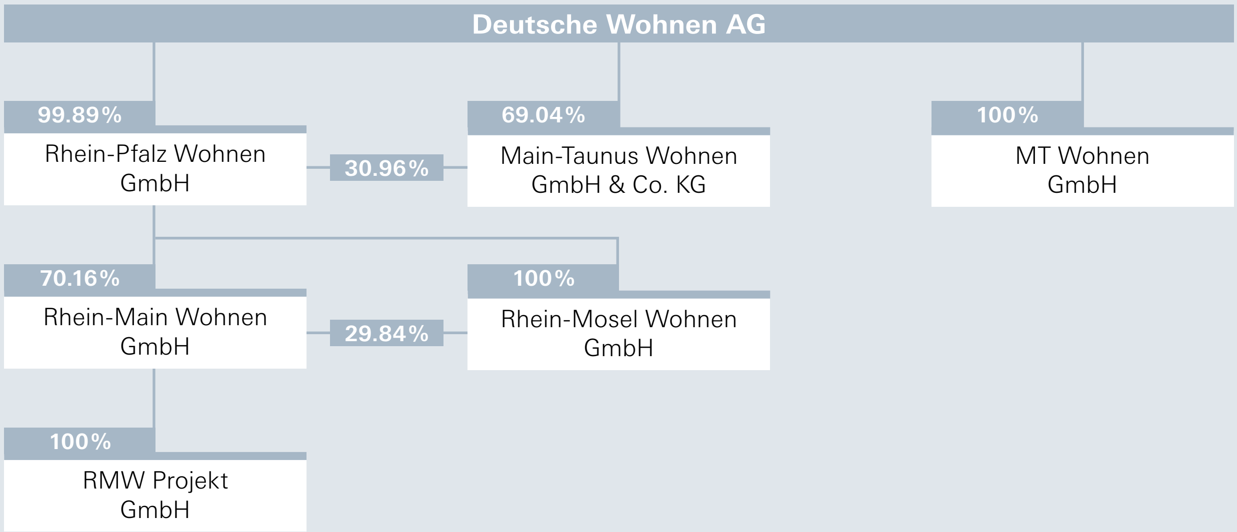
2005 ANNUAL REPORT

Deutsche Wohnen AG



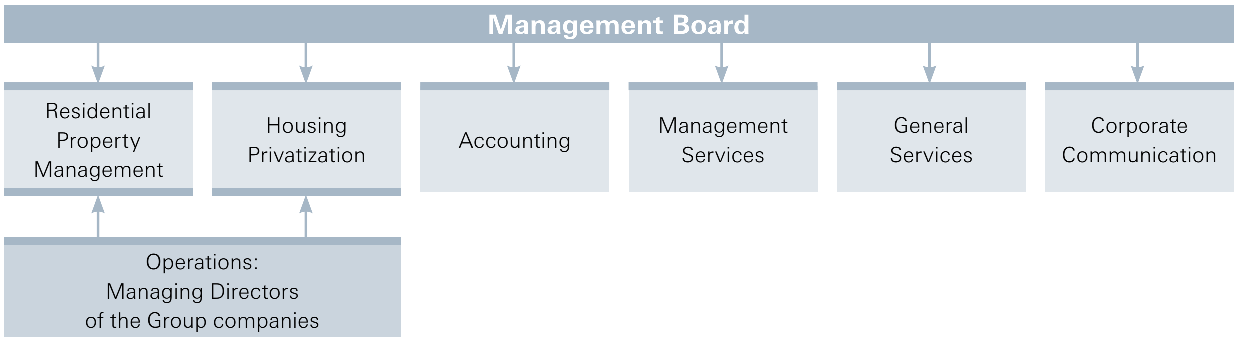
As of April 2006

GROUP

The Deutsche Wohnen Group was formed in 1998/99 when the residential stocks of the former Hoechst AG and the Heimstätte Rheinland-Pfalz Group were acquired by DB Real Estate Management GmbH, a wholly owned subsidiary of Deutsche Bank AG. In H2/1999 four million no-par value registered shares of Deutsche Wohnen AG were sold to private and institutional customers of Deutsche Bank AG by way of a private placement by DB Real Estate Management GmbH. The initial public offering of Deutsche Wohnen shares took place in November 1999, with the shares being admitted to official trading on the Bourse de Luxembourg and OTC trading in Düsseldorf and Berlin/Bremen. Today the Company's shares are also traded OTC on the Frankfurt am Main and Stuttgart stock exchanges, as well as in XETRA.

In addition to Deutsche Wohnen AG, the Group is currently composed of six companies with 279 employees. Deutsche Wohnen AG itself acts as a financial and management holding company.

Responsibilities



Key Figures – Deutsche Wohnen Shares		2005	2004	2003	2002	2001
Share price at year-end	EUR	195.30	139.52	136.20	144.00	148.00
Market capitalization	EUR m.	781	558	545	576	592
Free float		100%	100%	100%	100%	100%

Net asset value		2005	2004	2003	2002	2001
Fair value (core group portfolio)	EUR m.	1,180.28*	1,226.41*	–	–	
Fair value per m^2	EUR	860.51*	855.78*	–	–	
Net asset value – group	EUR m.	757.3	787.51	919.98	911.63	
Net asset value per share	EUR	189.32	196.88	230.00	227.91	
Gross operating cash flow**	EUR m.	78.2	81.6	81.0	80.3	

Dividend		2005	2004	2003	2002	2001
Dividend	EUR m.	35.0	35.0	35.0	40.0	40.0
Dividend per share	EUR	8.75***	8.75	8.75	10.00	10.00
Dividend yield****		4.48%	6.27%	6.42%	6.94%	6.76%

* Calculated in accordance with International Financial Reporting Standards (IAS 40).
** Net profit for the year + depreciation, amortization and write-downs + disposals at book value.
*** Subject to approval by the 2006 Ordinary General Meeting.
**** At year-end.

I. Key figures – Group (IFRS)		Jan 1 to Dec 31, 2005	Jan 1 to Dec 31, 2004
Segment result – Residential Property Management	EUR m.	41.4	44.3
Segment result – Housing Privatization	EUR m.	29.9	31.5
Profit before tax	EUR m.	17.0	24.7
Net profit for the year	EUR m.	16.0	16.8
EBIT	EUR m.	39.4	53.1
EBITDA	EUR m.	56.8	70.8
Noncurrent assets	EUR m.	887.6	931.9
Current assets	EUR m.	125.9	154.0
Equity	EUR m.	416.9	436.1
Liabilities incl. provisions	EUR m.	596.7	649.8
– thereof to banks	EUR m.	462.1	498.6
Total assets	EUR m.	1,013.5	1,085.9
Return on equity		3.66%	3.69%
Equity ratio		41.13%	40.16 %
Asset cover ratio I		49.34%	49.04%
Asset cover ratio II		107.33%	110.32%
Liquidity ratio		120.43%	150.02%
Interest cover ratio		2.43	2.24

II. Key figures – Group (HGB)		Jan 1 to Dec 31, 2005	Jan 1 to Dec 31, 2004
Segment result – Residential Property Management	EUR m.	40.2	42.8
Segment result – Housing Privatization	EUR m.	29.2	31.5
Result from ordinary activities	EUR m.	23.9	21.3
Net income for the year	EUR m.	22.2	13.1
EBIT	EUR m.	47.6	47.2
EBITDA	EUR m.	64.8	64.9
Fixed assets	EUR m.	866.5	897.8
Current assets	EUR m.	116.2	146.2
Equity	EUR m.	392.9	405.8
Liabilities incl. provisions	EUR m.	590.0	638.3
– thereof to banks	EUR m.	462.1	498.6
Total assets	EUR m.	982.8	1,044.1
Return on equity		5.46%	3.06%
Equity ratio		39.97%	38.93%
Asset cover ratio I		45.34%	45.19%
Asset cover ratio II		102.18%	105.66%
Liquidity ratio		118.61%	154.25%
Interest cover ratio		2.56	2.34

SUMMARY

| Based on the market value of our real estate and our market capitalization, we are the largest listed German residential property stock corporation.

| The focus of our current real estate portfolio is on south-western regions of Germany, which feature above-average stability in real estate values.

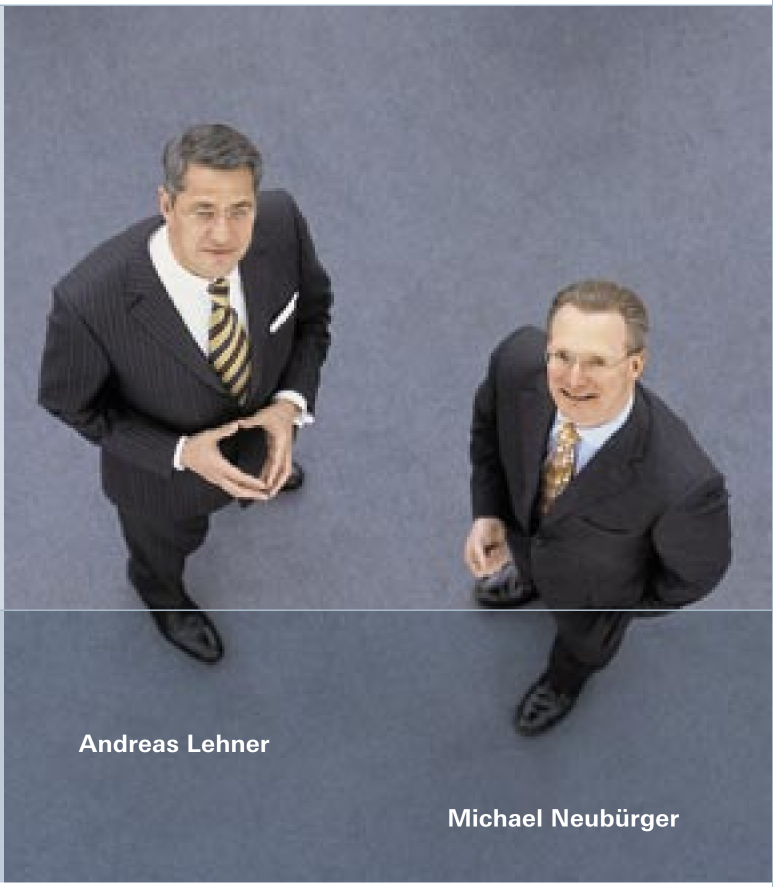
| Our core competencies are portfolio management, residential property management and housing privatization.

| 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.

CONTENTS

INTERVIEW WITH THE MANAGEMENT BOARD



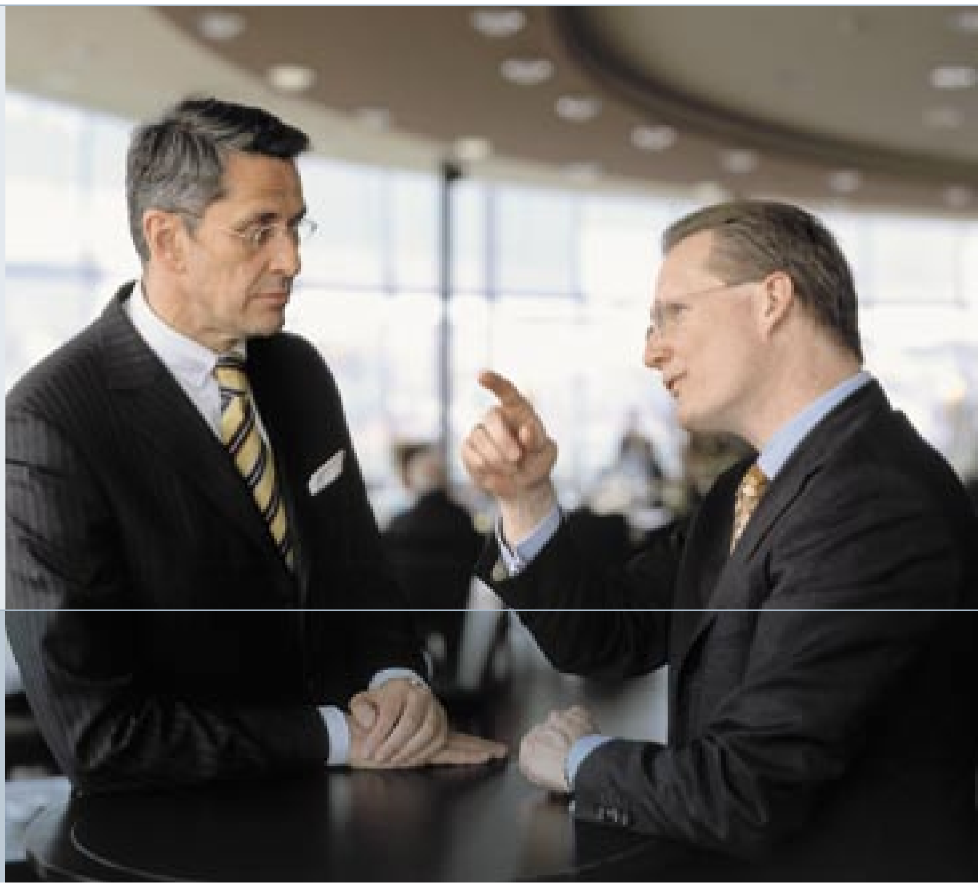
Andreas Lehner

Michael Neubürger

Mr. Lehner, Mr. Neubürger: You describe Deutsche Wohnen as a platform for further growth. Does the current market position support this view?

Deutsche Wohnen is the largest listed German residential property stock corporation, based on the market value of its real estate and its market capitalization. The Company has been extremely successful in recent years due to its systematic focus on value in the areas of portfolio management, residential property management and housing privatization. The dividend yield of 4.5% p.a. after taxes (based on the issue price) guaranteed in the offering prospectus has been significantly exceeded to date. Its total return, i.e. the aggregate of dividends and share price gains, has been an average of around 18% p.a. since the initial public offering, on the basis of the current share price.

All in all, Deutsche Wohnen is ideally positioned to achieve further growth. Its established management team has expert knowledge of the residential property business and an excellent market reputation. And not least the Company's above-average equity ratio of around 41% shows its potential for growth financing.



You have mentioned deconsolidation from the Deutsche Bank group as a precondition for growth: What does that mean in practice?

It’s right to say that deconsolidation from the Deutsche Bank group is a precondition for a growth-driven strategic realignment for Deutsche Wohnen. This requires the termination of the control agreement that was concluded with Deutsche Bank Real Estate Management GmbH in 1998. In this context, it must be remembered that this control agreement was part of the purchase agreement concluded at the time with both the state of Rhineland-Palatinate and the former Höchst Group. The control agreement was designed to ensure the sensitive handling of “living in residential property” as a product. Today, both the state of Rhineland-Palatinate and the Höchst Group regard the sale of their residential stocks as a success and for their part have already made a declaration waiving any requirement for control.

If Deutsche Bank loses its direct influence over Deutsche Wohnen due to the termination of the control agreement, it does not want to continue to act as guarantor for the existing right of tender, which is understandable. The right of tender is contractually agreed between DB Real Estate Management GmbH and the shareholders of Deutsche Wohnen with effect to the end of 2009.

The process of terminating the control agreement and waiving the right of tender was successfully initiated at an Extraordinary General Meeting at the end of March this year. We anticipate that deconsolidation from the Deutsche Bank group will be completed in mid-2006.

What advantages does the deconsolidation have for the shareholders of Deutsche Wohnen?

The current share price is higher than the Company's net asset value per share of around 190. This shows that the market has already priced in positive expectations of the future performance of Deutsche Wohnen. By contrast, without a growth-driven strategic realignment, Deutsche Wohnen's net asset value would fall to approximately EUR 160 per share by 2009, assuming a continuation of the Company's current dividend policy.

The tender price for 2009, calculated in accordance with the terms of the right of tender, would be approximately EUR 110 – EUR 115 per share (depending on the amount of future dividends). This means an unprotected downside risk for shareholders amounting to approximately EUR 50 (or 30%) compared with the current net asset value. The protection offered by the right of tender only kicks in if the share price falls below this tender price.

Given the capital structure of our Company, this is not expected to happen and we would therefore like to emphasize that with the share price at its current level there is no benefit to any shareholder from continuing to keep in place the control agreement and the right of tender. On the other hand, further growth offers the possibility of a steady increase in net asset value.

Do you see further opportunities for Deutsche Wohnen against the background of the company and portfolio disposals that have already been made?

The German residential property market continues to offer good opportunities for Deutsche Wohnen. Market studies conducted by leading institutes agree that around a further 1 million residential units will change hands in the coming years. In particular, the sell side will be dominated by economic pressure on local authorities and the incompatibility of the residential property market with the overall strategy pursued in particular by companies with an industrial focus.

In addition to residential property management, housing privatization is a source of earnings for Deutsche Wohnen. Additional growth potential is clearly identifiable on the housing privatization market. Politicians have been able to convince broad sections of the population that retirement provision cannot automatically be guaranteed without a personal contribution. In addition to investment products, buying second-hand accommodation is a way of compensating for this.

The opportunities offered by the German residential property market are within Deutsche Wohnen's reach due to its expert knowledge of the residential property business and its excellent market reputation.

Is it possible at this stage to quantify the growth potential for Deutsche Wohnen?

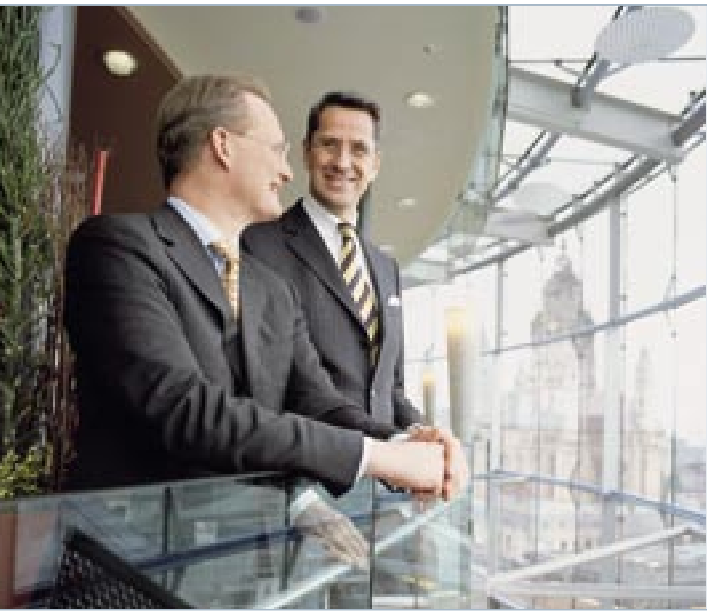
Free from barriers to growth, the market for portfolio acquisitions of between 1,000 and 5,000 residential units offers comparatively good transaction potential for Deutsche Wohnen. This market is composed both of sales by smaller local authorities, insurance companies and a large number of industrial companies, and of secondary transactions, which are increasingly being implemented in the wake of the mega transactions. Purchases of this size can practically be dealt with "on the fly" by the existing management. The acquisition of a portfolio of 1,000 residential units in North Hesse in 2004 and of a further 200 residential units in December 2005 show Deutsche Wohnen's ability to finance and complete transactions.

The number of major transactions of 5,000 residential units or more is relatively small. However, this size of transaction also offers Deutsche Wohnen significant opportunities, such as the mergers based on non-cash capital increases that have not been practiced to date in the residential property market, but that have been successfully implemented in other sectors. As a result of its position in the residential property market and in the capital market, Deutsche Wohnen is the right partner for implementing value strategies as it can assume business and financial responsibility. Today's owners would profit from an increase in value and could leverage Deutsche Wohnen's capital market presence to add to or dispose of their shareholdings.

The important thing in all cases is that the decisive factor is not the size of a portfolio acquisition, but its positive effect on the net asset value and therefore on the share price. We will devote all our energies to meeting the capital market expectations of a doubling of its market capitalization.

The debate about the introduction of REITs has calmed down noticeably after a euphoric phase at the start of 2005: What effect will the introduction of REITs have on Deutsche Wohnen?

Because of its dividend structure, Deutsche Wohnen will continue to be established as a capital market platform for the time being in the event that the German Real Estate Investment Trust (G-REIT) turns out not to be a successful model in the capital markets, or if there are further delays in introducing it. It is clear from the current discussions on G-REITs that there are still unresolved tax issues. This suggests that a successful launch is not imminent, unless the Federal Government were to adopt the British model, for example, which aims to ensure that foreign shareholders are subject to domestic taxation by prohibiting



any one shareholder from holding more than 10% of the shares.

As noted during our last interview in 2005, if the launch goes ahead, it remains to be seen whether we will be able to recommend the G-REIT structure to our shareholders for future tax optimization at Deutsche Wohnen or individual Group companies.

Could you give us an insight into the privatization business: What steps did Deutsche Wohnen take to prepare for the abolition of the owner-occupier allowance?

Initially, abolition of the owner-occupier allowance at the end of 2005 presented us with an increase in the privatization business in the last quarter of 2005. This also included pull-forward effects, of course.

Despite this, Deutsche Wohnen is not expecting a fall in sales volume for the current year. Second-hand accommodation can be reasonably well assessed as a product in terms of its costs and income. Sales of second-hand accommodation in Germany already match those of new accommodation today. A few years ago, barely anyone believed that this would be possible due to Germany's regulated market for rented property. This shows that a sensible supply actually creates demand.

In addition, economic activity in Germany made substantial progress during 2005 as a result of an improvement in cyclical factors. Overall, the prospects for a continuing recovery in the economy as a whole have strengthened further. The expectation that interest rates will rise gradually is creating additional reasons to buy, both for owner-occupiers and also for investors.

In the past, around one-half of our buyers were subsidized by the owner-occupier allowance. For this group of customers, the owner-occupier allowance was also an incentive to buy and represented part of their own capital. Deutsche Wohnen has launched its own subsidized scheme in order to create further incentives to buy.

… a "Deutsche Wohnen owner-occupier allowance"?

So to speak. The owner-occupier allowance has been abolished, true, but the coalition agreement between the major political parties provides for the state-sponsored Riester measures for subsidized retirement provision to be extended to include residential property in 2007. To close the one-year gap, Deutsche Wohnen is introducing a subsidy, similar to the owner-occupier allowance, for owner-occupied condominiums and one- and two-family houses.

For all buyers who can show that they meet the requirements to qualify for the former owner-occupier allowance, Deutsche Wohnen will agree as part of the purchase contract to a contingent reduction in the purchase price amounting to 1% per annum for 8 years, i.e. 8% in total. However, the condition is that the property is not sold on during this period.

How will this subsidy be financed: Will it not entail substantial costs?

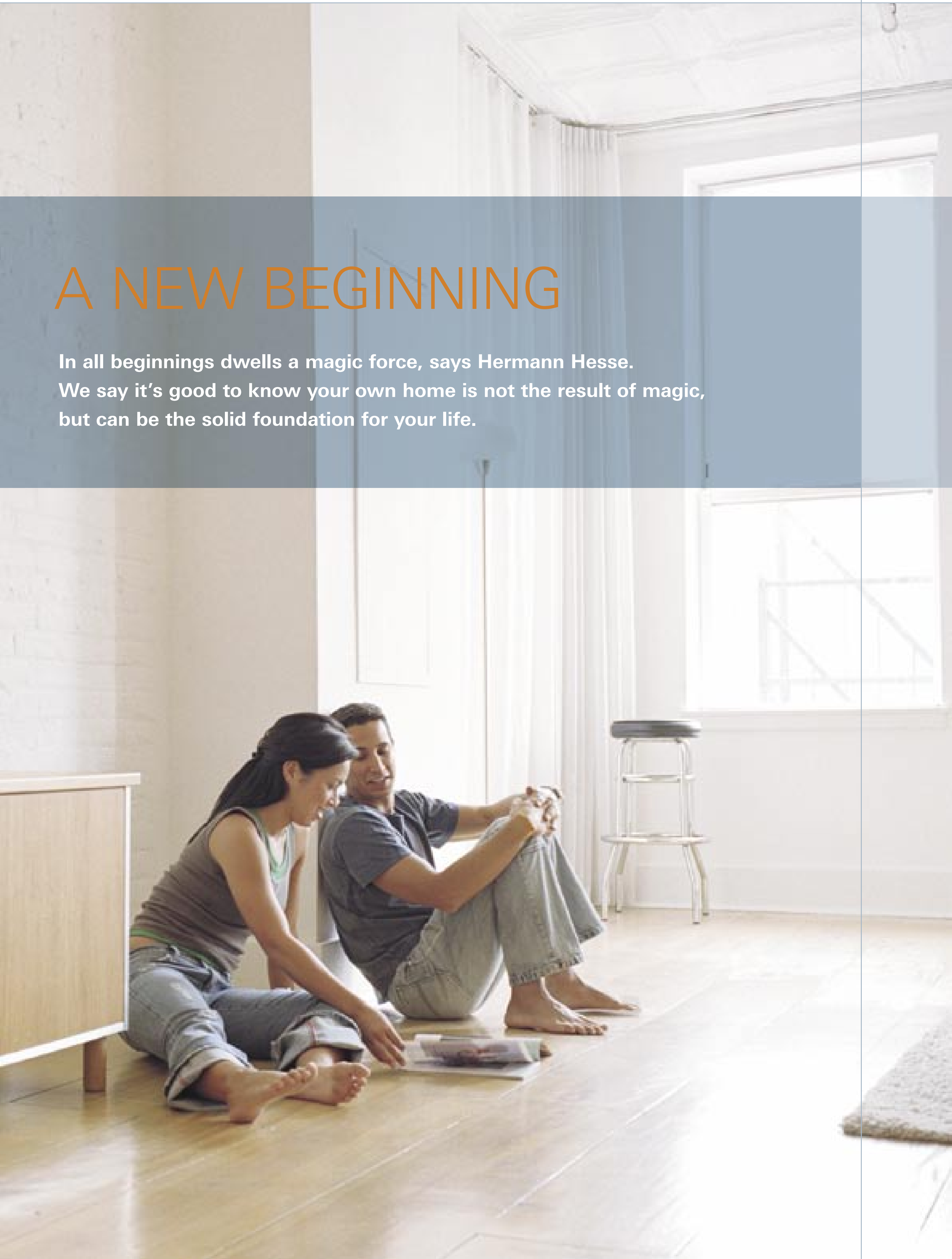
Deutsche Wohnen has adjusted its sales prices on a case-by-case basis in the past as well. This has included price reductions and price increases. Against the background of the improvement in the economic environment described above and the resulting level of demand, there will be no price reductions this year. At the same time, our "subsidy" will not only create an incentive to buy but will also represent part of the capital required for some of our buyers who, without this subsidy, would not be in a position to finance the purchase of their property without further help. In this way we are also doing justice to the requirement to conduct our housing privatization activities in a socially responsible manner. The subsidy will be financed largely through cross-selling opportunities.

Returning to the rest of the business: What were the reasons for the significant increase in the results, especially in the past two fiscal years?

As well as continuing to concentrate on our core competencies of portfolio management, residential property management and housing privatization, we have also focused on administrative expenses, net financing costs and income taxes.

Our management team is now much leaner and more effective. We have been able to take advantage of the current environment of low interest rates to refinance individual properties and groups of properties previously financed on a case-by-case basis. We are now actually leveraging the additional financing resources available in principle because of our high level of equity backing. Last but not least, we have achieved a significant reduction in our income tax expense as a result of merging two Group companies whose profitability and utilizable tax loss carryforwards were complementary. Deutsche Wohnen made savings in the areas mentioned in fiscal 2005 of around EUR 16 million compared with 2003 and still an impressive EUR 12 million compared with 2004.

Mr. Lehner, Mr. Neubürger, I would like to wish you every success in the further implementation of your corporate strategy. Thank you for the interview.


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 The Group strategy includes all measures aimed at structurally and financially optimizing and expanding our residential property portfolio and strengthening our portfolio management, residential property management and housing privatization operations.

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 real estate market and more specifically on the portfolios in which it holds financial interests or plays a management role. This focus is Deutsche Wohnen's unique selling proposition and ensures that it is well-equipped for future rental and privatization activities.

Concentration

The 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 acquisition of residential portfolios with development potential generates increases in net asset value. 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 small, regionally operating investors results in the realization of hidden reserves and in distributable cash flows.

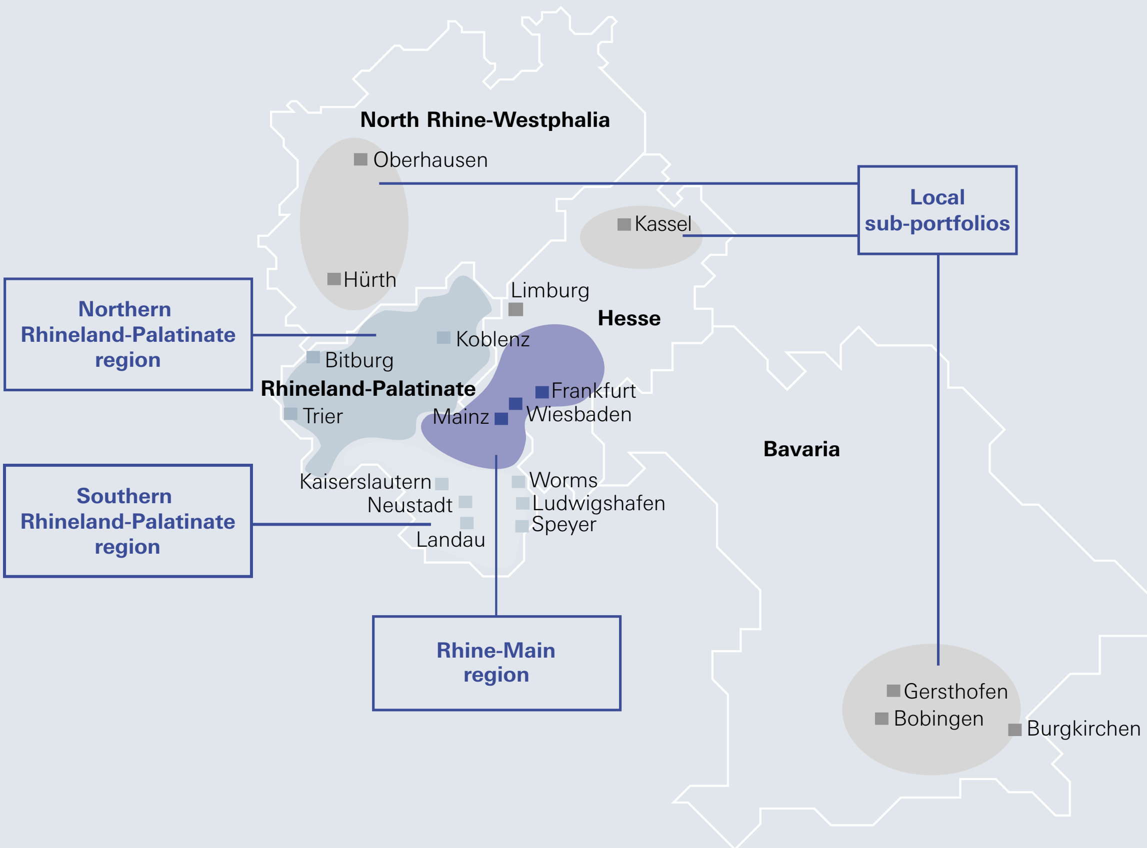
Consistent dividends

Our market is the capital market. Currently, around 2,500 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 PORTFOLIO The Deutsche Wohnen Group'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 real estate values.

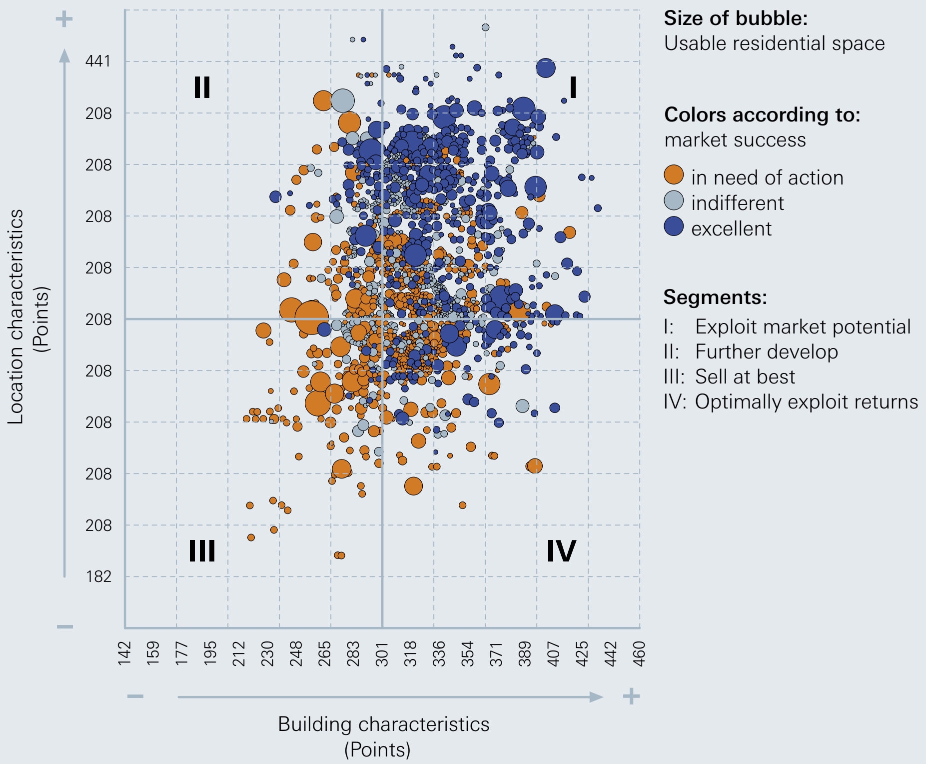


To address the continually increasing requirement for transparency in external reporting, we have provided a breakdown of the most important property management figures and information on the regional distribution.

Regional distribution		Rhineland-Palatinate Southern	Rhineland-Palatinate Northern	Rhine-Main	Local Sub-Portfolios	Group
Deutsche Wohnen residential stock						
Number of residential units	units	6,148	4,495	9,297	1,840	21,780
Residential space	m^2	371,348	284,744	619,946	111,885	1,387,923
Market value of core portfolio	EUR m.	236.6	192.2	703.0	48.5*	1,180.3*
Market value of other stocks	EUR m.	1.3	2.3	36.3	6.9	46.8
Book value of core portfolio	EUR m.	180.6	146.0	424.8	32.2*	783.7*
Book value of other stocks	EUR m.	1.0	2.1	28.9	3.1	35.1
Rental income						
Avg. estimated rent	EUR per m^2	4.32	4.43	5.75	3.86	5.01*
Return based on estimated rent	%	8.11	7.88	6.03	6.33*	6.98*
Vacancy rate						
Vacancies due to leasing (incl. renovation)	%	4.55	1.84	2.35	16.03	2.87*
Vacancies due to sale (incl. development)	%	5.37	4.69	3.17	12.23	4.52*
Overall vacancy rate	%	9.92	6.53	5.52	28.26	7.39*
Maintenance of portfolio properties						
Maintenance, total	EUR m.	4.8	4.3	9.4	0.5	19.1
Maintenance	EUR per m^2	13.07	14.87	14.84	4.40	13.80*
Amount capitalized, total	EUR m.	1.5	0.3	1.8	0.1	3.7
Amount capitalized	EUR per m^2	4.12	1.14	2.79	0.82	2.72*
Building age						
< 1950	%	6.39	4.89	13.32	26.25	10.72
1951–1970	%	51.24	59.93	59.16	68.48	57.87
1971–1990	%	38.27	31.51	21.02	4.67	26.67
> 1991	%	4.10	3.66	6.51	0.60	4.74
Unit sizes						
< 39 m^2	%	5.96	1.29	4.12	5.71	4.19
40–54 m^2	%	33.85	33.18	20.86	32.45	28.05
55–74 m^2	%	42.55	44.61	50.24	50.00	46.89
75–89 m^2	%	14.43	17.01	16.74	7.77	15.39
> 90 m^2	%	3.22	3.91	8.05	4.08	5.50
Proportion of publicly subsidized housing	%	41.02	36.19	22.20	0.87	28.35
Number of sales recognized on the balance sheet in 2005						
	residential units	217	167	558	235	1,177

*Excluding North Hesse portfolio.

Portfolio segmentation



In addition, we have analyzed the strategic structure of the residential 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 (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 transport and services infrastructure, noise pollution and residential attractiveness.

The graph shows the core portfolio with a total of around 1,500 properties (each building is represented by a circle). The larger the circle, the greater the usable residential space. The colors indicate economic potential (blue = outstanding). The segmentation serves as the basis both for the ongoing valuation of the portfolio and for formulating differentiated strategic action plans. The top right segment with the most stable real estate values contains around 50% of all the residential units. Around another 16% of the 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 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 (only core portfolio excluding Hesse portfolio)		Segment I	Segment II	Segment III	Segment IV	Unal-located	Total
Number of own residential units	units	10,448	3,396	2,608	4,187	290	20,929
Number of own residential units	%	50	16	12	20	1	100
Residential space	m^2	693,143	212,324	162,079	257,070	17,721	1,342,337
Market value of core portfolio	EUR m.	718.5	167.3	76.2	172.9	45.4	1,180.3
Market value of core portfolio	EUR per m^2	1,019	780	468	671	1,436	861
Book value of core portfolio	EUR m.	447.3	114.5	66.7	130.3	24.9	783.7
Book value of core portfolio	EUR per m^2	635	534	409	506	787	571
Avg. estimated rent	EUR per m^2	5.37	4.99	4.02	4.50	2.82	5.01
Rental yield based on estimated rent	%	6.32	7.67	10.30	8.04	2.35	6.98
Vacancies due to leasing (incl. renovation)	%	1.85	3.86	5.41	2.89	4.14	2.87
Vacancies due to sale (incl. development)	%	3.78	2.74	7.55	6.23	0.00	4.52

INDIVIDUALITY

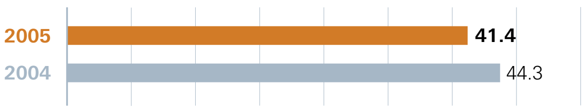
Fashion, the color of a wall, a rare antique or grandma's old armchair?
What would go best in the new rooms which could soon be your own property?
Relax and give it some thought, we'll take care of everything else.

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 2.9 million decline in the segment result for 2005, which fell from EUR 44.3 million in 2004 to EUR 41.4 million.

Segment result from property management in accordance with IFRSs (EUR m.)



RENTAL INCOME

Estimated rent is the major component of the revenue from property management item in the consolidated income statement of the Deutsche Wohnen Group.

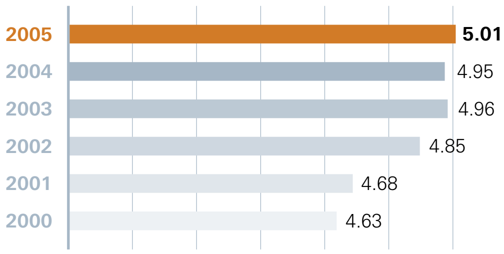
Estimated rent is the rent payable by tenants to the Company based on existing leases. The rental income from residential units sold is no longer included in the estimated rent for the subsequent period. The difference between the estimated rent and the income shortfalls due to vacancies is equal to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

Estimated rent fell to EUR 89.1 million (2004: EUR 90.4 million) as a result of privatizations, while actual rent for fiscal year 2005 declined to EUR 81.0 million due to higher 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.

In addition to estimated rent of EUR 89.1 million, the second major item in property management revenue in the year under review (total revenue in 2005: EUR 110.4 million; 2004: EUR 113.8 million) was heating and operating costs, which were billed in the amount of EUR 29.4 million.

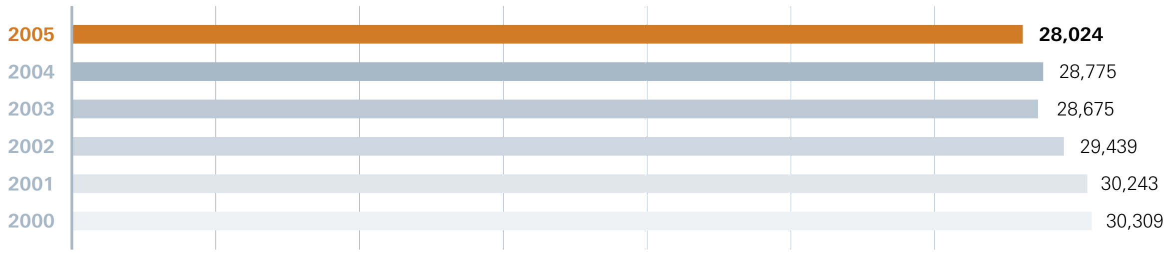
Average rent (EUR per m²)



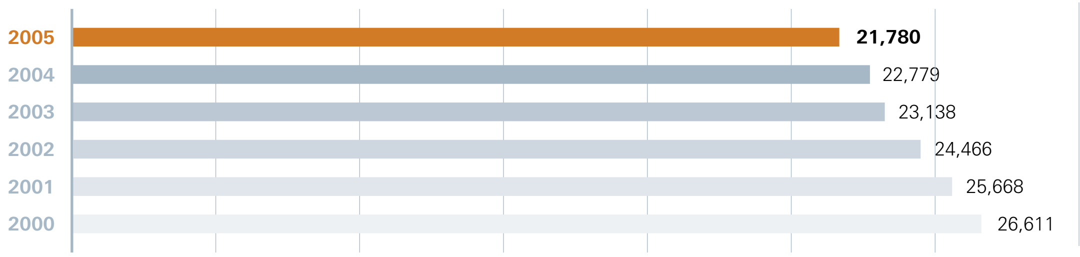
Rent (in accordance with IFRSs, incl. North Hesse, in EUR m.)	2005	2004
Estimated rent	89.1	90.4
Income shortfalls	8.1	7.1
Actual rent	81.0	83.3

Portfolio structure

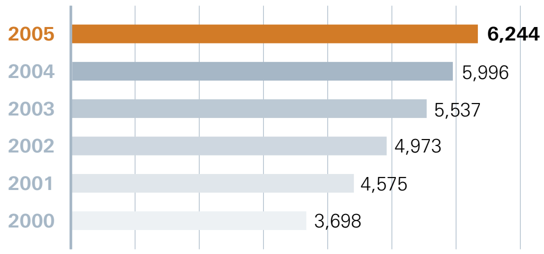
Total residential stock



Of which own units



Of which units managed by third parties



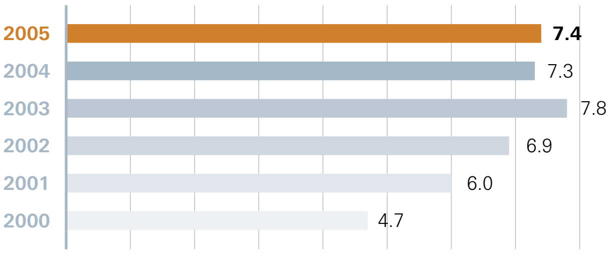
VACANCIES

As of December 31, 2005, 1,544 apartments stood empty; based on the number of Deutsche Wohnen's residential units, this was equivalent to a vacancy rate of approximately 7.4%. This figure is made up of a vacancy rate for rental property amounting to 2.9% and a vacancy rate for property held for sale of 4.5%.

The vacancy rate is therefore not a cause for concern. On the contrary, most of the vacancies are intentional and serve to increase income in the Residential Property Management and Housing Privatization areas.

Area		2005	2004
Total residential space	millions of m^2	1.39	1.45
Avg. unit size	m^2	64	64
Commercial space	m^2	24,804	34,282
Undeveloped space	m^2	451,725	611,310

Vacancy rate in %
(based on reporting date/all vacant dwellings):



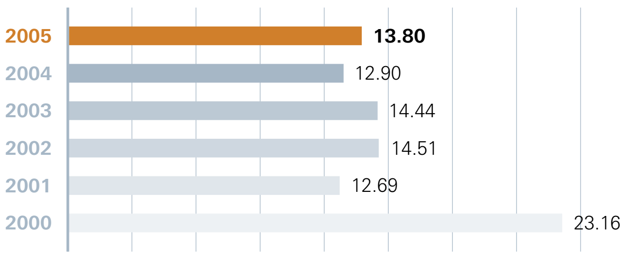
MAINTENANCE

Maintenance expenses in the Rhine-Main/Rhineland-Palatinate core portfolio amounted to EUR 17.5 million (EUR 13.80 per m^2; 2004: EUR 17.8 million or EUR 12.90 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 investment on buildings that 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 in the form of as yet unutilized development potential in the buildings located there (see portfolio matrix).

Based on this investment strategy, we have been able to adjust our maintenance levels (measured in EUR per m²) in line with property management and privatization potential on an ongoing basis since 2000. As can be seen from the rental and sales income generated, this has not led to a deterioration in the quality of our residential stock.

Maintenance (EUR per m²)



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 the Company's own and external employees during the customer acquisition and contract settlement processes.

Key Figures for Housing Privatization (incl. North Hesse)		2005	2004
Unrealized gains from unit sales	EUR m.	36.4	39.3
Selling and pre-sale expenses	EUR m.	6.2	7.6
Segment result from sales, total	EUR m.	29.9	31.5
Number of units sold recognized on the balance sheet		1,177	1,338
Average selling price in core portfolio	EUR per m^2	1,009	1,040

SEGMENT RESULT

| The decline in the segment result from sales is attributable to lower unrealized gains from the sale of residential units. This underscores that the privatization program should be judged not primarily on book values, but on the ability to realize market potential.

| The segment result in accordance with IFRSs for Housing Privatization in 2005 amounted to EUR 29.9 million, which represents a decline of around EUR 1.6 million or 5.1 % compared with 2004 (EUR 31.5 million). The overall segment result from privatization includes unrealized gains from the privatization of residential units in the core portfolio (EUR 32.2 million), North Hesse (EUR 1.1 million) and the development properties (EUR 3.1 million), as well as pre-sale expenses (EUR 6.2 million). These comprise repair and renovation costs relating to privatization, as well as commission payments to external sales companies.

PRIVATIZATION SUCCESS

1,177 housing privatization projects were recognized in the financial statements for 2005, and therefore a lower number of units was sold compared with 2004 (1,338 units sold). 173 notarized housing privatizations in 2005 were not included in the consolidated financial statements for organizational reasons and have therefore been carried forward to 2006. As in previous years, we owe these successful privatization activities to our highly committed employees and the mix of of predominantly internal as well as external sales staff.

At EUR 1,009 per m^2, the average selling price of recognized sales in the core portfolio was down slightly on last year (EUR 1,040 per m^2). This is the result of the regional distribution of the privatization program. In the Rhine-Main region, significantly higher selling prices are achieved than in the regional and local centers in the Rhineland-Palatinate. Sales activities aimed at streamlining the portfolio in the Rhineland-Palatinate helped to optimize the residential portfolio structure.

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 the 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 portfolio. Moreover, the system allows us to create scenarios showing the effect of these strategies on business plans.

The portfolio matrix shown above illustrates one aspect of the work carried out by Portfolio Management. 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 real estate portfolio and the intrinsic value (net asset value) for the Group. In future, this unit will also be 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 control 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 controlling personnel and administrative expenses. Market, financial and liquidity risks are monitored in conjunction with the issue-driven 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 2005 The consolidated financial statements of Deutsche Wohnen have been prepared in accordance with International Financial Reporting Standards (IFRSs) for the first time. This has resulted in some significant differences from the accounting requirements (HGB – German Commercial Code). For this reason, the results for 2005 require particular explanation. After adjusting for the different treatment under IFRSs of real estate transfer tax arising from the merger of two Group companies, profit before tax showed a further improvement over 2004.

The following paragraphs explain some of the major changes relating to items in the consolidated income statement under IFRSs compared with the previous year:

Revenue from property management

In addition to heating and operating costs billed (EUR 29.4 million), estimated rent of EUR 89.1 million represents the largest item within total property management revenue (EUR 110.4 million). Estimated rent was around EUR 3.4 million lower than in 2004, mainly as a result of continuing housing privatizations (see the section on Residential Property Management).

Other operating income

Privatization income from disposals of noncurrent assets amounting to EUR 36.1 million was the largest component of this item. Other operating income in 2005 amounted to EUR 44.3 million in total, a decrease of EUR 1.5 million compared with the prior year.

Property management expenses

Property management expenses totaling EUR 49.9 million mostly comprise operating costs of EUR 30.9 million (2004: EUR 30.9 million) and maintenance expenses of EUR 17.8 million (2004: EUR 17.8 million).

Other operating expenses

Other operating expenses in 2005 rose to EUR 33.5 million, EUR 13.5 million higher than the prior year figure (EUR 22.0 million). This increase was due entirely to a one-time factor (surplus payment prior to establishment of consolidated tax group) arising as part of a complex accounting procedure which has also affected other items in the income statement, and whose overall effects largely cancel each other out.

Net interest expense

The net interest expense, which reflects the netting of interest income and interest expenses, improved by EUR 3.5 million compared with the prior year to EUR 24.2 million. This resulted in particular from the streamlining and redemption of borrowings.

Profit before tax

Consolidated profit before tax for 2005 fell to EUR 17.0 million, around EUR 7.7 million lower than the previous year (EUR 24.7 million). In order to arrive at a figure which is comparable with the 2004 fiscal year, profit before tax must be adjusted for the one-time effect of the technical accounting procedure described above. The result is an increase in profit before tax to EUR 26.7 million, an improvement of EUR 2.0 million over the previous year.

Income tax expense

Taxes on income for 2005 led to a tax credit of EUR 11.9 million (previous year: EUR 7.8 million tax expense). Most of this amount was attributable to the one-time factor of technical accounting reasons mentioned already (EUR 11.3 million). In addition, there was an extraordinary credit of EUR 4.4 million reflecting an income tax refund from 2004 as a result of the merger of two Group companies. The income tax expense relating to the operating business was EUR 3.0 million, a fall of EUR 5.6 million compared with 2004 (EUR 8.6 million).

Consolidated profit for the year

In fiscal year 2005, we generated a consolidated profit for the year of EUR 16.0 million, a reduction of EUR 0.8 million or 5% compared with 2004 (EUR 16.8 million). Adjusted for the one-time factor resulting from a technical accounting procedure the income tax refund and the real estate transfer tax expense, the profit for the year would theoretically have improved to EUR 22.7 million, on a basis which is broadly comparable with the prior year.

Key figures for the Group in accordance with IFRSs (EUR m.)	2005	2004
EBIT	39.4	53.1
EBITDA	56.8	70.8
Profit before tax	17.0	24.7
Consolidated profit for the year	16.0	16.8
Gross operating cash flow incl. Housing Privatization	78.2	81.6

The significant decline in EBIT, EBITDA, profit before tax and gross operating cash flow (or funds from operations – FFO) is the result of the one-time factors described above (Adjusted: EBIT EUR 52.5 million compared with EUR 39.4 million; EBITDA EUR 69.9 million compared with EUR 56.8 million).

The table below provides a reconciliation of the major individual items in the income statement under the HGB and under IFRSs with an explanation of the differences:

2005 in EUR m.	HGB	IFRS	Difference	Reason
Consolidated profit for the year	**22.2**	**16.0**	**–6.2**	
of which extraordinary expenses			13.5	Transfer of tax refund on surplus payment prior to establishment of consolidated tax group – Contra-item *Other operating expenses*
of which other taxes			–12.6	Real estate transfer tax from the merger of two Group companies
Profit before tax	**23.9**	**16.9**	**–7.0**	
of which other operating income			2.1	Mainly benefits from low-interest loans compared with market rate of interest – Contra-item *Interest and similar expenses*
of which property management expenses			1.3	Reversal of provision for deferred maintenance
of which other operating expenses			–11.8	Mainly tax refund on surplus payment prior to establishment of consolidated tax group – Contra-item *Extraordinary expenses*
of which interest and similar expenses			–1.7	Mainly difference between interest at market rate and low-interest loans – Contra-item *Other operating income*
of which expenses – income from financial derivatives			2.5	Accrued interest from surpluses on rental and interest guarantees/DB 14

Deutsche Wohnen AG (holding company)

On a single-entity basis, Deutsche Wohnen AG recorded a net loss for fiscal year 2005 of EUR 11.2 million, a decline of EUR 7.1 million compared with the previous year (2004: net loss for the year of EUR 4.1 million). This was firstly due to a fall of EUR 5.5 million in the contribution to earnings from the investment in a Group company, as a result of a 31% reduction in Deutsche Wohnen AG's interest in the company. Secondly, as in the previous year, interest income from intragroup shareholder loans fell by an additional EUR 1.2 million as a consequence of section 8a of the *Körperschaftsteuergesetz* (KStG – German Corporation Tax Act).

The withdrawal from capital reserves amounting to EUR 46.2 million was used to offset the net loss for the year and to establish net retained profits of EUR 35 million. The full amount of these net retained profits is earmarked for distribution to shareholders.

RENEWAL

**Preserving what's good is always the foundation stone of a home where you really feel at home.
Renovation and maintenance allow us to respond to the situations and needs of the moment.**

DEUTSCHE WOHNEN SHARES 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.

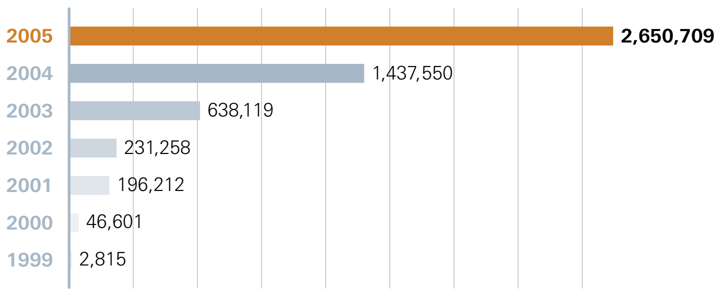
STOCK MARKET LIQUIDITY

Close Brothers Seydler AG and Bankhaus Sal. Oppenheim are currently the designated sponsors for Deutsche Wohnen.

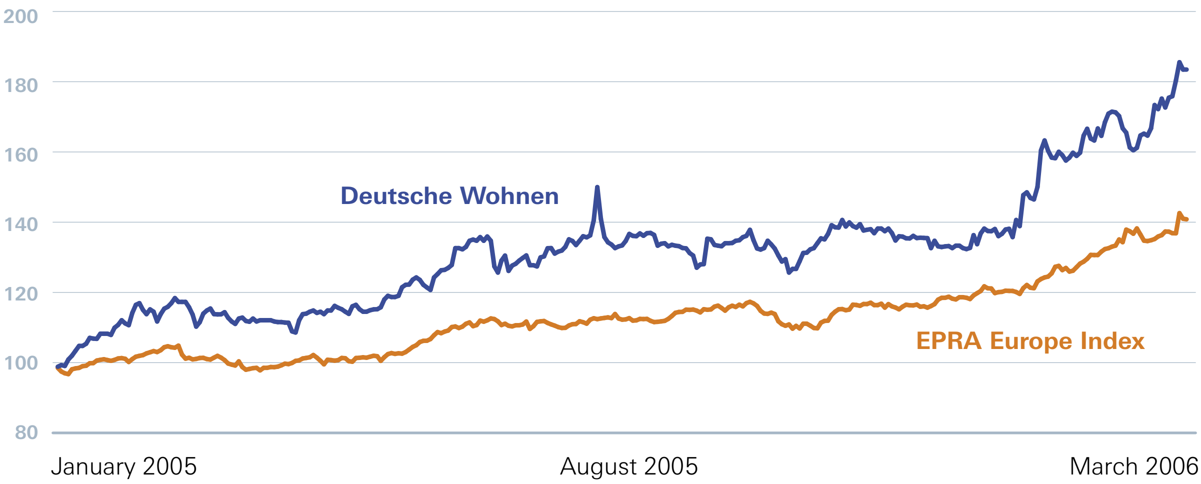
Rising trading volumes make it easier for investors to invest in our shares, as well as conversely to reduce or completely sell off their investments. Growth in our trading volume resulted in a sharp increase in demand from German and foreign institutional investors for shares of Deutsche Wohnen.

If the intended deconsolidation of Deutsche Wohnen from the Deutsche Bank Group goes ahead, the implementation of the procedure for admission to official trading in Germany in the Prime Standard is mandatory. Consideration is also being given to implementing a share split in order to improve the tradability of the shares from then on.

Trading volume development 1999–2005
(no. of shares traded)



Share price development 2005/2006
(indexed, basis: 100)



Deutsche Wohnen's share price performance in 2005/06 firstly reflects the significantly increased level of interest on the part of domestic and international investors in the German residential property market. It should be noted in this context that the German residential property market is currently one of the most attractive investment segments worldwide. The share price also reflects capital market expectations with respect to the possible substantial expansion of the residential property portfolio after the intended deconsolidation from the Deutsche Bank Group.

At a share price of EUR 195.30 at the end of 2005 and with four million registered no-par value shares in issue, Deutsche Wohnen's market capitalization was around EUR 780 million. Based on this market capitalization, Deutsche Wohnen is among the three largest listed German real estate stock corporations.

The price has risen further to around EUR 240 per share up to March of the current year. This represents an increase of 71 % since January 2005.

SHAREHOLDER STRUCTURE

The shareholder structure has changed significantly since the IPO in 1999. In particular since the announcement of the possible deconsolidation of Deutsche Wohnen from the Deutsche Bank Group, the number of shareholders has declined substantially from 4,200 at its highest point at the beginning of 2004 to around 2,500 today. Approximately 75% to 80% of the shares are held by around 170 institutional shareholders; four of these currently hold more than 5% but less than 10% of the total of four million registered no-par value shares outstanding (until the end of December 2005, this applied to two institutional shareholders). These holdings qualify as investments by investment companies and funds in accordance with the definition established by Deutsche Börse AG and the free float therefore amounts to 100%.

GENERAL MEETING 2005

The Ordinary General Meeting for 2005 was held on August 4, 2005 in Frankfurt am Main. Prior to the General Meeting no counterproposals from shareholders were received by Deutsche Wohnen. Shareholder interest in the General Meeting was noticeably higher than in previous years. This was reflected in the comparatively large number of shareholders (around 140) attending the General Meeting (share capital represented: approximately 40%), who approved all agenda items with an overwhelming majority.

2005 DIVIDEND

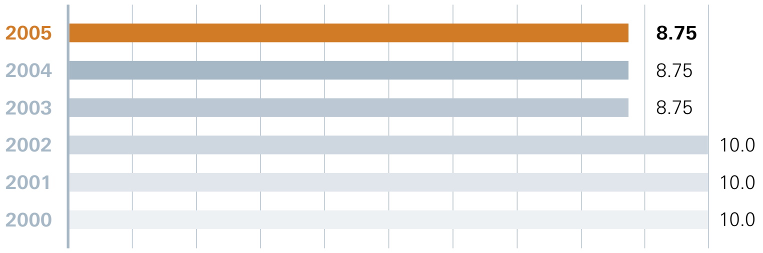
The amount of the dividend is decided on the basis of the results for the year, gross cash flow (funds from operations) as well as the maintenance of a risk-adjusted equity ratio.

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 an AG (stock corporation). This cash item was funded in 1999 by DB Real Estate prior to the IPO and since then has been reduced by means of withdrawals each year.

In view of the size of the Company's capital reserves (December 31, 2005: EUR 228.3 million) and in light of current tax law, we assume that we can maintain tax-exempt dividend payments for several years based on the current funding of the contribution account for tax purposes.

The Management Board and the Supervisory Board will propose to the Ordinary General Meeting on August 10, 2006 the payment of a dividend for fiscal year 2005 amounting to EUR 8.75 per share (total dividend of EUR 35.0 million). Based on the closing price for 2005 of EUR 195.30, the dividend yield is around 4% which, taking into account the tax-exempt nature of our dividend payments, continues to represent an unusually attractive dividend.

Dividend (per share in EUR)



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, 2005.

The calculation was based on the remeasurement of the residential property portfolio and was conducted in accordance with IAS 40 using the discounted cash flow method over a 10-year planning horizon with assumed finite residual values. The calculation methodology was validated by DTZ Property Advisors during the last fiscal year. The carrying amounts were tested on a sample basis as part of the audit of the 2005 annual financial statements by Deloitte for the individual companies and by KPMG at Group level.

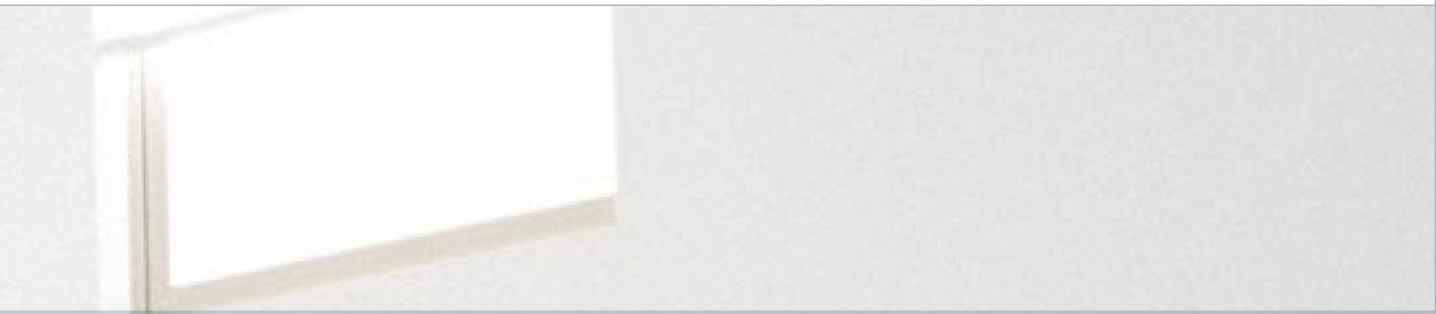
In accordance with the requirements under IFRSs, the discount rate was derived from the market rate of interest and not the weighted cost of capital as previously. The market rate of interest was based on regional property yields determined by the expert committees and reflects the relationship between realizable selling prices and market rents. The discount rate applied fell slightly from 4.76% to 4.74%.

The net asset value resulting from these calculations amounted to EUR 189.32 per share (as against EUR 196.88 per share in the previous year).

As in the previous fiscal year, the calculation did not take into account deferred taxes relating to measurement differences between the tax base and the financial statements or utilizable tax loss carryforwards within the Group. These would otherwise have been recognized as additional assets with a total value of around EUR 40 million or around EUR 10 per share.

The closing market price for 2005 of EUR 195.30 represents a premium of around 3% to the net asset value. This premium has risen further by the end of March 2006 due to the upward trend in our share price. Reasons for this have already been addressed above.

Leasable space (core business)	**m²**	**1,371,600**
Fair value of real estate (core business)	**EUR per m²**	**860.51**
Fair value of real estate (core business)	**EUR**	**1,180,282,000**
plus: other noncurrent and current assets		189,946,000
of which development property	EUR	46,809,000
Total assets:	EUR	1,370,228,000
Less: liabilities	EUR	594,764,000
Less: present value of overhead costs	EUR	18,168,000
Net asset value	**EUR**	**757,296,000**
Divided by number of shares in circulation	EUR	4,000.000
Net asset value per share	**EUR**	**189.32**



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):

"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 2, 2005), with the following four exceptions:

A collective directors and officers insurance policy for Deutsche Bank AG applies to the members of the Management Board and the Supervisory Board. The deductible is low because the policy is valid worldwide and a higher deductible is not standard outside of Germany (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).

In the future, the consolidated financial statements will continue to be published in May of the following year along with the annual report. However, the Company will continue to publish key figures for the Group in February of the following year (Code section 7.1.2 sentence 2).

At the end of the year, the members of the Supervisory Board receive appropriate remuneration which is fixed by a 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).

In the following instance, we did not adhere to the recommendations in the Code in the past, but will comply with this recommendation in the future:

The preparation and publication of the consolidated financial statements in accordance with IFRSs for the first time is planned for fiscal year 2005. Fiscal year 2004 will then be included as a comparative period for 2005 (Code section 7.1.1 sentence 3)."

ANNUAL FINANCIAL STATEMENTS

BALANCE SHEET AS OF DECEMBER 31, 2005

Assets in EUR	Dec 31, 2005	Dec 31, 2004
A. Fixed assets		
Financial assets		
Shares in affiliated companies	**285,546,890.59**	**285,531,639.71**
B. Current assets		
I. Receivables and other assets		
1. Receivables from affiliated companies	251,090,573.37	292,028,588.81
2. Other assets	241,712.27	191,557.27
II. Bank balances	486,711.24	1,856,558.26
	251,818,996.88	**294,076,704.34**
C. Prepaid expenses	**0.00**	**3,000.00**
Total assets	**537,365,887.47**	**579,611,344.05**

Equity and Liabilities in EUR	Dec 31, 2005	Dec 31, 2004
A. Equity		
I. Subscribed capital	10,225,837.62	10,225,837.62
II. Capital reserves	228,122,778.71	274,334,745.12
III. Revenue reserves legal reserve	1,022,583.76	1,022,583.76
IV. Net retained profits	35,000,000.00	35,000,000.00
	274,371,200.09	**320,583,166.50**
B. Provisions		
Other provisions	1,208,529.00	719,367.00
	1,208,529.00	**719,367.00**
C. Liabilities		
1. Liabilities to banks	257,404,439.55	257,404,439.55
2. Trade payables	0.00	84,395.92
3. Liabilities to affiliated companies	802,492.84	764,454.82
4. Other liabilities	3,579,225.99	55,520.26
	261,786,158.38	**258,308,810.55**
Total equity and liabilities	**537,365,887.47**	**579,611,344.05**

INCOME STATEMENT FOR THE PERIOD JANUARY 1 TO DECEMBER 31, 2005

In EUR	Dec 31, 2005	Dec 31, 2004
1. Other operating income	125,482.53	93,473.15
2. Personnel expenses	805,819.47	408,024.31
a) Wages and salaries EUR 800,136.57 (previous year EUR 402,567.03)		
b) Social security EUR 5,682.90 (previous year EUR 5,457.28)		
3. Other operating expenses	1,900,832.22	2,032,622.06
4. Income from investments	5,140,611.69	10,630,208.97
– thereof from affiliated companies EUR 5,140,611.69 (previous year EUR 10,630,208.97)		
5. Other interest and similar income	255,873.68	1,447,671.88
– thereof from affiliated companies EUR 209,914.41 (previous year EUR 1,348,232.67)		
6. Interest and similar expenses	13,231,543.63	13,234,311.47
– thereof to affiliated companies EUR 0.00 (previous year EUR 48.83)		
7. Cost of loss absorption	795,738.99	597,722.66
8. **Result from ordinary activities = Net loss for the year**	**11,211,966.41**	**4,101,326.50**
9. Withdrawals from capital reserves	46,211,966.41	39,101,326.50
10. **Net retained profits**	**35,000,000.00**	**35,000,000.00**

I. GENERAL INFORMATION

These annual financial statements were prepared in accordance with the accounting requirements of the *Handelsgesetzbuch* (HGB – German Commercial Code) and 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 interest expense in the amount of EUR 13.0 million (previous year: EUR 11.8 million). The main reason for this is the financing of its directly and indirectly held subsidiaries using short-term, low-interest rate loans.

II. ACCOUNTING POLICIES

General information

Bank balances at banks that are also affiliated companies are recorded under Receivables from affiliated companies.

Fixed assets

As in the past, financial assets are carried at cost in accordance with the less strict principle of lower of cost or market value. The list of shareholdings in accordance with section 285 no. 11 HGB is included as Appendix A to the Notes.

Current assets

Receivables and other assets are carried at their nominal amount or at cost in accordance with the strict principle of lower of cost or market value.

Other provisions and liabilities

The amounts of provisions allow for all identifiable risks. Liabilities are recognized at the repayable amounts.

III. BALANCE SHEET DISCLOSURES

Fixed assets

The addition is due to the acquisitions of shares in the subsidiaries Rhein-Pfalz Wohnen GmbH and Main-Taunus Wohnen GmbH & Co. KG.

Receivables and other assets

Receivables from affiliated companies also contain bank balances with Deutsche Bank AG in the amount of EUR 0.5 million (previous year: EUR 1.5 million).

As in the previous year, other assets mainly comprise tax refund claims.

Equity

The registered share capital amounts to EUR 10.2 million (previous year: EUR 10.2 million), and is composed of 4,000,000 shares. All shares were held in free float at the end of the year.

STATEMENT OF CHANGES IN FIXED ASSETS

In EUR thou.			Historical cost		Depreciation, amortization and write-downs	Book value	
	Opening balance as of Jan 1, 2005	Additions	Disposals	Balance as of Dec 31, 2005	as of Dec 31, 2005	Dec 31, 2005	Dec 31, 2004
Financial assets							
Shares in affiliated companies	285,532	15	0	**285,547**	**0**	**285,547**	285,532

The Management Board's proposal on the utilization of the net retained profits for fiscal year 2005, which was submitted to the Supervisory Board for approval, included a withdrawal from the capital reserves in the amount of EUR 46.2 million (previous year: EUR 39.1 million). As a result of the withdrawal from the capital reserves, Deutsche Wohnen AG recorded net retained profits of EUR 35.0 million (previous year: EUR 35.0 million) for distribution. The net retained profits from the previous year were distributed in full in fiscal year 2005.

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

Shareholder	Shareholding notified as of	Equity interest / Share of voting rights in %	Share of voting rights in registered share capital in EUR thou.
Deutscher Herold Lebensversicherung AG, Bonn	April 8, 2002	6.70	685
Asset Value Investors Limited, London	October 19, 2005	5.16	528

Ärzteversorgung Westfalen-Lippe, Münster, has informed us in accordance with section 21 (1) WpHG that its share in the voting rights of the Company dropped below the 5% threshold on July 12, 2005 and now amounts to 0%.

In accordance with section 160 (1) no. 8 AktG, we have been informed as follows:

„Following the acquisition of 15,841 shares, we hereby announce in accordance with section 21(1) of the WpHG (*Wertpapierhandelsgesetz* – German Securities Trading Act) that the share of voting rights held by Asset Value Investors on October 17, 2005 exceeded the reporting threshold of 5% of the voting rights in Deutsche Wohnen AG, and now amounts to 5.16%. 5.16% of these voting shares must be allocated to Asset Value Investors in accordance with section 22(1) sentence 1 no. 6 of the WpHG."

Other provisions

Among other things, provisions relate to dividend-based remuneration of DB Real Estate Management GmbH in accordance with section 5 (2) of the control agreement dated May 7, 1999 in the amount of EUR 0.3 million (previous year: EUR 0.3 million), and to the compensation paid to members of the Management Board that is dependent on Group performance in the amount of EUR 0.5 million (previous year: EUR 0.3 million).

LIABILITIES

Maturity structure of liabilities	Total	thereof with a residual maturity of		
in EUR thou.		less than 1 year	1 to 5 years	over 5 years
Liabilities to banks	257,404	6,616	81,078	169,710
(previous year)	(257,404)	(6,616)	(71,095)	(179,693)
Trade payables	0	0	0	0
(previous year)	(84)	(84)	(0)	(0)
Liabilities to affiliated companies	802	802	0	0
(previous year)	(764)	(764)	(0)	(0)
Other liabilities	3,579	3,579	0	0
(previous year)	(56)	(56)	(0)	(0)
Total	261,785	10,997	81,078	169,710
(previous year)	(258,308)	(7,520)	(71,095)	(179,693)

The Company did not provide any collateral for the liabilities above.

Other liabilities

This primarily relates to a residual liability to Hoechst AG, Frankfurt am Main (EUR 3.5 million), which is matched by a corresponding receivable from affiliated companies.

This item contains tax liabilities in the amount of EUR 71 thousand (previous year EUR 56 thousand).

IV. INCOME STATEMENT DISCLOSURES

Other operating income

Other operating income contains prior-period income in the amount of EUR 0.1 million (previous year: EUR 0.1 million).

Other operating expenses

These expenses mainly relate to consulting and audit costs (EUR 0.8 million; previous year: EUR 0.4 million) and the distribution-based remuneration of DB Real Estate Management GmbH, Eschborn, (EUR 0.3 million; previous year: EUR 0.3 million).

Other interest and similar income

Intragroup interest rates were reduced in order to comply with the requirements of section 8a *Körperschaftsteuergesetz* (Corporation Tax Act) (thin capitalization). As a result, interest income from the loans extended to the subsidiaries has declined to EUR 0.2 million since 2004 (2004: EUR 1.2 million).

V. CONTINGENT LIABILITIES

As of the reporting date two corporate guarantees totaling EUR 0.6 million had been issued for Rhein-Pfalz Wohnen GmbH and MT Wohnen GmbH for the benefit of R&V Versicherungs AG, Wiesbaden.

VI. OTHER FINANCIAL OBLIGATIONS

The service agreement relating to IT services that existed in the previous year was transferred to a subsidiary.

The service agreements concluded in 2005 with Rhein-Pfalz Wohnen GmbH 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 finanical liabilities in the amount of EUR 0.1 million p.a. for a period of 24 months.

VII. OTHER DISCLOSURES

The fee for the auditors' expenses in the fiscal year amounted to EUR 145 thousand for the audit of the annual financial statements and EUR 39 thousand for other services.

Management Board member Michael Neubürger has been employed by the Company since January 1, 2005.

The total compensation of the Management Board of Deutsche Wohnen AG for 2005 can be broken down as follows:

In EUR thou.	Total compensation	Compensation component	
		fixed	variable
Andreas Lehner	488	188	300
Michael Neubürger	394	169	225

Remuneration granted to members of the Supervisory Board amounted to EUR 22 thousand in the year under review.

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
Managing Director DB Real Estate Investment GmbH, Eschborn

a) **DB Real Estate Spezial Invest GmbH,** Eschborn
JADE Residential Property AG, Eschborn

b) **Wohnungsbaugesellschaft JADE mbH,** Wilhelmshaven (until June 30, 2005)
– Chairman –
DEUTSCHBAU Immobilien-Dienstleistungen GmbH, Düsseldorf (until January 7, 2005)
DEUTSCHBAU Wohnungsgesellschaft mbH, Berlin (until January 7, 2005)
Deutschbau-Holding GmbH, Düsseldorf (until January 7, 2005)
Main-Taunus Wohnen GmbH & Co. KG, Eschborn
MT Wohnen GmbH, Frankfurt am Main
Rhein-Main Wohnen GmbH, Frankfurt am Main (until August 11, 2005 **Rhein-Nahe Wohnen GmbH,** Mainz)
Rhein-Main Wohnen GmbH, Frankfurt am Main (until June 14, 2005)
(merged with **Rhein-Nahe Wohnen GmbH,** Mainz)
Rhein-Mosel Wohnen GmbH, Mainz
Rhein-Pfalz Wohnen GmbH, Mainz

Dr. Michael Gellen
– Deputy chairman –
Lawyer

a) **Deutsche EuroShop AG,** Hamburg

Harry Gutte
Managing Director DB Real Estate Investment GmbH, Eschborn

a) **JADE Residential Property AG,** Eschborn

b) **ARBI Beteiligungsgesellschaft mbH,** Eschborn
– Chairman –

Bürozentrum Frankfurter Allee (Lichtenberg) Anders & Co. KG, Berlin
WohnBauEntwicklungsgesellschaft München-Haidhausen mbH & Co KG, Eschborn

Matthias Hünlein
Managing Director Tishman Speyer

a) **Deutsche Commercial Property AG,** Eschborn (until May 3, 2005)
– Chairman –

b) **ARBI Beteiligungsgesellschaft mbH,** Eschborn (until October 31, 2005)
Deutsche Commercial Property Anlagegesellschaft mbH & Co. KG, Eschborn (until February 7, 2005)
Main-Taunus Wohnen GmbH & Co. KG, Eschborn (until October 31, 2005)
MT Wohnen GmbH, Frankfurt am Main (until October 31, 2005)
Rhein-Main Wohnen GmbH, Frankfurt am Main (until October 31, 2005) (until August 11, 2005 **Rhein-Nahe Wohnen GmbH,** Mainz)
Rhein-Main Wohnen GmbH, Frankfurt am Main (until June 14, 2005) (merged with **Rhein-Nahe Wohnen GmbH,** Mainz)
Rhein-Mosel Wohnen GmbH, Mainz (until October 31, 2005)
Rhein-Pfalz Wohnen GmbH, Mainz (until October 31, 2005)
Wohnungsbaugesellschaft JADE mbH, Wilhelmshaven (until June 30, 2005)

Hans-Werner Jacob
Member of the Management of Deutsche Bank AG, Munich office

a) **Leoni AG,** Nuremberg

Dr. Andreas Kretschmer
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

MANAGEMENT BOARD

a) Membership of other statutory supervisory boards

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

Andreas Lehner
– Chairman –

b) **Berliner Gesellschaft zum Controlling der Immobilien-Altrisiken mbH,** Berlin
Main-Taunus Wohnen GmbH & Co. KG, Eschborn
– Chairman –
MT Wohnen GmbH, Frankfurt am Main
– Chairman –
Rhein-Main Wohnen GmbH, Frankfurt am Main (until August 11, 2005 **Rhein-Nahe Wohnen GmbH,** Mainz)
Rhein-Main Wohnen GmbH, Frankfurt am Main (merged with **Rhein-Nahe Wohnen GmbH,** Mainz)
Rhein-Mosel Wohnen GmbH, Mainz
– Chairman –
Rhein-Pfalz Wohnen GmbH, Mainz
– Chairman –

Michael Neubürger

CONSOLIDATED FINANCIAL STATEMENTS

Deutsche Wohnen AG is the majority shareholder in Rhein-Pfalz Wohnen GmbH, Main-Taunus Wohnen GmbH & Co. KG and MT Wohnen GmbH. It is therefore 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).

Deutsche Wohnen AG signed a control agreement with DB Real Estate Management GmbH in the context of the Annual General Meeting on May 7, 1999. As a result of this control agreement, the annual financial statements of Deutsche Wohnen AG are included in the consolidated financial statements of Deutsche Bank AG, Frankfurt am Main, which are prepared in accordance with US GAAP. The consolidated financial statements of Deutsche Bank AG are filed with the commercial register of Frankfurt am Main Local Court under the number HRB 30000.

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 on the Internet (www.deutsche-wohnen.de).

Frankfurt am Main, 16. März 2006

Deutsche Wohnen AG

Andreas Lehner
– Chairman of the
Management Board –

Michael Neubürger
– Management Board
Member –

SHAREHOLDINGS AS OF DECEMBER 31, 2005 IN ACCORDANCE WITH SECTION 285 NO. 11 OF THE HGB

	Share of capital in %		Equity	Net income/loss for the period
	total	indirect	in EUR thou.	in EUR thou.
1. Main-Taunus Wohnen GmbH & Co. KG, Eschborn	100.00	30.96	11,267	6,921
2. MT Wohnen GmbH, Frankfurt am Main	100.00	–	26	0*
3. Rhein-Pfalz Wohnen GmbH, Mainz	99.89	–	36,922	–220
4. Rhein-Mosel Wohnen GmbH, Mainz**	100.00	100.00	86,056	7,747
5. Rhein-Main Wohnen GmbH, Frankfurt am Main** (formerly Rhein-Nahe Wohnen GmbH, Mainz)	100.00	100.00	180,314	75,559
6. RMW Projekt GmbH, Frankfurt am Main (formerly JADE Projekt GmbH, Frankfurt am Main)	100.00	100.00	4,472	–1

* Profit and loss transfer agreement with Deutsche Wohnen AG.
** Large corporation in which more than 5% of the voting rights are held.

CONSOLIDATED FINANCIAL STATEMENTS AND MANAGEMENT REPORT

CONSOLIDATED BALANCE SHEET AS OF DECEMBER 31, 2005

Assets in EUR		Note	Dec 31, 2005	Dec 31, 2004
A.	Noncurrent assets			
I.	Intangible assets	(1)	816,699,039.23	864,771,888.26
II.	Property, plant and equipment	(2)	4,235,153.45	4,703,886.54
III.	Intangible assets	(3)	48,646.00	91,324.00
IV.	Noncurrent financial assets	(4)	23,627,737.80	19,713,669.14
V.	Noncurrent receivables and other noncurrent assets		2,168,219.04	1,777,544.70
VI.	Deferred tax assets		40,840,000.00	40,857,000.00
	Total noncurrent assets		**887,618,795.52**	**931,915,312.64**
B.	Current assets			
I.	Properties held for sale and other inventories	(5)		
	a) Land without buildings		2,636,372.66	3,281,459.17
	b) Land with finished buildings		7,732,095.47	8,951,781.05
	c) Work in progress, other inventories		24,707,927.79	25,981,959.10
			35,076,395.92	38,215,199.32
II.	Current receivables and other current assets	(6)		
	a) Receivables from rental activities		4,315,194.43	2,044,733.90
	b) Receivables from property sales		13,626,804.40	24,477,121.96
	c) Current tax receivables		1,673,543.08	1,859,161.40
	d) Receivables and other current assets		12,320,313.85	11,839,082.95
	e) Derivatives		5,713,000.00	5,487,000.00
			37,648,855.76	45,707,100.21
III.	Cash and bank balances	(7)	47,202,985.07	66,054,109.67
C.	Noncurrent assets held for sale	(8)	5,961,958.41	4,019,582.64
	Total current assets		**125,890,195.16**	**153,995,991.84**
Total assets			**1,013,508,990.68**	**1,085,911,304.48**

Equity and Liabilities in EUR		Note	Dec 31, 2005	Dec 31, 2004
A.	Equity	(9)		
I.	Subscribed capital		10,225,837.62	10,225,837.62
II.	Capital reserves		228,340,307.30	274,612,130.35
III.	Retained earnings		29,446,466.21	29,839,357.83
IV.	Consolidated net retained profits		148,455,965.62	121,050,309.49
V.	Minority interests		390,543.36	385,774.25
	Total equity		**416,859,120.11**	**436,113,409.54**
B.	Noncurrent liabilities			
I.	Bank loans and overdrafts	(10)	410,333,959.34	440,854,773.61
II.	Liabilities to other lenders		27,526,020.27	50,428,947.27
III.	Post-employment benefit obligation	(11)	5,354,675.00	5,249,191.00
IV.	Other noncurrent provisions	(12)	4,343,507.45	4,584,898.35
V.	Other noncurrent liabilities	(13)	5,349,399.27	5,436,271.14
VI.	Deferred tax liabilities	(14)	2,278,000.00	2,188,000.00
VII.	Deferred income		36,933,376.76	38,434,052.29
	Total noncurrent liabilities		**492,118,938.09**	**547,176,133.66**
C.	Current liabilities			
I.	Bank loans and overdrafts		16,143,663.27	20,670,761.43
II.	Liabilities to other lenders		2,045,507.41	3,625,155.88
III.	Provisions for taxes; current tax liabilities		6,029,484.11	10,474,459.93
IV.	Other current provisions		9,631,136.10	8,580,057.38
V.	Prepayments received	(15)	30,186,651.70	30,924,410.85
VI.	Liabilities from rental activities	(16)	11,289,212.83	10,885,402.08
VII.	Trade payables and other liabilities	(17)	22,690,277.06	8,679,513.73
VIII.	Derivatives	(18)	6,515,000.00	8,782,000.00
	Total current liabilities		**104,530,932.48**	**102,621,761.28**
Total equity and liabilities			**1,013,508,990.68**	**1,085,911,304.48**

CONSOLIDATED INCOME STATEMENT FOR THE PERIOD FROM JANUARY 1 TO DECEMBER 31, 2005

In EUR		Note	Dec 31, 2005	Dec 31, 2005	Dec 31, 2004
1.	Revenue	(19)			
	a) from property management		110,440,760.32		113,761,844.49
	b) from property sales		3,290,009.00		365,343.00
	c) from management activities		2,058,148.51		2,500,993.51
	d) from other services		117,219.29		295,152.85
				115,906,137.12	116,923,333.85
2.	Changes in inventories	(20)		–1,267,506.03	–1,896,818.74
3.	Other operating income	(21)		44,276,266.06	45,791,734.92
4.	Cost of purchased services	(22)			
	a) Property management		49,857,080.95		49,890,041.98
	b) Property sales		1,907,621.06		278,371.62
	c) Other services		0.00		6,921.68
				51,764,702.01	50,175,335.28
	Gross profit			**107,150,195.14**	**110,642,914.75**
5.	Employee expenses	(23)			
	a) Wages and salaries		13,553,888.13		14,036,077.90
	b) Social security costs		3,239,312.18		3,854,943.05
				16,793,200.31	17,891,020.95
6.	Depreciation, amortization and impairment losses	(24)		17,423,248.24	17,627,464.33
7.	Other operating expenses	(25)		33,486,780.40	22,000,397.81
8.	Income from financial assets		646,683.74		660,244.75
9.	Other interest and similar income	(26)	5,105,890.03		2,134,651.82
10.	Impairment losses on financial assets	(27)	795,387.66		27,703.03
11.	Interest and similar expenses	(28)	29,945,911.28		30,470,952.08
12.	**Net finance costs**			**–24,988,725.17**	**–27,703,758.54**
13.	Gains and losses on financial derivatives	(29)		2,493,000.00	–761,000.00
14.	**Profit before tax**			**16,951,241.02**	**24,659,273.12**
15.	Income tax expense (income; previous year: expense)	(30)		–11,896,433.60	7,781,720.96
16.	Other taxes	(31)		12,879,865.28	111,301.10
17.	**Consolidated profit for the year**			**15,967,809.34**	**16,766,251.06**
	Attributable to:				
	Shareholders of the parent			15,891,655.22	16,697,971.09
	Minority interests			76,154.12	68,279.97
	Earnings per share			3.97	4.17

I. GENERAL INFORMATION

As a publicly traded company within the meaning of Article 4 of Regulation (EC) No. 1606/2002, Deutsche Wohnen AG is obliged under Regulation (EC) No. 1606/2002 of the European Parliament and the Council of July 19, 2002 to prepare its consolidated financial statements in accordance with International Financial Reporting Standards (IFRSs) from fiscal year 2005. The consolidated financial statements as of December 31, 2005 have thus been prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the EU and the supplementary provisions of German commercial law to be applied under section 315a(1) of the *Handelsgesetzbuch* (HGB – German Commercial Code). The IFRSs comprise the new IFRSs issued by the International Accounting Standards Board (IASB), the International Accounting Standards (IASs) and the Interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC) and the Standing Interpretations Committee (SIC).

The Company complied in full with all Standards and Interpretations that were effective and required to be applied at the balance sheet date. The prior-year figures and the opening balance sheet amounts as of January 1, 2004 were determined using the same principles.

The Group parent is Deutsche Wohnen AG, whose registered office is Pfaffenwiese 300, Frankfurt am Main. Deutsche Wohnen AG is entered in the Frankfurt am Main commercial register under 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 and housing privatization. Deutsche Wohnen AG has entered into a control agreement with DB Real Estate Management GmbH. The sole shareholder of DB Real Estate Management GmbH is Deutsche Bank AG.

The consolidated financial statements as of December 31, 2005 are based on the following Standards that are relevant to the Deutsche Wohnen Group:

International Financial Reporting Standards (IFRS):	
IFRS 1	First-time Adoption of International Financial Reporting Standards
IFRS 3	Business Combinations
IFRS 5	Noncurrent Assets Held for Sale and Discontinued Operations
IFRS 7	Financial Instruments: Disclosures

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

When preparing its opening IFRS balance sheet as of January 1, 2004 (date of transition from the HGB to IFRSs), Deutsche Wohnen AG utilized the following IFRS exemptions:

– Business combinations in accordance with IFRS 3:
  Not retrospectively applied to business combinations before the transition date to IFRSs. The carrying amounts of the assets and liabilities of the acquired companies that were determined under previous GAAP (HGB) were applied in the opening IFRS balance sheet, taking into account the modifications required under IFRS 1. As a result, the acquisition accounting for business combinations in 1998 was retained and adopted unchanged in the opening IFRS balance sheet.

– Employee benefits in accordance with IAS 19:
  The Group recognizes employee benefits (post-employment benefit obligations) in full. Under the exemption option, all actuarial gains and losses from all defined benefit obligations are recognized in the balance sheet at the transition date (fresh start method).

– Provision for restoration obligations in accordance with IAS 37:
  Deutsche Wohnen AG exercises the exemption option and recognizes restor ation obligations that exist at the transition date for leasehold improvements under a lease that expires in 2011 under property, plant and equipment. At the same time, the restoration obligation is measured and recognized in accordance with IAS 37.

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.

Preparation of the consolidated financial statements requires management to make assumptions and estimates to a limited extent that affect the reported amounts of recognized assets and liabilities, income and expenses, as well as the related disclosure of contingent liabilities. The main purposes of these estimates and assumptions are to calculate the present value of expected future cash flows as part of impairment tests, or to determine fair values (derivatives, investment property), to recognize and measure provisions, as well as to determine the useful life of properties. Actual amounts may differ from the estimates and assumptions in individual cases.

The income statement was prepared using the nature of expense format. The consolidated financial statements have been prepared in euros, rounded using the standard business rounding convention. The fiscal year of Deutsche Wohnen AG and its consolidated subsidiaries is the calendar year.

In contrast to the segment reporting, the income and expenses for the North Hesse portfolio acquired in 2004 are recorded in the individual income statement items.

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

Please refer to the combined management report for details of the Company's risk management objectives and methods.

Deutsche Wohnen AG's Management Board will authorize the consolidated financial statements for submission to the Supervisory Board on April 10, 2006. The Supervisory Board is responsible for examining the consolidated financial statements and stating whether it approves them.

Explanation of significant differences between the HGB and IFRSs as of December 31, 2004:

The significant differences between IFRSs and the accounting policies under the HGB are presented below:

- Under IFRSs, leased assets must be recognized by the beneficial owner. There are differences with regard to the criteria for establishing beneficial ownership. Under IFRSs, the leased asset is reported by the party who bears the related risks and rewards.

- Under IFRSs, minority interests in profit or loss are reported in the income statement and minority interests in equity are reported in the balance sheet as a separate item in equity.

- Under IFRSs, provisions may only be recognized for liabilities to third parties. IFRSs prohibit the recognition of provisions for internal expenses and of provisions where the probability of utilization is less than 50%.

- Provisions for pensions are determined using the projected unit credit method, taking into account future salary and pension increases. Calculation using the German entry age normal method prescribed for tax purposes is not permitted.

- Under IFRSs, deferred taxes must be recognized for all temporary differences between the tax base of assets and liabilities and their carrying amount in the consolidated balance sheet; this also includes deferred taxes on loss carryforwards provided that it is sufficiently probable that the loss carryforwards can be utilized. The HGB prohibits the recognition of benefits from tax loss carryforwards. In addition, there is only a recognition requirement under the HGB for deferred taxes that arise from consolidation adjustments.

- Under IFRSs, derivatives are measured as assets and liabilities at their fair value at the balance sheet date. Any changes in fair value are recognized in profit or loss. Under the HGB, such items are recognized only if they could result in losses.

Basis of accounting

II. BASIS OF CONSOLIDATION

The consolidated financial statements include the financial statements of a total of six directly or indirectly affiliated Group companies, in addition to those of the parent company, Deutsche Wohnen AG.

Companies fully consolidated at the balance sheet date were as follows:

Subsidiaries	Share capital/ capital in EUR	Interest in share capital/ capital held in %
a) directly affiliated		
Main-Taunus Wohnen GmbH & Co. KG, Eschborn	4,346,100.00	99.99
MT Wohnen GmbH, Frankfurt am Main	25,600.00	100.00
Rhein-Pfalz Wohnen GmbH, Mainz	9,724,750.00	99.99
b) indirectly affiliated		
Rhein-Main Wohnen GmbH, Frankfurt am Main	13,119,000.00	99.99
Rhein-Mosel Wohnen GmbH, Mainz	10,026,900.00	99.99
RMW Projekt GmbH, Frankfurt am Main	25,000.00	99.99

The group of companies consolidated changed as against the previous fiscal year due to the merger of two Group companies. Under a merger agreement dated February 25, 2005, Rhein-Main Wohnen GmbH was merged with Rhein-Nahe Wohnen GmbH retrospectively as of June 30, 2004. In turn, Rhein-Nahe Wohnen GmbH then changed its name to Rhein-Main Wohnen GmbH and relocated its registered office to Frankfurt am Main.

Another change in the group of companies consolidated was the acquisition of all the shares of RMW Projekt GmbH (formerly Jade Projekt GmbH) by Rhein-Main Wohnen GmbH.

The equity investments over which Deutsche Wohnen AG has neither control nor a significant influence are accounted for as financial assets in accordance with IAS 39. These include the equity investment in the closed-end real estate investment fund DB Immobilienfonds 14 Rhein-Pfalz Wohnen GmbH & Co. KG, Eschborn.

III. CONSOLIDATION METHODS

The single-entity financial statements were aggregated to form the consolidated financial statements applying the following principles:

Acquisition accounting for the subsidiaries acquired before the transition date used the simplification options under IFRS 1 in accordance with the previously used book value method as defined in section 301(1) sentence 2 no. 1 of the HGB. The date of initial consolidation was December 31, 1998.

Initial consolidation resulted in a positive difference of EUR 472.6 million, which was realized almost in full as a hidden reserve in land and land rights with buildings.

The initial consolidation gave rise to positive differences of EUR 0.4 million attributable to minority interests; hidden reserves in this amount were also realized in respect of land and land rights with buildings.

The subsidiary RMW Projekt GmbH acquired with economic effect as of December 21, 2005 was accounted for in accordance with IFRS 3. RMW Projekt GmbH has not conducted any business operations to date. The acquisition cost was mainly allocated to the identifiable assets (primarily bank balances) and liabilities of RMW Projekt GmbH, which were recognized at their fair values at the acquisition date (full revaluation model). The comparison of the acquisition cost and the equity of RMW Projekt GmbH (EUR 28 thousand) determined using the full revaluation model resulted in a positive difference of EUR 2 thousand, which was recognized as goodwill. The goodwill was subsequently tested for impairment and then written off.

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

Minority interests and their interests in the consolidated profit are reported as an individual item within equity – separate from the parent company's equity. Minority interests that relate to interests in subsidiaries that take the legal form of a *Kommanditgesellschaft* (German limited partnership) are reported as liabilities.

IV. ACCOUNTING POLICIES

The single-entity financial statements included in the consolidated financial statements are prepared according to principles applied uniformly across the Group.

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 under IFRSs uses the cost model; this means that properties are carried at amortized cost less accumulated depreciation and accumulated impairment losses. The requirement to reverse impairment losses is complied with.

Depreciation of investment property is based on a depreciation period of generally 50 years from the date of initial consolidation in 1998, using the straight-line method. To the extent that the actual remaining useful lives of buildings were less than 50 years at January 1, 1999, they are depreciated over the relevant shorter period. The useful lives and depreciation methods are reviewed annually as part of subsequent measurement under IFRS.

The carrying amounts of investment property are tested at each balance sheet date for any indications of impairment in accordance with IAS 36. Regardless of whether there are indications that assets are impaired, all investment property and owner-occupied properties were tested for impairment as of June 30, 2005. The recoverable amount of an asset was compared with its carrying amount. The value in use of the property, which was primarily calculated on the basis of the discounted cash flow method using an interest rate of 4.38% p.a. (in accordance with the WACC method), 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. This resulted in total impairment losses of EUR 3.0 million in fiscal year 2005.

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 item of property, plant and equipment will flow to the Company.

In accordance with IAS 23, the Company made use of the option to include borrowing costs in cost.

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

Purchased intangible assets with a finite useful life are recognized at cost 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.

Property, plant and equipment is carried at cost less 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.

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

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

Measures taken to maintain or repair items of property, plant and equipment are recognized as an expense in the year in which they arise.

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 5%, 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)

Noncurrent financial assets comprise shares in the closed-end real estate investment fund DB IF 14 and other loans to this fund, as well as 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.

These shares and other loans are initially measured at fair value, which corresponds to the cost or the disbursement amounts.

They 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 requirement to reverse impairment losses as defined in IAS 39.65 is complied with. The original effective interest rates are 4.97% p.a. or 5.15% p.a.

Deferred taxes (IAS 12)

On the basis of IAS 12, deferred taxes 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 taxes are also recognized for utilizable loss carryforwards. Deferred taxes are measured at the current enacted corporation and trade tax rates, 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.

Properties held for sale and other inventories (IAS 2)

Properties held for sale with and without buildings are inventories in accordance with IAS 2. They are measured at the lower of the cost of purchased services or net realizable value (selling price less costs to sell).

Work in progress and other inventories comprise heating and operating costs as well as heating oil inventories that are not yet settled with the tenant; this item is measured in the same way 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.

Receivables from property sales are generally examined on a case-by-case basis.

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 is reported at its nominal amount.

Derivatives (IAS 39)

In the Deutsche Wohnen Group, derivatives include the right of tender (put option) granted to the limited partners of DB IF 14, as well as the loan and rental guarantee under the contractual agreements with DB IF 14.

Derivatives are measured at fair value through profit or loss. 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 4.47% p.a. at the balance sheet date (previous year: 4.33% p.a.) plus a risk discount for the right of tender.

The rental and loan guarantees issued to DB IF 14 are reported on the assets side because, according to current estimates, they will generate positive cash flows in the future.

On the other hand, the expected cash outflows from the right of tender are accounted for on the liabilities side. Under the right of tender granted, the limited partners of DB IF 14 or their legal successors may tender their shares to the Group at a contractually fixed, annually increasing purchase price from 2005 to 2019. The risk potential results exclusively from the development of the value of the properties contributed to the real estate fund.

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 the Deutsche Wohnen Group, this currently applies to properties that have been accounted for in accordance with IAS 40 to date and for which a notarized purchase agreement documenting the transfer of ownership, risks and rewards in the following year was entered into at the balance sheet date.

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

Liabilities (IAS 39), deferred income

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 AG 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 at favorable conditions. These interest-subsidized loans are recognized at fair value in liabilities. The difference (proportion of the grant) as against the loan amount is presented as deferred income.

As a breakdown by maturity would not provide any additional information, this item is allocated in full to noncurrent liabilities.

Contingent liabilities are not recognized in the consolidated financial statements, but are disclosed in the notes, insofar as the possibility of an outflow of resources embodying economic benefits is probable.

Post-employment benefit obligation (IAS 19)

Pension provisions are measured using the projected unit credit method as required by IAS 19.

All actuarial gains and losses from defined benefit obligations are recognized as part of the first-time adoption of IFRSs (fresh start method).

Subsequent measurement is based on the recognition in full of actuarial gains and losses that are taken directly to retained earnings in full in the year in which they arise, and are reported in the "SORIE" (statement of recognized income and expense) column in the statement of changes in equity. In accordance with IAS 19.82, interest cost is recorded under the interest expenses item in the income statement.

Other provisions (IAS 37)

Under IFRSs, other provisions are only recognized if a legal or constructive external obligation arises, utilization is probable and the amount of the obligation 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 amount of the provision is the present value of the expenditures expected.

Revenue recognition (IAS 18)

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

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 and rewards. Insofar as 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 expected.

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.

V. CONSOLIDATED BALANCE SHEET DISCLOSURES

The changes in and classification of intangible assets, property, plant and equipment, investment property and noncurrent financial assets reported under noncurrent assets as well as noncurrent assets held for sale is given in the statement of changes in noncurrent assets attached as Appendix A.

1. Investment property

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

In fiscal year 2005, costs of EUR 5.7 million (previous year: EUR 6.8 million) were capitalized for modernization and improvements in value, as well as the initial installation of new fittings and fixtures or the upgrading of existing ones. All measures lead to an increase in the future benefit expected from the asset and were capitalized as subsequent production costs.

In 2005, impairment losses of EUR 3.0 million (previous year: EUR 2.8 million) to the lower recoverable amount of the properties were recognized.

In the year under review, a subsidiary acquired 187 residential units and land under heritable building rights with a market value of EUR 5.3 million from the city of Landau.

In the case of two properties, adjustments in accordance with IAS 36 were required at the transition date, January 1, 2004:

- The impairment loss charged in previous years on a property in Landau was reversed up to the amount of the depreciated cost (EUR 0.2 million), because the reason for the impairment loss no longer applied.

- Extension of the useful life of a property in Annweiler as a result of a review of its useful life following modernization work on the property (approx. EUR 0.2 million).

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

The portfolio is measured in accordance with IAS 40.46c 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-/demand-related calculations. Ongoing maintenance expenses are based on an assessment of a building's characteristics. 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 "finite annuity" in accordance with the WertV *(Wertermittlungsverordnung* – German Valuation Regulation). The remaining term is calculated as the difference between an assumed life of 80 years and the useful life that has already expired up to the end of the planning period.

The remaining useful life of the building in question increases/decreases according to its properties. An imputed land value was also recognized in the amount of the current standard land value, according to the theoretical remaining use. As required by IFRSs, the discount rate was derived from the market rate which is based on regional property interest rates set by expert committees and is oriented on the ratio of realizable selling prices to market rents. The discount rate fell slightly as against the last measurement at December 31, 2004 by 0.02% to 4.74%.

The calculation method used to measure the properties was reviewed and declared valid by the independent property consulting company DTZ Investment-Advisors GmbH at the beginning of 2005. The Company has no expert opinions at its disposal for its investment property, with the exception of the properties acquired in Landau in 2005.

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

The following table shows the fair values as of December 31, 2005:

In EUR thou.	Fair value of core portfolio	Fair value of properties	Total
Deutsche Wohnen Group	1,180,282	43,383	1,223,665
Less properties accounted for in accordance with IAS 16	5,506	–	5,506
Fair value of properties accounted for in accordance with IAS 40 as of			
Dec 31, 2005	**1,174,776**	**43,383**	**1,218,159**
Dec 31, 2004	1,236,913	37,068	1,273,981

Contractual agreements

Among other things, Deutsche Wohnen AG has 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 sell, 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, 2005: EUR 3.5 million; previous year: EUR 3.7 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 0.8 million; previous year: EUR 0.8 million).

As in the previous year, there were no indications of impairment in the year under review.

3. Intangible assets

Intangible assets relate exclusively to purchased software. The Group has no internally generated intangible assets. Goodwill resulting from the initial consolidation of subsidiaries is written off in full.

4. Noncurrent financial assets

The noncurrent financial assets item includes equity investments in unconsolidated companies (DB IF 14) and other loans. They are classified as “loans and receivables” in accordance with IAS 39.

The equity investment in DB IF 14 bears interest of 1% p.a. based on the nominal capital.

The Group was tendered shares with a par value of EUR 4.3 million in the year under review; this corresponds to 7.44% of the shares of DB IF 14. The Deutsche Wohnen Group therefore holds a total interest in DB IF 14 of 14.38%. In accordance with the partnership agreement and a notarized waiver of voting rights, however, Deutsche Wohnen AG only holds a total of 20 voting rights (of a total of 9,947).

This item also includes the loans extended to DB IF 14 that must be repaid at final maturity on December 31, 2019; these loans may be repaid in part or in full, although this was not assumed in the calculations. The loans bear interest of 3% p.a. and are not collateralized.

Noncurrent financial assets also include 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.

5. Properties held for sale and other inventories

In fiscal year 2005, the carrying amount of land held for sale with finished buildings was EUR 7.7 million (previous year: EUR 9.0 million). This item relates to stocks in North Hesse (number of residential units as of December 31, 2005: 851). The decrease is due to sales during the year under review.

Work in progress includes claims relating to amounts not yet billed for operating costs of EUR 24.3 million (previous year: EUR 25.6 million). Other inventories relate to reserves of heating oil amounting to EUR 0.4 million (previous year: EUR 0.4 million).

In EUR thou.	Equity investment in DB IF 14	Other loans to DB IF 14	Other loans to buyers	Carrying amount
Carrying amount at January 1, 2005	**3,324**	**16,147**	**243**	**19,714**
Additions	4,444	0	5	4,449
Change in subsequent measurement	–654	210	0	–444
Disposals due to redemption/repayment	80	0	11	91
Carrying amount at December 31, 2005	**7,034**	**16,357**	**237**	**23,628**

6. Current receivables and other current assets

Receivables from rental activities (EUR 4.3 million; previous year: EUR 2.0 million) include receivables from outstanding rents and cost allocations (EUR 6.0 million; previous year: EUR 3.5 million). Valuation allowances due to uncollectibility amounting to EUR 1.7 million (previous year : EUR 1.4 million) were charged on gross receivables from rental activities. A flat rate of 40% of the valuation allowances applies to receivables from current tenants and 80% to receivables from former tenants.

Receivables from property sales include the receivable from the sale of an undeveloped development property southwest of Cologne amounting to EUR 2.9 million. The agreement, which is subject to the condition precedent that the planning is completed, is reflected in the profit for the year because the Management Board believes that it is virtually certain that the development plan will be implemented.

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

In EUR thou.	Dec 31, 2005	Dec 31, 2004
a) Receivables from management of DB IF 14 fund properties	3,475	3,466
b) Service charges not yet settled with residential owners associations	4,252	4,704
c) Shares in maintenance reserves relating to residential owners associations	2,925	1,333
d) Receivables from third parties and others; other current assets	1,668	2,336
	12,320	**11,839**

Explanations of individual items:

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 0.2 million (previous year: EUR 0.3 million) for invoicing and vacancy risks was charged as of December 31, 2005.

d) Specific valuation allowances amounting to EUR 0.2 million (previous year: EUR 0.1 million) were recognized for other current receivables.

The rental and loan guarantees issued to DB IF 14 that expire on December 31, 2019 are **derivatives** in accordance with IAS 39.9. They were measured on an item-by-item basis and accounted for at fair value.

In EUR thou.	Dec 31, 2005	Dec 31, 2004
Derivatives from		
– rental guarantee	5,201	5,487
– loan guarantee	512	0
Fair value	**5,713**	**5,487**

The guarantee amounts are compared with the forecast amount from the expected future development of the guarantees in the period up to 2019, and discounted at a current market interest rate at the balance sheet date. Any differences were recorded in the income statement after the transition date.

7. Cash and bank balances

This item includes rental deposits of EUR 3.3 million (previous year: EUR 3.3 million) invested with Aareal Bank AG, which are collateralized by a guarantee from Aareal Bank AG and are not freely available to the Group companies. The contra-item appears under liabilities from rental activities.

Bank balances include amounts due from affiliated companies (Deutsche Bank AG) of EUR 12.8 million (previous year: EUR 24.8 million).

8. Noncurrent assets held for sale

This item includes the carrying amounts of properties (primarily apartments) for which an effective notarized purchase agreement documenting the transfer of beneficial ownership in the following year was entered into as of December 31, 2005. The requirements under IFRS 5 have been met. The assets are debt-free.

By the end of 2005, purchase agreements including the transfer of ownership in 2006 were entered into for 150 apartments/detached houses, 85 garages and parking spaces as well as two undeveloped plots of land. The agreed purchase prices totaled EUR 10.4 million.

Purchase agreements for an additional 140 apartments/detached houses were entered into by the date on which the balance sheet was prepared.

9. Equity

Changes in equity are presented in the statement of changes in equity.

The share capital of Deutsche Wohnen AG reported as subscribed capital remained unchanged as against the previous year, at EUR 10.2 million, and is composed of 4 million no-par value registered shares. The shares issued are fully paid up. All shares were held in free float at the end of the year.

The appropriation to capital reserves was made due to a resolution adopted by the Extraordinary General Meeting in 1999. Capital reserves amounted to EUR 228.3 million as of the balance sheet date (previous year: EUR 274.6 million).

Retained earnings include the legal reserve amounting to EUR 1.0 million (previous year: EUR 1.0 million) as well as the reserve for treasury shares. Other retained earnings of EUR 28.9 million relate to initial measurement differences between the HGB and IFRSs according to the classification of items in the consolidated statement of changes in equity. The proportion of actuarial gains and losses from post-employment benefit obligations, which is taken directly to the "SORIE" equity item, is deducted from retained earnings.

An amount of EUR 35.0 million (EUR 8.75 per share) was distributed in 2005 for the previous fiscal year.

Ärzteversorgung Westfalen-Lippe, Münster, informed us in accordance with section 21(1) of the WpHG *(Wertpapierhandelsgesetz* – German Securities Trading Act) that its share of voting rights in the Company fell below the 5% threshold on July 12, 2005 and now amounts to 0%.

In addition, Asset Value Investors Limited, London, informed us in accordance with section 21(1) of the WpHG that its share of voting rights in the Company exceeded the 5% threshold on October 17, 2005 and now amounts to 5.16%.

Proposal for the appropriation of profits:
Deutsche Wohnen AG generated a consolidated profit for the year including minority interests of approximately EUR 16 million. Including the withdrawal from the capital reserves (EUR 46.2 million), consolidated net retained profits amounted to EUR 148.8 million.

The Management Board and the Supervisory Board will propose a dividend of EUR 8.75 per share to the General Meeting. If this proposed distribution is accepted, a total dividend of EUR 35.0 million will be paid on the shares carrying dividend rights as of December 31, 2005.

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:

In EUR thou.	Dec 31, 2005		Dec 31, 2004	
	Bank loans and overdrafts*	Other lenders*	Bank loans and overdrafts*	Other lenders*
< 1 year	16,144	2,046	20,671	3,625
1–2 years	8,096	1,876	9,265	3,495
2–3 years	21,051	1,854	9,013	3,507
3–4 years	65,533	1,684	9,405	3,482
4–5 years	17,212	1,633	78,925	3,205
> 5 years	334,033	21,820	371,304	38,117
	462,069	**30,913**	**498,583**	**55,431**

* 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 227.5 million (previous year: EUR 278.7 million) serve as collateral.

The debt financing of the properties is long-term, i.e. more than one year. Unscheduled repayments of EUR 46.5 million (previous year: EUR 30.0 million) were made in the year under review. The average rate of interest on liabilities to external lenders was 4.60% p.a. in the year under review (previous year: 4.74% p.a.). The Group reduces the risk from increased interest rates by agreeing long-term fixed-interest periods, usually of ten years.

11. 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.

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.

The actuarial calculations are based on the following parameters:

In %	Parameters used	
	Dec 31, 2005	Dec 31, 2004
Discount rate p.a.	4.00	4.55
Expected income growth p.a.	3.00	3.00
Expected pension growth p.a.	2.00	2.00
Increase in income threshold for contribution assessment p.a.	3.00	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 are recognized in full and taken directly to the "SORIE" equity item, including related deferred taxes.

Provisions for pensions and similar obligations changed in the balance sheet as follows:

In EUR thou.	Jan 1, 2005	Utilization	Reversal	Additions	Dec 31, 2005
Provisions for pensions and other post-employment benefits	5,249	323	0	429	5,355

12. Other provisions, provisions for taxes

Provisions developed as follows:

In EUR thou.	Jan 1, 2005	Utilization	Reversal	Additions	Dec 31, 2005
Provision for maintenance relating to DB IF 14	4,346	0	249	0	4,097
Other noncurrent provisions	239	0	0	8	247
	4,585	**0**	**249**	**8**	**4,344**

A. Noncurrent provisions

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 is compared with the forecast amount from the expected future development of maintenance expenses and discounted at the current effective interest rate (4.47% p.a.). The difference was recorded in the income statement after the transition date.

B. Current provisions

In EUR thou.	Jan 1, 2005	Utilization	Reversal	Additions	Dec 31, 2005
Provision for					
1) other employee expenses	2,412	1,524	21	2,087	2,954
2) unrecognized liabilities	1,260	820	305	1,084	1,219
3) audit and consulting expenses	493	449	0	659	703
4) liability from surplus income not yet paid out	605	303	0	241	543
5) expected construction costs	536	0	90	0	446
6) building renewal	483	55	0	0	428
7) realtors' commissions	587	579	8	407	407
8) litigation risks	301	4	27	76	346
9) preparation of the annual financial statements and billing of operating costs	347	134	71	168	310
10) contributions to the occupational health and safety agency	98	92	6	92	92
11) Other	1,458	1,076	162	1,963	2,183
	8,580	**5,036**	**690**	**6,777**	**9,631**

Explanations of individual items:

1) The provision includes the performance-related annual bonus paid to the Management Board and the Company's employees amounting to EUR 1.2 million (previous year: EUR 1.0 million), as well as provisions for partial retirement obligations totaling EUR 1.2 million (previous year: EUR 0.8 million).

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

7) The provision relates to realtors' commissions that were incurred under purchase agreements entered into in 2005 but were not invoiced at the time the annual financial statements were prepared.

C. Provisions for taxes, current tax liabilities

Provisions for taxes (excluding liabilities) changed as follows:

In EUR thou.	Jan 1, 2005	Utilization	Reversal	Additions	Dec 31, 2005
Provisions for taxes	10,314	3,965	4,504	3,835	5,680

Provisions for taxes relate primarily to income tax expenses expected for 2004 and 2005 (including the solidarity surcharge in each case) and were offset against claims arising from withholding tax on dividend income plus the solidarity surcharge on interest income, or against prepayments made.

In the year under review, this item reflected the merger-related income tax benefit recorded by the former Rhein-Main Wohnen GmbH for the period July 1, 2004 to December 31, 2004 amounting to EUR 2.7 million for corporation tax and EUR 1.7 million for trade tax.

In addition, the amount carried forward of this balance sheet item includes current tax liabilities of EUR 0.2 million that were settled in 2005. Tax liabilities amounting to EUR 0.3 million for assessment notices received from the tax authorities were reported as of the balance sheet date.

13. Other noncurrent liabilities

Following the spin-off of properties and loans to DB IF 14, liabilities to DB IF 14 relate to loan installments paid out (subsequent disbursement of fund loans) amounting to EUR 5.1 million (previous year: EUR 5.1 million). These partial loan amounts remain at Rhein-Pfalz Wohnen, which services and repays them in accordance with the interest and principal redemption plan.

14. Deferred taxes

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

In EUR thou.	Dec 31, 2005	Dec 31, 2004
Deferred tax assets		
– utilizable loss carry-forwards	17,995	17,174
– temporary differences	22,845	23,683
	40,840	**40,857**
Deferred tax liabilities		
– temporary differences	2,278	2,188

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.

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

In EUR thou.	Dec 31, 2005	Dec 31, 2004
Consolidated profit before tax	4,071	24,548
Applicable tax rate	40.86%	40.86%
Expected tax expense	1,663	10,030
a) Tax effects from differences in tax rates at individual Group companies	–1,574	–1,447
b) Tax effects from differences in the tax base	6,182	–729
c) Tax effects from loss carryforwards actually used	–3,588	0
d) Recognition and measurement of deferred taxes	132	–275
e) Trade tax effects	329	776
f) Prior-period effects	–15,036	–573
g) Other effects	–4	0
Effective tax expense (2005: income)	**–11,896**	**7,782**

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.

Explanations to the tax reconciliation:

a) The effects result primarily from differing tax liabilities in the Group that depend on the legal form of the companies concerned (partnership/corporation), and from local trade tax multipliers that vary depending on the location of the companies.

b) The tax effects from differences in the tax base in 2005 result primarily from one-time factors arising from the merger and from the surplus payments prior to the establishment of the consolidated tax group. These one-time factors are explained in the notes to the balance sheet and income statement items affected. The effects of temporary differences between the IFRS carrying amounts and the tax base are also reported here.

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

e) The trade tax effects are derived from the trade tax add-backs and reductions as part of the calculation of trade tax.

f) The prior-period effects comprise the merger-related income tax benefit for 2004 and tax refunds for prior years due to the surplus payments prior to the establishment of the consolidated tax group.

15. Prepayments received

The amount reported relates to prepayments on:

In EUR thou.	Dec 31, 2005	Dec 31, 2004
Operating costs to be invoiced to tenants	29,598	30,725
Purchase prices received for IAS 40 properties	502	146
Other	87	53
	30,187	**30,924**

16. Liabilities from rental activities

Liabilities from rental activities include tenants' rental deposits of EUR 10.3 million (previous year: EUR 10.2 million), which are secured in full by bank guarantees.

17. Trade payables and other liabilities

This item is composed of the following:

In EUR thou.	Dec 31, 2005	Dec 31, 2004
Liabilities from other taxes (primarily real estate transfer tax)	10,879	160
Liabilities from managing the properties held by DB IF 14	6,099	6,026
Other liabilities[1]	5,009	1,664
Liabilities from warranty retention	371	601
Other payables[2]	332	229
	22,690	**8,680**

[1] To DB IF 14.
[2] Trade payables.

18. Derivatives

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. After this period, the Group is obliged to acquire the shares initially (in 2005) at 105% of the paid-in capital share. From 2005, the agreed purchase price for the shares increases by five percentage points per annum to 175% in 2019. Following the tender in 2005, the Group holds 14.38% of the shares in DB IF 14. This item is measured at fair value because it is a derivative with a fair market value.

The risk potential results primarily from the development of the value of the properties contributed to DB IF 14. The value of the fund in 2019, based on the outstanding limited partner shares (end of 2005: 85.62%) is compared with the maximum repurchase value in 2019. The resulting risk is discounted to the balance sheet date and reported at a fair value of EUR 6.5 million as of December 31, 2005 (previous year: EUR 6.9 million).

The decrease is due to changes in the discount rate and the reduction in the volume of rights of tender.

Management believes that, apart from the tender in 2005, additional future tenders are unlikely due to the current level of interest rates.

VI. INCOME STATEMENT DISCLOSURES

19. Revenue

Revenue is classified into the following items:

a) Property management

In EUR thou.	Dec 31, 2005	Dec 31, 2004
Estimated rent and other income	89,105	90,393
Actual rent and other income	81,014	83,250
Revenue from billing of cost allocations	29,427	30,512
	110,441	**113,762**

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

b) Of the revenue from property sales (EUR 3.3 million; previous year: EUR 0.4 million), EUR 2.2 million (previous year: EUR 0.2 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 1.3 million (previous year: EUR 1.3 million) and income from the management of the DB IF 14 fund amounting to EUR 0.8 million (previous year: EUR 1.0 million).

20. Changes in inventories

In EUR thou.	Dec 31, 2005	Dec 31, 2004
Decrease in work in progress	–1,264	–1,953
Decrease (–)/Increase in land with finished/unfinished buildings (+/–)	–4	56
Change in inventories	–1,268	–1,897

21. Other operating income

In EUR thou.	Dec 31, 2005	Dec 31, 2004
Income from disposal of investment property	36,070	40,437
Income from the reversal of provisions	690	1,199
Income from recoveries on receivables written off	548	423
Income from a compensation agreement for property management losses (previous year: scheduled installment)	3,545	420
Income from the reversal of accrued interest-subsidized loans	1,501	1,513
Income from derecognition of liabilities	156	414
Income from interest cost added back to financial assets, other provisions	580	373
Miscellaneous other income	1,186	1,013
	44,276	**45,792**

22. Cost of purchased services

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

In EUR thou.	Dec 31, 2005	Dec 31, 2004
Maintenance expenses	17,750	17,804
Operating costs	30,900	30,876
Other property management expenses	1,207	1,210
	49,857	**49,890**

23. Employee expenses

Employee expenses fell in 2005 by EUR 1.0 million year-on-year to EUR 16.8 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 AG Group employed 279 staff, including part-time employees, as of December 31, 2005 (previous year: 294). The average number of employees in 2005 was 265 (FTEs).

24. Depreciation, amortization and impairment losses

In EUR thou.	Dec 31, 2005	Dec 31, 2004
Depreciation and amortization of		
– investment property	13,927	14,311
– property, plant and equipment	410	454
– intangible assets	45	43
	14,382	**14,808**
Impairment losses	3,041	2,819
	17,423	**17,627**

Impairment losses result from impairment tests conducted in 2005 and relate to impairment losses on investment property allocated to Segment I (Property management) in the segment reporting under IAS 14.

25. Other operating expenses

In EUR thou.	Dec 31, 2005	Dec 31, 2004
Selling commissions; cost of property sales	6,530	7,930
Write-offs and write-downs of receivables	2,386	2,466
Prior-period expenses	13,978	1,107
Losses on asset disposals	1,160	376
Administrative expenses; miscellaneous expenses	9,431	10,121
Goodwill impairment	2	0
	33,487	**22,000**

EUR 13.5 million of the prior-period expenses relates to a reimbursement obligation for a provisionally granted purchase price reduction for the acquisition of the shares of the former Rhein-Main Wohnen GmbH, and from a revived loan liability for which a contingent waiver of claim was issued in favor of that company in previous years.

They relate to the tax refund following the successful objection to the surplus payments at the former Rhein-Main Wohnen GmbH prior to the establishment of the consolidated tax group. The corresponding contra-items are primarily contained in interest income and income tax expense.

26. Other interest and similar income

In fiscal year 2005, this item contains refund interest of EUR 3.6 million on corporation tax credits from prior years resulting from the surplus payments prior to the establishment of the consolidated tax group. Interest income from deposits amounted to EUR 1.3 million (previous year: EUR 1.0 million).

Interest income includes income from deposits with affiliated companies (Deutsche Bank AG) amounting to EUR 0.1 million (previous year: EUR 0.8 million).

27. 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. The increase relates primarily to the shares of DB AF 14 tendered as of December 31, 2005

28. Interest and similar expenses

Interest and similar expenses are composed of the following items:

In EUR thou.	Dec 31, 2005	Dec 31, 2004
Interest expenses		
– Property and company financing	25,558	27,718
– Interest cost added back to interest-subsidized loans	1,501	1,513
– Early redemption penalties	2,048	477
– Tax authorities (German Tax Code section 233)	185	0
– Post-employment benefit obligation	231	258
– Miscellaneous	423	505
	29,946	**30,471**

29. Gains and losses on financial derivatives

The gains and losses from the measurement of derivatives are presented in this item and are broken down as follows:

In EUR thou.	Dec 31, 2005	Dec 31, 2004
Gains/Losses (–) from the measurement of		
– rights of tender	365	–752
– loan guarantee	2,414	25
– rental guarantee	–286	–34
	2,493	**–761**

30. 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 thou.	Dec 31, 2005	Dec 31, 2004
Current income tax expense for fiscal year 2005	3,007	8,630
Merger-related tax benefit	–4,360	0
Refund from successful tax case/litigation relating to surplus payments prior to the establishment of the consolidated tax group offset against resulting tax liabilities	–11,300	0
Effects of tax assessments and adjustments to prior-period tax calculations	625	–573
Change in deferred taxes	132	–275
Income (previous year: expense)	**–11,896**	**7,782**

In the year under review, deferred taxes of EUR 25 thousand were taken directly to equity (previous year: EUR 79 thousand); these relate 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.

31. Other taxes

Other taxes include the real estate transfer tax of EUR 12.6 million resulting from the merger of two Group companies, which was recognized as an expense under IFRSs.

32. Earnings per share

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

At 4,000,000, the number of shares remained constant in 2005, as it did in the previous year. Because there have been no changes in the share classes, there was no requirement to calculate diluted earnings per share for either 2005 or 2004.

Earnings per share amounted to EUR 3.97 (previous year: EUR 4.17).

VII. OTHER DISCLOSURES

Contingent liabilities

Contingent liabilities at December 31, 2005 amounted to a total of EUR 174.9 million. They result solely from obligations to third parties.

In EUR thou.	2005	2004
Guarantees	2,801	2,546
Provision of collateral for third-party liabilities	172,067	175,113
	174,868	**177,659**

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

There are also contingent liabilities from the provision of collateral for third-party liabilities in the form of land charges for the properties spun off to the DB IF 14 fund in 1999. Ownership of these properties has not yet been re-registered in the land register, nor is it necessary. There are contingent liabilities in this context from the joint and several liability for loans in the same amount that were spun off to the DB IF 14 fund together with the properties.

On the basis of a tax audit at two subsidiaries for 1998 and 1999, the disallowance of special tax-allowable reserves recognized in accordance with section 6b of the EStG (German Income Tax Act) may result in additional tax liabilities that will have to be borne by the former owner of the companies on the basis of the purchase contracts entered into in 1998.

A deduction in the same amount on a payment due to the former owner in 2005 was retained for these additional tax liabilities, so there are no resulting risks for the Group companies.

Perpetual leases result in financial obligations of EUR 8.9 million.

An agency agreement with affiliated companies relating to IT services that runs until 2007 results in other financial obligations amounting to a total of EUR 2.2 million.

Cash of EUR 11.6 million was pledged in 2005 as cash collateral 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). Rhein-Pfalz Wohnen GmbH performs assignments delegated by local authorities as their trustee.

Work completed up to December 31, 2005 in respect of property renovation and development, and land division and development measures, including trust assets and liabilities, gave rise to income and expenses not yet billed of EUR 139.1 million each (previous year: EUR 129.6 million). 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.

Leases

Operating leases

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

The total future minimum lease payments that will accrue to the Group under these heritable building rights amount to EUR 3.4 million and are allocated to future periods as shown in the table below:

In EUR thou.	
< 1 year	55
1–5 years	218
> 5 years	3,087

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 payments from operating leases amounted to EUR 3.1 million. The corresponding payment obligations are due as follows:

In EUR thou.	
< 1 year	967
1–5 years	2,005
> 5 years	100

EUR 1.1 million from these lease obligations was recognized as an expense in the period under review. The amount of income recognized from subleases was insignificant.

SEGMENT REPORTING

The changes in and classification of the segments, together with the associated income and expenses, and assets and liabilities, are presented in the segment reporting attached as Appendix 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 more transparent, as well as their opportunities and risks.

The Deutsche Wohnen Group opted for the following segmentation as of December 31, 2005:

Segment I: Property management

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

Segment II: Sales of property and buildings

This segment consists of the preparation and implementation of the privatization process and consists of noncurrent 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. There are no material expenditures that are not recognized in the income statement.

The segment data was calculated as follows:

– External revenue relates primarily to revenue generated in Germany, mainly in Hesse and the 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 and expenses, as well as 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. The corresponding prior-year figures are allocated to Segments I and III; they were not adjusted due to the insignificant results in 2004 (purchased as of September 1, 2004).

– 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 and expenses, and 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.

EXPLANATIONS OF THE TRANSITION TO IFRSs

The transition required adjustments within the meaning of IAS 8 to real estate carrying amounts. The adjustments were recognized directly in equity in the opening balance sheet.

The reconciliation of consolidated profit as of December 31, 2004 under the HGB to IFRSs is presented in the following table:

In EUR thou.	
HGB consolidated profit as of December 31, 2004	**13,082**
1) Losses on the classification and measurement of derivatives/DB IF 14	– 103
2) Noncurrent assets held for sale	97
3) Adjustments to prior-period real property stocks	2,500
4) Measurement differences in post-employment benefit obligations	–56
5) Elimination of maintenance provisions	1,273
6) Change in income taxes	275
7) Recognition of repurchases of shares of consolidated subsidiaries directly in equity	–231
8) Miscellaneous	– 71
IFRS consolidated profit as of December 31, 2004	**16,766**

Explanations of individual items:

1) Under previous GAAP (HGB), derivatives were merely carried in the form of a provision for expected losses if their fair value was negative (right of tender at December 31, 2004: EUR 3.7 million).

2) The earnings improvement results from discontinuation of the depreciation of properties that have been reclassified from IAS 40 to IFRS 5.

3) This item relates to adjustments to the carrying amounts of investment property that were brought forward to the date of the opening balance sheet in accordance with IFRSs.

4) The pension obligations contained in the HGB pension provisions have higher carrying amounts under IFRSs. This is attributable to the inclusion of future salary trends in the IFRS post-employment benefit obligation that are not reflected in the net present value calculated under the HGB.

5) The provisions for internal expenses without any third-party obligation that may be recognized under the HGB are prohibited under IFRSs.

6) The reduction is due to the recognition of deferred taxes (assets and liabilities) on differences between the carrying amounts of assets in the IFRS balance sheet and their tax base in 2003.

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.

Related parties also include DB Real Estate Management GmbH and Deutsche Bank AG and their related parties. On the basis of the control agreement effective since 1999, Deutsche Wohnen AG has transferred the management of its Company to DB Real Estate Management GmbH. The sole shareholder of DB Real Estate Management GmbH is Deutsche Bank AG.
In consideration for the performance of its management function, DB Real Estate Management GmbH receives a "distribution-driven remuneration" if and to the extent that the total amount of distributions by Deutsche Wohnen AG attributable to registered shares in a fiscal year exceeds a specific amount. The remuneration in the year under review amounted to EUR 0.3 million.

In addition to the control agreement, there is an agency agreement on the basis of which DB Real Estate Investment GmbH provides IT services on an arm's length basis (the fee was EUR 1.1 million as in the previous year).

DB IF 14 is also classified as a related party.

The following agreements have been entered into by Deutsche Wohnen AG and DB IF 14 since 1999:

- individual contractual arrangements with the limited partners of DB IF 14 relating to the right to tender
- rental guarantee and maintenance agreement
- loan guarantee agreement
- agreement on commercial and technical property management

Transactions with the individuals defined above were insignificant. Excluding the members of the Management Board, but including managing directors, the management team of the Deutsche Wohnen Group consists of 15 persons. The ratio of the 2005 bonus to the 2005 aggregate salary is approximately 23.5% (aggregate salary: EUR 1.3 million; bonuses EUR 0.3 million).

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 from this supplementary pension is not recognized as an expense (outsourced plan assets).

The commitments from the supplementary pensions for former and active employees and the obligations from vested pension benefits under occupational pension commitments to former members are presented in “Post-employment benefit obligation” in the consolidated balance sheet.

AUDITORS’ SERVICES

The fees of the auditors KPMG recognized as expenses in the fiscal year amounted to EUR 145 thousand for the audit and EUR 65 thousand for other services.

The audit related to expenses for the statutory audit of the consolidated financial statements and the annual financial statements of Deutsche Wohnen AG.

The other services related primarily to amounts invoiced for non-audit consulting services in connection with the transition to IFRSs.

MANAGEMENT BOARD AND SUPERVISORY BOARD

The total compensation of the Management Board of Deutsche Wohnen AG for fiscal year 2005 is broken down as follows:

In EUR thou.	Total compensation	Compensation component	
		fixed	variable
Andreas Lehner	488	188	300
Michael Neubürger	394	169	225

Remuneration granted to members of the Supervisory Board amounted to EUR 22 thousand in the year under review.

EVENTS AFTER THE BALANCE SHEET DATE

Please refer to the explanations in the combined management report for information on non-adjusting events after the balance sheet date.

CONSOLIDATED FINANCIAL STATEMENTS

Deutsche Wohnen AG is the majority shareholder in Rhein-Pfalz Wohnen GmbH, Main-Taunus Wohnen GmbH & Co. KG and MT Wohnen GmbH. It is therefore the Group parent and prepares exempting consolidated financial statements for these companies in accordance with section 292 of the HGB which are filed with the commercial register of Frankfurt am Main Local Court (reg. no. HRB 42388).

Deutsche Wohnen AG signed a control agreement with DB Real Estate Management GmbH in the context of the Annual General Meeting on May 7, 1999. As a result of this control agreement, the annual financial statements of Deutsche Wohnen AG are included in the US GAAP consolidated financial statements of Deutsche Bank AG, Frankfurt am Main. The consolidated financial statements of Deutsche Bank AG are filed with the commercial register of Frankfurt am Main local court under the number HRB 30000.

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 on the Internet (www.deutsche-wohnen.de).

Frankfurt am Main, 16. März 2006

Deutsche Wohnen AG

Andreas Lehner
– Chairman of the
Management Board –

Michael Neubürger
– Management Board
Member –

DEUTSCHE WOHNEN CONSOLIDATED STATEMENT OF CHANGES IN NONCURRENT ASSETS

In EUR thousand						Cost
	Balance at Jan 1, 2005	Additions	Disposals	Reclassi-fications	Transfers	Balance at Dec 31, 2005
I. Investment property						
Land with residential buildings	901,870	11,823	–40,071	–6,489	–1,367	865,766
Land with commercial buildings	22,283	24	–414	0	898	22,791
Land without buildings	30,296	0	–1,918	0	548	28,926
Land with heritable third-party building rights	456	0	–25	0	0	431
Technical equipment	5	0	0	0	174	179
Assets under construction	203	107	–85	0	39	264
Preconstruction costs	1,118	196	0	0	–118	1,196
Total investment property	**956,231**	**12,150**	**–42,513**	**–6,489**	**174**	**919,553**
II. Property, plant and equipment						
Commercial or other buildings – owner-occupied	5,879	0	0	0	0	5,879
Buildings on third-party land	1,192	0	0	0	0	1,192
Operating and office equipment	1,018	117	–29	0	0	1,106
Prepayments	174	0	0	0	–174	0
Total property, plant and equipment	**8,263**	**117**	**–29**	**0**	**–174**	**8,177**
III. Intangible assets						
Concessions, industrial and similar rights and assets and licenses in such rights and assets	637	3	0	0	0	640
Goodwill	3	2	–	–	–	5
Total intangible assets	**640**	**5**	**0**	**0**	**0**	**645**
IV. Noncurrent financial assets						
Other loans	19,817	4,449	–97	27	0	24,196
Total noncurrent financial assets	**19,817**	**4,449**	**–97**	**27**	**0**	**24,196**
Total	**984,951**	**16,721**	**–42,639**	**–6,462**	**0**	**952,571**
V. Noncurrent assets held for sale	**4,831**	**0**	**–4,831**	**6,489**	**0**	**6,489**

Cumulative depreciation, amortization and impairment losses							Carrying amounts	
Balance at Jan 1, 2005	Additions	Reversals of impairment losses	Disposals	Reclassi-fications	Transfers	Balance at Dec 31, 2005	at Dec 31, 2005	at Dec 31, 2004
86,065	15,626	0	−4,068	−527	−105	96,991	768,775	815,805
2,060	1,150	0	−57	0	105	3,258	19,533	20,223
2,737	0	0	−918	0	0	1,819	27,107	27,559
0	0	0	0	0	0	0	431	456
2	23	0	0	0	0	25	154	2
0	0	0	0	0	0	0	264	203
594	167	0	0	0	0	761	435	524
91,458	**16,966**	**0**	**−5,043**	**−527**	**0**	**102,854**	**816,699**	**864,772**
2,196	200	0	0	0	0	2,396	3,483	3,683
467	99	0	0	0	0	566	626	725
896	111	0	−28	0	0	979	127	122
0	0	0	0	0	0	0	0	174
3,559	**410**	**0**	**−28**	**0**	**0**	**3,941**	**4,236**	**4,704**
546	45	0	0	0	0	591	49	91
3	2	–	–	–	–	5	0	0
549	**47**	**0**	**0**	**0**	**0**	**596**	**49**	**91**
104	795	−331	0	0	0	568	23,628	19,714
104	**795**	**−331**	**0**	**0**	**0**	**568**	**23,628**	**19,714**
95,670	**18,218**	**−331**	**−5,071**	**−527**	**0**	**107,959**	**844,612**	**889,281**
811	**0**	**0**	**−811**	**527**	**0**	**527**	**5,962**	**4,020**

SEGMENT REPORTING

In EUR thousand	Segment I		Segment II	
	Property management		Sales of property and buildings	
	2005	2004	2005	2004
External revenue/other operating income	107,758	111,798	36,458	39,317
Intersegment revenue	190	217		
Segment revenue	**107,948**	**112,015**	**36,458**	**39,317**
Segment expenses owed to third parties/other income				
– Expenses from property management	48,979	49,897		
– Expenses from sales activities			6,530	7,820
– Employee expenses				
– Other operating expenses				
– Interest income and income from investments				
– Interest expense				
– Depreciation, amortization and impairment losses	17,423	17,626		
– Income/expense from derivatives				
– Income taxes				
– Other taxes				
Intercompany profits	**66,402**	**67,523**	**6,530**	**7,820**
Segment result before reconciliation	**41,546**	**44,492**	**29,928**	**31,497**
Segment result after reconciliation	**41,356**	**44,275**	**29,928**	**31,497**
Segment assets	845,436	892,725	29,954	40,682
Segment liabilities	42,080	43,228	1,480	896
Investments	12,151	6,966	0	0

	Segment III		Reconciliation		Group	
	Services, financing and administration					
	2005	2004	2005	2004	2005	2004
	10,376	8,167			154,592	159,282
	22,175	20,037	22,365	20,254	0	0
	32,551	**28,204**	**22,365**	**20,254**	**154,592**	**159,282**
			56		48,923	49,897
					6,530	7,820
	16,793	17,892			16,793	17,892
	45,544	30,478	22,365	20,254	23,179	10,224
	6,442	5,803	689	3,008	5,753	2,795
	30,635	33,479	689	3,008	29,946	30,471
	3,092	2,727			20,515	20,353
	2,493	761			2,493	761
	11,896	7,782			11,896	7,782
	12,824	111	56		12,880	111
	88,057	**87,427**	**22,365**	**20,254**	**138,624**	**142,516**
	–55,506	**–59,223**	**0**	**0**	**15,968**	**16,766**
	–55,316	**–59,006**				
	400,118	493,271	262,000	340,767	1,013,508	1,085,911
	815,090	946,441	262,000	340,767	596,650	649,798
	4,564	642	0	0	16,715	7,608

STATEMENT OF CHANGES IN EQUITY FOR FISCAL YEAR 2005

In EUR thou.	Subscribed capital	Capital reserves	Statutory retained earnings	Other retained earnings
Balance at Dec 31, 2003 in accordance with the HGB	**10,226**	**313,436**	**1,022**	**10**
Adjustment from deferred taxes				38,315
Adjustment from pensions				–911
Adjustment from financial derivatives				–9,032
Corrections of errors				
Other changes				454
Balance at Jan 1, 2004 in accordance with IFRSs	**10,226**	**313,436**	**1,022**	**28,836**
Distributions				
Consolidated profit for the year				
Change from repurchase of shares		277		
Withdrawals		–39,101		
Appropriations				
Adjustment from pensions				
Other changes				302
Balance at Dec 31, 2004 in accordance with IFRSs	**10,226**	**274,612**	**1,022**	**29,138**
Distributions				
Consolidated profit for the year				
Change from repurchase of shares		–60		
Withdrawals		–46,212		
Appropriations				
Adjustment from pensions				
Other changes				–302
Balance at Dec 31, 2005 in accordance with IFRSs	**10,226**	**228,340**	**1,022**	**28,836**

SORIE	Consolidated net retained profits	Subtotal	Minority interests	Total
0	**102,691**	**427,385**	**581**	**427,966**
		38,315		38,315
		–911		–911
		–9,032		–9,032
		–2,138		2,071
	–2,138	454	67	454
0	**100,553**	**454,073**	**648**	**454,721**
	–35,000	–35,000		–35,000
	16,698	16,698	68	16,766
		277	–327	–50
		–39,101		–39,101
	39,101	39,101		39,101
–321		–321		–321
	–302	0	–3	–3
–321	**121,050**	**435,727**	**386**	**436,113**
	–35,000	–35,000		–35,000
	15,892	15,892	76	15,968
		–60	–69	–129
		–46,212		–46,212
	46,212	46,212		46,212
–91		–91		–91
	302	0	–2	–2
–412	**148,456**	**416,468**	**391**	**416,859**

CASH FLOW STATEMENT

In EUR thousand	2005	2004
1. Consolidated profit for the year (including minority interests) before interest paid and received and income taxes	27,047	53,874
2. Depreciation and amortization expense	17,888	17,654
3. Increase/decrease (–) in provisions	–3,928	–3,024
4. Net gains (–)/losses on disposal of investment property	–37,073	–39,834
5. Interest paid (–)/received	–23,108	–26,564
6. Income taxes paid (–)/received	12,028	–10,547
7. Increase (–)/decrease in deferred taxes	107	–354
8. Increase (–)/decrease in inventories, trade receivables, derivatives and other assets that are not attributable to investing or financing activities	10,766	–5,187
9. Increase/decrease (–) in trade payables, derivatives and other liabilities that are not attributable to investing or financing activities	11,720	–1,590
10. Change in other balance sheet items	–88	–316
11. Cash flows from operating activities	**15,359**	**–15,888**
12. Proceeds from disposal of investment property	78,562	87,423
13. Payments to acquire investment property	–12,267	–7,512
14. Payments to acquire intangible assets	–3	–95
15. Proceeds from disposal of financial assets and capital repayments	41	412
16. Payments to acquire minority interests in consolidated companies	–130	–50
17. Payments to acquire subsidiaries (purchase price)	–30	0
18. Cash acquired with subsidiaries purchased	27	0
19. Payments to acquire financial assets	–4,379	–10
20. Cash flows from investing activities/housing sales	**61,821**	**80,168**
21. Payments to owners (dividend)	–35,000	–35,000
22. Proceeds from issuance of loans	0	11,109
23. Repayments of loans	–61,031	–50,354
24. Cash flows from financing activities	**–96,031**	**–74,245**
25. Net change in cash and cash equivalents	**–18,851**	**–9,965**
26. Cash and cash equivalents at beginning of period	66,054	76,019
27. Cash and cash equivalents at end of period	**47,203**	**66,054**

As in the previous year, cash and cash equivalents comprise cash (EUR 17 thousand; previous year: EUR 6 thousand) and bank balances (EUR 47,186 thousand; previous year: EUR 66,048 thousand). Bank balances include rental deposits of EUR 3,251 thousand (previous year: EUR 3,250 thousand).

In fiscal year 2005, cash funds of EUR 11,505 thousand (previous year: EUR 11,234 thousand) were pledged to a bank as cash collateral.

COMBINED MANAGEMENT REPORT OF DEUTSCHE WOHNEN AG AND THE DEUTSCHE WOHNEN GROUP FOR FISCAL YEAR 2005

The consolidated financial statements of Deutsche Wohnen have been prepared in accordance with International Financial Reporting Standards (IFRSs) for the first time. This has resulted in differences in certain items compared with the prior-period amounts and disclosures, which were prepared in accordance with the provisions of the *Handelsgesetzbuch* (HGB – German Commercial Code). The annual financial statements of Deutsche Wohnen AG are based on the accounting provisions of German commercial law (HGB).

1. General economic environment

Real gross domestic product improved by 0.9% in 2005, although growth was somewhat lower than in the previous year (1.6%). Nevertheless, the cyclical development of the German economy over the course of 2005 represents significant progress despite real income losses due to oil prices and the sustained difficult unemployment situation. However, the conditions for continuation of the cyclical upwards trends are now in place.

The driving force was again the dynamic growth of manufacturing industry. In view of the significant upwards trend in incoming orders, this situation is likely to continue in the months to come. Exports still provide the strongest impetus for growth impetus. However, stimulating forces in the domestic economy are also on the rise, although these are primarily reflected in increased investing activity at present. By contrast, household consumption remains weak. Overall, the prospects for a continuing recovery in the economy as a whole have strengthened further. However, it is still not sufficiently sustainable to trigger a turnaround in the labor market; as in the previous year, unemployment hovered between 10% and 11% at the end of 2005.

For the first time in five years, the European Central Bank raised its key lending rate by 25 basis points to 2.25%. This in itself is unlikely to have any negative consequences for the sector. Risks to the economy are posed by a possible further increase in crude oil prices and a slide in the value of the U.S. dollar. There is also uncertainty as a result of the planned increase in VAT.

On the other hand, the federal and state governments have eliminated significant barriers to a reform of the federal structure following years of negotiations. The focus is on the allocation of legislative authority to the federal and state governments, the responsibilities and involvement of the states in the federal legislative process, and on financial relationships between the federal and state governments. A successful reform of the federal structure will give the grand coalition greater scope in its economic, tax and social policy.

2. German residential property market

Apart from population change, the main determinants of demand for residential property will be the floor space required by residents and the size of households. At least for the coming 10 years, overall stable demand for housing can be assumed. In Germany, however, a further concentration of demand for housing on economically strong urban conurbations is evident. This is not a highly dynamic process, although it is sustained. However, this does not automatically mean diminishing values for peripheral towns and regions. The attractiveness of available housing is increasingly being driven by the micro location here.

The total German residential property market currently consists of around 37 million residential units. Around 9 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. Market studies conducted by leading institutes agree that around 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. Deutsche Wohnen AG intends to take full advantage of this development in the German residential property market. Following the intended deconsolidation of Deutsche Wohnen AG from the Deutsche Bank Group, it aims to increase its residential portfolio substantially in the coming years through further purchases.

In addition to residential property management, housing privatization is a source of earnings for Deutsche Wohnen. Additional growth potential is clearly identifiable in the housing privatization market. Politicians have been able to convince broad sections of the population that adequate retirement provision cannot automatically be guaranteed without a personal contribution. In addition to investment products, own second-hand accommodation offers a particular advantage in this area. It is visible and can be reasonably well assessed in terms of both its social and regional environment, and its costs and income. In the end customer business, purchases of second-hand accommodation in Germany already match those of new accommodation today.

3. General information

As of December 31, 2005, the following companies formed part of the Deutsche Wohnen Group:

- Deutsche Wohnen AG, Frankfurt am Main
- Main-Taunus Wohnen GmbH & Co. KG, Frankfurt am Main
- MT Wohnen GmbH, Frankfurt am Main
- Rhein-Main Wohnen GmbH, Frankfurt am Main (formerly: Rhein-Nahe Wohnen GmbH, Mainz)
- RMW Projekt GmbH, Frankfurt am Main (acquired as of December 21, 2005)
- Rhein-Mosel Wohnen GmbH, Mainz
- Rhein-Pfalz Wohnen GmbH, Mainz

Under a merger agreement dated February 25, 2005, Rhein-Main Wohnen GmbH (old) was merged with Rhein-Nahe Wohnen GmbH retrospectively as of July 1, 2004. Rhein-Nahe Wohnen GmbH was then renamed Rhein-Main Wohnen GmbH (new).

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

Deutsche Wohnen AG entered into a control agreement in 1999 with DB Real Estate Management GmbH, Eschborn, a wholly owned subsidiary of Deutsche Bank AG, Frankfurt am Main. As a result of this control agreement, Deutsche Wohnen AG is included in the consolidated financial statements of Deutsche Bank AG. The Management Board of Deutsche Wohnen AG is subject to the business management and instructions of DB Real Estate Management GmbH.

As of December 31, 2005, the real estate portfolio of the Deutsche Wohnen Group was made up as follows:

Total residential stock under management:	28,024 units
– Of which own units:	21,780 units
– Of which units managed by third parties:	6,244 units
Total commercial units under management:	117 units
Total residential space:	1.39 million m²
Average size of apartment:	63.7 m²
Commercial space:	24,804 m²
Undeveloped space:	451,725 m²

The Group's own residential property portfolio consisted of 21,780 residential units as of December 31, 2005. Deutsche Wohnen AG acquired 187 residential units in Landau at the end of December 2005. This residential portfolio in the south of the Rhineland-Palatinate is an excellent addition to the Group's core portfolio (Rhine-Main region/Rhineland-Palatinate). 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 2005

a) Residential property management

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

A major focus of operations in 2005 was again the comparison of the alternatives of continuing to manage residential units or selling them. As of December 31, 2005, the overall vacancy rate of approximately 7.4% (1,544 residential units) as compared with the previous year was broken down as follows:

In %	Dec 31, 2005	Dec 31, 2004
Overall vacancy rate	7.4	7.3
– of which due to modernization	0.3	0.2
– of which due to development	0.9	0.8
– of which awaiting lease	2.6	2.7
– of which awaiting sale	3.6	3.6

Average monthly estimated rent exceeded the previous year's level (EUR 4.95 per m^2) by EUR 0.06, amounting to EUR 5.01 per m^2 at the balance sheet date. The total loss of rent resulting from the overall vacancy rate was around EUR 7.3 million. The lower actual rental income due to privatization was EUR 79.9 million (2004: EUR 83.2 million) in the Rhine-Main/Rhineland-Palatinate core portfolio.

Maintenance costs in fiscal year 2005 were an average of EUR 13.80 per m^2 (2004: EUR 12.90 per m^2). A further EUR 2.72 per m^2 was invested in modernization expenditure requiring capitalization. The total maintenance expenses for the core portfolio amounted to EUR 17.5 million (2004: EUR 17.8 million). Based on the portfolio strategy, maintenance expenditure related exclusively to units with at a minimum a medium-term earnings potential from rental or sale.

Other significant items in the residential property management segment are depreciation charges on residential and commercial buildings carried as non-current assets and amounting to EUR 17.4 million (2004: EUR 17.6 million). Compared with the previous year, the interest expense for property financing is not included, as it would result in a distorted picture of earnings because company financing costs are also not included in the result from residential real estate management (see below for net finance costs).

The segment result from revenue and expenses relating to property management in 2005 was EUR 41.4 million (2004: EUR 44.4 million).

b) Housing privatization

Housing privatization is another major area of the 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.

At 1,177 privatized residential units, 161 fewer housing sales were reported in fiscal year 2005. However, a further 173 privatized residential unit sales were notarized in fiscal year 2005 and carried forward to fiscal year 2006 (2004: 36 units).

Housing sales	2005	2004
Number of housing sales recorded	1,177	1,338
– of which: Rhine-Main/Rhineland-Palatinate core region	1,026	1,327
– of which: North Hesse portfolio (acquired 2004)	151	11
Average selling price in core portfolio (EUR per m^2)	1,009	1,040
Carried forward to following fiscal year: number of residential units	173	36

Around 48% of the privatizations relate to the Rhineland-Palatinate area, and around 39% of sales transactions related to the Rhine-Main area. The remaining 13% relate to the portfolio in North Hesse.

Lower prices were accepted for sales activities to streamline the portfolio in the west and southwest of the Rhineland-Palatinate. This was the primary reason for the slight year-on-year reduction in the average selling price in the core portfolio to EUR 1,009 per m^2.

Overall revenue in the housing privatization segment was EUR 81.1 million (2004: EUR 86.1 million), and book gains amounted to EUR 36.4 million (2004:

EUR 39.3 million). In addition to book gains from the North Hesse portfolio, this figure also includes book gains from the sale of development properties amounting to EUR 3.1 million (2004: EUR 2.1 million).

After marketing and pre-sale expenses totaling EUR 6.2 million (2004: EUR 7.6 million), the segment result for housing privatization was EUR 29.9 million (2004: EUR 31.5 million).

c) Services, financing and administration

The other items making a significant contribution to earnings are broken down as follows:

- other income (EUR 8.3 million) resulting from one-time factors,
- income from management of third-party property (EUR 2.1 million),
- write-downs of receivables (EUR 2.3 million),
- employee and administrative expenses (EUR 40.0 million; including EUR 13.5 million as part of the surplus payments prior to the establishment of the consolidated tax group – see 5c below),
- net financing costs (EUR 24.2 million) and
- tax expense (EUR 1.0 million) including the effects of the merger of two Group companies in February 2005 (real estate transfer tax and tax refund) of EUR – 8.2 million and from the surplus payments prior to the establishment of the consolidated tax group amounting to EUR 11.3 million.

Overall, other items improved by EUR 3.7 million year on year.

5. Net assets, financial position and results of operations

a) Consolidated net assets

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

Main asset groups in the IFRS consolidated balance sheet in EUR m.	2005	2004	Change
Investment property	816.7	864.8	– 48.1
Financial assets	23.6	19.7	+ 3.9
Deferred tax assets	40.8	40.9	– 0.1
Current assets	125.9	154.0	– 28.1
– of which: cash and cash equivalents	47.2	66.1	– 18.9

The largest item of noncurrent assets in the IFRS consolidated balance sheet is investment property. Primarily as a result of privatizations, this item fell by around EUR 48.1 million to EUR 816.7 million. Investment property includes “development property” with carrying amounts of EUR 35.1 million.

Financial assets relate to loans and shares of DB Immobilienfonds 14 Rhein-Pfalz Wohnen GmbH & Co. KG, which holds around 2,600 housing units and is managed by Rhein-Pfalz Wohnen GmbH on the basis of an agency agreement.

Deferred tax assets are recognized for the first time under IFRSs. These consist of deferred taxes of EUR 22.8 million resulting from temporary differences between the carrying amounts in the consolidated balance sheet and the tax base, and deferred taxes of EUR 18.0 million on utilizable loss carryforwards.

In addition to cash in hand and bank balances, current assets consist primarily of unbilled operating costs of EUR 24.7 million, receivables from sales of EUR 13.6 million and service charge prepayments of EUR 4.3 million.

Bank balances declined by EUR 18.9 million year on year due to the repayment of loans. This was a component of the restructuring of property financing with the objective of achieving greater lending flexibility for the intended substantial expansion of the residential property portfolio.

b) Group financial position

In accordance with the 2005 IFRS consolidated balance sheet, the equity of EUR 416.9 million consists primarily of the subscribed capital of around EUR 10.2 million, the capital reserves of EUR 228.3 million and the net retained profits of EUR 148.5 million.

Group equity fell by EUR 19.2 million year on year because amounts for dividend distributions were again withdrawn from the capital reserves of Deutsche Wohnen AG. Withdrawal from the capital reserves is a requirement for tax-exempt distributions by Deutsche Wohnen AG to its shareholders.

Around 77% of the aggregate Group liabilities (total of EUR 596.7 million as of December 31, 2005) were due to banks, and are composed of the following items:

In EUR m.	2005	2004
Property financing loans	142.8	163.5
Long-term loans and registered bonds	250.8	250.8
Other long-term loans	0	9.1
Deferred income (part of interest-subsidized loans)	35.6	37.1
State building loans	16.7	17.4
Short-term loans and accrued interest	16.1	20.7
Total bank loans and overdrafts	**462.1**	**498.6**

Property financing loans relate to financing for investment property. The long-term loans and registered bonds were placed with Hessische Landesbank in 1998. They were partially assigned by Hessische Landesbank to Naspa Dublin (Ireland) in 1999. They bear interest rates of 4.94% (loans) and 5.38% (registered bonds), 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 492.9 as of December 31, 2005, was 4.6% p.a., compared with 4.7% in the previous year The equity ratio for the Deutsche Wohnen Group rose by 0.9 percentage points to 41.1%.

c) Results of operations of the Group

The consolidated profit before tax dropped by 32%, from EUR 24.7 million in 2004 to EUR 17.0 million in 2005. This is attributable to a one-time factor involving a complex matter (surplus payments prior to the establishment of the consolidated tax group), which is reflected in a number of areas of the income statement and is largely neutralized in the aggregate.

The surplus payments prior to the establishment of the consolidated tax group relate to a matter dating back to the time before the placement of the shares and Deutsche Wohnen AG's IPO in 1999. Disputed tax payments were charged to a residential property company of the former Hoechst group (which was integrated into the Deutsche Wohnen Group) due to profit transfers by that company. This matter was already known at the time of the sale of this residential property company to Deutsche Wohnen AG in 1998 and reflected in the purchase price.

Following a ruling by the highest court, the payments have now been reversed with the accounting consequences outlined above. The effects of the reversal on earnings represent the major portion of the consolidated income statement item “Other operating expenses”, which also include administrative expenses of EUR 9.7 million and pre-sale expenses of EUR 6.2 million.

Adjusted for the amounts relating to the surplus payments prior to the establishment of the consolidated tax group, consolidated profit before tax amounts to EUR 26.7 million, representing a year-on-year increase of EUR 2.0 million.

Main items in the IFRS consolidated income statement in EUR m.	2005	2004	Effect on profit or loss
Revenue from property management	110.4	113.8	–3.4
Other operating income	44.3	45.8	–1.5
– of which: income from the disposal of investment property (privatization)	36.1	40.4	–4.3
Employee expenses	–16.8	–17.9	+1.1
Other operating expenses	–33.5	–22.0	–11.5
Profit before tax	**17.0**	**24.7**	**–7.7**
Income tax expense	+11.9	–7.8	+19.7
Other taxes	–12.9	–0.1	–12.8
Consolidated profit for the year	**16.0**	**16.8**	**–0.8**

The majority of the positive income tax expense (income) shown in the table relates to the contra-item for the surplus payments prior to the establishment of the consolidated tax group of EUR 11.3 million. Another one-time factor is an income tax refund of EUR 4.4 million from 2004. The reason for this is the merger of two Group companies in February 2005 retrospectively as of June 30, 2004.

The income tax expense relating to the operating business fell by EUR 4.8 million year-on-year to EUR 3.0 million. The “Other taxes” item principally contains a one-time merger-related payment of real estate transfer taxes of EUR 12.6 million.

Consolidated profit for the year after taxes was EUR 16.0 million in 2005, a decrease of EUR 0.8 million or 5%. Adjusted for the effects of the surplus payments prior to the establishment of the consolidated tax group, the income tax refund and the real estate transfer tax payment, consolidated profit improved on a pro forma basis to EUR 22.7 million.

d) Other key Group figures

EBIT and EBITDA are other key management and performance assessment indicators in the Group:

Key Figures – Group (IFRS)	2005	2004	Change
EBIT (EUR m.)[1]	39.4	53.1	–13.7
EBITDA (EUR m.)[2]	56.8	70.8	–14.0
Gross operating cash flow incl. privatization (EUR m.)[3]	78.2	81.6	–3.4
Equity ratio[4]	41.1%	40.2%	+0.9
Return on equity[5]	3.7%	3.7%	–
Asset cover ratio 1[6]	49.3%	49.0%	+0.3
Asset cover ratio 2[7]	107.3%	110.3%	–3.0
Liquidity ratio[8]	120.4%	150.0%	–29.6
Interest cover ratio[9]	2.4%	2.2%	+0.2

1 Profit before tax plus interest expenses, less interest income and income from other securities, less gains and losses on financial derivatives.
2 Profit before tax plus interest expenses, less interest income and income from other securities, less gains and losses on financial derivatives, less depreciation, amortization and impairment losses.
3 Consolidated profit after tax plus depreciation, amortization and impairment losses, plus disposals at book value from housing privatization.
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 Interest income less interest expenses/Segment result from property management plus depreciation, amortization and impairment losses.

The significant reduction in the measures EBIT, EBITDA and gross operating cash flow (funds from operations – FFO) is due to the one-time factors outlined above, although the effects vary from measure to measure.

e) Annual financial statements of Deutsche Wohnen AG

Deutsche Wohnen AG is characterized primarily by its functions as a Group financial and management holding company. Deutsche Wohnen AG's fixed assets as of December 31, 2005 amounted to EUR 285.5 million, and consisted solely of shares of affiliated companies as of December 31, 2005.

At EUR 250.6 million, receivables from affiliated companies are the main item of Deutsche Wohnen AG's current assets amounting to a total of EUR 251.8 million. These consist primarily of short-term, low-interest intragroup loans of EUR 243.7 million.

Deutsche Wohnen AG's registered share capital amounted to EUR 10.2 million. It is composed of four million no-par value registered shares. Because the investments by institutional shareholders > 5% (two shareholders hold 5% and 7% respectively) are classified as investments by investment companies and funds under the relevant definitions by Deutsche Börse AG, the free float is 100%.

The total equity of Deutsche Wohnen AG at the 2005 balance sheet date amounted to EUR 274.4 million, representing a decrease of EUR 46.2 million compared with the previous year (2004: EUR 320.6 million). This is due to the withdrawal from capital reserves in the same amount that was used to offset the net loss for the year of Deutsche Wohnen AG of EUR 11.2 million (see below), and to report net retained profits of EUR 35.0 million in the amount of the planned distributions.

The Management Board and Supervisory Board will propose to the Annual General Meeting in 2006 that the net retained profits of Deutsche Wohnen AG amounting to EUR 35.0 million be distributed in their entirety to the shareholders.

Liabilities to banks consist primarily of the registered bonds of EUR 199.7 million described above and amortizing loans of EUR 51.1 million from Landesbank Hessen-Thüringen Girozentrale.

The total liabilities of Deutsche Wohnen AG at the 2005 balance sheet date amounted to EUR 261.8 million (2004: EUR 258.3 million). 64% of these are long-term liabilities (> 5 years), 32% are medium-term liabilities (1 to 5 years) and 4% are short-term liabilities (< 1 year). Deutsche Wohnen AG's gearing (ratio of debt to total debt and equity) was 49% (December 31, 2004: 45%).

Deutsche Wohnen AG's results of operations are characterized primarily by lower income from its investment in Group company Main-Taunus Wohnen GmbH & Co. KG. Because of a structural 31% lower investment and a reduced earnings contribution by this Group company, Deutsche Wohnen AG's investment income amounted to EUR 5.1 million, compared with EUR 10.6 million in the previous year.

Deutsche Wohnen AG's total expenses of EUR 16.7 million were characterized primarily by the interest expenses of EUR 13.2 million to Landesbank Hessen-Thüringen Girozentrale. The remaining amount related primarily to personnel and administrative expenses.

6. Personal

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 279 employees at the end of 2005 (2004: 294), plus 14 trainees (2004: 19).

The division of the employees into the two companies has historical reasons. Because of the different retirement provision concepts at the companies bought in 1999, a combination is not a simple matter. Nevertheless, the individual establishments will be combined to form a "joint establishment" in accordance with section 1 of the *Betriebsverfassungsgesetz* (BetrVG – German Works Constitution Act).

The performance-related salary components in the Group are measured on the basis of EBDIT as well as other factors. In the management team currently consisting of 15 employees (excluding Management Board), the performance-related component was around 23%; it was 4.7% for the other employees. 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.

7. Risk management

The 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. 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 uses a tool to link the cash flows from management and privatization, which are assured over the course of the year and on a multiyear basis, to a risk-adjusted estimated basic stock of liquidity.

A fundamental change in the tax environment may lead to financial risk. Continuous tax advice by an external tax advisor supports Deutsche Wohnen AG's management on a regular basis, and at the same time keeps it informed about the latest changes, so that management can initiate the necessary measures if required.

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

There are no financial risks for the Group from the liquidity perspective because of the credit balances at banks of around EUR 47.2 million at the end of 2005. The liquidity ratio (current assets/current liabilities) is 120.6%.

b) Other business and market risks

As part of the process of risk management, financial control ensures the continuous comparison of intra-period business and the risk-adjusted business plan. In addition, changes in current, for example operating, tax and/or financial parameters are analyzed as part of a rolling five-year business plan. This enables negative developments to be identified as an early stage so that appropriate countermeasures can be initiated. The main variable parameters for the operating 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 income 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 2005.

Contractually agreed residential rents represent a stable cash flow for the Group, so 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 fair 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 2005 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 the immediacy of those issues. Issue-driven reporting is made to a predefined group of recipients within the Deutsche Wohnen Group, the controlling company DB Real Estate Management GmbH, and to the Supervisory Board.
The internal risk management manual is updated once a year.

8. Significant events occurring after the balance sheet date

The agenda for an Extraordinary General Meeting on the topic of the intended deconsolidation of Deutsche Wohnen AG from the Deutsche Bank Group on March 23, 2006 was published on February 7, 2006. The main item to be resolved at this Extraordinary General Meeting is the termination of the control agreement with DB Real Estate Management GmbH. Termination of the control agreement would also terminate the obligation of DB Real Estate Management GmbH contained in the control agreement and ultimately arising from the provisions of the *Aktiengesetz* (German Stock Corporation Act) to absorb any net loss for the year arising during the life of the agreement unless it is to be offset from the distributable reserves of Deutsche Wohnen.

Another item at the Extraordinary General Meeting on the topic of the intended deconsolidation involves the creation of a facility to convert the current registered shares into future bearer shares, and to change the fiscal year. The period from January 1, 2006 to June 30, 2006 will then be a short fiscal year, and the new fiscal year will extend from July 1 of one year until June 30 of the next year. The reason for the change in fiscal year being proposed to the shareholders is that under the Aktiengesetz, the control agreement, which must be classified as an intercompany agreement, may only be terminated as of the end of a fiscal year.

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 AG resulting from the carrying amounts of shareholdings in affiliated companies. There was no evidence of any such risk at December 31, 2005, nor is any risk evident for fiscal years 2006 and 2007.

The largest single item of undeveloped development property is a property in Frankfurt am Main-Unterliederbach, which is classified as building land. The property 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 EU “Seveso II Directive” and the *Bundesimmissionsschutzgesetz* (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. Following an in-depth discussion between the owners and representatives of the City of Frankfurt am Main and the Hesse Ministry of Economics, Transport and State Development, there is agreement that these distance recommendations will be open to consideration. It was recorded that the City of Frankfurt and the Regierungspräsidium (regional government office) in Darmstadt will seek solutions without delay that are suited to complying with the concept of taking precautions against hazardous incidents both legally and constructively. Because of this, and because of the existing planning rights, the Management Board does not currently see any reason for doubting the value of the property by the Company.

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.

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

b) Opportunities of future development

The intended deconsolidation of Deutsche Wohnen AG from the Deutsche Bank Group already mentioned in this Management Report is a precondition for the ability of the Company to substantially expand the existing residential portfolio through further purchases.

In doing so, Deutsche Wohnen AG can exploit its capital market positioning, its excellent reputation on the residential property market and its management expertise in particular.

Portfolio additions could positively affect the Group's net asset value (which was EUR 189.32 per share as of December 31, 2005). The capital markets derive upside potential for the share price of a real estate company from its ability to achieved sustainable growth in its net asset value.

In the operational area, the business policy for the existing residential portfolio will essentially be retained. In the area of housing privatization, around 1,100 sales are planned for 2006, and the net selling proceeds would then be at the same level as in 2005.

Excluding potential growth and reduced rental income, an operating profit on a level with 2005 is planned for fiscal year 2006.

Frankfurt am Main, March 16, 2006

Deutsche Wohnen AG

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

AUDITORS' REPORT

As the parent, Deutsche Wohnen AG, Frankfurt am Main, has exercised the option to combine the management report and the group management report and to publish the annual financial statements and the consolidated financial statements together. We have issued our unqualified auditors' report contained in Annex 7 as follows:

"Auditor's Report

We have audited the consolidated financial statements – comprising the balance sheet, income statement, statement of changes in equity, cash flow statement and the notes – and the report on the position of the Company and the Group prepared by Deutsche Wohnen AG, Frankfurt am Main, for the fiscal year from January 1 to December 31, 2005. The preparation of the consolidated financial statements and the group management report in accordance with IFRSs as adopted by the EU and the supplementary provisions of German commercial law required to be applied under section 315a(1) of the *Handelsgesetzbuch* (HGB – German Commercial Code) is the responsibility of the Company's management. Our responsibility is to express an opinion on the consolidated financial statements and the group management report based on our audit.

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

Our audit has not led to any reservations.

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

Frankfurt am Main, March 17, 2006

KPMG Deutsche Treuhand-Gesellschaft
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

(Dr. Wätke)	(Adams)
Wirtschaftsprüfer	Wirtschaftsprüfer

Dear Shareholders,

The Supervisory Board discussed the Deutsche Wohnen Group's business and corporate development together with the Management Board at five meetings in fiscal year 2005. Of particular significance were the meetings of the Supervisory Board that focused on the long-term business planning on the basis of the revised privatization program, the Group's opportunities and risks, and the deconsolidation from Deutsche Bank. 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.

KPMG Deutsche Treuhand-Gesellschaft Aktiengesellschaft Wirtschaftsprüfungsgesellschaft audited the annual financial statements, the consolidated financial statements, and the combined management report and Group management report for fiscal year 2005 submitted by the Management Board, and granted them an unqualified audit opinion.

The Supervisory Board examined the audit reports prepared by KPMG Deutsche Treuhand-Gesellschaft Aktiengesellschaft Wirtschaftsprüfungsgesellschaft and endorsed the auditors' findings.

The Supervisory Board approved the annual financial statements prepared by the Management Board at its meeting on April 20, 2006. The annual financial statements are therefore adopted.

The Supervisory Board also examined and approved the consolidated financial statements on April 20, 2006. In addition, the Supervisory Board endorsed the Management Board's proposal on the appropriation of the net retained profits. KPMG Deutsche Treuhand-Gesellschaft Aktiengesellschaft Wirtschaftsprüfungsgesellschaft attended the Supervisory Board's meeting on April 20, 2006 and reported on the key findings of its audit to the Supervisory Board and the Management Board.

The Management Board and the Supervisory Board comply 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 available for inspection at "www.deutsche-wohnen.de".

The Supervisory Board would like to thank the Management Board for its constructive cooperation and its achievements in 2005.

The Supervisory Board also wishes to thank the Company's employees for their hard work.

Eschborn, April 20, 2006

On behalf of the Supervisory Board

Helmut Ullrich
– Chairman –

MANAGEMENT BOARD
(as of April 2006)

Andreas Lehner
– Chairman –
Bochum

Michael Neubürger
Bad Homburg

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(as of April 2006)

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The shares of Deutsche Wohnen AG are officially listed on the stock exchange in Luxembourg and are traded in XETRA and on the unofficial markets at the stock exchanges in Frankfurt am Main, Düsseldorf, Stuttgart and Berlin/Bremen.

WKN: 628330
ISIN: DE0006283302

CALENDAR

May 31, 2006
Deutsche Bank German Corporate Conference
in Frankfurt am Main

June 1, 2006
Kempen conference in Amsterdam

June 15/16, 2006
Morgan Stanley conference in London

August 10, 2006
2006 Ordinary General Meeting
in Frankfurt am Main

August 11, 2006
Dividend payment

September 7/8, 2006
EPRA conference in Budapest

September 13/14, 2006
UBS conference in New York

September 26, 2006
HVB conference in Munich

ACKNOWLEDGEMENTS

| Published by
Deutsche Wohnen AG

| Design and Production
von Oertzen GmbH & Co. KG

| Picture credits
spur, Nasan Tur
Deutsche Wohnen AG
Getty Images

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