

## **Report of the Supervisory Board**

Report of the Supervisory Board of Colonia Real Estate AG, Cologne (the "Company") to the Company's shareholders' meeting, for fiscal year 2007

### **1. Oversight of management and cooperation with the Board of Management**

The Supervisory Board constantly supervised and advised the Board of Management and other Group management in their management activities. The standard for this supervision was that management of the Company and the Group should be carried out in compliance with the laws, in good order, appropriately to corporate aims, and cost-effectively. The supervisory duties prescribed by law were conducted primarily on the basis of written and oral reporting from the Board of Management. The Board of Management informed the Supervisory Board regularly, promptly and in detail, including between regular meetings, and particularly about corporate planning, business performance, pending investment projects, investments in equity interests, and measures affecting the corporate capital. Additionally, at each meeting of the Supervisory Board, management reported on and explained all major current business events. The Board of Management fully complied with its obligations to inform the Supervisory Board. The reports of the Board of Management complied in terms of both subject matter and scope with the requirements for reporting by the Board of Management to the Supervisory Board as established by law and recommended under the German Corporate Governance Code. There were no conflicts of interest.

The rules of procedure for the Board of Management include a list of transactions and measures that are of fundamental importance to the Company, and for which the Board of Management must therefore obtain the consent of the Supervisory Board. The Supervisory Board discussed with the Board of Management the transactions and measures submitted by the Board of Management to the Supervisory Board under these rules, and reviewed them in depth. The Supervisory Board approved all transactions and measures submitted for its approval.

Between meetings of the Supervisory Board, the Supervisory Board, and particularly the Chairman of the Supervisory Board, was informed regularly by the Board of Management as to significant business events.

### **2. Methods of supervision and review**

The Supervisory Board based its reviews and audits primarily on:

- The regular reports from the Board of Management, as required by law and the rules of procedure of the Board of Management;
- The separate reports provided by the Board of Management on occasion; and
- The supplementary explanations provided by the Board of Management and the independent auditors.

The reports were always submitted to the full Supervisory Board. If the Board of Management submitted business measures to the Supervisory Board for approval, the materials submitted to the Supervisory Board always included a presentation of the material aspects to be taken into account in the decision. In no case during the period under review did the Supervisory Board see any occasion for individual members of the

Supervisory Board or special experts to examine or audit the books or records of the Company.

### **3. Supervisory Board and meetings**

During fiscal year 2007, the Supervisory Board held twelve meetings at which it discussed the current situation of the Company and the Group, ongoing projects, strategic measures, the expansion of the Board of Management (see Item 6), the Group's risk situation, and plans for the coming fiscal year.

The Supervisory Board has no committees. The Supervisory Board has three members, and therefore performs all functions at its meetings, whose number therefore considerably exceeds the minimum required by law.

All members of the Supervisory Board participated at all meetings.

### **4. Deliberations and resolutions**

Each meeting included agenda items for the Company's current business performance and financial situation, as well as major investment projects such as the acquisition of real estate companies with some 10,800 residential units, the acquisition of Accentro GmbH, the increase in the Group's stake in CRE Resolution GmbH, and the acquisition of an interest in Deutsche Wohnen AG.

The March 2007 meeting concerned the report of the independent auditors to the Supervisory Board regarding the audit of the 2006 financial statements. The 2006 financial statements were then adopted.

At the April 2007 meeting, the Supervisory Board consented to the capital increase of 6,281,600 new shares of Colonia Real Estate AG. The capital increase was successfully carried out in May 2007, and increased the Company's equity by approximately EUR 180 million net.

At the May 2007 meeting, the agenda for the shareholders' meeting on July 4, 2007, was discussed and adopted.

In July 2007, the Board of Management decided, with the consent of the Supervisory Board, to carry out a stock buy-back program under the authorization granted by the shareholders' meeting. The acquired stock was used to increase the Group's stake in CRE Resolution GmbH.

In November 2007 the Supervisory Board consented to the acquisition of a minority interest in a commercial real estate portfolio, jointly with the Oaktree Group. It also consented to the signing of a master agreement with a bank for step-up equity financing under which the Company can increase its share capital by up to 2.2 million new shares over 24 months.

At the December 2007 meeting, the Supervisory Board accepted the report of the independent auditors on their November 2007 preliminary audit of the 2007 financial statements.

## **5. Corporate governance**

The Supervisory Board and Board of Management act in the awareness that good corporate governance is in the best interest of the Company's shareholders and the capital markets, and is an important foundation for corporate success. On February 22, 2008, the Board of Management and Supervisory Board issued the annual declaration of conformity with the Corporate Governance Code. The declaration of conformity was made permanently available to shareholders on the Company's Web site, and is also included in the Corporate Governance Report, which is a part of this 2007 Annual Report.

## **6. Members of the Board of Management**

Effective August 14, 2007, the Supervisory Board appointed Christoph Wittkop as an additional member of the Board of Management. He will be in charge of the Group's real estate asset management services. He will additionally continue to perform his previous duties as the spokesman for the management of CRE Resolution GmbH.

## **7. 2007 Financial Statements**

The annual financial statements of the Company and the Group as of December 31, 2007, and the report on the condition of the Company and Group in fiscal year 2007, as prepared by the Board of Management, were audited by the Cologne office of Ernst & Young AG, Wirtschaftsprüfungsgesellschaft, Steuerberatungsgesellschaft, Stuttgart, as the independent auditors. The Supervisory Board had engaged the auditors in compliance with the resolution of the shareholders' meeting of July 4, 2007. The annual financial statements for the Company were prepared in accordance with the rules of the German Commercial Code (HGB), and the consolidated financial statements were prepared in accordance with IFRS and the supplemental provisions of Sec. 315a (1) of the German Commercial Code. All members of the Supervisory Board received the auditors' report on their audit.

The independent auditors issued an unqualified audit opinion on the Company financial statements and consolidated financial statements as of December 31, 2007, and on the report of the condition of the Company and the Group. The Supervisory Board has duly noted the results of the audit of the financial statements.

The independent auditors furthermore audited the early risk detection system used at the Company. The audit showed that the system is capable of detecting at an early stage any risks that may pose a threat to the Company's continuing existence.

The Supervisory Board audited the examined Company financial statements and consolidated financial statements, as well as the associated report of the Board of Management on the condition of the Company and the Group. For this purpose, each member of the Supervisory Board had access not only to these documents, but to the auditors' audit report. The audit of the Supervisory Board, which also extended to the suitability of management actions taken by the Board of Management, showed no cause for objection. Representatives of the independent auditors attended the meeting of the Supervisory Board deliberating on the Company financial statements and consolidated financial statements, on April 9, 2008. In particular, they reported to the members of the Supervisory Board on the audit procedure and results, and offered to provide any supplemental information.

At its meeting of April 25, 2008, the Supervisory Board approved the Company financial statements and consolidated financial statements prepared by the Board of Management; the annual financial statements have therefore been adopted in accordance with Sec. 172 of the German Stock Corporations Act (AktG).

We concur in the Board of Management's proposed allocation of the distributable profit for the year.

#### **8. 2007 Report on Transactions with Affiliated Companies**

The Board of Management has informed the Supervisory Board that no report on transactions with affiliated companies is required for fiscal year 2007. The Board of Management did not receive any notification during the year that any major shareholder held a majority of the stock of Colonia Real Estate AG. Thus the Company was not an associated company within the meaning of Sec. 312 of the German Stock Corporations Act.

The Supervisory Board wishes to thank the members of the Board of Management and every employee for their dedicated work in fiscal year 2007.

Cologne, April 25, 2008

The Supervisory Board

A handwritten signature in blue ink, consisting of two vertical strokes on the left and right, connected by a wavy horizontal line in the middle.

Prof. (RF) em. Dr. phil. h.c. (RF) Klaus B. Steiger  
Chairman