

# DIC · ASSET

AKTIENGESELLSCHAFT



ANNUAL REPORT 2005

## DIC Asset AG at a glance

|                                     |           | 2003* | 2004  | 2005  | Change from 2004 |
|-------------------------------------|-----------|-------|-------|-------|------------------|
| Total revenues                      | EUR mill. | 18.1  | 32.9  | 43.1  | 31%              |
| EBITDA                              | EUR mill. | 8.0   | 11.6  | 18.7  | 61%              |
| EBIT                                | EUR mill. | 5.6   | 8.9   | 14.7  | 65%              |
| Profit for the period               | EUR mill. | 0.5   | 3.3   | 6.4   | 94%              |
| Equity ratio                        |           | 35.0% | 28.9% | 31.2% | 2.3              |
| Cash flow from operating activities | EUR mill. | 4.0   | 5.6   | 7.8   | 39%              |
| Net asset value                     | EUR mill. | —**   | 91.3  | 142.2 | 56%              |
| Total assets                        | EUR mill. | 153.3 | 272.9 | 369.8 | 36%              |
| Earnings per share                  | EUR       | 0.12  | 0.65  | 0.87  | 34%              |

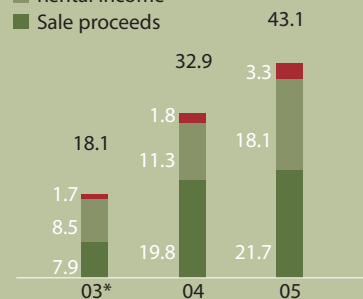
\* HGB figures (German GAAP) 2003; IFRS figures 2004 and 2005

\*\* Information first shown in 2004

### Total Revenues

EUR million

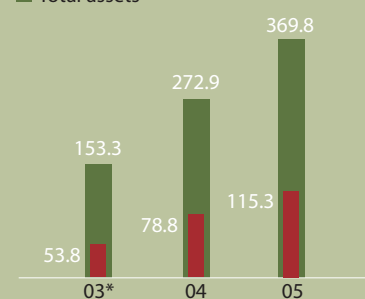
■ Other  
■ Rental income  
■ Sale proceeds



### Equity and Total Assets

EUR million

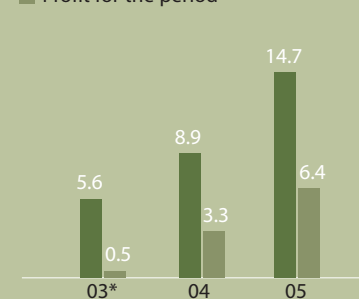
■ Equity  
■ Total assets



### EBIT and profit for the period

EUR million

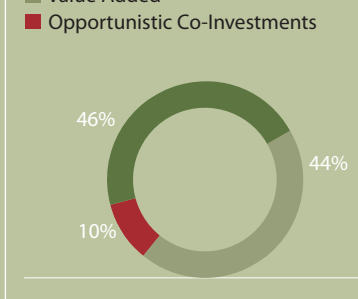
■ EBIT  
■ Profit for the period



### Market Value by segments

As of 31 Dec. 2005 (in %)

■ Core  
■ Value Added  
■ Opportunistic Co-Investments



\* HGB figures (German GAAP) 2003; IFRS figures 2004 and 2005

| Property                        | Share (%) | Use                         | Portfolio segment            | Key tenants                         | Usable area m² | Year of construction | Occupancy rate (%) |
|---------------------------------|-----------|-----------------------------|------------------------------|-------------------------------------|----------------|----------------------|--------------------|
| Bürocentrum Erlangen            | 94.0      | Office                      | Core                         | Siemens, Heitec                     | 10,200         | 2002                 | 100                |
| Business Park Regensburg        | 90.0      | Office, Car park            | Core                         | Siemens                             | 3,800          | 1999                 | 100                |
| Businesspark Langenfeld         | 93.2      | Office, Car park            | Core                         | Bayer Crop Science, SKF             | 10,200         | 2002                 | 100                |
| C & A Portfolio                 | 100.0     | Retail                      | Value Added                  | C & A                               | 46,800         | 1974 /1988           | 100                |
| Creditreform Headquarters*      | 100.0     | Office                      | Core                         | Creditreform e.V.                   | 7,600          | 1983/1990            | 100                |
| Degussa Areal                   | 20.0      | Office                      | Opportunistic Co-Investments | Degussa                             | 64,400         | 1823/1986            | 80                 |
| eBay Campus*                    | 50.0      | Office                      | Core/Value Added             | eBay                                | 19,300         | 2001/2005            | 100                |
| Fraspa Portfolio                | 50.0      | Office, Retail, Residential | Value Added                  | Fraspa                              | 56,900         | 1874/2001            | 94                 |
| MEAG Portfolio*                 | 20.0      | Office, Retail, Residential | Opportunistic Co-Investments | Diverse                             | 156,600        | 1894/1998            | 75                 |
| Pfleiderer Headquarters*        | 100.0     | Office                      | Core                         | Pfleiderer                          | 9,400          | 1999                 | 100                |
| Rhine-Main-Neckar Portfolio     | 100.0     | Office, Retail              | Core/Value Added             | REWE, SAP, City of Offenbach, Wella | 42,900         | 1964/2005            | 84                 |
| Science Park Ulm 1              | 90.0      | Office, Car park            | Core                         | Siemens                             | 5,400          | 2000                 | 100                |
| Science Park Ulm 2              | 90.0      | Office                      | Value Added                  | Infineon                            | 4,500          | 2001                 | 81                 |
| Science Park Ulm 3              | 90.0      | Office, Car park            | Core                         | Siemens                             | 8,500          | 2002                 | 100                |
| Siemens Building Technologies   | 94.0      | Office                      | Core                         | Siemens                             | 10,300         | 2003                 | 100                |
| Siemens Administration Erlangen | 94.0      | Office                      | Core                         | Siemens                             | 11,000         | 1976/2001            | 100                |
| Telekom Braunschweig            | 94.8      | Office                      | Core                         | Deutsche Telekom                    | 14,100         | 1995                 | 100                |
| Telekom Hamburg                 | 50.0      | Office                      | Value Added                  | Deutsche Telekom                    | 15,300         | 1982                 | 100                |

\* (incl.) transfer in 2006

## Milestones

### Company

| 1998                                                       | 2002                                               | 2003                                                         | 2004                                                                                                        | 2005                                                                                                                       | 2006                                                             |
|------------------------------------------------------------|----------------------------------------------------|--------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------|
| Establishment of Deutsche Immobilien Chancen AG & Co. KGaA | Establishment of DIC Asset AG as portfolio company | DIC Asset's shares start trading OTC in Munich and Stuttgart | Deutsche Immobilien Chancen AG & Co. KGaA: „German investment program“ together with Morgan Stanley (MSREF) | MSREF takes a 25.1% stake in Deutsche Immobilien Chancen AG & Co. KGaA<br><br>Forum Partners takes a 5% stake in DIC Asset | Extraordinary general meeting doubles share capital of DIC Asset |

### Key Transactions

|  |                                                                |                                            |                                                               |                                                                                   |                                                              |
|--|----------------------------------------------------------------|--------------------------------------------|---------------------------------------------------------------|-----------------------------------------------------------------------------------|--------------------------------------------------------------|
|  | Acquisition:<br><b>C &amp; A Portfolio</b><br>(EUR 53 million) | Sale:<br><b>amazon Distribution Centre</b> | Sale:<br><b>Business Center Glacis</b>                        | Acquisition:<br><b>Rhine-Main-Neckar Portfolio</b><br>(EUR 57 million)            | Acquisition:<br><b>MEAG Portfolio**</b><br>(EUR 150 million) |
|  |                                                                |                                            | Acquisition:<br><b>eBay Headquarters*</b><br>(EUR 39 million) | Acquisition:<br><b>Creditreform and Pfeiderer HQ</b><br>(EUR 28 million in total) |                                                              |
|  |                                                                |                                            | Acquisition:<br><b>Fraspa Portfolio*</b><br>(EUR 150 million) | Acquisition:<br><b>Degussa Areal**</b><br>(EUR 170 million)                       |                                                              |
|  |                                                                |                                            | Sale:<br><b>C &amp; A Euskirchen</b>                          | Sale:<br>13 properties of<br><b>Fraspa Portfolio</b>                              |                                                              |

\* Share of DIC Asset AG: 50%

\*\* Share of DIC Asset AG: 20%

Sale

Acquisition

Opportunistic Co-Investment

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**ANNUAL REPORT 2005**

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## Dear Shareholders and Business Partners, Dear Employees and Friends,

“Sound foundations, plus imaginative flair”: this was one of the guiding principles highlighted in our last annual report.

DIC Asset AG’s results in 2005 reflect our concept with a combination of 30% higher income, an increase of 65% in earnings before interest and tax (EBIT) and a 90% increase in group net profit, all evidence of the company’s success. These were the main features:

- We gave our portfolio lasting impetus for development through seven acquisitions and fourteen disposals.
- All decisions were made in line with our defined segment strategies. Our three portfolio segments, Core, Value Added and Opportunistic Co-Investments are clearly structured and well balanced in terms of both volumes and results.

In 2005, DIC Asset purchased 65 properties with an investment volume of just under EUR 435 million, either directly or indirectly with participation investments. The disposals, which we undertook as part of our active portfolio management strategy, totaled approximately EUR 64 million.

As a result, the market value of DIC Asset’s real estate assets grew by over EUR 100 million to EUR 338 million at year-end. If transactions concluded in 2005, with transfer in 2006 are included, the increase is almost EUR 180 million, bringing total assets to EUR 414 million.

### **Expansion of the Core Segment with carefully selected properties**

The Core Segment of the portfolio comprises properties which generate high, stable rental income and for this reason are held on a medium to long-term basis.

We succeeded in purchasing three further properties for this segment, all characterized by tenants of high financial standing, with long-term leases. Deutsche Telekom AG has leased the office building in Braunschweig until 2019; the lease on the Creditreform head office in Neuss runs until the end of 2015; the Bavarian headquarters of Pfeleiderer AG, an M-DAX listed company, in Neumarkt is leased through 2021.

DIC Asset AG’s Core Segment evidences, not only in respect of the above transactions, above-average profitability and long remaining lease terms.

### **Value Added: rapid identification and successful realization of opportunities**

The properties in our Value Added-Portfolio have potential for value-added growth which DIC Asset can realize in the short to medium term by implementing appropriate measures and by re-sale.

At the end of 2004, we acquired a portfolio of 57 properties from Frankfurter Sparkasse jointly with Morgan Stanley Real Estate Fund (MSREF). Of these properties, 13 locations have already been sold successfully. In addition, we have entered into a purchase agreement to sell one additional property from this portfolio in the future. We have been able to achieve significant gains in value within a short period of time.

One high-profile example is a property in Frankfurt's Goethestraße, an avenue of luxury retail stores, which was let to a superior tenant following repositioning and subsequently sold on highly satisfactory terms, directly due to the value-adding measures implemented.

Similar measures are under preparation for other properties. For example, as a result of a revised utilization strategy, we were able to sell a property located in Hasengasse, central Frankfurt, to a leasing company for use as the new Frankfurt municipal library. This sale was agreed upon in December 2005, with legal transfer to take effect in mid-2007.

In another portfolio acquisition, we have assigned the properties to different segments – i.e. Core and Value Added respectively – in order to achieve an optimum exploitation of potential. This investment, referred to as the Rhine-Main-Neckar portfolio, consists of eight properties leased long-term to top-quality tenants but nevertheless offering further opportunities for value growth via an increase in the occupancy rate.

### **Participation in transactions with high earning potential via opportunistic co-investments**

Our third portfolio segment focuses on investments with a higher risk/return profile. This business is conducted jointly with Deutsche Immobilien Chancen AG & Co. KGaA where our involvement takes the form of minority holdings.

We established this segment for DIC Asset AG last year. Based on the expertise available within the DIC group, high returns can be expected in this segment in the medium term resulting from refurbishment and repositioning measures. We concluded two successful co-investment transactions in 2005, both of which attracted considerable attention. One of these was in October, when the DIC group and Morgan Stanley Real Estate Fund (MSREF) jointly won a competitive bid for the Degussa complex in central Frankfurt. We have a 20% share in this deal and view it as a participation in an investment with exceptionally high development potential.

Another addition to this segment is a 20% participation in a portfolio of 45 properties which the DIC group and MSREF have acquired jointly from MEAG effective 1 January 2006. The properties have good city-center locations and represent long-term potential for value gains through change of use and elimination of vacancies.

On 31 December 2005, DIC Asset AG's portfolio, including company holdings, comprised of 217,000 m<sup>2</sup> of usable area with an occupancy rate of approximately 95%.

### Independent valuations ensure maximum transparency

It is our stated aim to continue the process of making our company more accessible to the capital markets and to adhere to international valuation standards in the interest of transparency. Therefore we have appointed Cushman & Wakefield, internationally respected specialists in commercial real estate and valuation, to undertake a review of our portfolio valuation and calculate the current market value of our portfolio in an independent appraisal. The net asset value of our properties, including participations was calculated to be EUR 142 million at year's end excluding the acquisitions made in 2005 but not effective until 2006 compared to around EUR 91 million in the previous year. The experts at Cushman & Wakefield confirmed our property valuation.

### Further expansion via new capital market activities

A further source of satisfaction for us is the result of the extraordinary shareholders' meeting held on 3 February 2006. The proposal to double ordinary share capital in order to realize further growth opportunities was voted through with wide support. Further details regarding structural developments within the company in 2005 and our steady pursuit of measures to open up the company to the capital markets can be found under the headline "The DIC Share".

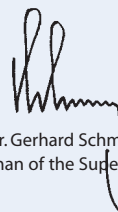
We expect to be able to continue implementing our growth strategy in 2006. The outlook is excellent in respect to both market conditions and our starting position which we have outlined for you in the report at hand and the detailed financial report.

### A highly diverse German property scene and a dynamic market

The German property market has been characterized for some time by dynamic development and permanent structural changes. We have performed well in this highly charged context and have established our company as a leading player in the market. We have the advantage of concentrating on our home market where our reputation as a competent business partner is based on our successful track record and evident of our ability to take swift and focused action.

Our employees have consistently provided active support for the rapid pace at which decisions have been made, ensuring precise coordination and implementation to achieve effective results. They have earned our sincere thanks.

We would also like to thank our business partners and shareholders for their support and invite them to accompany us further as we continue our expansion course in 2006.

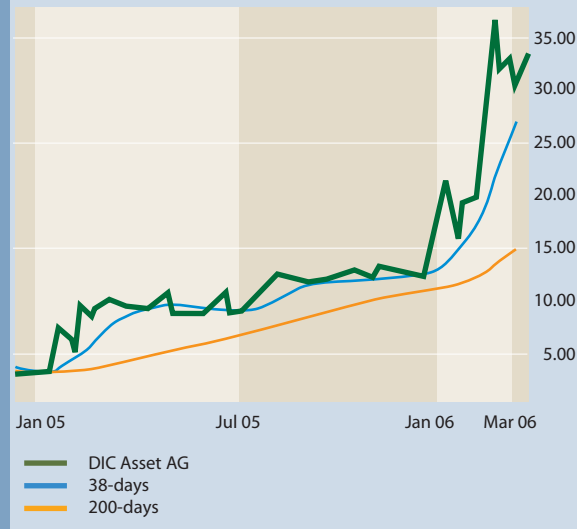


Prof. Dr. Gerhard Schmidt  
Chairman of the Supervisory Board



Ulrich Höller  
Chief Executive Officer

**Trend of DIC Asset's share  
for the period from 1 January 2005 to 1 March 06**



#### Interest sharply rising in DIC Asset stock

Stock in DIC Asset AG appeared on the radar screen of a broad shareholder base during the past year. Last year there was increasing interest in trading DIC Asset stock and a constant rise in the exchange rate. Since 20 December 2005 the stock has been traded over the counter not only at the regional exchanges in Munich and Stuttgart but also at the Frankfurt Stock Exchange. At the same time it began being quoted on the Xetra system. The attention given to the company by investors, as well as its trading volumes, has also considerably increased with the commencement of trading in Frankfurt. By year-end the exchange rate had risen to an all-time high of EUR 18.40 (30 Dec. 2005, Xetra).

#### Investment Forum Partners, free float increase

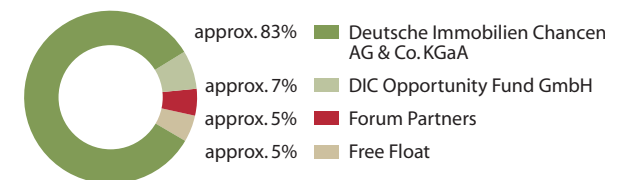
As already mentioned, this fiscal year the Company's shareholder base grew, and the capital market continued to open along with it. The share of Deutsche Immobilien Chancen KGaA (including its subsidiary DIC Opportunity Fund GmbH), which was still 98% at the end of the previous year, dropped to just under 90%. Prominent international stock funds acquired shares during the year. The American investment company Forum Partners, which invests in real estate businesses in Europe, Asia, and North America, purchased an interest of just over 5% in DIC Asset AG. The authorized capital resolved by the general shareholders' meeting in July was completely utilized as a result of a capital increase in October. The share capital rose by EUR 3.39 million to EUR 10.17 million as a result of the issuance of 3.39 million shares against cash contributions.

The new shares could be subscribed for by all authorized shareholders of the company at a rate of 2:1 for a subscription price of EUR 12 per new share. The offering was well received by the shareholders and the market. The influx of equity capital into the company was approximately EUR 41 million into the company. The free float now equals 5.2%. The capital increase freed up some space for DIC Asset AG to exploit current opportunities in the German commercial real estate market. We exploited these opportunities with a series of acquisitions initiated at the end of the year.

#### Further strengthening of the equity capital base resolved

The increasingly dynamic wave of mobilization and the rise in large-scale portfolio transactions in the German commercial real estate market which were observed in 2005 indicate that the current market trends hold out potential for the constant growth of our company. In this climate, in order to strengthen the good market position already achieved and increase the stock's attractiveness,

#### Shareholders' structure as of year's end 2005



the company has resolved to effect a further significant increase of share capital and to authorize the entirety of the share capital for trading on the official market at the Frankfurt Stock Exchange.

The extraordinary general meeting of the shareholders of DIC Asset AG resolved on 3 February 2006 to double the share capital from EUR 10.17 million to EUR 20.34 million by issuing new shares against cash contributions.

The new shares for which the shareholders do not exercise their subscription rights will be spread out in a public offering. We also plan to simultaneously obtain authorization for the trading of both old and new shares in the prime standard of the Frankfurt Stock Exchange. The prime standard is designed for companies that want to reach top-tier investors in the capital markets, particularly an international audience. The admission requirements include quarterly reporting.

These consolidated financial statements – the first prepared under IFRS – already represent a significant part of the foundation for better communication with investors in an international context. It is our goal to introduce a growing investor base both in Germany and abroad to the accomplishments and the potential of DIC Asset AG in the current fiscal year.

#### Basic data for DIC Asset stock

|                         |                                     |
|-------------------------|-------------------------------------|
| ISIN (WKN)              | DE 000 509 840 4 (509 840)          |
| Ticker                  | DAZ                                 |
| Exchanges               | Munich, Stuttgart, Frankfurt, Xetra |
| Segment                 | OTC                                 |
| 52-week high            | EUR 37.20                           |
| 52-week low             | EUR 8.51                            |
| Current exchange rate * | EUR 33.80                           |

\*status: 1 Mar. 2006, Xetra

**Earnings per share<sup>(1)</sup>**  
(Cent)



**Dividends per share<sup>(2)</sup>**  
(Cent)



1. HGB figures (German GAAP) 2003; IFRS figures 2004 and 2005, earnings per share based on average number of shares

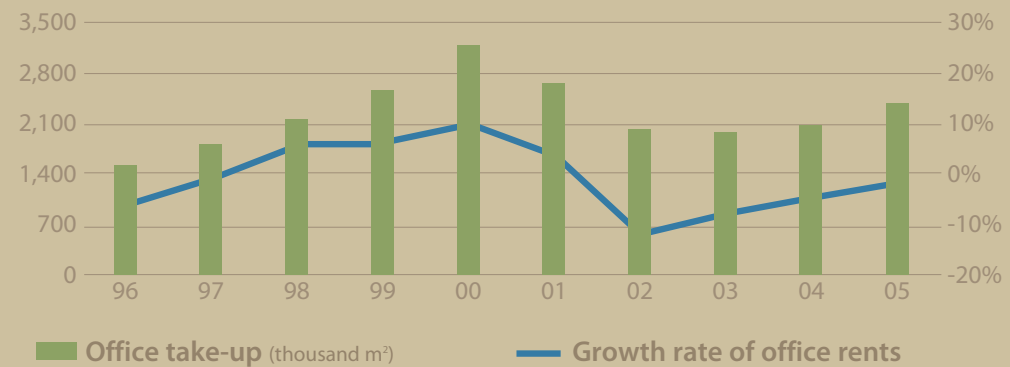
2. Dividend proposal for 2005; dividends per share based on number of shares as of respective year-end

#### Dividend proposal

The profit utilization proposal of the managerial and supervisory boards provides for increasing the dividends to EUR 0.56 per share from EUR 0.35 last year.

## Fresh impetus in Germany's commercial real estate market

After a long period of stagnation, 2005 finally saw an upturn in office rents and take-up.



European Office Forecast – PMA, 2005



## Well positioned for stability and growth

Germany offers an abundance of potentially interesting locations.  
DIC Asset AG's investments in 2005 contributed to our diversified portfolio.

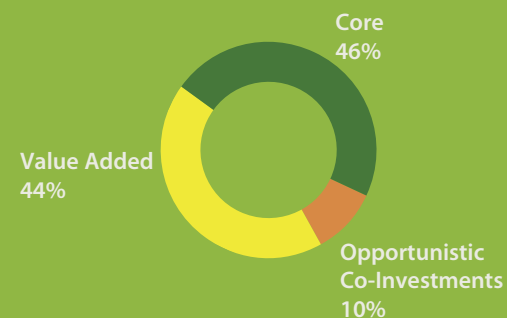




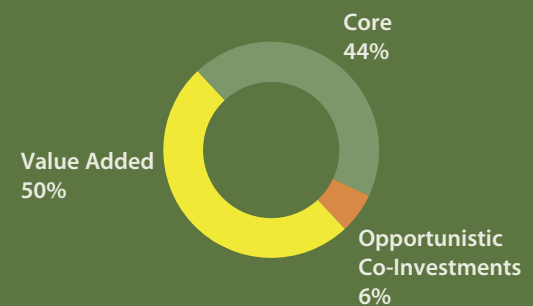
## Clearly defined business segments

The three segments, Core, Value Added and Opportunistic Co-Investments, provide a clear opportunity with balance in both volume and results.

**Market Value\***  
(Total EUR 338 million) as of 31 December 2005



**Usable Area\***  
(Total 217.000 m<sup>2</sup>) as of 31 December 2005



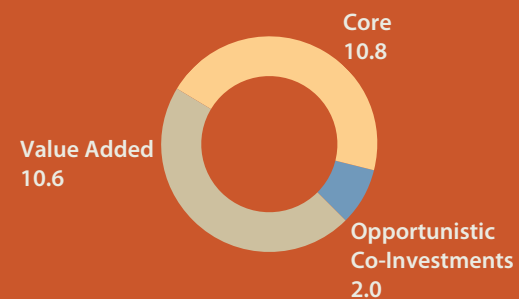
\* Figures reflect DIC Asset's shares in the properties



## Reliable tenants and no vacancies

At year-end, the occupancy rate for the portfolio as a whole was at 95%, with an average remaining lease term of over seven years.

Rental income  
(EUR million) p.a.





## Revealing hidden potential with a systematic approach

Portfolio properties offer far more opportunities than can be seen at first glance.

Our strength lies in using a systematic approach to identify and exploit potential for adding value.

Refurbishment Zeil:  
coming soon



Hasengasse refurbishment project:  
to be used as the Frankfurt City Library from 2007





**Joint ventures: using combined strength  
to optimize on potential opportunities**

**We participate in opportunistic investments  
as co-investors.**

**The purchase of the Degussa complex and  
the MEAG portfolio are two notable deals  
in which DIC Asset AG has participated.**



## Rapid action from a streamlined team

DIC Asset AG has a team of professional, highly experienced employees. The organization is flexible, efficient and extremely adaptable and well equipped to deal with change and growth.



## High productivity throughout the value-added chain

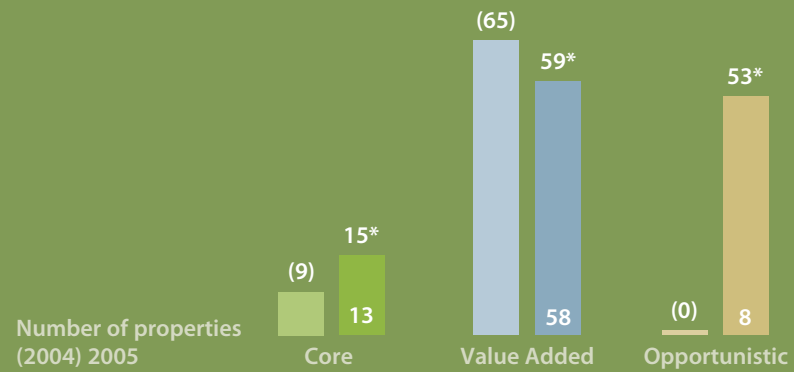
DIC Asset AG uses its internal resources to create an unbroken value-added chain, bridging all gaps in its business activities.





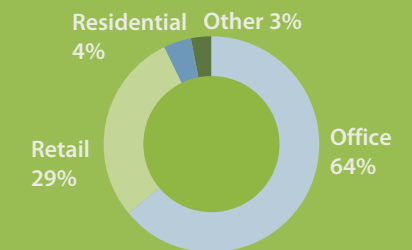
## A new diversity in profit opportunities

The real estate portfolio comprises 127 properties with a total floor space of approx. 270,000 m<sup>2</sup>.\*



\* including acquisitions agreed in 2005 with legal transfer effective in early 2006

Usable Area  
(Total 270.000 m<sup>2</sup>)





## Core



Siemens Building Technologies, Frankfurt



Pfleiderer, Neumarkt



eBay Campus, Berlin

## Value Added



Fraspa Portfolio, Frankfurt



Telekom, Hamburg



Science Park Ulm 2

## Opportunistic Co-Investments



Office building, Lübeck



Office and residential building, Trier



Degussa Areal, Frankfurt



Creditreform, Neuss



Businesspark Langenfeld, Düsseldorf



Town hall, Offenbach

Core



C & A Portfolio, Herne



Rhine-Main-Neckar Portfolio, Darmstadt



Frasca Portfolio, Frankfurt

Value Added



Office complex, Frankfurt-Sossenheim



Office building, Bonn



Degussa Areal, Frankfurt

Opportunistic Co-Investments

## Management with a proven track record

**DIC Asset AG is managed by an experienced team with a proven record of accomplishments in the real estate sector.**



**Ulrich Höller** FRICS, 40

Chairman of the Board, CEO

Ulrich Höller has over 15 years' experience in handling real estate transactions. He was managing director of a project development group with operations throughout Germany for many years before joining the DIC group in 2001 as a member of the Management Board.

He has held the position of Chief Executive Officer of DIC Asset AG since 2002.



**Markus Koch**, 43

Board Member, CFO

Markus Koch spent ten years at PricewaterhouseCoopers as an auditor and was CFO at a large German real estate group for many years.

He was appointed CFO of DIC Asset AG in 2003.



**Jürgen Overath**, 42

Board Member, COO

Jürgen Overath has over 15 years' experience in the real estate sector. He worked for many years in project development and property management, most recently as managing director of the Corpus real estate group.

He joined the Board of DIC Asset AG in the middle of 2005.

## Management report

### Business and economic conditions

#### The trend in the general economic environment

In 2005, the German economy demonstrated a slight upwards trend. According to the Ifo Institute, gross domestic product grew in real terms by 0.9 %. A primary contributor to this was the high level of foreign demand thanks to the dynamic global economy and a once again more favorable euro-dollar exchange rate. Nevertheless, the trend in private consumption was not able to keep up with this process.

A significantly more positive economic trend is being predicted for 2006. The institutes that specialize in economic research are forecasting a growth rate of up to 1.8 % for the gross domestic product. At the beginning of the year, the overall economic environment appears favorable with a lower oil price, a euro exchange rate that is positive for Europe, and positive forecasts for the trend in world trade. It is anticipated that measures by the new German government, including investment programs and developments in anticipation of the increase in the value-added tax will have a stimulating influence on the German economy.

#### The trend in the real estate market

DIC Asset is active exclusively in commercial real estate in the German market. Signs of stabilization and of a positive trend in this market began to increase in the last year following a five-year phase of decline and stagnation.

#### ► First sign of an upturn in the rental market

We were able to register a positive trend in the rental market in the 2005 fiscal year. According to figures from the British Real Estate Research Institute's property market analysis (PMA), vacancy rates are stabilizing in large German cities. These analyses are also supported by the observations of large brokerage companies. On balance, a slightly positive net absorption of space was observed. According to information from the real estate consulting firm Jones Lang LaSalle, the clearly negative trend in average rent for office space from the previous year has at least stabilized in large cities in Germany. Aside from real estate strongholds, positive development in peak and average rents has already been demonstrated, according to analysts with Jones Lang LaSalle and Aengevelt.

#### ► Large increase in investment volume

In 2005, the investment volume of transactions in the commercial real estate market increased heavily, rising to EUR 23.65 billion, as reported by analysts at Atisreal. Portfolio deals at a volume of approx. EUR 13.4 billion (approx. 57%) took center stage. Volume of EUR 10.04 billion (43%) was invested in office buildings. Investment in real estate used for retail locations was in second place with strongly increased significance at EUR 8.42 billion (36%). The remaining balance of investments is attributed to logistics buildings, hotels, and recreational real estate facilities, and miscellaneous properties.

#### ► Shifts on the supply side

More and more often the public sector, trade, banks, and industry are stepping up as sellers of real estate in order to free tied up capital. This tendency was confirmed in 2005 by a growing assortment of commercial real estate for sale and, according to the concurring expectations of market observers, will continue in the next few years. The "Initiative Finanzstandort Deutschland" (Action Group for the German Financial Sector) estimates that with the introduction within the next five years of G-REITs (German REITs), which are more transparent for tax issues, new real estate asset volume as high as EUR 127 billion could be brought to market.

#### ► International investors focusing on German real estate

The interest of international investors in nearly every segment of the German real estate market increased strongly in 2005. According to Atisreal, foreign investors dominated the scene in commercial investment deals with 61% of the transaction total of what occurred overall in the market. Driving factors include, for one, the confidence that international investors have in Germany's economic revival, and for another, the relatively high current rental returns after financing costs in comparison with international markets. For example, the difference between the rental returns and financing costs in Germany is currently some 2.5%, but as a comparison, in the UK and France this is only approx. 1% (source: PMA Reports Germany, France, UK, autumn 2005).

## Performance, results, asset and financial position

### Performance

#### ► Significant increase in earnings

DIC Asset can look back on a very successful fiscal year 2005. Total consolidated revenues rose by EUR 10.3 million (31.2%) to EUR 43.1 million. Higher rental income as well as increased proceeds from the successful sale of real estate contributed considerably to the expansion. Consolidated profit for the period nearly doubled with an increase of EUR 3.1 million, to EUR 6.4 million. The rate of return (consolidated profit for the period relative to total revenues) improved by 4.8 percentage points to 14.9%.

#### ► Corporate strategy focuses on three segments

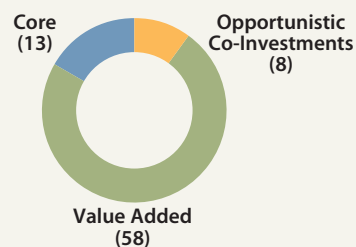
Taking in account company shares as of 31 December 2005, DIC Asset's real estate portfolio included approx. 217,000 m<sup>2</sup> of space divided over 79 properties with a market value of EUR 338 million. DIC Asset is distinguished by a clear orientation and concentration on the German commercial real estate sector, and focuses its growth endeavors as well as active portfolio management on the following segments:

■ **“Core”**: This segment includes properties that generate high and above all stable rental income and therefore are included in the company's own portfolio for the medium to long term and are to be managed. The properties are leased over the long term to tenants with good credit ratings and exhibit low vacancy rates.

■ **“Value Added” (VAD)**: This segment includes properties that are acquired at attractive purchase prices, e.g. in connection with package purchases, and/or for which the potential for an increase in value has been identified, which in the company's assessment can be increased over the short to medium term by taking suitable measures and then realized through sale.

■ **“Opportunistic Co-Investments” (OPP)**: Minority interests in the opportunistic investments of the Deutsche Immobilien Chancen KGaA group with a higher risk/return profile are held in this segment. These include investments in properties that undergo significant repositioning by means of the implementation of refurbishments, change in use concept, new and subsequent leasing and other measures, and are then sold in connection with a medium term business plan.

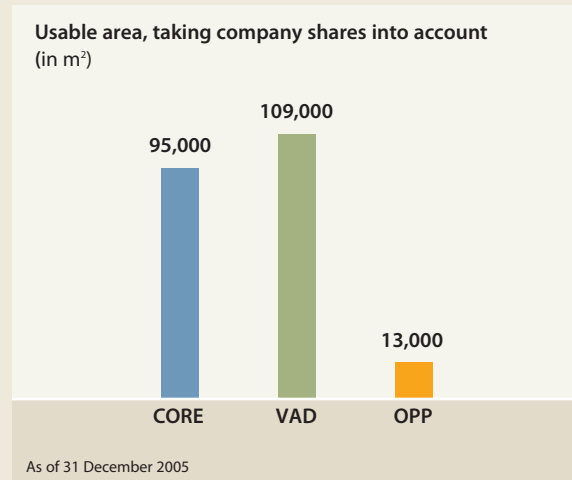
Number of properties by segment



As of 31 December 2005

Segment overview as of 31 December 2005, taking company shares into account

| Portfolio                    | Number of properties | Usable area       |             | Rental income p.a. |             | Vacancy rate | Market value   |             |
|------------------------------|----------------------|-------------------|-------------|--------------------|-------------|--------------|----------------|-------------|
|                              |                      | in m <sup>2</sup> | Portion     | TEUR               | Portion     |              | TEUR           | Portion     |
| Core                         | 13                   | 94,951            | 44%         | 10,755             | 46%         | 5.7%         | 157,201        | 46%         |
| Value Added                  | 58                   | 108,891           | 50%         | 10,611             | 46%         | 3.5%         | 147,434        | 44%         |
| Opportunistic Co-Investments | 8                    | 12,880            | 6%          | 1,960              | 8%          | 19.9%        | 32,872         | 10%         |
| <b>Total</b>                 | <b>79</b>            | <b>216,722</b>    | <b>100%</b> | <b>23,326</b>      | <b>100%</b> | <b>5.4%</b>  | <b>337,507</b> | <b>100%</b> |



► **Successful transactions secure strong growth in real estate assets**

A series of successfully executed purchases created the basis for further positive development in revenue and earnings. Sixty-five properties with an investment volume of over EUR 435 million were acquired either directly by DIC Asset or indirectly via minority interests in fiscal year 2005.

► **Acquisition of properties rented for the long term**

In 2005, the company made four individual acquisitions of real estate with long-term leases. An office building in Hamburg was purchased in April 2005. The property in the Hamburg district of Stellingen leased to Deutsche Telekom for another ten years has over 15,000 m<sup>2</sup> and is served by an outstanding transportation infrastructure.

Meanwhile, the Morgan Stanley Real Estate Fund (MSREF) also has a stake in this property as a partner with 50%. In October 2005, DIC Asset signed a contract to purchase the headquarters building of Creditreform in Neuss; the property is also leased for ten years to the association, Verband der Vereine Creditreform. In November DIC Asset acquired an office property in Braunschweig with area of approx. 14,000 m<sup>2</sup> by taking over shares from a property holding company. The building is leased to Deutsche Telekom until the year 2019. In December of the fiscal year, the headquarters building of Pfeleiderer AG in Neumarkt, planned by the well-known architect Hadi Teherani, was purchased. Pfeleiderer AG, listed on the MDAX, signed a lease with a fifteen-year term.

The so-called "Rhine-Main-Neckar-Portfolio" with an area of 43,000 square meters was acquired at the beginning of December 2005. The portfolio includes eight office or retail properties, including the new Offenbach Town Hall, which is leased for the long term to several offices of the City of Offenbach. All other properties are likewise leased to renowned organizations such as Wella in Darmstadt, the Census Bureau in Wiesbaden, REWE in Bensheim, and SAP in Ludwigsburg.

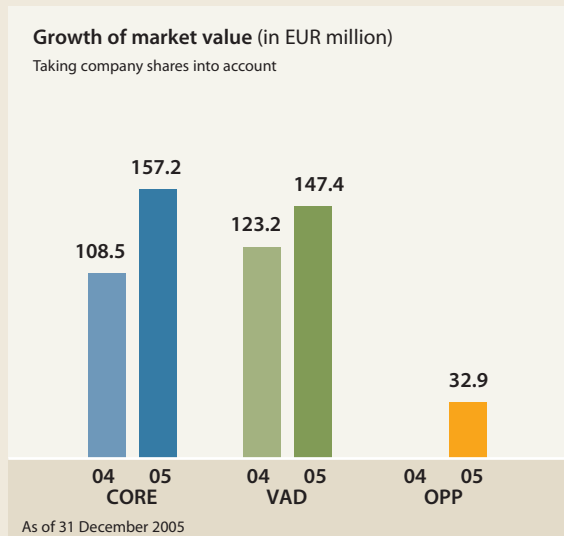
► **Significant opportunistic co-investments**

In connection with its opportunistic co-investments, DIC Asset also procured a stake of 20% each in two large and market-significant transactions of the DIC Group together with MSREF in 2005.

In October 2005, we were awarded the Degussa site with nearly 65,000 square meters in downtown Frankfurt. Degussa AG will be renting back office space for its roughly 950 employees for the long term. In the next few years, DIC will be developing the site into a new and very attractive district in cooperation with the City of Frankfurt. For the company, this presents a stake in an investment with high development potential.

A portfolio made up of 45 properties was taken over by the DIC Group together with MSREF from MUNICH ERGO Asset Management GmbH (MEAG), the real estate management company of Münchener Rück and ERGO Versicherungsgruppe, likewise at the end of December 2005. The properties in the portfolio are classic office buildings (mixed use) that consist primarily of office and retail space and have a total area of around 157,000 m<sup>2</sup>. The properties are in very good downtown locations chiefly in medium sized west German cities and have a vacancy rate of roughly 25%. The lasting potential for an increase in value by means of repositioning the properties as well as through the reduction of vacancies will be realized by active property and asset management.

The transfer of risks and rewards for the MEAG Portfolio took place on 1 January 2006, and on 24 January 2006 for the headquarters building of Creditreform. The transfer of the Pfeleiderer AG headquarters building is to take place in March 2006. Furthermore, the third building of the eBay campus secured by contract at the end of 2004 was completed in October as planned. Transfer of ownership is planned for the end of March 2006.



#### ► Active portfolio and sales strategy secures potential for creating value

The company successfully placed a total of 14 properties from the Frasca Portfolio first acquired at the end of 2004. Among the real estate sold is the property "Goethestraße", located in the luxury area in Frankfurt between Goethestraße and Fressgass; after it was taken over and repositioned, it was leased and subsequently successfully sold to a private investor. The successful project development of the headquarters on Hasengasse also deserves to be highlighted; it was sold at the end of December to a leasing company, effective July 2007. The new headquarters for the Frankfurt City Library will be located there in 2007 after the building undergoes refurbishment. The property, still in use by the Frankfurt Sparkasse until the middle of 2006, has been completely redesigned and developed.

The lease of over 10,000m<sup>2</sup> of space to the City Library as well as the Real Estate Bureau represents one of the largest leasing successes of the last few years in the Frankfurt real estate market.

The market value of DIC Asset's real estate assets, taking into account company shares, was roughly EUR 338 million at the end of the 2005 fiscal year. In the preceding year, DIC Asset possessed real estate assets with a market value of roughly EUR 232 million. The total area of the Group's real estate assets was approx. 217,000 m<sup>2</sup> at the end of the year.

There was strong growth in all of DIC Asset's three segments in fiscal year 2005. Properties in the Opportunistic Co-Investment segment were purchased for the first time with a proportional market value of EUR 32.9 million. The market value of real estate held in the Core portfolio increased by EUR 48.7 million through purchases of properties with high rental income. There were both purchase and sales transactions in the Value Added segment, and the market value increased by EUR 24.2 million.

#### ► Strengthening equity basis

In the interest of continuing along the growth track, DIC Asset strengthened the equity basis significantly in fiscal year 2005. A total of some EUR 40 million in equity funds flowed into the company via an increase in cash capital achieved by issuing new common stock. Group equity as of the date of the balance sheet was EUR 115.3 million, and the equity ratio rose by 2.3 percentage points to 31.2%.

#### ► Close collaboration with strategic partner

The Morgan Stanley Real Estate Fund (MSREF), an international holding company of the American investment bank Morgan Stanley, took a 50% stake each in the German eBay headquarters and the Telekom property in Hamburg in fiscal year 2005. Additionally, the Degussa site as well the MEAG Portfolio was also jointly acquired with Deutsche Immobilien Chancen AG & Co. KGaA and MSREF. These represented a continuation of the successful collaboration between DIC Asset and MSREF in the current fiscal year after the Frasca Portfolio with 57 properties was taken over jointly at the end of the previous year.

#### ► Opportunistic Co-Investments – generating additional income potential

DIC Asset has been participating since 2005 as a co-investor in the opportunistic investments of Deutsche Immobilien Chancen AG & Co. KGaA. The stakes acquired make it possible for DIC Asset to participate in the high potential of the increase in value of these types of investments. Opportunistic investments are defined as those that have a higher risk/return profile and where interest of at least 20% on the equity employed appears attainable. The investments in the last year have been conducted among the Deutsche Immobilien Chancen KGaA with strategic partners (MSREF) so that DIC Asset's actual stake in the opportunistic investments to date, the purchase of the Degussa site and the MEAG Portfolio, was 20% each.

## Results

### ► Total revenues increased significantly

On the 2005 profit and loss statement, the DIC Asset group shows total revenues of EUR 43.1 million, the calculation of which included rental income, income from operational expenses and ancillary costs, miscellaneous operational earnings, and net proceeds from the sale of real estate held as financial investments. In comparison to the previous year, total revenues increased significantly, by EUR 10.3 million (31.2%).

| Overview of revenues            |               |               |              |
|---------------------------------|---------------|---------------|--------------|
| TEUR                            | Fiscal year   |               | Difference   |
|                                 | 2005          | 2004          | in %         |
| Rental income                   | 18,098        | 11,267        | +60.6        |
| Proceeds from real estate sales | 21,709        | 19,790        | +9.7         |
| Other income                    | 3,301         | 1,795         | +83.9        |
| <b>Total revenues</b>           | <b>43,108</b> | <b>32,852</b> | <b>+31.2</b> |

| Overview of revenues by segment |       |        |     |        |       |        |     |        |
|---------------------------------|-------|--------|-----|--------|-------|--------|-----|--------|
| TEUR                            | 2005  |        |     |        | 2004  |        |     |        |
|                                 | CORE  | VAD    | OPP | Group  | CORE  | VAD    | OPP | Group  |
| Rental income                   | 8,956 | 9,142  | –   | 18,098 | 7,467 | 3,800  | –   | 11,267 |
| Sales proceeds                  | 0     | 21,709 | –   | 21,709 | 0     | 19,790 | –   | 19,790 |

Primary contributors were the increase in rental income by EUR 6.8 million (60.6%) to EUR 18.1 million, caused by the expansion of the real estate portfolio, as well as net proceeds of EUR 21.7 million from the sale of real estate, which were higher than those of the preceding year by EUR 1.9 million.

In the Core segment, rental income of EUR 9.0 million was generated, and the Value Added segment amassed EUR 9.1 million in rental income. The sales proceeds of EUR 21.7 million came exclusively from sales of properties from the Value Added segment. In the range of Opportunistic Co-Investments only minority stakes are held and not consolidated; therefore rental income and sales proceeds are not shown.

### ► Total expenses rose disproportionately to group growth

In comparison to the previous year, total expenses (before interest and tax) rose by EUR 4.5 million (18.6%) to EUR 28.4 million. This is attributable in particular to the expansion of the real estate portfolio and an increased number of transactions. For example, expenses for operating costs and utilities rose, a majority of which were passed on to tenants. Real estate related operational

| Earnings Overview                   |             |             |             |
|-------------------------------------|-------------|-------------|-------------|
| TEUR                                | Fiscal year |             | Difference  |
|                                     | 2005        | 2004        | in %        |
| EBITDA                              | 18,682      | 11,550      | 61.7        |
| EBIT                                | 14,732      | 8,928       | 65.0        |
| Consolidated net profit             | 6,444       | 3,333       | 93.3        |
| <b>Earnings per share, in euros</b> | <b>0.87</b> | <b>0.65</b> | <b>33.8</b> |

expenditures, which in particular include maintenance and building management also rose similarly. An increase in depreciation and amortization was recorded due to the all-year inclusion of properties and/or their first time inclusion in the consolidation. Increased personnel expenses are attributable to the increase in staff that took place in connection with the expanded activities of DIC Asset in the reporting year. An increased number of transactions in the reporting year resulted in higher expenses for legal counsel, ancillary costs from raising funds as well as sales and advertising, which was reflected in an increase in administrative expenses in comparison to the previous year.

### ► Profitability significantly improved

Overall, profitability was significantly improved in the 2005 fiscal year. The increase in expenses that resulted from DIC Asset's expanded activities and the higher number of portfolio properties came out disproportionately low when compared to the increase in revenues.

### Overview of earnings by segment

| TEUR   | 2005  |        |     |        |        | 2004  |       |     |        |        |
|--------|-------|--------|-----|--------|--------|-------|-------|-----|--------|--------|
|        | CORE  | VAD    | OPP | Other  | Group  | CORE  | VAD   | OPP | Other  | Group  |
| EBITDA | 8,088 | 11,745 | 0   | -1,151 | 18,682 | 7,183 | 5,799 | 0   | -1,432 | 11,550 |
| EBIT   | 5,791 | 10,103 | 0   | -1,162 | 14,732 | 5,513 | 4,850 | 0   | -1,435 | 8,928  |

Operating results or EBITDA (earnings before interest, tax, depreciation and amortization) was EUR 18.7 million in the fiscal year. Compared to the previous year, an increase of EUR 7.1 million was achieved. At 43.3%, EBITDA returns (EBITDA relative to total income) exceeded the previous year's results by 8.2 percentage points.

EBIT (earnings before interest and tax) increased by EUR 5.8 million to EUR 14.7 million, a significant improvement in comparison to the previous year (64.9%). EBIT returns (EBIT relative to total income) increased by 7 percentage points to 34.2%.

In the Core segment, EBITDA increased by EUR 0.9 million due to the expansion of the portfolio, and increased in the Value Added segment by EUR 5.9 million due to rental income that rose sharply as well as successful transactions. The "Other" category primarily includes general management and human resources costs. The Core segment contributed to the success of DIC Asset with EBIT of EUR 5.8 million. EBIT of EUR 10.1 million was achieved in the Value Added segment. Gains from sales in the Value Added segment rose from EUR 2.1 million to EUR 4.7 million.

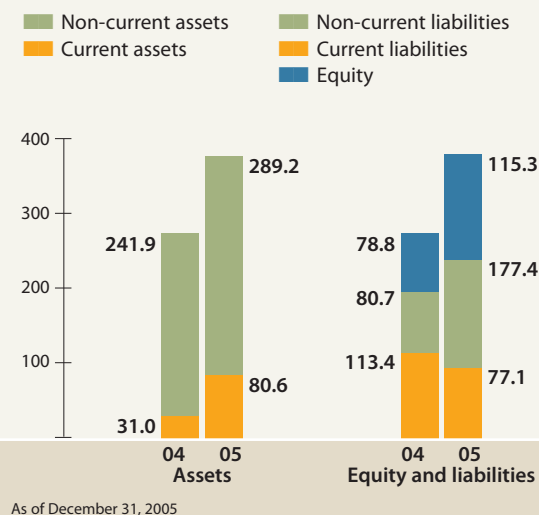
The negative financial result of EUR -6.6 million worsened slightly by EUR -0.7 million, but thanks to higher interest income, was only slightly below the level of the previous year despite the significant expansion of the portfolio. At EUR 1.6 million, taxes on income and revenue as well as deferred taxes are EUR 2.0 million higher than in the preceding year.

The consolidated net profit nearly doubled, from EUR 3.3 million to EUR 6.4 million. The rate of return (consolidated net profit relative to total income) for the reporting year is 14.9%, which corresponds to an increase of 4.8 percentage points.

#### ► Significant increase in earnings per share

Earnings per share in the fiscal year were EUR 0.87 and rose by 22 cents (33.8%) in comparison to the previous year. The Board of Directors will recommend a resolution to pay a dividend for 2005 in the amount of EUR 5.7 million (EUR 0.56 per share) at the Annual Shareholders' Meeting.

### Balance sheet overview EUR million



### Asset and financial position

#### ► Significant growth in total assets

Total assets increased, primarily through investments in the portfolio, by EUR 96.8 million (35.5%) to EUR 369.8 million.

Non-current assets rose in the reporting year by EUR 47.3 million (19.5%) to EUR 289.2, above all due to investments in the "Rhine-Main-Neckar-Portfolio", the takeover of the two properties leased to Deutsche Telekom in Hamburg and Braunschweig, and investments in existing properties. Balancing these were primarily items disposed of from the sale of investment properties from the Frasca Portfolio.

Current assets increased in the reporting period by EUR 49.6 million (159.6%) to EUR 80.6 million. This resulted to a large degree from the increase in receivables from related parties (EUR 27.5 million) as well as the increase in the balances held at financial institutions (EUR 20.4 million) due to payments received from real estate sales and the capital increase undertaken in October 2005.

#### ► Equity basis strengthened

Equity increased in the reporting period by EUR 36.5 million (46.3%) to EUR 115.3 million. The equity ratio is thus 31.2%; the ratio improved in comparison to the previous year by 2.3 percentage points. Changes in equity are chiefly the result of the capital increase undertaken in October 2005.

#### ► Higher liabilities due to investment activities

Due to the long-term financing of investments by means of loans, non-current liabilities rose during the fiscal year by EUR 96.7 million (119.7%) to EUR 177.4 million. The rise in non-current liabilities concerns mainly the taking out of a loan with regard to the Frasca property holding companies to finance this transaction. In the previous year, payment obligations to the seller were recorded as current liabilities arising from trade payables.

Current liabilities sank by EUR 36.3 million (-32.0%) to EUR 77.1 million. At the end of the previous fiscal year, trade liabilities that for the most part resulted from purchase price obligations still existed in the amount of EUR 93.2 million; at the end of the current fiscal year these declined to EUR 51.9 million.

#### ► Cash and cash equivalents increased significantly

Cash flow from operating activities rose by EUR 2.2 million, in particular due to improved earnings less slightly higher interest and taxes. The company's strong growth manifested itself in the increase in cash flow from investment activity, which grew by EUR 124.9 million due to higher payouts for investments as well as increased income from the sale of investment assets. The influx of funds from financing activities rose by EUR 126.3 million over the previous year due to the increased intake of both equity and liabilities. Overall, cash and cash equivalents at the end of the year rose by EUR 20.4 million to EUR 39.1 million.

#### Cash flow overview

| TEUR                                                     | 2005     | 2004   |
|----------------------------------------------------------|----------|--------|
| Cash flow from operating activities                      | 7,786    | 5,553  |
| Cash flow from investment activities                     | -124,661 | 276    |
| Cash flow from financing activities                      | 137,293  | 11,012 |
| Cash and cash equivalents at the beginning of the period | 18,660   | 1,819  |
| Cash and cash equivalents at the end of the period       | 39,078   | 18,660 |

#### ► Strong increase in net asset value

The net asset value, the internal value of the company, based on the figures of the consolidated balance sheet as of December 31, 2005 and supplemented by the market value of the investment property determined by an independent consultant, is EUR 142 million. Relative to the number of shares as of December 31, 2005, net asset value per share is roughly EUR 14. Thanks to the transactions already contractually arranged at the end of the year, which were then implemented in the first quarter of the current year, the value has again increased in 2006.

#### Net asset value overview

| TEUR                                                                 | 2005           | 2004          |
|----------------------------------------------------------------------|----------------|---------------|
| Book value of investment property according to IFRS balance sheet    | 284,917        | 239,181       |
| + Difference of value from appraised value                           | 24,193         | 12,046        |
| + Market value of real estate in current assets                      | 5,041          | 0             |
| + Market value of investment stakes                                  | 1,803          | 0             |
| +/- Misc. assets less misc. liabilities                              | 14,241         | -78,590       |
| - Net loan commitments                                               | -185,787       | -78,928       |
| - Minority interests                                                 | -2,241         | -2,371        |
| <b>= Net Asset Value</b>                                             | <b>142,167</b> | <b>91,338</b> |
| - Deferred tax on difference from tax base                           | -11,254        | -5,996        |
| <b>= Double Net Asset Value (NNAV)</b>                               | <b>130,913</b> | <b>85,342</b> |
| - Difference of carrying to market value of the net loan commitments | -3,686         | -4,121        |
| <b>= Triple Net Asset Value (NNNAV)</b>                              | <b>127,227</b> | <b>81,221</b> |

## Results, asset and financial position of DIC Asset AG

DIC Asset AG is the management company of DIC Asset. All DIC Asset real estate activities are organized in property holding companies. The income situation is therefore determined primarily by the earnings from the holding companies. The financial statements of DIC Asset AG are prepared in accordance with the provisions of the German Commercial Code (HGB).

Net profit rose by EUR 3.6 million in the fiscal year to EUR 6.0 million. This resulted in particular from income from holdings, which rose by EUR 2.9 million, and financial results that improved by EUR 2.5 million.

The company's shareholder equity as of 31 December 2005 was EUR 112.7 million, compared to EUR 68.4 million in the previous year. DIC Asset AG's equity ratio increased following the capital increase in the past fiscal year to 84,3% as of 31 December 2005 (previous year: 53.5%).

## Risk report

### General risks

The German real estate market is influenced by several different factors. The trend in the general economic environment as well as the shape of the legal and tax landscape in Germany have just as much influence as the company's investment activity and the general assessment and development of the value of real estate. Circumstances such as tenants' credit ratings, interest rates, the purchasing power of the population, and energy costs can also affect the real estate market. The company has no influence over these factors. Risks arise from them, in particular in relation to an economic or structural decline in demand for office and retail rental space as well as a deterioration in the financial and income situation of potential and existing tenants.

### Risks specific to the company

#### Risk of rent default

The company guards against the risk of default on rental payments by renting and leasing its properties to companies with good credit ratings. The risk of a new rental is likewise minimized by the intense analysis of the property, the situation and the tenants as well as the ongoing observation of the development in the relevant real estate markets, as it is via the high importance of the possibility of third party utilization during the evaluation of new acquisitions.

### Currency risk

As of the date of the balance sheet, no material currency risks existed. The company's financial obligations are primarily denominated in euros; only two partial loans are carried in Swiss francs. However, there is at present no volatility to speak of in the rate of the Swiss currency to the euro.

### Evaluation risk

As of 31 December 2005, the market values of all of DIC Asset's real estate were reviewed by the neutral, internationally recognized evaluation firm ("chartered surveyors") Cushman & Wakefield in the course of the conversion to IFRS/IAS. There were no changes to the previous evaluation; the book values for the real estate were confirmed. The market value of the real estate will also be determined in future by neutral expert consultants. Conversion to the fair value method and inclusion of market values in the balance sheet is planned for fiscal year 2006. According to the rules set down in IAS 40, any changes in value of investment property will then flow into the profit and loss calculation. This means that the company's annual results may be subject to fluctuations.

### Financing and interest rate change risk

The company's financing risk with regard to the provision of borrowed capital for the further increase in real estate assets is limited due to the capital increase in the reporting year and the integration in the DIC real estate group with its financial partners. The financing for real estate properties is undertaken for the long term or is oriented towards the business plan for the particular transaction. DIC Asset counters the risk of interest rate changes by securing the current favorable interest rate for the long term as well as by using modern forms of financing.

#### ► IT risk

An up-to-date and comprehensive database on the real estate assets is an elementary success factor for real estate companies. For this reason, the company has protected itself against IT risks with an independent network and with safeguards against attacks. All relevant data is backed up daily.

#### ► Legal risk

The company is involved in disputes with former and present shareholders of DIC Asset AG that trace back to lawsuits seeking to void resolutions and similar lawsuits by individual minority shareholders.

A lawsuit was filed challenging the resolution properly passed at the company's Shareholders' Meeting on 27 August 2003 to exonerate the Board of Directors and the Supervisory Board for fiscal year 2002 and the use of the profit from the balance sheet. This lawsuit was successful at the first trial. The company has filed an appeal. There are no significant effects for the company arising from this fact.

Furthermore, a lawsuit was filed demanding a determination that the consolidated financial statements for fiscal years 2002 and 2003 be declared null and void, and this was dismissed due to inadmissibility. The plaintiff has filed an appeal. The company presumes that the lawsuit will also be unsuccessful in this second attempt.

Finally, a motion for special court appraisal proceedings was filed against the company by several shareholders, with the petition for a determination of an appropriate additional cash payment for shareholders of the former DIC Beteiligungs- und Immobilien AG. The petitions were rejected by the District Court in January 2005. Due to the

small number of shares concerned, the outcome of appraisal proceedings does not have any significant influence on the company.

The company believes that all of the lawsuits filed are unjustified; the company's continued existence is not at risk.

#### Risk management

The achievement of operational as well as strategic objectives is constantly examined by an extensive risk management system. With the help of prompt reporting, the Board of Directors is in a position at any time to take countermeasures early in the event of any deviation from the budget.

#### Summary

In the opinion of the Board of Directors, the continued existence of DIC Asset is not endangered by the risks cited.

#### Report on relationships to affiliated companies

The Board of Directors has drawn up a separate report on relationships to affiliated companies in accordance with §312 of the German Stock Corporation Law, which concludes with the following declaration:

"We hereby declare that under the circumstances that were known to us at the time at which the legal transactions were undertaken, our company received or provided appropriate consideration for each legal transaction. Measures were neither taken nor omitted at the instruction of or in the interest of the controlling company."

Information on related parties and persons according to the rules set down in IAS 24 can be found in the notes to the consolidated financial statements.

#### Supplemental report

The following significant events occurred after the date of the consolidated financial statements:

The transfer of risks and rewards from the transactions regarding the Creditreform headquarters and the MEAG Portfolio took place in January. Transfers for the transactions regarding the Pfeiderer AG headquarters and stage three of the construction of the eBay Portfolio are planned by the end of March 2006.

It was resolved at DIC Asset AG's extraordinary Shareholders' Meeting on 3 February 2006 to increase the capital stock from EUR 10.17 million to EUR 20.34 million in order to realize further growth potential.

The company's position, strategy, and orientation remain unchanged by these events. On the contrary, the events are in absolute harmony with the development and growth strategy of DIC Asset.

## Outlook

According to estimates by specialist economic research institutes, the overall economic environment will develop positively in 2006. DIC Asset should also be able to profit from the increase of important tenants in Germany as a location and from rising demand anticipated, in particular for contemporary retail and commercial space.

### ► Significant growth sought

The basis for a positive trend in revenue and earnings was created in past years by the significant increase in real estate assets and the rentable space. The company intends to expand its real estate portfolio considerably in the next few years and in doing so, to invest the shareholders' equity from the capital increases along with a corresponding share of debt into real estate with strong returns. Additional purchases for the Core-Portfolio and the Value Added-Portfolio will be in the spotlight of these actions.

To this end, the Board of Directors is in constant negotiations regarding the purchase of individual properties and large real estate portfolios. Conclusions of several transactions are anticipated during the course of the current fiscal year.

### ► Capital increase to further reinforce the basis for growth

It was resolved at DIC Asset AG's extraordinary Shareholders' Meeting on 3 February 2006 to increase the capital stock from EUR 10.17 million to EUR 20.34 million. Shares for which subscription rights are not exercised are to be made available as free float by means of a public offering. In case of successful execution, additional shareholder equity funds will be available to DIC Asset to realize its growth strategy.

### ► Intensive creation of value

Thanks to its active asset and portfolio management, DIC Asset seeks an increase in invested assets. With regard to the real estate in the Core-Portfolio, another optimization of the rental situation, for example by extending leases, will be pursued. Previously untapped value potential is to be increased both for the investments in the Value Added-Portfolio and with regard to the Opportunistic Co-Investments by means of optimization of the use concept, visual and technical modernization work, and similar smaller development measures as well as through the improvement of the rental situation; the potential will then be realized through sales.

The company is anticipating in particular the sale of more properties from the Frasca Portfolio as well as other investment properties in 2006. The realization of the Hasengasse project will begin in the second half of the year. The MEAG Portfolio will be increased in value in the next few years by means of diligent asset and property management by DIC Asset. In order to be able to optimally use the growth opportunities of the market, DIC Asset plans to expand its organization.

Overall, if the general economic environment develops positively, the Board of Directors is anticipating a further increase in revenue and earnings in fiscal year 2006 and with it, a successful continuation of the company's expansive growth strategy. In order to allow the shareholders to also participate proportionately in the successful development of fiscal year 2005 and to further increase the attractiveness of DIC Asset stock, the Board of Directors is recommending to the Supervisory Board the payment of a dividend of EUR 0.56 per share.



## Consolidated Profit and Loss Account for period from 1 January to 31 December 2005

|                                                                     | Notes | 2005<br>TEUR   | 2004<br>TEUR   |
|---------------------------------------------------------------------|-------|----------------|----------------|
| <b>Total revenues</b>                                               |       | <b>43,108</b>  | <b>32,852</b>  |
| <b>Total expenses</b>                                               |       | <b>-28,376</b> | <b>-23,924</b> |
| Rental income                                                       | 1     | 18,098         | 11,267         |
| Ground rents                                                        | 2     | -15            | 0              |
| Income from operating costs and utilities                           | 3     | 2,590          | 1,476          |
| Expenses for operating costs and utilities                          | 3     | -2,628         | -1,360         |
| Depreciation and amortization                                       | 4     | -3,950         | -2,622         |
| Other real estate related operating expenses                        | 5     | -696           | -85            |
| <b>Net rental income</b>                                            |       | <b>13,399</b>  | <b>8,676</b>   |
| Administrative expenses                                             | 6     | -2,665         | -1,450         |
| Personnel expenses                                                  | 7     | -1,142         | -631           |
| Other operating income                                              | 8     | 711            | 319            |
| Other operating expenses                                            | 9     | -232           | -109           |
| <b>Profit (loss) from other operating income and expenses</b>       |       | <b>479</b>     | <b>210</b>     |
| Net proceeds from investment property disposal                      | 10    | 21,709         | 19,790         |
| Carrying value of investment property disposals                     | 10    | -17,048        | -17,667        |
| <b>Profit on disposal of investment property</b>                    |       | <b>4,661</b>   | <b>2,123</b>   |
| <b>Profit (loss) before interest and other financing activities</b> |       | <b>14,732</b>  | <b>8,928</b>   |
| Share of the profit of associates                                   | 11    | -21            | 0              |
| Net financing costs                                                 | 12    | -6,630         | -5,947         |
| <b>Profit before tax</b>                                            |       | <b>8,081</b>   | <b>2,981</b>   |
| Income tax expense                                                  | 13    | -1,038         | -174           |
| Deferred tax expense                                                | 13    | -599           | 526            |
| <b>Profit for the period</b>                                        |       | <b>6,444</b>   | <b>3,333</b>   |
| <b>Attributable to:</b>                                             |       |                |                |
| Equity holders of the parent                                        |       | 6,425          | 3,061          |
| Minority shareholders                                               | 14    | 19             | 272            |
| <b>Profit for the period</b>                                        |       | <b>6,444</b>   | <b>3,333</b>   |
| Basic earnings per share (in euros)                                 | 15    | 0,87           | 0,65           |
| Diluted earnings per share (in euros)                               | 15    | 0,87           | 0,65           |

## Consolidated Balance Sheet as at 31 December 2005

## ASSETS

|                                          | Notes | 31 Dec. 2005<br>TEUR | 31 Dec. 2004<br>TEUR |
|------------------------------------------|-------|----------------------|----------------------|
| Investment property                      | 16    | 284,917              | 239,181              |
| Office furniture and equipment           | 17    | 32                   | 10                   |
| Investments in associates                | 18    | 1,803                | 0                    |
| Other investments                        | 19    | 241                  | 241                  |
| Intangible assets                        | 20    | 394                  | 471                  |
| Deferred tax assets                      | 21    | 1,808                | 2,010                |
| <b>Total non-current assets</b>          |       | <b>289,195</b>       | <b>241,913</b>       |
| Development properties held for sale     | 22    | 5,041                | 0                    |
| Receivables from the sale of real estate | 23    | 3,200                | 7,298                |
| Trade receivables                        | 24    | 1,024                | 380                  |
| Receivables from related companies       | 25    | 31,630               | 4,156                |
| Income tax receivable                    | 26    | 180                  | 95                   |
| Other receivables                        | 27    | 403                  | 385                  |
| Other current asset                      | 28    | 7                    | 58                   |
| Cash and cash equivalents                | 29    | 39,078               | 18,660               |
| <b>Total current assets</b>              |       | <b>80,563</b>        | <b>31,032</b>        |
| <b>Total assets</b>                      |       | <b>369,758</b>       | <b>272,945</b>       |

**EQUITY AND LIABILITIES**

|                                             | Notes | 31 Dec. 2005<br>TEUR | 31 Dec. 2004<br>TEUR |
|---------------------------------------------|-------|----------------------|----------------------|
| <b>Equity</b>                               |       |                      |                      |
| Issued capital                              | 30    | 10,170               | 6,780                |
| Share premium                               | 30    | 97,043               | 67,716               |
| Hedging and translation reserve             | 30    | -6                   | 0                    |
| Reserve from first-time application of IFRS | 30    | -2,373               | -2,373               |
| Other reserves                              | 30    | 1,136                | 1,136                |
| Retained earnings                           | 30    | 7,132                | 3,215                |
| <b>Total shareholders' equity</b>           |       | <b>113,102</b>       | <b>76,474</b>        |
| Minority interest                           | 15    | 2,242                | 2,371                |
| <b>Total equity</b>                         |       | <b>115,344</b>       | <b>78,845</b>        |
| <b>Liabilities</b>                          |       |                      |                      |
| Interest bearing loans and borrowings       | 31    | 169,199              | 74,017               |
| Deferred tax liabilities                    | 13    | 4,946                | 2,851                |
| Derivative financial instruments            | 32    | 1,918                | 2,433                |
| Other non-current liabilities               | 33    | 1,241                | 1,406                |
| <b>Total non-current liabilities</b>        |       | <b>177,304</b>       | <b>80,707</b>        |
| Interest bearing loans and borrowings       | 31    | 16,589               | 4,911                |
| Trade payables                              | 34    | 51,910               | 93,175               |
| Payables to related companies               | 25    | 1,990                | 3,920                |
| Provisions                                  | 35    | 450                  | 52                   |
| Income tax liability                        | 36    | 1,519                | 681                  |
| Other liabilities                           | 37    | 4,652                | 10,654               |
| <b>Total current liabilities</b>            |       | <b>77,110</b>        | <b>113,393</b>       |
| <b>Total liabilities</b>                    |       | <b>254,414</b>       | <b>194,100</b>       |
| <b>Total equity and liabilities</b>         |       | <b>369,758</b>       | <b>272,945</b>       |

## Consolidated Statement of Cash Flow for the year ended 31 December 2005

|                                                     | 2005<br>TEUR    | 2004<br>TEUR  |
|-----------------------------------------------------|-----------------|---------------|
| <b>Operating activities</b>                         |                 |               |
| Net operating profit before interest and taxes paid | 14,111          | 8,650         |
| Realized gains/losses disposals                     | -4,661          | -2,123        |
| Depreciation and amortization                       | 3,950           | 2,622         |
| Movements in receivables and other assets           | 3,333           | -56           |
| Movements in payables and other liabilities         | -1,700          | 1,625         |
| Movements in provisions                             | 404             | -19           |
| Other non-cash transactions                         | 17              | 170           |
| <b>Cash generated from operations</b>               | <b>15,454</b>   | <b>10,869</b> |
| Interest paid                                       | -8,102          | -7,211        |
| Interest received                                   | 720             | 1,968         |
| Income taxes paid                                   | -286            | -73           |
| <b>Cash flow from operating activities</b>          | <b>7,786</b>    | <b>5,553</b>  |
| <b>Investing activities</b>                         |                 |               |
| Proceeds from sale of investment property           | 26,587          | 12,492        |
| Acquisition and disposal of subsidiaries            | -14,135         | -10,164       |
| Acquisition of investment property                  | -122,411        | -19,540       |
| Capital expenditure on investment properties        | -1,407          | -240          |
| Acquisition/Disposal of other investments           | -1,830          | 22,698        |
| Loans to other entities                             | -17,834         | -7,257        |
| Collection of principal on loans to other entities  | 6,400           | 2,300         |
| Acquisition of Office furniture and equipment       | -31             | -13           |
| <b>Cash flow from investing activities</b>          | <b>-124,661</b> | <b>276</b>    |
| <b>Financing activities</b>                         |                 |               |
| Proceeds from the issue of share capital            | 40,680          | 44,670        |
| Proceeds from other non-current borrowings          | 114,737         | 13,000        |
| Repayment of borrowings                             | -15,494         | -46,298       |
| Payment of transaction costs                        | -12             | 0             |
| Dividends paid                                      | -2,618          | -360          |
| <b>Cash flow from financing activities</b>          | <b>137,293</b>  | <b>11,012</b> |
| <b>Net increase in cash and cash equivalents</b>    | <b>20,418</b>   | <b>16,841</b> |
| Cash and cash equivalents at 1 January              | 18,660          | 1,819         |
| <b>Cash and cash equivalents at 31 December</b>     | <b>39,078</b>   | <b>18,660</b> |

# Consolidated Statement of Changes in Equity for the year ended 31 December 2005

| TEUR                                                                                  | Issued capital | Share premium | Reserve for cash flow hedges of associates | Reserve from first-time application of IFRS | Other reserves | Retained earnings | Minority interest | Total          |
|---------------------------------------------------------------------------------------|----------------|---------------|--------------------------------------------|---------------------------------------------|----------------|-------------------|-------------------|----------------|
| <b>Status as of 1 Jan. 2004 (HGB)</b>                                                 | <b>4,520</b>   | <b>44,413</b> | <b>0</b>                                   | <b>0</b>                                    | <b>765</b>     | <b>380</b>        | <b>3,683</b>      | <b>53,761</b>  |
| <b>Conversion from HGB to IFRS on 1 Jan. 2004</b>                                     |                |               |                                            |                                             |                |                   |                   |                |
| Equity capital transaction costs                                                      |                | -52           |                                            | 52                                          |                |                   |                   | 0              |
| Cash flow hedges                                                                      |                |               |                                            | -1,313                                      |                |                   |                   | -1,313         |
| Useful life of investment property                                                    |                |               |                                            | 342                                         |                |                   | 38                | 380            |
| Foreign currency translation                                                          |                |               |                                            | 132                                         |                |                   | 16                | 148            |
| Deferred taxes from business combinations                                             |                |               |                                            | -1,973                                      |                |                   | -152              | -2,125         |
| Deferred taxes on loss carryforwards                                                  |                |               |                                            | 387                                         |                |                   | 9                 | 396            |
| <b>Status as of 1 Jan. 2004 (IFRS)</b>                                                | <b>4,520</b>   | <b>44,361</b> | <b>0</b>                                   | <b>-2,373</b>                               | <b>765</b>     | <b>380</b>        | <b>3,594</b>      | <b>51,247</b>  |
| Capital increase                                                                      | 2,260          | 42,737        |                                            |                                             |                |                   |                   | 44,997         |
| Release of share premium                                                              |                | -19,382       |                                            |                                             |                |                   | -1,482            | -20,864        |
| Repayment of share premium                                                            |                |               |                                            |                                             |                |                   | -327              | -327           |
| Dividends 2003                                                                        |                |               |                                            |                                             |                | -226              | -134              | -360           |
| Profit for the period                                                                 |                |               |                                            |                                             |                | 3,061             | 272               | 3,333          |
| Change of consolidation group                                                         |                |               |                                            |                                             | 371            |                   | 649               | 1,020          |
| Other changes                                                                         |                |               |                                            |                                             |                |                   | -201              | -201           |
| <b>Status as of 31 Dec. 2004</b>                                                      | <b>6,780</b>   | <b>67,716</b> | <b>0</b>                                   | <b>-2,373</b>                               | <b>1,136</b>   | <b>3,215</b>      | <b>2,371</b>      | <b>78,845</b>  |
| Capital increase                                                                      | 3,390          | 37,290        |                                            |                                             |                |                   |                   | 40,680         |
| Release of share premium                                                              |                | -7,951        |                                            |                                             |                |                   | -883              | -8,834         |
| Dividends 2004                                                                        |                |               |                                            |                                             |                | -2,373            | -114              | -2,487         |
| Profit for the period                                                                 |                |               |                                            |                                             |                | 6,425             | 19                | 6,444          |
| Equity capital transaction costs                                                      |                | -12           |                                            |                                             |                |                   |                   | -12            |
| Loss from cash flow hedges of associates                                              |                |               | -6                                         |                                             |                |                   |                   | -6             |
| Effect from first-time proportional consolidation of previously consolidated entities |                |               |                                            |                                             |                | -4                |                   | -4             |
| Distribution from current period profits                                              |                |               |                                            |                                             |                | -131              |                   | -131           |
| Change of consolidation group                                                         |                |               |                                            |                                             |                |                   | 849               | 849            |
| <b>Status as of 31 Dec. 2005</b>                                                      | <b>10,170</b>  | <b>97,043</b> | <b>-6</b>                                  | <b>-2,373</b>                               | <b>1,136</b>   | <b>7,132</b>      | <b>2,242</b>      | <b>115,344</b> |

### Information on the Company

DIC Asset AG ("Company" or "DIC"), a company with head office in Frankfurt am Main, Eschersheimer Landstraße 223, its subsidiaries and its proportionately consolidated joint ventures ("DIC Asset") are active in the asset and portfolio management business. The DIC Asset (sub-) group is incorporated into the consolidated accounts of Deutsche Immobilien Chancen AG & Co. KGaA, Frankfurt am Main, which prepares consolidated accounts as the group's parent company.

The Company's stocks are quoted over-the-counter (OTC) at the stock exchanges in Frankfurt, Munich and Stuttgart.

### Accounting policies and procedures

#### Application of International Financial Reporting Standards (IFRS)

Under the regulation (EC) no.1606/2002 of the European Parliament and the Council for the Application of International Financial Reporting Standards (EU regulation) dated 19 July 2002, all corporations whose securities are listed on regulated markets with headquarters within the European Union are obliged to prepare their consolidated accounts in accordance with International Financial Reporting Standards (IFRS) for fiscal years commencing on or after 1 January 2005.

DIC Asset AG is not yet a capital market-oriented company within the meaning of the afore mentioned regulation and voluntarily applies IFRS for the first time in these consolidated accounts, which reflect IFRS along with the interpretations of the International Financial Reporting Interpretations Committee (IFRIC), as amended on 31 December 2005. As a result of the transition from German accounting standards under the German commercial code to the IFRS, the DIC Asset AG consolidated accounts underwent changes.

The reconciliation calculations of equity and periodic results mandated under IFRS 1 are stated below and provide evidence of all the changes resulting from the differences in HGB (German commercial code) and IFRS.

The annual accounts of the companies incorporated into the consolidated accounts are based on uniform accounting and valuation standards; valuations based on tax regulations were not incorporated into the consolidated accounts. The individual accounts of the considered companies have been prepared for the balance sheet date of the consolidated accounts.

The consolidated accounts were prepared in EUR. Unless noted otherwise, the figures stated herein are in EUR thousands (TEUR).

In accordance with the outline suggested by the European Public Real Estate Association (EPRA), the statement of profit and loss was prepared in the cost-of-sales format.

Both in the statement of profit and loss and in the balance sheet, individual items have been consolidated for the sake of clarity. These cases are addressed in the Notes. Pursuant to IAS 1 (Presentation of financial statements), reporting herein distinguishes between non-current and current third-party capital. Liabilities and provisions are deemed short-term if they mature within one year.

The consolidated accounts for fiscal year 2005 have been prepared in accordance with the provisions of the International Financial Reporting Standards (IFRS) and the International Accounting Standards (IAS) adopted by the International Accounting Standards Board (IASB), and they reflect the interpretations of the International Financial Reporting Interpretations Committee (IFRIC).

The initial preparation of the consolidated accounts was subject to IFRS 1, the guidelines for the first application of the International Financial Reporting Standards. The IFRS opening balance sheet was prepared on 1 January 2004. Adjustments resulting from the transition from previously applied accounting and valuation standards to IFRS have been applied against the consolidated equity as of the opening balance sheet date.

In accordance with IFRS 1, current standards and interpretations shall apply retroactively. IFRS 3 shall not apply retroactively to past corporate mergers dating from the period before 1 January 2004, due to the simplification rules under IFRS 1. The standards revised as a part of the IASB "Improvement project" were published by the IASB in December 2003 and must be applied to any fiscal year commencing on or after 1 January 2005. An earlier application is recommended. DIC Asset AG uses the following revised standards:

IAS 1 "Presentation of Financial Statements"  
 IAS 2 "Inventories"  
 IAS 7 "Cash Flow Statements"  
 IAS 10 "Events after the Balance Sheet Date"  
 IAS 11 "Construction Contracts"  
 IAS 12 "Income Tax"  
 IAS 14 "Segment Reporting"  
 IAS 16 "Property, Plant and Equipment"  
 IAS 17 "Leases"  
 IAS 18 "Revenue"  
 IAS 21 "The Effects of Changes in Foreign Exchange Rates"  
 IAS 24 "Related Party Disclosures"  
 IAS 27 "Consolidated and Separate Financial Statements"

IAS 28 "Investments in Associates"  
 IAS 31 "Interests in Joint Ventures"  
 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"  
 IFRS 2 "Share-based Payment"  
 IFRS 3 "Business Combinations"

**Reconciliation of equity reported pursuant to HGB and IFRS as of the effective date of transition, 1 January 2004, as well as for 31 December 2004**

|                                                  |     | 31 Dec. 2004<br>TEUR | 1 Jan. 2004<br>TEUR |
|--------------------------------------------------|-----|----------------------|---------------------|
| <b>Equity pursuant to HGB</b>                    |     | <b>80,493</b>        | <b>53,761</b>       |
| Adjustments under IFRS                           |     |                      |                     |
| Proportional consolidation Frasca Portfolio 2004 | (a) | -127                 | 0                   |
| Adjustment of valuation of investment property   | (b) | 1,228                | 516                 |
| Derivatives                                      | (c) | -2,576               | -2,174              |
| Foreign currency                                 | (d) | 126                  | 202                 |
| Deferred tax on items to (a) through (d)         | (e) | 675                  | 672                 |
| Deferred tax on loss carryforwards               | (f) | 978                  | 395                 |
| Deferred tax on business combinations            | (g) | -1,952               | -2,125              |
| <b>Equity pursuant to IFRS</b>                   |     | <b>78,845</b>        | <b>51,247</b>       |

The reserve from the initial application of IFRS is composed as follows:

|                                                 | 1 Jan. 2004<br>TEUR |
|-------------------------------------------------|---------------------|
| Differences between HGB and IFRS                | 2,514               |
| – less equity transactions costs from 2003      | -52                 |
| – less minority interest                        | -89                 |
| <b>Reserve from initial application of IFRS</b> | <b>2,373</b>        |

#### Reconciliation of the period result pursuant to HGB and IFRS for fiscal year 2004

|                                                     |     | 2004<br>TEUR |
|-----------------------------------------------------|-----|--------------|
| <b>Profit for the period pursuant to HGB</b>        |     | <b>2,467</b> |
| <b>Adjustments pursuant to IFRS</b>                 |     |              |
| Proportional consolidation<br>Fraspa Portfolio 2004 | (a) | -127         |
| Adjustment of valuation of<br>investment property   | (b) | 712          |
| Derivatives                                         | (c) | -402         |
| Foreign currency                                    | (d) | -76          |
| Deferred tax on items (a) through (d)               | (e) | 3            |
| Deferred tax on loss carryforwards                  | (f) | 583          |
| Deferred tax from business combinations             | (g) | 173          |
| <b>Profit for the period pursuant to IFRS</b>       |     | <b>3,333</b> |

#### (a) Proportional consolidation Fraspa Portfolio 2004

In late 2004, the Company, jointly with MSREF Sparks BV, acquired a portfolio consisting of 57 real properties of the Frankfurter Sparkasse ("Fraspa Portfolio"). The portfolio was incorporated into the HGB consolidated accounts using the equity method for the period ended on 31 December 2004. In the IFRS consolidated accounts, the enterprises managed and owned jointly with MSREF (at 50%) are proportionately consolidated as of the acquisition date pursuant to IAS 31.30. The pro-rated loss for fiscal 2004 equaled TEUR 127 and was not reported in the HGB consolidated accounts as a result of the initial consolidation at equity on 31 December 2004.

#### (b) Adjustment of valuation of investment property

For purposes of the HGB consolidated accounts, investments property has been depreciated group-wide over a useful life of 40 years. In accordance with international practice, such investment property is now classified and depreciated according to the nature of use in the IFRS consolidated accounts. Accordingly, residential properties are depreciated on a straight-line basis over a term of 60 years, office properties over a term of 50 years and retail properties, arcades and parking garages over a term of 40 years.

#### (c) Derivates

In the year 2002, the Company entered into four interest-rate swap agreements that are reported as derivatives at current fair values pursuant to IAS 39, with fluctuations in fair value of the instrument charged to earnings.

**(d) Foreign currency**

There are two foreign currency liabilities in Swiss francs (CHF), which are stated in the HGB consolidated accounts at historical costs or, if lower, at the rate of exchange. For purposes of IFRS consolidated accounts, these liabilities are shown at the rate of exchange in effect on the balance sheet date. As of 2005, 2004 and 2003, the loans are valued at TCHF 11,015, TCHF 11,404 and TCHF 11,805, respectively.

**(e) Deferred tax on items (a) through (d)**

The deferred taxes are recorded for the future impact of taxes on items (a) through (d) on the basis of tax rates ranging from 26.375% to 40.86%.

**(f) Deferred tax on loss carryforwards**

The deferred taxes result mainly from DIC Asset AG loss carryforwards for corporate and trade tax purposes.

**(g) Deferred tax from business combinations**

In the case of an acquisition, the acquired identifiable assets and the acquired identifiable liabilities are stated at current fair values. Temporary differences arise if a business combination has no effect, or another effect, on the tax values of the acquired identifiable assets or the acquired identifiable liabilities. These items represent deferred tax liabilities resulting from business combinations according to IAS 12.19.

**Impact of new financial reporting standards**

In 2005, the International Accounting Standards Board (IASB) published new International financial reporting standards and made the following changes to the existing IFRS/IAS:

On 18 August 2005, the IASB announced a change to IAS 1, "Presentation of Financial Statement – Capital Disclosures" introducing new requirements for disclosures related to the capital of a company.

Likewise, on 18 August 2005, the IASB published changes to IAS 39, "Financial Instruments: Recognition and Measurement", such changes being intended to ensure that in their balance sheets, guarantors report the liabilities resulting from financial guarantees.

Furthermore, the IASB published IFRS 7, "Financial instruments: Disclosures" on 18 August 2005, which contains new requirements designed to enhance the disclosures on financial instruments contained in company accounts and replaces IAS 30, "Disclosures in the Financial Statements of Banks and Similar Financial Institutions" as well as some provisions contained in IAS 32, "Financial Instruments: Disclosure and Presentation". In the form published, IFRS 7 calls for corresponding changes to other international accounting standards for the sake of consistency. Such changes refer to IFRS 1 and 4 as well as to IAS 14, 17, 32, 33 and 39. Companies are required to start applying IFRS 7 no later than the beginning of fiscal year 2007.

As a part of the Improvement Project, on 17 December 2003, the International Accounting Standard Board (IASB) published the revised version of IAS 39, "Financial Instruments: Recognition and Measurement". IAS 39 primarily set forth principles for the recognition and measurement of financial assets and financial liabilities. On 17 December 2004, the IASB announced a change to IAS 39, "Financial Instruments: Recognition and Measurement – Transition and Initial Recognition of Financial Assets and Financial Liabilities", which is designed to help European companies, particularly those registered with the Securities and Exchange Commission (SEC) in the U.S., to carry out the transition to IAS/IFRS.

In its revised version, IAS 39 introduced an option under which companies were able, for purposes of initial recognition, to determine irrevocably whether a financial asset or a financial liability was to be valued at current fair value, with profits and losses to be reported in the statement of profit and loss (so-called unrestricted fair value option).

On 16 June 2005, the IASB published the changes to IAS 39, "Financial Instruments: Recognition and Measurement: The Fair Value Option". The revised fair value option under IAS 39 restricts the application thereof to cases in which the relevance of data is enhanced as a result of the removal or material reduction of accounting mismatches and/or to cases where a group of financial assets or financial liabilities or both are handled as part of demonstrable risk management or investment strategies. In addition, the revised fair value option allows an entire, combined contract containing one or several embedded derivatives to be valued as a financial asset or financial liability at fair value in some cases, affecting earnings accordingly. This means that the application of the revised fair value option is restricted to cases in which certain principles or circumstances must be recognized. Finally, the application of the option should be underpinned by adequate disclosure. The changes to IAS 39 result in adjustments to IFRS 1 and IAS 32, which are intended to ensure consistency among the accounting standards in question.

## **Accounting Principles underlying Consolidated Accounts**

### **Consolidation principles**

The consolidation of capital is performed in accordance with IFRS 3, "Business Combinations", by offsetting the carrying amounts of investments with the pro-rated revalued equity of subsidiaries at the time of their acquisition. For this purpose, assets and liabilities are stated at their fair value. In accordance with IFRS 3, goodwill resulting from business combinations is no longer subject to regular amortization but to an annual recoverability review.

In the event of a negative goodwill, such negative goodwill is recognized immediately in income. Fair value increments and reductions are maintained as a part of subsequent consolidation in accordance with the corresponding assets and liabilities.

In accordance with the simplification rules under IFRS 1, the previous consolidations of capital pursuant to HGB were retained as of 1 January 2004. The initial consolidation of subsidiaries in the consolidated accounts occurred on or before 31 December 2003 are in accordance with the revaluation method under HGB.

Internal consolidated profits and losses, sales, expenditures and revenues as well as the claims and liabilities existing between the consolidated companies were eliminated. Aspects of consolidation affecting earnings reflect the implications on taxes on earnings as well as on deferred taxes while joint ventures were consolidated proportionately according to the same principles.

The consolidated accounts include the transactions of any subsidiary, the majority of voting stock of which is held, either directly or indirectly, by DIC Asset AG, or from whose activities DIC Asset AG stands to benefit as a result of its control over the subsidiary (in most cases, through shareholdings of more than 50%). The inclusion of the subsidiary commences on the date on which the possibility of control arises or ends if the possibility of control no longer exists.

Joint ventures are consolidated proportionately in accordance with IAS 31, "Interests in Joint Ventures", based on the interest in such joint ventures.

By contrast, inclusion of entities over which DIC Asset AG (in most cases, through shareholdings between 20% and 50%) exerts a significant influence is performed using the equity method. With respect to holdings included using the equity method, the historical costs are increased or reduced by the changes in equity corresponding with the capital share of DIC Asset AG.

At initial inclusion of holdings using the equity method, goodwill arising from the initial consolidation is treated in accordance with the principles of a full consolidation. Profits and losses from transactions between group divisions and affiliated enterprises are eliminated to the extent of the group's interest in such affiliated enterprises.

### Consolidated group

In addition to DIC Asset AG, a total of 32 subsidiaries were incorporated into the consolidated accounts effective as of 31 December 2005. The number of these subsidiaries, the majority of voting stock of which is held, either directly or indirectly, by DIC Asset AG, or from the activities of which DIC Asset AG stands to benefit as a result of its control over the entity, grew by eleven versus the previous year.

Seventeen joint ventures were proportionately consolidated pursuant to IAS 31. The impact of the joint ventures on the group's assets and liabilities as well as on its expenses and revenues was as follows:

|                             | 2005<br>TEUR  | 2004<br>TEUR |
|-----------------------------|---------------|--------------|
| Current assets              | 13,838        | 3,156        |
| Non-current assets          | 72,469        | 74,173       |
| Current liabilities         | 10,084        | 74,247       |
| Non-current liabilities     | 58,030        | 0            |
| <b>Net assets</b>           | <b>18,193</b> | <b>3,082</b> |
| Revenues                    | 10,726        | 0            |
| Expenses                    | 6,634         | 127          |
| <b>Annual profit (loss)</b> | <b>4,092</b>  | <b>-127</b>  |

Two companies were included using the equity method. The associated enterprises reported the following assets and liabilities as well as revenues and expenses:

|                             | 2005<br>TEUR | 2004<br>TEUR |
|-----------------------------|--------------|--------------|
| Assets                      | 320,634      | 0            |
| Liabilities                 | 311,590      | 0            |
| <b>Net assets</b>           | <b>9,044</b> | <b>0</b>     |
| Revenues                    | 19           | 0            |
| Expenses                    | 125          | 0            |
| <b>Annual profit (loss)</b> | <b>-106</b>  | <b>0</b>     |

Under the notarized purchase agreement dated 15 November 2005, the Company acquired 94.8% of the shares in M.S.C. Objekt Braunschweig GmbH from DIC Starwood Telekomportfolio Eins GmbH. The acquired company was renamed DIC Objekt Braunschweig GmbH. It manages the Braunschweig office building, which has been let to Deutsche Telekom under a long-term lease.

Under the notarized purchase agreement dated 23 March 2004, the Company acquired another 44.2% of the shares in Deutsche Immobilien Chancen Objekt Mozartstr. 33a GmbH from B+D Technologie Beteiligungs GmbH. Deutsche Immobilien Chancen Objekt Mozartstr. 33a GmbH manages two office buildings in Erlangen, which have been let to Siemens AG under a long-term lease.

The net assets acquired as a result are as follows:

|                                                                                                 | Braunschweig<br>property<br>TEUR | Mozartstr.<br>properties<br>TEUR |
|-------------------------------------------------------------------------------------------------|----------------------------------|----------------------------------|
| <b>Effective date of purchase</b>                                                               | <b>15 Nov. 05</b>                | <b>25 Mar. 04</b>                |
| Voting stock acquired                                                                           | 94.8%                            | from 49.8%<br>to 94.0%           |
| Purchase price                                                                                  | 15,474                           | 10,165                           |
| (including ancillary purchase costs in the amount of)                                           | (28)                             | (16)                             |
| Liquid funds acquired                                                                           | 141                              | 1                                |
| Fair value of acquired assets                                                                   | 18,088                           | 35,548                           |
| Fair value of acquired liabilities                                                              | 1,906                            | 24,733                           |
| Annual profit (loss) from the date of acquisition                                               | 85                               | -190                             |
| <b>Revenues for the hypothetical acquisition date of 1 Jan. 2005 or 1 Jan. 2004</b>             | <b>1,378</b>                     | <b>2,603</b>                     |
| <b>Annual profit (loss) for the hypothetical acquisition date of 1 Jan. 2005 or 1 Jan. 2004</b> | <b>915</b>                       | <b>112</b>                       |

The following table lists the consolidated subsidiaries:

| Name and location of company                                            | Capital share (%) |
|-------------------------------------------------------------------------|-------------------|
| Deutsche Immobilien Chancen Objekt Herne GmbH & Co. KG, Erlangen        | 100.0             |
| Deutsche Immobilien Chancen Objekt Elmshorn GmbH & Co. KG, Erlangen     | 100.0             |
| Deutsche Immobilien Chancen Objekt Euskirchen GmbH & Co. KG, Erlangen   | 100.0             |
| Deutsche Immobilien Chancen Objekt Moers GmbH & Co. KG, Erlangen        | 100.0             |
| Deutsche Immobilien Chancen Objekt Neuss GmbH & Co. KG, Erlangen        | 100.0             |
| Deutsche Immobilien Chancen Objekt Offenbach GmbH & Co. KG, Erlangen    | 100.0             |
| Deutsche Immobilien Chancen Objekt Ludwigshafen GmbH & Co. KG, Erlangen | 100.0             |
| Deutsche Immobilien Chancen Objekt Neunkirchen GmbH & Co. KG, Erlangen  | 100.0             |
| Deutsche Immobilien Chancen Objekt Schweinfurt GmbH & Co. KG, Erlangen  | 100.0             |
| Deutsche Immobilien Chancen Objekt Karlsruhe GmbH, Erlangen             | 100.0             |
| DIC Objekt Neuss GmbH, Frankfurt am Main                                | 100.0             |
| DIC Objekt Neumarkt GmbH, Frankfurt am Main                             | 100.0             |
| DIC RMN-Portfolio GmbH, Frankfurt am Main                               | 100.0             |
| DIC Objekt Stadthaus Offenbach GmbH, Frankfurt am Main                  | 100.0             |
| DIC Objekt Bensheim GmbH, Frankfurt am Main                             | 100.0             |
| DIC Objekt Dreieich GmbH, Frankfurt am Main                             | 100.0             |
| DIC Objekt Darmstadt GmbH, Frankfurt am Main                            | 100.0             |
| DIC Objekt Freiberg GmbH, Frankfurt am Main                             | 100.0             |
| DIC Objekt Wiesbaden GmbH, Frankfurt am Main                            | 100.0             |
| DIC Objekt Velbert GmbH, Frankfurt am Main                              | 100.0             |
| DIC Objekt Alsbach GmbH, Frankfurt am Main                              | 100.0             |
| WACO Projektmanagement AG, Luxemburg                                    | 100.0             |
| DIC Objekt Braunschweig GmbH, Frankfurt am Main                         | 94.8              |
| DIC Objektsteuerung GmbH, Frankfurt am Main                             | 94.8              |
| Deutsche Immobilien Chancen Objekt Mozartstr. 33a GmbH, Erlangen        | 94.0              |
| DIC Objekt Frankfurt 1 GmbH & Co. KG, Frankfurt am Main                 | 94.0              |
| Gewerbepark Langenfeld West 3 GmbH & Co. KG, Bielefeld                  | 93.2              |
| Deutsche Immobilien Chancen Objekt Ulm 1 GmbH & Co. KG, Erlangen        | 90.0              |
| Deutsche Immobilien Chancen Objekt Ulm 2 GmbH & Co. KG, Erlangen        | 90.0              |
| Deutsche Immobilien Chancen Objekt Ulm 1 Erweiterung GmbH, Erlangen     | 90.0              |
| Deutsche Immobilien Chancen Objektbeteiligungs GmbH, Erlangen           | 90.0              |
| Deutsche Immobilien Chancen Objekt Regensburg GmbH & Co. KG, Erlangen   | 90.0              |

In addition, the following 17 joint ventures have been incorporated by way of proportionate consolidation:

| Name and location of company                                   | Capital share (%) |
|----------------------------------------------------------------|-------------------|
| DIC MSREF Berlin GmbH, Frankfurt am Main                       | 50.0              |
| DIC Objekt Berlin 1 GmbH, Frankfurt am Main                    | 50.0              |
| DIC Objekt Berlin 2 GmbH, Frankfurt am Main                    | 50.0              |
| DIC Objekt Berlin 3 GmbH, Frankfurt am Main                    | 50.0              |
| DIC MSREF Objekt Hamburg GmbH, Frankfurt am Main               | 50.0              |
| DIC MSREF Frankfurt Portfolio GmbH, Frankfurt am Main          | 50.0              |
| DIC MSREF Frankfurt Objekt Zeil GmbH, Frankfurt am Main        | 50.0              |
| DIC MSREF Frankfurt Objekt Hasengasse GmbH, Frankfurt am Main  | 50.0              |
| DIC MSREF Frankfurt Objekt Börsenplatz GmbH, Frankfurt am Main | 50.0              |
| DIC MSREF Frankfurt Objekt 1 GmbH, Frankfurt am Main           | 50.0              |
| DIC MSREF Frankfurt Objekt 2 GmbH, Frankfurt am Main           | 50.0              |
| DIC MSREF Frankfurt Objekt 3 GmbH, Frankfurt am Main           | 50.0              |
| DIC MSREF Frankfurt Objekt 4 GmbH, Frankfurt am Main           | 50.0              |
| DIC MSREF Frankfurt Objekt 5 GmbH, Frankfurt am Main           | 50.0              |
| DIC MSREF Frankfurt Objekt 6 GmbH, Frankfurt am Main           | 50.0              |
| DIC MSREF Frankfurt Objekt 7 GmbH, Frankfurt am Main           | 50.0              |
| DIC MSREF Frankfurt Objekt 8 GmbH, Frankfurt am Main           | 50.0              |

In the previous year, DIC MSREF Frankfurt Portfolio GmbH, Frankfurt am Main, was proportionately consolidated along with twelve wholly-owned subsidiaries ("Fraspa Portfolio"). DIC MSREF Frankfurt Objekt Goethestraße GmbH was sold at the end of the fiscal year, and only its expenses and revenues were incorporated into the accounts. DIC MSREF Berlin GmbH was fully consolidated with its subsidiaries ("eBay Portfolio") in the previous year.

DIC MSREF Objekt Hamburg GmbH was 100% acquired in April 2005. The shares in DIC MSREF Berlin GmbH, including its subsidiaries DIC Objekt Berlin 1 GmbH, DIC Objekt Berlin 2 GmbH and DIC Objekt Berlin 3 GmbH, as well as the shares in DIC MSREF Objekt Hamburg GmbH were 50% sold, effective as of 1 August 2005. These companies are proportionately (previously: fully) consolidated into the group accounts effective that date pursuant to IAS 31.30.

In addition, there are interests in DIC MSREF Weißfrauenstraße GmbH, Frankfurt am Main (including three subsidiaries, collectively referred to as "Degussa Portfolio"), as well as in DIC MSREF HMDD Portfolio GmbH (including nine subsidiaries, collectively referred to as "MEAG Portfolio") in the amount of 20.0% each, which were first incorporated into the consolidated accounts as associates pursuant to IAS 28.13, using the equity method.

### Currency conversion

The euro is the functional currency of all consolidated subsidiaries and joint ventures. Transactions expressed in foreign currencies are converted at the exchange rate in effect on the transaction date. Profits and losses from the settlement of such transactions as well as from the conversion of monetary assets and liabilities as of the balance sheet date are incorporated into the statement of profit and loss.

Balance sheet items expressed in foreign currencies are valued based on the rate in effect on the balance sheet date. Foreign-exchange profits in the amount of TEUR 56 are reported under 2005 profit (loss) while foreign-exchange losses in the amount of TEUR 76 are reported under 2004 profit (loss).

### Accounting and valuation policies

#### Revenues and other operating income

Revenues and proceeds from the sale of real property are as a rule reported at the time of the transfer of risks and rewards, that is to say, at the time of the transfer of property, and not at the time of registration in the land register, or at the time of performance less cash and trade discounts. This rule does not apply to revenues from the application of the percentage-of-completion method in the context of the sale of certain development projects.

#### Investment property

Investment property is accounted for at acquisition or production costs less depreciation. The costs of third-party financing are not capitalized as part of the historical costs. Land is not depreciated whereas buildings are depreciated on a straight-line basis over their economic lives as follows:

|                                                               | Economic life<br>in years |
|---------------------------------------------------------------|---------------------------|
| Residential buildings                                         | 60                        |
| Office and commercial buildings                               | 50                        |
| Department and retail stores,<br>shopping arcades and centers | 40                        |
| Parking facilities, underground parking facilities            | 40                        |

The Company's real property is generally treated as a financial investment since the real-estate trade is not to be considered part of its business activities. The fair value of the Company's real property is stated in the "Notes to the consolidated financial statements" and is determined in accordance with internationally recognized valuation methods, including but not limited to the discounted-cash-flow method, or derived from the current market price of comparable properties.

#### **Office furniture and equipment**

Fixed assets are accounted for at acquisition costs less depreciation. The costs of third-party financing are not capitalized as part of historical costs. Fixed assets are as a rule depreciated on a straight-line basis. In most cases, the expected useful life of fixed assets ranges between three and 13 years.

#### **Financial investments**

The holdings valued according to the equity method are stated at pro-rated equity in accordance with the amortized-cost method.

Other investments allocated to the category "Available for sale," and are valued at fair value, to the extent that such value may be reliably determined. However, if no such value can be determined, these investments are reported at acquisition costs.

#### **Intangible assets**

Intangible assets are accounted for at acquisition costs less amortization. All intangible assets have a useful life and, therefore, are as a rule amortized on a straight-line basis. Software for commercial applications is amortized

over three years while the useful life of concessions and other rights is usually ten years.

#### **Development properties held for sale**

Development properties held for sale are accounted for according to the percentage-of-completion method, with the degree of completion being determined in accordance with expenses incurred. Expected revenues are evident in the contracts and stated as proceeds from development properties held for sale.

#### **Receivables and other assets**

With the exception of derivative financial instruments, receivables and other assets are valued at acquisition costs less any applicable reserves. Where necessary, value adjustments are based on actual contingency risks.

#### **Cash and cash equivalents**

Cash and cash equivalents include cash on hand and credit balances with credit institutions that can be converted to liquidity within three months.

#### **Provisions**

The provisions reflect all commitments evident on the balance sheet date, which are based on past events, for which the amount or maturity date is uncertain. Provisions are created only on the basis of legal or factual commitments to third parties, the fulfillment of which requires an outflow of resources (to the extent that the amount of the commitment may be reliably estimated).

The provisions are entered into the accounts at the amounts of fulfillment and are not offset against reimbursement claims.

With respect to claims for future stock price-based payments, provisions accrue proportionately and are expensed on the basis of fair values, taking into consideration the performance attributable to the waiting period.

#### **Liabilities**

With the exception of derivative financial instruments, liabilities are stated at repayment or fulfillment amounts.

#### **Deferred taxes**

Deferred taxes arising from temporary differences between IFRS accounts and the tax balance sheets of individual companies, as well as from consolidation transactions are stated separately. Accrued deferred taxes also include claims for tax reductions resulting from the anticipated use of existing fiscal loss carryforwards in subsequent years. They are capitalized only to the extent that the realization of these loss carryforwards is probable.

Deferred taxes are determined on the basis of the tax rates that (will) apply at the time of realization. The calculation of domestic deferred taxes reflects company-specific trade income tax rates in addition to the corporate tax rate in the amount of 25.0% and Solidaritätszuschlag (solidarity surcharge) in the amount of 5.5%.

### Derivative financial instruments

Derivative financial instruments are reported as assets or liabilities. Irrespective of their purpose, all derivative financial instruments are valued at fair value. Initial recognition occurs on the transaction date. To the extent that the requirements of IAS 39.88 are satisfied, expenses and revenues from the hedging of future payment flows are as a rule accrued or deferred in a manner not affecting earnings; otherwise, they are entered into the statement of profit and loss.

The results of accounting for the revenues accrued or deferred under equity are not included in the statement of profit and loss until the underlying transaction affects earnings.

### Foreign currency items

In the individual accounts of the group divisions, all receivables and liabilities expressed in foreign currencies are valued at the rate in effect on the balance sheet date.

### Underlying estimates and assumptions in the accounts

For purposes of the consolidated accounts, assumptions and estimates have to be made to a limited degree, which may affect the amount and presentation of the reported assets and liabilities, the expenses and revenues as well as the contingent liabilities. The principal areas of application for assumptions and estimates are the determination of the useful life of fixed assets, the calculation of discounted cash flows as part of impairment tests and the creation of provisions. Actual values may deviate from estimates.

### Notes to the consolidated profit and loss account

#### 1. Rental income

The consolidated rental income rose in fiscal 2005 by TEUR 6.831 (60.6%) from TEUR 11,267 to TEUR 18,098, such increase owing mainly to the 2005 rental income from the Fraspa Portfolio acquired in late 2004 in the pro-rated amount of TEUR 5,055 (2004: TEUR 0), from the eBay Portfolio acquired in late 2004 in the amount of TEUR 1,289 (2004: TEUR 0) as well as from the Telekom property in Hamburg in the amount of TEUR 486 (2004: TEUR 0).

#### 2. Ground rents

This item refers to the ground rents for the property located at Mainzer Landstraße 268, Frankfurt (TEUR 11) as well as for the property located at Wächtersbacher Str. 23-27, Frankfurt am Main (TEUR 4), both of which form part of the Fraspa Portfolio.

#### 3. Income and expenses from operating costs and utilities

The reported expenses include current expenditures incurred in connection with the properties for services rendered for the properties and buildings, including property tax. For the most part, these expenses may be assigned to the tenants as ancillary leasing costs (operating expenses, heat, etc.).

The increase both in operating costs and utilities (TEUR 1,268) and in those assigned to tenants and reported as income from operating costs and utilities (TEUR 1,114) is due mainly to the costs incurred in connection with the

Fraspa Portfolio in the amount of TEUR 1,080 as well as to the costs assigned on a pro-rata basis in the amount of TEUR 1,028. The differential between the expenses and revenues from the item "Operating costs and utilities" corresponds to the costs that are incurred for vacant space or can not be assigned under applicable agreements.

#### 4. Depreciation and amortization

The depreciation and amortization refer mainly to the investment property as reported and, to a lesser extent, to office furniture and equipment as well as intangible (fixed) assets. Compared to the previous year, depreciation and amortization grew by TEUR 1,328 (50.6%) from TEUR 2,622 to TEUR 3,950. The increase is primarily the result of portfolio expansion and of the full-year accounting of investment property acquired or initially consolidated during the year.

#### 5. Other real estate related operating expenses

The increase in other real estate related operating expenses in fiscal 2005 by TEUR 611 from TEUR 85 to TEUR 696 is chiefly the result of an increase in the use of external service providers for purposes of administration of property and lease agreements (TEUR 129) as well as in management fees (TEUR 79) payable by the proportionately consolidated companies to network enterprises.

## 6. Administrative expenses

Compared to the previous year, "Administrative expenses" breaks down as follows:

|                                        | 2005<br>TEUR | 2004<br>TEUR |
|----------------------------------------|--------------|--------------|
| Legal and consulting fees              | 811          | 465          |
| Ancillary costs of acquiring financing | 455          | 157          |
| Selling and marketing expenses         | 132          | 22           |
| Board of directors                     | 355          | 239          |
| Accounting and administration fee      | 133          | 127          |
| Remuneration of supervisory board      | 190          | 178          |
| Auditing costs                         | 271          | 90           |
| Other                                  | 318          | 172          |
| <b>Total</b>                           | <b>2,665</b> | <b>1,450</b> |

The increase in legal and consulting fees resulted mainly from the increase in the number of sales transactions for the year under review. The item also includes the costs of legal disputes (see "Notes on risks, contingencies and other financial commitments") in the amount of TEUR 175 in 2005 and of TEUR 134 in 2004. The rise in finance acquisition costs owes, at least in part, to the registration of mortgages on the properties of the Frasca Portfolio (TEUR 202) and of the Rhine-Main-Neckar Portfolio (TEUR 119). The selling and marketing expenses refer in the main to the preparation of exposés and presentations as well as to the preparation and publication of the annual report and the expenses of the shareholders' meeting. The increase in auditing costs is due to initial audit under

IFRS, to the considerable increase in consolidated companies and to the audit of the interim accounts on 31 March 2005 for all 13 companies of the Frasca Portfolio. The item "Other" includes in the main automobile and travel expenses.

## 7. Personnel expenses

Personnel expenses are composed of the wages and salaries of DIC Asset AG staff as well as of related social contributions.

The increase in personnel expenditures by TEUR 511 from TEUR 631 to TEUR 1.142 is mainly due to the increase in staff levels from an average of seven employees in fiscal 2004 to an average of ten employees in fiscal 2005. In addition, fiscal 2005 is the first year, in which share-based compensation offered to a member of the board of directors has been recorded (TEUR 96). In addition, in the year under review, the board of directors received remuneration in the total amount of TEUR 131.

## 8. Other operating income

|                                                             | 2005<br>TEUR | 2004<br>TEUR |
|-------------------------------------------------------------|--------------|--------------|
| Property and asset management, leasing and disposition fees | 320          | 156          |
| Loan processing fee                                         | 212          | 0            |
| Foreign exchange gains                                      | 56           | 0            |
| Other                                                       | 123          | 163          |
| <b>Total</b>                                                | <b>711</b>   | <b>319</b>   |

The increase in property and asset management, leasing and disposition fees is primarily related to portfolio expansion. The revenues result from corresponding services which DIC Asset AG provides for the divisions of the Deutsche Immobilien Chancen KGaA group – especially to the joint ventures with MSREF.

The Company assigned to DIC MSREF Frankfurt Portfolio GmbH a mezzanine loan in the amount of TEUR 12,000 for purposes of financing the acquisition of the Frasca Portfolio, and collected a processing fee on the provision of this loan. The earnings remaining after the proportionate consolidation in the amount of TEUR 212 are reported as an income item in the consolidated accounts.

The foreign-exchange profits result from the valuation, as of the respective balance sheet date, of two bank loans in Swiss francs (CHF).

The other earnings mainly reflect benefits in kind (i.e., use of automobiles) as well as costs recovered from employees.

## 9. Other operating expenses

Other operating expenses increased versus the previous year by TEUR 123 from TEUR 109 to TEUR 232. The increase is due mainly to the expansion of the business volume.

### 10. Profits from the sale of investment property

The profits from the sale of investment property rose versus the previous year by TEUR 2,538 from TEUR 2,123 to TEUR 4,661.

The increase is primarily the result of the sale of a total of 13 properties from the Frasca Portfolio with the profit totaling TEUR 3,807. In addition, the Company realized a profit from the sale of 50% of the shares in the property companies comprising the eBay Portfolio in the amount of TEUR 162 as well as an additional profit in the amount of TEUR 696 from the sale completed in the previous year of Block B of the Business Center Glacis in Luxemburg. In the preceding year, by comparison, the Company generated profits from the sale of Block B of the Business Center Glacis in Luxemburg in the amount of TEUR 1.871 and from the sale of the C&A property in Euskirchen in the amount of TEUR 306.

The sales proceeds were reduced by TEUR 205 in sales commissions in connection with the sale of 13 properties from the Frasca Portfolio (previous year: TEUR 53 for the sale of a C&A property).

### 11. Share of the profit of associates

The expense refers to the losses in fiscal 2005 in the amount of TEUR 9 and TEUR 12 attributable to the interests in DIC MSREF Weißfrauenstraße GmbH (Degussa Areal) and in DIC MSREF HMDD Portfolio GmbH (MEAG Portfolio), respectively, which include the initial expenses associated with the newly established companies still incurred in 2005, for which the transfer of titles to the investment property acquired was not completed until 31 December 2005, and 1 January 2006, respectively.

### 12. Net financing costs

This item is composed as follows:

|                  | 2005<br>TEUR | 2004<br>TEUR |
|------------------|--------------|--------------|
| Interest income  | 1,292        | 2,048        |
| Interest expense | -7,922       | -7,995       |
| Total            | -6,630       | -5,947       |

The negative net financing costs increased versus the previous year by TEUR 683 (11.5%) from TEUR -5,947 to TEUR -6,630, a minor increase given the significant expansion of the real estate portfolio, which is mainly the result of the lapse of interest expenses under the convertible loans executed as part of the capital increase in late 2004. In fiscal 2004, interest was still paid on these loans in the amount of TEUR 3,132.

The net financing costs include revenues in the amount of TEUR 515 (previous year: expense in the amount of TEUR 451) from the valuation of derivative financial instruments (interest rate swaps) at fair value.

### 13. Income tax expense

|                                                 | 2005<br>TEUR | 2004<br>TEUR |
|-------------------------------------------------|--------------|--------------|
| Current tax expense                             | 1,038        | 174          |
| Deferred tax expense<br>(previous year: income) | 599          | (526)        |
| Total tax expense                               | 1,637        | (352)        |

Current taxes on earnings refer exclusively to taxable profits of consolidated subsidiaries, with current tax expense essentially breaking down into corporate taxes, including Solidaritätszuschlag (solidarity surcharge) of TEUR 831, as well as trade income tax (TEUR 207). As of 31 December 2005, DIC Asset AG reports a tax loss carryforward for corporate tax purposes in the amount of TEUR 564 and for trade tax purposes in the amount of TEUR 3,204. As a result, no current trade tax expense was attributable to the group's parent company.

The increase in current taxes on income and earnings in the amount of TEUR 864 is mainly due to proceeds generated by the respective property companies from the leasing or sale of the Frasca Portfolio real property acquired in late 2004, of the eBay Portfolio as well as of the Telekom property in Hamburg, all of which were held jointly with MSREF (at 50%) and proportionately consolidated into the group accounts. The deferred taxes result from the temporary differences between the carrying amounts reported in the tax balance sheets and the IFRS accounts as well as from existing tax loss carryforwards for corporate and income tax purposes. Deferred taxes are determined on the basis of tax rates in effect at the time of realization. The calculation of domestic deferred

taxes reflects company-specific trade income tax rates in addition to the corporate tax rate in the amount of 25.0% and Solidaritätszuschlag (solidarity surcharge) in the amount of 5.5%.

Compared to the previous year, deferred tax expense is as follows:

|                                                           | 2005<br>TEUR | 2004<br>TEUR |
|-----------------------------------------------------------|--------------|--------------|
| Deferred taxes on carrying value of investment properties | -349         | -248         |
| Deferred taxes on tax loss carryforwards                  | -6           | 582          |
| Deferred taxes from valuation of derivatives              | -219         | 172          |
| Deferred taxes on other adjustments                       | -25          | 20           |
| <b>Total</b>                                              | <b>-599</b>  | <b>526</b>   |

The deferred tax claims and liabilities are attributable to the following balance sheet items:

|                                                 | 31 Dec. 2005<br>TEUR |              | 31 Dec. 2004<br>TEUR |              |
|-------------------------------------------------|----------------------|--------------|----------------------|--------------|
|                                                 | Assets               | Liabilities  | Assets               | Liabilities  |
| Investment properties                           | 22                   | 4,895        | 0                    | 2,818        |
| Long-term interest-bearing loans and borrowings | 0                    | 48           | 0                    | 33           |
| Derivative financial instruments                | 813                  | 0            | 1,032                | 0            |
| Provisions                                      | 0                    | 3            | 0                    | 0            |
| Tax loss carryforwards                          | 972                  | 0            | 978                  | 0            |
| <b>Total</b>                                    | <b>1,807</b>         | <b>4,946</b> | <b>2,010</b>         | <b>2,851</b> |

The reporting of deferred taxes on temporary differences in the area of investment properties in the amount of TEUR 4,895 includes deferred taxes from business combinations pursuant to IAS 12.19.

The difference between anticipated and actual tax expense may be reconciled as follows:

|                                                                                           | 2005<br>TEUR | 2004<br>TEUR |
|-------------------------------------------------------------------------------------------|--------------|--------------|
| <b>Consolidated result before taxes</b>                                                   | <b>8,081</b> | <b>2,981</b> |
| Applicable legal tax rate                                                                 | 40.86%       | 40.86%       |
| Anticipated tax expense                                                                   | 3,302        | 1,218        |
| <b>Tax rate deviations</b>                                                                |              |              |
| Effects of collection rate differentials, sliding-scale tax rates, exemptions (trade tax) | -51          | -53          |
| Difference between deferred and income tax rate                                           | -116         | -99          |
| <b>Tax effects of different tax assessment bases</b>                                      |              |              |
| Effects of non-taxable consolidated losses                                                | 74           | 52           |
| Effects of added depreciation on real estate for tax purposes                             | -211         | -175         |
| Effects of expanded reductions in taxable earnings from real estate management            | -555         | -635         |
| Effects of tax results from partnership subsidiaries                                      | 462          | 821          |
| Effects of tax exempt sale of financial investments (95% tax exempt)                      | -1,133       | -503         |
| Consolidation activities without deferred taxes                                           | 58           | 65           |
| Effects of tax loss carryforwards                                                         | -369         | -1,062       |
| Permanent differences                                                                     | -9           | -15          |
| Other deviations                                                                          | 18           | -24          |
| <b>Recognized deferred taxes</b>                                                          | <b>165</b>   | <b>60</b>    |
| <b>Aperiodical effects</b>                                                                | <b>2</b>     | <b>-2</b>    |
| <b>Total actual tax expense</b>                                                           | <b>1,637</b> | <b>-352</b>  |

The applicable legal tax rate was determined on the basis of German tax rates in effect in the years 2004 and 2005.

It is derived from a corporate tax rate (including Solidaritätszuschlag) in the amount of 21.18% and reflects the tax deductibility of trade tax (nominal corporate tax: 25%; nominal Solidaritätszuschlag: 5.5%). On the basis of the collection rate of the City of Frankfurt (490%), the municipal tax rate equals 19.68%. Insofar as the expanded reduction of taxable earnings is an option, the resulting increased corporate tax rate was utilized.

#### 14. Profits attributable to minority shareholders

Of the profits for the period under review, TEUR 131 has been reported as liabilities to minority shareholders. In the previous year, these amounts (TEUR 273) had been credited to the minority equity interests. Other profits attributable to minority interests in the amount of TEUR 18 were credited to the minority equity interests and recorded as a reduction of the profits of the fiscal year under review. For a comprehensive overview of the profits (losses) attributable to minority interests, see statement of changes in equity.

#### 15. Earnings per share, net asset value (NAV) and NAV per share

Pursuant to IAS 33.12, the earnings per share are derived from consolidated profit after consideration of profit attributable to minority shareholders and the average annual number of shares in circulation during the reporting period.

|                                                                                            | 2005        | 2004        |
|--------------------------------------------------------------------------------------------|-------------|-------------|
| Consolidated profit after consideration of profit attributable to minority interest (TEUR) | 6,425       | 3,061       |
| Weighted average number of issued shares                                                   | 7,345,000   | 4,708,333   |
| <b>Basic (= diluted) earnings per share (EUR)</b>                                          | <b>0.87</b> | <b>0.65</b> |

On 3 February 2006, on the occasion of an extraordinary shareholders' meeting, the DIC Asset AG shareholders adopted a resolution to increase the capital stock by EUR 10,170,000.00 from EUR 10,170,000.00 to EUR 20,340,000.00 by issuing 10,170,000 new no-par bearer shares against cash contributions. For additional details, see notes on "Events after balance sheet date".

The dividend distributed in the years 2005 and 2004, in each case for the preceding year, equaled TEUR 2,373 (EUR 0.35 per share) and TEUR 226 (EUR 0.05 per share), respectively.

For the year 2005, the board of directors will recommend to the annual general shareholders' meeting that a dividend be distributed in the amount of TEUR 5,695 (EUR 0.56 per share). Pursuant to IAS 10, this dividend has not been included in these consolidated accounts as a liability.

The intended dividend will not be subject to capital gains tax as DIC Asset AG reports a net loss in its individual accounts under commercial law. The dividend will be disbursed from the tax-free additional paid in capital account.

Following the recommendation of the European Public Real Estate Association (EPRA), the table below provides an overview of the calculation of the net asset value (NAV) for the periods ending on 31 December 2005 and 31 December 2004:

|                                                                     | 2005<br>TEUR   | 2004<br>TEUR  |
|---------------------------------------------------------------------|----------------|---------------|
| Book value of investment property                                   | 284,917        | 239,181       |
| Difference of carrying amount to fair value                         | 24,913         | 12,046        |
| Fair value of investment in associates                              | 1,803          | 0             |
| Fair value of real estate in current assets                         | 5,041          | 0             |
| +/- Misc. assets less misc. liabilities                             | 14,241         | -78,590       |
| Net loan commitments at carrying amount                             | -185,787       | -78,928       |
| Minority interest                                                   | -2,241         | -2,371        |
| <b>NAV</b>                                                          | <b>142,167</b> | <b>91,338</b> |
| Deferred tax on difference between fair value and tax basis         | -11,254        | -5,996        |
| <b>NNAV</b>                                                         | <b>130,913</b> | <b>85,342</b> |
| Difference of fair value to carrying amount of net loan commitments | -3,686         | -4,121        |
| <b>NNNAV</b>                                                        | <b>127,227</b> | <b>81,221</b> |
| Number of shares                                                    | 10,170         | 6,780         |
| <b>NAV/share</b>                                                    | <b>13.98</b>   | <b>13.47</b>  |
| <b>NNAV/share</b>                                                   | <b>12.87</b>   | <b>12.59</b>  |
| <b>NNNAV/share</b>                                                  | <b>12.51</b>   | <b>11.98</b>  |

## Notes to the consolidated balance sheet

### 16. Investment property

|                                                  | 2005<br>TEUR   | 2004<br>TEUR   |
|--------------------------------------------------|----------------|----------------|
| <b>Historical costs</b>                          |                |                |
| <b>as of 1 Jan.</b>                              | <b>245,934</b> | <b>117,592</b> |
| Acquisitions                                     | 70,701         | 95,908         |
| Subsequent acquisition costs                     | 628            | 183            |
| Acquisitions through business combinations       | 18,034         | 35,944         |
| Disposals                                        | 35,050         | 3,693          |
| Transfer to development properties held for sale | 5,090          | 0              |
| <b>As of 31 Dec.</b>                             | <b>295,157</b> | <b>245,934</b> |
| <b>Accumulated depreciation</b>                  |                |                |
| <b>as of 1 Jan.</b>                              | <b>6,753</b>   | <b>3,212</b>   |
| Additions                                        | 3,862          | 3,729          |
| Disposals                                        | 326            | 188            |
| Transfer to development properties held for sale | 49             | 0              |
| <b>As of 31 Dec.</b>                             | <b>10,240</b>  | <b>6,753</b>   |
| <b>Carrying amount as at 31 Dec.</b>             | <b>284,917</b> | <b>239,181</b> |
| Carrying amount as at 1 Jan.                     | 239,181        | 114,380        |
| <b>Fair value</b>                                | <b>309,110</b> | <b>251,227</b> |

Investment properties are initially measured at historical acquisition or production costs. Transaction costs are included in the initial valuation. Subsequent measurement is subject to the historical cost model pursuant to IAS 40.56.

For this purpose, investment properties are valued according to the provisions of IAS 16 – i. e., at historical or production costs adjusted by planned and extraordinary depreciation as well as write-ups.

The fair value of investment properties was additionally determined based entirely on the results of the independent appraiser Cushman & Wakefield in accordance with international valuation standards on the basis of discounted future income surpluses according to the DCF method.

For the purpose of impairment tests of investment properties in accordance with IAS 36, the carrying amounts for property and buildings are compared with such properties' fair values as determined by experts. Such comparison is conducted on the basis of gross market values – i. e., pursuant to IAS 40.37 excluding any transaction costs (as may arise in the event of actual sales).

### 17. Office furniture and equipment

|                                      | 2005<br>TEUR | 2004<br>TEUR |
|--------------------------------------|--------------|--------------|
| <b>Historical costs</b>              |              |              |
| <b>as of 1 Jan.</b>                  | <b>13</b>    | <b>3</b>     |
| Additions                            | 31           | 10           |
| Disposals                            | 0            | 0            |
| <b>As of 31 Dec.</b>                 | <b>44</b>    | <b>13</b>    |
| <b>Depreciation</b>                  |              |              |
| <b>as of 1 Jan.</b>                  | <b>3</b>     | <b>0</b>     |
| Additions                            | 9            | 3            |
| Disposals                            | 0            | 0            |
| <b>As of 31 Dec.</b>                 | <b>12</b>    | <b>3</b>     |
| <b>Carrying amount as at 31 Dec.</b> | <b>32</b>    | <b>10</b>    |
| Carrying amount as at 1 Jan.         | 10           | 3            |

### 18. Investments in associates

| Interest in:                    | Capital share | 2005<br>Book value<br>TEUR | 2004<br>Capital share | Book value<br>TEUR |
|---------------------------------|---------------|----------------------------|-----------------------|--------------------|
| DIC MSREF Weißfrauenstraße GmbH | 20%           | 3                          | -                     | -                  |
| DIC MSREF HMDD Portfolio GmbH   | 20%           | 1,800                      | -                     | -                  |

## 19. Other investments

As in the previous year, the recorded amount of TEUR 241 refers to a 5.4% interest in ING LPFE Bodenfeld GmbH & Co. KG.

## 20. Intangible assets

|                                      | 2005<br>TEUR | 2004<br>TEUR |
|--------------------------------------|--------------|--------------|
| <b>Historical costs</b>              |              |              |
| As of 1 Jan.                         | 696          | 695          |
| Additions                            | 0            | 1            |
| Disposals                            | 0            | 0            |
| <b>As of 31 Dec.</b>                 | <b>696</b>   | <b>696</b>   |
| <b>Amortization</b>                  |              |              |
| As of 1 Jan.                         | 225          | 148          |
| Additions                            | 77           | 77           |
| Disposals                            | 0            | 0            |
| <b>As of 31 Dec.</b>                 | <b>302</b>   | <b>225</b>   |
| <b>Carrying amount as at 31 Dec.</b> | <b>394</b>   | <b>471</b>   |
| Carrying amount as at 1 Jan.         | 471          | 547          |

The item refers to the rights of use of a cafeteria in the Ulm Science park as well as to the rights of use of software.

## 21. Deferred tax assets

See notes under No. 13, income tax expense.

## 22. Development properties held for sale

The item "Development properties held for sale" refers to the Hasengasse property in Frankfurt am Main belonging to the Frasca Portfolio. This property was sold under a purchase agreement dated 19 December 2005. The City of Frankfurt am Main intends to move a branch of the city library into this property, and to this effect entered into a long-term lease agreement with the purchaser. The purchase agreement calls for the transfer of property along risks and rewards effective as of 1 July 2007, following comprehensive construction yet to be completed by DIC MSREF Portfolio GmbH. The transfer from the item "Investment properties" was carried out pursuant to IAS 40.58. For the year under review, the accounts reflect neither proceeds nor down payments from the development property.

## 23. Receivables from the sale of real estate

This item includes a purchase-price claim stemming from the sale of the Frasca property at Goethestraße, Frankfurt am Main (TEUR 3,200) at the end of the year.

The receivables from the sale of real estate reported for the previous year referred to claims stemming from the sale of a property belonging to the C&A Portfolio (TEUR 3,850) as well as to residual purchase-price claims originating from the sale of the Business Center Glacis in Luxembourg (TEUR 3,448), all of which were paid up in 2005.

## 24. Trade receivables

This item principally refers to receivables from operating costs and utilities.

## 25. Receivables from related companies

Relations with affiliated parties are described in detail under "Related parties". This balance sheet item refers to:

|                                           |     | 31 Dec. 2005<br>TEUR |                  | 31 Dec. 2004<br>TEUR |                  |
|-------------------------------------------|-----|----------------------|------------------|----------------------|------------------|
|                                           |     | Receiv-<br>ables     | Liabi-<br>lities | Receiv-<br>ables     | Liabi-<br>lities |
| Deutsche Immobilien Chancen AG & Co. KGaA | a1) | 21,714               | 42               | 0                    | 516              |
| DIC Beteiligungs GmbH                     | a1) | 369                  | 7                | 353                  | 0                |
| DIC MSREF Frankfurt Portfolio GmbH        | c)  | 4,375                | 800              | 122                  | 2,925            |
| DIC MSREF Berlin GmbH                     | c)  | 415                  | 100              | 0                    | 0                |
| DIC MSREF Objekt Hamburg GmbH             | c)  | 555                  | 30               | 0                    | 0                |
| DIC MSREF HMDD Portfolio GmbH             | b)  | 2,640                | 0                | 0                    | 0                |
| MSREF Sparks B.V.                         | a2) | 800                  | 0                | 2,925                | 0                |
| MSREF V Daffodil Holding B.V.             | a2) | 100                  | 415              | 0                    | 0                |
| MSREF V Lupine B.V.                       | a2) | 30                   | 555              | 0                    | 0                |
| DIC Projekt Frankfurt 1 GmbH & Co. KG     | a1) | 600                  | 0                | 698                  | 0                |
| DIC Projektentwicklung GmbH & Co. KG      | a1) | 17                   | 40               | 0                    | 321              |
| Other                                     |     | 15                   | 1                | 58                   | 158              |
| <b>Total</b>                              |     | <b>31,630</b>        | <b>1,990</b>     | <b>4,156</b>         | <b>3,920</b>     |
| a1) Related party under IAS 24.9a(i)      |     |                      |                  |                      |                  |
| a2) Related party under IAS 24.9a(ii)     |     |                      |                  |                      |                  |
| b) Related party under IAS 24.9b          |     |                      |                  |                      |                  |
| c) Related party under IAS 24.9c          |     |                      |                  |                      |                  |

## 26. Receivables from tax on income

The recorded amount refers to tax credits and tax refunds.

## 27. Other receivables

|           | 2005<br>TEUR | 2004<br>TEUR |
|-----------|--------------|--------------|
| Sales tax | 246          | 358          |
| Other     | 157          | 27           |
|           | <b>403</b>   | <b>385</b>   |

## 28. Other current assets

In the previous year, this item primarily referred to a processing fee paid in advance.

## 29. Cash and cash equivalents

TEUR 3,447 of the credit balances were deposited on a restricted-access account as of 31 December 2004.

## 30. Equity

### Issued capital

As of the balance sheet date, the Company's issued capital is TEUR 10,170. It is divided into 10,170,000 bearer shares of common stock in the form of no-par shares, each of which represents an interest in the capital stock in the amount of EUR 1.00.

On 27 September 2005, the board of directors of DIC Asset AG, having obtained supervisory board approval, resolved to increase the Company's issued capital, utilizing approved capital as defined by § 5 para. 1 of the memorandum of association and acting under the authorization of the general shareholders' meeting of July 19, 2005, against cash contributions in the amount of TEUR 6,780 by TEUR 3,390 to TEUR 10,170 through the issue of 3,390,000 no-par shares. The nominal value per share under the issue of new shares equaled EUR 1.00 per share. The increase was registered with the commercial register of the Frankfurt am Main district court on 28 October 2005. As of the balance sheet date, there is no additional approved capital.

In accordance with the resolution adopted by the general shareholders' meeting of 19 July 2005, the capital stock was conditionally increased (contingent capital) by up to TEUR 3,390, divided into up to 3,390,000 no-par bearer shares for the purpose of issuing convertible bonds or warrants.

### Share premium

The share premium for the year under review includes the amount of TEUR 37,290 in excess of the nominal amount of TEUR 3,390, which was generated by the new no-par shares issued.

In the year under review, the non-jointly held share premium attributable to Deutsche Immobilien Chancen AG & Co. KGaA at one subsidiary in the amount of TEUR 8,834 (previous year: a total of TEUR 20,864 for three subsidiaries) was released, giving rise to a liability of the Company vis-à-vis Deutsche Immobilien Chancen AG & Co. KGaA.

### Hedging reserve

The year under review marked the first time that losses from cash-flow hedges of associates, which were entered directly into the equity of such associates, were reported pursuant to IAS 28.39 under "Consolidated equity" in the pro-rated amount of TEUR 6. The recorded amount includes pro-rated deferred taxes in the amount of EUR 125.

## 31. Interest-bearing loans and borrowings

|                                                                       | 31 Dec. 2005<br>TEUR |                | 31 Dec. 2004<br>TEUR |               |
|-----------------------------------------------------------------------|----------------------|----------------|----------------------|---------------|
|                                                                       | Book<br>value        | Fair<br>value  | Book<br>value        | Fair<br>value |
| <b>Long-term (&gt; 1 year) interest-bearing loans and borrowings</b>  |                      |                |                      |               |
| Variable-rate financial debt                                          | 82,452               | 82,452         | 28,797               | 28,797        |
| Fixed-rate financial debt                                             | 86,746               | 89,742         | 45,220               | 48,665        |
|                                                                       | <b>169,198</b>       | <b>172,194</b> | <b>74,017</b>        | <b>77,462</b> |
| <b>Short-term (&lt; 1 year) interest-bearing loans and borrowings</b> |                      |                |                      |               |
| Variable-rate financial debt                                          | 10,829               | 10,829         | 3,282                | 3,282         |
| Fixed-rate financial debt                                             | 5,760                | 6,450          | 1,629                | 2,305         |
|                                                                       | <b>16,589</b>        | <b>17,279</b>  | <b>4,911</b>         | <b>5,587</b>  |
| <b>Total</b>                                                          | <b>185,787</b>       | <b>189,473</b> | <b>78,928</b>        | <b>83,049</b> |

The fair value of fixed-rate financial debt is based on discounted cash flows determined on the basis of interest rates from the term structure of interest rates as of 31 December 2005. The book values of variable-rate loans approximate fair value.

The maturities of variable-rate and fixed-rate loans are as follows:

|             | 31 December 2005                                                         |                                                                       |                                                                                 | 31 December 2004                                                         |                                                                       |                                                                                 |
|-------------|--------------------------------------------------------------------------|-----------------------------------------------------------------------|---------------------------------------------------------------------------------|--------------------------------------------------------------------------|-----------------------------------------------------------------------|---------------------------------------------------------------------------------|
|             | Total<br>variable-rate<br>interest-<br>bearing<br>financial debt<br>TEUR | Total<br>fixed-rate<br>interest-<br>bearing<br>financial debt<br>TEUR | Weighted<br>interest rate<br>in %<br>(fixed-interest<br>financial debt)<br>TEUR | Total<br>variable-rate<br>interest-<br>bearing<br>financial debt<br>TEUR | Total<br>fixed-rate<br>interest-<br>bearing<br>financial debt<br>TEUR | Weighted<br>interest rate<br>in %<br>(fixed-interest<br>financial debt)<br>TEUR |
| < 1 year    | 10,829                                                                   | 5,760                                                                 | 4.58%                                                                           | 3,282                                                                    | 1,629                                                                 | 5.64%                                                                           |
| 1 - 5 years | 79,466                                                                   | 13,093                                                                | 6.21%                                                                           | 25,691                                                                   | 24,015                                                                | 5.64%                                                                           |
| > 5 years   | 2,986                                                                    | 73,653                                                                | 5.14%                                                                           | 3,106                                                                    | 21,205                                                                | 5.63%                                                                           |
|             | <b>93,281</b>                                                            | <b>92,506</b>                                                         |                                                                                 | <b>32,079</b>                                                            | <b>46,849</b>                                                         |                                                                                 |

Variable-rate financial debt is subject to ongoing interest adjustments. The interest adjustment dates are based on 1-month or 3-month Euribor plus an average margin of 1.0% (previous year: 1.0%). Fixed-rate financial loans bears interest at an average rate of approximately 5.04% (previous year: 3.88%).

In the year under review, interest-bearing financial debt, except for a liability vis-à-vis Provinzial Rheinland Lebensversicherung AG in the amount of TEUR 13,750, is secured in its entirety by means mortgages. In the previous year, interest-bearing financial debt has been secured by means of mortgages without exception. To secure the loan to Provinzial Rheinland Lebensversicherung AG in

the amount of TEUR 13,750, the rights and claims pertaining to the shares in the companies of the Frasca Portfolio, were pledged as senior claims.

### 32. Derivative financial instruments

Swap contracts are entered into only in the event that their future variable-rate cash flows (stemming) from the obligation to pay variable interest are secured by means of a swap against fixed interest payable under a hedge agreement.

As of the balance sheet date, the following derivative financial instruments were held:

|                     | 31 Dec. 2005<br>TEUR |               | 31 Dec. 2005<br>TEUR |               |
|---------------------|----------------------|---------------|----------------------|---------------|
|                     | Nominal<br>volume    | Fair<br>value | Nominal<br>volume    | Fair<br>value |
| Interest-rate swaps | 31,001               | 1,918         | 31,001               | 2,433         |

This item is composed of four interest-rate swaps executed in the year 2002 and maturing until late 2011. The rules of hedge accounting are not applied to these contracts. Accordingly, the expenses and revenues from the fluctuations in fair value of the interest-rate swaps affect earnings (see notes under „Net financial costs“).

On 25 November 2005, the associate company DIC MSREF Weißfrauenstraße GmbH, in which the Company holds a 20% stake, has entered into an interest-rate swap with Hypo Real Estate Bank at a nominal value of EUR 52 million for the purpose of securing future variable-rate cash flows. The company pays a fixed interest rate of 3.175% and receives interest in the amount of the 3-month Euribor rate. The company treats the expenses and revenues from hedging future cash flows as accrued or deferred equity items (i. e., not affecting earnings). Pursuant to IAS 28.39, DIC Asset AG reports its interest in the changes shown under equity of the associate (TEUR 6) under consolidated equity.

### 33. Other non-current liabilities

In the year 2003, the companies Gewerbepark Langenfeld West 3 GmbH & Co. KG and DIC Objekt Frankfurt 1 GmbH & Co. KG each assumed a residual loan vis-à-vis Deutsche Immobilien Chancen AG & Co. KGaA in the amounts of TEUR 14,500 and TEUR 17,500, respectively. The loans bear interest at 4.5% and have a remaining term through 30 December 2009. At the time of loan assumption, the market interest rate for a similar loan with a similar term equaled 2.5%. As consideration for the assumption of the residual loan, Deutsche Immobilien Chancen AG & Co. KGaA made one-time interest-equalization payments to Gewerbepark Langenfeld West 3 GmbH & Co. KG and DIC Objekt Frankfurt 1 GmbH & Co. KG in the nominal amount of TEUR 1,190 each. These payments affect earnings for the remainder of the loan term. As of the balance sheet date, they were stated in the accounts as follows:

|                                                                                | 2005<br>TEUR | 2004<br>TEUR |
|--------------------------------------------------------------------------------|--------------|--------------|
| Other non-current liabilities                                                  | 1,241        | 1,406        |
| Current portion of other non-current liabilities (see 37, "Other liabilities") | 165          | 306          |
|                                                                                | <b>1,406</b> | <b>1,712</b> |

### 34. Trade payables

These liabilities include:

|                                            | 2005<br>TEUR  | 2004<br>TEUR  |
|--------------------------------------------|---------------|---------------|
| Purchase price Rhine-Main-Neckar Portfolio | 50,780        | 0             |
| Purchase price Frasca Portfolio            | 0             | 71,704        |
| Purchase price eBay Portfolio              | 0             | 19,250        |
| Other trade liabilities                    | 1,130         | 2,221         |
|                                            | <b>51,910</b> | <b>93,175</b> |

### 35. Provisions

The provisions include:

| TEUR                          | 1 Jan.<br>2005 | Use       | Re-<br>lease | Alloc-<br>ation | 31 Dec.<br>2005 |
|-------------------------------|----------------|-----------|--------------|-----------------|-----------------|
| Project development costs     | 0              | 0         | 0            | 317             | 317             |
| Operating costs and utilities | 0              | 0         | 0            | 83              | 83              |
| Litigation costs              | 30             | 0         | 0            | 20              | 50              |
| Other                         | 22             | 22        | 0            | 0               | 0               |
|                               | <b>52</b>      | <b>22</b> | <b>0</b>     | <b>420</b>      | <b>450</b>      |

The item "Project development costs" refers to payments related to project development to the property of WACO Projektmanagement AG, consisting mainly of broker commissions, possible costs of defect removal, and other services to be rendered for the benefit of tenants.

DIC Asset AG has several legal disputes with former and current shareholders as a result of rescissory and similar actions brought by individual minority shareholders. For this purpose, a provision has been recorded in the amount of TEUR 50.

### 36. Income tax liability

|                     | 2005<br>TEUR | 2004<br>TEUR |
|---------------------|--------------|--------------|
| Municipal trade tax | 670          | 487          |
| Corporate tax       | 849          | 194          |
|                     | <b>1,519</b> | <b>681</b>   |

### 37. Other liabilities

|                                                                    | 2005<br>TEUR | 2004<br>TEUR  |
|--------------------------------------------------------------------|--------------|---------------|
| Property transfer tax                                              | 2,140        | 3,225         |
| Selling costs                                                      | 617          | 25            |
| Audit costs                                                        | 278          | 89            |
| Property tax                                                       | 247          | 144           |
| Outstanding invoices                                               | 217          | 3             |
| Remuneration to supervisory board                                  | 203          | 167           |
| Sales tax                                                          | 179          | 122           |
| Interest equalization<br>(see 34, "Other non-current liabilities") | 165          | 306           |
| Share-based compensation                                           | 96           | 0             |
| Deferral of purchase price C&A Portfolio                           | 0            | 3,500         |
| Interest from convertible loans                                    | 0            | 2,767         |
| Other                                                              | 510          | 306           |
|                                                                    | <b>4,652</b> | <b>10,654</b> |

The liability item for selling costs reported for the year under review refers primarily to the sale of the Fraspa property at Goethestraße in Frankfurt am Main.

The liabilities under the item "Remuneration to supervisory board" are liabilities vis-à-vis the members of the supervisory board and, consequently, are liabilities to related parties within the meaning of IAS 24.9d. For details on the individual members, see "Related Parties".

The share-based compensation agreement with one of the members of the board of directors is treated as a remuneration model based on the share price. In 2005, one member of the board of directors was granted 33,900 stock options for the purchase of DIC Asset AG stock. This form of compensation is contingent on the lapse of three years of service for DIC Asset AG, with the Company estimating the fair value as of 31 December 2005 at EUR 14.51 per option. This estimate is based on the Black Scholes option pricing model.

The critical parameters for this valuation model are the share price on the balance sheet date (EUR 18.30), the strike price (EUR 2.90), the standard deviation of the expected share return (93.3%) and the annual risk-free interest rate (2.5%). Measured against the standard deviation of the expected share return, volatility is based on statistical analyses of daily share prices over the past two years. During the fiscal year under review, no stock-appreciation rights lapsed, were exercised or otherwise expired.

Share-based compensation which, for the year under review, was expensed at TEUR 96, should be regarded as a transaction with a related party within the meaning of IAS 24.9d.

### Notes to the consolidated statement of cash-flow

For fiscal 2005 and 2004, the cash-flow statement identifies the origin and use of cash flows. Pursuant to IAS 7 "Cash Flow Statements", the accounts distinguish between cash flows from operations on one hand and from investment and financing activities on the other.

The funds reported as part of the cash-flow statement encompass all liquid funds shown in the accounts – i.e., cash on hand and credit balances with credit institutions (to the extent disposable within three months). With the exception of the amount of TEUR 3,447 (as of 31 December 2004), the use of these funds is not subject to any restrictions.

Cash flows from investment and financing activities are determined in relation to payments while cash flows from operations is derived indirectly from the profit for the period before interest and income tax paid. Paid and collected interest included in the item "Cash flows from operations" as well as income tax paid are reported separately.

Aside from cash flows from inflows and outflows related to investment properties, cash flows from investing activities include cash inflows and outflows related to office furniture and equipment, interests in associates, other investments as well as intangible assets. This item further includes cash flows from the disbursement and repayment of short-term loans.

Investing and financing activities that did not result in changes of cash or cash equivalents are not included in the cash-flow statement. These activities chiefly refer to the real estate purchases at the end of the year, which were not paid for until the following year.

In fiscal 2005, DIC group divisions essentially acquired the following fully consolidated company:

DIC Objekt Braunschweig GmbH (formerly M.S.C. Objekt Braunschweig GmbH)

This transaction entailed the assumption of:

|                                                   | TEUR          |
|---------------------------------------------------|---------------|
| Acquired assets                                   | 18,088        |
| Liquid funds                                      | 141           |
| Minority interests                                | -849          |
| Non-current liabilities                           | -1,711        |
| Current liabilities                               | -195          |
| <b>Total purchase price</b>                       | <b>15,474</b> |
| less acquired liquid funds                        | -141          |
| <b>Outflow of funds for business combinations</b> | <b>15,333</b> |

In fiscal 2005, DIC group divisions essentially sold or otherwise disposed of, wholly or in part, the following previously fully (proportionately) consolidated companies and/or holdings:

DIC MSREF Objekt Hamburg GmbH

DIC MSREF Objekt Berlin GmbH

DIC MSREF Frankfurt Objekt Goethestraße GmbH

In this context, the following assets and liabilities were assumed by the purchaser:

|                                               | TEUR         |
|-----------------------------------------------|--------------|
| Investment properties                         | 25,038       |
| Liquid funds                                  | 598          |
| Other current assets                          | 111          |
| Non-current liabilities                       | -13,283      |
| Current liabilities                           | -9,987       |
| Profit from sales                             | 2,518        |
| <b>Total purchase price</b>                   | <b>4,995</b> |
| less outstanding purchase-price claims        | -3,200       |
| less divested liquid funds                    | -598         |
| <b>Inflow of funds from sale of companies</b> | <b>1,197</b> |

With respect to the impact of the acquisition and/or sale of subsidiaries, reference is made to our notes on changes of the consolidated group under "Consolidated group."

### Segment reporting

The real estate portfolio of DIC Asset is comprised of the following segments: "Core-Portfolio" (Core), "Value Added-Portfolio" (VAD) und "Opportunistic Co-Investments" (OPP). The segment entitled "Other" essentially includes the group's parent company. For further details, see the description contained in the management report.

## Segment reporting for 2005

|                                   | Core<br>TEUR | VAD<br>TEUR | OPP<br>TEUR | Other<br>TEUR | Elimination<br>TEUR | Group<br>TEUR |
|-----------------------------------|--------------|-------------|-------------|---------------|---------------------|---------------|
| Rental income                     | 8,956        | 9,142       | 0           | 0             | 0                   | 18,098        |
| Sales proceeds                    | 0            | 21,709      | 0           | 0             | 0                   | 21,709        |
| Sales profits                     | 0            | 4,661       | 0           | 0             | 0                   | 4,661         |
| EBITDA                            | 8,088        | 11,745      | 0           | -1,151        | 0                   | 18,682        |
| EBIT                              | 5,791        | 10,103      | 0           | -1,162        | 0                   | 14,732        |
| Share of the profit of associates | 0            | 0           | -21         | 0             | 0                   | -21           |
| EBT                               | 2,273        | 5,625       | -21         | 204           | 0                   | 8,081         |
| Income tax                        |              |             |             |               |                     | -1,637        |
| <b>Profit for the period</b>      |              |             |             |               |                     | <b>6,444</b>  |

|                                 |         |         |       |        |         |                |
|---------------------------------|---------|---------|-------|--------|---------|----------------|
| Segment assets                  | 161,274 | 157,734 | 2,640 | 48,063 | -3,744  | 365,967        |
| Investments in associates       | 0       | 0       | 1,803 | 0      | 0       | 1,803          |
| Tax assets                      |         |         |       |        |         | 1,988          |
| <b>Consolidated assets</b>      |         |         |       |        |         | <b>369,758</b> |
| Segment liabilities             | 118,957 | 140,864 | 0     | 1,031  | -12,903 | 247,949        |
| Tax liabilities                 |         |         |       |        |         | 6,465          |
| <b>Consolidated liabilities</b> |         |         |       |        |         | <b>254,414</b> |
| Segment investments             | 44,846  | 44,515  | 0     | 0      | 0       | 89,361         |
| Depreciation and amortization   | 2,297   | 1,643   | 0     | 10     | 0       | 3,950          |

### Segment reporting for 2004

|                              | Core<br>TEUR | VAD<br>TEUR | OPP<br>TEUR | Other<br>TEUR | Elimination<br>TEUR | Group<br>TEUR |
|------------------------------|--------------|-------------|-------------|---------------|---------------------|---------------|
| Rental income                | 7,467        | 3,800       | 0           | 0             | 0                   | 11,267        |
| Sales proceeds               | 0            | 19,790      | 0           | 0             | 0                   | 19,790        |
| Sales profits                | 0            | 2,123       | 0           | 0             | 0                   | 2,123         |
| EBITDA                       | 7,183        | 5,799       | 0           | -1,432        | 0                   | 11,550        |
| EBIT                         | 5,513        | 4,850       | 0           | -1,435        | 0                   | 8,928         |
| EBT                          | 3,683        | 2,686       | 0           | -3,388        | 0                   | 2,981         |
| Income tax                   |              |             |             |               |                     | 352           |
| <b>Profit for the period</b> |              |             |             |               |                     | <b>3,333</b>  |

|                                 | Core<br>TEUR | VAD<br>TEUR | OPP<br>TEUR | Other<br>TEUR | Elimination<br>TEUR | Group<br>TEUR  |
|---------------------------------|--------------|-------------|-------------|---------------|---------------------|----------------|
| Segment assets                  | 123,367      | 127,085     | 0           | 22,098        | -1,710              | 270,840        |
| Tax assets                      |              |             |             |               |                     | 2,105          |
| <b>Consolidated assets</b>      |              |             |             |               |                     | <b>272,945</b> |
| Segment liabilities             | 74,939       | 118,657     | 0           | 6,885         | -9,913              | 190,568        |
| Tax liabilities                 |              |             |             |               |                     | 3,532          |
| <b>Consolidated liabilities</b> |              |             |             |               |                     | <b>194,100</b> |
| Segment investments             | 57,647       | 74,205      | 0           | 11            |                     | 131,863        |
| Depreciation and amortization   | 1,670        | 948         | 0           | 4             |                     | 2,622          |

The Company is active in a single geographic segment (Germany). Consequently, the Company does not report on its business activities by geographic location.

### Leasing

The group is not currently a party to financial leasing arrangements. All lease agreements existing between DIC Asset and its tenants are operating leases pursuant to IFRS. Accordingly, the group is the lessor in a number of operating lease arrangements of various design with respect to investment properties, under which it generates the main part of its income and earnings.

As of the balance sheet date, investment properties at a total book value of TEUR 284,917 (previous year: TEUR 239,181) were leased. DIC Asset will receive the following minimum leasing payments under existing leases:

|                               | 2006<br>TEUR | 2007<br>– 2010<br>TEUR | Starting<br>in 2011<br>TEUR |
|-------------------------------|--------------|------------------------|-----------------------------|
| Future minimum lease payments | 23,537       | 79,477                 | 84,989                      |

The minimum lease payments include net rental income to be collected by the agreed lease expiration date or by the earliest effective date of termination available to the lessee – irrespective of whether termination or non-exercise of renewal option is actually expected.

The expenses related to operating leases, in which the company is the lessee totaled TEUR 37 (previous year: TEUR 21). The operating lease arrangements refer primarily to leased vehicles. Under existing leases not subject to termination, DIC Asset AG will make minimum leasing payments in 2006 and 2007-2010 in the amounts of TEUR 51 and TEUR 93, respectively.

## Reporting on risk management and financial instruments

In financial terms, risks include loss of rental income, currency, valuation, credit, liquidity and interest.

The Company hedges against the loss of rental income by leasing its properties to companies of unquestioned financial integrity. The risk associated with new leases is minimized not only by means of intense analyses of property, location and tenants but also through constant monitoring of relevant real estate markets. The Company also attaches great significance to the possibility of third-party use when weighing new acquisitions.

The currency risk is the result of financial instruments being held in foreign currencies. The Company has two foreign currency liabilities in Swiss francs (CHF). Since the performance of the Swiss franc approximates that of euro, management does not hedge these foreign currency positions.

As of 31 December 2005, in the course of the transition to IFRS/IAS, the fair values of the entire DIC Asset real estate portfolio were determined by an independent expert, whose conclusions necessitated no adjustments to previous valuations. The practice of having independent experts provide regular fair value estimates for real estate is to be continued in the future. The transition to fair value based financial reporting is to be made in fiscal 2006. Pursuant to the provisions of IAS 40, any changes in the value of investment properties would then be entered into the statement of profit and loss, rendering the Company's annual results to fluctuations.

Credit risks are insignificant because agreements on derivative financial instruments and financial transactions are limited to financial institutions of high financial integrity in order to keep the counterparty credit risk as low as possible.

As a result of the increase in capital stock in the course of the year under review and the incorporation of the DIC real estate group along with its financial partners, the Company's financing risk with regard to the procurement of third-party capital for the continued expansion of the investment property portfolio is limited. Real property is financed by way of non-current liabilities or in alignment with the business plan of the underlying transaction. As of 31 December 2005, the Company has access to an additional credit facility of real estate loans contractually assured in the amount of TEUR 78,072.

The interest risk is countered through long-term interest guarantees to lock in the current interest levels as well as by means of modern financing possibilities.

The board of directors and the supervisory board regularly receive reports on the Company's financial risk factors.

## Contingencies and other financial commitments

As of the balance sheet date, a subsidiary proportionately consolidated at 50%, DIC MSREF Objekt Hamburg GmbH, is subject to a DIC Asset AG guarantee issued for the benefit of Sparkasse Bremen, which rules out all objections and defenses and is payable upon first call in an amount of up to TEUR 4,000 if and to the extent that certain repayment obligations are not met in the third year after loan disbursement. The interest of the co-shareholder is proportionately exempted.

In addition, a letter of comfort was issued for the subsidiaries of the associate incorporated "at equity," DIC MSREF HMDD Portfolio GmbH, to reflect the business interest in the amount of 20% of any outstanding obligation on the borrowers' part.

There are contingent liabilities with respect to possible increases in the purchase price for the Rhine-Main-Neckar Portfolio in the amount of TEUR 4,150 and for the property of DIC MSREF Objekt Hamburg GmbH in the amount of TEUR 1,500, which may be triggered by changes in the tenant structure or environment.

Between DIC Asset AG and Deutsche Immobilien Chancen AG & Co. KGaA, a sublease agreement is in effect, which provides for a payment obligation in the amount of TEUR 11 (net) per month. The agreement remains in effect until 31 October 2014. If the lease agreement is not terminated at least twelve months prior to expiration, it automatically renews by twelve months.

Additional financial obligations are inherent to the operating leasing arrangements for vehicles, in which the Company is the lessee; see "Leasing".

### Information about related parties

Based on the existing control structure, related parties are:

- Deutsche Immobilien Chancen AG & Co. KGaA
- Deutsche Immobilien Chancen Beteiligungs AG
- DIC Grund- und Beteiligungs GmbH
- DIC Beteiligungs GmbH
- GCS Verwaltungs GmbH
- Prof. Dr. Gerhard Schmidt
- 32 fully consolidated affiliated enterprises (see “Consolidated group”)

The consolidated group also includes the 17 proportionately consolidated companies as well as the 14 affiliated enterprises incorporated “at equity” (see “Consolidated group”).

Due to their significant influence, MSREF Funding Inc., the respective divisions of the MSREF group and Forum European Realty Income II L.P. (hereinafter referred to as “Forum”) are related parties.

Additional related parties are the supervisory board, the board of directors, executives and close relatives of any of these individuals.

The Company and all subsidiaries of Deutsche Immobilien Chancen AG & Co. KGaA are under joint control.

With respect to its relations with affiliated enterprises, the Company has prepared a dependence report, which lists all legal transactions performed by the Company or its subsidiaries with, at the behest or in the interest of affiliated enterprises over the past fiscal year, as well as all other measures taken or omitted by the Company at the behest or in the interest of these companies over the past fiscal year.

Below please find an overview of legal transactions and relations with related parties.

### Transactions with controlling or controlled entities:

#### Deutsche Immobilien Chancen AG & Co. KGaA

The Company currently provides general property and building management services (including re-leasing services) as well as services related to technical building management to a total of currently 22 property companies, including some that are controlled by Deutsche Immobilien Chancen AG & Co. KGaA. The total amount of compensation collected by the Company for services of this kind in the year 2005 was TEUR 236 (excluding sales tax), of which the amount of TEUR 49 (excluding sales tax) was attributable to compensation paid by divisions of the Deutsche Immobilien Chancen KGaA group.

The Company, in turn, receives services from DIC Projektentwicklung GmbH & Co. KG, a wholly-owned subsidiary of Deutsche Immobilien Chancen AG & Co. KGaA, which include all services related to technical building management (e.g., defect removal, rebuilding management, maintenance) to be provided to the Company itself or on the basis of active service agreements with the Company. In addition, DIC Projektentwicklung GmbH & Co. KG has assumed the accounting and other administrative functions of the Company and its subsidiaries, including but not limited to IT services. In the year 2005, compensation for services related to building management was offered in the form of a flat sum in the amount of TEUR 50 plus sales tax and expenditures incurred, while services related to accounting and administration were calculated on the basis of expenditures and compensated in the amount of TEUR 18 in the case of services rendered for the Company’s benefit, and TEUR 115 in the case of services rendered for the benefit of divisions of the DIC Asset group. Both figures exclude sales tax.

The Company has placed itself at the disposal of Deutsche Immobilien Chancen AG & Co. KGaA with an overdraft facility, the interest on which has been set at 6% p.a., to be payable in arrears. As security for any loan portion used, Deutsche Immobilien Chancen AG & Co. KGaA has pledged to the Company its 10% interests in Deutsche Immobilien Chancen Objekt Ulm 1 GmbH & Co. KG, Deutsche Immobilien Chancen Objekt Ulm 2 GmbH & Co. KG, Deutsche Immobilien Chancen Objekt Ulm 1 Erweiterung GmbH & Co. KG and Deutsche Immobilien Chancen Objekt Regensburg GmbH & Co. KG as well as 0.6% interest in the capital stock of ING LPFE Bodenfeld GmbH & Co. KG. As of 31 December 2005, and 31 December 2004, the used portion of this overdraft facility equaled TEUR 14,912 and TEUR 17,431, respectively.

Under the contribution agreement of 17 December 2004, DIC Asset AG, by way of contribution in kind, acquired 100% of the shares in Deutsche Immobilien Chancen Objekt Karlsruhe GmbH valued at TEUR 44,997 from Deutsche Immobilien Chancen AG & Co. KGaA. At the time of acquisition, the agreed purchase price matched the book value of the Company's equity which in turn corresponded with the market value. For this reason, service and consideration were balanced.

Under an agreement of 15 November 2005, the Company acquired 94.8% of the shares in DIC Objekt Braunschweig GmbH from DIC Starwood Telekomportfolio Eins GmbH and DIC Starwood Telekomportfolio Zwei GmbH (in which Deutsche Immobilien Chancen AG & Co. KGaA holds a 15% stake each via DIC Opportunity Fund GmbH) at a purchase price in the amount of TEUR 15,446.

### **Deutsche Immobilien Chancen Beteiligungs AG**

Vis-à-vis Deutsche Immobilien Chancen Beteiligungs AG, the sole general partner of Deutsche Immobilien Chancen AG & Co. KGaA, the Company has committed to bear 50% of the costs incurred by Deutsche Immobilien Chancen Beteiligungs AG in connection with the employment of directors who also work for the Company, exclusively or not. In the year 2005, the amounts paid by the Company to Deutsche Immobilien Chancen Beteiligungs AG reached TEUR 355; in the year 2004, the total amount was TEUR 239. In addition, for the year 2004, a sixth of the entire rent charged for the offices used by Deutsche Immobilien Chancen Beteiligungs AG was borne by the Company.

Aside from its directors, Deutsche Immobilien Chancen Beteiligungs AG does not have employees. Under the "German Investment Program Agreement" dated 29 July 2004 and 7 June 2005, the joint ventures (namely, DIC MSREF Frankfurt Portfolio GmbH, DIC MSREF Objekt Hamburg GmbH, DIC MSREF Berlin GmbH, DIC MSREF Weißfrauenstrasse GmbH as well as DIC MSREF HMDD Portfolio GmbH) and their respective wholly-owned subsidiaries receive various services from Deutsche Immobilien Chancen Beteiligungs AG. Accordingly, the aforementioned companies and Deutsche Immobilien Chancen Beteiligungs AG entered into agreements for the provision of asset-management services as well as commissions on the leasing and divestiture of real property, in each case at the time of establishment of such joint ventures. Moreover, special compensation arrangements have been established with DIC MSREF Frankfurt Portfolio GmbH and DIC MSREF HMDD Portfolio GmbH, which

in the cases of DIC MSREF Weißfrauenstraße GmbH and DIC MSREF HMDD Portfolio GmbH also include an agreement on development fees. For the purpose of providing the services assigned to it hereunder, the Company, for its part, makes use of services rendered by DIC Asset AG. Under an agreement of 16 November 2005 (including an addendum dated 20 December 2005), the Company charges fees to Deutsche Immobilien Chancen Beteiligungs AG, the amount of which depends on whether the company has contracted third-party service providers.

In particular, the compensation intended for services related to portfolio or asset management equals 2% of the net annual rent – or 0.5% of the net annual rent if an external management company has been involved. Assistance with leasing is compensated in the amount of 1.5 times the established net monthly rent – or 0.75 times the established net monthly rent if an external broker has been involved. The compensation paid for sales assistance equals 1% of the realized proceeds – or 0.25% of the realized proceeds if an external broker was involved. Individual properties and project developments may be subject to case-by-case arrangements. The above rates of compensation exclude legal sales tax. On the basis of this agreement, the Company invoiced Deutsche Immobilien Chancen Beteiligungs AG TEUR 91 in asset-management fees for services related to individual joint ventures, TEUR 44 in leasing commissions and TEUR 100 in sales commissions (in each case excluding sales tax).

### DIC Beteiligungs GmbH

The Company has granted to DIC Beteiligungs GmbH, which indirectly controls Deutsche Immobilien Chancen Beteiligungs AG as the general partner of Deutsche Immobilien Chancen AG & Co. KGaA, a loan in the amount of TEUR 700 at an interest rate of 4.5% p.a. (payable annually in arrears). The loan is unlimited and had been drawn by 31 December 2005 in the amount of TEUR 369. To secure the Company's claims against DIC Beteiligungs GmbH in terms of loan repayment and interest, DIC Beteiligungs GmbH has assigned to the Company its claims against Deutsche Immobilien Chancen Objekt Mozartstraße 33a GmbH for dividends and the repayment of a loan.

### Transactions with companies yielding significant influence:

#### Morgen Stanley Real Estate Funds (MSREF)

Jointly with divisions of the MSREF group, DIC Asset AG has acquired interest in investment properties, including:

- a portfolio acquired from Frankfurter Sparkasse, which is held via DIC MSREF Frankfurt Portfolio GmbH and its twelve wholly-owned subsidiary property companies, under agreements dated 22 December 2004;
- the so-called eBay Campus, which is held by DIC MSREF Berlin GmbH and its three wholly-owned subsidiary property companies, under agreements dated 23 August 2005;
- a Deutsche Telekom administrative building in Hamburg, which is held by DIC MSREF Objekt Hamburg GmbH, under agreements dated 23 August 2005;
- the Degussa property in Frankfurt am Main, which is held by DIC MSREF Weißfrauenstrasse GmbH and its three wholly-owned subsidiary property companies, under agreements dated 14 October 2005; and
- the so-called "MEAG Portfolio," which is held by DIC MSREF HMDD Portfolio GmbH and its twelve wholly-owned subsidiary property companies, under agreements dated 14 December 2005

(hereinafter referred to collectively as "Joint Ventures").

The Company holds an interest in the property companies for the Degussa property and the MEAG Portfolio at 20% each. In addition, aside from the divisions of the MSREF group with 50% stakes, DIC Opportunity Fund GmbH holds 30% interests. In the remaining property companies, the Company and the respective MSREF companies are invested at 50% each.

With respect to the distribution of profits, the DIC companies are entitled to equity return-based profits paid in advance that, in the case of an equity return in the amount of 17.5%, equal 10% of profits and reach their maximum amount of 30% of profits at equity returns of over 27.5%.

The Company continues to be bound by credit agreements with the Joint Ventures, under which the Company acts both as lender and borrower. The underlying credit comes in the form of overdraft facilities with a target interest rate 6% p.a. in each case. Interest is payable in arrears at the end of the year or quarter or is added to the principal. The agreements call for neither fixed terms nor collateral security. With regard to the balances existing as of the balance sheet dates, see "Receivables from related companies".

### Forum European Realty Income II L.P. (Forum)

On 18 September 2005, Deutsche Immobilien Chancen KGaA and Forum European Realty Income II L.P. (hereinafter referred to as "Forum") entered into an agreement on the issue of a convertible bond. Due to the conversion rights embedded in the agreement, Forum is entitled, at any time, to convert the loan into DIC Asset AG shares currently held by Deutsche Immobilien Chancen KGaA. As a result of its accession to this agreement, the Company is entitled, and obligated vis-à-vis Deutsche Immobilien Chancen AG & Co. KGaA, to participate in the so-called "opportunistic investments" of Deutsche Immobilien Chancen AG & Co. KGaA subject to a participation quota of 40%. This agreement has already been implemented in the case of the investments into the MEAG Portfolio and the Degussa property.

### Transactions with executives

Legal transactions with executives and/or their close relatives were entered into only to an insignificant extent.

### Events after balance sheet date

DIC Asset AG holds a 20% stake in DIC MSREF HMDD Portfolio GmbH. Effective 1 January 2006, the nine subsidiaries of DIC MSREF HMDD Portfolio GmbH acquired from MEAG a real-estate portfolio composed of 45 properties at a total investment volume in the amount of EUR 148 million. The properties were buildings with total floor space of more than 155.000 m<sup>2</sup> at very desirable inner-city locations – mostly in secondary cities. The properties are currently leased as office (50%) and retail spaces (35%). The vacancy rate is 25%.

DIC Objekt Neuss GmbH is a wholly-owned subsidiary of DIC Asset AG and, effective 24 January 2006, acquired the site of the Creditreform main administration in Neuss, a property with 7,000 m<sup>2</sup> of office space servicing the 130 Creditreform branches. The investment volume equals EUR 12 million. The property has been leased to the association of Creditreform branches for the long term.

Another wholly-owner subsidiary of DIC Asset AG, die DIC Objekt Neumarkt GmbH, acquired the main administration building of Pfeiderer AG in Neumarkt (Bavaria) under a purchase agreement dated 16 December 2005. The transfer of property, benefits and encumbrances occurred in calendar 2006. The administration building with a total of 9,500 m<sup>2</sup> of office space has been leased to Pfeiderer AG for the long term. The investment volume is EUR 17.2 million.

In addition, DIC Objekt Berlin 3 GmbH and Europarc Dreilinden GmbH have entered into a conditional property purchase agreement dated 17 December 2004, concerning a building yet to be erected. The transfer of property, benefits and encumbrances did not occur by the balance sheet date. The investment volume is EUR 16.9 million.

On 3 February 2006, the extraordinary shareholders' meeting of DIC Asset AG adopted a resolution to increase the capital stock by EUR 10,170,000.00 from EUR 10,170,000.00 to EUR 20,340,000.00 by issuing 10,170,000 new no-par bearer shares against cash contributions. The new shares are offered to the shareholders by way of indirect options. They are subscribed by a credit institution or bank syndicate at the pro-rated amount of the capital stock attributable to individual no-par shares of EUR 1.00 per new share and assumed along with the obligation to offer them for subscription to the shareholders at a ratio of 1:1 (for each old share, a new one may be subscribed) and a strike price yet to be determined, which must not exceed the issue price. The new shares are deemed participating on or after 1 January 2006. The board of directors was authorized, with the approval of the supervisory board, to determine additional details of the capital increase and its implementation in accordance with the market environments, including the strike price.

The board of directors is further authorized, with the approval of the supervisory board, to name a credit institution or bank syndicate to implement the capital increase by way of indirect option, to place any new stock for which shareholders do not exercise their options among shareholders (beyond their option volume) or third parties and to define the applicable terms thereof. Following the implementation of the capital increase, § 4 para. 1 of the Company's memorandum of association is revised as follows: "The Company capital stock equals EUR 20,340,000.00 and is divided into 20,340,000 no-par shares."

#### Employees

Over the fiscal year under review, the Company had an average of ten (previous year: seven) employees. In addition, the Company was able to take advantage of services of the DIC group over the period under review.

#### Supervisory board

The members of the supervisory board are:

Prof. Dr. Gerhard Schmidt (chairman), Rechtsanwalt, Glattbach

Klaus Sontowski (vice chairman), Unternehmer, Nürnberg

Michael Bock, Dipl.-Kaufmann, Düsseldorf

Hellmar Hedder, Dipl.-Soziologe & Betriebswirt, Münster

Michael Pickel, Unternehmer, Erlangen  
(until 4 October 2005)

Russel C. Platt, Managing Director, Santa Fe/USA  
(since 8 November 2005)

Bernd Wegener, Immobilien-Ökonom (ebs), Munich  
(since 15 February 2005)

For the year 2005, the reported remuneration of the members of the supervisory board totaled TEUR 190. The chairman of the supervisory board, Prof. Dr. Gerhard Schmidt, is partner in the law firm Weil, Gotshal & Manges LLP, whose fees for legal services totaled TEUR 297 for fiscal 2005 and TEUR 176 for fiscal 2004 (and were expensed accordingly).

#### Board of directors

The members of the board of directors are:

Ulrich Höller (chairman), Dipl.-Betriebswirt, Immobilienökonom (ebs), Chartered Surveyor FRICS, Dreieich-Buchschlag

Markus Koch, Dipl.-Kaufmann, Elz

Jürgen Overath, Betriebswirt, Hennef  
(since 28 June 2005)

Rüdiger Weitzel, Dipl.-Ingenieur, Darmstadt  
(until 31 March 2005)

Frankfurt am Main, 1 March 2006

The board of directors

  
Ulrich Höller

  
Markus Koch

  
Jürgen Overath

submitted to DIC Asset AG, Frankfurt am Main

We have audited the consolidated financial statements, comprising the consolidated balance sheet, consolidated income statement, consolidated statement of changes in equity, consolidated cash flow statement, and notes on consolidated financial statements, as well as the management reports for the Company and the Group prepared by DIC Asset AG, Frankfurt am Main, for the fiscal year from 1 January to 31 December 2005. The preparation of the consolidated financial statements and of the management reports for the Company and the Group under IFRS are the responsibility of the Company's representatives. Our responsibility is to express an opinion on the consolidated financial statements based on our audit.

We conducted our audit of the consolidated financial statements in accordance with Sec. 317 HGB ("Handelsgesetzbuch": German Commercial Code) and the 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 under IFRS and in the management reports for the Company and the Group are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Group and expectations of 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 management reports are examined primarily on the basis of samples. The audit includes assessing the annual financial statements of the companies included in consolidation, the determination of the companies to be included in consolidation, the accounting and consolidation principles used, and significant estimates made by the legal representatives, as well as evaluating the overall presentation of the consolidated financial statements and the management reports. We believe that our audit provides a sufficiently sound basis for our opinion.

Our audit has given us no cause to object.

In our opinion, on the basis of the knowledge gained in the course of conducting the audit, the consolidated financial statements under IFRS give a true and fair view of the net assets, financial position and results of operations of the Group. The management reports for the Company and the Group are consistent with the consolidated financial statements, they provide, on the whole, an accurate view of the Group's position, and they accurately present the risks to future development.

Nürnberg, 1 March 2006  
Rödl & Partner GmbH

Wirtschaftsprüfungsgesellschaft  
Steuerberatungsgesellschaft

sig. Hübschmann  
Auditor

sig. Garve  
Auditor

## Report of the Supervisory Board

During the fiscal year, the Board of Directors informed the Supervisory Board of the position and progress of the Company and of significant business events by means of written and verbal notification on a prompt and regular basis. Through discussions with the Board of Directors, the Supervisory Board was given insight into the Company's financial position and was able to supervise the management. The Supervisory Board decided on matters requiring its approval on the basis of its own examinations.

The financial statements for the Company and the Group dated 31 December 2005 prepared by the Executive Board, together with the management report for the Company as summarized in the management report for the Group, were audited and each granted an unqualified audit opinion by Rödl & Partner GmbH Wirtschaftsprüfungsgesellschaft Steuerberatungsgesellschaft, Nürnberg, the auditor selected by the general shareholders' meeting held 19 July 2005. The Supervisory Board received the respective financial statement documentation and auditor's report on time. The auditor participated in consultations with the Supervisory Board concerning the statement documentation and the material results of its audit. The Supervisory Board conducted its own audit of the stand-alone and consolidated financial statements, the management report for the Company summarized in the consolidated management report, and the Board of Directors' proposal for the utilization of profits, and the Supervisory Board joins in the auditor's

conclusions. The Supervisory Board has no reservations as to the final result determined by the audit. The Supervisory Board approves the stand-alone and consolidated financial statements prepared by the Board of Directors. The financial statements are hereby final.

Furthermore, the Supervisory Board hereby approves of the timely presented proposal of the Board of Directors concerning the utilization of the balance sheet profit.

The report of the Board of Directors on related parties was also audited. The auditor granted the following unqualified opinion:

"After conducting a conscientious audit, we hereby confirm that

1. The factual information in the report is accurate,
2. In the legal transactions mentioned in the report, the consideration paid by the Company was not disproportionately high."

The report of the Board of Directors and the report of the auditors were also received by the Supervisory Board on time. The auditor participated in consultations with the Supervisory Board concerning the Board of Directors' report and the material results of its audit.

The Supervisory Board conducted its own audit of the Board of Directors' report on relationships with affiliated businesses and affirms its contents. The Supervisory Board furthermore joins in the final results of the audit of the report conducted by the auditor.

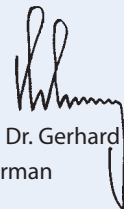
Having concluded the audit, the Supervisory Board has no cause to object to the statements of the Board of Directors in the conclusion section of the report concerning relationships with affiliated businesses.

Mr. Michael Pickel withdrew from the Supervisory Board during the past fiscal year. On 8 November 2005 Mr. Russell Platt was judicially appointed to the Supervisory Board. Mr. Jürgen Overath has been on the Board of Directors since 28 June 2005.

The Supervisory Board thanks the Board of Directors and employees for their service and their intensive efforts over the past fiscal year.

Frankfurt am Main, 14 March 2006

The Supervisory Board

  
Prof. Dr. Gerhard Schmidt  
Chairman

## Address and Imprint

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