



Colonia Real Estate AG

Annual Financial Report 2009

Balance Sheet as of December 31, 2009

	31.12.2009 EUR	31.12.2008 EUR	Shareholders' equity and liabilities	
	EUR	EUR	31.12.2009 EUR	31.12.2008 EUR
Assets				
A. Non-current assets				
I. Intangible assets				
1. Patence, licence rights and other assets	125.044,00	157.473,00		
2. Accounts payable	305.876,77	0,00		
	<u>430.920,77</u>	<u>157.473,00</u>		
II. Property, plant and equipment				
1. Rights equivalent to real property	9.671.159,00	9.921.358,00		
2. Equipment	448.256,00	551.519,00		
	<u>10.119.415,00</u>	<u>10.472.877,00</u>		
III. Financial assets				
1. Investments in subsidiaries	254.142.940,48	262.325.262,44		
2. Loans to subsidiaries	22.043.747,31	22.935.105,19		
3. Investments in associated companies	3.936.758,85	2.747.711,85		
4. Loans to associated companies	6.302.545,99	5.856.670,97		
	<u>286.425.992,63</u>	<u>293.864.750,45</u>		
	<u>296.976.328,40</u>	<u>304.495.100,45</u>		
B. Current assets				
I. Inventories				
1. Land and equivalent rights including finished buildings	1,00	1,00		
2. Work in progress	181.234,96	174.286,21		
	<u>181.235,96</u>	<u>174.287,21</u>		
II. Receivables and other assets				
1. Receivables, trades	174.565,94	44.229,43		
2. Receivables from subsidiaries	46.467.151,26	50.526.682,58		
3. Other assets	349.452,21	1.045.218,13		
	<u>46.991.169,41</u>	<u>51.616.130,14</u>		
III. Marketable securities				
Treasury shares	11.657,16	7.152,86		
IV. Cash on hand and bank balances	1.990.625,15	3.352.694,20		
	<u>49.174.687,68</u>	<u>55.150.264,41</u>		
C. Prepaid expenses	3.957.827,14	5.728.659,79		
	<u>350.108.843,22</u>	<u>365.374.024,65</u>		
A. Shareholders' equity				
I. Capital stock				
Contingent capital EUR 6.912.800,00 (previous year: EUR 11.412.800,00)				
			28.460.000,00	22.825.600,00
II. Additional paid-in capital			233.757.268,06	222.787.468,06
III. Retained earnings			11.657,16	7.152,86
Reserve for treasury shares			-37.299.977,89	-10.490.441,24
IV. Unappropriated net loss			<u>224.928.947,33</u>	<u>235.129.779,68</u>
B. Accruals			447.896,00	690.898,38
1. Tax accruals			1.446.600,91	1.149.047,00
2. Other accruals			<u>1.894.496,91</u>	<u>1.839.945,38</u>
C. Liabilities				
1. Bonds			60.974.313,40	60.905.608,40
thereof convertible				
EUR 60.905.608,40 (previous year: EUR 60.905.608,40)				
2. Liabilities to banks			48.405.659,84	56.657.643,43
3. Advances received			259.947,49	266.305,12
4. Accounts payables, trade			339.885,08	1.090.289,76
5. Liabilities to subsidiaries			10.115.044,75	3.595.028,83
6. Other liabilities			1.377.687,94	3.988.599,05
thereof for taxes:				
EUR 567.388,83 (previous year: EUR 452.678,11)				
thereof within social securities				
EUR 84,00 (previous year: EUR 4.618,74)				
			<u>121.472.538,50</u>	<u>126.503.474,59</u>
D. Prepaid expenses			1.812.860,48	1.900.825,00
			<u>350.108.843,22</u>	<u>365.374.024,65</u>

Income Statement for Fiscal 2009

	2009 EUR	2008 EUR
1. Revenues	1.849.968,51	1.474.630,10
2. Change of inventories in progress	6.948,75	-33.498,75
3. Other operating income	357.388,10	8.907.686,48
	<u>2.214.305,36</u>	<u>10.348.817,83</u>
4. Material expenses		
Expenses for purchased services	-276.879,63	-347.291,97
5. Personnel expenses		
a) Wages and salaries	-3.257.449,10	-(4.709.672,59)
b) Social security contributions and retirement benefits thereof for retirement benefits EUR 14.754,74 (previous year: EUR 34.648,80)	-287.844,98	-295.629,18
6. Depreciations in intangible and tangible assets	-411.321,53	-409.069,95
7. Other operating expenses	-12.520.196,10	-11.953.470,85
	<u>-16.753.691,34</u>	<u>-17.419.505,36</u>
8. Income from subsidiaries (previous year: including profits from disposal)	332.007,22	38.816,18
9. Income from marketable securities	0,00	493,32
10. Other interest and similar income thereof from subsidiaries EUR 3.726.920,12 (previous year: EUR 11.750.583,08)	4.326.058,24	13.256.012,45
11. Write-downs from disposal of financial assets (previous year: also marketable securities)	-11.491.714,73	-16.870.006,40
12. Other interest and similar expenses thereof from subsidiaries EUR 169.468,17 (previous year: EUR 958.073,16)	-5.008.123,33	-4.136.689,50
13. Expenses from loss transfer agreements	-362.284,52	-576.303,54
	<u>-12.204.057,12</u>	<u>-8.287.677,49</u>
14. Results from ordinary business activities	-26.743.443,10	-15.358.365,02
15. Income taxes	154.409,21	-492.150,08
16. Other taxes	-16.905,40	-5.037,00
	<u>137.503,81</u>	<u>-497.187,08</u>
17. Results assigned to the insolvency creditors	-199.093,06	-163.750,51
18. Loss for the year	-26.805.032,35	-16.019.302,61
19. Loss carried forward from previous year (previous year: profit)	-10.490.441,24	11.199.271,98
20. Dividend distributions	0,00	-5.705.774,75
21. Withdrawals (previous year: allocations) to reserve for treasury stock	-4.504,30	35.364,14
22. Unappropriated net loss	-37.299.977,89	-10.490.441,24

Notes to the Financial Statements for Fiscal 2009

I. General Information

The annual financial statements of Colonia Real Estate AG (CRE AG) as of December 31, 2009, were prepared on the basis of the accounting principles under Book Three of the German Commercial Code (HGB).

CRE AG qualifies as a large capital corporation within the meaning of Sec. 267 (3) Sentence 2 of the Commercial Code.

The income statement is presented in the total cost format under Sec. 275 (2) of the German Commercial Code.

The annual financial statements of Colonia Real Estate AG are published in the electronic version of the *Bundesanzeiger*, Germany's Federal Gazette.

The annual shareholders' meeting on July 8, 2009, adopted an extensive catalogue of agenda items, including the creation of authorized capital.

In April and June 2009, additionally, two capital increases were placed with investors, further improving the Company's equity capitalization.

The asset and liability items recognized in the balance sheet are only partially applicable to the new business activities that Colonia Real Estate AG has conducted since November 5, 2003 ("free" assets). A small portion pertains to asset and liability items that are subject to the sole power of disposition of the receiver in the former insolvency proceedings of Küppersbusch AG i. L. (assets subject to bankruptcy proceedings), and are also accounted entirely separately on that basis. The liquidation process has not been completed to date. The proceeds from the disposal of these assets, the interest accruing on bank accounts, and the proceeds from the operation of properties are applied solely to satisfy the creditors of Küppersbusch AG i. L. (fiscal 2009: EUR 199.1 thousand; previous year: EUR 163.8 thousand).

The balance sheet of Colonia Real Estate AG as of December 31, 2009, therefore contains the following asset and liability items that are frozen in insolvency: bank balances (EUR 752.4 thousand; previous year: EUR 753.9 thousand) and other liabilities (EUR 752.4 thousand; previous year: EUR 753.8 thousand). Any further information in these notes refers solely to the free assets of Colonia Real Estate AG.

Property held for sale and the associated liabilities to banks were recognized at a notional residual value of EUR 1.00 (previous year: EUR 1.00).

II. Accounting Policies

The annual financial statements were prepared in compliance with Sec. 242 ff. and 264 ff. of the German Commercial Code, along with the pertinent requirements of the German Stock Corporations Act (AktG).

So far as possible, property, plant and equipment and intangible assets are depreciated and amortized on a straight-line basis over their expected useful lives, applying the maximum rates the tax regulations allow. Minor-value assets up to a net value of EUR 150.00 each are written off or expensed in full, as the case may be, in their year of acquisition; they are assumed to have been disposed of immediately. For simplicity's sake, on assets with net values of more than EUR 150.00 each up to EUR 1,000.00 each, and acquired after December 31, 2007, the combined item to be formed each year for tax purposes is also incorporated into the balance sheet for reporting purposes under the Commercial Code. The annual combined items, whose total amount is of minor significance, are depreciated at a flat rate of 20% per year in their year of initial formation and the four subsequent years, in keeping with the tax rules. Otherwise additions to property, plant and equipment are depreciated proportionately over time. In contrast to the prior year, intangible assets are shown separately for the year under report here. The presentation from the prior year has been adjusted accordingly.

Among financial investments, shares are normally measured at the lower of cost or market, and loans extended are normally recognized at their nominal value. No-interest or low-interest loans extended are discounted to present value.

Work in progress is measured at the cost of the still unsettled apportionable operating expenses for the commercial properties at Ferdinand-Porsche Strasse 1 and 1a in Cologne.

Receivables and other assets are normally measured at their nominal value or acquisition cost, whichever is applicable. Default risks are taken into account with write-downs.

Other securities are measured at cost or at a lower fair value after measurement pursuant to Sec. 253 (3) of the German Commercial Code.

Cash and cash equivalents are measured at their nominal value.

Tax provisions and other provisions take account of all contingent liabilities. They are recognized at the amount that is necessary according to a reasonable commercial evaluation.

Liabilities are measured at their repayment amount.

III. Information and Explanations on Various Items in the Balance Sheet and Income Statement

1. Non-Current Assets

The changes in non-current assets are shown in the attached schedule (Appendix A to these Notes). Write-downs for wear and tear were taken as allowed by law.

2. Current Assets

As in the prior year, all receivables and other current assets have terms of less than one year.

2.1 Trade Receivables

The trade receivables of EUR 174.6 thousand (previous year: EUR 44.2 thousand) pertain to receivables from commercial tenants.

2.2 Receivables from Subsidiaries

The financial statements recognize receivables from subsidiaries of EUR 46,467.2 thousand (previous year: EUR 50,526.7 thousand).

Of this figure, EUR 173.3 thousand is trade receivables, and EUR 46,293.9 thousand is for other assets.

2.3 Other Assets

The other assets, in the amount of EUR 349.5 thousand (previous year: EUR 1,045.2 thousand), largely consist of tax receivables, receivables from employees, and creditors with debit balances.

2.4 Securities

The other securities comprise treasury stock in the amount of EUR 11.7 thousand. A reserve for treasury stock has been formed in the same amount. An allocation of EUR 4.5 thousand was carried out during the year.

3. Deferred Income and Expenses Paid in Advance

One major component included in this item (which comes to EUR 3,957.8 thousand in all (previous year: EUR 5,728.7 thousand)), is the difference between the redemption amount

of the convertible bond, which is recognized as a liability, and the bond's issue amount, which in accordance with Sec. 250 (3) Sentence 1 of the Commercial Code is recognized at EUR 2,277.6 thousand (previous year: EUR 3,465.9 thousand). The item also includes the equity component of the convertible bond, in the amount of EUR 493.9 thousand (previous year: EUR 740.8 thousand), and bank charges of EUR 584.2 thousand (previous year: EUR 889.1 thousand) incurred for the bond issue. It also includes processing fees for an additional loan (EUR 548.1 thousand; previous year: EUR 567.1 thousand). This item will be written back in installments over the applicable terms.

4. Equity

Equity decreased to EUR 224,928,947.33 during the year (previous year: EUR 235,129,779.68).

Changes in equity are shown in the attached statement of changes in equity (Appendix B to these Notes), and are explained below:

Share capital

The share capital increased to EUR 28,460,000.00 as of the reporting date (previous year: EUR 22,825,600.00), and is made up of the following:

Bearer shares (no-par bearer shares)	Notional value per share EUR	Share capital EUR
28,460,000	1.00	28,460,000

Under an authorization contained in Article 4 (4) of the Company's articles of incorporation, on April 9, 2009, the Board of Management decided, with the consent of the Supervisory Board, granted likewise on April 9, 2009, to increase the share capital by EUR 1,300,000, from EUR 2,285,600 to EUR 24,125,600, by issuing 1,300,000 new bearer shares of common stock, fully entitled to participate in profits as of January 1, 2009.

The subscription price per new share was EUR 2.77.

The capital increase was recorded in the Commercial Register of Cologne Local Court on April 15, 2009.

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

The conversion of subscription rights yielded a capital increase of EUR 4,334,400.00, from the issue of 4,334,400 no-par bearer shares of stock, each having a notional value of EUR 1.00 of the share capital.

The subscription price per new share was EUR 3.00.

The capital increase was recorded in the Commercial Register of Cologne Local Court on March 8, 2010.

In all, therefore, the share capital increased by EUR 5,634.4 thousand during the year, to EUR 28,460.0 thousand (previous year: EUR 22,825.6 thousand).

The shareholders' meeting on July 8, 2009, resolved to amend Article 4 (Share Capital, Conditional Capital, Authorized Capital) of the Articles of Incorporation. A new authorized capital was created.

Authorized capital

The Board of Management has been authorized, subject to the consent of the Supervisory Board, to increase the Company's share capital on one or more occasions on or before July 3, 2012, by up to a total of EUR 9,332,800.00, by issuing new bearer shares of no-par stock in return for contributions in cash or in kind (2007 Authorized Capital). The Board of Management may exercise this authorization for any purpose permitted by law, but only up to a total of EUR 6,698,560.00 for the purpose of issuing stock to service exercised conversion rights or options for holders of convertible bonds or bonds with warrants already issued or to be issued in the future under the authorization granted by the shareholders' meetings of June 27, 2005 (in the version of the amending resolutions of June 6, 2006, and July 4, 2007) and of July 4, 2007.

The Board of Management has been authorized, subject to the consent of the Supervisory Board, to increase the Company's share capital on one or more occasions on or before July 7, 2014, by up to a total of EUR 1,874,000.00, by issuing new bearer shares of no-par stock in return for contributions in cash or in kind (2009 Authorized Capital).

Conditional capital

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

The Company's share capital has been conditionally increased by up to EUR 1,505,993.00, divided into up to 1,505,993 no-par bearer shares, by the issue of new stock (Conditional

Capital IV). The conditional capital increase is to serve to grant subscription rights to holders or creditors under convertible bonds or bonds with warrants issued by the Company under the authorization of June 27, 2005, as amended by the amending resolutions of June 6, 2006, and July 4, 2007.

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

The share capital has been conditionally increased by up to EUR 3,124,247.00, to be used for the issue of up to 3,124,247 new no-par bearer shares (Conditional Capital VI). This conditional capital increase is to serve for granting no-par bearer shares to holders or creditors under convertible bonds, bonds with warrants, participation rights, and/or income bonds (or combinations of such instruments) issued by the Company or one of its directly or indirectly wholly-owned subsidiaries under the authorization adopted by the shareholders' meeting of June 19, 2008, under Agenda Item 7.

The share capital has been conditionally increased by up to EUR 624,000.00, to be used for the issue of up to 624,000 new no-par bearer shares (Conditional Capital VII). This conditional capital increase is to serve solely for granting no-par bearer shares to service exercised subscription rights (stock options) issued under the authorization adopted at the shareholders' meeting of June 19, 2008, under Agenda Item 9, under the Colonia Real Estate 2008 Stock Option Plan, to members of the Board of Management of the Company, members of the management of subsidiaries of the Company, and employees of the Company and its subsidiaries.

Capital reserves

The surplus above the notional value of EUR 1.00 per share generated by the capital increase of 1,300,000 shares at a subscription price of EUR 2.77 and by the capital increase of 4,334,400 shares at a subscription price of EUR 3.00, has been allocated accordingly to the capital reserves, yielding an addition of EUR 10,969,800.00.

Reserve for treasury stock

As of the reporting date, the Company held 2,501 shares (previous year: 2,501) of treasury stock. The treasury stock is measured at the current share price as of the reporting date, and is recognized under current securities. A reserve for treasury stock is formed in the same amount out, funded out of the distributable net profit.

5. Provisions

5.1. Tax Provisions

The tax provisions pertain to corporate income tax and local business income tax (“trade tax”) for previous years.

5.2. Other Provisions

The other provisions are primarily personnel provisions (EUR 525.6 thousand; previous year: EUR 475.0 thousand), provisions for the preparation and auditing of the parent-company and consolidated financial statements (EUR 267.0 thousand; previous year: EUR 255.8 thousand), and provisions for outstanding invoices (EUR 300.0 thousand; previous year: EUR 84.3 thousand).

6. Liabilities

Liabilities have the following remaining terms:

<u>At December 31, 2009:</u>	Remaining term			
	Total	1 year or less	1 to 5 years	More than 5 years
	EUR k	EUR k	EUR k	EUR k
Bonds	60,974.3	68.7	60,905.6	0.0
Liabilities to banks	48,405.7	8,008.6	10,458.2	29,938.9
Advance payments received on orders	259.9	259.9	0.0	0.0
Trade payables	339.9	339.9	0.0	0.0
Liabilities to subsidiaries	10,115.0	10,115.0	0.0	0.0
Other liabilities	1,377.7	1,377.7	0.0	0.0
	121,472.5	20,169.8	71,363.8	29,938.9

<u>At December 31, 2008:</u>	Remaining term			
	Total	1 year or less	1 to 5 years	More than 5 years
	EUR k	EUR k	EUR k	EUR k
Convertible bond	60,905.6	0.0	60,905.6	0.0
Liabilities to banks	56,657.6	5,515.9	20,627.7	30,514.0
Advance payments received on orders	266.3	266.3	0.0	0.0
Trade payables	1,090.3	1,090.8	0.0	0.0
Liabilities to subsidiaries	3,595.0	3,595.0	0.0	0.0
Other liabilities	3,998.6	3,998.6	0.0	0.0
	126,503.4	14,456.1	81,533.3	30,514.0

6.1 Bonds

On December 7, 2006, the Company issued a convertible bond with a total par value of EUR 54,964.0 thousand. The bonds are certificated in a global certificate without interest coupons. The total par value is divided into bearer bonds with a par value of EUR 100.00 each, all having the same seniority. The bonds establish direct, unconditional, non-junior, unsecured liabilities of the Company that all have the same seniority among themselves and are at least as senior as all other present and future unsecured, non-junior liabilities of the Company, except as provided otherwise by law. The bonds accrue interest on their par value at 1.875% of par p.a. as of the inception of the interest accrual period. Interest is payable annually in December, in arrears, on each interest payment date.

The bonds will be redeemed on their maturity date at their accrued par value plus accumulated interest, unless they have been redeemed, converted, retired or cancelled before that date.

The convertible bond has been recognized as a liability as of the reporting date, at its repayment amount of 110.81% or EUR 60,905.6 thousand, plus accrued interest of EUR 68.7 thousand. For the prior year, the accrued interest of EUR 68.7 was recognized under other liabilities.

The Company is entitled to recall the entire bond issue after December 31, 2009. A prerequisite is that the stock's trading price over a period of at least 20 successive trading days must be at least 130.0% of the accrued par value applicable at the time. The creditors' conversion rights could be exercised for the first time as of January 17, 2007. The conversion period ends on November 25, 2011. The number of underlying shares to be delivered at conversion is calculated from the total par value of the bonds submitted by a creditor for conversion, divided by the conversion price applicable on the conversion date, rounded to the nearest whole share. The initial conversion price per underlying share was EUR 39.524. A conditional capital up to a total of EUR 1,505,993 was established for underlying shares by the shareholders' meeting of June 6, 2006, to cover the convertible bond.

6.2 Liabilities to Banks

The liabilities to banks of EUR 48,405.7 thousand (previous year: EUR 56,657.6 thousand) primarily derive from a loan of EUR 32,503.0 thousand (previous year: EUR 32,932.1 thousand) to finance a subsidiary, a loan of EUR 8,638.2 thousand (previous year: EUR 8,928.2 thousand), to finance the acquisition of the properties at Ferdinand-Porsche-Strasse 1 und 1a, Cologne, a bridge loan from Liechtensteinische Landesbank AG, Liechtenstein, of EUR 4,000.0 thousand (previous year: EUR 10,130.6 thousand) and current account credit lines for EUR 3,226.3 thousand (previous year: EUR 4,555.6 thousand).

The bank liability to finance Ferdinand-Porsche-Strasse is secured by an immediately enforceable land charge for EUR 10,675.0 thousand recorded in the Land Register, and by the assignment of rent receivables.

The liabilities to Liechtensteinische Landesbank AG are secured by the assignment of equity interests.

The other bank liabilities are secured by a junior rank in the Land Register for the Brake/Nordenham real estate portfolio.

Derivative financial instruments

CRE AG has hedged the interest rate risk deriving from the variable interest rates on the loan for the purchase of real estate portfolios, by entering into an interest rate swap with EURO Hypo, dated April 05, 2006. The market value as of the reporting date, which is equivalent to the fair value, was EUR -395.6 thousand. The interest rate swap hedged a future cash flow (cash flow hedge).

The market value is determined on the basis of market conditions as of the reporting date; recognized valuation models are used to determine market values.

Nominal amount		Market value	
EUR k	EUR k	EUR k	EUR k
8,638.2	8,928.2	-395.6	-281.2

The interest rate swap has a remaining term to 2012. Derivative hedging instruments are used only for hedging purposes, not for speculation.

6.3 Deferred Expenses and Income Received in Advance

This item pertains entirely to a discount granted for debt buyback financing.

7. Revenues

Most of the revenues of EUR 1,850.0 thousand (previous year: EUR 1,474.6 thousand) – specifically, EUR 1,635.2 thousand (previous year: EUR 1,259.9 thousand) – derived from rent and incidental expenses collected for the properties on Ferdinand-Porsche-Strasse 1 and 1a in Cologne.

8. Other Operating Income

The other operating income of EUR 357.4 thousand is primarily income pertaining to other periods (EUR 225.3 thousand). The prior-year figure of EUR 8,907.7 thousand derived primarily from intra-Group charges of EUR 7,719.8 thousand and income of EUR 476.2 thousand from expenses passed on to Group companies.

No intra-Group charges to subsidiaries were recognized for 2009.

9. Other Operating Expenses

The other operating expenses are primarily losses on mergers (EUR 5,657.6 thousand; previous year: EUR 0.0), legal and other consulting expenses (EUR 1,863.3 thousand, previous year: EUR 3,020.1 thousand), costs for the convertible bond issue (EUR 1,740.1 thousand; previous year: EUR 1,740.1 thousand), restructuring expenses (EUR 367.5 thousand; previous year: EUR 302.3 thousand), and losses on receivables of EUR 0.0 (previous year: EUR 1,823.1 thousand).

10. Net Interest Expense

The net interest expense of EUR -682 thousand (previous year: income of EUR 8,248 thousand) represents the interest income of EUR 4,326 thousand (previous year: EUR 13,256 thousand) less interest expenses of EUR 5,008 thousand (previous year: EUR 4,137 thousand).

Interest income derived specifically from subsidiaries decreased to EUR 3,719 thousand (previous year: EUR 11,751 thousand).

11. Write-Downs of Financial Assets

The write-downs were recognized for the Company's interest in CRE Resolution GmbH, Cologne (EUR 11,491.7 thousand).

12. Expenses from Loss Transfer Agreements

A loss of EUR 362.3 thousand was absorbed for 2009 under the profit and loss transfer agreement with CRE Resolution GmbH, of Cologne. A loss of EUR 576.3 thousand was absorbed in the prior year.

13. Income Taxes

The income taxes of EUR 154.4 thousand primarily comprise income tax refunds for previous years (previous year: EUR 492.2 thousand)

IV. Other Mandatory Disclosures

1. List of Shareholdings (Direct and Indirect):

Name	Share of Capital %	Equity at Dec. 31, 2009 EUR k	Profit (loss) for 2009 EUR k
1. Grasmus Holding B.V., Maastricht / NL	99.64	2,256.4	19.8
2. CRE Wohnen GmbH, Cologne	100.00	174,679.0	-300.2
3. Gimag Gewerbe Immobilien AG, Zug /CH	94.00	-1,223.5	-1,819.8
4. CRE Wohnen Zweite GmbH, Cologne	100.00	1,266.8	-1,339.7
5. CRE Wohnen Dritte GmbH, Cologne	100.00	25,742.2	102.0
6. CRE Wohnen Service GmbH, Cologne	100.00	1,122.3	171.5
7. CRE Wohnen Sechste GmbH, Cologne	100.00	-18,975.2	-8,624.6
8. CRE Wohnen Siebte GmbH, Cologne	100.00	101,288.1	-2,699.0
9. CRE German Office GmbH, Cologne	97.55	184.1	-211.7
10. CRE Resolution GmbH, Cologne (EAV)*	75.47	1,213.5	0.0
11. Emersion Grundstücksverwaltungsgesellschaft mbH, Cologne	99.24	-1,389.8	3,843.7
12. Domus Grundstücksverwaltungsgesellschaft mbH, Cologne	99.24	7,701.2	832.7
13. CRE Accentro GmbH, Stuttgart	70.00	715.6	114.0
14. CRE Wohneigentum GmbH, Cologne	100.00	2,809.5	-119.8
15. CRE Immobilien Verwaltung GmbH, Cologne	100.00	14.0	-0.4
16. CRE Wohnen Immo. Verwaltung GmbH & Co. KG, Cologne	100.00	7,915.6	4,517.9

* The Company exercises the exemption option for disclosure under Sec. 264 (3) of the Commercial Code.

2. Other Financial Liabilities

A standing lease on office space to 2011, as well as other leases, resulted in other financial liabilities of EUR 598.6 thousand (previous year: EUR 770.3 thousand).

3. Employees

The average number of employees was as follows:

	2009	2008
Permanent employees	29	32

This figure includes the three members of the Board of Management.

4. Board of Management

The following were members of the Board of Management during the year:

- Stephan Rind, banker, Chairman, Cologne
- Volker Lemke, tax advisor (not appointed), CFO, Hamburg, and
- Friedrich Thiele, graduate in business, real estate economist (ebs), Chief Real Estate Officer, Frankfurt am Main.

The members of the Board of Management conduct their activities as their principal profession.

The Board of Management received the following total compensation in 2009:

Current members of the Board of Management received total compensation of EUR 1.4 million in 2009 (previous year: EUR 1.7 million), as shown below in compliance with the pertinent legal and other rules. This figure includes their fixed annual salary, as well as other compensation, non-cash benefits, and compensation in kind, the variable component of compensation for fiscal 2009, and the fair value of stock option plans. The other compensation is entirely non-performance-based.

Details of the compensation of the Board of Management in 2009 are shown in the following table; the figures for the previous year are shown in parentheses. Stock options are

indicated at their current value; the value in parentheses indicates their value at the grant date.

2009 (2008) Compensation of the Board of Management, in EUR k							
	Fixed annual salary (EUR k)	Other compensation (EUR k)	Variable component (EUR k)	Total (EUR k)	Allocation to pension fund (EUR k)	Performance units (EUR k)	SOP total 2009 value (fair value at date of grant) (EUR k)
Stephan Rind	500.0 (300.0)	22.4 (23.0)	150.0 (300.0)	672.4 (623.0)	1.5 (1.5)	40.0 (0.0)	0.0 (661.4)
Volker Lemke	250.0 (60.0)	29.1 (10.8)	100.0 (40.0)	379.1 (110.8)	1.2 (0.8)	30.0 (0.0)	0.0 (113.6)
Friedrich Thiele	250.0 (66.7)	21.8 (4.0)	100.0 (0.0)*	371.8 (70.7)	1.2 (0.8)	30.0 (0.0)	0.0 (113.6)
Total	1,000.0 (426.7)	73.3 (37.8)	350.0 (340.0)	1,423.3 (804.5)	3.9 (3.1)	100.0 (0.0)	0.0 (888.6)

- In September 2008, Friedrich Thiele received a profit-sharing bonus payment of EUR 60.0 thousand for his work as head of real estate.

For health reasons, Klaus Reichert resigned from the Company's Board of Management by mutual agreement as of April 30, 2008. The agreement reached with him for his early departure from the board provided for monthly payments of EUR 20 thousand and the use of a Company car, until July 31, 2009. Total compensation paid to Mr. Reichert in fiscal 2009 came to EUR 141.1 thousand.

Details of the compensation of the Board of Management and Supervisory Board can be found in the Compensation Report, a part of the Corporate Governance Report, which appears in the 2009 Annual Report and also on the www.cre.ag website.

The status of stock options issued to the Board of Management in 2006, 2007 and 2008 and not yet exercised as of the reporting date was as follows:

	Units	Fair value of stock options* in EUR
Stephan Rind	120,000	661,400
Volker Lemke	60,000	113,600
Friedrich Thiele	60,000	113,600

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

5. Supervisory Board

The Supervisory Board has the following members:

- Klaus Lennartz, independent corporate consultant, Hürth, Chairman, member of the Supervisory Board of wfg Wirtschaftsförderung Rhein-Erft GmbH, Frechen, SolaRe AG, Cologne, Stadtwerke Hürth AöR, Hürth, Hoch-Begabten-Zentrum Rheinland GmbH, Brühl, and Kreissparkasse Köln AöR, Cologne, (from June 18, 2009)
- Stefan Lutz, independent German certified public accountant and tax consultant, Cologne, Vice-Chairman
- Dr. Carsten Strohdeicher, independent corporate consultant, Munich, member of the Supervisory Board at Magnat Real Estate Opportunities GmbH & Co. KGaA, Frankfurt am Main, and Squadra Immobilien GmbH & Co. KGaA, Frankfurt am Main, (from July 8, 2009)
- Prof. Dr. Klaus B. Steiger, university professor and independent consultant, Cologne, Chairman, member of the Supervisory Board of Immo Finanz Partner AG, Berlin (to June 17, 2009)
- Lutz Wille, banker, Cologne (to July 8, 2009)

The Supervisory Board received total compensation of EUR 112.3 thousand (previous year: EUR 123.3 thousand) for its activities.

6. Notices under the German Securities Trading Act

- On June 5, 2009, Cominvest Asset Management GmbH, 60261 Frankfurt am Main, Germany, notified us under Sec. 21 (1) of the Securities Trading Act that on June 3, 2009, its share of voting rights from stock in Colonia Real Estate AG, Cologne, Germany, ISIN: DE0006338007, WKN: 633800, had exceeded the threshold of 5.0% of the total voting rights, and now came to 5.15% (equivalent to 1,465,728 votes). Of this figure, 1.77% of the voting rights (equivalent to 505,048 votes) are to be attributed to the company under Sec. 22 (1), Sentence 1 No. 6 of the Securities Trading Act.
- On July 17, 2009, Cominvest Asset Management GmbH, 60261 Frankfurt am Main, Germany, notified us under Sec. 21 (1) of the Securities Trading Act that on July 17, 2009, its share of voting rights from stock in Colonia Real Estate AG, Cologne, Germany, ISIN: DE0006338007, WKN: 633800, had fallen below the threshold of 5.0% of the total voting rights, and now came to 4.97% (equivalent to 1,413,294 votes). Of this figure, 1.77% of the voting rights (equivalent to 505,000 votes) are to be attributed to the company under Sec. 22 (1), Sentence 1 No. 6 of the Securities Trading Act.
- On July 21, 2009, Allianz Global Investors Kapitalanlagegesellschaft mbH, Frankfurt am Main, Germany, notified us under Sec. 21 (1) of the Securities Trading Act that on July 17, 2009, its share of voting rights in Colonia Real Estate AG, Cologne, Germany, ISIN: DE0006338007, WKN: 633800, had exceeded the threshold of 3.0% of the total voting rights, and now came to 3.08% (equivalent to 875,499 votes).
- On July 20, 2009, Cominvest Asset Management GmbH, 60261 Frankfurt am Main, Germany, notified us under Sec. 21 (1) of the Securities Trading Act that on July 17, 2009, its share of voting rights from stock in Colonia Real Estate AG, Cologne, Germany, ISIN: DE0006338007, WKN: 633800, had fallen below the threshold of 3.0% of the total voting rights, and now came to 1.77% (equivalent to 505,000 votes). Of this figure, 1.77% of the voting rights (equivalent to 505,000 votes) are to be attributed to the company under Sec. 22 (1), Sentence 1 No. 6 of the Securities Trading Act.

7. Consolidated Financial Statements

Colonia Real Estate AG prepares consolidated financial statements under International Financial Reporting Standards (IFRSs), in the form applicable in the European Union. The consolidated financial statements are published in the electronic version of the *Bundesanzeiger*, Germany's Federal Gazette.

8. Declarations under the Corporate Governance Code

The Group very largely follows the recommendations of the German Corporate Governance Code in the version of June 18, 2009. In the Declaration of Conformity for 2009 approved for release, the Supervisory Board and the Board of Management issued the 2009 Declaration under the Corporate Governance Code in the version of June 8, 2008, in accordance with Sec. 161 of the Stock Corporations Act. The text of the 2009 current declaration can be found on the Internet at www.cre.ag. The new 2010 declaration will be released shortly on the Company's website.

9. Auditor's Fees Recognized as Expenses for the Year

- | | |
|---------------------------------|--------------------|
| • Audit of financial statements | EUR 223.5 thousand |
| • Tax consulting | EUR 4.5 thousand |
| • Other fees | EUR 13.3 thousand |

10. Contingent Liabilities

The Company has issued guarantees to banks for subsidiaries, in the amount of EUR 6,709.3 thousand, and letters of comfort for subsidiaries, in the amount of EUR 3,494.3 thousand.

Colonia Real Estate AG acts as the guarantor for loan obligations of a subsidiary in the amount of EUR 12,500.0 thousand.

As of the reporting date, the Company had issued waivers of seniority to a subsidiary in regard to existing receivables in the amount of EUR 3,829.0 thousand.

Since the insolvency proceedings were suspended by order of the Essen Local Court (the insolvency court) on May 7, 2000, subsequent to the insolvency plan proceedings, the former assets of Küppersbusch Aktiengesellschaft that have been held by the Company to date and that have not been liquidated by the insolvency administrator have been under the control of the former insolvency administrator as trustee, in what is known as a "follow-up distribution." Although the trustee holds the power of disposition and the former insolvency creditors of the former Küppersbusch AG are the beneficial owners, Colonia Real Estate is the legal owner of both the land and the equity interest in Küppersbusch AG & Co. Grundstücksgesellschaft OHG. Thus the Company is fully exposed to any liability risks arising from ownership of the property or the equity interest in Küppersbusch AG & Co. Grundstücksgesellschaft OHG, in which the Company is the general partner and is perso-

nally liable under the pertinent provisions of the Commercial Code. Since these assets are not under the management of the managing bodies of Colonia Real Estate because of the follow-up distribution, the associated liability risks to Colonia Real Estate cannot accordingly be finally determined, nor can the Company act to counter any liability risks that may exist.

As part of the sale of Colonia Fonds Management GmbH, indemnification was agreed upon *inter partes* with the purchasers, subject to certain bounds, in regard to the under-subscription guarantee in place towards a subsidiary of HSH Nordbank AG. The liability toward third parties remains with Colonia Real Estate AG. In December 2009, Colonia Real Estate AG terminated the contract on which these conditions were based. The termination was neither accepted nor rejected by the subsidiary of HSH Nordbank AG. It is not possible to estimate the associated risks at this time.

11. Related Party Transactions

Milfolium Management Inc., of Tortola, British Virgin Islands, is a major shareholder of Colonia Real Estate AG, and holds 17.98% of its stock. Its holdings are attributable to the Principality of Liechtenstein, Vaduz, Liechtenstein, by way of Liechtensteinische Landesbank Aktiengesellschaft, also of Vaduz, Liechtenstein. The remaining shares are in free float, primarily among institutional investors in Germany and other countries. In November 2008, Liechtensteinische Landesbank Aktiengesellschaft, of Vaduz, extended a loan totaling EUR 10,000 thousand to Colonia Real Estate AG. Of this amount, EUR 6,000 thousand of the principal was repaid in 2009. The term of the loan runs to October 31, 2010. The loan bears interest at the 3-month Euribor rate plus 8.5%.

The management holding key positions at the Colonia Real Estate Group is the Supervisory Board and the Board of Management. We refer the reader to the detailed disclosures above in regard to the compensation of the Board of Management and the Supervisory Board.

During the year, a short-term loan of EUR 50 thousand was extended to a member of the Board of Management, at an interest rate based on the 3-month Euribor rate. The loan was repaid during the year.

Dr. Carsten Strohdeicher, elected to the Supervisory Board by the Annual Shareholders' Meeting on July 8, 2009, is also a managing shareholder of Salco GmbH, of Idstein, Germany. Until Dr. Strohdeicher was elected to the Supervisory Board, a consulting relationship existed between CRE AG and Salco GmbH during the year. A total of EUR 3.0 thousand (gross) was paid for the consulting services provided under this contractual relationship.

Stephan Heilmann, elected as an alternate member of the Supervisory Board by the Annual Shareholders' Meeting, is also a shareholder of IEG (Deutschland) GmbH, of Berlin.

IEG assisted and advised CRE AG on various projects during the year. A total of EUR 232.1 thousand (gross) was paid for the consulting services provided under this consulting arrangement.

12. Proposed Allocation of Profits

The Board of Management proposes that the Supervisory Board should approve the annual financial statements at December 31, 2009, and the combined management report for the Company and the Group for fiscal 2009, and that the loss of EUR 26,805,032.35 should be carried forward to the new period and added to the prior year's loss carry-forward of EUR 10,490,441.24.

Colonia Real Estate AG

Cologne, March 26, 2010



Stephan Rind



Volker Lemke



Friedrich Thiele

Management Report for the Parent Company and Group for Fiscal 2009

In accordance with Sec. 315 (3) and Sec. 298 (3) of the German Commercial Code (HGB), the Group management report has been combined with the management report of Colonia Real Estate AG. The combined management report presents the assets, liabilities, financial position, and profit or loss of the parent company and the Group, together with further information required under the German Commercial Code. Monetary amounts are indicated in Euros.

I. Business and Economic Environment

1. General Economic Situation

The past fiscal year was dominated by the severe worldwide economic crisis. By current estimates, global gross domestic product shrank 1.4% in 2009. For the Euro Zone, in fact, the European Commission assumes that the slump in GDP reached –4.0%. As a nation whose economy depends heavily on exports, our home market Germany was especially hard hit by the global economic crisis. According to preliminary publications, the Federal Statistical Office assumes that GDP decreased 5.0% for the year, although, looking at 2009 quarter by quarter, it becomes clear that the economic outlook for Germany brightened somewhat over the course of the year. Foreign trade and the capital goods industry were especially affected. Exports decreased 14.7% after adjustment for inflation, and were thus the prime culprits for the drop of 3.4% in net exports. Consumption alone provided a mildly positive impetus. Private consumer spending increased 0.4% in 2009, after adjustment for inflation; state consumption grew 2.7%. Contrary to initial projections, the situation in the job market remained largely stable. According to internationally agreed definitions, unemployment grew to an annual average of about 3.3 million persons, 5.4% more in 2009 than a year earlier.

In the third quarter of the year, GDP grew 1.5% against the previous quarter, certainly due in part to support from the German government's economic policy programs and from measures in money market policy. During 2009, the European Central Bank lowered the key lending rate to 1.0%, to make it cheaper to finance necessary capital expenditures and to cushion the adverse impact of the financial market crisis on the real economy.

Projections by the various economic research institutes and associations expect GDP in Germany to grow between 1.2 and 2.1% in 2010. World trade is reviving appreciably, and will especially benefit Germany. But it is difficult to estimate how the economy will develop once assistance from financial and monetary policy ends. Management assumes that the German economy will remain uncertain in 2010, and that it is difficult to arrive at any exact estimates of growth. We believe that the strategy pursued by the government and the Central Bank in continuing economic programs and money-market policies will play a key role for the growth prospects of the German economy.

2. Conditions in the Real Estate Sector

The real estate transaction market in Germany was also affected by the worldwide and national developments of 2009. Just like 2008, the year brought further declines in revenues in the German commercial real estate investment market. Transaction volume for commercial property came to EUR 10.3 billion, down about 47.5% against the 2008 figures. The causes, especially in the first half, were the general wariness provoked by the financial and economic crisis, as well as, of course, the very limited functionality of the financing market. Moreover, there were substantial return flows of cash in some open-end funds; hardly any closed-end funds acted as a buyer. Because of the drop in stock prices, insurance companies and pension funds suddenly had substantially lower proportions of equity holdings within their asset allocation. In addition to the almost complete absence of borrowing options, rather opportunistic buyers had the further problem that few properties suitable for them were available with the desired quality and at attractive prices. Applied investment criteria grew substantially more rigorous. Nevertheless, there was strong demand for German core properties (prime location and quality) in the second half, and it is possible to speak of a certain shortage of supply in this segment.

The transaction market for residential real estate portfolios remained low in 2009. About 100 transactions were carried out during the year, involving about 56,000 units and a volume of EUR 3.2 billion – half the figure from 2008. The rental market for residential property developed largely independently from the economy. According to the Federal Statistical Office, net “cold” rents – rents for the space alone, without heat, utilities or other services – rose nationwide an average of 1.1% against the year before. A study of rental data in 390 German cities by the IVD, a German real estate association, also found that rents were up, by 0.9%. The study found that new leases for what it called an average apartment (three rooms, approximately 70 sqm) called for an average “cold” rent of EUR 5.95 per square meter. Accordingly, with increases of 1.1 or 0.9%, rents outpaced inflation in 2009. The IVD expects rents to rise again nationwide in 2010.

The rent increases of 2009 were primarily the result of a shortage of residential space. A study by the state savings and loan associations indicated that residential space per capita has now expanded to 47 sqm, and is expected to grow further. The number of households will also rise as household size steadily decreases. Both developments have increased demand for living space, and will continue to do so in the future. The number of building permits in Germany will also do little to reduce the difference between supply and demand. From November 2008 to November 2009, permits were issued for 174,264 homes (extrapolation by the Federal Statistical Office) – representing a further decrease of about 1.0% against the same period a year earlier. In summary, therefore, we assume that the market for existing portfolios of residential real estate will improve again in 2010.

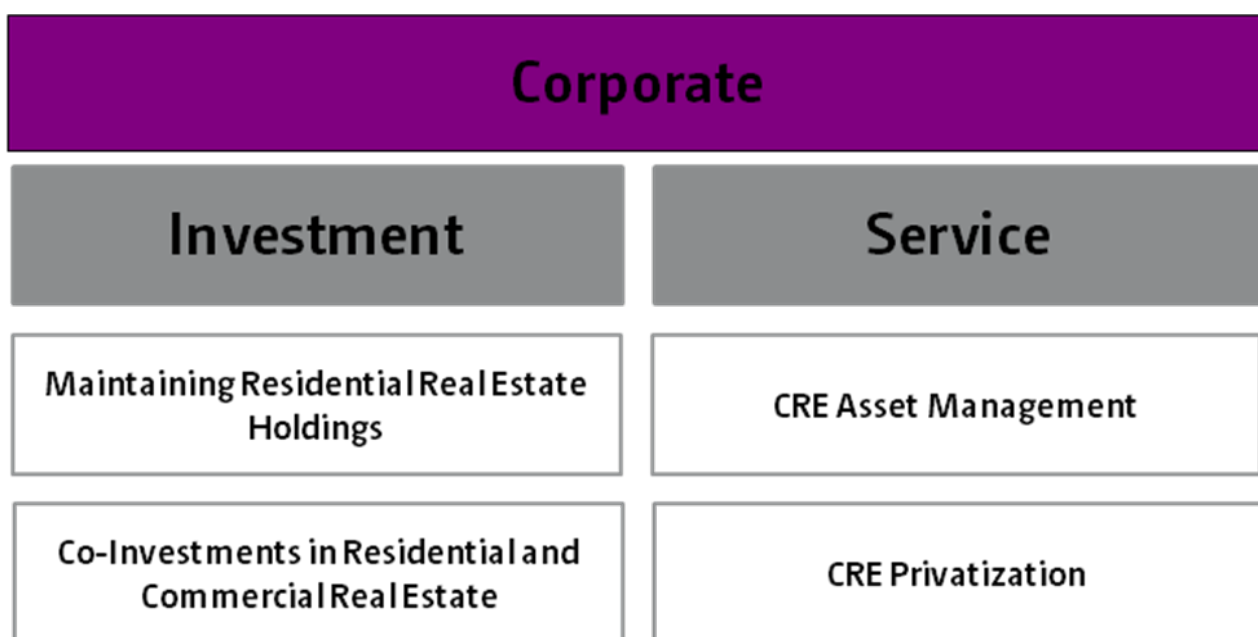
3. Business Operations and Organization

Colonia Real Estate AG is one of Germany's leading listed real estate corporations, with more than EUR 2.1 billion in real estate assets under management. Its assets under management include about EUR 814 million in holdings of its own, about EUR 802 million of which are exclusively residential properties. The CRE Group is an integrated corporation for long-term investments in German residential real estate, as well as an active asset manager for its own and outside real-estate portfolios.

The Group's parent company is Colonia Real Estate AG, which acts as a management holding company to provide or oversee management functions – such as Controlling, Investor Relations, IT, Personnel, and Legal – uniformly for all subsidiaries. In addition to Colonia Real Estate AG, the Group also includes operating subsidiaries, as well as special-purpose vehicles that serve as the owners of CRE's own real estate holdings. Our business model rests on two pillars:

Investment: The Investment segment concentrates on acquiring, developing and managing high-yield opportunistic residential real estate portfolios that we ourselves hold. To these are added equity interests and co-investments in commercial and residential properties with well-known partners. The Investment segment also includes our special-purpose vehicles, which report the CRE Group's own real estate assets as separate companies.

Service: The Service segment includes transaction consulting, asset management for properties, and the privatization of individual residential units and sales of smaller portfolios. As an agent for the owners, the CRE Group's Asset Management service safeguards the interests of private and institutional real estate investors. Through our subsidiary CRE Resolution GmbH, we specialize in assisting real estate transactions and providing active support for complex, interregional real estate portfolios. CRE Asset Management focuses on optimizing yields and realizing potential for appreciation. CRE Asset Management is complemented by our subsidiary CRE Accentro GmbH, which specializes in the privatization and sale of homes and smaller residential portfolios.



Both segments always focus on the property itself and on optimizing it with a focus on yield, whether for our own holdings or for the third-party portfolios we serve. As an investor, we buy residential properties nationwide, improve their quality and value with sustainable asset management, and thus optimize the cash flow they yield. And as the owner's agent, we pursue the same goals in our capacity as a consultant and asset manager for third-party properties: long-term, sustainable appreciation of real estate.

4. Summary of Business Performance of the Company and the Group

Following the consolidation of its business model in 2008, Colonia Real Estate AG concentrated in 2009 on the sustainable, yield-oriented optimization of its real estate holdings, as a portfolio owner with a long-term focus. The emphasis for the year was on optimizing costs and on refocusing Property Management engagements for third parties, especially in our largest portfolio, the holdings of Emersion Grundstücksverwaltungsgesellschaft mbH in Salzgitter. At the end of the year, the CRE Group's real estate holdings included some 18,800 units, measuring a total of about 1,150,000 m², about 25,000 m² of which were relatively small commercial spaces. The average net "cold" rent per square meter at the end of 2009 was EUR 4.59 for the entire residential segment.

Our in-house, active asset management increased net operating income (NOI), thanks to rising rents and lower costs, from EUR 31.1 million to EUR 42.0 million (+35.2%). In parallel, the vacancy rate for the full portfolio (like for like) remained almost constant, decreasing from 13.7 to 13.6%. The "like for like" approach takes account of the sale of about 1,000 units in the third quarter of 2009. Given these management successes and the completion of programs to enhance appreciation, the market value of our portfolio as a whole remained almost constant during the period. Accordingly, EBITDA improved from EUR 12.7 million to EUR 32.7 million. Allowing for valuation adjustments netting out to EUR 2.8 mil-

lion, write-downs of EUR -0.2 million, and the net finance expense of EUR -26.5 million, EBT for the year was EUR 8.9 million (previous year: EUR -94.4 million). Net asset value (NAV) at December 31, 2009, came to EUR 10.16 per share (previous year: EUR 11.65 per share).

Our activity as an active portfolio owner includes both the purchase and sale of individual residential portfolios to improve the structure of our residential real estate portfolio as a whole. In these operations, we were able to place small portions of our portfolio on the market at more than their carrying amount.

The Service segment – our CRE Asset Management unit – closed out 2009 with a loss of EUR 1.2 million. Among the causes were EUR 0.7 million in restructuring costs and costs for the closure of the Düsseldorf office, as well as a shortage of consulting engagements in the Transactions business. However, we did acquire new engagements – including from the Royal Bank of Scotland – for our “Workout Platform” product in Asset Management. Thus despite disposals from our own holdings, the volume under management at CRE Asset Management remained unchanged at a high EUR 2.1 billion. The Privatization business performed well, selling a total of 980 units in 2009.

The successful placement of 1,300,000 shares in a cash capital increase raised the equity ratio to 24.6% in the first quarter of 2009. Another strengthening effect on equity came from the conversion of warrants issued in 2004 into new CRE stock. A total of 6,501,600 warrants were exercised, equivalent to a ratio of about 96.4%. The conversion of subscription rights yielded a capital increase through the issue of 4,334,400 new shares of CRE. Improvements in the financing structure, together with these measures to raise capital, increased the equity ratio from 24.3% to 28.0%.

Investment Segment

The year saw the transaction market bottom out. New purchases were possible only on difficult terms, because of banks’ rather reluctant lending policies. In March 2009, Colonia Real Estate AG was able to restructure the financing of its real estate portfolio in Schleswig-Holstein, with about 1,600 units, through negotiations with the participating banks. New financing agreements for a total of about EUR 34.0 million helped improve the financing structure of CRE Wohnen Immobilien Verwaltungs GmbH & Co. KG, the special-purpose vehicle that holds these properties. As part of the finance restructuring, this subsidiary received a property-based credit line of up to EUR 8.0 million from the one remaining financing bank, a development bank in Schleswig-Holstein. The new loan agreement has a ten year term at a fixed interest rate of about 5.0% per annum.

In September, the sale of portions of the Berlin portfolio to an Austrian consortium went through, for a total of 937 residential units and 79 commercial units, together with the associated special-purpose vehicles. The buyers were Conwert Immobilien Invest SE and Kronberg RE Deutschland GmbH; Conwert acquired more than 94% of the shares. These holdings comprised renovated and partially renovated Berlin residences, most of which were built in the first decades of the 20th century. The transaction value was about EUR

67.0 million. This sale was one of the ten largest transactions to be consummated in the German market during the year.

In the commercial segment, there were no major transactions at all in 2009 involving Colonia Real Estate AG or its subsidiaries. For lack of interesting opportunities, there were no acquisitions, and thus the investment volume for non-controlling interests in real estate companies, or loans to such companies, came to EUR 14.5 million at the end of December 2009. By contrast, there was lively activity in sales by private investors for smaller and medium-sized commercial properties. Here the Group's subsidiary CRE Resolution GmbH assisted a total of 15 sales, for a total volume of about EUR 24.0 million, out of the joint portfolios with CRE's joint venture partner Merrill Lynch. All sales were at or above the amounts called for in business plans.

Service Segment

The crisis in the financial markets brought real estate transactions by leveraged investors to an almost complete halt. These had hitherto been the most important clients for CRE Asset Management within CRE Resolution GmbH. But since this Group subsidiary's profitability depends significantly on providing support for transactions, the standstill in this segment seriously affected its business results. Although cost-cutting measures were immediately put into action, it was not possible to compensate for the decline in revenues at CRE Resolution GmbH. In the reorganization, management was cut from six to three managing directors. The regional structure, as a key part of the business strategy, was preserved, apart from the Düsseldorf site. In summer 2009, in fact, a new office was even opened in Dresden because of a new engagement there.

In response to the crisis, and recognizing the resulting opportunities in the market, CRE Resolution worked with complementary partners in Property Management, Loan Servicing and Legal to create the "German Workout Platform." This new product, as a part of the range of CRE Asset Management's services, offers a modular assortment of services for all aspects of real-estate related restructuring for bank holdings, or for insolvencies. Often neither of the target groups can draw on the requisite real estate expertise as a core competence. That is the reason for the business model, which was positioned in the market in 2009.

Asset Management received another engagement from standing client Merrill Lynch in 2009: two office towers in Mainz that have a substantial need for asset management. A project developer and investor also engaged the Company to provide asset management for a recently built office property with 26,000 m² of rental space in Frankfurt. The Workout Platform also attracted two engagements from insolvency administrators: a regionally diversified portfolio of 13 commercial properties, and an office tower in Cologne.

In commercial asset management, CRE Resolution enjoyed quite a successful business in leasing office and logistics space. It leased out a total of 99,000 m², 57,000 m² through new leases. This represents a substantial increase, after adjustments in the portfolio managed. Several rather large leases were the principal contributors, along with a large number of smaller leases.

As already mentioned, single sales of residences were more successful than the year before. Group subsidiary CRE Accentro sold a total of 980 residential units in 2009, generat-

ing the best sales earnings in its ten-year history. Of the 980 units, 381 were sold as condominiums as part of residential privatization projects. In residential real estate investments, 39 properties, with 599 units, were sold in smaller portfolio transactions. The total volume for the sold properties in 2009 came to some EUR 51.0 million.

II. Net Assets, Financial Position, and Results of Operations

1. Group Assets, Liabilities, Financial Position, and Profit

Results of Operations

The consolidated profit after taxes for fiscal 2009 came to roughly EUR 9.1 million, compared to a consolidated loss of EUR –82.9 million for the year before. The prior year's loss resulted primarily from writing down our own real estate holdings and a co-investment to market value. The profit for 2009 comes primarily from an improvement of EUR 10.9 million in net rental income (NOI), cuts of EUR 9.8 million in administrative expenses, a EUR 9.4 million improvement in the net finance expense, and small write-ups to market value for our real estate holdings. The tax expense changed in the opposite direction.

In EUR k	1/1/2009 - 12/31/2009	1/1/2008 - 12/31/2008
Projected rents	70,992.8	72,663.7
Reductions in revenues and in rents	-11,883.8	-12,349.1
Net rents	59,109.0	60,314.6
Income from charges passed on / net operating cost	29,295.6	29,153.0
Maintenance and renovation	-4,692.6	-12,759.4
Operating costs	-41,698.7	-45,641.2
Net rental income	42,013.3	31,067.2
Proceeds from divestments	1,623.3	2,351.0
Reductions in carrying amount	-1,252.4	-2,097.1
Net income from sales activi- ties	370.9	253.9
Personnel expenses	-5,246.8	-6,483.0
Operating expenses	-6,246.4	-14,235.6
Restructuring costs	-399.4	-514.6
Administrative expense	-11,892.6	-21,233.2
Asset and Fund Manage- ment	-1,156.6	-1,197.7
Other	3,385.3	3,809.0
Other lines of business	2,228.7	2,611.2
EBITDA	32,720.3	12,699.1
Depreciation and amortiza- tion	-169.2	-180.4
Adjustment for market val- uation	2,887.9	-71,015.5
EBIT	35,439.0	-58,496.8
Adjustment for market val- uation of derivative financial instruments	0.0	-3,976.3
Net finance expense	-26,512.5	-31,895.4
EBT	8,926.5	-94,368.5
Taxes	145.3	11,444.7
Profit/loss after taxes	9,071.8	-82,923.8

The rental of investment properties generated EUR 59.1 million (previous year: EUR 60.3 million) in rental income and EUR 29.3 million in income from service charges passed on

to tenants. This income was countered by expenses of EUR 46.4 million (previous year: EUR 58.4 million), so that rentals generated total net income (NOI) of EUR 42.0 million (previous year: EUR 31.1 million). This is equivalent to a 35.2% increase.

In fiscal 2009, the CRE Group generated gross income of EUR 1.6 million from the disposal of properties held for sale, yielding a net income of EUR 0.4 million on these sales.

Administrative expenses (personnel expenses and operating expenses, excluding depreciation and amortization) came to EUR 11.9 million, and also included extraordinary restructuring expenses of EUR 0.4 million (previous year: EUR 0.5 million). But all told, administrative expenses were down a substantial -44.0% against the year before (previous year: EUR 21.2 million). The change demonstrates the successes of the program to cut costs and enhance efficiency that was initiated in the fourth quarter of 2008. In October 2008, the Colonia Real Estate Group began implementing an extensive cost-cutting program. Savings are to be generated primarily by pooling and reducing the number of legally independent units, and by reducing general administrative expenses through substantial savings on costs for outside consultants. The restructuring costs that the program incurred in 2009 primarily comprise costs for improving and optimizing internal processes (EUR 0.4 million).

Net earnings from Asset Management (prior year: Asset and Fund Management) were nearly unchanged from the year before. As in 2008, this line of business was unable to make a positive contribution to consolidated profits, showing a loss of EUR 1.2 million. However, it must be taken into account that Asset Management's results were especially pulled down by the non-recurring effects of restructuring expenses in the amount of EUR 0.7 million. A further factor was the low activity in the transaction market, so that earnings were generated primarily from managing real estate investments.

Other net income is made up primarily of income and expenses associated with the deconsolidation of the SIGNA companies during fiscal 2009.

The prior year's negative market valuations came from the reappraisal of our real estate portfolio (EUR -57.2 million), and the unscheduled writing down of one of our co-investments (EUR -13.8 million). For 2009, market valuations yielded a net gain of EUR 2.9 million (write-downs: EUR 17.9 million; write-ups: EUR 20.8 million) on our real estate holdings.

The net finance expense for fiscal 2009 was EUR -26.5 million (previous year: EUR -35.9 million), an improvement of EUR 9.4 million (26.1%). The improvement resulted primarily from the restructuring of borrowings, and especially from income of EUR 8.7 million from a waiver of receivables. The redemption of a debtor warrant for EUR 2.1 million had a contrary negative effect on the net finance expense. Because of the hedge accounting that the Group has applied since the fourth quarter of 2008, no market valuation adjustments in profit or loss were necessary for derivative financial instruments.

Net Assets and Financial Position

In EUR k	12/31/2009	12/31/2008	Change
ASSETS			
Non-current assets	845,418.2	863,544.5	-18,126.3
Current assets	35,475.1	35,024.5	450.6
Non-current assets held for sale	0.0	29,400.0	-29,400.0
Total assets	880,893.3	927,969.0	-47,075.7
EQUITY AND LIABILITIES			
Equity	246,381.7	225,291.7	21,090.0
Non-current liabilities	587,396.6	629,299.0	-41,902.4
Current liabilities	47,115.0	73,378.3	-26,263.3
Total equity and liabilities	880,893.3	927,969.0	-47,075.7

In spite of the measures to raise capital, total assets decreased in 2009 from EUR 928.0 million to EUR 880.9 million, because of disposals of real estate holdings.

The Group's borrowings structure was improved further during the past twelve months. Refinancing, extensions and a loan waiver raised the ratio of long-term debt relative to total debt by 4.0 % against December 31, 2008, to 92.6 %. The equity ratio at December 31, 2009, had risen to 28.0 %, compared to 24.3 % at December 31, 2008. Thus the Group was within its target range of 25.0 to 35.0 % for the year.

The non-current assets of EUR 845.4 million primarily comprise investment properties for EUR 814.2 million (previous year: EUR 835.4 million) and non-controlling interests and loans to real estate companies of EUR 14.5 million (previous year: EUR 13.2 million). The decrease in non-current assets is principally the consequence of disposals of investment properties in connection with the sale of the corresponding investment company affiliate. Non-cash write-ups on the real estate portfolio netted out to EUR 2.9 million.

Investment properties represent 92.4% of total assets. During the year, investments associated with the renovation of individual investment properties came to about EUR 7.3 million.

Properties held for sale, which are recognized as current assets, increased EUR 2.1 million against December 31, 2008, and now come to EUR 6.3 million. The increase was in investments in residential properties intended for privatization.

The non-current assets held for sale that were reported for 2008 were sold in 2009.

Non-current liabilities, totaling EUR 587.4 million, primarily comprise EUR 477.6 million in financial liabilities (previous year: EUR 525.6 million), EUR 57.4 million in convertible bonds (previous year: EUR 55.6 million), and EUR 42.7 million in deferred taxes (previous year: EUR 40.5 million). Thus non-current liabilities decreased EUR 41.9 million against the prior year. Most of this decrease resulted from refinancing, extensions of financial liabilities, and a loan waiver, as well as the deconsolidation of four affiliates. Current liabilities decreased EUR 26.3 million as of December 31, 2009, to EUR 47.1 million, including deconsolidation. Non-current financial liabilities in particular decreased from EUR 38.1 million to EUR 23.6 million.

Cash funds (liquid funds less current-account liabilities) at the reporting date came to EUR 9.6 million (12/31/2008: EUR 10.4 million). The changes in cash and cash equivalents for fiscal 2009 were as follows:

In EUR k	1/1/2009 - 12/31/2009	1/1/2008 - 12/31/2008	Change
Net cash used in operating activities	-2,933.2	-24,578.3	21,645.1
Net cash used in investing activities	-5,426.7	-23,933.8	18,507.1
Net cash generated in financing activities	7,611.4	35,269.3	-27,657.9
Net change in cash and cash equivalents	-748.5	-13,242.8	12,494.3
Effects of exchange rate changes	-43.0	0.0	
Cash and cash equivalents at beginning of period	10,410.1	23,652.9	
Cash and cash equivalents at end of period	9,618.6	10,410.1	

The net cash used in operating activities in 2009 came to EUR -2.9 million. After adjustment for interest received and paid, and for tax payments, the cash inflow from operating activities for 2009 came to EUR 25.2 million (previous year: EUR 3.9 million).

The net cash used in investing activities for 2009, at EUR 5.4 million, resulted primarily from proceeds on the disposal of four affiliates (EUR 7.3 million) and of investment properties (EUR 1.6 million). These exceeded investments associated with the renovation of individual investment properties (EUR 7.3 million), acquisitions of residential properties in Berlin (EUR 5.7 million), payments for co-investments (EUR 0.8 million), and investments in non-current assets (EUR 0.5 million). The net cash used in the previous year resulted primarily from investments associated with the renovation of individual investment properties.

Financing activities generated net cash of EUR 7.6 million in 2009. Borrowings brought in EUR 41.6 million, and EUR 16.6 million came from capital increases. These cash inflows were countered by loan repayments of EUR 49.9 million, payments of EUR 0.5 million to non-controlling interests, and costs of EUR 0.2 million associated with the capital increase. Most of the cash inflow in 2008 had derived from a capital increase and net new borrowings, and the main cash outflow had been for the dividend payment.

Capital Expenditures

In fiscal 2009, the renovation work on the Elmshorn/Itzehoe portfolio was completed. Capital expenditures for the year included roughly EUR 4.0 million for Elmshorn/Itzehoe, EUR 0.9 million for Nauen, EUR 1.4 million for Salzgitter and some EUR 0.5 million for Geilenkirchen. Improvements included energy-saving renovations, improvements of entry areas, changes in floor plans and modernization of individual units, as well as the redesign of grounds. All these efforts aimed for a systematic improvement in our properties' rentability, and for greater tenant loyalty. Future investments will also pursue this cost-effective approach, aiming for sustainability in the operation of our real estate holdings. The 2010 investment budget for this type of work will be expanded for all holdings. Current plans call for total investments of about EUR 7.0 – 8.0 million.

Key Figures

		2009	2008
Net rental income (NRI)	EUR m	59.1	60.3
Net asset value (NAV)	EUR per share	10.16	11.65
Equity ratio	%	28.0	24.3

Net rental income (NRI) was down slightly from the previous year, by EUR 1.2 million, primarily as a result of the sale of investment-company affiliates that held real estate. If net rental income were compared excluding the sold portfolios, the total figure would have remained constant.

Net asset value (NAV) per share – the net of assets less liabilities (excluding deferred taxes and derivatives), divided by the number of shares – decreased slightly because of the capital increases in 2009 and the resulting increase in the number of shares. Net asset value per share was thus down from EUR 11.65 to EUR 10.16 at the end of the 2009 year.

Because of lower financial debt and higher equity, the equity ratio rose from 24.3% to 28.0%, so that it is within the target range set by the CRE AG Board of Management.

2. Explanatory Notes to the Annual Financial Statements of Colonia Real Estate AG

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

The following figures from the single-entity financial statements of Colonia Real Estate AG refer exclusively to the Company's disposable assets (excluding the assets of Küppersbusch AG that were formerly frozen because of insolvency – the "supplementary distribution").

The balance sheet of Colonia Real Estate AG at December 31, 2009, as prepared under the German Commercial Code (HGB), showed total assets of EUR 350.1 million (vs. EUR 364.6 million).

Financial assets decreased about EUR 7.4 million for the year, primarily because of write-downs of EUR 11.5 million on the carrying amount of the equity investment in CRE Resolution GmbH. On the other side of the ledger, payments into the capital reserve of CRE Wohneigentum GmbH (EUR 3.0 million) and increases in the investment in loans to joint venture partners (EUR 1.6 million) had a positive effect on the parent company's financial assets. Loans to Grasmus B.V. were repaid on schedule, at EUR 0.9 million.

Non-current assets were covered by equity and long-term borrowings.

Current assets saw significant decreases in receivables from subsidiaries (EUR 4.1 million) and in deferred income and expenses paid in advance (EUR 1.8 million) because of scheduled releases.

Equity as of the reporting date came to EUR 224.9 million (previous year: EUR 235.1 million), or 64.3% of total assets (previous year: 64.5%). The principal reason for the decrease in absolute equity was the net loss of EUR 26.8 million for 2009 (EUR 16.0 million), which exceeded the increase in share capital and in the capital reserves resulting from the capital increases (EUR 16.6 million).

The Company's liabilities decreased EUR 5.0 million against the prior year, to EUR 121.5 million. Significant reasons for the decrease were the net retirement of EUR 8.3 million of liabilities to banks, and the decrease in other liabilities (EUR 2.6 million), combined with an increase in intra-Group liabilities.

The funds obtained from the capital increase and intra-Group financing (EUR 27.2 million), together with available cash (EUR 1.4 million), were used to finance investing activity (EUR 4.4 million) and operating activities (EUR 15.9 million), as well as for net repayment of loans (EUR 8.3 million).

Colonia Real Estate AG's revenues, which are primarily rental income and allocations, came to EUR 1.9 million for the year (previous year: EUR 1.5 million). Other operating income for 2009 came to EUR 0.4 million (previous year: EUR 8.9 million). The reduction was because intra-Group charges were no longer practiced in 2009.

The personnel expense for 2009 decreased to EUR 3.5 million (previous year: EUR 4.7 million). Most of this decrease was the result of smaller profit-sharing bonuses, fewer average employees, and smaller severance payments than a year earlier. Other operating expenses increased slightly, by EUR 0.6 million, to EUR 12.5 million. The principal reason here was book losses on mergers (EUR 5.7 million), which outweighed the resulting cost reductions.

The net investment and finance expense was EUR -12.2 million (previous year: EUR -8.3 million). Although write-downs on financial assets were EUR 5.4 million less, interest income, especially from within the Group, was also down, by EUR 8.9 million.

Accordingly, allowing for the EUR 0.6 million lower income tax expense for the year, the net loss for the year was EUR 26.8 million (previous year: loss of EUR 16.0 million).

III. Employees

We set great store on good personnel policies and contented employees. On average, CRE AG had 29 employees for the year (previous year: 32), and the CRE Group as a whole had 91 employees (previous year: EUR 106.5) at eleven locations in Germany. Personnel expenses were EUR 5.2 million, down 19.1% against the year before.

Our employees, their expertise and their motivation are important factors in the CRE Group's success. Encouraging and developing employees is a part of our corporate culture, which highly values their abilities, their ideas, and their ongoing training and education. One part of our philosophy of building employee loyalty, apart from individualized opportunities for human resources development, is to provide compensation that is consistent with the market and personal performance, and to establish an integrated corporate culture. This corporate culture particularly builds on honesty, reliability and open communi-

cation. Even while they are still training, we seek out young talents and support their development. In that process we cooperate closely with the European Business School (EBS) and the Academy of the Real Estate Industry (ADI).

Current members of the Board of Management received total compensation of EUR 1.4 million in 2009 (previous year: EUR 1.7 million), as shown below in compliance with the pertinent legal and other rules. This figure includes their fixed annual salary, as well as other compensation, non-cash benefits, and compensation in kind, the variable component of compensation for fiscal 2009, and the fair value of stock option plans. The other compensation is entirely non-performance-based.

Details of the compensation of the Board of Management in 2009 are shown in the following table; the figures for the previous year are shown in parentheses. Stock options are indicated at their current value; the value in parentheses indicates their value at the grant date.

2009 (2008) Compensation of the Board of Management, in EUR k							
	Fixed annual salary (EUR k)	Other compensation (EUR k)	Variable component (EUR k)	Total (EUR k)	Allocation to pension fund (EUR k)	Performance units (EUR k)	SOP total 2009 value (fair value at date of grant) (EUR k)
Stephan Rind	500.0 (300.0)	22.4 (23.0)	150.0 (300.0)	672.4 (623.0)	1.5 (1.5)	40.0 (0.0)	0.0 (661.4)
Volker Lemke	250.0 (60.0)	29.1 (10.8)	100.0 (40.0)	379.1 (110.8)	1.2 (0.8)	30.0 (0.0)	0.0 (113.6)
Friedrich Thiele	250.0 (66.7)	21.8 (4.0)	100.0 (0.0)*	371.8 (70.7)	1.2 (0.8)	30.0 (0.0)	0.0 (113.6)
Total	1.000.0 (426.7)	73.3 (37.8)	350.0 (340.0)	1.423.3 (804.5)	3.9 (3.1)	100.0 (0.0)	0.0 (888.6)

*In September 2008, Friedrich Thiele received a profit-sharing bonus payment of EUR 60.0 thousand for his work as head of real estate.

For health reasons, Klaus Reichert resigned from the Company's Board of Management by mutual agreement as of April 30, 2008. The agreement reached with him for his early departure from the board provided for monthly payments of EUR 20 thousand and the use of a Company car, until July 31, 2009. Total compensation paid to Mr. Reichert in fiscal 2009 came to EUR 141.1 thousand.

Details of the compensation of the Board of Management and Supervisory Board can be found in the Compensation Report, a part of the Corporate Governance Report, which appears in the 2009 Annual Report and also on the www.cre.ag Web site.

IV. Disclosures under Sec. 289 (4) and Sec. 315 (4) German Commercial Code Incorporated in the Management Report

The issued capital of Colonia Real Estate AG at December 31, 2009, came to EUR 28,460,000 (previous year: EUR 22,825,600). It is divided into 28,460,000 no-par bearer shares of common stock, each with a notional value of EUR 1.00 of the share capital. All shares carry the same rights and obligations. Each share confers one vote at the Shareholders' Meeting, and determines the shareholder's share in the Company's profits. There are no restrictions, special rights, or similar agreements in regard to Company shares.

Under the authorization pursuant to Article 4 (4) of the Articles of Incorporation of Colonia Real Estate AG, on April 9, 2009, the Board of Management decided, with the consent of the Supervisory Board, to increase the Company's share capital to EUR 24,125,600 by issuing 1,300,000 shares in a cash capital increase.

Furthermore, in June 2009, the conversion of warrants issued in 2004 into new CRE stock also helped increase the Company's share capital. A total of 6,501,600 warrants were exercised, equivalent to a ratio of about 96.4%. The conversion of subscription rights yielded a capital increase through the issue of 4,334,400 new shares of CRE out of Conditional Capital I, which amounted to EUR 4,500,000. Thus as of December 31, 2009, the share capital totaled EUR 28,460,000.

Equity Interests in Excess of 10% of the Voting Rights

The Principality of Liechtenstein, of Vaduz, Liechtenstein, directly or indirectly through MILFOLIUM Management Inc., holds 17.98% of the voting rights in Colonia Real Estate AG, and is therefore the Company's largest shareholder. Management knows of no other equity interests in excess of 10%.

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

Rules for amending the Articles of Incorporation, and for appointing and dismissing members of the Board of Management

Amendments of the Articles of Incorporation of Colonia Real Estate AG are subject to a resolution of the Shareholders' Meeting, in which a majority of at least 75.0% of the share capital represented at the vote must approve the amendment.

The Supervisory Board of Colonia Real Estate AG has three members, and appoints the members of the Board of Management. It also decides the number of members of the Board of Management, and appoints that board's chair. The Supervisory Board may revoke the appointments of the members and Chairman of the Board of Management for cause.

Management's authority to issue new shares

The Board of Management may normally issue new shares only when authorized by resolutions of the Shareholders' Meeting.

The Board of Management has been authorized, subject to the consent of the Supervisory Board, to increase the share capital of Colonia Real Estate AG on one or more occasions on or before July 3, 2012, by up to a total of EUR 9,332,800, by issuing new stock in return for contributions in cash or in kind (2007 Authorized Capital). The Board of Management may employ this authorization for any legal purpose. The issue of shares to service conversion and option rights of the bearers of convertible bonds or bonds with warrants issued under the resolution of the Shareholders' Meeting of June 27, 2005, as amended on June 6, 2006, and July 4, 2007, is limited to a total of EUR 6,698,560.

The Board of Management has been authorized, subject to the consent of the Supervisory Board, to increase the share capital of Colonia Real Estate AG on one or more occasions on or before July 7, 2014, by up to a total of EUR 1,874,000, by issuing new stock in return for contributions in cash or in kind (2009 Authorized Capital).

The Company's Shareholders' Meeting of June 6, 2006, authorized the Board of Management and the Supervisory Board to set up a "2006 Stock Option Plan." Conditional Capital III provided for this purpose came to EUR 910,400. By a resolution of the Shareholders' Meeting of July 4, 2007, this amount was reduced to EUR 792,000. The Board of Management carried out a "2006 Stock Option Plan."

Conditional Capital IV, in the amount of EUR 1,505,993, authorized by the Shareholders' Meeting of June 27, 2005, and amended by resolutions on June 6, 2006, and July 4, 2007, is to serve to grant stock to bond holders or creditors under convertible bonds or bonds with warrants already issued by the Company or to be issued in the future. A convertible bond issue for the amount of roughly EUR 54,964 thousand was released in December 2006.

The Shareholders' Meeting of July 4, 2007, authorized the Board of Management and Supervisory Board to set up a "2007 Stock Option Plan." The entitled parties are the members of the Board of Management of the Company, employees of the Company and of affiliated entities subordinate to it, as well as the managing directors and members of the

Boards of Management of affiliated entities subordinate to the Company. Conditional Capital V provided for this purpose came to EUR 866,560.

Conditional Capital VI, in the amount of up to EUR 3,124,247, approved by the Shareholders' Meeting on June 19, 2008, is to serve for granting no-par bearer shares to holders or creditors under convertible bonds, bonds with warrants, participation rights, and/or income bonds (or combinations of such instruments) issued by the Company or one of its directly or indirectly wholly-owned subsidiaries.

The Shareholders' Meeting of July 19, 2008, authorized the Board of Management and Supervisory Board to set up a "2008 Stock Option Plan." The entitled parties are the members of the Board of Management of the Company, employees of the Company and of affiliated entities subordinate to it, as well as the managing directors and members of the Boards of Management of affiliated entities subordinate to the Company. Conditional Capital VII provided for this purpose came to EUR 624,000.

Authorizations for the Board of Management to purchase treasury stock

The Board of Management made no use in fiscal 2009 of the authorization granted by the Shareholders' Meeting of July 8, 2009, to acquire treasury stock. Thus the amount of treasury stock held at December 31, 2009, remains unchanged from the year before, at 2,501 shares.

Under Sec. 71 (1) No. 8 of the German Stock Corporations Act, the Board of Management has been authorized to acquire treasury stock equivalent to not more than 10% of the share capital. This authorization cannot be exercised for purposes of trading in treasury stock.

Conditions for a change of control consequent upon a takeover offer

The Company has not entered into any agreements that are subject to the condition of a change of control consequent upon a takeover offer. Further information about change of control terms reached with the members of the Board of Management can be found in the Corporate Governance Report included in this Annual Report.

V. Disclosures under Sec. 289a (4) of the German Commercial Code (HGB), "Management Declaration"

Colonia Real Estate AG is listed in the Prime Standard segment of the Frankfurt Stock Exchange, and is a member of the SDAX. Precisely because we are a listed company, we are a matter of interest to the public. For that reason, we are particularly concerned with responsible corporate management, with the aim of sustainably increasing our corporate value and generating value added for our Company. It is especially important to us to implement the recommendations and suggestions of the German Corporate Governance

Code. Our current Declaration of Conformity under Sec. 161 of the Stock Corporations Act, together with the Declarations of Conformity from previous years, is available on our Web site at www.cre.ag, Investor Relations, in the section under Corporate Governance.

To achieve our goals, in addition to the requirements of law – which, it goes without saying, we comply with as a matter of course – we have defined our own principles for doing business. These principles are based on our general values, and serve as an orientation for everyday operations. Information about our management practices can be found in the Management Declaration at our Web site, www.cre.ag, Investor Relations, in the Corporate Governance section. The Management Declaration includes the Declaration of Conformity, or a Web link to that declaration, information about applied management practices, and a description of the operating procedures of the Board of Management and Supervisory Board.

VI. Risk and Opportunity Report

Profitable Growth, with Calculable Risk

The CRE Group's risk and opportunity policy focuses on ensuring not just the Group's continuance, but also sustainable growth, combined with an increase in corporate value. We endeavor to largely avoid risk, and to control risks once they arise by initiating suitable countermeasures. Our risk policy is laid down and monitored by the Board of Management for the entire CRE Group. The risk management system, which is implemented throughout the Group, has proved its worth in the current difficult economic environment. Our risk and opportunity management system is the foundation for active risk control, and serves as an informational foundation. The internal controlling system for the financial reporting process is an integral part of our risk management system, and for that reason, both systems are discussed together in this report. This internal controlling system for the reporting process aims to ensure that the Group's various financial statements – consolidated, single-entity and interim statements – are prepared in compliance with regulations. It also includes identifying, analyzing, assessing and managing risks that might interfere with the compliance of these financial statements.

Averting and controlling risks, together with the early detection and exploitation of the opportunities inherent in some risks, is the foundation for the Company's successful further development. However, it must always be ensured that the Group can fully cover any risks it assumes. This is also made clear in our motto, "Profitable growth, with calculable risk." Consequently the expansion and ongoing refinement of our risk and opportunity management system is an important part of our growth strategy.

Implementation and Organization of the Risk Management System

Both risk management and the internal controlling system for the reporting process are handled by Colonia Real Estate AG, as the Group's holding company. It is thus also responsible for the uniform implementation and monitoring of the risk management system and the internal controlling system within the Group. To achieve profitable growth with cal-

culable risk, the Board of Management of Colonia Real Estate AG has integrated suitable risk management processes and controlling systems into the Group. These processes help the board identify and assess risks, and to initiate countermeasures where needed. They also help recognize existing and future potential so that strategies can be developed early to take advantage of such opportunities. The risk management system assesses all risks uniformly throughout the Group. Thus risks are determined transparently and comparably. The central risk management team is a part of the Controlling unit at Colonia Real Estate AG, and is in charge of the proper execution of risk management processes. The risk management team reports directly to the Board of Management. Following the challenging market of 2008, staffing at the Controlling unit, including the risk management team, was expanded in 2009.

The principles of a proper, forward-looking risk management system are documented in the CRE Group's "Group Guideline Risk Management Manual." The targets and procedures set down there are binding on both the central risk management team and all Group employees. All employees are aware of their responsibility for the risks they are assigned, and adjust their conduct accordingly. Short communication channels, clear areas of responsibility and authority, and clearly defined stages of oversight within the Company ensure this flow of information.

Risk management is handled in a bottom-up process, starting with the individual employee, the "risk owner". Risks identified by the risk owner derive from business operations, and are forwarded to the central risk management team, which integrates them into the "risk map" and into strategic planning. This process ensures that risk management is continuously reexamined and improved within the Group. Individual risks are detected, analyzed and assessed jointly with the risk owner, and are summarized in the risk map. But no risk filtering is applied at this stage. This ongoing risk monitoring is discussed regularly, at least every quarter, with the Board of Management, depending on the probability and potential loss inherent in the individual risk. On the basis of this assessment, the risk management report is prepared for the Board of Management and the Supervisory Board. Separately from meetings with the Board of Management and Supervisory Board, the central risk management team regularly holds risk feedback meetings with the various risk owners. These feedback meetings are intended in part to control and monitor the evolution of risk, but also to detect any latent risks at an early stage. During these feedback meetings, the risk owner's remaining risks are regularly discussed individually, and their assessment is revised and updated as needed. This ongoing process also elevates the individual employees' risk awareness. The regular recurrence of risk feedback meetings supports both avoiding risk and seeking out opportunities.

Another integral part of risk management is the internal controlling system for the financial reporting process. Financial accounting and the preparation of the interim and annual financial statements for Colonia Real Estate AG and some German subsidiaries are handled either centrally by holding company employees, or by an outside accounting firm. The other subsidiaries are responsible for their own financial accounting, but the central accounting department always carries out an additional review of the financial statements after they have been prepared. Some accounting for the management of residential properties is handled by outside property management companies, but it too is monitored by

the central accounting department. Outside specialists are consulted in determining certain values and key figures, so as to minimize the potential risks in preparing these figures. For example, the expert opinions for calculating pension provisions are prepared by outside actuaries. Similarly, hedge accounting and the valuation of interest rate swaps are documented by outside banking institutions. The valuation of investment property under IAS 40 is likewise fully covered by appraisals by outside appraisers.

The consolidated financial statements are prepared by the central accounting unit, and also at present by an outside audit and accounting firm, in accordance with International Financial Reporting Standards (IFRSs) as adopted by the EU. In accordance with Sec. 315 (3) and Sec. 298 (3) of the German Commercial Code (HGB), the Group management report is combined with the management report of Colonia Real Estate AG. The CFO bears the ultimate responsibility for ensuring that the consolidated financial statements and Group management report, other single-entity financial statements within the Group together with their management reports, as well as the annual financial statements of CRE AG, are prepared in compliance with regulations.

Potential risks inherent in the financial reporting process are identified and analyzed in the internal controlling systems, and also in an ongoing risk analysis at the parent company. Recognized risks are also assessed here, and countermeasures to mitigate them are initiated where needed. Risks resulting from the reporting process are minimized in part with access rules for the IT system, and with clear separations of functions. Furthermore, identified risks are examined and assessed in particular with regard to their potential impact on the contents of the Group's various financial reports. In this process, important information is generated at an early stage about changes in the measurement of assets and liabilities, impending impairments of value are reported, and data are mined about the need to form or reverse provisions.

The entire risk management process, including the internal controlling systems, is conceived as a cycle. This cycle undergoes constant development as the various assessment instruments and methods continuously evolve. Risk assessment instruments are refined and adjusted to the current market situation. Methods are also developed and applied to rule out sources of error. The aim is to eliminate risks that might jeopardize the Company's continuing existence, and to exploit opportunities. Both the risk management process and early warning indicators are constantly updated by way of an ongoing refinement and improvement of information. Moreover, the internal controlling system for the reporting process, as an integral part of our risk management system, ensures that consolidated and single-entity financial statements will be prepared in compliance with regulations.

Our Risk Management System for Financial Instruments

An important part of our integrated risk management system is the analysis, identification, quantification and monitoring of risks that may derive from our financial instruments. Particularly given the financial and economic crisis, we have given special attention to this subsegment of the risk management system.

The real estate sector involves higher levels of borrowing than other industrial or service sectors. Increased borrowing always also entails an elevated risk due to financial instru-

ments. Special attention is given to credit, liquidity and market risks in regard to financial instruments.

Credit risks are minimized by rigorous, continuous monitoring of covenants, and where applicable by taking early action to counteract potential breaches of those covenants. This is done by all levels of management, but especially by the risk owner at the particular department concerned. Credit evaluations are included in the overall measurement of financial instruments. Liquidity risk within the CRE Group is determined with a maturity analysis for borrowings and a constant monitoring of liquidity structure. Given the CRE Group's financing structure, we do not currently foresee any short-term risks due to refinancing. The convertible bond issue of 2006 will not fall due for refinancing until the fourth quarter of 2011.

Purely in terms of the liquidity involved in individual risks, a need for further optimization has become evident during the current year. Accordingly, for better, more effective identification and assessment of liquidity risks, liquidity planning is to be incorporated this year into the Globus integrated management system, to allow fully integrated liquidity planning. In regard to market risks, for example, a monthly sensitivity analysis will be prepared. This analysis will enable us to respond quickly to changes in the market, and thus avert risks. Special attention will also be given to interest-rate and exchange-rate risks. Potential scenarios will be modeled in our integrated management system, and their potential impact on CRE Group earnings will be mapped out. Any interest risks are also hedged with derivative financial instruments. In summary, the CRE Group is in a sound, risk-averse position in regard to financial instruments.

Operating Risk Management System

A further component of our risk management system is operating risk management. Here regular management reports are prepared by the operating units and discussed with the Board of Management in specialized committees. The Finance Committee discusses current issues and investigates questions about specific matters. The resulting solutions can thus be implemented promptly by the operating divisions. The Finance Committee also monitors compliance with the Financial Guidelines that the Board of Management adopts regarding minimum equity capitalization. The targeted equity ratio is between 25.0% and 35.0%. The Investment Committee, which includes executives from throughout the CRE Group, serves for a timely exchange of information. These committees proved to be extremely efficient in 2009. In addition to exchanging information, they clarified issues, discussed possible solutions, and quickly addressed risks.

Another component in the early recognition of operating risks is the monthly reporting system in our CRE Asset Management unit. Detailed preparation of portfolio-specific data and regular analyses of that data provide a clear picture of the economic performance of our real estate holdings and the associated risks.

Opportunity Management System

The CRE Group's opportunity management system is integrated into the risk management system. "Profitable growth, with calculable risk" also includes taking advantage of the potential inherent in risks. Besides a general identification of opportunities, risks are as-

sessed to exploit any opportunities they offer. The entire CRE real estate portfolio undergoes regular market screening by CRE Asset Management. One goal of these analyses is to provide detailed information at the portfolio level, analyze it, and make it comparable against other data, as well as to reveal new potential for optimization. Market data is also analyzed thoroughly, and projections are prepared for the residential and commercial real estate market in all of Germany and at specific locations. These studies enable us to recognize opportunities early for corporate strategy, for example in the transaction market, and to direct our business operations accordingly.

Individual Opportunities and Risks

Individual risks are identified, recorded, analyzed and quantified by the risk management system. Quantification is based on the risk's probability and the potential loss involved, working from the values reported by the operating units concerned. If individual risks are realized, either alone or together with other risks, they may adversely affect the CRE Group's assets, liabilities, financial position and profit or loss. The risks listed here may not be the only ones to which the CRE Group is exposed. Other risks of which we are currently unaware, or that are currently considered minor, may also affect our business activities.

Risks from the Economic and Regulatory Environment

The factors that affect Colonia Real Estate's business environment include uncertainties about economic and policy conditions. Even though our own holdings are limited to Germany alone, we cannot escape the effects of global developments, as the worldwide crisis in the financial markets clearly showed. We assume that both the global and the national economy will stabilize only gradually. Further downside risks from the economy may hamper our business operations.

The central banks now have less room for action in setting monetary policy. If they begin withdrawing liquidity from the market and/or raising interest rates too quickly, that might jeopardize the expected revival of the economy. The consequence might be a further shortage of credit, so that we might find it difficult or impossible to carry out our planned investments in existing or new residential real estate holdings. Moreover, a credit shortage could also adversely affect our clients' financing options. In that case, transactions might be postponed or cancelled entirely. That would have adverse effects on our transaction business and also on the income from our Service segment.

Deteriorating economic performance in Germany, or the failure of the economy to revive, would increase the probability of rising unemployment. In such a scenario, tenant turnover could rise, as might rent defaults, because tenants might be unable to meet their rent payment obligations. Interest in buying residential property would also decline. However, it must generally be borne in mind that the residential real estate market is considerably less vulnerable than office and commercial real estate to risks that depend on general economic conditions. The risk of tenant turnover and defaults is especially limited for a residential portfolio that includes a large number of tenants who draw various forms of welfare payments from the state.

Changes in the legal environment – for example in landlord-tenant law or tax law – might also have adverse effects on CRE. In spite of the adjustments that have already been made

in acknowledgement of the ceiling on interest rate deductions that was introduced as part of the corporate tax reform, that ceiling might adversely affect CRE's earnings situation.

Industry and Market Risks

One of the most important market risks for CRE Group is the collapse of demand in the residential real estate market. A slump in demand, associated with declining rents, could reduce our revenues and income. However, we believe this risk is extremely small. A wide variety of groups of experts project a shortage of residential space in precisely those cities and metropolitan areas where a large share of our residential properties are located. The annual demand is estimated at between 270,000 and 350,000 residential units. But according to the Federal Statistical Office, building permits have been issued for fewer than 180,000 units, which could result in a shortage of residential space, with an associated rise in prices.

CRE operates in markets where there are low barriers to entry. For that reason, new competitors may enter the market in many areas where we do business. The resulting potential reduction in our market share might adversely affect our earnings situation. We expect demand for residential real estate to rise in Germany in 2010. Rising demand in this sector might interfere with our planned acquisitions in German residential real estate, but on the other hand might also open up new opportunities for selling properties out of our own holdings. As demand for residential real estate rises, housing prices might also rise, which would yield a risk-opportunity profile similar to the one just described. Lower prices and rents, which we consider rather unlikely, would have the opposite effect. Declining rents would also adversely affect our revenue and earnings situation. We counteract the risk of declining rents, higher vacancy rates, and rising defaults on receivables through active asset management. We make our residential units more attractive with such measures as energy-saving renovations, we enhance tenant loyalty with rents and service charges that are consistent with the rest of the market, and we pursue a policy of active receivables management.

Our Asset Management unit, which also provides our expertise to outside third parties, may also be confronted with new competitors in the market. If new providers appear, they could reduce Asset Management's income due to losses of engagements or price reductions, or could make new engagements more difficult to acquire. We endeavor to counteract such risks by developing and continuously improving our innovative, sustainable service products.

Financial and Corporate Strategy Risks

One of the key tasks of the Group's holding company, Colonia Real Estate AG, is to safeguard the CRE Group's liquidity. To achieve that goal, we optimize our corporate financing, and limit financial risk with careful controls.

Liquidity risk: Our top priority is to ensure that the CRE Group is solvent at all times. To ensure this, we maintain sufficient cash funds, in keeping with our financial planning and rolling liquidity planning. CRE had cash funds of EUR 13.1 million available at December 31, 2009. The CRE Group currently has short-term liabilities (terms of less than one year) of

about EUR 15.0 million, whose refinancing appears secure on the basis of preliminary discussions. In addition to current account credit lines, these short-term liabilities also include a loan of about EUR 4.0 million that currently matures on December 31, 2010. Short-term turbulence in the financial and credit markets might, however, interfere with this refinancing and result in a tense liquidity situation. High-risk decisions might create an additional need for capital in excess of the planned cash outflows. However, the CRE Group has adopted no such decisions. Wherever possible, the Board of Management rigorously follows the principle of safeguarding liquidity, with the goal of ensuring that the Group can meet all payment obligations on time.

Credit risk: Our use of borrowings exposes us to risks of changes in interest rates and refinancing risks. During 2009, we further improved our financing structure by renegotiating loan terms. On the basis of the discussions to date, we currently foresee no danger from the maturities of our loans. With regard to our ability to refinance the convertible bond that matures in the fourth quarter of 2011, CRE AG is already in discussions and negotiations on how to service the bond. With regard to existing loan agreements, specific covenants must be adhered to. Breaches of these covenants might give rise to a risk that banks might terminate loans, recall them in part, or raise finance charges. Compliance with covenants is monitored monthly. No breaches are impending at present.

The ongoing uncertainty in the credit markets, and the ongoing restrictive lending policies of some banks, might impede financing for new acquisitions of residential real estate portfolios and the refinancing of expiring loans, or could significantly increase finance expenses. Thus there is a risk that the CRE Group might not have access at all times to borrowings in sufficient amounts or on economically attractive terms. There is also a risk that the equity component for financing might rise more than proportionately. We maintain constant contact with our lending partners to minimize these risks.

Interest rate risks: During 2009, the European Central Bank reduced the key lending rate to 1.0%, a historic low. If interest rates rise, higher finance expenses must be expected for the portion of our loans that are at variable interest rates, and whose interest rates are not hedged. Moreover, future borrowings may be more expensive. Most of our existing loans are at fixed interest rates. For loans at variable rates, hedges have been taken out, because here too it is more important to CRE to have conservative, reliable financing, than to reap one-time short-term income from positive changes in interest rates. Only about 4.5% of our loans are at variable interest rates. Given the conservative interest structure of our loans, and the projections about future changes in interest rates, we believe the risk from rising interest rates is rather low, but we cannot rule out the possibility of a significant rise in rates over the next few years.

Further financial risks may derive from foreign exchange. Fluctuations in foreign exchange rates are not significant for CRE, because we focus solely on the German residential market. Hence, for reasons of cost, the CRE Group does not have a rating from an external rating agency at present. We do not currently foresee that this might result in disadvantages or risks from borrowings.

Corporate strategy risks derive, for example, from the current prevailing uncertainty about economic conditions. We have already pointed out the potential general economic risks and industry risks in this risk report. Corporate strategy risks may also result from inaccurate estimates of future market performance. To prevent this kind of error, we conduct extensive analyses of the market and of our competitors. The results, which are then analyzed, are explored further in strategy discussions, not only to avoid risk but to recognize opportunities early as they emerge. Amid the vigorous competitive environment in which we operate, we continuously strive to safeguard and expand our market position.

Performance Risks

The CRE Group incurs performance risks in its business relationships with tenants, clients and suppliers. Tenants are our most important client group. Here lower rental income and rising rent defaults may adversely affect the CRE Group's revenue and earnings situation. Strategic tenant loyalty-building measures and rents consistent with the market reduce our risk of tenant turnover, and thus the risk of vacancies in our buildings. We also limit rent default risk, with the associated defaults on receivables, by applying active property and receivables management. Because of the large number of residential units in the Salzgitter district, a general adverse change in rents and in demand could cause a risk concentration there for the CRE Group.

Although we extensively investigate our suppliers and service providers before engaging them, these relationships may result in risks to the CRE Group. Noncompliance with delivery dates, inadequate quality, or delays in construction work may adversely affect our business performance and/or increase costs. Risks may also derive from our business relationships with our joint-venture and other business partners. For strategic or financial reasons, partners may withdraw entirely from the German real estate market and/or terminate service engagements. To reduce this risk, we endeavor to continuously expand our client and supplier bases. New products that we develop, such as the Workout Platform, are intended to help expand the Asset Management unit's client base, and to generate new earnings potential.

IT Risks

We constantly review our information technology facilities, and refine them further where necessary. Despite our high security standards, any disruption or impairment of our IT system may restrict portions of our business activity, or result in higher costs. To minimize the possibility that our business operations might be disrupted because of IT problems, and to take due account of the sensitivity of our information and data, the CRE Group has set up its own computer center that is able to self-sufficiently ensure the security of data and of the associated business processes in emergencies. In such a case, IT provides a "disaster recovery plan" specially set up for CRE AG. It ensures restarts after local or Group-wide crashes. This "disaster recovery plan" is a part of the risk management process. Within the Group, we also make efforts to ensure the greatest possible security in handling data and information. Group employees are required by internal guidelines to ensure that data security is maintained at the highest possible level. The Group's business information, and the employees' private data, are protected with preventive measures. Responses to new risks are appropriate and prompt. For 2010, a new document manage-

ment system will be introduced at the CRE Group to correct certain risks that have been identified in the past.

Personnel Risks

Our employees' expertise in their respective fields is an important factor for the CRE Group's success. For that reason, it is very important to us to continuously expand our employees' professional knowledge, and to support it with individualized options for continuing professional education. However, there is always a risk of losing employees, and thus professional knowledge, through turnover. To strengthen our position as an attractive employer, and thus to fill vacancies as quickly as possible, we provide not only performance-based compensation, but also career development opportunities tailored individually to each employee. We also reduce the risk of employee turnover with suitable deputation rules, and by working in interdisciplinary teams. To attract talents from the younger generation to our company and help keep them, we work closely with the European Business School (EBS) and the Academy of the Real Estate Industry (ADI).

General Summary of Risks and Opportunities

Another integral part of our risk-opportunity analysis, besides the findings from our risk management system, is collecting, assessing and interpreting suitable market data. According to a careful analysis of these data for the German real estate sector, and given our assessment of the development of the financial and credit markets, the residential real estate market in Germany currently offers great potential for opportunities.

Although banks' lending policies still remain cautious, we assume that lending policies for new loans, especially in the residential segment, will ease. This could have a positive effect on the transaction market for residential real estate in Germany, to the profit both of our Investments segment and of CRE Asset Management. We also assume that interest rates will remain low, which should likewise provide momentum for the transaction market. Further opportunities for the CRE Group could arise from the development of demand for residential space. A study commissioned by LBS Research assumes that even though the population will shrink in the medium term, demand for residential space in Germany will continue to rise. One reason is the ongoing trend toward smaller households, including the increase in one-person households and the growing number of households of seniors and households with higher expectations about living conditions. Moreover, residential space per capita is steadily growing. According to the LBS study, residential space per capita will grow from 46 sqm in Western Germany and 38 sqm in Eastern Germany (base year: 2005) to an average of 56 sqm in 2030. We believe the rising demand for residential space will offer good opportunities for our Investment segment and our own holdings. We also foresee opportunities in the growing shortage of residential properties in cities and metropolitan areas. As already mentioned above, experts assume that annual demand for new housing will be between 270,000 and 350,000 units. But in 2009, building permits were issued for fewer than 180,000 new units. Thus a shortage of residential space can be expected for the medium term. This would particularly open up further chances for companies, like CRE Group, that own residential real estate and have proved their expertise in renovating existing inventory. All told, we foresee more opportunities than risks in the German residential real estate market. The CRE Group achieved turna-

round early, and significantly improved its key performance indicators. Nevertheless, the turnaround is not yet complete. A further intensification of the financial and economic crisis could adversely affect the Group's earnings and liquidity.

In terms of risk, our Group-wide risk management system and our internal controlling systems for the reporting process have proved their worth even amid a difficult economic environment. Our risk management system enables CRE to detect risks early as they arise, and to counteract them to the full extent that the Group's capabilities allow.

III. Events after the Reporting Date

No material events affecting business occurred after the end of the reporting period.

IV. Report on Expected Developments

Strategy: Moderate Growth

The CRE Group is an integrated corporation for investments in German residential real estate, as well as an active asset manager for its own and outside real-estate portfolios. Our plan for 2010 and the years beyond is to stabilize and further strengthen our market lead. Our business model rests on two pillars:

Investment: The Investment segment concentrates on acquiring, developing and managing high-yield opportunistic residential real estate portfolios that we ourselves hold. To these are added equity interests and co-investments in commercial and residential properties with well-known partners.

Service: The Service segment includes transaction consulting, asset management for properties, and the privatization of individual residential units and sales of smaller portfolios. After a year of consolidation and stabilization, in 2010 and beyond we aim to return to moderate growth in both of our business segments. We assume in the Investment segment especially that we will be able to exploit the potential of the German residential real estate market as both a buyer and a seller. However, we intend to pursue a net expansion of our nationwide residential real estate portfolio in 2010. For CRE Asset Management, we foresee good opportunities to take part in the reviving transaction market in Germany. In both transaction consulting and asset management, we aim to attract new engagements and return to generating a positive contribution to the CRE Group's profits. New engagements will focus on the residential real estate segment. To improve contribution margins from ongoing management operations, and to weaken the correlation between total income and the transaction market, we will increasingly emphasize long-term, product-based engagements. So our motto for the next 24 months will still be moderate, profitable growth, with calculable risk.

Future Economic Picture

Following the dramatic slump in the global economy in 2009, the worst of the crisis now seems to be over. But it remains to be seen just how fast, and to what extent, the global economy and business conditions in Germany will recover. The uncertainty and levels of concern that persist in Germany are clearly evident from the differences in the scenarios and projections released by the various economic institutes and associations. Depending on the institution, projections for 2010 GDP growth in Germany range from 1.2% to 2.1% – a spread of about 75%.

We too assume that the German economy will continue to revive. But the actual dynamics will depend on many factors, both domestic and international. World trade is reviving appreciably, and will especially benefit Germany as an exporting nation. But it is difficult to estimate how dynamically the German economy will perform once financial and monetary-policy assistance from the government and the central bank comes to an end. Moreover, the expected increase in unemployment will raise uncertainty among consumers. We believe the banks' lending policies, and thus the ability for consumers and investors to find financing, will be especially important to the strength of growth in the Germany economy. However, if interest rates remain low, and liquidity in the capital markets is high, that will have a positive impact on investors' propensity to invest. On the whole, we assume that 2010 will be a volatile year for the German economy. We believe that the strategies adopted by the government and the central bank in regard to maintaining economic programs and money-market policies will play a key role for the growth prospects of the German economy.

Performance of the German Real Estate Market

Irrespective of any global or domestic economic developments, we have identified three developments that will be crucial to the markets where we operate, and thus for our business model: *demographic change, urbanization, and the rising importance of sustainability.*

Demographic change incorporates several trends. Two that are of particular importance to our business model are the aging population in Germany, and the change in the size and composition of households. Residential space will have to adapt to these changes. The advancing average age of the population will result in changes in expectations about living situations. Demand for age-appropriate, barrier-free residential space will grow more than proportionately. We will also respond to these housing needs in our own holdings, by way of our active asset management.

Rising material prosperity has led to a steady rise of residential space per capita in Germany. For example, Empirica and LBS Research project that by 2030, living space per capita will grow from 46 m² in Western Germany, and 38 sqm in Eastern Germany (2005 basis), to 56 and 55 m², respectively. The primary factors behind this change will be the trend toward smaller households and tenants' rising expectations about their living conditions. The consequence will be growing demand for living space, with an associated rise in rents. All in all, the IVD real estate association projects that the 2009 increase of 0.9% will be followed by further moderate increases in average residential rents nationwide. De-

mand for residential space will especially grow in cities with populations over 100,000, and increasingly also in German metropolitan regions.

This projection by the IVD is confirmed by the nationwide trend toward urbanization, meaning the expansion of urban population centers. Demand for living space will grow in these population centers, and thus the supply of available living space will decrease. Various studies have projected an annual total demand for between 270,000 and 350,000 units of newly constructed residential space by 2025. But according to extrapolations by the Federal Statistical Office, building permits were issued for only 174,264 new residential units from November 2008 to November 2009. This trend too will widen the gap between demand and supply in residential space. Renovation and modernization of property portfolios will also gain in importance. More than one-quarter of the German housing stock is over 60 years old; about 46% was built between 1949 and 1979; another 22% comes from the 1980s and 1990s. The CRE Group has well-established expertise and experience specifically in revitalizing property portfolios.

Our active asset management has focused for years on sustainable renovation and management of real estate holdings. The growing importance of sustainable action by businesses and individuals is another trend that does not depend on economic conditions and that will affect our business model. Using electricity from renewable sources and reducing building energy consumption and CO₂ emissions are some of the ecological criteria for sustainable property management. They are joined by aspects of economic and social responsibility. We have incorporated these aspects of sustainable action into our business model. For that reason, sustainable management of our properties is particularly important to the CRE Group. With our sustainability efforts – for example, energy upgrades, optimized waste management and social commitment at our properties – we not only increase tenant loyalty, but raise the quality of the entire neighborhood. This both reduces vacancies and increases the rent cash flow from the property.

In the past few years we have continuously adapted our business model to the needs of the real estate market. We were quick to recognize the opportunities available in the German real estate market – especially the residential market – and invested there early. CRE Asset Management has demonstrated its expertise and experience in the sustainable renovation and modernization of residential real estate portfolios. In that connection, we also refer the chapter “Doing business sustainably” in our Annual Report. We assume that we will be able to turn the opportunities offered by these market requirements and developments to the CRE Group’s advantage.

Expected Development of Earnings and Financial Position

One of the most important factors influencing the CRE Group’s revenue and earnings situation in the Investment segment will continue to be the level of collectable rental income. Thanks to the modernization work that we have planned or already completed, we are confident that we can at least keep our future rental income constant, or even moderately improve it with selective vacancy reductions in certain portfolios. Our aim in the active asset management of our own portfolios is to reduce those portfolios’ operating costs. Our planned efforts to support this goal, and thus to reduce service charges, include using

efficient energy sources or alternative management techniques, for example in waste disposal. For our own portfolios, the agenda for the next 24 months clearly emphasizes a moderate improvement in cash flow from our properties.

The goal for the Service segment is to return to making a positive contribution toward the CRE Group's profits. The emphasis here will be on new, long-term and rather product-based engagements in residential real estate. Here we will apply our own experience in sustainably renovating residential properties and actively repositioning them in the market. Apart from acquiring new asset management engagements, we also assume we will be able to profit from the revival of the transaction market in Germany. The CRE Asset Management unit is complemented by our Privatization unit. Here, while maintaining existing contracts, we plan at least to match the good sales figures of 2009 (980 units sold) so as to make a positive contribution to profits.

We are also aiming to further optimize our financing structure over the next 24 months. Our goal is to reduce our finance expenses, and to stabilize our equity ratio for the medium term within a target range of 25% to 35%.

Overall Assessment

As we already explained in detail at the beginning of this report on expected developments, we assume that demand for residential space in urban regions will grow over the next years. In that connection, rents and prices in those regions will rise. The CRE Group's residential real estate holdings are located in the right places. We assume that we can profit from these developments in the long term. As to the next few months, our Investment segment intends to take advantage of the opportunities the market may offer, as both a buyer and a seller. All in all, however, we intend to moderately expand our residential real estate holdings – meaning to buy more residential units than we sell. In managing our own holdings, we will continue to focus on optimizing rental profits and reducing vacancies.

Over the next 12 months, we intend for our CRE Asset Management unit to return to profitability and make a positive contribution toward the Group's earnings. Apart from acquiring new engagements in transaction advisory services, we especially intend keep expanding the number of asset management engagements, with an emphasis on residential properties. Given our experience in operating and managing our own residential properties, we intend to position ourselves more firmly in the market as a specialist in sustainable asset management.

We believe that it will be well beyond 2010 before the consequences of the extremely serious crisis in the financial markets can be overcome. Allowing for uncertainty about growth prospects in Germany, the banks' still-unpredictable lending policies, but also a continuation of low interest rates, we assume that the CRE Group will enjoy moderate growth over the next few months. Given the above assumptions about economic and business conditions, we expect to show an operating profit for the current 2010 fiscal year and the year after. Over the past few months, we have improved the cash flow from our properties, massively reduced our administration expenses, and achieved further strategic development. Despite the difficult market environment, we were able to show a profit in

2009. Based on the services we have already billed and the work we now have planned, we believe we are well equipped for the tasks ahead.

Cologne, March 26, 2010

Colonia Real Estate AG



Stephan Rind



Volker Lemke



Friedrich Thiele

This report includes certain forward-looking statements that particularly refer to the business performance of Colonia Real Estate AG and to economic and regulatory conditions, as well as other factors to which the CRE Group is exposed. These forward-looking statements are based on current assessments and assumptions made to the best of the Company's knowledge, and are subject to a number of risks and uncertainties that might cause a forward-looking assessment or statement to be inaccurate, so that actual events may differ from the results expected at present.

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

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

Cologne, March 26, 2010

Colonia Real Estate AG



Stephan Rind



Volker Lemke



Friedrich Thiele

Audit Opinion

We have audited the annual financial statements, comprising the balance sheet, the income statement, and the notes to the financial statements, together with the bookkeeping system, and the combined management report for the Company and Group of Colonia Real Estate AG, Cologne, for the fiscal year from January 1 to December 31, 2009. The maintenance of the books and records and the preparation of the annual financial statements and the combined management report of the Company and the Group for fiscal 2009 in accordance with German commercial law are the responsibility of the Company's management. Our responsibility is to express an opinion on the annual financial statements, together with the bookkeeping system, and on the combined management report of the Company and the Group for fiscal 2009, based on our audit.

We conducted our audit of the annual financial statements in accordance with Sec. 317 HGB (*Handelsgesetzbuch*: German Commercial Code) and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (Institute of Public Auditors in Germany) (IDW). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the annual financial statements in accordance with [German] principles of proper accounting, and in the combined management report for fiscal 2009, are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Company and expectations as to possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the books and records, the annual financial statements and the combined management report for fiscal 2009 are examined primarily on a test basis within the framework of the audit. The audit includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the annual financial statements and combined management report for fiscal 2009. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion, based on the findings of our audit, the annual financial statements comply with the legal requirements and give a true and fair view of the net assets, financial position and results of operations of the Company in accordance with [German] principles of proper accounting. The combined management report of the Company and the Group for fiscal 2009 is consistent with the annual financial statements, and as a whole provides a suitable view of the Company's position and suitably presents the opportunities and risks of future development.

Hamburg, March 26, 2010

bdp

Revision und Treuhand GmbH

Wirtschaftsprüfungsgesellschaft

Kurtkowiak
Wirtschaftsprüfer

ppa. Schacht
Wirtschaftsprüfer

Development of Non-Current Assets 2009

	01.01.2009		31.12.2009		01.01.2009		31.12.2009		31.12.2009		31.12.2009		30.12.2008	
	EUR	EUR	EUR	EUR	EUR	EUR	EUR	EUR	EUR	EUR	EUR	EUR	EUR	EUR
I. Intangible assets														
1. Concessions, industrial property rights and other rights and assets	194,897.78	13,145.34	0.00	0.00	0.00	207,235.42	37,424.78	44,969.34	202.70	82,191.42	125,044.00	157,473.00	0.00	0.00
2. Payments in advance	0.00	305,876.77	0.00	0.00	0.00	305,876.77	0.00	0.00	0.00	0.00	305,876.77	0.00	0.00	0.00
	194,897.78	319,022.11	0.00	0.00	0.00	513,112.19	37,424.78	44,969.34	202.70	82,191.42	430,920.77	157,473.00	0.00	0.00
II. Property, plant and equipment														
1. Land and equivalent rights and buildings including buildings on not self-owned land	10,890,181.29	0.00	0.00	0.00	0.00	10,890,181.29	968,823.29	250,199.00	0.00	1,219,022.29	9,671,159.00	9,921,358.00	0.00	0.00
2. Equipment	788,705.33	12,890.19	0.00	0.00	0.00	801,595.52	237,186.33	116,153.19	0.00	353,339.52	448,256.00	551,519.00	0.00	0.00
	11,678,886.62	12,890.19	0.00	0.00	0.00	11,691,776.81	1,206,009.62	366,352.19	0.00	1,572,361.81	10,119,415.00	10,472,877.00	0.00	0.00
III. Financial assets														
1. Investments in subsidiaries	279,014,908.70	3,384,392.77	0.00	0.00	0.00	282,324,301.47	16,689,646.26	11,491,714.73	0.00	281,813,609.99	254,142,940.48	262,325,262.44	0.00	0.00
2. Loans to affiliated companies	22,935,105.19	0.00	0.00	0.00	0.00	22,043,747.31	0.00	0.00	0.00	0.00	22,043,747.31	22,935,105.19	0.00	0.00
3. Investments in associated companies	2,747,711.85	1,095,647.00	92,400.00	0.00	0.00	3,936,758.85	0.00	0.00	0.00	0.00	3,936,758.85	2,747,711.85	0.00	0.00
4. Loans to associated companies	5,856,670.97	489,250.00	0.00	0.00	0.00	6,302,545.99	0.00	0.00	0.00	0.00	6,302,545.99	5,856,670.97	0.00	0.00
	310,554,396.71	4,970,289.77	92,400.00	0.00	0.00	314,607,353.62	16,689,646.26	11,491,714.73	0.00	281,813,609.99	286,025,992.63	293,864,750.45	0.00	0.00
	322,428,181.11	5,302,202.07	92,400.00	0.00	0.00	326,812,242.62	17,933,080.66	11,903,036.26	202.70	29,835,914.22	296,976,328.40	304,495,100.45	0.00	0.00

Development of Shareholders' Equity 2009

Appendix B

	Capital stock EUR	Additional paid-in capital EUR	Reserve for treasury shares EUR	Unappropriated net income/loss EUR	Total EUR
As of Jan. 1, 2008	22.465.600,00	217.657.468,06	42.517,00	11.199.271,98	251.364.857,04
Cash capital increase	360.000,00	5.130.000,00	0,00	0,00	5.490.000,00
Exercise of stock options	0,00	0,00	0,00	0,00	0,00
Withdrawal from reserve from treasury stock	0,00	0,00	-35.364,14	35.364,14	0,00
Dividend distributions	0,00	0,00	0,00	-5.705.774,75	-5.705.774,75
Net loss 2008	0,00	0,00	0,00	-16.019.302,61	-16.019.302,61
As of Dec. 31, 2008	22.825.600,00	222.787.468,06	7.152,86	-10.490.441,24	235.129.779,68
As of Jan. 1, 2009	22.825.600,00	222.787.468,06	7.152,86	-10.490.441,24	235.129.779,68
Cash capital increase	1.300.000,00	2.301.000,00	0,00	0,00	3.601.000,00
Exercise of stock options	4.334.400,00	8.668.800,00	0,00	0,00	13.003.200,00
Withdrawal from reserve from treasury stock	0,00	0,00	4.504,30	-4.504,30	0,00
Dividend distributions	0,00	0,00	0,00	0,00	0,00
Net loss 2009	0,00	0,00	0,00	-26.805.032,35	-26.805.032,35
As of Dec. 31, 2009	28.460.000,00	233.757.268,06	11.657,16	-37.299.977,89	224.928.947,33