

# Report of the Supervisory Board

## Dear Shareholders,

The Supervisory Board of Colonia Real Estate AG presents its report on its activities in fiscal 2008 below. The primary emphasis of the Supervisory Board's work was to deliberate and adopt resolutions on the following matters:

- Approving the implementation of a Group-wide cost-cutting and efficiency program;
- Measures to safeguard the Group's financing, especially by approving a EUR 30 million debt buyback;
- The sale of CRE Hotel Immobilien GmbH, a wholly owned subsidiary of Colonia Real Estate AG, and withdrawal from the line of business in hotel properties;
- The sale of 15 percent of Colonia Real Estate AG to Projektgesellschaft Schanzenstrasse mbH, in Düsseldorf;
- The sale of 2.75 percent of the Disch-Haus project company by CRE Gewerbeimmobilien GmbH, a subsidiary of Colonia Real Estate AG;
- Termination of the business relationship with Systaic AG (for equipping the residential property portfolio owned by Colonia Real Estate, and for third-party business in solar modules).

The Supervisory Board also gave its consideration to further matters, such as corporate governance and restructuring the membership of the Board of Management. The Supervisory Board of Colonia Real Estate AG performed its duties in fiscal 2008 as defined by law and the articles of incorporation. It audited the parent-company and consolidated financial statements, and provided ongoing supervision and advice to the Board of Management in its management of the Company. The Supervisory Board advised, monitored and supported the streamlining of the Group and its refocusing on core activities, particularly in terms of the comprehensive program to cut costs and enhance efficiency, as well as the divestment of certain lines of business and steps to safeguard the Group's financing.

## Meetings of the Supervisory Board and subject matter and methods of review

Except as described otherwise in this report, the Supervisory Board performed all review activities by receiving, independently reviewing, and discussing oral and written reports from the Board of Management, employees, and outside consultants. The Supervisory Board has no committees; the Board consists of three members, and therefore the full membership participates in the performance of all the Board's duties.

At a total of 16 meetings, twelve of them regularly scheduled and four specially convened, the Board of Management reported to the Supervisory Board on all major matters of planning, business policy and business performance, the risk situation and risk management, and the business situation. The Supervisory Board was kept up to date at all times about current business developments, major business events, and the plans and decisions of the Board of Management. The Board of Management reported to the Supervisory Board orally and in writing, regularly, promptly and in detail, including between meetings, on all matters of importance to the Company. For example, it submitted monthly written reports on liquidity planning and on profitability calculations for real estate project companies.

Management also reported regularly to the Supervisory Board on the most important key financial figures. The Board of Management promptly submitted for a decision all matters requiring the Supervisory Board's consent. In these cases the members of the Supervisory Board received extensive advance background documentation summarizing the major points of the matters to be decided.

The rules of procedure for the Board of Management include a list of types of transactions and measures that are of fundamental importance to the Company, and for which the consent of the Supervisory Board must be obtained. In fiscal 2008 these particularly included:

- The EUR 360,000 increase in the share capital, utilizing the 2007 Authorized Capital (Supervisory Board decision of February 28, 2008);

- The buyback of Colonia Real Estate AG debt for an amount of more than EUR 30 million (Supervisory Board decision of September 24, 2008);
- The sale of CRE Hotel Immobilien GmbH, and the withdrawal from this line of business (Supervisory Board decision of November 4, 2008).

After a thorough review and discussion of the materials submitted by the Board of Management, the Supervisory Board granted the necessary approval at its meetings.

At its meetings in February and April 2008, the Supervisory Board dealt with the contracts and compensation of individual members of the Board of Management, and with the summer 2008 annual shareholders' meeting. At its meetings between May and September 2008, the Board dealt primarily with planned divestments, pending refinancing negotiations, and the impact of the financial crisis on the investments and liquidity of Colonia Real Estate AG and its subsidiaries and affiliates. The Board of Management and the Supervisory Board also deliberated together on business relations with Systaic AG, and on employee options. The Supervisory Board adopted new rules of procedure on June 10, 2008. Its meetings in the last quarter of the year focused on such matters as the cost-cutting program and options for divestments from various portfolios.

All members of the Supervisory Board participated at all the Board's meetings during their term of office in fiscal 2008.

### Corporate Governance

The Supervisory Board and Board of Management act in the awareness that good corporate governance is in the best interest of our shareholders and the capital markets, and is an important foundation for corporate success. On June 10, 2008, the Board of Management and Supervisory Board updated the declaration of conformity to be issued under the German Corporate Governance Code. The new declaration of conformity, together with previous versions, is kept permanently available to shareholders on the Company's Web site.

Further information on corporate governance at Colonia Real Estate AG is included in the joint report of the Board of Management and Supervisory Board on pages 10 to 12 of this Annual Report.

There were no conflicts of interest involving members of the Supervisory Board.

### Parent-company and consolidated financial statements, report on transactions with affiliated companies

The annual financial statements of the Company as prepared and submitted in a timely manner by the Board of Management, and the consolidated financial statements, as of December 31, 2008, together with the report on the condition of Colonia Real Estate AG and the Group in fiscal 2008, were audited by the Dortmund office of Ernst & Young AG, Wirtschaftsprüfungsgesellschaft, Steuerberatungsgesellschaft. The Supervisory Board engaged the auditors in compliance with the resolution of the shareholders' meeting of June 19, 2008. The annual financial statements for the Company were audited in accordance with the rules of the German Commercial Code (HGB), and the consolidated financial statements and the report on the condition of the Group were prepared in accordance with IFRS and the supplemental provisions of Sec. 315a (1) of the German Commercial Code. All members of the Supervisory Board received the audit reports. The independent auditors granted an unqualified audit opinion to the annual financial statements and report on the condition of Colonia Real Estate AG, the consolidated financial statements under IFRS, and the report on the condition of the Group.

Once again this year, the auditors audited the risk early detection system used at the Company. The audit showed that within the normal bounds of operating activities, the system is capable of detecting at an early stage any developments that might pose a threat to the Company's continuing existence.

The auditors attended the Supervisory Board's deliberations on the Company's annual financial statements on April 29, 2009. They reported on the audit procedures, and offered to provide any supplemental information. Following its own audit, the Supervisory Board found the documentation correct, proper, and plausible. In accordance with the final results of its own audit, the Supervisory Board has no objections to state, and concurs in the results of the independent auditors.

The Supervisory Board has approved the Company financial statements and consolidated financial statements prepared by the Board of Management; the annual financial statements have therefore been adopted in accordance with Sec. 172 of the German Stock Corporations Act (AktG).

At the same time as the documentation for the financial statements, the Board of Management also submitted to the Supervisory Board the report of the Board of Management on transactions with affiliated companies as required under Sec. 312 of the Stock Corporations Act, likewise bearing an unqualified audit opinion, together with the report of the independent auditors. At the Supervisory Board's meeting of April 29, 2009, the independent auditors reported on the results of the audit, and following a discussion they provided detailed answers to all the Supervisory Board's questions. In accordance with the final results of its own audit, the Supervisory Board has no objections to the concluding declaration by the Board of Management in its report under Sec. 312 of the Stock Corporations Act, and concurs in the results of the independent auditors.

The independent auditors' audit opinion on the report of the Board of Management on transactions between Colonia Real Estate AG and affiliated companies reads as follows:

Following our conscientious audit and assessment, we confirm that

1. The facts stated in the report are correct,
2. The consideration furnished by the Company with respect to the transactions listed in the report was not inappropriately high, or any disadvantages were compensated.

### **Changes in the membership of the Supervisory Board and Board of Management**

The Supervisory Board of Colonia Real Estate AG is composed of Prof. Dr. Klaus B. Steiger (Chairman), Stefan Lutz (Vice-Chairman), and Lutz Wille. There were no changes in the membership of the Supervisory Board during fiscal 2008.

The following changes took place in the membership of the Board of Management of Colonia Real Estate AG:

On April 30, 2008, Klaus Reichert resigned as CFO of Colonia Real Estate AG, for health reasons. The Supervisory Board appointed Ingmar Schmitt as his interim successor; Mr. Schmitt performed this office until September 2, 2008. On September 2, 2008, Volker Lemke was appointed the new Board of Management member in charge of Finance, for a term of two years.

Effective August 1, 2008, Christoph Wittkop resigned from the Company's Board of Management and returned to focus entirely on his duties as spokesman for the management of CRE Resolution GmbH. The Supervisory Board then appointed Friedrich Thiele on September 2, 2008, as the Board of Management member in charge of Real Estate, for a term of two years. Mr. Thiele, Mr. Lemke, and Stephan Rind are the Group's top management.

CEO Stephan Rind's service contract was extended by five years on April 25, 2008, retroactively to February 29, 2008.

The Supervisory Board wishes to thank the members of the Board of Management and every employee in the Group for their dedicated work in fiscal 2008.

Cologne, April 30, 2009

The Supervisory Board



Professor (RF) em. Dr. phil. h.c. (RF) Klaus B. Steiger  
Chairman