**	**106,991,152.24**
Total equity and liabilities			**1,139,516,315.03**	**1,006,540,656.91**

CONSOLIDATED INCOME STATEMENT FOR THE SHORT FISCAL YEAR FROM JULY 1 TO DECEMBER 31, 2006

In EUR		Note		Second short fiscal year from July 1 to Dec 31, 2006	First short fiscal year from Jan 1 to June 30, 2006
1.	Revenue	(21)			
	a) from residential property management		59,857,079.53		46,592,380.00
	b) from property sales		2,790,888.00		526,000.00
	c) from management activities		962,775.61		1,177,635.84
	d) from other services		21,061.60		47,875.12
				63,631,804.74	48,343,890.96
2.	Profit from housing privatization	(22)			
	a) Sale proceeds		78,473,527.84		18,728,995.44
	b) Carrying amounts of assets disposed		44,391,366.76		10,987,137.93
				34,082,161.08	7,741,857.51
3.	Changes in inventories	(23)		–6,343,612.34	6,263,729.91
4.	Other operating income	(24)		2,347,102.36	2,435,936.57
5.	Cost of purchased services	(25)			
	a) Residential property management		26,086,404.55		24,310,820.22
	b) Property sales		1,665,552.85		286,044.70
				27,751,957.40	24,596,864.92
Gross profit				**65,965,498.44**	**40,188,550.03**
6.	Employee expenses	(26)		8,354,117.06	8,995,318.50
7.	Depreciation, amortization and impairment losses	(27)		14,757,639.92	7,096,420.35
8.	Other operating expenses	(28)		10,961,379.87	9,815,242.30
9.	Income from business combination	(29)		8,779,377.52	0.00
10.	Income from financial assets	(30)	317,674.74		318,436.48
11.	Other interest and similar income	(31)	570,658.30		783,220.52
12.	Impairment losses on financial assets	(32)	691.63		163,107.00
13.	Interest and similar expenses	(33)	12,574,539.42		12,411,126.25
14.	**Net finance costs**	(34)		**–11,686,898.01**	**–11,472,576.25**
15.	Gains and losses on financial derivatives			344,000.00	167,000.00
16.	**Profit before tax**			**28,640,841.10**	**2,641,992.63**
17.	Income tax expense (income; previous year: expense)			726,988.55	904,726.07
18.	Other taxes			23,474.04	31,289.75
19.	**Profit after tax**			**29,344,355.61**	**1,705,976.81**
	Basic/diluted earnings per share			1.47	0.09

The accompanying notes to the consolidated financial statements are an integral part of these consolidated financial statements.

I. GENERAL INFORMATION

The consolidated financial statements of Deutsche Wohnen AG have been prepared in accordance with the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB), the supplementary Interpretations of the International Financial Reporting Interpretations Committee (IFRIC) and the Standing Interpretations Committee (SIC), effective at the reporting date, and in compliance with section 315a of the HGB (German Commercial Code). The term International Financial Reporting Standards (IFRS) refers to all accounting standards issued by the International Accounting Standards Board since 2002, thereby replacing the term International Accounting Standards (IAS). Accounting standards issued by the IASB before this name change are still referred to as IAS and are reflected in the preparation of the consolidated financial statements.

The company complied in full with all standards and interpretations as adopted by the EU at the balance sheet date. The prior-year figures were determined using the same principles.

Deutsche Wohnen AG is a Germany-based, national property company whose registered office is Pfaffenwiese 300, Frankfurt am Main, and is registered in the commercial register of the Frankfurt am Main Local Court under the number HRB 42388. Deutsche Wohnen AG's business activities are restricted exclusively to its role as the holding company for the companies included in the Group. The operations of the subsidiaries focus on residential property management, portfolio management and housing privatization, i.e. the sale of apartments to tenants and investors.

Following the termination of the control agreement with DB Real Estate Management GmbH as of the end of June 30, 2006, Deutsche Wohnen AG expanded its property portfolio by acquiring a total of 883 residential units and four commercial units, as well as 57 garages and parking spaces. These residential property portfolios are distributed across attractive locations in Hanau, Mannheim and Kandel.

The consolidated financial statements of Deutsche Wohnen were included in the consolidated financial statements of Deutsche Bank AG, Frankfurt am Main, until June 30, 2006. Following deconsolidation from Deutsche Bank AG's consolidated Group, the disclosures on items in the balance sheet and income statement referring to formerly affiliated companies within this Group are no longer reported.

Company's fiscal year was changed by resolution of the Extraordinary General Meeting on March 23, 2006. It began on July 1 of each year and ended on June 30 of the following year. The period between January 1, 2006 and June 30, 2006 was a short fiscal year. This was a precondition of the termination of the control agreement.

The Annual General Meeting again resolved to change the fiscal year on August 10, 2006. It now begins on January 1 of each year and ends on December 31. The period between July 1, 2006 and December 31, 2006 is also a short fiscal year.

As a result of the resolutions described above, the 2006 calendar year comprised two short fiscal years for Deutsche Wohnen Group. The comparative figures in the income statement are not fully comparable due to the business activities within the context of housing privatization activities and its strong performance in the second half of 2006.

II. ACCOUNTING POLICIES

Basis of preparation

The consolidated financial statements have generally been prepared using the historical cost convention, with the exception of the measurement of derivatives. The consolidated financial statements have been prepared in Euros. Unless otherwise stated, all figures are given in EUR thousand or EUR million, rounded using the standard business rounding convention. The income statement was prepared using the nature of expense format.

The consolidated financial statements as of December 31, 2006 are based on the following Standards that are relevant to Deutsche Wohnen Group:

International Financial Reporting Standards (IFRS):	
IFRS 3	Business Combinations
IFRS 5	Noncurrent Assets Held for Sale and Discontinued Operations

International Accounting Standards (IAS)	
IAS 1	Presentation of Financial Statements
IAS 2	Inventories
IAS 7	Cash Flow Statements
IAS 8	Accounting Policies, Changes in Accounting Estimates and Errors
IAS 10	Events after the Balance Sheet Date
IAS 12	Income Taxes
IAS 14	Segment Reporting
IAS 16	Property, Plant and Equipment
IAS 17	Leases
IAS 18	Revenue
IAS 19	Employee Benefits
IAS 20	Accounting for Government Grants and Disclosure of Government Assistance
IAS 23	Borrowing Costs
IAS 24	Related Party Disclosures
IAS 27	Consolidated and Separate Financial Statements
IAS 32	Financial Instruments: Disclosure and Presentation
IAS 33	Earnings per Share
IAS 36	Impairment of Assets
IAS 37	Provisions, Contingent Liabilities and Contingent Assets
IAS 38	Intangible Assets
IAS 39	Financial Instruments: Recognition and Measurement
IAS 40	Investment Property

Individual items in both the income statement and the balance sheet have been combined to enhance clarity. These items are disclosed and explained separately in the notes. A number of additional items have been recognized in accordance with the requirements for formats applicable to residential property companies.

In accordance with IAS 1, the balance sheet presentation distinguishes between noncurrent and current assets and liabilities. Items are regarded as current if they are due within one year or can be allocated to a single operating cycle.

No taxable distributions are made due to the former nonprofit-making nature of individual subsidiaries.

Deutsche Wohnen AG's Management Board will authorize the consolidated financial statements for submission to the Supervisory Board on March 9, 2007. The Supervisory Board is responsible for examining the consolidated financial statements and stating whether it approves them.

III. CHANGES IN ACCOUNTING POLICIES

The accounting policies applied correspond to the policies applied in the previous year, with the following exceptions:

- In the year under review, the items reported in the previous year under "other current provisions" were broken down into provisions and liabilities. EUR 11.0 million was reclassified from other current provisions to liabilities. In the previous year, the reversal of other provisions was reported under other operating income (EUR 0.3 million). As a result of the reclassification, income from the reversal of current provisions was allocated to the corresponding expense items.

- In accordance with the recommendations of the European Public Real Estate Association (EPRA), profit from the housing privatization of investment property was reported in a separate item in the income statement (December 31, 2006: EUR 34.1 million; June 30, 2006: EUR 7.7 million). Other operating income of EUR 7.9 million and other operating expenses of EUR 0.2 million were allocated to this item.

In addition to the mandatory IFRS effective in 2006, the International Accounting Standards Board (IASB) and the International Financial Reporting Interpretations Committee (IFRIC) issued further IFRS and IFRICs that have already been endorsed by the EU but will only be effective beginning on a later date. However, only those standards and interpretations relevant to Deutsche Wohnen are discussed in the following. The Company does not exercise the option of voluntary early adoption of these standards/interpretations.

The IASB published IFRS 7 "Financial Instruments: Disclosures" on August 18, 2005. This replaces the existing IAS 30 and takes over all guidance in IAS 32 on disclosures in the notes to the financial statements. In addition, amendments and additions were made to IAS 1 with regard to capital disclosures. The Standard lays the groundwork for fundamental changes in the disclosure requirements for financial instruments. Essentially, information is required on management's objectives, policies, risk-taking, risk management methods and processes. The disclosure requirements in accordance with IFRS 7 and the amended capital disclosure requirements in accordance with IAS 1 are applicable for the first time for reporting periods beginning on or after January 1, 2007; early adoption is recommended. The new provisions of IFRS 7 result in no changes in measurement for Deutsche Wohnen; however, detailed notes disclosures and presentation are required.

No significant effects on the net assets, financial position and results of operations are expected to result from the future application of the newly published IFRIC 7, IFRIC 8 and IFRIC 9, which have been endorsed by the EU as of December 31, 2006 and for which the company has not exercised the option of early adoption.

Basis of accounting

IV. BASIS OF CONSOLIDATION

Deutsche Wohnen AG and all subsidiaries are included in the consolidated financial statements. Deutsche Wohnen holds the majority of voting rights in these companies either directly or indirectly, or bears the majority of the economic risks of the company concerned.

The Group of consolidated companies consists of 13 companies. Six of these were consolidated for the first time as of December 31, 2006.

The following table lists the consolidated companies:

Name and registered office	Interest held in %
Main-Taunus Wohnen GmbH & Co. KG, Eschborn	100.00
MT Wohnen GmbH, Frankfurt am Main	100.00
Rhein-Pfalz Wohnen GmbH, Mainz	100.00
Rhein-Main Wohnen GmbH, Frankfurt am Main	100.00
Rhein-Mosel Wohnen GmbH, Mainz	100.00
RMW Projekt GmbH, Frankfurt am Main	100.00

Companies included in the consolidated financial statements for the first time:

Name and registered office	Interest held in %
Deutsche Wohnen Asset Immobilien GmbH, Frankfurt am Main	100.00
Deutsche Wohnen Beteiligung Immobilien GmbH, Frankfurt am Main	100.00
Deutsche Wohnen Corporate Immobilien GmbH, Frankfurt am Main	100.00
Deutsche Wohnen Direkt Immobilien GmbH, Frankfurt am Main	100.00
Deutsche Wohnen Eigentum Immobilien GmbH, Frankfurt am Main	100.00
DB Immobilienfonds 14 Rhein-Pfalz Wohnen GmbH & Co. KG, Eschborn	24.59

As of December 31, 2006, Deutsche Wohnen Group holds a 24.59 % (nominal EUR 14.3 million) interest in the closed-end real estate investment fund DB Immobilienfonds 14 Rhein-Pfalz Wohnen GmbH & Co. KG (DB IF 14). DB IF 14 is a special purpose entity in accordance with SIC 12.10 d and was fully consolidated for the first time as of the end of December 31, 2006, because Deutsche Wohnen obtained control of the company.

DB IF 14 was consolidated for the first time as of the end of December 31, 2006 due to the Management Board's reassessment of the exercise of rights of tender by the fund's limited partners. In addition, the Management Board decided that tendered limited partner shares should not be placed and resold on the secondary market.

During the course of consolidation, the assets and liabilities in the fund's balance sheet were initially included in the consolidation; with the exception of the profit from the business combination, initial consolidation had no effect on the income statement in 2006.

The fair values of DB IF 14's identifiable assets and liabilities at the time of the acquisition are broken down as follows:

In EUR million	Dec 31, 2006
Noncurrent assets	
– Investment property	+186.1
– Noncurrent receivables and other noncurrent assets	+2.7
Current assets	
– Bank balances	+11.1
Total assets	**199.9**

In EUR million	Dec 31, 2006
Noncurrent liabilities	
– Bank loans and overdrafts and liabilities to other lenders	+123.3
– Liabilities to fund limited partners	+49.8
– Deferred tax liabilities	+6.2
Current liabilities	
– Bank loans and overdrafts and liabilities to other lenders	+3.2
– Other liabilities	+0.7
Total liabilities	**183.2**
Fair value of net assets	**16.7**

The acquisition costs amounted to EUR 7.9 million and are broken down as follows:

In EUR thousand	Carrying amount Dec 31, 2006
Limited/general partner's shares	13,780
Derivatives (assets)	5,862
Noncurrent provisions	– 3,782
Derivatives (liabilities)	– 7,175
Deferred taxes	– 754
Acquisition costs	**7,931**

The Group received EUR 11.1 million in cash acquired with DB IF 14 as part of the acquisition.

The general and limited partner shares in DB IF 14 were transferred to Deutsche Wohnen Group when the fund was launched in 1999 and as a result of the acquisition of tendered limited partner shares.

Previously, DB IF 14 had prepared its balance sheet in accordance with the provisions of German commercial law. The carrying amounts in accordance with IFRS could not be calculated with a reasonable effect within a reasonable time frame immediately prior to the business combination. The income from the business combination results from the fact that the net assets acquired and measured at fair value at the time of acquisition exceeded the general and limited partner shares carried at amortized cost and the guarantees and obligations issued to the fund.

Revenue and profit for the full year assuming that the business combination had already been completed by July 1, 2006 cannot be calculated with a reasonable effect, since DB IF 14 did not prepare interim financial statements in accordance with IFRS as of June 30, 2006 and was also not required to do so.

Deutsche Wohnen Asset Immobilien GmbH, Deutsche Wohnen Beteiligung Immobilien GmbH, Deutsche Wohnen Corporate Immobilien GmbH, Deutsche Wohnen Direkt Immobilien GmbH, and Deutsche Wohnen Eigentum Immobilien GmbH were established as shelf companies in October 2006 and have been included since then in the consolidated financial statements.

V. CONSOLIDATION METHODS

The annual financial statements of the companies included in the consolidated financial statements are based on uniform accounting policies. Carrying amounts based on tax rules are not used in the consolidated financial statements. The single-entity financial statements of the investees are prepared as of the reporting date of the consolidated financial statements.

Intragroup profits and losses, revenue, income, expenses and other transactions as well as receivables and liabilities between consolidated companies are eliminated in full.

VI. MATERIAL JUDGMENTS AND ESTIMATES

Judgments

Management made the following discretionary judgments in applying the accounting policies, which materially affected the amounts in the financial statements. This does not include decisions involving estimates.

Obligations under operating leases – Group as lessor

The Group has entered into leases to commercially rent its investment property. It was determined that all significant risks and rewards incidental to ownership of the properties leased under operating leases remain with the Group.

Consolidation of DB IF 14

Management classifies DB IF 14 as a special purpose entity in accordance with SIC 12.10 d and fully consolidated the fund in Deutsche Wohnen's consolidated financial statements for the first time as of the end of December 31, 2006 due to Deutsche Wohnen having obtained control of the company.

Estimates and assumptions

The key forward-looking assumptions and the other significant sources of uncertainty for estimates existing as of the reporting date, on the basis of which there is a considerable risk that a significant adjustment of carrying amounts of assets and liabilities will be necessary in the coming fiscal year, are explained in the following.

Impairment of property, plant and equipment

The Group examines whether there are indications that an asset could be impaired at each balance sheet date. There were such indications in the past fiscal year. Impairment losses relate to investment property allocated to Segment I (residential property management) in the segment reporting under IAS 14. The impairment loss on undeveloped land in Frankfurt am Main (Unterliederbach) is allocated to Segment III (EUR 7.2 million).

Deferred tax assets

Deferred tax assets are recognized for all unused tax loss carryforwards to the extent that it is probable that future taxable income will be available against which the loss carryforwards can actually be utilized. Management is required to exercise a considerable amount of discretion based on the expected timing and amount of future taxable income and future tax planning strategies when calculating the amount of deferred tax assets.

As of December 31, 2006 deferred tax assets were recognized on utilizable loss carryforwards, as well as EUR 42.4 million on temporary differences between IFRS carrying amounts and the tax base (June 30, 2006: EUR 40.4 million). Deferred tax liabilities on temporary differences between IFRS carrying amounts and the tax base amounted to EUR 6.2 million (June 30, 2006: EUR 2.2 million).

Pensions and other post-employment benefits

The expense from post-employment defined benefit plans is determined using actuarial calculations. The actuarial measurement is based on assumptions relating to discount rates, expected returns on plan assets, future wage and salary increases, mortality rates and future pension increases. Such estimates are subject to considerable uncertainty because of the long-term nature of these plans. Provisions for pensions and similar obligations amounted to EUR 5.1 million as of December 31, 2006 (June 30, 2006: EUR 5.1 million). Further information can be found in note 12.

VII. ACCOUNTING POLICIES

Investment property (IAS 40)

Investment property is property held to earn rentals and/or for capital appreciation. Under IAS 40.20, investment property must be measured at cost at the date of acquisition, including directly attributable transaction costs.

Subsequent measurement of all properties uses the cost model; this means that properties are carried at cost less accumulated depreciation and accumulated impairment losses. The requirement to reverse impairment losses is complied with.

Depreciation of investment property is based on an estimated depreciation period of generally 50 years using the straight-line method. The carrying amounts, useful lives and depreciation methods are reviewed annually as part of subsequent measurement and adjusted where necessary.

Investment property was tested for impairment at the December 31, 2006 reporting date. Where there was any indication that an asset may be impaired in accordance with IAS 36, its recoverable amount was compared with its carrying amount. The value in use of the property was used as the recoverable amount.

An impairment loss was recognized if the value in use of the property was lower than its carrying amount.

The component approach is applied to the extent that the company continued to present a classification of properties into land, buildings, operating facilities and leasehold improvements in accordance with the previous accounting requirements under German commercial and tax law. A further classification of buildings into their key components would entail a disproportionately high expense, and would not provide any additional information due to the age structure of the properties.

Subsequent costs are only included in the carrying amount of an asset if it is probable that a future economic benefit associated with the property will flow to the company.

In accordance with IAS 23, the company made use of the option to include borrowing costs in cost. Such costs were not incurred in 2006.

An investment property is derecognized on disposal or withdrawal from use and when no future economic benefits are expected from its disposal. Gains or losses arising from the retirement or disposal of investment property are recognized in the income statement in the year the property was retired or disposed of.

Business combinations (IFRS 3)

Business combinations are accounted for using the purchase method. This requires the fair value recognition of the acquiree's identifiable assets, liabilities and contingent liabilities. Any minority interest is recognized at the minority's interest in the net fair value of the assets, liabilities and contingent liabilities.

Goodwill from business combinations is initially measured at cost as the excess of the cost of the business combination over the acquirer's interest in the fair value of the acquiree's identifiable assets, liabilities and contingent liabilities. After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is allocated from the acquisition date to the cash-generating units or groups of cash-generating units benefiting from the synergies of the business combination. This is done regardless of whether other assets or liabilities of the acquirer are assigned to these cash-generating units or groups of cash generating units.

If the interest in the net fair value of the identifiable assets, liabilities and contingent liabilities exceeds the cost of the acquisition, the excess amount is immediately recognized in income following reassessment.

Intangible assets (IAS 38) and property, plant and equipment (IAS 16)

Purchased intangible assets with a finite useful life are recognized at cost from the time they start to be used less accumulated amortization. The carrying amount is amortized using the straight-line method over the useful life of the asset, which is usually three years. Intangible assets are subjected to impairment testing if there is an indication that they may be impaired. In the case of intangible assets with finite useful lives, the useful life and amortization method are reviewed at a minimum at the end of each fiscal year. The necessary changes in the amortization method and useful life are accounted for in the same way as changes in estimates. Amortization of intangible assets with finite useful lives is recorded in the income statement under the expense category corresponding to the intangible asset's function in the Company. The company does not hold any intangible assets with indefinite useful lives.

Property, plant and equipment is carried at cost less accumulated depreciation and – if applicable – accumulated impairment losses (cost model). In addition to the purchase price, cost includes all costs directly attributable to the acquisition as well as the estimated cost of restoration obligations. Third-party grants reduce costs.

Straight-line depreciation is based on the following estimated useful lives:

Buildings:	25 or 50 years
Operating and office equipment:	3 to 13 years

The costs of repairing items of property, plant and equipment, such as ongoing maintenance expenses, are generally recognized as an expense in the year in which they are incurred.

An item of property, plant and equipment is derecognized on disposal or when no future economic benefits are expected from its use or disposal. Gains or losses arising from the asset's disposal are recognized in profit or loss as the difference between the net disposal proceeds and the carrying amount of the asset when the item is derecognized.

Carrying amounts, useful lives and depreciation methods are reviewed at the end of each fiscal year and adjusted where necessary.

Operating and office equipment is reported at cost less accumulated depreciation.

Owner-occupied property within the Group is classified as property, plant and equipment as defined in IAS 16 and measured as such. If the proportion of owner-occupied property is less than five percent, this property is reported in the aggregate under "Investment property" (IAS 40) and measured as such.

Leasehold improvements (buildings on third-party land) are also reported under property, plant and equipment that must be accounted for under IAS 16.

Noncurrent financial assets (IAS 39)

As of December 31, 2006, noncurrent financial assets comprise other loans to various purchasers of property. They are classified as "loans and receivables" because they are not traded on an active market and have fixed or determinable payments.

Noncurrent financial assets are subsequently measured at amortized cost or at the lower present value of the expected future cash flows, in each case using the effective interest method.

The interest in DB IF 14 previously recorded under noncurrent financial assets and other loans extended to this fund were eliminated in the course of initial consolidation and are no longer reported in the balance sheet as of December 31, 2006.

Taxes

In accordance with IAS 12, current tax liabilities and assets for the current and prior periods are measured at the amount expected to be paid to or recovered from the taxation authorities.

In addition, deferred tax assets and liabilities are recognized for all temporary differences between the tax base of assets and liabilities and their carrying amounts in the IFRS balance sheet, in the amount at which it is probable that the benefits from the temporary differences may be used against future taxable income. Deferred tax assets are recognized for all unused tax loss carryforwards to the extent that it is probable that taxable income will be available against which the unused loss carryforwards can be utilized.

The carrying amount of a deferred tax asset is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available against which at least part of the deferred tax asset can be utilized. Unrecognized deferred tax assets are reassessed at each balance sheet date and recognized to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred taxes relating to items reported directly in equity (recognition of actuarial gains and losses in the statement of recognized income and expense – SORIE) are recognized in equity, not in profit or loss.

Deferred tax assets and deferred tax liabilities are eliminated if the Group has a legally enforceable right to set off current tax assets against current tax liabilities, and if they relate to income taxes levied against the same taxable entity by the same taxation authority.

Deferred taxes are measured at the enacted rates that apply as of the balance sheet date, taking into account company-specific issues such as the extended reduction of trade tax.

Deferred taxes are calculated on the basis of the company's strategic multiyear planning, with a planning horizon of six years.

Revenue, expenses and assets are recorded net of value added tax, with the exception of the following cases:

– If value added tax on the purchase of assets or services cannot be recovered from the taxation authority, it is recognized as part of the production cost of the asset or as part of the expenses.

– Receivables and liabilities are recognized together with the amount of value added tax contained therein.

The amount of the value added tax recoverable from or payable to the taxation authority is reported in the consolidated balance sheet under receivables or liabilities.

Properties held for sale and other inventories (IAS 2)

In accordance with IAS 2, assets held for sale are carried as inventories. Properties with and without buildings are measured at the lower of the cost of purchased goods and services or net realizable value (sale proceeds less costs to sell).

Work in progress and other inventories comprise heating and operating costs not yet billed to tenants as well as heating oil inventories; such items are measured at the lower of cost or the amount that can be recharged to the tenants.

Current receivables and other current assets, cash and bank balances

Current receivables and other current assets are carried at amortized cost or at the lower present value of the expected future cash flows, using the original effective interest rate because they are classified as “loans and receivables”.

In addition to the required specific valuation allowances, rental receivables are also subject to collective valuation allowances on the basis of a portfolio analysis because the receivables are similar and, considered individually, insignificant.

Impairment losses are charged on receivables from property sales if there is evidence that the amounts due are not collectible in full.

Contingent assets are not recognized in the financial statements, but are disclosed in the notes in accordance with IAS 37.89 if an inflow of economic benefits is probable.

Cash and bank balances are carried at their nominal amounts, which also correspond to the fair value because of the short-term nature of these assets.

Derivatives (IAS 39)

The items accounted for under noncurrent derivatives result from the right of tender (put option) granted to the limited partners of DB IF 14 and a forward transaction (exercised put options as of December 31, 2006). These derivatives were recognized at fair value through profit or loss at the date of DB IF 14’s initial consolidation in Deutsche Wohnen’s consolidated financial statements (December 31, 2006). The fair value is determined as the present value of the estimated future cash flows using the current market interest rate for loans to non-financial corporations (SUD 129 table published by Deutsche Bundesbank). This rate was 4.89 % p.a. at the balance sheet date (June 30, 2006: 4.72 % p.a.) plus a risk discount for the right of tender.

The rental and loan guarantees recognized as assets on initial consolidation and the derivatives arising from the limited partners’ rights of tender recognized as liabilities were eliminated in the course of full consolidation as of December 31, 2006. These are no longer reported under noncurrent derivatives.

The Group uses derivatives to hedge interest rate risk. These derivatives are recognized at fair value when the agreement is entered into and measured at fair value in subsequent periods. Derivatives are recognized as assets if their fair value is positive, and are recognized as liabilities if their fair value is negative.

Gains or losses on changes in the fair value of derivatives that do not meet the criteria for hedge accounting are immediately recognized in profit or loss.

Noncurrent assets held for sale (IFRS 5)

Noncurrent assets are classified as held for sale if their sale is highly probable and management is committed to a plan to sell the asset. In Deutsche Wohnen Group, this currently applies only to properties that were previously accounted for in accordance with IAS 40 and for which a notarized purchase agreement documenting the transfer of ownership, risks and rewards after the balance sheet date had been entered into as of the balance sheet date.

These properties are measured at their carrying amount or at the lower fair value less costs to sell. Depreciation of the properties is discontinued from the date of reclassification.

Liabilities (IAS 39)

Bank loans and overdrafts and other liabilities (classified as "other financial liabilities") are initially measured at fair value. At the acquisition date, the fair value is usually the cost including directly attributable transaction costs (e.g. fees and commissions).

As a rule, these liabilities are subsequently measured at amortized cost using the effective interest method. The original effective interest rate is used to determine amortized cost.

Deutsche Wohnen Group has financed various properties using interest-subsidized loans in connection with government grants. The utilization of an interest-subsidized loan not only creates an obligation to repay the loan, but also to build residential properties to be rented under subsidized conditions.

Contingent liabilities are not recognized in the consolidated financial statements, but are disclosed in the notes if an outflow of resources embodying economic benefits is possible.

Accounting for government grants and disclosure of government assistance, deferred income (IAS 20)

Government grants are recognized if there is sufficient assurance that the grants will be received and that the company will comply with the conditions attached to them.

Grants relating to specific expenses are recognized as income on a systematic basis over the periods necessary to match them with the related costs they are intended to compensate.

The grants are presented in the consolidated balance sheet as deferred income. They are measured subsequently at amortized cost. Deferred income is reversed over the period of the obligation to rent under subsidized conditions. As a breakdown of this item by maturity would not provide any additional information, this item is allocated in full to noncurrent liabilities on the basis of the maturities involved.

Grants for assets are deducted from an asset's carrying amount in the balance sheet upon determination of the carrying amount.

Post-employment benefit obligation (IAS 19)

Pension provisions are measured using the projected unit credit method in accordance with IAS 19, taking into account expected future salary and pension adjustments.

Actuarial gains and losses are recognized directly in equity in the year in which they arise and presented in the "SORIE" (statement of recognized income and expense) column in the statement of changes in equity. The provision thus corresponds to the actual post-employment benefit obligation at the balance sheet date. Interest cost is recorded ratably as an expense under the "Interest expenses" item in the income statement.

Other provisions (IAS 19, IAS 37)

Provisions are recognized for present obligations as a result of past events that will probably lead to an outflow of resources embodying economic benefits and whose amount can be reliably estimated.

These provisions are measured in accordance with IAS 37 and, if appropriate, with IAS 19, using the best possible estimate of the extent of the obligation at the balance sheet date. If the effect of the time value of money is material, the carrying amount of the provision is the present value of the expenditures expected.

Revenue recognition (IAS 18)

Revenue is recognized when the service is rendered and measured at the fair value of the consideration received or receivable; it represents amounts receivable for net rent, income from cost allocations, and services in the normal course of business.

Income from service charges not yet billed is only recognized after the service charges have been billed. Prior to this, work in progress includes claims relating to unbilled heating and operating costs. The operating and heating cost portions of paid service charges for condominium owners' associations not yet billed are recognized together with these service charges under other current assets. Both items are offset by tenant prepayments, which are reported under current prepayments received. Given the uncertainty that the tenants can be billed for service charges reported on the balance sheet in their full amount, the corresponding income and expense is not reported as of the balance sheet date. Tenants are billed for the cost of allocations between the second and fourth quarter of the subsequent year. Only then are the final billable service charges fully known and revenue is recognized.

Income from the disposal of properties is recognized if the criteria under IAS 18.14 a–e are met. The transfer of the risks and rewards of ownership corresponds to the established HGB recognition principles relating to the transfer of ownership, risks, benefits, burdens and rewards. If the purchase agreement is subject to a condition subsequent or precedent under civil law in accordance with section 158 of the BGB (*Bürgerliches Gesetzbuch* – German Civil Code), income is only recognized if it is sufficiently probable that the economic benefit associated with the purchase agreement will flow to the company. A probability of at least 90% is assumed.

Interest income and expenses are recognized on an accrual basis, taking into account the investment or loan amounts received and the contractually agreed interest rates.

VIII. CONSOLIDATED BALANCE SHEET DISCLOSURES

The changes in and classification of items of noncurrent assets (investment property, property, plant and equipment, intangible assets and noncurrent financial assets) and noncurrent assets held for sale are presented in the Statement of Changes in Noncurrent Assets attached as Annex A.

1. Investment property

This item is used to report all properties held as noncurrent assets, except those that are owner-occupied within Deutsche Wohnen Group.

In the second short fiscal year 2006, costs of EUR 3.7 million (first short fiscal year: EUR 3.3 million) were capitalized for modernization and improvements in value, as well as for the initial installation of new fittings and fixtures and the upgrading of existing components. All measures lead to an increase in the future benefit expected from the asset and were capitalized as subsequent production costs.

Impairment losses of EUR 7.7 million (first short fiscal year: EUR 0.04 million) to the lower recoverable amount of the properties were recognized for the period from July 1 to December 31, 2006.

The fair value of investment property was determined on the basis of a comprehensive portfolio appraisal.

The portfolio is measured in accordance with IAS 40.46 c using the discounted cash flow method over a ten-year detailed planning period. The buildings in the sales program are treated as long-term property management buildings.

Assumptions are made about the amount and the development of future income and expenses on a cluster-specific basis. These assumptions are based on standard market benchmarks and market-related calculations. Ongoing maintenance expenses are generally based on an assessment of a building's characteristics. Significantly below-average maintenance expenses are assumed for new buildings (constructed after 1996). However, these administrative units are allocated to the relevant clusters as their age increases. Administrative expenses vary by usage type. On the basis of the forecast vacancy rate, half of operating expenses are calculated as being non-allocable, in line with standard market practice.

The remaining value after the detailed planning period has expired is determined as a perpetual annuity. The perpetual annuity is based on the profits generated by property management over the past year of the detailed planning period. To reflect the various degrees of property quality and the continuing aging of the properties within the ten-year analysis period, the capitalization rate is increased by a premium relating to the condition of the properties.

The discount rate was derived from the market rate of interest in accordance with IFRS. This is based on a risk-free capital market rate (10-year bund), adjusted for inflation, that is increased by a risk premium of 0.25% for the residential property asset class and a property-specific market risk premium of between 0.25% and 0.75% (according to location quality). This results in an average discount rate of 4.98%. Expert appraisals are not normally available.

The rental income and the expenses for managing these properties are presented in the segment reporting.

The following table shows the fair values as of December 31, 2006:

In EUR thousand	Fair value of core portfolio	Fair value of properties	Total
Deutsche Wohnen Group (excluding DB IF 14)	1,139,889	29,883	1,169,772
Less properties accounted for in accordance with IAS 16	5,119	–	5,119
Addition from initial consolidation of DB IF 14	186,086	–	186,086
Fair value of properties accounted for in accordance with IAS 40 as of			
Dec 31, 2006	**1,320,856**	**29,883**	**1,350,739**
June 30, 2006	1,151,454	42,373	1,193,827

Contractual agreements

Among other things, Deutsche Wohnen Group companies have undertaken to the former owners to observe legally imposed social restrictions on ownership and to speak to tenants as a matter of priority if properties are to be privatized. There were no other contractual obligations to buy, construct, or develop investment property at the balance sheet date.

2. Property, plant and equipment

Property, plant and equipment includes two office properties in Frankfurt am Main and Mainz owner-occupied by Group companies (carrying amount as of December 31, 2006: EUR 3.3 million; June 30, 2006: EUR 3.4 million). The fair value of the two properties amounted to EUR 5.1 million (June 30, 2006: EUR 5.6 million).

This item is also used to report buildings on third-party land that are owner-occupied by Group companies, as well as operating and office equipment (EUR 0.5 million; June 30, 2006: EUR 0.6 million).

As in the previous year, there were no indications of impairment at the balance sheet date (December 31, 2006).

3. Intangible assets

Intangible assets relate exclusively to purchased software. The Group has no internally generated intangible assets. Any goodwill resulting from the initial consolidation of subsidiaries in the past has already been written off in full.

4. Noncurrent financial assets

The equity investment in DB IF 14 and the other loans extended to this fund were eliminated during the initial consolidation of DB IF 14 and therefore reported as a disposal.

The remaining amount relates to loans to buyers as a result of purchase price deferrals for sold rent-to-own homes (longest maturity until December 31, 2013) that are secured by charges entered in the land register. They are classified as “loans and receivables” in accordance with IAS 39.

In EUR thousand	Equitiy vestment in DB IF 14	Other loans to DB IF 14	Other loans to buyers	Carrying amounts
Carrying amount at July 1, 2006	**7,166**	**16,469**	**210**	**23,845**
Additions	6,399	0	8	6,407
Change in subsequent measurement	215	108	0	323
Impairment loss	0	0	1	1
Disposals due to redemption/repayment/consolidation	13,780	16,577	44	30,401
Carrying amount at December 31, 2006	**0**	**0**	**173**	**173**

5. Properties held for sale and other inventories

The carrying amount of land held for sale with finished buildings at December 31, 2006 was EUR 5.9 million (June 30, 2006: EUR 7.6 million). This item relates to stocks in North Hesse (number of residential units as of December 31, 2006: 638). The decrease is due to sales during the second short fiscal year.

Work in progress includes claims relating to unbilled operating costs amounting to EUR 27.8 million (June 30, 2006: EUR 30.5 million). Other inventories relate to reserves of heating oil amounting to EUR 0.4 million (June 30, 2006: EUR 0.3 million). For the first time, work in progress includes claims relating to unbilled operating costs for fund properties amounting to EUR 3.5 million due to the initial consolidation of DB IF 14.

These claims were previously reported under current receivables and other current assets because the unbilled operating costs related to tenants of DB IF 14 and not tenants of Deutsche Wohnen companies. Following the consolidation of DB IF 14, these claims are reported in the same amount under work in progress at December 31, 2006.

6. Current receivables and other current assets

Receivables from rental activities (EUR 4.3 million; June 30, 2006: EUR 4.1 million) include gross receivables from outstanding rents and cost allocations (EUR 6.0 million; June 30, 2006: EUR 5.6 million). Valuation allowances due to uncollectibility amounting to EUR 1.7 million (June 30, 2006: EUR 1.5 million) were charged on the gross receivables from rental activities.

Receivables from property sales increased from EUR 3.5 million at June 30, 2006 to EUR 47.2 million at December 31, 2006. This is due to sales including the transfer of ownership, risks and rewards as of December 31, 2006 that were notarized at the balance sheet date; the purchase prices will be paid in 2007.

Current receivables and other current assets are composed of the following items:

In EUR thousand	Dec 31, 2006	June 30, 2006
a) Receivables from management of DB IF 14 fund properties	0	4,411
b) Service charges not yet billed to residential owners associations	5,251	6,482
c) Shares in maintenance reserves relating to residential owners associations	2,879	2,265
d) Miscellaneous current receivables and other current assets	2,120	4,865
	10,250	**18,023**

Explanations of individual items:

a) The receivables from the management of DB IF 14 fund properties relating to work in progress and receivables from rental activities as well as the other current receivables reported under this item were allocated to the relevant balance sheet items at the date of initial consolidation of the fund.

b) This relates to prepayments for operating, administrative and maintenance expenses paid to residential owners associations, which are accounted for as other current assets until they are billed by the administrator. A valuation allowance of EUR 0.6 million (June 30, 2006: EUR 0.8 million) for billing and vacancy risks was charged as of December 31, 2006.

c) This item relates to appropriations to the maintenance reserves for residential owners associations that are reported as other current assets until they are utilized or the relevant property is sold.

d) Specific valuation allowances amounting to EUR 0.2 million (June 30, 2006: EUR 0.3 million) were recognized for other current receivables.

The receivables do not bear interest and are usually due immediately.

The rental and loan guarantees issued to DB IF 14 that expire on December 31, 2019 were reported as **derivatives** until the initial consolidation of the fund. They were measured on an item-by-item basis and accounted for at fair value. Any differences resulting from subsequent measurement were recognized in profit or loss until the date of initial consolidation.

In EUR thousand	Dec 31, 2006	June 30, 2006
Derivates from		
– rental guarantee	5,389	5,653
– loan guarantee	473	491
Subtotal fair value:	5,862	6,144
– Disposal due to initial consolidation	– 5,862	0
Carrying amounts	**0**	**6,144**

7. Cash and bank balances

Bank balances include rental deposits received from tenants amounting to EUR 0.3 million (June 30, 2006: EUR 0.4 million). They generally comprise sight deposits; the variable interest rates are between 1.94% p.a. and 3.69% p.a. This item also includes a time deposit investment amounting to EUR 0.1 million that bears interest of 3.29% p.a. and matures on February 7, 2007.

Bank balances of EUR 11.1 million were added due to the initial consolidation of DB IF 14.

As of December 31, 2006, the Group held credit lines amounting to EUR 270.0 million that it had not utilized but for which all the conditions required for utilization had been fulfilled.

8. Noncurrent assets held for sale

This item includes the carrying amounts of properties (primarily residential units) for which an effective notarized purchase agreement documenting the subsequent transfer of beneficial ownership had been entered into as of December 31, 2006. The assets are debt-free.

By the end of December 2006, purchase agreements including the transfer of ownership in January 2007 or thereafter had been entered into for 45 apartments/detached houses, three undeveloped plots of land and 37 garages and parking spaces. The aggregate agreed purchase prices amount to EUR 3.1 million.

9. Equity

The individual components of equity and their changes are presented in the Consolidated Statement of Changes in Equity.

Following a capital increase from retained earnings, the registered share capital now amounts to EUR 20 million (June 30, 2006: EUR 10.2 million). The capital increase was resolved by the Annual General Meeting on August 10, 2006 and made possible by a withdrawal from the capital reserves amounting to EUR 9,774,162.38. The capital increase was implemented without issuing new shares. Following a 1:5 share split effective August 25, 2006 and including the capital increase from retained earnings, the share capital was reclassified and now comprises 20,000,000 no-par value shares (previously 4,000,000 no-par value shares). The par value of each share before the share split was EUR 2.56 (DM 5.00). The par value of each share after the capital increase is EUR 1.00. All shares were held in free float as of the reporting date. The above-mentioned shares are fully paid up.

In accordance with the resolution of the Extraordinary General Meeting on March 23, 2006, new shares will only be issued as bearer shares under the amended Articles of Association. The company's shareholders were able to convert their registered shares into bearer shares upon written demand and with the consent of the Management Board.

The bearer shares resulting from the share conversion have been listed on the stock exchange since July 3, 2006. Approximately 96% of the total of 20,000,000 shares outstanding are currently bearer shares and 4% are registered shares.

The creation of the capital reserves was resolved by the Extraordinary General Meeting in 1999. Capital reserves amounted to EUR 170.8 million at the balance sheet date (June 30, 2006: EUR 207.1 million).

Retained earnings comprise three components: the legal reserve amounting to EUR 1.0 million, other retained earnings (EUR 28.8 million) that relate to initial measurement differences between the HGB and IFRS, and the proportion of actuarial gains and losses from post-employment benefit obligations (EUR 0.1 million) taken directly to the statement of recognized income and expense ("SORIE").

EUR 17.6 million of the parent's net retained profits of EUR 52.6 million for the first short fiscal year from January 1 to June 30, 2006 was distributed in accordance with the resolution of the General Meeting on December 7, 2006. The Management Board and the Supervisory Board will also propose a total dividend of EUR 17.6 million (EUR 0.88 per share) for the second short fiscal year from July 1 to December 31, 2006 to the General Meeting. The net retained profits required for this were withdrawn from the capital reserves.

The General Meeting authorized the Management Board, with the consent of the Supervisory Board, to increase the share capital on one or several occasions in the period up to August 9, 2011 by up to an aggregate of EUR 10.0 million of authorized capital by issuing up to 10,000,000 new ordinary bearer shares against cash or non-cash contributions.

The Management Board is also authorized, with the consent of the Supervisory Board, in the period up to August 9, 2011 to issue bearer or registered bonds with warrants or convertible bonds as well as profit participation rights in the aggregate principal amount of up to EUR 500.0 million and a maximum term of 20 years, and to grant creditors or holders of the bonds subscription or conversion rights for up to 10,000,000 new shares of the company with a notional value of up to EUR 10.0 million, subject to the conditions of the relevant bonds with warrants or convertible bonds or of the profit participation rights.

The share capital can be contingently increased by up to EUR 10.0 million through the issue of up to 10,000,000 new no-par value bearer shares carrying dividend rights from the beginning of the fiscal year in which they were issued (contingent capital). The capital increase serves to grant shares to creditors or holders of bonds with warrants or convertible bonds, as well as profit participation rights with conversion or subscription rights.

Additionally, in observance of the principle of equal treatment, the Management Board is authorized to acquire up to 2,000,000 shares of the Company in the period up to February 9, 2008, corresponding to 10% of the share capital.

The shareholders listed below have informed us that they hold more than 5% of the shares of Deutsche Wohnen AG:

Shareholder	Date of notification	Equity interest/ share of voting rights in %	Share of voting rights in registered share capital in EUR thousand
Deutscher Herold Lebensversicherung AG, Bonn	April 8, 2002	6.70	1,340
Newton Investment Management Limited, London	January 12, 2006	5.88	1,176
Insight Investment Management Limited, Edinburgh	January 3, 2007	6.53	1,306

We received the following notification in accordance with section 160(1) no. 8 AktG from Julius Bär Investment Management LLC, New York, on December 22, 2006 via Julius Bär Holding AG, Zurich:

“We hereby notify you in accordance with section 21(1) WpHG that our share of the voting rights in Deutsche Wohnen AG fell below the 5% threshold on December 18, 2006 and amounted to 4.97%. The voting rights are attributable to us in accordance with sections 21(1) and 22(1) sentence 1 no. 6 WpHG.”

We received the following notification in accordance with section 160(1) no. 8 AktG from HBOS plc., Edinburgh, and its subsidiaries HBOS Insurance & Investment Group Limited, West Yorkshire, Insight Investment Management Limited, London, and Insight Investment Management (Global) Limited, London, on January 3, 2007 via Linklaters, Frankfurt am Main:

Disclosure on behalf of HBOS plc:
We wish to make the following disclosure in accordance with section 21(1) and section 22 of the *Wertpapierhandelsgesetz* (WpHG) on behalf of HBOS plc:

"HBOS plc's share of the voting rights in Deutsche Wohnen AG exceeded 5% on December 28, 2006 and amounted to 6.53%. The voting rights are attributable to our client in accordance with section 22(1) sentence 1 no. 6, and (1) sentence 2 WpHG."

Disclosure on behalf of HBOS Insurance & Investment Group Limited:
"HBOS Insurance & Investment Group Limited's share of the voting rights in Deutsche Wohnen AG exceeded 5% on December 28, 2006 and amounted to 6.53%.
The voting rights are attributable to HBOS Insurance & Investment Group Limited in accordance with section 22(1) sentence 1 no. 6, and (1) sentence 2 WpHG."

Disclosure on behalf of Insight Investment Management Limited:
"Insight Investment Management (Global) Limited's share of the voting rights in Deutsche Wohnen AG exceeded 5% on December 28, 2006 and amounted to 6.53%. The voting rights are attributable to Insight Investment Management (Global) Limited in accordance with section 22(1) sentence 1 no. 6 WpHG."

We received the following notification in accordance with section 160(1) no. 8 AktG from Asset Value Investors Limited, London, on January 16, 2007:

"After selling 42,854 shares we make the following disclosure in accordance with section 21(1) of the *Wertpapierhandelsgesetz* (WpHG): As of August 17, 2006 our stake in Deutsche Wohnen went below the threshold of 5% and amounted to 4.95%. The voting rights are attributable to Asset Value Investors in accordance with section 22(1) sentence 1 no. 6 WpHG."

Proposal for the appropriation of profits:
Deutsche Wohnen Group generated a consolidated profit for the 2006 short fiscal year from July 1 to December 31, 2006 of EUR 29.3 million. Including the withdrawal from the capital reserves (EUR 26.5 million), consolidated net retained profits at December 31, 2006 amounted to EUR 175.1 million.

The Management Board and the Supervisory Board will propose a total dividend of EUR 17.6 million for the short fiscal year from July 1 to December 31, 2006 to the General Meeting.

10. Bank loans and overdrafts and liabilities to other lenders; deferred income

The maturities of bank loans and overdrafts and liabilities to other lenders are as follows:

	Dec 31, 2006*						June 30, 2006*	
In EUR thousand	Bank loans and overdrafts	Addition from initial cons. of DB IF 14: bank loans and overdrafts	Total bank loans and overdrafts	Other lenders	Addition from initial cons. of DB IF 14: other lenders	Total other lenders	Bank loans and overdrafts	Other lenders
< 1 year	6,896	2,108	9,004	1,385	1,115	2,500	6,133	1,405
1–2 years	17,401	2,171	19,572	1,145	1,156	2,301	16,895	1,361
2–3 years	63,495	2,203	65,698	1,037	1,207	2,244	63,049	1,281
3–4 years	15,085	2,072	17,157	967	1,261	2,228	14,580	1,191
4–5 years	15,148	2,138	17,286	975	1,305	2,280	14,658	1,159
> 5 years	361,715	57,323	419,038	13,953	35,876	49,829	332,844	17,036
	479,740	68,015	547,755	19,462	41,920	61,382	448,159	23,433
Fair value	**479,800**	**68,015**	**547,815**	**19,500**	**41,920**	**61,420**	–	–

* In each case including the amounts reported under the "deferred income" item.

Bank loans and overdrafts, other liabilities to lenders and deferred income include loans raised to finance investment property. Land charges on these properties amounting to EUR 376.9 million (June 30, 2006: EUR 210.6 million) serve as collateral.

	Interest rate %	Maturity	Dec 31, 2006 in EUR million
Loans in excess of EUR 50.0 million			
EUR 127,822,970.30	5.79	May 6, 2014	127.8
EUR 71,836,509.31	5.74	May 6, 2014	71.8
EUR 51,129,188.12	5.37	May 6, 2009	51.1
Loans below EUR 50.0 million	0.25 – 7.00	Feb 28, 2007 – Dec 31, 2019	358.3

The loans in excess of EUR 50.0 million relate to finance for investment property. The long-term loans were placed with Hessische Landesbank in 1998. In relation to the termination of the control agreement entered into with DB Real Estate Management GmbH, the loans with Hessische Landesbank were renegotiated as of July 1, 2006. In this context, Naspa Dublin reassigned the portions of the registered bonds assigned to it to Hessische Landesbank. At the same time, Nassauische Sparkasse, Wiesbaden, acquired an interest totaling EUR 15.0 million in the loans after the restructuring. The loans were secured by charges entered in the land register amounting to EUR 140.0 million.

The debt financing of the properties is long-term, i.e. more than one year. Unscheduled repayments of EUR 5.0 million (June 30, 2006: EUR 11.2 million) were made in the short fiscal year ended December 31, 2006. The average rate of interest on liabilities to external lenders was 4.64 % p.a. in the year under review (June 30, 2006: 4.47 % p.a.) – excluding the additions from the initial consolidation of DB IF 14. The Group reduces interest rate risk by agreeing long-term fixed-interest periods. When entering into floating rate loans with a maturity of over one year, the Group usually agrees corresponding interest rate hedges (interest rate swaps).

Deferred income relates to measured government grants. The utilization of an interest-subsidized loan not only creates an obligation to repay the loan, but also to create residential properties to be rented under subsidized conditions. This item includes an interest rate advantage resulting from the low-interest loans.

11. Derivatives

When entering into floating rate loans with a maturity of over one year, the Group usually agrees corresponding interest rate hedges (interest rate swaps). Interest rate risks may arise from potential changes in the market rate of interest and could lead to fluctuations in interest payments for floating rate loans. An interest rate swap agreement was entered into to hedge a floating rate loan raised in 2006. The fair value of the agreed interest rate swap was negative at the balance sheet date and amounted to EUR 0.05 million. The notional value of the interest rate swap was EUR 2.7 million. The interest rate swap was market to market. Gains or losses on changes in the fair value of the interest rate swap are immediately recognized in income.

12. Post-employment benefit obligation

The company's occupational pension scheme consists of defined benefit pension plans. The Company has an obligation to pay benefits to current and former employees (occupational pensions).

MT Wohnen GmbH/Main-Taunus Wohnen GmbH & Co. KG

MT Wohnen GmbH's benefit commitments are based on individual agreements (direct commitments involving deferred compensation arrangements) that provide for lump-sum payouts when a given age limit is reached, or in the event of permanent disability or death. The amount of the pension capital is determined by the actuarial conversion of the benefit cost for each calendar year into capital components in accordance with a benefit table enclosed with the benefit commitment. In the case of an early capital payment starting when the beneficiary reaches the age of 60, the beneficiary's entitlement is reduced by the percentage defined in the benefit commitment for each month between the payment and the beneficiary reaching the age of 65.

The surviving dependents' capital amounts to 60% of the beneficiary's entitlement to the pension capital on death. The permanent disability capital is determined as the total benefit cost provided until an event triggering the benefit entitlement occurs, plus the interest accrued in the meantime at the agreed interest rate.

The amount and type of benefits granted by MT Wohnen GmbH and Main-Taunus Wohnen GmbH & Co. KG are governed by the *"Ordnung der betrieblichen Grundversorgung"* (Basic Pension Plan Regulations), the *"Ordnung der betrieblichen Zusatzversorgung"* (Supplementary Pension Plan Regulations) and benefit commitments based on individual agreements. According to the basic and supplementary pensions, individual agreements or company agreements, the following post-employment benefits are granted:

– Old-age pensions when beneficiaries reach the age of 65
– Early retirement pensions when beneficiaries reach the age of 60
– Permanent disability pensions in the event of permanent disability
– Surviving dependents' pensions after the death of the former employee or another beneficiary, in the form widows', widowers's, orphans' and parents' pensions
– Other benefits in the form of transitional payments in the event of death, annual bonuses/share of profits in the event of retirement, and top-up payments in the event of early retirement.

The basic pension reflects portions of income up to the relevant income threshold for contribution assessment in the statutory pension insurance system; the main fund is the "Pensionskasse der Mitarbeiter der Hoechst-Gruppe VVaG".

If an event triggering the benefit entitlement occurs before the beneficiary reaches the age of 55, the Company tops up the beneficiary's pension fund to include the service not yet rendered up to the age of 55. This is measured on the basis of the average monthly contribution paid by the employee to the pension fund in the past 12 months before the triggering event occurred; this monthly contribution is multiplied by the number of months comprising the supplementary period and annuitized by 42%.

The supplementary pension is granted by the company for portions of pensionable income above the relevant income threshold for contribution assessment in the statutory pension insurance system. Pensionable income is the monthly gross regular income including allowances in excess of collective agreements.

Benefits are measured on the basis of the benefit cost, which amounts to
– 11.5% of pensionable income between 100 and 133⅓%,
– 12.5% of pensionable income between 133⅓ and 166⅔%,
– 15.0% of pensionable income above 166⅔%
of the relevant income threshold for contribution assessment in the statutory pension insurance system.

The old-age and permanent disability pensions are 20% of the total benefit cost that is made available until a triggering event occurs. As with the basic pension, a supplementary period lasting until the age of 55 is allowed for in the event of early entitlement due to disability or death before the beneficiary reaches the age of 55.

Employees are entitled to a basic or supplementary pension if they have rendered at least five years' service (from the age of 20) at the Company when the triggering event occurs, and at the earliest after the probationary period has expired.

In accordance with the *Betriebsvereinbarung zur Neuordnung der betrieblichen Altersversorgung für Dienstzeiten bis zum 31. 12. 1983* (Company Agreement on the Restructuring of Occupational Pensions for Periods of Service up to December 31, 1983), employees whose employment relationship commenced before January 1, 1984 receive a vested pension based on the earlier supplementary pension that was calculated in accordance with section 2 of the *Gesetz zur Verbesserung der betrieblichen Altersversorgung* dated December 19, 1974 (German Improvement of Occupational Pension Schemes Act). The company has also granted supplementary payments to the vested pensions that increase each year in accordance with the growth in the relevant employees' incomes.

All the relevant employees were notified in writing of the amount of their vested pensions and the supplementary payments.

In addition, employees whose employment relationship ends due to early retirement receive benefits in the form of transitional or top-up payments on the basis of individual agreements. These benefits provide for further increases in the occupational pension or top-up payments for unemployment and pension insurance and for the occupational pension during the period after employees have left the company.

If a current employee dies, the company also continues to pay remuneration for the month of the employee's death plus one or three additional months. Furthermore, employees who leave the company due to retirement receive an annual bonus or a share of profits for the year in which they leave.

The basic and supplementary pension plans were closed to new members effective December 31, 1998.

Rhein-Pfalz Wohnen GmbH/Rhein-Main Wohnen GmbH/Rhein-Mosel Wohnen GmbH

Former managing directors and *Prokuristen* (authorized signatories) of these companies and their surviving dependents have vested entitlements and current pensions under benefit commitments from occupational pension plans. The pension obligations are governed by individual agreements. An entitlement to a widows' pension amounting to 60% of the current pension also exists.

Measurement of pension obligations

Pension provisions are determined using the projected unit credit method in accordance with IAS 19. Future obligations are measured using actuarial methods that conservatively estimate the relevant parameters.

	Parameters used	
	Dec 12, 2006 %	June 30, 2006 %
Discount rate p.a.	4.40	4.50
Expected income growth p.a.	3.00	3.00
Expected pension growth p.a.	1.75	2.00
Increase in income threshold for contribution assessment p.a.	2.75	3.00

The 2005 G mortality tables published by Dr. Klaus Heubeck were used to calculate the life expectancy of the beneficiaries. Actuarial gains and losses, including related deferred taxes, are recognized in full and taken directly to equity as well as reported in the statement of recognized income and expense ("SORIE").

The changes in the present values of the defined benefit obligations (= carrying amount) are shown in the following table:

In EUR thousand	Second short fiscal year 2006	First short fiscal year 2006
Defined benefit obligations at beginning of fiscal year	5,121	5,355
Interest cost	113	104
Service cost	14	24
Adjustments to current pensions	59	0
Benefits paid	–160	–188
Actuarial gains	– 63	–174
Defined benefit obligations at end of fiscal year	5,084	5,121

Interest cost is recorded ratably as an expense under the "Interest expenses" item in the income statement, while current pension payments, service cost and adjustments of current pensions are recognized in the "Employee expenses" item.

The amounts for the current and previous four reporting periods are shown in the following table:

In EUR thousand	Dec 31, 2004	Dec 31, 2005	June 30, 2006	Dec 31, 2006
Defined benefit obligations	5,249	5,355	5,121	5,084

In addition to the defined benefit pension plans, the companies also have pension plans in accordance with the regulations governing public-sector supplementary pensions. This is based on membership of a Group company in the *Bayerische Versorgungskammer – Zusatzversorgungskasse der bayerischen Gemeinden* (BVK – Bavarian association for providers of civil service and professional pensions and other benefits). The supplementary pension comprises a partial or full pension for reduced earnings capacity and an old-age pension as a full pension or a surviving dependents' pension. The charge levied by the BVK is determined as the portion of the employee's remuneration used to calculate the supplementary pension contribution.

The BVK therefore represents a multi-employer defined benefit plan that, in accordance with IAS 19.30 (a), is accounted for as a defined contribution plan because the BVK has not provided sufficient information to account for the plan as a defined benefit plan.

No concrete information is known about any overfunding or underfunding of the plan or the related future effects on Deutsche Wohnen Group. However, an external expert opinion puts Deutsche Wohnen's currently unfunded pension obligations to the BVK at EUR 12.35 million. This could be regarded as an indication of a deficit, which could result in an increase in the contribution payments made by Deutsche Wohnen to the BVK in the future.

13. Other provisions

Provisions changed as follows:

A. Noncurrent provisions

In EUR thousand	July 1, 2006	Reversal	Additions	Disposal due to consolidation	Dec 31, 2006
Provision for maintenance relating to DB IF 14	3,930	148	0	– 3,782	0
Provision for restoration obligations	251	0	3	0	254
	4,181	**148**	**3**	**–3,782**	**254**

The provision for maintenance relates to the maintenance agreement entered into with DB IF 14 that expires on December 31, 2019. The guarantee amount for maintenance was compared with the forecast amount from the expected future development of maintenance expenses and discounted at the current effective interest rate (4.89% p.a.; June 30, 2006: 4.72% p.a.). This provision was eliminated during the consolidation of DB IF 14 and was disposed of accordingly as of December 31, 2006.

B. Current provisions

In EUR thousand	July 1, 2006	Utilization	Reversal	Additions	Dec 31, 2006
Provision for					
1. liability from surplus income not yet paid out	544	430	0	120	234
2. litigation risks	337	26	18	72	365
	881	**456**	**18**	**192**	**599**

Explanations of individual items:

1. The liability relates to surplus income not yet paid out that is basis on contractual agreements entered into in connection with the merger of the Rhineland-Palatinate rural development project (Landsiedlung) with Rhein-Pfalz Wohnen GmbH in 1995.

2. The provisions for litigation risks primarily relate to a claim for damages as a result of a reversed residential property purchase agreement. They also include a provision for possible utilization arising from the project management activities of a Group company relating to conversion measures from previous years. Other provisions for litigation costs relate to rental disputes.

C. Current tax liabilities

Current tax liabilities relate mainly to income tax expenses expected for 2005 and 2006 (including the solidarity surcharge in each case) and were offset gainst claims arising from withholding tax on dividend income plus the solidarity surcharge on interest income, or against prepayments made.

14. Liabilities to fund limited partners

On the basis of individual agreements, Rhein-Pfalz Wohnen GmbH has granted the limited partners of DB IF 14 a right of tender for the limited partner shares from 2005 to 2019. Under these agreements, the Group is obliged to acquire the shares initially (in 2005) at 105% of the paid-in capital share on request. From 2005, the agreed purchase price for the shares increases by five percentage points per annum.

Liabilities to fund limited partners are reported under noncurrent liabilities because no other limited partners had exercised their rights of tender as of December 31, 2006. Maturities may change due to the actual exercise of rights of tender.

15. Other noncurrent liabilities

The amounts previously reported in this item primarily (EUR 5.2 million) relate to liabilities to DB IF 14 that were eliminated during the consolidation of intercompany balances as of December 31, 2006.

16. Deferred taxes

Deferred tax assets and liabilities changed as follows at the reporting date:

In EUR thousand	June 30, 2006 (Dec 31, 2005)	Change in subsequent measurement (prior period)	Additions/ disposals due to consolidation DB IF 14	Dec 31, 2006
Deferred tax assets				
– utilizable loss carryforwards	17,995 (17,995)	269 (0)	0	18,264
– temporary differences between IFRS carrying amounts and tax base	22,422 (22,845)	3,317 (– 23)	–1,583	24,156
of which:				
– investment property	20,216 (20,360)	3,410 (–144)	0	23,626
– noncurrent financial assets	880 (894)	33 (–14)	– 913	0
– post-employment benefit obligation	322 (472)	– 68 (–150)	0	254
– other provisions noncurrent	699 (724)	– 26 (– 25)	– 670	3
– other provisions current	305 (395)	– 42 (– 90)	0	263
– derivatives current	0 (0)	10 (0)	0	10
Carrying amount of deferred tax assets	**40,417** (40,840)	**3,586** (–423)	**–1,583**	**42,420**
Deferred tax liabilities				
– temporary differences between IFRS carrying amounts and tax base	2,190 (2,278)	147 (– 88)	– 2,337	0
of which:				
– derivatives noncurrent	2,190 (2,278)	147 (– 88)	– 2,337	10
– addition from initial consolidation	0	0	6,180	6,180
Carrying amount of deferred tax liabilities	**2,190** (2,278)	**147** (– 88)	**3,843**	**6,180**

The changes in deferred taxes had the following effects on the consolidated income statement:

In EUR thousand	Second short fiscal year 2006	First short fiscal year 2006
Change in deferred tax assets	– 3,586	423
Change in deferred tax liabilities	147	– 88
Change in deferred taxes in the SORIE	86	– 67
Change in deferred taxes recognized in the income statement	– 3,353	268

No deferred tax assets were recognized for Group companies' tax loss carryforwards amounting to EUR 121.0 million for corporation tax and EUR 62.8 million for trade tax, because they cannot be utilized during the planning horizon of six years used as a basis to calculate the deferred taxes. No concrete disclosure can be made about the maturity structure of the unrecognized tax loss carryforwards due to this analysis period.

Deferred tax assets and liabilities recognized on temporary differences between the carrying amounts of assets and liabilities in the IFRS balance sheet and their tax base relating to items concerning relationships with DB IF 14 (equity investments, other loans and derivatives) before consolidation were eliminated during the initial consolidation of the fund and are therefore no longer recognized as of December 31, 2006.

The recognition of deferred taxes on temporary differences reflects all balance sheet items where temporary differences have arisen between the carrying amounts of assets and liabilities in the IFRS balance sheet and their tax base.

EUR 3.4 million of the changes/subsequent measurement of deferred taxes was recognized in the income statement. Please refer to note (34) on the income statement.

The reconciliation of the expected to the effective tax expense is shown in the following table:

In EUR thousand	Dec 31, 2006	June 30, 2006
Consolidated profit before tax	28,617	2,611
Applicable tax rate	40.86 %	40.86 %
Expected tax expense	11,693	1,067
a) Tax effects from differences in tax rates at individual Group companies	– 85	– 355
b) Tax effects from differences in the tax base	– 6,655	1,316
c) Tax effects from loss carryforwards actually used	– 2,304	– 1,330
d) Trade tax effects	173	61
e) Prior-period effects	– 120	– 126
f) Change in deferred taxes on unrecognized temporary differences and unrecognized loss carryforwards	– 3,593	268
g) Other effects	164	4
Income tax expense reported in the consolidated income statement (second short fiscal year: income)	**– 727**	**905**

The applicable tax rate of 40.86 % represents the tax rate of the parent Deutsche Wohnen AG, which was used as the basis for calculating the expected tax expense.

Explanatory notes on the tax reconciliation:

a) The differences result from different trade tax rates levied by the authorities responsible for assessing trade tax.

b) The individual companies' tax reconciliations are based on the income tax calculations for 2006. In some cases, the actual bases for calculating trade and corporation tax differ substantially from the figure calculated in accordance with IFRS due to measurement differences and special factors relating to trade tax. In addition, current losses at individual companies cannot be used as part of the 2006 tax assessment and do not lead to a reduction in the actual tax expense. The current losses lead to an increase in the losses that may be carried forward at these companies.

c) The loss carryforwards actually used are derived from the individual income tax calculations of the Group companies.

d) The trade tax effects relate to add-backs and reductions in accordance with sections 8 and 9 *Gewerbesteuergesetz* (GewStG – German Trade Tax Act).

e) The prior-period effects are the result of income tax credits for prior years.

f) This item includes the recognition of future utilizable temporary differences between the carrying amounts of assets and liabilities in the IFRS balance sheet and their tax base relating to investment property amounting to EUR 3,410 thousand, and to EUR 269 thousand for other future utilizable corporation and trade tax loss carryforwards resulting from the adjustment of corporate planning, since the realization of the tax benefits is regarded as likely. This item is also offset in the amount of EUR 86 thousand by write-downs charged on deferred taxes recognized in previous years on pension obligations that are taken directly to the SORIE.

17. Prepayments received

The amount reported relates to prepayments on:

In EUR thousand	Dec 31, 2006	June 30, 2006
– Operating costs to be invoiced to tenants	28,700	36,184
– Addition from initial consolidation of DB IF 14 for operating costs to be invoiced	3,847	0
– Purchase prices received for IAS 40 properties	67	5,040
– Other	150	53
	32,764	**41,277**

18. Liabilities from rental activities

Liabilities from rental activities include rental deposits by tenants amounting to a total of EUR 8.5 million (June 30, 2006: EUR 7.2 million), EUR 8.2 million (June 30, 2006: EUR 6.7 million) of which is freely available to the Group in accordance with the leases. With the exception of the commercial rental deposits (EUR 0.2 million), they are secured by bank guarantees. For the first time as of December 31, 2006, rental deposits include rental deposits by tenants of the DB IF 14 properties amounting to EUR 1.9 million. These were previously reported under other current liabilities.

19. Trade payables/other liabilities

This item is composed of the following:

In EUR thousand	Dec 31, 2006	June 30, 2006
1. Liabilities from other taxes (primarily real estate transfer tax)	9,667	10,312
2. Liabilities for other employee expenses	3,753	3,606
3. Remaining liabilities under purchase agreement obligation	3,607	3,570
4. Outstanding invoices	974	3,064
5. Other trade payables	821	2,376
6. Proportion of administrative costs in service charges not yet settled with residential owners associations	736	987
7. Expected development costs	372	446
8. Realtors' commissions	361	227
9. Audit and consulting expenses	338	729
10. Liabilities from warranty retention	292	339
11. Preparation of the annual financial statements and billing of operating costs	273	310
12. Building renewal	215	428
13. Contributions to the occupational health and safety agency	82	46
14. Liabilities from managing the properties held by DB IF 14	0	6,838
15. Other	3,529	2,405
16. Addition due to initial consolidation of DB IF 14	281	0
	25,301	**35,683**

Explanations of individual items:

2. Among other things, these liabilities include the performance-related annual bonuses paid to the Management Board and the Company's employees amounting to EUR 1.8 million (June 30, 2006: EUR 1.5 million), as well as liabilities for partial retirement obligations totaling EUR 1.4 million (June 30, 2006: EUR 1.4 million).

3. These liabilities relate to a subsequent purchase price increase under a purchase and assignment agreement entered into in November 1998.

8. These liabilities relate to realtors' commissions that were incurred for purchase agreements recorded up to December 31, 2006 but not invoiced at the time the financial statements were prepared.

14. The amounts reported under liabilities from managing the properties held by DB IF 14 were allocated to the "prepayments received" and "liabilities from rental activities" balance sheet items at the date of consolidation of the fund.

15. Other liabilities include liabilities amounting to EUR 0.7 million for risks and obligations under property purchase agreements as part of sales activities. They also include liabilities for heat contracting agreements totaling EUR 0.3 million. According to a ruling by the Federal Court of Justice, the operating costs already charged to tenants cannot be recharged without the consent of the tenants.

20. Derivatives

In EUR thousand	Dec 31, 2006	June 30, 2006
Put option (right of tender)	5,714	5,688
Forward transaction (rights of tender exercised as of December 31, 2006)	1,461	1,425
	7,175	**7,113**
Disposal due to consolidation	– 7,175	0
	0	**7,113**

The put option for the right of tender held by DB IF 14's limited partners and the forward transaction for tenders notified to the Company recognized under derivatives were measured at fair value through profit or loss until the date of initial consolidation of DB IF 14, and eliminated during the initial consolidation of DB IF 14. The relevant item is therefore not reported in the balance sheet as of December 31, 2006.

IX. CONSOLIDATED INCOME STATEMENT DISCLOSURES

21. Revenue

Revenue is classified into the following items:

a) Residential property management

In EUR thousand	Second short fiscal year 2006	First short fiscal year 2006
– Estimated rent and other income	42,222	43,009
– Actual rent and other income	38,360	39,182
– Revenue from billing of cost allocations	21,497	7,410
	59,857	**46,592**

Revenue from residential property management results primarily from the management of investment property.

b) EUR 2.7 million (first short fiscal year: EUR 0.4 million) of the revenue from property sales (EUR 2.8 million; first short fiscal year: EUR 0.5 million) relates to privatization income from the sale of the North Hesse portfolio.

c) Revenue from management activities contains revenue from condominium management of EUR 0.7 million (first short fiscal year: EUR 0.7 million) and income from the management of the DB IF 14 fund amounting to EUR 0.3 million (first short fiscal year: EUR 0.5 million).

22. Profit from housing privatization

In contrast to the first short fiscal year, profit from housing privatization is no longer reported under other operating income (or under other operating expenses in the case of book losses), but in a separate item. It is composed of the sale proceeds less the carrying amounts of the assets disposed. This increases transparency with regard to the presentation and reporting of gains from sales. The carrying amount for the first short fiscal year was restated accordingly in the income statement and in the cash flow statement.

23. Changes in inventories

Changes in inventories relate solely to changes in work in progress (second short fiscal year: decrease of EUR 6.3 million; first short fiscal year: increase of EUR 6.3 million).

24. Other operating income

In EUR thousand	Second short fiscal year 2006	First short fiscal year 2006
– Income from the reversal of current provisions	18	9
– Income from derecognition of liabilities	472	29
– Income from recoveries on receivables written off and from the reversal of valuation allowances on rental receivables	329	238
– Income from the reversal of accrued interest-subsidized loans	743	743
– Effects of the subsequent measurement of noncurrent financial assets and noncurrent other provisions	471	452
– Miscellaneous other income	314	965
	2,347	**2,436**

Among other things, miscellaneous other income includes income from license fees and ground rent.

In the year under review, the Company has reported compensation for use under other interest and similar income. The prior-year amount was not restated as it is insignificant (EUR 0.1 million).

Book gains on the disposal of noncurrent assets, which were reported under other operating income in the previous year, were for the first time offset against losses on the disposal of noncurrent assets in the profit from housing privatization item. The prior-year amount was restated accordingly.

25. Cost of purchased services

The cost of purchased services results primarily from the management of investment property and is composed of the following items:

In EUR thousand	Second short fiscal year 2006	First short fiscal year 2006
– Maintenance expenses	8,986	8,714
– Operating costs	16,474	15,007
– Other residential property management expenses	626	590
	26,086	**24,311**

26. Employee expenses

Employee expenses amounted to EUR 8.4 million in the short fiscal year from July 1 to December 31, 2006 (first short fiscal year: EUR 9.0 million).

Amounts resulting from interest cost added back to pension provisions are not recognized as employee expenses. Such costs are a component of net finance costs and are included in interest and other expenses.

The Deutsche Wohnen Group employed 271 staff, including part-time employees but excluding trainees, as of December 31, 2006 (first short fiscal year: 261). The average number of employees in the second short fiscal year was 234 (FTEs; first short fiscal year: 250).

27. Depreciation, amortization and impairment losses

In EUR thousand	Second short fiscal year 2006	First short fiscal year 2006
Depreciation and amortization of		
– Investment property	6,815	6,819
– Property, plant and equipment	207	225
– Intangible assets	42	17
	7,064	**7,061**
Impairment losses	7,694	35
	14,758	**7,096**

Impairment losses relate to investment property allocated to Segment I (residential property management) in the segment reporting under IAS 14. The exception is the impairment loss on undeveloped land in Frankfurt am Main (Unterliederbach), which is allocated to Segment III.

28. Other operating expenses

In EUR thousand	Second short fiscal year 2006	First short fiscal year 2006
– Selling commissions; cost of property sales	5,597	2,461
– Write-offs and write-downs of receivables	378	1,306
– Prior-period expenses	145	609
– Administrative expenses; miscellaneous expenses	4,841	5,439
	10,961	**9,815**

Losses on the disposal of noncurrent assets, which were reported under other operating expenses in the previous year, were for the first time offset against gains on the disposal of noncurrent assets in the profit from housing privatization item. The prior-year amount was restated accordingly.

29. Income from business combination

This item relates to the excess of the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the acquired DB IF 14 (EUR 16.7 million) over the cost (EUR 7.9 million) amounting to EUR 8.8 million, which was recognized in income.

30. Other interest and similar income

Interest income from deposits amounted to EUR 0.4 million (first short fiscal year: EUR 0.6 million).

31. Impairment losses on financial assets

This item presents impairment losses resulting from impairment testing of equity investments and other loans in accordance with IAS 39.

32. Interest and similar expenses

Interest and similar expenses are composed of the following items:

In EUR thousand	Second short fiscal year 2006	First short fiscal year 2006
Interest expense		
– Property and company financing	11,340	11,098
– Interest cost added back to interest-subsidized loans	743	743
– Early redemption penalties	11	201
– Post-employment benefit obligation	113	104
– Miscellaneous	368	265
	12,575	**12,411**

33. Gains and losses on financial derivatives

The gains or losses from the most recent measurement of the derivatives recognized on the basis of contractual agreements with DB IF 14 or the limited partners of this fund are broken down as follows:

In EUR thousand	Second short fiscal year 2006	First short fiscal year 2006
Gains/losses (–) from the measurement of		
– rights of tender	– 26	827
– loan guarantee	– 18	– 21
– rental guarantee	– 264	452
– forward transaction	– 36	– 1,425
(Losses)	**–344**	**–167**

34. Income tax expense

The income tax expense relates to taxes on income paid or owed. It also includes tax refunds and deferred taxes.

In EUR thousand	Second short fiscal year 2006	First short fiscal year 2006
– Current income tax expense for fiscal year 2006	2,746	763
– Effects of tax assessments and adjustments to prior-period tax calculations	–120	–126
– Change in deferred taxes	–3,353	268
Income (previous year: expense)	–727	905

In the year under review, deferred taxes of EUR 86 thousand were taken directly to equity (first short fiscal year: EUR 67 thousand). They related to the deferred taxes recognized for measurement differences between the carrying amount of post-employment benefit obligations in the IFRS balance sheet and their tax base.

35. Earnings per share

Earnings per share is calculated by dividing the consolidated profit for the year by the number of shares.

The number of shares is now 20,000,000 following the 1:5 share split implemented in the second half of the year. The share split was implemented effective August 25, 2006. Because there have been no changes in the share classes (ordinary shares), there was no requirement to calculate diluted earnings per share for either the first short fiscal year or the second short fiscal year.

Earnings per share amounted to EUR 1.47 for the second short fiscal year (first short fiscal year: EUR 0.09). Earnings per share changed from EUR 0.43 to EUR 0.09 due to the share split in the prior period.

X. OTHER DISCLOSURES

Contingent liabilities

Contingent liabilities at December 31, 2006 totaled EUR 3.4 million. They result solely from obligations to third parties.

In EUR thousand	Dec 12, 2006	June 30, 2006
Guarantees	3,356	3,257
Provision of collateral for third-party liabilities	0	170,546
	3,356	**173,803**

The provision of collateral for third-party liabilities relates to liabilities of DB IF 14. The decrease is due to the initial consolidation of the fund as of December 31, 2006.

Guarantees at the reporting date consist mainly of settlement guarantees for partial retirement credit balances and guarantees securing loans and advances by a bank.

Perpetual leases result in financial obligations of EUR 10.7 million (June 30, 2006: EUR 10.7 million).

An agency agreement with DB Real Estate Investment GmbH relating to IT services that runs until 2007 results in other financial obligations totaling EUR 1.1 million (June 30, 2006: EUR 1.7 million).

Cash of EUR 10.3 million (June 30, 2006: EUR 10.5 million) was pledged as cash collateral as of June 30, 2006 to a bank as part of the provision of guarantees.

A Group company (Rhein-Pfalz Wohnen GmbH) has been certified as a renovation and development company in accordance with sections 158 and 167 of the *Baugesetzbuch* (BauGB – Federal Building Code). The company performs assignments delegated by local authorities as their trustee.

As of December 31, 2006, the company holds bank balances amounting to EUR 0.5 million in trust relating to property renovation and development measures. The assignments for which Rhein-Pfalz Wohnen GmbH is responsible as trustee have been transferred to the development company Rhein-Pfalz GmbH & Co. KG under the terms of the agency agreement entered into with this company as of June 30, 2001. The bank accounts were transferred in 2007. In this context, the company raised loans for local authorities amounting to EUR 3.6 million (June 30, 2006: EUR 4.8 million) as a trustee. No risk results from this; the transfer will be effected in 2007.

Since January 2006, the Group companies have administered rental deposit escrow accounts on behalf of tenants amounting to EUR 4.4 million (June 30, 2006: EUR 3.4 million).

Leases

Operating leases

The subsidiaries have entered into long-term heritable building right agreements with the holders of those rights; these are classified as operating leases under IFRS.

The total future undiscounted minimum lease payments that will accrue to the Group under these heritable building rights amount to EUR 3.2 million (June 30, 2006: EUR 3.3 million) and are allocated to future periods as shown in the following table:

In EUR thousand	
– up to one year	51
– one to five years	253
– more than five years	2,859

The Group has entered into leases to commercially rent its investment property. The remaining terms of these non-cancelable leases are between three and ten years. The leases usually include a clause that allows an annual increase in the lease installments according to prevailing market conditions.

Undiscounted claims for future minimum lease payments from non-cancelable operating leases are as follows as of December 31, 2006:

In EUR thousand	
– up to one year	1,165
– one to five years	3,230
– more than five years	706

Contingent rent payments in the period under review were insignificant.

There are also operating leases under which Group companies act as lessees of office property and of operating and office equipment.

The minimum undiscounted future lease and rental payment obligations from operating leases amounted to EUR 5.8 million (June 30, 2006: EUR 2.9 million). The corresponding payment obligations are due as follows:

In EUR thousand	
– up to one year	1,200
– one to five years	4,555
– more than five years	52

The increase is due to a new lease entered into for an administrative building in Mainz that the Group companies have selected as a new location from the middle of 2007.

EUR 0.6 million (first short fiscal year: EUR 0.5 million) from these lease obligations was recognized as an expense in the second short fiscal year. The amount of income recognized from subleases was insignificant.

Goals and methods of financial risk management

With the exception of derivatives, the main financial instruments used by the Group are bank loans, trade payables and originated loans. The primary purpose of these financial instruments is to finance the Group's business activities. The Group has various financial assets, such as trade receivables and cash, which result directly from its business activities.

Currency risk

The Group is not exposed to any currency risk as all its business activities are settled in euros.

Credit risk

The Group only enters into transactions with third parties with good credit standing. Where transactions are entered into on a credit basis, the business partners in question undergo a credit check. In addition, receivables portfolios are continuously monitored to ensure that the Group is not exposed to any material default risk. In the case of the Group's other financial assets, such as cash and cash equivalents, available-for-sale investments and certain derivatives, the maximum credit risk in the event of counterparty default corresponds to the carrying amount of these instruments.

Liquidity risk

No liquidity risks exist in relation to the credit line amounting to EUR 270.0 million that has not been utilized and the continuous cash inflows from residential property management. The Group continually monitors the risk of any liquidity shortage using liquidity forecasts that reflect the maturities of its investments and financial assets, as well as expected cash flows from operating activities.

Interest rate risk

The Group uses one derivative (interest rate swap) that is designed to hedge the interest rate risk that may arise from one of the Group's sources of finance.

As in previous years, the Group does not trade derivatives.

The Group manages its interest expenses by combining mainly fixed-rate and a small volume of floating rate debt. The risk of fluctuations in market interest rates to which the Group is exposed results from the small volume of noncurrent financial liabilities with floating interest rates (two loans). Including existing interest rate swaps, approx. 99.9% (June 30, 2006: 100%) of the Group's debt bore fixed interest rates as of December 31, 2006. The Group has no guidelines for determining the proportion of debt bearing fixed interest rates.

In the case of floating rate finance, rising interest rates have a direct effect on net finance costs in the form of higher interest expenses. Depending on estimates of future interest rate levels, Deutsche Wohnen uses derivatives to hedge rising interest rates. It does not use hedge accounting within the meaning of IAS 39, as the requirements for this are currently not met. The hedging instruments employed as of the reporting date are explained below.

For the first time, a Group company used an interest rate swap denominated in euros beginning on October 2, 2006 and ending on October 3, 2016. The interest rate swap was entered into with Landesbank Rheinland-Pfalz. The fixed interest rate is 4.95% p.a.; the reference interest rate is 6M EURIBOR with a spread of 0.55%. The interest rate swap serves to hedge a floating rate loan (underlying) amounting to EUR 2.6 million extended in July 2007, with an interest rate based on 6M EURIBOR plus a spread of 0.55%. The loan bears a fixed interest rate until April 2, 2007 and matures on October 3, 2016. The interest rate swap had a negative fair value of EUR 55 thousand at the balance sheet date.

Another Group company also raised a floating rate loan amounting to EUR 20.0 million with Landesbank Rheinland-Pfalz in December 2006. The loan's interest rate is based on 3M EURIBOR. In February 2007, a fixed interest rate of 4.50% was agreed for this loan effective April 1, 2007 (until September 28, 2007).

All other loans bear fixed interest rates. For information on maturities, please refer to the above disclosures on bank loans and overdrafts and liabilities to other lenders. In the case of fixed-rate financial instruments, the interest rate is fixed until the respective financial instrument matures. The Group's other financial instruments do not bear interest and are therefore not exposed to interest rate risk.

Fair value

The carrying amount of all financial instruments recognized in the consolidated financial statements represents the fair value, with the exception of bank loans and overdrafts and liabilities to other lenders. For information on the latter, please refer to the above disclosures on bank loans and overdrafts and liabilities to other lenders. The fair value of the loans was determined by discounting the expected future cash flows using normal market interest rates.

CONSOLIDATED CASH FLOW STATEMENT DISCLOSURES

The consolidated cash flow statement of the Deutsche Wohnen Group shows how the Group's cash holdings have changed in the course of the fiscal year as a result of inflows and outflows. A distinction is made within the consolidated cash flow statement between cash flows from operating, investing and financing activities. Cash flows from operating activities are calculated using the indirect method in accordance with IAS 7.18 (b). All the information required under IAS 7 is presented in the consolidated cash flow statement. The combination with DB IF 14 does not represent a cash transaction because the cost consists of assets and liabilities surrendered within the Deutsche Wohnen Group. As a result of the initial consolidation of DB IF 14, the Group received cash of EUR 11.1 million that is reported in the cash flow statement under cash flows from investing activities.

CONSOLIDATED SEGMENT REPORTING DISCLOSURES

The changes in and classification of the segments, together with the associated income and expenses, and assets and liabilities, are presented in the consolidated segment reporting attached as Annex B.

In accordance with IAS 14, individual financial statement data is presented separately by segment. The segment classification is based on the internal reporting structures. Segmentation makes the earnings power and performance prospects of the Group divisions, as well as their opportunities and risks, more transparent.

As in the prior period, the Deutsche Wohnen Group applied the following segmentation as of December 31, 2006:

Segment I: Residential property management

This comprises lease management, the renovation and maintenance of leased properties, and tenant services, and consists mainly of the investment property in accordance with IAS 40 (the "core portfolio"), as well as all related income and expenses.

Segment II: Housing privatization

This segment consists of the preparation and implementation of the privatization process and consists of the non-current assets held for sale in accordance with IFRS 5, as well as the book gains realized on the sale of IAS 40 properties. It also includes all income and expenses from properties available for sale (IAS 2).

Segment III: Services, financing and administration

This consists of the provision of internal services, and all employee, administrative and financing activities of the Group.

Intercompany balances, transactions, profits and expenses are eliminated in full in the reconciliation to the consolidated financial statements.

The segment data was calculated as follows:

- External revenue relates to revenue generated in Germany, mainly in Hesse and Rhineland-Palatinate. No further breakdown is provided for economic considerations.

- Intersegment revenue presents the revenue generated between the segments. Transfer prices for intragroup revenue are defined on an arm's length basis. The expenses are deducted from the expense items affected.

- Income, expenses, assets and liabilities that relate to the management of the stocks in North Hesse are allocated to Segment II, and the earnings contribution is presented net. By contrast, these items are presented in the income statement under the relevant headings.

- The investments relate primarily to the investment property presented in Segment I; investments in property, plant and equipment (owner-occupied property, operating and office equipment) and intangible assets are contained in Segment III.

- Income, expenses, assets and liabilities were allocated directly to the individual segments where possible. Remaining items that cannot be reasonably allocated directly to Segments I and II are presented in Segment III. Tax amounts are also presented in Segment III.

RELATED PARTY DISCLOSURES

In accordance with IAS 24, related parties are defined as the Supervisory Board, the Management Board and senior employees, as well as their close family members.

Deutsche Wohnen AG's management consists of two Management Board members. Please refer to the following disclosures on the Management Board's compensation. There is also an operational management level that comprises 15 people.

EMPLOYEE BENEFITS (IAS 19)

Because of the different historical background to the Group companies, there are various occupational pension models in the Deutsche Wohnen Group. These mainly comprise a basic and/or supplementary pension.

The basic pension is primarily funded by Höchster Pensionskasse VVaG and includes the income of the employee up to the relevant income threshold for contribution assessment in the statutory pension insurance system. The supplementary pension is a direct pension commitment by individual Group companies to employees with incomes above the relevant income threshold for contribution assessment in the statutory pension insurance system. The basic and supplementary pension plans were closed to new members effective December 31, 1998.

A commitment was also made to employees for a supplementary pension under the regulations governing public-sector supplementary pensions. It is based on membership of a Group company in the *Bayerische Versorgungskammer – Zusatzversorgungskasse der bayerischen Gemeinden* (Bavarian association for providers of civil service and professional pensions and other benefits). The obligation of the Company under this supplementary pension is not recognized as an expense. Please refer to note (12) on the consolidated balance sheet.

The commitments under the supplementary pensions for current and former employees and the obligations under vested pension benefits relating to occupational pension commitments to former employees are presented in the "Post-employment benefit obligation" in the consolidated balance sheet.

AUDITORS' SERVICES

The fees of the auditors Ernst & Young AG, Wirtschaftsprüfungsgesellschaft, Steuerberatungsgesellschaft recognized as expenses in the fiscal year amounted to EUR 236 thousand for the audit and EUR 21 thousand for other services.

The audit related to expenses for the statutory audit of the annual financial statements of the Group companies, with the exception of Deutsche Wohnen Asset Immobilien GmbH, Deutsche Wohnen Beteiligung Immobilien GmbH, Deutsche Wohnen Corporate Immobilien GmbH, Deutsche Wohnen Direkt Immobilien GmbH, Deutsche Wohnen Eigentum Immobilien GmbH and DB IF 14.

MANAGEMENT BOARD AND SUPERVISORY BOARD

The total compensation of the Management Board of Deutsche Wohnen AG for the period from July 1 and December 31, 2006 is broken down as follows:

	Total compensation	Compensation component	
In EUR thousand		fixed	variable
Andreas Lehner	644	93	551
Michael Neubürger	448	84	364

Compensation granted to members of the Supervisory Board amounted to EUR 42 thousand in the year under review.

EVENTS AFTER THE BALANCE SHEET DATE

The Deutsche Wohnen Group expanded its real estate portfolio on January 15, 2007 by acquiring 426 residential units and 12 commercial units. The properties were sold by LVM Versicherungen. The residential portfolio offered for purchase exclusively to the Deutsche Wohnen Group comprises highly attractive inner city microlocations in Münster/Westphalia (252 units) as well as Dresden, Leipzig and Erfurt (186 units). The transfer of ownership will be effected on April 1, 2007.

The total residential space acquired amounts to 30,015 m^2 (average size of residential space: 71 m^2). The estimated rent is EUR 6.70 per m^2, and the vacancy rate is 3.5 %. In most cases, the apartments were constructed or the cores of the buildings were completely renovated in the 1990s.

CORPORATE GOVERNANCE

The Management Board and Supervisory Board have issued the declaration of conformity with the German Corporate Governance Code required in accordance with section 161 AktG, which has been made permanently available to shareholders in the internet (www.deutsche-wohnen.de).

Frankfurt am Main, February 9, 2007

Deutsche Wohnen AG

Andreas Lehner – Chairman of the Management Board –	Michael Neubürger – Member of the Management Board –

STATEMENT OF CHANGES IN NONCURRENT ASSETS FOR THE SHORT FISCAL YEAR FROM JULY 1 TO DECEMBER 31, 2006

							Cost
In EUR thousand	Balance at July 1, 2006	Addition from business combination	Additions	Disposals	Reclassifications	Transfers	Balance at Dec 31, 2006
I. Investment property							
Land with residential buildings	853,242	186,086	3,591	– 41,053	– 1,583	21,055	1,021,338
Land with commercial buildings	22,593	0	0	– 293	0	0	22,300
Land without buildings	28,741	0	0	0	– 351	161	28,551
Land with heritable third-party building rights	431	0	0	0	0	0	431
Technical equipment	179	0	0	0	0	0	179
Assets under construction	1,010	0	61	– 35	0	– 754	282
Preconstruction costs	1,205	0	49	– 372	0	0	882
Total investment property	**907,401**	**186,086**	**3,701**	**–41,753**	**–1,934**	**20,462**	**1,073,963**
II. Property, plant and equipment							
Commercial or other buildings – owner-occupied	5,879	0	1	0	0	0	5,880
Buildings on third-party land – owner-occupied	1,192	0	0	0	0	0	1,192
Operating and office equipment	1,141	0	37	– 66	0	0	1,112
Prepayments	0	0	19,537	0	0	– 19,537	0
Total property, plant and equipment	**8,212**	**0**	**19,575**	**–66**	**0**	**–19,537**	**8,184**
III. Intangible assets							
Concessions, industrial and similar rights and assets and licenses in such rights and assets	640	0	200	0	0	0	840
Goodwill	5	0	0	0	0	0	5
Total intangible assets	**645**	**0**	**200**	**0**	**0**	**0**	**845**
IV. Noncurrent financial assets							
Other loans	24,907	– 30,357	6,730	– 23	– 24	0	1,233
Total noncurrent financial assets	**24,907**	**– 30,357**	**6,730**	**– 23**	**– 24**	**0**	**1,233**
Total	**941,165**	**155,729**	**30,206**	**–41,842**	**–1,958**	**925***	**1,084,225**
V. Noncurrent assets held for sale	**9,385**	**0**	**0**	**–8,448**	**1,934**	**0**	**2,871**

* Relates to Kandel portfolio, reported at June 30, 2006 as a prepayment under current receivables and other current assets – transfer of ownership, risks and rewards effective as of July 1, 2006.

Cumulative depreciation, amortization and impairment losses							Carrying amounts	
Balance at July 1, 2006	Additions	Reversals of impairment losses	Disposals	Reclassifications	Transfers	Balance at Dec 31, 2006	Balance at Dec 31, 2006	Balance at June 30, 2006
101,941	6,868	0	– 4,699	– 148	0	103,962	917,376	751,301
3,433	285	0	– 197	0	0	3,521	18,779	19,160
1,795	7,231	0	0	0	0	9,026	19,525	26,946
0	0	0	0	0	0	0	431	431
36	11	0	0	0	0	47	132	143
0	0	0	0	0	0	0	282	1,010
761	114	0	– 48	0	0	827	55	444
107,966	**14,509**	**0**	**–4,944**	**–148**	**0**	**117,383**	**956,580**	**799,435**
2,497	100	0	0	0	0	2,597	3,283	3,382
616	49	0	0	0	0	665	527	576
1,032	58	0	– 66	0	0	1,024	88	109
0	0	0	0	0	0	0	0	0
4,145	**207**	**0**	**–66**	**0**	**0**	**4,286**	**3,898**	**4,067**
608	42	0	0	0	0	650	190	32
5	0	0	0	0	0	5	0	0
613	**42**	**0**	**0**	**0**	**0**	**655**	**190**	**32**
1,062	1	0	– 3	0	0	1,060	173	23,845
1,062	**1**	**0**	**– 3**	**0**	**0**	**1,060**	**173**	**23,845**
113,786	**14,759**	**0**	**–5,013**	**–148**	**0**	**123,384**	**960,841**	**827,379**
880	**0**	**0**	**–866**	**148**	**0**	**162**	**2,709**	**8,505**

SEGMENT REPORTING FOR THE SHORT FISCAL YEAR FROM JULY 1 TO DECEMBER 31, 2006

	Segment I		Segment II	
	Residential property management		Housing privatization	
In EUR thousand	Dec 31, 2006	June 30, 2006	Dec 31, 2006	June 30, 2006
External revenue	52,749[2]	52,252[2]		
Profit from housing privatization			35,349[1]	7,955[1]
Other operating income				
Intersegment revenue	98	98		
Segment revenue	**52,847**	**52,350**	**35,349**	**7,955**
Segment expenses owed to third parties/other income				
– Expenses from property management	25,130[1]	24,235[1]		
– Expenses from sales activities			5,573	2,647
– Segment reclassification of vacancies due to sales	– 2,550[3]	– 2,433[3]	2,550	2,433
– Employee expenses				
– Miscellaneous other operating expenses				
– Interest income and income from investments				
– Interest expense				
– Write-downs of impairment losses on receivables and undeveloped land	7,528	7,097		
– Income/expense from financial derivatives				
– Income tax expense/income				
– Other taxes				
Segment expenses	**30,108**	**28,899**	**8,123**	**5,080**
Income from business combination				
Segment result before reconciliation	**22,739**	**23,451**	**27,226**	**2,875**
Segment result after reconciliation	**22,641**	**23,353**	**27,226**	**2,875**
Segment assets	989,017	834,358	57,029	21,831
Segment liabilities	44,157	47,691	776	5,743
Investments	3,701	3,325	0	0

[1] The difference as against the income statement relates to PF Kassel. Please refer to the segment reporting disclosures in the notes.
[2] The difference as against the income statement also relates to PF Kassel, as well as to the changes in inventories that are allocated to revenue from residential property management in the segment reporting.
[3] Vacancies due to sales are allocated to Segment II; the prior-year amount was restated accordingly.
[4] The impairment losses relate mainly to undeveloped land in Frankfurt am Main (Unterliederbach) that is allocated to Segment III.

Segment III		Reconciliation		Group	
Services, financing and administration					
Dec 31, 2006	June 30, 2006	Dec 31, 2006	June 30, 2006	Dec 31, 2006	June 30, 2006
				52,749	52,252
				35,349	7,955
2,996	4,263			2,996	4,263
12,514	12,946	12,612	13,044	0	0
15,510	**17,209**	**12,612**	**13,044**	**91,094**	**64,470**
				25,130	24,235
				5,573	2,647
				0	0
8,354	8,995			8,354	8,995
17,621	18,977	12,612	13,044	5,009	5,933
1,017	1,270	129	168	888	1,102
12,703	12,579	129	168	12,574	12,411
7,609[4]	1,445			15,137	8,542
344	167			344	167
–727	905			–727	905
23	31			23	31
44,910	**41,829**	**12,612**	**13,044**	**70,529**	**62,764**
8,779	0			8,779	0
–20,621	**–24,620**	**0**	**0**	**29,344**	**1,706**
–20,523	**–24,522**	**0**	**0**	**29,344**	**1,706**
27,240	398,410	–66,230	248,058	1,139,516	1,006,541
632,798	782,502	–66,230	248,058	743,961	587,878
26,505	1,194	0	0	30,206	4,519

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE SHORT FISCAL YEAR FROM JULY 1 TO DECEMBER 31, 2006

In EUR thousand	Subscribed capital	Capital reserves	Retained earnings
Balance at Dec 31, 2005 in accordance with IFRS	**10,226**	**228,340**	**29,446**
Profit for the year			
Change from repurchase of shares		381	
Withdrawals		– 21,668	
Appropriations			
Income and expense recognized directly in equity			107
Balance at June 30, 2006 in accordance with IFRS	**10,226**	**207,053**	**29,553**
Distributions			
Profit for the year			
Withdrawals		– 36,298	
Appropriations	9,774		
Income and expense recognized directly in equity			149
Balance at Dec 31, 2006 in accordance with IFRS	**20,000**	**170,755**	**29,702**

The accompanying notes to the consolidated financial statements are an integral part of these consolidated financial statements.

Consolidated net retained profits	Subtotal	Minority interests	Total
148,456	**416,468**	**391**	**416,859**
1,706	1,706		1,706
	381	– 391	– 10
	– 21,668		– 21,668
21,668	21,668		21,668
	107		107
171,830	**418,662**	**0**	**418,662**
– 52,600	– 52,600		– 52,600
29,344	29,344		29,344
	– 36,298		– 36,298
26,524	36,298		36,298
	149		149
175,098	**395,555**	**0**	**395,555**

CONSOLIDATED CASH FLOW STATEMENT FOR THE SHORT FISCAL YEAR FROM JULY 1 TO DECEMBER 31, 2006

In EUR thousand	July 1 to Dec 31, 2006	Jan 1 to June 30, 2006
1. Consolidated profit before interest paid and received and income taxes (insofar as recognized in the income statement for the reporting period)	40,600	14,283
2. Depreciation and amortization expense	14,758	7,259
3. Increase/decrease (–) in provisions	– 4,209	– 171
4. Non-cash income from business combination	– 8,779	0
5. Profit from housing privatization	– 34,082	– 7,742
6. Interest paid (–)/received incl. previous year's deferred interest	– 8,630	– 18,366
7. Income taxes paid (–)/received	– 2,626	– 637
8. Increase (–)/decrease in deferred taxes	– 3,439	335
9. Increase (–)/decrease in inventories, trade receivables, derivatives and other assets that are not attributable to investing or financing activities	10,333	130
10. Increase/decrease (–) in trade payables, derivatives and other liabilities that are not attributable to investing or financing activities	– 21,355	12,887
11. Change in other balance sheet items	5,863	98
12. Cash flows from operating activities	**– 11,566**	**8,076**
13. Proceeds from disposal of investment property	34,771	18,621
14. Payments to acquire investment property	– 23,276	– 4,307
15. Payments to acquire intangible assets	– 200	0
16. Proceeds from disposal of financial assets and capital repayments	23	90
17. Payments to acquire minority interests in consolidated companies	0	– 10
18. Payments to acquire financial assets	– 331	– 284
19. Payments to acquire limited partner shares in DB IF 14	– 6,399	– 163
20. Payments to acquire DB IF 14 after deduction of cash held by DB IF 14	11,127	0
21. Cash flows from investing activities/housing sales	**15,715**	**13,947**
22. Payments to owners (dividend)	– 52,600	0
23. Proceeds from issuance of loans	34,878	4,193
24. Repayments of loans	– 6,646	– 19,063
25. Change in other current financial liabilities	– 621	0
26. Cash flows from financing activities	**– 24,989**	**– 14,870**
27. Net change in cash and cash equivalents	**– 20,840**	**7,153**
28. Cash and cash equivalents at beginning of period	54,356	47,203
29. Cash and cash equivalents at end of period	**33,516**	**54,356**

The Group has funds amounting to EUR 270.0 million from financing commitments that had not been utilized at the balance sheet date.

As was the case at June 30, 2006, cash and cash equivalents comprise cash (EUR 14 thousand; June 30, 2006: EUR 12 thousand) and bank balances (EUR 33,502 thousand; June 30, 2006: EUR 54,344 thousand). Bank balances include rental deposits of EUR 269 thousand (June 30, 2006: EUR 199 thousand).

In fiscal year 2006, cash funds of EUR 10,332 thousand (June 30, 2006: EUR 10,518 thousand) were pledged to a bank as cash collateral.

The accompanying notes to the consolidated financial statements are an integral part of these consolidated financial statements.

MANAGEMENT REPORT OF DEUTSCHE WOHNEN AG AND THE DEUTSCHE WOHNEN GROUP FOR THE SHORT FISCAL YEAR FROM JULY 1 TO DECEMBER 31, 2006

Deconsolidation of Deutsche Wohnen

The control agreement dated May 7, 1999 between Deutsche Wohnen AG and DB Real Estate Management GmbH was terminated with effect from the end of June 30, 2006, resulting in the deconsolidation of Deutsche Wohnen AG from Deutsche Bank AG.

The Extraordinary General Meeting held on March 23, 2006 changed the company's fiscal year. This previously began on July 1 of each year and ended on June 30 of the following year. A short fiscal year was established for the period from January 1, 2006 to June 30, 2006, which was a requirement for the termination of the control agreement.

The Annual General Meeting on August 10, 2006 again resolved to change the fiscal year. It now begins on January 1 of each year and ends on December 31. The period between July 1, 2006 and December 31, 2006 is also a short fiscal year.

1. General economic environment

According to the calculations by the Federal Statistical Office, real gross domestic product rose by 2.7% in 2006, the best result since the beginning of this century.

National and international growth provided the impetus for this development. Domestic demand in particular was much stronger than in previous years, driven not only by increased capital expenditure but also by household consumption. State spending was up once more, although exports also continued to grow.

Higher employment stimulated the economy in 2006. At just under 39.1 million, the number of people in employment returned to around the 2002 level. The jobless rate fell by 0.9 percentage points year-on-year, reaching 10.8 percent on average for the year as a whole.

Expectations of falling interest rates in the United States and an anticipated end to the interest rate hikes in Europe, plus an increase in M&A activities and high corporate profits, are likely to set the scene for further, positive stock market growth, at least in specific areas. On account of the continued skepticism among many private investors, there is no chance that we will see the same excessive euphoria as in 1999 and 2000.

2006 saw the German economy taking an encouraging leadership role within the euro zone. The extent to which pull-forward effects caused by the increase in VAT will dampen domestic activity in Germany in 2007 should become clear in the first quarter of the year. Key European business sentiment indices point to a sustained level of moderate yet robust growth. The lower oil price is likely to have been another contributory factor to the positive forecasts.

Consequently, financial market experts rate the current economic situation as positive on the whole.

2. German residential property market

The total German residential property market currently consists of around 39 million residential units. Some nine million of these are owned by public-sector and commercial institutions and companies. In response to economic pressure, local authorities and industrial companies in particular are reviewing their ownership of residential stock. One of the reasons for this is the extreme backlog of investments in properties dating from the 1950s and 1960s. This requires financial resources that companies are unable to generate readily from their ongoing operations. Investors like Deutsche Wohnen who have direct access to the (equity) capital market have an advantage here.

Apart from population change, the main determinants of demand for residential property will be the floor space required by residents. At least for the coming ten years, overall stable demand for housing can be assumed. In Germany, however, a further concentration of demand for housing on economically stable urban conurbations is evident. This is not a highly dynamic process, although it is sustained. However, it does not automatically mean diminishing values for peripheral towns and regions. Here, the attractiveness of the available housing is increasingly being driven by the micro location.

Market studies conducted by leading institutes agree that a further approximately 0.5 to 1.0 million residential units in residential property portfolios or held by residential property companies will change hands in the primary market alone in the next few years. However, purchase prices are still high following a period of exceedingly low financing costs in 2005 and a sustained high level of liquidity in the market. We nevertheless expect this price trend to peter out because long-term investors are now moving away from short-term transactions and housing industry fundamentals are taking priority once again.

Additional growth potential is clearly identifiable in the housing privatization market. Politicians have been able to convince broad sections of the population that stable retirement provision cannot automatically be guaranteed without a personal contribution. Purchasing second-hand accommodation is now on economically attractive alternative for many segments of the population.

3. General information

As of December 31, 2006, the following companies continued to form part of Deutsche Wohnen Group:

- Deutsche Wohnen AG, Frankfurt am Main
- Main-Taunus Wohnen GmbH & Co. KG, Eschborn
- MT Wohnen GmbH, Frankfurt am Main
- Rhein-Main Wohnen GmbH, Frankfurt am Main
- RMW Projekt GmbH, Frankfurt am Main
- Rhein-Mosel Wohnen GmbH, Mainz
- Rhein-Pfalz Wohnen GmbH, Mainz

Companies included in the consolidated financial statements for the first time:

- Deutsche Wohnen Asset Immobilien GmbH, Frankfurt am Main
- Deutsche Wohnen Beteiligung Immobilien GmbH, Frankfurt am Main
- Deutsche Wohnen Corporate Immobilien GmbH, Frankfurt am Main
- Deutsche Wohnen Direkt Immobilien GmbH, Frankfurt am Main
- Deutsche Wohnen Eigentum Immobilien GmbH, Frankfurt am Main
- DB Immobilienfonds 14 Rhein-Pfalz Wohnen GmbH & Co. KG, Eschborn (DB IF 14)

Deutsche Wohnen Beteiligung Immobilien GmbH, Deutsche Wohnen Corporate Immobilien GmbH, Deutsche Wohnen Direkt Immobilien GmbH and Deutsche Wohnen Eigentum Immobilien GmbH are purely shelf companies.

Property portfolio of Deutsche Wohnen Group can be broken down as follows:

	Dec 31, 2006	June 30, 2006
Total residential stock under management	27,464 units	27,694 units
– of which own units (excl. DB IF 14)	21,005 units	21,438 units
– of which DB Immobilienfonds 14	2,625 units	2,625 units
– of which units managed for third parties	3,834 units	3,631 units
Total commercial units under management	113 units	118 units
Total residential space	1.33 m m^2	1.37 m m^2
Average size of apartments	63.3 m^2	63.8 m^2
Commercial space	26,539 m^2	27,047 m^2
Undeveloped space	423,162 m^2	443,678 m^2

The Management Board of Deutsche Wohnen AG, which acts as the financial and management holding company of the Group, has two members and the management of the Group companies also consists of two persons in each case.

As of December 31, 2006, Deutsche Wohnen Group owned 21,005 housing units. The residential units managed for third parties comprised 3,834 apartments at the end of 2006 that were managed by employees of Deutsche Wohnen for other owners for a fee. The real estate base of the closed-end real estate investment fund DB Immobilienfonds 14 Rhein-Pfalz Wohnen GmbH & Co. KG (DB IF 14) consists of an additional 2,625 housing units.

Deutsche Wohnen Group held a total of 24.59 % (a notional EUR 14.3 million) of the shares of the closed-end real estate investment fund DB Immobilienfonds 14 Rhein-Pfalz Wohnen GmbH & Co. KG (DB IF 14) as of December 31, 2006. DB IF 14 is a special purpose entity as defined by SIC 12.10 d. While Deutsche Wohnen does not own more than half of the voting rights, on the basis of the contractual arrangements entered into with DB IF 14, it retains the majority of the residual or ownership risks related to this SPE (SIC 12.10 d), which was therefore included in full in the consolidated financial statements for the first time at the end of December 31, 2006.

The undeveloped space relates mainly to "development property" for which planning rights still have to be obtained, or which have planning potential.

4. Business activities in the short fiscal year from July 1 to December 31, 2006

a) Residential property management

A substantial part of the core business of Deutsche Wohnen Group consists of the management of residential real estate. There is a particularly strong emphasis on establishing strong tenant relationships, with four regional offices. The clear structuring of responsibilities, direct onsite customer support and team service ensure that tenants can make direct contact.

A major focus of operations in the second short fiscal year 2006 was again the comparison of the alternatives of continuing to manage residential units or selling them. As of December 31, 2006, the overall vacancy rate of approximately 7.29 % of residential space (92,090 m^2 of residential space, excluding DB IF 14) as compared with the previous year was broken down as follows:

In %	Dec 31, 2006	June 30, 2006
Overall vacancy rate	7.29	7.54
– of which awaiting lease/ due to modernization	3.71	2.78
– of which awaiting sale/ due to development	3.58	4.76

As of December 31, 2006, the average monthly estimated rent in the core portfolio (excluding DB IF 14) was EUR 0.07 per m^2 higher than the level of June 30, 2006 (EUR 4.98 per m^2), amounting to EUR 5.05 per m^2 at the balance sheet date. The total loss of rent resulting from the overall vacancy rate was around EUR 3.5 million in the second short fiscal year 2006. The lower actual rental income due to privatization was EUR 38.0 million in the Rhine-Main/Rhineland Palatinate core portfolio.

Maintenance costs for the core portfolio were an average of EUR 6.67 per m^2 in the short fiscal year from July 1 to December 31, 2006. A further EUR 1.22 per m^2 was invested in modernization expenditure requiring capitalization. The total maintenance expenses for the core portfolio amounted to EUR 8.5 million (January 1 to June 30, 2006: EUR 9.0 million). Based on the portfolio strategy, maintenance expenditure again related exclusively to units offering at a minimum a medium-term earnings potential from rental or privatization.

Other significant items in the residential property management segment are depreciation charges and impairment losses on residential and commercial buildings carried as noncurrent assets and amounting to EUR 7.5 million. The impairment losses for undeveloped building space in Frankfurt am Main (Unterliederbach) are allocated to the services, financing and administration segment.

The segment result from revenue and expenses relating to residential property management in the second short fiscal year 2006 was EUR 22.6 million (January 1 to June 30, 2006: EUR 23.4 million).

b) Housing privatization

Housing privatization is another major area of Deutsche Wohnen Group's core operating business. The target sales groups are tenants, private owner-occupiers and private investors. Deutsche Wohnen's housing privatization activities are the responsibility of an in-house team. This ensures close contact with the market and enables tailored target group strategies. A total of 1,300 housing privatizations were recognized on the balance sheet in the short fiscal year from July 1 to December 31, 2006 (January 1 to June 30, 2006: 345).

Housing sales	July 1 to Dec 31, 2006	Jan 1 to June 30, 2006
Number of housing sales recognized on the balance sheet	1,300	345
– of which: core portfolio	989	316
– of which: North Hesse portfolio	185	29
– of which: development units	126	0
Average selling price in core portfolio (EUR per m^2)	1,060	872
Carried forward to following fiscal year: no. of residential units	45	245

Around 40% of the privatizations related to the Rhineland-Palatinate area, and around 46% of sales related to the Rhine-Main area. The remaining 14% relate to the portfolio in North Hesse.

Overall revenue in the housing privatization segment including the North Hesse portfolio was EUR 81.3 million (January 1 to June 30, 2006: EUR 19.2 million), and book gains amounted to EUR 35.2 million (January 1 to June 30, 2006: EUR 8.0 million). In addition to book gains of EUR 1.1 million from the North Hesse portfolio, this figure also includes book gains from the sale of development properties amounting to EUR 5.4 million.

After marketing and pre-sale expenses totaling EUR 5.6 million, the segment result for housing privatization was EUR 27.2 million as of December 31, 2006 (January 1 to June 30, 2006: EUR 2.9 million).

c) Services, financing and administration

The items allocated to this segment, and which together make a significant contribution to consolidated profit, are as follows:

- employee and administrative expenses (EUR 13.4 million),
- net financing costs (EUR 11.7 million),
- income from the business combination with DB IF 14 (EUR 8.8 million),
- impairment of undeveloped land (EUR 7.2 million) and write-downs of receivables (EUR 0.3 million).

Net financing costs principally comprise interest expense amounting to EUR 12.6 million and interest income of EUR 0.6 million.

The impairment of undeveloped land relates to a property in Frankfurt am Main (Unterliederbach) and is allocated to the services, financing and administration segment. This impairment was charged on account of the uncertain legal situation concerning the development of this undeveloped land (see also "Risks of future development").

In the second short fiscal year 2006, the segment result from revenue and expenses amounted to EUR –20.5 million (January 1 to June 30, 2006: EUR –24.6 million). The improvement in the segment result can be attributed to the fact that the impairment losses charged on the land in Frankfurt am Main (Unterliederbach) were more than offset by the revenue from the business combination with DB IF 14, as well as to lower administrative expenses and other operating expenses.

5. Net assets, financial position and results of operations

a) Consolidated net assets

Selected items from the asset side of the consolidated balance sheet:

Selected items from the asset side of the IFRS consolidated balance sheet in EUR million	July 1 to Dec 31, 2006	Jan 1 to June 30, 2006
Investment property	956.6	799.4
Noncurrent financial assets	0.2	23.8
Deferred tax assets	42.4	40.4
Current assets	136.1	136.5
– of which: cash and cash equivalents	33.5	54.4

Investment property includes all properties held as noncurrent assets, except those that are owner-occupied within Deutsche Wohnen Group.

In the second short fiscal year 2006, costs of EUR 3.7 million (January 1 to June 30, 2006: EUR 3.3 million) were capitalized for modernization and value enhancements, as well as for the initial installation of new fittings and fixtures or the upgrading of existing ones. All measures led to an increase in the future benefit expected from the asset and were capitalized as subsequent production costs.

In the period July 1 to December 31, 2006, impairment losses of EUR 7.7 million (January 1 to June 30: EUR 0.04 million) to the lower recoverable amount of the properties were recognized.

The fair value of investment property was determined on the basis of a comprehensive portfolio measurement.

Deferred tax assets amounted to EUR 42.4 million as of December 31, 2006. These consist of deferred taxes on utilizable loss carryforwards (EUR 18.3 million) and on temporary differences between the IFRS financial statements and the tax base (EUR 24.1 million).

The equity interest in DB IF 14, which was previously recognized under noncurrent financial assets, and the other loans to this fund, were eliminated in the course of the initial consolidation of DB IF 14.

The rental and loan guarantees issued to the fund that expire on December 31, 2019 were reported as derivatives until the initial consolidation of DB IF 14. They were measured on an item-by-item basis and accounted for at fair value. The differences arising from subsequent measurement were recorded in the income statement until the date of initial consolidation.

In addition to cash in hand and bank balances, current assets consist primarily of receivables from sales of EUR 47.2 million and unbilled operating costs of EUR 27.8 million.

Bank balances include rental deposits received from tenants amounting to EUR 0.3 million (June 30, 2006: EUR 0.4 million).

Bank balances of EUR 11.1 million were received as a result of the business combination with DB IF 14.

b) Group financial position

aa) Equity

Total equity of EUR 395.6 million is composed of subscribed capital of EUR 20.0 million, capital reserves of EUR 170.8 million, retained earnings of EUR 29.7 million and net retained profits of EUR 175.1 million.

Group equity fell by EUR 23.1 million compared with June 30, 2006 because amounts for dividend distributions to shareholders totaling EUR 52.6 million withdrawn from the net retained profits as of June 30, 2006 are higher than the consolidated profit for the second short fiscal year.

Following a capital increase from capital reserves, the company's registered share capital now amounts to EUR 20.0 million (June 30, 2006: EUR 10.2 million). The capital increase was resolved on August 10, 2006 by the

Annual General Meeting and implemented by the withdrawal of EUR 9.8 million from the capital reserves. The capital increase was implemented without the issue of new shares. Following a 1:5 share split and taking the capital increase from capital reserves into account, the share capital was redivided into 20,000,000 no-par value shares. All of the shares were in free float at the reporting date. The shares issued are fully paid up.

In accordance with a resolution by the Extraordinary General Meeting on March 23, 2006, new shares will only be issued as bearer shares in the future in compliance with the amendment to the Articles of Association. The company's shareholders were allowed to convert their registered shares into bearer shares upon written request and with the consent of the Management Board.

The bearer shares resulting from the share conversion have been listed on the stock exchange since July 3, 2006. Approximately 96% of the total of 20,000,000 shares outstanding are currently bearer shares and 4% are registered shares.

The creation of the capital reserves was resolved by the Extraordinary General Meeting in 1999. Capital reserves amounted to EUR 170.8 million as of the balance sheet date (June 30, 2006: EUR 207.1 million).

Retained earnings are broken down into three components: The legal reserve amounting to EUR 1.0 million, other retained earnings of EUR 28.8 million, which arose from initial measurement differences between HGB and IFRS, and the proportion of actuarial gains and losses from post-employment benefit obligations (EUR 0.1 million) taken directly to equity in the statement of recognized income and expense ("SORIE").

In accordance with a resolution by the General Meeting on December 7, 2006, EUR 17.6 million were distributed from Deutsche Wohnen AG's retained earnings as of June 30, 2006. The Management Board and Supervisory Board will propose to the General Meeting that a dividend totaling EUR 17.6 million also be distributed for the short fiscal year from July 1 to December 31, 2006. The amount of EUR 26.5 million required for the presentation of retained earnings of EUR 17.6 million in Deutsche Wohnen AG's single-entity financial statements was withdrawn from the capital reserves.

The General Meeting has authorized the Management Board, with the approval of the Supervisory Board, to increase the share capital on one or several occasions in the period up to August 9, 2011 by up to an aggregate EUR 10.0 million authorized capital through the issue of up to 10,000,000 new ordinary bearer shares against cash or non-cash contributions.

The Management Board is also authorized, with the consent of the Supervisory Board, in the period up to August 9, 2011 to issue bearer or registered bonds with warrants or convertible bonds as well as profit participation rights in the aggregate principal amount of up to EUR 500.0 million and a maximum term of 20 years, and to grant creditors or holders of the bonds subscription or conversion rights for up to 10,000,000 new shares of the company with a notional value of up to EUR 10.0 million subject to the conditions of the relevant bonds with warrants or convertible bonds or of the profit participation rights. The share capital can be contingently increased by up to EUR 10.0 million through the issue of up to a maximum of 10,000,000 new no-par value bearer shares carrying dividend rights from the start of the fiscal year in which they are issued (contingent capital). The capital increase serves to grant shares to creditors or holders of bonds with warrants or convertible bonds, as well as profit participation rights with conversion or subscription rights.

Additionally, in observance of the principle of equal treatment, the Management Board is authorized to acquire up to 2,000,000 shares of the company, representing 10% of the share capital, in the period up to February 9, 2008.

bb) Liabilities

Around 73.5% of the aggregate Group liabilities (total of EUR 744.0 million as of December 31, 2006) were due to banks, and are composed of the following items:

Group liabilities to banks in EUR million	Dec 31, 2006	June 30, 2006
Property financing loans	170.9	140.0
Long-term loans	250.8	250.8
Deferred income (interest-subsidized loans)	35.2	34.9
State building loans	16.0	16.3
Short-term loans and accrued interest	6.9	6.1
Liabilities to banks DB IF 14	68.0	0.0
Total liabilities to banks	547.7	448.2

Property financing loans relate to the financing of investment property. The long-term loans were placed with Landesbank Hessen-Thüringen in 1998. In relation to the termination of the control agreement with DB Real Estate Management GmbH, the loans from Hessische Landesbank were renegotiated as of July 1, 2006. In this connection, Naspa Dublin retransferred the portions of the registered bonds that had been assigned to it to Hessische Landesbank. At the same time, Nassauische Sparkasse, Wiesbaden, participated in the loans after their restructuring with a total share of EUR 15.0 million. The loans bear interest rates of between 5.37% and 5.79% p.a., fixed until May 6, 2009 and May 6, 2014 respectively.

The average rate of interest on all liabilities to external lenders, which amounted to EUR 609.1 million as of December 31, 2006, was 4.03% p.a. including DB IF 14, or EUR 499.2 million or 4.64% p.a. excluding DB IF 14, compared with 4.47% (excluding DB IF 14) as of June 30, 2006.

c) Results of operations of the Group

The consolidated profit before tax amounted to EUR 28.6 million in the short fiscal year from July 1 to December 31, 2006.

Selected items in the IFRS consolidated income statement in EUR million	July 1 to Dec 31, 2006	Jan 1 to June 30, 2006
Revenue from residential property management	59.9	46.6
Income from housing privatization	34.1	7.7
Other operating income	2.3	2.4
Employee expenses	–8.4	–9.0
Other operating expenses	–11.0	–9.8
Profit before tax	**28.6**	**2.6**
Income tax expense	0.7	–0.9
Profit after tax	**29.3**	**1.7**

Profit before tax was significantly affected by the income from the business combination with DB IF 14. Amounting to EUR 8.8 million, this income is attributable to the purchase price allocation, and reflects acquisition cost, the fair values of the assets and liabilities, and the deferred taxes item.

The income tax expense relates to taxes on income paid or owed. It also includes tax refunds and deferred taxes.

Income tax expense in EUR million	July 1 to Dec 31, 2006	Jan 1 to June 30, 2006
Current income tax expense for fiscal year 2006	2.8	0.7
Effects of tax assessments and adjustments to prior-period tax calculations	–0.1	–0.1
Change in deferred taxes	–3.4	0.3
Income (previous year: expense)	–0.7	0.9

For an explanation of the results of operations, please also refer to the description of the business activities of the segments in section 4.

d) Key Group figures

EBIT and EBITDA are the Group's key management and performance assessment indicators. These and other key Group figures are presented in the table below.

Key figures – Group (IFRS)		July 1 to Dec 31, 2006 or Dec 31, 2006	Jan 1 to June 30, 2006 or June 30, 2006
EBIT	(EUR m)[1]	31.9	14.3
EBITDA	(EUR m)[2]	46.6	21.4
Gross operating cash flow incl. housing privatization	(EUR m)[3]	81.6	20.2
Equity ratio[4]	%	34.7	41.6
Return on equity[5]	%	7.0	0.4
Asset cover ratio 1[6]	%	41.2	50.5
Asset cover ratio 2[7]	%	109.1	108.2
Liquidity ratio[8]	%	160.6	127.6
Interest cover ratio[9]		3.2	2.7

[1] Profit before tax plus interest expenses, less interest income and income from other securities, plus gains and losses on financial derivatives, plus write-downs on financial assets, less income from business combination.
[2] Profit before tax plus interest expenses, less interest income and income from other securities, plus gains and losses on financial derivatives, plus write-downs on financial assets, less income from business combination plus depreciation, amortization and impairment losses.
[3] Consolidated profit after tax plus depreciation, amortization and impairment losses, plus carrying amounts of assets disposed from housing privatization, less income from business combination.
[4] Group equity at the balance sheet date/total Group assets.
[5] Consolidated profit after tax/Group equity at beginning of fiscal year.
[6] Group equity/consolidated noncurrent assets (excl. deferred tax assets).
[7] Equity plus consolidated long-term debt, less deferred taxes/consolidated noncurrent assets.
[8] Current assets/current liabilities.
[9] Segment result from residential property management plus depreciation, amortization and impairment losses/interest income, less interest expenses.

e) Annual financial statements of Deutsche Wohnen AG

Deutsche Wohnen AG is characterized primarily by its functions as a financial and management holding company. Since the deconsolidation from Deutsche Bank Group, which was completed on June 30, 2006, the company's operations have continued to be limited to its holding activities for the companies in the Group.

Deutsche Wohnen AG's results of operations are characterized primarily by the interest expense of EUR 7.1 million (January 1 to June 30, 2006: EUR 6.6 million). This results from the financing of direct and indirect subsidiaries on the basis of short-term, low-interest loans.

Deutsche Wohnen AG's fixed assets amounted to EUR 286.3 million on December 31, 2006 and fully comprised shares in affiliated companies. These were reported under "Financial assets". Receivables from affiliated companies mainly consist of loan receivables from subsidiaries within the Deutsche Wohnen Group amounting to EUR 177.5 million (June 30, 2006: EUR 226.6 million). As in the previous year, other assets mainly comprised tax refund claims.

Following a capital increase from capital reserves, the registered share capital now amounts to EUR 20 million (June 30, 2006: EUR 10.2 million). The capital increase was resolved by the Annual General Meeting on August 10, 2006 and implemented by the withdrawal of EUR 9.8 million from the capital reserves. The capital increase was implemented without the issue of new shares. As the holdings of institutional shareholders in excess of 5% (three shareholders hold between 5% and 7% each) qualify as investments by investment companies and funds in accordance with the definition established by Deutsche Börse AG, the free float amounts to 100%.

Deutsche Wohnen AG's total equity amounted to EUR 208.8 million at the balance sheet date December 31, 2006. This represents a decrease of EUR 61.5 million as compared with June 30, 2006 (EUR 270.3 million) that is attributable to the dividend payments made to shareholders on August 10 and December 7, 2006 and to the net loss for the short fiscal year from July 1 to December 31, 2006.

The net loss for the year incurred by Deutsche Wohnen AG is more than compensated by a withdrawal from the capital reserves.

The Management Board and the Supervisory Board will propose to the General Meeting that a dividend totaling EUR 17.6 million be distributed for the short fiscal year from July 1 to December 31, 2006.

Deutsche Wohnen AG's total liabilities amounted to EUR 255.9 million on December 31, 2006 (June 30, 2006: EUR 255.0 million). 62.4% of these are long-term liabilities (> 5 years), 35.6% are medium-term liabilities (1–5 years) and 2.0% are short-term liabilities (< 1 year).

Deutsche Wohnen AG's gearing (ratio of debt to total debt and equity) following the consolidation of DB IF 14 was 55% at the reporting date (June 30, 2006: 49% excluding DB IF 14).

For the liabilities to banks, the subsidiaries provided collateral by way of real estate liens in the amount of EUR 140 million for the first time to cover liabilities of Deutsche Wohnen AG.

Other liabilities again consist primarily of an outstanding liability to Hoechst AG, Frankfurt am Main (EUR 3.6 million). Tax liabilities amounting to EUR 0.1 million (June 30, 2006: EUR 0.1 million) were also recognized.

6. Personnel

As a holding company, Deutsche Wohnen AG does not have any employees of its own apart from the Management Board. At the Group companies, MT Wohnen GmbH and Rhein-Pfalz Wohnen GmbH had a total of 271 employees at the end of 2006 (June 30, 2006: 261 employees) plus 14 trainees (June 30, 2006: 11). The Residential Property Management business area has 148 employees and the Housing Privatization business area 36 employees. The remaining staff are employed by other business areas.

The performance-related components of the salaries of the Management Board and senior employees are measured on the basis of EBDIT as well as other factors. These incentive payments represent a substantial motivating factor and will be further increased in the course of the ongoing development of a standardized cross-Group salary system. Details of the Management Board's remuneration are set out in the Management Board's contracts. The fixed remuneration paid to the Supervisory Board is laid down by a resolution of the General Meeting. The Management Board contracts, which were standardized as of January 1, 2007, include a change of control clause. This means that, if a single entity holds at least 30% of shares and this has a material effect on the position of a member of the Management Board, the content of his work, his powers and functions as they stand when control was acquired and/or the focus of the company as pursued by the Management Board prior to the acquisition of control, each individual member of the Management Board and Deutsche Wohnen AG has the right to terminate the employment contract with immediate effect within a period of six months of the triggering events.

If this termination right is exercised, the Management Board member involved is entitled to a severance payment in the amount of his fixed salary up until December 31, 2009. The Management Board member is also entitled to unsettled and unpaid variable remuneration components up until December 31, 2009.

7. Risk management

Deutsche Wohnen Group has implemented a central risk management system that ensures that all material risks affecting the Group are identified, measured, managed and monitored. The sophisticated reporting structure of relevant financial indicators with regard to the areas of risk identified by the company and the close integration of staff hierarchy levels through a system of intensive communication are key components of this system. This ensures that the decision-makers are constantly aware of all relevant developments in the company and that appropriate countermeasures are initiated early on to mitigate risks that could potentially jeopardize the company as a going concern. Early identification of risks is an integral component of this system. The Management Board believes that there are no risks that could jeopardize the Group as a going concern.

a) Financial risk

The liquidity of the Group and of the individual companies is permanently monitored by the financial management system. The early warning system deploys a tool to link the cash flows from management and privatization, which are assured over the course of the year and on a multi-year basis, to threshold values a risk-adjusted estimated basic liquidity level.

A fundamental change in the tax environment may lead to financial risk. External tax consultants provide ongoing support and advice to the management of Deutsche Wohnen AG in tax matters, and at the same time keep them permanently up to date with changes in tax law. This means that any necessary measures can be put into effect in good time.

Deutsche Wohnen Group substantially mitigates the risk of rising market interest rates by ensuring that long-term and forward loans with long-term interest rates predominate.

There are no financial risks for the Group from a liquidity perspective because of the credit balances at banks of around EUR 33.5 million at the end of fiscal year 2006. The liquidity ratio (current assets/current liabilities) is 160.6%.

b) Other business and market risks

As part of the process of risk management, financial control ensures the continuous comparison of intra-period business with the risk-adjusted business plan. In addition, changes in current parameters, such as operating, tax and/or financial parameters, are analyzed as part of a rolling five-year business plan. This enables negative developments to be identified at an early stage so that appropriate countermeasures can be initiated. The main variables for the company's business policy relate to the investment and privatization program.

Business plans and variance analysis are components of the issue-driven communication with the Supervisory Board. A particular focus of Supervisory Board meetings is the rental and market analyses used to determine the optimum time corridors for privatization and the refinancing periods for investments in the area of portfolio modernization.

Market risks are posed by possible changes in general economic conditions which may have a negative effect on rental income and the market environment as a result of higher vacancy rates and lower revenue from property sales. Working together, the residential property management and housing privatization business areas continued to successfully focus on achieving the right economic balance between vacancy rates and rent levels in 2006.

Contractually agreed residential rents represent a stable cash flow for the Group; there are currently no price risks that are abnormal for the sector in terms of section 289(2) of the HGB. In housing privatization activities, legal transfer of title occurs only after the purchase price has been paid, so there are currently no default risks expected in this area.

External advisors and appraisers are normally consulted in preparation for major investment decisions, for example prior to portfolio acquisitions, and to determine the market value of the Group's own residential stock. In addition, the Supervisory Board satisfies itself that the Group's own control and risk management systems are effective. Continuous cooperation between the Management Board and the Supervisory Board ensured a constant exchange of information in 2006 as well, to the benefit of the company.

Risk information from the risk management system is prepared monthly, quarterly and yearly, depending on the issues involved and their immediacy. Issue-driven reports are circulated to a predefined group of recipients within Deutsche Wohnen Group and to the Supervisory Board. The internal risk management manual is updated once a year.

8. Significant events occurring after the balance sheet date

Deutsche Wohnen Group expanded its residential property portfolio on January 15, 2007 by purchasing 426 residential units and 12 commercial units. The seller of the properties is LVM Versicherungen. The residential property portfolio, which was offered exclusively to Deutsche Wohnen Group for purchase, is divided into highly attractive, inner-city micro locations in Münster/Westphalia (252 units), as well as in Dresden, Leipzig and Erfurt (186 units). Transfer of ownership will be effected on April 1, 2007.

The purchased residential space totals 30,015 m^2 (average residential space: 71 m^2). The estimated rent is EUR 6.70 per m^2; the vacancy rate is 3.5%. Most of the apartments were built or their cores were completely renovated in the 1990s.

The property portfolio acquired has potential for rent increases and privatization, which Deutsche Wohnen Group will successively leverage in the coming years.

9. Opportunities and risks of future development

a) Risks of future development

Annual impairment tests carried out at the level of individual companies at their respective balance sheet dates are used to assess potential risks to Deutsche Wohnen Group resulting from the carrying amounts of shareholdings in affiliated companies in Deutsche Wohnen AG's single-entity financial statements. There was no evidence of any such risk at December 31, 2006, nor is any risk evident for the fiscal years 2007 and 2008.

The largest single item of undeveloped development property is a site in Frankfurt am Main (Unterliederbach), which is classified as building land. The land is part of a total area of around 67 hectares with additional third-party owners. Because of its proximity to the Höchst industrial estate, the European Union "Seveso II Directive" and the *Gesetz zum Schutz vor schädlichen Umwelteinwirkungen durch Luftverunreinigungen, Geräusche, Erschütterungen und ähnliche Vorgänge* (BImSchG – German Immissions Control Act) are relevant for planning purposes. The federal government issued recommendations on distances to be kept from possible sources of hazardous incidents in October 2005. The City of Frankfurt in cooperation with the Regierungspräsidium (regional government office) in Darmstadt is seeking solutions that are suited to complying with the concept of taking precautions against hazardous incidents both legally and constructively. To assist the reliability of planning, the land was reappraised on the basis of the existing development plan in connection with an outline building application approved by the City of Frankfurt. Lower utilization of the site in conformity with currently applicable standard land values led to a write-down of approximately EUR 7.0 million on the land value to approximately EUR 13.0 million and its recognition in profit or loss.

In early December 2005, the Group company Main-Taunus Wohnen GmbH & Co. KG sold a small development property to the southwest of Cologne. The purchase agreement is subject to the condition precedent that the local development plan currently being prepared will be legally effective by the end of July 2008. The contractually agreed purchase price was recognized as income in the annual financial statements of Main-Taunus Wohnen GmbH & Co. KG. If the condition is not satisfied, the purchase price receivable would have to be written off in 2008 after deducting the realized book gain. In both of the aforementioned cases, we will review our carrying amounts at the end of 2007 in light of the planning environment.

The limited partners of DB IF 14 are entitled to tender their units to Rhein-Pfalz Wohnen GmbH up to 2019. In this context, it is impossible to forecast beyond reasonable doubt how the volume of the tenders will develop from 2007 onwards. However, the relative illiquidity of the shares in the closed-end real estate investment fund and possible changes in the tax environment lead us to expect a further increase in the tender rate in 2007 and subsequent fiscal years.

As things stand today, no further risks that could materially affect the net assets, financial position and results of operations of Deutsche Wohnen Group have been identified within a forecast period of two years.

b) Opportunities of future development

Following its successful deconsolidation from Deutsche Bank Group, Deutsche Wohnen AG is in a position to substantially expand its existing residential portfolio through further purchases. In doing so, the company can exploit in particular its capital market positioning, its exceptional reputation in the residential property market and its management expertise. The company will borrow an additional amount of up to EUR 300.0 million to finance the acquisitions. As a result, the ratio of debt to the fair value of our residential stocks will increase from around 45% at present to between 60% and 70% at most.

Portfolio additions could positively affect the Group's Net Asset Value and its share price (December 31, 2006: EUR 725.9 million or EUR 36.29 per share).

c) Development of results of operations

Other things being equal, EBIT of approximately EUR 44.0 million and consolidated profit after tax of around EUR 15.0 million are anticipated for the end of 2007. Based on further purchases planned for the portfolio, the Management Board predicts additional rental and sales income that will have a positive effect on earnings in fiscal year 2007.

d) Future dividend payments

Our dividend policy will always be based on the tax environment, the size of the contribution account for tax purposes, the results of operations and our efforts to strengthen our internal funding. According to our liquidity plans, we will continue to be able to pay attractive dividends.

Frankfurt am Main, February 9, 2007

Deutsche Wohnen AG

Andreas Lehner
– Chairman of the
Management Board –

Michael Neubürger
– Member of the
Management Board –

AUDIT OPINION

We have issued the following opinion on the consolidated financial statements and the group management report which has been combined with the management report of the company:

"We have audited the consolidated financial statements prepared by Deutsche Wohnen AG, Frankfurt am Main, Germany, comprising the consolidated income statement, the consolidated balance sheet, the consolidated cash flow statement, the statement of changes in consolidated equity, the notes to the consolidated financial statements, and the group management report which has been combined with the management report of the company for the short fiscal year from July 1 to December 31, 2006. The preparation of the consolidated financial statements and the group management report in accordance with IFRS as adopted by the EU, and the additional requirements of German commercial law pursuant to Sec. 315a (1) HGB are the responsibility of the 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 Sec. 317 HGB and the generally accepted standards for the audit of financial statements promulgated by the *Institut der Wirtschaftsprüfer* [Institut of Public Auditors in Germany] (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 [German] principles of proper accounting and in the group management report which has been combined with the management report of the company 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 which has been combined with the management report of the company 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 management, as well as evaluating the overall presentation of the consolidated financial statements and the group management report which has been combined with the management report of the company. 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 IFRS as adopted by the EU, the additional requirements of German commercial law pursuant to Sec. 315a (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 which has been combined with the management report of the company 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 relating to future development."

Eschborn/Frankfurt am Main, Germany, February 9, 2007

Ernst & Young AG
Wirtschaftsprüfungsgesellschaft
Steuerberatungsgesellschaft

(Völker)	(Enzenhofer)
Wirtschaftsprüfer	Wirtschaftsprüfer
(German Public Auditor)	(German Public Auditor)

Dear Shareholders,

The Supervisory Board discussed the development of Deutsche Wohnen Group's business and companies together with the Management Board at four meetings in the short fiscal year from July 1 to December 31, 2006. A particular focus was on Deutsche Wohnen's strategy with respect to the continued development of its residential housing stock.

The Supervisory Board resolved the transactions and measures submitted to it for examination and approval in accordance with the law and the Articles of Association.

Ernst & Young AG Wirtschaftsprüfungsgesellschaft Steuerberatungsgesellschaft audited the annual financial statements, the consolidated financial statements and the combined management report of Deutsche Wohnen AG and Deutsche Wohnen Group for the short fiscal year from July 1 to December 31, 2006 submitted by the Management Board, and granted them an unqualified audit opinion.

The Supervisory Board examined the audit reports prepared by Ernst & Young AG Wirtschaftsprüfungsgesellschaft Steuerberatungsgesellschaft and endorsed the auditors' findings.

The Supervisory Board approved the annual financial statements prepared by the Management Board on March 20, 2007. The annual financial statements are therefore adopted.

The Supervisory Board also examined and approved the consolidated financial statements on March 20, 2007. In addition, the Supervisory Board endorsed the Management Board's proposal on the appropriation of the net retained profits. Ernst & Young AG Wirtschaftsprüfungsgesellschaft Steuerberatungsgesellschaft reported on the key findings of its audit to the Supervisory Board and the Management Board.

The Management Board and the Supervisory Board complied with the requirements of the German Corporate Governance Code. The current version of the joint declaration of conformity required under section 161 of the *Aktiengesetz* (German Stock Corporation Act) is permanently available for inspection at http://www.deutsche-wohnen.de

The Supervisory Board would like to thank the Management Board for its constructive cooperation and its achievements in the short fiscal year from July 1 to December 31, 2006.

Equally, the Supervisory Board would like to thank the company's employees for their hard work.

Eschborn, March 20, 2007

On behalf of the Supervisory Board

Helmut Ullrich
– Chairman –

MANAGEMENT BOARD

(as of March 2007)

Andreas Lehner
– Chairman –
Bochum

Michael Neubürger
Bad Homburg

SUPERVISORY BOARD

(as of March 2007)

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– Chairman –
Königstein
Managing Director
DB Real Estate Management GmbH, Eschborn
DB Real Estate Investment GmbH, Eschborn

Dr. Andreas Kretschmer
– Deputy Chairman –
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CALENDAR

May 29, 2007
Publication of the Interim Report as of March 31, 2007

May 30, 2007
Kempen Conference in Amsterdam

May 31, 2007
HVB Conference in Stockholm

June 20, 2007
Deutsche Bank German Corporate Conference in Frankfurt

June 21, 2007
Annual General Meeting 2007 in Frankfurt

June 22, 2007
Dividend payment for the short fiscal year
July 1 to December 31, 2006

August 28, 2007
Publication of the Half-Year Report 2007

September 12/13, 2007
UBS Conference in New York

September 25/27, 2007
HVB Conference in Munich

October 8/10, 2007
EXPO REAL in Munich

October 25/26, 2007
7th “Real Estate Share Initiative” Conference in Frankfurt

November 14/15, 2007
WestLB Conference in Frankfurt

November 27, 2007
Publication of the Interim Report as of September 30, 2007

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