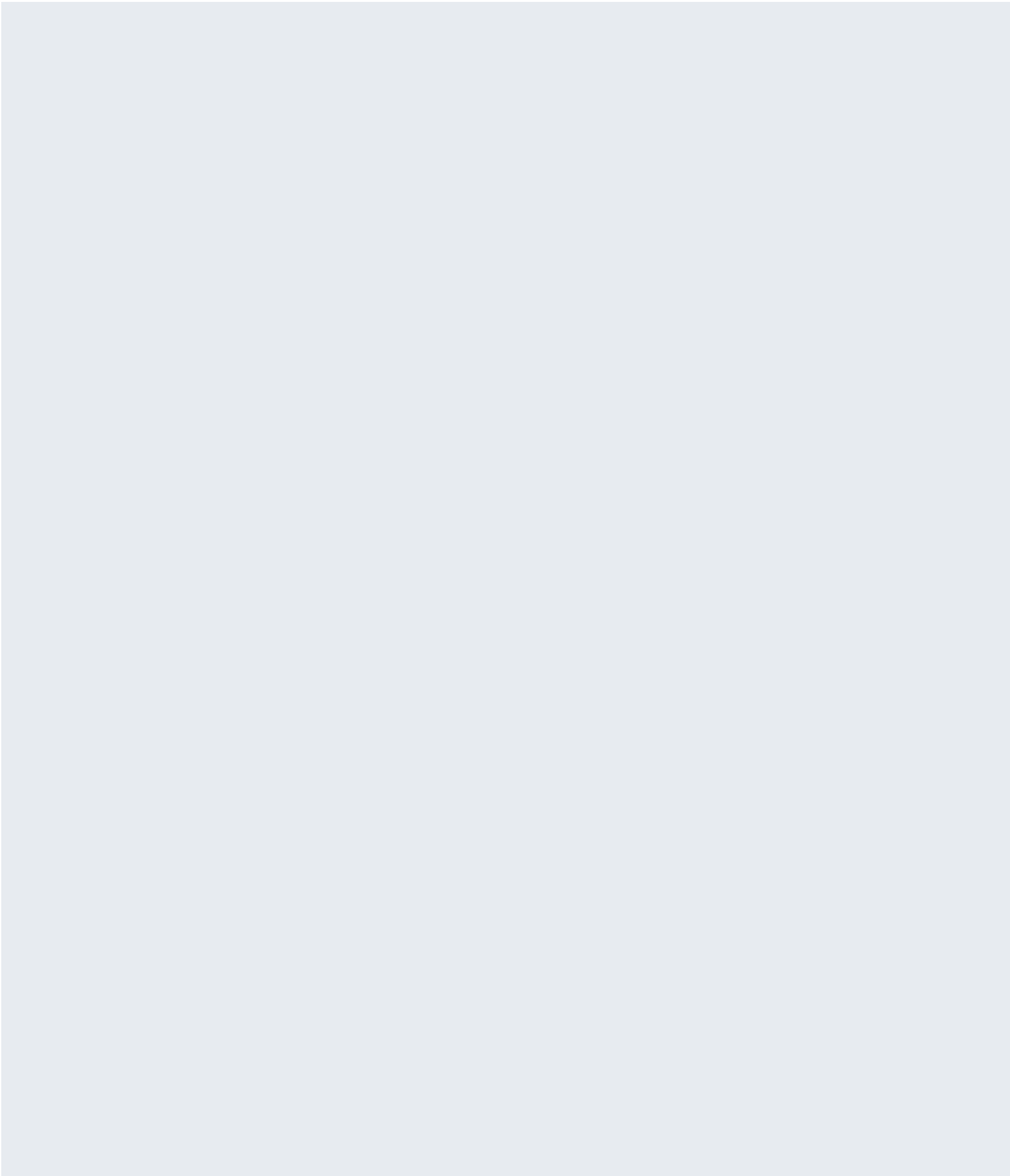


Annual Report 2005



2005 became a historical year for Colonia Real Estate AG 2005. Within a mere three years this once dormant exchange-listed paper has turned into Germany's strongest growing real estate corporation with Europe's most successful real estate share.



Contents

02 Management Report

- 02 Business and Economic Environment
- 10 Results of Operations, Financial and Assets Position
- 15 Report on Post Balance Sheet Date Events
- 16 Risk Report
- 17 Report on Expected Developments

20 Consolidated Annual Financial Statements

- 22 Consolidated Balance Sheet
 - 23 Consolidated Income Statement
 - 24 Consolidated Cash Flow Statement
 - 25 Schedule of Consolidated Equity
 - 26 Notes to the Consolidated Financial Statements
 - 62 Auditors' Opinion
 - 63 Report of the Supervisory Board
-
-



Business and Economic Environment

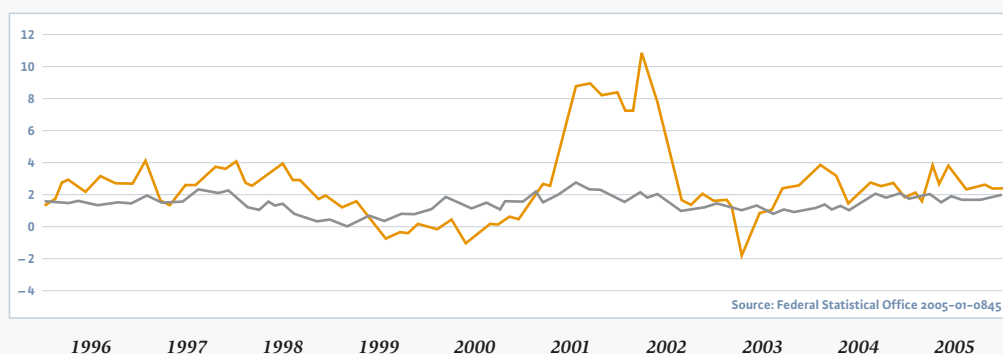
1. General Economic Situation

The Federal Republic of Germany achieved 0.9% Gross Domestic Product (GDP) growth in the year 2005, due once again to the significant growth of exports. The domestic economy remained sluggish and private consumer spending was again stagnant. Unemployment figures reached new record highs. Now, hopes for sustained economic recovery in the year 2006 are getting a boost from the measures for budget consolidation and revival of economic activity announced by the new German Federal Government, and its extensive € 25 billion investment program.

Economic recovery and first signs of inflationary risks lead to changes in the interest rates on the money and capital markets. Short term interest rates in the first three quarters moved at a historic low of approx. 2.2%, followed by a change in interest rates in the fourth quarter of 2005 due to interest rate increases of the US Federal Reserve. The level rose to 2.5% and continued to move upwards in the first quarter of 2006. In the year 2005, long-term interest rates reached a historic low of 2.6% in a five-year comparison, and 3.1% in a ten-year comparison. In this area, too, interest increases of approx. 0.5% were observed in the fourth quarter of 2005. This development continued in the year 2006.

Inflation rate in percent

■ Consumer index ■ Index of the sensed inflation



2. Situation in the Construction and Real Estate Sectors

The German real estate market continued to be in a difficult situation. The market was characterized by stagnating prices, continually high office space vacancies, cautious investor behaviour and the historically lowest level of new building permits (minus 20.1 % versus 2004).

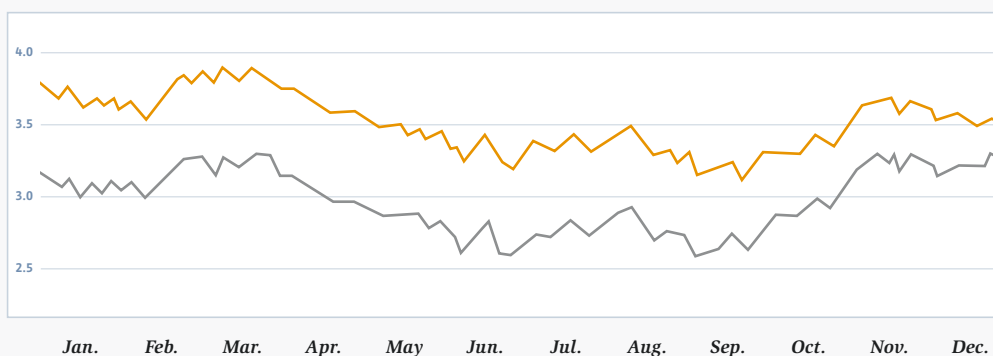
A contrary development was observed on the residential real estate market. In particular the awakened interest of major international investors, funds, pension funds, etc. concerning investments in the German residential real estate market lead to an extensive series of acquisitions of large residential real estate portfolios from the assets of public and private residential building companies. Very often the tender offer procedure was used, which led to overbidding of prices.

The depletion of public coffers, in particular of the municipalities, has led to increased willingness to sell residential real estate. Purchase prices in the magnitude between € 20 and 70 million are not relevant to international investors, so that the prices are still moving in an interesting range.

The rise of interest rates since the beginning of the 4th quarter of 2005 has led to higher buyer financing costs and lower profits from investments. It is not yet foreseeable to what extent the increase in rental income and the minimization of vacancies and the loss of rental income can absorb the higher interest costs.

Interest performance 2005 (5- and 10-years swap) in percent

■ 5 years ■ 10 years





3. Business Development and Situation of the Company and the Group

The strategy of Colonia Real Estate AG is focused on expanding the existing stock of high-yield residential, hotel and commercial properties. The goal is to generate an IRR-based return on equity of at least 15 % p.a. on equity employed with a retention period of between two and eight years. The investment activities are concentrated in Germany. The preferred investment volume is between € 10 million and € 50 million. The structure of the portfolio and the investment approach are opportunistic and concentrate on high-yield investments, which typically arise under conditions of anti-cyclical investor behaviour in less favoured investment areas or in acquisition situations where the seller is in difficulties. We strive for purchase price factors that are under one the ten-fold of the achieved actual net rents.

The Company's strategy is focused not only on investment, but also on the service offering relating to real estate. The goal is therefore to build up a competent range of services in the area of real estate research, as well as in asset and restructuring management.

Goals for the year 2006 are the expansion of stocks in residential real estate properties, as well as investments in commercial properties, including hotels, to an investment volume of up to € 500 million.

The financing of planned investments is contingent on the provision of additional equity. Further capital increases are planned in the year 2006.

After the initial investments were made in financial year 2004, and the essential organizational and financial conditions were established, financial year 2005 commenced dynamically according to plan.

At the beginning of this year, ARCON-TRUST Immobilienanlagen und Beteiligungs-GmbH, Düsseldorf, which was acquired in the second half of 2004, was organizationally integrated in the Colonia Real Estate Group. In June 2005, a further 8 % of the nominal capital of the company was acquired; thus, a 94 % stake is now in the ownership of Colonia Real Estate AG. The company name was changed to "CRE Hotel Immobilien GmbH" in order to document the affiliation with the Colonia Real Estate Group. The registered office of the company was relocated to Cologne.

Two modern office buildings in Ferdinand-Porsche-Straße in Cologne-Porz were acquired by Colonia Real Estate AG in April 2005. The buildings are rented out to the Federal Defense Ministry on the basis of a long-term rental contract. The annual rental income amounts to about € 1 million.

The ordinary shareholders' meeting held on 27 June 2005 approved, in addition to numerous additional measures, the decrease in share capital from the previous level of € 13,050,000 to € 2,610,000. The notional portion of each share in the share capital reduced from € 5.00 to € 1.00. The number of shares remained unaffected by the measures.

Moreover, the share capital was increased by a nominal amount of € 118,000 to € 2,728,000 in the context of a capital increase through contribution in kind on the basis of a shareholder loan made available by a major shareholder. The reserves were stocked up by € 980,580.

The subsidiaries CRE Wohnen GmbH, Cologne, and CRE Research & Management GmbH, Cologne, were founded in June 2005. In December 2005, CRE Wohnen GmbH acquired the residential real estate portfolio in Elmshorn and Itzehoe as well as Brake and Nordenham at a purchase price of approx. € 45 million. The economic transfer of the property will take place in financial year 2006, so that these purchases are not reflected in the balance sheet for the 2005 financial year.

CRE Research & Management GmbH will offer services related to real estate. The companies are initially equipped with nominal capital of € 25,000 in each case. The capital was fully paid in.

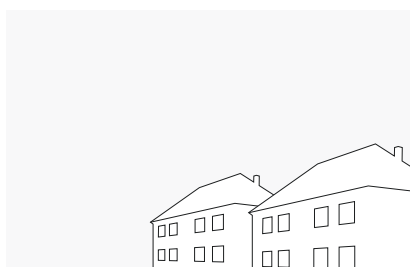
CRE Gewerbeimmobilien GmbH, Cologne, was founded in the second half of 2005 with a nominal capital of € 25,000. The purpose of the company is acquisition of commercial real estate.

With the allocation of its portfolio to individual companies, Colonia Real Estate AG pursues the goal of being prepared for the structuring of future REITs (Real Estate Investment Trusts).

A 94 % stake in the stock capital of CHF 600,000 of Gimag Gewerbe-Immobilien AG, Zug (Switzerland), was taken over in June 2005. The stock capital of the company is not paid in. The business operations of Gimag Gewerbe-Immobilien AG are geared to the sales, administration and brokerage of commercial and residential real estate and participating interests.

Equity investments in percent

<i>CRE Hotel Immobilien GmbH, Cologne</i>	<i>94.00</i>
<i>Grasmus Holding B.V., Baarn/NL</i>	<i>99.64</i>
<i>CRE Research und Management GmbH, Cologne</i>	<i>100.00</i>
<i>CRE Wohnen GmbH, Cologne</i>	<i>100.00</i>
<i>CRE Gewerbeimmobilien GmbH, Cologne</i>	<i>100.00</i>
<i>Gimag Gewerbe-Immobilien AG, Zug/Switzerland</i>	<i>94.00</i>





In July 2005, negotiations on the acquisition of a stake in the Dutch company Grasmus Holding B.V., Baarn (Netherlands), were concluded successfully. The acquired company is owner of a portfolio of 3,488 apartments in Lower Saxony and yields approximately € 10 million of net rental income per year.

Colonia Real Estate AG directly or indirectly purchased 99.64 % of the shares in Grasmus Holding B.V. Baarn (Netherlands). The purchase price amounted to a total of € 26.8 million.

The Company had taken out a bridge loan to the amount of € 10 million from a banking institution for financing the purchase price. The loan was serviced according to schedule on the basis of inflows arising from the capital increase conducted in September.

A "Commitment Letter" was signed with Forum European Realty Income II L.P., Luxembourg, on 29 July 2005, in which this company expresses its willingness to provide Colonia Real Estate AG with additional financing up to a limit of € 20 million. The funds are to be raised by issuing bonds with attached option rights, at essentially the same conditions as those of the € 10 million option bond issued in 2005. Moreover, the appropriation of further funds by Forum European Realty Income II L.P. is contingent on the required decisions of the responsible corporate bodies of Colonia Real Estate AG, as well as on the condition that the net assets, financial position and financial performance of the company, as well as its business situation and business prospects will not worsen significantly, and that Forum European Realty Income II L.P. agrees to the purpose of the funds intended by Colonia Real Estate AG. Furthermore, agreement on the exercise price concerning the option rights is an additional requirement for the provision of the funds. The "Commitment Letter" is valid for twelve months from the signing date and expires on 28 July 2006.

Furthermore, the Company also utilized the authorization of the shareholders' meeting concerning financing the purchase of 1,000 five-year bonds with option rights with a nominal value of € 10,000 each, i.e., a total nominal value of € 10 million. Subscribers to the bonds received 1,000 option rights for a total of 200,000 shares of the company carrying a computational portion in the share capital of € 1.00 per share.

Another portion was financed by the issuance of company shares in the context of a capital increase through contribution in kind with a value of € 2 million. The seller received 59,200 Colonia Real Estate AG shares.

A capital increase by 682,000 shares was conducted in September 2005 with a view to strengthening and supporting the dynamic business activities. The shares were offered to the shareholders for subscription at the price of € 23.75. Unexercised subscriptions were to be offered to professional investors. The capital increase was fully subscribed and provided € 16.2 million of liquid funds to the Company.

In October 2005, Grasmus Holding B.V. sold the buildings at the Lüneburg location from the real estate properties in Northern Germany to an international investor at a price which was clearly above book value.

In October 2005, the subscriber of the bond with option rights in the amount of € 10 million exercised his option rights to subscribe to 100,000 shares within the framework of a capital increase. According to the subscription terms, the issue price per share was € 17.50. The Company obtained an inflow of € 1.75 million from the transaction.

Due to cash provided by the capital increases carried out and the sale of a part of the portfolio by Grasmus Holding B.V., the Group has a solid liquidity basis for financing the further expansion.

In November 2005, the Company filed a prospectus for admission of up to 4,874,200 shares of stock for official trading (General Standard) at the Frankfurt Stock Exchange to the Federal Supervisory Office for Finance. This prospectus was approved on 28 November 2005. The stocks were admitted for trading at the Frankfurt Stock Exchange on 12 December 2005. The company stock is now approved for official trading at the stock exchanges in Frankfurt, Düsseldorf and Berlin.

In December 2005, the Company filed a request with the Frankfurt Stock Exchange for admission to the "Prime Standard". The request was approved in January of 2006.



These measures led to a considerable expansion of the trade of Colonia Real Estate AG stock. There was also a strong rise in the stock price in the financial year. At the 2005 year-end, the price of CRE's stock was at € 61.

The dynamic development of the Company generated strong interest among international investors. Of special interest are the inquiries for foreign real estate investors to become partners in the search for suitable real estate in Germany. These tasks are in accordance with the business objective to develop the real estate asset management function and establish it as an important business segment.

In the period from 1 January 2006 until the completion of this report, the Group continued to work successfully on the realization of the set goals.

Further residential real estate portfolios including 1,931 units were acquired in the aforementioned time period and promising negotiations are in progress for another 2,000 units. The price goals with purchase factors below the ten-fold of the annual net rent are being achieved.

Negotiations on acquisitions of further commercial properties are in progress.

The new formation of CRE Fonds-Management GmbH was completed successfully. The company will develop and sell structured investment products.

Moreover, the acquisition of a 56 % stake in Resolution GmbH, Berlin, was also completed. This company will develop the real estate asset management function for the Colonia Real Estate Group.

The equity capital of Colonia Real Estate AG was significantly stocked up by the issuance of new shares in return for cash payment. Overall, approximately € 30 million of liquid funds were received.



a. Creditors' Trustee Assets

The creditors' trustee for the subsequent distribution continued the efforts for utilization of the insolvency plan separate assets. The insolvency plan separate assets are basically comprised of the production sites Fürstinnenstraße and Küppersbuschstraße in Gelsenkirchen and the bank balances and a 95 % stake in the Küppersbusch AG & Co. Grundstücksgesellschaft OHG, Düsseldorf. The results of the utilization are not known to us.

The properties are rented out. The rental income and interest income on the bank balance are at the disposal of the insolvency creditors to the full extent.

The assets and liabilities balance out and do not impact on the new business activity of Colonia Real Estate AG.

The insolvent part of the business which is administered by the creditors' trustee in accordance with the insolvency plan included assets. The existing assets were offset by equal amounts of liabilities to banks and insolvency creditors. No changes vis-à-vis the previous year arose.

The creditors' trustee obtained proceeds in the amount of T€ 213 from the rental of the production plants in Gelsenkirchen (previous year: T€ 217).

According to the insolvency plan, the achieved surplus went exclusively to the insolvency creditors. The results related to this insolvency do not have any influence on Colonia Real Estate AG results.

The satisfactory annual result was attributable particularly to the sale of residential units in Lüneburg from the portfolio of Grasmus Holding B.V. at an amount which was significantly above the purchase price.

The consolidated income statement included rental income of Grasmus Holding B.V. in the amount of € 5.0 million posted at the beginning of the second half year of 2005. Grasmus Holding B.V. posted rental revenue in the amount of € 10.1 million in the full year 2005.

As of the balance sheet date, the net asset and liquidity situation of the Group was stable.

At the time of the 2005 financial statements preparation, the Group had liquid funds in the amount of approximately € 45 million. At that point, investments in the amount of approximately 47 million were contractually agreed. Negotiations were in progress with banks for the financing of up to 85 % of the investment volume. The negotiations were in an advanced stage but not yet concluded at the time this report was prepared.

The cash flow of the Group was characterized by the cash inflows from the capital measures and the sale of the real estate properties at the Lüneburg location from the portfolio of Grasmus Holding B.V.

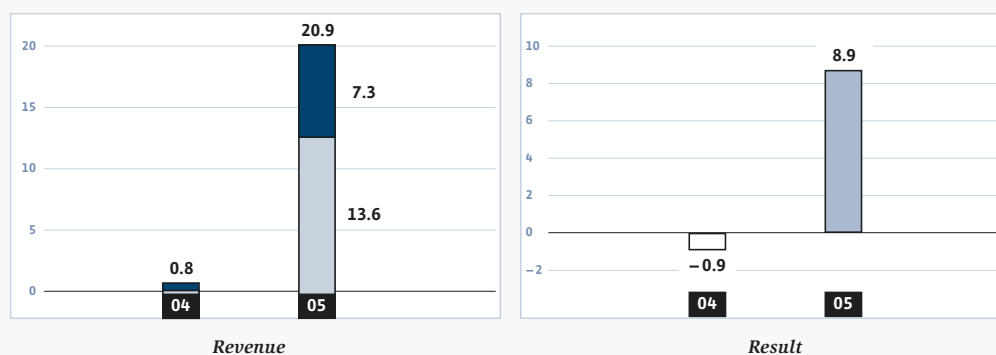
The cash flows amounted to € 139.8 million, while cash outflows amounted to € 122.2 million. The liquidity balances increased by € 17.5 million to € 17.5 million (previous year: € 0 million).

Net Assets and Results of Operations of Colonia Real Estate AG

The HGB balance sheet of Colonia Real Estate AG closed with a balance sheet total of € 55.6 million (previous year: € 8.4 million). Of this, property, plant and equipment accounted for € 10.7 million (previous year: € 0 million), and financial assets accounted for € 29.4 million (previous year: € 3.6 million). The addition to property, plant and equipment resulted from the acquisition of the commercial real estate in Cologne-Porz and, concerning financial assets, primarily from the acquisition of 94 % of the shares in the share capital of Grasmus Holding B.V., Baarn, NL.

Earnings and Profit Overview in million €

■ Sales revenues ■ Earnings from disposal of assets





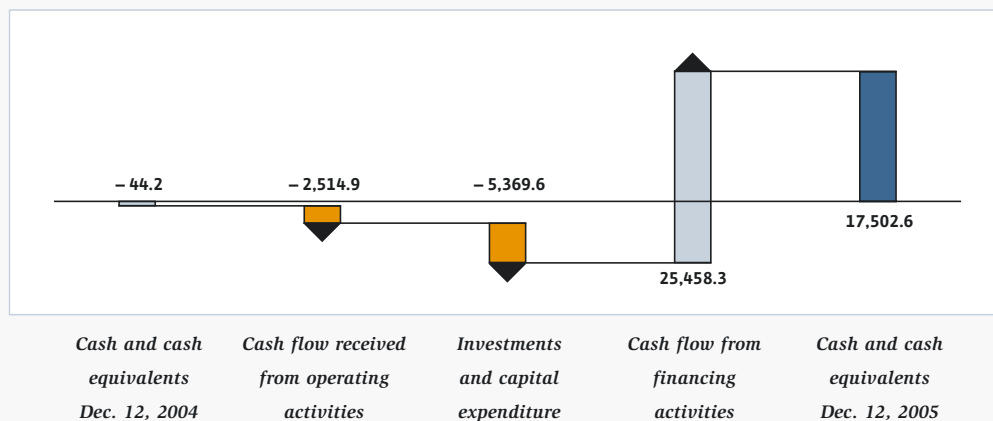
The liquid assets of the Company amounted to € 9.4 million (previous year: € 0.6 million).

Equity capital as of the balance sheet date reached € 19.5 million (previous year: € 2.4 million) or 35.1 % of the balance sheet total (previous year: 28.6 %).

Liabilities were comprised of the financing of the commercial real estate in Cologne-Porz at € 9.8 million and the option bond in the amount of € 10 million. Liabilities to affiliated companies amounted to € 10 million.

Sales revenues of the AG, which were comprised mainly of rental revenue, amounted to € 0.7 million in the financial year (previous year: € 0.2 million).

Consolidated Changes in Cash and Cash Equivalents in T€



Expenses incurred in the financial year are characterized mainly by the takeover of the shares in Grasmus Holding B.V., the preparation of a prospectus for the admission of Colonia Real Estate shares following the capital increase in September 2005 for official trading on the Frankfurt Stock Exchange and the associated legal and economic due diligence, as well as the formation of several subsidiaries in the legal form of GmbH.

Personnel expenses rose to € 0.86 million (previous year: € 0.44 million). At the year-end, the company staff was up by four full-time employees. For the first time, the Board of Management and managing employees were to receive bonus payments.

The financial year closed with a net loss to the amount of € 4.0 million (previous year: € 1.0 million), which was debited to equity.

The major shareholder Swiss Real Estate AG had provided a loan as financing for the start-up costs. In June 2005, the loans granted in the amount of € 1,098,580 were converted into € 118,000 of share capital and € 980.580 of capital reserves in the context of a capital increase through contribution in kind.

Net Assets and Results of Operations of Grasmus Holding B.V.

Grasmus Holding B.V. was consolidated for the first time as of 1 July 2005. The company's balance sheet total according to Dutch GAAP amounted to € 67.1 million as at 31 December 2005. The amount of € 48.5 million was invested in property, plant and equipment – relating to a residential real estate portfolio in Lower Saxony. Receivables of € 10 million were in existence vis-à-vis the parent company Colonia Real Estate AG.

Liquid funds totalling € 7.2 million were available as of the balance sheet date. A partial amount of € 3.0 million was earmarked for outstanding repair measures relating to the real estate portfolio.

The company's equity capital reached € 9.2 million, or 13.7 % of the balance sheet total.

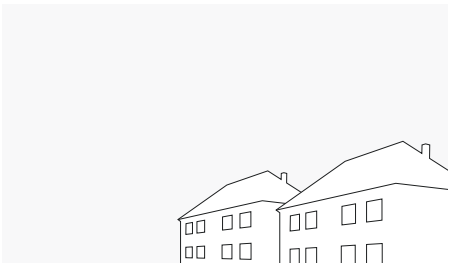
In the full financial year 2005, the company earned rental revenues of € 10.1 million and revenue from the sale of a portion of the real estate assets to the amount of € 9.7 million. Results from ordinary activities amounted to € 7.9 million.

The company incurred one-off charges relating to the change of ownership associated with a contractually agreed payment to the external real estate asset manager in the amount of € 1.4 million.

The company receives income from its real estate holdings, which covers all expenses, including interest payments. In addition, a financial surplus is earned.

Basic data of Grasmus Holding B.V. in million €

<i>Cash and cash equivalents</i>	7.2
<i>Equity</i>	9.2
<i>Equity ratio</i>	13.7 %
<i>Sales revenues</i>	19.7
<i>Operating result</i>	6.9
<i>Cash flow</i>	6.6





Net Assets and Results of Operations of CRE Hotel Immobilien GmbH

The company was included in the consolidated financial statements for the first time with a full financial year.

The company's balance sheet total was reduced to € 22.0 million (previous year: € 22.6 million). This was attributable to write-downs of real estate. Fixed assets amounted to € 16.9 million (previous year: € 17.7 million).

Liquid funds in the form of bank balances amounted to € 1.6 million (previous year: € 0 million).

Fixed assets are financed on the basis of long-term bank loans to the amount of € 21.8 million (previous year: € 22.5 million) with agreed fixed interest rates.

The company recorded negative equity capital of € 2.8 million (previous year: € 2.7 million). This negative equity capital is covered by hidden reserves in the real estate properties, which were released in the IFRS consolidated financial statements.

The company recorded rental income of € 2.0 million (previous year: € 2.1 million). After deducting all operating expenses and interest, a net loss for the year in the amount of € 0.1 million (previous year net income: € 0.2 million) was recorded.

On the other hand, the cash flow reached € 0.75 million (previous year: € 0.2 million).

The financial condition of the company is stable. The rental income is more than sufficient to cover all operating expenses. A liquidity surplus remained in the financial year.

Basic data of CRE Hotel Immobilien GmbH in million €

<i>Cash and cash equivalents</i>	1.6
<i>Equity</i>	-2.8
<i>Sales revenues</i>	2.1
<i>Net loss for the year</i>	0.1
<i>Cash flow</i>	0.75



Net Assets and Results of Operations of CRE Research & Management GmbH, Cologne, and CRE Gewerbeimmobilien GmbH, Cologne

Both companies had not yet started their business operations as of the balance sheet date.

Net Assets and Results of Operations of CRE Wohnen GmbH

The company had not performed any business activities relevant to the balance sheet in financial year 2005.

Report on Post Balance Sheet Date Events

5. Events of Special Significance After the Close of the Financial Year

In December 2005, CRE Wohnen GmbH acquired two residential real estate portfolios in Elmshorn and Itzehoe as well as in Brake and Nordenham with a total of 1,931 units. The contracts were not yet effective as of the balance sheet date, since the economic transfer of the properties will take place in the first quarter of 2006. The investment volume planned in addition to the purchase price for the improvement of building conditions is expected to amount to approximately € 40 million and € 60 million. The exact investment volume cannot be clearly determined at present since at the time of drawing up this management report, expert opinions were being prepared to enable optimal utilization of public grants and government-backed loans.

In December 2005, the Supervisory Board offered Mr. Edgar Krauß the position of Board member responsible for real estate investments. Mr. Krauß accepted the offer at the end of December 2005 and took office on 15 February 2006.

In February 2006, Forum European Realty Income II L.P. exercised further options from its subscribed option for the purchase of 100,000 Colonia Real Estate shares. The nominal capital was increased by € 100,000, and the capital reserves were stocked up by € 1.65 million. The capital increase led to a liquidity surplus in the amount of € 1.75 million.

Also in February of 2006, Colonia Real Estate AG took over a 56 % stake in Resolution GmbH, Berlin. The purchase price was comprised of a fixed price equalling 17,548 Colonia Real Estate shares, which were provided from a capital increase through contribution in kind and two additional cash payments after the 1st and 2nd financial year of Resolution GmbH. These cash payments are linked to the achievement of performance goals defined in the business plan. Resolution GmbH is a real estate asset management company, which has five sites in Germany and an established staff of qualified employees. The management of commercial real estate and residential real estate supplements the business of the Colonia Real Estate Group in an ideal manner.

In March 2006, Colonia Real Estate AG conducted a cash capital increase under the exclusion of shareholders' subscription rights in the amount of 239,342 shares of stock. The shares were issued to institutional investors in the domestic country and abroad. The income from the issue reached a net volume of € 30 million.

On 3 March 2006, Deutsche Börse AG, Frankfurt, announced that the shares of Colonia Immobilien AG would be put on the SDAX effective from 20 March 2006.





Risk Report

6. Risk Management

Pursuant to Section 91 (2) AktG, the Management Board of Colonia Real Estate AG is required to implement a suitable monitoring system and a system for the early recognition of risks. Since the Company's shares are listed at the stock exchanges in Düsseldorf, Frankfurt and Berlin, their risk management is part of the annual audit according to Section 317 (4) HGB. In order to implement the system for early risk recognition, Colonia Real Estate AG follows guidelines which are aligned to the scope of previous business activities and size of Colonia Real Estate AG with a view to the early detection of developments that can endanger the Company's going concern. The early risk detection system is in place.

The implementation of the risk management process is managed by a risk manager who is a member of the Management Board. The risk management process is set forth in a risk management manual. Reportable risk-relevant conditions are to be reported by the risk management officer (risk observer) responsible for the operative business.

The essential basis of risk recording and analysis is the permanent risk stock-taking as well as the continuous monitoring of risk development. The risks are documented by the risk officer in a risk map. Board meetings held in weekly intervals and ad hoc communication ensure that the Board of Management is informed in due time of any changes in the risk structure and thus also of the changes in the risk situation. The inclusion of Colonia employees in the risk identification process is ensured due to the small number of employees. In order to include shareholdings, the management positions of subsidiaries were held by Colonia executive staff. The Management Board appointed a new managing director for Grasmus Holding B.V. who is integrated into the reporting process of weekly Management Board and committee meetings.

The function of the process independent supervision is exercised by the Management Board responsible for finance. No formal documentation of controls is carried out.

The risk potentials are described in the risk manual. The identified risks are noted in a risk map.

The Colonia Real Estate AG Group has the required insurance coverage against business risks. The insurance program is serviced and controlled by an external insurance agent. No major cases of damages occurred in the previous year.

Risk management is a component of all business processes. At present, the Colonia Real Estate AG Group is not exposed to any discernible risks which jeopardize its existence.

7. Report on Relations to Affiliated Companies

In accordance with Section 312 AktG, the Company's Management Board reported separately on its relations to affiliated companies in the 2005 financial year. The report contains the following conclusion:

"The Company received appropriate considerations for all legal transactions noted in this report, in accordance with the circumstances that were known to us at the time the legal transactions were executed.

In financial year 2005, no measures were taken or foregone by order of or in the interest of the controlling company or any affiliated company of the latter."

Report on Expected Developments

8. Expected Future Development

The net assets, financial condition and results of operations of Colonia Real Estate AG are characterized by capital-intensive operations. Opportunities relate primarily to the acquisitions of undervalued real estate projects.

The financial conditions for the purchase of new real estate portfolios through further capital increases were created in the first quarter of 2006. The Colonia Real Estate Group companies are conducting extensive negotiations for the acquisition of new real estate portfolios. The Management Board assumes that in the further course of financial year 2006 purchase agreements will be closed successfully to ensure the further growth of the Group. A corresponding growth is expected.



9. Future Opportunities and Risks

Meanwhile the Group has reached a real estate volume and related revenues, which are sufficient to fully cover the operating expenses and additionally enable adding significant amounts of profit to equity. The support of the major shareholder Swiss Real Estate is no longer required.

Rising interest rates will make planned investments more expensive in the future. The Management Board has taken measures to secure the low interest level.

Already concluded purchase agreements for real estate portfolios with a total volume of € 47 million must still be financed through long-term bank loans. The related negotiations were in the advanced stages during the preparation of the present management report, but had not yet come to a close. The required value appraisals/expert opinions are still in the preparatory stage. The Management Board expects that the negotiations will lead to a successful close in the short term.

The residential real estate market has received a significant boost in recent years. Foreign investors, primarily from the Anglo Saxon area, are currently buying large residential real estate portfolios. Prices in Germany have stagnated since 1993, while the prices in most European neighbour states have risen significantly. In connection with the historically low interest rates, the purchase prices for German real estate are currently assessed as favourable. Due to the currently low financing costs, investors can expect attractive net returns. Rising interest rates will only lead to changes in purchase prices if the interest increases are dramatic. However, such a development is not evident at present.

Colonia Real Estate AG presumes that the offer of small-sized and medium-sized residential real estate portfolios, particularly from the stocks of public residential real estate companies, will grow at attractive prices in coming years due to the strained financial situation of the municipalities and communities. Colonia Immobilien will make use of these opportunities, but must also deal with the newly arising competitors from the growing group of publicly listed real estate corporations.

The commercial real estate sector in Germany continues to be at an economic slump. According to the corporate strategy, reasonably priced investments represent a good opportunity for further growth. Colonia Real Estate AG is focusing on real estate projects which can be expected to be rented for the long term or carry increased income potential through restructuring measures, as well as real estate that can be purchased at undervalued prices due to special circumstances, mostly economic need of the respective owners.

The market for real estate asset management services is not yet saturated in Germany. Colonia Real Estate AG has therefore created the conditions for expansion on this market through its participating interest in a real estate asset management company and the hiring of qualified asset managers. The investment financing provided for the purpose is to be assessed as a risk investment at this point; nevertheless it offers the opportunity of earning high cash flows in coming years.

The Board of Management assumes that a further increase in the business volume will be achieved again in financial year 2006. The real estate assets managed by the Group are to reach approx. € 500 million. Revenues and income are expected to significantly exceed the previous year's results.

The present management report contains future-oriented statements and information. Such forward-looking pronouncements are based on the current expectations and certain assumptions. Therefore they are associated with a series of hidden risks and uncertainties. The Company's business activities, performance, business strategy and results are influenced by a great number of factors, many of which are outside the control of Colonia Real Estate AG.

Should one or more of these risks or uncertainties become a reality or if it is established that the underlying assumptions were not correct, the actual results could deviate both positively and negatively from the results referred to as expected, planned or estimated in the forward-looking disclosures.

Cologne, 31 March 2006

Colonia Real Estate AG Immobilien AG



Stephan Rind



Christian Grosch



Edgar Krauß



Klaus Reichert

The Group has obtained an inventory volume of real estate that not only generates sufficient earnings to fully cover operative expenses but additionally to allocate significant parts of profit to equity.



Consolidated Annual Financial Statements

22 Consolidated Balance Sheet

23 Consolidated Income Statement

24 Consolidated Cash Flow Statement

25 Schedule of Consolidated Equity

*26 Notes to the
Consolidated Financial Statements*

62 Auditors' Opinion

*63 Report of the
Supervisory Board*

Consolidated Balance Sheet as of December 31, 2005

Assets in €	Dec. 31, 2005	Dec. 31, 2004	Note Page
Long term assets			
Property, plant and equipment	61,855.50	41,406.16	5 38
Investment property	122,270,000.00	26,220,000.00	7 39
Financial assets available for sale	0.00	750,000.00	6 38
Other receivables	0.00	1,401,751.62	
Sum total of long term assets	122,331,855.50	28,413,157.78	
Short term assets			
Financial assets available for sale	750,000.00	0.00	6 40
Current income statement claims	2,243.14	0.00	
Trade receivables and other receivables	861,143.62	42,221.56	8 40
Cash and cash equivalents	17,502,557.50	22,649.93	9 40
Sum total of short term assets	19,115,944.26	64,871.49	
	141,447,799.76	28,478,029.27	

Equity and Liabilities in €	Dec. 31, 2005	Dec. 31, 2004	Note Page
Equity capital			
Subscribed capital	3,569,200.00	13,050,000.00	10 40
Other reserves	21,596,672.56	0.00	
Revenue reserves	6,923,824.19	- 10,431,022.53	
	32,089,696.75	2,618,977.47	
Minority interests	299,338.33	600,415.23	
Sum total equity capital	32,389,035.08	3,219,392.70	
Liabilities			
Long term liabilities			
Financial liabilities	79,548,752.50	23,043,008.99	12 42
Deferred tax liabilities	10,091,290.16	1,178,272.68	13 44
Sum total long term liabilities	89,640,042.66	24,221,281.67	
Short term liabilities			
Trade payables and other liabilities	2,225,172.02	300,998.31	11 42
Current income tax liabilities	1,977,550.00	0.00	12 42
Financial liabilities	15,035,000.00	646,356.59	14 46
Other provisions	181,000.00	90,000.00	
Sum total of short term liabilities	19,418,722.02	1,037,354.90	
Sum total liabilities	109,058,764.68	25,258,636.57	
	141,447,799.76	28,478,029.27	

Consolidated Income Statement for the Period from January 01, to December 31, 2005

in €	2005	2004	Note Page
Sales revenues	7,677,461.02	735,319.99	15 46
Valuation of real estate pursuant to IAS 40 at fair value	8,420,012.23	0.00	
Other operating income	3,468,466.94	88,666.06	16 47
Cost of materials	2,805,164.54	0.00	17 47
Personnel expenses	1,090,182.64	444,722.25	18 47
Scheduled depreciation expense	12,596.17	8,674.49	
Other operating expenses	2,729,697.18	824,495.84	20 49
Operating result	12,928,299.66	- 453,906.53	
Interest income	100,615.05	24,169.68	21 49
Financing expense	3,798,409.83	433,496.07	21 49
Financial result	- 3,697,794.78	- 409,326.39	
Earnings before tax	9,230,504.88	- 863,232.92	
Taxes on income	2,420,168.79	- 239,380.33	22 50
Consolidated result	6,810,336.09	- 623,852.59	
Attributable to Group shareholders	6,751,412.99	- 627,388.53	
Minority interests	58,923.10	3,525.94	
Earnings per share			24 50
undiluted	2.36	- 0.27	
diluted	1.97	- 0.27	

Consolidated Cash Flow Statement

in €	Dec. 31, 2005	Dec. 31, 2004	Note Page
Cash flow from operating activities			
Cash flow provided by operating activities	796,200.82	– 401,888.87	26 53
Interest received	100,615.05	479.24	
Interest paid	– 3,197,256.64	– 388,168.06	
Income taxes paid	– 241,477.70	0.00	
Net cash provided by operating activities	– 2,541,918.47	– 789,577.69	
Cash flow from investing activities			
Residual purchase price CRE Hotel Immobilien GmbH	– 360,000.00	112,356.38	
Purchase price Grasmus	– 17,409,091.53	0.00	
Purchase price real estate at Ferdinand-Porsche-Str.	– 11,191,868.00	0.00	
Cash provided by the sale of real estate	23,624,363.00	0.00	
Purchase of property, plant and equipment	– 33,045.51	– 12,452.65	
Granting of loans	0.00	– 75,000.00	
Net cash flow provided by investing activities	– 5,369,642.04	24,903.73	
Cash flow from financing activities			
Payments received from the inclusion of shareholder loans	0.00	750,000.00	
Receipts from borrowings	97,293,382.30	0.00	
Payments made to repay loan liabilities	– 89,782,544.53	– 75,384.15	
Payments received from capital increases	17,947,503.27	0.00	
Net cash provided by financing activities	25,458,341.04	674,615.85	
Net decrease/increase in cash and current account loans	17,546,780.53	– 90,058.11	
Cash and current account credits at the beginning of the year	– 44,223.03	45,835.08	
Cash and current account credits at year end	17,502,557.50	– 44,223.03	9 40

The acquisition of Grasmus Holding B.V. was partly paid (T€ 2,000) by the issue of shares of Colonia Real Estate AG. Within the scope of the acquisition cash to the amount of T€ 7,494 was transferred to Colonia Real Estate AG.

In financial year 2005 a loan of Swiss Real Estate AG to the amount of T€ 1,099 was converted to equity capital on the basis of a capital increase through contribution in kind.

The acquisition of CRE Hotel Immobilien GmbH in the previous year was financed on the basis of issue of shares of Colonia Real Estate AG. Within the scope of the acquisition, cash to the amount of T€ 112 was transferred to Colonia Real Estate AG.

Schedule of Consolidated Equity

in €	Attributable to Group shareholders			Minority interests	Sum total equity capital	Note Page
	Subscribed capital	Other reserves	Revenue reserves			
as of January 01, 2004	11,250,000.00	7,241,533.95	- 18,845,168.95	0.00	- 353,635.00	
Shareholder capital contributions		1.00			1.00	
Aquisition of shares in CRE Hotel Immobilie GmbH				596,879.29	596,879.29	
Issue of shares - corporate acquisition	1,800,000.00	1,800,000.00			3,600,000.00	
Release of capital reserve		- 9,041,534.95	9,041,534.95		0.00	
Net income for the year			- 627,388.53	3,535.94	- 623,852.59	
as of December 31, 2004	13,050,000.00	0.00	- 10,431,022.53	600,415.23	3,219,392.70	
as of January 01, 2005	13,050,000.00	0.00	- 10,431,022.53	600,415.23	3,219,392.70	
Decrease in capital paid in	- 10,440,000.00		10,440,000.00		0.00	10 40
Shareholder capital contribution	118,000.00	980,580.00			1,098,580.00	10 40
Compensation revenue reserve		- 163,433.73	163,433.73		0.00	
Purchase of 8 % in CRE Hotel Immobilien GmbH				- 360,000.00	- 360,000.00	28 54
Cash capital increase	682,000.00	15,515,503.00			16,197,503.00	10 50
Capital increase through contribution in kind, acquisition Grasmus Holding B.V.	59,200.00	1,940,800.00			2,000,000.00	10 52
Stock option bond		1,501,065.29			1,501,065.29	19 60
Employee stock options		172,158.00			172,158.00	19 60
Exercise stock option bond	100,000.00	1,650,000.00			1,750,000.00	10 52
Net income for the year			6,751,412.99	58,923.10	6,810,336.09	
as of December 31, 2005	3,569,200.00	21,596,672.56	6,923,824.19	299,338.33	32,389,035.08	

Notes to the Consolidated Financial Statements

Financial Year 2005

Table of Contents

1	General Information	28	7	Investment Property	39
2	Summary of Accounting Policies	28	8	Trade Receivables and other Receivables	40
2.1	Basis of Consolidated Financial Statements Preparation	28	9	Cash and Chash Equivalents	40
2.2	Consolidation	29	10	Share Capital	40
2.3	Currency Translation	30	11	Trade Payables and other Liabilities	42
2.4	Property, Plant and Equipment	31	12	Finacial Liabilities	42
2.5	Investment Property	31	13	Deferred taxes	44
2.6	Impairment of Assets	31	14	Other Provisions	46
2.7	Financial Assets	32	15	Sales Revenues	46
2.8	Trade Receivables and other Receivables	33	16	Other Operating Income	47
2.9	Cash and Cash Equivalents	33	17	Cost of Materials	47
2.10	Loan Liabilities	33	18	Personal Expenses	47
2.11	Deferred Taxes	33	19	Stock Option	48
2.12	Employee Benefits	34	20	Other Operating Expenses	49
2.13	Provisions	34	21	Financial result – Net	49
2.14	Income Realisation	34	22	Income Tax Expense	50
2.15	Leases	35			
3	Finance Risk Management	35			
3.1	Finance Risk Factors	35			
3.2	Fair Value Determination	36			
4	Critical Estimates and Assesnents in Accounting	36			
5	Plant, Property and Equipment	38			
6	Available-for-Sale Financial Assets	38			

23	Net Currency Gains	50
24	Earnings per Share	50
25	Segment Reporting	51
26	Cash Provided by Operating Activities	53
27	Obligations	54
28	Acquisitions	54
29	Transaction with Related Parties	57
30	Corporate Governance	58
31	Fees for the Group Auditors	58
32	Overall Remuneration of the Supervisory Board and the Management Board	58
33	Staff	59
34	Events after the Balance Sheet Date	59
35	Business Segment affected by Insolvency	60
36	List of Shareholdings	61

1. General Information

Colonia Real Estate AG and its subsidiaries (together, the Colonia Real Estate Group) are engaged in the acquisition, sale and management of real estate and shareholdings. Business activities are concentrated on Germany. At present, the CRE Group portfolio consists of three segments, namely residential real estate, hotel real estate and commercial real estate.

The Company is an officially listed stock corporation which was founded in 1875. Its registered head office is at Hohenstaufenring 48 – 54, in Cologne (Federal Republic of Germany).

The Colonia Real Estate share is listed for official trading on the stock exchanges of Frankfurt, Düsseldorf and Berlin. On 20 March 2006 the share was included in the SDAX of the Frankfurt securities exchange.

The present consolidated financial statements of Colonia Real Estate AG for financial year 2005 were released for publication on 31 March 2006.

2. Summary of Accounting Policies

The significant accounting policies used in the preparation of the present consolidated financial statements are presented below. The procedures described were systematically applied to the reporting periods presented to the extent not otherwise stated.

2.1 Basis of Consolidated Financial Statements Preparation

The 2005 consolidated financial statements of Colonia Real Estate AG, consisting of a balance sheet, income statement, statement of changes in shareholders' equity, cash flow statement and supplementary disclosures in the Notes (including segment reporting), were prepared in accordance with the International Financial Reporting Standards (IFRS) valid as of the balance sheet date. Colonia Real Estate AG uses all IASB standards and all interpretations of the IFRIC (International Financial Reporting Interpretations Committee) which were approved by the European Commission and which came into force on 31 December 2005.

The following (partly revised) standards and interpretations which had been adopted by the IASB up to 31 December 2005, were not applied prior to the date of their coming into force:

- IFRS 6 (Exploration for and Evaluation of Mineral Resources)
- IFRS 7 (Financial Instruments: Disclosure)
- IFRIC 4 (Determining whether an Arrangement includes a Lease)
- IFRIC 5 (Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds)
- IFRIC 6 (Liabilities arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment)
- IFRIC 7 (Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflationary Economies)
- Amendments to IAS 1 (Presentation of Financial Statements)
- Amendments to IAS 21 (The Effects of Changes in Foreign Exchange Rates)
- Amendments to IAS 39 (Financial Instruments: Recognition and Measurement)
- Amendments to IFRS 4 (Insurance Contracts)

These standards and interpretations will be used in the CRE consolidated financial statements at their effective date for the first time, provided they are endorsed by the European Union: With respect to IFRS 6, IFRIC 4, IFRIC 5, IFRIC 6 and the amendments to IAS 21, IAS 39 and IFRS 4, this is financial year 2006, and for IFRS 7, IFRIC 7 and the amendments to IAS 1, financial year 2007.

The future application of standards and interpretations not yet in force is not expected to lead to a significant impact on the consolidated financial statements of CRE.

Since the requirements defined in Section 315a HGB are met, the present IFRS consolidated financial statements have an exemptive effect regarding the duty to prepare HGB consolidated financial statements. The consolidated financial statements are submitted to the Commercial Register of the Cologne local court (HRB 54006) and published in the Federal Official Gazette. The reporting currency is euro (€), to the extent not otherwise stated.

The consolidated financial statements were prepared taking the historical cost principle into consideration. This does not apply, however, to investment property which is stated at present values.

Preparation of consolidated financial statements in accordance with IFRS partly requires that critical estimates be applied with respect to accounting and measurement. Areas which involve higher estimation scopes or a higher level of complexity as well as areas where assumptions and estimates are of basic importance to the consolidated financial statements be stated under Item 4.

2.2 Consolidation

Subsidiaries

Subsidiaries are all companies where the Group exercises control over the financial and operating policies. Generally, control is presumed to exist when the controlling company owns 50 % or more of the voting rights. The assessment as to whether control is exercised takes into account potential voting rights which are actually exercisable or convertible.

Subsidiaries are fully consolidated from the point in time when control is transferred to the Group. They are deconsolidated at the point in time when the control ends.

The accounting of acquired subsidiaries is based on the purchase method. The acquisition cost of the purchase corresponds to the fair value of all assets transferred, equity capital instruments issued, and to all liabilities arising from or transferred at the transaction date plus the costs directly attributable to the acquisition. In the course of initial consolidation, identifiable assets, liabilities and contingencies within the scope of business combinations are measured at their fair values as of the transaction date, regardless of the scope of minority shares.

The amount of acquisition costs of the purchase which exceeds the Group's share in the acquired net assets measured at fair value is recognised as goodwill.

If the acquisition costs are lower than the acquired subsidiary's net assets measured at fair value, the difference is directly included in the income statement.

Intra-group transactions and items from transactions between group companies are eliminated.

The accounting policies of subsidiaries were changed to the extent necessary in order to ensure uniform accounting within the Group.

Scope of Consolidation

In addition to Colonia Real Estate AG, the scope of consolidation extends to companies in which Colonia Real Estate AG is entitled to the majority of voting rights either directly or indirectly. The fully consolidated group consists of four domestic (previous year: one) and two foreign subsidiaries (previous year: none).

By an agreement relating to contribution to capital dated 6 October 2004, Colonia Real Estate AG acquired 86 % of the shares in ARCON – TRUST Immobilienanlagen und Beteiligungs – GmbH with registered head office in Düsseldorf (the company was renamed as CRE Hotel Immobilien GmbH in 2005). The contribution of shares in CRE Hotel Immobilien GmbH was performed within the scope of a capital increase in exchange for a contribution in kind, excluding existing shareholders' subscription rights. An additional 8 % of the shares were acquired by a co-shareholder in exchange for a cash payment in 2005.

By purchase agreement of 20 June 2005 and an assignment agreement of 29 July 2005 authenticated in accordance with Dutch law, 94 % of the shares in Grasmus Holding B.V. with registered head office in Baarn, Netherlands, were acquired.

By purchase agreement of 15 June 2005, 94 % of the shares in Gimag Gewerbe-Immobilien AG with registered head office in Zug, Switzerland, were acquired. Gimag acquired 6 % of the shares in Grasmus Holding B.V. on the basis of a purchase agreement concluded on 20 June 2005 and an assignment agreement authenticated according to Dutch law of 29 July 2005.

By certificate of incorporation dated 28 April 2005, CRE Wohnen GmbH and CRE Research und Management GmbH were founded, both with registered head office in Cologne. The shares of both companies are owned to 100 % by Colonia Real Estate AG.

CRE Gewerbeimmobilien GmbH was founded in Cologne on 12 December 2005. CRE Gewerbeimmobilien GmbH is owned to 100 % by Colonia Real Estate AG.

An overview of all direct and indirect participating interests of Colonia Real Estate AG is presented in the List of Shareholdings (see Item 36).

2.3 Currency Translation

a) Operating Currency and Reporting Currency

The items included in the consolidated financial statements of a Group are measured on the basis of the currency which corresponds to the currency of the primary economic environment in which the respective company operates (operational currency). The reporting currency in the consolidated financial statements is the euro, which represents the operational currency of the parent company and its consolidated subsidiaries.

b) Transactions and Balances

Foreign currency transactions are translated into the operational currency at the exchange rate applicable as of the transaction date. Any gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies on the basis of reporting date rates are included in the income statement.

2.4 Property, Plant and Equipment

Property, plant and equipment are recorded at historical acquisition costs net of depreciation. Acquisition costs include expenses which can be allocated directly to the acquisition. Maintenance and repair are charged to expenditure in the income statement in the year they accrued.

All assets are depreciated using the straight line method, whereby acquisition costs in excess of the expected useful life of the assets are depreciated to the residual carrying amount as follows:

Vehicles	5 years
Business equipment	3 – 13 years

The residual carrying amounts and economic useful lives are reviewed at every balance sheet date and adjusted as required.

If the carrying amount of an asset item exceeds the item's estimated recoverable amount, it is immediately written down to the latter (see Item 2.6).

Income and losses from the disposal of assets are determined as the difference between sales proceeds and the carrying amount and recognised in income.

2.5 Investment Property

In accordance with IAS 40, investment property is defined as residential property, hotel property and commercial property that is not occupied by the Group itself and which is held to earn long term rental income. Investment property is stated at the fair value determined by external experts on the basis of the prices which can be achieved on the open market (for particulars regarding assessment, see Item 4). Changes in the fair value are recorded in the income statement in a separate item.

2.6 Impairment of Assets

Assets that are subject to scheduled depreciation are reviewed for a possible impairment in value if occurrences or changes in the underlying conditions indicate that the carrying amount may no longer be recoverable. An impairment loss is recorded to the amount of the carrying amount that exceeds the recoverable amount. The recoverable amount is the higher of an asset's net selling price and its value in use. For the purpose of the impairment test, assets are combined at the lowest level for which cash flows can be separately identified (cash generating units).

2.7 Financial Assets

At present, financial assets are allocated to the following categories: Financial assets measured at fair value and treated as income, loans and receivables, financial assets available for sale.

The respective classification is contingent on the purpose for which the financial assets have been acquired. Management determines the classification of the financial assets upon initial recognition and review the classification at each cut-off date.

Financial assets measured at fair value and treated as income

This category consists of two sub-categories: Financial assets held for trading purposes from the outset and financial assets classified as “measured at fair value and treated as income” from the outset. A financial asset is allocated to this category if, basically, it was acquired with short term intent of sale or if this classification was determined by Management. Derivatives are also classified as being held for trading purposes. Assets under this category are disclosed as current assets if they are either held for trading purposes or if their sale is expected to be realised within 12 months after the balance sheet date.

Loans and Receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not listed on an active market. They arise when the Group directly provides a debtor with money, goods or services without any intent to trade these receivables. Receivables represent current assets, with the exception of those receivables which fall due as late as 12 months after the balance sheet date. In such cases the receivables are disclosed as long term assets. Loans and receivables are disclosed in the balance sheet under trade receivables and other receivables (see Item 2.8).

Available-for-Sale Financial Assets

Available-for-sale financial assets are non-derivative financial assets which are either to be allocated to this category or which could not be allocated to another category. They are allocated to long term assets when Management does not intend to sell them within 12 months after the balance sheet date.

All sales and purchases of financial assets are measured at the trading day, i.e. the day when the Group enters into the obligation to purchase or sell the asset. Initially, the assets are stated at their fair value plus transaction costs to the extent that the financial asset does not represent an asset treated as income and measured at fair value. The assets are derecognised when the rights to payment arising from the investment have expired or have been transferred, and the Group has transferred all risks and opportunities from ownership.

Available-for-sale financial assets and financial assets treated as income are measured at fair value. The present value of listed shares is measured on the basis of current market prices. In the absence of an active market for financial assets or if the asset is not listed, the present values are determined using suitable measurement methods. If no market price is available and if it is impossible to reliably determine such a market price, the asset is recorded at cost.

Loans and receivables are accounted for at cost using the effective interest method.

At each balance sheet date, a review is carried out in order to determine whether there are any indications of impairment in the financial assets or a financial assets group.

2.8 Trade Receivables and other Receivables

Trade receivables are initially measured at fair value and subsequently at amortised cost using the effective interest method and deducting impairment losses. An impairment concerning trade receivables is recorded in the event of indications that the amount of the receivables due is not fully recoverable within the scope of regular terms and conditions. The amount of the impairment in value is the difference between the carrying amount of the receivable and the present value of the estimated future payment to be received from this receivable, discounted at the effective interest rate. The impairment in value is included in profit or loss.

2.9 Cash and Cash Equivalents

Cash and cash equivalents include cash, bank deposits due on demand, and other short term highly liquid financial assets at original terms of not more than three months, and current account credits. Credit lines utilised are disclosed in the balance sheet as liabilities to banks under short term financial liabilities.

2.10 Loan Liabilities

Upon initial recognition, loan liabilities are reported at fair value after deduction of transaction costs. In the following period they are measured at depreciated costs. Any difference between the amount paid out (after transaction costs) and the repayment amount is recorded in the income statement over the term of the loan using the effective interest method.

2.11 Deferred Taxes

In accordance with IAS 12, deferred taxes are recorded in the IFRS financial statements to account for all temporary differences between the tax basis of assets and liabilities and their carrying amounts. However, if deferred taxes result from the initial recognition of an asset or a liability, if the underlying transaction does not represent a corporate acquisition and if at the transaction date, there is no effect either on the balance sheet or on the tax profit or loss, the deferred taxes are not accounted for in the balance sheet.

Deferred taxes are measured using the tax rates (and on the basis of the laws) valid or adopted by law as of the balance sheet date and whose recognition is expected as of the date of realisation of the deferred tax asset or the settlement of the deferred liability, respectively.

Deferred tax assets are recorded to the extent that it is likely that sufficient future tax income will be available against which the temporary differences can be set off.

Deferred tax liabilities resulting from temporary differences within the context of participating interests in subsidiaries and associated companies are recognised unless the point in time of the reversal of temporary differences can be controlled by the Group, and it is likely that the temporary differences will not be reversed in the foreseeable future.

2.12 Employee Benefits

In the year 2005 the Management Board and the Supervisory Board were authorised to set up a stock option program. The group of persons entitled to subscribe includes the members of the Management Board and the employees of Colonia Real Estate AG. The stock option program was calculated on the basis of actuarial methods using option price models. In so doing, the options were measured at market value as of the day of their being granted (Black-Scholes). In accordance with IFRS 2, the option value as of the issue day is distributed as personnel expense on a pro rata temporis basis over the blocking period and is recorded in other revenues.

The Company has not made any commitments to date vis à vis employees which would concern pension commitments, other benefits following termination of the employment relationship, and severance payments.

2.13 Provisions

Provisions are recorded when the Group has a legal or factual obligation and the amount of the provision can be determined reliably. Provisions are recorded on the basis of the related estimated expenses.

2.14 Income Realisation

Income encompasses the value invoiced for the sale of goods and services net of value added tax, rebates and price deductions and elimination of intra-group profits from intra-group sales. Income (revenue) is recorded as follows:

(a) Revenue from the Sale of Goods

Revenue from the sale of goods should be recognised when the Group has provided the respective service and it is sufficiently certain that the economic benefits associated with the transaction will flow to the enterprise.

(b) Revenue from the Provision of Services

Revenues from the provision of services are recognised in the financial year when the respective service is provided. If the provision of services extend over one accounting period, then the revenue recognised relates to the share of services already provided relative to the overall service.

(c) Interest Income

Interest income should be recognised on a time proportion basis that takes into account the residual claim and the effective interest over the residual term. To the extent that the receivable was subject to value adjustment, it is written down to its recoverable amount, which corresponds to the cash value of the expected cash flow determined on the basis of the original effective interest; thereafter the prorated discounting is continued with respective recognition as interest income.

(d) Revenue from Royalties

Revenues from royalties are recognised in the period when they accrue in accordance with the provisions of the underlying contract.

(e) Revenue from Dividends

Dividends should be recognised when the shareholder's right to receive payments is established.

2.15 Leases

An operating lease is a lease where a significant portion of the benefits and risks from ownership of the lease asset remain with the lessor. Payments made under an operating lease (net of incentive payments granted by the lessor) are recognised in the income statement on a straight line basis over the term of the lease.

3. Finance Risk Management

3.1 Finance Risk Factors

Due to its business activities the Group is exposed to various financial risks: the market risk (includes the currency risk, the fair value interest rate risk and the price risk), the credit risk, the liquidity risk and the cash flow interest rate risk. The cross-divisional risk management of the Group is focused on the unforeseeability of developments on financial markets and is aimed at minimising any potentially negative impact on the Group.

The Group's risk management is based on guidelines adopted by the Management Board. The Management Board identifies, measures and hedges against financial risks in close cooperation with the Group's operative units.

a) Market Risk/Currency Risk

The Group takes out long term loans to finance its real estate portfolio. The loans may also be denominated in foreign currencies. As of the balance sheet date, there was a loan denominated in Swiss francs. This loan was converted to a euro loan on 16 January 2006, however.

b) Credit Risk

The Group is not exposed to any significant credit risks. Real estate is rented out to tenants or lessees whose credit standing has been reviewed. The credit standing is reviewed periodically in each case.

c) Liquidity Risk

Cautious liquidity management includes the holding of a sufficient liquidity reserve. The Group's business activities involve the receipt of regular payments which are matched by periodic foreseeable payment obligations.

- Notes to the Consolidated Financial Statements
- Finance Risk Management
- Critical Estimates and Assessments in Accounting

d) Fair Value and Cash Flow Interest Risk

The Group holds only insignificant interest-bearing assets and no interest risk of significance therefore exists in this respect. The Group's interest risk mainly relates to long term interest bearing liabilities. The Group is exposed to a cash flow interest rate risk due to its long term liabilities involving variable interest rates. Fixed interest bearing liabilities are associated with a fair value interest rate risk. In accordance with the Group's finance risk policy, all real estate loans taken out bear fixed interest rates. At year end, most of the loan liabilities had fixed interest rates.

3.2 Fair Value Determination

The fair values of financial instruments that are not traded on an active market (e.g. GmbH shares) are determined on the basis of valuation models. To this end, the Group makes assumptions which are based on the market conditions as of the balance sheet date. If market valuation is not feasible, the valuation is carried out on the basis of acquisition costs.

The determination of trade receivables and payables is based on the assumption that the nominal amount net of value adjustments corresponds to the fair value. The present value of financial liabilities as recorded in the Notes is determined by discounting the future contractually agreed payment flow with the present market interest rate that would be granted to the Group for comparable financial instruments.

4. Critical Estimates and Assessments in Accounting

All estimates and assessments are continuously re-measured and are based on historical experience and other factors, including expectations of future events that appear appropriate under the given circumstances.

The Group's estimates and assumptions relate to the future. Therefore, the resulting assessment will comply with the actual future conditions only in very rare cases. The estimates and assumptions that involve significant risks in the form of major adjustments of carrying amounts of assets and liabilities within the next financial year are discussed below.

The significant risks in our business segment may concern investment property. The Company therefore uses the services of independent certified property experts. Concerning the leased real estate, the lease earning power was determined in each case since the hotels are all leased on the basis of long term lease contracts. The factors underlying the lease earning power determination were business indicators, benchmark values of hotel consulting enterprises, location, guest structure, occupation rates, hotel room prices, affiliation to hotel chains both national and international

etc.; fluctuations concerning these indicators lead to higher or lower present values. In order to increase reliability, comparisons with earning power and intrinsic value determinations are performed. Respecting residential real estate, the credit standing of tenants and terms of rental contracts as well as occupancy rates, modernisation expense, the quality of the location concerned as well as the rental loss risk were determined, and the saleable value of the individual real estate was derived from the information gained. The determination of market values for commercial real estate was performed using the gross rental method.

The carrying amounts of residential, commercial and hotel real estate as of 31 December 2005 are as follows:

in € thousand	Dec. 31, 2005	Dec. 31, 2005
Hotel real estate	26,220	26,220
Commercial real estate	13,200	0.00
Residential real estate	82,850	0.00

If the interest rate underlying the real estate assessment were increased by 0.5 percentage points in each case, the carrying amounts as of the balance sheet date would be as follows:

in € thousand		
a) Interest rate increased by 0.5 percentage points		
Hotel real estate		24,700
Commercial real estate		12,300
Residential real estate		74,800
b) Interest rate reduced by 0.5 percentage points		
Hotel real estate		27,900
Commercial real estate		14,100
Residential real estate		89,000

- Plant, Property and Equipment
- Available-for-Sale Financial Assets

5. Plant, Property and Equipment

in €	Vehicles	Business equipment	Total
As of January 01, 2004			
Acquisition/manufacturing costs	0.00	8,681.72	8,681.72
Accumulated depreciation	0.00	3,632.72	3,632.72
Carrying amount, net	0.00	5,049.00	5,049.00
Financial year 2004			
Opening carrying amount, net	0.00	5,049.00	5,049.00
Additions	32,579.00	12,452.65	45,031.65
Disposals	0.00	0.00	0.00
Depreciation	1,836.00	6,838.49	8,674.49
End carrying amount, net	30,743.00	10,663.16	41,406.16
As of December 31, 2004			
Acquisition/manufacturing costs	32,579.00	21,134.37	53,713.37
Accumulated depreciation	1,836.00	10,471.21	12,307.21
Carrying amount, net	30,743.00	10,663.16	41,406.16
Financial year 2005			
Opening carrying amount, net	30,743.00	10,663.16	41,406.16
Additions	0.00	33,045.51	33,045.51
Disposals	0.00	0.00	0.00
Depreciation	4,587.00	8,009.17	12,596.17
End carrying amount, net	26,156.00	35,699.50	61,855.50
As of December 31, 2005			
Acquisition/manufacturing costs	32,579.00	54,179.88	86,758.88
Accumulated depreciation	6,423.00	18,480.38	24,903.38
Carrying amount, net	26,156.00	35,699.50	61,855.50

The additions to vehicles and business equipment relate to the acquisition of CRE Hotel Immobilien GmbH.

Leasing expenses for other leased property, plant and equipment to the amount of T€ 118 (2004: T€ 50) are recorded in the income statement.

6. Available-for-Sale Financial Assets

This item relates to a participating interest in Arcon-Real Bauprojektentwicklungsgesellschaft Düsseldorf Völklingerstraße mbH, Düsseldorf. The share in the nominal capital of T€ 25 is 24 %. The Company plans to realise the sale of a building project in Düsseldorf. The company was not reported as an associated company in the balance sheet due to insignificance.

Since no stock exchange prices or market data are available from which the fair value can be derived, and since the fair value cannot be reliably determined in another way, the participating interest was recognised at acquisition costs. The carrying amount of the participating interest as of 31 December 2005 is T€ 750 (previous year: T€ 750).

7. Investment Property

The value of the Group's land and buildings was assessed by independent experts as of the 31 December 2005 balance sheet date. The assessment involved active markets.

Development of Real Estate Assets	in €
As of January 01, 2004	0.00
Additions from corporate acquisition	26,220,000
As of December 31, 2004	26,220,000
As of January 01, 2005	26,220,000
Additions from corporate acquisition	96,781,616
Other additions	11,191,868
Disposal from sales	- 20,343,496
Value changes through measurement at fair value	8,420,012
As of December 31, 2005	122,270,000

Rental receipts secured by rental contracts are expected as follows:

Rental income in € thousand	1st year	From 2nd to 5th year	From 6th year	Total
	5,511.5	11,953.2	22,945.5	40,410.1
Previous year's figures	1,993.6	7,974.4	23,923.2	33,891.2

The rental contracts for residential real estate are concluded for 3-month periods. Accordingly, the rental proceeds were calculated for 3 months.

In financial year 2004 all rental contracts related exclusively to hotel real estate.

Gross rental revenue in 2005 and allocable expenses:

in € thousand	2005 Rental revenue	2005 Allocable costs
Gesamt	7,677.4	3,474.0

- Trade Receivables and Other Receivables
- Cash and Cash Equivalents
- Share Capital

8. Trade Receivables and Other Receivables

The current receivables are structured as follows:

in € thousand	Dec. 31, 2005	Dec. 31, 2005
Trade receivables	593.9	7.3
Thereof:		
CRE AG	31.0	7.3
Grasmus Holding B.V.	562.9	0.0
Other receivables	267.2	35.0
thereof:		
CRE AG	222.4	35.0
Grasmus Holding B.V.	37.9	0.0
Other	6.9	0.0
Total	861.1	42.3

The trade receivables mainly concern rental costs and incidental rental costs not yet received by Grasmus Holding B.V.. The receivables were measured on the basis of their realisability, and down-ward adjustments were effected where necessary.

The other receivables of Colonia Real Estate AG include VAT balances not yet refunded and a receivable from a service provider whose invoice stated an amount that was too high. As of the reporting date, one third of the receivable was paid as agreed.

9. Cash and Cash Equivalents

in € thousand	Dec. 31, 2005	Dec. 31, 2005
Bank balances, cash in hand		
Short term bank balances bear daily interest.	17,502.6	22.6
Cash and current account credits include the following for cash flow statement purposes:		
Cash and cash equivalents	17,502.6	22.6
Current account credits	0.0	– 66.9
	17,502.6	– 44.3

10. Share Capital

The share capital amounted to € 13,050,000 on 1 January 2005 and was split up into 2,610,000 shares of stock at a computational nominal amount of € 5.00 each.

On 27 June 2005 the ordinary shareholders' meeting resolved on a decrease in the Company's share capital from € 13,050,000 to € 2,610,000. In so doing, the number of shares of stock remained unchanged and the notional portion of the individual stock in share capital has amounted to € 1.00 per share since that time.

At the same ordinary shareholders' meeting, it was decided to increase the Company's share capital of € 2,610,000 by € 118,000 to € 2,728,000 through the issue of 118,000 new shares of stock with a notional portion in the share capital of € 1.00 per share of stock. The capital was increased on the basis of a contribution in kind. The issue price was € 9.31 per share of stock. The new shares were issued to Swiss Real Estate AG, Zug, Switzerland. In exchange for this, Swiss Real Estate AG, in turn, forewent repayment of the shareholder loan.

The shareholders' meeting also decided that the Company's share capital of € 2,728,000 be increased to € 3,410,000 in exchange for a cash contribution of € 682,000 through the issue of 682,000 new shares of stock with a notional portion in share capital of € 1.00 per share. The issue price was € 23.75.

Subsequently, on 4 October 2005, the Company Management Board decided, with the approval of the Supervisory Board, that the existing share capital of the Company be increased by € 59,200, thereby making partial use of the Authorised Capital I, in exchange for a contribution in kind through the issue of 59,200 new shares of stock with a notional portion in share capital of € 1.00 per share. Within the scope of this capital increase through contribution in kind, the Management Board, with the approval of the Supervisory Board, excluded the subscription right of existing shareholders and authorised VEGA Investments S.à.r.L., Luxembourg to acquire the new shares. The shares transferred to VEGA Investments S.à.r.L. by way of capital increase through contribution in kind were part of the counter-consideration for the acquisition of shares in Grasmus Holding B.V.

With a view to complying with the exercise request of Forum European Realty Income S.à.r.L., Luxembourg, the Company has increased the share capital by € 100,000 with partial use of the Authorised Capital I in exchange for a cash contribution through the issue of 100,000 new shares of stock, with a notional portion in share capital of € 1.00 per share. The issue price was € 17.50 per share. As of the balance sheet date, Forum European Realty Income S.à.r.L. had another 500 option rights to a total of 100,000 shares of Colonia Real Estate AG with an exercise price of € 17.50 per share. The option rights were exercised in February 2006.

Accordingly, the Company's share capital amounted to € 3,569,200 as of the balance sheet date. It is fully paid in. It is split into 3,569,200 no par bearer shares with a notional portion in share capital of € 1.00 per share of stock.

Moreover, the ordinary shareholders' meeting of Colonia Real Estate AG resolved on the creation of authorised capital. The authorised capital was € 1,364,000, and it was split up into Authorised Capital I to the amount of € 1,305,000 and Authorised Capital II to the amount of € 59,000.

Following completion of the above stated capital increases through cash contribution and contribution in kind, the Authorised Capital I amounts to € 1,145,800 and the Authorised Capital II continues to amount to € 59,000.

In addition, the ordinary shareholders' meeting performed a conditional capital increase concerning the share capital of Colonia Real Estate AG by up to € 180,000 through issuance of up to 180,000 new shares of stock (Conditional Capital II). The conditional capital increase serves the sole purpose of issuing up to 180,000 subscription rights (stock options) within the scope of the 2005 stock option program (see Item 19).

- Share Capital
- Trade Payables and other Liabilities
- Financial Liabilities

By resolution of the ordinary shareholders' meeting of 24 August 2004, the Management Board was authorised, with the approval of the Supervisory Board, to issue stock options without an option bond to the Company's shareholders up to 1 August 2009. This authorisation related to 6,750,000 stock options with subscription rights to up to 1,125,000 no par shares of stock with a notional proportion in share capital of up to € 5,625,000 (following the capital decrease of 1,125,000 shares of stock). The Management Board made use of this authorisation on 17 November 2004 and offered stock options free of charge by way of direct subscription right to those shareholders who, after the close of the market, were shareholders in the Company on 19 November 2004. The exercise date is the period from 15 April to 1 June 2009. The option price per new share amounts to € 12.

11. Trade Payables and other Liabilities

in € thousand	Dec. 31, 2005	Dec. 31, 2005
Trade payables	307.8	222.3
Social security and other taxes	225.5	64.9
Other liabilities	1,557.5	13.8
Down-payments received	134.4	0.0
	2,225.2	301.0

The other liabilities mainly include repayments of T€ 669.6 to tenants from overpaid incidental costs of Grasmus Holding B.V. and VAT liabilities to the amount of T€ 199.

12. Financial Liabilities

in € thousand	Dec. 31, 2005	Dec. 31, 2005
Long term		
Liabilities to banks	70,357.1	21,902.9
Swiss Real Estate AG loans	359.7	1,141.0
Option bond	8,832.0	0.0
	79,548.8	23,043.9
Short term		
Current account liabilities	0.0	66.9
Liabilities to banks (short term portion of long term liabilities)	15,035.0	579.5
	0.0	646.4
Total interest-bearing liabilities	94,583.8	23,690.3

The total interest bearing liabilities encompass secured liabilities (liabilities to banks and option bond) to the amount of T€ 94,583.8 (previous year: T€ 22,481.4). Of this amount, T€ 85,392.1 (previous year: T€ 22,455.9) is collateralised on the basis of land and buildings with carrying amounts totalling T€ 122,270 (previous year: T€ 26,220.0).

Moreover, rental income was pledged to the lenders respecting all interest-bearing loans (liabilities to banks and bond).

Collateral for the option bond was provided in the form of a pledge of 94 % of the business shares in CRE Hotel Immobilien GmbH.

The Swiss Real Estate AG loan was converted into equity capital by way of a capital increase through contribution in kind in June 2005.

In 2003, a loan granted to the Company was remitted. Owing to the existence of a debtor warrant which provides for repayment of the loan as soon as the Company earns an agreed-upon net profit in the following years, the loan was reported on the liabilities side in the amount of T€ 359.7 including accrued interest.

The option bond was subscribed by Forum European Realty Income S.à.r.L., Luxembourg. It served to finance the acquisition of shares in Grasmus Holding B.V.

The due dates of interest bearing liabilities are as follows:

in € thousand	Up to 1 year	1–5 years	More than 5 years	Total
As of December 31, 2004				
Total interest bearing liability	646.4	15,356.2	7,687.7	23,690.3
As of December 31, 2005				
Total interest bearing liability	15,035.0	13,987.0	65,561.7	94,583.7

The bullet maturities and effective interest rates of the main long term interest bearing liabilities are as follows:

	2005	Previous year			2005
T€	53,826.3	0.0	Due on Jan. 18, 2013	Fixed interest rate	4.55 %
T€	8,832.0	0.0	Due on Jul. 28, 2010	Effective interest rate	18.09 %
T€	9,802.8	0.0	Due on Aug. 30, 2012	Variable interest rate	n.a.
T€	7,034.4	7,478.0	Due on Jul. 30, 2007	Fixed interest rate	5.04 %
T€	2,898.6	2,898.6	Due on Jul. 30, 2012	Fixed interest rate	5.75 %
T€	0.0	851.5	Early repayment	Fixed interest rate	7.00 %
TCHF (T€)	0.0 (0.0)	18,464.6 (11,994.4)	Due on Jan. 16, 2006	Fixed interest rate	5.11 %

The fair values of fixed interest bearing loans as of 31 December 2005 were as follows:

in € thousand	Balance sheet value on Dec. 31, 2005	Fair value on Dec. 31, 2005	Fair value on Dec. 31, 2004
	53,826.3	55,219.0	n. a.
	7,034.4	7,097.5	7,234.0
	2,898.6	3,129.5	3,104.4

The fair values were calculated as of 31 December 2005. The calculation was based on the interest rates applicable as of the 31 December 2005 closing date which result from linear interpolation of the yield curve of listed Federal Government securities taking the credit margin relevant for the Colonia Real Estate Group into account. The maximum term was 7 years.

The bullet maturities and effective interest rates of significant short term interest-bearing liabilities are as follows on 31 December 2005:

	2005	Previous year			2005
TCHF	18,464.6	0.0	Due on	Fixed	
(T€)	(11,891.7)	(0.0)	Jan. 16, 2006	interest rate	5.11 %

The loans denominated in Swiss francs were converted to loans on a euro basis on 16 January 2006. The term was extended to 30 July 2007. The annual interest rate up to the due date is 3.99 %.

13. Deferred Taxes

Deferred tax assets and liabilities may be netted when there is an enforceable right to set off deferred tax assets against deferred tax liabilities and when the deferred taxes relate to the same tax authority. The following amounts were netted:

in € thousand	Dec. 31, 2005	Dec. 31, 2005
Deferred tax assets:		
Deferred tax assets realised after more than 12 months	1,483.9	1,077.2
Deferred tax assets realised within 12 months	8.6	0.0
	1,492.6	1,077.2
Deferred tax liabilities:		
Deferred tax liabilities realised in more than 12 months	11,583.9	2,255.5
Deferred tax liabilities realised within 12 months	0.0	0.0
	11,583.9	2,255.5
Balance:		
Deferred tax assets	0.0	0.0
Deferred tax liabilities	10,091.3	1,178.3

The change in deferred tax assets and tax liabilities is determined as follows:

in € thousand	
Deferred tax assets:	
As of January 01, 2004:	122,999.20
Amount recognised in income	288,200.33
Acquisition of CRE Hotel Immobilien GmbH	665,987.21
On December 31, 2004:	1,077,186.74
On January 01, 2005	1,077,186.74
Amount recognised in income	415,374.16
On December 31, 2005:	1,492,560.90
Deferred tax liabilities:	
On January 01, 2004:	0.00
Amount recognised in income	49,299.24
Acquisition of CRE Hotel Immobilien GmbH	2,206,160.18
On December 31, 2004	2,255,459.42
On January 01, 2005	2,255,459.42
Amount recognised in income	618,756.96
Acquisition, Grasmus Holding B.V.	8,709,634.68
On December 31, 2005:	11,583,851.06

- Deferred Taxes
- Other Provisions
- Sales Revenues

Deferred tax assets for tax losses carried forward are recognised to the extent that it is probable that associated tax benefits can be realised through future tax profits. The losses carried forward exist exclusively in Germany and therefore do not expire. Since the plan figures of the Colonia Real Estate Group as from 2006 provide for accounting profits, deferred tax assets were recognised to the full amount on the corporate tax losses carried forward.

The deferred tax assets resulting from losses carried forward amount to T€ 1,398 (previous year: T€ 1,001) as of 31 December 2005. In financial year 2005 no deferred taxes on losses carried forward were released or value adjusted (previous year: no release). The other deferred tax assets to the amount of T€ 95 (previous year: T€ 76) result from the fact that shareholder loans subject to debtor warrant agreement were derecognised in the tax balance sheet with an effect on results.

Deferred tax liabilities arise from the valuation of real estate at fair value and the resulting difference in comparison with the tax balance sheet valuation (see Item 7).

Trade tax losses carried forward as of 31 December 2004 relating to CRE Hotel Immobilien GmbH amounted to T€ 871 (31.12.2003: T€ 871). Colonia Real Estate AG discloses trade tax losses carried forward as of 31 December 2004 to the amount of T€ 187. Calculations for the period under review were not yet in place. These losses carried forward were not included in the deferred tax assets since no trade tax payments are expected for be made in the coming years.

14. Other Provisions

All provisions recorded are short term. Provisions for restructuring were not required to be recorded.

in €	As of Jan. 01, 2005	Utilisation	Release	Addition	As of Dec. 31, 2005
Risks from pending litigation	0.00	0.00	0.00	20,000.00	20,000.00
Provision for annual audit	22,500.00	22,500.00	0.00	136,000.00	136,000.00
Other provisions	67,500.00	67,500.00	0.00	25,000.00	25,000.00
Sum total of provisions	90,000.00	90,000.00	0.00	181,000.00	181,000.00

15. Sales Revenues

Sales revenues earned in 2005 amounted to T€ 7,678 (previous year: T€ 735). Of total sales revenues, residential real estate accounts for T€ 4,994 (previous year: T€ 0), commercial real estate for T€ 690 (previous year: T€ 0), and hotel real estate for T€ 1,994 (previous year: T€ 722). Sales revenue of residential real estate is due to the result of Grasmus B.V. rental revenue since the beginning of July 2005. Sales revenue from commercial real estate relates to rental proceeds from the building at Ferdinand-Porsche-Strasse in Cologne, and sales revenue from hotel real estate is due to lease income generated with three Marriott hotels in Kassel, Braunschweig and Eisenach. Item 25 provides a detailed allocation of sales revenues according to segments.

Other Operating Income —

Cost of Materials —

Personnel Expenses —

**16. Other Operating
Income**

Other operating income to the amount of T€ 3,468.5 (previous year: T€ 88.7) consists primarily of income from the sale of the Lüneburg sub-portfolio through Grasmus Holding B.V.; the gain on disposal amounted to T€ 3,280.9. In addition, the item mainly includes currency gains to the amount of T€ 102.6.

17. Cost of Materials

Due to the renting out of real estate, cost of materials to the amount of T€ 2,670.1 is recorded in the consolidated financial statements for the first time. The costs related mainly to Grasmus Holding B.V. in the Netherlands. They primarily include maintenance costs, land charges, insurance premiums and cleaning costs.

18. Personnel Expenses

in € thousand	2005	2004
Wages and salaries	1,054.9	418.2
Social security costs	35.3	26.5
Thereof, employers' pension insurance payments	5.0	5.0
Total	1,090.2	444.7

The increase in personnel expenses in comparison with the previous year is due to the first-time profit sharing bonuses paid to the Management Board and employees for financial year 2005, the recruitment of additional employees in the second half of the year, and to the issue of employee options.

19. Stock Options

Employee Stock Option Program

The ordinary shareholders' meeting held on 27 June 2005 authorised the Management Board and the Supervisory Board to launch a stock option program (Stock Option Plan 2005). The group of persons entitled to subscribe are members of the Management Board and employees of Colonia Real Estate AG. Overall, 180,000 stock options were available for subscription, of which 75 % were attributable to the Management Board and 25 % to the staff of Colonia Real Estate AG. Up to the present, Company has issued a total of 135,000 stock options during the financial year. None of the options has expired.

	Date	Units	Strike price	Initial exercise date	End of Term
Issue to the Board	July 25, 2005	90,000	€ 21.85	Aug. 8, 2007	Jul. 24, 2010
Issue to staff	Juli 25, 2005	15,000	€ 21.85	Jan. 8, 2007	Jul. 24, 2010
Issue to staff	Nov. 24, 2005	30,000	€ 38.50	Dec. 1, 2007	Nov. 13, 2010

As a precondition for the exercising of option rights, the average of the opening and closing prices of the Company's shares in Xetra trade must have risen at least 20 % in comparison with the exercise price on the last five trading days prior to the date of exercising the option right, and the option holder must have been an employee of the Company at that date.

Upon exercising the option rights, the strike price is to be paid in by the person entitled to subscribe in exchange for the issue of shares.

The exercise of option rights is limited to a period prior to publication of the quarterly and semi-annual results and the preliminary net income/net loss for the year, and prior to the shareholders' meeting.

Option right adjustments in the event of capital increases or capital decreases are a component of the option terms.

When exercising option rights, the Company may issue new shares from Conditional Capital II or may provide old shares, or may pay compensation for the difference between the strike price and the share price, thereby taking taxes and costs into account, if appropriate. The intention is to issue new shares only from Conditional Capital II however.

The employee options were measured using the "Black-Scholes" procedure. Based on the strict prices (= exercise price) of € 21.85 (1st tranche) and € 38.50 (2nd tranche), which corresponded to the price immediately prior to granting the option, the term of 2 years, the non-risk interest rate of 3 %, and the historical volatility of the last 250 trading days of the share of 59 % (1st tranche) and 51 % (2nd tranche), an option value of € 6.57 or € 11.34 respectively, was arrived at using the procedure stated above. Prorated expense for 2005 to the amount of T€ 150 and T€ 22 was recorded under personnel expenses.

Option Bond

The determination of option rights granted to Forum Partner Realty Income II within the scope of the option bond was based on the following parameters, in particular:

- The strike price (purchase price upon exercise) of the options is € 17.50.
- The dividends expected for the relevant period amount to: € 0; € 0.39; € 2.00; € 2.60; € 3.38.
- The historical volatility of the share is 60 %.
- The refinancing rate is 13.5 % for a five year period.

20. Other Operating Expenses

in €	2005	2004
Legal and consulting costs	1,506,323.3	146,118.3
Commission	86,846.6	0.0
Operating and office supplies	39,497.0	19,767.0
Travel and advertising costs	109,073.8	18,782.4
Maintenance and repair	49,750.0	259,170.8
Insurance/membership fees/charges	20,301.3	5,853.1
Vehicle costs	68,522.6	43,294.6
Shareholders' meeting/mandatory publications	106,426.0	63,452.2
Rental/leasing	77,610.2	73,402.4
Tax consultancy costs	25,396.1	17,801.0
Year-end closing costs	169,145.9	30,113.7
Other expenses	470,804.4	146,740.3
Total	2,729,697.2	824,495.8

21. Financial result – Net

The financial result is structured as follows:

in T€	2005	2004
Interest on long term loans	– 3,728.2	– 382.7
Interest on Swiss Real Estate AG loan	– 70.2	– 46.3
Interest on short term liabilities	0.0	– 4.5
Interest income	100.6	24.2
Total	– 3,697.8	– 409.3

- Income Tax Expense
- Net Currency Gains
- Earnings per Share

22. Income Tax Expense

Current income tax relates almost exclusively to Grasmus Holding B.V. The tax relating to the Group's pre-tax loss differs from the notional amount resulting from application of the Group tax rate of 26.375 % to earnings before taxes as follows:

in T€	2005	2004
Current tax	2,063.1	0.5
Deferred tax	357.1	238.9
	2,420.2	239.4

in €	2005	2004
Earnings before tax	9,230,504.88	– 863,232.92
Tax determined on the basis of national income tax rate	2,434,545.66	– 227,677.68
Non-deductible expenses	– 8,934.18	0.00
Tax free gains	0.00	– 17,551.04
Tax gains for which no deferred tax liability was recorded	0.00	0.00
Tax losses for which no deferred tax assets were recorded	0.00	5,848.39
Übrige Differenzen	– 5,442.70	0.00
Ertragsteueraufwand (Vorjahr: –ertrag)	2,420,168.79	– 239,380.33

23. Net Currency Gains

Other operating income includes a currency gain of T€ 102.6 resulting from the devaluation of a long term loan kept in Swiss francs during the period from 1 January to 31 December 2005. A currency loss of T€ 203 was incurred in the previous year due to the upward valuation of the Swiss franc.

24. Earnings per Share

Undiluted

The undiluted earnings per share are calculated by determining the quotient from the profit to which the equity providers are entitled and the average number of shares issued during the financial year, with the exception of treasury stock which is held by the Company.

	2005	2004
Profit attributable to the equity capital providers (T€)	6,751.4	– 627.4
Durchschnittliche Anzahl der ausgegebenen Aktien (in Tausend)	2,866	2,340
Average number of shares issued (in €)	2.36	– 0.27

The average number of shares issued in financial year 2005 is derived from the weighting of the shares issued each month. As of 1 January 2005, 2,610,000 shares of stock were in circulation. After the above stated capital increases through cash contribution and contribution in kind, the share capital amounted to 3,569,200 shares of stock on 31 December 2005 (see Item 10).

Diluted

The number of diluted shares is determined by adding the number of shares to be purchased from the issue of diluted options to the average portfolio of shares issued. Options are diluted if, for the purpose of issue of common shares of stock, they were issued at a lower price than the average stock price of the share during the period. During the financial year this involved 562,300 stock options. The total amount of diluted shares was 3,428,340 shares of stock.

The diluted result is determined by dividing the net income for the year by the number of diluted shares.

	2005	2004
Profit attributable to equity capital providers (T€)	6,751.0	– 627.4
Average number of shares issued (in thousands)	3,428	2,340
Diluted earnings per share (in €)	1.97	– 0.27

25. Segment Reporting

Primary Reporting Format – Business Segments

In accordance with IAS 14, individual annual financial statements data are to be presented in segmented form according to business segments and regions. Classification should be oriented towards the internal reporting system in order to enable reliable assessment of the risks and earnings within the Group. Segment reporting serves to increase the transparency of the current and future performance of the Groups' individual activities.

The Group operates on the basis of business segments which, based on the economic features of the business, the type of products and production processes, the type of customer relationships and the features of the sales organisation, are combined into reporting units. At present, the Group consists of three segments, namely the commercial, residential and hotel real estate segment.

Intra-group items are eliminated in the course of reconciliation. In addition, individual income and expenses as well as assets and liabilities are included here which could not be directly allocated to the segments. These items relate mainly to the management area of Colonia Real Estate AG.

2005 in T€	Residential	Commercial	Hotel	Reconciliation	Group
Sales revenue	4,994.4	689.5	1,993.6	0.0	7,677.5
Other operating income	9,391.1	2,309.8	0	187.6	11,888.5
Segment result	11,521.1	2,863.7	1,955.6	– 9,530.1	6,810.3
Depreciation	0.6	0.0	4.6	7.4	12.6
Other non-cash expenses	0.0	0.0	15.0	338.2	353.2
Segment assets	91,411.6	13,326.4	28,639.1	8,070.7	141,447.8
Segment-liabilities	1,403.7	0.0	207.0	107,448.1	109,058.8
Investments	97,083.3	10,890.2	0.0	3.0	108,006.5

2004 in T€	Residential	Commercial	Hotel	Reconciliation	Group
Sales revenue	0.0	0.0	722.3	13.0	735.3
Other operating income	0.0	0.0	66.5	22.2	88.7
Segment result	0.0	0.0	400.8	– 1.0	– 623.9
Depreciation	0.0	0.0	1.8	6.9	8.7
Other non-cash expenses	0.0	0.0	15.0	75.0	90.0
Segment assets	0.0	0.0	28,416.0	62.1	28,478.0
Segment-liabilities	0.0	0.0	93.9	25,164.7	25,258.6
Investments	0.0	0.0	26,265.0	0.0	26,265.0

Segment assets are operating assets that are deployed by a segment in its operating activities and that are either directly attributable to the segment or can be allocated to the segment on a reasonable basis.

Segment liabilities are those operating liabilities that result from the operating activity of a segment and that are either directly attributable to the segment or can be allocated to the segment on a reasonable basis. The liabilities are allocated to the respective segments after deduction of current and deferred tax liabilities and financial liabilities.

Sales revenues include only revenue earned with external third parties.

Secondary Reporting Format – Geographical Segments

Due to the lack of different economic environments and thus allocable geographical segments concerning the Colonia Real Estate Group, a secondary reporting format was not used.

26. Cash Provided by Operating Activities

in €	2005	2004
Net income for the year	6,810,336.09	– 623,852.59
Adjustments for:		
– increases in the value of real estate	– 8,420,012.23	0.00
– income from the sale of real estate (Item 16)	– 3,280,867.27	0.00
– Taxes (Item 22)	2,420,168.79	– 239,380.33
– Depreciation of property, plant and equipment	12,596.17	8,674.49
– Interest expense (Item 21)	3,798,409.93	433,496.07
– Interest income (Item 21)	– 100,615.05	– 24,169.68
– Personnel expense from employee options (Item 19)	172,158.29	0.00
– Recognition of negative difference	0.00	– 66,544.21
– Loss from currency translation concerning loans	0.00	202,908.40
– Income from currency translation concerning loans (Item 23)	– 102,653.55	0.00
Change in working capital		
– Trade receivables and other receivables	– 127,186.06	27,046.31
– Other provisions, trade payables and other liabilities	– 386,134.29	– 120,067.33
Cash provided by operating activities	796,200.82	– 401,888.87

27. Obligations

Capital Obligations

No obligations had been entered into as of the reporting date.

Obligations as Lessee within the Framework of Operating Leases

The Group leases office rooms, vehicles and office machines within the scope of non-terminable operating lease relationships. No purchase options or extension options beyond the basic rental period have been agreed upon.

The future accumulated minimum lease payments from non-terminable operating leases are as follows:

in T€	2005	2004
Up to 1 year	73.4	115.2
After more than 1 year and up to 5 years	121.2	121.4
After more than 5 years	0.0	0.0
	194.6	236.6

Obligations from Residential Housing Portfolio Purchases

The purchase contract of 16 December 2005 relating to the acquisition of the Elmshorn real estate portfolio involves a purchase price obligation of € 20.2 million. Due to its pre-emption right of first refusal, the contract only comes into effect after the municipality of Elmshorn has approved the purchase contract. The acquired residential real estate is located in a redevelopment area.

By contracts of 16 December and 22 December 2005, Colonia Real Estate AG concluded obligation agreements governing the purchase of further residential housing portfolios (see Item 34). The economic transfer took place on 31 March 2006. The agreed purchase price amounted to approximately € 24.7 million.

Property Management Agreement concerning Residential Real Estate of Grasmus Holding B.V

Grasmus Holding B. V. concluded a contract governing the management of its real estate portfolio with the firm of aubecon GmbH. The contract is due to expire in 2015. The annual management fee amounts to approximately € 0.9 million.

28. Acquisitions

With effect as from 1 July 2005, Colonia Real Estate AG acquired a participating interest of 94 % in the corporate assets of the firm of Grasmus Holding B.V. with registered head office in Baarn, Netherlands. At the acquisition date, Grasmus Holding B.V. was the owner of a total of 3,488 residential units and 1,137 parking bays at 15 locations in 9 communities of Northern Germany, in particular, in Friesland. In September 2005, the Lüneburg location involving 738 residential units was sold. The sales proceeds amounted to T€ 23,624.

The consolidated financial statements include the set of figures of Grasmus Holding B.V for the second half of 2005. During that period the company achieved sales revenues of T€ 4,994 and other operating income from the sale of real estate to the amount of T€ 9,678. After taking the total operating expenses of T€ 6,456 into account, the remaining result from ordinary activities amounted to T€ 8,216.

In addition, CRE AG acquired a participating interest of 94 % in the corporate assets of Gimag Gewerbe-Immobilien AG with registered head office in Zug, Switzerland. Gimag Gewerbe-Immobilien AG, in turn, acquired a participating interest of 6 % in the corporate assets of the firm of Grasmus Holding B.V with effect from 1 July 2005. In effect, CRE AG holds a direct and indirect participating interest of 99,64 % in Grasmus Holding B.V.

Purchase price for 100 % of Grasmus Holding B.V in T€	
– Payment made	23,897
– Costs directly attributable to the acquisition	1,006
– Fair value of shares issued	2,000
Total purchase price	26,903
Fair value of the acquired net assets	26,903
Difference	0

The following assets and liabilities were acquired within the scope of acquisition:

Fair Value in T€	
Cash and cash equivalents	7,494
Real estate held as a financial investment	96,782
Receivables	9,082
Liabilities	(10,792)
Loan liabilities	(66,953)
Deferred tax liabilities	(8,710)
Net assets	26,903

in T€	
Purchase price paid in cash	24,903
Cash and cash equivalents available at the company acquired	7,494
Cash used for the transaction	17,409

The carrying amounts of assets and liabilities in fictitious IFRS financial statements of Grasmus Holding B.V. as of the acquisition date correspond largely with the values reported by Colonia Real Estate AG within the scope of the acquisition.

In August 2004, Colonia Real Estate AG concluded an agreement governing the contribution of a share of 86 % of the nominal capital/voting rights of CRE Hotel Immobilien GmbH, Cologne, within the scope of a capital increase through contribution in kind. The company acquired is the owner of three hotel properties located in Germany which are operated under the label “Courtyard by Marriott” by a hotel operations company. During the four months of its group affiliation, the acquired company contributed T€ 722 to sales revenue and T€ 25.2 to Group profits in financial year 2004. Total sales revenue of CRE Hotel Immobilien GmbH in 2004 amounted to T€ 1,400.

The acquired net assets were as follows as of 1 September 2004:

in T€	
Purchase price:	
– Payment made	0,00
– Costs directly attributable to the acquisition	0,00
– Fair value of shares issued	3,600
Total purchase price	3,600
Fair value of acquired net assets	3,666
Negative difference	66

The following assets and liabilities were acquired within the scope of the acquisition:

Fair Value in T€	
Cash and cash equivalents	112
Real estate held as financial investments	26,220
Property, plant and equipment	33
Deferred tax assets	666
Loans	1,302
Assets available for sale	750
Receivables	6
Liabilities	(266)
Loan liabilities	(22,354)
Deferred tax liabilities	(2,206)
Net assets	4,263
Minority shares (14 %)	(597)
Acquired net assets	3,666

in T€	
Purchase price paid in cash	—
Cash and cash equivalents available at the company acquired	112
Cash used for the transaction	0

The carrying amounts of assets and liabilities in fictitious IFRS financial statements of CRE Hotel Immobilien GmbH as of the acquisition date comply largely with the values recognised at Colonia Real Estate AG within the scope of the acquisition.

In the first six months of 2005, an additional share in the nominal capital of CRE Hotel Immobilien GmbH as acquired for Th 360. Consequently, the share in the company's nominal capital increased to 94%. The minority interest was reduced by the purchase price, respectively.

In financial year 2005 three new companies (CRE Wohnen GmbH, Cologne, CRE Research & Management GmbH, Cologne, and CRE Gewerbeimmobilien GmbH, Cologne) were founded with a nominal capital of T€ 25 in each case. Business activities had not yet commenced as of the balance sheet date.

29. Transaction with Related Parties

The major shareholder of Colonia Real Estate AG is Swiss Real Estate AG, Zug, Switzerland, which holds approximately 36% of the shares. A stake of 5.7% is held by Mr. Peter May. The remaining shares are publicly held, mainly by institutional investors at home and abroad.

In financial year 2005, the Company was not involved in any operational activities with related parties. Swiss Real Estate AG, Zug, Switzerland, extended a loan to Colonia Real Estate AG which served to finance current operations. As of 31 December 2005, the loan portfolio amounted to T€ 0 (2004: T€ 852) after the loan had been converted to equity within the context of a capital increase through contribution in kind.

A loan granted to the Company in 2003 was remitted. The loan was equipped with a debt warrant. Since it is assumed that Colonia Real Estate AG will generate profits in the future, the loan was already recognised as a liability in financial year 2004. The loan portfolio as of 31 December 2005 including interest amounted to T€ 360.

— Notes to the Consolidated Financial Statements

- Corporate Governance
- Fees for the Group Auditors
- Overall Remuneration of the Supervisory Board and the Management Board

The Management in key positions of the Colonia Real Estate Group includes the Supervisory Board and the Management Board. Remuneration for this group of persons is structured as follows:

in T€	2005	2004
Salaries and other short term benefits in 2005	704	300
Value of the 2005 stock options	129	0
Total 2005	833	300

30. Corporate Governance

In the reporting year, the Colonia Real Estate AG Supervisory Board and Management Board again dealt with the German Corporate Governance Code. The wording of the current declaration of 31 December 2005 is available in the Internet under www.cre.ag.

31. Fees for the Group Auditors

The fully consolidated companies of the Colonia Real Estate AG Group recorded the following fees agreed with the annual auditors of the consolidated financial statements, PricewaterhouseCoopers Aktiengesellschaft Wirtschaftsprüfungsgesellschaft, Cologne:

- The annual audit T€ 169
- Tax consulting services T€ 25
- Other attestation services T€ 111

32. Overall Remuneration of the Supervisory Board and the Management Board

in TEUR	2005	2004
Remuneration of the Supervisory Board amounted to	17	14
Remuneration for the Management Board amounted to	687	286
Of which, variable components	285	0

In addition, the Management Board members received 30,000 options respectively from the 2005 Stock Option Program in the financial year (previous year: 0) (see Item 19).

33. Staff

The average number of staff (including the Boards) was as follows:

in T€	2005	2004
Board members	3	3
Permanent employees	3	1
Total	6	4

34. Events after the Balance Sheet Date

By purchase contract of 16 December 2005, the Group acquired a portfolio of approximately 1,600 apartments in the surroundings of Hamburg through its fully owned subsidiary, CRE Wohnen GmbH. The purchase price amounted to € 38.2 million. Some of the residential units in Elmshorn are located in a redevelopment area. The respective purchase price of € 20.2 million falls due only after the municipality of Elmshorn has approved the purchase after the conclusion of a municipal construction agreement. The date of economic transfer for the remaining portion was 31 March 2006.

By purchase contract of 22 December 2005, CRE Wohnen GmbH acquired a further residential housing portfolio with 356 units in the Bremen conurbation area. The purchase price amounts to € 6.7 million. The date of economic transfer was 31 March 2006.

In February 2006, Forum European Realty Income L. P, Luxembourg, exercised further options from the option bond it had subscribed to, and acquired 100,000 Colonia Real Estate shares. The share capital was increased by the amount of € 100,000, and the amount of € 1.65 million was transferred to other revenues. The capital increase results in a liquidity inflow of € 1.75 million.

Also in February 2006, Colonia Real Estate AG concluded an obligation agreement stipulating the acquisition of 56 % of the business shares in Resolution GmbH, Berlin. The purchase price consists of a fixed amount of € 2,000,000.00, which is to be made available within the context of a capital increase through contribution in kind on the basis of approximately 17,000 Colonia Real Estate shares of stock, and two further cash payments following the first and second business year of Resolution GmbH, and which are linked to the achievement of performance targets defined in a business plan prepared by the Company. The economic transfer had not yet taken place at the date of completion of this report. The examination of real capital had not yet been completed and the capital increase had not been carried out. Resolution GmbH is a real estate asset management company with five sites in Germany and its own staff.

In March 2006, Colonia Real Estate AG performed a cash capital increase involving 239,342 shares of stock and under exclusion of the shareholders' subscription rights. The shares were issued to professional investors at home and abroad. The issue proceeds had a net volume of approximately € 30 million.

At the end of March 2006 the new company of CRE Fonds Management GmbH was founded with a nominal capital of T€ 250. Colonia Real Estate AG subscribed for 56 % of the nominal capital. The company will be engaged on the market of structured investment products, in particular closed-end funds.

On 3 March 2006 the Deutsche Börse AG, Frankfurt, reported that the shares of Colonia Real Estate AG are included in the SDAX with effect as from 20 March 2006.

35. Business Segment Affected by Insolvency

Colonia Real Estate AG is the legal successor of Küppersbusch AG, Gelsenkirchen. Due to the continuation resolution of the above stated shareholders' meeting on 5 November 2003.

Insolvency proceedings against Küppersbusch AG were instigated in 1999. In 2000 an insolvency plan was adopted which was aimed at maintaining the company as a listed stock corporation. A subsequent distribution was agreed upon. In his capacity as administrator, the insolvency administrator was authorised to administer and realise the insolvency asset and liability items. On 7 May 2000 the insolvency proceedings were cancelled. The assets which are to be allocated to the new business activity are exclusively under the power of disposal of the Company's Management Board. Insolvency creditors and the insolvency administrator have no access to these new assets.

The assets affected by insolvency administered by the administrator consist mainly of production and warehousing sites in Gelsenkirchen, which are rented out to Küppersbusch Hausgeräte AG. The insolvency administrator receives regular rental income which is to be distributed to the creditors.

The Management Board of Colonia Real Estate AG has no power of disposal over the business portion subject to insolvency but is obliged to cooperate in the sale of real estate since the existing estate is entered in the land register under the name of Küppersbusch AG.

As of 31 December 2005, the existing assets amount to T€ 5,009; property, plant and equipment account for T€ 3,656. The amount compares to liabilities amounting to € 5,009 due to banks and other creditors.

Since there is no economic connection between Colonia Real Estate AG and the portion affected by insolvency, the latter is not included in the consolidated balance sheet.

36. List of Shareholdings

The List of Shareholdings lists all direct and indirect shares in consolidated companies. The equity capital and the results of the companies are reported in accordance with local accounting standards.

in €	Share in capital in %	Equity capital as of Dec. 12, 2005	Result for 2005
Colonia Real Estate AG, Cologne		19,502,806.67	– 3,989,842.61
Fully consolidated subsidiaries included in the consolidated financial statements			
1. CRE Hotel Immobilien GmbH, Cologne	94.00	– 2,799,940.69	– 94,736.44
2. Grasmus Holding B.V, Baarn,NL	99.64	9,175,210.00	6,155,413.00
3. CRE Research und Management GmbH, Cologne	100.00	23,454.35	– 1,545.65
4. CRE Wohnen GmbH, Cologne	100.00	22,753.52	– 2,246.48
5. CRE Gewerbeimmobilien GmbH, Cologne	100.00	24,420.31	– 579.69
6. Gimag Gewerbe-Immobilien AG, Zug, Switzerland	94.00	– 20,618.04	– 20,618.04
Associated companies			
1. Arcon Real Bauprojektentwicklungsgesellschaft mbH, Düsseldorf	24,00	n.a.	n.a..

Cologne, 31 March 2006

The Management Board



Stephan Rind



Christian Grosch



Edgar Krauß



Klaus Reichert

Auditors' Opinion

Wir haben den von der Colonia Real Estate AG, Köln, aufgestellten Konzernabschluss – bestehend aus Bilanz, Gewinn- und Verlustrechnung, Eigenkapitalveränderungsrechnung, Kapitalflussrechnung und Anhang – sowie den Konzernlagebericht der Colonia Real Estate AG, Köln, der mit dem Lagebericht der Gesellschaft zusammengefasst ist, für das Geschäftsjahr vom 1. Januar bis 31. Dezember 2005 geprüft. Die Aufstellung von Konzernabschluss und zusammengefassten Lagebericht nach den IFRS, wie sie in der EU anzuwenden sind, und den ergänzend nach §315a Abs. 1 HGB anzuwendenden handelsrechtlichen Vorschriften liegt in der Verantwortung des Vorstands der Gesellschaft. Unsere Aufgabe ist es, auf der Grundlage der von uns durchgeführten Prüfung eine Beurteilung über den Konzernabschluss und den zusammengefassten Lagebericht abzugeben.

Wir haben unsere Konzernabschlussprüfung nach § 317 HGB unter Beachtung der vom Institut der Wirtschaftsprüfer (IDW) festgestellten deutschen Grundsätze ordnungsmäßiger Abschlussprüfung vorgenommen. Danach ist die Prüfung so zu planen und durchzuführen, dass Unrichtigkeiten und Verstöße, die sich auf die Darstellung des durch den Konzernabschluss unter Beachtung der anzuwendenden Rechnungslegungsvorschriften und durch den zusammengefassten Lagebericht vermittelten Bildes der Vermögens-, Finanz- und Ertragslage wesentlich auswirken, mit hinreichender Sicherheit erkannt werden. Bei der Festlegung der Prüfungshandlungen werden die Kenntnisse über die Geschäftstätigkeit und über das wirtschaftliche und rechtliche Umfeld des Konzerns sowie die Erwartungen über mögliche Fehler berücksichtigt. Im Rahmen der Prüfung werden die Nachweise für die Wertansätze und Angaben im Konzernabschluss überwiegend auf der Basis von Stichproben beurteilt. Die Prüfung umfasst die Beurteilung der Jahresabschlüsse der in den Konzernabschluss einbezogenen Unternehmen, der Abgrenzung des Konsolidierungskreises, der angewandten Bilanzierungs- und Konsolidierungsgrundsätze und der wesentlichen Einschätzungen des Vorstands sowie die Würdigung der Gesamtdarstellung des Konzernabschlusses. Wir sind der Auffassung, dass unsere Prüfung eine hinreichend sichere Grundlage für unsere Beurteilung bildet.

Unsere Prüfung hat zu keinen Einwendungen geführt.

Nach unserer Beurteilung aufgrund der bei der Prüfung gewonnenen Erkenntnisse entspricht der Konzernabschluss den IFRS, wie sie in der EU anzuwenden sind, und den ergänzend nach § 315a HGB anzuwendenden handelsrechtlichen Vorschriften und vermittelt unter Beachtung dieser Vorschriften ein den tatsächlichen Verhältnissen entsprechendes Bild der Vermögens-, Finanz- und Ertragslage des Konzerns. Der zusammengefasste Lagebericht steht in Einklang mit dem Konzernabschluss, vermittelt insgesamt ein zutreffendes Bild von der Lage des Konzerns und stellt die Chancen und Risiken der zukünftigen Entwicklung zutreffend dar.

Köln, den 10. April 2006

PricewaterhouseCoopers
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

(Pollmann) (ppa. Faßbender)
Wirtschaftsprüfer Wirtschaftsprüfer

Report of the Supervisory Board

Report on financial year 2005 by the Supervisory Board of Colonia Real Estate AG, Cologne (“company”) for the annual Shareholders’ Meeting

1. Monitoring the company management and cooperation with the Board of Management

During the period under review, the Supervisory Board attended to its consultation and control duties incumbent on it according to law and to the Articles of Incorporation. It monitored the business management of the Board of Management and provided consulting assistance to the company management. The Supervisory Board was directly involved in decisions of principal relevance.

The Board of Management furnished the Supervisory Board with regular, current and comprehensive information on all issues concerning the company’s business, in particular those decisions regarding forthcoming capital expenditure projects. Further to this, the Board of Managements provided the respective Supervisory Board meetings with explanatory reports on all important and current business transactions.

The Chairman of the Supervisory Board obtained regular information of significant business events from the Board of Management also between these meetings.

The Supervisory Board duly examined and discussed the reports and proposals for resolution submitted by the Board of Management and voted on these as required by legal stipulations or the Articles of Incorporation.

2. Supervisory Board meetings

In financial year 2005, the Supervisory Board met five times. During these meetings it discussed the current situation of the company. In individual cases, such as measures to increase capital, the Supervisory Board members also examined and approved decisions and measures by casting written votes through circular letter.

The Supervisory Board did not establish a committee in the financial year 2005. There are no Supervisory Board committees.

3. Consultations and resolutions

The agenda of each meeting addressed the current business performance, the company’s financial situation as well as the status of investment projects suitable for selection.

At the meeting in March, the Supervisory Board approved the sales agreement for the acquisition of the industrial premise in Cologne-Porz, Ferdinand-Porsche-Strasse 1 and 1a.

At the meeting in May the auditor presented his report on the audit of the Annual Financial statement 2005. Following the presentation the Supervisory Board approved the Annual Financial statement 2005. The agenda for the Shareholders’ Meeting in June 2005 was also addressed during this meeting.

At its meeting in June, the Supervisory Board was preoccupied with the preparations for acquisition of the company “Grasmus Holding B.V”.

The decision to grant stock options to the members of the Management Board was taken at the meeting in July, at which the Supervisory Board also approved issuing a warrant bond and a loan agreement to finance acquisition of the company “Grasmus Holding B.V”

The successful completion of the capital increase in September was discussed at great length during the meeting in October. At this meeting, the contracts of the Board of Management members Christian Grosch and Stephan Rind were also extended.

On 31st December 2005, the Board of Management and the Supervisory Board jointly issued an updated Declaration of Compliance with the German Corporate Governance Code as required by Section 161 AktG (German Stock Corporation Act). The Declaration of Compliance was made available for shareholders on the Group’s website.

4. Annual Financial Statement 2005

PwC Deutsche Revision Aktiengesellschaft Wirtschaftsprüfungsgesellschaft, Cologne, audited the Annual Financial Statement submitted by the Board of Management, the consolidated Annual Financial Statement per 31 December 2005, as well as the Management Report for financial year 2005. The consolidated Annual Financial Statement of Colonia Real Estate AG was prepared in compliance with International Financial Reporting Standards (IFRS). In keeping with the exemption stipulation under Section 315a HGB (German Commercial Code) the preparation of a consolidated Annual Financial Statement according to HGB was waived. All Supervisory Board members received the audit reports. The auditor issued his unqualified certificate on the Annual Financial Statement of Colonia Real Estate AG, the consolidated Annual Financial Statement according to IFRS as well as the Management report.

In addition to these, the auditor also examined the early risk detection system (RFS) used by the company. This examination by PwC Deutsche Revision AG found that with the present extent of operative business, the early risk detection system (RFS) was appropriate or early detection of those developments that could endanger the continuation of the company.

The auditor attended the discussion on the Annual Financial Statement on 11th April 2006. He presented his report on the audit process and was available for further detailed information.

The Supervisory Board examined the Annual Financial Statement as well as the consolidated Annual Financial Statement and had no objections. The Supervisory Board took note and approved the auditor report.

The Supervisory Board approved the Annual Financial Statement submitted by the Board of Management and the consolidated Annual Financial Statement, thereby approving the Annual Financial Statement pursuant to Section 172 AktG.

5. Dependent company report 2005

The Supervisory Board received the report by the Board of Management prepared according to Section 312 AktG regarding relations with associated companies for financial year 2005 as well as the related report by the auditor. The Supervisory Board examined the report by the Board of Management and approves of it together with the findings of the auditor's examination. The latter added the following comment to his certificate on the Board of Management's report regarding dependent companies:

"In accordance with our duty to audit and assess, we herewith certify the statements made in the report to be correct and that the services rendered by the company for the legal transactions listed in the report were not unduly high."

Following the final result of its examination, the Supervisory Board has no objections against the Board of Management's declaration regarding the relations with associated companies for financial year 2005.

6. Composition of the Supervisory Board

Mr. Paul Schuler resigned as member and deputy chairman of the Supervisory Board effective as of end of 25th November 2005. Replacing Mr. Paul Schuler, the elected substitute member Mr. Ingmar Schmitt joined the Supervisory Board.

The Supervisory Board wishes to express its gratitude to Mr. Schuler for his excellent work on the Supervisory Board.

Cologne, April 11, 2006

For the Supervisory Board

A handwritten signature in blue ink, consisting of a stylized 'K' followed by a horizontal line and another stylized 'K'.

Prof. Dr. Klaus B. Steiger
Chairman



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