



Colonia Real Estate AG

*Half-Year Report 2008*

## Interim Group Management Report for the first half-year of 2008

### Business Developments and Position of the Group

In 2008, Colonia Real Estate AG is focusing on realizing potential for added value through systematic, sustained asset management, and by selling individual portfolios. Active asset management was further able to reduce vacancies in parts of the residential portfolio during the first half-year. Creative marketing and pricing strategies have been particularly effective here. The improvement in tenant service and the active guidance of building management have also had a positive effect. This mix of approaches is now to be applied to all portfolios. The very extensive reconditioning work being done in some portfolios is advancing on schedule, and will be completed this fall.

Rental earnings increased once again. Compared to the same period last year, rental earnings for the first half-year 2008 were up EUR 2.9 million here, to EUR 18.4 million. Rental income grew as expected. The difficult environment in the financial and capital markets continued to hamper transactions operations, an area of major importance to CRE Resolution, which specializes in transaction consulting and processing. Consequently the asset and fund management business generated net income of only EUR 0.6 million in the first half-year 2008 (prior year: EUR 5.8 million). In all, the Group showed a consolidated loss of EUR 2.0 million for the first half of 2008, compared to a consolidated profit of EUR 2.1 million for the same period last year (after adjustment for the reappraisal of properties).

Despite the difficult financing environment, almost all financial debt due in 2008 was refinanced early. Compared to December 31, 2007, the ratio of long-term debt to total debt improved consequently by 5 percentage points to 90%. The consolidated equity ratio, at 30.7%, is still above the targeted range of 25-30%. The various segments performed as described below in the first half of 2008.

### Investments in residential properties

The acquisitions carried out 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 handily met our planned targets.

Residential portfolios performed as expected again in the second quarter of 2008. Vacancies at the Berlin properties were kept low, after already being reduced by more than 50% last year. The Maximilian portfolio in Salzgitter has been taken over by the asset manager CRE Resolution in the past few months, and a vigorous repositioning campaign has begun. Positive net absorption was achieved in all three months of the second quarter. This welcome development also continued in July. Hence the new rental activities lead us to expect substantial successes in lowering vacancy rates in the second half of 2008. Once the work is completed in the portfolios currently undergoing modernization and restoration – particularly Elmshorn / Itzehoe and

Geilenkirchen – the substantially improved properties can be rented out on better terms. The average net “cold” rent by re-letting for the Elmshorn / Itzehoe portfolios has already risen to EUR 5.65 per m<sup>2</sup>, compared to about EUR 4.65 for 2007.

Most of the energy renovation work on the building shell in Elmshorn / Itzehoe will be finished by the end of August. In parallel, the residential units are being modernized and marketing is being stepped up. We already expect take-up to revive significantly in the second half of 2008.

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 the turnkey installation of photovoltaic systems for a total of up to EUR 100 million. This includes cooperation in alternative energy sources making use of the roofs of residential and commercial properties.

As part of our active portfolio management, management is considering shedding some residential and commercial properties, and has already begun concrete negotiations for the sale.

### **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. The total investment for minority interests, including loans granted, came to EUR 27.0 million as of the end of June 2008.

In the first quarter of 2008, Colonia Real Estate AG entered into 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 m<sup>2</sup>. 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.

In the second quarter, we initiated a third joint venture with Merrill Lynch Global Principal Investments for the joint acquisition of a residential portfolio with holdings in Southern Germany and Berlin. The portfolios comprise 139,000 m<sup>2</sup> of space, or about 2,000 residential units. We expect to generate substantial appreciation by increasing rents at existing properties, and through active asset management. The investment has a medium-term horizon. For the first time, it includes the conclusion of an agreement for asset management of a residential portfolio by our subsidiary CRE Resolution GmbH, which until then had worked exclusively for the CRE Group in this segment.

Effective at the end of 2008, OCM German Real Estate Holding AG has exercised its right of exceptional termination of the asset management agreement with CRE Resolution GmbH for the Herkules portfolio.

A 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 m<sup>2</sup>.

CRE Resolution GmbH assisted the investors in the 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 Colonia 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.

In commercial asset management, we had very good leasing results for our clients in the first half. About 40,000 m<sup>2</sup> of space were leased out to new tenants, and leases for existing tenants were renewed for 31,000 m<sup>2</sup>. The leasing markets continue to trend upward all over Germany. The reconditioning work being done on some properties is proceeding on schedule. The Pepper portfolio (a JV with Merrill Lynch), announced in 2007, has been gradually turned over to asset management.

In transactions, we investigated a few properties and some small and medium-sized portfolios, but there were no acquisitions. Financing options are limited, and prices are declining. In contrast to 2006/2007, there are no large portfolios at present. But we foresee good prospects for interesting individual investments or smaller portfolios in the second half of 2008 and in 2009. For that reason, we have further expanded our transaction team, and we expect higher revenues from this business in the second half of 2008. There are institutional buyers who wish to profit from the current declining markets, and who are slowly positioning themselves to step in.

Strategically, we expanded our refurbishment/development operations by taking over Cover Projektentwicklung GmbH. We acquired an experienced team of eight employees, and expanded our local presence with the company's office in Düsseldorf. This line of business is expected to make an above-average contribution to asset management earnings. We expect it to give us the capacity to process and acquire multiple projects in parallel. At the same time, we will expand our corporate real estate operations, which we expect to yield synergy effects with our other operations.

Our asset management arrangement with Oaktree Capital Management will end on December 31, 2008. As planned, Oaktree will handle asset management in the future through its own platform, German Acorn GmbH. We are in interesting discussions regarding new asset management engagements, both with and without co-investments, and we expect new contracts to be signed during the second half of 2008.

CRE Accentro GmbH operates in asset management for residential properties, primarily in privatization. Here it works both for third parties and for such Group companies as CRE Wohneigentum GmbH. Privatization engagements for third parties exceed EUR 250 million in all. Activities currently emphasize Berlin, the Rhine-Main region, and the Munich metropolitan area.

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 acquire additional nursing homes that same year, and to design a closed-end real estate fund. This fund, Careconcept 1, is being placed as a closed-end nursing-home fund for private investors, in a joint venture with the issuer HGA Capital, a subsidiary of HSH Real Estate AG. The fund includes both the nursing homes already in the portfolio of Colonia Fonds Management GmbH and a nursing home owned by HSH Real Estate AG. The total investment for the fund is EUR 74.7 million, with equity of EUR 35.5 million to be placed. The placement phase will begin in September 2008.

## Net Assets, Financial Position and Results of Operations

### Results of Operations

The consolidated loss for the first half of 2008 was EUR 2.0 million, compared to a profit of EUR 47.3 million for the same period last year. Most of last year's profit resulted from income from the reappraisal of real estate portfolios as of June 30, 2007. Without that appraisal effect, the profit for last year would only have been around EUR 2.1 million. Most of the current year's loss comes from substantially higher administrative expenses caused by the Group's rapid growth, along with smaller contributions to income from asset and fund management operations.

in EUR k	April 1, 2008 - June 30, 2008	April 1, 2007 - June 30, 2007	Jan. 1, 2008 - June 30, 2008	Jan. 1, 2007 - June 30, 2007
Net income from disposal of trading properties	215.3	0.0	215.3	0.0
Administrative expenses	-9,140.6	-7,406.1	-15,635.4	-9,905.5
Other income (expenses), net	1,271.4	191.7	2,029.2	649.1
Net loss from disposal of investment properties	0.0	-546.0	0.0	-546.0
Net income from valuation	0.0	61,462.7	0.0	61,462.7
<b>Earnings before interest and taxes</b>	<b>1,708.8</b>	<b>63,307.9</b>	<b>5,618.9</b>	<b>73,008.9</b>
Financial results	8,635.6	-9,417.2	-7,058.3	-11,507.2
<b>Consolidated results before tax</b>	<b>10,344.4</b>	<b>53,890.7</b>	<b>-1,439.4</b>	<b>61,501.7</b>
Income tax	-2,272.8	-11,747.4	-587.7	-14,174.9
<b>Consolidated results</b>	<b>8,071.6</b>	<b>42,143.3</b>	<b>-2,027.1</b>	<b>47,326.8</b>

The rental of investment properties generated EUR 43.2 million (prior year: EUR 23.7 million) in rental income and income from incidental expenses that can be passed on to tenants. This income was countered by expenses of EUR 24.8 million (prior year: EUR 8.1 million), so that rentals generated net income of EUR 18.4 million (prior year: EUR 15.5 million).

Income from asset and fund management operations decreased substantially against the equivalent period last year, from EUR 5.8 million, to EUR 0.6 million. Most of this change resulted from the fact that asset management operations yielded less transaction income in the first half of 2008 than in the first half of 2007, and there was no income from the placement of funds.

In the second quarter of 2008, CRE Wohneigentum generated its first income from the disposal of trading properties. The gross proceeds were EUR 2.4 million, and yielded a profit of EUR 0.2 million.

Administrative expenses rose to EUR 15.6 million as a consequence of the expansion of business operations (prior year: EUR 9.9 million), and consist primarily of personnel expenses, legal and consulting costs, and expenses for stock options.

The financial result for the first half of 2008 was EUR -7.1 million (prior year: an expense of EUR 11.5 million). Because of the volatile capital market environment, the yield curves used as a basis in measuring interest-rate swaps declined at first during the first half of 2008, yielding an expense of EUR 8.5 million for the first quarter of the year. But the substantial rise in yield curves as of June 30, 2008, more than compensated for this expense, so that interest-rate swaps were written up by EUR 16.6 million against March 31, 2008. Thus, the cumulative effect of the measurement of interest-rate swaps in the first half of the year was positive, at EUR 8.1 million. Without this effect, the financial result would have been EUR -15.2 million. The increase in this expense against the same period last year, on an adjusted basis, is primarily the consequence of the larger volume of financing.

The substantially higher income taxes for the prior-year period resulted primarily from expenses for deferred tax liabilities associated with the income from the reappraisal of real estate portfolios at June 30, 2007.

### **Net Assets and Financial Position**

Because of sales now pending for individual real estate portfolios, the assets (EUR 122.0 million) and liabilities (EUR 79.2 million) attributable to these properties are recognized separately in the first-half financial statements. The composition of these items is explained in the notes to the consolidated financial statements.

The capital structure improved further in the first half of 2008. Refinancing and extensions raised the proportion of long-term debt relative to total debt by 5 percentage points against December 31, 2007, to 90%. The equity ratio at June 30, 2008, was 30.7%, compared to 31.2% at December 31, 2007. Thus, the figure is still above the targeted range of 25-30%. These key figures were calculated without taking account of the change in recognition principles mentioned above.

in EUR k	June 30, 2008	Dec. 31, 2007	Change
<b>Assets</b>			
Non-current assets	859,761.7	955,881.1	-96,119.4
Current assets	64,576.4	78,015.5	-13,439.1
Assets of a disposal group classified as held for sale	121,958.2	0.0	121,958.2
<b>Total assets</b>	<b>1,046,296.3</b>	<b>1,033,896.6</b>	<b>12,399.7</b>
<b>Equity and liabilities</b>			
Equity	320,852.3	322,469.2	-1,616.9
Non-current liabilities	577,597.6	606,212.4	-28,614.8
Current liabilities	68,644.9	105,215.0	-36,570.1
Liabilities directly associated with assets held for sale	79,201.5	0.0	79,201.5
<b>Total equity and liabilities</b>	<b>1,046,296.3</b>	<b>1,033,896.6</b>	<b>12,399.7</b>

Non-current assets largely consist of investment property (EUR 819.3 million; 12/31/2007: EUR 918.9 million) and minority interests and loans to real estate companies (EUR 27.0 million; 12/31/2007: EUR 25.1 million). Most of the decrease in non-current assets results from the reclassification of assets held for sale (EUR 117.6 million). This effect was partly counteracted by investments associated with the reconditioning of certain investment properties, at EUR 18.0 million.

Properties held for sale, which are recognized as current assets, decreased EUR 20.2 million against December 31, 2007. The decrease is for nursing homes that are held by Careinvest Drei GmbH & Co. KG, and that have now been deconsolidated as part of the joint placement with the issuer HGA Capital, a subsidiary of HSH Real Estate AG. The other properties included in this item are residential properties planned for privatization, at EUR 3.8 million.

Interest-rate derivatives, which are likewise recognized among current assets and measured at fair value, increased again because of rising interest rates, and came to EUR 16.3 million as of June 30, 2008 (12/31/2007: EUR 10.0 million).

Cash funds (liquid funds less bank overdrafts) at the reporting date came to EUR 24.1 million (12/31/2007: EUR 23.7 million). The changes in cash funds for the first half of 2008 were as follows:

in EUR k	Jan. 1, 2008 - June 30, 2008	Jan. 1, 2007 - June 30, 2007	Change
Cash flows used in/from operating activities	-2,429.7	2,031.2	-4,460.9
Cash flows used in investing activities	-20,131.8	-439,759.4	419,627.6
Cash flows from financing activities	23,113.5	569,574.3	-546,460.8
<b>Net change in cash and cash equivalents</b>	<b>552.0</b>	<b>131,846.1</b>	<b>131,294.1</b>
Cash and cash equivalents at the beginning of the period	23,652.9	35,994.2	
Changes in the scope of consolidation	-92.7	0.0	
<b>Cash and cash equivalents at the end of the period</b>	<b>24,112.2</b>	<b>167,840.3</b>	

Cash used for operating activities in the first half of 2008 came to EUR 2.4 million. After adjustment for interest received and paid, and for tax payments, the cash generated by operating activities for the first half of 2008 comes to EUR 11.0 million.

The EUR 20.1 million in cash used for investing activities in the first half of 2008 resulted primarily from investments associated with the reconditioning of certain investment properties (EUR 18.0 million) and payments made for co-investments (EUR 1.9 million). The cash used in the same period last year resulted primarily from acquisition activities.

Financing activities generated cash of EUR 23.1 million in the first half of 2008. In calculating this figure, EUR 46.4 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 22.7 million, the dividend payment of EUR 5.7 million, and costs of EUR 0.4 million associated with the capital increase. The cash inflow in the first half of 2007 resulted primarily from the capital increase and from draws on loans.

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 half of 2008. In June 2008, Colonia Real Estate AG paid a dividend for the first time. The distribution of EUR 0.25 per share, as approved by the shareholders' meeting, caused equity to decrease by EUR 5.7 million.

Non-current liabilities largely consists of financial liabilities (EUR 473.7 million; 12/31/2007: EUR 498.4 million), convertible bonds (EUR 54.5 million; 12/31/2007: EUR 54.0 million), and deferred taxes (EUR 49.3 million; 12/31/2007: EUR 53.9 million). Allowing for the liabilities reclassified in association with assets held for sale, long-term liabilities increased by EUR 44.5 million to EUR 650.8 million. Most of this increase came from refinancing and extensions of financial liabilities. Short-term liabilities decreased accordingly for the first half of the year.

## **Changes in the Board of Management**

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 a listed international 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 how to optimize their accounting processes and the preparation of their 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.

Christoph Wittkop, who was in charge of asset management, resigned from the Board of Management of Colonia Real Estate AG as of August 1, 2008. In the future he will concentrate entirely on his capacity as spokesman for the management of CRE Resolution GmbH, which role he held until now in parallel to the membership in the Management Board, and focus on expanding the Group's asset management operations.

## **Risk Report**

The uncertainties in the financial and capital markets are now having a substantial effect on the German real estate sector. Because of limited financing options, only a few real estate transactions went through in the first half of 2008. For that reason, revenues at CRE Resolution, which specializes in transaction consultation and processing, have been well below the planned figures this year. Although management is confident that the transaction business will pick up again in the second half, the market situation means that further declines are not out of the question.

The current market environment could also cause delays in the planned sales of portions of the portfolio, so that their appreciation and the invested liquidity cannot be realized until later.

Further 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 half of 2008.

## **Events after the Reporting Date**

As already noted above, Christoph Wittkop resigned from the Board of Management of Colonia Real Estate AG as of August 1, 2008.

No other material events occurred in the period between the reporting date, June 30, 2008, and the date of preparation of this report.

### **Report on Expected Developments**

In the first half of 2008, Colonia Real Estate AG did not escape the repercussions of the current environment, with its ongoing uncertainty in the international financial and capital markets.

But despite the uncertainties in the international financial markets, the major German market research institutes and the Institut der deutschen Wirtschaft continue to expect economic performance in Germany to be stable overall in 2008, with solid economic growth.

#### *Housing portfolio*

Still-positive growth, the robust job market, and current negotiations on collective bargaining agreements 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 accordingly, while at the same time raising average rents. The investment projects begun in 2007 will be completed in 2008, especially in energy-saving measures. Additionally, an extensive program has been adopted to increase net rental income.

During the current year we expect to sell as much as 15% of our holdings, as part of our active portfolio management. The principle here will be either that the potential for adding value on the basis of systematic asset management must already have been largely used up, or that we will be shedding lines of business that no longer belong to our core focus.

#### *Asset management*

Asset management saw only a few transactions in the first half of 2008. On the basis of inquiries received and the somewhat improved refinancing terms on the market, management expects that transactions will pick up again, and thus that the factors that have impeded our customary growth during the first half year will abate. We expect a larger volume of attractive portfolio transactions in the next few months, especially if there is a lasting easing 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.

### *Privatization*

We expect additional revenues and earnings from the privatization of residential properties acquired specifically for this purpose, and from privatization projects commissioned by third parties, where we expect a major order.

### *Funds*

The real estate fund business will be expanded further. The third nursing-home fund is currently being placed, and fund operations foresee additional new potential in the placement of SOLAR funds for third parties. Here we have had several inquiries from outside clients who want to upgrade the roofs of their residential buildings with appropriate solar installations. Through cooperative arrangements with banks, we can offer a product here with long terms and a correspondingly reliable rate of return.

### *Projections for 2008*

The contributions to earnings from acquisitions of portfolios with substantial potential for appreciation, which had been planned for 2008, will probably not be realized this year. For that reason, management has now lowered its projection for fiscal year 2008 to about EUR 20-25 million. However, whether this projection can be achieved will still depend significantly on further developments in the market environment, which has been so adversely affected by the crisis in the financial and capital markets.

Other factors that have been included in the planning are a further optimization of residential portfolios – by lowering vacancies in the second half-year, by way of rent increases in buildings whose energy efficiency has been improved (with corresponding reductions of operating costs), by expanding the asset management business, by timely placement of new fund products, by corresponding successful privatization projects for third parties, and by planned reductions in administrative costs.

## Consolidated balance sheet

<b>Assets</b>	in EUR k	June 30, 2008	Dec. 31, 2007
<b>Assets</b>			
Investment properties		819,287.4	918,902.0
Property, plant and equipment, net		1,158.9	921.5
Intangible assets		2,780.9	2,867.9
Investments in associates		21,716.0	21,359.4
Other financial assets		5,258.2	3,714.1
Deferred tax assets		9,560.3	8,116.2
<b>Total non-current assets</b>		<b>859,761.7</b>	<b>955,881.1</b>
Properties held for sale		3,827.2	24,019.8
Receivables and other assets		19,124.7	17,768.7
Derivative financial instruments		17,113.0	10,003.0
Cash and cash equivalents		24,511.5	26,224.0
<b>Total current assets</b>		<b>64,576.4</b>	<b>78,015.5</b>
<b>Assets of a disposal group classified as held for sale</b>		<b>121,958.2</b>	<b>0.0</b>
<b>Total assets</b>		<b>1,046,296.3</b>	<b>1,033,896.6</b>

## Consolidated balance sheet

<b>Equity and liabilities</b>	in EUR k	June 30, 2008	Dec. 31, 2007
<b>Equity and Liabilities</b>			
<b>Equity</b>			
Subscribed capital		22,825.6	22,465.6
Other reserves		223,313.9	216,635.2
Treasury stock		-42.5	-42.5
Retained earnings		74,103.5	81,705.7
<b>Total shareholders' equity</b>		<b>320,200.5</b>	<b>320,764.0</b>
Minority interests		651.8	1,705.2
<b>Total equity</b>		<b>320,852.3</b>	<b>322,469.2</b>
<b>Liabilities</b>			
<b>Non-current liabilities</b>			
Financial liabilities		473,691.4	498,357.8
Convertible bond		54,499.0	53,983.7
Deferred tax liability		49,292.7	53,870.9
Pension obligations		114.5	0.0
<b>Total non-current liabilities</b>		<b>577,597.6</b>	<b>606,212.4</b>
<b>Current liabilities</b>			
Bank overdraft		2,071.9	2,571.1
Financial liabilities, current portion		30,775.1	64,836.3
Account payables, trade and other payables		35,232.7	37,243.3
Tax liabilities		565.2	564.3
<b>Total current liabilities</b>		<b>68,644.9</b>	<b>105,215.0</b>
<b>Liabilities directly associated with assets held for sale</b>		<b>79,201.5</b>	<b>0.0</b>
<b>Total liabilities</b>		<b>725,444.0</b>	<b>711,427.4</b>
<b>Total equity and liabilities</b>		<b>1,046,296.3</b>	<b>1,033,896.6</b>

## Consolidated income statement

in EUR k	Apr. 1, 2008 - June 30, 2008	Apr. 1, 2007 - June 30, 2007	Jan. 1, 2008 - June 30, 2008	Jan. 1, 2007 - June 30, 2007
<b>Total income (excluding finance income)</b>	<b>28,045.6</b>	<b>81,238.0</b>	<b>51,672.6</b>	<b>95,326.6</b>
<b>Total expenses (excluding finance costs)</b>	<b>-26,336.8</b>	<b>-17,930.1</b>	<b>-46,053.7</b>	<b>-22,317.7</b>
Gross rental income from investment properties	14,137.9	16,135.0	28,867.3	23,680.3
Service charge income on principal basis	7,444.7	0.0	14,338.5	0.0
Property operating expenses	-13,260.0	-7,530.0	-24,811.8	-8,138.6
<b>Net rental income</b>	<b>8,322.6</b>	<b>8,605.0</b>	<b>18,394.0</b>	<b>15,541.7</b>
Proceeds from Asset and Fund Management	2,470.9	3,296.7	3,701.8	9,378.4
Expenses for Asset and Fund Management	-1,430.8	-2,296.1	-3,086.0	-3,571.5
<b>Net income from Asset and Fund Management</b>	<b>1,040.1</b>	<b>1,000.6</b>	<b>615.8</b>	<b>5,806.9</b>
Proceeds from sale of trading properties	2,351.0	0.0	2,351.0	0.0
Carrying value of trading properties	-2,135.7	0.0	-2,135.7	0.0
<b>Net income on disposal of trading properties</b>	<b>215.3</b>	<b>0.0</b>	<b>215.3</b>	<b>0.0</b>
<b>Administrative expenses</b>	<b>-9,140.6</b>	<b>-7,406.1</b>	<b>-15,635.4</b>	<b>-9,905.5</b>
Other income	1,641.1	343.6	2,414.0	805.2
Other expenses	-369.7	-151.9	-384.8	-156.1
<b>Other income (expenses), net</b>	<b>1,271.4</b>	<b>191.7</b>	<b>2,029.2</b>	<b>649.1</b>
<b>Net loss on disposal of investment properties</b>	<b>0.0</b>	<b>-546.0</b>	<b>0.0</b>	<b>-546.0</b>
<b>Valuation movements</b>	<b>0.0</b>	<b>61,462.7</b>	<b>0.0</b>	<b>61,462.7</b>
<b>Earnings before interest and tax</b>	<b>1,708.8</b>	<b>63,307.9</b>	<b>5,618.9</b>	<b>73,008.9</b>
Finance expenses	-746.4	-10,775.1	-17,033.6	-13,197.8
Finance income	9,382.0	1,357.9	9,975.3	1,690.6
<b>Finance results</b>	<b>8,635.6</b>	<b>-9,417.2</b>	<b>-7,058.3</b>	<b>-11,507.2</b>
<b>Consolidated results before tax</b>	<b>10,344.4</b>	<b>53,890.7</b>	<b>-1,439.4</b>	<b>61,501.7</b>
Income tax	-2,272.8	-11,747.4	-587.7	-14,174.9
<b>Consolidated results</b>	<b>8,071.6</b>	<b>42,143.3</b>	<b>-2,027.1</b>	<b>47,326.8</b>
Attributable to:				
Equity holders of the parent	7,972.6	41,412.2	-1,896.5	45,535.4
Minority interests	99.0	731.1	-130.6	1,791.4
<b>Consolidated results</b>	<b>8,071.6</b>	<b>42,143.3</b>	<b>-2,027.1</b>	<b>47,326.8</b>
<b>Earnings per share</b>				
in EUR				
Basic	0.35	2.33	-0.09	2.60
Diluted	0.29	1.76	-0.06	1.95

## Consolidated cash flow statement

in EUR k	Jan. 1, 2008 - June 30, 2008	Jan. 1, 2007 - June 30, 2007
<b>Operating activities</b>		
Consolidated results	-2,027.1	47,326.8
Plus finance results	7,058.3	11,507.2
Plus income tax	587.7	14,174.9
<b>= Net operating profit before finance results and tax</b>	<b>5,618.9</b>	<b>73,008.9</b>
Share-based compensation	1,798.0	1,693.7
Depreciation / Amortization	383.9	129.1
Unrealized valuation movements	0.0	-61,462.7
Profit from deconsolidation	-280.9	0.0
Changes in properties held for sale	-528.7	-4,376.5
Realized result on disposals	0.0	546.0
Changes in receivables	5,317.1	-22,031.1
Changes in liabilities	-1,296.0	24,159.9
<b>Cash generated from operations</b>	<b>11,012.2</b>	<b>11,667.3</b>
Interest paid	-13,704.9	-13,197.8
Interest received	1,148.1	1,690.6
Income taxes paid	-885.1	1,871.1
<b>Cash flows from operating activities</b>	<b>-2,429.7</b>	<b>2,031.2</b>
<b>Investing activities</b>		
Capital expenditure on investment properties	-18,003.4	-375,733.1
Acquisition of other property, plant and equipment	-233.6	-2,731.2
Acquisition of securities	0.0	-47,651.9
Payment for investments in associates and loans	-1,894.8	-13,643.2
<b>Cash flows used in investing activities</b>	<b>-20,131.8</b>	<b>-439,759.4</b>
<b>Financing activities</b>		
Proceeds from issue of share capital	5,490.0	170,199.5
Payment of transaction costs for issue of share capital	-408.6	0.0
Dividends paid	-5,705.8	0.0
Proceeds from borrowings	46,420.2	408,550.1
Repayment of borrowings	-22,682.3	-9,175.3
<b>Cash flows from financing activities</b>	<b>23,113.5</b>	<b>569,574.3</b>
Net change in cash and cash equivalents	552.0	131,846.1
Cash and cash equivalents at beginning of period	23,652.9	35,994.2
Changes in the scope of consolidation	-92.7	0.0
<b>Cash and cash equivalents at end of period</b>	<b>24,112.2</b>	<b>167,840.3</b>

## 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		
<b>At Jan. 1, 2007</b>	<b>15,704.0</b>	<b>46,258.2</b>	<b>37,244.5</b>	<b>0.0</b>	<b>99,206.7</b>	<b>946.2</b>	<b>100,152.9</b>
Cash capital increase	6,281.6	166,592.0	0.0	0,0	172,873.6	0.0	172,873.6
Cost of cash capital increase after tax	0.0	-2,674.1	0.0	0.0	-2,674.1	0.0	-2,674.1
Share-based compensation	0.0	1,693.7	0.0	0.0	1,693.7	0.0	1,693.7
Profit for the period	0.0	0.0	45,535.3	0.0	45,535.3	1,791.4	47,326.7
<b>At June 30, 2007</b>	<b>21,985.6</b>	<b>211,869.8</b>	<b>82,779.8</b>	<b>0.0</b>	<b>316,635.2</b>	<b>2,737.6</b>	<b>319,372.8</b>
<b>At July 1, 2007</b>	<b>21,985.6</b>	<b>211,869.8</b>	<b>82,779.8</b>	<b>0.0</b>	<b>316,635.2</b>	<b>2,737.6</b>	<b>319,372.8</b>
Cash capital increase	0.0	6,152.0	0.0	0.0	6,152.0	0.0	6,152.0
Cost of cash capital increase after tax	0.0	-4,107.0	0.0	0.0	-4,107.0	0.0	-4,107.0
Share-based compensation	0.0	1,575.0	0.0	0.0	1,575.0	0.0	1,575.0
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	-169.7	-169.7
Profit for the period	0.0	0.0	20,426.8	0.0	20,426.8	-635.7	19,791.1
<b>At Dec. 31, 2007</b>	<b>22,465.6</b>	<b>216,635.2</b>	<b>81,705.7</b>	<b>-42.5</b>	<b>320,764.0</b>	<b>1,705.2</b>	<b>322,469.2</b>
<b>At Jan. 01, .2008</b>	<b>22,465.6</b>	<b>216,635.2</b>	<b>81,705.7</b>	<b>-42.5</b>	<b>320,764.0</b>	<b>1,705.2</b>	<b>322,469.2</b>
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
Dividends	0.0	0.0	-5,705.8	0.0	-5,705.8	0.0	-5,705.8
Share-based compensation	0.0	1,798.0	0.0	0.0	1,798.0	0.0	1,798.0
Changes of minority interest	0.0	0.0	0.0	0.0	0.0	-922.8	-922.8
Loss for the period	0.0	0.0	-1,896.5	0.0	-1,896.5	-130.6	-2,027.1
<b>At June 30, 2008</b>	<b>22,825.6</b>	<b>223,313.9</b>	<b>74,103.5</b>	<b>-42.5</b>	<b>320,200.5</b>	<b>651.8</b>	<b>320,852.3</b>

## **Selected Explanatory Notes to the Consolidated Interim Financial Statements as of 30 June 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. 37w (2) and Sec. 37y of the German Securities Trading Act (WpHG), the semiannual financial report of Colonia Real Estate AG includes both consolidated interim financial statements and a consolidated interim management report, as well as a responsibility statement from the Board of Management in compliance with Sec. 264 (2) Sentence 3 and Sec. 289 (1) Sentence 5 of the German Commercial Code (HGB). The consolidated interim financial statements were prepared under International Financial Reporting Standards (IFRS) for interim reporting (IAS 34). The consolidated interim management report was prepared in compliance with the applicable provisions of the German Securities Trading Act. The half-year financial statements as of June 30, 2008, should be read in conjunction with the consolidated financial statements as of December 31, 2007.

The semiannual 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.

### **Significant Accounting Judgments, Estimates and Assumptions**

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 as of December 31, 2007, as are any areas in which assumptions and estimates are of critical importance for the consolidated interim 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. Because of the importance of investment properties to our line of business, and the associated significant risk in the form of a material adjustment in the carrying value of these assets by the end of this fiscal year, below we explain the estimates and assumptions adopted in regard to investment properties.

The indicated fair values of investment properties are founded primarily on appraisals as of December 31, 2007, 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 discounted cash flow 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.

The primary assumptions used for disbursements are maintenance costs of EUR 8 to EUR 16/m<sup>2</sup>, management costs of approximately EUR 220/unit, operating costs for vacancies of EUR 12/vacant m<sup>2</sup>, 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. For 2007, these rates were between 5.9% and 6.9%. 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 what is known as 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. The fair value of each property was derived from these estimations. To check plausibility, the appraisals also included comparisons against local sales, going rents in the area, and various multipliers.

We plan to request an update of the appraisals at year's end. Currently management has no indications that the future operating parameters used as a basis for planning (rental income, vacancy rates, operating costs, etc.) have changed materially. Although the low number of real estate transactions that occurred in the first half of 2008 cannot be considered representative, declining prices in the real estate market and the situation in the financial markets may adversely affect the measurement of the real estate portfolio by year's end. Because of the particular importance of discount rates in determining the fair value of property, we refer the reader to the sensitivity analysis presented in the consolidated financial statements as of December 31, 2007 (page 115 of the Annual Report).

## Scope of Consolidation

The consolidated financial statements comprise the financial statements of Colonia Real Estate AG and all its subsidiaries as of June 30, 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 scope of consolidation changed as follows during the first half of 2008, as compared to the consolidated financial statements as of December 31, 2007:

Because of the entry of HGA Capital Grundbesitz und Anlage GmbH and HSH Real Estate Treuhand GmbH as additional partners, the share held in HGA/Colonia CareConcept 1 Fondsgesellschaft mbH & Co. KG, of Cologne (formerly Careinvest Drei GmbH & Co. KG) has decreased from 56.0% to 20.9%. Plans call for reducing this equity interest further by year's end. HGA/Colonia CareConcept 1 Fondsgesellschaft mbH & Co. KG was therefore deconsolidated in the first half of 2008, and is now recognized as an equity interest in an affiliate. The deconsolidation yielded income of EUR 280.9k.

At the end of June 2008, CRE Resolution GmbH acquired COVER Projektentwicklung GmbH, Düsseldorf, by way of a merger. The merger was carried out at carrying values, with net assets of EUR 25k. In consideration for the acquired shares, a new stake in CRE Resolution GmbH was created and granted, in the amount of EUR 750.00. Because of the closeness of the transaction to the reporting date, COVER Projektentwicklung GmbH was provisionally first consolidated as of June 1, 2008. If COVER Projektentwicklung GmbH had been taken over as of January 1, 2008, the loss for the period would have increased by EUR 229.9k.

In addition to these changes, three companies within the Group were merged. This merely reduced the number of Group companies; it made no change within the Group in economic terms.

As of June 30, 2008, the Group consolidated a total of 32 subsidiaries, 26 of them in Germany and 6 of them in other countries.

## Consolidation Principles

The principles of consolidation applied in the consolidated interim financial statements as of June 30, 2008, do not differ from those used in the consolidated financial statements as of December 31, 2007.

## Recognition and Measurement Principles

The principles for recognition and measurement applied in the consolidated interim financial statements as of June 30, 2008, do not differ from those used in the consolidated financial statements as of 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 hedge accounting, 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 an increase in the underlying yield curves as of the reporting date, June 30, 2008, compared to December 31, 2007. The result was a write-up of EUR 8,045.1k on interest-rate swaps for the first half of 2008. The fair value of interest-rate swaps at the reporting date was EUR 18,048.1k (December 31, 2007: EUR 10,003.0k).

### Capital Increase in H1 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. This capital increase yielded a capital inflow of EUR 5,490.0k in the first half of 2008. The costs of EUR 249.3k (after tax) incurred in this connection were charged directly to other reserves.

### Composition of Cash Funds

For purposes of the consolidated cash flow statement, cash funds consist of the following:

	in EUR k	June 30, 2008	June 30, 2007
Cash and cash equivalents		26,184.1	167,840.3
Bank overdraft		-2,071.9	0.0
<b>Cash funds</b>		<b>24,112.2</b>	<b>167,840.3</b>

About EUR 18.7 million of the recognized credit balances are pledged. 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. The recognized credit balances also include EUR 1.4 million in rental security deposit accounts.

## Assets and Liabilities Held for Sale

The Group is endeavoring to sell certain residential and commercial properties. Sales processes are already ongoing for some portions of the portfolio. Because of the strength of the investors' interest, we believe it is highly probable that these transactions will be completed successfully. In conformity with IFRS 5, the properties and their associated assets and liabilities are therefore recognized separately in the consolidated balance sheet as of June 30, 2008. In the past, these properties were recognized under non-current assets, as investment properties. The summarized line items shown in the consolidated balance sheet as of June 30, 2008, are made up of the following:

	in EUR k	June 30, 2008
Investment properties		117,618.0
Receivables and other assets		950.3
Derivative financial instruments		1,717.3
Cash and cash equivalents		1,672.6
<b>Assets of a disposal group classified as held for sale</b>		<b>121,958.2</b>
Financial liabilities		72,015.1
Deferred tax liabilities		5,624.9
Account payables, trade and other payables		1,559.1
Tax liabilities		2.4
<b>Liabilities directly associated with assets held for sale</b>		<b>79,201.5</b>

## 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.

### H1 - 2008

in EUR k	Residential	Commercial/ Hotel	Wohn- eigentum	Asset Management	Fund Management	Re- conciliation	Group
Income	43,354.8	1,702.6	2,351.0	4,338.3	363.4	-437.5	51,672.6
EBIT	11,845.3	1,491.0	215.3	784.0	-49.1	-8,667.6	5,618.9

**H1 - 2007**

in EUR k	Residential	Commercial/ Hotel	Wohn- eigentum	Asset Management	Fund Management	Re- conciliation	Group
Income	83,558.5	1,792.6	0.0	7,657.2	2,329.7	-11.4	95,326.6
EBIT	72,366.6	836.4	0.0	5,258.6	606.0	-6,058.7	73,008.9

**Related Party Transactions**

During the first half of 2008, Colonia Real Estate AG signed a loan agreement with one of its principal shareholders, Swiss Real Estate AG, and received on May 23, 2008, a loan of EUR 2.75 million on arm's-length terms. Furthermore, an overdraft facility in the amount of EUR 4.5 million was granted. This facility is not used so far.

Otherwise there have been no changes in related party transactions as compared to the consolidated financial statements as of December 31, 2007.

## **Declaration of the Management Board pursuant Secs. 264 para. 2 sentence 3 and 289 para.1 sentence 5 HGB [German Commercial Code]**

“To the best of our knowledge and in accordance with the applicable reporting principles for interim financial reporting, the consolidated interim financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of the group, and the interim 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 for the remaining months of the financial year.”

Cologne, 15 August 2008

Colonia Real Estate AG



Stephan Rind

CEO



Ingmar Schmitt

CFO