Colonia Real Estate AG

# Quarterly Financial Report Q3 2009

# Interim Group Management Report for the Period from January 1 through September 30, 2009

## Business Developments and Position of the Group

The real estate market in the first three quarters of fiscal 2009 was characterized by a sustained stabilization at a moderate level. Colonia Real Estate AG contributed its share to this revival over the past few months. In September it sold a Berlin portfolio of some 1,000 residential units to a consortium made up of Conwert Immobilien Invest SE and Kronberg RE Deutschland GmbH. The transaction value came to nearly EUR 67 million, or about EUR 875 per $m^2$ – more than the carrying amount in the balance sheet. Apart from its contribution of a net total of EUR 2.8 million to earnings, the sale of the three special-purpose entities was also a clear indication that our Company's holdings are measured at values close to market.

The sale of the Berlin housing units increased the number of Q3 transactions calculated by the Savills brokerage firm for the German residential market to 23, and raised the number of residential units traded to 16,900. Quantitatively, this represents a continuation of the trend from the second quarter, when 15 portfolios comprising 16,100 units changed hands. But because buyers still have few financing options, prospects for large portfolios remain limited. Accordingly, the average number of residential units per transaction for the third quarter came to 680. However, there are still opportunities in the market for leased condominiums and multi-family buildings in good condition and good locations. Here private investors are the principal source of the ongoing demand. From Q3 sales in this area CRE came to EUR 1.475 million, with profit margins 23 percent above the applicable carrying amounts.

Managing real estate portfolios is still an activity of substantial importance to the Colonia Real Estate AG business model. Stable rental income from the residential portfolio, combined with a sharp decrease in administrative expenses, has provided the basis for a lasting turnaround in Group profits. Operating cash flow before the proceeds from disposals was positive in Q3 2009 for the first time, at EUR 2.0 million. We still adhere to our goal of generating a positive cash flow from operating activities before the year is out. As an active holder of portfolios in our core business of residential property and investments, we largely achieved our ambitious goals for the first three quarters of the year. Earnings from rentals remained stable. Against the same period last year, rental income rose 3.2 percent to 45.1 million Euros from 43.7 million, and net operating income (NOI) from rentals grew vigorously, from EUR 25.5 million to EUR 32.4 million (up 27.1 percent). This success derived primarily from cost cuts and steps for optimization in administering and managing the residential portfolio. After adjustments for acquisitions and disposals (like for like), vacancies were down 8.1 percent against a year ago, to 13.6 percent (Q3 2008: 14.8 percent), and the average rent remained nearly constant at EUR 4.63 per $m^2$ (Q3 2008: EUR 4.62).

Asset Management, represented by our consolidated subsidiaries CRE Resolution GmbH and CRE Accentro GmbH, again fell short of a profit in the third quarter – a consequence of low transaction activity in the market as a whole, and the accordingly low revenues. Income was down 26.6 percent, to EUR 4.7 million (Q3 2008: EUR 6.4 million), and the net loss for the unit came to EUR –1.52 million for the first three quarters. But we expect workout and restructuring engagements to expand Asset Management and generate rising revenues by the end of 2009. Two major engagements were acquired in recent months, and promising negotiations for additional ones are in progress.

On the financing end, the Group is soundly positioned. The first refinancing, for a total of EUR 15 million, is not pending until 2010, and in the first quarter of the current year CRE was able to obtain an EUR 8.7 million loan waiver from the lender as part of a refinancing agreement for an existing mortgage loan. The capital changes carried out in the second quarter (capital increase, warrant program) and the sale of the Berlin portfolio in the third quarter raised the equity ratio back to 28 percent (compared to 26.1 percent at June 30, 2009), and thus to a level within our long-term target range of 25-35 percent.

Not least of all thanks to lower administrative expenses of EUR 8.9 million, including restructuring costs (prior-year period: EUR 19.9 million), CRE AG generated a consolidated net profit of EUR 8.3 million as of the end of the third quarter of 2009, compared to a loss of EUR –49.8 million at this date last year. Net asset value (NAV) as of the end of the third quarter was EUR 10.19 per share.

The individual segments performed as follows in the first three months of 2009.

***Investments in Residential Properties***

The portfolio grew stably in Q3 2009, and we achieved our ambitious goals in virtually every aspect of managing our residential portfolio. Compared to the same period last year, and adjusted for acquisitions and disposals (like for like), vacancy levels decreased for the portfolio as a whole. But net rental income grew substantially, by 27.1 percent, against the first nine months of last year, from EUR 25.5 million to EUR 32.4 million.

Vacancies in the Berlin portfolio stabilized at a low level of roughly 5 percent. Because of this stabilization, we now expect a moderate rent increase at Marzahn at the beginning of 2010. Rents have performed slightly better than planned in the Berlin portfolios.

In Salzgitter, the major event of the third quarter was the termination of the management arrangement with Krüger Immobilien and the transfer to the new manager, Treureal. Although the process went about as smoothly as could be hoped, the portfolios have reacted, as expected, with a lateral movement. Although a slight increase in vacancies appeared in the first six months, we broke even again in the third quarter. Vacancies in the Emersion portfolio in Salzgitter were above 21 percent at the end of the third quarter.

Leasing results for the Hamburg and Aachen portfolios were distinctly positive in the first nine months of 2009. With 381 new rentals in these two portfolios, the new rental rate was nearly 30 percent, an outstanding result. Full occupancy had already been achieved by mid-year at the Morthorststrasse subportfolio in Hamburg. The rent on new rentals has also performed well in modernized portfolios, at an average of EUR 5.64 per m$^2$ (EUR 4.50 per m$^2$ prior to renovation). This shows that the rental market continues to welcome our extensive energy upgrades, our “Blue Living” product, and our sustainable asset management approach.

On the cost side, rigorous cost controls meant that we did not have to fully utilize budgets, especially for capital expenditure (capex) projects and residential updates, and we remained well within the our strict internal limits. We continued to concentrate on limiting costs to absolutely necessary investments, and conducting only individual projects focused on important points of emphasis. However, in 2010 we will again take a more proactive approach, because ultimately it is the quality of a residential unit that determines rental successes and long-term tenant loyalty. New requests for proposals for goods and service contracts will further optimize cost structures for those operating costs that can be passed on to tenants. While we will pass on this advantage to tenants in the next billing cycle, it will also benefit us in terms of our own vacancy costs.

About 17 percent of the entire Berlin portfolio – a total of 937 residential and 79 commercial units – was sold during the third quarter to a consortium composed of Conwert Immobilien Invest SE and Kronberg RE Deutschland GmbH, at a book profit. The transfer of rights and responsibilities took place at the end of the third quarter, and the purchase price was received on schedule. These residential portfolios are renovated and partially renovated Berlin residences, most of which were built in the first decades of the 20$^{th}$ century.

***Co-investments in Commercial Properties***

Colonia Real Estate AG and its subsidiaries have engaged in various co-investments in commercial and residential properties with such partners as Merrill Lynch Global Principal Investments, JPMorgan Asset Management, UBS Global Asset Management, and Strategic Value Partners. The equity tied up in minority interests (between 2.5 and 15 percent), including the shareholder loans granted, is valued at EUR 12.9 million.

The joint ventures performed very largely as planned during the period. A positive note is that the Pepper, Argo and Anna portfolios – all of them joint ventures with Merrill Lynch – yielded disposals for about EUR 20 million during the first three quarters, and targets in the business plans were largely exceeded (see the section on Asset Management). The rental successes in the Argo portfolio were so great that the joint ventures are expected to deliver their first positive contribution to earnings by year’s end. Rental successes were achieved once again in the third quarter in the logistics portfolio held jointly with JPMorgan. There were no new co-investments in the first nine months of 2009. Our estimates for the evolution of prices on commercial properties, especially office properties, are modestly pessimistic for the next twelve months. But we are closely watching the market, in cooperation with our investment partners, so that we can respond immediately if interesting exceptional situations arise.

***Asset Management***

Since the beginning of 2009, the Asset Management segment has consisted of CRE Resolution GmbH and CRE Accentro GmbH. The property managed by the two companies came to a volume of about EUR 2.1 billion as of September 30, 2009. Of this figure, EUR 487 million was in the privatization segment at CRE Accentro GmbH, and about EUR 1.7 billion was at CRE Resolution GmbH. Total commercial space came to nearly 800,000 $m^2$; the residential portfolio measures about 1.2 million $m^2$.

During the third quarter, CRE Resolution acquired another workout engagement involving 13 properties mostly for commercial use, on behalf of an insolvency administrator and a bank. New leases or lease extensions were signed for about 60,000 $m^2$ in the first three quarters, and 34,000 $m^2$ of this figure was in the third quarter alone. Peak and average rents in the office segment continue to recede slightly, especially because of the greater need for incentives. On the whole, revenues on office rentals in the first nine months were down between 15 and 45 percent against a year earlier. But the third-quarter figures show a tendency toward stabilization. It remains to be seen whether this stabilization will be sustainable. Hitherto there have been no signs of further drops in revenue – but given the expected economic conditions for 2010 and the generally lagging nature of changes in the real estate markets, such decreases cannot be ruled out. Intensive tenant support and active leasing work is growing ever more important. We hold firm to our very modest projections for new leases in the remainder of 2009, and in 2010 as well, for properties in B and C-quality locations that do not measure up to the market's expectations.

The parties continue to carry out as scheduled the terms of the sales agreement for the Disch-Haus in Cologne, which was officially recorded in December 2008. Until the end of 2009, CRE Resolution will still be involved in renting out the remainder, and the rental results have been above plans, so that CRE AG still has a chance to improve the purchase price. About 90 percent of the office space has been leased, and the retail space now boasts full occupancy. The final settlement on the project, which is running ahead of plans, will take place at year's end.

Twelve smaller properties were sold to private investors in the transactions segment. These came from three portfolios that CRE Resolution handles for Merrill Lynch. The total sale came to about EUR 20 million, and fell within the business plan, but the sale process is advancing more rapidly than expected. In this segment we hold firm to our projection that prices on suitable properties for private investors will remain stable and may even rise, and that such properties will still find a market even today.

Our rather opportunistically oriented partners have further capital for acquisitions in the German market, but are holding off on new investments. We do not expect the first appreciable revival in these segments until late 2009 or early 2010 at the earliest. Core properties in good locations are significantly less affected by price corrections than B and C-grade properties in B and C-grade locations. The expectations of well-capitalized opportunistic investors are on the increase, or still remain high, in spite of higher equity requirements for financing. The transaction team continues to look at interesting properties, but has been pared back somewhat. Freed-up capacity is reassigned internally to business development and asset management activities.

New acquisitions of asset management engagements have focused over the first nine months on the workout departments of banks and on real estate insolvency administrators. CRE Resolution also maintains connections with the consulting departments of major accounting and audit firms. The “German Work-Out Platform” that has been developed with partners from various segments is bearing its first fruits, and is now well known in the market. The platform is a cooperative arrangement among well-known companies in auditing and accounting, property management, and loan servicing. But at present, banks and investors are not engaging in any major “fire sales.” Likewise, external service providers are being engaged for troubled loan exposures only in isolated cases. Nevertheless, as already mentioned, we have been able to acquire our first engagements. We expect this segment to grow over the next 24 months.

Personnel came to 38 employees as of the end of September. Thus the staff cuts have been completed. The full effects on costs will not become evident until the fourth quarter.

CRE Accentro picked up steam again in the third quarter, and performed well in regard to both revenues and earnings. In the first three quarters it sold a total of 485 residential units for CRE AG or GSW, or on behalf of third parties – equivalent to an extrapolated privatization rate of a healthy 15 percent p.a. for the period during which the engagements were handled. The Berlin site performed especially well. In terms of staff size, revenues and earnings it has become CRE Accentro’s most important location. This positive trend will continue in the fourth quarter.

## Net Assets, Financial Position, and Results of Operations

### *Results of operations*

The consolidated profit for the third quarter of 2009 came to EUR 8.3 million, compared to a loss of EUR -49.8 million for the same period last year. The adverse effects on last year's figure came largely from write-downs of about EUR 43.9 million on the real estate portfolio, together with a EUR 6.9 million lower net profit on rentals. Most of this year's profit is the result of the cost cutting program, the result from residential properties as well as income from a loan waiver connected with the refinancing of our North German real estate portfolio. The sale of a real estate portfolio also had a positive influence on earnings.

| in EUR k | 01/01/2009-30/09/2009 | 01/01/2008-30/09/2008 |
|---|---|---|
| Estimated rental income | 53,977.0 | 54,116.4 |
| Income shortfalls and reduced rent | -8,868.1 | -8,876.5 |
| **Net rent** | **45,108.9** | **45,239.9** |
| Service charge income on principal basis/earnings from operating costs | 21,897.6 | 19,710.3 |
| Maintenance and renovation | -2,663.2 | -8,395.8 |
| Property operating costs | -31,978.4 | -31,063.7 |
| **Result from residential properties** | **32,364.9** | **25,490.7** |
| Sales Proceeds | 1,559.3 | 2,351.0 |
| Carrying amount of assets disposed | -1,195.7 | -2,135.7 |
| **Result from sales activities** | **363.6** | **215.3** |
| Employee expenses | -3,729.8 | -6,835.0 |
| General administration expenses | -4,498.9 | -12,731.8 |
| Restructuring costs | -527.8 | 0.0 |
| **Administration expenses** | **-8,756.5** | **-19,566.80** |
| Asset Management | -1,520.4 | 874.3 |
| Others | 3,427.6 | 2,425.3 |
| **Further business segments** | **1,907.2** | **3,299.6** |
| **EBITDA** | **25,879.2** | **9,438.8** |
| Depreciation, amortization and impairment losses | -123.2 | -342.3 |
| valuation movements | 1,450.0 | -43,874.0 |
| **EBIT** | **27,206.0** | **-34,777.5** |
| Market value adjustment of derivatives | 0 | -805,9 |
| Income from waiver of loan repayment | 8,700.2 | 0.0 |
| Financial earnings | -26,895.4 | -24,103.4 |
| **EBT** | **9,010.8** | **-59,686.8** |
| Tax | -714.8 | 9,886.6 |
| **Earnings after tax** | **8,296.0** | **-49,800.2** |

The *rental of investment properties* generated EUR 67.0 million (prior year: EUR 65.0 million) in rental income and income from service charges passed on to tenants. This income was countered by expenses of EUR 34.6 million (prior year: EUR 39.5 million), so that rentals generated a total net income of EUR 32.4 million (prior year: EUR 25.5 million).

Further income was generated from the *sale of property held for sale* and the *sale of investment property.*

*Administrative expenses including restructuring costs* decreased a substantial 55 percent against the same period last year, thanks to the cost-cutting and efficiency-enhancement program, to EUR 8.7 million. The largest items in this figure are personnel expenses, legal and consultant fees, and expenses for stock options. Thus the Group is within the range it has targeted.

*Income from asset management operations* was down substantially against the equivalent period last year, because of non-recurring restructuring expenses and the lack of income from transactions.

The *other net income* includes income of EUR 2.9 million from the deconsolidation of four affiliates.

*Fair value adjustments* yielded unrealized gains from the partial reappraisal of our real estate portfolio, which we will be performing every half-year as of this year.

*Fair valuations of derivative financial instruments* last year pertained to the result from the measurement of interest rate swaps. Since Q4 2008, the effective portion of the gains or losses on these hedges has been recognized directly in equity, while the ineffective portion of the gains or losses is recognized directly in profit or loss. *Income from a loan waiver* is connected with the refinancing of our North German real estate portfolio. Thus the *net finance expense* improved by about EUR 6.7 million.

***Net assets and financial position***

The Group's capital structure was optimized further during the past nine months. Substantial contributions in this regard came from the April capital increase and the June conversion of the warrants issued in 2004 into new Company stock (the "warrant program"). Both increased the Group's equity. Refinancing kept the ratio of long-term and short-term financial debt to total debt at roughly 80 percent. The equity ratio at September 30, 2009, was 28.0 percent, compared to 26.1 percent at June 30, 2009. It is in line with the target range of between 25 and 30 percent.

| in EUR k | 30/09/2009 | 31/12/2008 | Change |
|---|---|---|---|
| **Assets** | | | |
| Noncurrent assets | 840,399.5 | 863,544.5 | -23,145.0 |
| Current assets | 37,524.9 | 35,024.5 | 2,500.4 |
| Noncurrent assets held for sale | 0.0 | 29,400.0 | -29,400.0 |
| **Total assets** | **877,924.4** | **927,969.0** | **-50,044.6** |

| in EUR k | 30/09/2009 | 31/12/2008 | Change |
|---|---|---|---|
| **Equity and liabilities** | | | |
| Equity | 245,792.3 | 225,291.7 | 20,500.6 |
| Noncurrent liabilities | 587,725.0 | 629,299.0 | -41,574.0 |
| Current liabilities | 44,407.1 | 73,378.3 | -28,971.2 |
| **Total equity and liabilities** | **877,924.4** | **927,969.0** | **-50,044.6** |

Non-current assets primarily comprise investment property (EUR 811.8 million; 12/31/2008: EUR 835.4 million) and minority interests and loans to real estate companies (EUR 14.0 million; 12/31/2008: EUR 13.2 million). The decrease in non-current assets is principally the consequence of the sale of investment properties in connection with the sale of the pertinent investment company affiliates.

Further investments of about EUR 2.2 million in residential units intended for privatization increased the figure recognized under current assets for properties held for sale, compared to December 31, 2008. Together with the increase in cash and cash equivalents, these increases more than compensated for the reduction in receivables and other assets, so that total current assets increased by about EUR 2.5 million.

The consolidated profit for the first three quarters of 2009 and the completed capital measures improved equity by about EUR 20.5 million (EUR 245.8 million; EUR 225.3 million). The negative fair valuation of EUR 4.5 million on interest rate swaps counteracted any further improvement in equity.

Long-term liabilities primarily comprise financial liabilities (EUR 477.6 million; 12/31/2008: EUR 525.6 million), convertible bonds (EUR 57.6 million; 12/31/2008: EUR 55.6 million), deferred taxes (EUR 40.8 million; 12/31/2008: EUR 40.5 million) and the long-term portion of derivative financial instruments (EUR 11.6 million, 12/31/2008: EUR 7.5 million). Although refinancing has reduced long-term financial debt, the negative fair valuation of the interest rate swap essentially balanced out this effect. Thus the decrease in long-term debt results primarily from the elimination of financial debt as a consequence of the sale of four affiliates.

Short-term liabilities saw a substantial decrease, especially from a reduction in trade and other payables and in short-term financial debt. The sale of affiliates also contributed to the reduction.

In all, the deconsolidation of the four affiliates resulted in disposals of EUR 61.8 million in assets and EUR 56.1 million in liabilities.

Cash funds came to EUR 21.8 million at September 30, 2009 (12/31/2008: EUR 15.3 million). The changes in cash funds for the first nine months of 2009 were as follows:

| in EUR k | 01/01/2009 - 30/09/2009 | 01/01/2008 - 30/09/2008 | Change |
|---|---|---|---|
| Cash flows used in/from operating activities | -2,873.9 | -13,672.5 | 10,798.6 |
| Cash flows used in investing activities | 1,659.3 | -22,656.1 | 24,315.4 |
| Cash flows from financing activities | 10,347.1 | 24,085.5 | -13,738.4 |
| **Net change in cash and cash equivalents** | **9,132.5** | **-12,243.1** | **21,375.6** |
| Foreign currency translation | -62.1 | 0.0 | -62.1 |
| Changes in scope of consolidation | 0.0 | -92.7 | |
| Cash and cash equivalents at the beginning of the period | 10,410.1 | 23,652.9 | |
| **Cash and cash equivalents at the end of the period** | **19,480.5** | **11,317.1** | |

Cash used in operating activities in the first nine months of 2009 came to EUR –2.9 million. After adjustment for interest and tax payments, the cash generated by operating activities for the first three quarters of 2009 comes to EUR 18.3 million.

The EUR 1.7 million in cash generated by investing activities in the first three quarters of 2009 came primarily from the proceeds from sales of real estate and affiliates; the incoming cash more than compensated for investments in real estate holdings.

Financing activities were dominated primarily by the cash generated by the capital increase and the warrant program, by the refinancing of our North German real estate portfolio, and by unscheduled repayments of loans. These generated cash of EUR 10.3 million. The redemption and retirement of loans of about EUR 36.0 million was countered by cash inflows of EUR 30.5 million from new borrowings. Most of the cash inflow from the same period last year came from the capital increase and from borrowings.

**Risk and Opportunity Report**

The uncertainties in the financial and capital markets have been having an appreciable effect on the German real estate sector. Because of limited financing options, only a comparatively low number of real estate transactions went through in the first nine months of 2009, compared to previous years. The transaction consulting and processing operations of our asset manager, CRE Resolution GmbH, generated no revenues during this period. Management is confident that the transaction business will pick up again in the medium term, but because of the market situation it cannot be expected to contribute heavily to profits.

Further material risks and opportunities inherent in future development are described in detail in the Group and parent-company management report for fiscal 2008; they underwent no fundamental changes in the first nine months of 2009.

**Events after the Reporting Date**

There were no material events after the reporting date, September 30, 2009.

**Report on Expected Developments**

The crisis in the international financial and capital markets will also have an impact on the business results of Colonia Real Estate in 2009. As of October 2009, the German government was expecting economic output to decrease 5 percent for the current year. In real estate, restrictive financing options continue to impede investors from financing major real estate portfolios, and impair a lasting market adjustment. It remains to be seen how long banks will still tolerate breaches of covenant, and when the first enforcement sales will take place. We expect only isolated insolvencies in 2009, and assume that banks' lending policies will remain tight until mid-2010.

But the residential real estate market appears to be robust and relatively crisis-resistant. Institutional investors' unchanged interest in residential real estate is evident from the establishment of several new residential real estate funds from major-name investors like AXA, Warburg/Henderson, Schroders and more. Foreign investors as well are returning to the German market. This will lend additional impetus to demand for residential real estate in Germany, and will keep prices stable in the medium term.

***Housing Portfolio***

Historically, the real estate sector has generally counted as a defensive investment, largely resistant to economic cycles. Assuming a substantial slowdown in economic growth, rent increases and reductions of vacancies in 2009 will be achievable primarily through upgrade work. Because our extensive modernization program is largely complete, Colonia Real Estate AG is well positioned to generate further potential from this source in 2009 and 2010, without major new capital expenditures. Good results were achieved in reducing vacancies in updated portfolios during the first nine months of 2009. But on the whole, for all portfolios together, the ongoing economic crisis has kept vacancy reductions stagnant.

***Asset Management***

As a leading integrated real estate investment and asset management corporation, the CRE Group holds an important position in the real estate business. Difficult refinancing conditions may mean that the market in real estate transactions will not pick up in the foreseeable future. This factor could continue to adversely affect the Group.

However, there are also new business opportunities in asset management. One important area is NPL and workout portfolios that are to be brought back on track for success through systematic management. Here the CRE Group is one of the few market leaders that operate nationwide, and for that reason it is excellently positioned for workouts of interregional portfolios.

**Projections for 2009**

On the basis of performance in the first three quarters of the current year, CRE AG expects to show a consolidated profit in the single-digit millions at year's end. A major contribution here will come from stable rental income from the residential portfolio, as well as the appraisal of properties, in combination with ongoing cost savings. The Board of Management's cost-cutting and efficiency-enhancement program has been a success, and is supporting the turnaround we expect in the current year. This will open up new leeway for the Company to take selective advantage of opportunities within an environment that remains in crisis.

# Condensed Interim Financial Statements of the CRE Group at September 30, 2009

# Consolidated balance sheet

**Assets**

| in EUR k | 30/09/2009 | 31/12/2008 |
|---|---|---|
| **Assets** | | |
| Investment properties | 811,778.0 | 835,400.0 |
| Property, plant and equipment, net | 750.1 | 1,032.6 |
| Intangible assets | 3,164.9 | 3,154.5 |
| Investments in associates | 8,213.6 | 7,091.9 |
| Other financial assets | 5,813.3 | 6,152.1 |
| Deferred tax assets | 10,679.6 | 10,713.4 |
| **Total noncurrent assets** | **840,399.5** | **863,544.5** |
| Properties held for sale | 6,319.4 | 4,147.5 |
| Income tax receivables | 645.2 | 1,435.6 |
| Receivables and other assets | 8,794.8 | 14,109.5 |
| Cash and cash equivalents | 21,765.5 | 15,331.9 |
| **Total noncurrent assets** | **37,524.9** | **35,024.5** |
| **Noncurrent assets held for sale** | **0.0** | **29,400.0** |
| **Total assets** | **877,924.4** | **927,969.0** |

# Consolidated balance sheet

| Equity and liabilities | | |
|---|---|---|
| in EUR k | 30/09/2009 | 31/12/2008 |
| **Equity and liabilities** | | |
| **Equity** | | |
| Subscribed capital | 28,460.0 | 22,825.6 |
| Other reserves | 234,301.4 | 222,292.8 |
| Components of results for period not recognized in profit or loss | -18,783.9 | -14,311.2 |
| Foreign currency translation | -62.1 | 0.0 |
| Treasury stock | -7.2 | -7.2 |
| Retained earnings | 1,522.8 | -6,567.5 |
| **Total shareholders´equity** | **245,431.0** | **224,232.5** |
| Minority interests | 361.3 | 1,059.2 |
| **Total equity** | **245,792.3** | **225,291.7** |
| **Liabilities** | | |
| **Noncurrent liabilities** | | |
| Financial liabilities | 477,592.2 | 525,569.3 |
| Convertible bond | 57,640.4 | 55,575.6 |
| Provisions for pensions and similar obligations | 139.5 | 127.1 |
| Derivative financial instruments (noncurrent) | 11,577.7 | 7,513.1 |
| Deferred tax liabilities | 40,775.2 | 40,513.9 |
| **Total noncurrent liabilities** | **587,725.0** | **629,299.0** |
| **Current liabilities** | | |
| Bank overdraft | 2,285.0 | 4,921.8 |
| Financial liabilities, current portion | 23,612.5 | 38,067.6 |
| Derivative financial instruments (current) | 2,087.9 | 1,990.6 |
| Account payables, trade and other payables | 15,510.4 | 27,344.1 |
| Tax liabilities | 911.3 | 1,054.2 |
| **Total current liabilities** | **44,407.1** | **73,378.3** |
| **Total liabilities** | **632,132.1** | **702,677.3** |
| **Total equity and liabilities** | **877,924.4** | **927,969.0** |

# Consolidated income statement

| in EUR k | 01/07/2009 - 30/09/2009 | 01/07/2008 - 30/09/2008 | 01/01/2009 - 30/09/2009 | 01/01/2008 - 30/09/2008 |
|---|---|---|---|---|
| **Total income (excluding finance income)** | **28,515.4** | **24,863.4** | **78,374.9** | **76,385.8** |
| **Total expenses (excluding finance costs)** | **-17,948.4** | **-65,259.7** | **-51,168.9** | **-111,163.3** |
| Gross rental income from investment properties and service charge income on principal basis | 22,282.7 | 21,744.3 | 67,006.5 | 64,950.2 |
| Property operating expenses | -11,518.0 | -14,647.6 | -34,641.6 | -39,459.5 |
| **Net rental income** | **10,764.7** | **7,096.7** | **32,364.9** | **25,490.7** |
| Proceeds from Asset Management | 1,810.7 | 2,723.0 | 4,691.5 | 6,424.8 |
| Expenses for Asset Management | -2,251.0 | -2,464.5 | -6,211.9 | -5,550.5 |
| **Net income from Asset Management** | **-440.3** | **258.5** | **-1,520.4** | **874.3** |
| Proceeds from sale of trading properties | 1,475.0 | 0.0 | 1,559.3 | 2,351.0 |
| Carrying value of trading properties | -1,128.4 | 0.0 | -1,195.7 | -2,135.7 |
| **Profit on the sale of properties held for sale** | **346.6** | **0.0** | **363.6** | **215.3** |
| **Administrative expenses** | **-2,774.4** | **-4,273.6** | **-8,351.9** | **-19,909.1** |
| **Restructuring costs** | **-204.4** | **0.0** | **-527.8** | **0.0** |
| Other income | 2,947.0 | 396.1 | 3,667.6 | 2,659.8 |
| Other expenses | -72.2 | 0.0 | -240.0 | -234.5 |
| **Other income (expenses), net** | **2,874.8** | **396.1** | **3,427.6** | **2,425.3** |
| **Result of disposal of investment properties** | **0.0** | **0.0** | **0.0** | **0.0** |
| **Valuation movements** | **0.0** | **-43,874.0** | **1,450.0** | **-43,874.0** |
| **Earnings before interest and tax** | **10,567.0** | **-40,396.3** | **27,206.0** | **-34,777.5** |
| Finance expenses | -8,418.4 | -18,027.6 | -27,188.0 | -27,016.1 |
| Income from waiver of loan repayments | 0.0 | 0.0 | 8,700.2 | 0.0 |
| Finance income | 33.2 | 176.6 | 292.6 | 2,106.8 |
| **Finance results** | **-8,385.2** | **-17,851.0** | **-18,195.2** | **-24,909.3** |
| **Consolidated results before tax** | **2,181.8** | **-58,247.3** | **9,010.8** | **-59,686.8** |
| **Income tax** | **-168.5** | **10,474.3** | **-714.8** | **9,886.6** |
| **Consolidated results** | **2,013.3** | **-47,773.0** | **8,296.0** | **-49,800.2** |
| Attributable to: | | | | |
| Equity holders of the parent | 1,994.0 | -48,053.6 | 8,090.3 | -49,950.1 |
| Minority interests | 19.3 | 280.6 | 205.7 | 149.9 |
| **Consolidated results** | **2,013.3** | **-47,773.0** | **8,296.0** | **-49,800.2** |
| | | | | |
| **Earnings per share** | | | | |
| in EUR k | | | | |
| Basic | 0.08 | -2.10 | 0.32 | -2.19 |
| Diluted | 0.07 | -1.75 | 0.35 | -1.81 |

## Statement of comprehensive income and expenses included for the period from January 1 through September 30, 2009

| in EUR k | 01/07/2009 - 30/09/2009 | 01/07/2008 - 30/09/2008 | 01/01/2009 - 30/09/2009 | 01/01/2008 - 30/09/2008 |
|---|---|---|---|---|
| **Consolidated profit/loss** | **1,994.0** | **-48,053.6** | **8,090.3** | **-49,950.1** |
| **Consolidated profit/loss (attributable to minority interests)** | **19.3** | **280.6** | **205.7** | **149.1** |
| Fair valuation of hedging instruments (cash flow hedges) | | | | |
| Noncash change | 1,081.7 | 0.0 | -5,360.8 | 0.0 |
| Deffered taxes | | | | |
| on changes in value recognized directly in equity | -173.3 | 0.0 | 872.5 | 0.0 |
| **Total income and expenses recognized directly in equity** | **908.4** | **0.0** | **-4,488.3** | **0.0** |
| **Total recognized income and expenses (total net profit)** | **2,921.7** | **-47,773.0** | **3,807.7** | **-49,801.0** |
| Equity holders of the group | 2,904.6 | -48,053.6 | 3,617.6 | -49,950.1 |
| Minority interests | 17.1 | 280.6 | 190.1 | 149.1 |

## Consolidated cash flow statement

| in EUR k | 01/01/2009 - 30/09/2009 | 01/01/2008 - 30/09/2008 |
|---|---|---|
| **Operating activities** | | |
| Consolidated results | 8,296.0 | -49,800.2 |
| Plus finance results | 18,195.2 | 24,909.3 |
| Plus income tax | 714.8 | -9,886.7 |
| **= Net operating profit before finance results and tax** | **27,206.0** | **-34,777.6** |
| Share-based compensation | 777.5 | 1,763.9 |
| Depreciation/Amortization | 328.8 | 424.9 |
| Unrealized valuation movements | -1,450.0 | 43,874.0 |
| Profit from deconsolidation | -3,349.9 | -280.9 |
| Proceeds from disposals of equity interests | 0.0 | -38.8 |
| Proceeds from disposals of investment property | -346.6 | 0.0 |
| other non cash movements | -314.5 | 0.0 |
| Change in pension provisions | 12.5 | 0.0 |
| Changes in properties held for sale | -2,171.9 | -786.7 |
| Changes in financial liabilities attributable to properties held for sale | -478.0 | 0.0 |
| Changes in receivables | 4,827.0 | 5,679.9 |
| Changes in liabilities | -6,787.3 | -7,161.2 |
| **Cash generated from operations** | **18,253.6** | **8,697.5** |
| Interest paid | -21,799.1 | -23,435.3 |
| Interest received | 97.9 | 2,106.8 |
| Income taxes paid | 573.7 | -1,041.5 |
| **Cash flows from operating activities** | **-2,873.9** | **-13,672.5** |
| **Investing activities** | | |
| Capital expenditure on investment properties | -6,278.0 | 0.0 |
| Capital expenditure on investment properties | -58.4 | -340.9 |
| Change in properties under construction | 0.0 | -20,658.4 |
| Proceeds from disposals of investment property | 1,475.0 | 0.0 |
| Proceeds from disposals of equity interests | 0.0 | 590.0 |
| Proceeds/payments for/from investments in associates and loans | -782.9 | -2,388.4 |
| Net proceeds/payments for corporate acquisitions/sales | 7,303.6 | 141.6 |
| **Cash flows used in investing activities** | **1,659.3** | **-22,656.1** |

| in EUR k | 01/01/2009 - 30/09/2009 | 01/01/2008 - 30/09/2008 |
|---|---|---|
| Proceeds from issue of share capital | 16,604.2 | 5,490.0 |
| Payment of transaction costs for issue of share capital | -222.8 | -408.6 |
| Payment to minority interests | -550.2 | 0.0 |
| Dividend payment | 0.0 | -5,705.8 |
| Proceeds from borrowings | 30,546.8 | 49,307.0 |
| Repayment of borrowings | -36,030.9 | -24,597.1 |
| **Cash flows from financing activities** | **10,347.1** | **24,085.5** |
| Net change in cash and cash equivalents | 9,132.5 | -12,243.1 |
| Foreign currency translation | -62.1 | 0.0 |
| Cash and cash equivalents at beginning of period | 10,410.1 | 23,652.9 |
| Changes in scope of consolidation | 0.0 | -92.7 |
| **Cash and cash equivalents at end of period** | **19,480.5** | **11,317.1** |

## Changes in consolidated equity

| in EUR k | Equity attributable to equity holders of the parent | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Subscribed capital | Other reserves | Retained earnings | Treasury stock | Components of result for period not recognized in profit or loss | Foreign currency translation | Total | Minority interest | Total |
| **At Jan. 1, 2008** | **22,465.6** | **216,635.2** | **81,705.7** | **-42.5** | **0.0** | **0.0** | **320,764.0** | **1,705.2** | **322,469.2** |
| Net loss on cash flow hedges | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Total profit or loss recognized directly in equity | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Profit for the period | 0.0 | 0.0 | -49,950.1 | 0.0 | 0.0 | 0.0 | -49,950.1 | 149.9 | -49,800.2 |
| **Total profit or loss for period** | **0.0** | **0.0** | **-49,950.1** | **0.0** | **0.0** | **0.0** | **-49,950.1** | **149.9** | **-49,800.2** |
| Cash capital increase | 360.0 | 5,130.0 | 0.0 | 0.0 | 0.0 | 0.0 | 5,490.0 | 0.0 | 5,490.0 |
| Cost of cash capital increase after tax | 0.0 | -279.6 | 0.0 | 0.0 | 0.0 | 0.0 | -279.6 | 0.0 | -279.6 |
| Dividends | 0.0 | 0.0 | -5,705.8 | 0.0 | 0.0 | 0.0 | -5,705.8 | 0.0 | -5,705.8 |
| Share-based compensation | 0.0 | 1,763.9 | 0.0 | 0.0 | 0.0 | 0.0 | 1,763.9 | 0.0 | 1,763.9 |
| Changes of minority interest | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | -922.8 | -922.8 |
| **At Sept. 30, 2008** | **22,825.6** | **223,249.5** | **26,049.8** | **-42.5** | **0.0** | **0.0** | **272,082.4** | **932.3** | **273,014.7** |
| **At Oct. 1, 2008** | **22,825.6** | **223,249.5** | **26,049.8** | **-42.5** | **0.0** | **0.0** | **272,082.4** | **932.3** | **273,014.7** |
| Net loss on cash flow hedges | 0.0 | 0.0 | 0.0 | 0.0 | -14,311.2 | 0.0 | -14,311.2 | -49.5 | -14,360.7 |
| Total profit or loss recognized directly in equity | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Profit for the period | 0.0 | 0.0 | -32,617.3 | 0.0 | 0.0 | 0.0 | -32,617.3 | -506.2 | -33,123.5 |
| **Total profit or loss for period** | **0.0** | **0.0** | **-32,617.3** | **0.0** | **-14,311.2** | **0.0** | **-46,928.5** | **-555.7** | **-47,484.2** |
| Cost of cash capital increase after tax | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Dividends | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Share-based compensation | 0.0 | -921.3 | 0.0 | 0.0 | 0.0 | 0.0 | -921.3 | 0.0 | -921.3 |
| Treasury stock | 0.0 | -35.4 | 0.0 | 35.4 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Acquisition of minority interests | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 503.7 | 503.7 |
| Changes of minority interest | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 178.9 | 178.9 |
| **At Dec. 31, 2008** | **22,825.6** | **222,292.8** | **-6,567.5** | **-7.1** | **-14,311.2** | **0.0** | **224,232.6** | **1,059.2** | **225,291.8** |

| | Equity attributable to equity holders of the parent | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| in EUR k | Subscribed capital | Other reserves | Retained earnings | Treasury stock | Components of result for period not recognized in profit or loss | Foreign currency translation | Total | Minority interest | Total |
| **At Jan.1,2009** | **22,825.6** | **222,292.8** | **-6,567.5** | **-7.1** | **-14,311.2** | **0.0** | **224,232.6** | **1,059.2** | **225,291.8** |
| Net loss on cash flow hedges | 0.0 | 0.0 | 0.0 | 0.0 | -4,472.7 | 0.0 | -4,472.7 | -15.6 | -4,488.3 |
| Total profit or loss recognized directly in equity | 0.0 | 0.0 | 0.0 | 0.0 | -4,472.7 | 0.0 | -4,472.7 | -15.6 | -4,488.3 |
| Profit for the period | 0.0 | 0.0 | 8,090.3 | 0.0 | 0.0 | 0.0 | 8,090.3 | 205.7 | 8,296.0 |
| **Total profit or loss for period** | **0.0** | **0.0** | **8,090.3** | **0.0** | **-4,472.7** | **0.0** | **3,617.6** | **190.1** | **3,807.7** |
| Cash capital increase | 5,634.4 | 10,969.8 | 0.0 | 0.0 | 0.0 | 0.0 | 16,604.2 | 0.0 | 16,604.2 |
| Cost of cash capital increase after tax | 0.0 | -152.5 | 0.0 | 0.0 | 0.0 | 0.0 | -152.5 | 0.0 | -152.5 |
| Share-based compensation | 0.0 | 777.5 | 0.0 | 0.0 | 0.0 | 0.0 | 777.5 | 0.0 | 777.5 |
| Transaction between shareholders | 0.0 | 413.7 | 0.0 | 0.0 | 0.0 | 0.0 | 413.7 | 0.0 | 413.7 |
| Foreign currency translation loss | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | -62.1 | -62.1 | 0.0 | -62.1 |
| Changes of minority interest | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | -888.0 | -888.0 |
| **At Sept. 30, 2009** | **28,460.0** | **234,301.3** | **1,522.8** | **-7.1** | **-18,783.9** | **-62.1** | **245,431.0** | **361.3** | **245,792.3** |

# Explanatory notes

## General Information

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

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.

## Accounting Principles

The interim financial statements of Colonia Real Estate AG as of September 30, 2009, were prepared in compliance with Sec. 37x (3) in conjunction with Sec. 37w (2) of the German Securities Trading Act (WpHG), and in accordance with International Financial Reporting Standards (IFRS) as they apply in the European Union (EU), as well as the interpretations of the International Financial Reporting Interpretations Committee (IFRIC).

The accounting and consolidation principles used in preparing the interim financial statements are the same as those used in the consolidated financial statements as of December 31, 2008, taking account of International Accounting Standard (IAS) 34, "Interim Financial Reporting." Accordingly, this quarterly financial report does not include all information and notes that would be required under IFRS for year-end consolidated financial statements.

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).

## Significant Accounting Judgments, Estimates and Assumptions

The preparation of the quarterly financial report 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, 2008, as are any areas in which assumptions and estimates are of critical importance for the interim 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.

## Scope of Consolidation

The consolidated financial statements incorporate the financial statements of Colonia Real Estate AG and all its subsidiaries as of September 30, 2009. Subsidiaries' financial statements are prepared using the same accounting policies and the same reporting date as the financial statements of the parent company. The scope of consolidation changed as follows during the first nine months of 2009, as compared to the consolidated financial statements at December 31, 2008:

CRE Gewerbeimmobilien GmbH, Gerespro One GmbH and CRE Retail Immobilien GmbH were merged into Colonia Real Estate AG under notarial instruments dated January 20, 2009. This merely reduced the number of Group companies; it made no change within the Group in economic terms.

By a notarial instrument dated September 2, 2009, CRE Wohnen Berlin Holding AG was sold, together with three subsidiaries. All these companies were deconsolidated as of September 30, 2009. The companies' contributions to earnings are reflected in these quarterly financial statements until September 30, 2009.

As of September 30, 2009, the Group consolidated a total of 16 subsidiaries, 14 of them in Germany and 2 of them in other countries.

## Equity

In April 2009, with the consent of the Supervisory Board, Colonia Real Estate AG decided to carry out a capital increase excluding shareholders' preemptive rights. The capital increase was carried out using the Authorized Capital approved at the shareholders' meeting of July 4, 2007, by issuing 1.3 million new no-par shares of common stock with a notional par value of EUR 1.00 per share, in return for cash contributions. The capital increase was placed at an issue price of EUR 2.77 per share; the shareholders' preemptive rights were excluded in accordance with the resolution of the shareholders' meeting. This capital increase generated capital of about EUR 3.6 million.

Moreover, in June 2009 the warrants issued by Colonia Real Estate AG in 2004 were converted to new stock of the Company, with an exercise level of 96.4 percent. Out of a total of 6.75 million warrants, some 6.5 million were exercised in the provided period from May 15 to June 1, 2009. Every three warrants were convertible to two new shares at three euros each, equivalent to about 4.34 million new shares.

## Cash Flow Statement

The cash flow statement shows the change in cash and cash equivalents of the CRE Group. Cash includes cash on hand and deposits with banks. The cash flow statement was prepared in conformity with IAS 7, and organizes changes in cash into cash flows from operating, investing and financing activities. The cash flow from operating activities is determined by the indirect method.

Total cash funds consist of the following:

| in EUR k | 30/09/2009 | 30/09/2008 |
|---|---|---|
| Cash and cash equivalents | 21,765.5 | 26,184.1 |
| Bank overdraft | -2,285.0 | -2,071.9 |
| **Cash funds** | **19,480.5** | **24,112.2** |

## 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 the characteristics of their sales organizations. At present the Group consists of three segments: Residential Properties, Commercial Properties, and Asset 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-Q3 - 2009**

| in EUR k | Residential | Commercial | Asset Management | Reconciliation | Group |
|---|---|---|---|---|---|
| Income | 78,441.2 | 1,069.3 | 5,586.7 | -6,722.3 | 78,374.9 |
| EBIT | 38,561.6 | 859.2 | -661.5 | -11,553.3 | 27,206.0 |

**Q1-Q3 - 2008**

| in EUR k | Residential | Commercial/Hotel | Asset/Fund Management | Reconciliation | Group |
|---|---|---|---|---|---|
| Income | 67,071.9 | 2,535.5 | 7,474.6 | -696.2 | 76,385.8 |
| EBIT | -17,492.0 | -5,361.3 | 993.4 | -12,917.3 | -34,777.2 |

## Related Party Transactions

In March 2009, Liechtensteinische Landesbank Aktiengesellschaft, of Vaduz, extended a loan totaling EUR 2.0 million to Colonia Real Estate AG. The term of the loan was to end on January 31, 2010. The loan bore interest at the 3-month Euribor rate plus 8.5 percent. It was repaid early, in full, on July 3, 2009. Furthermore, an unscheduled amortization of 2 million Euros on the loan which was given by Liechtensteinische Landesbank Aktiengesellschaft, of Vaduz, in 2008 has been paid on September 30, 2009.

Otherwise there have been no changes in related party transactions as compared to the consolidated financial statements at December 31, 2008.

## Events after the Reporting Date

No reportable events occurred after the reporting date.

## Management's Responsibility Statement

"To the best of our knowledge, and in accordance with the applicable reporting principles for interim reporting, the interim consolidated 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 remainder of the fiscal year."

Cologne, November 12, 2009

Colonia Real Estate AG

| | | |
|---|---|---|
| Stephan Rind | Volker Lemke | Friedrich Thiele |
| CEO | CFO | CIO |