



Colonia Real Estate AG

Consolidated Financial Report 2007



Management Report

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Business and Economic Environment

1. General Economic Situation

The German economy grew vigorously once again in 2007. Preliminary calculations from the Federal Statistical Office indicate that in real terms, gross domestic product (GDP) was up 2.5% from the prior year (2.9%). Other countries' strong demand for German products again made a substantial contribution, accounting for 1.4 percentage points of the upswing. Gross capital formation contributed 0.8 percentage points. Investment in residential construction grew only negligibly against 2006, although that year's performance was quite satisfactory. But spending on consumption disappointed once again. It contributed a scant 0.2 percentage points to GDP growth – and even that was because government expenditures picked up 0.4 percentage points, while consumer spending proper declined by 0.2 percentage points. The continuing upswing in 2007 increased employment 1.7%, and yielded a significant decrease in unemployment. By year's end, the active workforce had grown to 40.3 million, its highest level since Reunification. At the same time, unemployment in December 2007 was 8.1%, the lowest level since 1993.

A crisis emerged in the U.S. real estate market during the summer and eventually generated serious turbulence in the financial markets. But the German economy does not appear to have suffered any clearly perceptible repercussions so far. However, the financial crisis caused painful losses at many German and international banks, and in particular has limited refinancing options in the international markets. No significant improvement in the situation is in sight.

The Federal Reserve (the U.S. central bank) has lowered interest rates several times since mid-2007 to counteract the crisis. The key lending rate most recently was down to 2.25%. By contrast, the European Central Bank (ECB) has held firm to its policy of keeping interest rates stable, so as to combat inflation. The sharp rise in energy and food prices caused pushed up the annual inflation rate 3.5% in March 2008. For that reason, the key lending rate has been left unchanged at 4%. Current uncertainties about the impact of the international financial crisis have led the German government to lower its projection for economic growth in 2008 to 1.7%. Apart from the consequences of the U.S. real estate crisis, the strength of the euro against the U.S. dollar and the high current price of oil have also had adverse effects on economic conditions. Nevertheless, the Ifo Index, one of the most important leading indicators

for economic performance in Germany, was up to 104.8 in March 2008, compared to 104.1 in February. This, the third increase in a row, is seen by analysts as an indicator of the robust condition of the German economy.

2. Conditions in the Real Estate Sector

The German investment market for real estate hit a historic high in 2007, at some EUR 61.3 billion (up 33 percent against the prior year). About one-third of investment was for office properties; 28.6 percent was for mixed-use properties. Residential properties accounted for 14.8 percent, and retail properties for 13 percent. Office space turnover in the citadels of office activity rose about 14% against the prior year, to 3.7 million m² rented. Vacancies were 9% overall, to a nationwide average of 10.8%. The rise in top rents is expected to continue in 2008, and vacancies are expected to decrease.

Apart from regional fluctuations, the residential real estate market primarily remained stable. According to the IVD, residential rents rose about 1% nationwide in 2007. Prices for owner-occupied housing were down about 0.6% overall; single-family homes rose about 2%. According to the Federal Statistical Office (Destatis), construction permits were issued for 182,300 new residential units from January through December 2007 – down 26.3%, or 65,200 permits, from the prior year. This is the lowest level since the statistics started in 1970. One of the main reasons for the drastic decline was presumably the elimination of the government's homeownership grant. Long-term demand for new housing is approximately 350,000 units per year. Some metropolitan centers are already showing signs of a housing shortage, which will likely be reflected in rising housing prices and residential rents over the next few years.

As a consequence of the U.S. mortgage crisis, mortgage lenders were significantly less eager to lend in the second half of 2007. The market for securitization of real estate loans had almost evaporated by year's end. Investment activity among highly leveraged investors declined significantly. But the proportion of investors with sound equity bases and a long-term perspective increased significantly. Given the ongoing crisis in the financial market, 2008 is expected to see a significant decrease in transaction volume, with purchase prices declining slightly.

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

During fiscal 2007, Colonia Real Estate AG was able to achieve the following significant objectives:

- Expanding its holdings in high-return residential portfolios to about 19,800 units, with the main emphasis still in Germany;
- Expanding its co-investment portfolio in commercial real estate as a minority partner cooperating with international investors;
- Expanding its real estate asset and fund management in both the commercial and the residential sector, to roughly EUR 3 billion in properties managed;
- Strengthening equity capitalization to finance planned investments.

The following individual activities were of material significance for the year:

Investments in residential properties

In February 2007, a contract was signed for the acquisition of 51% of two property management companies in Grünwald, Germany: Emersion Grundstücks-verwaltungsgesellschaft mbH and Domus Grundstücksverwaltungsgesellschaft mbH. Together the two companies own 9,857 residential units in various locations in Germany. The market value of these properties was EUR 420 million at the reporting date. The companies were consolidated into the Colonia Real Estate Group as of April 1, 2007, when the Group took over managing them. On June 30, 2007, the Group exercised its option to acquire the remainder of the two companies, and thus achieved its original target of about 20,000 residential units for the year ahead of time.

In November 2007, the Group acquired 94.9% of Signa Real Estate Capital Partners Berlin Holding AG, Vienna. This company holds a portfolio of high-quality residential real estate, primarily in the western part of Berlin, with a total of 948 residential units and 86 commercial units. The portfolio had a market value of EUR 86 million as of the reporting date.

In managing the residential portfolio, we outperformed our plans by a substantial margin. After adjustments for acquisitions and sales, the vacancy rate was down a substantial 24%, to 11.7%. In some segments of portfolios in Berlin, vacancy rates were actually cut in half. At the same time, we obtained rent increases of 2.7% in adjusted terms for all portfolios together, highlighting CRE's ability to take prompt, systematic advantage of opportunities for optimization in its residential operations.

Co-investments in commercial properties

In March 2007, the Group acted with Merrill Lynch Global Principal Investments ("ML-GPI") to acquire a portfolio of commercial and residential properties formerly held by Aareal Estate AG, for a total of EUR 140 million. Colonia Real Estate AG holds a 10% interest in this project.

In the third quarter of 2007, the Group entered into an additional cooperative arrangement with a fund owned by the JP Morgan investment bank. We subscribed for 15% of the project company, which will invest in commercial and industrial properties in logistics and light industry, up to an amount on the order of at least EUR 200 million. The new company already acquired two modern production and logistics properties in North Rhine-Westphalia during the year.

In November, the Group expanded its existing cooperative arrangement with the American investor Oaktree. We acquired another 4.8% of a portfolio of 12 office properties in various major German cities, with a total investment value of EUR 620 million.

In all, the Colonia Real Estate Group invested EUR 10.3 million in its co-investment operations during 2007.

Asset and Fund Management

Demand for professional outside management of commercial portfolios remains strong. The segment's growth figures speak for themselves. As a logical consequence, we increased our stake in Resolution GmbH from 56% to 75.1%. The remaining shares are still held by Resolution GmbH management. Most of the purchase price of about EUR 19 million was paid out of the proceeds from the 2007 capital increase; the remaining roughly 40% was paid for in stock of Colonia Real Estate AG. The stock was bought on the market as part of an established stock buy-back program.

Acquiring minority interests in newly founded real estate companies, jointly with well-known investors, is another part of our strategy and was pursued with the primary objective of enabling Resolution GmbH to act as a business partner in the asset management of the acquired portfolios. Additionally, Resolution GmbH is staffed in such a way that it can now also handle outside demand for asset management of residential properties. The total volume of properties under asset management contracts at Resolution GmbH as of the end of 2007 was about EUR 3 billion, compared to EUR 1.4 billion at the end of 2006.

By taking over 70% of Accentro GmbH, Colonia Real Estate AG strategically expanded its service capabilities in asset management with privatization for residential properties. It took over a contract portfolio of more than EUR 250 million in privatization orders. The remaining 30% of Accentro GmbH is still held by its management. Jointly with Accentro GmbH, the CRE Group maintains its own offices at 8 locations throughout Germany, and is thus directly represented among tenants and properties at geographical points of emphasis. With a total of 115,000 m² leased in 2007 alone, third-party business generated an excellent result here.

CRE Fonds Management GmbH's first structured fund products, Careinvest I and II, which emphasize nursing homes in the Berlin, Kiel, Cologne and Regensburg regions, were successfully placed with an open-end special real estate fund at the beginning of the year, for a total of EUR 57 million. Because of the continuing demand for this product, another nursing home fund was conceived in fiscal 2007. Two properties have been acquired already, and others are under contract.

Net Assets, Financial Position, and Results of Operations

Net Assets, Financial Position, and Results of Operations of the Group

The expansion of the Group's business operations significantly affected results of operations for fiscal year 2007. The Group's total income for the year rose 24% to EUR 159.7 million (prior year: EUR 128.5 million). After deductions for total expenses not including finance costs, the net operating profit before finance expenses (EBIT) came to EUR 83.3 million (prior year: EUR 51.7 million). This figure is made up of EUR 33.1 million in net income from leasing of investment properties (prior year: EUR 10.8 million) and EUR 1.5 million in net income from asset and fund management (prior year: EUR 0.2 million). Income from fair valuation contributed EUR 60.5 million (prior year: EUR 42.8 million), and other net income contributed EUR 19.2 million (prior year: net expense of EUR 0.7 million).

Administrative expenses rose to EUR 31.0 million as a consequence of the expansion of business operations (prior year: EUR 8.9 million), and consist primarily of personnel expenses and legal and consulting costs.

The net finance expense was EUR 29.8 million (prior year: EUR 9.2 million). The increase results from higher financing volume and losses on the sale of listed securities.

The income tax income of EUR 13.6 million, compared to a tax expense of EUR 11.3 million for the prior year, resulted primarily from the reduction of the corporate income tax rate as part of the 2008 corporate tax reform, which resulted in an adjustment of deferred tax liabilities.

The consolidated profit of EUR 67.1 million for the year represented a 116% increase against the prior year's EUR 31.1 million.

Particularly main factors here included appreciation of the real estate portfolio, a near-trebling of income from rentals of investment property, and the tax income.

The investments in the residential portfolios of the Emersion and Domus property management companies, and in a portfolio of properties in Berlin held by Signa Real Estate Capital Partners Berlin Holding AG, caused a substantial change in the Group's net assets, and financial position. Total assets surpassed the EUR 1 billion mark for the first time in 2007. This represented a 146% increase against the prior year, to EUR 1,033.9 million (prior year: EUR 420.2 million). Here noncurrent assets accounted for EUR 955.9 million (prior year: EUR 371.3 million) of the total, or 92.5% (prior year: 88.4%). Investment properties reached a total of EUR 918.9 million (prior year: EUR 353.2 million).

Additionally, the Group acquired minority interests in real estate companies within which it works together with international large investors. These commitments are shown as investments in associates, at EUR 21.4 million (prior year: EUR 11.1 million).

Current assets include properties held for sale in Asset and Fund Management operations, at EUR 24.0 million (prior year: EUR 7.6 million). Of this figure, EUR 20.7 represents nursing home properties, and EUR 3.3 million represents residential properties intended for privatization. The nursing home properties were acquired by CRE Fonds Management GmbH as part of the design of a fund. The entire nursing home fund was sold to an institutional investor in March 2008.

Cash and cash equivalents at the reporting date came to EUR 23.6 million (prior year: EUR 35.9 million). The changes in cash and cash equivalents for fiscal 2007 were as follows:

	EUR k	2007	2006
Cash flows from operating activities		-35.0	3.5
Cash flows from investing activities		-276.8	-109.3
Cash flows from financing activities		299.5	124.3
Net change in cash and cash equivalents		-12.3	18.5

The Group's cash flow was determined primarily by investments in property portfolios, cash proceeds from the capital increase, and borrowings.

The cash flow from operating activities was negative, at EUR 35.0 million (prior year: EUR +3.5 million). Following exceptional factors were primarily the reason for this. In fiscal 2007 the Group invested EUR 22.8 million in cash in nursing home properties intended for sale and residential properties intended for privatization. These investments were countered by borrowings of EUR 15.5 million as of the reporting date. The sale of the nursing home properties yielded cash inflows in 2008. Additionally, the cash flow from operating activities for 2007 includes tax payments of EUR 17.1 million, primarily on the income generated from portfolio sales in fiscal year 2006. Without these exceptional effects, the operating cash flow before payments for borrowings would have been about EUR 8.9 million for 2007.

The cash used in investing activities reflects the Group's extensive investing activity during the year. The financing came from the cash brought in by the capital increase, and from borrowings.

The Group's total equity rose EUR 222.3 million, to EUR 322.5 million (prior year: EUR 100.2 million), equivalent to 31.2% (prior year: 23.8%) of total assets. Thus the Group further improved its already-solid equity capitalization, and in fact slightly outperformed its targeted range of 25-30%. The increase in equity came primarily from the May 2007 capital increase of EUR 172.2 million, and the increase of EUR 67.1 million in allocations from the consolidated profit for the period. The acquisition of another 19.1% of Resolution GmbH was charged to equity and thus reduced equity, but also reduced minority interests, since the Group increased its holding from 56% to 75.1%.

Most of the expansion of business operations was financed through long-term borrowings. Noncurrent financial liabilities increased during 2007 from EUR 113.9 million to EUR 498.4 million at December 31, 2007. The current portion of financial liabilities came to EUR 64.8 million (prior year: EUR 26.9 million). The long-term convertible bond, which was issued in December 2006 and matures in 2011, also remains, and accounts for

EUR 54.0 million (prior year: EUR 52.3 million). The proportion of long-term debt relative to total debt improved to 85% (prior year: 57%). At the end of 2007, 89% of the financial liabilities were at fixed interest rates.

As of the reporting date, the Group was in a stable situation as to net assets, and liquidity, with cash and equivalents totaling EUR 23.6 million. As of the date of preparation of the consolidated financial statements, at the end of March 2008, the Group had cash and equivalents of roughly EUR 35.9 million.

Net Assets, Financial Position and Results of Operations of Colonia Real Estate AG

The following figures from the single-entity financial statements of Colonia Real Estate AG refer exclusively to the Company's insolvency-free assets.

The balance sheet of Colonia Real Estate AG at December 31, 2007, as prepared under the German Commercial Code (HGB), showed total assets of EUR 363.9 million (prior year: EUR 152.2 million). The substantial increase was connected with the expansion of the CRE Group's business operations.

Financial assets rose EUR 29.3 million during the year, to EUR 66.6 million, primarily as a consequence of increasing the Company's stake in Resolution GmbH, Berlin, from 56% to 75.1%, acquiring 70% of Accentro GmbH, and acquiring minority interests in special-purpose entities operating commercial properties.

In addition to these direct acquisitions by Colonia Real Estate AG, a number of subsidiaries also made acquisitions in 2007. These investments pertained primarily to the two residential property portfolios of the Emersion and Domus property management companies, and the real estate portfolio of Signa Real Estate Capital Partners Berlin Holding AG. Colonia Real Estate furnished funding for its subsidiaries to finance these acquisitions. As a consequence, receivables from associates increased from EUR 92.3 million to EUR 275.9 million for the year.

Equity as of the reporting date came to EUR 251.4 million (prior year: EUR 57.3 million), or 69.1% of total assets (prior year: 37.6%). The sharp increase in equity capitalization resulted from the May 2007 capital increase in return for cash, which brought in cash proceeds of some EUR 180 million.

The Company's liabilities increased EUR 15.6 million against the prior year, to EUR 108.9 million, and consist largely of the EUR 60.9 million convertible bond issue from December 2006 (prior year: EUR 60.9 million). The convertible bond was measured at its redemption value. Liabilities to banks were composed of the long-term borrowings to finance the commercial property in Cologne-Porz, at EUR 9.2 million (prior year: EUR 9.5 million); a bridge loan of EUR 10.0 million that Colonia Real Estate AG obtained from a bank by way of a Group company as part of the acquisition of the Emersion and Domus property companies; and a current account credit line of EUR 2.6 million (prior year: EUR 0.0 million).

Colonia Real Estate AG's revenues, which are primarily rental income, came to EUR 1.3 million for the year (prior year: EUR 1.3 million). Other operating income for 2007 came to EUR 17.3 million (prior year: EUR 0.3 million), and was made up primarily of proceeds of EUR 16.7 million from intra-Group charges for the year.

In December 2007, CRE Research & Management GmbH signed a profit and loss transfer agreement with Resolution GmbH, after which CRE Research & Management GmbH was merged into Colonia Real Estate AG. All these measures were recorded in the Commercial Register in December 2007. Under the agreement, Colonia Real Estate AG will receive the transfer of a 2007 profit of EUR 5.4 million, after deduction of minority interests, from Resolution GmbH.

Income from associates, including gains on disposal of EUR 20.8 million, came primarily from the EUR 14.1 million distribution of dividends from Grasmus Holding B.V. (prior year: EUR 12.6 million), and from the sale of a stake worth EUR 6.1 million in CRE Hotel Immobilien GmbH to CRE Gewerbeimmobilien GmbH.

Personnel expenses increased to EUR 4.0 million for 2007 (prior year: EUR 3.0 million). Most of this increase derived from the expansion of the staff from 11 to 27 full-time employees by year's end.

Other operating expenses increased to EUR 20.9 million (prior year: EUR 5.8 million). The primary reason was the expense for the May 2007 capital increase, together with bank expenses of EUR 13.3 million (prior year: EUR 1.8 million). The Company's expenses for the annual shareholders' meeting, annual and interim reports, communications with the capital market and mandatory publications came to EUR 1.0 million for the year (prior year: EUR 0.6), and expenses for legal, tax and other advisors and consultants were EUR 2.4 million (prior year: EUR 2.0 million). The Group's larger volume of business likewise entailed higher general operating expenses on the whole.

The net finance expense was EUR -5.7 million (prior year: EUR -2.9 million). This figure reflects losses of EUR 12.6 million on securities transactions (prior year: EUR 0.0 million), gains on securities of EUR 0.3 million (prior year: EUR 0.0 million), interest income of EUR 10.1 million (prior year: EUR 1.8 million) and interest expenses of EUR 3.5 million (prior year: EUR 4.8 million).

The profit for the year was EUR 13.4 million (prior year: EUR 1.8 million).

Disclosures under Sec. 289 (4) and Sec. 315 (4) German Commercial Code, and Explanatory Report

a) Issued capital, restrictions on voting rights, and shares carrying special rights

The Company's issued capital totals EUR 22,465,600. It is divided into 22,465,600 no-par bearer shares of common stock, each with a notional value of EUR 1.00 of the share capital. Under the Company's articles of incorporation, each share confers one vote in the shareholders' meeting.

So far as management is aware, there are no restrictions, that would affect voting rights or the transfer of shares, including those under agreements between shareholders.

b) Capital holdings and control of votes

Swiss Real Estate AG, Zug, Switzerland, directly or indirectly holds 28.29% of the voting rights in Colonia Real Estate AG. There are no other capital holdings that exceed 10% of the voting rights.

There are no shares that carry special rights conferring control, and no controls over the voting rights of employees holding interests in the Company's capital.

c) Rules for appointing and dismissing members of the Board of Management, and for amending the articles of incorporation

The Supervisory Board appoints the members of the Board of Management, and decides the number of members. The Supervisory Board may revoke the appointments of the members and Chairman of the Board of Management for cause.

Any amendment of the articles of incorporation is subject to a resolution of the shareholders' meeting, carried by at least three-quarters of the share capital represented at the vote.

d) Management's authority to issue new shares

The Board of Management may issue new shares only when authorized by resolutions of the shareholders' meeting.

The Board of Management has been authorized, subject to the consent of the Supervisory Board, to increase the Company's share capital on one or more occasions on or before July 3, 2012, by up to a total of EUR 10,992,800, by issuing new bearer shares of no-par stock in return for contributions in cash or in kind, and may exclude shareholders' preemptive rights.

By a resolution of the shareholders' meeting of August 24, 2004, the Board of Management of Colonia Real Estate AG was authorized, subject to the consent of the Supervisory Board, to issue, on or before August 1, 2009, stock options without bonds with warrants, with rights to subscribe to stock of the Company. The Board of Management has exercised this authorization, and has issued stock options carrying rights to subscribe to up to 4,500,000 no-par bearer shares of stock in the Company. Conditional Capital I comes to EUR 4,500,000.

Conditional Capital II, in the amount of EUR 540,000, is to serve to grant subscription rights to members of the Company's Board of Management and employees under the authorization for a "2005 Stock Option Plan" approved by the 2005 shareholders' meeting. Up to December 31, 2007, the authorized members of management and employees had exercised 480,000 options. Conditional Capital II was reduced accordingly to EUR 60,000. The Company's share capital was increased by EUR 480,000.

The Company's shareholders' meeting of June 6, 2006, authorized the Board of Management and the Supervisory Board to set up a "2006 Stock Option Plan." Conditional Capital III provided for this purpose came to EUR 910,400. By a resolution of the shareholders' meeting of July 4, 2007, this amount was reduced to EUR 792,000. The Board of Management carried out a "2006 Stock Option Plan." The option holders have exercised no options to date.

Conditional Capital IV, in the amount of EUR 1,505,993, authorized by the shareholders' meeting of June 27, 2005, and amended by resolutions on June 6, 2006, and July 4, 2007, is to serve to grant stock to bond holders or creditors under convertible bonds or bonds with warrants already issued by the Company or to be issued in the future. A EUR 52.3 million bond issue was released in December 2006. No options have been exercised to date.

The shareholders' meeting of July 4, 2007, authorized the Board of Management and Supervisory Board to set up a "2007 Stock Option Plan." The entitled parties are the members of the Board of Management of the Company, employees of the Company and of affiliated entities subordinate to it, as well as the managing directors and members of the Boards of Management of affiliated entities subordinate to the Company. Conditional Capital V provided for this purpose came to EUR 866,560.

The Company's share capital has been conditionally increased by up to EUR 2,788,247, divided into up to 2,788,247 no-par bearer shares (Conditional Capital VI). The conditional capital increase is to serve to grant stock to bond holders or creditors under convertible bonds or bonds with warrants issued by the Company or by a subordinate Group company on or before July 3, 2012, under the authorization from the shareholders' meeting of July 4, 2007. No use was made of this authorization in 2007.

e) Authorizations for the Board of Management to purchase treasury stock

In July 2007, the Board of Management exercised the authorization granted by the shareholders' meeting of July 4, 2007, to acquire treasury stock. The shareholders' meeting authorized the Board of Management to acquire treasury stock amounting to as much as 10% of the share capital. During the year, 276,019 no-par bearer shares were purchased under this authorization. The shares were bought up to pay a portion of the purchase price for another 19.1% of Resolution GmbH.

f) Change of control clauses in the event of takeover offers

The Company has not entered into any agreements that are subject to the condition of a change of control consequent upon a takeover offer.

Basics of the Compensation System

The compensation of the Board of Management comprises the following:

- A base compensation that is in line with the salaries of members of management at comparable German stock corporations. This component is reviewed annually by the Supervisory Board. It comes to 2/3 of total compensation in the lowest case, and 1/4 to 1/3 of the total in the case of maximum profit-sharing.
- A variable component, which depends on the performance of the Group's profit for the year. The absolute amount of the variable component is decided annually by the Supervisory Board, and is based on the achievement of the planned profit for the year. No bonus is paid if the Company shows a loss for the year.
- Employee stock options issued under stock option plans for management and staff. Members of the Board of Management were able to participate in stock option plans in 2005 and 2006. During the year, the 2005 options became eligible to be exercised for the purchase of the Company's stock. The entitled Board members exercised their stock options.
- Noncash compensation, consisting of a company car made available for both business and private use, accident insurance coverage, and direct life insurance coverage. However, the premiums for the direct insurance are deducted from the Board members' base salary.

More detailed information about compensation paid to the individual members of the Board of Management can be found in the notes to the financial statements.

The members of the Supervisory Board receive a fixed compensation.

The Company has no indemnification agreements with members of the Board of Management or other employees against the case of a takeover offer.

Risk and Opportunity Report

Risk management

In compliance with Sec. 91 (2) of the German Stock Corporation Act (AktG), the Company has established an appropriate system for the early detection and monitoring of risk. In accordance with Sec. 317 (4) of the German Commercial Code (HGB), this system must also be reviewed by the auditors. The early detection system for risk is in operation. It is based on the scope of business operations to date and the size of the Group. Its effectiveness is regularly reviewed, and the system is revised accordingly.

Implementation of the risk management process is controlled by a risk manager, who is also a member of the Board of Management. The risk management process is defined in a risk management manual. Those in charge of monitoring risks in business operations (the risk monitors) are required to report any risk-relevant matters to the risk management officer.

A permanent risk inventory and the ongoing monitoring of changes in risk are the primary basis for determining and analyzing risks. The risk officer documents risks in a "risk map."

The Investment Committee meets weekly to monitor business risks. Participants at the meetings include the Board of Management, other members of management of Colonia Real Estate AG, and upper management from major subsidiaries. An agenda and a "deal list" are used as a basis for reporting all events in the real estate sector and for proposing actions to the Board of Management for a decision. The Group's subsidiary Resolution GmbH has taken over real estate asset management for all the Group's real estate portfolios, and reports regularly on the substantive and financial development of these portfolios, in a predefined system.

The Finance Committee also meets weekly. It analyzes and reports on the current financial situation, and prepares proposals to be decided upon by the Board of Management. The

Board of Management has established fundamental financial rules intended to avert financial risks. These include, for example, increasing the minimum equity requirement relative to total assets from at least 20% to between 25 and 30% during the year. Acquisitions of real estate must also be backed simultaneously by long-term financing. Borrowings must be taken out at fixed interest rates with matching terms. The weekly meetings of the Board of Management review, discuss and decide what action is to be taken on the proposals submitted by the committees.

Services from outside consultants, such as attorneys, auditors, tax consultants, insurance experts, real estate managers and appraisers, are an important factor in risk detection.

During 2007, Colonia Real Estate AG installed and started up a new computer center that meets the latest requirements for security, and has capabilities and sufficient expansion capacity to support the Group's further growth. At the beginning of the current year, the Group also began linking up its organizationally autonomous subsidiaries to the computer center. This will significantly accelerate individual users' access to data, and thus help detect risk early.

In cooperation with Resolution GmbH, an extensive database was established during the year, with all data on real estate portfolios. This database can serve as an active planning instrument. It was used as a basis in setting up plans for fiscal 2008 which for the first time can show details of cash flows, maintenance and upgrade expenses, vacancies, and suitable steps for reducing vacancies, all the way down to the level of single residential units. The planning data make it possible to compare projections with actual figures every month. Any discrepancies are highlighted, permitting quick action to reduce any detected shortcomings.

Potential risks are described in the risk manual. Identified risks are recorded in the risk map. They are then assessed on the basis of the defined risk categories.

The Colonia Real Estate Group has taken out the necessary amount of insurance to cover the risks of its business. Its insurance coverage is handled and monitored by an outside insurance agent. There were no significant loss claims last year.

Risk management is an integral part of all business processes. At present, the Colonia Real Estate Group is not exposed to any discernable risks that would endanger its existence.

Material risks and opportunities

a) Risks and opportunities in the economic and business environment

The overall economic environment may pose risks and opportunities by way of changes in political and economic factors. The development of the economy and changes in the legal and tax environment play an especially important role, along with the performance of the capital markets.

In both its commercial and its residential real estate portfolios, the Colonia Real Estate Group concentrates on Germany. While its residential property portfolios concentrate primarily on the northern half of the country plus Berlin, the minority interests it has acquired in commercial property portfolios, in cooperation with internationally known investors, are distributed among the major cities throughout Germany. While intensive property management of residential portfolios offers the opportunity to reduce vacancies for the long term, increase net rents, and thus generate substantial appreciation, investments in commercial properties primarily generate ongoing income from property asset management. In this way, Resolution GmbH increased its revenues for the year to EUR 14.3 million, compared to EUR 3.0 million the year before. Rental income from residential properties grew to about EUR 47.6 million, compared to EUR 16.3 million the year before.

Management believes that the German market will continue to offer substantial opportunities for low-cost investments in real estate markets in future years, and also offer opportunities to resell portions of portfolios after achieving sustainable appreciation.

The turmoil that the American real estate crisis has injected into German capital markets, as elsewhere, has affected the real estate market as well. Investor structure has changed, particularly investors from other countries. More and more equity-financed investors are appearing, now that banks are no longer willing to back highly leveraged major projects. The supply of medium-sized portfolios has grown, but so far prices have declined only very slightly. For our Group, this means a broader selection of potential investments. The pressure from competition that had driven up prices – particularly in auctions – has declined.

Risks arise when completed investment projects – for example, building upgrades – do not yield the expected rent increases. This may occur, for example, because the tenant structure is unsuitable for higher rents, or because not enough new tenants can be found who are able or willing to pay for a higher level of living comfort. Vacancies are a substantial burden on portfolio profitability.

To avoid the above problems, the Group engages the services of professional property managers, and uses Resolution GmbH as an asset manager.

b) Financial and other risks and opportunities

The Colonia Real Estate Group's financing policy obeys the principle that investments in real estate portfolios must be fully financed before purchase agreements are signed. Generally, interest rates must be fixed, or hedged through interest rate derivatives, for an extended period of five years or more. In fiscal 2007, interest rates rose substantially for both short-term and long-term borrowing. For our business, this means that investments must meet higher profitability requirements in order to cover rising interest expenses. The result could be a risk that our targeted growth could be limited, and less earning potential

might be available. Our existing portfolios are financed with long-term borrowings at fixed interest rates. There is no interest rate risk for their remaining terms.

The value of the assets of Colonia Real Estate AG and its subsidiaries – consisting mostly of residential and commercial properties – is reviewed regularly. For this purpose, the Group engages independent outside appraisers with international reputations. They prepare their appraisals using the measurement rules required for consolidated financial statements prepared under IFRS. This approach allows fluctuations in value to be detected at an early stage. Such valuations may result accordingly in impairments, but will not lead to disbursements of cash. These factors may significantly reduce the profits of the Colonia Real Estate Group, and may pull down the price of Colonia Real Estate stock.

Adequate equity capitalization is an important part of the Group's financial policy. Equity is expected to be between 25% and 30% of total consolidated assets. To maintain this ratio even as investment volume increases, substantial profits must be allocated to equity each year. But for a listed company, it is also important to have access to the capital market so that it can obtain new funding there by issuing new stock or bonds. The performance of the stock markets plays a critical role in placing new stock. The market's ability to absorb new issues may make it more difficult or even impossible to raise equity. The crisis in the financial markets has made it more difficult to obtain both equity and borrowed funds. This situation may endanger planned investments, and may make it necessary to postpone them. Slight tendencies toward improvement have been noted in the first few months of the current year. As a listed company, we are able to respond quickly to changing market situations. Detailed descriptions of financial risks and how they are managed can be found in Section 3 of the notes, Financial Risk Management.

Personnel risks may result primarily from staff turnover and the associated loss of know-how. The Group significantly increased its staff in 2007, a change that necessarily will result in higher turnover. Because we set a particularly high priority on good professional qualifications, our

employees are frequently subject to head-hunting attempts amid a job market that is critically short of well-qualified candidates. We promote staff loyalty through programs such as the opportunity to attend training courses at private real estate universities with staffing and financial support from the Company; attractive working conditions; and employee stock option plans and bonus programs.

A rising volume of business generates increasingly large volumes of data to be processed, analyzed and stored. For these tasks, a high-performance IT system is needed, able to meet these challenges and complying with today's standards – not to mention endowed with the necessary security safeguards. During the year, Colonia Real Estate AG set up a new computer center that meets the necessary high standards of security, and that will support the Group's further expansion.

Tax risks are an important factor in the real estate business. The 2008 corporate tax reform may expose the Group to tax charges under the new ceiling for deductions of interest payments. With the aid of outside tax consultants, the Group is currently discussing and implementing appropriate steps to avoid additional tax charges.

The business of the Colonia Real Estate Group is subject to a wide variety of laws, directives and guidelines. Risks from changes in these regulatory factors can be minimized by regularly monitoring the legal environment. In general, all contracts are either prepared or reviewed in advance by our attorneys. Litigation is countered by engaging outside legal consultants as early as possible. If losses and liability risks nevertheless arise, the Group has extensive insurance coverage whose scope is regularly reviewed and optimized by skilled professionals.

Currently there is no litigation either pending or threatened that might critically affect the Group's economic position.

In all, management's assessment of current risks has not revealed any risks that might pose a threat to the Group's continued existence. Nor at the moment are any such risks foreseeable for the future.

This management report contains forward-looking statements and information. Such forward-looking statements are based on management's current expectations, as well as certain assumptions. They therefore entail extensive risks and uncertainties. A multitude of factors, many of them outside Colonia Real Estate's control, may affect CRE's business operations, success, business strategy and profits. These factors may cause the actual profits, successes and performance of Colonia Real Estate AG to differ substantially from the forward-looking statements.

If one or more of these risks or uncertainties become a reality, or if the underlying assumptions prove incorrect, actual results may differ materially in either a positive or a negative sense from the expected, planned or estimated results mentioned in the forward-looking statements.

Report on Relations with Affiliated Entities

During the year under review, no shareholder held a majority of the share capital of Colonia Real Estate AG. Therefore no report on relations with affiliated entities under Sec. 312 of the German Stock Corporation Act was required.

In the first quarter of 2008, CRE Fonds Management GmbH sold its closed properties with nursing home properties, developed through CAREInvest-Fonds III, to a fund company held by HSH Nordbank.

Events after the Reporting Date

Events of Particular Significance Following the End of the Year

In the second quarter of 2007 we entered into a co-investment arrangement with a well-known partner, the U.S. investor Strategic Value Partners LLC. The contract for our Company's acquisition of 10% of the project company – which in July 2007 acquired the Serail portfolio of fully occupied office properties in Berlin from Berliner Verkehrsbetrieben (BVG) – took effect in the first quarter of 2008. The portfolio has a total gross floor space of about 59,000 m².

In February 2008, Colonia Real Estate AG signed a joint venture agreement with Merrill Lynch Global Principal Investments for the purchase of a mixed portfolio of commercial and residential properties. The total purchase price came to about EUR 75 million. Our Company has a 10% stake as a co-investor. The acquired portfolio comprises 28 properties in major German cities, with a total area of approximately 69,000 m².

In March 2008, Colonia Real Estate AG entered into a master agreement with a listed company, Systaic AG, to collaborate on alternative energy sources, making use of the roofs of our companies' residential properties. Accordingly, in the coming months of 2008, Systaic AG will be delivering and providing turnkey installation of solar power systems for a total value of up to EUR 100 million. Colonia Real Estate AG expects annual revenue of some EUR 6 to 8 million from the sale of electricity. To finance equity needs for the acquisition of the solar equipment, a cash inflow of about EUR 5 million was generated in February 2008 from the master agreement signed in 2007 with Société Générale, by way of step-up equity financing. When it signed the master agreement, Colonia Real Estate AG locked in a call option with a term of 6 months, under which it can acquire a stake of about 10 percent in Systaic AG.

Report on Expected Developments

Outlook Positive for 2008

Despite the uncertainties in the international financial markets, in 2008 we expect overall economic growth to be stable, amounting to between 1.5% and 2% in Germany. Slower growth, and particularly the robust job market, will lend positive momentum to the real estate market in regard to potential rent increases and reduction of vacancies. Thanks to our management abilities and the infrastructure already in place, we assume that in 2008 we will be able to reduce vacancies faster than average, while at the same time increasing average rents.

We assume that the current market environment will offer attractive opportunities for acquisitions in the next few months. Difficult refinancing conditions and a lack of depth in portfolio management will be important motivators on the sellers' side.

Because of its solid financial position, net worth and profitability, as well as its strategic focus as a leading integrated real estate investor and asset manager, the Colonia Real Estate is in a strong position in the real estate business. In addition to acquisitions, during the current year we expect to sell as much as 15% of our holdings, as part of our active portfolio management.

The measure here will be that the potential for adding value on the basis of systematic asset management must already have been largely used up. The investments begun in 2007 will be continued, especially in energy-saving measures. Additionally, an extensive program has been adopted to increase net rental income.

Last year we prepared to acquire a number of minority interests in commercial real estate, in association with major-name international partners. These investments were carried through in the first quarter of 2008; together with still further investments, we expect that these will increase the property volume handled by our real estate asset management unit, and thus generate increasing income from management fees and commissions. Building up a highly qualified base staff will also allow us to take on asset management for third parties' residential property portfolios. We expect privatization of residential properties acquired specifically for this purpose to provide additional revenue and earnings. We also plan to expand our real estate fund business.

The planned acquisitions are to be financed out of cash flow, existing equity including potential proceeds from disposals, and borrowings. No changes in capital are planned in the current environment. However, management reserves the right to review all appropriate options if interesting investment opportunities arise.

For 2007, the Board of Management and Supervisory Board will propose for the first time that the Company should pay a dividend. Management will seek to increase dividend payments for fiscal 2008 and 2009. The amount of the dividend will depend on operating profits.

For fiscal 2008, management is projecting a consolidated profit on the order of EUR 72 to 75 million.

Actual results may deviate significantly from expectations about projected performance.

Cologne, March 31, 2008

Colonia Real Estate AG



Stephan Rind



Klaus Reichert



Christoph Wittkop





Consolidated Financial Statements

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Consolidated Balance Sheet as of December 31, 2007

EUR k	2007	2006	Note Page
Assets			
Assets			
Investment properties	918,902.0	353,220.0	16 57
Property, plant and equipment, net	921.5	310.6	17 61
Intangible assets	2,867.9	1,975.3	18 61
Investments in associates	21,359.4	11,112.9	19 62
Other financial assets	3,714.1	124.0	19 62
Deferred tax assets	8,116.2	4,519.7	12 51
Total non current assets	955,881.1	371,262.5	
Properties held for sale	24,019.8	7,645.3	20 62
Income tax receivables	2.2	2.2	
Receivables and other assets	17,766.5	4,848.9	21 63
Derivative financial instruments	10,003.0	395.0	22 64
Cash and cash equivalents	26,224.0	35,999.1	23 64
Total current assets	78,015.5	48,890.5	
Total assets	1,033,896.6	420,153.0	

Equity and liabilities

EUR k	2007	2006	Note Page
Equity and Liabilities			
Equity			
Subscribed capital	22,465.6	15,704.0	
Other reserves	216,635.2	46,258.2	
Treasury stock	-42.5	0.0	
Retained earnings	81,705.7	37,244.5	
Total shareholders' equity	320,764.0	99,206.7	
Minority interests	1,705.2	946.2	
Total equity	322,469.2	100,152.9	24 65
Liabilities			
Non-current liabilities			
Financial liabilities	498,357.8	113,928.5	25 68
Convertible bond	53,983.7	52,304.4	25 68
Deferred tax liabilities	53,870.9	16,114.8	12 51
Total non-current liabilities	606,212.4	182,347.7	
Current liabilities			
Bank overdraft	2,571.1	4.9	25 68
Financial liabilities, current portion	64,836.3	26,911.4	25 68
Account payables, trade and other payables	37,243.3	99,104.5	26 70
Tax liabilities	564.3	11,631.6	
Total current liabilities	105,215.0	137,652.4	
Total liabilities	711,427.4	320,000.1	
Total equity and liabilities	1,033,896.6	420,153.0	

Consolidated Income Statement for Fiscal Year 2007

EUR k	2007	2006	Note Page
Total income (excluding finance income)	159,654.2	128,545.0	
Total expenses (excluding finance costs)	76,308.1	76,869.2	
Gross rental income from investment properties	47,567.7	16,270.1	5 48
Service charge income on principal basis	18,469.4	4,191.1	5 48
Property operating expenses	-32,970.4	-9,632.2	6 48
Net rental income	33,066.7	10,829.0	
Proceeds from Asset and Fund Management	11,231.6	3,031.1	
Expenses for Asset and Fund Management	-9,692.5	-2,804.7	
Net income from Asset and Fund Management	1,539.1	226.4	7 48
Administrative expenses	-31,018.7	-8,939.8	8 49
Other income	19,527.6	206.9	
Other expenses	-283.9	-918.3	
Other income (expenses), net	19,243.7	-711.4	9 49
Investment property disposal proceeds	0.0	62,000.0	
Investment property disposal expenses	0.0	-2,110.0	
Carrying amount of investment property disposals	0.0	-52,464.2	
Profit on disposal of investment properties	0.0	7,425.8	10 49
Unrealized valuation gains	62,857.9	42,845.8	
Unrealized valuation losses	-2,342.6	0.0	
Valuation movements	60,515.3	42,845.8	
Operating profit before finance cost	83,346.1	51,675.8	
Finance expenses	-27,227.1	-9,830.2	11 50
Losses on securities	-12,629.8	0.0	11 50
Finance income	10,010.8	597.5	11 50
Consolidated profit before tax	53,500.0	42,443.1	
Income tax expense	13,617.8	-11,307.5	12 51
Consolidated profit for the period	67,117.8	31,135.6	
Attributable to:			
Equity holders of the parent	65,962.1	30,320.7	
Minority interests	1,155.7	814.9	
Consolidated profit for the period	67,117.8	31,135.6	

Earnings per share

in EUR	2007	2006	Note Page
Basic	3.31	1.96	15 56
Diluted	2.63	1.52	15 56

Consolidated Cash Flow Statement for Fiscal Year 2007

EUR k	2007	2006*	Note Page
Operating activities			
Consolidated profit for the period	67,117.8	31,135.6	
plus net finance expense	29,846.1	9,232.7	
plus income tax	-13,617.8	11,307.5	
= Net operating profit before finance costs	83,346.2	51,675.8	
Unrealized valuation movements	-60,515.3	-42,845.8	
Gains on first-time consolidation	-16,658.0	0.0	
Gains from deconsolidation	-240.5	0.0	
Realized gains on disposals of properties	0.0	-7,425.8	
Share-based compensation	3,268.7	1,818.4	
Amortization of intangible assets	95.6	0.0	
Depreciation of property, plant and equipment	370.3	44.3	
Changes in properties held for sale	-22,827.0	-7,645.3	
Changes in financial liabilities attributable to properties held for sale	15,500.0	6,236.5	
Changes in receivables	-9,363.9	-3,632.8	
Changes in liabilities	8,584.6	13,498.3	
Cash generated from operations	1,560.7	11,723.6	
Interest paid	-22,790.4	-9,121.7	
Interest received	3,277.2	597.4	
Income taxes paid	-17,079.1	299.1	
Cash flows used in / from operating activities	-35,031.6	3,498.4	
Investing activities			
Net proceeds from sale of investment properties	0.0	59,890.0	
Capital expenditure on investment properties	-105,448.7	-157,368.4	
Acquisition of other property, plant and equipment	-975.4	-293.0	
Acquisition of securities	-41,220.0	0.0	
Proceeds from sale of securities	28,590.2	0.0	
Payment for other investments in associates and loans	-13,814.1	-11,236.9	
Acquisition of short-term securities	0.0	-260.0	4 42
Net proceeds / payments for business combinations	-143,964.3	0.0	4 42
Cash flows used in investing activities	-276,832.3	-109,268.3	
Proceeds from issue of share capital	179,025.6	32,744.8	
Payment of transaction costs for issue of share capital	-11,116.6	-852.4	
Proceeds from exercise of employee stock options	1,625.4	0.0	
Payment to minority interests	-440.0	0.0	
Acquisition of treasury stock	-42.5	0.0	
Acquisition of minority interests	-19,728.0	0.0	
Proceeds from issue of convertible bonds	0.0	54,964.0	
Payment of transaction costs for issue of convertible bonds	0.0	-1,524.1	
Proceeds from borrowings	175,846.1	106,700.0	
Repayment of borrowings	-25,647.4	-67,770.8	
Cash flows from financing activities	299,522.6	124,261.5	
Net change in cash and cash equivalents	-12,341.3	18,491.6	
Cash and cash equivalents at beginning of period	35,994.2	17,502.6	
Cash and cash equivalents at end of period	23,652.9	35,994.2	23 64

*adjusted

Statement of Changes in Consolidated Equity for Fiscal Year 2007

EUR k	Equity attributable to equity holders of the parent					Minority interest	Total
	Subscribed capital	Other reserves	Retained earnings	Treasury stock	Total		
As of January 1, 2006	3,569.2	21,596.7	6,923.8	0.0	32,089.7	299.3	32,389.0
Exercise of stock options bond	100.0	1,650.0	0.0	0.0	1,750.0	0.0	1,750.0
Cash capital increase	239.3	30,755.4	0.0	0.0	30,994.7	0.0	30,994.7
Cost of cash capital increase, after tax	0.0	-519.9	0.0	0.0	-519.9	0.0	-519.9
Capital increase through contribution in kind; acquisition Resolution GmbH	17.5	1,982.5	0.0	0.0	2,000.0	0.0	2,000.0
Capital increase from reserves, with subsequent stock split	11,778.0	-11,778.0	0.0	0.0	0.0	0.0	0.0
Share-based compensation	0.0	1,818.4	0.0		1,818.4	0.0	1,818.4
Equity component of convertible bond issue, after tax	0.0	753.1	0.0	0.0	753.1	0.0	753.1
Minority interest	0.0	0.0	0.0	0.0	0.0	-168.0	-168.0
Consolidated profit for the period	0.0	0.0	30,320.7	0.0	30,320.7	814.9	31,135.6
As of December 31, 2006	15,704.0	46,258.2	37,244.5	0.0	99,206.7	946.2	100,152.9
As of January 1, 2007	15,704.0	46,258.2	37,244.5	0.0	99,206.7	946.2	100,152.9
Cash capital increase	6,281.6	172,744.0	0.0	0.0	179,025.6	0.0	179,025.6
Cost of cash capital increase, after tax	0.0	-6,781.1	0.0	0.0	-6,781.1	0.0	-6,781.1
Share-based compensation	0.0	3,268.7	0.0	0.0	3,268.7	0.0	3,268.7
Employee options	480.0	1,145.4	0.0	0.0	1,625.4	0.0	1,625.4
Treasury stock	0.0	0.0	0.0	-42.5	-42.5	0.0	-42.5
Acquisition of 19.1% minority interest Resolution GmbH	0.0	0.0	-21,500.9	0.0	-21,500.9	-227.0	-21,727.9
Distribution to minority interest Resolution GmbH	0.0	0.0	0.0	0.0	0.0	-440.0	-440.0
Minority interest Accentro	0.0	0.0	0.0	0.0	0.0	270.3	270.3
Consolidated profit for the period	0.0	0.0	65,962.1	0.0	65,962.1	1,155.7	67,117.8
As of December 31, 2007	22,465.6	216,635.2	81,705.7	-42.5	320,764.0	1,705.2	322,469.2

Notes to the 2007 Consolidated Financial Statements

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1. General Information

Colonia Real Estate AG and its subsidiaries (together called the Colonia Real Estate Group, here CRE) are engaged in the acquisition, sale and management of real estate and companies in which the Group holds equity interests, as well as in real estate asset and fund management. The Group's business activities concentrate on Germany. At present, CRE's portfolio is divided into three segments: Residential Real Estate, Commercial Real Estate and Asset and Fund Management.

Colonia Real Estate AG is a German stock corporation (Aktiengesellschaft) listed on an official exchange, and has its registered office and principal place of business at Zeppelinstrasse 4–8, Cologne, Germany. The company is entered in the Commercial Register of Cologne Local Court, under No. HRB 54006.

Colonia Real Estate stock is listed for trading on the official market of the Frankfurt Stock Exchange, and has been included in that exchange's SDAX index since March 20, 2006.

It is expected that the consolidated financial statements as of December 31, 2007, along with the consolidated management report for fiscal year 2007, will be approved for release at the meeting of the Supervisory Board on April 9, 2008.

The annual financial statements of Colonia Real Estate AG as of December 31, 2007, the consolidated financial statements as of December 31, 2007, and the combined parent-company and consolidated management report of Colonia Real Estate AG for fiscal year 2007, which have been granted an unqualified audit opinion from Ernst & Young AG Wirtschaftsprüfungsgesellschaft Steuerberatungsgesellschaft, of Stuttgart, will be published in the electronic version of the Bundesanzeiger, Germany's Federal Gazette. The annual report may be requested from Colonia Real Estate AG, Investor Relations, Cologne, or examined at the Company's Web site, www.cre.ag.

2. Summary of accounting policies

The material accounting policies applied in the preparation of these consolidated financial statements are outlined below. Unless indicated otherwise, the procedures described were applied consistently for the presented reporting periods. The presentation of the balance sheet, income statement and cash flow statement follows the November 2006 "Best Practices Policy Recommendations" of the European Public Real Estate Association (EPRA). It is appropriate to apply these recommendations, since they were issued especially for publicly traded property companies.

2.1. Principles of preparation of the financial statements

The consolidated financial statements of Colonia Real Estate AG consist of the balance sheet, income statement, statement of changes in equity, cash flow statement and explanatory notes (including segment reporting), and pursuant to Sec. 315a of the German Commercial Code, were prepared in conformity with International Financial Reporting Standards (IFRS) as these apply in the European Union (EU), and with the interpretations of the International Financial Reporting Interpretations Committee (IFRIC). Colonia Real Estate AG applies all IASB standards and all IFRIC interpretations that were in effect and adopted by the European Commission for application within the EU as of the date of preparation of these consolidated financial statements.

The consolidated financial statements were prepared using the historical cost principle, except for investment properties and derivative financial instruments, which were measured at fair value. The consolidated financial statements were prepared in euros. Unless indicated otherwise, all values are shown in thousand euros (EUR 000).

The employed accounting policies are generally the same as were applied for the prior year, with the following exceptions:

The following new or revised standards and interpretations were applied for the first time for the year under review. The application of these standards and interpretations had no impact on the Group's assets and liabilities, financial position and profit or loss. They do, however, increase the scope of disclosures in some cases.

- IFRS 7, Financial Instruments: Disclosures
- Amendment to IAS 1, Presentation of Financial Statements
- IFRIC 8, Scope of IFRS 2, Share-Based Payment
- IFRIC 9, Reassessment of Embedded Derivatives
- IFRIC 10, Interim Financial Reporting and Impairment

The principal effects of these changes are as follows:

IFRS 7, Financial Instruments: Disclosures

This standard requires disclosures that enable the intended readers of the financial statements to assess the significance of financial instruments for the Group's financial position and profitability, and the nature and extent of the risks resulting from these financial instruments. The resulting new disclosures appear throughout the financial statements. The application of this standard had no impact on the Group's assets and liabilities, financial position and profit or loss. The comparable information have been adjusted accordingly.

Amendment to IAS 1, Presentation of Financial Statements

This amendment resulted in new disclosures that enable the intended readers of the financial statements to evaluate the Group's objectives, policies and processes for managing capital. This new information is presented in Note 3.1.

IFRIC 8, Scope of IFRS 2, Share-Based Payment

This interpretation requires IFRS 2 to be applied for all transactions in which an entity cannot specifically identify some or all of the goods or services it receives. This is particularly the case when the consideration for equity instruments granted by the entity appears to be less than the fair value. Since the Group grants equity instruments only to members of the Board of Management and to employees under employee profit-sharing plans, the application of this interpretation had no impact on the Group's assets and liabilities, financial position, or profit or loss.

IFRIC 9, Reassessment of Embedded Derivatives

Under IFRIC 9, when an entity becomes a party to a contract regarding a structured instrument, the entity must always assess whether the contract contains an embedded derivative. Reassessment in the event of a material change in the contract terms is permitted only if the change significantly modifies cash flows. Since the Group holds no embedded derivatives that are separable from their host contract, this interpretation had no impact on the Group's assets and liabilities, financial condition and profit or loss.

IFRIC 10, Interim Financial Reporting and Impairment

The Group applied IFRIC 10 for the first time as of January 1, 2007. It provides that when an impairment loss is recognized in a previous interim period for goodwill, or for equity instruments or financial assets carried at cost, that loss cannot be reversed in subsequent financial statements. Since the Group has not taken any such reversals of impairment losses in the past, this interpretation had no effects on the Group's assets and liabilities, financial condition and profit or loss.

During fiscal 2007, CRE changed the starting point of its cash flow statement from the net operating profit before finance costs to the consolidated profit for the period. The cash flow statement from the prior year has been amended accordingly, in compliance with IAS 7. Additionally, financial liabilities attributable to properties held for sale are recognized under operating activities for the prior year.

2.2 Significant judgments, estimates and assumptions

The preparation of consolidated financial statements in accordance with IFRS requires management in some cases to make judgments, estimates and assumptions in regard to recognition and measurement that may affect the amounts of income, expenses, assets or liabilities recognized at the balance sheet date, as well as the recognition of contingent liabilities. More complex areas and areas that involve broader scope for estimation are explained below, as are any areas in which assumptions and estimates are of critical importance for the consolidated financial statements.

Any and all estimates and evaluations are continuously reassessed, and are founded on historical experience and other factors, including expectations of future events that seem plausible and rational under current circumstances.

The Group makes forward-looking estimates and assumptions. By their very nature, the resulting estimates are only rarely borne out by actual later events. Estimates and assumptions that entail a significant risk in the form of a material change in the carrying amounts of assets and liabilities during the next fiscal year are explained below.

Impairment of non-financial assets

The Group assesses at least once a year whether there is any reason to assume an impairment of non-financial assets. For goodwill and other intangible assets with indeterminate useful lives, it is necessary to estimate the value in use of the cash-generating unit to which these assets are allocated. To estimate value in use, management must estimate the future cash flows of the cash-generating unit, and also choose an appropriate discount rate in order to determine the present value of those cash flows. The carrying amount of goodwill at December 31, 2007, was EUR 2,382.2k (2006: EUR 1,975.3k). See Note 18 for further details.

Share-based compensation

The Group measures the cost of granting equity instruments to members of the Board of Management and employees at the fair value of those equity instruments as of their date of grant. A suitable method must be defined for estimating fair value in granting equity instruments; the method will depend on the terms of the grant. It is also necessary to determine suitable data for inclusion in this measurement method, particularly including the presumed option term, volatility, and dividend yields, as well as any appropriate assumptions. The assumptions and applied methods are explained in Note 14.

Deferred tax assets

Deferred tax assets are recognized for all unused tax losses carried forward, to the extent that it is probable that taxable profit will be available against which the losses can be applied. Significant management judgment is needed to determine the amount of deferred tax assets that can be recognized, based upon the likely timing and level of future taxable profits, as well as future tax planning strategies. At December 31, 2007, the applicable value of recognized tax losses came to EUR 49,922.0k for corporate income tax and EUR 31,291.2k for trade tax, compared to EUR 20,444.6k and EUR 15,933.8k, respectively, for 2006. Unrecognized tax losses came to EUR 1,233.2k for corporate income tax (2006: EUR 0.0k) and EUR 1,233.3k (2006: EUR 870.6k) for trade tax. See Note 12 for further details.

Fair value of investment property

The material risks in our business sector can arise in the area of investment properties. For that reason, the Company makes use of the services of independent and certified real estate experts. The fair value of the properties was determined using the income capitalization approach or the discounted cash flow method. Sustainable rents, remaining useful life, net property returns or cap rates (refinancing interest rate plus risk premium), management costs, maintenance costs, risk of loss of rent, operating costs that cannot be passed on to tenants, occupancy rates, and where applicable, operating costs for vacancies and deferred maintenance, were calculated for all properties. The fair value of each property was derived from these estimations. To check plausibility, the appraisals also include comparisons against local sales, locally charged rents and various multipliers. Note 16 includes sensitivity analyses for the employed interest rates.

2.3 Consolidation

The consolidated financial statements comprise the financial statements of Colonia Real Estate AG and all its subsidiaries as of December 31 of each fiscal year. Subsidiaries' financial statements are applied using the same accounting policies and the same reporting year as the financial statements of the parent company.

Subsidiaries are all entities whose financial and operating policies are controlled by the Group. As a rule, control is presumed to exist when the controlling company holds more than 50 % of the voting rights. The determination of whether the Group has control takes account of potential voting rights that can currently be exercised or converted.

Subsidiaries are fully consolidated as of the date on which control is transferred to the Group. They are deconsolidated as of the date on which control ends.

Business combinations are recognized using the acquisition method. The acquisition cost is equivalent to the fair value of the acquired assets, including estimated contingent consideration for the purchase, issued equity instruments, and liabilities that arise or are assumed as of the transaction date, plus the costs directly attributable to the acquisition. At the time of first consolidation, the assets, liabilities and contingent liabilities identifiable in a business combination are measured at their fair values as of the transaction date, irrespective of the scope of non-controlling interests.

The difference between the consideration paid for the purchase and the Group's interest in the acquired net assets measured at fair value is recognized as goodwill.

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

All intra-Group netting, income and expenses are eliminated, as are unrealized gains and losses on intra-Group transactions and items from transactions between Group companies.

The accounting policies of subsidiaries have been amended if necessary, in order to ensure uniform accounting principles within the Group.

Minority interests represent the portion of profit or loss and net assets not attributable to the Group, and are shown separately in the consolidated income statement and the consolidated balance sheet. In the consolidated balance sheet, minority interests are shown under equity, separately from the equity attributable to equity holders of the parent company. The acquisition of minority interests is recognized using the "entity concept" method, under which the difference between the purchase price and the carrying amount of the portion of net assets acquired is recognized as equity.

2.4 Foreign currency translation

a) Operating currency and reporting currency

The items included in the financial statements of each Group company are measured on the basis of the currency that is used in the primary economic environment in which that company operates (the functional currency). The reporting currency of the consolidated financial statements is the euro, which is the functional currency of the Group's parent company and the consolidated subsidiaries.

b) Transactions and balances

Foreign currency transactions are translated into the functional currency at the exchange rate applicable on the transaction date. Gains and losses resulting from the settlement of such transactions, and from the translation of monetary assets and liabilities denominated in foreign currencies as of a reporting date, are recognized in the income statement.

2.5 Revenue recognition

(a) Revenue from conventional and usufructuary leases

Revenues generated from rents and leases and facility management are realized after deducting discounts and similar reductions, on the basis of the underlying lease periods, provided that the remuneration has been defined by contract or can be determined reliably, and that the associated receivables can probably be collected.

(b) Revenue from the sale of property

Revenue is realized on sales transactions (for example, sales of investment properties) if

- all significant risks and rewards of ownership associated with the property have been transferred to the buyer;
- the Group retains no rights of disposal or effective powers of disposal over the sold property;
- the amount of the proceeds and the costs already incurred or still to be incurred in association with the sale can be measured reliably;
- it is sufficiently probable that the economic benefits associated with the sale will flow to the Group.

(c) Revenues from rendering of services

Revenues from the rendering of services are recognized in the fiscal year during which the services were rendered. Services rendered within two periods are recognized in the same proportion as exists between the services already rendered and the total services to be rendered.

(d) Interest income

Interest income is realized proportionally over time, taking account of the balance outstanding and the effective interest rate over the remaining term. If a receivable is impaired, it is written down to its recoverable amount, which is equivalent to the present value of expected cash flows as determined on the basis of the original effective interest rate. Thereafter, interest continues to accrue in installments, with a corresponding recognition as interest income.

(e) Dividend income

Dividend income is recognized as of the date on which the right to receive payment of the dividend arises.

2.6 Investment Property

Property classified as investment property under IAS 40 includes residential properties, hotel properties, and commercial properties, which are held to earn long-term income and/or for appreciation and are not used by the Group itself. At the time of first recognition, investment properties are measured at their cost of acquisition or creation, including incidental costs. The carrying amount does not include costs of ongoing maintenance of the properties. In subsequent measurements, investment properties are measured at their fair value as determined by outside appraisers (see Notes 2.2 and 16 for details of the valuation). Gains or losses on changes in fair value are recognized as a separate line item in the income statement for the year in which they occur.

Investment properties are derecognized upon sale or when they become permanently unusable and no future economic benefit is expected from their disposal. Gains and losses on the closure or disposal of an investment property are recognized in the income statement for the year of their closure or disposal.

2.7 Property, plant and equipment

Property, plant and equipment is measured at cost less accumulated scheduled depreciation and accumulated impairment losses. Acquisition costs include the expenses directly attributable to the purchase. Repairs and maintenance are charged to the income statement for the fiscal year in which they are incurred.

All assets are depreciated using the straight line method, with the acquisition cost being depreciated to the residual carrying amount over the expected useful of the asset as follows:

Vehicles	5 years
Business equipment	3–13 years

The residual carrying amounts, economic useful lives, and depreciation methods are reviewed at every reporting date, and adjusted accordingly if necessary.

If the carrying amount of an asset exceeds its estimated recoverable amount, it is immediately written down to the estimated recoverable amount.

Gains and losses from the disposal of assets are defined as the difference between the proceeds from disposal and the carrying amount, and are recognized in the income statement as Other income or Other expenses.

2.8 Investments and other financial assets

Financial assets are currently allocated to the following categories: financial assets at fair value through profit and loss, loans and receivables, and available-for-sale financial assets. The applicable category depends on the purpose for which the financial assets were acquired. Management decides an asset's category at the time of initial recognition, and reviews that classification at each reporting date.

Financial assets at fair value through profit and loss

This category has two sub-categories: financial assets designated as held for trading at initial recognition, and financial assets designated at fair value through profit and loss at initial recognition. A financial asset is allocated to this category if it was acquired from the outset for sale within the short term, or if the decision to sell has been made by management. Derivatives are likewise categorized as held for trading. Assets in this category are recognized as current assets if they are either held for trading or are expected to be sold within 12 months after the reporting date.

Loans and receivables

Loans and receivables are non-derivative financial assets that have fixed or determinable payments and are not quoted on an active market. They arise when the Group furnishes cash, goods or services directly to a debtor, with no intent of trading the resulting receivables. These are considered current assets, except for those receivables which are due later than 12 months after the reporting date. The latter are recognized as noncurrent assets. Current loans and receivables are included under the line item for Receivables and other financial assets in the balance sheet (see Note 2.11).

Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that either belong to this category by nature or cannot be allocated to any other category. They are considered noncurrent assets unless management intends to sell them within 12 months after the reporting date.

All purchases and sales of financial assets are recognized and measured as of the transaction date – i.e., the date on which the Group undertakes the obligation to buy or sell the asset. They are initially measured at fair value plus transaction costs, unless the asset is designated at fair value through profit and loss. Unrealized gains or losses are recognized directly in equity. If such a financial asset is derecognized or impaired, the accumulated profit or loss formerly recognized directly in equity is “recycled” into profit or loss. These assets are derecognized if the rights to receive cash flows from the investments have expired or been transferred, and the Group has transferred substantially all risks and rewards resulting from ownership.

Available-for-sale financial assets and financial assets at fair value through profit and loss are measured at fair value. The fair value of listed shares is measured on the basis of their current market price. If there is no active market for financial assets, or the assets are not quoted on any exchange or market, the fair values are determined by suitable alternative valuation methods. If there is no market price and no market price can be reliably determined, the asset is measured at its acquisition cost. Loans and receivables are measured at cost, using the effective interest method.

Individual financial assets or groups of financial assets, as the case may be, are reviewed at each reporting date to see whether there is objective evidence of impairment.

**2.9. Impairments of
non-financial assets**

At each reporting date, the Group assesses whether there is any indication that an asset may be impaired. Where such indications exist, or if annual impairment testing is required (primarily in the case of goodwill or other intangible assets with an indefinite useful life), the Group estimates the asset's recoverable amount. An asset's recoverable amount is the higher of the fair value of the asset or cash-generating unit less costs to sell, and its value in use. The recoverable amount must be determined for each asset individually, unless an asset does not generate cash flows that are largely independent from those of other assets or other groups of assets. If the carrying amount of an asset exceeds its estimated recoverable amount, the asset is considered impaired and is written down to its estimated recoverable amount. To determine value in use, estimated future cash flows are discounted to their present value on the basis of a discount rate before taxes that reflects current market expectations regarding the effects of interest rates and the risks specific to the asset. An appropriate valuation model is used to determine fair value less costs to sell, drawing corroboration from valuation multiples, trading prices of listed shares in subsidiaries, or other available indicators of fair value.

Goodwill is tested for impairment at least once a year. An impairment test is also performed if events or circumstances suggest that the carrying amount may be impaired. The impairment is determined by calculating the recoverable amount of the cash-generating unit (or group of cash-generating units) to which the goodwill relates. If the recoverable amount of the cash-generating unit (or group of cash-generating units) is below the carrying amount of the cash-generating unit (or group of cash-generating units) to which the goodwill relates, an impairment loss is recognized. An impairment loss on goodwill cannot be recovered in subsequent reporting periods. The Group performs its annual impairment testing on goodwill as of December 31.

**2.10 Properties held
for sale**

Properties held for sale are properties acquired for the specific purpose of resale. Like inventories, properties held for sale are measured at the lower of their cost or net realizable value. Costs include both acquisition costs (the purchase price of the property) and incidental acquisition costs (land transfer taxes, notary costs, legal and consulting costs). The net realizable value is determined from the estimated selling price less the estimated necessary costs to sell.

**2.11 Receivables and
other financial assets**

Trade receivables are measured at fair value at initial recognition, and at amortized cost thereafter, using the effective interest method and deducting allowances for any impairment.

If there is objective evidence that the full amount of a trade receivable cannot be collected on the billing terms originally agreed (e.g., where an insolvency is likely or the debtor is in significant financial difficulties), an impairment loss is taken using an adjustment account. Receivables are derecognized if they are considered uncollectible. The amount of the loss is measured as the difference between the carrying amount of the receivable and the present value of estimated future cash inflows from that receivable, discounted at the effective interest rate. The loss is charged to the income statement.

2.12 Treasury shares

If the Group acquires its own stock, that stock is deducted from equity. The purchase and sale of shares, as well as their issuance and retirement, are not recognized in profit or loss.

2.13 Cash and cash equivalents

Cash and cash equivalents include cash, demand deposits at banks, other highly liquid current financial assets with an original term of no more than three months, and current account credit lines. Credit lines that the Group has drawn upon are recognized in the balance sheet as bank overdraft under current liabilities.

2.14 Interest-bearing loans

Loans and borrowings are measured initially at fair value less transaction costs. In subsequent periods they are measured at amortized cost. Any difference between the disbursed amount (less transaction costs) and the redemption amount is recognized in the income statement over the term of the loan, using the effective interest method.

2.15 Convertible bond

Convertible bonds are treated as hybrid financial instruments with a liability component and an equity component. The liability component is measured on the issue date by discounting the future payments at an adequate interest rate customary in the market. This amount is recognized as a financial liability measured at amortized cost, until the liability is derecognized because the bond has been converted or retired. The difference between the proceeds from the issuance of the convertible bond and the fair value of the liability component represents the value of the embedded option of converting the liability into equity in the Group. The value of this option is contained in the equity component. The issue costs are divided between the equity component and the liability component of the bond, proportionately to their relative carrying amounts as of the issue date. The portion attributable to the equity component is applied directly to equity. The interest expense for the liability component is calculated using the prevailing market interest rate for comparable non-convertible securities. The difference between the resulting amount and the interest actually paid is added to the carrying amount of the bond.

2.16 Borrowing costs

Borrowing costs are recognized as an expense in the period during which they are incurred.

2.17 Taxes*Actual income taxes*

Actual income tax refund entitlements and tax liabilities for current and previous periods are measured at the amount of the expected refund from or payment to the tax authorities. The amount is calculated on the basis of the tax rates and tax legislation in effect on the reporting date. Actual taxes relating to items included directly in equity are recognized not in the income statement, but in equity.

Deferred taxes

Deferred taxes are recognized in accordance with IAS 12 for all temporary differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements under IFRS. However, if a difference results from the initial recognition of an asset or liability, and if the underlying transaction does not constitute an acquisition of a company and did not affect the profit or loss either for financial reporting purposes or for tax purposes as of the transaction date, no associated deferred tax is recognized.

Deferred taxes are measured using the tax rates (and legislation) that are already in effect on the reporting date, or that have been substantially adopted into law as of that date and are expected to take effect by the date when the deferred tax credits are realized or deferred tax liabilities are settled.

Deferred tax credits are recognized to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilized.

Deferred tax liabilities resulting from temporary differences associated with interests held in subsidiaries and associated entities are recognized unless the Group can control the timing of the reversal of the temporary differences and it is probable that the reversal will not occur in the foreseeable future.

The carrying amount of deferred tax credits is reviewed as of each reporting date, and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow the benefit of part of all of that deferred tax credit to be utilized. Unrecognized deferred tax assets are reviewed at each reporting date, and recognized to the extent that it has become probable that there will be future taxable profit against which the deferred tax credit can be utilized.

Value-added tax

Revenues, expenses, and assets are measured as a rule after deducting value-added tax, provided that they are eligible for deduction of input tax. Exceptions are made in the following cases:

- If the value-added tax incurred at the purchase of assets or services cannot be reclaimed from the tax authorities, the value-added tax paid is recognized as part of the cost of creation of the asset, or as part of the expense for the service.
- Receivables and payables are measured together with the amount of value-added tax that they contain.

The amount of value-added tax refunded by the tax authorities is recognized under other assets in the consolidated balance sheet; value-added tax payments are recognized under Other liabilities.

2.18 Employee benefits

The Board of Management and Supervisory Board have been authorized to establish a stock option plan. The entitled parties include the members of the Board of Management and employees of Colonia Real Estate AG, and the management of affiliated companies. The stock option plan is calculated using methods of financial mathematics based on option pricing models. The options are measured at market value (Black-Scholes model) as of the grant date. Under IFRS 2, the value of the option as of the grant date is recognized as a personnel expense pro-rated over the vesting period, and is included in Other reserves.

To date the company has made no commitments to employees regarding pension obligations, other post-employment benefits, or severance payments.

2.19 Provisions

A provision is recognized when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. Where the Group expects that some or all of a provision recognized as a liability will be reimbursed, for example under an insurance contract, the reimbursement is recognized as a separate asset, but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the income statement net of any reimbursement. If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as a finance cost.

2.20 Leases

Leases under which the lessor retains a material portion of the risks and rewards of ownership of the leased asset are classified as operating leases. Payments made under an operating lease (less incentive payments granted by the lessor) are recognized in the income statement on a straight-line basis over the term of the lease.

2.21 Derivative financial instruments and hedging

The Group uses derivative financial instruments such as interest-rate swaps or interest-rate swaptions to hedge its risks associated with interest rate fluctuations. Such derivative financial instruments are recognized at fair value at the time when the contract is entered into, and are measured at fair value over the subsequent periods. Derivative financial instruments are carried as assets when the fair value is positive, and as liabilities when the fair value is negative.

Gains or losses on changes in the fair value of derivative financial instruments that do not satisfy the criteria for recognition as hedge relationships are recognized immediately in the income statement.

2.22 Future changes in accounting policies

Standards that have been published but whose application is not yet mandatory

Amendment to IAS 23, Borrowing Costs

The revised standard IAS 23, Borrowing Costs, was published in March 2007, and is applicable for the first time to fiscal years beginning on or after January 1, 2009. This standard requires the capitalization of borrowing costs that are attributable to a qualifying asset. A qualifying asset is an asset that takes a substantial period of time to get ready for its intended use. The revision of this standard will have no impact on the Group.

Amendment of IFRS 3, Business Combinations, and IAS 27, Consolidated and Separate Financial Statements

The IASB published the revised standards IFRS 3 and IAS 27 in January 2008. The changes relate substantially to the recognition of minority interests in the balance sheet, and to corporate acquisitions in which less than 100% of an entity is acquired. The revised standards are mandatory for reporting periods beginning on or after January 1, 2009. The revision of these standards will have no impact on the Group.

IFRS 8, Business Segments

IFRS 8 applies for the first time to reporting periods beginning on or after January 1, 2009, and replaces IAS 14, Segment Reporting. This standard requires disclosure of information about the Group's business segments, and replaces the obligation to define primary (by business segment) and secondary (by geographical segment) segment reporting formats for the Group. The application of this standard will give rise to additional disclosures.

IFRIC 11 – IFRS 2, Group and Treasury Share Transactions

IFRIC 11 was published in November 2006, and is applicable for the first time to fiscal years beginning on or after March 1, 2007. Under this interpretation, agreements under which employees are granted rights to equity instruments of an entity are to be recognized as share-based payment obligations settled with equity instruments, if the requisite equity instruments are acquired by the entity from a third party or provided by the shareholders. This interpretation will have no impact on the Group.

IFRIC 12, Service Concession Arrangements

IFRIC 12 was published in November 2006, and is applicable for the first time to fiscal years beginning on or after January 1, 2008. The interpretation governs how obligations undertaken and rights received under service concession agreements are to be recognized and measured in the concession operator's financial statements. The entities included in the Group's consolidated financial statements are not concession operators within the meaning of IFRIC 12. This interpretation will therefore have no impact on the Group.

IFRIC 13, Customer Loyalty Programs

IFRIC 13 was published in June 2007, and is applicable for the first time to fiscal years beginning on or after July 1, 2008. Under this interpretation, advantages (awards) granted to customers are to be recognized as a revenue separately from the transaction in connection with which they were granted. Hence a portion of the fair value of the received consideration is to be allocated to the granted advantages (awards) and recognized as a deferred liability item. The revenue is realized in the period in which the granted advantages (awards) are collected or when they expire. Since the Group currently has no customer loyalty programs, this interpretation is not expected to have any impact on the consolidated financial statements.

IFRIC 14 – IAS 19, Limit on a Defined Benefit Asset, Minimum Funding Requirements and Their Interaction

IFRIC 14 was published in July 2007, and is applicable for the first time to fiscal years beginning on or after January 1, 2008. This interpretation lays down guidelines for determining the maximum amount of the surplus from a defined benefit plan that can be capitalized as an asset under IAS 19, Employee Benefits. Since the Group does not have any defined-benefit pension plans to date, this interpretation is not expected to have any impact on the Group's assets and liabilities, financial condition and profit or loss.

3. Financial risk management

3.1 Objectives and methods of financial risk management

The principal financial liabilities incurred by the Group – apart from derivative financial instruments – include bank loans and current account credit lines, convertible bonds, trade payables, advance payments received, and loans extended. The primary purpose of these financial liabilities is to finance the Group's business operations. The Group has a variety of assets, such as trade receivables, cash, and term deposits, that result directly from its business operations.

The Group also holds derivative financial instruments, most significantly interest rate swaps. The purpose of these derivative financial instruments is to hedge against interest rate risks that arise from the Group's business operations and sources of financing. No trading in derivatives was conducted in fiscal 2007 or 2006, and none will be conducted in the future.

The Group's business activities expose it to various financial risks: market risks (including currency risk, interest rate risk and stock and bond price risks), credit risks and liquidity risks. The Group's cross-divisional risk management focuses on the unpredictability of developments in the financial markets, and is intended to minimize any potential adverse impact on the Group's financial position.

Risk management follows guidelines decided by the Board of Management, which works in close cooperation with the Group's operating units to identify, measure and hedge against financial risks.

a) Market risk/Foreign currency risk

The Group takes out long-term loans to finance its real estate portfolio. These loans may also be denominated in foreign currencies. The Group held no loans denominated in foreign currencies as of the reporting date.

b) Credit risk

The Group is not exposed to any material concentration of credit risk. Commercial properties – whether under conventional leases or usufructuary leases – are leased to long-term tenants whose credit standing has been adequately reviewed. Residential properties are leased to a number of tenants that fill substantially all of the 20,000 residential units available. A credit review is performed before any new rental. Receipts of monthly rent payments are monitored each month. Any arrears are collected through notice proceedings. Any payment defaults that occur despite these measures are written off.

For the Group's other financial assets, such as cash and cash equivalents or available-for-sale investments, the maximum credit risk in the event of counterparty default is equal to the carrying amount of these instruments.

c) Liquidity risk

Prudent liquidity management includes holding sufficient reserves of cash and cash equivalents. The Group's business activities encompass the regular receipt of recurrent payments, which are matched by recurrent, foreseeable payment obligations. The Group constantly monitors the risk of liquidity bottlenecks with short-term and medium-term liquidity planning.

Cash proceeds from property sales serve as additional means of safeguarding liquidity. Other instruments for safeguarding liquidity include taking out long-term property loans and carrying out equity measures. This planning takes account of the terms of financial investments and financial cash flows from operating activities. The Group's aim is to maintain an equilibrium between continuously covering the need for financial capital and safeguarding flexibility by taking advantage of current account credit lines, property loans, convertible bonds, and finance leases, and by issuing new bearer shares. The Board of Management has specified that liabilities cannot exceed 75% of total assets. Property loans are to have a minimum term of five years. The average term of the Group's property loans at December 31, 2007, was 6.2 years.

d) Market price risk/Interest rate risk

As the Group holds only minor interest-bearing assets, these give rise to no significant interest rate risk. The Group's interest rate risk derives primarily from long-term interest-bearing liabilities. Variable-interest liabilities expose the Group to a cash flow interest rate risk. Fixed-interest liabilities pose a market value interest rate risk. The Group's financial risk policy requires property loans to be taken out at fixed interest rates. The Group hedges a portion of its cash flow interest rate risk resulting from variable interest rates by applying interest rate swaps that convert variable rates to fixed rates, so that from an economic perspective, variable-interest debt is converted to fixed-interest positions. At year's end, 89% of loan liabilities were at fixed interest rates.

Capital management

The primary goal of the Group's capital management is to ensure that the Group's ability to repay debt and its financial resources are preserved for the future.

The Group monitors its capital on the basis of the equity ratio. The Board of Management has decided that the equity ratio should be between 25% and 30%. On December 31, 2007, the equity ratio was 31.2% (prior year: 23.8%).

**3.2 Fair value
determination**

The fair values of financial instruments not traded on an active market (such as shares in a German "GmbH" limited liability company) are normally determined on the basis of valuation models. For this purpose, the Group makes assumptions based on the market conditions as of the reporting date.

The fair value of trade receivables and trade payables is determined on the assumption that the nominal amount less valuation allowances corresponds to the fair value. The fair value of financial liabilities indicated in these Notes is calculated by discounting future contractual cash inflows at the present market interest rate that the Group would be granted for comparable financial instruments.

4. Scope of consolidation, business combinations and acquisition of minority interests

Scope of consolidation

The Group consolidates a total of 36 (prior year: 21) subsidiaries, 27 of them in Germany (prior year: 19) and 9 of them in other countries (prior year: 2).

in %	Share of capital held at Dec. 31, 2007	Share of capital held at Dec. 31, 2006
Colonia Real Estate AG, Cologne		
Subsidiaries included in the consolidated financial statements		
1. CRE Hotel Immobilien GmbH, Cologne	99.64	99.64
2. Grasmus Holding BV, Maastricht/NL	99.64	99.64
3. CRE Wohnen GmbH, Cologne	100.00	100.00
4. CRE Gewerbeimmobilien GmbH, Cologne	100.00	100.00
5. Gimag Gewerbe-Immobilien AG, Zug/Switzerland	94.00	94.00
6. CRE Retail Immobilien GmbH, Cologne	100.00	100.00
7. CRE Fonds Management GmbH, Cologne	56.00	56.00
8. CRE Wohnen Zweite GmbH, Cologne	100.00	100.00
9. CRE Wohnen Dritte GmbH, Cologne	100.00	100.00
10. CRE Wohnen Vierte GmbH, Cologne	100.00	100.00
11. CRE Wohnen Fünfte GmbH, Cologne	100.00	100.00
12. CRE Wohnen Sechste GmbH, Cologne	100.00	100.00
13. CRE Immobilien Verwaltung GmbH, Cologne	100.00	100.00
14. CRE Wohnen Immobilien Verwaltung GmbH & Co. KG, Cologne	100.00	100.00
15. CRE German Office GmbH, Cologne	97.51	95.60
16. Resolution GmbH, Berlin	75.10	56.00

The following new companies were formed in fiscal 2007:

in %	Share of capital held at Dec. 31, 2007	
17. CRE Wohnen Siebte GmbH, Cologne	100.00	Certificate of formation dated January 24, 2007
18. CRE Wohnen Achte GmbH, Cologne	100.00	Certificate of formation dated January 24, 2007
19. Careinvest Drei Verwaltungs-GmbH	56.00	Certificate of formation dated April 16, 2007
20. Careinvest Drei GmbH & Co. KG	56.00	Certificate of formation dated April 16, 2007
21. CRE Wohnen Neunte GmbH, Cologne	100.00	Certificate of formation dated July 17, 2007
22. CRE Wohnen Zehnte GmbH, Cologne	100.00	Certificate of formation dated July 17, 2007
23. CRE Wohnen Elfte GmbH, Cologne	100.00	Certificate of formation dated July 17, 2007
24. CRE Wohneigentum GmbH, Cologne	100.00	Certificate of formation dated July 17, 2007
25. Gerespro One GmbH, Cologne	100.00	Certificate of formation dated July 26, 2007
26. Gerespro Two GmbH, Cologne	100.00	Certificate of formation dated July 26, 2007

Im Geschäftsjahr 2007 wurden folgende Unternehmen erworben:

in %	Share of capital held at Dec. 31, 2007	
27. Emersion Grundstücksverwaltungsgesellschaft mbH, Cologne	100.00	Contract dated February 20, 2007
28. Domus Grundstücksverwaltungsgesellschaft mbH, Cologne	100.00	Contract dated February 20, 2007
29. Accentro Real Estate GmbH, Stuttgart	70.00	Contract dated June 29, 2007
30. CRE Wohnen Berlin Holding AG, Vienna, Austria	99.69	Contract dated September 10, 2007
31. CRE Wohnen Berlin Alpha GmbH, Vienna, Austria	99.69	Contract dated September 10, 2007
32. CRE Wohnen Berlin Beta GmbH, Vienna, Austria	99.69	Contract dated September 10, 2007
33. CRE Wohnen Berlin Gamma GmbH, Vienna, Austria	99.69	Contract dated September 10, 2007
34. Signa Real Estate Capital Partners Berlin Holding AG & Co Alpha OEG, Vienna, Austria	99.69	Contract dated September 10, 2007
35. Signa Real Estate Capital Partners Berlin Holding AG & Co Beta OEG, Vienna, Austria	99.69	Contract dated September 10, 2007
36. Signa Real Estate Capital Partners Berlin Holding AG & Co Gamma OEG, Vienna, Austria	99.69	Contract dated September 10, 2007

The following companies were deconsolidated in fiscal year 2007 because they either ceased operations or were sold.

in %	Share of capital held at Dec. 31, 2007	Share of capital held at Dec. 31, 2006	
1. Deutsche Retail AG, Cologne	0.00	100.00	As of January 1, 2007
2. Careinvest Eins Verwaltungs GmbH	0.00	56.00	As of January 1, 2007
3. Careinvest Eins GmbH & Co. KG	0.00	56.00	As of January 1, 2007
4. Careinvest Zwei GmbH & Co. KG	0.00	56.00	As of January 1, 2007

CRE Research und Management GmbH, of Cologne, which was consolidated in the prior year, was merged with Colonia Real Estate AG during fiscal year 2007.

Business acquisitions in 2007

By a purchase agreement dated February 20, 2007, CRE Wohnen Siebte GmbH, Cologne, acquired 94.0 % of Emersion Grundstücksverwaltungsgesellschaft mbH. Another 6.0 % of the company was acquired by Gimag Gewerbe-Immobilien AG, Zug, Switzerland. The equity interests were acquired in two segments, a first one of 51.0 % and a second one of 49.0 %. The purchase price, including incidental acquisition costs, was EUR 123,863.8k, EUR 2,168.5k of which was assumed by Group companies and was therefore eliminated in the first consolidation.

By a purchase agreement dated February 20, 2007, CRE Wohnen Siebte GmbH, Cologne, acquired 94.0 % of Domus Gründstücksverwaltungsgesellschaft mbH. Another 6.0 % of the company was acquired by Gimag Gewerbe-Immobilien AG, Zug, Switzerland. The equity interests were acquired in two segments, a first one of 51.0 % and a second one of 49.0 %. The purchase price, including incidental acquisition costs, was EUR 10,369.4k, EUR 471.5k of which was assumed by Group companies and was therefore eliminated in the first consolidation.

On June 29, 2007, the purchase agreement for the acquisition of Accentro Real Estate GmbH, Stuttgart, was signed. The acquisition concerned a 70.0 % equity interest in the company. A purchase price of EUR 1,037.8k was paid, including incidental acquisition costs. The purchase price includes a payment of EUR 475.0k into capital reserves. Of these capital reserves, 30.0 % is attributable to minority interests.

By a purchase agreement dated September 10, 2007, CRE Wohnen Sechste GmbH, Cologne, acquired 94.898 % of the stock of CRE Wohnen Berlin Holding AG, Vienna. Gimag Gewerbe-Immobilien AG, Zug, Switzerland, holds a purchase option on the remaining 5.102 %. This purchase option will be exercised as soon as various subsidiaries have grown. A price of EUR 1,250.0k was agreed for this option. The option price is recognized as a residual purchase price obligation at the Group level. Thus the Group will then hold 99.69 % of the company's stock. Preliminary acquisition costs, including incidental costs, of EUR 28,943.4k were spent, EUR 797.9k of which was assumed by Group companies and was therefore eliminated in the first consolidation.

The fair value of the identifiable assets and liabilities of the acquired companies as of the date of acquisition, as well as the corresponding carrying amounts immediately prior to that date, were as follows:

in EUR k	Domus		Emersion		Signa		Accentro (70%)	
	Fair value	Carrying amount	Fair value	Carrying amount	Fair value	Carrying amount	Fair value	Carrying amount
Cash and cash equivalents	423.3	423.3	11,733.7	11,733.7	945.6	945.6	332.5	0.0
Investment property	67,300.0	54,082.6	329,500.0	168,771.6	86,118.0	67,557.5	0.0	0.0
Orders on hand	0.0	0.0	0.0	0.0	0.0	0.0	401.5	0.0
Properties held for sale	0.0	0.0	0.0	0.0	0.0	0.0	476.0	456.20
Noncurrent assets	0.0	0.0	0.0	0.0	0.0	0.0	25.26	25.26
Receivables	5,096.8	4,742.3	19,096.4	17,577.1	1,613.2	612.6	125.6	125.8
Liabilities	-13,464.1	-13,464.1	-19,707.8	-19,724.4	-1,538.1	-1,538.0	-264.9	-264.9
Loan liabilities	-41,417.0	-44,423.4	-165,053.7	-177,728.9	-53,229.2	-55,279.4	-300.8	-300.8
Deferred tax liabilities	-4,372.6	0.0	-45,212.2	0.0	-3,420.0	0.0	-164.4	0.0
Net assets acquired	13,566.4	1,360.7	130,356.4	629.1	30,489.5	12,298.3	630.8	41.6

The following table shows the purchase prices of the corporate acquisitions and the differences resulting from a comparison with the acquired net assets.

in EUR k	Domus	Emersion	Signa	Accentro
Payments made	6,823.8	116,683.9	24,500.0	525.0
Costs directly attributable to the acquisition	1,089.7	5,011.4	3,645.5	512.8
Total purchase price	7,913.5	121,695.3	28,145.5	1,037.8
Fair value of acquired net assets	13,566.4	130,356.4	30,489.5	630.8
Difference	-5,652.9	-8,661.1	-2,344.0	407.0

The following table shows the actual cash outflow for the corporate acquisitions:

in EUR k	Domus	Emersion	Signa	Accentro
Purchase price paid in cash	7,913.5	121,695.3	28,145.5	1,037.8
Cash and cash equivalents of the acquired company	423.3	11,733.7	945.6	475.1
Cash outflow for the transaction	7,490.2	109,961.6	27,199.9	562.7

Since their acquisition date, the companies have contributed as follows to revenues and profits:

in EUR k	Domus	Emersion	Signa	Accentro
Revenues	3,633.6	16,031.6	1,360.7	716.3
Profit before minority interests	6,096.5	35,250.0	41.6	75.4

If the business combinations had taken place at the beginning of the year, the consolidated profit would have been EUR 65,502.7k and the revenues from rentals and asset management would have come to EUR 104,295.9k.

By a contract for the contribution of equity interests dated August 20, 2007, the Company acquired another 19.1% of Resolution GmbH, of Berlin. The purchase price of EUR 19,228.0k was paid with 273,518 shares of treasury stock bought for this purpose on the market at a price of EUR 27.34. The remaining purchase price of EUR 11,750.0k was paid to the seller. The total purchase price of EUR 19,228.0k and the outstanding purchase price installments totaling EUR 2,500.0k, which will be paid only if a defined EBIT is generated in 2007 and 2008, were offset against retained earnings by the entity concept method. Because of the probability that the defined EBIT will be achieved, the purchase price installment was already recognized as a liability as of the reporting date.

Business acquisitions in 2006

By a contract for the contribution of equity interests dated February 22, 2006, the Group acquired 56 % of *Resolution GmbH, Berlin*, for consideration not to exceed EUR 6 million.

Resolution GmbH was founded in 2005. At the acquisition date it had no employees other than the four managing partners. The purpose of Resolution GmbH is to provide services of all kinds relating to the real estate business, particularly project development, project organization, project management and project rehabilitation for real estate portfolios, including commercial project management and management of existing portfolio properties.

The purchase price was paid in three installments, the first of which was payable in stock for a value of EUR 2 million. The other two installments were paid in cash. The value of the individual shares was based on the average closing price, weighted for daily trading volumes, of Colonia Real Estate AG stock in XETRA trading over the last ten trading days before the contract was signed, less a 2.5 % discount. This average was EUR 114.56, yielding a payment of 17,458 shares. The trading price of the stock on February 22, 2006, was EUR 125.00.

The fair values of the identifiable assets and liabilities of Resolution GmbH as of the date of acquisition corresponds with the carrying amounts immediately prior to that date, and were as follows:

	EUR k
Inventories	5.0
Other assets	0.9
Cash on hand and bank balances	40.0
	45.9
Other provisions	-0.6
Other liabilities	-1.2
	-1.8
Net assets	44.1
Minority interests 44 %	19.4
Net assets acquired by the Group	24.7
Goodwill from the corporate acquisition	1,975.3
Total preliminary acquisition costs	2,000.0

The second installment of EUR 1.5 million was due within six weeks after March 31, 2007. Since the stipulated EBIT was achieved, no reduction in the payment was taken.

The third installment of EUR 1.5 million will be due within six weeks after March 31, 2008. This installment is to be reduced by a factor of 0.354 times the amount by which the EBIT of Resolution GmbH falls short of the stipulated EBIT for the 12 months from April 1, 2007, to March 31, 2008. If the shortfall from the stipulated EBIT is more than 50 %, or the EBIT is less than 30 % of revenues, the third installment is to be omitted altogether. The third installment increases by a factor of 0.868 times the amount by which the accumulated EBIT exceeds the stipulated EBIT, up to a total purchase price of not more than EUR 6 million. Since it was evident at the date of preparation of the financial statements that the target EBIT would be reached, the outstanding purchase price installment of EUR 2.5 million has been recognized as a liability.

The second and third installments, totaling EUR 4.0 million, were recognized in full in the income statement for fiscal 2007 as part of general administrative costs, since in conformity with international reporting practices this figure constitutes compensation for the managing partners.

The shares of *CRE German Office GmbH* acquired by a purchase agreement dated August 24, 2006, merely represent the acquisition of a shelf company. The acquisition costs were offset against the share of equity acquired. The excess was recognized as an expense, as these were the formation costs for the company.

Gross rental income and service charge income on principal basis
Property operating expenses
Net income from asset and fund management

5. Gross rental income and service charge income on principal basis

For both the year under review and the prior year, gross rental income comprised the following:

EUR k	2007	2006
Rental income from residential properties	43,796.9	12,794.2
Rental income from commercial properties	1,035.0	1,443.7
Lease income from hotel properties	2,031.2	2,032.2
Income associated with rental	704.6	0.0
Total	47,567.7	16,270.1

The rental income from residential properties is generated from the Friesland Portfolio of Grasmus Holding B.V., the Bremen and Hamburg Portfolios of CRE Wohnen GmbH, the East Portfolio of CRE Wohnen Zweite GmbH, the Berlin Portfolio of Wohnen Dritte GmbH, the portfolio from the Emersion and Domus Grundstücksverwaltungsgesellschaft mbH companies, and the residential portfolios of CRE Berlin Holding AG. It must be borne in mind that not all rental income from residential properties was collected for the entire fiscal year, since the properties were acquired only during the course of the year. The rental income from commercial properties is generated from leases for the properties on Ferdinand-Porsche-Strasse in Cologne, and the rental income from hotel properties is generated from usufructuary leases for the three Penta hotels in Kassel, Braunschweig and Eisenach. A detailed breakdown of income by segments is provided under Note 28.

The income from service charges on a principal basis is as follows:

EUR k	2007	2006
Residential properties	18,194.1	3,935.2
Commercial properties	275.2	255.9
Total	18,469.4	4,191.1

6. Property operating expenses

Property operating expenses include both costs that can and costs that cannot be passed on to the tenants. Costs that cannot be passed on to tenants include costs for repairs, maintenance and property management, as well as incidental expenses for vacant residential units.

7. Net income from asset and fund management

The CRE Group generated revenues of EUR 8,840.4k (prior year: EUR 3,031.1k) from asset management of properties for third parties in fiscal year 2007. The CRE Group's other service segment, Fund Management, generated EUR 2,391.2k in 2007 (prior year: EUR 0.0k). The expenses allocated to these service sectors consist primarily of personnel expenses (employees of Resolution GmbH, CRE Fonds Management GmbH and Accentro GmbH) of EUR 4,608.3k (prior year: EUR 1,789.0k) and other expenses and depreciation and amortization of EUR 5,084.1k (prior year: 599.7k). Thus the Asset and Fund Management segment generated a net profit of EUR 1,539.1k (prior year: EUR 226.4k).

Administrative expenses
 Other income (expenses), net
 Profit on disposal of investment property

Statements

8. Administrative expenses

The administrative expenses comprise the following:

EUR k	2007	2006
Personnel expenses	12,146.3	4,980.2
Legal and consulting costs	7,349.6	1,677.5
Bank charges and commissions	3,951.4	11.3
Travel and advertising costs	1,422.1	351.8
Rental and leasing costs	787.1	235.0
Tax consulting/accounting costs	429.2	171.3
Year-end and auditors' costs	421.4	350.0
Operating and office supplies	364.7	128.5
Fees/insurance/memberships	277.0	457.1
Shareholders' Meeting/mandatory publications	240.3	200.3
Depreciation and amortization	230.5	44.3
Repairs and maintenance	98.6	85.5
Vehicle costs	68.0	67.7
Other expenses	3,232.5	179.5
Total	31,018.7	8,939.8

9. Other income (expenses), net

The other income for fiscal year 2007 primarily consists of negative differences from initial consolidations (EUR 16,658.0k)

10. Profit on disposal of investment property

No investment property was sold during the year. Two portfolios were sold during the prior year. A portion of the portfolio held by Grasmus Holding B.V. with locations in Leer and Aurich was sold, as were the Cologne-Nippes properties of CRE Gewerbeimmobilien GmbH. The sale generated a net profit of EUR 7,425.8k.

**11. Finance expenses,
finance income and
losses on securities**

The net finance expense comprises the following:

EUR k	2007	2006
Interest on long-term loans	-25,210.1	-8,469.7
Interest on short-term liabilities	-2,017.0	-1,360.5
Interest expense	-27,227.1	-9,830.2
Losses on securities	-12,629.8	0.0
Income from measurement of interest hedges	6,733.6	0.0
Interest income	2,971.9	597.5
Dividend income	305.3	0.0
Finance income	10,010.8	597.5
Total	-29,846.1	-9,232.7

The presentation of interest expenses and income reflects the Group's high investment activity. For example, the companies Domus Grundstückverwaltungsgesellschaft mbH and Emersion Grundstückverwaltungsgesellschaft mbH, both headquartered in Cologne, and CRE Berlin Holding AG, were acquired through share purchases. Existing financing agreements were taken over in full by the buyer companies belonging to the Group.

Losses on securities resulted from stakes in Deutsche Wohnen AG, which were acquired in the second and third quarters of 2007. These stakes, which were initially acquired for strategic purposes, were sold off in full in the fourth quarter of 2007 because of the market's performance.

The Company uses interest rate derivatives (chiefly swaps) to hedge risks of changing interest rates in its financing. These interest rate derivatives serve solely to hedge risks of interest rate changes, and are not used for speculation. They do not meet the criteria for recognition as a hedge relationship, and therefore gains and losses on changes in fair value are recognized immediately in the income statement.

Interest rate swaps are measured at fair value using suitable mathematical valuation models. Discounting is based on the indicative market interest rates (market mean) prevailing on the reporting date, and indicative volatility figures.

The acquisition of stock of Deutsche Wohnen AG generated dividend income of EUR 305.3k (prior year: EUR 0.0k).

12. Income tax expense

The principal components of income taxes for fiscal year 2007 and 2006 were as follows:

EUR k	2007	2006
Current taxes	-1,126.2	-9,952.8
Deferred taxes		
Accrual and reversal of temporary differences	19,079.5	-1,022.3
Tax advantages offset against equity	-4,335.5	-332.4
	14,744.0	-1,354.7
Tax income / expense	13,617.8	-11,307.5

Current income taxes for the prior year were incurred primarily by Grasmus Holding B.V. for the sale of a portfolio.

The consolidated statement of changes in equity recognizes deferred taxes directly in equity by offsetting the cost of raising capital against the capital reserves, in the amount of EUR 4,335.5k (prior year: EUR 332.4k).

The 2008 corporate tax reform means that the deferred tax items will be measured at the new tax rates. This will reduce the theoretical income tax rate for Group companies from 39% to 31.6%, which includes the uniform corporate income tax rate, the German reunification surtax, and an average rate for trade tax. The deferred tax income results from the revaluation of tax rates that will apply in the future.

The actual tax on the Group's profit before taxes differs as follows from the notional figure that would result if the 39 % corporate income tax rate were applied to the same profit:

EUR k	2007	2006
Profit before taxes	53,500.0	42,443.1
Taxes computed on the basis of the national income tax rate	20,865.0	16,552.8
Local business income tax exemption for property management companies	-8,132.6	-4,272.0
Effect of first consolidation (lucky buy)	-6,496.6	0.0
Effect of lower tax rates in the Netherlands	0.0	-2,480.8
Non-deductible withholding tax	205.8	281.3
95% tax-free income	-931.7	246.3
Non-deductible interest expense on Forum bond	0.0	599.1
Tax expense for settlement payments	119.9	0.0
Other non-tax-deductible expenses	10,786.9	718.9
Adjustment of prior-year deferred taxes for trade tax	-72.3	-336.6
Taxes for prior years	-88.9	0.0
Effects of adjustment for new tax rate	-30,404.3	0.0
Other differences	531.0	-1.5
Income tax income/expense	-13,617.8	11,307.5

Deferred taxes as of December 31 comprised the following:

EUR k	Consolidated balance sheet		Consolidated income statement	
	12/31/2007	12/31/2007	2007	2006
Deferred tax credits:				
Tax losses carried forward	12,848.3	7,445.7	4,479.0	6,048.1
Elimination of interim profits	369.0	172.0	197.0	172.0
Shareholder's loan	0.0	0.0	0.0	-95.0
	13,217.3	7,617.7		
Deferred tax liabilities:				
Fair valuation of investment property	-54,154.2	-18,641.9	13,303.0	-7,084.0
Deferred taxes on equity portion of convertible bond	-397.0	-466.7	69.7	14.8
Change in fair value of an interest rate swap	-1,614.2	-104.2	-857.4	-104.2
Processing fee for Forum bond	0.0	0.0	0.0	26.0
Contract value from first consolidation	-145.9	0.0	77.8	0.0
First consolidation of properties held as current assets	-8.7	0.0	2.0	0.0
Realization of proceeds from POC	-235.5	0.0	-235.5	0.0
Deferred taxes on fair value or amortized cost of loan	-2,416.5	0.0	2,043.9	0.0
	-58,972.0	-19,212.8		
Deferred tax expense			19,079.5	-1,022.3
Deferred tax liabilities (net)	-45,754.7	-11,595.1		
Recognized in the balance sheet as follows:				
Deferred tax credits	8,116.2	4,519.7		
Deferred tax liabilities	-53,870.9	-16,114.8		
Deferred tax liabilities (net)	-45,754.7	-11,595.1		

Deferred tax credits for tax losses carried forward are recognized at the amount for which it is probable that the associated tax benefits can be realized on future taxable profits. The tax losses carried forward exist only in Germany, and therefore do not expire. The combined income tax rate of 39.0 % used in the past will decrease to 31.6 % as of 2008, as a consequence of the corporate tax reform.

Income tax expense
Personnel expenses
Stock options

The CRE Group had corporate tax loss carry-forwards of EUR 49,922.0k (prior year: EUR 20,444.6k), and trade tax loss carry-forwards of EUR 31,291.2k (prior year: EUR 16,804.4k). Group management pursues a business policy of applying tax loss carry-forwards to future taxable income, and has planned accordingly. The plans include specific measures for realizing taxable income in subsequent years.

13. Personnel expenses

The income statement contains the following total personnel expenses, divided up among expenses for asset and fund management as well as general administration costs:

EUR k	2007	2006
Wages and salaries	8,522.5	4,772.4
Performance-based compensation from acquisitions of business interests	4,000.0	0.0
Expense for share-based compensation	3,268.7	1,818.4
Social security contributions	963.4	178.4
Total	16,754.6	6,769.2

The increase in personnel expenses against the prior year resulted from the larger number of employees. The staff grew from 47 employees, including the Board of Management, to 94 as of December 31, 2007.

The performance-based compensation from acquisitions of business interests results from the second and third purchase-price installments for the acquisition of the 56% stake in Resolution GmbH in 2006. The second installment was paid in 2007. The third installment is due in 2008, and was already recognized as a liability as of the reporting date, since it was evident at the date of preparation of the financial statements that the stipulated target EBIT would be reached. In accordance with international reporting practices, these two installments are compensation for Resolution's managing partners.

The average number of employees (including the Board of Management) was:

	2007	2006
Members of the Board of Management	2.5	2.5
Permanent employees	84.5	25.0
Total	87.0	27.5

14. Stock options

The regular shareholders' meeting of June 27, 2005, authorized the Board of Management and Supervisory Board to set up a stock option plan (the 2005 Stock Option Plan). The entitled parties include the members of the Board of Management and employees of Colonia Real Estate AG. During fiscal 2007, 480,000 stock options were exercised under this plan. As of the reporting date, 60,000 stock options were still outstanding under the 2005 stock option plan.

The regular shareholders' meeting of June 6, 2006, authorized the Board of Management and Supervisory Board to set up a stock option plan (the Colonia Real Estate 2006 Stock Option Plan). The entitled parties include the members of the Board of Management of Colonia Real Estate AG, employees of Colonia Real Estate AG and of affiliated entities subordinate to it, as well as the managing directors and members of the Boards of Management of affiliated entities subordinate to the Company. A total of 910,400 options were available, 25% of which were set aside for the members of the Board of Management and 75% of which were set aside for employees of Colonia Real Estate AG and of affiliated entities subordinate to it, as well as the managing directors and members of the Boards of Management of entities subordinate to the Company. The shareholders' meeting on July 4, 2007, decided to reduce the stock option plan to 792,000 options, and to adjust the associated Conditional Capital III accordingly.

The regular shareholders' meeting of July 4, 2007, authorized the Board of Management and Supervisory Board to set up a stock option plan (the Colonia Real Estate 2007 Stock Option Plan). The entitled parties include the members of the Board of Management of Colonia Real Estate AG, employees of Colonia Real Estate AG and of affiliated entities subordinate to it, as well as the managing directors and members of the Boards of Management of affiliated entities subordinate to the Company. A total of 866,560 options are available, 15% of which are set aside for the members of the Board of Management and 85% of which are set aside for employees of Colonia Real Estate AG and of affiliated entities subordinate to it, as well as the managing directors and members of the Boards of Management of affiliated entities subordinate to the Company.

The following table shows the changes in stock options during the year:

	Date	Units	Strike price	First exercise date	End of term
Outstanding at Jan. 1, 2006		540,000	6.38		
Issued to employees	June 26, 2006	480,000	34.45	July 1, 2008	June 25, 2011
Issued to Board of Management	July 19, 2006	120,000	30.52	Aug. 1, 2008	July 18, 2011
Issued to employees	Sept. 1, 2006	60,000	29.63	Sept. 1, 2008	Aug. 31, 2011
Issued to employees	Nov. 3, 2006	20,000	28.87	Dec. 1, 2008	Nov. 2, 2011
Issued to employees	Nov. 13, 2006	60,000	27.75	Dec. 1, 2008	Dec. 11, 2011
Total granted in 2006		740,000	32.73		
Expired during period		4,000	34.45		
Outstanding at Dec. 31, 2006		1,276,000	21.57		
Exercised by Board of Management	Sept. 6, 2007	-360,000	2.90*		
Exercised by employees	Sept. 6, 2007	-60,000	2.90*		
Issued to employees	Sept. 20, 2007	186,000	25.90	Oct. 1, 2009	Sept. 20, 2012
Issued to employees	Oct. 29, 2007	120,000	21.63	Nov. 1, 2009	Oct. 28, 2012
Exercised by employees	Dec. 7, 2007	-60,000	6.79*		
Change in 2007		-174,000			
Outstanding at Dec. 31, 2007		1,102,000	28.95		

* The strike price of the stock options exercised in 2007 was adjusted retrospectively by a resolution of the Supervisory Board on July 10, 2007, so as to avert a dilution of the intrinsic value of the options as a result of capital increases.

The weighted average remaining term for these options was 3.9 years as of the reporting date. As of the reporting date, 60,000 options were eligible for exercise, at a strike price of EUR 6.79 each.

In order for options to be eligible for exercise, the average opening and closing prices of the Company's stock in Xetra trading over the last five trading days prior to the exercise date must be at least 20% above the strike price, and the option holder must have been an employee of the Company up to that time. When the entitled individual exercises the option, the strike price must be paid to the company in return for the issue of stock. Exercise of options is restricted during a period prior to the release of quarterly and semiannual results and the preliminary result for the year, and prior to the shareholders' meeting. The option terms permit the option rights to be adjusted in the event of capital increases or capital decreases.

Employee options were measured using the Black-Scholes method. On the basis of the strike prices, which were equivalent to the trading price immediately before the options were granted, and the options' term of 2 years, and assuming the earliest possible exercise, a risk-free interest rate of 3.5%, and a historical volatility of 50% for the stock over the past 250 days, the Black-Scholes method yields an option value of between EUR 6.55 and EUR 10.17. The pro-rated expense of EUR 3,268.7k for 2007 (prior year: EUR 1,818.4k) was included in the personnel expense.

15. Earnings per share

Basic

Basic earnings per share are calculated by taking the quotient between the profit attributable to providers of equity, and the average number of shares issued during the year, weighted on a daily basis, excluding shares held by the Company itself as treasury stock.

	2007	2006
Profit attributable to providers of equity (EUR k)	65,962	30,321
Average number of shares issued (in thousands)	19,909	15,463
Basic earnings per share	3.31	1.96

The average number of shares issued in 2007 is obtained from a monthly weighting of shares issued. On January 1, 2007, 15,704,000 no-par shares were in circulation. As of the reporting date, December 31, 2007, 22,465,600 basic shares had been issued.

Diluted

The diluted number of shares is calculated as the sum of the average number of shares issued plus the number of shares that could be subscribed under diluting options granted. Options are diluting if they would have been granted for the purpose of issuing common stock at a price lower than the average trading price of a share of common stock during the period. The figure for fiscal 2007 was 5,380,904 options. The total number of diluted shares was 25,289,995.

Diluted earnings are calculated by dividing the profit for the period by the number of diluted shares.

	2007	2006
Profit attributable to providers of equity (EUR k)	66,590	30,321
Average number of shares issued (in thousands)	25,290	20,007
Diluted earnings per share	2.63	1.52

16. Investment property

The Group's land and buildings were appraised by independent appraisers as of the reporting date, December 31, 2007. The appraisal was on the basis of active markets.

Changes in real estate assets

	EUR k
At Jan. 1, 2006	122,270
Additions through purchases	235,134
Disposals through sales	-47,030
Valuation movements through measurement at fair value	42,846
At Dec. 31, 2006	353,220
At Jan. 1, 2007	353,220
Additions through corporate acquisitions	505,167
Valuation movements through measurement at fair value	60,515
At Dec. 31, 2007	918,902

The indicated fair values of investment properties are based on appraisals by well-known independent appraisers in conformity with international valuation standards on the basis of comparable prices (IAS 40.45) or discounted projected net cash inflows using the DCF method (IAS 40.46). Under the DCF method, projected future cash flows from a property are discounted to the measurement date. For this purpose, the net cash flows received from a given property are calculated over a detailed planning period of ten years. These figures result by netting expected receipts against expected disbursements. While receipts as a rule represent net rents, disbursements particularly consist of the costs that the owner must assume for operating the property. The primary assumptions used for disbursements are maintenance costs of EUR 8 to EUR 16/m², management costs of approximately EUR 220/unit, operating costs for vacancies of EUR 12/vacant m², and a loss of rent risk of 1% of rental receipts. The net cash flows received for each period are discounted to the measurement date using a property-specific discount rate appropriate for the market. These rates were between 5.9% and 6.9% for 2007 (2006: between 5.0% and 6.0%). This calculation yields the net present value of the net cash flows received for the period. For the end of the detailed ten-year planning period, a residual value is projected for the measured property, reflecting the most likely price that can be obtained at the end of the detailed planning period.

In this case the discounted net cash flows received for the tenth and eleventh years are capitalized as a perpetual annuity at the capitalization interest rate (2007: 5.5 % to 6.1 %). The residual value is then likewise discounted to the measurement date using the discount rate. The total of the discounted net cash flows received and the discounted residual value yields the fair value of the property.

In the prior year, the income approach was applied in some cases, and the DCF method in others. Here the employed net property returns or cap rates varied from 5.0 % to 7.29 %.

The fair values of residential, hotel and commercial properties were measured by certified independent appraisers.

Rödl & Partner ImmoWert GmbH was engaged to prepare the market value appraisal for the hotel and commercial properties.

DTZ, London, was engaged to prepare the market value appraisal for the Elmshorn/Itzehoe, Brake/Nordenham, Berlin-Marzahn, Berlin-Nauen, Signa-Berlin and Geilenkirchen portfolios, as well as the East Portfolio.

All appraisers specialize in appraising investment properties in their various sectors.

As of December 31, 2007, material adjustments of appraisals from the prior year or from the current 2007 year resulted for investment properties. They are reconciled below in accordance with IAS 40.77:

Residential properties

The IAS 40 residential properties recognized as of December 31, 2006, were measured at EUR 307,620.0k. During the period, additional properties with a value of EUR 482,918.0k were acquired. Changes in value of EUR 60,515.3k resulted from fair valuation, and therefore residential properties show a market value of EUR 873,302.0k as of December 31, 2007.

Domus Grundstücksverwaltungsgesellschaft mbH

The company and its properties were purchased as of April 1, 2007, at a value of EUR 67,300.0k. Appreciation to a market value of EUR 4,302.2k had occurred as of December 31, 2007. The market value as of December 31, 2007, was EUR 72,205.0k.

Emersion Grundstücksverwaltungsgesellschaft mbH

The company's real estate assets were acquired as of April 1, 2007, at a fair value of EUR 329,500.0k. Appreciation to a market value of EUR 14,912.0k had occurred as of December 31, 2007. The market value as of December 31, 2007, was EUR 348,194.0k.

CRE Signa Berlin Holding AG

The stake in the company was acquired on November 1, 2007. At that date, the real estate had a market value of EUR 86,118.0k. No appreciation had occurred at December 31, 2007, and thus the properties' market value remains unchanged at EUR 86,118.0k.

Hotel properties

The carrying amount of hotel properties, EUR 31,500.0k at December 31, 2006, was taken over unchanged in the financial statements at December 31, 2007.

Commercial properties

Commercial properties were taken over unchanged into the financial statements at December 31, 2007, from the figures as of December 31, 2006. The market value was measured at EUR 14,100.0k.

Sensitivity analyses for changes in the discounting rates used

a) 0.5 percentage-point increase in interest rates

EUR m	Carrying amount at Dec. 31, 2007	Valuation with 0.5 percentage point increase in interest rate	Change
Hotel properties	31.5	29.5	-2.0
Commercial properties	14.1	13.2	-0.9
Residential properties	873.3	829.9	-43.4
Total	918.9	872.6	-46.3

b) 0.5 percentage-point decrease in interest rates

EUR m	Carrying amount at Dec. 31, 2007	Valuation with 0.5 percentage point decrease in interest rate	Change
Hotel properties	31.5	33.9	2.4
Commercial properties	14.1	15.2	1.1
Residential properties	873.3	927.9	54.6
Total	918.9	977.0	58.1

The carrying amounts of residential, commercial and hotel properties at the reporting dates were as follows:

EUR k	2007	2006
Hotel properties	31,500.0	31,500.0
Commercial properties	14,100.0	14,100.0
Residential properties	873,302.0	307,620.0
Total	918,902.0	353,220.0

Contractually assured rental income is expected as follows within the indicated time periods:

Rental income				
EUR k	1 year	1–5 years	over 5 years	Total
Hotel	2,027.0	8,108.0	17,339.6	27,474.6
(prior year)	(2,027.0)	(8,108.0)	(19,366.6)	(29,501.6)
Commercial	1,032.3	3,785.1	0.0	4,817.4
(prior year)	(1,032.3)	(4,129.2)	(688.2)	(5,849.7)
Residential properties	14,474.4	0.0	0.0	14,474.4
(prior year)	(5,905.5)	(0.0)	(0.0)	(5,905.5)
Total	17,533.7	11,893.1	17,339.6	46,766.4
(prior year)	(8,964.8)	(12,237.2)	(20,054.8)	(41,256.8)

Leases on residential properties are normally subject to 3 months' notice. Accordingly, the assured rental income for these properties is calculated for only 3 months.

Because of the acquisitions of properties during the year and the associated pro-rated rental income from these properties, rental income in 2007 is not comparable to the carrying amount of real estate assets at December 31, 2007. The properties with buildings recognized as of December 31, 2007, would have yielded total rental income of approximately EUR 59.1 million for a full fiscal year.

Property, plant and equipment, net
Intangible assets

Statements

17. Property, plant and equipment, net

Changes in assets

	EUR k	Vehicles	Business equipment	Total
Fiscal 2006				
Opening carrying amount, net		26	36	62
Additions		0	295	295
Disposals		0	-2	-2
Depreciation and amortization		4	40	44
Closing carrying amount, net		22	289	311
At December 31, 2006				
Costs of acquisition or creation		33	347	380
Accumulated depreciation		11	58	69
Carrying amount, net		22	289	311
Fiscal 2007				
Opening carrying amount, net		22	289	311
Additions		0	819	819
Disposals		8	0	8
Depreciation and amortization		13	187	200
Closing carrying amount, net		0	921	921
At December 31, 2007				
Costs of acquisition or creation		24	1.166	1,190
Accumulated depreciation		24	245	269
Carrying amount, net		0	921	921

The income statement shows lease expenses of EUR 395.0k (prior year: EUR 114.0k) for other leased property, plant and equipment.

18. Intangible assets

Intangible assets changed as follows in fiscal 2007:

	EUR k
At Jan. 1, 2006	0.0
Goodwill, Resolution GmbH	1,975.3
At Dec. 31, 2006	1,975.3
Goodwill, Accentro GmbH	407.0
Contract values, Accentro GmbH	573.6
Other additions	7.6
Current amortization	-95.6
At Dec. 31, 2007	2,867.9

The recognized goodwill is allocated to the Asset Management cash-generating unit. In the prior year, the recoverable amount of the Asset Management cash-generating unit was calculated by computing a value in use employing cash flow projections based on financial plans prepared by management for a five-year period. The profits and cash-flow contributions of the Asset Management unit for fiscal 2007 fell within the cash flow projections used in the prior year.

Current amortization is included in general administrative expenses.

19. Investments in associates and other financial assets

Under an "Investment and Shareholders' Agreement in Relation to OCM German Real Estate Holding GmbH" dated November 21, 2006, German Office GmbH acquired 4.8% of OCM Real Estate Holding GmbH. In consideration of an equity interest of EUR 1,200, German Office GmbH contributed EUR 10,332,780 in cash, and EUR 592,000 by way of an offset against a receivable, to the capital reserve of OCM German Real Estate Holding GmbH. Additionally, through this investment German Office GmbH also invested in a further real estate portfolio by paying EUR 7,391.6k on November 15, 2007. Moreover, CRE AG holds a 15% interest in the Schanzenstrasse project company, at EUR 551.2k, and CRE Immobilien GmbH holds 2.75% of Dischhaus, at EUR 92.4k. Interests of 10.0% each in ML.Arg Real Estate 1 through 8 S.a.r.L. were acquired as of May 25, 2007. These interests are held through Luxembourg Merrill Lynch investment companies, and include various property locations around Germany. A purchase price of EUR 22.9k was paid for each equity interest. Loans totaling EUR 3,714.1k were also extended to these holdings.

There is no active market for these equity interests. Additionally, no adequately reliable valuation is possible for these minority interests, so that no fair value is indicated for them.

20. Properties held for sale

During the year, CRE Fonds Management GmbH entered into purchase agreements for a total of five nursing homes, with the aim of marketing this diversified portfolio as a closed-end fund. As of the reporting date, the risks and rewards of the Monheim and Malente homes had already been transferred to Careinvest Drei GmbH & Co. KG (acquisition costs, including incidental acquisition costs, EUR 19,325.1k). Incidental acquisition costs were capitalized as of the reporting date for the other three homes (EUR 1,396.3k). Because these properties were acquired for immediate resale, they are recognized under current assets as properties held for sale.

CRE Wohneigentum acquired a property in Landshut, with the aim of privatizing it. A purchase price of EUR 2,618.5k was paid, including incidental acquisition costs. The acquisitions were financed through borrowings. Collateral was furnished in the form of a land charge for EUR 2,500.00k.

A residential portfolio priced at EUR 680.0k was acquired through the purchase of a 70% interest in Accentro GmbH. Accentro GmbH is a service provider for privatizing residential portfolios.

21. Receivables and other assets

Trade receivables are primarily the companies' uncollected rents, incidental rental costs and receivables for the Asset Management unit (Dec. 31, 2007: EUR 10,030.0k; prior year: EUR 2,642.1k). The receivables were evaluated as a function of their collectibility, and were written down accordingly if necessary.

Write-downs on trade receivables changed as follows in 2007 and 2006:

At Jan. 1, 2006 EUR k	Additions EUR k	At Dec. 31, 2006 EUR k	Additions EUR k	Used EUR k	Reversals EUR k	At Dec. 31, 2007 EUR k
311.5	276.4	587.9	1.642.2	0.0	-562.5	1,667.6

Trade receivables of EUR 1,552.9k (prior year: EUR 294k) were derecognized in fiscal 2007.

The companies' other assets were primarily VAT refund credits, income tax refund credits, and receivables from employees and members of the Board of Management.

The trade receivables have the following maturity structure:

EUR k	Total	Neither written down nor overdue	0-90 days	91-180 days	181-360 days	>360 days
Fiscal year 2007						
Trade receivables	10,030.0	1,741.3	1,294.4	6,275.7	347.3	371.3
Miscellaneous assets	7,736.5	819.2	6,917.2	0.0	0.0	0.0
	17,766.5	2,560.6	8,211.7	6,275.7	347.2	371.3
Fiscal year 2006						
Trade receivables	2,642.1	0.0	1,145.7	308.5	716.2	471.7
Miscellaneous assets	2,601.9	0.0	1,743.4	0.0	750.0	108.5
	5,244.0	0.0	2,889.1	308.5	1,466.2	580.2

22. Derivative financial instruments

The Company uses interest rate derivatives (chiefly swaps) to hedge risks of changing interest rates on its financing. These interest rate derivatives serve solely to hedge risks of interest rate changes, and are not used for speculation. They do not meet the criteria for recognition as a hedge relationship, and therefore gains and losses on changes in fair value are recognized immediately in the income statement.

Interest rate swaps are measured at fair value using suitable mathematical valuation models. Discounting is based on the indicative market interest rates (market mean) prevailing on the reporting date, and on indicative volatility figures.

The fair value of the interest rate swaps at the reporting date was EUR 10,003.0k (prior year: EUR 395.0k). The nominal value of the interest rate swaps at December 31, 2007, was EUR 397,585.1k (prior year: EUR 77.0k).

23. Cash and cash equivalents

Short-term bank deposits bear interest at the daily rate.

For purposes of the consolidated cash flow statement, cash and cash equivalents comprised the following:

Cash in hand and bank balances for purposes of the cash flow statement comprise			
	EUR k	12/31/2007	12/31/2006
Cash and cash equivalents		26,224.0	35,999.1
Current account credit lines		-2,571.1	-4.9
		23,652.9	35,994.2

CRE had pledged bank accounts with a total credit balance of EUR 15,752.0k (prior year: EUR 4,621.2k) as of the reporting date. The liens extend to all present and future rights to disbursement of the credit balances in the pledged accounts. The liens secure all current and future claims of the lienholder against CRE arising from or connected with the applicable loan agreements. CRE is entitled to make use of the credit balances in the pledged accounts in the ordinary course of business. The lien remains in effect and valid, without restriction, until all secured claims have been satisfied.

24. Equity*Issued capital*

The Company's issued no-par shares, which have been fully paid in and have a notional value of EUR 1 per share, changed as follows:

	Units	EUR k
At Jan. 1, 2006	3,569,200	3,569
Issued on February 28, 2006, in satisfaction of a demand for exercise of 500 options held by Forum European Realty Income S.à.r.L., Luxembourg	100,000	100
Cash capital increase (March 2, 2006)	239,342	239
Issued in exchange for 56% of Resolution GmbH	17,458	17
Subtotal	3,926,000	3,926
Capital increase from reserves under resolution of shareholders' meeting on June 6, 2006	0	11,778
At Dec. 31, 2006, following four-for-one stock split	15,704,000	15,704
At Jan. 1, 2007	15,704,000	15,704
Cash capital increase (May 2007)	6,281,600	6,282
Exercise of stock options (August 2007)	420,000	420
Exercise of stock options (December 2007)	60,000	60
At Dec. 31, 2007	22,465,600	22,466

The issue price for the cash capital increase in 2007 was EUR 28.50 per share.

A subscription price of EUR 2.90 per share was calculated for the exercised 420,000 stock options. The Board of Management exercised options for 360,000 no-par shares, and employees exercised options for 60,000 no-par shares.

Another 60,000 stock options were exercised by employees in December 2007. The issue price was calculated at EUR 6.79.

The shareholders' meeting on July 4, 2007, resolved to amend Article 4 (Share Capital, Conditional Capital, Authorized Capital) and Article 16 (Compensation) of the articles of incorporation. Conditional Capitals II, III, and IV were reduced. New Conditional Capitals V and VI were approved. The former Authorized Capital was suspended and a new Authorized Capital was approved.

Authorized Capital

The Board of Management has been authorized, subject to the consent of the Supervisory Board, to increase the Company's share capital on one or more occasions on or before July 3, 2012, by up to a total of EUR 10,992,800.00, by issuing new bearer shares of no-par stock in return for contributions in cash or in kind (2007 Authorized Capital). The Board of Management may exercise this authorization for any purpose permitted by law, but only up to a total of EUR 6,698,500.00 for the purpose of issuing stock to service exercised conversion rights or options for holders of convertible bonds or bonds with warrants already issued or to be issued in the future under the authorization granted by the shareholders' meetings of June 27, 2005 (in the version of the amending resolutions of June 6, 2006, and July 4, 2007) and of July 4, 2007.

Conditional Capital

The share capital has been conditionally increased by up to EUR 4,500,000, by the issue of up to 4,500,000 no-par bearer shares, each having a notional value of EUR 1.00 of the share capital (Conditional Capital I). The conditional capital increase will be carried out only to the extent that holders of stock options without bonds with warrants issued up to August 1, 2009, under the authorization from the shareholders' meeting of August 24, 2004, exercise their right to subscribe for the Company's stock.

The Company's share capital has been conditionally increased by up to EUR 540,000.00, divided into up to 540,000 no-par bearer shares, by the issue of new stock (Conditional Capital II). The conditional capital increase is to serve to grant subscription rights to members of the Company's Board of Management and employees under the authorization for a "2005 Stock Option Plan" approved by the shareholders' meeting on June 27, 2005, as amended by the amending resolution of June 6, 2006.

The Company's share capital has been conditionally increased by up to EUR 792,000.00, divided into up to 792,000 no-par bearer shares, by the issue of new stock (Conditional Capital III). The conditional capital increase is to serve for the issue of stock to service exercised subscription rights (stock options) granted to members of the Board of Management of the Company, employees of the Company and of affiliated entities subordinate to it, and to the managing directors and members of the Boards of Management of affiliated entities subordinate to the Company under the authorization for a "Colonia Real Estate 2006 Stock Option Plan" approved by the shareholders' meeting on June 6, 2006, as amended by the amending resolution of July 4, 2007.

The Company's share capital has been conditionally increased by up to EUR 1,505,993.00, divided into up to 1,505,993 no-par bearer shares, by the issue of new stock (Conditional Capital IV). The conditional capital increase is to serve to grant subscription rights to holders or creditors under convertible bonds or bonds with warrants issued by the Company under the authorization of June 27, 2005, as amended by the amending resolutions of June 6, 2006, and July 4, 2007.

The Company's share capital has been conditionally increased by up to EUR 866,560.00, divided into up to 866,560 no-par bearer shares, by the issue of new stock (Conditional Capital V). The conditional capital increase is to serve for the issue of stock to service exercised subscription rights (stock options) granted to members of the Board of Management of the Company, employees of the Company and of affiliated entities subordinate to it, and to the managing directors and members of the Boards of Management of affiliated entities subordinate to the Company under the authorization for a "Colonia Real Estate 2007 Stock Option Plan" approved by the shareholders' meeting on July 4, 2007.

The share capital has been conditionally increased by up to EUR 2,788,247.00, divided into up to 2,788,247 no-par bearer shares (Conditional Capital VI). The conditional capital increase is to serve to grant stock to holders or creditors under convertible bonds or bonds with warrants issued by the Company or by a subordinate Group company on or before July 3, 2012, under the authorization from the shareholders' meeting of July 4, 2007.

Other reserves

In addition to additional payments received from capital increases, the other reserves include the equity component of the convertible bond, less deferred taxes and the personnel expense for share-based compensation. The reserves have been reduced by the cost of raising capital, less deferred taxes.

Stock option plans

The company has established stock option plans under which the members of the Board of Management and certain other executives have been granted options to subscribe for the Company's stock (Note 14).

Convertible bond

The Company has issued a convertible bond under which creditors are granted the right to exchange the bond for the underlying shares at the conversion price within the conversion period.

25. Interest-bearing liabilities and convertible bond

EUR k	12/31/2007	12/31/2006
Noncurrent		
Financial liabilities	498,357.8	113,928.5
Convertible bond	53,983.7	52,304.4
	552,341.5	166,232.9
Current		
Financial liabilities	64,836.3	26,911.4
Bank overdraft	2,571.1	4.9
	67,407.4	26,916.3
Total interest-bearing liabilities	619,748.9	193,149.2

The interest-bearing liabilities include secured liabilities (financial debt) of EUR 563,194.1k (prior year: EUR 140,839.9k). Of this figure, EUR 563,194.1k (prior year: EUR 135,830.0k) is secured by land and buildings with a total carrying amount of EUR 918,902.0k (prior year: EUR 350,471.8k).

On December 7, 2006, the Company issued a convertible bond with a total par value of EUR 54,964.0k. The bonds are certificated in a global certificate without interest coupons. The bonds establish direct, unconditional, non-junior, unsecured liabilities of the Company that all have the same seniority among themselves and are at least as senior as all other present and future unsecured, non-junior liabilities of the Company, except as provided otherwise by law. The bonds accrue interest on their par value at 1.875% of par p.a. as of the inception of the interest accrual period. Interest is payable annually, in arrears, on each interest payment date. The first interest payments were due on December 7, 2007. The bonds will be redeemed on their maturity date at their accrued par value plus accumulated interest, unless they have been redeemed, converted or retired and cancelled before that date. The Company is entitled to recall the entire bond issue after December 21, 2009. A prerequisite is that the stock's trading price over a period of at least 20 successive trading days must be at least 130% of the accrued par value applicable at the time. The creditors' conversion rights could be exercised for the first time as of January 17, 2007. The conversion period ends on November 25, 2011. The initial conversion price per underlying share was EUR 39.524. A conditional capital up to a total of EUR 1,781,600 was established for underlying shares by the shareholders' meeting of June 6, 2006, to cover the convertible bond.

The principal long-term interest-bearing liabilities have the following maturities and effective interest rates:

Carrying amount at Dec. 31, 2007 in EUR k	Fair value at Dec. 31, 2007 in EUR k	Carrying amount at Dec. 31, 2006 in EUR k	Fair value at Dec. 31, 2006 in EUR k	Maturity	Interest rate	
166,374.0	164,759.6	0.0	0.0	Aug. 14, 2013	fixed**	5.59%
67,576.5	67,198.1	67,500.0	67,781.4	Jan. 20, 2014	fixed**	5.50%
66,829.1	65,628.0	0.0	0.0	Jan. 20, 2014	fixed**	5.13%
* 53,983.7	52,887.5	52,304.4	52,304.4	Dec. 7, 2011	fixed	5.06%
41,224.7	40,734.6	0.0	0.0	Aug. 14, 2013	fixed**	5.54%
36,863.2	36,725.5	0.0	0.0	May 15, 2017	fixed	5.50%
33,703.4	34,018.2	0.0	0.0	Apr. 18, 2014	fixed	6.08%
25,208.2	24,781.5	0.0	0.0	Dec. 31, 2011	fixed**	5.70%
20,147.1	20,147.1	0.0	0.0	Apr. 18, 2008	variable	n. d.
12,700.0	12,642.5	0.0	0.0	Dec. 31, 2014	fixed**	5.95%
2,960.7	2,960.7	0.0	0.0	Dec. 31, 2014	variable	n. d.
18,195.0	12,668.2	0.0	0.0	Sept. 30, 2037	fixed	2.90%
13,129.9	13,129.9	0.0	0.0	variable term	variable	n. d.
11,657.3	11,657.3	11,792.0	11,792.0	Dec. 31, 2008	variable	n. d.
9,587.9	8,728.8	0.0	0.0	July 1, 2025	fixed**	5.95%
9,871.8	9,871.8	9,990.0	9,990.0	Nov. 2, 2008	variable	n. d.
9,218.2	9,140.1	9,508.2	9,506.8	Aug. 30, 2012	fixed**	5.21%
5,945.8	5,945.8	6,482.9	6,482.9	Dec. 31, 2008	variable	n. d.
4,407.9	4,211.7	4,500.0	4,637.1	Oct. 31, 2016	fixed	5.02%
2,898.6	2,922.6	2,898.6	3,050.0	July 30, 2012	fixed	5.75%
2,571.2	2,571.2	0.0	0.0	variable term	variable	n. d.
2,372.1	2,356.4	0.0	0.0	Oct. 31, 2017	fixed**	5.75%
1,889.1	1,889.1	0.0	0.0	July 1, 2025	variable	n. d.
433.5	433.5	0.0	0.0	May 12, 2008	fixed	6.75%
0.0	0.0	19,531.7	19,118.8	Jan. 18, 2013	fixed**	4.55%
0.0	0.0	6,236.5	6,236.5	variable to	variable	n. d.
0.0	0.0	2,400.0	2,400.0	variable term	variable	n. d.
619,748.9	608,009.7	193,144.3	193,299.9			

* Convertible bond

** Hedged with interest rate derivatives

Yield curves plus relevant credit margins were used to calculate fair values.

**26. Accounts payables,
trade and other
payables**

EUR k	12/31/2007	12/31/2006
Account payables, trade	22,228.8	92,093.1
Social security contributions and other taxes	517.7	123.3
Other payables	14,496.8	6,888.0
Total	37,243.3	99,104.4

Account payables, trade include payment obligations to consultants, appraisers, and suppliers for services not yet invoiced. The trade payables for 2006 are primarily the purchase price obligation of EUR 83,200k for the purchase of the Helle Aue Portfolio.

The other payables are primarily a liability of EUR 6,143.6k to minority shareholders of Resolution GmbH, the purchase price installment of EUR 5,000k still outstanding for purchases of equity interests, and EUR 1,143.6k for settlement claims under the profit and loss transfer agreement. This item also includes the purchase price obligation of EUR 1,279.7k for the purchase of an interest in Signa AG, loans from a major shareholder, security deposits, VAT liabilities of the Group, and services not yet invoiced that will be due for payment in the new year.

**27. Information on
financial assets and
liabilities, and
financial instruments**

The following table shows the carrying amounts and fair values of the financial instruments included in the consolidated financial statements:

2007

EUR k	Measurement category per IAS 39	Carrying amount 12/31/2007	Amortized cost	Fair Value – no influence on profit or loss	Fair Value through profit or loss	Fair Value 12/31/2007
Assets						
Equity investments	AFS	21,359.4	21,359.4	0.0	0.0	n/a
Other financial assets	LaR	3,714.1	3,714.1	0.0	0.0	3,714.1
Receivables and other assets	LaR	17,766.5	17,766.5	0.0	0.0	17,766.5
Derivative financial assets	aFVtpl	10,003.0	0.0	0.0	10,003.0	10,003.0
Cash and cash equivalents	LaR	26,224.0	26,224.0	0.0	0.0	26,224.0
Liabilities						
Financial liabilities (long-term and short-term)	FLAC	563,194.1	563,194.1	0.0	0.0	552,551.0
Bank overdraft	FLAC	2,571.1	2,571.1	0.0	0.0	2,571.1
Convertible bond	FLAC	53,983.7	53,983.7	0.0	0.0	52,887.5
Trade and other payables	FLAC	37,243.3	37,243.3	0.0	0.0	37,243.3

2006

EUR k	Measurement category per IAS 39	Carrying amount 12/31/2006	Amortized cost	Fair Value – no influence on profit or loss	Fair Value through profit or loss	Fair Value 12/31/2006
Assets						
Equity investments	AFS	11,112.9	11,112.9	0.0	0.0	n/a
Other financial assets	LaR	124.0	124.0	0.0	0.0	124.0
Receivables and other assets	LaR	4,848.9	4,848.9	0.0	0.0	4,848.9
Derivative financial assets	aFVtpl	395.0	0.0	0.0	395.0	395.0
Cash and cash equivalents	LaR	35,999.0	35,999.0	0.0	0.0	35,999.0
Liabilities						
Financial liabilities (long-term and short-term)	FLAC	140,839.9	140,839.9	0.0	0.0	140,995.5
Bank overdraft	FLAC	4.9	4.9	0.0	0.0	4.9
Convertible bond	FLAC	52,304.4	52,304.4	0.0	0.0	52,304.4
Trade and other payables	FLAC	99,104.5	99,104.5	0.0	0.0	99,104.5

Cash and cash equivalents, trade receivables, other financial assets, bank overdraft, trade payables and other financial liabilities have short remaining terms. Consequently the carrying amounts as of the reporting date are the same as the fair values. The fair value for financial debt and for the convertible bond was determined as the present value of the payments associated with the liability on the basis of the yield curve applicable at the reporting date.

The net result per measurement category is as follows:

2007

In EUR k	From subsequent measurement					Net profit/loss 12/31/2007
	from interest	from dividends	at fair value	Impairment/ write-backs	from disposal	
Loans and receivables (LaR)	2,971.9	0.0	0.0	-1,632.6	0.0	1,339.3
Available-for-sale financial assets (AfS)	0.0	305.3	0.0	-750.0	-12,629.8	-13,074.5
Financial assets at fair value through profit or loss (aFVtpl)	0.0	0.0	6,733.6	0.0	0.0	6,733.6
Financial liabilities at amortized cost (FLAC)	-27,227.1	0.0	0.0	0.0	0.0	-27,227.1

2006

In EUR k	From subsequent measurement					Net profit/loss 12/31/2006
	from interest	from dividends	at fair value	Impairment/ write-backs	from disposal	
Loans and receivables (LaR)	597.4	0.0	0.0	-570.4	0.0	27.0
Available-for-sale financial assets (AfS)	0.0	0.0	0.0	0.0	0.0	0.0
Financial assets at fair value through profit or loss (aFVtpl)	0.0	0.0	395.0	0.0	0.0	395.0
Financial liabilities at amortized cost (FLAC)	-9,830.2	0.0	0.0	0.0	0.0	-9,830.2

At December 31, 2007, the Group's financial liabilities had the following maturities. The information is based on the contractual payments without discounting.

Fiscal year ended December 31, 2007

EUR k	1 month or less	1 to 3 months	3 to 12 months	1 to 5 years	over 5 years
Financial liabilities	3,635.3	5,571.2	83,703.6	146,616.5	499,766.7
Convertible bond	0.0	0.0	1,030.6	63,997.3	0.0
Bank overdraft	2,571.1	0.0	0.0	0.0	0.0
Trade and other payables	27,165.3	8,681.3	396.7	1,000.0	0.0
	33,371.7	16,777.5	85,130.9	211,613.8	499,766.7

Fiscal year ended December 31, 2006

EUR k	1 month or less	1 to 3 months	3 to 12 months	1 to 5 years	over 5 years
Financial liabilities	240.9	8,118.8	8,223.4	55,090.5	109,175.3
Convertible bond	0.0	0.0	1,030.6	65,027.9	0.0
Bank overdraft	4.9	0.0	0.0	0.0	0.0
Trade and other payables	93,462.6	5,264.5	0.0	377.4	0.0
	93,708.4	13,383.3	9,254.0	120,495.8	109,175.3

The following table shows the sensitivity of the consolidated profit before taxes to a change in interest rates deemed reasonably possible (based on the impact on variable-interest loans and interest rate swaps). All other variables remain constant. There is no impact on equity:

In EUR k	Variable-interest loans	Interest rate swaps
	Impact on pre-tax profit	Impact on pre-tax profit
2007		
Increase by 100 basis points	-277.8	17,443.0
Decrease by 100 basis points	277.8	-19,809.7
2006		
Increase by 100 basis points	-18.7	419.5
Decrease by 100 basis points	18.7	-479.8

28. Segment reporting

Under IAS 14, the certain information in the annual financial statements is to be segmented by line of business and geographical area; the segmentation is to be based on internal reporting that permits a reliable estimate of the Group's risks and earnings. The segmentation is intended to show transparently the profitability and prospects for future success of the Group's various activities.

The Group is managed by way of business segments that are grouped together on the basis of the economic characteristics of their business, the nature of their products and production processes, and the nature of their customer relationships or characteristics of their sales organizations. At present the Group consists of five segments: commercial, residential and hotel properties, asset management, and fund management.

Intra-Group items are eliminated in the reconciliation column. Additionally, this column contains individual income and expense items, as well as assets and liabilities, that cannot be allocated to the segments directly. These items pertain primarily to the management operations of Colonia Real Estate AG.

2007

	EUR k	Residential	Commercial	Hotel	Asset Management	Fund Management	Reconciliation	Group
Income								
external		126,970.0	1,438.9	2,160.0	9,679.7	2,413.3	16,992.3	159,654.2
internal		0.0	0.0	0.0	6,175.8	0.0	-6,175.8	0.0
Operating profit before finance cost		67,777.6	1,181.1	357.7	5,517.0	-96.4	8,609.1	83,346.1
Depreciation and amortization		98.3	0.0	13.2	174.8	60.8	118.9	466.0
Other noncash expenses		0.0	0.0	0.0	0.0	0.0	3,268.7	3,268.7
Segment assets		916,765.9	32,864.2	31,836.8	12,271.0	21,469.5	18,689.2	1,033,896.6
Segment liabilities		16,065.2	10.7	136.9	2,773.9	555.6	691,885.1	714,351.5
Capital expenditures		482,927.5	0.0	0.0	723.6	60.6	10,573.5	494,285.1

2006

	EUR k	Residential	Commercial	Hotel	Asset Management	Fund Management	Reconciliation	Group
Income								
external		108,416.3	9,781.2	7,316.4	3,031.1	0.0	0.0	128,545.0
internal		0.0	0.0	0.0	2,750	0.0	-2,750	0.0
Operating profit before finance cost		48,049.4	3,513.5	7,155.2	3,560.6	-693.3	-9,909.6	51,675.8
Depreciation and amortization		0.0	0.0	4.6	3.7	2.0	34.0	44.3
Other noncash expenses		0.0	0.0	0.0	0.0	0.0	1,818.4	1,818.4
Segment assets		341,799.3	26,305.6	32,660.6	3,925.4	8,124.1	7,338.0	420,153.0
Segment liabilities		92,741.7	62.8	195.7	1,679.4	7,380.0	217,940.5	320,000.1
Capital expenditures		235,733.3	11,141.1	0.0	20.3	0.0	254.5	247,149.2

Segment assets are the operating assets that are used by a segment for its business activities and that either are directly allocated to the segment or can be allocated to the segment on a reasonable basis. The segment assets do not include income taxes.

Segment liabilities are the operating liabilities that result from segment's business activities and that either are directly allocated to the segment or can be allocated to the segment on a reasonable basis. The liabilities are allocated to the individual segments after deducting current and deferred tax liabilities and the finance debts.

29. Commitments and contingencies

Capital commitments

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

Commitments as lessee under operating leases

The Group leases office space, vehicles and office equipment under non-cancellable operating leases. There are neither options to buy nor options to extend beyond the base lease term. Future cumulative minimum lease payments under non-cancellable operating leases are as follows:

	in EUR m	2007	2006
Up to 1 year		1.1	0.6
More than 1 year up to 5 years		2.4	1.7
More than 5 years		0.3	0.0
		3.8	2.3

Property management agreements for commercial and residential properties

The CRE Group has entered into property management agreements for its commercial and residential properties that result in the following minimum commitments:

	in EUR m	2007	2006
Up to 1 year		3.1	0.9
More than 1 year up to 5 years		6.2	3.6
More than 5 years		2.7	3.6
		12.0	8.1

30. Related party transactions

Under IAS 24, "Related Party Disclosures," transactions with related entities and individuals must be reported. The Board of Management and the Supervisory Board, as well as shareholders, are to be considered related parties within the meaning of IAS 24.9.

Swiss Real Estate AG, of Zug, Switzerland, is a major shareholder of Colonia Real Estate AG, and holds approximately 25.5% of its stock. The remaining shares are in free float, primarily among institutional investors in Germany and other countries.

Management holding key positions at the Colonia Real Estate Group is the Supervisory Board and the Board of Management. The compensation to these individuals comprises the following:

Total compensation paid to the Supervisory Board and Board of Management

EUR k	2007	2006
Compensation to the Supervisory Board came to	83.7	47.6
Total compensation paid to the Board of Management came to	2,217.5	2,357.6
consisting of:		
for Rind	1,158.4	804.9
for Reichert	800.4	558.6
for Grosch*	0.0	47.0
for Krauß**	0.0	455.4
for Wittkop***	258.7	0.0
including the following variable components:	1,674.5	1,036.6
for Rind	896.7	612.9
for Reichert	597.8	408.6
for Grosch*	0.0	15.0
for Krauß**	0.0	0.0
for Wittkop***	180.0	0.0

* Mr. Grosch from January 1 through April 11 of 2006

** Mr. Krauß from January 1 through June 2 of 2006

*** Mr. Wittkop from August 14 of 2007 onward

At the reporting date, there were receivables from the Board of Management in the amount of EUR 632.0k, resulting from the withholding tax obligations initially assumed by the Company. These receivables bear interest at 5.0% p.a. The intent is to offset these receivables against the profit-sharing entitlements of the Board of Management for fiscal year 2007.

The status of stock options issued in 2006 to the Board of Management and not yet exercised as of the reporting date was as follows:

	Units	Fair value of stock options* in EUR
Rind	60,000	547,800
Reichert	60,000	547,800
Wittkop	60,000	610,200

* Fair value as of date of grant calculated using the Black/Scholes option pricing model.

31. Corporate Governance

The Group very largely follows the recommendations of the German Corporate Governance Code in the currently applicable version of June 14, 2007. The Supervisory Board and Board of Management issued the declaration regarding the Corporate Governance Code as required under Sec. 161 of the German Stock Corporations Act on February 22, 2008. The text of the current declaration can be found on the Internet at www.cre.ag.

32. Fees for group auditors

In fiscal 2007, as in the prior year, the fully consolidated companies of the Colonia Real Estate AG Group agreed upon the following fees with the independent auditor of the consolidated financial statements, Ernst & Young AG Wirtschaftsprüfungsgesellschaft Steuerberatungsgesellschaft, of Cologne.

Fees for Group Auditors

	EUR k	2007	2006
Audit of financial statements		641.0	180.5
Tax consulting services		351.0	20.0
Other attestation services		1,609.0	0.0

33. Events after the balance sheet date

Under the step-up equity financing agreed upon in 2007 with Société Générale, the first tranche of 360,000 shares using Authorized Capital was sold to the bank in February 2008.

On February 8, 2008, the Company signed a joint venture agreement with Merrill Lynch Global Principal Investments ("ML-GPI") for the purchase of a mixed portfolio of commercial and residential properties from a German insurance company. The purchase price was approximately EUR 75 million. Merrill Lynch is responsible for 90% of the transaction value, and Colonia Real Estate is involved as a co-investor with a 10 % share.

The acquired portfolio comprises 28 properties at nine locations in Germany, with a total area of approximately 69,000 m². About 40 % of this is residential space, and 60 % is commercial space. A major portion of the portfolio is located in Munich, Berlin, Hanover, Frankfurt, Düsseldorf and Cologne.

CRE's asset management subsidiary CRE Resolution GmbH assisted ML-GPI in the transaction as an advisor, and will handle asset management for the portfolio. ML-GPI and CRE AG are planning to optimize the return on the portfolio by making a lasting reduction in vacancy rates and upgrading the properties.

On March 11, 2008, the company announced a EUR 100 million cooperation and master agreement with the listed solar equipment maker Systaic AG for the delivery of solar power systems to equip residential properties.

Cologne, March 31, 2008

Colonia Real Estate AG



Stephan Rind



Klaus Reichert



Christoph Wittkop

Responsibility Statement in conformity with Sec. 37y No.1 of the German Securities Trading Act (WpHG) in association with Sec. 297 (2) Sentence 4 and Sec. 315 (1) Sentence 6 of the German Commercial Code (HGB)

“To the best of our knowledge, and in accordance with the applicable reporting principles, the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of the Group, and the management report of the Group includes a fair review of the development and performance of the business and the position of the Group, together with a description of the principal opportunities and risks associated with the expected development of the Group.”

Cologne, March 31, 2008

Colonia Real Estate AG



Stephan Rind



Klaus Reichert



Christoph Wittkop

Audit opinion

We have audited the consolidated financial statements prepared by Colonia Real Estate AG, Cologne, comprising the consolidated balance sheet, the consolidated income statement, the consolidated cash flow statement, the consolidated statement of changes in equity and the notes to the consolidated financial statements, together with the group management report, which was combined with the management report of the parent company, for the fiscal year from January 1, to December 31, 2007. The preparation of the consolidated financial statements and the management report for the parent company and the group in accordance with IFRSs as adopted by the EU, and the additional requirements of German commercial law pursuant to Sec. 315a (1) HGB [“Handelsgesetzbuch”: “German Commercial Code”] are the responsibility of the parent company’s management. Our responsibility is to express an opinion on the consolidated financial statements and on the group management report based on our audit.

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

Our audit has not led to any reservations.

In our opinion, based on the findings of our audit, the consolidated financial statements comply with IFRSs as adopted by the EU, the additional requirements of German commercial law pursuant to Sec. 315a (1) HGB and give a true and fair view of the net assets, financial position and results of operations of the Group in accordance with these requirements. The management report for the parent company and the group is consistent with the consolidated financial statements and as a whole provides a suitable view of the Group’s position and suitably presents the opportunities and risks of future development.

Cologne, April 9, 2008

Ernst & Young AG
Wirtschaftsprüfungsgesellschaft
Steuerberatungsgesellschaft

Schröder	Erdle
Wirtschaftsprüfer	Wirtschaftsprüferin