ANNUAL REPORT 1999

DEUTSCHE REAL ESTATE
Aktiengesellschaft

SHORT PROFILE

WHO IS DEUTSCHE REAL ESTATE AG?

Deutsche Real Estate Aktiengesellschaft, Bremerhaven, as a real estate investment corporation, invests exclusively in German real estate. It will continue to build up and manage on a long-term basis high-yield and widely diversified real estate holdings. The HBAG Group, which operates on a national and international level, is the majority stockholder in the corporation.

Deutsche Real Estate Aktiengesellschaft was created from the long established Geestemünder Bank Aktiengesellschaft. In 1997, the banking business was transferred to Bankhaus Neelmeyer Aktiengesellschaft, Bremen, which belongs to Vereins- und Westbank.

Under its new name, Geestemünder Verwaltungs- und Grundstücks Aktiengesellschaft it was left with the pure management of its own company assets. It was first taken over by the WCM Group in 1998, which sold the majority interest (50.003 %) to HBAG Real Estate Aktiengesellschaft in October 1998. Even before the end of 1998, the first agreements covering the acquisition of participations and direct real estate investments had been concluded. By April 2000 the real estate portfolio, secured by contract, will have been extended to include 45 properties with an overall volume of about DM 803 million. Following the planned increase in capital, the portfolio will increase to 50 properties with a total volume of about DM 950 million.

KEY FIGURES		1999	1998
Balance sheet total (corporate financial statement)	DM mill.	172.8	46.4
Balance sheet total (consolidated)	DM mill.	573.8	128.2
Equity (corporate financial statement)	DM mill.	138.5	43.3

GROWTH IN BUSINESS VOLUME		1999	1998
Investment volume in real estate	DM mill.	803	124
Number of investment properties		45	7
Land area	m²	625,000	35,000
Rental space	m²	425,000	40,000
Projected annual rental income	DM mill.	68	9

Figures include 100 % values of subsidiaries and of property secured by contract in 1999 with closing delivery in 2000.

Region 1

City	Address	Share %	Rental space m²	Type
Bremen	Vegesacker Heerstrasse 198-200	100	2,750	Retail
Bremerhaven	Langener Landstrasse 267	100	214	Commercial
Bremerhaven	An der Mühle 44 (Development)	100	1,117	Retail
Hamburg-Norderstedt	Kohfurth 15	90	4,957	Commercial
Hamburg	Friedrich-Ebert-Damm 110-112	100	8,714	Commercial
Hamburg	Elbberg 1	49	2,603	Commercial
Hamburg	Osterfeldstrasse 12-14	62	12,010	Commercial
Hamburg	Mendelssohnstrasse 15	100	14,218	Commercial
Nordenham	Portfolio of dwellings	100	28,313	Residential

Region 2

City	Address	Share %	Rental space m²	Type
Berlin	Friedrichstrasse 231	100	6,232	Commercial
Berlin	Grolmanstrasse 40	100	3,318	Commercial
Berlin	Hauptstrasse 13	100	23,923	Commercial
Berlin	Idunastrasse 1-2	100	6,305	Retail
Berlin	Teilestrasse 34-38	100	11,960	Retail
Berlin	Wiesenweg 3-4	100	2,583	Retail
Berlin	Wittenauer Strasse 6-8	100	4,887	Retail
Berlin	Sickingenstrasse 20-28	40	34,304	Commercial
Berlin	Sickingenstrasse 70-71	40	42,984	Commercial
Dresden	Kesselsdorfer Strasse 240	100	6,418	Retail
Engelsdorf	Leipziger Strasse 2	100	8,263	Retail
Halle	Brauhausstrasse	100	9,900	Retail
Magdeburg	Eisvogelstrasse 33	40	2,690	Commercial
Schwedt	Kuhheide 14	100	2,250	Commercial
Teltow	Potsdamer Strasse 10 / Neissestrasse 1	100	5,464	Commercial

Region 3

City	Address	Share %	Rental space m²	Type
Bottrop	Friedrich-Ebert-Strasse 106	100	4,349	Retail
Düren	Bahnstrasse 11	100	3,397	Retail
Düsseldorf	Bonner Strasse 155	100	6,708	Commercial
Düsseldorf	Ulmenstrasse 315	100	1,960	Retail
Düsseldorf	Wahlerstrasse 37-38	100	25,637	Commercial
Duisburg	Averdunk-Centrum, Landfermannstrasse 26	70	5,466	Commercial
Cologne	Bernkasteler Strasse 77	100	2,750	Retail

Region 4

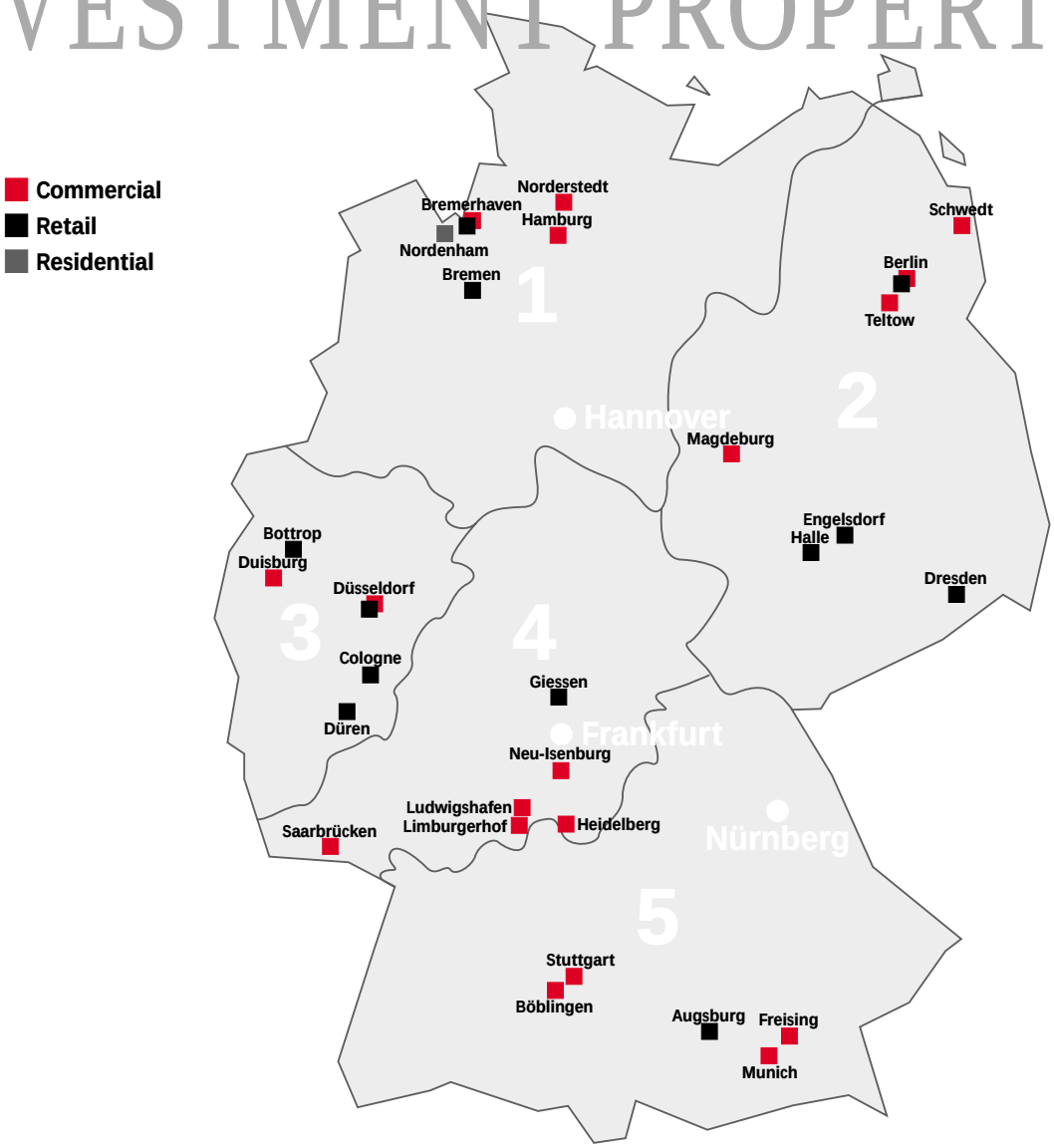
City	Address	Share %	Rental space m²	Type
Giessen	Robert-Bosch-Strasse 3	100	1,866	Retail
Heidelberg	Mannheimer Strasse 1	44	2,752	Commercial
Heidelberg	Vangerowstrasse 18	100	3,029	Commercial
Limburgerhof	Burgunderplatz / Chenover Strasse	100	1,152	Commercial
Ludwigshafen	Carl-Bosch-Strasse 71	100	414	Commercial
Neu-Isenburg	Dornhofstrasse 34 (Development)	80	5,641	Commercial
Saarbrücken	Kaiserstrasse 25	100	5,085	Commercial
Saarbrücken	Hafenstrasse 16	100	2,054	Commercial

Region 5

City	Address	Share %	Rental space m²	Type
Augsburg	Bürgermeister-Fischer-Strasse 11	90	10,213	Retail
Böblingen	Otto-Lilienthal-Strasse 38	100	5,032	Commercial
Freising	Alois-Steinecker-Strasse 20	33	12,000	Commercial
Munich	Oberanger 28 (Development)	100	4,101	Commercial
Munich	Heidemannstrasse 164	10	71,011	Commercial
Stuttgart	Rosensteinstrasse 22-24	100	6,607	Commercial

Status: February 2000

INVESTMENT PROPERTIES Germany



Status: February 2000

DEUTSCHE REAL ESTATE AG – LOCAL PARTNERS:

Region 1	Region 2	Region 3	Region 4	Region 5
LA TROBE REAL ESTATE	Rohrlapper & Co.	Kündgen Düsseldorf	ProjektM Real Estate	Reiß & Co. real estate
Hamburg GmbH & Co. KG	Berlin real estate GmbH	Real Estate GmbH & Co. KG	Frankfurt GmbH	München GmbH
Patrick de La Trobe	**Arnd Rohrlapper**	**Karl Heinz Kündgen**	**Marcus Hientzsch**	**Oliver Reiß**
Warburgstrasse 50	Clausewitzstrasse 9	Grünewalder Strasse 29-31	Theodor-Heuss-Allee 5-7	Karolinenstrasse 4
20354 Hamburg	10629 Berlin	42657 Solingen	60486 Frankfurt am Main	80538 Munich
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INFORMATION ON INVESTOR RELATIONS

Deutsche Real Estate AG is in a perpetual state of growth which is also reflected in its capital measures. Capital subscribed, the number of stocks, securities identification numbers, and thus the comparability of dividend statements between financial years, change over the course of time. The following overviews should facilitate the means of comparison:

CAPITAL SUBSCRIBED, NUMBER OF STOCKS, SECURITY IDENTIFICATION NUMBERS (SIN)

	SIN	Profit entitlement (months)	Number of stocks	Dividend per stock DM	Adjusted number of stocks*	Adjusted dividend per stock* DM	Adjusted dividend per stock* Euro	Dividend paid out DM	Dividend paid out Euro
1998	805 500	12	3,080,000	0.60	7,700,000	0.24	0.12	1,848,000	944,867
1999	805 502	12	7,700,000	0.68	7,700,000	0.68	0.35	5,236,000	2,677,124
	805 503	6	7,700,000	0.34	7,700,000	0.34	0.17	2,618,000	1,338,562
					15,400,000			7,854,000	4,015,686

* Adjustment for the stock split as at August 23, 1999 at a ratio of 2:5

DEVELOPMENT OF THE CAPITAL STRUCTURE

Number of stocks	Capital subscribed	Nominal value/stock	Measure	Date	SIN
3,080,000	15,400,000.00 DM	5.00 DM			805 500
3,080,000	7,873,894.97 EUR	2.56 EUR	Conversion to euro	March 99	805 500
6,160,000	15,747,789.94 EUR	2.56 EUR	Capital increase 1:1 Issue of new stocks at 15 euros	June 99	805 500 / 805 501
15,400,000	15,747,789.94 EUR	1.02 EUR	Stock split 2:5	August 99	805 502 / 805 503

HEAD OFFICE

Bremerhaven
HRB 1035
Incorp. December 27, 1871

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E-mail: contact@dreag.de
Internet: www.dreag.de

AREAS OF BUSINESS

Real estate investment corporation within the HBAG Group responsible for the German real estate sector.

CAPITAL SUBSCRIBED

15,747,789.94 euros
15,400,000 individual stock certificates
(of which 7,700,000 are new stocks with one vote per stock).

STOCK DATA

Security identification number: 805 502
(SIN: 805 503 new stocks)
Listed under: DRE
Listed in: Hamburg, Frankfurt and Bremen (official trading), Düsseldorf (unofficial market).

STOCKHOLDER STRUCTURE

HBAG Real Estate AG: 50.10 %
WCM Beteiligungs- und Grundbesitz AG: 29.92 %
Hamburgische Landesbank: 5.0 %
Bayerische Landesbank: 5.0 %
The remaining stocks are publicly held.

The Annual Report is also available in German.

You will find further up-to-date information on the Internet at: www.dreag.de

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REPORT OF THE SUPERVISORY BOARD

The expansion of Deutsche Real Estate Aktiengesellschaft to an actively managed, portfolio-holding real estate investment corporation has progressed in the last 15 months at a rate exceeding original expectations. In the medium-term the corporation is expected to attain the dimensions of an open-end real estate investment trust.

With this strategic objective in mind, during the fiscal year the Supervisory Board carried out its legal duties and those stipulated in the articles of incorporation and consistently monitored the Board of Management. The members of the Supervisory Board were kept regularly informed by the Board of Management about the general business situation and important individual events, both verbally and in writing. It consulted with the Board of Management regarding the development of the corporation, and together they passed the necessary resolutions.

Supervisory Board meetings were held on February 12, April 13, August 31 and November 17, 1999. In these meetings and through written reports, the Supervisory Board was kept thoroughly informed by the Board of Management about the economic situation of Deutsche Real Estate Aktiengesellschaft and its subsidiaries. They were also informed in detail about the course of business, important corporate policy measures and projected business policy, including planned investment and participation policies. The Board of Management informed the Supervisory Board of all acquisitions of real estate and real estate participations, including their financing. The most important transactions in this context were the acquisition of 12 building and DIY centers (Stinnes/toom) and, as another package deal, the takeover of selected real estate from the Roland Ernst Group.

The Annual General Meeting of April 13, 1999 had resolved to increase cash capital and to make various amendments to the articles of incorporation. The Board of Management informed the Supervisory Board that the capital increase was successfully concluded in July 1999 and the resolved amendments to the articles of incorporation have now been entered into the commercial register.

In addition, the Supervisory Board was advised about the implementation of the law on control and transparency in business (KonTraG) in the Deutsche Real Estate AG Group. The Board of Management had set about establishing and extending a risk management system and informed the Supervisory Board of its content.

The Supervisory Board did not exercise its right of establishing internal committees, as the Board still consists of only three members. Furthermore, both the Supervisory Board and the Board of Management consider it important to ensure that all Supervisory Board members are fully and uniformly informed during the phase of expansion which will characterize business events in the future.

The annual financial statement/Group financial statement prepared by the Board of Management at December 31, 1999 and the business report/Group business report were audited, together with the accounts, by the independent public accountants, Arthur Andersen Wirtschaftsprüfungsgesellschaft Steuerberatungsgesellschaft mbH, Hamburg, and have been awarded an unqualified auditor's certificate.

The financial statement/Group financial statement to 1999 and the business report/Group business report and the auditor's report for the 1999 financial year were submitted to the Supervisory Board for their thorough examination in due time prior to the meeting. At its meeting of March 2, 2000, the Supervisory Board discussed these documents together with the Board of Management and in the presence of the auditor.

The Supervisory Board examined the financial statements and business reports of Deutsche Real Estate AG and the Deutsche Real Estate AG Group, as well as the proposals for the appropriation of profits, and found no objections. The financial statement for 1999 for Deutsche Real Estate AG, compiled by the Board of Management, was approved. It has now been adopted. The Supervisory Board approves the proposal for the appropriation of the balance sheet profit.

MEMBERS OF THE SUPERVISORY BOARD

Dr Günter Rexrodt
Berlin
Chairman

Dr Gerhard Niesslein
Münster
Deputy Chairman

Dipl. Kfm. Karl Ehlerding
Hamburg

In accordance with § 312 AktG (German Stock Corporation Law) the Board of Management has prepared a report on relations with affiliated companies and has reproduced the legally prescribed final statement in the management report.

The auditor, Arthur Andersen Wirtschaftsprüfungsgesellschaft Steuerberatungsgesellschaft mbH, Hamburg, has examined the report and has certified it as follows:

"In accordance with the audit conducted under professional standards, we certify that
1. the actual information of the report is correct,
2. the corporation's performances in the legal transactions listed in the report were not inappropriately high."

The Supervisory Board declares, after the final results of its audit, that it has no objections to the statement made by the Board of Management at the close of the report regarding relations to affiliated companies.

During the Annual General Meeting of April 13, 1999, Mr. Günter Vollmann announced his resignation as a member of the Supervisory Board. Dr Gerhard Niesslein was elected as a new member of the Board by the Annual General Meeting. The Chairman of the Supervisory Board, Mr. Karl-Ernst Schweikert, resigned from his office with effect as of November 26, 1999. The local court subsequently appointed Dr Günter Rexrodt as an additional member of the Supervisory Board. The Supervisory Board has now elected Dr Rexrodt as chairman by proxy.

Messrs. Karl-Ernst Schweikert and Günter Vollmann had been appointed members of the Supervisory Board at a time when the majority of the stocks in Deutsche Real Estate AG were held by WCM Beteiligungs- und Grundbesitz-AG. Following the sale of the majority of stocks to HBAG Real Estate AG, both gentlemen announced that they would be prepared to continue in their positions until suitable successors could be found, particularly in view of the corporate reorientation. The Supervisory Board would like to thank the resigning members for their constructive and supportive work.

As of March 1, 1999, the corporation was glad to welcome Mr. Busso von Alvensleben as a member of the Board of Management, to take his place alongside Dr Rainer Behne.

Together we have achieved considerable success in the 1999 financial year with wide-ranging investments combined with a pleasing annual profit. The Supervisory Board would like to thank the members of the Board of Management of Deutsche Real Estate AG and the management and employees of TAXXUS Real Estate Service GmbH & Co. KG for the commitment they have demonstrated and the work achieved.

Bremerhaven, March 2000

The Supervisory Board

Günter Rexrodt

Dr Günter Rexrodt
Chairman

The expansion of Deutsche Real Estate Aktiengesellschaft into a thoroughbred real estate investment corporation has progressed well.

PREFACE

TO OUR STOCKHOLDERS

Ladies and Gentlemen,

In 1999 Deutsche Real Estate Aktiengesellschaft brought to a close its first full financial year since its reorientation. In 1998 HBAG Real Estate Aktiengesellschaft took over the majority holding from WCM. The purpose behind this move was to implement our new corporate objectives by changing our areas of business. Today we are able to present to you the first annual report that will allow you to verify for yourselves the extent to which we have attained our goals.

The past financial year was particularly marked by investment activities. Those who are familiar with the real estate business, know that real estate transactions are concentrated in the second half of the year, and particularly the fourth quarter. This applies also to acquisitions made by Deutsche Real Estate Aktiengesellschaft with the consequence that operating revenues arising from the properties could only be collected in full for a small part of the year. The result from current property operations is thus not as yet representative. The funds held for purposes of investment could only be invested to yield interest for part of the time.

The report for the 2000 financial year will, however, show the full profit potential arising from the operational property holdings.

The corporation will continue its investment activities. This time lag phenomenon of operating results will arise again in the succeeding financial years.

The expansion of Deutsche Real Estate Aktiengesellschaft into a thoroughbred real estate investment corporation has progressed well. The corporation concentrates solely on German real estate.

The free market principle of supply and demand has also reached the German real estate market. Professional management, understanding and meeting the needs of the tenant as our client and the expansion and further development of real estate are essential requirements for keeping up in a modern, internationally organized market.

Active real estate management has gained decisive importance in the development of real estate value. Developments in the USA will point the way for the German market.

The entire real estate stocks segment gained in significance last year. We thus feel confirmed in our forecast that real estate stock corporations will develop even further as a supplement to the existing forms of real estate investment, open-end and closed-end real estate investment trusts and direct investment.

A substantial increase to the corporation's equity base allowed us to distinctly exceed our original investment target of acquiring a portfolio of about DM 500 million by the end of 1999. In July 1999, a capital increase at a ratio of 1:1 at 15 euro was duly concluded. This increased equity by DM 90 million from about DM 40 million to about DM 130 million. Together with the property-specific loans granted by banks, the basis for our investment activities was created.

The investment of funds was faster than originally planned due to the purchase of properties. The corporation is currently preparing a further capital increase for March/April 2000. At a ratio of 3:1 at 12 euro, equity should increase by about DM 120 million to a total of DM 250 million. With this sum, the corporation will be able to continue its growth unhindered, and by the end of the year attain real estate holdings of between DM 1.5 and DM 2 billion.

With the 5 % shares in our corporation held by the Hamburgische Landesbank and the Bayerische Landesbank respectively, the circle of stockholders has been extended on a high level. The free float has not been impaired, as the transactions were resolved from the stake of WCM Beteiligungs- und Grundbesitz-AG.

Dr Rainer Behne

Busso von Alvensleben

To reach the dimensions of an open-end real estate investment trust, Deutsche Real Estate Aktiengesellschaft will have to continue its strong growth in the next few years.

Further increases in capital will be necessary to reinforce our solid base. This will open up the circle of stockholders and produce increased free float. The trading volume of our stocks will rise making them attractive on a long-term basis.

The interest of foreign investors in the legal form of the stock corporation has, as expected, greatly increased. The Board of Management is working on ideas to open up possibilities for this foreign capital to be invested in the corporation, so that internationally favorable financing can be obtained without necessarily having to change our current stockholder structure.

The rise in the price of our stocks quoted on stock exchanges between October 1998 and February 2000 proves that real estate stocks can also yield an above-average growth in value.

The Board of Management is convinced that our corporation is only at the threshold of a similar ongoing development.

Sincerely

Rainer Behne

Busso von Alvensleben

SHORT VITAE

Dr Rainer Behne, born October 27, 1952, in Hamburg, a graduate of medicine, founded his first company at an early stage. In 1977 he developed the Deuteron Group, Hamburg, with a partner, selling his stock in 1985. In 1986 he founded a new company, Behne GmbH & Co., Hamburg, with which he promoted the development of all German real estate activities in the Lehndorff Group, from which he purchased stocks in 1992. In 1994 he joined the M. M. Warburg bank as Executive Manager, becoming a limited partner and then a general partner in 1996. Since July 1998 he has been chairman of the HBAG Real Estate AG and since October 1998 the chairman of Deutsche Real Estate AG.

Busso von Alvensleben, born April 7, 1951, in Nörten-Hardenberg, embarked on his training as a banking officer with the Conrad Hinrich Donner Bank, Hamburg, in 1973. After his military service in the German army, he took up several career positions abroad between 1975 and 1979. From 1979 to 1986 he was Assistant Manager with the well-known real estate company of Jones Lang Wootton in Hamburg. Between 1986 and 1999 his career led him to directorships at Hammerson GmbH, Frankfurt am Main, then CBC Immobilien-Entwicklungs GmbH, Berlin, and finally Deutsche Real Estate AG in Hamburg. Since March 1999 Busso von Alvensleben has been a member of the Board of Management.

REVIEW
OF THE DEUTSCHE REAL ESTATE AG

On November 24, 1871, there was a gathering at the “Hannover” Hotel in Geestemünde of 70 gentlemen who had subscribed to the planned authorized capital of 125,000 taler for the future Geestemünder Bank. They approved the articles of incorporation compiled by the founding committee and elected the first Supervisory Board.

On December 27, 1871 the Geestemünder Bank was entered into the commercial register, and took up its business activities on January 2, 1872.

The first financial year proved successful with a profit of 30,600 marks and a balance sheet total of 1.7 million marks.

The principal business activities at that time included the classic loan and deposit business for trade and commerce, as well as participating in the founding of various deep-sea fishing, narrow-gauge railway and banking companies.

World War I and the subsequent period of inflation, left a deep mark on the economic life of Bremerhaven. Following the terrible years of World War II, the Geestemünder Bank had to celebrate its 75th anniversary among the ruins of Bremerhaven.

Then came the period of the Wirtschaftswunder, and by the corporation’s 100th anniversary in 1971, the major wounds left by the World War II had been healed and the economic success of Geestemünder Bank was once again reflected in its balance sheet.

In 1986 the Vereins- und Westbank, Hamburg, took over 82 % of the total share capital stock. In 1997, the entire banking business, including the Geestemünder Bank employees, was handed over to the banking corporation of Neelmeyer AG, Bremen, which itself belongs to the Vereins- und Westbank Group. The majority of the stockholdings, properties and buildings were not handed over. After surrendering its permit to conduct banking business, the company was renamed the Geestemünder Verwaltungs- und Grundstücks Aktiengesellschaft (GVG).

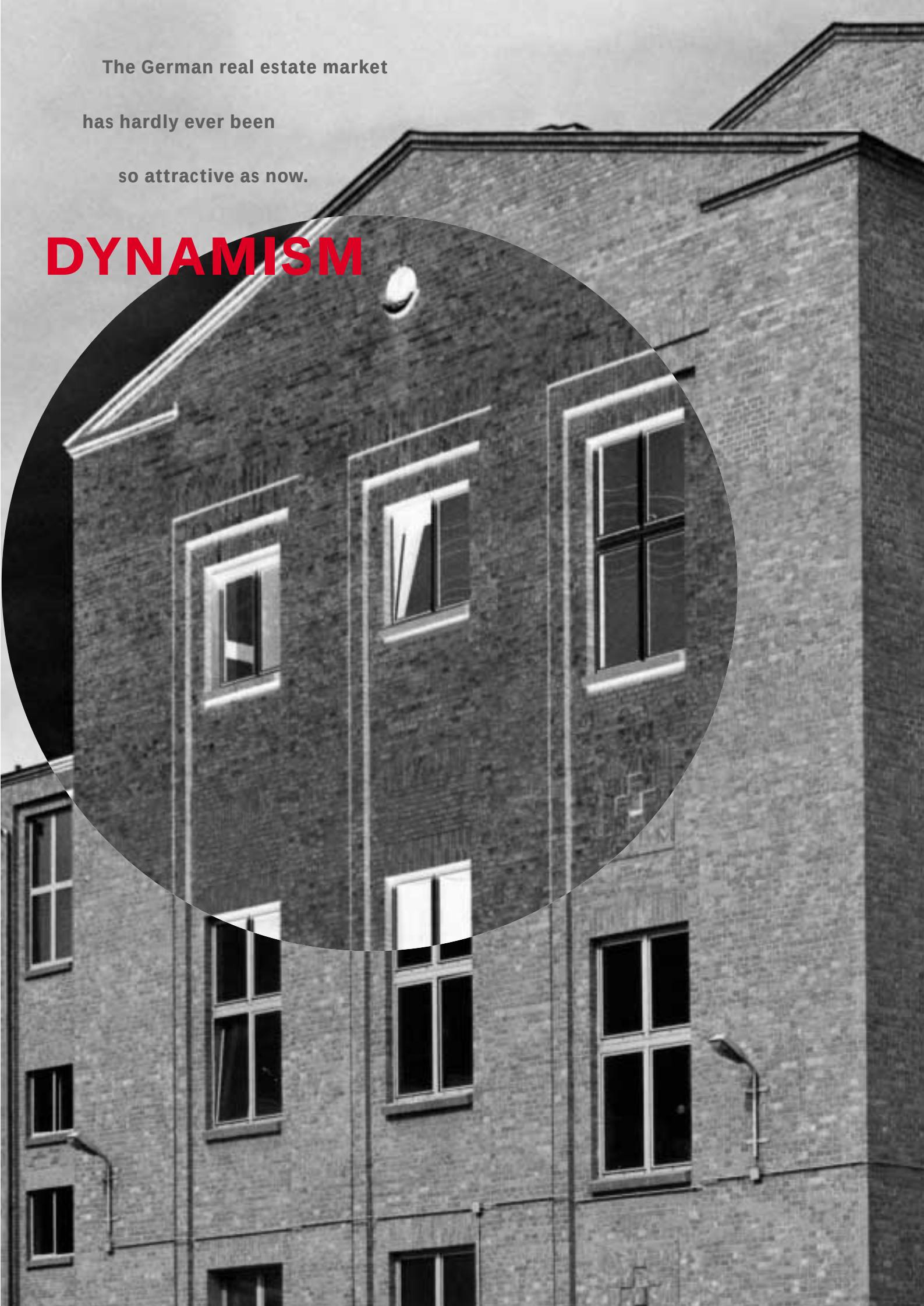
In 1998 GVG was taken over by the WCM Group and a majority interest was sold to HBAG Real Estate Aktiengesellschaft, Hamburg, in October 1998. At the GVG Annual General Meeting of April 13, 1999, in Bremerhaven, it was voted unanimously to change the name to “Deutsche Real Estate AG” in line with its program.

The German real estate market

has hardly ever been

so attractive as now.

DYNAMISM



FORUM

Real estate stock – the investment vehicle of the future?

Talking with Dr Rainer Behne and Busso von Alvensleben

Why are real estate stocks an attractive investment form?

The market for real estate is more attractive now than it has almost ever been. German real estate can be purchased at low market prices and financed at unprecedentedly favorable conditions. Realty is thus a profitable investment area for the large number of security-oriented investors.

However, due to heavy building activity since the reunification, real estate has developed from a scarce resource into an economic asset like anything else. In other words, soon in Germany, when we purchase, manage, sell or further develop real estate, we will no longer prioritize fiscal advantages, but instead the attainment of profits – such as is already common in other countries. Professional asset management will become more important than ever, and therefore a decisive success factor in realty. The real estate stock corporation provides us with all the fundamental aspects of asset management under one roof: strategic selection and acquisition; professional, client-oriented management; choice of economically optimal selling time etc.

In our opinion, real estate stocks will become a supplemental, fourth pillar of real estate investments – in addition to the typical domestic vehicles open funds (Offene Immobilienfonds), closed-end funds (Geschlossene Immobilienfonds) as well as direct investments. This then presents a new opportunity, especially for small investors, to profit from the advantages of money investment in real estate stocks.

What is so special about Deutsche Real Estate stock?

In several points, the Deutsche Real Estate differs from other stock corporations which already have real estate in their portfolios today.

- The Deutsche Real Estate is a "thoroughbred" real estate investment corporation, which means no other "unrelated" participations or securities are added to our investment holdings.

- With Deutsche Real Estate, we were able to take over a company which is free from any old problems and, at the time of takeover, possessed only free liquidity in addition to one small property.

- Accordingly, we acquire our real estate portfolio anew, which means they contain no prior encumbrances from real estate projects taken over.

- We are building up a portfolio which we will keep for the long term. Our policy is to make profits not just by buying and selling, but rather primarily through profitable management. Our management concept will help us toward this goal.

- By making purchases at favorable terms, including properties that are still in the development phase or still have development potential, and by utilizing and adding portfolios via non-cash contributions in return for the issue of stocks, undisclosed reserves are created and low-value holdings are realized by spin off a stock corporation.

- Our investment holdings are broadly diversified to spread the risk, and concentrate solely on real estate within Germany.

To this end, we are purchasing residential property portfolios or participations in real estate companies, as well as high-yield residential and office buildings, shopping centers and small supermarkets in major cities. Also top locations in medium-sized cities and 1B locations in major cities demonstrate for us here the most secure growth potential.

How do you assess the future of real estate stock?

In Germany, real estate stocks have still not attained the necessary attention, even though there is significantly more interest than in the past. Here they will first have to establish themselves next to other real estate investments. German institutional and private investors

will discover this flexible type of real estate investment for themselves. Formerly they were forced to concentrate on open or closed funds, or chose the larger direct investment. But differences and advantages of the real estate stock corporation are easy to ascertain. We therefore assume that this public will turn to this new type of investment alternative as well.

However, we have noticed demand from abroad, particularly from the USA, the Netherlands and Switzerland. The German real estate stocks will fill a true market gap here for such international investors who would like to participate directly in a nationally focussed, thoroughbred real estate portfolio.

What are the advantages of real estate stock?

Fungibility
Stocks are traded daily on the stock exchange. The investor can invest quickly and sell or switch just as quickly.

Small denomination
The investor can purchase a share of real estate stock for as little as approx. 20 German marks or 10 euros, for example, and thus very precisely establish his own scope of investment.

Transactional and preliminary expenses
Transactional expenses for trade in stocks on the exchange are, at about half a percent, comparatively low. Purchases are not additionally charged with front-end fees.

“Commercial activity”
The real estate stock corporation is involved commercially for tax purposes and can therefore actively manage its portfolio. It can therefore employ its own personnel, for example, and implement its own leasing and utilization concepts if this serves profitability or the interests of the tenant (for example: service offices, security services, but also cafeterias etc.).

Holding period of the properties
The “commercially active” real estate stock corporation is subject to no fiscally prescribed holding periods. This means it can utilize market opportunities at any time to realize the increase in value of a building at the optimum time by selling, or also to avoid or minimize imminent losses through timely sales.

Capital resources
The stock corporation, particularly within its own larger property holdings, has open capital resources without restriction to a specific

property. It therefore generally possesses the means for redevelopment or round off properties by additional land purchases. Additionally it can raise capital through its direct access to financial markets.

Transparency
The statutory publication requirements compel stock corporations to report regularly and openly to their investors. Rights and obligations are clearly outlined by law and therefore conceal no surprises for the investor. The step by step introduction of international standards additionally increases transparency.

Eligibility as collateral
Officially quoted stocks are always eligible as collateral at any financial institution. Therefore the stockholder need not part with his stocks when he requires liquidity; he can pledge them and nevertheless participate in performance of the stocks.

Purchasing advantages
A larger, officially quoted stock corporation enjoys a market advantage during acquisition negotiations, since high financial strength is always attributed to it and it can also easily prove this. It can also acquire real estate "as a package" at favorable terms and then dispose of any unsuitable properties individually, since it is not subject to any fiscal residual investments.

How does a stock corporation differ from German open funds?

In our view, the differences lie in the following factors:

Market value
The value of a stock is determined by supply and demand on the stock exchange. For open real estate investment trusts, on the other hand, the unit value is established by the company itself, with the assistance of experts, according to a very complicated valuation method.

The stock corporation: Just real estate
Open funds, due to their repurchase commitment for fund units, must have substantial liquid means on hand – generally about one third. Open real estate investment trusts must therefore be categorized de facto as mixed real estate and securities funds. This asset composition also influences the economic results.

Outside capital not limited
The stock corporation is not limited in raising outside capital; therefore it can profit much more extensively from the current extremely favorable capital market conditions in regard to a positive leverage effect.

Flexible participations possible
The real estate stock corporation can enter into strategic participations, even minority participations, at any time. It can participate as a financing partner in developments or carry these out itself. In short, it can act more spiritedly, actively and more profitably on the market. Not for nothing does the market frequently compare open funds with fixed interest securities.

How does a stock corporation differ from a German closed-end real estate fund?

From our perspective, the following important differences exist:

Fungibility and risk diversification
Closed-end real estate investment vehicles lack the fungibility which the officially quoted stock corporation offers par excellence. In many cases, such funds only have a single piece of realty and thus no risk diversification.

Closed-end funds offer tax advantages
The funds offer the investor income tax advantages or even loss allocations which are not possible within the structure of the stock corporation. A stock corporation can only attempt to operate as economically as possible in regard to taxes within the corporation. However, a passing on of these advantages to the investor is not possible.

Less flexibility regarding when to sell
Closed-end funds generally have a fixed term (fiscally induced) of at least 10 years. To achieve a so-called fiscal total profit, a holding term of up to 20 years may also be necessary. Added to this, majority votes are required for the sale of realty. Both mechanisms generally prevent the closed-end real estate investment fund from being able to utilize the optimum point at which to sell its realty. This is different for a stock corporation.

It can sell off its holdings at any time and thus also carry out medium-term developments. The most important advantage: It can thus sell at an optimal point in time in the market cycle and achieve the greatest possible profit.

Greater financial strength
Closed-end real estate investment funds have limited capital resources, which means they often cannot respond to market changes. Necessary reinvestments or additions to existing property are therefore not possible under certain circumstances. That is why these funds are often not in a position to adapt the property to today's changed tenantry demand. Here, the stock corporation can be flexible in the use of its capital resources and turn to the capital markets if necessary.

Why is real estate stock preferable to direct investment?

In summary, the following aspects may be pointed out in particular:

- Realty is only limitedly fungible. Generally, only total sales are possible. The buyer must be found by the seller himself.

- The minimum investment volume is very much higher than with stocks, which make it possible to purchase participations in real estate even at very small amounts.

- The real estate landlord must fulfill all the obligations of the owner himself. He must take on the administration, maintenance, administration of taxes and charges himself or have these taken care of by a third party at his own expense.

- With real estate stocks, tax-free profits can already be realized after 12 months.

What is the fiscal situation?

It is the goal of the stock corporation to generate profits and distribute these among its stockholders, or to pass on advances in stock prices – which are tax-free after one year. However, the corporation must pay taxes itself on its profits. These may be reduced through fiscal losses carried over, utilization of special depreciation for wear and tear, etc.

Tax policy in Germany will favor the stock corporation

As management, we have the option, depending on the strategy, to retain and reinvest profits, to practice the "pay out and plough back" method, or also to issue bonus stocks, in place of paying out dividends.

However, the change to our fiscal landscape demonstrates that a decision to considerably reduce the corporate tax burden is being adopted. It is apparent that the fiscal advantages of a partnership are disappearing bit by bit, while the advantages of joint stock companies increase due to reductions in corporate taxes.

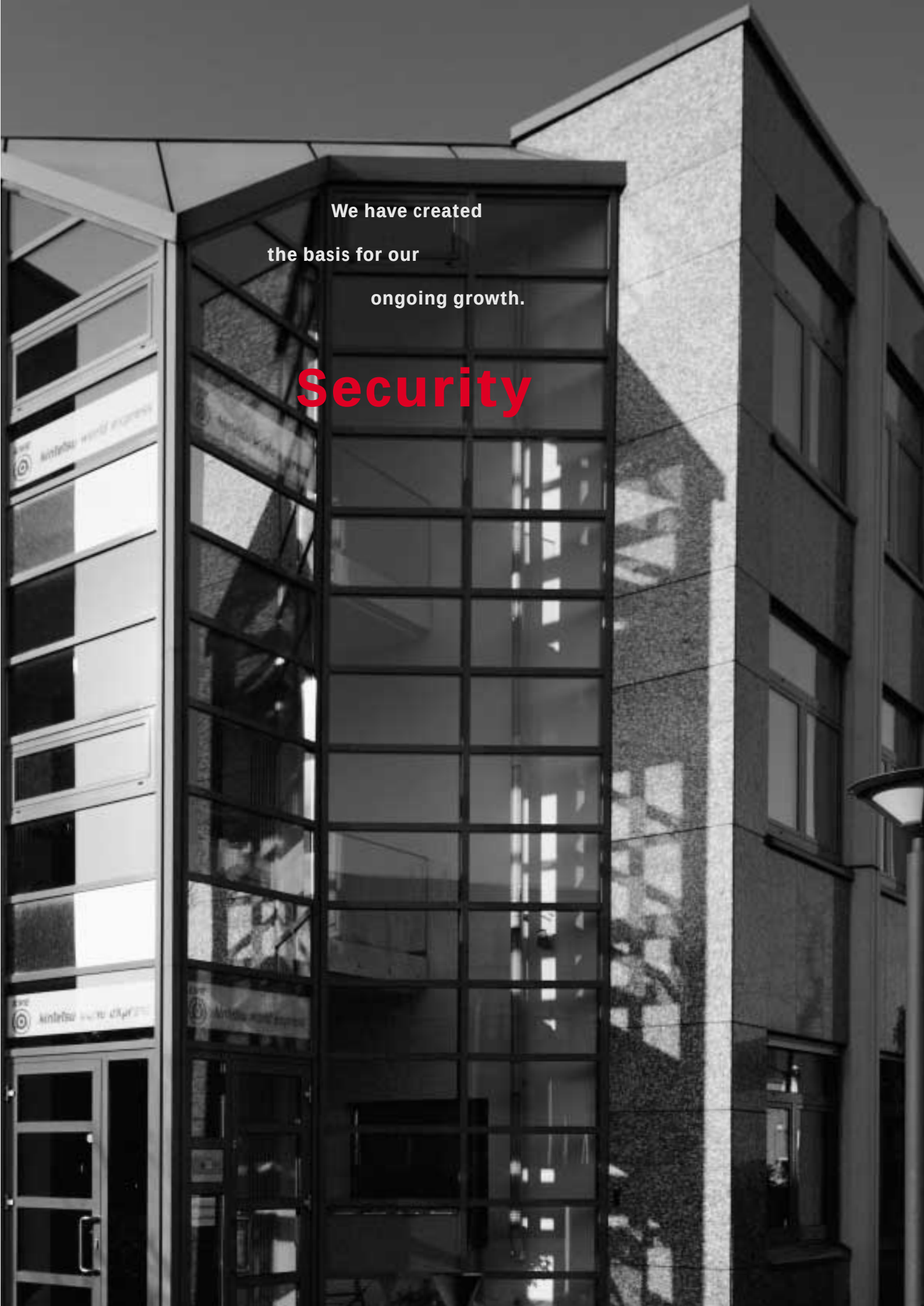
From a tax perspective, we are on the brink of a transition which will undoubtedly have a positive effect on the legal form of the stock corporation. Thus this type of investment is therefore becoming even more attractive.

Is it possible to compare the performance of real estate stock corporations?

There is still no analysis system for stocks held in real estate companies. The system presently used by the DVFA (German Association for Financial Analysis and Investment Counseling) is not suited for the evaluation of real estate stocks because it was developed for industry and trade and does not cover the particular profit situation of real estate corporations. A special system tailored to real estate stocks is currently being developed together with the DVFA and other specialists.

What dividend policy have you planned for the coming years?

Against the background of tax law changes, we will primarily reinvest the profits and distribute only a moderate dividend. This will benefit the stock price and thus also the stockholder, in fact to a greater degree than through payment of dividends.



We have created

the basis for our

ongoing growth.

Security

The tax situation

for real estate stock corporations

has improved significantly.

MANAGEMENT REPORT

GENERAL DEVELOPMENTS

DEVELOPMENT OF THE REAL ESTATE MARKETS

During the course of 1999 the long-awaited turning point could be clearly discerned in various important sectors of the real estate market. The Federal Government's move to the capital of Berlin stimulated growth as had been hoped. Attractive office space in both of the inner-city areas around Kurfürstendamm and Central Berlin can be marketed once again at a realistic rental base. We expect rents in these areas to rise in the near future. There are no signs that the new development has had a direct effect on secondary (B) locations or in the periphery. In the medium and long term, however, more stable conditions can be expected in these areas as well.

The situation in the new German federal states, particularly in the Leipzig/Halle/Dresden triangle, is unchanged, being marked by excess supply. Effects of the market recovery are not as yet discernible in the new federal states.

Ongoing demand for space has led to full rentals in Central Munich, with the result that residual demand has created very firm rental prices. In this market, new projects are once again being financed by banks without requiring pre-leasing, or are being bought up by institutional investors, as there are no longer rental risks for the near future.

A similar development can be perceived in the Frankfurt inner city. Rents of over DM 60 per m^2 have been obtained here even for large areas. Figures which were inconceivable only a few years ago. The firm inner-city rents are now

influencing those in the so-called B locations, in accordance with the free market economy. Vacancies have been dramatically reduced.

This south/north gradient is typical for the real estate business in Germany. The economy and economic growth in the old federal states remain stable. Demand for office space is rising again, because although in the past few years companies had substantially reduced staff, now they find that they can only meet the larger business volumes and orders by substantial staff increases.

Since 1992 retailing in Germany has continuously suffered from stagnant or even decreasing sales. Despite low inflation, operating costs are rising and stiff competition for customers is cutting margins. The process of consolidation into large chain stores is continuing. Small and medium-sized traders are often forced to give up. The industry is once more facing an upheaval. These changes are being reinforced by the alternative means of ordering goods provided by the new media.

Today we can only guess at the influence that buying via the Internet will have on retailing and its requirements for space. The changes will affect the different segments of retailing in different ways. Investment in this area has to be made very selectively nowadays.

Residential business is also experiencing substantial changes at the present time. The traditional owners of large residential properties, such as municipalities, co-operatives and industrial enterprises, are increasingly getting rid of their holdings. Privatization is under way. Due to the cutting back of various development programs, new building activities are only being undertaken on a small scale. When the remaining, anachronistic social commitments for these portfolios expire or are revoked, free market conditions will come into being even in this residential sector, and then properties in good locations should attain high yields.

MONEY MARKET

In the 1999 financial year, the all-time low for interest rates began to bottom out. In the last few months, interest rates on loans saw an unexpected strengthening. However, compared to the last 50 years, current interest rate levels must still be deemed low.

The cost of financing at about the same level as the yields gained from real estate. The availability of finance is good. For its 1998 and 1999 investments, the corporation was able to secure favorable financing conditions, so that our real estate portfolios can generate a high cash flow at a low equity investment level.

At the current interest rate level, high leverage continues to make economic sense, particularly when we can look forward to a favorable economic situation bringing a positive development in rental prices as well as an increase in the value of property holdings.

STATUTORY FRAMEWORK

The statutory situation for stock corporations in Germany continues to remain stable. Many sectors are adapting themselves to meet international requirements. An important step for German companies is their first-time implementation of the law on control and transparency in business (KonTraG). The effects of these numerous new regulations are also reflected in this management report, in the different form adopted for the organization of information, the structure and scope.

FISCAL FRAMEWORK

The efforts of the German Federal Government to reform corporate taxation have progressed appreciably since the current Minister of Finance took office. It seems that joint-stock companies will benefit from some tax relief and furthermore that retained profits will receive additional favorable treatment. Together with the waiver of tax on capital gains from the sale of participations, the implementation of the planned

new regulations will undoubtedly improve conditions for stock corporations, and particularly for real estate stock corporations.

The simultaneous worsening of the tax situation for directly held real estate property will make investment in real estate stocks altogether more attractive for both private and institutional investors, also from the taxation point of view.

DEVELOPMENT OF THE SECTOR AS A WHOLE

In real estate, the period of development, life span and transformations are all long-term. Accordingly, conditions have not changed greatly since 1998. The German market is dominated by private ownership, open and closed-end real estate investment funds, large institutional investors and currently real estate stock corporations.

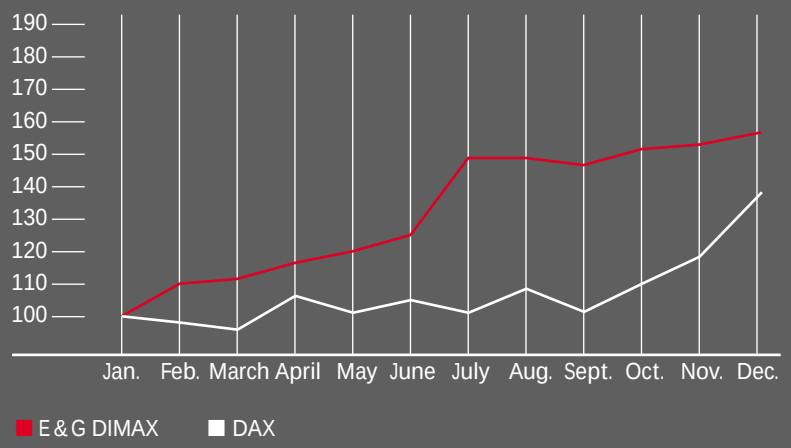
Despite the sluggish and, in every sense of the word, "immovable" nature of real estate, the new market segment of real estate stocks has become exceedingly mobile. In the public domain, the large, active companies in our sector, such as WCM, IVG and RSE have been making headlines, whereby WCM, together with RSE, is striving for a place on the DAX and thus in the front row of German joint-stock companies. It will be then at the latest, that real estate shares make the breakthrough in Germany.

As expected, many new real estate stock corporations have been created. To some extent existing portfolios have been given a new legal form, while in other cases, new companies have been founded or old forms revitalized by acquiring new areas of business. The increases in fixed assets, in the number of companies and in their importance on German stock exchanges will continue in the next few years, thus favoring real estate stock corporations as a form of investment.

German real estate stock corporations are compared with each other in the so-called DIMAX, the special index created by Bankhaus Ellwanger & Geiger. Deutsche Real Estate AG was taken up in this index in 1999. Weighted according to market capitalization, by the end of the year the company was at place 12 of the then 57 names listed. In 1999 the index even managed to outperform the DAX overall. Within a year it rose by about 56 %, whereas the DAX gained about 39 %. This certainly highlights the increasing value of real estate shares in Germany.

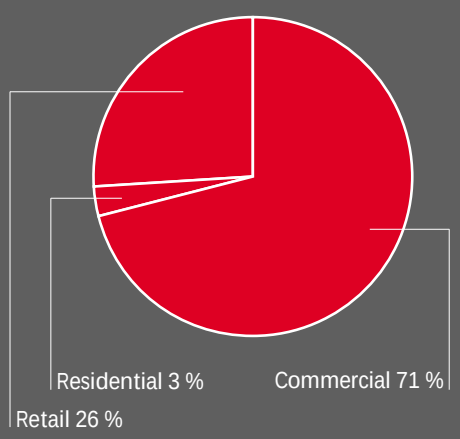
In 1999 the DIMAX grew by 56.2 %, the DAX by 39 %.

Stock development E & G DIMAX v. DAX 1999



Source: Research Bankhaus Ellwanger & Geiger

Investment volume of Deutsche Real Estate AG according to utilization in percent



BUSINESS TREND FOR THE GROUP AND THE SEGMENTS

INVESTMENTS

In 1999, Deutsche Real Estate Aktiengesellschaft had announced that it hoped to attain an investment volume of up to DM 500 million. In this report we can show an increase in holdings, including property secured by contract and with closing executed in 2000, from 7 at the end of 1998 to currently 45 investment properties or participations. These 45 properties represent an overall value of over DM 800 million. Not all properties or participations in properties are wholly owned. The volume of direct investment which can be attributed directly to Deutsche Real Estate AG amounts to over DM 610 million.

This substantial investment volume could only be realized because various holdings were taken up as a package. This involved a residential holding in Nordenham near Bremerhaven and also 12 DIY building centers – the former “Stinnes”, now “toom” (REWE), which was acquired for about DM 191 million.

Finally a series of properties of varying utilization was acquired from the assets of the Roland Ernst Group for about DM 150 million. Following the increase in capital in March/April 2000, a further package will be added at a share amounting to about DM 63 million, involving 5 real estate participations. This has already been laid down in a contract.

Individual investments were undertaken mainly in the locations of Neu-Isenburg near Frankfurt, Düsseldorf, Giessen, Hamburg and Munich.

Details concerning the property portfolio are given in this report. An up-to-date index covering the Deutsche Real Estate AG portfolio is provided at the company's web site (www.dreag.de).

FINANCING

In July 1999, the company successfully increased its capital at a ratio of 1:1 at 15 euro. This meant that about DM 90.4 million in additional equity flowed into the corporation. By the end of the year, almost all of these new funds were systematically invested in properties.

Equity invested at the end of the year, including contractual obligations, amounted to approximately DM 120 million, with a book equity capital of about DM 132 million.

This meant that about 20 % of investments were backed by own funds. Bank loans amounting to about DM 480 million were taken out, which were mostly long term. With the favorable interest rate situation of the past financial year, the company was able to secure attractive long-term conditions, with terms of between 7 and 15 years.

In the current financial year our objective is to expand holdings to about DM 1.5 to DM 2 billion. To finance this growth, the corporation expects to increase authorized share capital in March/April 2000, with the objective of doubling equity to a total of over DM 250 million. This will pave the way for continued expansion.

SALES

Deutsche Real Estate AG took up its new business activities only towards the end of 1998. For the most part, investments in 1999 were concentrated in the second half of the year, and particularly in the last quarter. Thus only a small portion of the income from the property portfolio was available for a whole year.

Since real estate investments are held in the respective subsidiaries, the corporate financial statement does not show any sales revenue. The consolidated financial statement, however, shows rental income in the amount of DM 19 million.

RESULT

The corporation's balance sheet profit for the 1999 financial year is DM 7,854,000 (corporate financial statement).

The Board of Management and the Supervisory Board propose to the Annual General Meeting that a dividend of DM 7,854,000, compared to DM 1,848,000 the previous year, be paid out.

The dividend per stock is thus DM 0.68 for 1999, compared to DM 0.24 (adjusted for the 2:5 stock split) in 1998.

Because of the classification of the fiscal equity capital at balance sheet date, which will be used for payment of dividend, the profit for distribution will be taken from untaxed equity capital (EK 04). This means that the dividend for stockholders is not linked to a corporation tax credit, however it does not lead to taxable income for stockholders either.

Deutsche Real Estate Aktiengesellschaft has compiled a Group financial statement including its subsidiaries, as required. The transition of the balance sheet profit in the corporate financial statement from the Group statement is as follows:

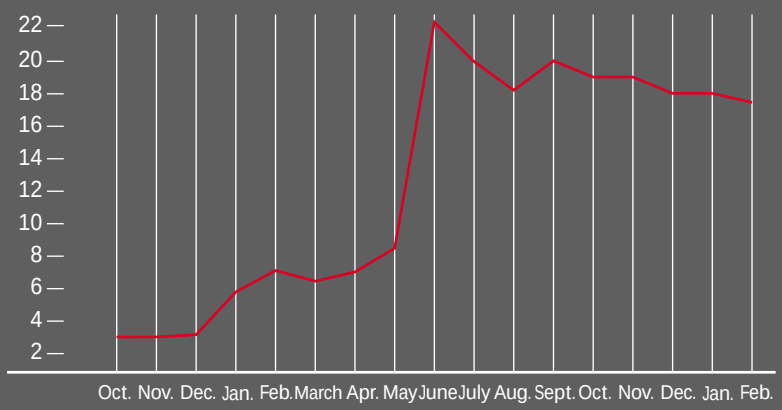
Balance sheet profit in the corporate financial statement	DM	7,854,000
Results of subsidiaries	DM	-546,362
Income from participations	DM	-2,100,961
Elimination of intergroup profits	DM	-3,320,000
Depreciation arising from capital consolidation	DM	-35,238
Depreciation arising from equity consolidation	DM	-30,400
	DM	**1,821,039**

This result can be attributed mainly to start-up losses incurred by several subsidiaries.

STOCK PRICE TREND

The trend in the price of our stocks from the implementation of the changes in business activities up to the compilation of this report (from October 1998 to February 2000) has been very pleasing. Adjusted for the conversion into euro and the stock split of 2:5, the market price rose in just under 15 months from 3 euros to the present 17 euros. We expect further stock price rises to follow the implementation of our objectives and the expansion of our business activities.

The trend in stock prices of Deutsche Real Estate AG October 1998 to February 2000 (in euro)



Figures adjusted for the stock split of 2:5 and conversion into euro
Source: OnVista AG, Hamburg stock exchange

ORGANIZATION AND ADMINISTRATION

Organizationally, the Deutsche Real Estate AG is a part of the HBAG Real Estate Aktiengesellschaft Group. For the office organization and the management of properties the TAXXUS Real Estate Service GmbH & Co. KG is responsible within the Group. All Group personnel are also concentrated within this corporation.

In this way, the Deutsche Real Estate AG is not burdened with the high basic costs of having its own administration apparatus. Individual services are settled between the Deutsche Real Estate AG and TAXXUS at fixed rates in line with the market.

By way of the central service corporation within the Group, the Deutsche Real Estate AG is thus guaranteed access to qualified personnel and modern technology in all areas.

RESEARCH AND DEVELOPMENT

A real estate investment corporation essentially does not pursue research and development in the conventional sense like an industrial company, for example. Nor is it the task of such an investment corporation to develop new building materials or have new concepts worked out for properties.

Developments of this type must be observed, however, in order to assess whether existing or purchased properties can be operated permanently in line with market trends, or whether new concepts need to be created.

The Deutsche Real Estate AG is interested in supporting projects at research institutes and universities which lead to improved market transparency via statistical data, just as this has been standard for a long time in the USA, for example. In the Federal Republic of Germany, no reliable data is available on levels of rents, selling prices, completion figures, available rental space, vacant space, etc. Following the Anglo-Saxon model, work on such databases is proceeding under observance of strict German data protection.

STRENGTH

Our professional management is the reason for our success in the German market.

Improved transparency in this area helps the Board of Management in making decisions and should also improve comparability with competing real estate investment corporations from the perspective of the investor or stockholder.

In this context, the Deutsche Real Estate AG will also support projects which enable equity research analysts to develop key performance indicators that are also meaningful for real estate corporations.
The existing indicators – as they were developed in an exemplary manner by the DVFA for industrial or trading companies – are not easily applicable to real estate.

EMPLOYEES

The Deutsche Real Estate AG has no employees. The stated personnel expenses concern the pension obligation for a former member of the Board of Management and the current expenses for the present Board of Management.

RISK REPORT

The Deutsche Real Estate AG is entrepreneurial by its nature. Entrepreneurial action is a continuous process of weighing up opportunities and risks. Above-average results can only be achieved by consciously incurring risks. What is of decisive importance for the successful future of a company is systematic and organized handling of risks in terms of recognition, analysis and appropriate measures.

The corporation's reorientation only began at the end of 1998, and it therefore has to deal with relatively "young" risks. All transactions have been conducted by persons who are acting and are responsible today. Assessment of individual risks and their development is thus made far easier. Instruments for systematic analysis and control of risks are implemented and enhanced. They form part of a Risk Management Analysis and are recorded in a manual.

The markets in which a real estate investment corporation operates are also characterized by increasing globalization and complexity. It is the Board of Management's task to establish the corporation's position in this environment, to set out its course and document it in

the form of corporate plans. For tackling the wide-ranging tax and legal problems, the corporation has recognized advisors as well as its own experts at its disposal.

We would like to draw attention to the continuously increasing charges against income in the future, due to increasing depreciation costs arising from the progressive depreciation method selected. This negative effect is set against falling interest costs at least until the expiry of the fixed-interest periods for long-term financing of existing property and scheduled repayments.

The issue given the highest priority by our corporation in its present development and high growth phase, is the availability of capital. At the moment, the financial markets are favorable so that both share capital and loans are sufficiently available. Other means of creating capital, such as contributions of real estate assets as assets in kind against the issue of new stocks or the issuing of corporate bonds, are being actively pursued by the Board of Management. These should counteract the effects of a further increase in interest rates, which could endanger achieving positive leverage for financing by means of normal mortgage loans, which was still possible in 1999.

The corporation's real estate investments are concentrated in Germany. No individual transactions have been concluded which could entail a risk to our holdings. Rather risk has been spread within this area by a large number of properties and also by regional diversification. Investment funds have thus been systematically distributed over conurbations, large cities and regions with development potential. At the same time, account has also been taken of the varying utilization of real estate, such as residential, retail and commercial. A national network of strategic participations in enterprisingly managed regional agencies ("local partners"), ensures the necessary access to local market know-how and prompt on-the-spot transactions.

For individual investment properties, rentals involve both opportunities and risks. Here, attention is particularly paid to the best possible contractual coverage and the appropriate security (lease agreement controlling). Risks extending beyond these measures are, as far as possible, additionally insured. Depending on the kind of property and the market situation, under our active tenant management we either pursue long-term tenancy agreements (up to 15 years) or deliberately short-term

The performance of our stocks has proven that real estate stocks can achieve above-average capital growth.

contracts. Vacant space rental is carried out strategically by the regional agencies with the approval of the Board of Management and with the objective of long-term capital growth rather than short-term profit contributions. Detailed planning at the property level, combined with monthly reporting, provides for professional property controlling.

The ongoing technical control and supervision of the buildings are covered by contractual agreements with specialized companies. These companies are also brought in at the purchase stage to promptly identify and evaluate any hidden defects or environmental problems in the buildings. The best possible insurance coverage for all building risks is sought. This important area is covered by using a specialized insurance broker.

Ongoing adaptation of the buildings to the changing requirements of tenants and users goes beyond pure technological development. In this area, attention must also be paid to general trends in space requirements and furnishing and fitting needs. The effects of modern communications technology on the real estate industry are being constantly monitored by the HBAG Group. Our international orientation also allows us to draw comparisons, for example, with the conditions and developments in the USA. The Board of Management of Deutsche Real Estate AG has unrestricted access to the information available to the Group.

DEPENDENCE REPORT

Since Deutsche Real Estate Aktiengesellschaft was not subject to any controlling agreement in the 1999 financial year, it produced a report on relations to affiliated companies in accordance with § 312 AktG (German Stock Corporation Law). This report closes with the following statement:

According to the circumstances which were known to us at the time in which the legal transactions were made, our corporation always received appropriate consideration.

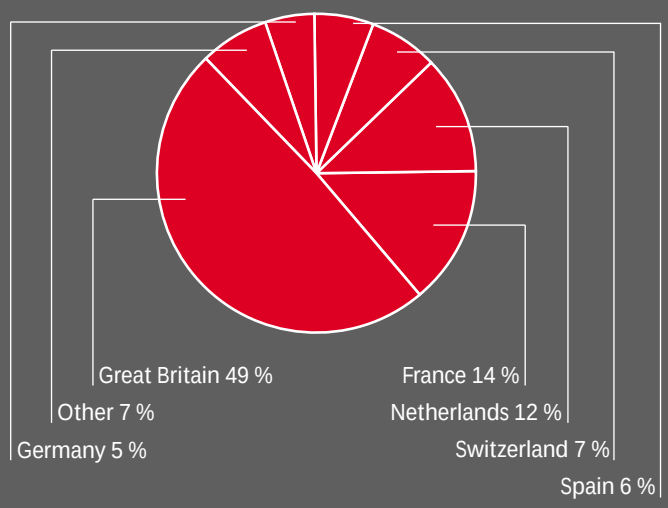
No measures were taken in the 1999 financial year which are subject to the duty to disclose.

OUTLOOK

The current financial year will be marked both by the management and optimization of the considerable property portfolio already in existence and by continued ambitious investment activities. Favorable market prices for acquisitions should be achieved. Together with continued attractive financing conditions, they will allow us to extend our high-yield portfolio. The corporation will continue, where possible, to acquire attractive office property for its own portfolio and retail property for its Deutsche Shopping AG subsidiary, as well as interesting residential holdings for its subsidiary responsible for the residential sector. We plan to participate in a company which concentrates on the privatization of apartments as condominiums under social contracts, so that we can privatize actively such portfolios.

Further growth will always entail capital measures. This means the corporation will have to win new stockholders. The broadening of the capital base, together with the increase in the number of stocks and the increase in free float, will make our stocks generally more attractive.

Market shares of the European real estate stock corporations (in percent)



Market shares of the European real estate stock corporations and population figures (in percent)

The Board of Management will continue to create the necessary conditions for the qualified assessment of corporation's stocks and their development potential through transparency, public relations work and the presentation of appropriate documentation for analysts.

In the last report we were able to inform you about the interest shown by foreign investors. The European single currency zone will inevitably lead to increased interest on the part of European investors in German real estate titles once currency risks have been eliminated. The interest of large Anglo-Saxon investors has also remained strong.

In the first full financial year since the corporation's reorientation, the Board of Management's objectives were broadly achieved. For the current financial year, strong growth will systematically continue and favorable results will be achieved, not least of all due to the discernible recovery in real estate markets.

If you compare the population in Europe with the distribution of real estate stocks, then this comparison shows persuasively the catch-up demand for this form of investment in Germany. (See the charts on page 31.)

In view of the announced amendments to corporate taxation, we must wait and see if it is in the stockholders' interest to pay a dividend in the future. By all appearances, it could be more attractive for stockholders to realize profits through tax-free stock price gains and to forego cash dividends with their tax disadvantages. Issuing bonus stocks could also be a possibility.

We expect corporate results for 2000 to again be distinctly above those of the 1999 level.

Bremerhaven, February 2000

The Board of Management

Dr Rainer Behne

Busso von Alvensleben

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BALANCE SHEET as of December 31, 1999

ASSETS

	Notes	1999 DM	1998 DM
A. Fixed assets	1		
I. Intangible assets		28,710	0
II. Property, plant and equipment			
Land, leasehold rights and buildings, including buildings on non-owned land		515,640	530,121
III. Financial assets			
1. Shares in affiliated companies		54,303,083	1,400,000
2. Investments		6,641,709	1,036,000
3. Advance payments on financial investments		2,162,633	0
		63,107,425	2,436,000
		63,651,775	**2,966,121**
B. Current assets			
I. Accounts receivable and other assets	2		
1. Accounts receivable, trade		400,000	0
2. Accounts due from affiliated companies		93,657,320	2,568,346
3. Accounts due from other group companies		348,913	960,364
4. Other assets		9,493,053	2,065,293
		103,899,286	5,594,003
II. Cash in banks		5,270,815	37,813,449
		109,170,101	**43,407,452**
C. Deferred charges and prepaid expenses	3	**6,249**	**0**
		172,828,125	**46,373,573**

LIABILITIES AND SHAREHOLDERS' EQUITY

	Notes	1999 DM	1998 DM
A. Shareholders' equity			
I. Capital subscribed	4	30,800,000	15,400,000
II. Capital surplus	5	88,789,346	13,830,000
III. Earned surplus	6		
1. Legal reserve		1,470,000	1,470,000
2. Other earned surplus		9,570,671	7,600,000
IV. Balance sheet profit	7	7,854,000	4,963,968
		138,484,017	**43,263,968**
B. Reserves and accrued liabilities			
I. Pension reserves and reserves for similar obligations	8	1,063,345	1,100,016
II. Accrued taxes	9	853,000	331,000
III. Other reserves and accrued liabilities	10	949,458	228,500
		2,865,803	**1,659,516**
C. Liabilities	11		
I. Liabilities due to banks		14	0
II. Accounts payable, trade		43,242	46,928
III. Accounts due to affiliated companies		31,140,184	1,403,161
IV. Accounts due to other group companies		195,583	0
V. Other liabilities		99,282	0
thereof for taxes: DM 99,072 (1998: DM 0)			
thereof for social security: DM 0 (1998: DM 0)			
		31,478,305	**1,450,089**
		172,828,125	**46,373,573**

STATEMENT OF INCOME

from January 1 to December 31, 1999

	Notes	1999 DM	1998 DM
1. Other operating income	1	**3,512,712**	**5,786,728**
2. Personnel expenses			
a) Wages and salaries		2,065,901	138,333
b) Social security and pension expenses thereof for pensions: DM 106,558 (1998: DM 108,130)		117,650	109,130
3. Depreciation, amortization and write-offs on intangible assets, and plant and equipment		17,091	16,901
4. Other operating expenses	2	1,567,170	2,182,466
5. Income from investments	3	5,904,618	0
6. Income from profit pools thereof from affiliated companies: DM 0 (1998: DM 16,651)		0	16,651
7. Other interest and similar income thereof from affiliated companies: DM 1,805,560 (1998: DM 207,395)	4	2,676,059	2,839,577
8. Interest and similar expenses thereof to affiliated companies: DM 74,766 (1998: DM 18,955)	5	79,899	316,420
9. Results of ordinary operations		**8,245,678**	**5,879,706**
10. Taxes on income	6	1,534,784	914,344
11. Other taxes	7	2,191	1,795
12. Net income		**6,708,703**	**4,963,567**
13. Retained profits brought forward		4,963,968	924,401
14. Transfer to earned surplus		3,115,968	0
15. Dividend payout		1,848,000	924,000
16. Withdrawals from earned surplus		1,145,297	0
17. Balance sheet profit		**7,854,000**	**4,963,968**

FIXED ASSETS

DEVELOPMENT OF CAPITAL EXPENDITURES

	Status Jan. 1, 1999 DM	Additions DM	Disposals DM	Status Dec. 31, 1999 DM
I. Intangible assets				
EDP software	**0**	**31,320**	**0**	**31,320**
II. Property, plant and equipment				
Land and buildings				
Land: Langener Landstrasse, Bremerhaven	64,175	0	0	64,175
Building: Langener Landstrasse, Bremerhaven	638,201	0	0	638,201
	702,376	**0**	**0**	**702,376**
III. Financial assets				
Shares in affiliated companies				
Verwaltungsgesellschaft Deutsche Real Estate mbH, Hamburg	500,000	0	0	500,000
DREAG Objekt Hamburg, Friedrich-Ebert-Damm GmbH & Co. KG, Hamburg	100,000	8,900,000	0	9,000,000
DREAG Objekt Bremerhaven, An der Mühle GmbH & Co. KG, Hamburg	100,000	0	100,000	0
DREAG Objekt Norderstedt, Kohfurth GmbH & Co. KG, Hamburg	100,000	2,420,000	0	2,520,000
DREAG Objekt Berlin, Friedrichstrasse GmbH & Co. KG, Hamburg	100,000	4,900,000	0	5,000,000
DREAG Objekt Berlin, Grolmanstrasse GmbH & Co. KG, Hamburg	100,000	1,900,000	0	2,000,000
DREAG Objekt Duisburg, Averdunkplatz GmbH & Co. KG, Hamburg	100,000	2,900,000	0	3,000,000
DREAG Objekte Nordenham GmbH & Co. KG, Hamburg	100,000	0	100,000	0
DREAG Objekt Hamburg, Osterfeldstrasse GmbH & Co. KG, Hamburg	100,000	1,900,000	1,880,000	120,000
DREAG Objekt Lüneburg GmbH & Co. KG, Hamburg	100,000	0	100,000	0
DREAG Objekt Hamburg, Mendelssohnstrasse GmbH & Co. KG, Hamburg	0	3,000,000	0	3,000,000
DREAG Objekt Stuttgart, Rosensteinstrasse GmbH & Co. KG, Hamburg	0	3,000,000	0	3,000,000
DREAG Objekt Berlin, Wittenauer Strasse GmbH & Co. KG, Hamburg	0	100,000	100,000	0
DREAG Objekt Berlin, Wiesenweg GmbH & Co. KG, Hamburg	0	100,000	100,000	0
Carried forward	1,400,000	29,120,000	2,380,000	28,140,000

DEVELOPMENT OF ACCUMULATED DEPRECIATION

Status Jan. 1, 1999 DM	Additions DM	Disposals DM	Status Dec. 31, 1999 DM	Net book values Dec. 31, 1999 DM	Net book values Dec. 31, 1998 DM
0	**2,610**	**0**	**2,610**	**28,710**	**0**
0	0	0	0	64,175	64,175
172,255	14,481	0	186,736	451,465	465,946
172,255	**14,481**	**0**	**186,736**	**515,640**	**530,121**
0	0	0	0	500,000	500,000
0	0	0	0	9,000,000	100,000
0	0	0	0	0	100,000
0	0	0	0	2,520,000	100,000
0	0	0	0	5,000,000	100,000
0	0	0	0	2,000,000	100,000
0	0	0	0	3,000,000	100,000
0	0	0	0	0	100,000
0	0	0	0	120,000	100,000
0	0	0	0	0	100,000
0	0	0	0	3,000,000	0
0	0	0	0	3,000,000	0
0	0	0	0	0	0
0	0	0	0	0	0
0	0	0	0	28,140,000	1,400,000

DEVELOPMENT OF CAPITAL EXPENDITURES

	Status Jan. 1, 1999 DM	Additions DM	Disposals DM	Status Dec. 31, 1999 DM
Brought forward	1,400,000	29,120,000	2,380,000	28,140,000
DREAG Objekt Köln, Bernkasteler Strasse GmbH & Co. KG, Hamburg	0	100,000	100,000	0
DREAG Objekt Düsseldorf, Ulmenstrasse GmbH & Co. KG, Hamburg	0	100,000	100,000	0
DREAG Objekt Bottrop, Friedrich-Ebert-Strasse GmbH & Co. KG, Hamburg	0	100,000	100,000	0
DREAG Objekt Bremen, Vegesacker Heerstrasse GmbH & Co. KG, Hamburg	0	100,000	100,000	0
DREAG Objekt Düren, Bahnstrasse GmbH & Co. KG, Hamburg	0	100,000	100,000	0
DREAG Objekt Berlin, Teilestrasse GmbH & Co. KG, Hamburg	0	100,000	100,000	0
DREAG Objekt Engelsdorf, Leipziger Strasse GmbH & Co. KG, Hamburg	0	100,000	100,000	0
Achte TAXXUS Real Estate Aktiengesellschaft, Hamburg	0	977,915	0	977,915
DREAG Objekt Berlin, Hauptstrasse GmbH & Co. KG, Hamburg	0	1,000,000	0	1,000,000
DREAG Objekt Schwedt, Kuhheide GmbH & Co. KG, Hamburg	0	400,000	0	400,000
DREAG Objekt Düsseldorf, Bonner Strasse GmbH & Co. KG, Hamburg	0	1,200,000	0	1,200,000
DREAG Objekt Neu-Isenburg, Dornhofstrasse GmbH & Co. KG, Hamburg	0	2,000,000	400,000	1,600,000
DREAG Objekt Limburgerhof, Burgunderplatz GmbH & Co. KG, Hamburg	0	1,000,000	0	1,000,000
DREAG Objekt Ludwigshafen, Carl-Bosch-Strasse GmbH & Co. KG, Hamburg	0	400,000	0	400,000
Deutsche Shopping Aktiengesellschaft, Hamburg	0	977,915	0	977,915
DREAG Wohnen Aktiengesellschaft, Hamburg	0	977,915	0	977,915
DREAG Objekt Düsseldorf, Wahlerstrasse GmbH & Co. KG, Hamburg	0	3,000,000	0	3,000,000
DREAG Objekt Saarbrücken, Kaiserstrasse GmbH & Co. KG, Hamburg	0	1,300,000	0	1,300,000
DREAG Objekt Saarbrücken, Hafenstrasse GmbH & Co. KG, Hamburg	0	500,000	0	500,000
DREAG Objekte Hamburg, Dreiundvierzigste GmbH & Co. KG, Hamburg	0	100,000	0	100,000
Carried forward	1,400,000	43,653,745	3,480,000	41,573,745

DEVELOPMENT OF ACCUMULATED DEPRECIATION

Status Jan. 1, 1999 DM	Additions DM	Disposals DM	Status Dec. 31, 1999 DM	Net book values Dec. 31, 1999 DM	Net book values Dec. 31, 1998 DM
0	0	0	0	28,140,000	1,400,000
0	0	0	0	0	0
0	0	0	0	0	0
0	0	0	0	0	0
0	0	0	0	0	0
0	0	0	0	0	0
0	0	0	0	0	0
0	0	0	0	0	0
0	0	0	0	977,915	0
0	0	0	0	1,000,000	0
0	0	0	0	400,000	0
0	0	0	0	1,200,000	0
0	0	0	0	1,600,000	0
0	0	0	0	1,000,000	0
0	0	0	0	400,000	0
0	0	0	0	977,915	0
0	0	0	0	977,915	0
0	0	0	0	3,000,000	0
0	0	0	0	1,300,000	0
0	0	0	0	500,000	0
0	0	0	0	100,000	0
0	0	0	0	41,573,745	1,400,000

DEVELOPMENT OF CAPITAL EXPENDITURES

	Status Jan. 1, 1999 DM	Additions DM	Disposals DM	Status Dec. 31,1999 DM
Brought forward	1,400,000	43,653,745	3,480,000	41,573,745
DREAG Objekt Berlin-Teltow, Potsdamer Strasse GmbH & Co. KG, Hamburg	0	600,000	0	600,000
DREAG Objekte Hamburg, Fünfundvierzigste GmbH & Co. KG, Hamburg	0	100,000	0	100,000
DREAG Objekt Böblingen, Otto-Lilienthal-Strasse GmbH & Co. KG, Hamburg	0	1,200,000	0	1,200,000
DREAG Objekte Hamburg, Fünfunddreißigste GmbH & Co. KG, Hamburg	0	5,000,000	0	5,000,000
DREAG Objekt Leipzig, Prager Strasse GmbH & Co. KG, Hamburg	0	200,000	0	200,000
DREAG Objekt Heidelberg, Mannheimer Strasse GmbH & Co. KG, Hamburg	0	200,000	0	200,000
DREAG Objekt Heidelberg, Vangerowstrasse GmbH & Co. KG, Hamburg	0	200,000	0	200,000
DREAG Objekt Wedel, Rathausplatz GmbH & Co. KG, Hamburg	0	1,800,000	0	1,800,000
DREAG Objekte Hamburg, Sechsundvierzigste GmbH & Co. KG, Hamburg	0	100,000	0	100,000
DREAG Objekt München, Oberanger GmbH & Co. KG, Hamburg	0	3,000,000	0	3,000,000
DREAG Objekte Hamburg, Achtundvierzigste GmbH & Co. KG, Hamburg	0	100,000	0	100,000
DREAG Objekte Hamburg, Neunundvierzigste GmbH & Co. KG, Hamburg	0	100,000	0	100,000
DREAG Objekte Hamburg, Fünfzigste GmbH & Co. KG, Hamburg	0	100,000	0	100,000
GET Grundstücksgesellschaft mbH, Hamburg	0	29,338	0	29,338
	1,400,00	**56,383,083**	**3,480,000**	**54,303,083**
IV. Investments				
GbR Freising, Alois-Steinecker-Strasse, Freising	0	5,349,557	0	5,349,557
Sechzehnte Verwaltungsgesellschaft DWI de Waal mbH, Hamburg	25,000	0	25,000	0
16. DWI Grundbesitz GmbH, Hamburg	1,011,000	5,679	10,110	1,006,569
Heide Grund GmbH & Co. KG, Hamburg	0	285,583	0	285,583
	1,036,000	**5,640,819**	**35,110**	**6,641,709**
V. Advance payments on financial investments	**0**	**2,162,633**	**0**	**2,162,633**
	3,138,376	**64,217,855**	**3,515,110**	**63,841,121**

DEVELOPMENT OF ACCUMULATED DEPRECIATION

Status Jan. 1, 1999 DM	Additions DM	Disposals DM	Status Dec. 31, 1999 DM	Net book values Dec. 31, 1999 DM	Net book values Dec. 31, 1998 DM
0	0	0	0	41,573,745	1,400,000
0	0	0	0	600,000	0
0	0	0	0	100,000	0
0	0	0	0	1,200,000	0
0	0	0	0	5,000,000	0
0	0	0	0	200,000	0
0	0	0	0	200,000	0
0	0	0	0	200,000	0
0	0	0	0	1,800,000	0
0	0	0	0	100,000	0
0	0	0	0	3,000,000	0
0	0	0	0	100,000	0
0	0	0	0	100,000	0
0	0	0	0	100,000	0
0	0	0	0	29,338	0
0	**0**	**0**	**0**	**54,303,083**	**1,400,000**
0	0	0	0	5,349,557	0
0	0	0	0	0	25,000
0	0	0	0	1,006,569	1,011,000
0	0	0	0	285,583	0
0	**0**	**0**	**0**	**6,641,709**	**1,036,000**
0	**0**	**0**	**0**	**2,162,633**	**0**
172,255	**17,091**	**0**	**189,346**	**63,651,775**	**2,966,121**

AG NOTES

Since in the 1998 financial year, Deutsche Real Estate Aktiengesellschaft only had a corporate object corresponding to the 1999 business activities for three months, the figures for individual balance sheet items can only be compared with those of the previous year on a limited basis.

I. ACCOUNTING AND VALUATION METHODS APPLIED

Intangible assets and property, plant and equipment are valued at acquisition cost, minus normal depreciation. Depreciation is determined according to the precept of appropriate, fiscally permissible rates. The straight-line depreciation method has been applied.

The financial assets are valued at acquisition cost or at the lower value attributable on the balance sheet date.

The financial assets include the real estate interests of the corporation. Normally, there is a limited partnership subsidiary for each investment property. In accordance with our experience that the decline in the value of real estate depends mainly on how modern it is, its purpose and its furnishings and fittings, and that value decreases with increased life span, depreciation is undertaken according to the progressive “sinking fund” method. This means depreciation rates (and accordingly depreciation charges) increase over the expected useful life of 40 years from 0.8 % per annum progressively to 5.5 %.

Advance payments on financial investments are shown at the DM amount paid.

Accounts receivable and other assets are valued at the nominal value or at the lower attributable value on the balance sheet date.

Reserves and accrued liabilities are created on the basis of sound commercial judgement and cover all risks recognizable on the balance sheet date. Pension reserves are determined according to actuarial principles (discount value method) on the basis of a 6 % rate of interest. Calculations are made according to the mortality tables of November 6, 1998.

Liabilities are valued at the amount of redemption.

II. NOTES TO THE BALANCE SHEET

1. Fixed assets

See pages 38-43.

2. Accounts receivable and other assets

Accounts receivable and other assets all have a remaining term of up to one year, except for a long-term loan in the amount of DM 5,000,000.

3. Deferred charges and prepaid expenses

Costs of maintaining the corporation's Internet site are capitalized under deferred charges and prepaid expenses.

4. Capital subscribed

On the basis of the resolution of the Annual General Meeting of April 13, 1999 the capital subscribed has been increased by 7,873,894.97 euros from 7,873,894.97 euros to 15,747,789.94 euros. It is divided into 15,400,000 individual stock certificates.

The Board of Management is empowered for the period up to April 13, 2004 to increase the capital subscribed by issuing new stocks against cash contributions or against cash and contributions in kind, at one time or repeatedly, but at the most by a notional nominal value of 7,873,894.97 euros in total.

Furthermore, the Board of Management is empowered up to April 13, 2004, with the approval of the Supervisory Board, to issue, at one time or repeatedly, stock options on up to a total of 770,000 new bearer stock shares with a term until June 30, 2009 at the latest. The stock options are to be acquired exclusively by Group beneficiaries. The capital subscribed has thereby been increased by a notional 787,389.50 euros.

5. Capital surplus

The capital surplus at a total of DM 88,789,346.00 includes the premium from the issue of stocks during the financial year by Deutsche Real Estate Aktiengesellschaft, Bremerhaven at DM 74,959,346.00.

6. Earned surplus

As in the previous year, earned surplus are comprised of the legal reserve amounting to DM 1,470,000 and of other earned surplus amounting to DM 9,571,000 (1998: DM 7,600,000). The other earned surplus have been increased by DM 3,116,000 from the balance sheet profit at December 31, 1998. In the 1999 financial year a withdrawal of DM 1,145,000 was made from other earned surplus.

7. Appropriation of the balance sheet profit at December 31, 1998

From the balance sheet profit reported in the previous year, DM 3,115,968 was allocated to other earned surplus, DM 1,848,000 was paid out as dividends and an amount of DM 0.43 was carried over.

8. Pension reserves and reserves for similar obligations

Pension reserves are determined according to actuarial principles on the basis of a 6 % rate of interest used and concern the pension obligation to a former member of the Board of Management.

9. Accrued taxes

Accrued taxes include an accrual of DM 522,000 for 1999 business tax, set up as a precautionary measure according to commercial law. In accordance with fiscal legislation, a further reduction to the income from the respective participation pursuant to § 9 No. 1 Sentence 2 GewStG (German Business Tax Code) will be effected, so that no business tax would be due.

Deferred taxes arising from differences in depreciation or profits from participations between the commercial balance sheet and the tax balance sheet are always taken duly into account. For the expected long-term reversal effects, discounting will be used to take account of the associated uncertainty for the forecasted period. From a material viewpoint, there was no deferred tax to be accounted for in the financial statement during the course of the financial year.

10. Other reserves and accrued liabilities

Other reserves primarily concern the costs of compiling and auditing the financial statement in the amount of DM 209,000 and a management bonus accrual of DM 513,000.

11. Liabilities

	Total DM	up to 1 year DM	over 1 year up to 5 years DM	over 5 years DM
1. Liabilities due to banks	14	14	0	0
2. Accounts payable, trade	43,242	43,242	0	0
3. Accounts due to affiliated companies	31,140,184	31,140,184	0	0
4. Accounts due to other group companies	195,583	195,583	0	0
5. Other liabilities	99,282	99,282	0	0
	31,478,305	**31,478,305**	**0**	**0**

III. NOTES TO THE STATEMENT OF INCOME

1. Other operating income

Other operating income primarily concerns income from the sale of financial assets of DM 3,334,000. In addition, rental income of DM 42,000, payments in kind of DM 37,000, income from the dissolution of accruals of DM 80,000 and other income of DM 20,000 are shown.

2. Other operating expenses

The operating expenses primarily concern office space costs of DM 98,000, final accounting and audit costs of DM 229,000, costs of the capital increase of DM 330,000, expenses for the annual reports of DM 159,000 and Supervisory Board remuneration of DM 74,000.

3. Income from investments

This item shows the profit distributions and appropriated profit shares of the subsidiaries.

Income from investments includes profit distributions from the subsidiary stock corporations of DM 3,803,000, and primarily concern the profit distribution of Deutsche Shopping Aktiengesellschaft, Hamburg, amounting to DM 3,693,000.

The results of the subsidiaries (partnerships) for the 1999 financial year are compiled for the financial statement as follows:

- The share in profits are shown in the commercial balance sheet as income from investments.

- The share in losses arising from the partnerships are not shown in the commercial balance sheet. This concerns the losses of DM 3,011,000 to be allocated to the corporation.

- Since the losses from investments in partnerships are not expected to involve long lasting impairment of value, the investment valuations have not been written down.

- For the income from investments shown in the income statement of DM 5,905,000, a progressive assessment of normal depreciation on the real estate held by the respective companies has been applied. If the straight-line depreciation method had been applied, income from investments would have been DM 2,354,000 lower and thus the pre-tax annual profit also DM 2,354,000 lower.

4. Other interest and similar income

Other interest and similar income includes interest income from affiliated companies of DM 1,805,000. This concerns the HBAG Real Estate Aktiengesellschaft, Hamburg, in the amount of DM 789,000. In addition, under interest and similar income, time deposit interest amounting to DM 805,000 are shown.

5. Interest and similar expenses

This item shows interest paid to affiliated companies amounting to DM 75,000.

6. Taxes on income

Taxes on income include corporate tax and business tax in the amount of DM 983,000 and DM 522,000, respectively, for the financial year and of DM 4,000 and DM 25,000, respectively, for the previous financial year.

7. Other taxes

Other taxes concern real estate tax for the property in Bremerhaven.

IV. OTHER DETAILS

1. Commercial register and articles of association

The Registered Office of the corporation is in Bremerhaven and has been entered in the commercial register at the Bremerhaven local court, Department B, under No. 1035 since December 28, 1965.

The articles of incorporation were drawn up on December 23, 1871 and last amended on April 13, 1999 (amount and allocation of the capital subscribed).

2. Board of Management

On the balance sheet date, the Board of Management comprised:

Dr Rainer Behne
Hamburg
Chairman

Busso von Alvensleben
Hamburg

3. Supervisory Board

On the balance sheet date the Supervisory Board comprised:

Dr Günter Rexrodt
Former Federal Economics Minister
Berlin
Chairman
as of November 26, 1999

Dr Gerhard Niesslein
Chief executive
DeTe Immobilien und Service GmbH
Münster
Deputy chairman
as of April 13, 1999

Karl Ehlerding
Hamburg

Karl-Ernst Schweikert
Mönchengladbach
Chairman
until November 26, 1999

Günter Vollmann
Hamburg
until April 13, 1999

Dr Günter Rexrodt, MdB
Former Federal Economics Minister,
is also a member of the Supervisory Boards of:
- Berliner Effektengesellschaft AG
- Factumedia AG
- EuroRatings AG
- AWD AG
- gecco.net AG (Chairman)

Dr Gerhard Niesslein,
Chief executive
DeTe Immobilien und Service GmbH,
is also a member of the Supervisory Boards of:
- TERCON Immobilien Projektentwicklungs-GmbH (committee member)
- IVG Immobilien GmbH (committee member)
- IVG Service GmbH (committee member)

Mr. Karl Ehlerding is also a member
of the Supervisory Boards of:

- WCM Beteiligungs- und Grundbesitz-Aktiengesellschaft (Deputy chairman)
- NORDAG Immobilien AG (Deputy chairman)
- Gladbacher Aktienbaugesellschaft AG (Deputy chairman)
- Beamten-Baugesellschaft Bremen GmbH (Deputy chairman)
- Bremisch-Hannoversche Eisenbahn Aktiengesellschaft
- (Deputy chairman)
- IVG Holding AG
- RSE Grundbesitz und Beteiligungs-AG
- Getreideheber-Gesellschaft mbH
- Kieler Wohnungsbaugesellschaft mbH
- Kieler Stadtentwicklungs- und Sanierungsgesellschaft
- GLADBAU Baubetreuungs- und Verwaltungsgesellschaft mbH (committee)
- Deutsche Hyp Deutsche Hypothekenbank Frankfurt-Hamburg (committee)
- SSW Fähr- und Spezialschiffbau GmbH (committee)

4. Number of employees

No staff were employed in the financial year.

5. Executive body remuneration

The Supervisory Board received remuneration in the amount of DM 74,000 for the 1999 financial year.

Pension payments amounting to DM 107,000 were made to a former Board of Management member.

In the 1999 financial year, the Board of Management received remuneration in the amount of DM 2,077,000. In addition, the Board was granted the right to acquire 154,000 bearer stock certificates in the corporation at an exercise price of 6.00 euros per stock certificate. This option right can be exercised initially on 50 % of the stocks to be subscribed three years after issue of the option rights, the remainder, four years after issue. The option rights can be exercised up to June 30, 2009. Their exercise, moreover, assumes that the stock exchange price will exceed the exercise price of 6.00 euros per stock by a least 10 % from issue of the option rights.

6. Relations with affiliated companies

In the balance sheet item “Accounts due from affiliated companies” settlement accounts are shown. Settlement accounts carry interest at an agreed rate.

The balance sheet item “Accounts due to affiliated companies” includes settlement accounts. Settlement accounts carry interest at an agreed rate. Accounts due to affiliated companies include liabilities to HBAG Real Estate Aktiengesellschaft, Hamburg, in the amount of DM 19,930,000.

7. Ownership details

The corporation is a subsidiary of HBAG Real Estate Aktiengesellschaft, Hamburg, which has a holding of 50.10 % of the issued stock certificates.

HBAG Real Estate Aktiengesellschaft compiles a Group financial statement which is lodged with the local court in Hamburg. Deutsche Real Estate Aktiengesellschaft and its subsidiaries are included in the Group financial statement. On the balance sheet date, 29.92 % of issued stock certificates were held by WCM Beteiligungs- und Grundbesitz-Aktiengesellschaft, Mönchengladbach.

8. Commitments

On December 21, 1999, the corporation, together with one of its subsidiaries, Deutsche Shopping Aktiengesellschaft, Hamburg, submitted a pledge to the Bayerische Landesbank, Munich. This pledge concerns the loans granted to the wholly-owned subsidiaries of Deutsche Shopping Aktiengesellschaft, Hamburg, for the acquisition of the “Stinnes” DIY building centers, at a total volume of DM 110,000.

The corporation, together with Deutsche Shopping Aktiengesellschaft, as joint and several debtor of the Bayerische Landesbank, has given the following undertakings for the term of the loans granted by Bayerische Landesbank to the borrowers

- to provide the borrowers with sufficient funds to enable them at all times to meet their obligations arising from the loan agreement, and

- to make up any annual losses incurred by the borrowers and any losses arising from a possible winding-up of the borrower, including contingent losses leading to bankruptcy.

The corporation has submitted letters of comfort for 18 subsidiaries, taking the legal form of "GmbH & Co. KG", in favor of the banks financing the respective properties to the nominal amount of the loans granted of DM 276,018,000.

9. Other financial obligations

Other financial obligations arise from the conclusion of an interest rate swap transaction on July 1, 1999. The corporation is accordingly required to pay interest at 4.93 % p.a. from December 1, 1999 to December 1, 2004 on a fixed amount which will successively decrease from DM 120,000,000 on December 1, 1999 to DM 103,720,000 on December 1, 2004. In return, the corporation will receive an interest payment in the amount of the respective one-month EURIBOR plus 0.5 % on the respective fixed amount. The interest rate swap is meant as a hedge to protect the loan and credit agreements concluded at subsidiary level for Deutsche Shopping Aktiengesellschaft.

The corporation has an obligation to HBAG Real Estate Aktiengesellschaft to pay DM 4,000,000 to WCM Beteiligungs- und Grundbesitz-Aktiengesellschaft, Mönchengladbach (WCM). In return, WCM will waive its subscription rights in connection with the corporation's increase in real capital through contribution of the participation in DREAG Objekte Hamburg Vierundzwanzigste GmbH & Co. KG, Hamburg. DM 2,000,000 had been paid before December 31, 1999; a further DM 2,000,000 is to be paid in 2000 after approval of the capital increase and before the commencement of rights trading.

Hamburg, February 10, 2000

The Board of Management

Dr Rainer Behne

Busso von Alvensleben

AUDITOR'S REPORT

We have audited the annual financial statements, together with the bookkeeping system, and the management report of the Company and the Group Deutsche Real Estate Aktiengesellschaft for the business year from January 1, 1999 to December 31, 1999. The maintenance of the books and records and the preparation of the annual financial statements and management report in accordance with German commercial law are the responsibility of the management of the Company and the Group. Our responsibility is to express an opinion on the annual financial statements, together with the bookkeeping system, and the management report based on our audit.

We conducted our audit of the annual financial statements in accordance with § 317 HGB ["Handelsgesetzbuch": "German Commercial Code"] and the generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer [in Deutschland] (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 annual financial statements in accordance with [German] principles of proper accounting and in the management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Company and the Group and evaluations of possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the internal control system and the evidence supporting the disclosures in the books and records, the annual financial statements and the management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the annual financial statements and management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion, the annual financial statements give a true and fair view of the net assets, financial position and results of operations of the Company in accordance with [German] principles of proper accounting. On the whole the management report provides a suitable understanding of the position of the Company and the Group and suitably presents the risks of future development.

ARTHUR ANDERSEN
Wirtschaftsprüfungsgesellschaft
Steuerberatungsgesellschaft mbH

Nendza
Auditor

Reese
Auditor

Hamburg, February 24, 2000

INVESTMENT HOLDINGS

Company	Head office	Share of capital %	Capital subscribed DM 000	Shareholders' equity DM 000	Result DM 000
1. Direct and indirect subsidiaries of Deutsche Real Estate Aktiengesellschaft					
Verwaltungsgesellschaft Deutsche Real Estate mbH	Hamburg	100	500	573	73
DREAG Objekt Berlin, Friedrichstrasse GmbH & Co. KG	Hamburg	100	5,000	4,281	(717)
DREAG Objekt Berlin, Grolmanstrasse GmbH & Co. KG	Hamburg	100	2,000	1,488	(511)
DREAG Objekt Duisburg, Averdunkplatz GmbH & Co. KG	Hamburg	100	300	2,978 [2]	(21)
BAKOLA Miteigentumsfonds I Objekt Duisburg-Averdunk	Duisburg	70.07	–	5,778 [1]	494[1]
DREAG Objekt Hamburg, Friedrich-Ebert-Damm GmbH & Co. KG	Hamburg	100	9,000	9,222	224
DREAG Objekt Hamburg, Osterfeldstrasse GmbH & Co. KG	Hamburg	100	2,000	1,688 [2]	(310)
GET Grundstücksgesellschaft mbH	Hamburg	60	49	46	(3)
DREAG Objekt Hamburg, Mendelssohnstrasse GmbH & Co. KG	Hamburg	100	3,000	2,987 [3]	(13)
DREAG Objekt Stuttgart, Rosensteinstrasse GmbH & Co. KG	Hamburg	100	3,000	2,977 [2]	(23)
DREAG Objekt Berlin, Hauptstrasse GmbH & Co. KG	Hamburg	100	1,000	898 [2]	(102)
DREAG Objekt Schwedt, Kuhheide GmbH & Co. KG	Hamburg	100	400	387 [2]	(13)
DREAG Objekt Düsseldorf, Bonner Strasse GmbH & Co. KG	Hamburg	100	1,200	1,234 [2]	34
DREAG Objekt Neu-Isenburg, Dornhofstrasse GmbH & Co. KG	Hamburg	80	2,000	1,811 [2]	(189)
DREAG Objekt Limburgerhof, Burgunderplatz GmbH & Co. KG	Hamburg	100	1,000	985 [2]	(15)
DREAG Objekt Ludwigshafen, Carl-Bosch-Strasse GmbH & Co. KG	Hamburg	100	400	389 [2]	(11)
DREAG Objekt Böblingen, Otto-Lilienthal-Strasse GmbH & Co. KG	Hamburg	100	1,200	1,318 [2]	118
DREAG Objekte Hamburg, Fünfunddreissigste GmbH & Co. KG	Hamburg	100	5,000	6,417 [2]	1,417

[1] Provisional values at September 15, 1999
[2] Includes contributions made for effecting the resolved increase in capital
[3] Includes the amount of the resolved increase in capital

Company	Head office	Share of capital %	Capital subscribed DM 000	Shareholders' equity DM 000	Result DM 000
DREAG Objekt Leipzig, Prager Strasse GmbH & Co. KG	Hamburg	100	200	130 [2]	(70)
DREAG Objekt Heidelberg, Mannheimer Strasse GmbH & Co. KG	Hamburg	100	200	183 [2]	(17)
DREAG Objekt Heidelberg, Vangerowstrasse GmbH & Co. KG	Hamburg	100	200	194 [2]	(6)
DREAG Objekt Wedel, Rathausplatz GmbH & Co. KG	Hamburg	100	1,800	1,728 [2]	(72)
DREAG Objekt Düsseldorf, Wahlerstrasse GmbH & Co. KG	Hamburg	100	3,000	3,304 [2]	304
DREAG Objekt Saarbrücken, Kaiserstrasse GmbH & Co. KG	Hamburg	100	1,300	1,239 [2]	(61)
DREAG Objekt Saarbrücken, Hafenstrasse GmbH & Co. KG	Hamburg	100	500	495	(5)
DREAG Objekte Hamburg, Dreiundvierzigste GmbH & Co. KG	Hamburg	100	100	93	(7)
DREAG Objekt Berlin-Teltow, Potsdamer Strasse GmbH & Co. KG	Hamburg	100	600	594 [3]	(6)
DREAG Objekte Hamburg, Fünfundvierzigste GmbH & Co. KG	Hamburg	100	100	93	(7)
DREAG Objekt Norderstedt, Kohfurth GmbH & Co. KG	Hamburg	90	2,800	2,807	9
DREAG Objekte Hamburg, Sechsundvierzigste GmbH & Co. KG	Hamburg	100	100	96	(4)
DREAG Objekt München, Oberanger GmbH & Co. KG	Munich	100	3,000	2,994 [3]	(6)
DREAG Objekte Hamburg, Achtundvierzigste GmbH & Co. KG	Hamburg	100	100	96	(4)
DREAG Objekte Hamburg, Neunundvierzigste GmbH & Co. KG	Hamburg	100	100	96	(4)
DREAG Objekte Hamburg, Fünfzigste GmbH & Co. KG	Hamburg	100	100	96	(4)
Achte TAXXUS Real Estate Aktiengesellschaft	Hamburg	100	978	983	6
Heide Grund GmbH & Co. KG	Hamburg	10	1,955	0	0

[1] Provisional values at September 15, 1999
[2] Includes contributions made for effecting the resolved increase in capital
[3] Includes the amount of the resolved increase in capital

Company	Head office	Share of capital %	Capital subscribed DM 000	Shareholders' equity DM 000	Result DM 000
2. Direct subsidiaries via DREAG Wohnen Aktiengesellschaft					
DREAG Wohnen Aktiengesellschaft	Hamburg	100	978	953	(24)
Verwaltungsgesellschaft DREAG Wohnen mbH	Hamburg	100	49	53	4
DREAG Objekte Nordenham GmbH & Co. KG	Hamburg	100	100	987 [2]	(312)
3. Direct subsidiaries via Deutsche Shopping Aktiengesellschaft					
Deutsche Shopping Aktiengesellschaft	Hamburg	100	978	3,668	2,690
Verwaltungsgesellschaft Deutsche Shopping mbH	Hamburg	100	49	76	27
DREAG Objekt Giessen-Linden, Robert-Bosch-Strasse GmbH & Co. KG	Hamburg	100	100	489 [2]	(11)
DREAG Objekt Bremerhaven, An der Mühle GmbH & Co. KG	Hamburg	100	400	366	(32)
DREAG Objekt Lüneburg GmbH & Co. KG	Hamburg	100	100	83	(15)
DREAG Objekt Berlin, Wittenauer Strasse GmbH & Co. KG	Hamburg	100	100	1,304 [2]	304
DREAG Objekt Berlin, Wiesenweg GmbH & Co. KG	Hamburg	100	100	763 [2]	263
DREAG Objekt Köln, Bernkasteler Strasse GmbH & Co. KG	Hamburg	100	100	813 [2]	213
DREAG Objekt Düsseldorf, Ulmenstrasse GmbH & Co. KG	Hamburg	100	100	694 [2]	194
DREAG Objekt Bottrop, Friedrich-Ebert-Strasse GmbH & Co. KG	Hamburg	100	100	783 [2]	183
DREAG Objekt Bremen, Vegesacker Heerstrasse GmbH & Co. KG	Hamburg	100	100	640 [2]	140
DREAG Objekt Düren, Bahnstrasse GmbH & Co. KG	Hamburg	100	100	553 [2]	153
DREAG Objekt Berlin, Teilestrasse GmbH & Co. KG	Hamburg	100	100	2,783 [2]	883
DREAG Objekt Engelsdorf, Leipziger Strasse GmbH & Co. KG	Hamburg	100	100	1,585 [2]	485
DREAG Objekt Dresden, Kesselsdorfer Strasse GmbH & Co. KG	Hamburg	100	100	1,394 [2]	394

[1] Provisional values at September 15, 1999
[2] Includes contributions made for effecting the resolved increase in capital
[3] Includes the amount of the resolved increase in capital

Company	Head office	Share of capital %	Capital subscribed DM 000	Shareholders' equity DM 000	Result DM 000
DREAG Objekt Berlin, Idunastrasse GmbH & Co. KG	Hamburg	100	100	1,436 [2]	436
DREAG Objekt Halle, Brauhausstrasse GmbH & Co. KG	Hamburg	100	100	1,492 [2]	292
DREAG Objekt Augsburg, Bürgermeister-Fischer-Strasse GmbH & Co. KG	Hamburg	100	100	670 [2]	(29)
GbR Augsburg, Bürgermeister-Fischer-Strasse	Hamburg	90	-	(6,468)	(82)
4. Associated companies					
GfG-Beteiligungsgesellschaft mbH	Heidelberg	40	50	14,550	4,018
Sechzehnte DWI Grundbesitz GmbH	Hamburg	49	300 [4]	(797) [4]	(234)[4]
GbR Freising, Alois-Steinecker-Strasse	Hamburg	33.33	-	(6,396)	(642)
GbR Heidelberg, Mannheimer Strasse	Heidelberg	43.75	-	(2,008)	(245)

[1] Provisional values at September 15, 1999
[2] Includes contributions made for effecting the resolved increase in capital
[3] Includes the amount of the resolved increase in capital
[4] as of December 31, 1998

BALANCE SHEET

consolidated as of December 31, 1999*

ASSETS

	Notes	1999 DM	1998 DM
A. Fixed assets			
I. Intangible assets			
1. Franchises, trademarks, patents, licences, and similar rights and licences to such rights		28,710	0
2. Goodwill		15,182	0
		43,892	0
II. Property, plant and equipment			
1. Land, leasehold rights and buildings, including buildings on non-owned land		514,052,975	73,478,318
2. Other equipment, operational and office equipment		50,656	0
3. Advance payments and construction in progress		8,207,542	4,482,966
		522,311,173	77,961,284
III. Financial assets			
1. Shares in affiliated companies		9,534,533	0
2. Shares in associated companies		5,820,003	0
3. Investments		285,583	1,036,000
4. Advance payments on financial investments		2,162,633	0
		17,802,752	1,036,000
		540,157,817	**78,997,284**
B. Current assets			
I. Accounts receivable and other assets	1		
1. Accounts receivable, trade		1,049,118	0
2. Accounts due from affiliated companies		605,132	0
3. Accounts due from associated companies		1,343,204	0
4. Accounts due from other group companies		0	960,364
5. Other assets		17,793,703	10,399,892
		20,791,157	11,360,256
II. Cash in banks		12,824,083	37,813,449
		33,615,240	**49,173,705**
C. Deferred charges and prepaid expenses		**18,688**	**0**
		573,791,745	**128,170,989**

* No comparable figures as this is a first-time consolidation

LIABILITIES AND SHAREHOLDERS' EQUITY

	Notes	1999 DM	1998 DM
A. Shareholders' equity			
I. Capital subscribed	2	30,800,000	15,400,000
II. Capital surplus	3	88,789,346	13,830,000
III. Earned surplus	4		
1. Legal reserves		1,568,067	1,470,000
2. Other earned surplus		9,570,671	7,600,000
IV. Group profit		1,821,039	4,963,968
V. Share of other stockholders in equity		15,733	0
		132,564,856	**43,263,968**
B. Reserves and accrued liabilities	5		
I. Pension reserves and reserves for similar obligations		1,063,345	1,100,016
II. Accrued taxes		2,419,234	331,000
III. Other reserves and accrued liabilities	6	2,339,412	363,900
		5,821,991	**1,794,916**
C. Liabilities	7		
I. Liabilities due to banks		280,159,909	0
II. Accounts payable, trade		4,281,542	47,089
III. Accounts due to affiliated companies		20,776,020	917,870
IV. Accounts due to associated companies		750,804	0
V. Accounts due to other group companies		195,583	0
VI. Other liabilities		129,134,005	82,147,146
		435,297,863	**83,112,105**
D. Deferred items		**107,035**	**0**
		573,791,745	**128,170,989**

STATEMENT OF INCOME

consolidated from January 1 to December 31, 1999

	Notes	1999 DM	1998 DM
1. Sales	1	18,899,857	0
2. Other operating income	2	1,363,116	5,786,728
3. Personnel expenses			
a) Wages and salaries		2,087,152	247,464
b) Social security and pension expenses		122,431	0
4. Depreciation, amortization and write-offs on intangible assets, and plant and equipment		1,851,695	16,901
5. Other operating expenses	3	9,119,887	2,186,687
6. Income from investments	4	168,000	0
7. Income from associated companies	5	1,929,257	0
8. Other interest and similar income		1,959,103	2,841,494
9. Interest and similar expenses		8,064,446	297,464
10. Results of ordinary operations		3,073,722	5,879,706
11. Taxes on income		1,978,189	914,344
12. Other taxes		368,099	1,795
13. Group profit for the year		727,434	4,963,567
14. Retained profits brought forward		4,963,968	401
15. Transfer to legal reserves		98,066	0
16. Transfer to earned surplus		3,115,968	0
17. Dividend payment		1,848,000	0
18. Share in loss in outside stockholders		46,374	0
19. Withdrawals from earned surplus		1,145,297	0
20. Group profit		1,821,039	4,963,968

FIXED ASSETS

DEVELOPMENT OF CAPITAL EXPENDITURES

	Status Jan. 1, 1999 DM	Additions DM	Additions from first consolidation DM	Reclassi-fication DM	Disposals DM
I. Intangible assets					
1. Franchises, trademarks, patents, licences, and similar rights and licences to such rights	0	31,320	0	0	0
2. Goodwill	0	0	0	16,267	0
	0	**31,320**	**0**	**16,267**	**0**
II. Property, plant and equipment					
1. Land, leasehold rights and buildings, including buildings on non-owned land	73,650,573	452,169,291	12,366,087	5,473,267	21,617,250
2. Other equipment, operational and office equipment	0	54,418	0	0	1,550
3. Advance payments and construction in progress	4,482,966	8,207,542	0	(4,482,966)	0
	78,133,539	**460,431,251**	**12,366,087**	**990,301**	**21,618,800**
III. Financial assets					
1. Shares in affiliated companies	0	9,534,533	0	0	0
2. Shares in associated companies	0	5,825,681	0	(5,678)	0
3. Investments	1,036,000	285,583	0	(1,000,890)	35,110
4. Advance payments on financial investments	0	2,162,633	0	0	0
	1,036,000	**17,808,430**	**0**	**(1,006,568)**	**35,110**
	79,169,539	**478,271,001**	**12,366,087**	**0**	**21,653,910**

DEVELOPMENT OF ACCUMULATED DEPRECIATION

Status Dec. 31, 1999 DM	Status Jan. 1, 1999 DM	Additions DM	Additions from first consolidation DM	Disposals DM	Status Dec. 31, 1999 DM	Net book value Dec. 31, 1999 DM	Net book value Dec. 31, 1998 DM
31,320	0	2,610	0	0	2,610	28,710	0
16,267	0	1,085	0	0	1,085	15,182	0
47,587	**0**	**3,695**	**0**	**0**	**3,695**	**43,892**	**0**
522,041,968	172,255	1,844,238	5,972,500	0	7,988,993	514,052,975	73,478,318
52,868	0	3,762	0	1,550	2,212	50,656	0
8,207,542	0	0	0	0	0	8,207,542	4,482,966
530,302,378	**172,255**	**1,848,000**	**5,972,500**	**1,550**	**7,991,205**	**522,311,173**	**77,961,284**
9,534,533	0	0	0	0	0	9,534,533	0
5,820,003	0	0	0	0	0	5,820,003	0
285,583	0	0	0	0	0	285,583	1,036,000
2,162,633	0	0	0	0	0	2,162,633	0
17,802,752	**0**	**0**	**0**	**0**	**0**	**17,802,752**	**1,036,000**
548,152,717	**172,255**	**1,851,695**	**5,972,500**	**1,550**	**7,994,900**	**540,157,817**	**78,997,284**

CONSOLIDATED NOTES

I. GENERAL INFORMATION

The Group financial statement for the 1999 financial year has been prepared according to the requirements of the German Commercial Code and the German Stock Corporation Law. The Group was incorporated in the 1998 financial year, so that the first Group financial statement was compiled to December 31, 1998.

Since in the 1998 financial year the Group owned, for three months only, one of the properties which has a bearing on the 1999 business activities, the figures for individual balance sheet items can only be compared with those of the previous year on a limited basis.

II. CONSOLIDATED COMPANIES

In principle, the Group financial statement comprises the individual financial statements of Deutsche Real Estate AG, based in Bremerhaven (previously Geestemünder Verwaltungs- und Grundstücks Aktiengesellschaft), and its direct and indirect subsidiaries in which a share of over 50 % is held by the Group. Only the share in BAKOLA Miteigentumsfonds I Objekt Duisburg-Averdunk, in which the Group holds a 70.07 % share, was not consolidated.

For purposes of consolidation, this company is insignificant when it comes to ascertaining a true and fair view of the situation. Regarding subsidiaries, within the meaning of § 290 HGB (German Commercial Code), which are also affiliated companies within the meaning of § 271. Para. 2 HGB, we also refer to the schedule of Investment Holdings.

Furthermore, participations are held in associated companies within the meaning of § 311 HGB.

III. CONSOLIDATION METHODS

The financial statements of all integrated companies, compiled at the same balance sheet date, are taken up in the Group financial statement. Consolidation of capital is effected according to the book-value method by offsetting the acquisition costs against the Group share in the equity of the consolidated subsidiaries at the time of first integration into the Group financial statement. The capitalized differences arising from the consolidation of capital have been allocated to assets, where current value exceeds book value.

The remaining differences are shown as goodwill.

For shares not belonging to the parent companies in those companies integrated during consolidation, a balancing item has been created for shares belonging to other stockholders.

As the Group financial statement is to December 31, 1998, for purposes of simplicity, first consolidation was effected to December 31, 1998. Thus the results of the subsidiaries for the 1998 financial year did not form a part of the Group results, but were offset in the course of capital consolidation.

Participations in associated companies within the meaning of § 311 HGB are valued according to the equity method. As part of the first consolidation, the purchase price exceeding the proportionate share of net equity of associated companies is shown under land, leasehold rights and buildings, including buildings on non-owned land.

In the course of consolidating liabilities, intercompany receivables and payables were offset against each other.

Intercompany income was set off against corresponding expenses.

Intercompany profits were eliminated for profits on the disposal of participations within the Group.

Tax adjustments according to § 306 HGB were not made for the 1999 financial year.

IV. ACCOUNTING AND VALUATION POLICIES

The accounting and valuation methods within the Group are always exercised uniformly.

The GbR Augsburg, Bürgermeister-Fischer-Strasse, building lease and building item is shown after taking account of the fiscally permissible depreciation rates. A building in Bremerhaven was also written down using straight-line depreciation. Values for the real estate and buildings of the associated companies affected by the equity consolidation are also shown on the basis of fiscally permissible depreciation rates.

Intangible assets are shown at acquisition cost, minus normal depreciation. The difference arising from the consolidation of capital, shown as goodwill, will be written off over 15 years.

Tangible assets are shown at acquisition cost. With the exception of the above-mentioned instances, buildings are written of progressively over a useful life of 40 years. In 1999 the depreciation rate was 0.8278 %. If straight-line depreciation had been applied as an alternative, the depreciation figure would have been DM 3,969,000 higher and the Group profit correspondingly lower. The remaining tangible assets are written off using straight-line depreciation over their normal useful life.

Financial assets are valued at acquisition cost.

Accounts receivable and other assets are valued at their nominal value or at the lower attributable value on the balance sheet date.

Reserves and accrued liabilities are created on the basis of sound commercial judgement and cover all risks recognizable on the balance sheet date.

Liabilities are valued at the amount of redemption.

V. NOTES TO THE BALANCE SHEET

1. Accounts receivable and other assets

Accounts receivable and other assets all have a remaining term of less than one year except for a long-term loan of DM 5,000,000.

2. Capital subscribed

On the basis of the resolution of the Annual General Meeting of April 13, 1999, the capital subscribed has been increased by 7,873,894.97 euros from 7,873,894.97 euros to 15,747,789.94 euros. It is divided into 15,400,000 individual stock certificates.

The Board of Management is empowered for the period up to April 13, 2004 to increase the capital subscribed by issuing new stocks against cash contributions or against cash and contributions in kind, at one time or repeatedly, however, at the most by a notional nominal value of 7,873,894.97 euros in total.

Furthermore, the Board of Management is empowered up to April 13, 2004, with the approval of the Supervisory Board, to issue, at one time or repeatedly, stock options on up to a total of 770,000 new bearer stocks with a term up to June 30, 2009 at the latest. The stock options are to be acquired exclusively by Group beneficiaries. The capital subscribed has thereby been increased by a notional 787,389.50 euros.

3. Capital surplus

The capital surplus at a total of DM 88,789,346.00 includes the premium from the issue of stocks during the financial year by Deutsche Real Estate Aktiengesellschaft, Bremerhaven, at DM 74,959,346.00.

4. Earned surplus

The earned surplus are comprised of the parent company surplus amounting to DM 11,041,000 and the surplus created by the subsidiaries during the financial year, amounting to DM 98,000.

5. Pension reserves and reserves for similar obligations

Pension reserves are determined according to actuarial principles on the basis of a 6 % rate of interest used and on the basis of the mortality tables of November 1998. The accrual concerns the pension obligation to a former member of the Board of Management.

6. Other reserves and accrued liabilities

Other reserves and accrued liabilities primarily comprise management bonus accruals (DM 513,000), legal and consulting costs (DM 508,000) and interest (DM 490,000).

7. Liabilities

	Total DM 000	up to 1 year DM 000	over 1 year up to 5 years DM 000	over 5 years DM 000
1. Liabilities due to banks	280,160	36,028	21,037	223,095
2. Accounts payable, trade	4,281	4,281	0	0
3. Accounts due to affiliated companies	20,776	20,776	0	0
4. Accounts due to associated companies	751	751	0	0
5. Accounts due to other group companies	196	196	0	0
6. Other liabilities	129,134	129,134	0	0
	435,298	**191,166**	**21,037**	**223,095**

Liabilities due to banks are secured by land charges on 34 properties in the amount of DM 481,368,000.

Other liabilities are largely comprised of purchase commitments, including interest, for the Deutsche Shopping division at DM 74,563,000, and purchase commitments and not fully clarified assumption of debts with banks in the other real estate divisions at DM 48,313,000.

VI. NOTES TO THE STATEMENT OF INCOME

1. Sales

Sales to a total of DM 18,900,000 are accounted for primarily by rental income.

2. Other operating income

Other operating income at DM 1,142,000 consists of the take up of a bank guarantee put up by the general tenant.

3. Other operating expenses

Other operating expenses primarily arise from property costs (DM 2,087,000), value adjustments to receivables (DM 1,156,000), payment for a general tenancy agreement (DM 1,000,000) and costs for asset management charged by affiliated companies (DM 773,000).

4. Income from investments

This income comprises the 1999 profit share arising from BAKOLA Miteigentumsfonds I Objekt Duisburg-Averdunk.

5. Income from associated companies

The income arises from the concurrent profit recorded on the 1999 distribution by GfG-Beteiligungsgesellschaft mbH, Heidelberg.

VII. SEGMENT REPORT

The Group can be divided into three segments corresponding to its legal structure:

- Commercial real estate with mixed utilization (retail and commercial office space)
- Shopping
- Residential

	Real estate with mixed utilization DM 000	Shopping DM 000	Residential DM 000	Consoli-dation entries DM 000	Total DM 000
Fixed assets	299,800	217,751	24,563	(1,956)	540,158
of which shares in affiliated companies (DM 9,535,000)					
of which shares in associated companies (DM 5,820,000)					
of which remaining financial assets (DM 2,448,000)					
Remaining current assets	89,710	8,395	77	(64,548)	33,634
	389,510	**226,146**	**24,640**	**(66,504)**	**573,792**
Shareholders' equity	131,052	2,828	641	(1,956)	132,565
Accruals	3,812	1,971	39	0	5,822
Liabilities	254,646	221,347	23,960	(64,548)	435,405
	389,510	**226,146**	**24,640**	**(66,504)**	**573,792**

	Real estate with mixed utilization DM 000	Shopping DM 000	Residential DM 000	Consoli-dation entries DM 000	Total DM 000
Sales	10,534	6,946	1,420	0	18,900
Sundry income	1,371	0	9	(17)	1,363
Personnel expenses	2,210	0	0	0	2,210
Depreciation	918	844	90	0	1,852
Other expenses	7,370	797	970	(17)	9,120
Income from participations	3,861	0	0	(3,693)	168
Income from associated companies	1,929	0	0	0	1,929
Interest income	2,181	53	13	(288)	1,959
Interest expenses	6,111	1,553	688	(288)	8,064
Taxes	2,105	1,318	31	(1,108)	2,346
Net income/net loss for the year	**1,162**	**2,487**	**(337)**	**(2,585)**	**727**

VIII. CASH FLOW STATEMENT

		1999 DM 000
	Net loss for the year	727
+	Depreciation	1,852
./.	Increase in long-term accruals	37
	Cash flow according to DVFA*/SG	**2,542**
+	Increase in short and medium-term accruals	4,064
./.	Increase in trade receivables and other assets	9,450
+	Increase in trade payables and other liabilities	72,133
=	**Cash inflow from current business activities**	**66,747**
+	Proceeds from disposal of fixed assets	21,652
./.	Payments for fixed asset investments	484,665
=	**Cash outflow from investments**	**(463,013)**
+	Proceeds from capital increases and stockholder contributions	90,359
./.	Payments to stockholders (dividends, capital repayments, other distributions)	1,848
+	Proceeds from taking up loans	280,160
+	Shares of third parties	64
=	**Cash inflow from financing**	**368,735**
	Changes in available funds affecting payment	(24,989)
+	Available funds at the beginning of the period	37,813
=	Available funds at the end of the period	12,824

* German Association for Financial Analysis and Investment Counseling

IX. COMMITMENTS AND OTHER FINANCIAL OBLIGATIONS

At the balance sheet date there were no commitments within the meaning of § 298 and § 251 HGB.

Other financial obligations arise from the conclusion of an interest rate swap transaction on July 1, 1999. The corporation is accordingly required to pay interest at 4.93 % p.a. from December 1, 1999 to December 1, 2004 on a fixed amount which will successively decrease from DM 120,000,000 on December 1, 1999 to DM 103,720,000 on December 1, 2004. In return, the corporation will receive an interest payment in the amount of the respective one-month EURIBOR plus 0.5 % on the respective fixed amount. The interest rate swap is meant as a hedge to protect the loan and credit agreements concluded at subsidiary level for Deutsche Shopping Aktiengesellschaft.

The corporation has an obligation to HBAG Real Estate Aktiengesellschaft to pay DM 4,000,000 to WCM Beteiligungs- und Grundbesitz-Aktiengesellschaft, Mönchengladbach (WCM). In return, WCM will waive its subscription rights in connection with the corporation's increase in real capital through contribution of the participation in the DREAG Objekte Hamburg Vierundzwanzigste GmbH & Co. KG, Hamburg. DM 2,000,000 had been paid before December 31, 1999; a further DM 2,000,000 is to be paid in 2000 after approval of the capital increase and before the commencement of rights trading.

X. OTHER INFORMATION

1. Participations

HBAG Real Estate Aktiengesellschaft, Hamburg, has a majority holding in Deutsche Real Estate Aktiengesellschaft, Bremerhaven. HBAG Real Estate Aktiengesellschaft, Hamburg, compiles a Group financial statement in which the financial statement for Deutsche Real Estate Aktiengesellschaft, Bremerhaven, is integrated. The Group financial statement is lodged with the local court in Hamburg.

29.92 % of issued stock certificates were held by WCM Beteiligungs- und Grundbesitz-Aktiengesellschaft, Mönchengladbach, on the balance sheet date.

On the balance sheet date, there were liabilities amounting to DM 20,105,000 and receivables amounting to DM 471,000 vis-à-vis HBAG Real Estate Aktiengesellschaft.

2. Board of Management

Dr Rainer Behne
Hamburg
Chairman

Busso von Alvensleben
Hamburg

3. Supervisory Board

Dr Günter Rexrodt
Berlin
Chairman
as of November 26, 1999

Dr Gerhard Niesslein
Münster
Deputy chairman
as of April 13, 1999

Karl Ehlerding
Hamburg

Karl-Ernst Schweikert
Mönchengladbach
Chairman
until November 26, 1999

Günter Vollmann
Hamburg
until April 13, 1999

Dr Günter Rexrodt, MdB
Former Federal Economics Minister,
is also a member of the Supervisory Boards of:
- Berliner Effektengesellschaft AG
- Factumedia AG
- EuroRatings AG
- AWD AG
- gecco.net AG (Chairman)

Dr Gerhard Niesslein,
Chief executive
DeTe Immobilien und Service GmbH,
is also a member of the Supervisory Boards of:
- TERCON Immobilien Projektentwicklungs-GmbH (committee member)
- IVG Immobilien GmbH (committee member)
- IVG Service GmbH (committee member)

Mr. Karl Ehlerding is also a member
of the Supervisory Boards of:

- WCM Beteiligungs- und Grundbesitz-Aktiengesellschaft (Deputy chairman)
- NORDAG Immobilien AG (Deputy chairman)
- Gladbacher Aktienbaugesellschaft AG (Deputy chairman)
- Beamten-Baugesellschaft Bremen GmbH (Deputy chairman)
- Bremisch-Hannoversche Eisenbahn Aktiengesellschaft
- (Deputy chairman)
- IVG Holding AG
- RSE Grundbesitz und Beteiligungs-AG
- Getreideheber-Gesellschaft mbH
- Kieler Wohnungsbaugesellschaft mbH
- Kieler Stadtentwicklungs- und Sanierungsgesellschaft
- GLADBAU Baubetreuungs- und Verwaltungsgesellschaft mbH (committee)
- Deutsche Hyp Deutsche Hypothekenbank Frankfurt-Hamburg (committee)
- SSW Fähr- und Spezialschiffbau GmbH (committee)

4. Number of employees

No staff were employed in the financial year. The personnel costs reported primarily concern remuneration for the Board of Management. The parent company and its subsidiaries have concluded service agreements covering asset management, property management and other services with other companies which are in turn subsidiaries of HBAG Real Estate Aktiengesellschaft.

5. Executive body remuneration

In the 1999 financial year, remuneration for the Board of Management amounted to DM 2,077,000. In addition, the Board was granted the right to acquire 154,000 bearer stock certificates in the corporation at an exercise price of 6.00 euros per stock certificate. The option right can be exercised initially on 50 % of the stocks to be subscribed three years after issue of the option rights, the remainder, four years after issue. The option rights can be exercised up to June 30, 2009. Their exercise moreover assumes that the market price will exceed the exercise price of 6.00 euros per stock by a least 10 % from issue of the option rights.

Pension payments amounting to DM 107,000 were made to a former Board of Management member.

Remuneration for the Supervisory Board amounted to DM 74,000.

Hamburg, February 18, 2000

The Board of Management

Dr Rainer Behne

Busso von Alvensleben

AUDITOR'S REPORT

We have audited the consolidated financial statements and the management report of the Company and the Group prepared by the Company Deutsche Real Estate Aktiengesellschaft for the business year from January 1, 1999 to December 31, 1999. The preparation of the consolidated financial statements and group management report in accordance with German commercial law (and supplementary provisions in the articles of incorporation are the responsibility of the Company's management. Our responsibility is to express an opinion on the consolidated financial statements and the management report of the Company and the Group based on our audit.

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

Our audit has not led to any reservations.

In our opinion, the consolidated financial statements give a true and fair view of the net assets, financial position and results of operations of the Group in accordance with [German] principles of proper accounting. On the whole the management report of the Company and the Group provides a suitable understanding of the position of the Company and the Group and suitably presents the risks of future development.

ARTHUR ANDERSEN
Wirtschaftsprüfungsgesellschaft
Steuerberatungsgesellschaft mbH

Nendza
Auditor

Reese
Auditor

Hamburg, January 28, 2000

EXECUTIVE BODIES OF THE CORPORATION

SUPERVISORY BOARD

Dr Günter Rexrodt
Berlin
Chairman
as of November 26, 1999

Karl-Ernst Schweikert
Mönchengladbach
Chairman
until November 26, 1999

Dr Gerhard Niesslein
Münster
Deputy chairman
as of April 13, 1999

Günter Vollmann
Hamburg
Deputy chairman
until April 13, 1999

Karl Ehlerding
Hamburg

BOARD OF MANAGEMENT

Dr Rainer Behne
Hamburg
Chairman

Busso von Alvensleben
Hamburg
as of March 1, 1999

MEMBERSHIPS

SUPERVISORY BOARD

Dr Günter Rexrodt (Chairman) MdB
Former Federal Economics Minister,
other Supervisory Board memberships:

- Berliner Effektengesellschaft AG
- Factumedia AG
- EuroRatings AG
- AWD AG
- gecco.net AG (Chairman)

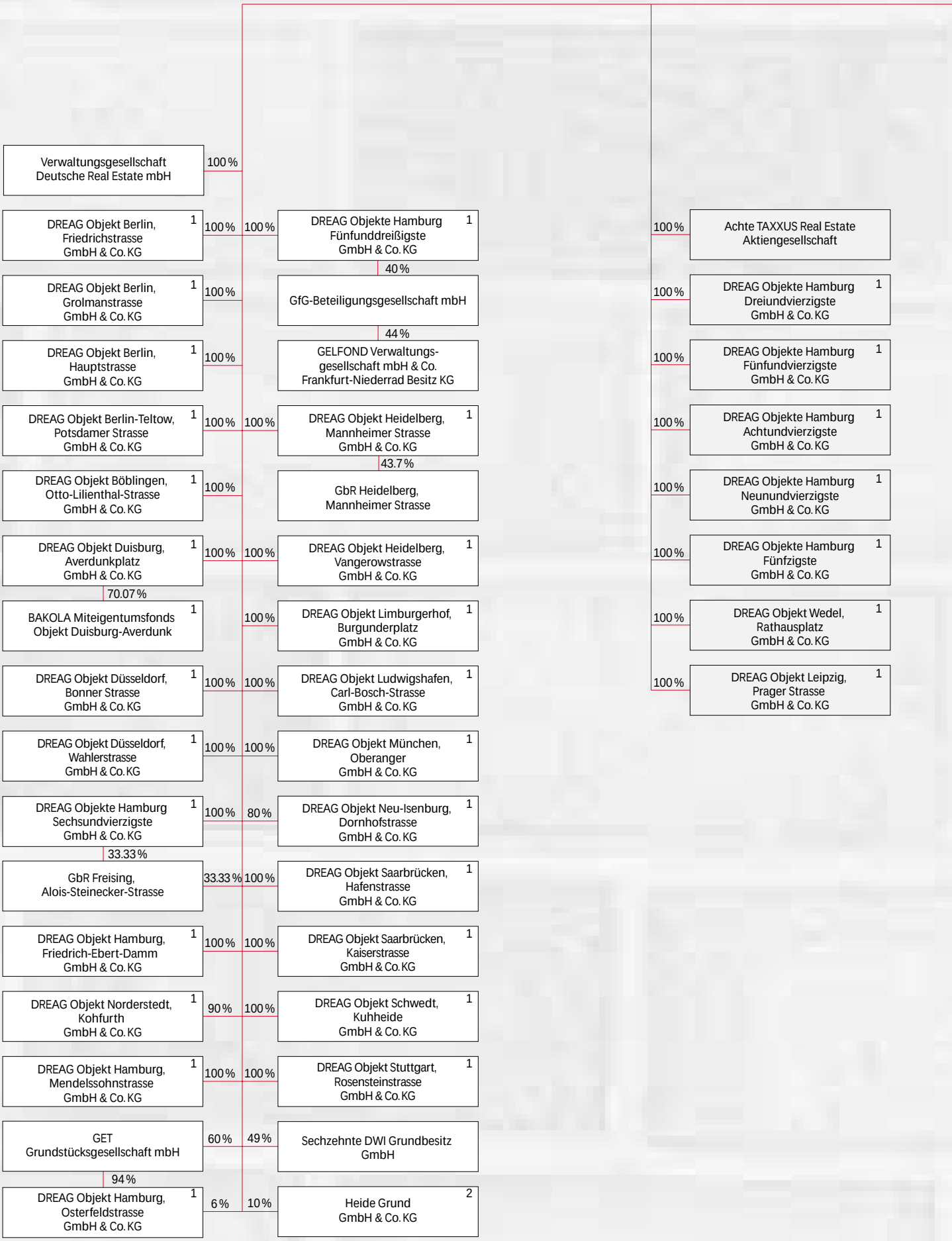
Dr Gerhard Niesslein (Deputy chairman)
Chief executive of DeTe Immobilien und Service GmbH,
other Supervisory Board memberships:

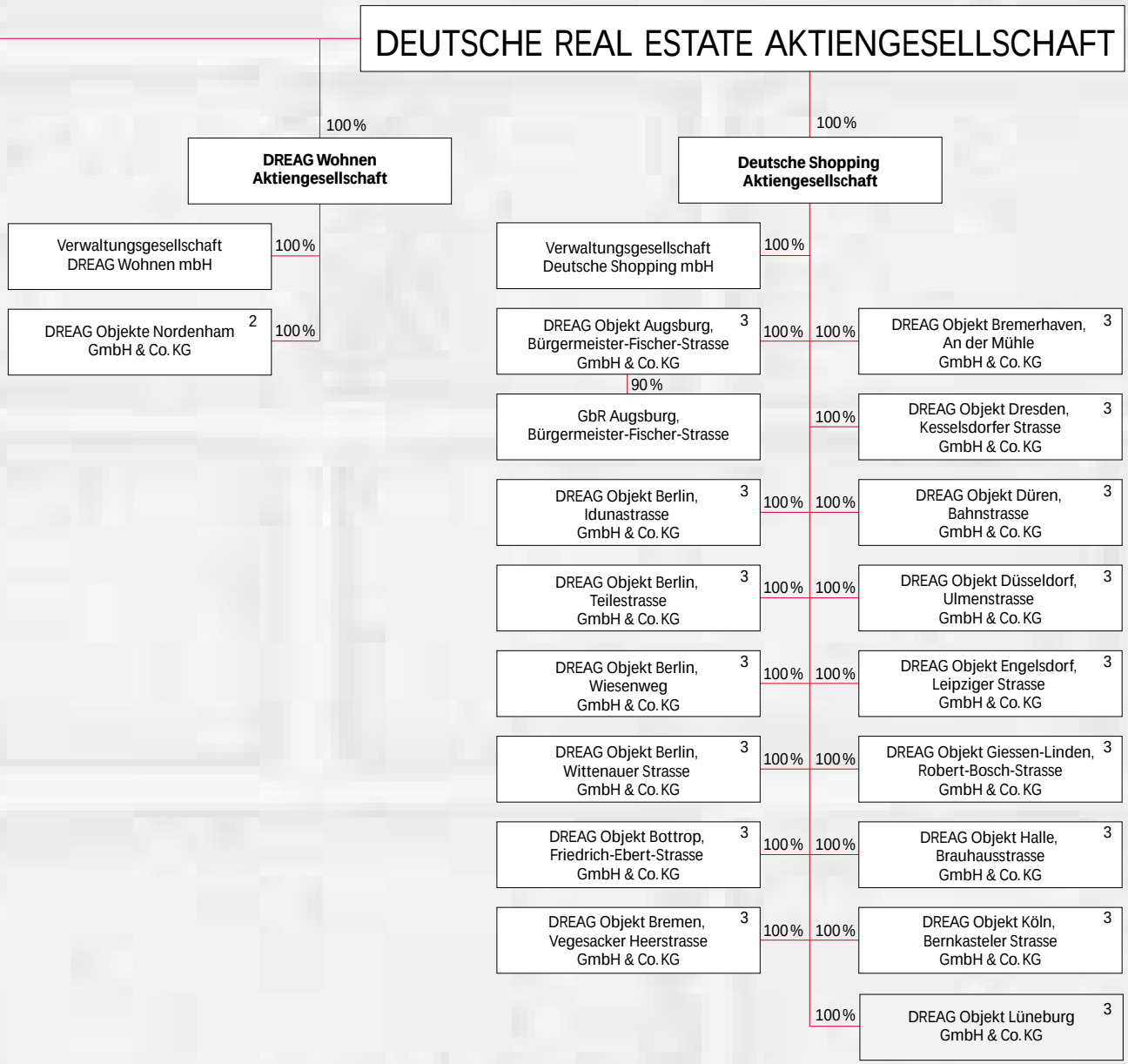
- TERCON Immobilien Projektentwicklungs-GmbH (committee member)
- IVG Immobilien GmbH (committee member)
- IVG Service GmbH (committee member)

Mr. Karl Ehlerding
other Supervisory Board memberships:

- WCM Beteiligungs- und Grundbesitz-Aktiengesellschaft (Deputy chairman)
- NORDAG Immobilien AG (Deputy chairman)
- Gladbacher Aktienbaugesellschaft AG (Deputy chairman)
- Beamten-Baugesellschaft Bremen GmbH (Deputy chairman)
- Bremisch-Hannoversche Eisenbahn Aktiengesellschaft (Deputy chairman)
- IVG Holding AG
- RSE Grundbesitz und Beteiligungs-AG
- Getreideheber-Gesellschaft mbH
- Kieler Wohnungsbaugesellschaft mbH
- Kieler Stadtentwicklungs- und Sanierungsgesellschaft
- GLADBAU Baubetreuungs- und Verwaltungsgesellschaft mbH (committee)
- Deutsche Hyp Deutsche Hypothekenbank Frankfurt-Hamburg (committee)
- SSW Fähr- und Spezialschiffbau GmbH (committee)

CHART OF PARTICIPATIONS





Portfolio company

1 General partner: Verwaltungsgesellschaft Deutsche Real Estate mbH
2 General partner: Verwaltungsgesellschaft DREAG Wohnen mbH
3 General partner: Verwaltungsgesellschaft Deutsche Shopping mbH