



Colonia Real Estate AG

Quarterly Financial Report Q1 2008

Interim Group Management Report for the First Quarter of 2008

Business Development and Position of the Group

In fiscal year 2007, Colonia Real Estate AG enjoyed immense growth in every segment. Now, in 2008, the Company is focusing on realizing potential for added value through systematic, sustained asset management.

The total income increased without proceeds from disposal by 67.4% to EUR 23.6 million (prior year: EUR 14.1 million). However, the consolidated result decreased to EUR -10.1 million (prior year: EUR 5.2 million) due to an extraordinary effect from the devaluation of interest swaps in the amount of EUR 8.5 million. The rental income developed positive as planned. The rental income and the service charge income tripled compared to the corresponding prior year quarter to EUR 21.6 million (prior year: EUR 7.5 million). Deducting the property operating expenses, a net rental income of EUR 10.1 million (prior year: EUR 6.9 million) were achieved. The US-subprime crisis and the reluctant granting of loans had still a negative impact on the transaction area in the first quarter 2008. This led to a decrease of the proceeds from the asset and fund management to EUR 1.2 million (prior year: EUR 6.1 million) and a net result in this area of EUR -0.4 million (prior year: EUR 4.8 million).

The various segments performed as described below in the first quarter of 2008.

Investments in residential properties

The acquisitions carried through in 2007 expanded the Group's holdings in high-return residential portfolios to about 19,800 units, with the main emphasis in Germany. In managing the residential portfolio, we outperformed our plans.

Residential portfolios performed as expected again in the first quarter of 2008. Vacancies at the Berlin properties were kept low, after being lowered by more than 50% last year. The Maximilian portfolio in Salzgitter has been taken over in the past few months and the repositioning by Colonia Real Estate's asset manager has been started. The outside building manager there is now implementing the associated new rental approaches. Vacancies rose slightly in the past three months, primarily as a result of seasonal factors. In the next few months, the new activities to promote rentals lead us to expect substantial successes in lowering vacancy rates. Vacancies were intentionally left high at the portfolios currently undergoing modernization – particularly Elmshorn / Itzehoe, Brake and Geilenkirchen – so that the substantially improved units could be rented out on better terms.

Our "Sustainable Living" program, which until now has primarily targeted thermal insulation upgrades, has now been expanded to include the use of alternative energy sources. 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.

Co-investments in commercial properties

In previous years, Colonia Real Estate AG and its subsidiaries have engaged in co-investments in commercial properties with such partners as Merrill Lynch Global Principal Investments, JPMorgan Asset Management, UBS Global Asset Management, Strategic Value Partners LLC, and Oaktree. Total investments in minority interests came to about EUR 21.4 million as of the end of 2007.

In the first quarter of 2008, Colonia Real Estate AG has closed 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 roughly EUR 75 million. Colonia Real Estate has a 10% stake as a co-investor. 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. ML-GPI and Colonia Real Estate AG are planning to optimize the return on the portfolio by making a lasting reduction in vacancy rates and upgrading the properties.

The contract signed in 2007 with the U.S. investor Strategic Value Partners LLC for Colonia Real Estate AG to acquire 10% of a project company – which in July 2007 acquired the Serail portfolio of fully occupied office properties in Berlin from Berliner Verkehrsbetriebe (BVG) – took effect in the first quarter of 2008. The portfolio has a total gross floor space of about 59,000 m².

Colonia's asset management subsidiary CRE Resolution GmbH assisted in these transactions as an advisor, and will handle asset management for the portfolios.

Asset and fund management

The Asset and fund management business is handled by three companies: CRE Resolution GmbH, CRE Accentro GmbH and CRE Fonds Management GmbH.

CRE Resolution GmbH handles asset management for the properties in the CRE Group's own portfolio and the portfolios in which the Company holds an interest as a co-investor. At the end of 2007, the total assets under management came to about EUR 3 billion. Additionally, CRE Resolution GmbH acts as a transaction consultant for the Group's co-investments.

CRE Accentro GmbH operates in the privatization of residential properties. The own portfolio of properties to be privatized currently comes to about EUR 3.8 million and the privatization volume from third parties amounts to a value of EUR 250 million in real estate properties .

Colonia Fonds Management GmbH operates in the preparation of structured fund products. In fiscal year 2007 it successfully placed its first structured products, Careinvest I and II, which emphasized nursing homes. The buyer was an open-end real estate specialty fund. The continuing demand for the product led Colonia Fonds Management to design an additional nursing-home fund the same year. In early April 2008, it agreed to set up a closed-end nursing-home fund for private investors with the issuing company HGA Capital, a subsidiary of HSH Real Estate AG. The new nursing-home fund will also include the nursing home properties already included in the portfolio of Colonia Fonds Management GmbH.

Net Assets, Financial Position and Results of Operations

Results of Operations

The vast expansion of the Group's operations in fiscal year 2007 means that the earnings position for the first quarter of 2008 is comparable only to a limited degree with the corresponding values for the first quarter of 2007. The Group's earnings for the first quarter of 2008 were pulled down by the exceptional effect of the market valuation of interest-rate hedges. The volatile environment in the capital market caused a reduction of about 40 basis points in the underlying yield curves as of the reporting date, compared to December 31, 2007. The result was a write-down of EUR 8.5 million on interest-rate swaps for the first quarter of 2008. Without this exceptional effect, the consolidated pre-tax loss would have been EUR 3.2 million.

in EUR k	Jan. 1, 2008 - March 31, 2008	Jan. 1, 2007 - March 31, 2007	Change
Net rental income	10,071.4	6,936.7	3,134.7
Net income from Asset and Fund Management	-424.3	4,806.3	-5,230.6
Administrative expenses	-6,494.8	-2,499.4	-3,995.4
Other income (expenses), net	757.8	457.4	300.4
Earnings before interest and taxes	3,910.1	9,701.0	-5,790.9
Finance results	-15,693.9	-2,090.1	-13,603.8
Consolidated results before tax	-11,783.8	7,610.9	-19,394.7
Income tax	1,685.1	-2,427.5	4,112.6
Consolidated results	-10,098.7	5,183.4	-15,282.1

The rental of investment properties generated EUR 21.6 million (prior year: EUR 7.5 million) in rental income and income from incidental expenses that can be passed on to tenants. This income was countered by expenses of EUR 11.6 million (prior year: EUR 0.6 million), so that rentals generated net income of EUR 10.1 million (prior year: EUR 6.9 million).

Income from asset and fund management operations decreased substantially against the corresponding period last year, by EUR 5.2 million, to reach EUR –0.4 million. Most of this change resulted from the fact that asset management operations yielded no transaction income in the first quarter of 2008 (unlike the first quarter of 2007), and there was no income from the placement of funds. Realization of this income depends directly on the consummation date of the transactions involved, and can therefore distort the picture in the quarterly view.

Administrative expenses rose to EUR 6.5 million as a consequence of the expansion of business operations (prior year: EUR 2.5 million), and consist primarily of personnel expenses, legal and consulting costs, and expenses for stock options.

The finance result was EUR 15.7 million (prior year: EUR 2.1 million). The increase results from the larger volume of financing, and from write-downs of EUR 8.5 million on interest-rate swaps (prior year: EUR 0.0 million).

The recognized income tax income of EUR 1.7 million, compared to a tax expense of EUR 2.4 million for the equivalent prior-year period, resulted primarily from the reduction of deferred tax liabilities in connection with the fair valuation of interest-rate swaps.

Net Assets and Financial Position

The net assets and financial position of the CRE Group as of March 31, 2008, had not changed significantly against December 31, 2007. The equity ratio at March 31, 2008, was 30.6%, compared to 31.2% at December 31, 2007. Thus the figure is slightly above the targeted range of 25-30%.

in EUR k	March 31, 2008	Dec. 31, 2007	Change
Assets			
Non-current assets	962,198.3	955,881.1	6,317.2
Current assets	75,908.7	78,015.5	-2,106.8
Total assets	1,038,107.0	1,033,896.6	4,210.4
Equity and liabilities			
Equity	317,376.7	322,469.2	-5,092.5
Non-current liabilities	606,976.5	606,212.4	764.1
Current liabilities	113,753.8	105,215.0	8,538.8
Total equity and liabilities	1,038,107.0	1,033,896.6	4,210.4

Non-current assets largely consist of investment property (EUR 924.2 million; 12/31/2007: EUR 918.9 million) and minority interests in real estate companies (EUR 21.6 million; 12/31/2007: EUR 21.4 million). The increase in non-current assets resulted primarily from investments associated with the reconditioning of individual investment properties (EUR 5.3 million).

Current assets include properties held for sale in asset and fund management operations, at EUR 24.4 million (12/31/2007: EUR 24.0 million). Of this figure, EUR 20.6 represents nursing home properties, and EUR 3.8 million represents residential properties intended for privatization.

Interest-rate derivatives, which are recognized among current assets and measured at fair value, declined to EUR 1.5 million as of March 31, 2008, because of a write-down of EUR 8.5 million.

This reduction in current assets was countered by a rise of EUR 6.3 million in cash and cash equivalents. Cash funds (liquid funds less current-account liabilities) at the reporting date came to EUR 32.5 million (12/31/2007: EUR 23.6 million). The changes in cash funds for the first quarter of 2008 were as follows:

in EUR k	Jan. 1, 2008 - March 31, 2008	Jan. 1, 2007 - March 31, 2007	Change
Cash flows from operating activities	3,739.8	49,889.1	-46,149.3
Cash flows used in investing activities	-5,660.1	-124,618.1	118,958.0
Cash flows from financing activities	10,816.7	128,051.6	-117,234.9
Net change in cash and cash equivalents	8,896.4	53,322.6	-44,426.2
Cash and cash equivalents at the beginning of the period	23,652.9	35,994.2	
Cash and cash equivalents at the end of the period	32,549.3	89,316.8	

The cash generated by operating activities in the first quarter of 2008, at EUR 3.7 million, was significantly affected by a refinancing of property held for sale. A further loan of EUR 8.2 million was taken out in the first quarter of 2008 in connection with these properties. Without these borrowings attributable to operating activities, operating activities would have yielded a negative cash flow of EUR 4.5 million. Most of the cash generated by operating activities in the same quarter of last year resulted from a purchase price obligation that was recognized as a liability.

The EUR 5.7 million in cash used for investing activities in the first quarter of 2008 resulted primarily from investments associated with the reconditioning of individual investment properties. The cash used in the same quarter of last year resulted primarily from acquisition activities.

Financing activities generated cash of EUR 10.9 million in the first quarter of 2008. In arriving at this figure, EUR 6.7 million was generated from borrowings and EUR 5.5 million came from a capital increase. These cash inflows were countered by loan repayments of EUR 1.0 million, and costs of EUR 0.4 million associated with the capital increase. Most of the cash generated in the first quarter of 2007 came from borrowings.

In February 2008, a capital increase of 360,000 no-par shares was carried out by way of step-up equity financing under a master agreement signed with Société Générale in fiscal year 2007. The result was a cash inflow of EUR 5.5 million in the first quarter of 2008, which should be used to finance the equity needs for the acquisition of solar power systems in connection with the cooperation with systaic AG. This capital increase was countered by a loss of EUR 10.1 million on the period, so that equity decreased EUR 5.1 million in the first quarter of 2008.

Short-term and long-term debt did not change materially at March 31, 2008, against December 31, 2007. Most business operations are financed with long-term borrowings. The proportion of long-term debt relative to total debt at the end of the quarter was 84% (12/31/2007: 85%).

Risk and Opportunity Report

The material risks and opportunities inherent in future development are described in detail in the Group and parent-company management report for fiscal year 2007, and did not change significantly in the first quarter of 2008.

Events after the Reporting Date

On April 30, 2008, Klaus Reichert resigned as the Company's CFO for health reasons. The Supervisory Board of Colonia Real Estate AG appointed Mr. Ingmar Schmitt as CFO, effective May 1, 2008. Mr. Schmitt's contract will run initially until December 31, 2008. He was a member of the Supervisory Board of Colonia Real Estate AG in 2005 and 2006. After completing a degree in commerce at the University of Cologne, he began his career with the Coopers & Lybrand accounting firm (now PWC). Working with an internationally listed corporate consulting firm, he assisted in a variety of major M&A transactions. He held an executive position as corporate accounting manager for a listed holding company in Hamburg. He was most recently a partner at Schmitt & Partner corporate consultants. This firm specializes in advising listed corporate groups on optimizing their accounting processes and consolidated financial statements, particularly in connection with M&A transactions, and on integrating subsidiaries. His activities included advising companies on converting their consolidated financial statements to IFRS for purposes of IPOs.

Additionally, the Supervisory Board renewed the contract of Colonia Real Estate CEO Stephan Rind for another five years.

Report on Expected Developments

Colonia Real Estate AG did not escape the repercussions of the ongoing uncertainty in the international financial markets in the first quarter. The effects were especially evident in the asset management business, where the banks' refinancing restrictions have caused international financial investors to move cautiously in

the market, major portfolio transactions have been absent, and only smaller transactions were available for advisory service. The operation's accustomed growth has therefore been impeded.

The impact of rising oil prices and declining interest rates within the past few months increase the uncertainty of any projection for 2008.

But despite the uncertainties in the international financial markets, the major German market research institutes and the Institut der deutschen Wirtschaft continue to expect overall economic growth in Germany to be stable in 2008, amounting to between 1.5% and 2%.

This growth, and particularly the robust job market, will continue to lend positive momentum to the real estate market in regard to potential rent increases and reduction of vacancies. Thanks to our very strong asset management skills and the infrastructure already in place, we assume that in 2008 we will again be able to reduce vacancies faster than average, while at the same time raising average rents.

Increasingly promising signals in discussions with investors and banks reflect their positive assessment of the German real estate market, and their interest in returning to the market in growing numbers as buyers, once interest rates decline.

We expect a larger volume of attractive portfolio transactions in the next few months, especially if there is a lasting relaxation of the current difficult refinancing conditions.

Because of its strategic long-term focus as a leading integrated real-estate and investment-asset manager, the Colonia Real Estate Group 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 proviso 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 in 2008, 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 with institutional investors 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 business, and thus generate increasing income from management fees and commissions. It is assumed that the average transaction size is likely to shift from few large to several smaller transactions. 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 Colonia Real Estate Group's market strategy is now also being looked at not only by institutional investors, but by investors with a strategic long-term orientation, such as pension funds.

For 2007, the Board of Management and Supervisory Board will propose for the first time that the Company should pay a dividend, amounting to EUR 0.25 per share. The amount of future dividends will depend on operating profits.

Management generally holds firm to its projections for fiscal year 2008. However, whether these projections can be achieved will depend on further developments in the market environment, which has been so adversely affected by the crisis in the financial markets.

Consolidated balance sheet

Assets	in EUR k	March 31, 2008	December 31, 2007
Assets			
Investment properties		924,167.2	918,902.0
Property, plant and equipment, net		911.3	921.5
Intangible assets		2,820.1	2,867.9
Investments in associates		21,553.2	21,359.4
Other financial assets		3,757.5	3,714.1
Deferred tax assets		8,989.0	8,116.2
Total non-current assets		962,198.3	955,881.1
Properties held for sale		24,448.6	24,019.8
Receivables and other assets		17,443.5	17,768.7
Derivative financial instruments		1,467.3	10,003.0
Cash and cash equivalents		32,549.3	26,224.0
Total current assets		75,908.7	78,015.5
Total assets		1,038,107.0	1,033,896.6

Consolidated balance sheet

Equity and liabilities	in EUR k	March 31, 2008	December 31, 2007
Equity and Liabilities			
Equity			
Subscribed capital		22,825.6	22,465.6
Other reserves		222,424.9	216,635.2
Treasury stock		-42.5	-42.5
Retained earnings		71,836.6	81,705.7
Total shareholders' equity		317,044.6	320,764.0
Minority interests		332.1	1,705.2
Total equity		317,376.7	322,469.2
Liabilities			
Non-current liabilities			
Financial liabilities		500,210.1	498,357.8
Convertible bond		54,241.4	53,983.7
Deferred tax liabilities		52,525.0	53,870.9
Total non-current liabilities		606,976.5	606,212.4
Current liabilities			
Bank overdraft		0.0	2,571.1
Financial liabilities, current portion		77,836.5	64,836.3
Account payables, trade and other payables		35,295.3	37,243.3
Tax liabilities		622.0	564.3
Total current liabilities		113,753.8	105,215.0
Total liabilities		720,730.3	711,427.4
Total equity and liabilities		1,038,107.0	1,033,896.6

Consolidated income statement

	in EUR k	Jan. 1, 2008 - March 31, 2008	Jan. 1, 2007 - March 31, 2007
Total income (excluding finance income)		23,627.1	14,088.6
Total expenses (excluding finance costs)		-19,717.0	-4,387.6
Gross rental income from investment properties		14,729.4	7,545.3
Service charge income on principal basis		6,893.9	0.0
Property operating expenses		-11,551.9	-608.6
Net rental income		10,071.4	6,936.7
Proceeds from Asset and Fund Management		1,230.9	6,081.7
Expenses for Asset and Fund Management		-1,655.2	-1,275.4
Net income from Asset and Fund Management		-424.3	4,806.3
Administrative expenses		-6,494.8	-2,499.4
Other income		772.9	461.6
Other expenses		-15.1	-4.2
Other income (expenses), net		757.8	457.4
Profit on disposal of investment properties		0.0	0.0
Valuation movements		0.0	0.0
Earnings before interest and tax		3,910.1	9,701.0
Finance expenses		-16,287.3	-2,422.7
Finance income		593.4	332.6
Finance results		-15,693.9	-2,090.1
Consolidated results before tax		-11,783.8	7,610.9
Income tax		1,685.1	-2,427.5
Consolidated results		-10,098.7	5,183.4
Attributable to:			
Equity holders of the parent		-9,869.1	4,123.2
Minority interests		-229.6	1,060.2
Consolidated results		-10,098.7	5,183.4
Earnings per share			
	in EUR		
Basic		-0.44	0.27
Diluted		-0.35	0.19

Consolidated cash flow statement

in EUR k	Jan. 1, 2008 - March 31, 2008	Jan. 1, 2007 - March 31, 2007
Operating activities		
Consolidated results	-10,098.7	5,183.4
Plus finance results	15,693.9	2,090.1
Plus income tax	-1,685.1	2,427.5
= Net operating profit before finance results and tax	3,910.1	9,701.0
Share-based compensation	909.0	0.0
Depreciation / Amortization	215.7	30.2
Changes in properties held for sale	-514.1	-1,090.3
Changes in financial liabilities attributable to properties held for sale	8,200.0	0.0
Changes in receivables	325.2	-22,381.3
Changes in liabilities	-3,320.5	69,302.0
Cash generated from operations	9,725.4	55,561.6
Interest paid	-6,576.7	-2,422.7
Interest received	593.3	332.6
Income taxes paid	-2.2	-3,582.4
Cash flows from operating activities	3,739.8	49,889.1
Investing activities		
Capital expenditure on investment properties	-5,265.2	-121,560.0
Acquisition of other property, plant and equipment	-157.6	-2,583.7
Payment for investments in associates and loans	-237.3	-474.4
Cash flows used in investing activities	-5,660.1	-124,618.1
Financing activities		
Proceeds from issue of share capital	5,490.0	0.0
Payment of transaction costs for issue of share capital	-408.6	0.0
Proceeds from borrowings	6,709.7	130,451.6
Repayment of borrowings	-974.4	-2,400.0
Cash flows from financing activities	10,816.7	128,051.6
Net change in cash and cash equivalents	8,896.4	53,322.6
Cash and cash equivalents at beginning of period	23,652.9	35,994.2
Cash and cash equivalents at end of period	32,549.3	89,316.8

Changes in consolidated equity

in EUR k	Equity attributable to equity holders of the parent					Minority interest	Total
	Subscribed capital	Other reserves	Retained earnings	Treasury stock	Total		
At Jan. 1, 2007	15,704.0	46,258.2	37,244.5	0.0	99,206.7	946.2	100,152.9
Changes of minority interest	0.0	0.0	0.0	0.0	0.0	393.3	393.3
Profit for the period	0.0	0.0	4,123.2	0.0	4,123.2	1,060.2	5,183.4
At March 31, 2007	15,704.0	46,258.2	41,367.7	0.0	103,329.9	2,399.7	105,729.6
At April 01, 2007	15,704.0	46,258.2	41,367.7	0.0	103,329.9	2,399.7	105,729.6
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
Exercise of stock 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
Changes in capital due to acquisitions	0.0	0.0	-21,500.9	0.0	-21,500.9	-227.0	-21,727.9
Changes of minority interest	0.0	0.0	0.0	0.0	0.0	-563.0	-563.0
Profit for the period	0.0	0.0	61,838.9	0.0	61,838.9	95.5	61,934.4
At Dec. 31, 2007	22,465.6	216,635.2	81,705.7	-42.5	320,764.0	1,705.2	322,469.2
At Jan. 01, 2008	22,465.6	216,635.2	81,705.7	-42.5	320,764.0	1,705.2	322,469.2
Cash capital increase	360.0	5,130.0	0.0	0.0	5,490.0	0.0	5,490.0
Cost of cash capital increase after tax	0.0	-249.3	0.0	0.0	-249.3	0.0	-249.3
Share-based compensation	0.0	909.0	0.0	0.0	909.0	0.0	909.0
Changes of minority interest	0.0	0.0	0.0	0.0	0.0	-1,143.5	-1,143.5
Loss for the period	0.0	0.0	-9,869.1	0.0	-9,869.1	-229.6	-10,098.7
At March 31, 2008	22,825.6	222,424.9	71,836.6	-42.5	317,044.6	332.1	317,376.7

Selected Notes to the Consolidated Interim Financial Statements at March 31, 2008

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.

Reporting Principles

In compliance with Sec. 37x (3) and Sec. 37w (2) of the German Securities Trading Act (WpHG) in conjunction with Sec. 37y of the same act, the quarterly financial report of Colonia Real Estate AG includes both consolidated interim financial statements and a interim group management report. The consolidated interim financial statements were prepared under International Financial Reporting Standards (IFRS) for interim reporting (IAS 34). The consolidated interim financial statements at March 31, 2008, should be read in association with the consolidated financial statements at December 31, 2007.

The interim group management report was prepared in compliance with the applicable provisions of the German Securities Trading Act.

The quarterly financial report was not reviewed by the independent auditors, nor has it been audited as provided under Sec. 317 of the German Commercial Code (HGB).

Accounting Principles

In accordance with Sec. 315a of the German Commercial Code, the consolidated interim financial statements were prepared in conformity with IFRSs as they apply in the European Union (EU), and with the interpretations of the International Financial Reporting Interpretations Committee (IFRIC). Colonia Real Estate AG applies all standards of the International Accounting Standards Board (IASB) 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 interim financial statements.

During the reporting period covered by the consolidated interim financial statements, the following interpretations already adopted by the European Commission took effect:

- *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 has no impact on the consolidated financial statements at present.
- *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 therefore has no impact on the Group.
- *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 has no impact on the Group's net assets, financial position and results of operations.

The preparation of consolidated financial statements in accordance with IFRS requires management in some cases to make estimates and assumptions in regard to recognition and measurement that may affect the amounts of income, expenses, assets or liabilities recognized at the reporting date. More complex areas and areas that involve broader scope for estimation are explained in the consolidated financial statements at December 31, 2007, as are any areas in which assumptions and estimates are of critical importance for the consolidated interim financial statements. Actual values may deviate from estimates.

Scope of consolidation

The consolidated financial statements comprise the financial statements of Colonia Real Estate AG and all its subsidiaries as of March 31, 2008. Subsidiaries' financial statements are prepared using the same accounting policies and the same reporting year as the financial statements of the parent company. The Group has not changed since the consolidated financial statements at December 31, 2007, and has a total of 36 subsidiaries, 27 of them in Germany and 9 of them in other countries.

Consolidation principles

The principles of consolidation applied in the consolidated interim financial statements at March 31, 2008, do not differ from those used in the consolidated financial statements at December 31, 2007.

Recognition and measurement principles

The principles for recognition and measurement applied in the consolidated interim financial statements at March 31, 2008, do not differ from those used in the consolidated financial statements at December 31, 2007.

Exceptional effects of market valuation of interest-rate hedges

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 fair-valued using suitable mathematical models. Discounting is based on the indicative market interest rates (market mean) prevailing on the reporting date, and on indicative volatility figures.

The volatile environment in the capital market caused a reduction of about 40 basis points in the underlying yield curves as of the reporting date, compared to December 31, 2007. The result was a write-down of EUR 8,535.8k on interest-rate swaps for the first quarter of 2008. The fair value of interest-rate swaps at the reporting date was EUR 1,467.2k (December 31, 2007: EUR 10,003.0k).

Capital increase in Q1 2008

In February 2008, a capital increase of 360,000 no-par shares was carried out by way of step-up equity financing under a master agreement signed with Société Générale in fiscal year 2007. The result was a cash inflow of EUR 5,490.0k in the first quarter of 2008. The costs of EUR 249.3k (after tax) incurred in this connection were charged directly to other reserves.

Segment reporting

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 that cannot be allocated to the segments directly. These items pertain primarily to the management operations of Colonia Real Estate AG.

Q1 - 2008

in EUR k	Residential	Commercial	Hotel	Asset Management	Fund Management	Re-conciliation	Group
Income	21,510.2	363.9	529.7	1,147.2	368.4	-292.3	23,627.1
EBIT	7,678.5	250.5	464.0	-309.7	-62.0	-4,111.2	3,910.1

Q1 - 2007

in EUR k	Residential	Commercial	Hotel	Asset Management	Fund Management	Re-conciliation	Group
Income	6,811.9	350.9	530.4	4,066.2	2,329.2	0.0	14,088.6
EBIT	4,938.5	271.2	527.2	3,004.5	1,971.2	-1,011.6	9,701.0

Related party transactions

Related party transactions have not changed from the consolidated financial statements at December 31, 2007.

Cologne, May 15, 2008

Colonia Real Estate AG

The Board of Management