

GRENKE LEASING®



IMPORTANT KEY FIGURES OF THE GRENKELEASING AG GROUP

	2005	Change	2004	Unit
New business (cost of new lease contracts)*	419,048	15%	363,247	EURk
Contribution margin 1 of new business	47,448	19%	39,935	EURk
Number of new contracts*	56,450	10%	51,546	Units
Number of new contracts without projects	53,445	16%	46,146	Units
Net interest income from leasing business	60,620	8%	56,248	EURk
Expenses from settlement of claims	16,124	13%	14,269	EURk
Profit from insurance business	13,668	18%	11,619	EURk
Profit from new business	15,871	19%	13,373	EURk
Profit from disposals (income exceeding the calculated residual value)	3,449	136%	1,461	EURk
Result from currency translation	440	48%	297	EURk
Sundry operating income	412	16%	356	EURk
Costs of new contracts	12,399	15%	10,781	EURk
Costs of current contracts	3,852	6%	3,630	EURk
Project costs and basic distribution costs	6,068	1%	5,984	EURk
Management costs	8,177	8%	7,546	EURk
Other costs	1,068	-31%	1,544	EURk
Amortization/ depreciation on Goodwill	0	--	307	EURk
EBIT (Profit from ordinary operations)	46,772	19%	39,293	EURk
Other interest	-626	425%	-119	EURk
Expenses from the fair value measurement	-393	-83%	-2,249	EURk
EBT (Net profit for the period before taxes)	45,753	24%	36,925	EURk
Net profit for the period (consolidated pursuant to IFRS)	29,027	23%	23,629	EURk
Earnings per share (IFRS)	2.13	22%	1.74	EUR
Dividend**	0.50**		0.40**	EUR
Embedded value of the lease portfolio* (incl. Equity before taxes)	257	15%	224	EURm
Embedded value of the lease portfolio* (incl. Equity after taxes)	226	16%	195	EURm
Cost/Income Ratio	40.6	-6%	43.2	%
Share of IT products in the lease portfolio***	87	-2%	89	%
Share of corporate customers in the lease portfolio***	99	0%	99	%
Mean acquisition value***	7.4	6%	7.0	EURk
Mean term of contract	46	2%	45	Months
Volume of leased assets****	1,200	19%	1,008	EURm
Number of current contracts	167,226	15%	145,180	Units
Average number of employees*****	339	19%	285	Persons

* incl. currency adjustment and franchise partners

** dividend for fiscal year 2005 will be proposed to the shareholders' meeting on May 9, 2006

*** based on new business

**** at cost including lease-purchase

***** FTEs excluding directors

GRENKELEASING AG is the parent company of the GRENKELEASING AG Group - referred to below as "GRENKELEASING".

All the figures and statements published in the Annual Report refer to the GRENKELEASING AG Group.

GRENKELEASING AG GROUP

ANNUAL REPORT 2005

01

LETTER TO THE SHAREHOLDERS FROM THE BOARD OF DIRECTORS

02

GRENKELEASING COMPANY PROFILE

03

MARKET AND COMPETITIVE ENVIRONMENT

04

THE COMPANY TODAY

05

THE GRENKELEASING STOCK

06

FACTS AND FIGURES

01.0	Letter to the Shareholders from the Board of Directors	10
02.1	Core Competencies and Business Model	16
02.2	Group Structure	17
02.3	Customer-focused Financing Models	19
02.4	The Board of Directors of GRENKELEASING AG	20
02.5	Transparency in Financial Reporting	21
02.6	Risk Categories	23
02.7	From Contract to Balance Sheet	24
03.1	The Leasing Market in 2005	28
03.2	Competitive Environment and Company-specific Advantages	29
04.1	Events in Fiscal Year 2005	32
04.2	Strategy	32
04.3	Milestones in Company History	33
04.4	Expansion in Germany and Abroad	34
04.5	GRENKELEASING Locations in Europe	35
04.6	GRENKELEASING's Employees	36
04.7	Other Corporate Activities	36
04.8	Activities and Events around the Chess Game	37
05.1	The GRENKELEASING Stock in Fiscal Year 2005	40
05.2	Investor Relations	43
05.3	Corporate Governance Report	44
	Glossary	50
06.1	Group Management Report for Fiscal Year 2005	56
06.2	Consolidated Income Statement for Fiscal Year 2005	66
06.3	Consolidated Balance Sheet as of December 31, 2005	67
06.4	Statement of Changes in Consolidated Equity for Fiscal Year 2005	68
06.5	Consolidated Cash Flow Statement for 2004 and 2005	70
06.6	Notes to the Consolidated Financial Statements for Fiscal Year 2005	72
06.7	Audit Opinion	119
06.8	Supervisory Board Report	120



**IT TAKES THE DEDICATION OF EVERY INDIVIDUAL
TO ACHIEVE EXCELLENT RESULTS.**

419

million euros of “new business”: that is 15.4% more than in the prior year, following in our longstanding tradition of double-digit growth. Leasing companies talk about “new business” rather than “revenue”, i.e. the total acquisition costs of newly acquired assets. This is the only true reflection of the company’s success, because income from a lease contract is generated over a period of several years.





**SUCCESSFUL COMPANIES FOSTER A TOLERANT
AND COSMOPOLITAN SPIRIT AMONG THEIR EMPLOYEES.**

32.9

% is the share of new business generated by our European branches. This is EUR 137.8m, or an increase of 42.8% against 2004, and highlights the significant contribution to company growth made by our foreign business. We opened branches in Paris and Zurich in 2005 and started operations in Brussels. By the end of 2005, the Group and its franchise partners were operating in a total of 41 locations in 15 countries in Europe.





**TODAY'S PROFITS ARE TOMORROW'S INVESTMENTS
AND THE JOBS OF THE FUTURE.**

46.8

million euros – our earnings before interest and taxes (EBIT), which is EUR 7.5m – or 19% – more than in the prior year. EBIT has risen steadily (2004: EUR 39.3m, 2003: EUR 31.3m) thanks to stringent and efficient cost management. Leasing companies have a major advantage in estimating their future income: we know exactly what lease contracts have been concluded, making it fairly easy to forecast the development of our earnings.





LETTER TO THE SHAREHOLDERS FROM THE BOARD OF DIRECTORS

Dear Shareholders,
Ladies and Gentlemen,

Economic growth in Europe was more sluggish in 2005 than in the prior year. At the beginning of the year, experts forecast GDP growth of around 1.4%* in the euro zone for 2005 compared with 2.1% in 2004. In line with this, the growth rate of GDP in Germany – our most important national market – sank from 1.6% in the prior year to just under 1%* at the end of 2005. At the reporting date, there were indications of an upturn in 2006. The ifo institute is anticipating a significant increase in economic activity in Europe. There are also more and more positive indications for growth in Germany. This growth is primarily being driven by foreign demand, which is expected to increase considerably due to the positive international environment and the fact that the euro-dollar exchange rate has improved again. In addition, the gradual increase in gross fixed investment formation in Germany also indicates an upturn in the domestic economy.

After the estimated 4% growth in the information and telecommunications market (ITC) in Europe in the first half of 2005, growth in the second half of the year slowed significantly. Most recently, the European Information Technology Observatory (EITO) estimated growth of just under 3%. EITO also forecast the same rate for 2006.

According to calculations by BITKOM, the ITC market grew by 2.6%** in Germany in the fiscal year. This entire market thus grew about the same rate as in the prior year. In mid-December 2005, BITKOM confirmed its growth forecast of 2.4%** for 2006.

At approx. 5% to 6%, growth in European leasing investments in equipment was down slightly in 2005 against the prior year (7.6%). However, growth is expected to continue at a disproportionately high rate. This also applies to the German leasing market for equipment, which grew by 5.7% in 2005 according to ifo institute estimates (2004: 9.2%). The institute expects slower growth during the first few months of 2006, but expects growth to pick up again due to the recovering economy.

The GRENKELEASING Group again recorded above-average growth of 15.4% in fiscal year 2005. In absolute figures, this corresponds to a new business volume of EUR 419m, compared with EUR 363m in the prior year.

* ifo, forecast

** BITKOM, forecast

Foreign business made a greater contribution to the Group's new business, increasing from 26.6% in the prior year to 32.9%. France achieved growth of 37.2% and Switzerland achieved 18.4%.

The new business margin (contribution margin 1) increased from EUR 39.9m in 2004 to EUR 47.4m in the fiscal year, thus increasing by 18.8%.

EBIT improved from EUR 39.3m in 2004 to EUR 46.8m in the fiscal year. This represents an increase of 19%.

After-tax profit increased by 22.8% to EUR 29m (2004: EUR 23.6m). This translates into earnings per share of EUR 2.13 (2004: EUR 1.74).

The cost-income ratio also developed positively, falling in 2005 to 40.6%, compared with 43.2% in 2004.

In 2005, the Group received 108,315 leasing inquiries and concluded 56,450 agreements with an average value of EUR 7,427k, which is slightly higher than the average value of the prior year (EUR 7,047k).

GRENKELEASING is represented in 20 cities in Germany and has offices in 21 locations in 14 European countries. Our franchise system, which was introduced in 2003, covers the markets in the UK, Poland, and, since 2005, Norway. We are currently preparing for the expansion of our franchise system to Hungary.

Due to the high number of inquiries, we have divided the sales regions in Munich and Berlin. This is also the case in Paris, where we now also have an office in the downtown area. In Switzerland, we added a branch in Zurich in 2005 in addition to the locations in Basel and Lausanne. In September 2005, we opened an office in Brussels, Belgium.

Under our franchise system, two further franchise partners were added in 2005, GRENKEFACTORING GmbH, Baden-Baden, and GRENKE AUTOLEASING GmbH, Bremen, both in Germany, in addition to the agreement signed with our Norwegian franchise partner, GRENKELEASING AS, in Oslo.

Collaborations are an important factor for our success. In October 2005, we renewed our collaboration with IBM, which was expanded to include France at the end of the year. In this regard, we assumed the contract generation and management for small ticket leasing for IBM.

In Germany, Switzerland, Austria, and France, we obtained DIN EN ISO 9001:2000 certification for our services. In this regard, we engage an external auditing company every year to perform an audit. The audit report of September 2005 confirmed once again that GRENKELEASING creates, in an exemplary fashion, the conditions that allow competent and motivated employees to satisfy customers and business partners through a maximum of service quality.

Our increased market presence has also led to an increase in headcount. From 2004 to 2005, the number of employees increased from 285 to 369, 339 of which belong to the Group and 30 to the franchise companies. GRENKELEASING also began training office clerks for the first time in 2005. Since 2004, we have been in cooperation with the Berufsakademie Lörrach, where eight of our employees are currently studying for degrees in "international business management" and "commercial computer science". We currently have a total of 10 trainees working for us, with seven additional trainee positions planned for 2006.

As a result of the stock option plan launched in 2002, employees had the option of exercising 25% of their rights in the fiscal year. The last tranche of an additional 25% of the options may be exercised from the spring of 2006.

Dr. Uwe Hack was appointed by the supervisory board as a new director as of October 1, 2005. Dr. Hack is familiar with GRENKELEASING from his perennial employment at Deutsche Bank AG. He is responsible for the areas of investor relations, treasury, and financial control.

GRENKELEASING received a short-term issuer rating of A-2 and a long-term rating of BBB+ with a stable outlook from Standard & Poor's for the first time in 2003. This rating was confirmed again in October 2005.

In the first quarter of the fiscal year, we placed a bond of EUR 100m with a term of five years. The financing raised was part of the EUR 500m debt issuance program in place since 2003.

The GRENKELEASING stock price performed well again in 2005, increasing by 38.6% from EUR 34.85 on December 30, 2004, to EUR 48.30 on December 30, 2005.

We continue to aim for double-digit growth in new business and profits in 2006. We are also maintaining our aim to achieve long-term success through steady and profitable growth and market leadership in small ticket IT leasing in Europe.

Wolfgang Grenke
CEO





**SUCCESSFUL BUSINESS MODELS
ARE BACKED BY CORE BUSINESS COMPETENCIES**

40.6

% is the cost-income ratio in 2005. This ratio, which we have published since 2004, has fallen 6% year on year thanks to our regularly improved, cost-effective administration and a virtually paperless contract management system. This is also mirrored by the drop in costs per new contract – from EUR 234 in the prior year to EUR 232 – and the lower costs per current contract – EUR 23 against EUR 25 in 2004.

02

GRENKELEASING COMPANY PROFILE

- 02.1** Core Competencies and Business Model
- 02.2** Group Structure
- 02.3** Customer-focused Financing Models
- 02.4** The Board of Directors of GRENKELEASING AG
- 02.5** Transparency in Financial Reporting
- 02.6** Risk Categories
- 02.7** From Contract to Balance Sheet

CORE COMPETENCIES AND BUSINESS MODEL

Our business model offers numerous benefits for both dealers and end customers, such as contract approval and payment commitments in less than ten minutes, individual support on location, and quick and easy conclusion of lease contracts using “GL WEB”, our free online leasing tool. This promotes the competitiveness of our partners and ensures our success in the market, which can be seen in our increasing new business and market shares in Germany and abroad.

The automated and thus cost-effective management of lease contracts, our optimized risk management system and the sale of returned lease objects via our own online sales platform, “Asset Broker”, are our core competencies and have enabled us to translate new business into new profits.

All lease contracts are processed centrally at our head office in Baden-Baden, Germany. 60% of all contracts are concluded online, which provides for an almost “paperless” contract processing system.

Our optimized risk management system ensures that GRENKELEASING can mitigate all risks posed to the Company. An in-house IT-based scoring model, which we are continuously developing, keeps default rates within the desired range. The wide distribution of contracts reduces the risk of dependency on customers, dealers, and manufacturers. In addition, there are no residual value and warranty risks. And finally, the Group has secured its refinancing by using numerous financing alternatives.

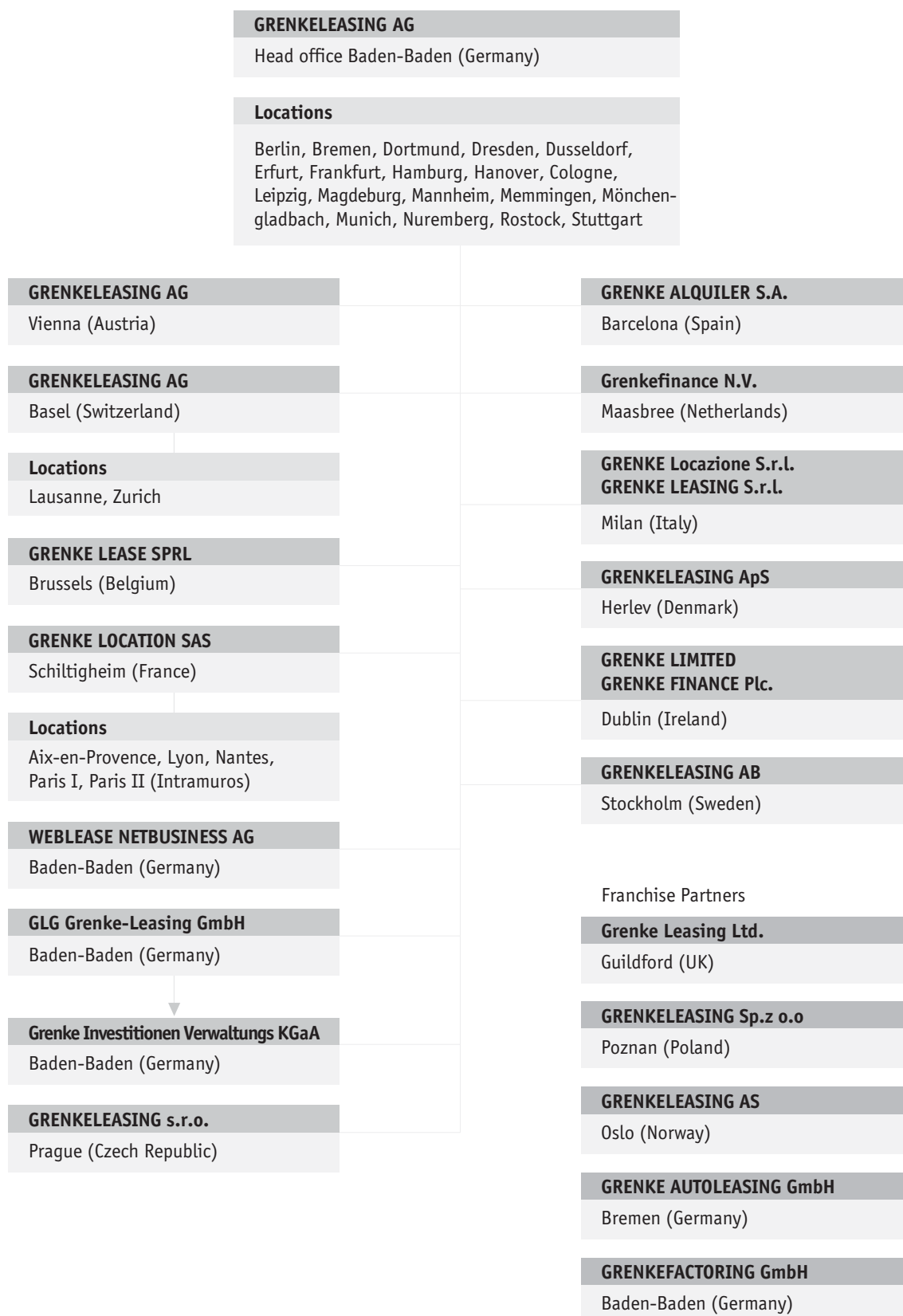
All of these factors were backed up by the confirmed positive rating from Standard & Poor's in October 2005.

We developed the internet portal “Asset Broker” in 1996. Today, we can sell used leased assets cost-effectively, quickly, and at attractive prices in Germany, France, Austria, and Switzerland using the portal. Our specialist dealer partners can also use the portal to sell their own presentation devices or used goods.

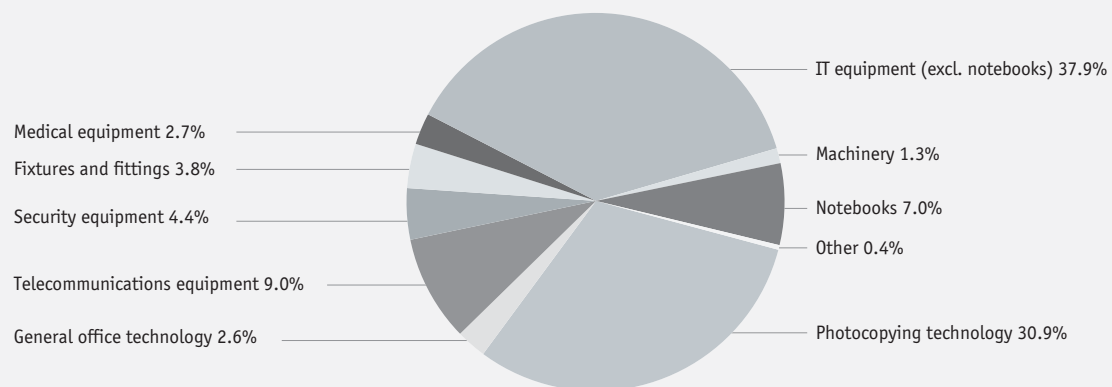
These factors have all led to an increase in our market share in Germany and further successful expansion of our international activities. The presence of GRENKELEASING, including franchise companies, increased in the fiscal year to 41 locations in 15 countries.

Decentralized sales are carried out via 7,400 specialist dealer partners in Germany and 3,900 partners in other European countries. All relevant points of sale are covered by our strategic partnerships with well-known manufacturers and distributors, our growing direct business with end customers, our internet leasing platform (www.weblease-europe.com), which also offers leasing modules to e-commerce shops, and our sales portal “Asset Broker”.

GROUP STRUCTURE

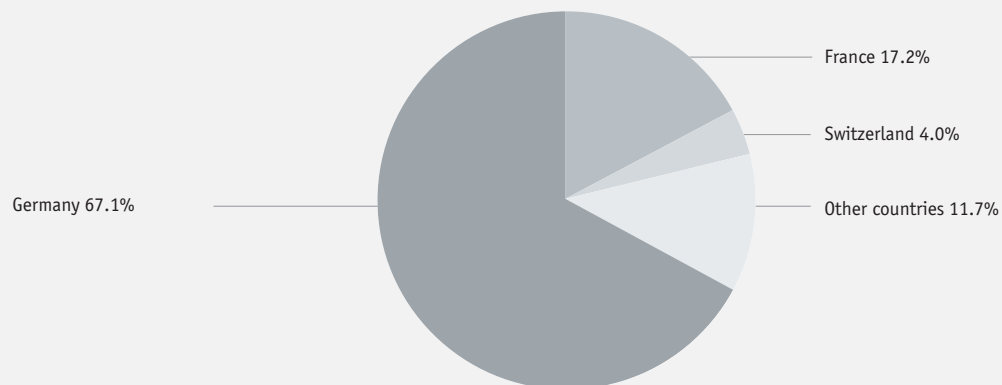


Structure of the Leasing Portfolio



Percentage of IT products in the leasing portfolio: 87.4%.

New Business Shares in Europe



CUSTOMER-FOCUSED FINANCING MODELS

Leasing companies originally used to restrict themselves to offering an alternative to cash purchases and loan financing. Nowadays, however, demand is for a customized, fully comprehensive service, which is continuously tailored to customer needs and market circumstances. Therefore, from an early stage we began developing innovative leasing models which function perfectly from a technical and organizational perspective.

The basis of our offer is a traditional lease contract which, like all of our lease contracts, contains an exchange option. During the term of the contract, customers may exchange leased assets so that they always have state-of-the-art products – making the same lease payments if the contractual value remains within a certain range. A further lease option is Flex PLUS leasing where interest and fees are not due until the contract expires and, ideally, customers do not pay any financing costs if sufficient revenues are generated from the sale of the leased assets. With RENTAL leasing, the customer benefits from particularly favorable conditions due to the specifically agreed upon return of the leased assets.

In order for our specialist dealer partners to be able to offer their customers tailor-made financing solutions for their every need, GRENKELEASING also offers various types of renting, subletting and hire purchase agreements. Rental agreements D.A.S. basic and D.A.S. vario can be used for assets with meters, such as copiers. Invoices are calculated on a per-page basis, i.e. the customer only pays for the actual use of the leased equipment. In the D.A.S. basic agreement, the basic rental fee includes a specified number of free copies or print-outs. In the D.A.S. vario agreement, the customer has even more flexibility and only pays for the actual use of the equipment. With a D.A.S. direct subletting agreement, the specialist dealer acts as the lessor and offers the

customer support and financing consulting from one source. The D.A.S. products allow specialist dealers to expand their financing portfolio and customers to profit from simple processing and optimize printing cost management.

The DISPO framework agreement is the ideal supplement for our wide-ranging product portfolio. This agreement is particularly suitable for customers with short-term, recurring investment requirements, because they benefit from the favorable conditions of this disposition frame which is agreed upon in advance. In connection with a DISPO framework agreement, customers also receive active support for their IT infrastructure in inventory and cost management by using our IT Asset Management software.

We also use our strengths in the cost-effective and rapid processing of small ticket financing to offer new products to our customers.

To supplement the traditional financing of property, plant and equipment through leasing, the franchise company GRENKEFACTORING offers customers financing for their current assets by way of receivables purchases. GRENKE AUTOLEASING's activities focus on service-oriented leasing for vehicles.

It goes without saying that the varying customer requirements, market conditions, and legislation in the individual countries where GRENKELEASING conducts business require ongoing adjustments to be made to the product range to meet the special conditions in each country. The particularly strong growth in other European countries is evidence that we have been able to successfully make these adjustments to the satisfaction of our customers.

THE BOARD OF DIRECTORS OF GRENKE LEASING AG

**Wolfgang Grenke**

Chairman of the Board

54 years old

Strategy, corporate development,
internal audit

**Dr. Uwe Hack**

43 years old

Investor relations,
treasury, financial control

**Mark Kindermann**

44 years old

Accounting, quality management,
human resources, legal, administration

**Thomas Konprecht**

Vice-Chairman of the Board

46 years old

Marketing, sales, management services

**Michael Kostrewa**

37 years old

Information technology,
e-Business

TRANSPARENCY IN FINANCIAL REPORTING

Special Features of GRENKELEASING's Financial Reporting

The financial reporting of the GRENKELEASING Group has a number of special features due to the legal nature of a lease contract and from the Group's method of using liquid funds for pre-funding. We therefore voluntarily publish additional information to make our financial reporting more transparent to investors.

In the next two chapters we discuss "embedded value" and the presentation of the liquidity reserve.

Embedded Value

Contrary to trading business, income from lease contracts is generated during the term of the contract and not upon conclusion, i.e. the majority of profits are generated in the future.

Like the approaches taken in the insurance industry, we calculate the approximate value of future net cash flows from the current contract portfolio (embedded value of the contract portfolio) and disclose it in our key figures.

We offset future income against expenses estimated on the basis of current costs.

Of course, this can be no more than a rough forecast, but it does make our figures more transparent and permits a more exact assessment of whether or not investments in new business were worthwhile.

As of December 31, 2005, the embedded value of the contract portfolio was EUR 81m. Adding the equity of EUR 176m yields a total value, before tax, of EUR 257m. After taxes, the total value as of December 31, 2005 is EUR 226m.

Presentation of liquidity

The cash flow for the fiscal year 2005 presented in the consolidated cash flow statement in the financial statements shows the development of cash and cash equivalents.

In addition to this liquidity status in the narrowest sense as of the balance sheet date, however, the decisive factor for the success of our business is which cash and cash equivalents are available in the short term to finance our business. Therefore, we are supplementing the cash flow statement with the following liquidity calculation.

EURk	Jan. 1, 2004	Dec. 31, 2004	Dec. 31, 2005
Cash and cash equivalents	47,548	62,166	55,677
Transitory items	-13,966	-16,048	-17,800
Adjusted cash and cash equivalents	33,582	46,118	37,877
Funds used for advance financing	30,721	9,678	12,591
Loans for advance financing	-1,658	-36	-6
Readily available funds	62,645	55,760	50,462
Receivables from tax authorities	5,924	13,845	13,422
Discount ABCP	20,211	42,607	59,132
New balance	88,780	112,212	123,016
Change in "new balance"		Jan. 1. - Dec 31, 2004	Jan. 1. - Dec 31, 2005
Beginning of year to balance sheet date		23,432	10,804

RISK CATEGORIES

One of the main core competencies of GRENKELEASING is the ability to assess credit risks and account for them appropriately in its pricing policy. For the sake of transparency, we have defined risk categories, determining a “contribution margin 1 after loss settlement” which provides an indication of how the contract margins relate to risk. Risk is defined as a function of score, contract term and saleability.

As the actual loss can only be determined precisely towards the end of the contract term, the contingent residual risk associated with current contracts is estimated on the basis of historical risk curves. Estimates obviously become more precise the older the portfolio or the shorter the residual term.

If lease contracts are terminated due to arrears, a termination claim (claim to damages) arises against the lessee. The calculations are based on an average collection rate for such claims. Likewise, an average

residual term is assumed for each portfolio. Under this method, inaccuracies are inevitable, but should not diminish the informative value of the results.

The table shows that the best financial results are obtained with medium risks. Very good risks put pressure on margins, and defaults on bad risks have a negative effect.

Crucial for understanding these figures is the fact that even when the “contribution margin 1 after loss” is slightly negative, contribution margin 2 is nevertheless usually positive, because additional income from asset insurance and sale considerably exceed the ongoing costs of contract management.

Risk Categories (figures in EUR)		2001	2002	2003	2004	2005
Category 1	Acquisition cost	47,347,531	72,453,823	97,023,937	104,515,781	126,708,580
	Forecast loss	1,805,945	2,351,132	3,268,363	3,726,940	3,878,893
	M1* after loss	4.9%	5.5%	5.7%	7.1%	7.4%
Category 2	Acquisition cost	41,176,045	59,043,477	74,270,343	92,435,888	113,922,397
	Forecast loss	2,325,935	2,327,892	3,295,817	3,959,594	3,921,760
	M1* after loss	4.3%	6.8%	7.4%	7.7%	8.2%
Category 3	Acquisition cost	35,199,140	46,859,252	55,041,326	62,606,845	89,440,278
	Forecast loss	2,301,042	2,896,961	3,184,192	3,587,054	4,437,020
	M1* after loss	4.4%	5.2%	5.8%	6.5%	7.7%
Category 4	Acquisition cost	44,173,183	49,835,184	48,028,936	58,635,191	57,601,730
	Forecast loss	3,727,054	4,644,735	4,647,530	6,362,857	5,566,673
	M1* after loss	2.3%	1.9%	2.2%	1.2%	3.1%
Category 5	Acquisition cost	67,676,269	49,848,385	34,939,909	45,053,526	31,375,206
	Forecast loss	8,972,731	6,519,417	4,440,415	6,050,979	3,734,776
	M1* after loss	-3.0%	-4.1%	-2.4%	-3.3%	0.0%

*M1 = contribution margin 1

FROM CONTRACT TO BALANCE SHEET

Despite the differences, the financial results of GRENKELEASING's various types of contract are presented similarly in the balance sheet according to IFRSs. Contrary to German accounting standards, the lease contracts concluded by GRENKELEASING are treated as loan agreements under IFRSs.

The accounting basis (100%) of every lease is the **acquisition cost** of the newly acquired leased asset: the purchase price excluding VAT that GRENKELEASING pays the dealer for the acquisition of the leased asset – whether this is a PC, a photocopier or a telephone system.

In some cases, the dealer receives a **commission** on these acquisition costs. The average commission paid in 2005 was 1.65% of the acquisition cost.

The conclusion of a lease contract incurs direct costs – e.g. for the aforementioned commission, for the procurement of information from a credit agency or for the preparation of the contract – that are capitalized. However, we also receive processing fees for preparing the lease contract or special lease payments. Adding the direct costs that are incurred when a contract is concluded to the acquisition costs and subtracting from this amount all customer payments received at the start of the contractual term results in – as regards substance – the **net investment** in the lease contract. The average net investment for fiscal year 2005 was 104.5% of the acquisition cost. The adjusted difference between this amount and the acquisition cost is the **profit from new business**.

Since, in accordance with IFRSs, our lease contracts are accounted for as loan agreements, and the resulting income must be distributed as interest income over the contractual term, the net investment is equal to the amount receivable from the lessee (**lease receivables**) at the start of the contractual term. We have to break down lease payments received from the lessee during the term of the agreement into interest (**income from the interest on lease receivables**) and the repayment of principal such that the interest rate remains constant while the repayments reduce the lease receivables each quarter so that at the end of the contract the economic value of the leased asset (estimated sales proceeds) remains as the residual value, i.e. is not repaid.

GRENKELEASING uses various financing instruments to fund its leasing business – including three ABCP programs, corporate bonds and loans against borrower's note. In the balance sheet, these are grouped together under **refinancing liabilities**, and the resulting interest under **interest expenses from the refinancing of lease receivables**. The **net interest income from the leasing business** is the balance of the interest income and interest expenses.

If a lessee is more than two consecutive payments in arrears, the lease contract is terminated and the actual loss is called in. This loss claim is simultaneously written down using a lump-sum item-by-item measurement in accordance with the percentage of receivables approach (statistically determined percentage of cash flows from different loss categories). Combined with additional specific write-offs of receivables, this results in the expenses from **settlement of claims**.

If the lessee uses our insurance service – as of December 31, 2005, 64.3% of our customers had chosen this option – we manage the customer's, or lessee's, interests as a service provider. We receive a fee for this which is recognized as **income from insurance business** and offset against the corresponding **expenses from insurance business**. The balance is **profit from insurance business**.

At the end of the contract, the lessee may renew the lease contract. In this case, we generate **revenues from subsequent leases**. During this period, the leased asset is measured at fair value at the end of each quarter. The lessee may also return the leased asset to us. In both cases, the leased assets are recognized in the balance sheet at market prices under **leased assets for sale** and depreciated over time (**depreciation of leased assets for sale**). The sale of such assets may result in accounting **gains/losses from the disposal of leased assets for sale**. Combined, all of these income and expense items result in the **net profit/loss from disposals**.

In addition to direct costs on the conclusion of a contract, further costs are incurred for marketing/advertising/projects, ongoing contract management and the management. In the income statement, these costs are classified as personnel expenses, operating costs etc.

The following table showing the effects of these items on the income statement over time (expressed as % of acquisition costs) enables an estimate of what percentage of the profit on each lease contract will be realized in the future. We calculate this projected future net income from current lease contracts at the end of each quarter for the entire contract portfolio and publish this figure – after deducting estimated taxes – as the embedded value of the contract portfolio.

Quarters	0	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	Total in % *
Net interest income from leasing business	0.71	2.10	2.01	1.92	1.82	1.72	1.62	1.51	1.40	1.28	1.16	1.04	0.91	0.78	0.64	0.49	0.00	21.11
Expenses from settlement of claims	0.00	-0.07	-0.24	-0.39	-0.48	-0.53	-0.54	-0.49	-0.47	-0.46	-0.42	-0.37	-0.34	-0.31	-0.30	-0.29	0.00	-5.70
Net income from insurance business	0.10	0.30	0.30	0.30	0.30	0.30	0.30	0.30	0.30	0.30	0.30	0.30	0.30	0.30	0.30	0.30	0.00	4.60
Net income from new business	3.78	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	3.78
Profit from disposals	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.95	0.95
Costs	-8.07	-0.14	-0.14	-0.14	-0.14	-0.14	-0.14	-0.14	-0.14	-0.14	-0.14	-0.14	-0.14	-0.14	-0.14	-0.14	-0.14	-10.31
EBIT/EBT	-3.48	2.19	1.93	1.69	1.50	1.35	1.24	1.18	1.09	0.98	0.90	0.83	0.73	0.63	0.50	0.36	0.81	14.43

*of the acquisition costs of a leased asset (new business)

A man with a mustache and glasses, wearing a dark blue three-piece suit and a red tie, is leaning against a glass door. He is smiling and looking towards the camera. The background is a modern building with a glass facade.

ONLY COMPETITION CAN DRIVE BUSINESSES TO NEW HEIGHTS.

56,450

new contracts: that is 10% more than in the prior year. We manage a total of 167,226 current contracts with an average volume of EUR 7,427. No single supplier at GRENKELEASING accounts for more than 4% of business. This ensures a high level of diversification and entrepreneurial freedom. Largely automated processes and the cost-effective management of lease contracts enable us to handle our "bulk business" efficiently.

03

MARKET AND COMPETITIVE ENVIRONMENT

- 03.1** The Leasing Market in 2005
- 03.2** Competitive Environment and Company-specific Advantages

THE LEASING MARKET IN 2005

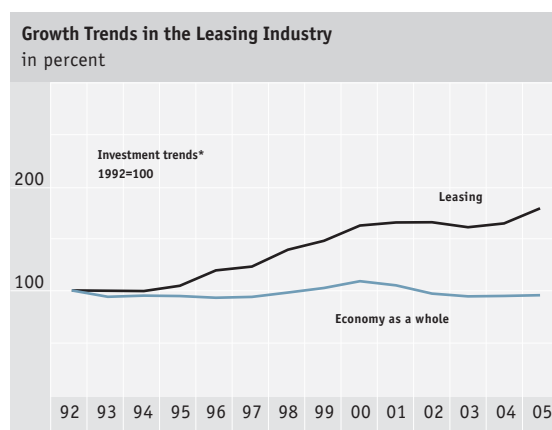
While overall economic investment (excluding housing construction) in 2005 only increased by 0.8%*, according to the ifo Institute, the leasing market in Germany grew by 8.7%* (movable and real estate assets). In the prior year, the leasing market only grew by 2.2%.

87% of the leasing investment volume for 2005 alone related to the leasing of movable assets. This corresponds to growth in new business of 5.7%* from EUR 42.0b to EUR 44.4b*. While the leasing market as a whole increased its market share from 17.9% in 2004 to 19.3%* in the fiscal year, the leasing of movable assets market share increased to 24.6% compared with 24.1% in 2004. This means that we are active in a market which is capturing market share from other types of financing. At this level, we are only about five percentage points below the global market leader, the US.

The future is bright for the leasing industry. Over the last few years, an investment back-log has built-up which in time will most certainly be reduced. And if the measures to encourage investments are implemented swiftly by the new German federal government, an increase in this investment dynamic can be expected. According to the president of the German Leasing Association (BDL), Horst-Günther Schulz, leasing is the number one debt financing option for small to medium-sized companies.

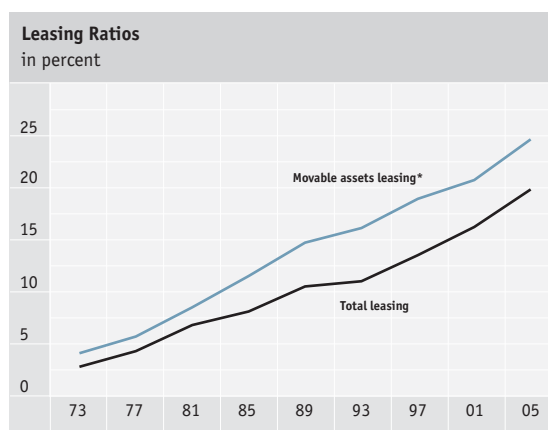
The charts below provide an overview of the investment trends and the development of the leasing ratio in Germany.

* ifo Investitionstest, Statistisches Bundesamt (forecast)



* Unadjusted prices.

Source: ifo Investitionstest Anlagenvermietung, Federal Statistics Office.



* Movable asset leasing as a percentage of overall investments in equipment. 2005 figures are provisional.

Source: ifo Investitionstest, Federal Statistics Office.

COMPETITIVE ENVIRONMENT AND COMPANY-SPECIFIC ADVANTAGES

With equity of EUR 176m and 167,226 current lease contracts, today GRENKELEASING now ranks among the largest German movable assets leasing companies that are independent of manufacturers and banks, and is the market leader in small-ticket IT leasing in Germany and Switzerland. After Germany and France, Switzerland is GRENKELEASING's third biggest sales market.

Of the 2,000 or so leasing companies operating in Germany, about 150 are relevant for the market. Fifteen of these companies are more or less direct competitors of GRENKELEASING.

We distinguish ourselves through numerous advantages; the most important being our comprehensive services offering, which is ideally tailored to the needs of the market and our customer and which we make available to the points of sale directly via our far-reaching sales network of more than 7,400 specialist dealer partners and our partnerships with well-known manufacturers.

We are not dependent on manufacturers and therefore very flexible as we are not limited to certain products; we are also not tied to any specific bank and its financing tools. The continued increase in the automation of contract support and processing allows us to process a large number of contracts with low acquisition cost in a quick and easy manner.

Another advantage we have is our good reputation on the money and capital markets, which are increasingly offering more favorable refinancing options. In addition to an optimized risk structure, GRENKELEASING has been in the leasing business for 27 years and thus has the expertise to further expand in Germany and abroad with our partners.

We were able to further expand our cost leadership in 2005 through the increasingly automated contract management system, which is one of GRENKELEASING's core competencies. The average costs for each new contract in 2005 were EUR 232 compared with EUR 234 in 2004. The cost per current contract was also reduced in 2005 to EUR 23 EUR as against EUR 25 in the prior year. The cost-income ratio developed positively again in 2005, falling from 46.7% in 2003 to 43.2% in 2004 to 40.6% in 2005.

Taking into account the costs associated with risks, our goal is to further optimize the cost-income ratio in order to continue to ensure a good balance between growth and risk.



ACTION IS THE ONLY TRUE EVIDENCE OF ABILITY.

10

trainee positions, which GRENKELEASING has created since 2004. Commercial computer science and international business management are offered in cooperation with the University of Cooperative Education / Lörrach. The courses last 3 and 3,5 years and students graduate with a degree in business administration. They can complete the internship at our branches in Switzerland and France. Since 2005, we have also been training office clerks who receive a diploma from the German CCI after 2 years.

04

THE COMPANY TODAY

- 04.1 Events in Fiscal Year 2005
- 04.2 Strategy
- 04.3 Milestones in Company History
- 04.4 Expansion in Germany and Abroad
- 04.5 GRENKELEASING Locations in Europe
- 04.6 GRENKELEASING'S Employees
- 04.7 Other Corporate Activities
- 04.8 Activities and Events around the Chess Game

EVENTS IN FISCAL YEAR 2005

We look back on an eventful year 2005 in which many important steps were taken to bolster the Group's future growth and value. New branches were opened in Zurich and Paris, continuing our organic growth. Beginning in 2005, we now also offer our leasing products on the Belgian market through our Brussels branch.

The franchise companies GRENKELEASING AS in Oslo, Norway, GRENKEFACTORING GmbH in Baden-Baden, Germany, and GRENKE AUTOLEASING GmbH in Bremen, Germany, were founded in 2005.

GRENKELEASING renewed its partnership with IBM for whom we act as a service provider, processing IBM small-ticket lease contracts. IBM retailers and lessees are served by the sales forces of our local GRENKELEASING branches. Our longstanding cooperation with Bechtle was also expanded further in 2005.

In the fiscal year, we welcomed a new director, Dr. Uwe Hack. Dr. Hack took on responsibility for the Group's investor relations, treasury and financial control activities in October 2005.

STRATEGY

Our aim is to achieve sustained double-digit growth. In order to reach this goal we will forge ahead with our geographical expansion and continue to develop new products. Each of our expansion steps is set in a firm foundation. This means that we either tap a new geographical market with our core product, leasing, or introduce a new product, e.g. factoring, into an existing and familiar market.

Geographically speaking, we want to make GRENKELEASING AG a truly European enterprise. For us this means being present in all EU countries as well as in those European countries which offer a suitable economic and legal framework for our business. To attain our target market position we have to be, and will be, close to the point of sale in European countries and, as in France and Switzerland, this will entail operating a close-knit network of sales offices.

We develop our new products by building on GRENKELEASING AG's known strengths and core competencies. This means that we operate in markets where there is demand for financing and other services and where a high level of automation enables us to reap substantial cost and competitive advantages through economies of scale.

Depending on the specific circumstances, we either employ our tried-and-tested franchise system (e.g. UK, Poland) or work with subsidiaries (e.g. Switzerland, France) or branches.

MILESTONES IN COMPANY HISTORY

1978

Foundation of GRENKELEASING as a sole proprietorship in Baden-Baden

1990

First branch/subsidiary opened in Germany

1993

First partnerships and cooperations with big-name manufacturers

1994

Introduction of an IT-based scoring procedure

1997

Foundation of GRENKELEASING AG
 First foreign subsidiaries established

1998

Foundation of Weblease Leasing GmbH, Europe's first virtual leasing company (now operating as WEBLEASE NETBUSINESS AG)
 Launch of "Asset-Broker", the internet marketing service for used IT equipment
 Establishment of a quality management system and first audit according to DIN EN ISO 9001 (now 9001:2000)

2000

IPO of GRENKELEASING AG, listing on the Frankfurt Stock Exchange

2003

GRENKELEASING stock joins the SDAX
 First two franchise companies founded in Guildford/UK and Poznan/Poland
 Rating by Standard & Poor's, (short-term A-2, long-term BBB+, outlook stable)

2004

Start of operations in Stockholm/Schweden
 Start of operations in Dublin/Ireland
 Standard & Poor's confirms its rating (see 2003)
 GRENKELEASING takes on its first trainees
 Two branches opened (Lausanne/Switzerland and Aix-en-Provence/France)

2005

04/2005 Foundation of GRENKE AUTOLEASING GmbH, a Bremen-based company with a franchise agreement
 05/2005 Franchise company founded in Oslo/Norway
 07/2005 Foundation of the franchise company GRENKEFACTORING GmbH, Baden-Baden
 07/2005 Alliance with Bechtle extended
 09/2005 Operations started in Brussels/Belgium
 10/2005 Alliance with IBM renewed
 10/2005 Second branch in Paris/France opened
 10/2005 Dr. Uwe Hack joins the Board of Directors
 10/2005 Standard & Poor's confirms its rating (see 2003)
 11/2005 Branch opened in Zurich/Switzerland

EXPANSION IN GERMANY AND ABROAD

Our expansion strategy in Germany has a dual focus: on penetrating the market through further growth in our core business of small-ticket leasing, and on developing new products and business areas.

Abroad, we are looking to penetrate the markets in countries already served by GRENKELEASING and move into new countries, initially introducing only our core business.

We are growing organically in all areas, extending our branch network in Germany and other countries by means of "cell division". As soon as a sales region reaches a specified number of contract inquiries per week, it is split into two branches.

In 2005, the sales regions in Munich and Berlin were both split up in response to the large volume of inquiries. In Paris, we opened a second branch in the city to supplement our existing office in Courtaboeuf, and now have offices in six locations in France. Following the opening of our Zurich branch, we now have three offices serving the Swiss market.

We also have a tailor-made franchise system to minimize the risks and costs in the start-up phase when founding new companies. GRENKELEASING does not hold an interest in these legally independent entities, but has the option of acquiring them at pre-defined terms after a certain period.

Under a franchise agreement with the franchise company, we provide expertise, tried-and-tested management tools, back office support and re-financing. Our franchise companies are also allowed to use the "GRENKE" and "GRENKELEASING" trademarks. In this way, we ensure that, if and when we decide to acquire the franchise company, we are thoroughly familiar with its receivables portfolio and that the "GRENKE" name is well established in the market. The franchise concept was launched in the UK and Poland in 2003, with both companies once again performing excellently in 2005. They boosted their market positions and generated new business growth of 70% and 115%, respectively.

In 2005, GRENKELEASING AS in Oslo, Norway, and, broadening our product range in Germany, GRENKE-FACTORING GmbH in Baden-Baden, and GRENKE-AUTOLEASING GmbH in Bremen, were also founded. By the end of the fiscal year, the new companies had concluded their first contracts.

On September 1, 2005, our Brussels branch commenced operations. We are planning our entry into the Hungarian market on the basis of our franchise system for 2006.

GRENKELEASING LOCATIONS IN EUROPE



With franchise companies:

- * Poznań (PL), Guildford/London (UK), Oslo (NO)
- ** GRENKEFACTORING GmbH, Baden-Baden (DE), GRENKE AUTOLEASING GmbH, Bremen (DE)

GRENKELEASING'S EMPLOYEES

We believe that a well trained and dedicated team of employees is a key factor in competitive corporate management. We are committed to fostering the vocational – and personal – skills and qualifications of each of our employees, including social skills and the willingness to work independently.

We have a competent and highly motivated team currently numbering 339 people, of whom 235* work in Germany and 104* in other European countries. 30* people were employed at the five franchise companies in 2005. The average age of all employees in the Group is 37; the average age of our directors is 45.

We are currently training ten young people. Since 2004, eight of our employees have been studying for degrees in international business management and

commercial computer science at the Berufsakademie Lörrach. We also started offering apprenticeships for office clerks in 2005.

Ongoing specialist training is a matter of course for us. In 2005, four employees completed their training as leasing clerks with the Industry of Chamber and Commerce or graduated in financing and leasing at the Verwaltungs- und Wirtschaftsakademie in Freiburg. Six of our employees are currently studying on this three-year course. GRENKELEASING also offers its staff English lessons at the head office in Baden-Baden to equip them for the large-scale expansion into the rest of Europe.

(*weighted average of full-time equivalents, excluding directors)

OTHER CORPORATE ACTIVITIES

Apart from pursuing its business interests, GRENKELEASING has been actively involved in non-profit activities for many years. In 2005, we renewed our commitment to helping young people through local projects and sponsored sporting and cultural activities to encourage a meaningful use of leisure time. In this context, GRENKELEASING regularly donates used computers to schools and social institutions.

In 2005, the Company once again donated EUR 25,000 to the FIFA's official charity campaign "6 for 2006". The aim is to build six new SOS children's villages in Brazil, Mexico, Nigeria, South Africa, the

Ukraine and Vietnam by the end of the soccer World Cup. The campaign initiators are confident of reaching this target. Wolfgang Grenke gave our donation check to the charity's patron Timo Hildebrand, a member of the German national soccer team and goalkeeper at the club VfB Stuttgart.

ACTIVITIES AND EVENTS AROUND THE CHESS GAME

GRENKELEASING has had close ties with chess for many years and promotes the game as a “mental exercise” in various ways. It therefore comes as no surprise that several of its employees have earned national accolades as chess players. The Company sponsors the Karpov Chess Center, a training center and organizer of numerous tournaments for beginners and advanced team players. In 2005, the Chess Tigers club hosted for the first time a championship sponsored by GRENKELEASING at the Chess Classic tournament in Mainz, which is widely considered to be the unofficial world speed chess championship. In France, the subsidiary GRENKE LOCATION SAS sponsors the chess club “Cercle d'Echecs de Bischwiller”.

The Ooser Schachclub Baden-Baden is the spiritual home of many outstanding players and has also been sponsored by GRENKELEASING since 1998. Founded in 1930 by a small group of chess enthusiasts, it has had

a checkered past, alternating between local and regional leagues for decades.

Thanks to GRENKELEASING's financial support and Wolfgang Grenke's personal commitment, himself a passionate chess player, the club's steady rise began, taking it from the regional league to the association league, the top league of Baden, the second, and, three years ago, to the national first league. In 2003, the club became German team speed chess champion, and won the German team cup in 2003 and 2005. The women's team has won the German championship three times in a row. The club is celebrating its 75th anniversary this year and is now one of Germany's top chess clubs.

The Track Record of the Ooser Schachclub Baden-Baden in 2005:

Winning

- ▶ Its third consecutive German women's team championship title
- ▶ The men's German team cup
- ▶ The German U20 youth team championship
- ▶ Runner-up in the German U16 youth championship



**IT'S NOT THE WIND THAT DECIDES THE COURSE.
IT'S THE WAY THE SAILS ARE SET.**

48.30

euros: the year-end price of the GRENKELEASING stock, which is listed in the Prime Standard and is carried in the SDAX index. The share price rose 38.6% between December 30, 2004 and December 30, 2005, a reflection of the stock's continued steady growth in 2005. Our investor relations activities were given top marks in surveys by the German magazines "BÖRSE-ONLINE" and "Capital".

05

THE GRENKELEASING STOCK

- 05.1** The GRENKELEASING Stock in Fiscal Year 2005
- 05.2** Investor Relations
- 05.3** Corporate Governance Report

THE GRENKELEASING STOCK IN FISCAL YEAR 2005

Performance

Once again, the GRENKELEASING stock performed extremely well in 2005, its price rising from EUR 34.85 on December 30, 2004 to EUR 48.30 on December 30, 2005. This translates into a price gain of 38.6% - compared with DAX 30 performance of 27.1% and SDAX performance of 35.2% - as shown in the chart below.

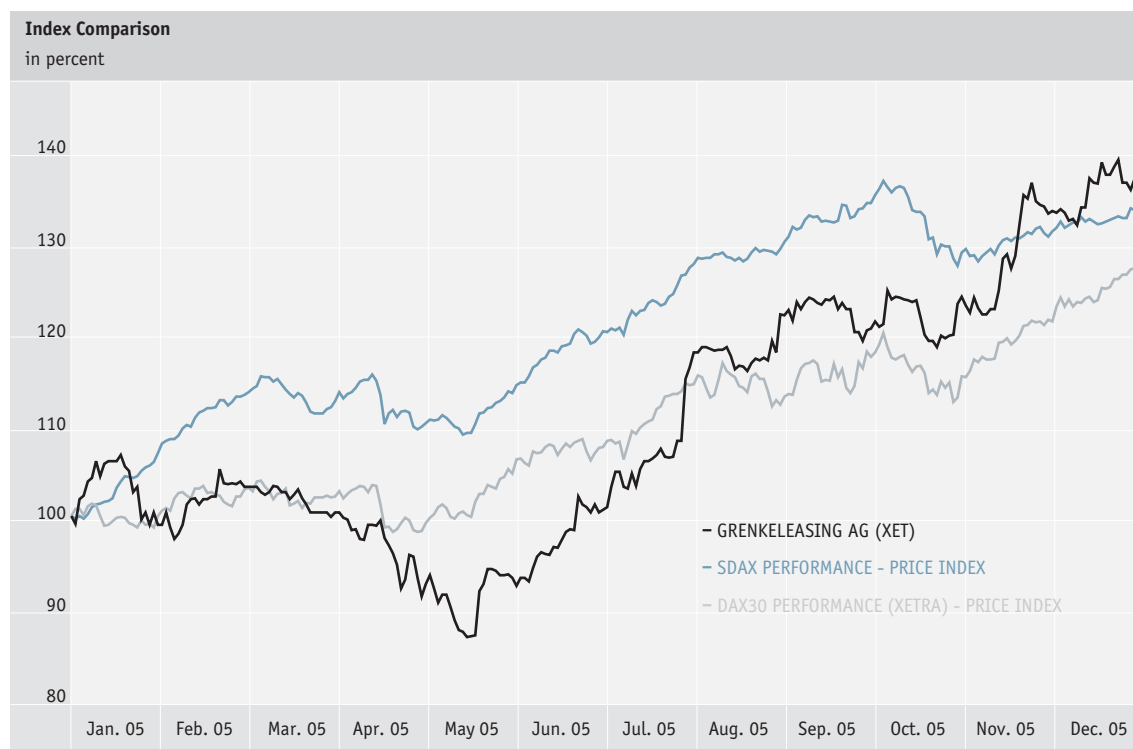
Dividend Policy

Despite continuing vigorous growth and the related need to boost our equity base, we want our shareholders to share in the Company's growth in the form of dividends.

With a dividend policy guided by continuity, income and the need to secure our equity base for future growth, the GRENKELEASING stock is an investment combining attractive growth prospects with regular income.

The Board of Directors and Supervisory Board of GRENKELEASING AG will propose to the shareholders' meeting on May 9, 2006, payment of a dividend of EUR 0.50 per share for fiscal year 2005.

This dividend increase is in line with EBT growth of 25% year on year.



Source: Datastream

Investment Case

Apart from our growth strategy, market leadership in our core business and optimized management of risks are the cornerstones of the position of our stock on the capital market.

In the fiscal year, growth of new business in Germany was underpinned by a highly dynamic development of our foreign activities. As we are enjoying faster organic growth in all of our key markets than the overall market, we are firmly capturing market shares and constantly strengthening our market position and presence in Europe.

For us, expansion means translating new business growth into profit growth based on efficient cost and risk control.

The combination of stringent cost management and automation of our core processes makes our cost-income ratio considerably lower than our major competitors in Europe.

Our risk management strategy coupled with a high level of portfolio diversification allows us to actively manage our risks. This means that we are able to respond quickly to changes in the market and demand adequate risk premiums for the risks we take.

However, our cost and risk management systems do not just boost our operating result; together with our sales network, they also raise barriers to market entry by competitors. This makes us well-equipped to generate future growth.

THE STOCK AT A GLANCE

GRENKELEASING	
Code	GLJ
ISIN	DE0005865901
Code Bloomberg	GLJ_GR
Code Reuters	GKLG.DE
Market segment	Prime Standard
Index	SDAX
Designated Sponsors	Deutsche Bank, HSBC Trinkhaus & Burkhardt, WestLB
No. of shares	13,643,646
Class	No-par shares
Nominal value per share (rounded)	EUR 1.28
Shareholder structure according to Sec. 1.7 of the current Deutsche Börse stock indices guidelines	
Freefloat	56.36%
Mr. and Mrs. Wolfgang Grenke and minor sons	43.64%

	2005	2004	2003	2002
Closing price* Frankfurt - Xetra	EUR 48.30	EUR 34.85	EUR 17.54	EUR 10.20
Maximum variable price	EUR 49.32	EUR 35.60	EUR 20.00	EUR 25.00
Minimum variable price	EUR 29.70	EUR 16.92	EUR 8.20	EUR 8.15
Stock market capitalization based on closing price	EUR 659m	EUR 474m	EUR 237m	EUR 138m
Earnings per share	EUR 2.13	EUR 1.74	EUR 1.45	EUR 1.13
Price-earnings ratios (at closing price)	22.7	20.0	12.1	9.0

* last trading day

INVESTOR RELATIONS

Both our business activities and our investor relations work have a European and international scope. The directors have informed the capital markets about the Company's development in numerous roadshows, investor conferences and interviews with investors, analysts and media representatives.

The capital markets demand high-quality and rapid information from listed companies. Our aim is to be a top performer in this respect, too. On the second working day after the end of each quarter we publish up-to-date figures on new business and the new business margin. The audited consolidated financial statements for the fiscal year are published by the end of January the following year. To improve transparency, our reporting exceeds the minimum requirements.

Our efforts have paid off. The quality of our investor relations activities was very highly rated in two surveys conducted in 2005. GRENKELEASING was ranked highest of all small caps in a survey by the magazine "BÖRSE ONLINE". From an investor perspective, our strengths include the timeliness and credibility of the information provided, wrote the internet magazine "BÖRSE-ONLINE". GRENKELEASING was placed sixth overall out of 160 stock corporations. In the survey by the magazine "Capital", GRENKELEASING was ranked number two in the SDAX and of all listed companies. "Capital" has been rating top Euro Stoxx, MDAX, TecDAX and SDAX companies since 1997. The jury consists of analysts and fund managers belonging to the German Society of Investment Analysts (DVFA) who assess how companies communicate with private and institutional investors.

Coverage

Investors once again showed a great interest in GRENKELEASING and its stock in 2005. The following institutions regularly publish studies on the stock:

- ▶ Berenberg Bank
- ▶ Citigroup
- ▶ Deutsche Bank
- ▶ Dresdner Kleinwort Wasserstein
- ▶ Merck Finck & Co.
- ▶ WestLB

CORPORATE GOVERNANCE REPORT

The principles of value-oriented and transparent management and controls have acquired significant importance in the assessment and valuation of listed companies. The Board of Directors, Supervisory Board members and executive employees of GRENKELEASING AG identify with these principles, and corporate governance continues to be a high-priority issue at GRENKELEASING. We consider our commitment to corporate governance to be an important measure to build confidence among our present and future customers, shareholders, lenders, employees, business partners and the general public.

GRENKELEASING AG complies with all of the recommendations of the German Corporate Governance Code as amended in June 2005.

The Board of Directors and the Supervisory Board have addressed compliance with the Code at their meetings and adopted the declaration of compliance with the Code reprinted on page 49.

Group Executive and Oversight Bodies

GRENKELEASING AG has a Board of Directors comprising five members and a Supervisory Board with six members.

Supervisory Board

The Board of Directors regularly provides the Supervisory Board and its committees with detailed and comprehensive reports on the economic situation, the status of business planning and recent events at the Company. Strategic development as well as risk provision and risk management issues were discussed with the Board of Directors. The Supervisory Board's functions include appointing and monitoring the directors, approving the financial statements of GRENKELEASING AG and the Company's consolidated

financial statements with due regard to the auditor's audit reports and the audit findings by the audit committee.

Please see the Supervisory Board's report on page 120 of the Annual Report.

The Supervisory Board's rules of procedure stipulate the formation of committees. The Supervisory Board of GRENKELEASING AG has set up two committees:

Audit Committee

The audit committee has three members with specialist accounting knowledge. It deals primarily with external and internal accounting issues, the Company's risk management, auditor independence, the audit priorities, and the fee arrangements with the auditor. The audit committee also prepares the Supervisory Board's resolution on the approval of the financial statements and the consolidated financial statements.

Personnel Committee (Presidium Committee)

The personnel committee has three members. It deals with the Supervisory Board's personnel decisions and is responsible for concluding, amending and terminating the contracts of employment with the directors.

Board of Directors

The Board of Directors is responsible for managing the Group and determines its strategy and business policy. It is responsible for the preparation of the quarterly reports, the financial statements of GRENKELEASING AG and the consolidated financial statements. The Board of Directors informs the Supervisory Board regularly and in detail in its directors' reports and discussion papers on the Company as a whole, questions of

strategy and its implementation, planning, performance, financial position and results of operations, and on business risks.

The Board of Director's rules of procedure list a number of transactions that require approval; major directors' decisions – e.g. on acquisitions and financial measures – are subject to the approval of the Supervisory Board.

The Supervisory Board

Name	Activity	Other Supervisory Board/ Advisory Board Functions
▶ Prof. Dr. Ernst-Moritz Lipp Age: 55 First elected: 2003 Elected until the shareholders' meeting 2008	Chairman of the Supervisory Board, Professor of international finance and general manager, Baden-Baden, DE	TFL International GmbH, Weil a. Rhein, DE, Burkart Verwaltungen GmbH, Singen, DE, 2D Holding GmbH, Laichingen, DE
▶ Gerhard E. Witt Age: 61 First elected: 1997 Elected until the shareholders' meeting 2008	Deputy Chairman of the Supervisory Board, Public auditor and tax advisor, Baden-Baden, DE	GRENKE Investitionen Verwaltungs KGaA, Berlin, DE
▶ Dr. Brigitte Sträter Age: 66 First elected: 2001 Elected until the shareholders' meeting 2010	Member of the Supervisory Board, Owner and manager of the PR agency CENA, Dusseldorf, DE	
▶ Dieter Münch Age: 63 First elected: 2000 Elected until the shareholders' meeting 2010	Member of the Supervisory Board, Retired bank officer, Weinheim, DE	GRENKE Investitionen Verwaltungs KGaA, Berlin, DE, Weisenburger Bau + Grund AG, DE, Halle/Saale, DE
▶ Dr. Oliver Nass Age: 38 First elected: 2005 Elected until the shareholders' meeting 2010	Member of the Supervisory Board, Commercial general manager, Paris, France	
▶ Erwin Staudt Age: 58 First elected: 2005 Elected until the shareholders' meeting 2010	Member of the Supervisory Board, Economics graduate, President of the soccer club VfB Stuttgart 1893 e.V., Leonberg, DE	PROFI Engineering Systems AG, Darmstadt, DE, USU AG, Möglingen, DE, Hahn Verwaltungs-GmbH, Fellbach, DE

For more information on the supervisory see page 115 f. in the notes in this annual report.

The Board of Directors and the Supervisory Board are liable to pay damages to the Company in the event of a negligent breach of the duty of care. GRENKELEASING AG has concluded a directors' and officer's property loss liability insurance with a reasonable first loss provision.

Compensation Structure and Remuneration of Directors and Supervisory Board Members

The compensation system for directors provides for a fixed basic annual payment and a variable compensation component. Variable compensation is calculated with reference to the Company's earnings for the current year and criteria which are of relevance for the Company's long-term success.

The compensation paid to each of the directors is listed on page 117 in the appendix to the Annual Report, broken down into fixed and variable components.

Stock Option Programs

The first employee stock option program (IPO stock option program) was launched in connection with the stock market flotation of the GRENKELEASING AG stock. A further stock option program followed in 2002. These employee stock option programs are intended to allow members of the Board of Directors and the other employees of the Company and of its affiliated companies to directly participate in the future growth in corporate value.

The stock options exercised by directors and the valid options still held by directors as well as more details on our stock option program can be found on pages 112 to 115 in the appendix to the Annual Report.

Supervisory Board Compensation

The compensation paid to members of the Supervisory Board was determined by the shareholders' meeting and is set forth in Article 10 of GRENKELEASING AG's articles of incorporation.

In accordance with the articles of incorporation, the members of the supervisory board receive a fixed annual compensation of EUR 6,000, the Chairman receives EUR 9,000. On top of this, a variable component is paid if a dividend in excess of EUR 0.20 per share is paid to shareholders. In this case, the fixed compensation is increased by one quarter of the percentage by which the dividend per share exceeds the amount of EUR 0.20. The variable compensation component may be no more than 50% of a Supervisory Board member's fixed compensation. Supervisory Board members who sit on a committee receive an additional EUR 600 each fiscal year, the chairman of a committee receives EUR 900.

The compensation paid to each member of the Supervisory Board is listed on page 116 in the appendix to the Annual Report, broken down into fixed and variable components.

Accounting, Auditing and Financial Disclosure

The group accounts for the fiscal year from January 1 to December 31, 2005, are prepared in accordance with the International Financial Reporting Standards (IFRSs) as applicable in the EU. In addition, in preparing the consolidated financial statements, the Company must observe the provisions of Sec. 315 a (1) HGB and has done so. The audit of the consolidated financial statements was conducted pursuant to Sec. 317 HGB in compliance with the generally accepted principles for the audit of financial statements adopted by the Institute of Public Auditors in Germany (IDW AuS 450).

The audit committee ensures that the auditor is independent and nominates an auditor to be elected by the shareholders' meeting. The auditor is elected by the shareholders' meeting in accordance with the relevant legal requirements.

Transparency and Shareholder Information

GRENKELEASING uses the internet to provide a common level of detailed and timely information to shareholders, capital market participants, financial analysts, shareholders' associations and the media. We publish all ad hoc releases and press releases, annual and quarterly reports, and reports made in accordance with Sec. 15 WpHG ["Wertpapierhandelsgesetz": German Securities Trading Act] in German and English. Our declarations of compliance with the Corporate Governance Code are published on our website.

Our shareholders can find information about the Group, its management and organizational structure on the internet. The Company's announcements are published in the electronic version of the Bundesanzeiger ["German Federal Gazette"].

At the annual general meeting, shareholders can watch the Directors' report and the general discussion on the internet. Company-appointed proxies can be asked to exercise voting rights, also in the shareholder's absence. The dates on which the regular financial reports are published are listed in the financial calendar.

We report in detail on the GRENKE stock in the chapter entitled "The GRENKELEASING Stock" on pages 40 ff. of the Annual Report.

Shares Held by Directors and Supervisory Board Members

On December 31, 2005, the following shares (and options) were held by the directors:

Shares Held by Directors		Options Held by Directors**
Wolfgang Grenke	5,019,419*	13,252
Thomas Konprecht	384,080*	9,938
Mark Kindermann	70,953*	6,628
Michael Kostrewa	84,600*	6,628
Shares Held by Supervisory Board Members		
Dieter Münch	75	

* The following call options have been granted: Wolfgang Grenke: 250,000 shares, Thomas Konprecht: 55,000 shares, Mark Kindermann: 20,000 shares, Michael Kostrewa: 25,000 shares

** Granted under the stock option program. Right to subscribe to 1 share per option.

Directors' Dealings

Declaration pursuant to Sec. 15a WpHG

The following transactions have been reported since January 1, 2005 (until December 31, 2005):

Director	Trading Day	Type of Security	ISIN	Type of Transaction	Number	Price Currency	Note
Wolfgang Grenke	12/04/05	GRENKE-stock	DE0005865901	Sell	50,000	EUR 30.78	See 1.
	11/05/05	GRENKE-stock	DE0005865901	Buy	2,200	EUR 20.93	See 2.
	12/09/05	GRENKE-stock	DE0005865901	Sell	50,000	EUR 33.35	See 1.
	16/12/05	GRENKE-stock	DE0005865901	Sell	50,000	EUR 38.40	See 3.
Thomas Konprecht	01/02/05	GRENKE-stock	DE0005865901	Sell	100,000	EUR 34.00	
	11/05/05	GRENKE-stock	DE0005865901	Buy	1,650	EUR 20.93	See 2.
	16/12/05	GRENKE-stock	DE0005865901	Sell	55,000	EUR 38.40	See 3.
Mark Kindermann	11/05/05	GRENKE-stock	DE0005865901	Buy	1,100	EUR 20.93	See 2.
	16/12/05	GRENKE-stock	DE0005865901	Sell	20,000	EUR 38.40	See 3.
Michael Kostrewa	01/02/05	GRENKE-stock	DE0005865901	Sell	2,000	EUR 34.35	
	01/02/05	GRENKE-stock	DE0005865901	Sell	48,000	EUR 34.00	
	11/05/05	GRENKE-stock	DE0005865901	Buy	1,100	EUR 20.93	See 2.
	19/05/05	GRENKE-stock	DE0005865901	Sell	1,649	EUR 29.85	
	18/08/05	GRENKE-stock	DE0005865901	Sell	1,411	EUR 40.09	
	18/08/05	GRENKE-stock	DE0005865901	Sell	500	EUR 40.10	
	18/08/05	GRENKE-stock	DE0005865901	Sell	89	EUR 40.14	
	25/11/05	GRENKE-stock	DE0005865901	Sell	5,000	EUR 47.55	
	16/12/05	GRENKE-stock	DE0005865901	Sell	25,000	EUR 38.40	See 3.

1. Shares sold following the exercise of options; see our notice dated April 22, 2004
2. Acquired under the employee stock option program
3. Shares sold following the exercise of options; see our notice dated December 8, 2004

All transactions are published on the Company's website at www.grenkeleasing.de – Directors' Dealings.

Financial Control and Risk Management

The risk management system at GRENKELEASING AG has the function of systematically identifying, assessing, documenting and disclosing risks. It is designed to enable employees and management to address risks responsibly and make the most of the opportunities that present themselves.

The risk management system introduced in 2003 was extended further in fiscal year 2005. The function of the risk management system and the result of measures taken are reviewed by the internal audit department. The internal audit department reports directly to the Board of Directors.

Please see pages 62 to 64 in the Management Report to the Annual Report for details of the risk management system.

The Board of Directors and the Supervisory Board of GRENKELEASING AG declare in accordance with Sec. 161 AktG [“Aktiengesetz”: German Stock Corporation Act] in conjunction with Sec. 15 EGAktG [“Einführungsgesetz zum Aktiengesetz”: Introductory Act of the German Stock Corporation Act]:

GRENKELEASING AG complies with all of the recommendations made by the Government Commission on the German Corporate Governance Code in the version dated June 2, 2005.

Baden-Baden, Germany, January 19, 2006

GRENKELEASING AG

Declaration of Compliance

The Board of Directors and the Supervisory Board of GRENKELEASING AG made the following declaration of compliance on July 11, 2005:

The Supervisory Board

The Board of Directors

GLOSSARY

ABCP Program

Abbreviation for "Asset Backed Commercial Paper Program". Under ABCP programs, companies such as leasing companies sell their receivables to a special purpose entity which issues interest-bearing securities to investors through the capital market. Interest and the principal payments of these securities are made using the cash flows from the assigned receivables on these securities.

Asset-Broker

GRENKELEASING sells used leased assets in Germany, France, Austria, and Switzerland via its internet portal www.asset-broker.com. Our specialist dealer partners can also use the portal to sell their own presentation equipment or used goods.

BDL

German Leasing Association ["Bundesverband Deutscher Leasingunternehmen e.V."], Berlin, www.leasing-verband.de

BITKOM

German Association for the Information Industry ["Bundesverband Informationswirtschaft, Telekommunikation und neue Medien e.V."], Berlin, www.bitkom.org

Cost-Income Ratio

The cost-income ratio presents the relationship between expenses and income. Contrary to the approach normally taken by bank analysts, we deduct the cost of the settlement of claims/risk provisioning from revenue, even if this results in a less favorable ratio. This is because in the leasing market higher revenues would be possible if greater risks were taken, but this should not result in an improved cost-income ratio.

We therefore determine the cost-income ratio as the ratio between the total of all costs (less evaluation expenses and taxes) and income comprising the interest

result from the leasing business after the settlement of claims, the result from the insurance business, the result from new business, profit from disposals, other operating income and the interest result (excluding the leasing business).

D.A.S basic

The D.A.S. basic rental agreement is for assets with meters such as copiers or printers. A charge is calculated on a per-page basis. For this type of contract, the basic rental fee already includes a specified number of free copies or print-outs. The customer is sent a bill for the additional copies/print-outs at the end of the invoicing period.

D.A.S. direct

Under this subletting agreement for assets with meters, the specialist dealer acts as lessor vis-a-vis the customer. This provides the customer with support and financing consulting from one source. For this type of contract, billing is done on a per-page basis, with a specified number of free copies or print-outs already included in the basic rental fee.

D.A.S. vario

The D.A.S. vario rental agreement is suitable for equipment with meters. The customer only pays for actual use of the equipment during the invoicing period and is invoiced on a per-page basis. "vario" signifies the variability of the contract with regard to the term and the monthly purchase quantities. There is no minimum purchase of copies/print-outs or a minimum term.

DAX / DAX30

The DAX index is calculated by the Frankfurt Stock Exchange and comprises the prices of the 30 top-selling German stocks. It is the most closely watched indicator for the development of prices on the German stock markets.

Contribution Margin/M

The contribution margin (M), also known as gross profit, is a corporate cost accounting term. The contribution margin is the amount which, for example, is needed to cover the fixed costs of a product and generate a net profit. It is calculated as the difference between income and the variable costs which are triggered directly by the product.

At GRENKELEASING, contribution margin 1 is calculated on the basis of the present value of the interest spread less commission to third parties. Contribution margin 1 is used to calculate the financial result during the course of the contract and is therefore a key indicator of the profitability of new business.

Debt Issuance Program

The debt issuance program is a flexible refinancing program with standardized documentation. It enables issuers to cover their financing needs by raising loans in various currencies and volumes and with varying terms. Within the scope of this program (constant issuance), debentures can be issued on the stock exchange or over the counter. The interest rate is fixed or variable. The rate depends on the volumes of one or more dealer banks (dealers). The participating banks do not usually assume any underwriting commitments. The issuers bear the placing risk.

DISPO Framework Agreement

Major customers who invest regularly in new equipment conclude a framework agreement with GRENKELEASING and benefit from standardized, attractive terms within that framework. The agreed leasing volumes can then be drawn on in individual tranches by customers. Hence, customers benefit from favorable terms, lower costs and greater flexibility.

EBIT

Earnings before interest and taxes

EBT

Earnings before taxes

Embedded Value

The calculation method for embedded value originated in the insurance industry and is also applicable to leasing companies. Contrary to the trading business, income from lease contracts concluded as of the balance sheet date is not generated immediately, but rather during the term of the contract. The embedded value is the present value of future income from the leasing portfolio and the value of equity without taking future new business into account. The estimated expenses are deducted from the present value of income as of the balance sheet date and supplemented by equity.

Euro STOXX

The European stock index comprises 50 representative stocks from member countries of the European Monetary Union. In addition, the STOXX 50 index comprises 50 blue-chip stocks from all across Europe.

Flex PLUS Leasing

This type of contract has a monthly lease payment which is calculated by dividing the acquisition price by the term of the lease in months. Interest and charges are paid after the end of the contract term once the customer chooses whether to extend the lease by six months or make a final payment of six monthly installments. GRENKELEASING then sells the equipment in its own online market "Asset-Broker" and passes on 75% of the proceeds to the customer. Ideally, the customer enjoys 0% financing.

Franchise System

In this sales system, the franchisor provides its partners with a license to independently manage its own operations, but remains responsible for the delivery of goods and for advertising. This system is based on franchise agreements which define marketing, business policies, and product range, etc. The legally independent franchisee can thus benefit from a well-known company name and long-term sales experience. The franchisor can sell its products or services on other markets without employing its own capital.

GRENKELEASING's franchise system, which was introduced in 2003, covers the markets in the UK, Poland, and, since 2005, Norway. There are two active franchise partners in Germany, also since 2005, which cover factoring and vehicle leasing services. Neither the parent company nor any subsidiary holds a direct or indirect interest in the franchise companies. The management of GRENKELEASING AG does not hold any direct or indirect interest in any of the franchise companies either.

Ifo Institute

Abbreviation for "Information and Research" ["Information und Forschung"] ["Institut für Wirtschaftsforschung e.V."] The ifo institute is one of the largest economic research institutions in Germany which regularly publishes economic research results (www.cesifo-group.de).

IFRS

The International Financial Reporting Standards (IFRSs) are external reporting regulations developed by the International Accounting Standards Board (IASB), an independent private body. The IFRSs, formerly known as the International Accounting Standards (IASs), comprise the standards themselves and the interpretations by the International Financial Reporting Interpretations Committee (IFRIC), formerly known as the Standing Interpretations Committee (SIC). As of fiscal year 2005, the application of these standards is compulsory for publicly traded companies with their registered office in the European Union (EU) in the form adopted by the EU (endorsed).

IT Asset Management

Customers who conclude a DISPO framework agreement (see above) are also offered active support for their IT infrastructure (inventory and cost management) in the form of our IT Asset Management tool ("ITAM"). This web-based software facilitates the management of the customer's entire asset portfolio using a standard platform.

ITC Market

IT and Telecommunications Market

MDAX

The MDAX stock index comprises the stocks of 50 companies from classic sectors which, in terms of size and market capitalization, rank immediately below the companies included in the DAX index. The MDAX index therefore contains medium-sized companies, or mid-caps. These may include German and foreign companies, as long as they are listed in the Prime Standard.

New Business

New business includes the acquisition cost of all assets from lease and hire-purchase contracts which were concluded for the first time during the reporting period. This also includes the acquisition cost of newly acquired assets from franchise partners.

Prime Standard

The Prime Standard is a listing standard of the Frankfurt Stock Exchange with transparency requirements for issuers which exceed that of the General Standard (e.g. quarterly reports, international accounting standards). A listing in the Prime Standard is a requirement for a listing on one of Deutsche Börse's indices such as the DAX, MDAX, TecDAX, or SDAX. GRENKELEASING AG is listed in SDAX.

Rating

Rating agencies rate the creditworthiness of an issuer over long and short-term periods using a standard rating method. "AAA", for example, is the highest solvency rating, and "C" or "D" indicates a low probability of payment. The leading rating agencies are Moody's and Standard & Poor's.

Scoring Procedure

A scoring system is used at leasing companies to determine the creditworthiness of a potential lessee. Using a statistical calculation, the probability of default is determined for a new lease agreement, which forms the basis for a decision as to whether or not the application for a lease is accepted.

Since 1994, GRENKELEASING has assessed the creditworthiness of its lessees using a scoring procedure. In addition, external sources of information are used, e.g. the credit agency Crefo, which provides an additional database. The potential lessee receives a score which ultimately sways the decision as to whether or not a lease agreement is concluded.

SDAX

The SDAX index contains the 50 largest and most liquid companies from classic sectors ranking just below the MDAX. These may include German and foreign companies, as long as they are listed in the Prime Standard. On January 1, 2003, GRENKELEASING was admitted to the Prime Standard and listed on the SDAX as of February 1, 2003. This new regulation became effective as of February 11, 2003.

Small Caps

Small companies which do not belong to the highly traded companies of the main indices.

Small-Ticket IT Leasing

In this market segment, equipment such as notebooks, personal computers, monitors and other peripheral devices, smaller networks, software and telecommunications, backup and copier technology normally costing up to EUR 25,000 are leased.

TecDAX

The TecDAX tracks the development of the 30 largest technology companies of the Prime Standard which are ranked just below the DAX index in terms of order book volume and market capitalization. These may include German and foreign companies, as long as they are listed in the Prime Standard. This index is the successor of the Nemax50 index of the Neuer Markt.



**OUR EMPLOYEES' MOTIVATION, STAMINA AND PASSION
ARE THE DRIVING FORCES BEHIND OUR LONG-TERM SUCCESS.**

47.4

million euros was the contribution margin generated by new business ("contribution margin 1") in the fiscal year. Year on year, contribution margin 1 was up 18.8%, more or less equalling the increase in previous years. Over the contract term, the contribution margin 1 is used to calculate the financial result, making it an important ratio for determining the profitability of our lease contracts.

06

GRENKELEASING AG GROUP - FACTS AND FIGURES

- 06.1** Group Management Report for Fiscal Year 2005
- 06.2** Consolidated Income Statement for Fiscal Year 2005
- 06.3** Consolidated Balance Sheet as of December 31, 2005
- 06.4** Statement of Changes in Consolidated Equity for Fiscal Year 2005
- 06.5** Consolidated Cash Flow Statement for 2004 and 2005
- 06.6** Notes to the Consolidated Financial Statements for Fiscal Year 2005
- 06.7** Audit Opinion
- 06.8** Supervisory Board Report

GRENKELEASING AG, BADEN-BADEN GROUP MANAGEMENT REPORT FOR FISCAL YEAR 2005

1 Business Performance in 2005

1.1 Corporate Structure and Group Affiliations

The GRENKELEASING AG Group traces its origins back to a sole proprietorship founded in 1978.

In 1979, this sole proprietorship was contributed to a limited partnership, GRENKELEASING KG in Baden-Baden, Germany. Over the years, other companies were added, over which Wolfgang Grenke had a controlling influence. In 1993, these companies were restructured and merged into a group, and consolidated financial statements were then drawn up for the first time.

At the end of 1997, the shareholders founded GRENKELEASING AG ("AG") and Grenke Investitionen Verwaltungs Kommanditgesellschaft auf Aktien (the "KGaA"). The AG and the KGaA are two separate legal entities in a unitary enterprise, the AG being the operating company and the KGaA the holding company. Their foundation was geared toward concentrating the activities of the Group in Germany in these two companies.

In the fall of 1997, in collaboration with Hewlett-Packard, the Group invested in a foreign operating company, GRENKELEASING AG, Vienna, Austria, for the first time. In the same way, the second operating company abroad commenced operations in Switzerland in the fall of 1999. This was followed by GRENKE LOCATION SAS (formerly GRENKE LOCATION S.A.) in Schiltigheim near Strasbourg, France, in November 1999.

In August 2000, GRENKELEASING AG took over the internet service provider and software developer haberichter.net GmbH by way of a share deal. haberichter.net was merged with Weblease Leasing GmbH (now WEBLEASE NETBUSINESS AG) in fiscal year 2001, in order to offer all internet services from one company.

WEBLEASE NETBUSINESS AG ("WEBLEASE") will continue to operate as an independent operating company in Germany due to its function as a virtual leasing company until current lease contracts and the new business generated in the first half of 2005 have been wound up completely. Since the second half of the year, it has only concluded new contracts in the name of and for the account of GRENKELEASING AG. Its online business was also taken over by GRENKELEASING AG.

The AG acquired 100% of the shares in MAUDEN S.p.A., Milan, Italy, by way of purchase agreement dated February 6, 2001. In a purchase agreement dated June 5, 2001, the AG acquired 100% of the shares in EKOMA s.r.o., Prague, Czech Republic, which was renamed GRENKELEASING s.r.o. in 2005. The formation of GRENKE ALQUILER S.A., Barcelona, Spain, was notarized on October 30, 2001. The AG holds 100% of the shares.

It also acquired 100% of the shares in ZOOPLUS.COM AG, Unterföhring, Germany, by way of purchase agreement dated December 4, 2001. The company changed its name to GRENKE Locazione S.r.l. and moved its registered office to Milan, Italy.

In fiscal year 2002, the following subsidiaries were founded: GRENKELEASING ApS, Herlev, Denmark, Grenkefinance N.V., Maasbree, Netherlands, and GRENKE LIMITED, Dublin, Ireland. These were followed in 2003 by GRENKE FINANCE Plc., Dublin, Ireland, GRENKE LEASING S.r.l., Milan, Italy, and GRENKE-LEASING AB, Stockholm, Sweden, and GRENKE LEASE Sprl, Brussels, Belgium, which was founded in 2005.

In the United Kingdom, Poland, Germany and Norway, we use a franchise system. The companies in Guildford, near London, UK, and Poznan, Poland, commenced operations in 2003 on the basis of a franchise agreement. GRENKE AS, Oslo, Norway, concluded a franchise agreement on May 12, 2005. GRENKELEASING AG provides the expertise, the operational infrastructure, services and the right to use its name.

This allows us to limit the costs during the start-up phase and increase the public recognition of the GRENKELEASING AG Group. In the fiscal year, the Group supplemented its product range with the services factoring and vehicle leasing, which are also offered through franchise partners. The newly acquired partners, GRENKE AUTOLEASING GmbH and GRENKE-FACTORING GmbH signed a franchise agreement with GRENKELEASING AG on April 19, 2005 and June 26, 2005, respectively.

The GRENKELEASING AG Group thus offers its services in 15 countries through 12 subsidiaries and three franchise partners.

1.1.1 Group Profit and Loss Transfer Agreements

GRENKELEASING AG, Baden-Baden, Germany, concluded domination and profit and loss transfer agreements with Grenke Investitionen Verwaltungs KGaA, Baden-Baden, Germany, and WEBLEASE NETBUSINESS AG, Baden-Baden, Germany, in 2001 and 2002, respectively. The domination and profit and loss transfer agreement with WEBLEASE NETBUSINESS AG, Baden-Baden, Germany, was terminated with effect as of December 31, 2005.

1.1.2 GRENKELEASING AG's Corporate Governance Principles

The principles of value-oriented and transparent management and controls have acquired significant importance in the assessment and valuation of listed companies. Under the German Transparency and Disclosure Act ["Transparenz- und Publizitätsgesetz": TransPuG], all listed companies also have a duty to disclose their compliance with and any deviation from the requirements of the German corporate governance code. The Board of Directors, Supervisory Board and managers of GRENKELEASING AG identify with these principles and view the duty of corporate governance as an important measure to increase the confidence of current and future customers, shareholders, lenders, employees, business partners and the public.

The German corporate governance code was amended on June 2, 2005. On July 11, 2005, the Supervisory Board and Board of Directors unanimously approved the declaration of compliance of the German corporate governance code dated June 2, 2005 in full.

The Company's corporate governance principles and declaration of compliance are published in full on the GRENKELEASING AG website (www.grenkeleasing.de) in German and English.

1.2 Significant Events During the Fiscal Year

Following a review of GRENKELEASING AG in the spring of 2003, the rating agency Standard & Poor's gave the Company a counterparty rating of "BBB+" for long-term liabilities and an "A-2" for short-term liabilities, with a stable outlook. Standard & Poor's updated and confirmed its rating on October 5, 2005.

On October 30, 2003, the GRENKELEASING AG Group broadened its refinancing base by issuing a debut bond. A bond of EUR 200m with a term of three years (maturing on October 30, 2006) and a coupon of 4.5% was placed under the lead of Deutsche Bank AG. However, the Board of Directors limited the bond to EUR 170m. The bond was issued by GRENKE FINANCE Plc., Dublin, Ireland, a 100% subsidiary of GRENKELEASING AG, and guaranteed by the parent company. The bond was directed at both institutional and private investors.

The cash flow was used to repurchase receivables of EUR 173,012k from Hewlett Packard International Bank, from earlier refinancing of the contract portfolio, thereby financing them at better conditions. The bond is part of a debt issuance program (DIP) with a total volume of EUR 500m which provides a standardized framework for future borrowings. Under this program, various medium-term notes (MTN) and a floating-rate bond with a volume of EUR 100m were issued in fiscal year 2005. The program was updated with effect as of January 6, 2006 and confirmed by the Finance Sector Supervisory

Committee ("Commission de Surveillance du Secteur Financier": CSSF).

A third ABCP (asset-backed commercial paper) program, arranged by Skandinaviska Enskilda Banken AB, Stockholm (SEB), Sweden, was concluded on December 21, 2004 with terms almost identical to those of the previous two programs. Initial financing was raised on February 16, 2005.

The tax filings of the German companies were audited up to 1999. Provisions in the required amount had been recognized in the financial statements of the prior year. All resulting payment obligations were met in due time. The tax field audit from 2000 onward is expected to begin in the second half of 2006 due to the heavy workload of the responsible tax office. The local tax authorities in France announced that they would perform a tax field audit for the French company, GRENKE LOCATION SAS, Schiltigheim, France, beginning in February 2006 for fiscal years 2003 and 2004.

1.3 Economic Conditions and Industry Performance

Economic growth in Europe was more sluggish in 2005 than in the prior year. At the beginning of the year, experts forecast GDP growth of around 1.4% in the euro zone for 2005 compared with 2.1% in 2004.

In line with this, the growth rate in Germany - our most important regional market - sank from 1.6% in the prior year to just under 1% at the end of 2005.

At the reporting date, there were indications of a continuing upturn in 2006. The ifo institute is anticipating a significant increase in economic activity in Europe. There are also more and more positive indications for growth in Germany. This growth is primarily being driven by foreign demand, which is expected to increase considerably due to the positive international environment and the fact that the euro-dollar exchange rate is still favourable. In addition, the gradual increase in gross fixed capital formation in

Germany also indicates an upturn in the domestic economy.

After the estimated 4% growth in the information and telecommunications market (IT) in Europe in the first half of 2005, growth in the second half of the year slowed significantly. Most recently, the European Information Technology Observatory (EITO) estimated growth of just under 3%. EITO also forecasts the same rate for 2006.

In the fiscal year, the companies of the GRENKELEASING AG Group also seized their market opportunities. By focusing on small-ticket IT leasing, brand name independence, flexibility, a high degree of automation and strategic partnerships with retailers and manufacturers, the Group was able to boost new business by 13.6%. We intend to continue this success in the new year.

1.4 Financing

Lease receivables are sold primarily to financial institutions through special purpose entities under three ABCP programs or to GRENKE FINANCE Plc. (via factoring). The agreements secure financing of new business for several years even when volumes rise. Despite an increasing volume of new business, only a fraction of the ABCP programs had been utilized (68% as of December 31, 2005). The programs are revolving, i.e. repaid refinancing can be replaced by new refinancing. Further funds were raised by GRENKE FINANCE Plc. under the debt issuance program or by issuing borrower's note loans. A high equity ratio continued to give us sufficient financial leeway.

1.5 Personnel/Stock Option Programs

Due to the brisk expansion of our network of branch offices, the number of employees (weighted average of full-time equivalents, excluding the Board of Directors) rose from 285 in 2004 to 339 employees in 2005. An increase of 45 employees is planned for 2006. Group-wide, staff turnover stood at 8.90% in the fiscal year.

The Group attaches great importance to training for its employees. Thus, for example, 43 employees successfully completed their training at the Verwaltungsakademie in Freiburg to become Leasing- und Finanzierungswirte (certified leasing and financing consultants). A further 5 employees are currently attending the same course.

Since October 2004, GRENKELEASING AG, together with its subsidiaries in Switzerland and France, has been training students of Berufsakademie Lörrach. There are currently six students studying for degrees in international business management, (a 3.5-year program), and two students studying for degrees in commercial computer science (a 3-year program). The Company is planning to create more trainee positions for these subjects in 2006. The Company also offers apprenticeships for office clerks.

The first tranche of stock options issued under the IPO stock option program in 2001 did not meet the exercise requirements in the fiscal year and, as there is no remaining exercise period in 2006, cannot be exercised. These options will expire as of March 31, 2006. The stock options issued under the second employee stock option program of 2002 reached the exercise target. The employees were able to exercise half of their stock options at a price of EUR 19.64 in 2004 and a quarter of their options in fiscal year 2005. Exercising the options was possible in three exercise periods and the shares were offered at EUR 20.93 (first exercise period), EUR 19.84 (second exercise period), and EUR 16.62 (third exercise period). The remainder of the vested options can still be exercised in 2006. The new shares were created from the conditional

capital and are listed for trading on the stock exchange.

1.6 Capital Expenditure

EUR 2,585k was invested in property, plant and equipment and intangible assets in 2005.

Our investments were mainly in equipment for our new European branches. We also upgraded and extended our IT infrastructure.

1.7 Sales and Customer Structure

GRENKELEASING AG mainly leases information technology products (hereinafter referred to as "IT"). It has focused on the cost-effective processing of leasing business involving relatively small transaction values (small-ticket IT leasing) and achieved a leading position in Central Europe in this market segment.

Due to the low acquisition costs involved and the consequently reduced contribution margin per contract, direct selling in the field of small-ticket IT leasing is hardly worth its while. This is why the leasing contracts predominantly come about by way of manufacturers and retailers (vendor programs). We intend to exploit and expand the clear opportunities for growth, especially in other European countries, which this market segment presents over the years to come. A number of new products were developed in the fiscal year and made available to dealers to strengthen customer ties. Direct sales and business with co-operation partners were also extended and supported.

The traditionally broad-based lessee structure continues to show no signs of change. No lessee has accumulated total liabilities of more than 2% of group equity. The average net acquisition value per contract is EUR 7,427 (prior year: EUR 7,047). The industry structure of our portfolio corresponds largely to the structure of the German economy.

A quality management system was set up with the particular aim of supporting customer focus. GRENKELEASING AG offers its entire range of services via the internet (www.grenkeleasing.com and www.weblease-europe.com). It has expanded its presence in France, Italy, the Czech Republic, Austria, Denmark, Spain, Sweden, Switzerland, Ireland, Belgium, and the Netherlands. In addition, the business concept has been implemented as franchises in the UK and Poland since 2003 and in Norway since 2005. Furthermore, franchise partnerships were concluded in 2005 with German partners active in vehicle leasing and factoring.

Strategic sales partnerships have been developed further. GRENKELEASING AG renewed its partnership with IBM Global Financing in October 2005. The project provides a leasing program for small and medium-sized enterprises which facilitates IT financing for small and medium-sized customers which is even faster, simpler and more flexible. GRENKELEASING AG in Germany and its subsidiaries in France, Spain, and Belgium will be the service providers for the processing of lease contracts which are concluded as part of the IBM Financing Advantage.

We have also strengthened our longstanding and successful collaboration with Bechtle AG further.

1.8 Structure of the Supplier Base

The supplier structure continues to be broad based. No supplier has a share of new business larger than 4%

2 Business Situation of the Group

2.1 Shares

GRENKELEASING AG shares have been listed on the Frankfurt Stock Exchange since April 2000. The Company has issued 13,643,646 shares. 43.64% of these are registered shares held by Mr. and Mrs. Grenke and their dependent sons, leaving a free float of 56.36%.

During the reporting period, the Chairman of the Board of Directors, Wolfgang Grenke, sold 150,000 shares in a warrant transaction; Directors Mark Kindermann, Thomas Konprecht, and Michael Kostrewa sold 20,000, 55,000, and 25,000 shares, respectively, off the floor. Directors have exercised options issued under the stock option program to acquire a total of 6,050 shares. On December 23, 2005, the Chairman of the Board of Directors sold 100,000 shares in a warrant transaction which is linked to a share price (increase of 20.8% after one year) on a specified date.

In addition, the Chairman of the Board of Directors and main shareholder of GRENKELEASING AG, Wolfgang Grenke, transferred 40,000 GRENKELEASING shares to Kulturstiftung Festspielhaus, Baden-Baden, Germany, and 675,000 GRENKELEASING shares to the non-profit foundation GRENKE-Stiftung, Baden-Baden, Germany, in 2004.

In addition to pursuing charitable purposes and promoting young people and sports development, the GRENKE foundation supports art and urban development projects in Baden-Baden, Germany. Another of its focuses is on promoting science and research into preventive medicine, in particular combating drug addiction.

The performance of the GRENKELEASING share price was influenced in 2005 by the upward trend on the stock markets in Europe and the positive development of the Company's business. The share price rose from EUR 34.85 on December 30, 2004 to EUR 48.30 (XETRA closing price) on December 30, 2005, an increase of 38.59%.

2.1.1 Liquidity

The solvency of the group companies is to be preserved at all times. The Board of Directors of GRENKELEASING AG thus attaches great importance to maintaining sufficient liquidity. The Group's liquidity has risen further due to the growth in earnings. The AG manages the Group's liquid assets for the group companies in a cash pool. The Company has sufficient liquidity.

2.1.2 Refinancing

Funding of the leasing business (new business) is secure for several years to come. Our direct financing partners are Deutsche Bank AG, Commerzbank AG and Stadtsparkasse Baden-Baden. The special purpose entities of the ABCP programs are assisted by Deutsche Bank AG (Rheingold), WestLB (Compass) and SEB AB (Kebnekaise). Private placements were made under the debt issuance program through Deutsche Bank and WestLB. As part of a borrowers' note loan at GRENKE FINANCE Plc., financing was raised through a major German insurance company.

In keeping with the provisions of our quality management system, our financing arrangements are audited (avoidance of double financing; actual acquisition of the leased property) on a quarterly basis by independent auditors.

2.2 Earnings

Development of Results

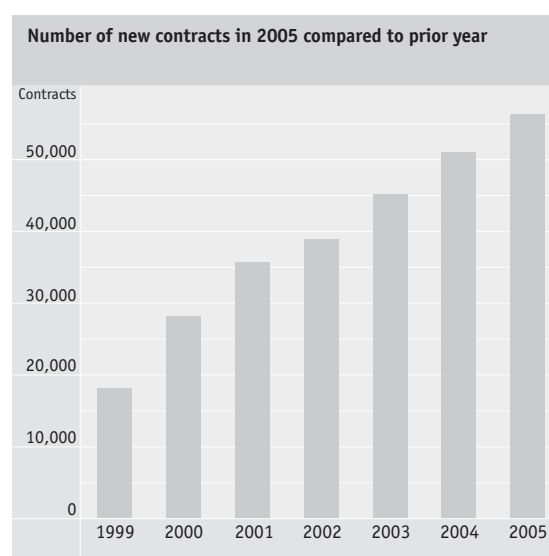
Group earnings from leasing (composed of net interest earnings after the settlement of claims arising from the leasing business, insurance business, earnings from exploiting third-party rights including follow-up leases and profit from new business) increased year-on-year by EUR 9,052k or by 13.2 % to EUR 77,484k (prior year EUR 68,432k).

Stringent cost management reduced the cost-income ratio from 43.2% in the prior year to 40.6%. As a result, earnings before other interest, measurement of financial instruments and taxes (EBIT) rose from EUR 39,293k in 2004 to EUR 46,772k in the fiscal year.

We generated net income for the year of EUR 29,027k (2004: EUR 23,629k), which is an increase of 22.8%. Earnings per share increased from EUR 1.74 in 2004 to EUR 2.13 and thus by 22.4%.

Conclusion of New Contracts

The number of new lease and lease-purchase contracts (including those concluded by the franchise companies in Poland, the UK, and Norway) rose from 51,546 in the prior year to 56,450, continuing in the trend of the prior years:



67.1% of the new business – in terms of the cost of the assets leased in new contracts – is attributable to Germany, 32.9% to other countries. New business in France performed particularly well, increasing by 36.6%. Thanks to the growth in the home market, our market share in Germany was improved.

2.3 Net Worth and Financial Position

The Group's net worth is characterized by a high proportion of lease receivables (80% of the balance sheet total as in the prior year) compared with a smaller proportion of refinancing liabilities (71.8% of the balance sheet total; prior year: 70.3%). The increase in short-term liabilities relates mainly to liabilities from refinancing. In addition to the increased volume of ABCP financing, this is primarily due to the fact that the bonds issued as part of the debt issuance program totaling EUR 170m will become due in 2006. The development of lease receivables is directly connected to new business.

2.4 Business Situation in the Various Regions

The foreign subsidiaries' efforts in opening up markets have once again made a positive contribution to the Group's growth compared to 2004. Additional foreign branches have increased our foreign presence. The subsidiaries in France and Switzerland in particular made a disproportionately high contribution to growth. The positive results in the Netherlands and Spain point toward a similar development to that in France and Switzerland. The companies in the other countries are performing as planned.

2.5 Structure of Services and Leased Assets

In keeping with the Group's basic strategy, we concentrate on office technology and communication equipment, especially IT systems, printers, software, photocopiers and telecommunications products. This specialization entails the risk of new business being affected if these products suffer a sales slump. This risk would, however, seem to be well worth taking in view of continuing high demand for this technology, the fact that the share of lease financing used in such investments is still relatively low, and that a recovery is forecast for the IT industry.

3 Risk Management

The risk management system (RMS) of GRENKELEASING AG has the function of systematically identifying, assessing, documenting and disclosing risks. It is designed to enable employees and management to address risks responsibly and make the most of the opportunities that present themselves.

The risk management system introduced in 2003 was extended further in fiscal year 2005 and a new risk management tool was developed. The function of the RMS and the result of measures taken are reviewed by the internal audit department. The internal audit department reports directly to the Board of Directors.

3.1 Credit Risk

Since 1994, we have assessed the creditworthiness of our lessees using a scoring system. The quality of this system has been proven by the level of loss experienced since its implementation. A quarterly review of losses is carried out by automated database queries. The scoring system is being enhanced on an ongoing basis by specialist staff.

3.2 Counterparty Risk

A diversification of retailer relationships addresses this risk. Retailers are assessed on a systematic basis. This procedure is part and parcel of our quality management system, with an evaluation being conducted on a quarterly basis.

3.3 Process Risk

Our business processes are documented in our quality management manual and are updated on an ongoing basis. TÜV Management Service GmbH issued the Company with DIN EN ISO 9001:1994 certification in 1998. Our quality management was tested and certified in 2005 by Technical Control Association officers from TÜV Management Service GmbH in accordance with the new standard DIN EN ISO 9001:2000.

In addition to the German branches, the companies in Austria, France, Switzerland and Grenke Investitionsen Verwaltungs KGaA, which is in charge of asset sales, have since been certified.

GRENKELEASING AG's quality management is an important factor in ensuring the quality of our services and the satisfaction of customers and business partners. Consistent and ongoing improvement is part of our corporate philosophy. The Board of Directors regularly assesses the effectiveness of the management system and any corrections are made on a timely basis.

The current audit report confirms that GRENKELEASING AG has an outstanding management system, operated to a high standard. According to the report, the requirements of ISO 9001:2000 are met in full.

Any original leasing contracts which have not been scanned in are kept in fireproof cabinets/safes. Thus, even in the event of damage to property (caused by fire, etc.), sufficient precautions have been taken.

Contract data is stored and updated in our IT system, mainly using specially developed programs. In-house development of programs is part and parcel of our quality management system. Original contract data is stored both in branch offices as well as in the central contract management division in Baden-Baden, Germany. Automatic backup programs and automatic power-interruption facilities safeguard data maintenance. IT systems play an important role in the processing and administration of our leasing business,

and, as such, IT organization and processes are subject to regular internal review.

3.4 Contractual Risk

Contractual risk is limited by the fact that the majority of the contracts concluded by the Company provide for full cost recovery. As a rule, no maintenance or warranty risks are entered into.

3.5 Sales Risk

Ongoing marketing measures serve to mitigate sales risk. These include

- ▶ Gathering information
- ▶ Product development
- ▶ Procedural improvements
- ▶ Developing sales channels

3.6 Interest Rate Risk

Over the term of a contract, the lease payments are subject to price risk determined by interest rates. Match funding is achieved through the sale of receivables. This ensures that the interest charge for GRENKELEASING AG is fixed and known for any point in time. Match funding is not necessarily achieved under the ABCP programs and through private placements. The exposure to rising interest rates is hedged by interest rate derivatives. The Company bears the interest risk for self-financed contracts or contracts with advance financing.

3.7 Currency Risk

To finance the office building in Baden-Baden, Germany, the Company raised a loan in Swiss francs. This loan is not currency hedged. Due to the amount and the development of the EUR/CHF exchange rate, the currency risk is immaterial. Additional foreign currency risks may arise in the refinancing of franchise partners in the UK, Poland, and Norway as well as the subsidiary in the Czech Republic. In order to minimize these risks, the exchange rates are hedged using derivatives.

3.8 Country Risk

The risks that could arise from the different legal systems in each country are identified with the help of local legal and tax advisors and are taken into consideration in the lease contracts. The business model is adjusted accordingly.

3.9 Risk Summary

The risk management system is appropriate and suitable for recognizing significant risks at an early stage.

Sufficient precautions have been taken to offset credit risk, counterparty risk and similar risks arising from our leasing business. The corresponding write-downs, valuation adjustments, and accruals disclosed in the annual financial statements were computed at an appropriate level using conservative benchmarks.

With respect to the future development of GRENKELEASING AG, there are no particular business-related risks beyond the normal range.

4 Additional Disclosures

4.1 Events of Particular Significance after the Close of Fiscal Year 2005

At the time of this report, there were no events of particular significance after the close of fiscal year 2005.

4.2 Overview of Group Companies and Branch Offices

For further details on companies belonging to the GRENKELEASING AG Group (please also refer to the table of consolidated companies in the notes to the consolidated financial statements): GRENKELEASING AG has its head office in Baden-Baden, Germany, and branch offices in Berlin, Bremen, Düsseldorf, Dortmund, Dresden, Erfurt, Frankfurt am Main, Hamburg, Hanover, Cologne, Leipzig, Magdeburg, Mannheim, Memmingen, Mönchengladbach, Munich, Nuremberg, Stuttgart and Rostock, all in Germany. GRENKELEASING AG has a - direct or indirect - 100% shareholding in WEBLEASE NETBUSINESS AG, Baden-Baden, Germany, GLG Grenke-Leasing GmbH, Baden-Baden, Germany, and Grenke Investitionen Verwaltungen KGaA, Baden-Baden, Germany.

As of the balance sheet date, the following foreign companies were wholly owned by GRENKELEASING AG:

- ▶ GRENKELEASING AG, Vienna, Austria,
- ▶ GRENKELEASING AG, Basel, Switzerland,
- ▶ GRENKELEASING s.r.o., Prague, Czech Republic,
- ▶ GRENKE ALQUILER S.A., Barcelona, Spain,
- ▶ GRENKE Locazione S.r.l., Milan, Italy,
- ▶ GRENKELEASING ApS, Herlev, Denmark,
- ▶ Grenkefinance N.V., Maasbree, Netherlands,
- ▶ GRENKE LIMITED, Dublin, Ireland,
- ▶ GRENKE LOCATION SAS, Schiltigheim, France,
- ▶ GRENKE FINANCE Plc., Dublin, Ireland,
- ▶ GRENKELEASING S.r.l., Milan, Italy,
- ▶ GRENKELEASING AB, Stockholm, Sweden,

and directly owned with 99.93% and indirectly with 0.07%: GRENKE LEASE Sprl, Brussels, Belgium, which was founded in 2005.

4.3 Anticipated Performance

Business developed very well over the last twelve months and was above market expectations. The GRENKELEASING AG Group has made preparations to capture an above-average share of the forecast economic upturn by further expanding its position in a lucrative market niche and thus its market share in Europe.

We should continue to achieve a constant increase in the value of the business through consistent customer focus, efficient contract processing, effective risk management and refinancing on favorable terms. Investments made in market positioning and securing the future of the Group, particularly with respect to opening up the European market further and expanding our pioneering IT infrastructure, will continue to be pursued in the rigorous implementation of our corporate strategy. The cost leadership in the small-ticket IT leasing segment should expand further, primarily due to the continued development of and improvement in business processes.

The Group's target for 2006 is to achieve yet again substantial two-digit growth in new business, with profits developing accordingly.

Baden-Baden, Germany, January 19, 2006

GRENKELEASING AG
 The Board of Directors

GRENKELEASING AG, BADEN-BADEN

CONSOLIDATED INCOME STATEMENT FOR FISCAL YEAR 2005

	Note	Jan. 1. - Dec. 31, 2005	Jan. 1. - Dec. 31, 2004
EURk			
Income from interest on lease receivables	3.1	82,100	74,114
Expenses from interest on refinancing liabilities	3.2	21,480	17,866
Net interest income from leasing business	3	60,620	56,248
Expenses from settlement of claims	4	16,124	14,269
Net interest income after settlement of claims from leasing business		44,496	41,979
Income from insurance business		15,221	13,330
Expenses from insurance business		1,553	1,711
Profit from insurance business		13,668	11,619
Profit from new business	5	15,871	13,373
Income from disposals		11,397	8,490
Expenses from disposals		7,948	7,029
Profit from disposals	6	3,449	1,461
Other operating income	7	852	653
Personnel expenses	8	17,486	15,353
Operating expenses		3,979	4,047
Administrative expenses		2,478	2,201
Consulting and audit fees	9	2,068	2,039
Distribution costs (without commissions)		2,874	2,806
Amortization/ depreciation	10	1,609	1,802
Other operating expenses		640	1,285
Other taxes		430	259
Profit/ loss from ordinary operations		46,772	39,293
Expenses from the fair value measurement		-393	-2,249
Other interest income		799	671
Other interest expenses		1,425	790
Net profit for the period before taxes		45,753	36,925
Income taxes	11	15,218	14,556
Deferred taxes	11	1,508	-1,260
Net profit for the period		29,027	23,629
Earnings per share (basic)	12	2.13	1.74 EUR
Earnings per share (diluted)	12	2.13	1.74 EUR
Average shares outstanding (basic)	12	13,625,560 Units	13,554,145 Units
Average shares outstanding (diluted)	12	13,632,986 Units	13,581,915 Units

GRENKELEASING AG, BADEN-BADEN

CONSOLIDATED BALANCE SHEET AS OF DECEMBER 31, 2005

Assets	Note	Dec. 31, 2005	Dec. 31, 2004
EURk			
Current assets			
Cash on hand and balances with banks		55,677	62,166
Financial assets	13	374	1,347
Lease receivables	14	326,783	290,069
Trade receivables	15	1,471	1,002
Lease assets for sale		13,483	12,615
Tax receivables	16	3,578	3,542
Other current assets	17	20,190	15,769
Total current assets		421,556	386,510
Non-current assets			
Lease receivables	14	534,045	451,334
Property, plant and equipment	18	23,656	19,323
Intangible assets	19	2,568	2,027
Deferred tax assets	21	20,094	18,218
Other non-current assets	20	72,848	49,362
Total non-current assets		653,211	540,264
Total assets		1,074,767	926,774
Liabilities and equity			
Liabilities			
Current liabilities			
Liabilities from the refinancing of lease receivables		341,011	237,192
Trade payables		6,917	8,594
Tax liabilities	22	3,728	11,547
Provisions	23	1,318	1,308
Current portion of non-current bank liabilities		614	576
Financial instruments with negative fair value	24	1,039	0
Other current liabilities		3,646	2,037
Deferred lease payments		56,316	49,853
Total current liabilities		414,589	311,107
Non-current liabilities	25		
Liabilities from the refinancing of lease receivables		430,587	414,025
Non-current bank liabilities, less the current portion		4,710	5,396
Deferred tax liabilities	21	47,500	44,146
Other non-current liabilities		1,239	1,698
Total non-current liabilities		484,036	465,265
Equity	26		
Capital stock		17,440	17,387
Capital reserve		59,485	58,682
Revenue reserves		705	53
Currency translation		-274	-95
Hedging reserve		-192	-1,676
Pension reserve		-8	0
Profit carryforward		98,986	76,051
Total equity		176,142	150,402
Total liabilities and equity		1,074,767	926,774

GRENKELEASING AG, BADEN-BADEN
STATEMENT OF CHANGES IN CONSOLIDATED EQUITY
FOR FISCAL YEAR 2005

	Subscribed capital	Capital reserve	Revenue reserves	Hedging reserve	Reserve for actuarial gains and losses
EURk					
Equity as of Jan. 1, 2004	17,287	57,248	53	-587	0
Payment of dividend in 2004 for 2003					
Fair value measurement of hedging instruments				-1,085	
Deferred taxes on hedging reserve				-4	
Issue of shares	100	1,434			
Net profit for 2004					
Changes in the consolidated group					
Currency translation					
Equity as of Dec. 31, 2004	17,387	58,682	53	-1,676	0
Equity as of Jan. 1, 2005	17,387	58,682	53	-1,676	0
Payment of dividend in 2005 for 2004					
Pension reserve					-11
Deferred taxes on pension reserve					3
Fair value measurement of hedging instruments				1,461	
Deferred taxes on hedging reserve				23	
Allocation into legal reserves			652		
Issue of shares	53	803			
Net profit for 2005					
Currency translation					
Equity as of Dec. 31, 2005	17,440	59,485	705	-192	-8

Currency translation	Profit carryforward	Equity apportionable to shareholder	Equity apportionable to minority interests	Consolidated equity
-267	56,885	130,619	13	130,632
	-4,463	-4,463		-4,463
		-1,085		-1,085
		-4		-4
		1,534		1,534
	23,629	23,629		23,629
			-13	-13
172		172		172
-95	76,051	150,402	0	150,402
-95	76,051	150,402	0	150,402
	-5,440	-5,440		-5,440
		-11		-11
		3		3
		1,461		1,461
		23		23
	-652			0
		856		856
	29,027	29,027		29,027
-179		-179		-179
-274	98,986	176,142	0	176,142

GRENKELEASING AG, BADEN-BADEN

CONSOLIDATED CASH FLOW STATEMENT FOR 2004 AND 2005

EURk	Jan. 1. - Dec. 31, 2005	Jan. 1. - Dec. 31, 2004
Net profit for the period before taxes	45,753	36,925
Non-cash items contained in net profit for the period and reconciliation to cash flow from operating activities		
+ Amortization/ depreciation	1,560	1,802
-/+ Profit/ loss from the disposals of equipment and intangible assets	-30	-52
-/+ Investment income	626	119
-/+ Non-cash changes in equity	1,209	-985
+/- Increase/ decrease in other provisions	10	-1,168
- Additions of lease receivables	-420,842	-369,544
+ Payments by lessees	320,247	282,490
+ Disposals/ reclassifications of lease receivables at residual carrying values	66,350	56,621
+/- Changes from other set-offs	-114	-123
- Interest income from lease receivables	-82,100	-74,114
- Increase in other receivables from lessees	-3,161	-7,586
+/- Currency translation differences	195	-385
= Change in lease receivables	-119,425	-112,641
+ Additions of liabilities from the refinancing of lease receivables	425,469	325,206
- Payment of annuities to refinancers	-176,978	-141,543
- Disposal of liabilities from the refinancing of lease receivables	-148,878	-63,980
+ Interest expenses from lease liabilities	21,480	17,866
+ Change from fair value measurement	-537	679
+/- Currency translation differences	-174	186
= Change in liabilities from the refinancing of lease receivables	120,382	138,414
Changes in other assets/liabilities		
-/+ Increase/decrease in other assets	-20,685	-23,323
+/- Increase/decrease in deferred lease payments	6,463	7,188
+/- Increase/decrease in other liabilities	513	-3,604
= Cash flow from operating activities	36,376	42,675
-/+ Taxes paid/ received	-23,073	-12,043
- Interest paid	-1,425	-790
+ Interest received	799	671
= Net cash flow from operating activities	12,677	30,513

EURk	Jan. 1. - Dec. 31, 2005	Jan. 1. - Dec. 31, 2004
- Purchase of equipment and intangible assets	-2,585	-1,330
+ Proceeds from sale of equipment and intangible assets	67	137
= Cash flow from investing activities	-2,518	-1,193
+/- Raising/ repayment of bank liabilities	-623	-1,530
- Dividend payment	-5,440	-4,463
+ Payments from stock option program	856	1,534
- Issue of loans	-11,471	-8,689
= Cash flow from financing activities	-16,678	-13,148
Cash funds at beginning of period		
Cash on hand and balances with banks	62,166	47,548
- Bank liabilities from overdrafts	-36	-1,658
= Cash and cash equivalents at beginning of period	62,130	45,890
+/- Change due to currency translation	60	68
= Cash funds after currency translation	62,190	45,958
Cash funds at the end of period		
Cash on hand and balances with banks	55,677	62,166
- Bank liabilities from overdrafts	-6	-36
= Cash and cash equivalents at the end of period	55,671	62,130
Change in cash funds during period	-6,519	16,172
Net cash flow from operating activities	12,677	30,513
+ Cash flow from investing activities	-2,518	-1,193
+ Cash flow from financing activities	-16,678	-13,148
= Total cash flow	-6,519	16,172

GRENKELEASING AG, BADEN-BADEN

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR FISCAL YEAR 2005

1 Commercial Register and Purpose of the Company

GRENKELEASING AG (hereinafter also referred to as “GRENKELEASING” or the “Company”) is a stock corporation with its registered office at Neuer Markt 2, Baden-Baden, Germany. The Company is entered at Baden-Baden local court in the commercial register, department B, under No. 1836. The purpose of the Company is to conduct leasing transactions for all types of movable assets, to manage lease contracts for third parties, to broker property insurance for leased assets and to conduct all other related transactions.

The leasing business of the GRENKELEASING AG Group mainly concentrates on small-ticket leasing of IT products, such as PCs, notebooks, servers, monitors and other peripheral devices, software, telecommunication and copier equipment and other IT products. Almost all contracts provide for full cost recovery. This means that the payments to be made by the lessee during the basic lease period, including the guaranteed residual values, exceed acquisition and contract cost.

2 Summary of Significant Accounting Principles

The consolidated financial statements for the fiscal year ended December 31, 2005 comprise GRENKELEASING AG and the companies it controls. This control is normally evidenced when the Group holds, either directly or indirectly, 50% (or more) of the voting rights in a company or of its share capital and/or is able to govern the financial and operating policies of an enterprise so as to benefit from its activities. Minority interests in equity and net profit or loss for the period are presented separately in the balance sheet and the income statement.

GRENKELEASING AG, as a listed parent company which makes use of an organized market within the meaning of Sec. 2 (5) WpHG [“Wertpapierhandelsgesetz”: German Securities Trading Act] (the share has been listed in the “Prime Standard” since January 1, 2003 and was allocated to the SDAX index by Deutsche Börse on February 11, 2003), has prepared its consolidated financial statements in accordance with Sec 315 a HGB [“Handelsgesetzbuch”: German Commercial Code] on the basis of the International Financial Reporting Standards (IFRSs) published by the International Accounting Standards Board (IASB) and as endorsed by the EU. All International Financial Reporting Standards (IFRSs) (formerly International Accounting Standards (IAS)) mandatorily applicable for fiscal year 2005 as well as all interpretations by the International Financial Reporting Interpretations Committee (IFRIC) (formerly the Standing Interpretations Committee (SIC)) were observed. In previous years, the Company had also prepared its consolidated financial statements in accordance with IFRSs, applying the exempting provisions of Sec. 292 a HGB [“Handelsgesetzbuch”: German Commercial Code].

The financial statements of the companies included in GRENKELEASING AG’s consolidated financial statements have all been drawn up on the basis of uniform accounting and valuation methods. The financial statements have been prepared as of the balance sheet date of the consolidated financial statements and audited by independent auditors, where required by local law.

The consolidated financial statements have been prepared in euros (EUR).

2.1 New Mandatory Accounting Standards

Since the end of 2003, the IASB has made various amendments to the existing IFRSs and published new IFRSs and International Financial Reporting Interpretation Committee (IFRIC) interpretations which, unless described otherwise below, are mandatory for companies for all fiscal years beginning on or after January 1, 2005. GRENKELEASING AG decided against earlier application, although it was permitted. The relevant amendments/publications are outlined below, followed by their impact, if any, on recognition and measurement in the financial statements of GRENKELEASING AG.

On December 17, 2003, the IASB published the revised IAS 32 "Financial Instruments – Disclosure and Presentation" and IAS 39 "Financial Instruments – Recognition and Measurement". The "Amendment to IAS 39 Financial Instruments: Recognition and Measurement – Fair Value Hedge Accounting for a Portfolio Hedge of Interest Rate Risk" was published in March 2004. This amendment relates to macro hedging and allows interest rate risk to be hedged at portfolio level. The "Amendment to IAS 39 Financial Instruments: Recognition and Measurement – Transition and Initial Recognition of Financial Assets and Liabilities" was published in December 2004.

On December 18, 2003, the IASB published a number of revised accounting standards in the scope of its Improvement Project. These are the 13 standards IAS 1, IAS 2, IAS 8, IAS 10, IAS 16, IAS 17, IAS 21, IAS 24, IAS 27, IAS 28, IAS 31, IAS 33 and IAS 40.

On February 19, 2004, the IASB published the standard IFRS 2, "Share-based Payment", on accounting for share option plans and similar compensation based on the value of shares. This standard governs the financial reporting of transactions in which the reporting entity grants equity instruments such as its own shares or share options in return for goods or services received.

On March 31, 2004, the IASB published the standard IFRS 3, "Business Combinations", and the fundamentally revised IAS 36 and IAS 38. The main changes are the abolition of the pooling of interests method and of goodwill amortization in favor of the impairment-only approach. As a rule, adoption of IFRS 3 is compulsory for all business combinations which were closed on or after March 31, 2004. In relation to differences arising from transactions closed before this date, IFRS 3 allows the transition to the impairment-only approach for fiscal years beginning on or after March 31, 2004.

On March 31, 2004, the IASB also published the standard IFRS 5 "Non-current Assets Held for Sale and Discontinued Operations". This standard governs the measurement and presentation of non-current assets held for sale and discontinued operations.

On November 11, 2004, the IFRIC published the interpretation "Amendment to the Scope of SIC-12 – Consolidation – Special Purpose Entities". This amendment now includes equity compensation plans in the scope of SIC-12. Post-employment benefit plans as well as all other long-term employee benefits are no longer included in the scope of SIC-12.

2.2 Voluntary Adoption of New Accounting Standards

Apart from the IFRSs whose application is mandatory for fiscal year 2005, the IASB has also published other IFRSs and IFRICs which have already received EU endorsement but which will only become mandatory at a later date. Below, only those standards and interpretations which could be relevant for GRENKELEASING AG are described. Voluntary early application of these standards is explicitly permitted or encouraged. However, GRENKELEASING AG only applies this option where mentioned explicitly below.

On December 2, 2004, the IFRIC published IFRIC 4 "Determining whether an Arrangement contains a Lease". IFRIC 4 defines which contracts should be treated as leases even if they are not designated as such.

On December 16, 2004, the IASB published amendments to IAS 19 "Employee Benefits – Actuarial Gains and Losses, Group Plans and Disclosures". This amendment extends the disclosure requirements in the notes and introduces the recognition of actuarial gains and losses in equity as an alternative to the existing methods. GRENKELEASING is accounting for pension obligations for the first time in its financial statements for 2005, applying the newly implemented alternative treatment of recognition of actuarial gains and losses. Accordingly, the necessary disclosures have been made in the notes.

On April 14, 2005, the IASB published the final version of the rules for "Cash Flow Hedge Accounting of Forecast Intragroup Transactions". This amendment to IAS 39 allows intragroup transactions to qualify as a hedge under certain restrictive conditions.

On June 16, 2005, the IASB published the final fair value option according to IAS 39. These amendments restrict in some cases the previously applicable provisions on full fair value measurement in IAS 39 (2004). Other amendments in IAS 32 and IFRS 1 also arose in connection with the revision of the fair value option.

Application of IFRIC 4, the amendments to IAS 19, the fair value option and the provisions on "Cash Flow Hedge Accounting of Forecast Intragroup Transactions" under IAS 39, is mandatory for fiscal years beginning on or after January 1, 2006; earlier application is encouraged.

On August 18, 2005, the IASB published the standard IFRS 7 "Financial Instruments: Disclosures". This standard supersedes the existing IAS 30 and adopts all provisions regarding disclosures in the notes contained in IAS 32. In this connection, the capital disclosure requirements in IAS 1 were amended or added. This Standard has completely restructured the disclosure requirements for financial instruments. Disclosures on the objectives, methods, risks, security and management processes are now required. The disclosure provisions of IFRS 7 and the modified capital disclosure requirements of IAS 1 shall apply to periods beginning on or after January 1, 2007; earlier application is encouraged. The new provisions of IFRS 7 do not affect measurement at GRENKELEASING, but more detailed disclosures and presentations are required.

2.3 Effects of the New Standards on GRENKELEASING AG

The Improvement Project has led to the following changes in the presentation of the financial statements in relation to IAS 1:

► As a consequence of the clarification in IAS 32 (2004) of the classification of equity and debt, minority interests are now accounted for as an equity component. Minority interests will therefore in the future be shown in the balance sheet as an equity item (IAS 1.68).

Columns will be added to the statement of changes in equity to allow the separate disclosure of amounts attributable to minority interests and the parent (IAS 1.96).

The reconciliation of the consolidated profit or loss net of minority interests is no longer required. Instead, the shares in profit attributable to minority interests and the parent are disclosed on the face of the income statement (IAS 1.82).

The net profit or loss for the period will be used as the basis for the cash flow statement instead of the net profit or loss for the period after minority interests.

► IAS 1.113 requires the judgments management has made in the process of applying the entity's accounting policies that have a significant effect on the amounts recognized in the financial statements to be disclosed.

Under IAS 1.116, information about assumptions concerning the future and other key sources of estimating uncertainty that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities in future fiscal years has to be disclosed in the notes to the financial statements. The nature and carrying amounts of such assets and liabilities on the balance sheet date must be disclosed.

Following the amendment to IAS 17, the initial direct costs must be recognized in measuring operating and finance leases. With operating leases, the lessor has to recognize initial direct costs and the cost of purchase of the leased asset as an asset and amortize them to the expected residual value over the useful life or the lease term. For a finance lease, the initial direct costs are considered in determining the present value, thereby increasing the net investment. Overheads are not included in initial direct costs as they are not directly attributable to a lease. This was an option allowed by the original IAS 17 which has now been made compulsory. The application of the new IAS 17 will not have any implications for GRENKELEASING AG as the option had already been exercised in prior years. GRENKELEASING AG does not offer land or property leases, which is why the amendments made in relation to such leases do not affect the financial statements.

The amendment of IAS 21 relevant to GRENKELEASING AG concerns currency translation of goodwill arising on the acquisition of foreign operations. This now has to be disclosed in the functional currency of the foreign operation and shall be translated at the closing rate. This affects GRENKELEASING AG in relation to the goodwill arising on the acquisition of GRENKELEASING s.r.o., formerly EKOMA s.r.o., Prague, Czech Republic. The two other goodwill items relate to acquisitions of companies whose functional currency is the euro, which means that there are no changes as a result of the amendment to IAS 21.

The goodwill arising from the acquisition of GRENKELEASING s.r.o. (formerly EKOMA s.r.o.), Prague, Czech Republic, was fixed as of December 31, 2004 in the local currency (CZK) and will be rolled forward in the same currency. The goodwill will therefore be translated at the closing rate on each balance sheet date, the difference being recognized in equity as a currency translation adjustment. As of December 31, 2005, goodwill was increased by EUR 49k directly in equity.

IAS 32 deals with the presentation of financial instruments and the related disclosure requirements. The relevant disclosures for GRENKELEASING AG were included in the financial statements as of December 31, 2004. Changes in the current year are described separately below.

The disclosure requirements for the notes were extended in IAS 33. In addition to the number of shares outstanding, the number of dilutive potential ordinary shares and contingently issuable dilutive ordinary shares now have to be disclosed. These disclosures are also required for the comparative period.

The revised IAS 39 provides for a further classification of financial assets. It also determines that all changes in the fair value of available-for-sale financial assets now have to be recognized in a separate item of equity until they are derecognized or an impairment loss is charged. On disposal, the cumulative gain or loss is transferred to net profit or loss. The option was introduced of allowing an entity to measure a financial asset or financial liability that was originally carried at amortized cost to be measured at fair value through profit or loss (fair value option). Furthermore, the hedge accounting requirements were adapted. These changes do not directly affect GRENKELEASING AG because all of its securities were previously designated as "held for trading". GRENKELEASING AG does not apply the fair value option or the amended/additional hedge accounting rules.

For the Company, the first-time mandatory application of IFRS 2 entails only extended disclosures in the notes as none of its employee stock option programs were issued or altered after November 7, 2002; these disclosures were already included in the financial statements as of December 31, 2004.

The effects of the first-time application of IFRS 3 in conjunction with the amendments to IAS 36 and IAS 38 on GRENKELEASING AG are limited to the application of the impairment-only approach. In accordance with the transitional provision of IFRS 3.79, amortization of the goodwill arising from the acquisition of an operation prior to March 31, 2004 will be discontinued as of December 31, 2004. The net carrying amounts of goodwill are now classified as a new acquisition cost and are no longer amortized as of January 1, 2005. This resulted in an EUR 307k increase in earnings compared with the prior year. Under IAS 36.90, however, goodwill should be tested for impairment annually, regardless of whether or not there is evidence of an impairment. GRENKELEASING AG performs the compulsory annual impairment test of its goodwill on the basis of its semi-annual financial statements.

The other IFRSs revised as part of the Improvement Project or otherwise newly issued or amended which have not been explicitly mentioned above have no effect on the financial statements of GRENKELEASING AG because the relevant accounting alternatives were already permitted and applied under the original versions of the IFRSs concerned and the effects of any changes in relation to measurement were individually and in absolute terms immaterial for the financial statements, or the pertinent provisions are not – currently – relevant for the financial statements of GRENKELEASING AG.

2.4 Changes in Presentation Compared With the Prior Year

In order to improve the clarity and informative value of the financial statements, the following changes in presentation were made compared with the prior year:

- ▶ Due to their immateriality for the financial statements, inventories, which were previously shown under a separate balance sheet item are now presented in the item “other current assets”.
- ▶ Only receivables/liabilities in connection with income taxes are now shown under tax receivables and liabilities. VAT, which was also disclosed in this item in the prior year, is now shown under “other current assets” or “other current liabilities”, as appropriate.

The prior year’s disclosure was adjusted accordingly.

As of December 31, 2005, the Company discloses a provision for pensions under non-current liabilities. First-time recognition was necessitated by a change in legislation in Switzerland which introduced an obligation for companies to make additional contributions to their compulsory funded retirement benefit plans as from January 1, 2005. However, no separate disclosure was made for reasons of immateriality (please see Note 25 for more details).

2.5 Consolidation Principles

The consolidated financial statements contain all assets and liabilities and all expenses and income of GRENKELEASING AG and of the subsidiaries it controls after eliminating all material intragroup transactions.

Subsidiaries are included in the consolidated group for as long as the Parent Company is able to exercise a controlling influence over them. The purchase method of accounting was used for acquisitions. Companies acquired or disposed of during the year are included in the consolidated financial statements from the date of acquisition or to the date of disposal. No businesses were acquired in 2004 or 2005, such that the provisions of IFRS 3 “Business Combinations” published by the IASB on March 31, 2004 did not apply. IFRS 3 must be applied for the first time in fiscal year 2005 for past business acquisitions made by GRENKELEASING AG. The most significant effect for GRENKELEASING AG is the abolition of systematic amortization of goodwill as of January 1, 2005; an impairment test must be carried out at least once a year instead (see also 2.15.3).

In addition to GRENKELEASING AG, the following subsidiaries are included in the consolidated financial statements:

Name	Registered office	Investment 2005	Investment 2004
Germany			
GLG Grenke-Leasing GmbH	Baden-Baden	100%	100%
Grenke Investitionen Verwaltungs KGaA (84.4% directly, 15.6% indirectly via GLG Grenke-Leasing GmbH)	Baden-Baden	100%	100%
WEBLEASE NETBUSINESS AG	Baden-Baden	100%	100%
Abroad			
GRENKELEASING s.r.o.*	Prague/Czech Republic	100%	100%
GRENKE ALQUILER S.A.	Barcelona/Spain	100%	100%
Grenkefinance N.V.	Maasbree/Niederlande	100%	100%
GRENKELEASING AG	Basel/Switzerland	100%	100%
GRENKELEASING AG	Vienna/Austria	100%	100%
GRENKELEASING ApS	Herlev/Denmark	100%	100%
GRENKE LIMITED	Dublin/Ireland	100%	100%
GRENKE FINANCE Plc.	Dublin/Ireland	100%	100%
GRENKE LOCATION SAS	Schiltigheim/France	100%	100%
GRENKE Locazione S.r.L.	Milan/Italy	100%	100%
GRENKE LEASING S.r.L.	Milan/Italy	100%	100%
GRENKELEASING AB	Stockholm/Sweden	100%	100%
GRENKE LEASE Sprl**	Brussels/Belgium	100%	--

The balance sheet date of all subsidiaries is December 31, 2005.

* EKOMA s.r.o. was renamed GRENKELEASING s.r.o. on September 26, 2005.

** On April 14, 2005, the capital stock of GRENKE LEASE Sprl in Brussels, Belgium, of EUR 1,500k was transferred. The subsidiary was entered in the commercial register on May 13, 2005. GRENKELEASING AG holds a direct interest of EUR 1,499k and an indirect interest of EUR 1k through its German subsidiary, GLG Grenke-Leasing GmbH.

Investment EUR		Equity Dec. 31, 2005	Net income/loss 2005
Grenke Investitionen Verwaltungs KGaA*	Baden-Baden	780,828.96	0
GLG Grenke-Leasing GmbH	Baden-Baden	333,992.92	22,163.90
WEBLEASE NETBUSINESS AG*	Baden-Baden	213,342.69	0
GRENKE LOCATION SAS	Schiltigheim/France	9,446,532.24	1,786,085.57
GRENKELEASING AG	Basel/Switzerland	3,540,916.07	1,595,377.44
GRENKELEASING AG	Vienna/Austria	557,998.03	-32,483.61
GRENKELEASING s.r.o. (prior EKOMA s.r.o.)**	Prague/Czech Republic	403,636.52	20,608.73
GRENKE ALQUILER S.A.**	Barcelona/Spain	486,558.75	156,037.17
GRENKE Locazione S.r.L.**	Milan/Italy	481,084.89	-263,372.53
Grenkefinance N.V.**	Maasbree/Niederlande	217,732.25	227,063.09
GRENKE LEASING S.r.L.**	Milan/Italy	2,320,422.27	-1,039,164.38
GRENKELEASING ApS**	Herlev/Denmark	237,133.94	-238,095.08
GRENKE LIMITED**	Dublin/Ireland	151,331.12	-476,834.79
GRENKE FINANCE Plc.**	Dublin/Ireland	3,103,500.61	970,081.46
GRENKELEASING AB**	Stockholm/Sweden	617,349.28	-319,504.35
GRENKE LEASE Sprl**	Brussels/Belgium	1,387,443.49	-112,556.51

* after transfer of profits

** preliminary result

2.6 Foreign Currency Translation

2.6.1 Foreign Currency Transactions

Foreign currency transactions are translated at the closing rate on the date of the transaction. Foreign currency monetary items (e.g. cash and cash equivalents, receivables and liabilities) are subsequently translated using the closing rate as of the end of the fiscal year, with any translation differences reported in net profit or loss. Non-monetary items carried at historical cost are not subsequently translated, the rate on initial recognition being used.

2.6.2 Foreign Entities

Foreign financial statements in foreign currencies are translated according to the functional currency concept in accordance with IAS 21. The assets and liabilities of the consolidated foreign entities are translated using the closing rate and expenses and income at annual average rates, since these entities are financially, economically and organizationally autonomous. Differences from foreign currency translation are reported directly in equity.

The development of the exchange rates of the currencies used in the Group to the euro is illustrated below:

	Closing rate Dec. 31, 2005	Average rate 2005	Closing rate Dec. 31, 2004	Average rate 2004
CHF	1.5510	1.5483	1.5429	1.5438
CZK	29.0000	29.7820	30.4640	31.8910
DKK	7.4605	7.4518	7.4388	7.4399
GBP*	0.6853	0.6838	0.7051	0.6787
PLN*	3.8600	4.0230	4.0845	4.5268
SEK	9.3885	9.2822	9.0206	9.1243

* Currency of the franchise companies, loans are granted in foreign currency

2.7 Historical Cost Principle

The consolidated financial statements are based on historical cost accounting. Unless otherwise stated, assets and liabilities are disclosed at nominal value less necessary allowances.

2.8 Leases

2.8.1 Finance Leases

Under a finance lease, substantially all the risks and rewards incident to legal ownership are transferred by the lessor to the lessee. The lease payment receivable is thus treated by the lessor as repayment of principal and finance income to reimburse and reward the lessor for its investment and services.

Assets from a finance lease are recognized in the balance sheet as receivables at an amount equal to the net investment, i.e. the present value of the residual receivables of all lease contracts existing at the end of a fiscal year. The net investment value is calculated on the basis of the net cost of the leased assets less a special lease payment made by the lessee. Initial direct costs incurred in connection with contract conclusion are offset against income over the entire term of the lease contract by proportionately reducing the unearned finance income by these initial costs. Finance income is recognized such that a constant periodic rate of return on the outstanding residual receivable is generated.

2.8.2 Operating Leases

Operating lease property is disclosed in the balance sheet based on the type of asset (see Note 18). Lease income from operating leases is recognized on a straight-line basis over the lease term.

After the original lease contract has expired, the contract may be extended or a follow-on contract concluded. This leads to the lease being remeasured.

In cases where the criteria for an operating lease are met, the leased asset is disclosed as an asset from the start of the extension period. It is carried at fair value.

2.9 Liabilities from the refinancing of lease receivables

Liabilities from the refinancing of lease receivables result from the sale of a portion of the lease receivables to the respective refinancer. Such liabilities are carried at the present value of the outstanding payments to the refinancers. The originally agreed rate is used as the discount rate for fixed-interest loans. Upon repayment, regular payments are split into an interest portion and a principal component. The interest portions are disclosed as expenses from interest on lease liabilities.

2.10 Cash and Cash Equivalents

The cash and cash equivalents in the balance sheet comprise cash on hand and bank balances. Negative current account balances were deducted from cash and cash equivalents for the cash flow statement.

2.11 Financial Assets and Liabilities

Apart from securities, financial assets include derivatives that serve as hedging instruments. Derivatives are classified as assets held for trading unless they are designated hedging instruments in a hedging relationship. Securities are also assigned to the category of "assets held for trading".

Financial assets held for trading are initially recognized at cost plus any transaction costs incurred and are carried at fair value on subsequent measurement. Securities are measured at their quoted market values at the balance sheet date. The derivative financial instruments used in the Company are valued using either Bloomberg (interest rate swaps) or the measurement bases provided by the banks (forward exchange contracts). Any adjustments other than hedge accounting adjustments are recognized in profit or loss. As a rule, they are recognized for the first time as of the settlement date.

When hedging transactions are entered into to hedge the exposure to variability in cash flows, certain derivatives are allocated to certain underlying contracts that are attributable to a particular risk associated with a recognized asset or liability or a forecasted transaction (cash flow hedge). The hedging instruments in a hedge are also recognized at fair value. However, changes in value relating to the effective portion are recognized in the cash flow hedge reserve, a separate item under equity. Any ineffectiveness is recognized in profit or loss. Effectiveness is measured as of every single reporting date using the hypothetical derivative method.

Financial liabilities (e.g. bonds, loans against borrower's note, non-current bank liabilities) are initially recognized at cost and are carried at amortized cost on subsequent measurement. If a financial liability is the underlying contract in a fair value hedge, it is carried at fair value on subsequent measurement. If the fair value hedge has to be reversed, the hedged item is then carried at amortized cost rather than at fair value. In this case, the adjustment required for measurement at fair value is amortized over the residual term of the hedged item.

2.12 Trade Receivables and Other Assets

Receivables and other assets are carried at their nominal value. Adequate flat-rate specific bad debt allowances are recognized to account for the credit risk from trade receivables.

2.13 Inventories

Inventories are measured at the lower of cost and net realizable value.

2.14 Property, Plant and Equipment

Property, plant and equipment are recognized at cost plus directly attributable costs net of accumulated depreciation and accumulated impairment losses. Finance charges were not disclosed. Property, plant and equipment are subject to straight-line depreciation according to their expected economic life. When property, plant and equipment are sold or retired, their cost and accumulated depreciation are eliminated from the accounts and any gain or loss resulting from their disposal is recognized in net profit or loss.

The depreciation rates are based on the following economic lives:

	Years
Office buildings	33
Furniture, fixtures and office equipment	
IT hardware	3
Vehicle fleet	4-5
Leasehold improvements	10
Other (office equipment)	3-20

The useful life and depreciation method are reviewed periodically to ensure that the method and period of depreciation are consistent with the expected pattern of economic benefits from items of property, plant and equipment.

2.15 Intangible Assets

2.15.1 Licenses, Software

Licenses are carried at cost plus acquisition charges. The cost of software is capitalized and treated as an intangible asset if these costs are not an integral part of the related hardware. As licenses and software have limited useful lives, they are subject to systematic straight-line amortization over their economic life, generally three years.

2.15.2 Internally Generated Intangible Assets

An intangible asset developed as part of a project is only recognized if the Group is able to prove the technical feasibility of completing the intangible asset for internal use or sale and the intention to complete the intangible asset and use or sell it. In addition, the generation of future economic benefits by the asset, the availability of resources to complete the asset, and the ability to measure the expenditure attributable to the intangible asset during its development must exist. Internally generated intangible assets are measured at the cost of conversion. The cost comprises all directly attributable costs necessary to create, produce, and prepare the asset to be capable of operating in the manner intended.

The capitalized amounts are amortized over the period during which the project is expected to generate revenue or during which the software can probably be amortized. Given the technical developments expected in future years, the economic life is assumed to be three years.

The capitalized amount of development expenses is tested for impairment annually if the asset is not yet in use or if there are indications during the year that the asset may be impaired.

2.15.3 Goodwill

Goodwill resulting from acquisitions is defined as the positive difference between the purchase price of an investment and the fair value of the assets and liabilities at the time of the acquisition. Goodwill was amortized straight-line over its economic life until December 31, 2004.

Following the implementation of IFRS 3, all existing goodwill was frozen at the value recognized as of December 31, 2004 and systematic amortization ceased at this time. This fixed value is now considered to be the new historical cost. Instead of systematic straight-line amortization, all goodwill must now be tested for impairment at least once a year pursuant to IAS 36 to prove its adequate valuation ("impairment-only approach"). This regular impairment test will be conducted in the third quarter of each year on the basis of the six-month figures. If there are indications that goodwill might be impaired, more frequent tests must be conducted in addition to the mandatory annual impairment test.

2.16 Impairment of Assets

Assets within the meaning of IAS 36.1 are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. An impairment loss is recognized as soon as the carrying amount of an asset exceeds its recoverable amount. The recoverable

amount is the higher of an asset's net selling price and its value in use. The net selling price is the amount obtainable from the sale of an asset in an arm's length transaction less the costs of disposal. Value in use is the present value of estimated future cash flows expected to arise from the continuing use of an asset and from its disposal at the end of its useful life. The recoverable amount is estimated for individual assets or, if this is not possible, for the cash-generating unit to which the asset belongs.

The carrying amounts of goodwill will be reviewed to assess the probability of continuing future benefits in accordance with the rules described in 2.15.3. The future economic benefits are determined by the recoverable amount. An impairment is recognized in net profit or loss if the recoverable amount is lower than the carrying amount of the respective cash-generating unit.

If the reason for an impairment recorded in a prior period ceases to apply, an impaired asset is written up. Exceptions to this rule exist only for impairments of goodwill which may, on no account, be written up.

2.17 Provisions

Provisions are carried at their probable settlement amount if a present obligation (legal or constructive) exists for the Group due to an event occurring prior to the balance sheet date, it is probable that settlement of the obligation will lead to an outflow of resources embodying economic benefits, and if a reliable estimate can be made of the amount of the obligation. Provisions are reviewed at each balance sheet date and adjusted to reflect the current best estimate.

2.18 Deferred Tax Liabilities and Assets

Deferred tax liabilities are calculated using the liability method in accordance with IAS 12. Deferred income taxes reflect the net tax effect of temporary differences between the carrying amount of an asset or a liability for financial reporting purposes and the amounts used for income tax purposes.

Deferred tax assets for previously non-utilized loss carryforwards are recognized if it is probable that taxable profit will be available to utilize these carryforwards.

Deferred tax assets and liabilities are recognized on the basis of tax rates anticipated for the period in which the temporary differences will reverse. For this purpose, tax rates that have been enacted or substantively enacted by the balance sheet date are used.

The measurement of deferred tax liabilities and deferred tax assets reflects the tax consequences that would follow from the manner in which the enterprise expects, at the balance sheet date, to recover or settle the carrying amount of its assets and liabilities. Deferred tax assets and liabilities are not discounted and are classified as non-current assets (liabilities) in the balance sheet.

2.19 Government Grants

Government grants relate to investment grants applied for pursuant to Sec. 2 InvZulG ["Investitionszulagengesetz 1999": German Investment Grant Act 1999]. The allowance represents a grant for an asset; the carrying amount of the corresponding lease receivable is netted with this amount. This leads to increased income from interest on lease receivables spread over the term of the lease.

Since the grant is conditional on retention of the subsidized asset at the business, repayment obligations lead to an increase in the carrying amount and an adjustment of interest income.

2.20 Income from Insurance Business

Income from insurance business comprises premiums for insurance policies which the lessees must conclude via GRENKELEASING if they do not insure the leased assets themselves. The insurance premiums are collected annually; these amounts are deferred and released to income pro rata temporis.

2.21 Sale of Leased Assets

Sales are recognized upon transfer of benefits and burdens.

2.22 Use of Assumptions and Estimates

In preparing the consolidated financial statements, assumptions and estimates have been made which have had an effect on the recognition and carrying amounts of assets and liabilities, income and expenses and contingent liabilities. Assumptions and estimates generally relate to the uniform determination of useful lives of assets within the Group, the measurement of provisions, the recoverability of receivables from terminated contracts, the recognition of realizable residual values for leased assets and the probability of future tax benefits. The actual values may in some cases differ from the assumptions and estimates. Any changes will be recognized in profit or loss as and when better information is available.

The main estimating uncertainties and the associated disclosure requirements are in the following areas:

- ▶ Assumptions made in impairment tests for measuring goodwill
- ▶ Measurement of allowances on non-performing lease receivables on the basis of the recoverability rate
- ▶ Consideration of estimated residual values at the end of the lease term in determining the present value of lease receivables
- ▶ Recognition of leased assets for sale at estimated residual values

The cash flows used in the measurement of discounted cash flows are based on current business plans and internal plans for the next three years. This involved making assumptions as to future revenues and costs. Assumptions as to future cash flows were made on the basis of past figures, and past income patterns were projected into the future. If significant assumptions differ from actual figures, impairment losses may have to be recognized in the future. The terminal growth rate does not exceed the long-term growth rate of the industry in which the cash-generating units operate. Average costs of capital of approx. 7% were used to discount the cash flows.

Non-performing lease receivables are carried at nominal value less appropriate bad debt allowances. The amounts of bad debt allowances are determined using percentages and processing categories. Percentages are calculated using statistical methods. They are reviewed once a year for validity. Processing statuses are grouped together in processing categories set up with a view to risk. The following table illustrates the processing categories:

Category	Description
0	Current contract not in arrears
1	Current contract in arrears
2	Terminated contract with serviced installment agreement
3	Terminated contract (recently terminated or court order for payment applied for)
4	Legal action (pending or after objection to court payment order)
5	Order of attachment issued
6	Statement in lieu of oath (applied for or issued)
7	Derecognized
8	Being settled (not terminated)
9	Discharged (completely paid)

A decrease in value is assumed for categories 2 to 7 as the contracts have been terminated due to defaults in payment. The allowance rates range between 5% and 100%.

Estimated residual values are taken into account in determining the present value of lease receivables. Estimated residual values comprise anticipated sales proceeds and any revenues generated in a renewal period. Residual values are taken into account upon conclusion of the corresponding lease contracts on the basis of the anticipated values. Revenues are a best estimate based on statistical analyses. If the post-transaction recoverable amount is lower than expected (from sale and subsequent lease), the lease receivables are written down, whereas an increase in recoverable amount is not recognized.

Leased assets for sale are measured on the basis of the average sales proceeds per age group realized in the past fiscal year in relation to the original acquisition cost.

3 Net Interest Income From Leasing Business

3.1 Income from Interest on Lease Receivables

Income from interest on lease receivables amounts to EUR 82,100k (prior year: EUR 74,114k). This includes EUR 116k (prior year: EUR 186k) from the recognition of investment grants (see Note 2.19) and EUR 851k from interest on loans to franchisees (prior year: EUR 214k).

3.2 Expenses from Interest on Refinancing Liabilities

Interest expense from refinancing liabilities amounts to EUR 21,480k (prior year: EUR 17,866k). This item also includes the interest income of EUR 977k (prior year: EUR 598k) generated by the loans issued under the ABCP programs (asset-backed commercial paper) (see Note 20).

4 Expenses From Settlement of Claims

Flat-rate specific bad debt allowances are calculated based on historical rates for the collectability of a receivable in conjunction with its categorization (percentage-of-receivables approach).

EURk	2005	2004
Provision to specific bad debt allowances	16,464	14,165
Income from settlement of claims	20,899	23,185
Expenses from eliminating receivables from claims	20,559	23,289
Total	16,124	14,269

5 Profit From New Business

Revenues from new business are comprised as follows: EURk	2005	2004
Recognition of new lease receivables	420,842	369,544
Share of revenues from prior leases	1,989	1,973
Revenues from processing fees	1,448	1,578
Revenues from special lease payments	1,087	994
Total	425,366	374,089
Expenses from new business are comprised as follows: EURk	2005	2004
Cost of newly acquired leased assets	402,913	354,767
Commissions paid to dealers	6,582	5,949
Total	409,495	360,716
Profit From New Business	15,871	13,373

6 Profit From Disposals

	2005	2004
EURk		
Revenues from subsequent leases	11,397	8,490
Depreciation of leased assets in the subsequent lease period	9,278	6,810
Accounting gains (prior year: accounting losses) on the disposal of the lease receivables	1,330	-219
Total	3,449	1,461

Revenues from subsequent leases relate to lease income recognized after the end of the basic lease term. Accounting gains/ losses from the disposal of lease receivables result from the revenues of terminated contracts less the disposal of the lease receivables at their carrying amount.

7 Other Operating Income

Other operating income breaks down as follows:

	2005	2004
EURk		
Income from currency translation	440	297
Franchise fees received	195	94
Accounting gains on the sale of equipment	35	90
Other items	182	172
Total	852	653

8 Personnel Expenses

EURk	2005	2004
Salaries	14,332	12,624
Social security and other benefit costs	3,154	2,729
Total	17,486	15,353

The average number of staff during the fiscal year totaled 339 (prior year: 285). Part-time staff were counted on a proportionate basis.

Social security and other benefit costs include pension costs of EUR 46k (prior year: EUR 32k).

9 Consulting and Audit Fees

The consulting and audit fees of EUR 2,068k (prior year: EUR 2,039k) include auditor's fees totaling EUR 699k. The auditor's fees in fiscal year 2005 break down as follows:

▶ Auditing fees	EUR 395k
▶ Certification and valuation fees	EUR 226k
▶ Fees for tax advisory services	EUR 14k
▶ Fees for other services	EUR 64k

10 Depreciation of Property, Plant and Equipment and Amortization of Intangible Assets

EURk	2005	2004
Equipment	1,136	1,052
Office buildings	301	296
Software licenses and development cost	172	147
Goodwill	0	307
Total	1,609	1,802

11 Income Taxes

	2005	2004
EURk		
Current taxes	15,218	14,556
Deferred taxes	1,508	-1,260
Total	16,726	13,296

Reconciliation of the Average Effective Tax Rate and the Applicable Tax Rate

Reconciliation of the expected applicable tax rate of GRENKELEASING AG to the effective tax rate related to EBT (100%) is as follows:

Applicable Tax Rate	2005	2004
Trade tax	16.96%	16.85%
Corporate income tax (25% on income after trade tax)	20.78%	20.79%
Solidarity surcharge (5.5% of corporate income tax)	1.14%	1.14%
Average applicable tax rate GRENKELEASING AG	38.88%	38.78%
Tax reductions due to tax-free income	0.00%	-0.07%
Tax increases due to non-deductible expenses	0.34%	0.74%
Changes due to foreign taxes	-2.56%	-1.65%
Balance of tax reductions and increases due to changes in tax rates**	-0.32%	0.00%
Effect of tax-free dividend income*	0.00%	-1.80%
Backpayments of tax from prior years***	0.22%	0.00%
Average effective tax rate for the Group	36.56%	36.00%

* In 2004, the tax-free income was mainly connected to two securities lending transactions effected in the prior year. In these lending transactions, German or foreign shares were transferred to GRENKELEASING AG for a period of up to 2 months. GRENKELEASING AG received tax-free dividend income totaling EUR 2,652k. In the financial statements, the dividend income was netted with the compensation expenses incurred in the same amount, reflecting the substance of the transaction.

No withholding tax is deducted at source from dividend payments on foreign shares, nor is any German tax on investment income withheld in Germany pursuant to Sec. 43 EStG ["Einkommensteuergesetz": German Income Tax Act]. The net dividend is 95% exempt from corporate income tax pursuant to Sec. 8b (1) and (5) KStG ["Körperschaftsteuergesetz": German Corporate Income Tax Act]. The compensation payments were fully tax deductible in both cases.

** The following changes in tax rates for the calculation of deferred taxes have been made in each of the countries: France 33.33% (prior year: 34.33%); Czech Republic 24% (prior year: 31%); Netherlands 30.5% (prior year: 34.5%); and Denmark 28% (prior year: 32%).

*** Backpayments of tax from prior years amount to EUR 100k

12 Earnings per Share

The calculation of both diluted and basic earnings is based on the respective net profit for the period. In calculating the average number of shares in fiscal year 2005, the unchanged number of ordinary shares and the proportionate number of shares that may be issued on the basis of warrants were taken into account. There was a dilutive effect in fiscal year 2005 due to the current employee stock option programs (see Note 32) because of the potentially exercisable stock options.

No.	2005	2004
Shares issued at beginning of period	13,601,938	13,523,848
Average number of new shares issued under the stock option program	23,622	30,297
Average number of shares outstanding at end of period (undiluted)	13,625,560	13,554,145
Employee stock option program	7,426	27,770
Average number of shares outstanding at end of period (diluted)	13,632,986	13,581,915
Potential number of shares	42,502	425,678
Number of diluted shares at end of period (incl. shares with a potentially dilutive effect)	13,675,488	14,007,593

The new shares issued under the stock option program do not take full effect in the first year because these shares are not considered until after the issue date.

Furthermore, in the fiscal year, options under the second option program were exercised on all three dates (exercise period between May 4, 2005 and May 31, 2005: 33,614 options; July 29, 2005 to August 25, 2005: 5,942 options; October 28, 2005 and November 24, 2005: 2,152 options), whereas they were only exercised in one period (August 13, 2004 to September 9, 2004) in the prior year.

All shares which could have already been issued due to fixed terms or restrictions have a dilutive effect.

All shares which could potentially be issued in the future if certain conditions or restrictions are met, have a potentially dilutive effect.

13 Financial Assets

EURk	Dec. 31, 2005	Dec. 31, 2004
Other securities	294	409
Interest rate swaps	80	416
Other derivative financial instruments with a positive fair value	0	522
Total	374	1.347

The fair value disclosed under interest rate swaps in the prior year related exclusively to an interest rate swap dating back to 2003 with a nominal amount of EUR 170m. As the relative change in value was outside the corridor of 80% to 125% prescribed in IAS 39 for the measurement of effectiveness, the hedging relationship, which had originally been accounted for as a fair value hedge, had to be dissolved and the interest rate swap had to be accounted for as a stand-alone derivative.

As of March 24, 2005, this interest rate swap was sold for EUR 355k, thus incurring a loss of EUR 61k.

As of March 23, 2005, two other interest rate swaps were concluded. The first interest rate swap with a volume of EUR 100m has a term from June 22, 2005 to September 22, 2006 and its terms are based on those of the floating rate debenture issued on March 22, 2005. The first interest rate swap is used as a cash flow hedge of the above debenture. By means of the interest rate swap, the interest rate for the specified period is fixed at 2.609%. As of the balance sheet date, this swap had a positive fair value of EUR 80k. This amount includes accrued interest of EUR 3k.

The second interest rate swap had an initial volume of EUR 133m. Its term starts on September 22, 2006 and expires on September 22, 2010. The volume of the interest rate swap will amortize over its term. The interest rate was fixed at 3.2925%. The other terms for this swap are also based on those of the floating rate debenture issued on March 22, 2005. The second interest rate swap had a negative fair value of EUR 302k as of the balance sheet date. This amount is disclosed under financial instruments with negative fair value. No accrued interest had to be recognized because the term begins in the future.

The debenture and the new interest rate swaps are the first elements in a new financing strategy under which, in the future, almost all of GRENKELEASING AG will separate refinancing and interest rate hedging in order to obtain maximum flexibility for its refinancing activities. The resulting risks (variable cash flows) will be hedged by appropriate interest rate derivatives whose terms will be based on those of an underlying portfolio of lease contracts. As both derivatives have been proven to be 100% effective, the changes in fair value in relation to their clean value (excluding accrued interest) were recognized fully in equity.

The sale of two interest rate swaps (payer swaps) with a total volume of EUR 244m and a cap with a volume of EUR 610k gave rise to a loss totaling EUR 127k in connection with the new interest rate hedging strategy.

In addition, forward exchange contracts are used to hedge the cash flows from the loans granted to the franchise companies in Poland and the UK. The Company buys the lease receivables generated by the franchisee in the foreign currency (pound sterling and Polish zloty) and receives payments in those currencies over the term of the underlying lease contracts. In the past, hedge accounting was not applied for foreign exchange transactions due to their immateriality.

Other securities mainly comprise shares and corporate bonds. Measurement at fair value resulted in income of EUR 41k in fiscal year 2005 (prior year: EUR 17k).

14 Lease Receivables

	Dec. 31, 2005	Dec. 31, 2004
EURk		
Outstanding minimum lease payments	808,764	692,966
+ Unguaranteed residual values	126,584	111,182
Gross investment	935,348	804,148
- Unearned (outstanding) finance income	138,189	123,253
Net investment	797,159	680,895
- Present value of unguaranteed residual values	98,205	84,808
Present value of minimum lease payments	698,954	596,087

	Less than 1 year	1 and 5 years	More than 5 years
EURk			
Gross total investment	330,934	595,455	8,959
Present value of outstanding minimum lease payments	230,646	463,305	5,003

The reconciliation of gross investment only contains contracts still running on the balance sheet date. The following adjustments have to be made to reconcile net investment to the carrying amount of lease receivables disclosed in the balance sheet:

	Dec. 31, 2005	Dec. 31, 2004
EURk		
Changes in performing lease receivables		
Balance at beginning of period	680,895	575,840
+ Change in the period	116,264	105,055
Lease receivables (current + non-current) from current contracts at period-end	797,159	680,895
Changes in non-performing lease receivables		
Gross receivables at beginning of period	130,101	113,335
- accumulated valuation allowances at beginning of period	-69,593	-60,413
= Non-performing lease receivables at beginning of period	60,508	52,922
+ Change in gross receivables during the period	20,092	23,655
- Disposals of gross receivables during the period	14,096	6,889
+ Disposal of accumulated valuation allowances during the period	8,454	3,000
- Addition of accumulated valuation allowances during the period	11,289	12,180
Non-performing lease receivables at period-end	63,669	60,508
Lease receivables (carrying amounts of current and non-current receivables) at beginning of period	741,403	628,762
Lease receivables (carrying amounts of current and non-current receivables) at period-end	860,828	741,403

	Present value of minimum lease payments	Present value of residual values	Other receivables from lessees	Carrying amount
EURk				
Current lease receivables	230,700	32,414	63,669	326,783
Non-current lease receivables	468,254	65,791	0	534,045
Total	698,954	98,205	63,669	860,828

Receivables from non-performing contracts are included in other current receivables.

15 Trade Receivables

Trade receivables of EUR 1,471k (prior year: EUR 1,002k) mainly relate to receivables from dealers and third parties. They comprise receivables from the sale of leased assets.

16 Tax Receivables

	Dec. 31, 2005	Dec. 31, 2004
EURk		
Advance tax payments France	3,458	3,458
Other items	120	84
Total	3,578	3,542

17 Other Current Assets

	Dec. 31, 2005	Dec. 31, 2004
EURk		
VAT refund claim	10,196	10,304
Receivables from franchisees (refinancing)	7,721	2,486
Direct debits at end of month	737	804
Prepaid expenses	474	302
Factoring receivables	207	1,215
Other items	855	658
Total	20,190	15,769

Please see Note 20 for details of what the receivables from franchisees entail.

18 Property, Plant and Equipment at Cost

Overview for Fiscal Year 2004:

	Land and buildings	Other equipment, furniture and fixtures	Leased assets from operating leases	Total
EURk				
Cost as of Jan. 1, 2004	10,718	6,192	5,850	22,760
Currency translation differences	0	0	0	0
Additions	52	1,187	6,999	8,238
Disposals	0	758	6,810	7,568
Reclassifications	0	0	0	0
Cost as of Dec. 31, 2004	10,770	6,621	6,039	23,430
Accumulated depreciation as of Jan. 1, 2004	465	2,966	0	3,431
Currency translation differences	0	0	0	0
Additions	296	1,052	6,810	8,158
Disposals	0	672	6,810	7,482
Reclassifications	0	0	0	0
Accumulated depreciation as of Dec. 31, 2004	761	3,346	0	4,107
Net carrying amounts as of Dec. 31, 2004	10,009	3,275	6,039	19,323
Net carrying amounts as of Dec. 31, 2003	10,253	3,226	5,850	19,329

Overview for Fiscal Year 2005:

	Land and buildings	Other equipment, furniture and fixtures	Assets under construction	Leased assets from operating leases	Total
EURk					
Cost as of Jan. 1, 2005	10,770	6,621	0	6,039	23,430
Currency translation differences	0	5	0	0	5
Additions	1	1,623	279	13,164	15,067
Disposals		358		9,278	9,636
Reclassifications	0	0	0	0	0
Cost as of Dec. 31, 2005	10,771	7,891	279	9,925	28,866
Accumulated depreciation as of Jan. 1, 2005	761	3,346	0	0	4,107
Currency translation differences	0	5	0	0	5
Additions	301	1,136	0	9,278	10,715
Disposals	0	339	0	9,278	9,617
Reclassifications	0	0	0	0	0
Accumulated depreciation as of Dec. 31, 2005	1,062	4,148	0	0	5,210
Net carrying amounts as of Dec. 31, 2005	9,709	3,743	279	9,925	23,656

Depreciation on leased assets from operating leases is shown in profit from disposals (see Note 6).

19 Intangible Assets at Cost

Overview for Fiscal Year 2004:

	Development costs	Goodwill	Software-licenses	Total
EURk				
Cost as of Jan. 1, 2004	0	3,170	662	3,832
Currency translation differences	0	0	0	0
Additions	0	0	91	91
Disposals	0	0	44	44
Reclassifications	0	0	0	0
Cost as of Dec. 31, 2004	0	3,170	709	3,879
Accumulated amortization as of Jan. 1, 2004	0	999	443	1,442
Currency translation differences	0	0	0	0
Additions	0	307	147	454
Disposals	0	0	44	44
Reclassifications	0	0	0	0
Accumulated amortization as of Dec. 31, 2004	0	1,306	546	1,852
Net carrying amounts as of Dec. 31, 2004	0	1,864	163	2,027
Net carrying amounts as of Dec. 31, 2003	0	2,171	219	2,390

Overview for Fiscal Year 2005:

	Development costs	Goodwill	Software-licenses	Total
EURk				
Cost as of Jan. 1, 2005	0	1,864	709	2,573
Currency translation differences	0	49	0	49
Additions	408	0	274	682
Disposals	0	0	49	49
Reclassifications	0	0	0	0
Cost as of Dec. 31, 2004	408	1,913	934	3,255
Accumulated amortization as of Jan. 1, 2005	0	0	546	546
Currency translation differences	0	0	0	0
Additions	35	0	137	172
Disposals	0	0	31	31
Reclassifications	0	0	0	0
Accumulated amortization as of Dec. 31, 2005	35	0	652	687
Net carrying amounts as of Dec. 31, 2005	373	1,913	282	2,568

Development costs mainly relate to internally developed factoring software and webshop programming.

20 Other Non-Current Assets

	Dec. 31, 2005	Dec. 31, 2004
EURk		
ABCP loans	59,132	42,607
Loans to franchisees (refinancing)	13,146	6,671
Other items	570	84
Total	72,848	49,362

In addition to the liquidity reserve of 2% of the refinancing volume drawn on under the three ABCP programs, ABCP loans include loans to the SPEs which need to be granted as collateral for the refinancing volume under the respective agreements. These loans depend on the refinancing volume and on the origin of the receivables refinanced through the SPEs. The interest income generated in this connection is netted with the interest expense from refinancing liabilities.

The loans to franchisees (see Notes 17 and 28) comprise loans granted mainly to refinance the lease agreements concluded by the franchisees. By way of security for the loan receivables, the franchisees have assigned both title to the leased assets and the claim to lease receivables. The loans are therefore equivalent to a purchase of receivables. As such, interest income generated from such loans of EUR 851k is recognized as income from interest on lease receivables.

21 Deferred Tax Assets and Liabilities

Deferred tax assets and liabilities are split among the following items:	Dec. 31, 2005	Dec. 31, 2004
EURk		
Deferred tax assets		
Tax loss carryforwards	12,979	13,057
Remeasurement of lease liabilities	7,115	5,161
Total	20,094	18,218
Deferred tax liabilities		
Remeasurement of lease receivables	47,047	43,905
Other remeasurements	453	241
Total	47,500	44,146

22 Tax Liabilities

	Dec. 31, 2005	Dec. 31, 2004
EURk		
Corporate income tax	3,220	5,679
Trade tax	508	5,868
Total	3,728	11,547

The foreign VAT of EUR 393k, which was disclosed under tax liabilities in the prior year, was reclassified as "other current liabilities".

23 Provisions

Provisions for other costs take all recognizable risks from contingent liabilities into account. They contain provisions for lease, consulting and financial statement costs.

Jan. 1, 2005	Currency differences	Additions	Utilization	Reversals	Dec. 31, 2005
EURk					
1,308	0	1,294	1,244	40	1,318

24 Financial Instruments with negative Fair Value

	Dec. 31, 2005	Dec. 31, 2004
EURk		
Interest rate swaps	302	0
Other derivative financial instruments with a negative fair value	737	0
Total	1,039	0

In addition to the negative fair value of an interest rate swap described in Note 13, the Company disclosed negative fair values in connection with forward exchange contracts for the first time in the fiscal year.

As of December 31, 2005, all forward exchange transactions in relation to pound sterling and Polish zloty had a negative fair value of EUR 737k. The forward exchange contracts relate to a total volume of EUR 18,088k and have residual maturities of between 1 and 54 months.

25 Non-Current Liabilities

The classification of non-current liabilities by residual maturities is shown in the schedule of liabilities below:

Type of liability EURk	Total	1 to 5 years	More than 5 years	Secured amount
Liabilities from the refinancing				
of lease receivables	430,587	430,382	205	261,955
(prior year)	414,025	413,045	980	220,711
Bank liabilities	4,710	2,196	2,514	8,000
(prior year)	5,396	2,152	3,244	8,000
Other liabilities*	1,239	1,211	28	0
(prior year)	1,698	1,698	0	0

* thereof pensions of EUR 28k (prior year: EUR 0k)

The bank liabilities include the non-current portion of a loan totaling CHF 8,179k (originally CHF 11,724k) which was translated at the exchange rate on the balance sheet date. It runs from December 23, 2002 to June 30, 2016 (the original term until December 30, 2017 was reduced) and bears interest of 2.95% p.a. The loan is secured by a land charge of EUR 8,000k on the office building in favor of Commerzbank Aktiengesellschaft, Baden-Baden branch, entered in the Oos land register under no. 6080 on December 18, 2002.

Current and non-current lease receivables totaling EUR 477,261k (prior year: EUR 377,153k) have been assigned to the refinancing institutions to secure the liabilities from the refinancing of lease receivables.

The GRENKELEASING AG Group has three asset-backed commercial paper (ABCP) programs with a total volume of EUR 575,000k. The ABCP program organized by Deutsche Bank AG with Rheingold No. 9 Limited has a volume of EUR 175,000k. The ABCP program organized by WestLB with Compass Variety Funding Limited has a volume of EUR 250,000k. Another program was concluded with SEB in December 2004 and first drawn on in February 2005. The ABCP with Kebnekaise Funding Limited, arranged by SEB, has a volume of EUR 150,000k. The programs' average interest rate

in 2005 was 2.6% (prior year: 2.6%). The program with Deutsche Bank AG runs until September 2006. The program with WestLB has an indefinite term. At the end of fiscal year 2005, 68% (prior year: 53%) of the refinancing facilities provided under the ABCP programs had been utilized.

Interest rate hedges (caps and swaps) were concluded to hedge the variable cash flows from the placement of commercial papers under the ABCP programs. Any costs incurred are charged on to GRENKELEASING. In return, the Company participates in the interest rate hedge as the benefit paid to the ABCP program resulting from the related hedge is passed on to GRENKELEASING. The costs incurred by GRENKE-LEASING are classified as transaction costs under IAS 39 and amortized over the term of the underlying refinancing packages.

Pensions

As of January 1, 2005, the present value of the obligation under the defined benefit pension plan for Switzerland amounted to EUR 196k (CHF 302k). Less the fair value of the plan assets of EUR 204k (CHF 315k), the notional carrying amount in the opening balance sheet would have been EUR 8k (CHF 13k). As this amount is of secondary importance to the net assets, financial position and results of operations of GRENKELEASING AG, no retroactive adjustment was made and the amount to be recognized in the opening balance sheet was recognized in this period. The calculation according to the expert opinion by Expertisa AG is based on the following actuarial assumptions:

- ▶ Discount rate:
Dec. 31, 2005: 3.50% Dec. 31, 2004: 3.50%
- ▶ Estimated future salary increases:
Dec. 31, 2005: 3.00% Dec. 31, 2004: 3.00%
- ▶ Estimated future pension amendments:
Dec. 31, 2005: 0.00% Dec. 31, 2004: 0.00%

- ▶ Expected return on plan assets:

Dec. 31, 2005: 2.00% Dec. 31, 2004: 2.00%

On the basis of the actuarial report, the following income and expenses were recognized in the fiscal year 2005:

- ▶ Service cost: EUR 23k (CHF 35k)
- ▶ Interest expense: EUR 7k (CHF 11k)
- ▶ Income from interest
on plan assets EUR 4k (CHF 6k)

The liability disclosed in the balance sheet totaled EUR 28k (CHF 43k) as of December 31, 2005. This amount comprises a present value of the obligation (DB0) of EUR 221k (CHF 343k), a fair value of the plan assets of EUR 193k (CHF 300k) and an actuarial loss of EUR 11k (CHF 17k). The actuarial loss was recognized in equity in a separate item under the capital reserve in accordance with the revised IAS 19.

Change in defined benefit obligations:	2005	
EURk		
Defined benefit obligation at beginning of period	194	
Interest expense	7	
Current service cost	23	
Benefits paid	0	
Actuarial gains recognized under equity	3	
Currency translation differences from foreign plans	0	
Defined benefit obligation at end of period	221	
Development of plan assets:		
Fair value of plan assets at beginning of period	203	
Expected return	4	
Employer contributions	0	
Benefits paid	0	
Actuarial losses recognized under equity	14	
Currency translation differences from foreign plans	0	
Fair value of plan assets as of December 31, 2005	193	

26 Equity

For the development of equity, we refer to the statement of changes in equity.

Statement of recognized income and expense EURk	2005	2004
Change in the fair value of financial instruments using for hedging purposes recognized under equity	-219	-1.679
Adjustment item for the currency translation of foreign subsidiaries	-274	-95
Actuarial gains/losses from defined benefit pension commitments and similar obligations	-11	0
Tax on items taken directly to or transferred from equity	30	3
Net income recognized directly in equity	-474	-1.771
Net profit for the period after tax	29,027	23,629
Total recognized income and expense for the period	28,553	21,858

The fully paid-in subscribed capital of GRENKELEASING AG amounts to EUR 17,440k (prior year: EUR 17,387k). It is divided into 13,643,646 (prior year: 13,601,938) no-par bearer shares. The change on the prior year is attributable to the exercise of stock options in 2005 under the second stock option plan (see Note 32). A total of 41,708 options were exercised and exchanged for shares.

The shareholders' meeting adopted a resolution authorizing the Board of Directors, with the approval of the Supervisory Board, to increase the Company's share capital by April 30, 2010 up to a nominal amount of EUR 8,500k by issuing new no-par bearer shares in return for cash and/or non-cash contributions. The approved capital increase may be performed in tranches. The shareholders are to be granted a share subscription right. However, under certain conditions, the Board of Directors is authorized to wholly or partly exclude the subscription rights of shareholders in capital increases in return for cash contributions, with the approval of the Supervisory Board.

The articles of incorporation were amended accordingly. In this connection, the approved capital of EUR 5,963k, which expired on February 28, 2005, was cancelled.

There is also conditional capital of EUR 1,627k. The conditional capital is divided into two tranches. Tranche I ("conditional capital I") was created in connection with the IPO in the amount of EUR 959k. As a result of the resolution passed by the shareholders' meeting on April 16, 2002, the conditional increase in capital of up to EUR 959k, approved on February 28, 2000, was reduced by EUR 180k. "Conditional capital I" now only amounts to EUR 779k. On the same date, the shareholders' meeting also approved a further conditional increase ("conditional capital II") of EUR 948k. These changes were entered in the commercial register on June 7, 2002. In fiscal year 2004, "conditional capital II" was used when 78,090 stock options were exercised, thereby decreasing by EUR 100k to EUR 848k. In fiscal year 2005, "conditional capital II" was used when 41,708 stock options were exercised, thereby decreasing by EUR 53k to EUR 795k.

The resolution on the appropriation of the retained earnings of GRENKELEASING AG for fiscal year 2004 was approved by the shareholders' meeting on May 3, 2005.

Retained earnings	EUR 31,054,189.70
Distribution of a dividend of EUR 0.40 per no-par share for a total of 13,601,938 no-par shares	
	EUR 5,440,775.20
Transfer to revenue reserves	--
Profit carryforward (to new account)	EUR 25,613,414.50

The dividend was paid to the shareholders of GRENKELEASING AG on May 4, 2005.

In fiscal year 2004, a dividend of EUR 4,462,869.84 was distributed to the shareholders, which is equivalent to EUR 0.33 per share for a total of 13,523,848 no-par shares.

The Board of Directors has proposed a dividend of EUR 0.50 per share for the fiscal year.

The capital reserve of EUR 59,485k (prior year: EUR 58,682k) mainly results from the IPO of GRENKELEASING AG in April 2000. A provision for input VAT on IPO costs recognized in the year of flotation was reversed following the judgment of the European Court of Justice of June 26, 2003. The option to offset these costs against the capital reserve was used in 2000. The reversal resulted in an effect of EUR 211k in 2003, less the effect of deferred taxes of EUR 81k. The capital reserve changed in 2004 and 2005 as a result of the exercise of stock options issued under the second stock option program. The difference between the exercise price and the notional par value (EUR 18.36 per option/share for 2004) of EUR 1,434k was allocated to the capital reserve. As options were exercised on more than one date, there were the following differences between the exercise price and the notional par value in 2005:

- ▶ Exercise period after shareholders' meeting 2005: EUR 19.65 per option/share
- ▶ Exercise period after publication of QII: EUR 18.56 per option/share
- ▶ Exercise period after publication of QIII: EUR 15.34 per option/share

This resulted in an amount of EUR 803k which was transferred to the capital reserve (see Note 32).

In addition to GRENKELEASING AG's revenue reserves, revenue reserves also comprise the revenue reserves and profits of the consolidated subsidiaries.

As cash flow hedges were accounted for for the first time, a hedge reserve was recognized in equity in fiscal year 2003. Changes in the value of derivatives designated as hedging instruments in cash flow hedges are recognized in equity. The change in the fair value during the fiscal year is EUR 1,461k (prior year: EUR -1,085k) plus deferred taxes of EUR 23k (prior year: EUR -4k).

As a result of the first-time recognition of pension provisions in accordance with the revised IAS 19, an amount of EUR -11k was recognized in equity due to the recognition of actuarial gains and losses. As a corresponding liability is not recognized in Switzerland, the deferred taxes attributable to the actuarial gains/losses (EUR 3k) were also recognized under equity.

27 Segment Reporting

The GRENKELEASING AG Group's risks and rates of returns are primarily determined by the geographical regions in which it operates. In accordance with IAS 14, certain items of information in the financial statements have therefore been disclosed by regions ("primary segments") and by divisions ("secondary segments"). Regional segmentation makes a distinction as to whether lessees are based in Germany, France, Switzerland, or in another country. The "other countries" segment comprises Austria, Italy, the Czech Republic, Spain, the Netherlands, Denmark, Sweden and Ireland. For segmentation by divisions, a distinction is made according to the type of acquisition, i.e. which lease contracts were acquired through conventional channels, via specialist dealers or via the subsidiary WEBLEASE NETBUSINESS AG, i.e. via e-commerce shops, and which were acquired through direct conclusion on the internet. The gains and losses from the contracts settled using the internally developed internet software are allocated to the internet segment.

The segment information was calculated as follows:

- ▶ Segment revenue comprises revenue from capitalizing lease receivables, sales revenues from leased assets, insurance revenue and interest income.
- ▶ Segment result is calculated before taxes (EBT).
- ▶ Amortization/depreciation relates to property, plant and equipment and intangible assets and the portion of goodwill amortization from the acquisition of consolidated subsidiaries directly attributable to the segment.
- ▶ Capital expenditure relates to additions of property, plant and equipment and intangible assets including the portion of goodwill attributable to the segment.
- ▶ Operating segment assets and liabilities are comprised of the operating assets and/or borrowings – excluding interest-bearing claims and liabilities and without taxes.

The revenue listed in the segment reporting was reclassified in fiscal year 2005 for reconciliation purposes. Segment revenue now contains expenses for commissions. The prior year figures were adjusted accordingly.

Segment revenue breaks down as follows: EURk	2005	2004
Income from interest on lease receivables	82,100	74,114
Profit from new business	15,871	13,373
Insurance revenues	15,221	13,330
Sales proceeds	11,397	8,490
Total	124,589	109,307

GRENKELEASING AG, BADEN-BADEN
SEGMENT REPORTING AS OF DECEMBER 31, 2005
REGIONS (PRIMARY REPORTING FORMAT)

	Segment Germany		Segment France	
	Dec. 31, 2005	Dec. 31, 2004	Dec. 31, 2005	Dec. 31, 2004
EURk				
Revenues	89,780	81,976	20,448	15,817
Segment result	34,200	29,255	7,212	4,814
Earnings before taxes				
Income taxes				
Net profit				
Amortization/depreciation	1,179	1,245	162	162
Capital expenditure	2,015	799	195	182
Segment assets	679,115	711,281	157,697	119,152
Unallocated items				
Total assets				
Segment liabilities	536,380	575,983	117,143	85,811
Unallocated items				
Total liabilities				

GRENKELEASING AG, BADEN-BADEN
DIVISIONS (SECONDARY REPORTING FORMAT)

	Segment internet		Segment conventional leasing business	
	Dec. 31, 2005	Dec. 31, 2004	Dec. 31, 2005	Dec. 31, 2004
EURk				
Revenues	63,827	52,609	60,762	56,698
Segment result	23,414	17,734	22,339	19,191
Capital expenditure	1,324	640	1,261	690
Segment assets	540,310	437,288	514,282	471,203

Segment Switzerland		Segment Other countries		Reporting Segments	
Dec. 31, 2005	Dec. 31, 2004	Dec. 31, 2005	Dec. 31, 2004	Dec. 31, 2005	Dec. 31, 2004
5,949	4,813	8,412	6,701	124,589	109,307
2,816	2,347	1,525	509	45,753	36,925
				45,753	36,925
				16,726	13,296
				29,027	23,629
52	42	216	353	1,609	1,802
117	98	258	251	2,585	1,330
30,671	30,171	187,109	47,887	1,054,592	908,491
				20,175	18,283
				1,074,767	926,774
20,551	22,867	173,323	35,626	847,397	720,287
				51,228	56,085
				898,625	776,372

Total Segments	
Dec. 31, 2005	Dec. 31, 2004
124,589	109,307
45,753	36,925
2,585	1,330
1,054,592	908,491

28 Franchise System

GRENKELEASING AG intends to expand into other markets using the business model that has been tried and tested in many European countries. To this end, it employs a franchise system.

Grenke Leasing Ltd., Guildford, UK, and GRENKE-LEASING Sp.z o.o, Poznan, Poland, operate on this basis. Three new franchise companies were founded in fiscal year 2005:

- ▶ GRENKE AUTOLEASING GmbH,
registered office in Bremen, Germany
(by agreement dated April 19, 2005)
- ▶ GRENKE LEASING AS,
registered office in Oslo, Norway
(by agreement dated May 12, 2005)
- ▶ GRENKEFACTORING GmbH
registered office in Baden-Baden, Germany
(by agreement dated July 26, 2005)

GRENKELEASING AG provides its know-how, infrastructure and funds for refinancing lease contracts under a franchise agreement. However, it does not own shares in the above franchisees, nor does it have control over the franchisees' business policies.

29 Financial Instruments and Financial Risk Strategy

29.1 Business Model

As a small-ticket IT leasing company, GRENKELEASING offers lease contracts for mobile IT assets for B2B customers on the market.

To date, the contractual terms for the lease portfolio, i.e. all lease contracts, have been fixed for the duration of each individual contract. This means that both the monthly payments and the interest rate used in calculating the payments are fixed when the contract is concluded. Neither of the parties can subsequently amend these terms.

GRENKELEASING only dissolves or agrees to dissolve contracts prematurely (repurchase, exchange option, termination, etc.) if the loss (i.e. due to lost interest) is borne by the lessee.

29.2 Hedging Philosophy

Derivatives are used when, and only when, underlying contracts require hedging. Underlying contracts are the contractual obligations entered into by GRENKELEASING in order to achieve the Company's objectives.

Treasury is not a separate profit center. The use of derivatives is therefore limited to hedging the profits of GRENKELEASING to the extent stipulated in the Company's articles of incorporation and bylaws.

We currently do not engage in macro hedging, i.e. grouping individual positions to hedge the net position.

The transactions hedged according to this definition are hedged in terms of volume or amount, with various instruments being used. The choice of instrument is always a management decision based on the risk profile, i.e. the income opportunity associated with the risk in question. For example, besides benefiting from falling interest rates, interest rate caps also entail a risk of rising finance costs until the strike is reached, whereas swaps fix a specified interest rate for the term of the swap.

29.3 Financial Risk Identification

GRENKELEASING's business processes are currently exposed to the following financial risks:

29.3.1 Interest Risks

Such risks may arise when the payment obligations for interest-bearing liabilities are not hedged by corresponding asset positions (in this case interest-bearing lease contracts with end customers) or derivatives, either in terms of their maturity or amount. See Note 29.4 for details.

29.3.2 Currency Risks

These risks currently exist in financing for group companies or franchisees outside the euro area. These risks will not be hedged until the amount outstanding reaches EUR 1,000k. This amount was exceeded in Poland and the UK. Therefore, the future repayment amounts in foreign currency expected from the franchise partners were hedged with forward exchange transactions in December 2004. This means that the exchange rate for the financing extended by GRENKELEASING AG in Polish zloty and pounds sterling to GRENKELEASING Sp.z.o.o., Poland, and Grenke Leasing Ltd., UK, is known and fixed. Denmark, the Czech Republic, Sweden and Norway currently have an insignificant outstanding volume. As payment of financing and hedging of cash flows through forward exchange contracts coincide and the underlying spot rates are therefore similar, the hedges are effective in accordance with IFRSs. The derivatives used are disclosed under financial assets or liabilities at their fair value as of the balance sheet date.

Switzerland is not included in this area, as lease refinancing is solely provided in Switzerland by Swiss banks in local currency.

29.3.3 Risks From Changes in the Equity of Group Companies Outside the Euro Area

Adjustments in value due to the translation of financial statements prepared in a foreign currency have not been necessary due to the relative insignificance of the companies concerned.

29.3.4 Cash Flow Risks

By cash flow risks, we mean the risk of non-payment of installments by lessees. Such risks almost always result

from a deterioration in the creditworthiness of lessees after conclusion of the contract. They can be hedged using credit derivatives or traditional credit insurance strategies. Such instruments have not been used to date due to GRENKELEASING's many years of experience and proven performance in this area of risk management.

29.4 Detailed Risk Review

The following review focuses solely on the liabilities side of the balance sheet, i.e. GRENKELEASING's financing and refinancing. As explained above, there is no interest rate risk for any of the lease contracts recognized on the assets side.

29.4.1 Sales of Receivables Agreements

Such agreements are currently in place with StadtsparKasse Baden-Baden, Commerzbank AG and with UBS in Switzerland. In all cases, they involve refinancing of lease contracts with matching terms. For this purpose, individual lease contracts with similar terms are grouped together and lease receivables are purchased for the same term. This ensures that the interest charge for GRENKELEASING is fixed and known at any time in the future. Therefore there is no interest risk. For this reason, derivatives are not used for this financing.

29.4.2 ABCP Programs

The three ABCP programs with Deutsche Bank AG, WestLB and SEB provide for the purchase of GRENKELEASING receivables from German, Austrian and French lessees. There is therefore no currency risk.

As the amount of financing provided is always identical to the balance of sold receivables (less discounts, etc.), the hedging strategy must be based on the sold receivables portfolio.

Contrary to 29.4.1, the interest rates on the asset and liabilities side do not match because the purchase of the receivables is financed in the commercial paper market. The reference rate for all programs is one-month EURIBOR, i.e. interest is variable. The exposure to rising interest rates is hedged by interest rate caps or interest rate swaps.

The respective institutes issuing the programs are the counterparties for the interest rate caps and swaps, which is why GRENKELEASING cannot recognize them.

29.4.3 Bond

Under the Debt Issuance Program (DIP) with a total volume of EUR 500,000k, GRENKELEASING is able to issue debentures with a term of up to 5 years.

On October 30, 2003, a bond of EUR 170,000k with a 3-year term and a fixed coupon of 4.5% p.a. was placed on the market, again under the DIP. The issuer was GRENKE FINANCE Plc., Dublin, Ireland, with a guarantee from the Parent Company. The bond was listed on the stock exchange in Luxembourg. The bond was given a BBB rating by Standard & Poor's. Under the terms of the bond, the coupon will be increased by 0.5% or 1.5% from 4.5% in the event of the bond being downgraded by Standard and Poor's by one or two notches, respectively.

Under the Debt Issuance Program (DIP), GRENKE FINANCE plc., Dublin, Ireland, issued another debenture with a nominal value of EUR 100,000k and a term of five years on March 22, 2005. The debenture carried variable interest on the basis of 3-month EURIBOR plus a credit spread of 0.60 %. GRENKELEASING AG has assumed the unconditional and irrevocable guarantee for the proper and timely payment of interest and principal and any other amounts payable for the debenture.

29.4.4 Loans Against Borrower's Notes

The floating rate debentures for a total of EUR 56,000k were repaid on time as of May 16, 2005. The interest payment obligation was also met.

GRENKELEASING's variable interest payments based on the 6-month EURIBOR were fully hedged by an interest rate cap over the entire term.

In fiscal year 2005, GRENKE FINANCE Plc., Dublin, Ireland, raised a bullet borrower's note loan of EUR 20,000k. Its term starts on December 6, 2005 and expires on December 5, 2010. The borrower's note loan bears interest of 3.773% p.a. which is due in arrears at the end of each quarter, as of March 30, June 30, September 30 and December 30. The first interest payment will be made as of March 30, 2006. GRENKELEASING AG is party to the agreement and has joint and several liability.

In addition, a borrower's note loan of EUR 17,000k with a five-year term was raised on December 20, 2005. The term began on December 22, 2005. Interest is charged in arrears at 3-month EURIBOR plus a premium of 0.61% p.a. The interest payment dates are March 22, June 22, September 22 and December 22 each year. As the loan had an issue price of 99.637%, a discount of EUR 72k is being released over its term.

29.4.5 Private Placements

Further debentures (medium-term notes) with the following key terms were issued under the debt issuance program:

Description	from	Term to	Nominal value in EUR	Interest rate	Discount in EUR
Loans against borrower's notes	Apr. 27, 2004 -	Apr. 27, 2009	1,000,000	4.75%	10,800
Fixed-interest debenture	May 10, 2004 -	May 10, 2005	2,000,000	2.80%	7,200
Fixed-interest debenture	Jun. 10, 2004 -	Jun. 10, 2009	20,000,000	5.00%	215,000
Fixed-interest debenture	Oct. 1, 2004 -	Apr. 1, 2005	25,000,000	2.75%	10,000
Fixed-interest debenture	Dec. 7, 2004 -	May 17, 2005	40,000,000	2.79%	--
Zero bond	Jun. 13, 2005 -	Jun. 13, 2006	20,000,000	0.00%	495,000*

*The total interest amount of the zero bond is reflected by the discount.

The fixed-interest debentures and zero bonds that matured in fiscal year 2005 were redeemed as planned on their due dates together with the final interest payment.

In addition, a zero bond with a nominal amount of EUR 20,000k and a term beginning on June 13, 2005 was issued on May 31, 2005. The bond matures on June 13, 2006. The zero bond had an issue price of 97.525%, equating to effective interest of 2.503% over its term (*).

All debentures are bullet debt securities and are subject to constant rating. If the Standard & Poor's rating were to be downgraded, the interest rate on the EUR 20,000k fixed-interest debenture will be adjusted (raised) by between 0.5 and 1.5 percentage points. As a downgrading is not expected, no hedge has been concluded to date.

As the interest payable on the debentures is fixed, there is no interest rate risk which would have to be hedged.

29.5 Hedge Effectiveness

Accounting in accordance with IAS/IFRSs requires documentation and a risk analysis when derivative financial instruments are used. The link between the underlying item and the hedging instrument forms the decisive basis for an effective hedge. As it uses derivatives for interest rate and currency hedging, GRENKELEASING applies hedge accounting in accordance with IAS 39. Hedge effectiveness, as required by IFRS, is in line with GRENKELEASING's intention of using derivatives only to hedge risks from designated hedged items and to never enter into derivatives for speculative reasons.

The tests of effectiveness for each financial derivative accounted for in a hedge in accordance with IAS 39 were performed as of the end of each quarter using the hypothetical derivative method. The documentation of each hedging relationship describes the hedged item, hedged risk, strategy, hedging instrument, estimate of effectiveness and names the counterparty.

The specifications of the various derivatives used by GRENKELEASING are described below.

29.5.1 Forward Exchange Contracts

The hedged item for all forward exchange hedges is determined by the installments from the financing of the leasing business in the respective currency area. These foreign currency cash flows are the basis for the forward contracts. The hedge can be classified as highly effective because only the actual cash flows, and never a higher amount, are hedged. Ideally, the dates of financing the foreign exchange hedge coincide to ensure the best possible hedge of the exposure to cash flow variability.

No hedge was accounted for in accordance with IAS 39 ("cash flow hedge") due to its relative insignificance.

29.5.2 Interest Rate Swaps in Connection with Debentures

The parameters of the underlying contract, i.e. those of the financing (liability), are considered first and foremost when contracting interest rate swaps. For this reason, the interest rate terms of the swaps on the variable side are identical to those of the underlying item. Furthermore, the notional amount of the swaps is never greater than the volume of the hedged financing. The active integration of existing and future planned refinancing transactions allows a forward-looking risk management. Quarterly tests of effectiveness will be conducted as part of this ongoing analysis, in which the effectiveness of the hedges is

tested using a method allowed under IAS/IFRS. To date, the hedging relationships between interest rate swaps and existing and planned DIP placements have proven to be highly effective. Both the change-in-variable cash flow method and the hypothetical derivative method result in 100% effectiveness.

30 Fair Value of Primary Financial Instruments

Fair value is the amount for which financial instruments would be exchanged, sold, bought or settled on the balance sheet date between knowledgeable, willing contracting parties in an arm's length transaction.

The fair value of lease receivables is estimated by using, instead of the internal rate, an interest rate which would be available for full refinancing. A commercial rate of interest on December 31, 2005 was used for liabilities from refinancing.

Financial instruments whose fair value differs from their carrying amount are listed below:

	Fair value 2005	Carrying amount 2005	Fair value 2004	Carrying amount 2004
EURk				
Lease receivables	938,432	860,828	814,084	741,403
Liabilities from refinancing the lease receivables	772,588	771,598	653,260	651,217

31 Contingent Liabilities and Other Financial Obligations

No contingent liabilities existed as of the balance sheet date which must be stated in the balance sheet or in the notes. The Company has other financial obligations related to rent and lease contracts. The resulting financial obligations are presented below:

	Dec. 31, 2005	Dec. 31, 2004
EURk		
Rent and lease obligations		
Of which due in the following year	2,279	1,293
Of which due in 2 to 5 years	4,533	2,255
Of which due in more than 5 years	2,796	1,070
Total	9,608	4,618

The Company entered into a purchase obligation for a contract value of EUR 696k in connection with the extension of the GRENKELEASING AG headquarters in Baden-Baden, Germany. The purchase obligation will become due in 2006 or 2007 depending on the progress of construction work.

Under three agreements regarding the sale of receivables of Grenke Investitionien Verwaltungs KGaA to secure all receivables of the holding company (Grenke Investitionien Verwaltungs KGaA) from the operating company, the operating company (GRENKELEASING AG) assigns to the holding company the following from lease contracts with end lessees (sublease contract) for leased assets, which are the subject of a purchase agreement between the operating company and the holding company: all receivables, claims and rights arising from these sublease contracts, including any claims from extended leases following expiry of the originally agreed lease, any claims for compensation payments and for residual values, and payment of a purchase price from the sale of the respective leased asset. Claims from loan and property insurance from the respective sublease contract are also assigned, as are possible claims from repurchase obligations on the part of suppliers of leased assets or of third parties. The buyer of the

receivables acquires the equitable lien on the leased assets on which the respective receivable purchase agreement is based.

Our Irish subsidiary, GRENKE FINANCE Plc., Dublin, Ireland realized income from intragroup factoring in 2004.

In our view, this is an active service as defined by Sec. 8 (1) No. 5 AStG [“Außensteuergesetz”: German Foreign Investment Tax Act]. It is not subject to imputed dividend taxation under Sec. 10 (1) AStG at Company level.

This interpretation of law is also supported by the recent ruling of the European Court of Justice on VAT which, we believe, also applies to income tax law.

We also endorse the view expressed in the literature on the subject that the application of the imputed dividend taxation provisions as unreasonable anti-abuse regulations constitutes an unlawful discrimination against equity investments in foreign companies and may not, therefore, be applied in taxing GRENKELEASING AG.

The view held by the tax authorities would result in imputed dividend taxation of EUR 716k, and thus increase tax expenditure.

Objections are pending to six assessment notices on the separate and uniform determination of tax bases for 2000 for GLG Grenke-Leasing GmbH & Co. Baden-Baden KG, GLG Grenke-Leasing GmbH & Co. Düsseldorf KG, GLG Grenke-Leasing GmbH & Co. Hamburg KG, GLG Grenke-Leasing GmbH & Co. München KG, GLG Grenke-Leasing GmbH & Co. Nürnberg KG, and GLG Grenke-Leasing GmbH & Co. Stuttgart KG.

The assets of the above companies were merged into GRENKELEASING AG as of February 28, 2000.

The amended tax assessment notices from the tax authorities differ from our application for amendment of the tax assessment notices for 2000 following the incorporation of the tax audit findings for the years 1996 to 1999.

If the tax authorities' view proves correct, tax expense would increase by EUR 92k.

The tax authorities in France have completed their audit of the French subsidiary GRENKE LOCATION SAS. There were differences of opinion between ourselves and the tax authorities on the allocation of the intragroup two-tier financing. An expert third party issued a tax opinion on this matter stating that GRENKE LOCATION SAS stood a good chance that the matter recognized by us had been presented clearly and transparently. The French tax authorities issued GRENKE LOCATION SAS with a tax assessment notice that did not take this opinion into consideration. The Company has lodged an appeal against this notice. Payment of EUR 3,458k was made in 2004 subject to reservations and without acknowledging the assessment notice to avoid the negative publicity that would follow an entry in the commercial register. This amount was recognized as a receivable from the tax authorities as, on the basis of the tax opinion, we assume that our view will be confirmed.

32 Employee Stock Option Programs

The first employee stock option program (IPO stock option program) was launched in connection with the stock market floatation of the GRENKELEASING AG share. A further stock option program followed in 2002. These employee stock option programs are intended to allow members of the Board of Directors and the other employees of the Company and of its affiliated companies to directly participate in the future growth in corporate value. For this purpose, the shareholders' meeting created "conditional capital I" of EUR 959k for the first time on February 28, 2000; this was entered in the commercial register on March 2, 2000. As a result of the resolution passed by the shareholders' meeting on April 16, 2002, the conditional increase in capital approved on February 28, 2000 was reduced by EUR 180k. "Conditional capital I" now only amounts to EUR 779k. The shareholders' meeting approved a further conditional increase ("conditional capital II") of EUR 948k. These changes were entered in the commercial register on June 7, 2002. In fiscal year 2004, "conditional capital II" was used when 78,090 stock options were exercised, thereby decreasing by EUR 100k to EUR 848k. In fiscal year 2005, "conditional capital II" was used when 41,708 stock options were exercised, thereby decreasing by EUR 53k to EUR 795k.

The conditional capital serves to secure share subscription rights from the stock option program. A maximum total of 1,492,000 stock subscription rights will be issued; each allows one share in GRENKELEASING AG to be acquired.

Subscription rights are as follows:

- ▶ Members of the Board of Directors of GRENKELEASING AG
maximum of 203,880 subscription rights
- ▶ Other employees of GRENKELEASING AG
maximum of 969,490 subscription rights
- ▶ Other employees of companies affiliated to GRENKELEASING AG
maximum of 318,630 subscription rights

The subscription rights were issued in initial tranches; further tranches will be issued in subsequent years. Subscription rights will be issued within five years following entry of the conditional capital in the commercial register.

The share price must exceed a specified target price for the subscription rights under the employee stock option programs to be exercised, and the subscription rights may be exercised no earlier than two years after being issued. The exercise price is dependent on the issue price and may fall if the target price is exceeded.

All of the employee stock option programs provide for the possibility of a cash settlement in the event of the exercise of options. The Board of Directors would have to adopt a resolution for this for a particular year.

On the basis of the share's performance in the prior year and in fiscal year 2004, the performance target of the second employee stock option program (EUR 28.51) was met in the reference period in July/August 2004 so that the options issued under the second employee stock option program were able to be exercised. The first exercise date for the maximum number of exercisable subscription rights (86,778) was August 13, 2004. The exercise price was EUR 19.64.

Employees exercised a total of 78,090 options.

In 2005, the options exercisable in 2005 (42,502 options) were able to be exercised together with the options not exercised in the prior year (6,632 options) in the exercise periods after the shareholders' meeting and after the publication of the results for the second and third quarters. The exercise price is determined for each exercise period on the basis on the average price of 20 trading days. In addition, the options issued under the second employee stock option program which cannot be exercised until 2006 can be exercised during the relevant exercise periods in 2006 without having to meet any further exercise requirements.

The calculated average price in the first relevant exercise period between March 30, 2005 and April 26, 2005 was EUR 34.03. The first exercise period for the maximum of 85,396 exercisable options in this year was between May 4 and May 31, 2005. The exercise price was EUR 20.93. During this period, 33,614 options were exercised by employees.

The average price in the second relevant exercise period between June 24, 2005 and July 21, 2005 was EUR 36.21. In this year, the second exercise period was between July 27 and August 25, 2005. The exercise price was EUR 19.84. During this period, 5,942 options were exercised by employees.

The average price in the third relevant exercise period between September 22, 2005 and October 20, 2005 was EUR 42.64. In this year, the third exercise period was between October 28 and November 24, 2005. The exercise price was EUR 16.62. During this period, 2,152 options were exercised by employees

Total conditional capital II of EUR 948,446.66 divided by 742,000 options yields a nominal value per option of EUR 1.27823. Due to the exercise of a total of 41,708 options in 2005, the capital stock increased by EUR 53,312.42 and the capital reserve by EUR 803,884.12.

As all of the stock option programs were launched before November 7, 2002, the options do not need to be measured in accordance with IFRS 2, i.e. recognizing any changes in value in profit or loss. Hence, the exercise of the options was not recognized in net profit or loss.

The following table shows the stock options issued under this program as of December 31, 2005:

IPO Stock Option Program	Members of the Board of Directors	Employees	Employees of affiliated companies	Total
Units				
Maximum number of subscription rights	100,000	528,000	122,000	750,000
Issued under the 1st SOP (2000)	30,396	218,630	30,620	279,646
Remainder	69,604	309,370	91,380	470,354
Retransfer as a result of employees leaving the Company	--	47,920	11,588	59,508
Issued under the 2nd SOP (2001)	30,396	276,652	60,220	367,268
Remainder	39,208	80,638	42,748	162,594
Retransfer as a result of employees leaving the Company	--	44,552	25,608	70,160
Derecognized by shareholders' meeting 2002	39,208	65,277	36,060	140,545
Balance on Dec. 31, 2005	0	59,913	32,296	92,209

The last measurement period for the targets of the first tranche of the first employee stock option program ended on November 5, 2004. The average price of EUR 33.12 for the measurement period was not reached; this meant that all options issued in this tranche (220,138) expired as of March 31, 2005.

The performance target for 2005 for the second tranche of the first employee stock option program was EUR 58.10. This target was not reached in the last measurement period preceding the publication of the interim report for the third quarter of 2005. As there will be no further exercise period in 2006, the last opportunity for exercising the related options was after the publication of the interim report for the third quarter, the 297,108 options issued under the second tranche will expire as of March 31, 2006.

Stock Option Program II	Members of the Board of Directors	Employees	Employees of affiliated companies	Total
Units				
Maximum number of subscription rights	103,880	441,490	196,630	742,000
Issued under the 1st SOP (2002)	24,200	108,984	65,740	198,924
Remainder	79,680	332,506	130,890	543,076
Retransfer as a result of employees leaving the Company	--	8,386	20,812	29,198
Balance on Dec. 31, 2005	79,680	340,892	151,702	572,274

As the target price was exceeded once in 2004, the remaining options may be exercised during the relevant exercise periods in the years to come (25 % each year). However, the exercise price will be determined separately for each exercise period in the relevant reference period. The reference price for 2005 was EUR 32.78; for 2006 it is EUR 38.00.

A total of 7,426 stock options can be exercised and therefore have a dilutive effect as of December 31, 2005 (prior year: 26,546 stock options). As of December 31, 2005, 42,502 stock options are potentially dilutive (prior year: 425,678 stock options).

The outstanding options from the second employee stock option program were measured using option pricing models. The value per option was EUR 31.66. The options from the second tranche of the first employee stock option program were not measured because they cannot be exercised anymore.

33 Related Party Disclosures

GRENKELEASING AG renders various services for related entities in its ordinary course of business. Conversely, the various group companies also render services within the GRENKELEASING Group as part of their business purpose. These extensive deliveries of goods and services are transacted at market prices.

In addition, various agreements are in place between the Group and the franchise companies under which the group companies provide their know-how, infrastructure and funds for refinancing lease contracts. In addition to the franchise fees totaling EUR 142k (prior year: EUR 94k), the Group generated income from interest on loans of EUR 852k (prior year: EUR 214k). As of the balance sheet date, apart from the loans (see Notes 17 and 20), there were receivables from franchisees totaling EUR 207k (prior year: EUR 15k).

In accordance with the articles of incorporation and bylaws, the Supervisory Board of GRENKELEASING AG has six members. The members of the supervisory board in

fiscal year 2005 were:

- ▶ Prof. Dr. Ernst-Moritz Lipp,
Chairman, from July 11, 2005
Professor of international finance
and general manager, Baden-Baden, Germany
- ▶ Mr. Gerhard E. Witt, Deputy Chairman
(Chairman until July 11, 2005)
Accountant and tax advisor, Baden-Baden, Germany
- ▶ Ms. Renate Hauss, until May 3, 2005
(employee of GRENKELEASING AG),
Business administration graduate, Bühl, Germany
- ▶ Mr. Dieter Münch
(Deputy Chairman until July 11, 2005)
Retired bank officer, Weinheim, Germany
- ▶ Dr. Oliver Nass, since May 3, 2005
commercial general manager, Paris, France
- ▶ Herr Erwin Staudt, since May 3, 2005
economics graduate,
President of the soccer club VfB Stuttgart 1893 e.V.,
Leonberg, Germany
- ▶ Frau Dr. Brigitte Sträter
Owner and manager of the PR agency CENA,
Düsseldorf, Germany

The Supervisory Board's remuneration (including payments for supplementary services) totaled EUR 86k (prior year: EUR 101k).

Mr. Münch has 75 (prior year: 75) shares. Ms. Hauss had 4,492 stock options, of which 894 have been exercised. On December 31, 2005, Ms. Hauss had 3,300 stock options (SOP 2000) which were no longer valid. Ms. Hauss was granted the stock options solely on the basis of her employee status and under GRENKELEASING's compensation system. The compensation system applies to all employees, and Ms. Hauss participates in the employee stock option

program in accordance with the principle of non-discrimination under labor law.

In accordance with Sec. 113 (1) Sentence 2 Alt. 1 AktG, supervisory board remuneration is defined in Article 10 of GRENKELEASING AG's articles of incorporation and bylaws. This provision does not permit the participation of the members of the Supervisory Board in one of the employee stock options programs. This also applies, without exception, to Ms. Hauss.

The control of the Board of Directors by the Supervisory Board in its capacity as a monitoring body required by law is in no way jeopardized by the granting of stock options as such options are granted to Ms. Hauss solely on the basis of her function as an employee of GRENKELEASING AG. Furthermore, according to the most recent ruling by the Federal Court of Justice of February 16, 2004, the granting of options does not conflict with Ms. Hauss' function as a member of the Supervisory Board.

Ms. Renate Hauss, Mr. Gerhard E. Witt and Mr. Dieter Münch are also supervisory board members of Grenke Investitionen Verwaltungs KGaA, Baden-Baden. Mr. Dieter Münch is also a member of the supervisory board of Weisenburger Bau + Grund AG, Halle/Saale. Mr. Staudt is also a member of the supervisory boards of PROFI Engineering Systems AG, Darmstadt, USU AG, Möglingen, and Hahn Verwaltungs-GmbH, Fellbach. Prof. Dr. Lipp is also a member of the advisory boards for TFL International GmbH, Weil am Rhein, Germany, Burkart Verwaltungen GmbH, Singen, Germany, and 2D Holding GmbH, Laichingen, Germany.

None of the other members of the Supervisory Board of GRENKELEASING AG were members of any other supervisory boards or oversight bodies within the meaning of Sec. 125 (1) Sentence 3 AktG.

Mr. Witt and Prof. Dr. Lipp have been appointed until the end of the shareholders' meeting which is to decide on their exoneration for fiscal year 2007. The remaining members of the Supervisory Board have

been appointed until the end of the shareholders' meeting which is to decide on their exoneration for fiscal year 2009.

Remuneration of the Supervisory Board breaks down as follows:

EURk	Total	Remuneration		Additional services
		AG	KGaA	
R. Hauss	6,5	4	2,5	0
Prof. Dr. Lipp	9	9	0	0
D. Münch	12,5	10	2,5	0
Dr. O. Nass	5	5	0	0
E. Staudt	5	5	0	0
Dr. B. Sträter	32	9	0	23
G. Witt	16	12	4	0
Total	86	54	9	23

In addition to her work for the Supervisory Board, Dr. Sträter also assisted the Company in public relations.

The Board of Directors of GRENKELEASING AG is comprised as follows:

▶	Mr. Wolfgang Grenke, businessman, Baden-Baden, (Chairman) Special responsibility: Strategy, corporate development, internal audit
▶	Mr. Thomas Konprecht, graduate programmer, certified leasing and financial consultant (VWA) Düsseldorf, (Deputy Chairman) Special responsibility: Marketing, sales, management services
▶	Mr. Mark Kindermann, business graduate, Bühl Special responsibility: Administration, accounting, legal, personnel, quality management
▶	Mr. Michael Kostrewa, businessman and industrial IT graduate, Gaggenau Special responsibility: information technology, e-business

The Supervisory Board appointed one more director with effect from October 1, 2005. Dr. Uwe Hack, a business administration graduate from Metzingen, Germany, is responsible for investor relations, treasury and financial control at GRENKELEASING AG.

Mr. Wolfgang Grenke holds sole power of representation. The other members of the Board of Directors represent GRENKELEASING AG jointly with another member of the Board of Directors or with an authorized signatory.

The remuneration of the Board of Directors is as follows:

	Total remuneration	Compensation in kind from SOP	Fixed portion	Variable portion
EURk				
Wolfgang Grenke	283	19	221	43
Thomas Konprecht	211	15	165	31
Michael Kostrewa	140	10	110	20
Mark Kindermann	142	11	111	20
Dr. Uwe Hack	98	0	67	31
Total	874	55	674	145

In the fiscal year and in the prior year, the members of the Board of Directors did not receive any GRENKELEASING AG stock options – in accordance with the above mentioned Stock Option Program II.

All of the Directors exercised stock options in May 2005. Overall, the Board of Directors exercised 18,150 options. The number of shares and exercisable options is shown below:

No.	Shares as of		Options as of	
	Dec. 31, 2005	2004	Dec. 31, 2005	2004
Wolfgang Grenke	5,019,419	5,167,219	13,252	26,504
Thomas Konprecht	384,080	537,430	9,938	19,876
Michael Kostrewa	84,600	167,149	6,628	13,256
Mark Kindermann	70,953	89,853	6,628	13,256
Total	5,559,052	5,961,651	36,446	72,892

Mr. Wolfgang Grenke is also a member of the board of directors of GRENKE Locazione S.r.l., Milan, Italy, CEO of GRENKE ALQUILER S.A., Barcelona, Spain, and general manager of GLG Grenke-Leasing GmbH, Baden-Baden, Germany. He is the chairman of the supervisory board of WEBLEASE NETBUSINESS AG, Baden-Baden, Germany, GRENKE LOCATION S.A.S., Schiltigheim, France, and GRENKELEASING AG, Vienna, Austria. He is also a member of the advisory board of Deutsche Bank AG, Freiburg region, Germany.

Mr. Mark Kindermann is also a member of the board of directors of GRENKE LIMITED, Dublin, Ireland, of GRENKELEASING AB, Kista (Stockholm), Sweden, and of GRENKE FINANCE Plc., Dublin, Ireland. He is a member of the supervisory board of WEBLEASE NETBUSINESS AG, Baden-Baden, Germany, of GRENKELEASING AG, Vienna, Austria, and of Grenkefinance N.V., Maasbree, Netherlands.

Mr. Thomas Konprecht is also a member of the board of directors of Grenkefinance N.V., Maasbree, Netherlands, a member of the supervisory board of GRENKELEASING AB, Kista (Stockholm), Sweden, of GRENKELEASING AG Vienna, Austria, and general manager of GLG Grenke-Leasing GmbH, Baden-Baden, Germany, and of GRENKELEASING ApS Herlev, Denmark.

Mr. Michael Kostrewa is also a member of the board of directors of GRENKE LIMITED, Dublin, Ireland, of GRENKELEASING AB, Kista (Stockholm), Sweden, and of GRENKE FINANCE Plc., Dublin, Ireland.

34 Events After the Balance Sheet Date

In January 2006, the French tax authorities announced they were going to conduct a tax audit at GRENKE LOCATION SAS, Schiltigheim, France. It is due to commence in February 2006.

35 Declaration Pursuant to Sec. 161 AktG

The Board of Directors and Supervisory Board of GRENKELEASING AG have made the declaration for 2005 pursuant to Sec. 161 AktG and made this available continuously to shareholders.

Baden-Baden, Germany, January 19, 2006

The Board of Directors

AUDIT OPINION

We have audited the consolidated financial statements prepared by GRENKELEASING AG, Baden-Baden, Germany, comprising the balance sheet, the income statement, statement of changes in equity, cash flow statement and notes to the consolidated financial statements, together with the group management report for the business year from January 1 to December 31, 2005. The preparation of the consolidated financial statements and the group management report in accordance with IFRS, as adopted by the EU, and the requirements of German commercial law pursuant to § [Article] 315 a Abs. [paragraph] 1 HGB ["Handelsgesetzbuch": „German Commercial Code“] are the responsibility of Group's management. Our responsibility is to express an opinion on the consolidated financial statements and group management report based on our audit.

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

accounting principles and consolidation standards used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements and group management report.

We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion, on the basis of knowledge we have gained during the audit, the consolidated financial statements comply with IFRS, as adopted by the EU, the requirements of German commercial law pursuant to § 315a Abs. 1 HGB and give a true and fair view of the net assets, financial position and results of operations of the Group in accordance with these requirements. The group management report is consistent with the consolidated financial statements and as a whole provides an appropriate view of the Group's position and appropriately presents the opportunities and risks of future development.

Eschborn/Frankfurt am Main, January 19, 2006

Ernst & Young AG
 Wirtschaftsprüfungsgesellschaft

Eckl
 Wirtschaftsprüferin

Kirch
 Wirtschaftsprüfer

SUPERVISORY BOARD REPORT



Prof. Dr. Ernst-Moritz Lipp
 Chairman

Dear Shareholders,

At its meeting on July 11, 2005, the Supervisory Board elected me as its Chairman. The Supervisory Board thanked the current Chairman, Gerhard E. Witt, for his many years of service and his willingness to continue to be available as a deputy chairman and chairman of the audit committee.

Once again, GRENKELEASING AG experienced vigorous growth in fiscal year 2005, delivering consistently high profit margins. We are pressing ahead with our foreign growth strategy and our foreign business has become a key value driver.

The supervisory board has appointed another experienced director, Dr. Hack, to bolster the foundation for the Company's future growth.

Throughout the fiscal year, the Board of Directors of GRENKELEASING AG provided the Supervisory Board with detailed and comprehensive information on the economic position, strategic development, status of business planning, recent events, and the personnel situation of GRENKELEASING AG. At a total of four Supervisory Board meetings – held on January 24, April 18, July 11, and November 21, 2005 – the Supervisory Board discussed the reports submitted by the Board of Directors in depth and passed the

necessary resolutions, where required by the law, the articles of incorporation or the bylaws. Among other things, the Supervisory Board received the minutes of the meetings of the Board of Directors as well as the documents prepared for these meetings.

The following items were on the agenda of Supervisory Board meetings in 2005

- ▶ Approval of the financial statements of GRENKELEASING AG as of December 31, 2004
- ▶ Approval of the consolidated financial statements of GRENKELEASING AG as of December 31, 2004
- ▶ Adoption of the Supervisory Board Report to the Shareholders' Meeting
- ▶ Definition of the items on the agenda for the Shareholders' Meeting
- ▶ Proposal to the Shareholders' Meeting for the election of two new Supervisory Board members
- ▶ Resolutions by the Board of Directors requiring Supervisory Board approval
- ▶ Resolutions concerning amendments to the articles of incorporation (e.g. German Law on Corporate Integrity and Modernization of the Right of Avoidance: "UMAG")
- ▶ Approval of the current "Corporate Governance Code"
- ▶ Report on the risk management system
- ▶ Elements and functioning of the scoring system

The Supervisory Board thus fulfilled its obligation to review and monitor the management of the Company as provided for by law and by the articles of incorporation and bylaws.

The financial statements of GRENKELEASING AG as of December 31, 2005 prepared by the Board of Directors, the management report of the Company for fiscal year 2005, the consolidated financial statements as of December 31, 2005 and the group management report for fiscal year 2005 were submitted to the Supervisory Board for review.

The proposal on the appropriation of profits of GRENKELEASING AG made by the Board of Directors was submitted to the Supervisory Board. The financial statements were audited by the auditing firm elected by the shareholders' meeting on May 3, 2005, Ernst & Young AG, Wirtschaftsprüfungsgesellschaft, Eschborn/Frankfurt am Main, Germany. The accounting methods used in preparing the individual financial statements of GRENKELEASING AG were in keeping with the provisions of German commercial law. The audit of the financial statements for the year ended December 31, 2005 was conducted pursuant to Sec. 317 HGB ["Handelsgesetzbuch": German Commercial Code] and in compliance with the generally accepted principles for the audit of financial statements adopted by the Institute of Public Auditors in Germany (IDW).

The consolidated financial statements of GRENKELEASING AG for the fiscal year from January 1 to December 31, 2005 were prepared in accordance with International Financial Reporting Standards (IFRSs) as applicable in the EU and the provisions of Sec. 315 a (1) HGB. The audit of the consolidated financial statements was conducted pursuant to Sec. 317 HGB in compliance with the generally accepted principles for the audit of financial statements adopted by the Institute of Public Auditors in Germany (IDW AuS 450).

An unqualified audit opinion was rendered on both the financial statements of GRENKELEASING AG and the consolidated financial statements of the

GRENKELEASING AG Group. The auditor attended the meeting of the audit committee to discuss the financial statements and provided explanations. The audit committee satisfied itself of the auditor's independence.

The Supervisory Board reviewed the financial statements presented to it by the Board of Directors and the auditor and discussed the results in its meeting on January 23, 2006. The auditor attended the meeting and reported on the significant audit results.

Having duly conducted its own examination, the Supervisory Board raised no objections to the findings from the audit of the financial statements conducted by the auditor and thus approved and adopted the financial statements of GRENKELEASING AG and the GRENKELEASING AG Group.

The Supervisory Board concurs with the Board of Directors' proposal on the appropriation of profits.

All members of the Supervisory Board have voluntarily undertaken to observe the corporate governance principles effective in the fiscal year.

The Supervisory Board extends its thanks to the Directors and to all the Company's employees whose dedication and initiative contributed to the Group's excellent performance in the last fiscal year.

Baden-Baden, Germany, January 2006

For the Supervisory Board
 Prof. Dr. Ernst-Moritz Lipp
 Chairman

DATES 2006

03/01/2006	Publication New Business and Contribution Margin1
27/01/2006	Publication of the Annual Accounts for 2005, Balance Press Conference/DVFA Analyst Conference in Frankfurt
04/04/2006	Publication New Business and Contribution Margin1
27/04/2006	Publication of Financial Statements of Q1 2006
09/05/2006	General Meeting, Baden-Baden
04/07/2006	Publication New Business and Contribution Margin1
27/07/2006	Publication of Financial Statements of Q2 2006
04/10/2006	Publication New Business and Contribution Margin1
26/10/2006	Publication of Financial Statements of Q3 2006 DVFA Analyst Conference in Frankfurt

You may find the detailed glossary to this report on www.grenkeleasing.com

