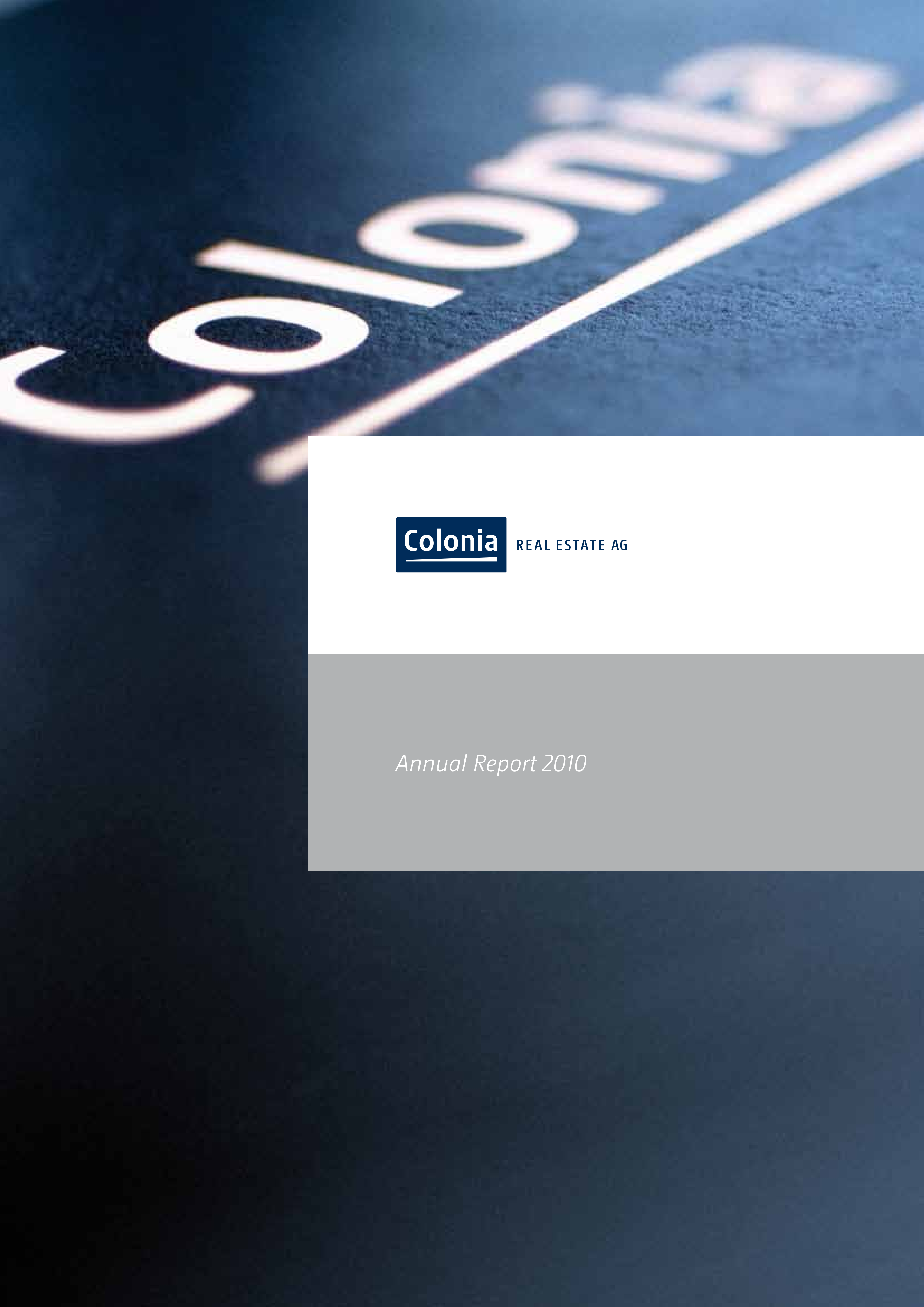

Colonia REAL ESTATE AG

Annual Report 2010

Key Figures

in EUR k	2010	2009 adjusted	Change in %
Total income (excluding finance income)	105,822.1	125,351.3	-15.6%
Net rental income	56,736.7	59,109.0	-4.0%
Net operating income	24,318.1	32,854.1	-26.0%
EBITDA	14,066.4	23,637.2	-40.5%
Operating result (EBIT)	16,903.7	33,368.4	160.6%
Consolidated profit (loss) for the year before taxes (EBT)	-14,446.7	6,855.9	109.5%
Consolidated profit (loss) for the year after taxes	-27,237.5	7,001.2	110.9%
Non-current assets	831,037.9	845,418.2	-1.7%
Current assets	31,271.0	35,475.1	-11.9%
Equity capital	227,169.5	246,381.7	-7.8%
Non-current liabilities	530,943.7	587,396.6	-9.6%
Current liabilities	108,695.7	47,115.0	130.7%
Total assets	866,808.9	880,893.3	-1.6%
Equity ratio in %	26.2%	28.0%	

Financial Diary

May 23, 2011	Interim Quarterly Report 1, 2011
June 22, 2011	Annual Shareholders’ Meeting
August 18, 2011	Interim Quarterly Report 2, 2011
November 9, 2011	Interim Quarterly Report 3, 2011

Consolidated Balance Sheet three-year overview

ASSETS

in EUR k	2010	2009 adjusted	2008
Assets			
Investment properties	817,720.0	814,210.0	835,400.0
Property, plant and equipment	765.2	666.9	1,032.6
Intangible assets	2,787.2	3,435.1	3,154.5
Investments in associates	2,429.6	8,213.6	7,091.9
Other financial assets	6,345.8	6,302.5	6,152.1
Deferred tax assets	990.1	12,590.1	10,713.4
Total non-current assets	**831,037.9**	**845,418.2**	**863,544.5**
Properties held for sale	9,763.8	6,264.6	4,147.5
Income tax receivables	825.1	1,707.7	1,435.6
Receivables and other assets	9,573.8	14,430.9	14,109.5
Cash and cash equivalents	11,108.3	13,071.9	15,331.9
Total current assets	**31,271.0**	**35,475.1**	**35,024.5**
Non-current assets held for sale	**4,500.0**	**0.0**	**29,400.0**
Total assets	**866,808.9**	**880,893.3**	**927,969.0**

EQUITY AND LIABILITIES

Equity			
Subscribed capital	31,306.0	28,460.0	22,825.6
Other reserves	239,424.4	234,305.4	222,292.8
Other comprehensive income (OCI)	-15,836.5	-16,260.0	-14,311.2
Currency translation	-7.9	-43.0	0.0
Treasury stock	-11.6	-11.6	-7.2
Consolidated profit/loss (-)	-27,699.6	-533.1	-6,567.5
Total shareholders´equity	**227,174.8**	**245,917.7**	**224,232.5**
Minority interests	-5.3	464.0	1,059.2
Total equity	**227,169.5**	**246,381.7**	**225,291.7**
Non-current liabilities			
Financial liabilities	467,835.6	477,558.1	525,569.3
Convertible bonds (non-current)	10,576.4	57,377.2	55,575.6
Provisions for pensions and similar obligations	39.6	57.2	127.1
Derivative financial instruments (non-current)	8,525.3	9,728.5	7,513.1
Deferred tax liabilities	43,966.8	42,675.6	40,513.9
Total non-current liabilities	**530,943.7**	**587,396.6**	**629,299.0**
Current liabilities			
Bank loans	3,314.2	3,453.3	4,921.7
Financial liabilities (current)	21,871.7	23,576.9	38,067.6
Convertible bonds (current)	59,196.2	0.0	0.0
Derivative financial instruments (current)	5,230.7	3,703.8	1,990.6
Account payables, trade and other payables	18,880.7	15,364.0	27,344.1
Tax liabilities	202.2	1,017.0	1,054.3
Total current liabilities	**108,695.7**	**47,115.0**	**73,378.3**
Total equity and liabilities	**866,808.9**	**880,893.3**	**927,969.0**

Consolidated Statement of Comprehensive Income for Fiscal Year 2010 three-year overview

in EUR k	2010	2009 adjusted	2008
Total income (excluding finance income)	**105,822.1**	**125,351.3**	109,908.4
Total expenses (excluding finance costs)	**-88,918.4**	**-91,982.9**	-168,405.2
Gross rental income from investment properties and service charge income on principal basis	86,301.4	88,404.6	89,467.7
Property operating expenses	-61,983.3	-55,550.5	-58,400.5
Net rental income	**24,318.1**	**32,854.1**	**31,067.2**
Proceeds on the sale of properties held for sale	2,921.6	1,623.3	2,351.0
Expenses for property disposal	-396.7	0.0	0.0
Carrying amount of sold properties	-2,357.6	-1,252.4	-2,097.1
Net income on disposal of trading properties	**167.3**	**370.9**	**253.9**
Income from Asset Management	7,156.7	7,287.2	9,442.8
Expenses for Asset Management	-6,675.1	-7,883.8	-10,640.6
Net result from Asset Management	**481.6**	**-596.6**	**-1,197.7**
Administrative expenses	**-13,636.7**	**-10,355.7**	**-20,899.0**
Restructuring costs	**0.0**	**-399.4**	**-514.6**
Other income	2,572.5	2,346.2	6,139.9
Other expenses	-949.0	-1,031.4	-2,330.9
Other income, net	**1,623.5**	**1,314.8**	**3,809.0**
Impairment of equity interests	**-1,300.0**	**0.0**	**-13,816.4**
Gains from fair value adjustments	6,869.9	25,690.0	2,507.0
Losses from fair value adjustments	-1,620.0	-15,509.7	-59,706.2
Net gains from fair value adjustments	**5,249.9**	**10,180.3**	**-57,199.2**
Operating profit/loss (-) before finance costs	**16,903.7**	**33,368.4**	**-58,496.8**
Finance costs	-31,786.1	-36,305.4	-36,708.5
Income from loan waiver	0.0	8,700.2	0.0
Expenses from hedging transactions	0.0	0.0	-3,976.3
Finance income	435.7	1,092.7	4,813.1
Financial results	**-31,350.4**	**-26,512.5**	**-35,871.7**
Consolidated profit/loss (-) for the year before taxes	**-14,446.7**	**6,855.9**	**-94,368.5**
Income tax expenses	-12,790.8	145.3	11,444.8
Consolidated profit/loss (-) for the year	**-27,237.5**	**7,001.2**	**-82,923.7**
Earnings per share (in EUR)			
Basic	-0.91	0.25	-3.63
Diluted	-0.91	0.25	-3.63

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Asset Management Gewerbe
Block Sales
Immobilien Consulting
Investitions- und Transaktionsberatung
German Workout Platform
CREates

Business*

* For best performers without handicap:
tailor made solutions for optimized return.

Custom-made investment solutions: with our service divisions we create your individual road map for the success of your investments.

- Transaction and Investment Management
- Asset Management Residential
- Asset Management Commercial
- Active Tenant and Letting Management
- Block Sales and Privatization
- Refurbishment and Redevelopment
- Real Estate Consulting
- Special Solutions

Colonia
REAL ESTATE AG

Next Generation Real Estate

To Our Shareholders

The Board of Management

Foreword from the Board of Management

Dear Shareholders,
Dear Ladies and Gentlemen,

The past fiscal year of 2010 and the first few months of the current financial year 2011 were associated with drastic changes for the Colonia Group. For example, in October/November 2010, TAG Immobilien AG acquired a small stake in our company and then went on to make a voluntary public takeover bid for all Colonia shares in December 2010. TAG Immobilien AG is now Colonia's majority shareholder since February 15, 2011.

Operating Activities 2010

Colonia used the 2010 fiscal year intensively for optimizing its own residential holdings and for a more rigorous implementation of investments. One of the most important goals in fiscal 2010 was to reduce the vacancy rate in our holdings. In order to achieve this goal, we made large-scale investments of around EUR 14.0 million in modernizing our residences, particularly in Salzgitter. The investments paid off: the vacancy rate for the full portfolio fell from 13.6% to 12.9% in fiscal 2010 – a significant reduction. However, Colonia clearly failed to reach its goal of lowering the vacancy rate to below 12.0%. The average rent performed well, rising from EUR 4.59 per m^2 to EUR 4.69 per m^2 at the end of the reporting year.

Against the backdrop of residency sales in the third quarter of 2010, net rental income fell from EUR 59.1 million to EUR 56.7 million over the course of the reporting period. Net operating income declined significantly to EUR 24.3 million (2009: EUR 32.9 million). In addition to the aforementioned decline in net rental income (EUR 3.7 million), this reduction was primarily caused by higher investment and modernization expenses of around EUR 14.0 million.

As a result of the significant decline in net operating income and increased administrative expenses, EBITDA for fiscal 2010 decreased significantly to EUR 14.1 million (2009: EUR 23.7 million). This outcome was primarily attributable to the EUR 8.5 million decline in net operating income, due chiefly to higher investment, and non-recurring effects (i.e. legal and consulting costs) in connection with the TAG Immobilien AG takeover bid. As a result, EBIT also slipped from EUR 33.4 million in 2009 to its current level of EUR 16.9 million for fiscal 2010. The reduction in EBIT is based largely on decreased income from fair valuation compared to 2009 and a write-down of EUR 1.3 million on equity interests.

For fiscal 2010, taking into account the financial result of EUR 31.4 million and the one-off tax expense of EUR 12.8 million, the consolidated loss after tax amounts to EUR 27.2 million. Even taking into account the non-recurring tax and operating effects in 2010, this is not a satisfactory result.

Successful Capital Measures in a Volatile Capital Market

In the first half of the year, the capital market was characterized by many ups and downs. Following a period of substantial recovery, the markets collapsed again at the end of the second quarter of 2010 owing to the Greek crisis. The second half of the year then brought a certain level of stability as a result of the Company's positive fundamental data.

In this market environment, Colonia was able to place a convertible bond with a five-year term in the amount of EUR 11.4 million in April/May 2010. In addition, Colonia implemented a cash capital increase in October 2010 by placing 2,845,990 shares. The gross issue proceeds amounted to approximately EUR 10.8 million.
In connection with this capital increase, Colonia Real Estate AG share capital rose from EUR 28,460,000 to EUR 31,305,990.

Colonia Strategy for 2011 as Part of the TAG Group and Cooperation with TAG

As a result of the TAG Immobilien AG takeover, Colonia has become a de facto member of the TAG Group of companies. Consequently, we also took on the identical management board functions.

Our primary concern will be to reduce our Company's costs substantially and to leverage synergies with the Group parent company, TAG, from which it will also benefit as majority shareholder. This will enable us to scale back staff units, establish more cost-effective property management and also secure more favorable refinancing rates. Together with TAG Immobilien AG, we can become a serious competitor in the area of asset management.

Last but not least, TAG Immobilien AG will grant us a loan of up to EUR 75 million, which will solve all of our unresolved refinancing issues – such as the repayment of the convertible bond due this year – in one move. Colonia will thus become a significantly stronger company through joining the Group.

2011 will not be an easy year, but we remain confident that we will be able to achieve a turnaround in our operating and balance sheet performance, so that we will be in a position one year from now to present considerably better figures.
We thank you for your trust in our endeavors.

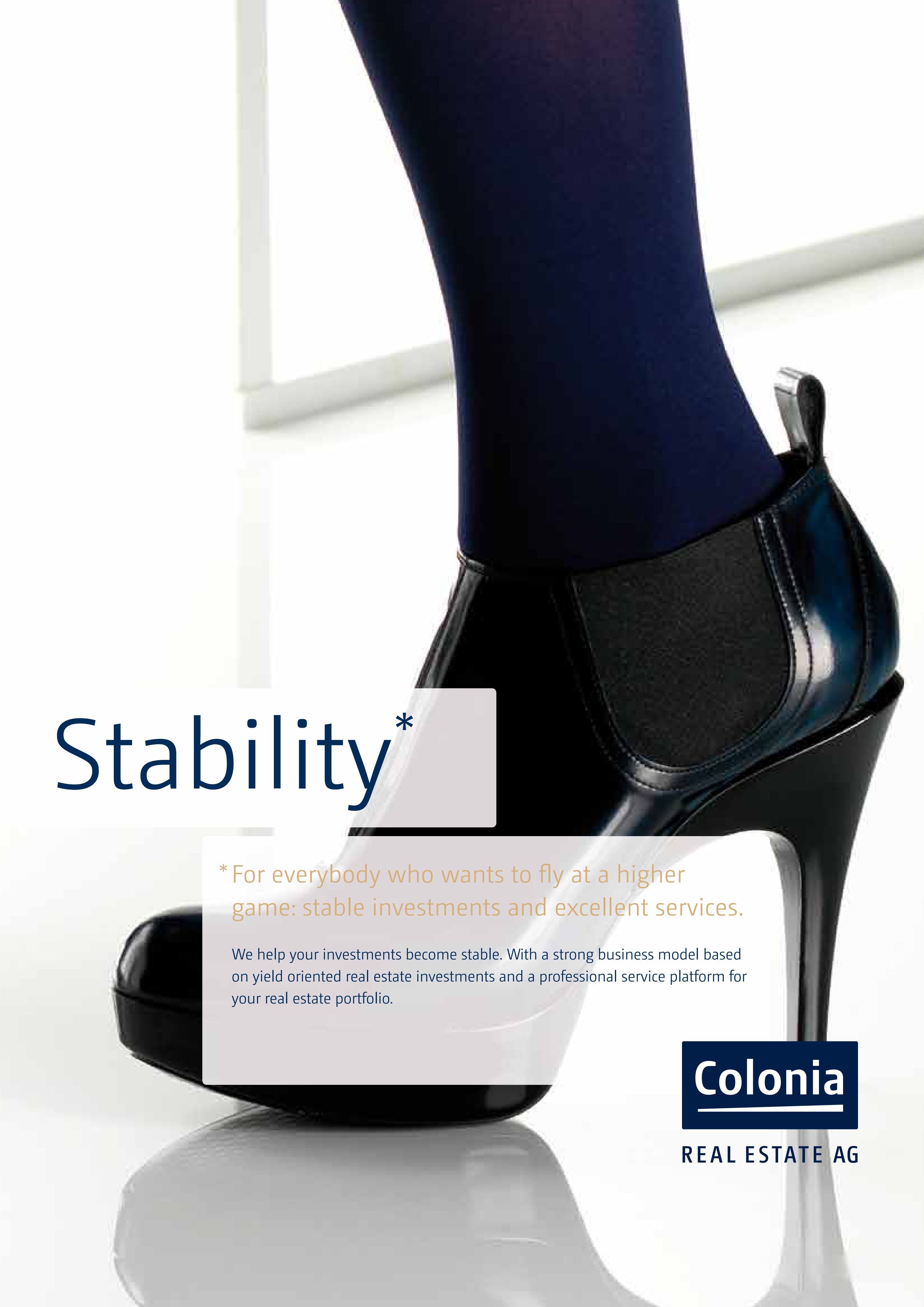
Cologne, April 2011

The Board of Management

Rolf Elgeti
CEO

Hans-Ulrich Sutter
CFO


CREates
Next Generation Real Estate www.colonia.ag


Stability*
* For everybody who wants to fly at a higher game: stable investments and excellent services.
We help your investments become stable. With a strong business model based on yield oriented real estate investments and a professional service platform for your real estate portfolio.
Colonia
REAL ESTATE AG

An Overview of Colonia's Business Areas

What distinguishes Colonia today? Focus on its core competences: residential property management and asset management. A clear structure, our focus on the essentials and our Germany-wide presence in seven locations are also key attributes.

Colonia Real Estate AG

Business model based on two core segments:

Investment

Own holdings – residential

- Approx. 19,000 residential units
- Active and sustainable portfolio and asset management
- Portfolio optimization and value enhancement
- Cash flow generation
- Vacancy reduction and improvement of rental income

Co-investments

- Minority shareholders in co-investments for commercial and residential properties
- Asset management responsibility for co-investments

Service

Colonia Real Estate Solutions

- Transaction and investment management
- Sustainable asset management
- Active property and letting management
- Implementation of refurbishment and redevelopment measures
- Block sales/privatization

Colonia Real Estate AG is one of the major German listed real estate groups. Since the realignment as a real estate company from the company shell of Küpperbusch in 2003, Colonia has continuously developed to become a successful real estate investment and service company.

Colonia currently owns around 19,000 residential units and has over EUR 2.1 billion assets under management (total real estate assets under management).

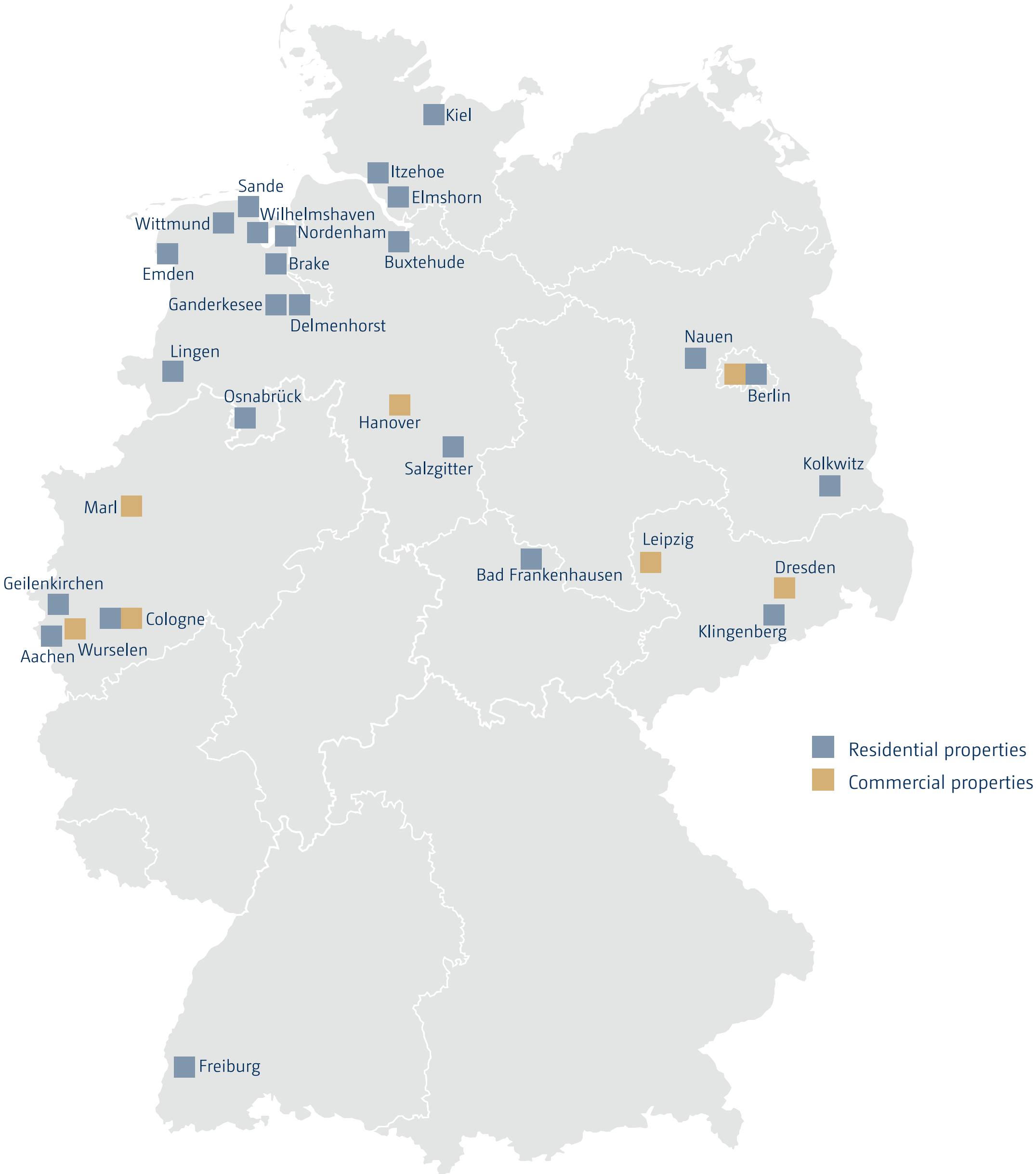
Investment and Service

Two lines of business form Colonia's backbone: the Investment and Service segments. Both lines of business are closely interlinked within Colonia, both organizationally and in staffing.

The Investment segment concentrates on the acquisition and yield-driven management of residential real estate portfolios that we ourselves hold. Our real estate investments are complemented by co-investments – together with renowned partners – in commercial and/or residential real estate portfolios for which we also assume the asset management as service providers. The real estate locations of our investments are spread across every region of Germany.

Active portfolio management is important for the successful management of our residential portfolio. Cash flow generation and the appreciation of our assets are in the foreground in this respect. That means that we primarily focus on reducing vacancy rates, improving rental income, comprehensive tenant management and the optimization of management costs.

The second line of business is the Service segment. In this segment Colonia Real Estate Solutions GmbH has acted as Colonia's integrated competence platform since 2010. Colonia Real Estate Solutions offers all services required in the life cycle of a property. Clients can make customized choices according to their needs from our range of services that extends from transaction and investment consulting, via asset and property management to advice on the sale of residential and commercial real estate. Our clients can either take advantage of the individual competences provided by our service platform or the entire service offering in order to avoid unnecessary interfaces. Thus our asset management for third parties is owner representation in the classic sense – always focused on optimizing portfolios to achieve the highest possible sustainable yields, right up to exit. As a potential exit strategy, one of the areas that Colonia Real Estate Solutions specializes in is privatization. All of our service areas are characterized by distinctive real estate business expertise, regional competencies across Germany and our specialists' understanding of the needs and demands of a property owner.



Investment Segment – Residential Real Estate

Residential real estate is our core business. The continuous development of our holdings, a high degree of social commitment to all locations, as well as the sustainable management of our real estate is our daily goal and defines our way of doing business.

As an active proprietor of residential real estate, Colonia owns around 19,000 apartments across Germany. The focus is on Northern and Western Germany, with properties in Elmshorn, Itzehoe, and East Frisia; in Salzgitter with around 8,700 residential units and in the Greater Berlin area. Aachen and Cologne in particular are important locations in the Western part of the country.

Around 50% of all apartments owned by Colonia have been modernized in recent years and renovated in terms of energy efficiency, or have been purchased in a renovated condition. For these properties, which are very challenging in many cases, it is a question of exhausting the appreciation potential and generating sustainably optimized income from the real estate. This is a long process, which requires specific knowledge of the regional particularities of a local real estate market, as well as outstanding real estate expertise. Just renovating the holdings is often not enough to reduce the vacancy rate and improve rental income. Our asset managers act according to the 360 degree principle whereby they also focus on the tenant as well as the property. This involves, for example, improving the residential environment, which covers transport links and social commitment, as well as supporting associations, for instance. Through lasting tenant loyalty programs, the continuous optimization of our real estate management and the sustainable development of our holdings, we make our tenants happy and achieve continuously rising added value for ourselves as owners, and by extension for our shareholders.

Our business model is based on the best possible management of our residential real estate. Our residential holdings thus form the basis of our business. We would therefore like to offer a more detailed presentation of our residential portfolios and their locations in this annual report. However, apartments without tenants and their local contact persons would constitute buildings without life. To bring this report to life, we have also let our tenants, real estate managers and our asset managers express their views on the pages that follow.

Salzgitter

In one of Germany's cities with the largest surface area Colonia Real Estate AG owns around 8,700 apartments and is one of the biggest private property owners. Salzgitter is located in southern Lower Saxony not far from Hanover and Brunswick. Colonia's apartments are situated on the 2.1 km long Salzgitter lake in the districts of Lebenstedt, Fredenberg and Hallendorf. Two local "meineSZitty" offices are the point of contact for existing tenants, as well as new clients and they support active marketing for our apartments.

Under the "meineSZitty" brand launched in 2008 and together with our local service providers, we support our tenants and manage and maintain our properties. The main task of our asset management and local property manager is to improve the vacancy rates in our holdings. Creative marketing approaches, targeted upgrading of properties and apartments, long-term oriented customer loyalty programs and targeted integration into the city's social networks should create a sustainable housing situation in our properties. The facts show that this is possible:

There are around 50,000 jobs for 103,000 inhabitants in Salzgitter. The ratio of jobs to inhabitants shows that not all those who work in Salzgitter also live there. On the contrary, around 12,500 commuters travel into the city on a daily basis to their place of work. Together with local partners in situ, our goal is to bring Salzgitter with its advantages to the fore as a location. By supporting facilities for young people, the development of a club concept and numerous offers for both existing and future tenants, we wish to make our contribution to the further development of our neighborhood and thus of Salzgitter as a whole.

Interview with one of our real estate managers

For how many tenants is TREUREAL GmbH responsible? What does your area of responsibility cover?

TREUREAL GmbH looks after around 9,000 residential units for Colonia, whereby its area of responsibilities is extensive. Commercial, technical and infrastructural services are available: rental collection, claims, utility billing, controlling, tradesmen and caretaker service, building cleaning and meter reading service – without forgetting the letting of apartments of course. As far as property supervision is concerned, we represent the owner in all legal matters, in the selection of tenants, the signing of contracts, the inspection and handover of rental units. Salzgitter is another place where we offer this entire service in conjunction with Gegenbauer Property GmbH. Gegenbauer provides the caretakers and takes responsibility for garden maintenance, winter road clearance and stairwell cleaning.

In this way we continuously improve our residential holdings. TREUREAL not only does the accounting, but also manages and develops the properties of Colonia in the areas mentioned above.

What is special about meineSZitty?

meineSZitty has a heart for Salzgitter. That is why its commitment is evident in very different areas. meineSZitty offers pleasant and relaxed living and the best possible tenant management. Value is placed on smooth cooperation with our clients, especially with tenants.

Where do the challenges lie in Colonia's holdings in Salzgitter?

Our strength is the management and sustainable adaptation of major residential holdings to the wishes of investors and tenants. This means looking to the future and competent implementation.

Elsmhorn/Itzehoe

Since 2006 Colonia has owned around 1,500 apartments in Elmshorn and Itzehoe, which is situated half an hour north of Hamburg. At the time of purchase the neighborhood was in an unsatisfactory condition and was known as a problem area. To change this and generate profits from these locations not only called for significant investment, but also required a change of image. Firstly, all of the buildings were renovated according to the latest KfW energy regulations and optically enhanced with a new color concept. Individual apartments were also modernized. Thanks to these extensive measures CO_2 emissions were reduced by over 50%, which is not only good for the environment, but also benefits our tenants through lower incidental costs. On completion of the renovation work, the grounds were redesigned in cooperation with the local authorities and inhabitants. Our staff was involved in the transformation process through several initiatives and actively contributed to it. Innovative rental incentives loosened up the tenant structure, at the same time cutting vacancy rates in half. Within just a year of completion of the 2009 renovation work, the portfolio was already showing a positive cash flow.

We not only proved that we were able to rise to such a major challenge, but also received the Immobilienmanager AWARD in the Management category for this achievement in 2010.

Interview with Irene Low, a tenant in Elmshorn

Why did you decide to live in the residential location of Elmshorn?
At the time we moved to Germany from America. My husband found a job in Pinneberg. So we looked for an apartment nearby.

How would you describe your city?
Very green, Elmshorn is a very pretty little town, there are shops for all of your daily needs everywhere. What immediately springs to mind? Tim Mälzer and Michael Stich have lived here.

What do you appreciate most about the apartments in Elmshorn?
The great floor plans, the storeroom, the kitchen is a little big for me, but that is my personal view. Even back then I thought that high-rise developments were great and absolutely wanted to move into one. After all, you also have a great view from here.

Why did you decide to live in this apartment?
The apartments in other areas were just too expensive. The rent in Hainholz was affordable. Besides, the floor plan reminded me of my apartment in America.

The apartments were renovated to improve energy efficiency in 2008 – how have you noticed this?
At last there is no longer a draft through the windows. You cannot hear virtually any noise from outside any more.

And what about the heating costs?
They have dropped by almost 50%. That's super.

Is environmentally friendly living particularly important to you personally?
Absolutely! I have more to say about that too. There was a survey on the topic years ago. The heaters were on the entire year. You could even put the heating on in summer. At the time I voted against this and we were successful. Since then the heaters have been switched off over the summer to respect the environment.

After all of these years do you still feel good here?
Yes, I do again now. We can see all of the positive changes. And that peace is gradually returning here. I see that the management has succeeded in finding a good mix of tenants.

The structure is slowly improving. I think that's good.

Berlin, Helle Aue

The borough of Marzahn-Hellersdorf has around 249,500 inhabitants, so more than the average small town in Germany. The urban landscape of Marzahn-Hellersdorf offers a large number of green and open spaces and is embedded in the Wuhletal, Berlin's largest green belt. With a holding of around 2,500 residential units and a current vacancy rate of below 5%, the vacancy rate in our "Helle Aue" portfolio is significantly below that of the market average. Colonia's apartments were taken over in a renovated condition and already upgraded in terms of energy efficiency, making it possible to show very low CO_2 emissions and significantly lower incidental costs as a result. Through a good mix of asset management and marketing we have been able to slash the vacancy rate dramatically from over 20% on taking over the properties to below 5%, a figure that has remained stable for several years. The image change from a social trouble spot to an attractive residential area for families was a success primarily due to sustained support on the ground. Marzahn was another location, for example, where we deployed a security service to make the area safe and to prevent vandalism and noise pollution. Our support of sports clubs and social facilities also plays its part in our ability to offer our tenants a good residential environment.

Interview with Hendryk Lietzmann, Asset Manager

What has changed since Colonia took over the property?
Colonia took over the holdings from insolvency. The vacancy rate of just under 2,500 apartments at the time was above average at 22% and there were also a large number of challenges facing the rental service. The primary goal in the first years after the takeover was to significantly reduce the vacancy rate, which was achieved successfully and impressively. The holdings were renovated to a high standard by Colonia on its takeover, which is now positively reflected in the development of rental prices and expenditure on maintenance and repairs. It was possible to improve the income situation accordingly.

How do you see current developments in Helle Aue?
The development of the portfolio in 2010 was very positive and we expect this positive trend to continue. Our aim is to reduce the vacancy rate to the fluctuation rate considered usual for the market. In addition, we are also working very hard at the moment to improve rental services in order to create the conditions for lasting tenant satisfaction and to further reduce the vacancy rate.

What is the appeal of your job – where do the challenges lie in Helle Aue?
With the "Helle Aue" residential holding Colonia is a small landlord among many in the catchment area. The competitive situation and the choice of apartments of available are correspondingly large. The apartments can only be rented to potential candidates and fluctuation rates only sustainably reduced if there are products that meet market requirements and are let under competitive conditions. These demanding framework conditions are what make the "Helle Aue" portfolio particularly appealing and working with the residential holdings and colleagues fun.

As of January 1, 2011 the building management has taken over the holding: what will change and what are the benefits of this?
The owner's decision to take responsibility for building management in the future should meet the very requirements that we have identified as important. Tenant satisfaction depends heavily on the commitment of the property management and identification with its own holdings. We are sure that our property management is best placed to satisfy the needs of our customers. The quality of service, such as reaction times to requests and reports of defects for example, will be considerably higher in the future. We are closer to tenants, since the entire service expertise from rentals via tenant management to technology will be available on the ground in future. On the whole, you could say that we want to be faster, better and closer to our tenants.

Name: Renate and Rainer Fischer
Age: 70 and 68 years
Tenants for almost 28 years

Nauen

Just 18 km west of Berlin and in the middle of the Havelland lies the idyllic small town of Nauen. Nauen benefits tremendously from its infrastructure links to Berlin and Potsdam. Nauen has around 16,700 inhabitants and 7,808 households. With a holding of around 2,000 residential units, Colonia is the biggest landlord in the town of Nauen and consequently has access to a correspondingly varied repertoire of apartments. The vacancy rate was significantly reduced to 4.6% as of December 31, 2010. Demand for renovated apartments that meet market requirements remains strong and it can be assumed that further reductions in the vacancy rate can be achieved.

Thanks to the clear reduction in vacancy rates, the income situation in 2010 was improved accordingly, offering a solid foundation for financial success in years to come.

Interview with Renate and Rainer Fischer, tenants in Nauen

What is special about Nauen?
Renate Fischer: I was born in Nauen and when I met my husband I was able to convince him to stay in Nauen too. He now feels as comfortable here as I do and we both have strong links to the town. The people here are friendly, and the proximity to Berlin and to nature makes Nauen very special to us.

How would you describe your city?
Nauen is a small town and nevertheless, or perhaps precisely because of this, we know lots of people here – through work or socially. We are members of the Nauen rifle club and there is no lack of activities in Nauen.

Why did you decide to live in this apartment in particular?
Rainer Fischer: my illness made it difficult for me to climb stairs, so we looked around for a ground-level apartment. Our old apartment was also too big for us. Our current apartment is located near the town centre and in a good area. We still like it today – especially after the modernization in 1997.

How long have you been living in the apartment?
We have been living here since 1983 – almost 30 years.

Have you already had contact with your rental agency?
Several times! We have a good relationship with Colonia's staff. If we have a question or something is wrong, they always take care of it quickly and reliably. What is more they are all very friendly and always helpful.

Name: Heinz Cichon
Age: 61 years
Caretaker in Geilenkirchen for over 13 years

Aachen/Geilenkirchen

Not far from Aachen – known for its technical university and Aachener cookies – in the county of Cologne lies the small town of Gelsenkirchen with around 28,000 inhabitants. Nestled in the Wurm valley and near the Teverner Heide recreation area, Geilenkirchen benefits from its close proximity to Aachen, Cologne and the Ruhrgebiet. Colonia owns a relatively small holding in Geilenkirchen with around 150 apartments. Thanks to a comprehensive energy efficiency renovation and modernization program in 2008, successes were also achieved at this Colonia location: by mid-2008 the vacancy rate was 65.2% due to renovation. It was subsequently possible to successfully lower this rate from 7.2% at the end of 2009 to below 2%. Here too a formerly rather unattractive neighborhood now has an excellent reputation thanks to the pleasant environment and apartments that have been both modernized and renovated to a higher-than-average standard in terms of energy efficiency. Thanks to the positive developments of recent years, good infrastructure and high standards of fittings, we have created a competitive advantage over our landlord competitors in the region. Our goal is to continue to reduce the vacancy rate, so that the perspective of full occupancy can be achieved. In addition, we are trying to boost the stability of the rental structure and continue to reduce fluctuation rates.

Interview with Heinz Cichon, caretaker in Geilenkirchen

How many buildings are you responsible for here and what does your area of responsibility cover?
I take care of 28 buildings here with a total of around 150 apartments. This involves a number of tasks. Stairwell cleaning, tradesmen and work on the grounds must be assigned, coordinated and inspected. On my rounds I also regularly inspect the cellars, all of the lighting and the transport routes, not forgetting the buildings themselves. That means the facade, but also roofs, entrance doors, locking cylinders and lift systems. I sometimes do small repairs myself such as changing door cylinders and light bulbs.

And let's not forget the administrative work like organizing apartment viewings for potential tenants, the inspection and handover of apartments, the application for repairs on behalf of tenants and the logging of energy and water meter readings.

What is your experience of the changes to the environment since the completion of the renovation and modernization measures in 2008?
The external appearance of the residential complex clearly improved following the energy efficiency renovation and the colorful external paintwork that accompanied it; before the renovation the buildings were grey and dull and now the residential complex is called "Im Sonnenwinkel" ("In the sunny spot").

The new appearance of the residential complex was particularly praised by visitors and tenants at the summer party in 2009. The measures really upgraded the little Bauchem neighborhood. It also enabled us to register an improvement in our tenant clientele. In conversations with tenants, potential tenants and acquaintances I am repeatedly assured of how attractive the residential complex is on the whole.

What was your best experience during your time as caretaker in Geilenkirchen?
The nicest experience during my time as caretaker was when a woman and her family told me on moving out that she had never met such a friendly and dedicated caretaker before and gave me a gift basket as a present.

The second best experience here in the residential complex was at the summer party in 2009 when I was given flowers personally picked by little children.

Let us Introduce Ourselves: Colonia Real Estate Solutions – Your Property Service Provider

The second line of business in Colonia's business model is the service segment. To make our market positioning clearer if nothing else, we decided in 2010 to offer all services for third parties from Colonia from one source: Colonia Real Estate Solutions GmbH.

Colonia Real Estate Solutions

Integrated and nationwide platform for real estate related services

Transaction and Investment Management	Asset Management	Property Management	Sales Management/ Privatization
– Deal sourcing according to investment profile – Commercial Due Diligence – Financial modeling – Implementation investment strategy and all necessary measures – Execution of contractual responsibilities	– Property development and cash flow optimization – Identification and realization of cost-cutting and value enhancement potentials – Selecting, controlling and monitoring of external service providers – Tailor-made reporting – Special solutions for workout mandates	– Identification and implementation of new re-letting strategies – Tenant service – Commercial support – Technical support and maintenance – Billing of utilities and operating costs	– Identification of potential buyers – Organization and execution of sales process – Contract negotiations – Single unit sale to capital investors and tenants – Sales advisory service

To create consistent standards, clearer responsibilities and above all to better exploit potential synergies, we transferred CRE Resolution GmbH and CRE Accentro GmbH into a new company. As of mid 2010, we pooled all Colonia services for third parties under the name of Colonia Real Estate Solutions GmbH. With the bundling of our services under one roof we can take care of our customers even better and more effectively, without disturbing interfaces. The service platform offers modular, customized solutions along the real estate value creation chain. The range of services on offer extends from transaction and investment consulting, via asset and property management to advice on the sale of residential and commercial real estate.

Thanks to our experiences as owners of existing properties, we know the demands of our customers better than other service providers. Years of real estate expertise, as well as Germany-wide regional competence are also among our competitive advantages. Our clients include such investors as JPMorgan, Merrill Lynch, Strategic Value Partners and UBS.

Overview of 2010 joint ventures

Partner	Portfolio	Colonia share	No. of properties	Total area
Oaktree Capital	Herkules/Homer*	4.8%	60	Approx. 791,000 m²
Merrill Lynch	Argo	10.0%	9	136,937 m²
Merrill Lynch	Anna	7.5%	48	135,592 m²
Merrill Lynch	Pepper	10.0%	12 + 1 plot	49,001 m²
Strategic Value Partners	Serail	5.4%	4	58,054 m²
JPMorgan Asset Management	Marl/Würselen	15.0%	2	64,020 m²

*Only for the Herkules portfolio, sale of the shareholding in January 2011

A branch of this range of services that was also set up in 2010 is Special Solutions for workout mandates. Due to the repercussions of the international finance crisis, national and international banks and insolvency administrators are recording a continuous rise in bad debts. According to demand and the client's situation, an orderly restructuring of the mortgage and/or the best and quickest possible settlement takes place. The aim is to implement solutions quickly and in a cash flow-oriented way.

The main pillar of the service platform is asset management for third parties. Asset management means owner representation in the classic sense – always focused on optimizing portfolios to achieve the highest possible sustainable yields, right up to exit. In this field we not only specialize in commercial, but also in residential portfolios. Our understanding of sustainable asset management incorporates ecological, economic and social aspects. Our innovative asset management aims not only to improve the cash flow from a property within a short time, but also to increase a property's quality and value, sustainably and for the long term.

Our aim for 2010, namely to further increase the assets under management and their related revenues and income in this area, was achieved. Altogether we were able to obtain three new asset management clients, corresponding to a volume of around EUR 157 million. Moreover, around 107,280 m² of commercial space in the holdings of our clients were newly rented and/or extended. More details of new clients can be found in the review of operations under the section "Major business transactions."

The privatization of apartments – or the transformation of rental apartments into condominiums – is a solid pillar of Colonia Real Estate Solutions. In this area we take care of the marketing of several thousand owner-occupied apartments to investment buyers or private investors. During the past year, privatization operations sold a total of around 562 units (vs. 980 units the previous year) from internally and externally owned holdings to private and institutional investors. The individual sales result was thus increased from 381 to 562. There were no block sales in 2010 (versus 599 in the previous year)

Commercial Real Estate: Asset Management Mandates and Joint Ventures

Through the acquisition of commercial real estate in conjunction with prestigious investors we also act as minority shareholders and bring our profit and transaction-oriented asset management with us. Alongside joint ventures we have numerous asset management mandates, mostly for many years like, for example, for the World Trade Center in Dresden, the Pelikan Viertel® in Hanover or Galeries Lafayette in Berlin.

Joint venture highlights:
From the pepper portfolio, a joint venture with Merrill Lynch a total of 5 properties with a total value of over EUR 17 million were disposed of in 2010 via business plan. In January 2011 Colonia sold its 4.8% share in its joint venture with Oaktree Capital Management LP to OCM German Real Estate Holding AG for strategic reasons. The sale price was made at book value.

Client highlights:
In terms of the portfolios and individual properties that we took care of for our clients in 2010 a total of 107,280 m² were re-rented. 11% were extensions. It is especially worth highlighting the re-letting of 12,414 m² in the World Trade Center Dresden to the City of Dresden. Overall, almost 39,000 m² of rental space from a total of around 70,000 m² of rental space in the World Trade Center was re-let or extended since January 2010. The new clients acquired at the end of 2010 covered 27 properties with over 150,000 m² mainly in Berlin, Brunswick, Karlsruhe and Dortmund. Our main responsibilities are the reduction of vacancies, as well as the repositioning of properties in the market in some cases.

Everybody is Talking About Sustainability – We are Already Doing Something About It

Sustainability is more than just a trendy word to us; it is firmly anchored in our corporate strategy. By sustainable management we mean creating ecological, economic and social sustainability. In all three areas we strive for the constant improvement of our holdings and of the management of our real estate – with the goal of setting new standards.

To make sustainability and progress in this area measurable, we started to draft our own key performance indicators for all three areas – economic, ecological and social sustainability – at the beginning of 2010. Through comprehensive energy efficiency renovation work in our real estate holdings we have already achieved visible success. At the moment the results of these measures are being evaluated in order to establish lasting indicators and goals that are viable in the long-term.

Our Contribution to a Clean Environment

In the past fiscal year we began analyzing our holdings according to ecological criteria, by way of an independent study carried out by an external institute. Core topics of the analysis included energy consumption, CO_2 emissions, waste management, use of open space, sustainable maintenance management, as well as water consumption. Thanks to the insights gained, we formulated an investment strategy and an initiative plan for our various portfolios.

The success of our energy upgrade program over the past year was clearly documented once again by the study. Since 2007, a good 50% of our residential units either have undergone energy upgrades or were acquired in an upgraded condition. That in turn has cut the CO_2 emissions from these buildings by an average of 50%.

It is worth highlighting that our energy consumption for renovated portfolios is almost 50% lower on average than standard consumption (comparison with GdW 2009 study). Even for partially renovated portfolios, this figure is still around 19% below the average figures cited in the GdW study. The remaining 50% of the portfolio has a slightly lower energy consumption compared to the national average. The fact that around 94% of the energy consumed is generated by natural gas is also to be seen in a positive light. As far as water heating is concerned, natural gas covers at least 50% of our energy needs. Overall, the total energy consumption of Colonia‘s residential holdings for heating and hot water are significantly below the German national average.

Colonia is also very active in the field of waste management. In over half of our holdings, with regard to the rental units in question, we cooperate with a specialist firm that sorts refuse before it is then taken away by the municipal service. The success has been astonishing. The volume of residue waste has shrunk by over 25%.

Tenants are our Top Priority

In the management of our holdings we always act in the interests of our tenants. This primarily applies to our commitment in the social field, but equally to our approach with regard to ecological and economic sustainability. When it is a question of nature the advantages are clear. In the social and economical fields the advantages are not always so evident. In the long-term, however, such commitment nearly always pays off.

Social sustainability, for example, is a question of topics like security, residential concepts in view of demographic changes, as well as good transport links. To guarantee this, we work for example with security services on the ground, which ensure that quiet times are respected and often their presence alone means that criminal offenses and damage to property does not occur. In Berlin Marzahn and in Elmshorn/Itzehoe, very successful security concepts have already been implemented and have made an appreciable contribution toward reducing criminal activity, noise and vandalism.

We often implement such concepts together with towns or local authorities. Our Elmshorn and Itzehoe locations serve as prime examples of such cooperation. In 2009 an open space concept was implemented in one of our residential complexes there: new footpaths were laid, public squares were created, while playgrounds and parking areas were redesigned. In conjunction with a comprehensive renovation of the building, this led to a complete image change for the neighborhood. The tenant structure has also changed positively since then. At the beginning of 2010 this commitment received the best project award in the management category of the Immobilienmanager AWARD.

Wherever such concepts are implemented demand tends to rise and tenant fluctuation falls. That's why many of our measures are aimed at providing our tenants with the right conditions for a comfortable, safe home. That partly means apartment facilities. For that reason we equipped almost all residential units in our current portfolios with HDTV capability and feedback channel ready cable connections last year, and signed agreements to this effect with cable operators.

In Salzgitter, Osnabrück, Elmshorn and elsewhere, in coordination with the city, we will provide "tenant gardens" in selected green spaces between apartment blocks or directly adjacent to ground-floor apartments. Besides that, we are directly involved in local initiatives that seize on issues and try to help – often in cooperation with various associations and local authorities. In Elmshorn, for example, we've been involved in setting up a child care center for kids' age three and above, and in special programmes for recipients of welfare benefits and immigrants.

In these endeavors our local social commitment has one aim above all: to help people establish a positive identification with their own neighborhood. It starts with children and teenagers. That's why we participate in local initiatives and projects that especially benefit the younger generation. By supporting sports clubs like the CRE Icefighters Salzgitter in ice hockey, the CRE Eagles Itzehoe in basketball, or the soccer players and boxers in Berlin Marzahn, we get kids of all ages off the streets and offer them attractive leisure activities with their peers.

Successful Neighborhoods – Strong Brands

"meineSZitty," "HelleAue" and "Goldbergviertel" are just a few names of the neighborhoods and/or residential accommodation in our portfolios. All of the origins of these names have a goal: to give the holdings a new image. The new image is mostly accompanied by a higher identification of tenants with their neighborhood: they have a name for the holdings that have been freshly modernized in most cases and can thus contribute to the image change. Supported by initiatives like tenant parties or sponsoring, media coverage also creates a new consciousness for the residential environment. However, these brands must be repeatedly brought before the public in understandable, engaging campaigns. To increase transparency and communication, a tenant newspaper was also introduced in the Salzgitter and Berlin locations in 2010. The quarterly newspaper should offer tenants residential-related information – from current measures for improving the residential environment to interesting judgments in residential law, from recreation offers to home improvement tips and the presentation of new services related to living in Salzgitter respectively Berlin.

Our social activities at these locations are often bundled together with these brands. The meineSZitty club was founded in Salzgitter in 2010 under the brand "meineSZitty." This club is to be particularly available to our tenants' children. The goal of the club is to provide children with a broad offering ranging from holiday activities, sports facilities and tuition, as well as support with problems.

Children are our Future

Colonia Real Estate AG shows social commitment not just regionally at its real estate locations, but throughout the Group. Here the clear emphasis is on providing support for children and teenagers. Each year we support a German support project for children and young people through the annual Colonia Golf Cup at Gut Lärchenhof. The beneficiaries for 2010 were the Hannah Foundation in Königswinter, and the Schumaneck children's homes, jointly with the Jeannette Gräfin Beissel von Gymnich Foundation. Since the launch of the Colonia Real Estate Cup around EUR 273,000 have been donated for this good cause.

Moreover, in the European Business School in Reichartshausen and the Academy of the Real Estate Industry in Stuttgart, we help support two institutes of higher education that render outstanding services in the academic training of new talent in the real estate sector.

For the wide-ranging commitment at locations and its support of foundations Colonia ranked among the top three companies in this year's immobilenmanager AWARD in the category of Social Responsibility.

CREates

Next Generation Real Estate

Report of the Supervisory Board

The Supervisory Board once again regularly advised the Board of Management and assisted and supervised its management activities in the 2010 fiscal year. The year under review was a particularly challenging one for our company in light of the structural changes in the service segment, the founding of Colonia Real Estate Solutions, the increased volume of investment in our residential holdings and, in particular, due to the takeover bid by TAG Immobilien AG.

Continuous Exchange between the Board of Management and the Supervisory Board

During the 2010 fiscal year, the Supervisory Board performed all the tasks prescribed by the law, the articles of incorporation and the rules of procedure, and acted in accordance with the German Corporate Governance Code (DCGK). In addition to matters concerning operations, the agendas for the Supervisory Board meetings included the assets and liabilities, financial position and profit and loss of the Colonia Group, as well as business transactions subject to the consent of the Supervisory Board. The focal point of meetings in the fourth quarter of 2010 was the voluntary public takeover bid of TAG Immobilien AG and associated matters.

The Supervisory Board became involved in all major decisions affecting the Colonia Group. It advised the Colonia Board of Management in its management tasks, supervised management activities and ensured the legality and regularity of these tasks and activities. The members of the Board of Management informed the Supervisory Board about all matters of importance to the Colonia Group both orally and in writing. We gathered information about key developments, the economic picture, the operating and strategic performance of the Colonia Group and its various subsidiaries and the reorientation of the business segments, and assisted the Board with our advice. Between meetings of the Supervisory Board, we also remained in close contact with one another and with the members of the Board of Management. The Board of Management notified the Supervisory Board, including between regular meetings, of any special business transactions that were of material importance in assessing the condition and performance of the Colonia Group, or significant for its effective management. The Board of Management duly submitted for approval all transactions that were subject to the consent of the Supervisory Board. Resolutions of the Supervisory Board were effected in person or via written correspondence.

The Supervisory Board held 34 meetings in the 2010 fiscal year. Its members regularly attended the meetings in person during the year and all devoted sufficient time and attention to fulfilling their duties as members of the Colonia Supervisory Board. Most meetings were also attended by the members of the Colonia Board of Management and by various guests reporting on topics in which they had particular expertise. The Supervisory Board also met several times without the participation of the Board of Management.

The primary emphases of the Supervisory Board's regular discussions were matters concerning operations, the economic picture, the risk situation and the income, assets and liabilities and financial position of the Colonia Group, as well as the alignment of business development with corporate planning. As the Supervisory Board has a limited number of only three members, no committees have thus been formed and all matters are discussed during its full assembly. Our deliberations and meetings during the 2010 reporting year focused on the following points:

- The economic picture and development of the Colonia Group;
- The reorientation of the segment services and the bundling of our services under the Colonia Real Estate Solutions platform;
- Discussing the interim reports and the separate and Group financial statements prior to their release;
- Monitoring possibilities to strengthen the Company's equity and reduce the level of borrowing;
- Reviewing the appropriateness of and revising the system of compensation received by the Board of Management and the Supervisory Board;
- Advising the Board of Management on all matters relating to the voluntary public takeover bid of TAG Immobilien AG.
- Discussing the compliance with the German Corporate Governance Code

Overview of the Matters Discussed During the Supervisory Board Plenary Meetings

The seven meetings of the Supervisory Board in the first quarter of 2010 focused on reports given by the Board of Management on the progress of the audit of the 2009 annual financial statements and the possibility of strategic reorientation of the Colonia Group. Alternative arrangements for the compensation of the Board of Management in accordance with the law and the German Corporate Governance Code (DCGK) were also discussed in detail. The meetings also raised the possible option of replacing high-yield mezzanine financing with the placement of a convertible bond. The Colonia Board of Management reported on an ongoing basis on the operating business transactions and developments in the individual segments.

The meeting of the Supervisory Board on March 29, 2010 dealt with the adoption of the consolidated and separate financial statements for 2009, together with the combined Group and company report for the 2009 fiscal year. The auditors participated at this meeting and explained both sets of annual financial statements in detail. They granted an unqualified audit opinion. We approved the separate and consolidated financial statements prepared by the Board of Management for the 2009 fiscal year and adopted them in accordance with Section 172 of the Stock Corporations Act. The declaration in accordance with section 161 of the Stock Corporations Act was issued, signed and published.

The eight Supervisory Board meetings that took place in the second quarter of 2010 were dominated by matters relating to the preparation of the Shareholders' Meeting, the strategic reorientation of Colonia's service segment and the revision of the compensation received by the Board of Management and the Supervisory Board. The notice of convocation and the agenda items for the Shareholders' Meeting were discussed in detail and the arrangements were approved. Further arrangements were also made regarding the placement of a convertible bond. A decision was reached on the issue of a convertible bond by way of a circular resolution on April 30, 2010.

During its meetings, the Supervisory Board was also regularly informed about the operations and economic situation of the Colonia Group. Special attention was paid to the presentation of the preliminary figures for the first quarter of 2010 and also to the development of the various residential portfolios in relation to the specified aims. The meetings also approved the revised rules of procedure and mandated bdp Revision und Treuhand GmbH, Wirtschaftsprüfungsgesellschaft, Hamburg, to carry out an audit review of the 2010 half-year financial report. Bdp Revision und Treuhand GmbH, Wirtschaftsprüfungsgesellschaft, Hamburg, was also nominated to be proposed as auditor for the 2010 fiscal year to the Shareholders' Meeting.

In the meeting on July 15, 2010, the Board of Management reported on current projects, the status of the reorientation of the service segment and the founding of the Colonia service platform, Colonia Real Estate Solutions GmbH. Together with the Board of Management, the Supervisory Board also discussed alternative capital measures to partly finance possible portfolio acquisitions. The decision was also reached to pay members of the Supervisory Board D&O insurance with a deductible of at least 10% of the loss incurred, up to at least one and one-half times the fixed annual compensation. In the five meetings that took place in the third quarter of 2010, the Board of Management reported to the Supervisory Board on the assets and liabilities, financial position, and profit and loss of the Colonia Group, as well as on the Company's risk management. In particular, the meetings included comprehensive and continuing discussions on the process and status of refinancing the convertible bond that matures in December 2011. In the meeting dated August 9, 2010, bdp Revision und Treuhand GmbH, Wirtschaftsprüfungsgesellschaft presented its audit review of the 2010 half-year financial report.

The thirteen Supervisory Board meetings held in the fourth quarter of 2010 comprised a number of matters in connection with the share acquisition and subsequent takeover bid by TAG Immobilien AG for all Colonia shares. The meeting was largely devoted to the submission of a joint statement of the Board of Management and the Supervisory Board on TAG Immobilien AG's takeover bid. Furthermore, on September 30, 2010, the Board of Management informed us about the financial and profit and loss situation of the Colonia Group and about the consolidated financial statements. In one of the last meetings of the year, we once again reviewed the amount of variable compensation paid to members of the Board of Management and discussed the possibility of achieving the targets specified.

All meetings during the year received reports from the Board of Management about risk management and the liquidity situation. Following our own review of the matter, we were able to form a full picture of the situation. The Board of Management took the steps required under Section 91 (2) of the Stock Corporations Act to detect risks promptly that might threaten the Company's continued existence.

Audit of the 2010 Separate and Consolidated Financial Statements

The consolidated financial statements and the combined management report of Colonia Real Estate AG and the Colonia Group as at December 31, 2010 were audited by bdp Revision und Treuhand GmbH Wirtschaftsprüfungsgesellschaft. The Supervisory Board mandated the audit via a resolution at the Shareholders' Meeting on June 24, 2010. The Supervisory Board assured the independency of the auditors and the persons acting in concert.

At the Supervisory Board's meetings on February 23, and April 20, the auditors reported on the principal findings and results from their preliminary audits of the subsidiaries and the Group. Furthermore, they reported on the audits of separate and Group financial statements as well as on the combined management report for the 2010 fiscal year. In addition, members of the Supervisory Board met with auditors several times between regularly scheduled Supervisory Board meetings to discuss the audit procedure and findings. The audit report by bdp Wirtschaftsprüfungsgesellschaft was submitted to all members of the Supervisory Board and was reviewed in detail during the accounts meeting on April 20, 2011. After our own examination and discussion of the separate and Group financial statements and the combined reports for the 2010 fiscal year, we concurred with the auditors' results and statements on April 20, 2011, and approved the separate and Group financial statements as well as the combined management report for the 2010 fiscal year as prepared by the Board of Management. Thus, the annual financial statements for the 2010 year were adopted in accordance with Section 172 of the Stock Corporations Act. Following our own examination and consideration of all arguments, we concurred with the Board of Management's proposed allocation of profits that the Board had explained.

In accordance to section 313 of the Stock Corporation Act the auditor also audited the report on relations with affiliated entities (dependency report) prepared by the Management Board pursuant section 312 Stock Corporation Act. The auditor gives the following clean auditors opinion:

"Following our conscientious audit and assessment we confirm that

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

The Supervisory Board has approved and reviewed with the attending auditors the auditors' report about the dependency report pursuant to section 314 Stock Corporation Act. The Supervisory Board has no objections to the report and the contained concluding declaration of the Management Board.

Members of the Supervisory Board and Board of Management

The composition of the Colonia Supervisory Board did not change in the 2010 reporting year and still consists of three members. On March 17, 2011 the Supervisory Board members Stefan Lutz and Dr. Carsten Strohdeicher have resigned from the Supervisory Board of Colonia with effect on March 31, 2011. Until the election of the Supervisory Board members at the Shareholders´ Meeting on June 22, 2011 the municipal court, Cologne appointed Dr. Lutz R. Ristow and Torsten Cejka as new members of the Supervisory Board as of April 1, 2011. Dr. Lutz R. Ristow as representative of the new major shareholder TAG Immobilien AG was elected as new Chairman and Klaus Lennartz as the Vice Chairman in the Supervisory Board of Colonia.

Friedrich Thiele left the Board of Management of Colonia Real Estate AG with effect on April 30, 2010. During the fiscal year 2011 the board members Stephan Rind and Volker Lemke resigned from the Management Board of the Company. Due to the takeover of TAG Immobilien AG Rolf Elgeti and Hans-Ulrich Sutter were appointed as new members of the Management Board of Colonia.

The Supervisory Board would like to take this opportunity to thank the members of the Board of Management and each employee of the Colonia Group and express its appreciation for their personal dedication and hard work.

For the Supervisory Board

Cologne, April 20, 2011

Klaus Lennartz Dr. Lutz R. Ristow

Corporate Governance Report

Corporate governance at Colonia Real Estate AG stands not only for the creation of corporate management structures and processes, but also for responsible and transparent management and oversight of the Colonia Group, with a focus on value creation. Our ambition is to deserve at all times the trust that investors, business partners, clients, employees and the public have placed in us, and to continue evolving our transparent management practices.

Declaration of Compliance

On the basis of the updated version of the German Corporate Governance Code (DCGK) of May 26, 2010, the Board of Management and the Supervisory Board of Colonia Real Estate AG issued a declaration of compliance as required under Section 161 of the German Stock Corporations Act (AktG). The current declaration of compliance and those from previous years are also available on our website, www.colonia.ag. Because of the size of our Company, the number of members of its Supervisory Board, and our business model, we have not been in a position to follow all of the Code's recommendations:

– Colonia Real Estate AG has not sent convocation notices for the Shareholders' Meeting, including all convocation documents, to domestic and foreign financial service providers, shareholders and shareholders' associations by electronic means, although the articles of incorporation do permit electronic transmission. At the moment, the Company does not yet regard this form of convocation as practicable, and believes that from a legal viewpoint it cannot be implemented adequately, and especially with minimum risk and error.

– The D&O insurance for the members of the Board of Management provides for a deductible in accordance with procedures outlined in the German Corporate Governance Code. The D&O insurance for the members of the Supervisory Board still did not contain a provision for a relevant deductible in the first half of 2010. A relevant deductible for the D&O insurance also for the members of the Supervisory Board was adopted with effect from July 1, 2010.

– The Supervisory Board of Colonia Real Estate AG has three members. The formation of committees is not necessary due to the small number of members and this would not increase the efficiency of the Supervisory Board's work. All of the recommendations and suggestions contained in the German Corporate Governance Code regarding this matter are therefore not applied.

– The Supervisory Board should outline clear targets for its composition which, in line with the Company's own business situation, take into account international company activities, potential conflicts of interest, a specified age limit for members of the Supervisory Board and the principle of diversity. These targets should especially include appropriate participation of women. Beginning in the 2011 fiscal year, the Supervisory Board defined clear targets as regards its members, which largely fulfill the requirements stipulated by the German Corporate Governance. However, in a Supervisory Board containing three members, the Board does not consider the setting of a compulsory quota of women to be expedient. The Supervisory Board supports the Company's aim to achieve appropriate female representation among members of the Board of Management, in the choice of candidates for membership of the Supervisory Board and when allocating management positions.

– The German Corporate Governance Code stipulates that the consolidated financial statements should be published within 90 days after the end of the financial year. In accordance with the Code, Colonia Real Estate AG feels a commitment to finalize the consolidated financial statements as quickly as possible. The consolidated financial statements for the 2009 fiscal year were published on March 29, 2010 in line with the recommendations of the German Corporate Governance Code. In view of the events and tasks associated with the voluntary public takeover bid of TAG Immobilien AG, exceeding the 50% threshold of Colonia Real Estate AG share capital and the resulting strategic and operating tasks, the 2010 consolidated financial statements will not be published within 90 days after the end of the financial year.

For greater transparency, we also comment here on compliance with the Code's suggestions. With the following exceptions, all suggestions from the Code in the version of May 26, 2010, were complied with in 2010 or will be complied with in 2011:

– The 2010 Shareholders' Meeting was not carried on the Internet, for reasons of cost. For reasons of cost as well, there are no plans to broadcast the 2011 meeting on the Internet.

– The compensation of the Supervisory Board does not contain any result-related component based on the Company's long-term performance. The Company is of the opinion that a purely function-related compensation is more in keeping with the monitoring role of the Supervisory Board. Appropriate fixed and therefore constant remuneration will guarantee the Supervisory Board's operational capability irrespective of external factors and will emphasize its independence.

Transparent Communication as Defined by Our Shareholders

Colonia's Annual Shareholders' Meeting takes place in the first half of the year and, amongst other things, facilitates direct communication between our shareholders and the Company's executive bodies. Our shareholders may cast their votes at the Shareholders' Meeting themselves, or have them cast by a proxy of their choice. To make it easier for our shareholders to exercise their voting rights, before and during the meeting the Company provides proxies who are required to cast the shareholders' votes as the shareholders instruct. Furthermore, the Board of Management can provide for shareholders to be able to cast their votes in writing or by way of electronic communications (postal votes).

We are particularly concerned with making relevant information available early to all of our shareholders in time for the Shareholders' Meeting. All documents, including the form of convocation for the Shareholders' Meeting together with agenda, an explanation of the conditions of participation and the current financial reports are also made available on our website. It is also possible for shareholders to direct questions to members of our Investor Relations team by telephone or by e-mail. We have avoided broadcasting the Shareholders' Meetings on the Internet to date for reasons of cost.

Colonia publishes information four times during the fiscal year on its business development, financial position and results of operations in the form of interim and annual reports. In addition, we publish all important business transactions and events of interest to our shareholders in the form of ad-hoc and/or press releases.

Our financial calendar provides information on important dates and is made available on our website, along with our financial reports and press releases. We also provide information about our Company on a regular basis at investor conferences and shareholder forums, as well as during one-on-one meetings. It is our ambition to provide information to all target groups on an equal basis and in a timely manner. All information regarding business performance, all press and ad-hoc releases, voting rights announcements and all other company publications are made available on our website. Communicating with our shareholders, capital market participants, the media and the public is extremely important to us and, as such, our Investor Relations & Communications department is happy to answer questions or provide information.

Transactions in securities made by members of the executive bodies of Colonia Real Estate AG, known as "Directors' Dealings", are also published in full and made accessible on the Company's website in accordance with Section 15a of the German Securities Trading Act (WpHG). As far as the Company is aware, no securities transactions of this kind requiring disclosure were carried out in the reporting year.

Direct and indirect shareholdings of members of the Board of Management and Supervisory Board of Colonia Real Estate AG do not exceed the 1.0% threshold of the outstanding shares. The shareholdings of each member of the Board of Management at December 31, 2010, are shown individually in the following table:

Name	Number of shares in units	Share of capital in %	Number of stock options in units
Stephan Rind	93,232	0.298	60,000
Volker Lemke	0	0.000	60,000
Total	**93,232**	**0.298**	**120,000**

Cooperation between the Board of Management and Supervisory Board

Die Colonia Real Estate AG has a two-tier management and oversight structure. The Board of Management has two members and the Supervisory Board has three members.

The Board of Management manages the Company on its own responsibility and in the Company's best interests, with the aim of achieving sustainable value added. The Board of Management is responsible for ensuring compliance with the requirements of law and the Company's own internal guidelines. It is also responsible for the appropriate implementation and ongoing evolution of the risk management system for the entire Colonia Group. On April 30, 2010 Friedrich Thiele left the Board of Management. Until the Board of Management has decided on a possible successor, CEO Stephan Rind took on Friedrich Thiele's responsibilities. During the discussions, the Board of Management contract of CFO, Volker Lemke, was extended by a further three years to September 2013. None of the members of the Board of Management holds a seat on other Supervisory Boards that are required to be established by law.

The Supervisory Board supervises and advises the Board of Management and participates directly in all decisions of major importance to the Colonia Group. Decisions of fundamental importance are subject to the consent of the Supervisory Board, and are clearly defined in the rules of procedure for the Board of Management. Given that the total number of members of the Supervisory Board is only three, no committees have thus been formed. In accordance with the recommendations of the Corporate Governance Code, the Supervisory Board has undergone an efficiency review. Given the composition and professional experience of its members, the Colonia Supervisory Board has the knowledge and capabilities required to duly carry out its tasks.

The Supervisory Board was appointed by a resolution of the Shareholders' Meeting on July 8, 2009. Its mandate will run according to that until 2014.

The Supervisory Board set itself targets for its future composition which were met within an appropriate time frame. The following targets were set in terms of diversity, taking account of the size of the Supervisory Board and Company-specific requirements:

- Consideration of company knowledge and property markets
- Taking into account of particular expertise and experience regarding reporting and monitoring procedures.
- Independency of Supervisory Board Members
- Avoidance of conflicts of interest
- Acknowledgement of an age limit
- The Supervisory Board supports the Company's aim to achieve appropriate female representation among members of the Board of Management, in the choice of candidates for membership of the Supervisory Board and when allocating management positions. However, in a Supervisory Board containing three members, the Board does not consider the setting of a compulsory quota of women to be expedient.

The Board of Management and Supervisory Board work closely together to enhance corporate value on a sustainable basis. The Board of Management regularly and promptly informs the Supervisory Board of all matters of business development, assets and liabilities, financial position, and profit and loss that are of consequence for the Colonia Group, as well as the Group's risk situation and risk management. It also reports possible deviations from projections and presents corrective measures for joint discussion. The members of the Board of Management and Supervisory Board are obligated to pursue the Company's best interests. Conflicts of interest on the part of members of executive bodies must be reported promptly to the Supervisory Board. No conflicts of this kind arose in the 2010 fiscal year. Further details on the composition of the Board of Management and the Supervisory Board and their cooperation can be found in the Management Declaration drawn up in accordance with Section 289a of the German Commercial Code (HGB), available on our website www.colonia.ag.

As recommended by the German Corporate Governance Code, Colonia Real Estate AG has taken out D&O insurance for the members of the Board of Management and Supervisory Board. In line with the recommendations of the German Corporate Governance Code, the D&O insurance for the members of the Board of Management includes a deductible of at least 10% of the loss incurred, up to at least one and one-half times the fixed annual compensation of the members in question. A relevant deductible for the D&O insurance also for the members of the Supervisory Board was adopted with effect from July 1, 2010.

Risk Management and Control Systems

Colonia's risk policy reflects our aim of securing the continued existence of our Company and enhancing enterprise value on a sustained basis. Our risk management and controlling system is designed to detect and manage inappropriate risks and devise measures to avoid risks where best possible. Our risk management system also includes integrated internal control systems for the financial reporting process, which aim to ensure that the separate and consolidated financial statements are prepared in compliance with regulations. Our control systems also include monitoring compliance with the requirements of law and regulations, as well as internal guidelines. The Board of Management regularly informs the Supervisory Board of current risks and their evolution. The Board of Management continuously reviews our risk management and control systems, refines them, and adjusts them where needed. A detailed description of our risk management and controlling system is provided in the combined Group and company management report for the 2010 fiscal year.

Reporting and Auditing of the Financial Statements

The consolidated financial statements and interim reports of Colonia Real Estate AG are prepared in accordance with International Financial Reporting Standards (IFRSs), in the form applicable in the European Union. The consolidated financial statements as well as the report on relations with affiliated entities were prepared by the Board of Management and audited by the Supervisory Board and by the auditor, bdp Revision und Treuhand GmbH Wirtschaftsprüfungsgesellschaft, Hamburg. The auditors notify the Supervisory Board immediately of any findings that may emerge during the audit of the financial statements and that may be material to the Supervisory Board's duties. The auditor, bdp Revision und Treuhand GmbH, Wirtschaftsprüfungsgesellschaft, Hamburg, audited the 2010 half-year financial report.

Compensation Report

The following compensation report outlines the composition and amount of compensation received by the members of the Board of Management. The report also describes the principles behind and the amount of compensation paid to members of the Supervisory Board. The compensation report also forms an integral part of the Group management report and the audited consolidated financial statements. Therefore, except for the prescribed minimum information, the notes to the financial statements and the management report omit a detailed presentation of the information included in the present report.

Compensation of the Board of Management

The amount and structure of the compensation paid to the Board of Management are decided and regularly reviewed by the Supervisory Board. The following composition of the compensation of the members of the Board of Management was presented and approved at the last Shareholders' Meeting on June 24, 2010. The appropriateness of the compensation awarded to the Board of Management is based not only on the individual member's responsibilities and performance, but also on the economic condition and measurable success of the Company. Furthermore, in deciding the compensation of the Board of Management, customary compensation structures that prevail within the Colonia Group and at comparable companies are taken into consideration.

The following information about the compensation of the Board of Management constitutes disclosures to be included by law in the notes to the financial statements under Section 285 Sentence 9 of the German Commercial Code (HGB) in comparison with Section 314 (1) Sentence 6 HGB in comparison with Section 315 (2) Sentence 4 HGB in comparison with Section 289 (2) Sentence 5 HGB and information required under the German Corporate Governance Code. They do not replace the information in the notes respectively the management report.

Amount and Structure
We believe that transparent and individualized presentation of the compensation of the Board of Management is a key element of good corporate governance. The overall compensation received by members of the Board of Management is made up of the following remuneration components: a non-performance-based fixed component, a variable, performance-based component, the Short-Term Incentive (STI), and a further component with a Long-Term Incentive (LTI) effect and a risk character, in the form of performance units. In addition, members of the Board of Management receive other compensation (compensation in kind) and pension commitments. The approved remuneration components therefore adhere to the provisions of the German Act on Fair Compensation of Boards of Management (VorstAG) and regulations prescribed by the German Corporate Governance Code (DCGK).

Fixed Component
The non-performance-based, fixed component is the contractual base salary, which is paid out in uniform monthly installments. The fixed remuneration of both members of the Board of Management remained unchanged in the 2010 fiscal year.

Variable Component of Compensation
The variable, performance-based compensation component paid to the members of the Board of Management is based on the degree of achievement of the targets set by the Supervisory Board for each member of the Board of Management prior to the beginning of the fiscal year. The payment of the variable compensation is dependent on the Company's actual performance and rewards not only the collective but also the individual performance of each member of the Board of Management. The amount of variable compensation paid to a member of the Board of Management is capped.

The variable compensation awarded to members of the Board of Management is made up of a short-term variable compensation component (short term incentive) and a compensation component with a long-term incentive effect (long term incentive). The short-term variable compensation is paid in cash and the long term incentives in the form of performance units.

Short-Term Incentive (STI)
Under the new rules regarding compensation of the Board of Management, its members receive a short-term variable compensation component (STI) paid in cash starting from fiscal year 2010. The amount of the total budget to be distributed annually to all members of Colonia's Board of Management for this component of compensation depends on:

a) the total of the performance-related short-term variable target amounts set for each board member, and on
b) the achievement of a predetermined corporate target (measured on the basis of annual earnings before tax (EBT)).

If performance is below a defined target range, the STI is not distributed or paid out at all. If the EBT for the year is within the target range, the plan provides for an upper limit (cap), referred to the total of the target amounts set for the board members. Thus there is a cap on the amounts to be paid. Half of the realized total budget is distributed proportionately to the board members' individual shares of the target amounts applicable for the STI. The remaining half of the total budget is distributed as a function of individual performance.

Long-Term Incentive (LTI)/Compensation Component with Long-Term Incentive Effect and Risk Character
The Long-Term Incentive (LTI) combines achieving established goals in regard to the Company's earnings before tax (EBT) with the performance of the price of Colonia stock. This is a performance unit model that is comparable with phantom shares, and that is not associated with any dividend payments or voting rights. The units also cannot be either traded or sold to third parties.

For each fiscal year, each member of the Board of Management is issued a number of performance units (a tranche) set by the Supervisory Board. Once issued, each tranche is assigned a value at the end of a five-year term, which is then paid out in the subsequent year after the Shareholders' Meeting. The amount paid depends on the average EBTs that the Company achieved (performance target) during the term of the tranche, and on the average price of the stock during the last year of that term. If the achieved average EBT is within a defined target range, the model provides for a payout of between 60% and not more than 180% of the issued performance units. Thus there is an upper limit (cap), referred to the performance targets specified for the individual tranche. The actual cashed-in value of the awarded units is calculated on the basis of the current stock price for the last year of the term of the given tranche. This compensation component was issued for the first time in the 2009 fiscal year. The valued tranche for the 2010 fiscal year (performance units) would be paid out on December 31, 2014 and after the Shareholders' Meeting in 2015 on the basis of the achieved performance goal and the average stock price in 2014.

The following table shows the number of valued performance units issued for 2010 and 2009 and the amount of the provision for each individual member of the Board of Management.

Name	2010 Number of performance units in units	2010 Value of the performance units in EUR k	2009 Number of performance units in units	2009 Value of the performance units in EUR k
Stephan Rind	0	0.0	11,544	40.0
Volker Lemke	0	0.0	8,658	30.0
Friedrich Thiele	0	0.0	8,658	30.0
Total	**0**	**0.0**	**28,860**	**100.0**

The value of the performance units was calculated on the basis of the stock's average trading price for 2009 (closing prices in Xetra trading), and came to EUR 3.46.

After resignation of the board members Friedrich Thiele, Stephan Rind and Volker Lemke the performance units issued in fiscal year 2009 have lapsed respectively were compensated in line with the extraordinary termination agreement.

Other Compensation

As is common practice in the market and the Group, the members of the Board of Management are provided additional benefits. Some of these benefits are considered noncash compensation and are taxed accordingly. They especially include the use of a company car, accident and liability insurance coverage, reimbursement for business travel, and benefits for board members who must maintain a home in two locations.

All secondary employment is normally subject to approval. Positions in the management or on the Supervisory Board of Group companies are held with no compensation.

Provisions for Termination of Membership in the Board of Management

It is stipulated in the Board of Management contracts that in the event of premature termination of a contract without good cause, payments to the member leaving the board shall not exceed the value of two years‘ compensation (severance payment cap) and compensate no more than the remaining term of the contract. The rules stipulated in the Board of Management contracts thereby reflect the recommendations of the German Corporate Governance Code in the version of May 26, 2010.

In the event that they are removed from their membership on the board prematurely because of a change of shareholder control, the members of the Board of Management are entitled to payment of compensation. The change of control provisions in their contracts govern various cases of changes of control. Under the German Corporate Governance Code, the amount of severance payments for members of the Board of Management is supposed to be 150% of the severance pay cap, equivalent to the capitalized pay for three full years. Due to the takeover of the majority voting interest of Colonia by TAG Immobilien AG board members Stephan Rind and Volker Lemke executed their extraordinary termination right.

Company Retirement Plan

Until July 31, 2009, the members of the Board of Management were entitled to a Company pension in the form of direct insurance by way of a pension fund into which the employer paid a fixed monthly contribution. As part of the harmonization and reconfiguration of the compensation system throughout the Colonia Group, this pension commitment was terminated with the consent of the members of the Board of Management.

Components with Medium-Term and Long-Term Incentive Effects

The Colonia Real Estate AG stock option plan was terminated at the beginning of the 2009 fiscal year. The aforementioned performance units were introduced starting from the 2009 fiscal year as a compensation component with a long-term incentive effect. Members of the Board of Management who were in office when the stock options were still issued took part in the stock option plan (SOP). Options granted until that date will remain valid. However, previously issued stock options lapse when a member leaves the Company's Board of Management.

The following table provides a summary of the stock options granted to date.

Name	Stock options for 2007 and tranche for 2008 in units	Value of the options when issued (2008) in EUR k	Stock options for 2008 and tranche for 2008 in units	Value of the options when issued (2008) in EUR k
Stephan Rind	40,000	72.4	20,000	41.2
Volker Lemke	40,000	72.4	20,000	41.2
Total	**80,000**	**144.8**	**40,000**	**82.4**

The 2007 and 2008 options granted were not measured as of the reporting date, December 31, 2009, but at the time of issue.

Compensation of the Board of Management for Fiscal Year 2010

The total compensation that the active members of the Board of Management, Stephan Rind and Volker Lemke, received for their activities in the 2010 fiscal year amounted to EUR 776.9 thousand (2009: EUR 1,124.2 thousand). The total compensation of the Board of Management includes a non-performance-based fixed annual salary as well as other compensation, noncash benefits and compensation in kind, potential variable compensation for the 2010 fiscal year, and the fair value of the stock option plan. The other compensation is entirely non-performance-based.

Details of the compensation of the Board of Management in 2010 are shown in the following table; the figures for the previous year are shown in parentheses.

No member of the Board of Management received benefits or equivalent commitments from any third party during the past fiscal year in regard to that person's activities as a member of the board.

in EUR k	Fixed component	Other compensation	Variable compensation	TOTAL	Transferred to pension fund	Performance units
Stephan Rind	500.0	18.1	0	518.1	0	0.0
	(500.0)	(22.4)	(150.0)	(672.4)	(1.5)	(40.0)
Volker Lemke	250.0	8.8	0	258.8	0	0.0
	(250.0)	(29.1)	(100.0)	(379.1)	(1.2)	(30.0)
Friedrich Thiele (until April 30, 2010)	83.3	223.1*	0.0	306.40	0	0.0
	(250.0)	(21.8)	(100.0)	(371.8)	(1.2)	(30.0)
Total	**833.3**	**250.0**	**0.0**	**1083.3**	**0.0**	**0.0**
	(1,000.0)	**(73.3)**	**(350.0)**	**(1,423.3)**	**(3.9)**	**(100.0)**

* Other compensation of Friedrich Thiele include a lump sum payment of EUR 220.0 thousand due to his resignation of the Management Bord.

Compensation of the Supervisory Board

The changes to the compensation of the Supervisory Board were submitted to the Annual Shareholder's Meeting on June 24, 2010 and approved. Starting from July 1, 2010, the compensation of the Supervisory Board is made up of a fixed compensation component, meeting honoraria and reimbursement of necessary expenses.

The fixed compensation totals EUR 40.0 thousand per fiscal year. The Chairman of the Supervisory Board receives one and a half times this amount and the Deputy Chairman receives one and a quarter times this amount. The fixed compensation is payable in four equal installments at the end of each quarter.

In addition, each member of the Supervisory Board receives an attendance fee of EUR 500 for each meeting of the Supervisory Board participated in, and is reimbursed for any necessary expenses incurred during their mandate.

From January 1, to June 30, 2010, before any amendments were made, the compensation of the Supervisory Board included reimbursement of expenses, an attendance fee of EUR 500 and a fixed compensation component of EUR 20.0 thousand. The Supervisory Board compensation still valid for the first half of 2010 also provided for a variable compensation component dependent on dividends. These compensation components were not awarded for the 2009 or 2010 fiscal years.

The fixed compensation paid to the active members of the Supervisory Board for the 2010 fiscal year totaled EUR 172.0 thousand, including an attendance fee of EUR 52.0 thousand for participation in 34 meetings and reimbursement of expenses.

Amounts awarded to each member of the Supervisory Board are shown in the following table; amounts for the previous year, if any, are indicated in parentheses:

in EUR k	Fixed compensation	Meeting honoraria and expenses	Variable compensation	TOTAL
Chairman Klaus Lennartz (from June 18, 2009)	50.0	18.0	0.0	68.0
	(21.3)	(7.2)	(0.0)	(28.5)
Deputy Chairman Stefan Lutz	40.0	16.5	0.0	56.5
	(30.0)	(6.0)	(0.0)	(36.0)
Dr. Carsten Strohdeicher (from July 8, 2009)	30.0	17.5	0.0	47.5
	(9.6)	(4.6)	(0.0)	(14.2)
Prof. Dr. Klaus Steiger (until June 17, 2009)	0.0	0.0	0.0	0.0
	(18.7)	(2.0)	(0.0)	(20.7)
Lutz Wille (until July 8, 2009)	0.0	0.0	0.0	0.0
	(10.4)	(2.5)	(0.0)	(12.9)
Total	**120.0**	**52.0**	**0.0**	**172.0**
	(90.0)	**(22.3)**	**(0.0)**	**(112.3)**

No member of the Supervisory Board received from Colonia Real Estate AG or related entities additional compensation or benefits for personal services rendered, especially consulting services, in the year under review.

CREates


Future*
* For everybody who wants to build more than a tree house: sustainable residential real estate investments.
We take care that real estate investments are successful. With a strong business model based on yield oriented residential real estate investments and a professional service team we generated long term success. Success for us as an owner and satisfaction for our tenants.
Colonia
REAL ESTATE AG

Colonia Stock

A satisfactory year for Colonia shareholders. Colonia stock rose by 28.3% to EUR 5.58 in 2010, performing better than the DIMAX, the stock index for German real estate stocks (+19.2%).

Price Performance

Despite strong fluctuations, 2010 was a good year for stocks. From the beginning of 2010, the DAX climbed by 16.1% to close the year at 6,914. Although the first eight months of 2010 were still characterized by many ups and downs, Germany's leading index performed well throughout almost the entire fourth quarter of 2010. It began to rally from September 2010, primarily as a result of the Company's positive fundamental data and the favorable economic situation in Germany.

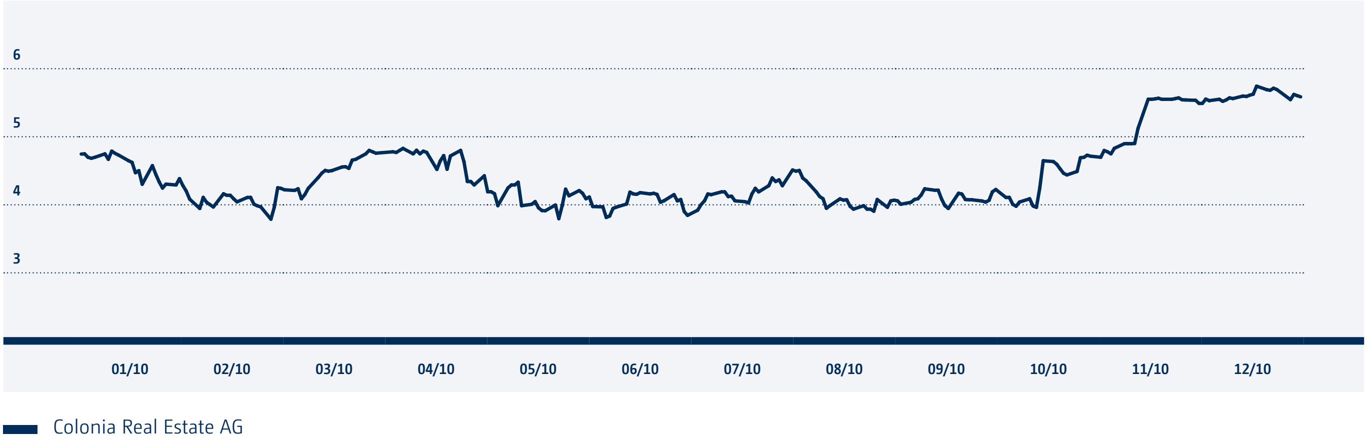
The SDAX, which includes Colonia stock, performed even better than the leading German index over the course of the year. With the SDAX increasing by 45.8%, Colonia stock could not keep pace, but still managed a stock price increase of 28.3%. However, when considering only the real estate sector, Colonia stock performed considerably better than the DIMAX (the stock index for German real estate stocks), which moved up only 19.2% over the course of the year.

At the start of the year, Colonia stock was still negatively impacted by the general climate of uncertainty in the capital markets. On March 1, 2010, the price of our stock slipped to its lowest point of the year at EUR 3.81. After the publication of the 2009 consolidated financial statements, our stock rose to an interim high of EUR 4.76, and then stabilized at a level between EUR 3.90 and EUR 4.20 in the wake of the "Greek crisis". After TAG Immobilien AG announced that it had acquired around 20% of Colonia shares, the stock price rallied in mid-October to EUR 4.73. On November 15, 2010, TAG Immobilien AG announced that it intended to make a voluntary public takeover bid for all Colonia shares. The announcement of the voluntary public takeover bid was made on December 20, 2010 and as a result, the stock price hovered between EUR 5.50 and EUR 5.70 in December 2010 in line with the offer price of EUR 5.55 per share.

Colonia stock closed the year at EUR 5.58, a 28.3% gain on the closing figure for 2009 (EUR 4.35). Despite such a welcome improvement, this close was still 30.1% below our stock's value in terms of equity per share (EUR 7.26). At the end of 2010, the market capitalization of Colonia Real Estate came to EUR 174.7 million.

The trading volume of Colonia stock averaged about 130,860 shares per day. A total of 33.5 million shares were traded on all German stock exchanges – a decrease in trading volume from the 41.1 million shares traded in 2009.

Price performance in EUR



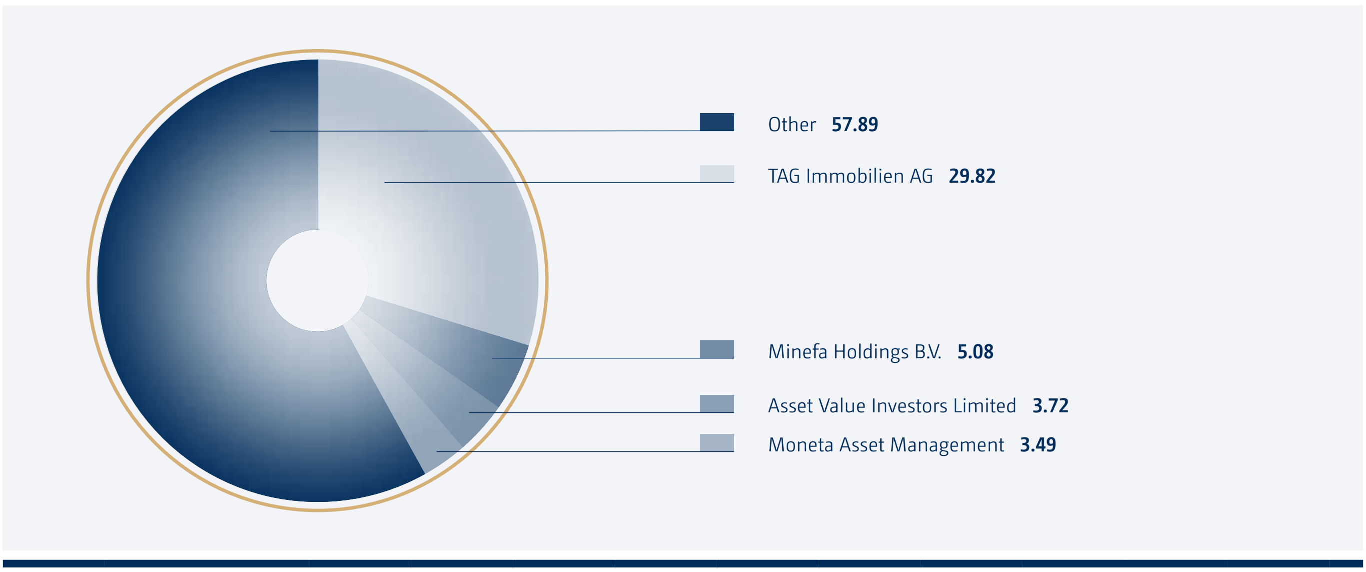
Capital Measures

In order to strengthen the Company's equity structure and ensure further growth, Colonia implemented a cash capital increase in October 2010 by placing 2,845,990 shares predominantly with institutional investors. The gross issue proceeds amounted to approximately EUR 10.8 million. The subscription right of shareholders was disapplied. In connection with this capital increase, Colonia Real Estate AG share capital rose from EUR 28,460,000 to EUR 31,305,990.

New Major Shareholder in 2010

All 31,305,990 shares of Colonia Real Estate AG are admitted for trading and carry voting rights. On October 14, 2010, TAG Immobilien AG first made known its intention to acquire a strategic shareholding in Colonia Real Estate AG. On November 15, 2010, TAG Immobilien AG issued a press release detailing its plans to make a voluntary public takeover bid for all Colonia shares. The bid was officially made on December 20, 2010. The ownership structure of Colonia Real Estate AG changed considerably against the backdrop of the TAG Immobilien AG takeover plans. To Colonia's knowledge, the shareholdings as at December 31, 2010 are illustrated by the following diagram.

Ownership structure in %



Transparent Communication

The overarching aim of our communication is to ensure the greatest possible transparency and prompt information exchange, thereby enabling equal opportunities for all stakeholders. Our Investor Relations department is our central contact for current and potential investors, private shareholders, analysts and all participants in the financial market. In addition to the accounts press conference and the Shareholders' Meeting, Colonia also made presentations at investor conferences in Germany and abroad, via telephone conferences and during a large number of one-on-one meetings with analysts, fund managers and sales managers. All press releases, annual and interim reports, presentations and information relevant to the capital market can be accessed on our website at www.colonia.ag. Important dates, including the date of the Shareholders' Meeting and the release dates for our reports can be found in the financial calendar.

Interest in German real estate stock corporations significantly increased once again in 2010. In 2010, Colonia was regularly evaluated by seven banks. A summary of the current research reports is made available on our website at www.colonia.ag. Our Investor Relations team will also be happy to answer questions or provide information by telephone or e-mail.

Listing

With request of March 29, 2011, the company applied to the management of the Frankfurt Stock Exchange to revoke the admission of Colonia shares to trading in the in the segment of the regulated market with more extensive admission requirements (Prime Standard). The admission of Colonia shares in the regulated market (General Standard) is not affected. Frankfurt Stock Exchange endorsed this request on April 1, 2011. The revocation will be effective after July 1, 2011. The start of trading in Colonia shares on the regulated market (General Standard) of the Frankfurt Stock Exchange occur from July 4, 2011.

Key information

WKN/ISIN	633800/DE0006338007
Market symbol	KBU
Indexes	SDAX, EPRA, DIMAX, GPR 250, MSCI Germany
Transparency level	Regulated market of the Frankfurt Stock Exchange/Prime Standard
Number of shares at December 31, 2010	31,305,990 shares
Designated sponsors	Close Brothers Seydler Bank AG, HSBC Trinkaus & Burkhardt AG
Trading prices in 2010	
High* (EUR)	5.73
Low* (EUR)	3.81
2010 open/close (EUR)	4.25/5.58
Market capitalization at December 31 (EUR m)	174.7
Average shares traded per day (EUR)**	605,588
Average shares traded per day (shares)**	130,860

* Close in Xetra trading
** All German stock markets

Real Estate
Real People
Real Life

CREates

Next Generation Real Estate


Happiness*
* For everybody who wants to create valuable room: excellent Asset Management for the optimization of real estate portfolios.
Habitation – a basic human need which is worth to invest in. With the right strategy and a cost optimized management our professional Asset Management makes your property the number one for tenants.
www.colonia.ag
Colonia
REAL ESTATE AG

Management Report

Management Report for the Parent Company and Group for Fiscal 2010

In accordance with Section 315 (3) and Section 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 euro.

Correction of Other Comprehensive Income in the 2009 Consolidated Financial Statements and the Subsequent Correction of the Consolidated Net Profit for 2009

In fiscal year 2010, it was determined that neutrally recognized value changes from interest swap contracts of approximately EUR 2.1 million recognized as other comprehensive income in the equity item of the balance sheet were shown incorrectly in the consolidated financial statements dated December 31, 2009. These components of other comprehensive income should have been reserved in profit and loss during the four deconsolidations performed as the result of the sale of property portfolios.

The consolidated financial statements from the previous year were adjusted accordingly. Correction of this error led to a corresponding reduction in other comprehensive income and in other income as well as to a lower consolidated net income for fiscal 2009.

Change Presentation of Valuation Result in the 2010 Consolidated Financial Statements and Corresponding Adjustment of the 2009 Consolidated Financial Statements

In the statement of consolidated income for 2010, earnings from the revaluation of investment property is presented differently from the 2009 consolidated financial statements. In the 2009 fiscal year and in the interim financial statements for 2010, expenses during the year for investments that increased the value of property were capitalized. The change in value between the carrying amount and the fair value of the property, following valuation by an external appraiser is reported under "result on fair valuation" in the statement of comprehensive income.

In the 2010 consolidated financial statements, this item was changed so that the expenses made during the year for investments to increase property values were completely recognized as expenses in the statement of comprehensive income under "property operating expenses". The value-increasing effects of these investment measures were reported only in the context of the property valuation by external appraisers under "income from fair valuation".

The change is a voluntary reporting change, where the previous year's figures have been adjusted to improve comparability. The reporting change did not result in a change in the consolidated result for 2009. The reporting change resulted only in a EUR 7.3 million increase in "income from fair valuation" and a contrary increase in "property operating expenses" in the 2009 consolidated financial statements.

Amended Presentation and Some Reclassifications of Expenses from Asset Management and Administrative Expenses

Furthermore, components of "general administrative expenses" and "expenses for asset management" were reclassified under "property operating expenses" for the first time in the 2010 consolidated financial statements, as these expenses relate to the generation of rental income from the Group's own residential holdings. The figures from the 2009 consolidated financial statements were adjusted accordingly. The modification to reporting did not lead to a change in the consolidated result for 2009, but only a EUR 1.9 million increase in "property operating expenses" and a corresponding EUR 1.3 million reduction in "administrative expenses" and EUR 0.6 million decrease in "expenses for asset management".

The comparable figures from 2009 shown in the 2010 Group management report always refer to the adjusted values from the 2009 consolidated financial statements, ensuring direct comparability between the 2009 and 2010 consolidated financial statements.

I. Business and Economic Environment

1. General Economic Situation

One of the world's severest economic crises appears to have been overcome. The German economy, in particular, recorded its strongest upturn in 2010 since reunification, and thus became the growth engine for the entire European economy. Gross domestic product (GDP) in Germany rose by 3.6% after adjustment for inflation, following a 4.7% decline the previous year. This means that Germany economic growth occupies a top position on the international stage, since real gross domestic product in the European Union and the USA rose by only 1.8% and 2.7% respectively.

As in previous years, it was not just foreign trade but also domestic demand which contributed to growth in 2010. Adjusted for inflation, private consumer spending increased by 0.5%, while state consumption grew by as much as 2.2%. Exports increased by 14.2%, after adjustment for inflation, while imports rose by only 13%. Thus the positive foreign trade growth contribution to gross domestic product came to 1.1%, while domestic demand contributed 2.5% to growth in gross domestic product. The job market in Germany developed particularly positively. Compared to January 2010, the unemployment rate fell from 8.6% to 7.2% at the end of December 2010.

Against the background of the 2.7% upturn in gross wages, disposable income of private households increased by 2.6%. In total, compared to the previous year private households spent more money on everything (including rent), except the purchase of cars.

For 2011, the German government is expecting a further increase of 2.3% in gross domestic product. The upturn is expected to be characterized positively by exports as well as domestic demand. In its 2011 annual economic report, the German government is also forecasting a further fall in the unemployment rate and an increase in disposable income in 2011. All of these are indicators which can also have a positive effect on our real estate business. With rising income, job security and higher private consumer propensity, there is also an increased willingness – and ability – for tenants to accept rent increases.

2. Conditions in the Real Estate Sector

There are a total of around 38.7 million residences on the German residential market. Of these, around 15.1 million are used by the owners themselves, while the remaining 23.6 million are rented by commercial or private providers to third parties. The letting market in Germany thus represents a major economic factor. How did this market, which is the main market for Colonia's business model, perform in 2010?

If one looks at the transaction market for residential properties in 2010, it continued to perform positively. According to DIP Deutsche Immobilien-Partner, the transaction volume for residential properties came to EUR 21.8 billion, approximately 4% above that of the previous year. There was a clear demand overhang for core residential properties in top locations in cities with a positive demographic development. By comparison, the transaction volume for commercial properties came to EUR 24.6 billion. This means that the entire real estate transaction volume totaled EUR 46.4 billion (2009: EUR 40.3 billion). However, the increase of approximately 15.1% in revenues should not hide the fact that, while 2010 was a solid year, it was not a better-than-average real estate transaction year. The average transaction volume over the last ten years is EUR 65.1 billion.

Against the background of the upturn in transaction markets, ongoing strong interest in German commercial properties from institutional investors and, as a result, increased demand for asset management services, we are expecting a positive effect on our Services segment. Using this market environment, new mandates are to be acquired, assets under management increased, thus raising revenues and income in this segment.

The focal point of our business model as the active owner of a portfolio is the yield-oriented management of our residential properties. For this reason, the development of the rental markets is of particular significance for us. According to the Federal Statistical Office, net rent i.e. rent for the space alone, without heat, utilities or other services rose 1.1% year-on-year. This trend is confirmed by the F+B Wohn-Index, which is expecting property rents to increase by 0.9%. According to the F+B Wohn-Index, new rents increased by as much as 2.8%. Other real estate indices are expecting even higher rent increases. For example, in its studies BulwienGesa reports a 2% rent increase. However, this analysis is based on re-letting a 70 m^2 existing apartment in an average to good location.

All analysis institutes see the reasons for the increase in rents in the good macro-economic development in Germany, as measured against gross domestic product, as well as low interest rates. In addition, the rent trend is positively influenced by a low unemployment rate and greater disposable household income.

In recent years, rents in the individual cities and regions in particular have developed along clearly different lines. According to BulwienGesa, A cities in particular exhibited above-average rent increase rates in recent years, while B and C cities recorded an above-average rise in 2010. However, there are still clear differences in the level and development of the rental markets between cities in the North and East as well as the South and West of Germany.

The reasons for regional differences in rent developments can be found mainly in a higher demand for living space, different income levels and the willingness to pay higher rents. Particularly in cities and regions with a positive demographic development (influx), the shortage of living space is aggravated by two further trends. A study by Landesbausparkassen indicated that residential space per capita has now expanded to 47 m^2, and is expected to rise 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 in the metropolitan regions. Even if the number of building permits in Germany increased slightly again in 2010, this increase is very unlikely to lead to a reduction in the gap between supply and demand. Between November 2009 and November 2010, building permits were granted for 189,375 (previous year: 174,264) residences (extrapolation of the Federal Statistical Office). However, annual demand up to 2025 is estimated at 270,000 to 350,000. Overall, we thus assume that the market for existing portfolios of residential real estate will improve again in 2011.

3. Business Operations and Organization

With around 19,000 residential units, Colonia Real Estate AG is one of the leading listed real estate companies in Germany. Colonia is an active proprietor of residential properties in attractive locations in Germany, as well as a service provider for residential and commercial properties of external real estate owners. At the end of the year, the Colonia Group had more than EUR 2.1 billion assets under management, which are supervised by around 100 employees at seven locations within Germany. The EUR 2.1 billion assets under management include approximately EUR 827.5 million in company holdings, of which approximately EUR 815.6 million are exclusively residential properties.

The headquarters of Colonia Real Estate AG are located in Cologne. In order to ensure optimum supervision of our own residential holdings as well as of the portfolios of our clients, our real estate experts are based in six further locations, in the vicinity of the properties to be maintained. Our locations are spread throughout Germany and can be found in the real estate centers of Berlin, Dresden, Frankfurt am Main, Hamburg, Munich and Stuttgart.

Colonia Real Estate AG

Investment

Residential Real Estate Investments

- Substainable Portfolio and Asset Management
- Cashflow optimization and value enhancement
- Vacancy reduction and rental income improvement

Co-Investments

Service

Colonia Real Estate Solutions

- Transaction and Investment Management
- Asset and Property Management
- Refurbishment
- Single until Sale/Block sales

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 Accounting, 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 Colonia's own real estate holdings. Our integrated business model rests on two pillars:

Investment Segment: As an active portfolio owner, the Investment segment concentrates primarily on acquiring, developing and managing high-yield real-estate portfolios that it holds itself. 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 Colonia Group's own real estate assets as separate companies.

Service segment: All services throughout the lifecycle of a property are bundled in our integrated Colonia Real Estate Solutions competence platform. Our range of services extends from transaction and investment consulting, across asset and property management to advice on the sale of residential and commercial real estate.

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

Against the background of the crisis in the financial market, Colonia performed comprehensive restructuring and cost-reduction measures, adjusted its balance sheet and focused the business model in 2008 and 2009. This meant that 2010, the first year after the crisis, was used intensively for optimizing holdings and a more rigorous implementation of investments in our residential holdings. At the end of fiscal 2010, Colonia's real estate portfolio contained around 18,800 residential and commercial units with a surface area of around 1,150,000 m², of which around 25,000 m² relates to smaller commercial spaces. Added to this are around 3,320 parking and garage spaces as well as a commercial property with approximately 6,500 m² in downtown Cologne.

One of the most important goals in fiscal 2010 was to reduce the vacancy rate in our holdings. Every new residence which is rented increases not only rental income but also reduces the owner's vacancy costs. In order to achieve this goal, we made large-scale investments in modernizing our residences, particularly in Salzgitter. After investing EUR 6.0 million in the first half of 2010, we again invested EUR 8.0 million in our real estate in the second half of 2010. The investments paid off: the vacancy rate (calculated by units) for the full portfolio fell from 13.6% to 12.9% in fiscal 2010 – a significant reduction of 5.1%. However, we clearly failed to reach our goal of lowering the vacancy rate to below 12%. Rent increases in the third and fourth quarter of 2010 led to an above-average number of terminations at the end of the year. This means that the positive trend of the year was not continued in the fourth quarter of 2010. However, we expect that we will make up for these terminations in the first half of 2011. Our average rent also performed well, rising from EUR 4.59 per m² to EUR 4.69 per m² at the end of the reporting period.

	Q4 2009	Q1 2010	Q2 2010	Q3 2010	Q4 2010
	10/1/–12/31/2009	1/1/–3/31/2010	4/1/–6/30/2010	7/1/–9/30/2010	10/1/–12/31/2010
Vacancy rate in %	13.6	13.0	12.4	12.1	12.9
Average rent per m² in EUR	4.59	4.60	4.59	4.64	4.69

Thanks to the investments made in modernizing the residences as well as the group active asset management, net rental income in the second half of 2010 was increased to EUR 28.5 million (first half of 2010: EUR 28.2 million). Compared to 2009, net rental income fell from EUR 59.1 million to EUR 56.7 million in the reporting period. However, it must be borne in mind that the 2009 net rental income also includes rent for around 1,000 residential units (EUR 3.7 million) in Berlin which were disposed of in late September 2009. Adjusted for this rental income, the 2009 net rental income would have come to EUR 55.4 million. Net operating income declined significantly to EUR 24.3 million (2009: EUR 32.9 million). In addition to the decline in net rental income (EUR 3.7 million), this reduction was primarily caused by higher investment and modernization expenses (EUR 14.0 million).

The Service segment again made a positive contribution of EUR 0.5 million to the overall result in fiscal 2010. The reduction in net rental income, also caused by the sale of 1,000 residences in September 2009 and increased investment and administration costs, also led to EBITDA being down to EUR 14.1 million in 2010 after EUR 23.6 million in the previous year. Detailed explanations about the group figures can be found in the presentation of the assets, liabilities, financial position, and profit or loss in this management report.

In order to improve the financing structure and reduce the finance expenses, Colonia placed a convertible bond with a five-year term in May 2010. A total of 1,904,312 bonds with a total par value of approximately EUR 11.4 million were issued to the company shareholders as well as selected institutional investors as part of the offer for subscription. In addition, the company performed a capital increase of 2,845,990 shares, which corresponds to around 10% of the share capital. The shares were placed exclusively with German and international institutional investors at a price of EUR 3.80 per share. The subscription right of shareholders was disapplied. Gross issue proceeds came to approximately EUR 10.8 million.

As at December 31, 2010, the net asset value per Colonia share was EUR 7.26. We calculated NAV by dividing shareholders equity before minority interest by the numbers of issued shares. In preparing the consolidated financial statements, we changed the way of calculating the NAV. As a result, only limited comparison with previous quarters is possible. If NAV as of December 31, 2009 is calculated using the same method, this results in NAV per share for 2009 of EUR 8.64.

Significant Events in the Investment Segment

As already shown, in fiscal 2010 Colonia focused on reducing vacancy rates, particularly in the Salzgitter portfolio. An examination of Colonia's full portfolio shows that we reduced the vacancy rate from 13.6% to 12.9% in the reporting period. However, it must be borne in mind that the calculation of the vacancy rate (calculated by units) only ever shows a snap shot to the end of the quarter. This means that some portfolios may experience a decrease in the vacancy rate purely on the closing date. This is exactly what happened in our largest portfolio in Salzgitter.

Although the vacancy rate in Salzgitter declined slightly from 20.4% at the start of the year to 20.2% at the end of 2010, we did not achieve our target of a significant reduction in the vacancy rate. While the vacancy rate as of September 30, 2010 came to 18.5%, the positive trend of the first three quarters in 2010 did not continue in the fourth quarter. The rent increase performed in the third and fourth quarter of 2010 led to an above-average number of terminations, and hence to a renewed increase in the vacancy rate. However, the average rent price per square meter developed well, increasing from EUR 4.53 to EUR 4.63. Against the background of increased investments in residence modernization and maintenance measures of EUR 7.8 million, in the first half of 2011 we expect to be able to make up for the terminations resulting from the rent increase.

Our two Berlin-based portfolios performed particularly positively in fiscal 2010. In the Greater Berlin area, Colonia has around 4,500 residential units in Marzahn and Nauen. With regard to the portfolios which we manage ourselves, we reduced the vacancy rate from 5.4% to its current level of 4.5% within one year. With a vacancy rate of 4.2% in the Marzahn portfolio, we are actually below the vacancy rate of 5.8% which is standard in this location. The rent per square meter also increased from EUR 4.64 to EUR 4.72.

In Elmshorn/Itzehoe, north-westerly of Hamburg, Colonia owns approximately 1,500 apartments, many of which were renovated to the highest standards in 2008 and 2009. In 2010, even if we increased the average rent per square meter from EUR 4.98 to EUR 5.26, the rental rate remained well below our expectations. We were unable to reduce the vacancy rate in this portfolio. Although the vacancy rate declined from 10.6% at the beginning of 2010 to 9.9% in the middle of the year, it had increased again to 11.5% by the end of the year. This was a less than satisfying result.

With regard to our smaller portfolios in the North and West of Germany, the fluctuation range of the vacancy rate clearly depends on the reporting date. In our “Domus” portfolio (approximately 1,000 residential and commercial units) with locations in Kiel, Osnabrück, Cologne and Aachen and elsewhere, the vacancy rate fell from 5.8% at the start of the year to 3.5%. However, if we look at the quarterly reporting dates in detail, a fluctuation range of 4.9% on March 31, 2010 to 5.3% on June 30, 2010 can be seen.

Significant Transactions in the Service Segment

Fiscal 2010 was marked by the restructuring of the Service segment. To create consistent standards, clearer responsibilities and above all to better exploit potential synergies, we transferred CRE Resolution GmbH and CRE Accentro GmbH into a new company. As of mid 2010, we pooled all Colonia services for third parties under the name of Colonia Real Estate Solutions GmbH. The service platform offers modular, customized solutions along the real estate value creation chain. The range of services on offer extends from transaction and investment consulting, via asset and property management to advice on the sale of residential and commercial real estate.

However, the Service segment was not only restructured on an organizational level; our client focus was also expanded considerably. The goal for fiscal 2010 was, by means of restructuring, to reduce costs, increase synergy between the individual service areas and to win new clients in order to bring this business line back into the profit zone. We succeeded in doing this. Despite a slight 1.8% decline in revenues from Asset Management to EUR 7.2 million, costs fell significantly by 15.3% to EUR 6.7 million. As a result, this business segment again generated positive result – of EUR 0.5 million.

Altogether we gained three new asset management clients in 2010, corresponding to a volume of around EUR 157 million. In early December 2010, Colonia Real Estate Solutions GmbH (Solutions) received the asset management mandate for eight commercial properties in Berlin with a rental space of around 60,000 m^2. With these eight properties, the aim is to leverage existing expansion reserves, reduce the vacancy rate and re-position the buildings on the market. In late December 2010, the mandate for managing a further 17 commercial properties with around 95,000 m^2 was added. The 17 properties are located primarily in attractive large cities in Germany such as Berlin, Dortmund, Karlsruhe and Frankfurt am Main. The asset management contract was concluded for six years.

Moreover, around 107,280 m^2 of commercial space in client portfolios were newly rented and/or extended. It is especially worth highlighting the re-letting of 12,414 m^2 in the World Trade Center Dresden to the City of Dresden. Overall, almost 39,000 m^2 of rental space from a total of around 70,000 m^2 of rental space in the World Trade Center was re-let or extended since January 2010.

The privatization of apartments – or the transformation of rented apartments into condominiums – can look back on a successful 2010. During the past year, privatization operations sold a total of around 562 units (vs. 980 units in the previous year) from internally and externally owned holdings to private and institutional investors. The individual sales result was thus increased from 381 to 562. There were no block sales in 2010 (versus 599 in the previous year). A further positive development came in the form of the extension of the marketing contract with GSW Immobilien AG, Berlin for the privatization of a GSW residential real estate holding earmarked for this purpose. Since 2007 Colonia has been privatizing the privatization holdings of GSW in Berlin, and has actually been doing so exclusively since 2009.

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

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

Results of Operations of the Colonia Group

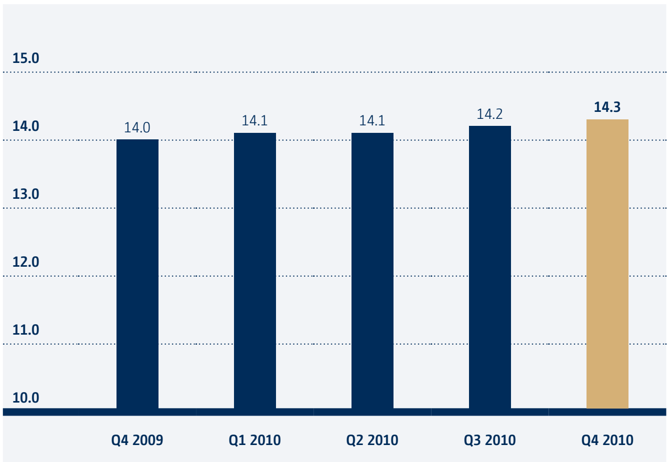
The consolidated loss after taxes for fiscal 2010 amounted to EUR 27.2 million, a decline of EUR 34.2 million compared to 2009. In addition to a loss before taxes of EUR 14.4 million, this is primarily due to taxes of EUR -12.8 million. The 2009 consolidated net profit was primarily based on an increase in net rental income, cuts in administrative costs and improved financial results due to the income from a waived loan in conjunction with a follow-up refinancing. By contrast, 2010 was negatively impacted by significant declines in net rental income, reduced (positive) revaluation results, unexpected administrative expenses due to the takeover by TAG Immobilien AG, and, in particular, a one-off tax expense. The various income and expense items contributing to the consolidated net loss for 2010 are analyzed in detail below.

	2010	2009
in EUR k	1/1/–12/31/2010	1/1/–12/31/2009
Gross rental income from investment properties and service charge income on principal basis	86,301.4	88,404.6
Proceeds on the sale of properties held for sale	2,921.6	1,623.3
Net income from asset management	7,156.7	7,287.2
Other income	2,572.5	2,346.2
Valuation movements	6,869.9	25,690.0
Total income excluding finance income (revenue)	**105,822.1**	**125,351.3**

In 2010, Colonia's revenue (total income excluding financial income) was EUR 105.8 million, a year-on-year decline of 15.6% (EUR -19.5 million). This is due to a slight reduction in rental income (EUR -2.1 million) and, in particular, a decline in income from fair valuation of our properties (EUR -18.8 million).

	2010	2009
in EUR k	1/1/–12/31/2010	1/1/–12/31/2009
Net rental income (NRI)	56,736.7	59,109.0
Net operating income (NOI)	24,318.1	32,854.1

Net Rental Income



Net rental income appears to have declined by 4.0% or EUR 2.4 million to EUR 56.7 million as at December 31, 2010. However, the 2009 net rental income also includes rent from the first nine months for a residential portfolio in Berlin which was disposed of in September 2009. Like-for-like, excluding rents from the disposed units, net rental income for 2010 would have increased slightly by approximately 2.3% year-on-year.

The increase in net rental income is more significant compared to the other quarters of 2010. Whilst net rental income remained almost stable for the first three quarters of 2010, it increased slightly to EUR 14.3 million in the fourth quarter of 2010. The reduction in vacancy levels from 2009 to 2010 and the rent increase are showing early signs of success.

However, net operating income declined significantly in fiscal 2010. Net operating income declined significantly from EUR 32.9 million in 2009 to EUR 24.3 million in fiscal 2010. This is equivalent to a 26.0% or EUR 8.6 million decline. In addition to the EUR 3.7 million decline in net rental income due to the sale of the Berlin portfolio, this reduction was primarily caused by higher investment and modernization expenses. Maintenance costs increased by EUR 1.8 million compared to the previous year, whilst the costs of modernization and investment in our portfolios increased by EUR 10.3 million. As part of the audit of the 2010 consolidated financial statements, investment and modernization expenses reported during the year for capital expenditure measures that could be capitalized were re-classified as property operating expenses. This results in an increase in property operating expenses and a reduction in net operating income. To improve comparability, we have adjusted the previous year's figures to this reporting format and re-classified comparable expenses.

	2010	2009
in EUR k	1/1/–12/31/2010	1/1/–12/31/2009
Income from Asset Management	7,156.7	7,287.2
Expenses for Asset Management	-6,675.1	-7,883.8
Net income from Asset Management	**481.6**	**-596.6**

Despite revenue in the Asset Management segment declining slightly by 1.8%, this segment generated a profit in 2010. Following a loss of EUR 0.6 million in the previous year, the profit in 2010 amounted to EUR 0.5 million. As a result of a significant EUR 1.2 million cost reduction in Asset Management, we achieved our target of bringing Asset Management back into profitability.

Asset Management expenses related to property expenses of our own portfolios were recognized for the first time in the 2010 statement of comprehensive income. The 2009 figures were adjusted accordingly to improve comparability. For fiscal 2009, this resulted in a EUR 0.6 million reduction in Asset Management expenses and an equal increase in property operating expenses.

	2010	2009
in EUR k	1/1/–12/31/2010	1/1/–12/31/2009
Personnel expenses	-3,808.1	-4,401.0
Operating expenses	-8,949.7	-5,787.4
Depreciation and amortization	-878.9	-167.3
Administrative expense	**-13,636.7**	**-10,355.7**
Restructuring costs	**0.0**	**-399.4**

In 2010, in the context of extraordinary operating expenses in the fourth quarter of 2010, administrative costs increased year-on-year by EUR 3.3 million to EUR 13.6 million (2009: 10.4 million). The extraordinary expenses in the fourth quarter of 2010 are shown clearly in comparison with the remaining quarters of 2010. Whilst operating expenses in the first three quarters of 2010 ranged between EUR 1.5 million and EUR 1.8 million, they amounted to EUR 4.1 million in the fourth quarter of 2010 alone. The increased expenses are primarily due to the fees for consulting services in connection with the TAG Immobilien AG takeover bid. By contrast, personnel expenses remained stable compared to the previous quarters at EUR 0.9 million. With regard to administrative expenses, reporting changes were also undertaken in the 2010 statement of comprehensive income. For improved comparability, these reporting changes have also been undertaken in the presentation of the 2009 figures. As a result, the 2009 administrative expenses declined by approximately EUR 1.3 million and property operating expenses increased accordingly.

As a result of a significant decline in net operating income and increased administrative expenses, EBITDA for fiscal 2010 decreased significantly to EUR 14.1 million (2009: EUR 23.6 million). As shown previously, this decline was primarily caused by the EUR 8.5 million decline in net operating income, due chiefly to higher investment and non-recurring effects in connection with the TAG Immobilien AG takeover bid. EBIT also declined significantly from EUR 33.4 million in 2009 to EUR 16.9 million in fiscal 2010. The reduction in EBIT is based largely on decreased income from fair valuation compared to 2009, a write-down of EUR 1.3 million on equity interests and depreciations on goodwill of EUR 0.6 million.

By contrast, in 2010, finance expenses were more positive, decreasing by 12.4% to EUR 31.8 million. This was due to the partial restructuring of our financing and scheduled repayments of higher-interest mezzanine loan tranches. Despite savings in finance expenses, net finance expenses increased year-on-year to EUR 31.4 million (2009: 26.5 million). However, this figure is exclusively due to the EUR 8.7 million income from the loan waiver in the first quarter of 2009.

in EUR k	2010 1/1/–12/31/2010	2009 1/1/–12/31/2009
EBITDA	**14,066.4**	**23,637.3**
Impairment of equity interests	-1,300.0	0.0
Valuation movements through measurement at fair value	5,249.9	10,180.3
Depreciations	-1,112.6	-449.1
EBIT	**16,903.7**	**33,368.5**
Loan waiver income	0.0	8,700.2
Finance expenses	-31,786.1	-36,305.4
Financial income	435.7	1,092.7
EBT	**-14,446.7**	**6,855.9**
Taxes	-12,790.8	145.3
Consolidated profit/loss after tax	**-27,237.5**	**7,001.2**

As noted in our ad-hoc release on November 30, 2010, the share purchase by TAG Immobilien AG has wide-reaching tax effects for Colonia's consolidated financial statements. In accordance with Section 8c (1) Corporate Tax Act, for a share purchase of more than 25% by a third party, unused tax losses (tax loss carryforwards) corresponding to the proportion of the ownership interest may no longer be used. This results in deferred tax assets declining by a corresponding amount. For an acquisition of more than 50% of the share capital of Colonia, none of the tax losses – except the utilization of corresponding hidden reserves – are deductible. On the basis of extensive tax plannings for all Group companies for the period 2011 to 2015, and taking into account the proportion of the share capital in Colonia held by TAG Immobilien AG, income taxes amount to EUR -12.8 million at the end of 2010.

For fiscal 2010, taking into account tax expenses, the consolidated loss after tax amounts to EUR 27.2 million. Even taking into account the non-recurring tax and operating effects in 2010, this is not a satisfactory result.

Net Assets and Financial Position

in EUR k	2010 1/1/–12/31/2010	2009 1/1/–12/31/2009
ASSETS		
Non-current assets	831,037.9	845,418.2
Current assets	31,271.0	35,475.1
Non-current assets held for sale	4,500.0	0.0
Total assets	**866,808.9**	**880,893.3**
EQUITY AND LIABILITIES		
Equity	227,169.5	246,381.7
Non-current liabilities	530,943.7	587,396.6
Current liabilities	108,695.7	47,115.0
Liabilities directly connected with assets held for sale	0.0	0.0
Equity and liabilities	**866,808.9**	**880,893.3**

In fiscal 2010, no larger real estate portfolios were acquired or sold. As a result, total assets declined slightly by 1.6% year-on-year to EUR 866.8 million (2009: EUR 880.9 million).

On the asset side, total non-current assets also decreased slightly to EUR 831.0 million (2009: EUR 845.4 million). These non-current assets comprise primarily investment properties, intangible assets and our minority interests and loans to our real estate joint ventures. The investment properties alone, at EUR 817.7 million (2009: 814.2 million), represent a share of 94.3% of total assets. As a result, our investment properties remained practically unchanged year-on-year. Year-on-year, our equity interests declined considerably from EUR 8.2 million to EUR 2.4 million. At the beginning of 2010, there was already an intention to sell Colonia's minority interest in the joint venture with Oaktree Capital Management. As a result, this EUR 4.5 million figure was re-classified as non-current assets held for sale. The share of our 4.8% stake in the joint venture with Oaktree, the "Hercules/ Homer Portfolio", took place in January 2011. Furthermore, the EUR 1.3 million reduction in the carrying amount for one of our equity interests resulted in a decrease in the value of our equity interests.

Deferred tax assets also decreased significantly from EUR 12.6 million to EUR 1.0 million. Deferred taxes are calculated on the basis of extensive tax plannings for all significant Group companies for the period 2011 to 2015, taking into account the proportion of share capital in Colonia held by TAG Immobilien AG. The decrease in deferred taxes is primarily due to the participation of TAG Immobilien AG in Colonia Real Estate AG. In accordance with Section 8c (1) Corporate Tax Act, if TAG Immobilien AG holds a stake in Colonia, the same proportion of tax loss carryforwards may no longer be used. This results in a reversal of deferred tax assets. If the stake owned by TAG Immobilien AG exceeds 50.0%, the tax loss carryforwards – except the utilization of corresponding hidden reserves – may no longer be used. On February 15, 2011, TAG Immobilien AG informed Colonia that the 50% threshold had been exceeded.

Within the EUR 31.3 million value of current assets, the value of property held for sale, our privatization portfolio, increased to EUR 9.8 million (previous year: EUR 6.3 million) as a result of the acquisition of approximately 90 units in Berlin. Since the transfer of ownership in the first quarter of 2010, apartments are continually being sold by our own privatization team, according to their use.

The company's cash funds declined year-on-year from EUR 13.1 million to EUR 11.1 million at the end of the reporting period. This is primarily due to the EUR 6.4 million net cash used in operating activities. By contrast, net cash from financing activities amounted to EUR 3.6 million.

Despite a capital increase with gross issue proceeds amounting to EUR 10.8 million in October 2010, the Company's equity decreased as a result of the consolidated net loss in 2010, from EUR 246.4 million to EUR 227.2 million as at December 31, 2010. As a result, the equity ratio decreased to 26.2% (previous year: 28.0%). In connection with this capital measure, Colonia Real Estate AG share capital increased year-on-year from EUR 2,845,990 to EUR 31,305,990.

Current and non-current financial liabilities decreased by 2.3% to EUR 489.7 million as at December 31, 2010. By contrast, liabilities from current and non-current convertible bonds increased from EUR 57.4 million at the end of 2010 to EUR 69.8 million on December 31, 2010. This increase is primarily based on the issue of a new convertible bond in May 2010, with a total nominal value of EUR 11.4 million. Due to the final maturity on December 2011 our convertible bond 2006/2011 is reported as current liabilities. Current liabilities increased from EUR 47.1 million to EUR 108.7 million at end of December 2010. Bank loans remained practically constant at EUR 3.3 million, non-current financial liabilities decreased by EUR 1.7 million to EUR 21.9 million, whilst trade payables increased by EUR 3.5 million to EUR 18.9 million.

According to the reporting changes of the convertible bond 2006/2011 non-current liabilities lower from EUR 587.4 million to EUR 530.9 million at the end of the reporting period.

in EUR k	2010 1/1/–12/31/2010	2009 1/1/–12/31/2009
Net cash used in operating activities	-6,405.2	-10,225.9
Net cash generated by investing activities	968.6	1,866.0
Net cash generated by financing activities	3,577.1	7,611.4
Change in cash and cash equivalents	**-1,859.5**	**-748.5**
Currency translation	35.1	-43.0
Cash and cash equivalents at beginning of period	9,618.6	10,410.1
Cash and cash equivalents at end of period	**7,794.2**	**9,618.6**
Cash and cash equivalents	11,108.4	13,071.9
Current credit lines	-3,314.2	-3,453.3

Cash from operating activities increased compared to the adjusted figures for 2009 from EUR 17.9 million to EUR 19.0 million in 2010. Despite a reduction in interest payments from EUR 25.7 million (previous year: EUR 28.7 million), cash used in operating activities decreased to EUR 6.4 million, an improvement compared to the previous year (2009: EUR 10.2 million).

Since no larger real estate portfolios were acquired or sold, net cash generated by investing activities amounted to EUR 1.0 million, primarily due to proceeds from disposal of properties.

At the end of the reporting period, net cash generated by financing activities amounted to EUR 3.6 million. It results primarily from payments from the capital increase carried out in October 2010 (EUR 10.8 million) and the issue of a convertible bond in May 2010 (EUR 11.4 million). In 2010, loan repayments amounted to EUR 21.0 million.

Net changes in cash and cash equivalents amounted to EUR -1.8 million. At the end of 2010, cash and cash equivalents had decreased to EUR 7.8 million (previous year: EUR 9.6 million). As at December 31, 2010, cash funds, including current account credit lines of EUR 3.3 million, amounted to EUR 11.1 million.

2. Notes to the Single-Entity 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, 2010, as prepared under the German Commercial Code (HGB), showed total assets of EUR 356.0 million (previous year: EUR 350.1 million) and thus rose slightly year-on-year by 1.7% or EUR 5.9 million. This is especially due to receivables from affiliated companies, which increased by 6.6% to EUR 49.6 million (prior year: EUR 46.5 million).

At EUR 296.4 million, fixed assets remained virtually unchanged (prior year: EUR 297.0 million). At EUR 255.7 million (prior year: EUR 254.1 million), shares in affiliated companies alone constituted 86.3% of fixed assets. Current assets consisting of inventories (EUR 0.2 million; prior year: EUR 0.2 million), receivables and other assets (EUR 50.0 million; prior year: EUR 47.0 million) and cash and cash equivalents (EUR 4.5 million; prior year: EUR 2.0 million) increased, particularly as a result of an 11.1% increase in receivables from affiliated companies to EUR 54.6 million (prior year: EUR 49.2 million). Furthermore, prepaid expenses increased from EUR 4.0 million to EUR 4.9 million.

At the reporting date, equity reached an amount of EUR 215.2 million (prior year: EUR 224.9 million) and fell by 4.3% despite a capital increase via 2,845,990 shares. Despite the proceeds from the capital increase of around EUR 10.8 million, this is primarily due to the net loss for the year of EUR 20.5 million and thus the increase in net accumulated losses to EUR 57.8 million.

The Company's liabilities increased year-on-year by EUR 14.9 million (12.3%) to a current level of EUR 136.4 million (prior year: EUR 121.5 million). Significant for the rise is the issue of a convertible bond in May 2010 that led to an increase in the "bonds" item from EUR 61.0 million to EUR 74.3 million.

	2010	2009
in EUR k	1/1/–12/31/2010	1/1/–12/31/2009
ASSETS		
Fixed assets	**296,415.1**	**296,976.3**
Current assets	**54,635.3**	**49,174.7**
Prepaid expense	**4,948.4**	**3,957.8**
EQUITY AND LIABILITIES		
Subscribed capital	31,306.0	28,460.0
Capital reserves	241,726.0	233,757.3
Retained earnings	2.5	11.6
Net accumulated losses	-57,807.8	-37,300.0
Equity	**215,224.2**	**224,928.9**
Provisions	**2,699.1**	**1,894.5**
Liabilities	**136,356.1**	**121,472.5**
Deferred income	**1,719.4**	**1,812.9**
TOTAL LIABILITIES	**355,998.8**	**350,108.8**

Colonia Real Estate AG's revenues, which are primarily rental income and allocations, came to EUR 1.4 million for the year (previous year: EUR 1.9 million), while other operating income was EUR 4.0 million. EUR 3.7 million of this accounted for the frozen assets of the former Küpperbusch AG and was eliminated again at the same amount as expenses in the item "Earnings attributable to insolvency holders".

The personnel expense for 2010 increased slightly by EUR 0.2 million to EUR 3.7 million (previous year: EUR 3.5 million). By contrast, other operating expenses of EUR 8.2 million fell significantly by EUR 4.3 million, or 34.4% (previous year: EUR 12.5 million). It should be noted that 2009 had been impacted by extraordinary merger losses of EUR 5.6 million.

Write-downs of investments classified as current assets amounting to EUR 7.2 million (previous year: EUR 11.5 million) related particularly to write-downs on the carrying amount of a joint venture (EUR 1.3 million) and the subsidiaries Colonia Real Estate Solutions GmbH (EUR 5.5 million) and CRE German Office GmbH (EUR 0.4 million).

Taking into account taxes on income produces a net loss for the 2010 fiscal year of EUR 20.5 million (previous year: loss of EUR 26.8 million).

in EUR k	2010 1/1/–12/31/2010	2009 1/1/–12/31/2009
Revenues	1,437.3	1,850.0
Increase in portfolio of work in progress	6.4	6.9
Other operating income	3,956.0	357.4
	5,399.7	**2,214.3**
Cost of materials	-254.2	-276.9
Personnel expenses	-3,736.0	-3,545.3
Amortization and write-downs of intangible fixed assets, depreciation and write-downs of tangible fixed assets	-480.2	-411.3
Other operating expenses	-8,243.8	-12,520.2
Income from equity investments	0.0	332.0
Other interest and similar income	4,247.9	4,326.1
Write-downs of financial assets classified as current assets	-7,171.4	-11,491.7
Interest and similar expenses	-6,264.3	-5,008.1
Income from loss absorption	-316.0	-362.3
Income from ordinary activities	**-16,818.4**	**-26,743.4**
Taxes on income	-8.4	154.4
Other taxes	-1.2	-16.9
Earnings attributable to insolvency holders	-3,679.9	-199.1
Net loss for the year	**-20,507.9**	**-26,805.0**
Previous year's loss carryforwards	-37,300.0	-10,490.4
Reserve for treasury shares	0.0	-4.5
Net accumulated losses	**-57,807.9**	**-37,299.9**

III. Employees

The commitment and expertise of our employees is an important factor in Colonia's success. As a result, our approach to human resources includes supporting and developing our employees individually, as well as retaining our employees at Colonia through performance-related remuneration. Creating an honest company culture with open communication and trust is as important to us as the satisfaction of our employees. Even while they are still training, we seek out young talent 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).

On average, Colonia Real Estate AG had 32 employees for the year including the Board of Management (previous year: 29), and the Colonia Group had 89 employees (previous year: 91) at seven locations in Germany. Personnel expenses, contained in administrative expenses, for fiscal 2010 amounted to EUR 3.8 million (previous year: EUR 4.4 million), and therefore slightly lower year-on-year.

The total compensation that the active members of the Board of Management, Stephan Rind and Volker Lemke, received for their activities in the 2010 fiscal year amounted to EUR 0.8 million (2009: EUR 1.1 million). The total compensation of the Board of Management includes a non-performance-based fixed annual salary as well as other compensation, noncash benefits and compensation in kind, a possible variable compensation and the fair value of the stock option plan. The other compensation is entirely non-performance-based. Details of the compensation of the Board of Management in 2010 are shown in the following table; the figures for the previous year are shown in parentheses.

Details of the compensation of the Board of Management and Supervisory Board can be found in the Compensation Report in the Corporate Governance Report.

in EUR k	Fixed component	Other compensation	Variable component	TOTAL	Transferred to pension fund	Performance units
Stephan Rind	500.0	18.1	0.0	518.1	0.0	0.0
	(500.0)	(22.4)	(150.0)	(672.4)	(1.5)	(40.0)
Volker Lemke	250.0	8.8	0.0	258.8	0.0	0.0
	(250.0)	(29.1)	(100.0)	(379.1)	(1.2)	(30.0)
Friedrich Thiele (until April 30, 2010)	83.3	223.1	0.0	306.40	0.0	0.0
	(250.0)	(21.8)	(100.0)	(371.8)	(1.2)	(30.0)
Total	**833.3**	**250.0**	**0.0**	**1083.3**	**0.0**	**0.0**
	(1,000.0)	**(73.3)**	**(350.0)**	**(1,423.3)**	**(3.9)**	**(100.0)**

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

Composition of Subscribed Capital

At the end of the reporting period, the share capital of Colonia Real Estate AG was made up of 31,305,990 shares (2009: 28,460,000), divided into 31,305,990 no-par bearer shares. The proportional value of the share capital relating to each individual share is EUR 1.00. 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 with regard to Company shares. Furthermore, 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.

On October 31, 2010, in accordance with the Articles of Incorporation of Colonia Real Estate AG, the Board of Management decided, disapplying the subscription right of shareholders, to increase the Company's share capital from EUR 28,460,00 by EUR 2,845,990 to EUR 31,305,990 by partial utilization of Authorized Capital. The new shares were successfully placed on October 14, 2010. With a price per share of EUR 3.80, gross issue proceeds amounted to approximately EUR 10.8 million.

Equity Interests in Excess of 10% of the Voting Rights

As at the reporting date, TAG Immobilien AG, Hamburg, holds 29.82% of voting rights in Colonia Real Estate AG, making it the Company's largest shareholder. The Board of Management knows of no other equity interests in excess of 10%.

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 three quarters of the share capital represented at the vote must approve the amendment. Sections 179 ff. of the Stock Corporation Act must be applied.

Appointment and dismissal of members of the Colonia Real Estate AG Board of Management takes place in accordance with Sections 84 and 85 of the Stock Corporation Act. The Supervisory Board appoints and decides the number of members of the Board of Management, and appoints the Board's chair.

Management's Authority to Issue New Shares

The Colonia Real Estate AG Board of Management may normally issue new shares only when authorized by resolutions of the Shareholders' Meeting. As at December 31, 2010, the Company had Authorized Capital of EUR 11,384,010, composed as follows:

In accordance with Section 4 (4) of the Articles of Incorporation, 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 a total of up to EUR 9,332,800.00, by issuing new no-par bearer shares *("2007 Authorized Capital")*.

In accordance with Sec. 4 (5) of the Articles of Incorporation, 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 no-par bearer shares in return for contributions in cash or in kind *("2009 Authorized Capital")*.

In accordance with Section 4 (6) of the Articles of Incorporation, 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 June 23, 2015, by up to a total of EUR 177,210.00, by issuing new no-par bearer shares in return for contributions in cash or in kind *("2010 Authorized Capital")*.

With regard to the 2007 Authorized Capital, 2009 Authorized Capital and 2010 Authorized Capital, the Colonia AG Articles of Incorporation authorizes the Board of Management to disapply shareholders' subscription rights with the approval of the Supervisory Board.

The following contingent capital also exists in addition to the authorized capital:

In accordance with Section 4 (3b) of the Articles of Incorporation, the Company's share capital has been contingently increased by up to EUR 316,000.00, divided into up to 316,000 no-par bearer shares, by the issue of new stock *("Contingent Capital III")*. The purpose of the contingent capital increase is the issue of stock to service exercised subscription rights (stock options), which were granted as a result of the *"Colonia Real Estate 2006 Stock Option Plan"*. The contingent capital increase is only carried out to the extent that subscription rights are used.

In accordance with Section 4 (3c) of the Articles of Incorporation, the Company's share capital has been contingently 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 (*"Contingent Capital IV").* The contingent 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 contingent capital increase is only to be carried out when the conversion or option rights from the convertible bonds or bonds with warrant and if the conversion requirements for these bonds are fulfilled. A convertible bond for the amount of EUR 55.0 million was issued in December 2006.

In accordance with Section 4 (3d) of the Articles of Incorporation, the Company's share capital has been contingently increased by up to EUR 110,000.00, divided into up to 110,000 no-par bearer shares, by the issue of new stock *("Contingent Capital V").* The purpose of the contingent capital increase is the issue of stock to service exercised subscription rights (stock options), which were granted as a result of the *"Colonia Real Estate 2007 Stock Option Plan".* The contingent capital increase is only carried out to the extent that share options are used by the holders of subscription rights.

In accordance with Section 4 (3e) of the Articles of Incorporation, the Company's share capital has been contingently increased by up to EUR 3,124,247.00, divided into up to 3,124,247 no-par bearer shares, by the issue of new stock *("Contingent Capital VI").* This contingent 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 contingent capital increase is only to be carried out if the conversion or option rights are used or if the holders or creditors with conversion requirements fulfill their conversion requirements and no cash payment is made and no treasury stock or new shares from Authorized Capital are used. A convertible bond for the amount of EUR 11.4 million was issued in May 2010.

In accordance with Section 4 (3f) of the Articles of Incorporation, the Company's share capital has been contingently increased by up to EUR 339,000.00, divided into up to 339,000 new no-par bearer shares, by the issue of new stock *("Contingent Capital VII").* The sole purpose of the contingent capital increase is the issue of stock to service exercised subscription rights (stock options), which were granted as a result of the "Colonia Real Estate 2008 Stock Option Plan". The contingent capital increase is only carried out if the holders of stock options issued in the Colonia Real Estate 2008 Stock Option Plan use their subscription rights and these rights are not fulfilled by transfer of treasury stock.

Authorizations for the Board of Management to Purchase Treasury Stock

In fiscal 2010, the Company did not use the authorization granted by the Shareholders' Meeting of June 24, 2010 to acquire treasury stock. Under Section 71 (1) No. 8 of the German Stock Corporation 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. This authorization is valid until June 23, 2010. At the current reporting date, the Company holds 2,501 treasury shares.

Conditions for a Change of Control Consequent Following a Takeover Bid

Colonia Real Estate AG's individual finance contracts contain the regulations required by such contracts for the event of a change of control. Breach of agreed information requirements or a change of control may entitle the lender to call in loans. The majority of loan agreements have been concluded by Colonia Real Estate AG subsidiaries. As a result, the risk of a termination by the creditor in the event of a change of control by the parent company is considered minimal.

The conditions for the issue of both Colonia Real Estate AG convertible bonds (ISIN: A0LDSA and A1EMFA) provide the creditor with special termination rights in the event of a change of control at Colonia Real Estate AG. A change of control exists if one or more persons together acquire control over the company. Control is defined as an acquisition of more than 50% of the voting rights in Colonia Real Estate AG. If the termination right is exercised by the creditors in the event of a change of control, Colonia is required to repay the convertible bonds at their increased nominal value including any accrued interest. A change of control took place with the notification made by TAG Immobilien AG on February 15, 2010, announcing the acquisition of more than 50% of the Colonia share capital.

Compensation Agreements with Members of the Board of Management Affected in the Event of a Takeover Bid

In accordance with their employment contracts, the members of the Board of Management are authorized to terminate their contract of employment with a notice period of three months to the end of the month and to resign their position on the Board of Management if a third party, individually or with the voting rights granted by Section 30 of the Securities Acquisition and Takeover Act (WpÜG), gains control over the Company in accordance with Section 29 (2) and Section 35 (1) No. 1 of the Securities Acquisition and Takeover Act. This right also applies to the members of the Board of Management in the event takeovers secured by individual agreements, for example in the event of a majority of voting rights in the Company's Shareholders' Meeting. In the event that they are removed from their membership on the board prematurely because of a change of shareholder control, the members of the Board of Management are entitled to payment of compensation. The change of control provisions in their contracts govern various cases of changes of control. Under the German Corporate Governance Code, the amount of severance payments for members of the Board of Management is supposed to be 150% of the severance pay cap, equivalent to the capitalized pay for three full years. Stephan Rind exercised his extraordinary termination right in case of a change of shareholder control on March 2, 2011; Volker Lemke on April 1, 2011.

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

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. Our ambition is to deserve at all times the trust that investors, business partners, clients, employees and the public have placed in us, and to continue evolving our transparent management practices. It is especially important to us to implement the recommendations and suggestions of the German Corporate Governance Code. Our current Declaration of Conformity under Section 161 of the Stock Corporation Act, together with the Declarations of Conformity from previous years, is available on our website at www.colonia.ag, Investor Relations, in the Corporate Governance chapter.

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 website www.colonia.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

Yield-Oriented Sustainable Growth with Appreciable Risks

In order to ensure the continued existence of the Colonia Group and, in particular, to support sustained growth, the Board of Management of Colonia has implemented an extensive opportunities and risk management system within the Group. The aim of this risk management system is to avoid risk and to manage and minimize risks once they have been identified by initiating suitable countermeasures.

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.

In the past fiscal year, we developed our risk management procedures and improved our reporting standards. As a result, all codes of conduct applicable to the Group as a whole were updated. Every employee is required to act with awareness and responsibility with regard to opportunity and risk. Colonia's compliance regulations must be observed and are revised regularly. As a result, a balanced opportunity and risk policy is part of our philosophy and company culture.

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. The Board of Management is accountable for consistent implementation of and compliance with the established procedures and structures. Clearly defined processes allow the Board to identify and assess risks more quickly and to introduce appropriate measures to minimize risks where necessary. At the same time, opportunities may also be identified and used at an early stage.

A risk management team has been set up within the Controlling unit to monitor compliance with the risk management procedure and to investigate and manage possible risks. This ensures that all risks are presented consistently, transparently and objectively. The risk management team also controls the implementation and effectiveness of counter- measures and has complete transparency over all risks to the Group. The risk management team reports directly to the Board of Management. Board of Management regularly or if necessary ad-hoc informs the Supervisory Board of the company. The principles and procedures for the risk management system are laid out in the Group-wide risk management handbook. All employees are bound to comply with this handbook in its entirety. Formulated processes and reporting procedures, clear definition of responsibilities and defined control levels ensure the flow of information and early recognition of possible risks.

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. 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.

The procedures for reporting to the Board of Management and the Supervisory Board are based on this risk map. The risk management team holds regular meetings with the respective risk owners regarding the risks they have reported or identified, separate from reports made to the Board of Management and Supervisory Board. The impact and effectiveness of any countermeasures is also discussed, alongside possible changes to established measures. If necessary, risk assessment is also adjusted. This continuous process increases the risk awareness of every employee and helps to avoid risk.

Another integral part of risk management is the internal controlling system for the financial reporting process. Our model is that the internal controlling system should represent all is principles, procedures and measures needed to meet business and controlling aims. This includes the reliability of accounting processes and financial reporting in accordance with laws and guidelines.

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. A few of Colonia's 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. Since part of our property is managed by external companies, the accounting process for the property management takes place in accordance with the requirements in place in the Colonia group, and is passed on to the Group's accounting unit. In this regard, the Group accounting unit carries out an additional controlling function. Furthermore, we use outside specialists to determine 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 covered by appraisals by outside appraisers.

The consolidated financial statements are prepared by the central accounting unit of the holding company, and also at present by an outside audit and accounting firm, in accordance with International Financial Reporting Standards (IFRSs) as adopted by the EU. 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 Colonia Real Estate AG, are prepared in compliance with regulations.

The process of producing consolidated financial statements has been developed in the last fiscal year. As well as updating the standard Group-wide accounting principles, improved mechanisms for controlling external accounting were implemented in-house in order to minimize risk. Furthermore, we implemented individualized authorization concepts and access controls to prevent misuse. Possible risks in the context of the reporting process and preparing the financial statements have also been represented in the risk map, analyzed and assessed. As a result, reporting processes are subject to continual risk analysis and control. 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 is mined about the need to form or reverse provisions.

The entire risk management process, including the internal controlling systems, is conceived as a cycle, the effectiveness of which is monitored continually. Monitoring and development of our risk management system is carried out to improve and early detection and management of risks and to identify risks more rapidly.

Opportunity Management System

We develop our opportunity management system from collecting, analyzing and processing a range of market and competition data. Opportunities arise both from our real estate portfolio and changing market conditions. The system works to recognize and assess these changes, and to detect any opportunities and risks at an early stage, as well as introducing measures to use or counter these risks and opportunities. Our decentralized structure, with sites across Germany, allows us to detect trends early and to react more quickly than many of our competitors.

Within our Service segment, we also try to recognize trends on the market and changing customer requirements in good time and to use opportunities thanks to innovative services and products. Grouping our service subsidiaries in a Service platform allows us to supply all services right along the value chain for property. This allows customers to avoid inconvenient and ineffective interfaces.

Overall, we currently consider our business model to have more opportunities than risks, which we must use to generate yields.

Individual Opportunities and Risks

As explained above, possible risks are reported by employees and operating units to the risk management team, where they are recorded, analyzed and quantified together with risk owners. 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 Colonia Group's assets, liabilities, financial position and profit or loss. Although our risk management system has already proven successful, and although it is continually being updated, other risks for Colonia may arise that have not been included in our risk assessment. These 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

Colonia Real Estate AG and its market environment are also affected by economic and political conditions. Even though our investments are only found in Germany, we cannot escape the effects of global developments. Nevertheless, the economic, political and regulatory climate in Germany is most significant for us and for our business model.

We expect the upturn in Germany to continue in 2011. However, we expect economic growth in Germany to weaken as economic recovery measures come to an end and pressure increases to consolidate the state budget. Lower unemployment rates and higher disposable income among private households will have a positive impact on rental markets in Germany. The more income a tenant has available and the more secure their job, the more willing they are to accept rent increases or to pay a higher rent. As a result, we expect the rental market for residential properties in Germany to develop positively overall, albeit with some regional variation.

The *market for real estate transactions* will be impacted by the current low level of interest rates. An unexpected increase in interest rates on loans for real estate transactions would restrict the financing available for potential real estate investors and result in decline in interest in the purchase of real estate. That would have adverse effects on our transaction business and also on the income from our Service segment.

Changes to the regulatory environment such as changes to tenancy law and/or requirements for property owners to undertake more extensive renovations could have a negative impact on Colonia's income. Limited optimization with regard to rent price development and higher investment expenses could limit rental income and net income from property management.

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.

Industry and Market Risks

The Colonia business model is based primarily on the management of residential properties. As a result, optimization of rental income and property management expenses is important to us. A reduction in rental income or an increase in management costs would reduce our income. In the context of the current stable or slightly increase rent prices in Germany, expect the risk of falling rental income due to market risks to be low. A wide variety of experts forecast a shortage of residential space in precisely those cities and metropolitan areas where a share of our residential properties is located. The annual demand is estimated at between 270,000 and 350,000 residential units. However, according to the Federal Statistical Office, building permits have been issued for fewer than 190,000 units, which could result in a shortage of residential space, with an associated rise in prices. Furthermore, we counteract the risk of declining rents due to 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.

We also consider an increase in management and renovation costs a further risk. Any legally-based requirements for property owners to undertake considerable renovations of residential properties could negatively impact Colonia's income.

For 2011, we expected increased demand for residential property in Germany. Rising demand in this sector might interfere with acquisitions in German residential property, but on the other hand might also open up new opportunities for selling properties from our own holdings. As demand for residential property rises, housing prices might also rise, which would yield a risk-opportunity profile similar to the one just described.

Lion's share of the Colonia's real estate portfolio is compiled by external appraisers using recognized valuation methods. Neglecting business plans or details in the valuation of our real estate portfolio, or failing to take into account planned renovation or modernization measures, could undermine the valuation of our real estate and result in exceptional write-downs. This could negatively impact Colonia's assets, liabilities, financial position, and results of operations.

Colonia's Service segment, Colonia Real Estate Solutions GmbH, is also exposed to sector and market risks. The attractiveness of investment in real estate in Germany could bring new competitors onto the market, which could lead to the lost of existing clients or make acquiring new customers more difficult. Possible price reductions by new providers could also reduce income in this segment. 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 roles of the Group's holding company, Colonia Real Estate AG, is to coordinate the financing requirements within the Colonia group and to secure the financial independence of the Group. To achieve that goal, we optimize our corporate financing, and limit financial risk with ongoing controls.

Liquidity Risk: To ensure that we maintain sufficient cash funds at all times, as well as financial flexibility, we maintain sufficient cash funds and credit lines, in keeping with our financial planning and rolling liquidity planning. Within the Colonia Group, the liquidity risk is determined using a maturity analysis for borrowing and continual monitoring of liquidity structure. As at December 31, 2010, Colonia had available cash funds of EUR 11.1 million. At the end of the reporting period, it had EUR 71.0 million current liabilities with a duration of up to one year. In addition to current account credit lines, these current liabilities primarily comprise the repayment amount for the convertible bond issued in 2006 and originally due on December 7, 2011. As a result of the acquisition of more than 50% of the Colonia share capital by TAG Immobilien AG, a one-off termination right was granted for the convertible bond holders. As a result, a credit framework agreement for EUR 75.0 million was concluded with TAG Immobilien AG, which should enable refinancing the convertible bond. The Company does not expect any short-term liquidity risks.

Credit Risk: Our use of borrowing and loan renewal exposes Colonia to risks of changes in interest rates and refinancing risks. As a result of the credit framework agreement concluded with TAG Immobilien AG for EUR 75.0 million to refinance short-term and medium-term liabilities, particularly possible claims by the creditors of convertible bonds, we do not currently see any risks from the renewal of our short-term loans. We also see the risk from changes in interest rate limited as a result of the current low interest rate levels.

The majority of our credit agreements are based on financing for our real estate portfolios. The real estate for which the financing has been secured serves as collateral for these loans. These loans require us to adhere to fixed credit agreements (covenants). 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 or rather quarterly. No breaches are impending at present. Some of these loans contain change-of-control agreements which come into effect if the borrower undergoes a change of control. As a result of the acquisition of more than 50% of the Colonia share capital by TAG Immobilien AG, there may be a risk of some of these change-of-control clauses come into effect. However, since there has been no direct change of control among the borrowing subsidiaries, this risk appears limited. Furthermore, discussions with and information from the lending banks have allowed us to minimize the possible risk from the change of control.

Changes to banks' lending policies and/or worsening interest rates might impede financing for new acquisitions of residential real estate portfolios and refinancing expiring loans, or could significantly increase finance expenses. Thus there is a risk that Colonia 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 disproportionately. We maintain constant contact with our lending partners to minimize these risks.

Interest Rate Risks: During 2010, the European Central Bank based rate remained at the historic low of 1.0%. Changes to the interest rate level affect both interest expenses and the fair value of derivatives. The majority of our credit agreements have a fixed interest rate. As a result, they are unaffected by interest rate rises. For loans at variable rates, hedges have been concluded, because here too it is more important to Colonia 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. Although an interest rate rise is expected in the next few months, we consider the negative impact on our loans minimal.

Further financial risks may derive from foreign exchange. Fluctuations in foreign exchange rates are not significant for Colonia, because we focus solely on the German residential market. For reasons of cost, the Colonia 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: Corporate strategy decisions are always associated with risks. Misjudgement of future market developments, investment in real estate which fails to fulfill its performance expectations or products which do not generate sustained value added can negatively impact the assets, liabilities, financial position and profit and loss. To avoid misjudgement and poor investments, we analyze a wide range of market and competition data, carry out extensive due diligence checks and have real estate specialists out in the different regions to enable us to react to new or changed circumstances. This allows us largely to avoid risks, and to identify opportunities at an early stage.

Performance Risks

Colonia incurs performance risks through its business model of active management of residential real estate and business relationships with tenants, clients and suppliers. Our rental income is an important revenue item. Reduction in rental income and increased rent defaults could negatively impact Colonia's revenue and earnings situation. Falling rental income could be caused by higher vacancy rates or a fall in regional rent prices. As a result of the average increase in rents in Germany, we do not currently foresee any risk for our rental income. Tenant loyalty-building measures, targeted marketing activities and investment in the attractiveness of our residential real estate reduce the risk of increasing vacancies. We also limit rent default risk, with the associated defaults on receivables, by applying active receivables management.

Approximately 46% of Colonia's residential real estate are found in Salzgitter. Demographic movements away from this region and/or adverse changes in rents and demand in Salzgitter could make the rental situation more challenging and have a negative impact on the earnings situation of the whole Colonia group.

Although we investigate our suppliers and service providers extensively before engaging them, these relationships may result in risks to the Colonia Group. Non-compliance with delivery dates, inadequate quality, or delays in construction work may adversely affect our business performance and/or increase costs. Risks may also be incurred from the use of external real estate managers. Inadequate maintenance of our property, ineffective maintenance cost management or failure to provide necessary data on time could result in higher vacancy rates and reduced income from real estate management. Late or inaccurate supply of data could also result in delays to financial and/or interims reporting in the individual companies and the Group. To reduce this risk, we endeavor to develop further our own real estate management and to expand our supplier bases continually. In the last fiscal year, we also updated and improved the processes for supplying accounting data.

Our Service segment is also subject to performance risks. If our clients decide to sell all or part of their portfolio, we risk losing clients. This could negatively impact the revenue and earnings situation of this segment and the Colonia group. The development of new products, such as the Workout Platform and continual expansion of our client base are intended to expand the Asset Management unit's client base, and to generate new earnings potential.

IT Risks

We continually adjust and develop our security standards in order to counter the increased threat to the security of information and IT-support networks. 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. In order to minimize risks further, our networks are continually monitored, and we have implemented security and protection systems to prevent the loss and misuse of data or interference with our computer networks. Colonia has also set up its own computer center that is able to ensure the security data and associated business processes in emergencies. In such a case, IT provides a "disaster recovery plan" specially set up for Colonia. It ensures restarts after local or Group-wide crashes. This "disaster recovery plan" is a part of the risk management process. In addition to these mechanisms to protect against external misuse, we also make efforts within the Group to ensure the greatest possible security in handling data and information. Colonia's 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 by preventive measures. Responses to new risks are appropriate and prompt.

Personnel Risks

The commitment and expertise of our employees is an important factor in Colonia's success. As a result, when employees leave, there is a loss of expertise. There is also the risk of finding suitable employees for vacant posts. We counter these risks through a range of human resources measures and position ourselves as attractive career employers. Performance-related remuneration, individual career opportunities and opportunities for further training and qualification also enable us to fill vacancies as quickly as possible. We also reduce the risk of employee turnover using appropriate deputation procedures, and by working in interdisciplinary teams.

Legal and Compliance Risks

Legal risks may arise from claims by third parties, which Colonia handles using the Company's experienced lawyers and, if necessary, external lawyers. Although we win most legal disputes and procedures, legal costs or other legal defense costs can have a significant impact on the Company's earnings. Colonia Real Estate AG and/or one of its subsidiaries are regularly subject to legal disputes or similar proceedings. This includes a pending legal dispute with a subsidiary of HSH Nordbank AG. As part of the sale of Colonia Fonds Management GmbH, Colonia Real Estate AG agreed an indemnification of EUR 4.5 million with the purchasers in respect to the under-subscription guarantee in place toward a subsidiary of HSH Nordbank AG. In return for the issue, Colonia Real Estate AG receives fund units of an equal amount. In December 2009, Colonia Real Estate AG terminated the contract on which these conditions were based. A legal dispute between the parties is currently pending regarding the legal validity of this termination.

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. As a result of the good economic performance in Germany, and according to careful analysis of the market data for the German real estate sector, we consider the German real estate market to offer significant opportunities, particularly for us as managers of residential real estate. This positive market and contextual data is supported by continued low interest rates and subsequent attractive financing opportunities for real estate investments.

Colonia reacted quickly to the financial market crisis and, as a result, was able to undertake substantial investment and modernization for its residential portfolio in fiscal 2010. However, unplanned setbacks in operating activities such as higher vacancy rates, a reduction in rental income and/or increases in the cost structure could have a negative impact on the Group's income 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. Our risk management system enables Colonia to detect risks early and to counteract them to the full extent of the Group's capabilities. The Colonia's Groups overall risk situation is also limited by the business model. There are currently no individual or Group risks that could threaten the continued existence of Colonia.

VII. Report on Relations with Affiliated Companies

Final Declaration on Board of Management Report on Relations with Affiliated Companies in Accordance with Section 312 AktG

For the period from October 27, to December 31, 2010, meaning since the 20% voting rights threshold in the share capital of Colonia Real Estate AG was exceeded by TAG Immobilien AG, the Colonia Board of Management has prepared a report on relations with affiliated companies that contains the following final declaration:

“We hereby declare in accordance with Section 312 (3) AktG that in the case of the legal transactions listed in the report on relations with affiliated companies, our Company has received an appropriate consideration with each legal transaction according to the circumstances known at the time at which the transactions were undertaken. Measures for inducement or in the interests of TAG Immobilien AG or its affiliated companies were neither taken nor avoided.”

VIII. Events after the Reporting Date

Significant events occurred after the end of the reporting period (December 31, 2010) until the completion of the consolidated financial statements on April 20, 2011 which may impact the assets, liabilities, financial position and results as well as the business development of Colonia Real Estate AG.

On January 3, 2011, the Board of Management and the Supervisory Board of Colonia issued a joint statement on the voluntary takeover bid by TAG Immobilien AG dated December 20, 2010. This joint statement recommended that, for financial reasons, Colonia shareholders should not approve the bid by TAG Immobilien AG. The deadline for the TAG bid ended on January 18, 2011, and was extended until February 4, 2011.

In January 2011 Colonia sold its 4.8% share in its joint venture with Oaktree Capital Management LP to OCM German Real Estate Holding AG for strategic reasons. The sale price was made at book value and amounted to around EUR 4.5 million. The sale of the share clearly shows Colonia‘s focus on its two core businesses: Investments in residential real estate and services for third parties.

On January 21, 2011 and February 9, 2011, in the context of its voluntary takeover bid, TAG Immobilien AG announced that its share of the voting rights in Colonia Real Estate AG amounted to 38.28% and 49.7% respectively. On February 15, 2011, with the acquisition of more than 50% of the Colonia Real Estate AG share capital, members of the Board of Management of TAG Immobilien AG, Rolf Elgeti and Hans-Ulrich Sutter were appointed by the Colonia Supervisory Board as ordinary members of the Colonia Board of Management. At this time, the Board of Management of Colonia Real Estate AG had four members.

On March 2, 2011, the Company announced that its long-standing CEO Stephan Rind was to resign from the Board of Management of Colonia Real Estate AG on March 15, 2011. As a result, the Board of Management was re-organized. Rolf Elgeti took over from Stephan Rind as CEO of the Company as well as responsibility for Real Estate. When Volker Lemke steps down from the Colonia Board of Management on April 1, 2011, Hans-Ulrich Sutter will become responsible for Finance, Accounting, Controlling, Legal and Personnel, as well as Joint Ventures and Integration.

As stated in the joint statement by the Colonia Board of Management and the Supervisory Board dated January 3, 2011 regarding the voluntary takeover bid by TAG, the 2006/2011 convertible bond issued by Colonia (ISIN DE000A0LDSA1) and the 2010/2015 convertible bond (ISIN DE000A1EMFA2) contain an extraordinary termination right for creditors in the event of a change of control at Colonia. A change of control according to the conditions of both convertible bonds has been in place since TAG exceeded the 50% threshold on February 15, 2011. As a result, the holders of convertible bonds may claim their right to early repayment or conversion to shares in Colonia. When the 2010 financial statements were prepared, it was not known how many bond holders of the convertible bond 2010/2015 had utilized their repayment or conversion right. A nominal volume of approximately EUR 41.2 million were called in before maturity by the bond holders of convertible bond 2006/2010.

As a result, Colonia has signed a credit framework agreement with TAG Immobilien AG for EUR 75 million for the purposes of redeeming and refinancing short-term and medium-term liabilities, in particular possible claims by the creditors under convertible bonds. The loan has a two-year duration and is subject to the prevailing market interest rate. The loan is the result of the financing agreement by TAG dated December 2010, adopted in the joint statement by the Colonia Board of Management and the Supervisory Board regarding the voluntary takeover bid by TAG dated January 3, 2011.

Originally, the 2010 consolidated financial statements were due to be published on March 29, 2011. On March 1, 2011, respectively on April 4, 2011, Colonia postponed publication until April 21, 2011. This allows the Company to take into account operating and strategic changes resulting from the acquisition of more than 50% of the Colonia share capital by TAG Immobilien AG. This postponement should give Colonia enough time to incorporate these developments into their Group planning and forecasting.

On March 17, 2011, Supervisory Board members Stephan Lutz and Dr. Carsten Strohdeicher resigned their positions on the Supervisory Board with effect from March 31, 2011. Until the next appointment of the Colonia Supervisory Board at the next Shareholders' Meeting on June 22, 2011, the Cologne Municipal Court has appointed Dr. Lutz R. Ristow and Torsten Cejka to the Company's Supervisory Board from April 1, 2011. As representatives of the majority shareholder TAG Immobilien AG, Dr. Lutz R. Ristow was appointed Chairman and Klaus Lennartz Vice Chairman of the Supervisory Board.

With request of March 29, 2011, the company applied to the management of the Frankfurt Stock Exchange to revoke the admission of Colonia shares to trading in the in the segment of the regulated market with more extensive admission requirements (Prime Standard). Frankfurt Stock Exchange endorsed this request on April 1, 2011. The revocation will be effective after July 1, 2011. The start of trading in Colonia shares on the regulated market (General Standard) of the Frankfurt Stock Exchange occur from July 4, 2011.

IX. Report on Expected Developments

The Report on Expected Developments comprehends all business segments of the Colonia Group and includes a forecasting horizon of two years that is fiscal years 2011 and 2012.

Optimization of Colonia's Residential Portfolio to Generate Growth

The Colonia Real Estate AG with its subsidiaries is and will remain 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. As an active portfolio holder, the focus of our business in the Investment segment is the management and optimization of our residential real estate portfolios. This business segment is complemented by our Service segment, which will in future continuing concentrate on asset and property management for commercial real estate.

Investment Segment

Our residential real estate portfolios are in various states of optimization. The Colonia portfolios in the Greater Berlin area are in the final stages of development, with a vacancy rate of average 4.5%. By contrast, Colonia's largest portfolio in Salzgitter is at the beginning of the optimization process, with a vacancy rate of 20.2%. As an active portfolio holder, Colonia works to manage its portfolio as effectively as possible and to optimize income from the portfolios. Our strategy must therefore be to stabilize residential portfolios at the end of the development cycle, and at the same time to put in place measures to enable portfolios at the start of the optimization cycle to generate sustained value added. Since our residential portfolios are in various stages of optimization, it is possible to grow independently and increase Colonia's value on a sustained basis.

Our organic growth strategy is supported by our majority shareholder, TAG Immobilien AG. In the past, part of Colonia's portfolios were managed by external service providers, since our own property management did not have sufficient capacity for maintain all our properties. Previously, approximately half of our portfolios were managed by external property managers. In order to generate higher income from management of Colonia real estate, property management will now be carried out by the TAG Group, rather than by external partners. As a result, we plan to tie our property management subsidiary, Colonia Wohnen Service GmbH, to TAG Immobilien AG. Property management will therefore be incorporated into TAG Immobilien AG. This will enable us to generate synergies and economies of scale within the TAG/ Colonia Group. The aim of consolidating our competencies in this way is to ensure optimal maintenance of our real estate and to reduce property management costs.

Service Segment

In the Service segment, we will focus increasingly on Asset Management for Commercial Real Estate. In order to make optimum use of synergy potential with our majority shareholder, we plan to combine LARUS Asset Management GmbH and Colonia Real Estate Solutions GmbH main activities. The main activities of both companies complement each other excellently to enable us to offer innovative asset management from a single source. We intend to offer our existing and new customers integrated asset management without inefficient interfaces. The aims of this consolidation are to make use of scale effects and to acquire new clients in order to develop our revenues and earnings base.

Future Economic Picture

The economic upturn in Germany in 2010, with gross domestic product (GDP) rising by 3.6%, exceeded even the forecasts of respected economic research institutes and organizations, which forecast a GDP increase of between 1.2% and 2.1% at the start of 2010. Will this growth continue in 2011/2012?

For 2011, the German government expects a further increase of 2.3% in GDP. The upturn is expected to be characterized by strong exports and domestic demand. In its 2011 annual economic report, the German government also forecasts a further fall in the unemployment rate and an increase in disposable income in 2011. This estimate is confirmed by the German Institute for Economic Research, which expects growth of as much as 3.0% for 2011 and 1.9% 2012. The main factors behind these positive forecasts are monetary policy remaining loose, the historically low interest rates, and increased demand for exports. The expected increase in disposable income and increasing domestic demand are also positive factors. With a time lag all of these indicators are likely to have a positive impact on our real estate business.

Performance of the German Real Estate Market

In addition to economic developments and the favorable economic and market conditions, we have identified other trends that are likely to have a positive impact on the German real estate market.

Demographic change and increased material prosperity have led to a steady rise in residential space per capital in Germany. LBS Research and empirica expect a further rise in average residential space per capita from 47 m^2 in West Germany and 38 m^2 in East Germany (2005) to 55 m^2 and 54 m^2 in 2030. The primary factors behind this change will be the trend toward smaller households and tenants' rising expectations about their living conditions. As a result of increasing per capita demand and demographic migration trends, demand for real estate and, by consequence, rent prices, will increase in regions with population growth.

In these regions with high population influx and increasing demand for living space, the increased demand will be only partially met by the number of new buildings. Although the number of building permits in Germany increased slightly again in 2010, this increase is unlikely to lead to a narrowing of the gap between supply and demand. Between November 2009 and November 2010, building permits were granted for 189,375 (previous year: 174,264) residences (extrapolation by the Federal Statistical Office). However, annual demand by 2025 is estimated at between 270,000 and 350,000.

In addition, tenants' living space requirements have also increased. Both living area per capita and the requirements of tenants with regard to structural quality, facilities in the apartment and cost-effective property management have increased. As a result, renovation and revitalization of the real estate portfolio will become increasingly important. This is an area in which Colonia offers proven competence and skill.

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 CO_2 emissions are some of the ecological criteria for sustainable property management, as well as aspects of economic and social responsibility. We have incorporated these aspects of sustainability into our business model. For that reason, sustainable management of our properties is particularly important to the Colonia Group. Through sustainability measures such as energy-saving, optimized waste management and social action in our properties, we not only increase tenant loyalty, but also raise the quality of the entire neighborhood. This both reduces vacancies and increases rent cash flow from real estate.

Expected Development of Earnings and Financial Position

Rental income and the costs of managing our portfolio are important factors influencing Colonia's revenues and earnings situation. As a result of previous renovation and modernization investments, we expect a moderate increase in future rental income due to a reduction in vacancy rates in individual portfolios. The reduction of vacancies in our Salzgitter portfolio will be particularly significant for Colonia's earnings position. If vacancies are reduced, this will result in higher rental income and lower vacancy costs, resulting in a significant impact on earnings.

As a result of the restructuring of property management and the integration of our property management subsidiary Colonia Wohnen Service GmbH into TAG Immobilien AG, we expect property management costs to decrease. In future, our real estate will be managed more efficiently and more cost effectively for our tenants. Whether this will have a positive impact on Colonia's earnings situation in 2011 will depend on a smooth acquisition of externally managed portfolios.

Following the integration of LARUS Asset Management GmbH in our Service segment, we intend to expand this business further. We intend to acquire new clients, increase assets under management, and, as a result of this integration, offer almost all asset management services from a single source. We also expect the integration of the two companies to result in a long-term reduction in administrative expenses. However, the integration of LARUS into Colonia Real Estate Solutions GmbH may result in higher short-term consolidation costs.

With regard to our financing structure, there will be changes as a result of the extraordinary termination right of the owner of the two Colonia convertible bonds. As a result of the acquisition of more than 50% of the Colonia Real Estate AG share capital by TAG Immobilien AG on February 15, 2011, the extraordinary termination right for the holders of both Colonia convertible bonds came into effect. As a result, the creditors under the convertible bonds were able to convert their bonds into new Colonia shares or claim early repayment of the bonds. As reported under "Events after the Reporting Date", Colonia concluded a credit framework agreement with TAG Immobilien AG for EUR 75.0 million. At the time of producing the Group management report a nominal volume of approximately EUR 41.2 million were called in before maturity by the holders of convertible bonds. However, as a result of the change in the financing structure of Colonia, we expect interest expenses to increase in the short term.

Overall Assessment

As explained above, we expect the German real estate market to develop well in the next two years. This assessment is supported by a positive economic outlook, low unemployment figures and higher disposable income, together with growing demand for living space, particularly in towns with more than 100,000 inhabitants. We expect that with a time lag our business model will benefit from these positive indicators. This positive trend is supported by a steady rise in demand for residential property in Germany.

We must make use of these positive economic and market conditions. It is our aim to generate growth from our own housing portfolios and to expand Asset Management to generate higher income. In managing our own holdings, we will continue to focus on optimizing rental profits and reducing vacancies. The focus in the coming months will be on improving the rental situation in our Salzgitter portfolio. It will not be possible to achieve a significant reduction in vacancy rates without extensive investment in modernization of residential portfolios.

Our overall aim of Asset Management for Commercial Real Estate is to gain new clients in order to develop the income and earnings base of this segment.

As a result of economic growth forecast for Germany, positive forecasts for the residential real estate market in Germany, and internal growth potential from our own residential real estate portfolios, and given the economic and business conditions outlined above, we expect the Colonia Group to post an operating profit in fiscal 2011 and the following year.

Cologne, April 15, 2011

Colonia Real Estate AG

Rolf Elgeti
CEO

Hans-Ulrich Sutter
CFO

CREates

Next Generation Real Estate


a second chance*
* For everybody who is looking for the best strategy to enhance their property value: Special Solutions for workout mandates.
To find solutions together: our special solutions team offers you concentrated real estate expertise and fast implementation strategies for the value enhancement of challenging properties. Give your property a second chance.
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Consolidated Financial Statements

Consolidated Balance Sheet as of December 31, 2010 (IFRS)

ASSETS

in EUR k	12/31/2010	12/31/2009 adjusted	1/1/2009	Notes
Assets				
Investment properties	817,720.0	814,210.0	835,400.0	17
Property, plant and equipment	765.2	666.9	1,032.6	18
Intangible assets	2,787.2	3,435.1	3,154.5	19
Investments in associates	2,429.6	8,213.6	7,091.9	20
Other financial assets	6,345.8	6,302.5	6,152.1	20
Deferred tax assets	990.1	12,590.1	10,713.4	13
Total non-current assets	**831,037.9**	**845,418.2**	**863,544.5**	
Properties held for sale	9,763.8	6,264.6	4,147.5	21
Income tax receivables	825.1	1,707.7	1,435.6	
Receivables and other assets	9,573.8	14,430.9	14,109.5	22
Cash and cash equivalents	11,108.3	13,071.9	15,331.9	23
Total current assets	**31,271.0**	**35,475.1**	**35,024.5**	
Non-current assets held for sale	**4,500.0**	**0.0**	**29,400.0**	
Total assets	**866,808.9**	**880,893.3**	**927,969.0**	

EQUITY AND LIABILITIES

in EUR k	12/31/2010	12/31/2009 adjusted	1/1/2009	Notes
Equity				
Subscribed capital	31,306.0	28,460.0	22,825.6	
Other reserves	239,424.4	234,305.4	222,292.8	
Other comprehensive income (OCI)	-15,836.5	-16,260.0	-14,311.2	
Currency translation	-7.9	-43.0	0.0	
Treasury stock	-11.6	-11.6	-7.2	
Consolidated profit/loss (-)	-27,699.6	-533.1	-6,567.5	
Total shareholders´equity	**227,174.8**	**245,917.7**	**224,232.5**	
Minority interests	-5.3	464.0	1,059.2	
Total equity	**227,169.5**	**246,381.7**	**225,291.7**	25
Non-current liabilities				
Financial liabilities	467,835.6	477,558.1	525,569.3	26
Convertible bonds (non-current)	10,576.4	57,377.2	55,575.6	26
Provisions for pensions and similar obligations	39.6	57.2	127.1	28
Derivative financial instruments (non-current)	8,525.3	9,728.5	7,513.1	27
Deferred tax liabilities	43,966.8	42,675.6	40,513.9	13
Total non-current liabilities	**530,943.7**	**587,396.6**	**629,299.0**	
Current liabilities				
Bank loans	3,314.2	3,453.3	4,921.7	26
Financial liabilities (current)	21,871.7	23,576.9	38,067.6	26
Convertible bonds (current)	59,196.2	0.0	0.0	26
Derivative financial instruments (current)	5,230.7	3,703.8	1,990.6	27
Account payables, trade and other payables	18,880.7	15,364.0	27,344.1	29
Tax liabilities	202.2	1,017.0	1,054.3	
Total current liabilities	**108,695.7**	**47,115.0**	**73,378.3**	
Total equity and liabilities	**866,808.9**	**880,893.3**	**927,969.0**	

Consolidated Statement of Comprehensive Income for Fiscal Year 2010 (IFRS)

in EUR k	2010	2009 adjusted	Notes
Total income (excluding finance income)	**105,822.1**	**125,351.3**	
Total expenses (excluding finance costs)	**-88,918.4**	**-91,982.9**	
Gross rental income from investment properties and service charge income on principal basis	86,301.4	88,404.6	5
Property operating expenses	-61,983.3	-55,550.5	6
Net rental income	**24,318.1**	**32,854.1**	
Proceeds on the sale of properties held for sale	2,921.6	1,623.3	
Expenses for property disposal	-396.7	0.0	
Carrying amount of sold properties	-2,357.6	-1,252.4	
Net income on disposal of trading properties	**167.3**	**370.9**	
Income from Asset Management	7,156.7	7,287.2	
Expenses for Asset Management	-6,675.1	-7,883.8	
Net result from Asset Management	**481.6**	**-596.6**	7
Administrative expenses	**-13,636.7**	**-10,355.7**	8
Restructuring costs	**0.0**	**-399.4**	9
Other income	2,572.5	2,346.2	
Other expenses	-949.0	-1,031.4	
Other income, net	**1,623.5**	**1,314.8**	10
Impairment of equity interests	**-1,300.0**	**0.0**	11
Gains from fair value adjustments	6,869.9	25,690.0	
Losses from fair value adjustments	-1,620.0	-15,509.7	
Net gains from fair value adjustments	**5,249.9**	**10,180.3**	
Operating profit/loss (-) before finance costs	**16,903.7**	**33,368.4**	
Finance costs	-31,786.1	-36,305.4	12
Income from loan waiver	0.0	8,700.2	12
Finance income	435.7	1,092.7	12
Financial results	**-31,350.4**	**-26,512.5**	
Consolidated profit/loss (-) for the year before taxes	**-14,446.7**	**6,855.9**	
Income tax expenses	-12,790.8	145.3	13
Consolidated profit/loss (-) for the year	**-27,237.5**	**7,001.2**	

Continuation Consolidated Statement of Comprehensive Income for Fiscal Year 2010 (IFRS)

in EUR k	2010	2009 adjusted	Notes
Consolidated profit/loss (-) for the year	**-27,237.5**	**7,001.2**	
Fair valuation of hedging instruments (cash flow hedges)	426.1	-4,046.9	
Other expenses, net	0.0	-195.5	
Other expense after taxes, net	426.1	-4,242.4	
Total comprehensive income	**-26,811.4**	**2,758.8**	
Profit or loss (-) for the period attributable to:			
Equity holders of the parent	-27,166.5	6,679.3	
Minority interests	-71.0	321.9	
Consolidated profit/loss (-) for the year	**-27,237.5**	**7,001.2**	
Other net expense attributable to:			
Equity holders of the parent	423.5	-4,214.9	
Minority interests	2.6	-27.5	
Other expense after taxes, net	**426.1**	**-4,242.4**	
Total comprehensive income attributable to:			
Equity holders of the parent	-26,743.0	2,464.4	
Minority interests	-68.4	294.4	
Total comprehensive income	**-26,811.4**	**2,758.8**	
Earnings per share (in EUR)			
Basic	-0.91	0.25	16
Diluted	-0.91	0.25	16

Consolidated Statement of Cash Flows for Fiscal Year 2010

in EUR k	2010	2009 adjusted	Notes
Cahs flows from operating activities			
Consolidated profit/loss (-) for the year	-27,237.5	7,001.2	
Plus net interest income	31,350.4	26,512.5	
Plus income tax	12,790.8	-145.3	
= Net operating profit (loss) before finance costs	**16,903.7**	**33,368.4**	
Losses (-)/gains on fair valuation of investments in associates	1,300.0	0.0	
Unrealized valuation movements	-5,249.9	-10,180.3	
Gains on deconsolidation	0.0	-1,279.3	
Gain on disposal of investment property	0.0	-326.3	
Loss on disposal of property, plant and equipment and intangible assets	11.0	81.8	
Changes in pension provisions	-17.5	-69.9	
Share-based compensation	33.5	781.5	
Amortization of intangible assets	911.9	246.1	
Depreciation of property, plant and equipment	200.7	203.0	
Other non-cash changes	74.0	-697.8	
Changes in properties held for sale	-3,499.2	-2,117.1	
Changes in receivables	4,857.1	4,873.1	
Changes in liabilities	3,516.6	-6,933.6	
Cash generated from operations	**19,041.9**	**17,949.6**	
Interest paid	-25,711.2	-28,714.5	
Interest received	43.9	235.0	
Income taxes paid	220.2	304.0	
Net cash used in operating activities	**-6,405.2**	**-10,225.9**	

Continuation Consolidated Statement of Cash Flows for Fiscal Year 2010

in EUR k	2010	2009 adjusted	Notes
Cash flow from investing activities			
Net proceeds from sale of investment property	1,557.6	1,475.0	
Other payments for property, plant and equipment and intangible assets	-574.0	-447.5	
Payment for other real estate	0.0	-5,682.2	
Payment for purchase of securities	-15.0	0.0	
Payment for other investments in associates and loans	0.0	-782.9	
Net proceeds/payments for business combination	0.0	7,303.6	
Net cash used in investing activities	**968.6**	**1,866.0**	
Proceeds from issue of share capital	10,814.8	16,604.2	
Payment of transaction costs for issue of share capital	-492.2	-222.8	
Payment to minority	-2,947.4	-549.7	
Proceeds from borrowings	18,443.4	41,640.5	
Repayment of borrowings	-20,968.8	-49,860.8	
Costs of convertible bond	-1,272.7	0.0	
Net cash generated by financing activities	**3,577.1**	**7,611.4**	
Net decrease in cash and cash equivalents	-1,859.5	-748.5	
Cash and cash equivalents, beginning of year	9,618.6	10,410.1	
Effects of exchange rate changes	35.1	-43.0	
Cash and cash equivalents, end of year	**7,794.2**	**9,618.6**	23

Statement of Changes in Consolidated Equity for Fiscal Year 2010

	Shareholders equity of the parent company		
in EUR k	Subscribed capital	Other reserves	Retained earnings
As of January 1, 2009	**22,825.6**	**222,292.8**	**-6,567.5**
Net loss on cash flow hedges	0.0	0.0	0.0
Consolidated profit for the year	0.0	0.0	8,749.9
Total profit or loss (-) for the year	0.0	0.0	8,749.9
Cash capital increase	5,634.4	10,969.8	0.0
Cost of cash capital increase, after tax	0.0	-152.5	0.0
Share-based compensation	0.0	781.6	0.0
Reserve for own shares	0.0	0.0	4.5
Changes in minority interests	0.0	413.7	0.0
Payout to minorities	0.0	0.0	0.0
Other changes	0.0	0.0	-649.4
Currency translation	0.0	0.0	0.0
As of December 31, 2009 before adjustments	**28,460.0**	**234,305.4**	**1,537.5**
Adjustment			-2,070.6
As of December 31, 2009 after adjustments	**28,460.0**	**234,305.4**	**-533.1**
As of January 1, 2010	**28,460.0**	**234,305.4**	**-533.1**
Net profit on cash flow hedges	0.0	0.0	0.0
Consolidated profit for the year	0.0	0.0	-27,166.5
Total profit or loss (-) for the year	0.0	0.0	-27,166.5
Cash capital increase	2,846.0	7,968.8	0.0
Cost of cash capital increase, after tax	0.0	-336.8	0.0
Share-based compensation	0.0	33.5	0.0
Changes in minority interests	0.0	0.0	0.0
Payout to minorities	0.0	0.0	0.0
Transactions between shareholders	0.0	-2,546.5	0.0
Currency translation	0.0	0.0	0.0
As of December 31, 2010	**31,306.0**	**239,424.4**	**-27,699.6**

Treasury stock	Components of result for period not recognized in profit or loss	Currency translation	Total	Minority interest	Total
-7.1	**-14,311.2**	**0.0**	**224,232.6**	**1,059.2**	**225,291.8**
0.0	-4,019.4	0.0	-4,019.4	-27.5	-4,046.9
0.0	0.0	0.0	8,749.9	321.9	9,071.8
0.0	-4,019.4	0.0	4,730.5	294.4	5,024.9
0.0	0.0	0.0	16,604.2	0.0	16,604.2
0.0	0.0	0.0	-152.5	0.0	-152.5
0.0	0.0	0.0	781.6	0.0	781.6
-4.5	0.0	0.0	0.0	0.0	0.0
0.0	0.0	0.0	413.7	-581.2	-167.5
0.0	0.0	0.0	0.0	-308.4	-308.4
0.0	0.0	0.0	-649.4	0.0	-649.4
0.0	0.0	-43.0	-43.0	0.0	-43.0
-11.6	**-18,330.6**	**-43.0**	**245,917.7**	**464.0**	**246,381.7**
	2,070.6				
-11.6	**-16,260.0**	**-43.0**	**245,917.7**	**464.0**	**246,381.7**
-11.6	**-16,260.0**	**-43.0**	**245,917.7**	**464.0**	**246,381.7**
0.0	423.5	0.0	423.5	2.6	426.1
0.0	0.0	0.0	-27,166.5	-71.0	-27,237.5
0.0	423.5	0.0	-26,743.0	-68.4	-26,811.4
0.0	0.0	0.0	10,814.8	0.0	10,814.8
0.0	0.0	0.0	-336.8	0.0	-336.8
0.0	0.0	0.0	33.5	0.0	33.5
0.0	0.0	0.0	0.0	-60.5	-60.5
0.0	0.0	0.0	0.0	-340.4	-340.4
0.0	0.0	0.0	-2,546.5	0.0	-2,546.5
0.0	0.0	35.1	35.1	0.0	35.1
-11.6	**-15,836.5**	**-7.9**	**227,174.8**	**-5.3**	**227,169.5**

Notes to the 2010 Consolidated Financial Statements

Note:
Rounding differences (in amounts in euro, percentages etc.) may cause figures in tables and references to diverge from the exact mathematical values.

1. General Information

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

Colonia Real Estate AG is a German stock corporation (Aktiengesellschaft) listed on an official exchange, and has its registered office and principal place of business at Zeppelinstrasse 4–8, 50667, Cologne, Germany. The Company is entered in the Commercial Register of Cologne Local Court, under No. HRB 54006.

Colonia Real Estate stock is listed for trading on the official market of the Frankfurt Stock Exchange, and has been included in that exchange's SDAX index since March 20, 2006. On March 29, 2011, the Company applied for a transfer from the Prime Standard to the General Standard.

The consolidated financial statements were prepared by the Board of Management on April 15, 2011, under the assumption of continuing business operations, and were forwarded to the Supervisory Board for examination.

The annual financial statements of Colonia Real Estate AG as of December 31, 2010, the consolidated financial statements as of December 31, 2010, and the combined parent-company and consolidated management report of Colonia Real Estate AG for fiscal 2010, which have been audited by bdp Revision und Treuhand GmbH Wirtschaftsprüfungsgesellschaft, of Hamburg, will be published in the electronic version of the Bundesanzeiger, Germany's Federal Gazette. The annual report may be requested from Colonia Real Estate AG, Investor Relations, Cologne, or examined on the Company's website, www.colonia.ag.

The financial statements are expected to be approved and released for publication by the Supervisory Board on April 20, 2011. They are expected to be published on April 21, 2011.

2. Summary of Accounting Policies

The material accounting policies applied in the preparation of these consolidated financial statements are outlined below. Unless indicated otherwise, the procedures described were applied consistently for the presented reporting periods. The presentation of the balance sheet, statement of comprehensive income and statement of cash flows follows Best Practice Policies Recommendations of the European Public Real Estate Association (EPRA). It is appropriate to apply these recommendations, since they were issued especially for public traded property companies.

2.1 Principles of Preparation of the Financial Statements

The consolidated financial statements of Colonia Real Estate AG comprise the statement of financial position (balance sheet), statement of comprehensive income, statement of changes in equity, statement of cash flows and explanatory notes (including segment reporting) and, pursuant to Section 315a of the German Commercial Code (HGB), were prepared in conformity with International Financial Reporting Standards (IFRSs) as these apply in the European Union (EU), and with the interpretations of the International Financial Reporting Interpretations Committee (IFRIC). Colonia Real Estate AG applies all International Accounting Standard Board (IASB) standards and all IFRIC interpretations that were mandatory and adopted by the European Commission for application within the EU as of December 31, 2010.

The consolidated financial statements were prepared using the historical cost convention, except for investment properties and derivative financial instruments, which were measured at fair value. The consolidated financial statements were prepared in euro. Unless indicated otherwise, all values are shown in thousand euro.

The employed accounting policies are generally the same as were applied for the prior year, with the following exceptions:

The following new or revised standards and interpretations were applied for the first time for the year under review. The application of these standards and interpretations had no impact on the Group's assets and liabilities, financial position, and profit or loss. They do, however, increase the scope of disclosures in some cases.

- IFRS 1 First-Time Adoption of International Financial Reporting Standards took effect on January 1, 2010 (EU-Endorsement: June 23, 2010).
- IFRS 2 Share-Based Payment – Group Cash-settled Share-based Payment Transactions took effect on January 1, 2010 (EU-Endorsement: March 23, 2010).
- IFRS 3 Business Combinations (revised) and IAS 27 Consolidated and Separate Financial Statements (revised), including consequent amendments to IFRS 2, IFRS 5, IFRS 7, IAS 7, IAS 21, IAS 28, IAS 31 and IAS 39, took effect on July 1, 2009 (EU-Endorsement: June 3, 2009).
- IAS 39 Financial Instruments: Presentation – Puttable Instruments, took effect on July 1, 2009 (EU-Endorsement: September 15, 2009).
- IFRIC 17 Distributions of Non-cash Assets to Owners took effect on November 1, 2009 (EU-Endorsement November 26, 2009).
- IFRIC 18 Transfers of Assets from Customers took effect on November 1, 2009 (EU-Endorsement November 27, 2009).
- Collective standard: Improvements to IFRS.

The principal effects of these changes are as follows:

IFRS 2, Share-Based Payment
In June 2009, the IASB published an amendment of IFRS 2 regarding the scope of the standard and accounting for Group cash-settled share-based payment transactions. The Group applied these amendments as of January 1, 2010. They have no impact on the Group's assets, liabilities, financial position, and profit or loss.

IFRS 3 Business Combinations (revised) and
IAS 27 Consolidated and Separate Financial Statements (revised)
The revised standard introduces material changes in accounting for business combinations. This has an impact on the measurement of non-controlling interests, the recognition of transaction costs, the initial recognition and subsequent measurement of a contingent consideration and step acquisitions. These new regulations will affect the amount of goodwill recognized, the result for the reporting period in which the business combination took place, and future results.

Amendments to IAS 27 Consolidated and Separate Financial Statements
IAS 27 Consolidated and Separate Financial Statements (amended) requires that any change in investments in a subsidiary that does not result in a loss of control should be recognized as a transaction with owners in their capacity as owners. Consequently no gain or loss, and no goodwill, can result from such a transaction. Moreover, the rules for allocating losses between owners of the parent company and non-controlling interests have changed, as have the rules for recognizing transactions that result in a loss of control. The new provisions of IFRS 3 and IAS 27 will affect future acquisitions or losses of control in subsidiaries and transactions in non-controlling interests.

This change in accounting principles was applied in the 2009 fiscal year. It did not have any material effect on the earnings per share.

IAS 39 Financial Instruments: Presentation – Puttable Instruments
The standard clarifies that designating a portion of the changes in fair value or cash flow variations of a financial instrument as a hedged item is permitted. This also includes the designation of inflation risk as a hedged risk, or portions of this in certain cases. The Group determined that this will have no impact on its assets, liabilities, financial position, and profit or loss, as the Group has not carried out any such transactions.

IFRIC 17 Distributions of Non-Cash Assets to Owners
This interpretation includes guidance on the recognition of agreements in which an entity makes distributions from reserves or as dividends. This interpretation has no impact on the presentation of the Group's assets and liabilities, financial position and profit or loss. The interpretation has had no impact on the Group's assets and liabilities, financial position, and profit or loss.

IFRIC 18 Transfers of Assets from Customers
This interpretation sets out how an entity should account for transfers of property, plant and equipment from customers. The scope of this interpretation includes agreements in which an entity receives from a customer an item of property, plant and equipment that the entity must then use to connect this customer to utility mains and/or to provide the customer with ongoing access to a supply of goods or services (e.g. electricity, gas, water). The interpretation also includes agreements in which an entity receives cash from a customer that the entity is permitted to use for the sole and exclusive purpose of building or acquiring an item of property, plant or equipment, which the entity must then use to connect this customer to utility mains and/or to provide the customer with ongoing access to a supply of goods or services. The interpretation has had no impact on the Group's assets and liabilities, financial position, and profit or loss.

Collective standard: Improvements to IFRSs.
In May 2008, April 2009 and May 2010, the IASB published a collective standard, which made changes to various IFRSs. The overarching aim of this collective standard is to eliminate inconsistencies and clarify formulations. The collective standards provide for individual transitional provisions for each amended IFRS. The application of the changes does not materially impact on the Group's assets and liabilities, financial position, profit or loss or cash flow.

Impairment
In the current economic environment, disclosures regarding impairment are increasingly important. Impairments were recognized in the following items:

– Investment properties
– Receivables and other assets

All other new or revised accounting standards have no impact or no material impact on the presentation of the Group's assets and liabilities, financial position, and profit or loss.

2.2 Significant Accounting Judgments, Estimates and Assumptions

The preparation of consolidated financial statements in accordance with IFRS requires management in some cases to make accounting judgments, estimates and assumptions in regard to recognition and measurement that may affect the amounts of income, expenses, assets or liabilities recognized as of the end of the reporting period, as well as the recognition of contingent liabilities. More complex areas and areas that involve broader scope for estimation are explained below, as are any areas in which assumptions and estimates are of critical importance for the consolidated financial statements.

Any and all estimates and evaluations are continuously reassessed, and are founded on historical experience and on other factors, including expectations of future events that seem plausible and rational under current circumstances.

The Group makes forward-looking estimates and assumptions. By their very nature, the resulting estimates are only rarely borne out by actual later events. Estimates and assumptions that entail a significant risk in the form of a material change in the carrying amounts of assets and liabilities during the next fiscal year are explained below.

Impairment of non-financial assets
The Group assesses at least once a year whether there is any reason to assume an impairment of non-financial assets. For goodwill and other intangible assets with indeterminate useful lives, it is necessary to estimate the value in use of the cash-generating unit to which these assets are allocated. These intangible assets are not amortized. The useful life of an intangible asset with an indeterminate useful life is reviewed once a year to determine whether the assumption of an indeterminate useful life is still justified. To estimate value in use, management must estimate the future cash flows of the cash-generating unit, and also choose an appropriate discount rate in order to determine the present value of those cash flows. The carrying amount of goodwill at December 31, 2010, was EUR 2,242.8 thousand (prior year: EUR 2,860.9 thousand). See Note 19 for further details.

Share-based payments
The Group measures the cost of granting equity instruments to members of the Board of Management and employees at the fair value of those equity instruments as of their date of grant. The most suitable method must be defined for estimating fair value; the method will depend on the terms of the grant. It is also necessary to determine suitable data for inclusion in this measurement method, particularly including the presumed option term, volatility, and dividend yields, as well as any appropriate assumptions. The assumptions and applied methods are explained in Note 15.

Deferred tax assets

Deferred tax assets are recognized for all unused tax losses carried forward, to the extent that it is probable that future taxable profit will be available against which the losses can be applied. Significant management judgment is needed to determine the amount of deferred tax assets that can be recognized, based upon the likely timing and level of future taxable profits, as well as future tax planning strategies. At December 31, 2010, recognized losses for purposes of corporate income tax came to EUR 33,059.1 thousand and recognized losses for local business income tax ("trade tax") came to EUR 5,527.9 thousand (prior year: EUR 59,632.4 thousand and EUR 31,085.3 thousand respectively). Unrecognized losses for corporate income tax came to EUR 38,025.5 thousand (prior year: EUR 7,288.5 thousand) and for local business income tax came to EUR 60,075.8 thousand (prior year: EUR 27,103.5 thousand). No interest carryforwards were recognized as at December 31, 2010 (prior year: EUR 9,381.3 thousand). See Note 13 for further details.

Fair value of investment property

The material risks in our business sector can arise in the area of investment properties. For that reason, the Company mainly makes use of the services of independent, certified, sworn real estate experts. The fair value of the properties was determined using the discounted cash flow method. Sustainable rents, administration costs, maintenance costs, loss-of-rent risk, vacancy rates, operating costs for vacancies, planned costs of modernization and renovation, property specific discount and exit rates were calculated for all properties. The fair value of each property was derived from these estimations. To check plausibility, the appraisals also include comparisons against local sales, going rents in the area, and various multipliers. The value determined by the appraiser is additionally reviewed and corrected on the basis of the Company's own estimation of a value determining parameter (time required for the planned reduction in vacancy rates). Note 17 includes sensitivity analyses for the employed interest rates.

2.3 Consolidation

The consolidated financial statements comprise the financial statements of Colonia Real Estate AG and all its subsidiaries and sub-subsidiaries. Subsidiaries' financial statements are prepared using the same accounting policies and the same reporting year as the financial statements of the parent company.

Subsidiaries are all entities whose financial and operating policies are controlled by the Group. As a rule, control is presumed to exist when the controlling company holds more than 50% of the voting rights. The determination of whether the Group has control takes account of potential voting rights that can currently be exercised or converted.

Subsidiaries are included in the consolidated financial statements (fully consolidated) as of the date on which control is transferred to the Group. They are deconsolidated as of the date on which control ends.

Business combinations are recognized using the acquisition method. The acquisition cost is equivalent to the fair value of the acquired assets, including estimated contingent consideration for the purchase, issued equity instruments, and liabilities that arise or are assumed as of the transaction date, plus the costs directly attributable to the acquisition. At the time of first consolidation, the assets, liabilities and contingent liabilities identifiable in a business combination are measured at their fair values as of the acquisition date, irrespective of the scope of non-controlling interests.

The difference between the consideration paid for the purchase and the Group's interest in the acquired net assets measured at fair value is recognized as goodwill.

If the acquisition costs are less than the subsidiary's acquired net assets measured at fair value, the difference is recognized directly in the statement of comprehensive income.

All intra-Group netting, income and expenses are eliminated, as are unrealized gains and losses on intra-Group transactions and items from transactions between Group companies.

The accounting policies of subsidiaries have been amended if necessary, in order to ensure uniform accounting principles within the Group.

Non-controlling interests represent the portion of profit or loss and net assets not attributable to owners of the parent company. Non-controlling interests are shown separately in the consolidated statement of comprehensive income and the consolidated statement of financial position (balance sheet). In the consolidated statement of financial position, non-controlling interests are recognized under equity, separately from the equity attributable to owners of the parent company. The acquisition of non-controlling interests is recognized using the "entity concept" method, under which the difference between the purchase price and the carrying amount of the portion of net assets acquired is recognized as equity.

2.4 Currency Translation

The items included in the financial statements of each Group company are measured on the basis of the currency that is used in the primary economic environment in which that company operates (the functional currency). The functional currency is the national currency for the given company, since a foreign company does business independently in financial, economic and organizational terms. The reporting currency of the consolidated financial statements is the euro, which is the functional currency of the Group's parent company and the consolidated subsidiaries.

Assets and liabilities are converted to euro at the exchange rate as of the year end; all changes during the year, and all expenses and income, are converted at the average rate for the year. Components of equity are converted at the historical rates at the date of their acquisition by the Group.

Any differences resulting from conversion at the exchange rate applicable at the reporting date are recognized in equity as "a foreign currency translation reconciliation item".

2.5 Revenue Recognition

Revenue is recognized if it is probable that economic benefits will flow to the Company and the amount of revenue – irrespective of the timing of payment – can be measured reliably. Revenue is measured at the fair value of the received consideration or consideration to be paid, taking into account contractually determined conditions of payment. The following measurement criteria must also be fulfilled:

a) Revenue from conventional and usufructuary leases
Revenues generated from rents and leases and facility management are realized after deducting discounts and similar reductions, on the basis of the underlying lease periods, provided that the remuneration has been defined by contract or can be determined reliably, and that the associated receivables can probably be collected.

b) Revenue from the sale of property
Revenue is realized on sales transactions (for example, sales of investment properties) if

– All significant risks and rewards of ownership associated with the property have been transferred to the buyer;
– The Group retains no rights of disposal or effective powers of disposal over the sold property;
– The amount of the proceeds and the costs already incurred or still to be incurred in association with the sale can be measured reliably;
– It is sufficiently probable that the economic benefits associated with the sale will flow to the Group.

c) Revenues from rendering services
Revenues from rendering services are recognized in the fiscal year during which the services were rendered. Services rendered within two periods are recognized in the same proportion as exists between the services already rendered and the total services to be rendered.

d) Interest income

Interest income is realized proportionally over time, taking account of the balance outstanding and the effective interest rate over the remaining term. If a receivable is impaired, it is written down to its recoverable amount, which is equivalent to the present value of expected cash flows as determined on the basis of the original effective interest rate. Thereafter, interest continues to accrue in installments, with a corresponding recognition as interest income.

e) Dividend income

Dividend income is recognized as of the date on which the right to receive payment of the dividend arises.

2.6 Investment Property

Property classed as investment property under IAS 40 comprises residential properties and a small number of commercial properties, which are held to earn long-term rental income and/or for appreciation and are not used by the Group itself. At initial recognition, investment properties are measured at their cost of acquisition or creation, including incidental costs. In subsequent measurements, investment properties are measured at their fair value as determined by outside appraisers (see Notes 2.2 and 17 for details on measurement). Here, as in the prior year, the Group recognizes the gross present value as the fair value, not the net present value that has been reduced by the purchaser's transaction costs (5.5% – 6.9% (prior year: 5.5%)), since the former figure considers only the characteristics of the appraised property and the seller's and buyer's required market position. On the basis of analyses made by external and internal appraisers, as well as its own assessments, the Group believes that it can realize the calculated gross present value of its property portfolio in today's market environment. Commercial properties are measured at their net present value after transaction costs of 4.75%.

Gains or losses from changes in fair value are recognized in a separate item of the statement of comprehensive income for the year in which the changes occur. Please see Note 2.26 for further information on the voluntary reporting change regarding property measurement in fiscal 2010.

Investment properties are reclassified as non-current assets held for sale under IFRS 5.8, if they are to be sold, and are recognized in a separate item or derecognized if they become permanently unusable and no future economic benefit is expected from their disposal. Gains and losses on the closure or disposal of an investment property are recognized in profit or loss for the year of their closure or disposal.

2.7 Property, Plant and Equipment

Property, plant and equipment is measured at cost less accumulated scheduled depreciation and accumulated impairment losses. Acquisition costs include the expenses directly attributable to the purchase. Repairs and maintenance are recognized in profit or loss in the statement of comprehensive income for the fiscal year in which they are incurred.

All assets are depreciated using the straight-line method, with the acquisition cost being depreciated to the residual carrying amount over the expected useful life of the asset as follows:

Business equipment	3–15 years (prior year: 3-13 years)

The residual carrying amounts, economic useful lives, and depreciation methods are reviewed at the end of every reporting period, and adjusted accordingly if necessary

Gains and losses from the disposal of assets are defined as the difference between the proceeds from disposal and the carrying amount, and are recognized in profit or loss as other income or other expenses.

2.8 Investments and Other Financial Assets

Initial recognition
Financial assets are currently allocated to the following categories: financial assets at fair value through profit and loss, loans and receivables, available-for-sale financial assets, and derivatives designated and effective as hedging instruments. The applicable category depends on the purpose for which the financial assets were acquired. Management determines an asset's category at the time of initial recognition and reviews that classification at the end of each reporting period.

All purchases and sales of financial assets are recognized and measured as of the transaction date – i.e., the date on which the Group undertakes the obligation to buy or sell the asset. They are initially measured at fair value plus transaction costs, unless the asset is designated at fair value through profit and loss.

The Group's financial assets include cash funds, trade receivables, loan receivables and other receivables, unquoted financial instruments, and derivative financial instruments.

Subsequent measurement
Financial assets at fair value through profit and loss
This category has two sub-categories: financial assets designated as held for trading at initial recognition, and financial assets designated at fair value through profit and loss at initial recognition. A financial asset is allocated to this category if it was acquired from the outset for sale within the short term, or if the decision to sell has been made by management. Derivatives are likewise categorized as held for trading. Assets in this category are recognized as current assets if they are either held for trading or are expected to be sold within 12 months after the end of the reporting period. The Group has not designated any financial assets at fair value through profit or loss.

Loans and receivables

Loans and receivables are non-derivative financial assets that have fixed or determinable payments and are not quoted on an active market. They arise when the Group furnishes cash, goods or services directly to a debtor, with no intent of trading the resulting receivables. These are considered current assets, except for those receivables which are due later than 12 months after the end of the reporting period. The latter are recognized as non-current assets. Current loans and receivables are included under the line item for receivables and other financial assets in the balance sheet (see Note 2.11). Loans and receivables are measured at cost, using the effective interest method.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that either belong to this category by nature or cannot be allocated to any other category. They are considered non-current assets unless management intends to sell them within 12 months after the end of the reporting period. Unrealized gains or losses are recognized directly in equity. If such a financial asset is derecognized or impaired, the accumulated gain or loss formerly recognized directly in equity is "recycled" into profit or loss. The Group measures all financial assets assigned to this category at amortized cost, since there is no active market for these interests and no reliable fair valuation is possible.

Available-for-sale financial assets and financial assets at fair value through profit and loss are measured at fair value. The fair value of quoted shares is measured on the basis of their current market price. If there is no active market for financial assets, or the assets are not quoted on any exchange or market, the fair values are determined by suitable alternative valuation methods. If there is no market price and no market price can be reliably determined, the asset is measured at its acquisition cost.

The Group determines at the end of each reporting period whether there are objective indications that a financial asset or group of financial assets may be impaired. A financial asset or group of financial assets is considered impaired only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a "loss event"), and that loss event has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. Evidence of an impairment may exist if there are signs that the borrower or group of borrowers is in significant financial difficulties, if there is a failure to pay interest or principal, if an insolvency or other financial restructuring is probable, or if observable data indicates a measurable reduction in expected future cash flows, such as changes in arrears outstanding or economic conditions that correlate with defaults.

Under IAS 39, financial assets are derecognized if the contractual rights to receive cash flows from the financial assets expire, or the financial assets have been transferred, together with all risks and rewards of ownership. Financial liabilities are derecognized when the contractual obligations are discharged, cancelled, or expired.

2.9 Impairment of Non-Financial Assets

At the end of each reporting period, the Group assesses whether there is any indication that an asset may be impaired. Where such indications exist, or if annual impairment testing is required (primarily in the case of goodwill or other intangible assets with an indefinite useful life), the Group estimates the asset's recoverable amount. The recoverable amount of an asset (or cash-generating unit) is the higher of the fair value of the asset or cash-generating unit less costs to sell, and its value in use. The recoverable amount must be determined for each asset individually, unless an asset does not generate cash flows that are largely independent from those of other assets or other groups of assets. If the carrying amount of an asset exceeds its estimated recoverable amount, the asset is considered impaired and is written down to its estimated recoverable amount. To determine value in use within the Colonia Group, estimated future cash flows are discounted to their present value on the basis of a discount rate before taxes that reflects current market expectations regarding the effects of interest rates and the risks specific to the asset. An appropriate valuation model is used to determine fair value less costs to sell, drawing corroboration from valuation multiples, trading prices of listed shares in subsidiaries, or other available indicators of fair value.

Goodwill is tested for impairment at least once a year. An impairment test is also performed if events or circumstances suggest that the carrying amount may be impaired. The impairment is determined by calculating the recoverable amount of the cash-generating unit (or group of cash-generating units) to which the goodwill relates. If the recoverable amount of the cash-generating unit (or group of cash-generating units) is below the carrying amount of the cash-generating unit (or group of cash-generating units) to which the goodwill relates, an impairment loss is recognized. An impairment loss on goodwill cannot be recovered in subsequent reporting periods. The Group performs its annual impairment testing on goodwill as of December 31.

The computations applied an individual discount rate adjusted to the pertinent debt level. Medium-term planning for the Asset Management cash-generating unit is based on past experience and on expectations about future market developments. The planning for 2011 to 2015 takes account of all existing asset management contracts yielding income from asset management, leasing, project management, acquisitions and sales. It is based on the existing business plans and the contractual maturities with clients Merrill Lynch, Blackstone, J.P. Morgan, and Strategic Value Partners. Above and beyond existing contracts, the plans include portfolio sales and acquisitions. Since the discounted cash flows did not exceed the unit's recognized carrying amounts, impairments of goodwill in the amount of EUR 618.2 thousand were recognized.

2.10 Properties Held for Sale

Properties held for sale are properties acquired for the specific purpose of resale. Like inventories, properties held for sale are measured at the lower of their cost or net realizable value. Costs include both acquisition costs (the purchase price of the property) and incidental acquisition costs (land transfer taxes, notary costs, legal and consulting costs). The net realizable value is determined from the estimated selling price less the estimated necessary costs to sell.

2.11 Other Receivables and Other Financial Assets

This item includes trade receivables, other receivables and advance payments made. Trade receivables and other receivables are measured at fair value at initial recognition, and at amortized cost thereafter, using the effective interest method and deducting allowances for any impairment.

If there is objective evidence that the full amount of a trade receivable cannot be collected on the billing terms originally agreed to (e.g., where an insolvency is likely or the debtor is in significant financial difficulties), an impairment loss is taken using an adjustment account. Receivables are derecognized if they are considered uncollectible. The amount of the loss is measured as the difference between the carrying amount of the receivable and the present value of estimated future cash inflows from that receivable, discounted at the effective interest rate. The loss is recognized in profit or loss.

2.12 Components of Result for Period not Recognized in Profit or Loss

This line item shows changes in equity with no effect on profit or loss, unless those changes derive from capital transactions with owners (e.g. capital increases or dividend distributions). These include unrealized gains or losses on the fair valuation of derivative financial instruments, as well as unrealized gains or losses on foreign currency translation.

2.13 Treasury Stock

If the Group acquires its own stock, that stock is deducted from equity. The purchase and sale of the Group’s own shares, as well as their issuance and retirement, are not recognized in profit or loss.

2.14 Cash and Cash Equivalents

Cash and cash equivalents include cash, demand deposits at banks, other highly liquid current financial assets with an original term of no more than three months, and current account credit lines. Credit lines that the Group has drawn upon are recognized in the balance sheet as bank overdrafts under current liabilities.

2.15 Non-Current Assets Held for Sale

In the consolidated financial statements, non-current assets and other assets and liabilities are recognized as held for sale, under IFRS 5, if the associated carrying amount is to be realized primarily through a sale transaction, not through continuing use. This is the case only if a sale is highly probable, and the asset or disposal group is immediately salable in its current condition. Management must have decided to make the sale, and the sale must be expected to be recognizable as completed within one year after the date of classification. Non-current assets held for sale (disposal group) are measured at the lower of their carrying amount or fair value, in accordance with IFRS 5. Investment property is excepted from the measurement rules under IFRS 5, and is therefore still measured at fair value under the equivalent rules of IAS 40.

Gains and losses on the measurement of individual assets held for sale and disposal groups are recognized in the profit or loss from continuing operations until the time of their ultimate disposal.

2.16 Interest-Bearing Loans

Loans and borrowings are measured initially at fair value less transaction costs. In subsequent periods, they are measured at amortized cost. Any difference between the disbursed amount (less transaction costs) and the redemption amount is recognized in the statement of comprehensive income over the term of the loan, using the effective interest method.

2.17 Convertible Bond

Convertible bonds are treated as hybrid financial instruments with a liability component and an equity component. The liability component is measured at the issue date by discounting the future payments at an adequate interest rate customary in the market. This amount is recognized as a financial liability measured at amortized cost, until the liability is derecognized because the bond has been converted or retired. The difference between the proceeds from the issue of the convertible bond and the fair value of the liability component represents the value of the embedded option of converting the liability into equity in the Group. The value of this option is contained in the equity component. The issue costs are divided between the equity component and the liability component of the bond, proportionately to their relative carrying amounts as of the issue date. The portion attributable to the equity component is applied directly to equity. The interest expense for the liability component is calculated using the prevailing market interest rate for comparable non-convertible securities. The difference between the resulting amount and the interest actually paid is added to the carrying amount of the bond.

2.18 Trade Payables and Other Original Financial Liabilities

Trade payables and other original financial liabilities are normally measured at amortized cost.

2.19 Borrowing Costs

Borrowing costs are recognized as an expense in the period during which they are incurred.

2.20 Taxes

Actual income taxes
Actual income tax refund entitlements and tax liabilities for current and prior periods are measured at the amount of the expected refund from or payment to the tax authorities. The amount is calculated on the basis of the tax rates and tax legislation in effect at the end of the reporting period. Actual taxes relating to items included directly in equity are recognized not in the statement of comprehensive income, but in equity.

Deferred taxes
Deferred taxes are recognized in accordance with IAS 12 for all temporary differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements under IFRS. However, if a difference results from the initial recognition of an asset or liability, and if the underlying transaction does not constitute an acquisition of an entity and did not affect the profit or loss either for financial reporting purposes or for tax purposes as of the transaction date, no associated deferred tax is recognized.

Deferred taxes are measured applying the tax rates (and tax legislation) that are already in effect at the end of the reporting period, and that are expected to be in effect at the date when the deferred tax credits are realized or deferred tax liabilities are settled.

Deferred tax credits are recognized to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilized.

Deferred tax liabilities resulting from temporary differences associated with interests held in subsidiaries and associated entities are recognized unless the Group can control the timing of the reversal of the temporary differences and it is probable that the reversal will not occur in the foreseeable future.

The carrying amount of deferred tax credits is reviewed as of the end of each reporting period, and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow the benefit of part or all of that deferred tax credit to be utilized. Unrecognized deferred tax credits are reviewed at the end of each reporting period, and recognized to the extent that it has become probable that there will be future taxable profit against which the deferred tax credit can be utilized.

Value-added tax
Revenues, expenses, and assets are measured as a rule after deducting value-added tax, provided that they are eligible for deduction of input tax. Exceptions are made in the following cases:

- If the value-added tax incurred at the purchase of assets or services cannot be reclaimed from the tax authorities, the value-added tax paid is recognized as part of the cost of creation of the asset, or as part of the expense for the service.
- Receivables and payables are measured together with the amount of value-added tax that they contain.

The amount of value-added tax refunded by the tax authorities is recognized under other assets in the consolidated balance sheet; value-added tax payments are recognized under other liabilities.

2.21 Share-Based Payments

The Board of Management and Supervisory Board were authorized in prior years to establish a stock option plan. The entitled parties included the members of the Board of Management and employees of Colonia Real Estate AG, and the management of affiliated companies. The stock option plan was calculated using methods of financial mathematics based on option pricing models. The options were measured at market value (Black-Scholes model) as of the grant date. Under IFRS 2, the value of the option as of the grant date is recognized as a personnel expense prorated over the vesting period, and is included in other reserves.

Expenses for granting equity instruments and the corresponding increase in equity were recognized over the period during which the requirements for exercise or performance had to be met (the "vesting period"). This period ended on the date when exercise first became possible – i.e., the date on which the employee became irrevocably entitled to subscribe. The accumulated expenses for granting equity instruments recognized at the end of each reporting period up to the date of the first possible exercise reflect the portion of the vesting period already elapsed, as well as the number of equity instruments that will actually become eligible for exercise at the end of the vesting period, according to the Group's best estimate. The income or expense included in the profit or loss for the period is equivalent to the change in the accumulated expenses recognized at the beginning and end of the reporting period.

No expense was recognized for compensation rights not eligible for exercise. An exception is made here for compensation rights whose eligibility for exercise depends on the fulfillment of certain market conditions. These are treated as eligible for exercise irrespective of whether those market conditions were met, provided that all other performance conditions were satisfied.

If the terms of an equity-settled compensation arrangement were changed, expenses were recognized in at least the amount that would have been incurred if the terms of the arrangement had not changed. The Company furthermore recognizes the impact of changes that increase the total fair value of share-based payment arrangements, or that are connected with some other benefit to the employee, at the value as of the date of the change.

If an employee leaves the Company before the terms for exercise are met, the compensation is forfeited. Any expenses already recognized are reversed, so that no expense is recognized on a cumulative basis. If employees who have been granted stock options are terminated, recognition follows the rules for forfeiture.

No further stock options were granted in fiscal years 2009 and 2010.

2.22 Provisions

A provision is recognized when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. Where the Group expects that some or all of a provision recognized as a liability will be reimbursed, for example under an insurance contract, the reimbursement is recognized as a separate asset, but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the statement of comprehensive income net of any reimbursement. If the effect of the time value of money is material, provisions are discounted using a current pretax rate that reflects, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as a finance cost.

2.23 Provisions for Pensions and Similar Obligations

Liabilities for pensions and similar obligations arise from obligations to employees. Defined-benefit obligations were measured as of the end of the reporting period using the actuarial projected unit credit method. This approach takes account of both those pensions and vested entitlements that were known as of the end of the reporting period, and expected future increases in salaries and pensions. The biometric basis is the 2005G actuarial tables published by Dr. Klaus Heubeck. The actuarial gains and losses resulting from experience-based adjustments and changes in actuarial assumptions are recognized in profit or loss for the period in which they are incurred, under the line item for personnel expenses. The past service cost for pensions and similar obligations is expensed as part of the operating profit or loss. The interest expense included in the net provision expense is recognized in the net finance expense in the consolidated statement of comprehensive income.

In defined-contribution retirement plans, the Company pays contributions to retirement insurers as specified by law or by contract. In general, payment of the contributions relieves the Company of any further performance obligations. The Group's obligations under defined-contribution benefits plans are recognized in the statement of comprehensive income as part of the operating profit or loss.

2.24 Leases

Leases under which the lessor retains a material portion of the risks and rewards of ownership of the leased asset are classified as operating leases. Payments made under an operating lease (less incentive payments granted by the lessor) are divided on a straight-line basis over the term of the lease and these amounts are recognized in the statement of comprehensive income.

Leases under which the Group bears the principal risks and rewards incident to ownership of the leased item are categorized as finance leases. Assets resulting from finance leases are capitalized as of the inception of the lease at the lower of either the fair value of the leased item or the present value of the minimum lease payments. The lease payments are broken down into an interest and a principal component. The Colonia Group has no finance leases.

The Group has signed leases for the commercial and private leasing of its investment properties. Investment properties comprise the office space and residential units not used by the Group itself. Leases on residential properties are normally subject to three months' notice. See Note 17 regarding rental income secured by leases.

2.25 Derivative Financial Instruments and Hedging

The Group uses derivative financial instruments such as interest rate swaps to hedge its risk exposure associated with interest rate fluctuations. Such derivative financial instruments are recognized at fair value at the time when the contract is entered into, and are measured at fair value over the subsequent periods. Derivative financial instruments are carried as assets when the fair value is positive, and as liabilities when the fair value is negative.

Gains or losses on changes in the fair value of derivative financial instruments that do not satisfy the criteria for recognition as hedge relationships are recognized immediately in profit or loss.

For purposes of reporting hedge relationships, the Colonia Group classified interest rate swaps as cash flow hedges for the first time at the end of 2008. At the inception of a hedge, both the hedge relationship and the Group's risk management objectives and strategies for undertaking the hedge are formally designated and documented. The documentation includes a designation of the hedging instrument, the underlying or hedged transaction, the nature of the risk being hedged, and a description of how the Company will assess the hedging instrument's effectiveness in compensating for risks resulting from changes in fair value or in cash flows from the hedged item. Such hedging relationships are considered highly effective in compensating for the risks of changes in fair value or cash flows. They are regularly tested as to whether they were in fact highly effective throughout the reporting period for which the hedging relationship was defined. Hedges that meet the strict criteria for recognition as a hedging relationship are recognized as follows:

The effective portion of the gain or loss on a hedging instrument is recognized in other comprehensive income under the cash flow hedge reserve; the ineffective portion is recognized directly in profit or loss. The amounts recognized in other comprehensive income are reclassified to the statement of comprehensive income in the period when the hedged transaction affects profit or loss for the period – for example, when hedged financial income or expenses are recognized, or when an expected sale is carried out. If a hedge results in the recognition of a non-financial asset or liability, the amounts recognized outside profit or loss become a part of the acquisition cost as of the date of acquisition of the non-financial asset or liability. Once an expected transaction or firm commitment is no longer expected to come about, the cumulative gains and losses formerly recognized outside profit or loss are recycled to the statement of comprehensive income. If the hedging instrument expires or is sold, terminated or exercised, without having been replaced and without rolling over to another hedging instrument, or if the criteria for hedge accounting are no longer met, the cumulative gains and losses hitherto recognized in other comprehensive income are still recognized as a separate item in other net income or expenses until the expected transaction or firm commitment comes about.

2.26 Reporting Change and Adjusting the Prior Year's Figures in Line with IAS 8

Reporting Change
In the statement of consolidated income for the reporting year, earnings from the remeasurement of investment property (unrealized valuation gains/losses) are presented differently from the consolidated financial statements as at December 31, 2009. In the 2009 fiscal year and in the interim financial statements for 2010, expenses during the year for investments that increased the value of property were capitalized. The changes in value between the developing carrying amount and the fair value of the property, following valuation by an external appraiser on the reporting date, is reported under "result on fair valuation".

In the 2010 consolidated financial statements as at December 31, 2010, this item was changed so that the expenses made during the year for investments to increase property values were initially recognized as expenses under "property operating expenses".The value-increasing effects of these measures were reported only in the context of the property valuation by external appraisers under "income from fair valuation".

The change is a voluntary reporting change, whereby the prior year's figures have been adjusted accordingly. Against an unchanged consolidated result, the reporting change resulted in a EUR 7,292 thousand increase in "income from fair valuation" and a contrary increase in "property operating expenses" in the 2009 fiscal year.

Furthermore, for a more appropriate presentation of components of "general administrative expenses" and "expenses for asset management", at two subsidiaries were reclassified under "property operating expenses", as these expenses result from proceeds from rental income for the Group's own residential holdings. The prior year's figures were adjusted accordingly, whereby, against an unchanged consolidated result for 2009, a EUR 1,867 thousand increase in "property operating expenses" and a corresponding EUR 1,307 thousand reduction in "general administrative expenses" and EUR 560 thousand decrease in "expenses for asset management" were reported.

Adjusting the Prior Year's Figures in Line with IAS 8
In the 2010 fiscal year, it was determined that neutrally recognized value changes from interest swap contracts of EUR 2,070.6 thousand reported under other comprehensive income in the consolidated financial statements as at December 31, 2009 were shown incorrectly. These components of other comprehensive income should have been reversed in profit and loss during the four deconsolidations.

The consolidated financial statements from the prior year were adjusted accordingly. Correction of this error led to a corresponding reduction in other comprehensive income and in other income as well as to a lower consolidated net income for fiscal 2009.

The adjustments to the prior year's figures in the consolidated financial statements dated December 31, 2010 are shown in accordance with IAS 1.29 et seq.

2.27 Future Changes in Accounting Policies

Standards that have been published but whose application is not yet mandatory
The IASB has issued further official releases on reporting whose application is not yet mandatory in 2010. The Colonia Group has not applied them early.

- *Amendments to IAS 24 Related Party Disclosures*
  The amendments to the standard serve to clarify the definition of a related party to make determining such relationships easier and to eliminate inconsistencies in its application. The amended standard applies to fiscal years beginning on or after January 1, 2011. The Group does not expect any impact on its assets and liabilities, financial position, and profit or loss.

- *Amendments to IAS 32 Financial Instruments: Presentation – Classification of Rights Issues*
  The standard includes an amended definition of a financial liability. Rights (and some options and warrants) can be categorized as equity instruments, if they are used to acquire a fixed number of the entity's own equity instruments for a fixed amount of any currency, and if the entity offers the rights, options or warrants pro rata to all of its existing owners of the same class of its own non-derivative equity instruments. The amended IAS 32 standard applies to fiscal years beginning on or after February 1, 2010.

- *IFRS 9 Financial Instruments: Classification and Measurement*
  IFRS 9 reflects the first phase of the IASB project to replace IAS 39 and treats the classification and measurement of financial assets as defined in IAS 39. The standard applies to fiscal years beginning on or after January 1, 2013. The IASB will treat the classification and measurement of financial liabilities, hedging relationships and derecognition in subsequent phases of the project. The application of the first phase of IFRS 9 will impact the classification and measurement of the Group's financial assets. The Group will quantify the impact in connection with the other phases, as soon as the standards are published.

- *Amendments to IFRIC 14 Prepayments of a Minimum Funding Requirement*
  The amended IFRIC interpretation provides guidance on assessing the recoverable amount of a net pension asset, whereby an entity is permitted to treat the prepayment of a minimum funding requirement as an asset. The amended IFRIC 14 standard applies retrospectively to fiscal years beginning on or after January 1, 2011. The amendment is deemed to have no impact on the Group's consolidated financial statements.

- *IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments*
  The interpretation clarifies that equity instruments issued to a creditor to extinguish a financial liability should be classified as consideration paid. The equity instruments issued are measured at fair value, if this can be reliably measured. Otherwise, the fair value measurement of the extinguished financial liability is to be used. IFRIC 19 applies to fiscal years beginning on or after July 1, 2010. Its application will have no impact on the Group's consolidated financial statements.

- *Collective standard Improvements to IFRSs*
  The IASB published the third collective standard of amendments to various IFRSs on May 6, 2010. This standard includes eleven amendments to six IAS/IFRS standards. The amendments apply to fiscal years beginning on or after January 1, 2011.

  The application of the amendments will have no material impact on the Group.

3. Financial Risk Management

3.1 Objectives and Methods of Financial Risk Management

Financial risk management is included in the risk and opportunity management system, which applies to the whole of the Group. Risk and opportunity management follows guidelines determined by the Board of Management in direct cooperation with risk controlling staff. The Board of Management identifies, measures and protects against financial risks in cooperation with the Group's operating units (see also Risk and Opportunity Report in the Group Management Report).

The principal financial liabilities incurred by the Colonia Group – apart from derivative financial instruments – include bank loans and current account credit lines, convertible bonds, trade payables, advance payments received, and other loans received. The primary purpose of these financial liabilities is to finance the Colonia Group's business operations. The Colonia Group has a variety of assets, such as equity investments, trade receivables, cash and cash equivalents and other financial assets. These assets and the associated risks and opportunities result directly from the Colonia Group's business operations.

The Colonia Group also holds derivative financial instruments in the form of interest rate swaps. The purpose of these derivative financial instruments is to hedge against interest rate risks that arise from the Colonia Group's business operations and sources of financing. No trading in derivatives was conducted in fiscal 2010.

The Colonia Group's business activities expose it to various financial risks:

a) Market risk/foreign currency risk
There is no market risk/foreign currency risk as of December 31, 2010, as the Group has not taken up any loan in a foreign currency.

b) Credit risk
A credit risk exists as a result of TAG Immobilien AG's majority shareholding due to early repayment of the convertible bonds, parts of which are expected to be due in April and in December 2011. On the other hand, TAG Immobilien AG has made a refinancing commitment in the amount of EUR 75,000 thousand. Other material credit risks arise as a result of the refinancing of Quokka – securitization in the amount of EUR 220,000 thousand – in 2013. Adjustments for receivables not yet received are made throughout the Group using a common valuation model. For the Group's other financial assets, such as cash and cash equivalents or available-for-sale investments, the maximum credit risk in the event of counterparty default is equal to the carrying amount of these instruments.

c) Liquidity risk
Prudent liquidity management includes holding sufficient reserves of cash and cash equivalents. The Group's business activities encompass the regular receipt of recurrent payments, which are matched by recurrent, foreseeable payment obligations. The Group constantly monitors the risk of liquidity bottlenecks with short-term and medium-term liquidity planning. Cash proceeds from property sales serve as additional means of safeguarding liquidity. Other instruments used to safeguard liquidity include taking out long-term property loans and carrying out equity measures. This planning takes account of the terms of financial investments and financial cash flows from operating activities. The Group's aim is to maintain an equilibrium between continuously covering the need for financial capital and safeguarding flexibility by taking advantage of current account credit lines, property loans, convertible bonds, finance leases, loans from shareholders and by issuing new bearer shares. The Board of Management has specified that liabilities should not exceed a margin of between 65% and 75% of total assets. The average term of the Group's property loans at December 31, 2010 was 6.6 years.

d) Market price risk/interest rate risk
The Colonia Group's market price risk for changes in interest rates derives primarily from long-term interest-bearing liabilities. Variable-interest liabilities expose the Group to a cash flow interest rate risk. Fixed-interest liabilities pose a risk to the market value in the case of changing interest rates. The Group's financial risk policy requires property loans to be taken out normally at fixed interest rates. The Group hedges a portion of its cash flow interest rate risk resulting from variable interest rates by applying interest rate swaps that convert variable rates to fixed rates, so that from an economic perspective, variable-interest debt is converted to fixed interest positions. At year end, 98.1% of loan liabilities were at fixed interest rates.

e) Capital management

The primary goal of the Group's capital management is to ensure that the Group's ability to repay debt and its financial resources are preserved for the future.

The Group monitors its capital on the basis of the equity ratio. The Board of Management has decided that the equity ratio should be between 25% and 35%. On December 31, 2010, the equity ratio was 26.2% (2009: 28.0%).

3.2 Fair Value Determination

The fair values of financial instruments not traded on an active market (such as shares in German "GmbH" limited liability companies) are normally determined on the basis of valuation models. For this purpose, the Group makes assumptions based on the market conditions as of the end of the reporting period.

The fair value of trade receivables and trade payables is determined on the assumption that the nominal amount less valuation allowances corresponds to the fair value. The fair value of financial liabilities indicated in these Notes is calculated by discounting future contractual cash inflows at the present market interest rate that the Group would be granted for comparable financial instruments.

4. Consolidated Entities, Business Combinations, Mergers, and Acquisition of Non-Controlling Interests

Consolidated entities

The Group consolidates a total of 16 (prior year: 16) subsidiaries, 14 of them in Germany (prior year: 14) and 2 of them in other countries (prior year: 2). The following table provides the information required under Sec. 313 (2) of the German Commercial Code (HGB).

in %	Share of capital held at 12/31/2010	Share of capital held at 12/31/2009
Colonia Real Estate AG, Cologne, Germany		
Subsidiaries included in the consolidated financial statements:		
1. Grasmus Holding B.V., Maastricht, Netherlands	99.64	99.64
2. Colonia Wohnen GmbH, Cologne (formerly: CRE Wohnen GmbH, Cologne)	100.00	100.00
3. Gimag Immobilien AG, Zug, Switzerland	94.00	94.00
4. Colonia Portfolio Ost GmbH, Cologne (formerly: CRE Wohnen Zweite GmbH, Cologne)	100.00	100.00
5. Colonia Portfolio Berlin GmbH, Cologne (formerly: CRE Wohnen Dritte GmbH, Cologne)	100.00	100.00
6. Colonia Wohnen Service GmbH, Cologne (formerly: CRE Wohnen Sechste GmbH, Cologne)	100.00	100.00
7. Colonia Wohnen Siebte GmbH, Cologne (formerly: CRE Wohnen Siebte GmbH, Cologne)	100.00	100.00
8. Colonia Immobilien Verwaltung GmbH, Cologne (formerly: CRE Immobilien Verwaltung GmbH, Cologne)	100.00	100.00
9. Colonia Portfolio Hamburg GmbH & Co. KG, Cologne (formerly: CRE Wohnen Immobilien Verwaltung GmbH & Co. KG, Cologne)	100.00	100.00
10. CRE German Office GmbH, Cologne	100.00	97.55
11. Colonia Real Estate Solutions GmbH, Cologne (formerly: CRE Resolution GmbH, Cologne)	100.00	75.47
12. Emersion Grundstücksverwaltungsgesellschaft mbH, Cologne	99.24	99.24
13. Domus Gründstücksverwaltungsgesellschaft mbH, Cologne	99.24	99.24
14. Colonia Residential Sales GmbH, Cologne (formerly: CRE Wohneigentum GmbH, Stuttgart)	100.00	100.00
15. Colonia Wohnen Dreizehnte GmbH, Cologne (formerly: CRE Effiziente Energien GmbH, Cologne)	100.00	0.00
16. Colonia Portfolio Bremen GmbH & Co. KG, Cologne (formerly: CRE Portfolio Brake GmbH & Co. KG, Cologne)	100.00	0.00
17. CRE Wohnen Service GmbH, Cologne (merged with CRE Wohnen Sechste GmbH, Cologne)	0.00	100.00
18. CRE Accentro GmbH, Stuttgart (merged with CRE Resolution GmbH, Cologne)	0.00	70.00

Note for 15.
In the 2010 fiscal year, CRE Effiziente Energien GmbH, Cologne, was founded by shareholder agreement dated January 13, 2010 and entered into the Commercial Register on March 22, 2010 with the original aim of planned cooperation with another company. The project was not taken any further. The name of the company was changed to Colonia Wohnen Dreizehnte GmbH, Cologne by amendment of the shareholder agreement on November 4, 2010 and entered into the Commercial Register on November 10, 2010.

Note for 16.
CRE Portfolio Brake GmbH & Co. KG, Cologne was founded by shareholder agreement dated January 1, 2010 and entered in the Commercial Register on January 11, 2010. The aim was the "demerger" of the sub-portfolio Brake II with CRE Wohnen Immobilien Verwaltung GmbH & Co. KG, Cologne in order to scale down the financing to one state-specific investment bank. The company asset "Brake II" was transferred to the new company from CRE Wohnen Immobilien Verwaltung GmbH & Co. KG, Cologne by transfer agreements dated January 5 and January 6, 2010. The company changed its name to Colonia Portfolio Bremen GmbH & Co. KG by shareholder resolution on November 2, 2010 and was entered in the Commercial Register on December 15, 2010.

The following mergers of companies included in consolidation took place in fiscal 2010:

CRE Wohnen Service GmbH, Cologne was merged with CRE Wohnen Sechste GmbH, Cologne by merger agreement dated August 19, 2010 and was entered in the Commercial Register on September 7, 2010 with retroactive effect as of January 1, 2010. CRE Wohnen Sechste GmbH, Cologne then changed its name to Colonia Wohnen Service GmbH.

CRE Accentro GmbH, Stuttgart was merged with CRE Resolution GmbH by merger agreement dated September 20, 2010 and was entered in the Commercial Register on November 17, 2010 with retroactive effect as of July 1, 2010. Die CRE Resolution GmbH, Cologne then changed its name in the 2010 fiscal year to Colonia Real Estate Solutions GmbH.

5. Gross Rental Income from Investment Properties and Service Charge Income on Principal Basis

For both the year under review and the prior year, gross rental income from investment properties comprised the following:

in EUR k	2010	2009
Rental income from residential properties	55,642.2	57,818.8
Rental income from commercial properties	1,075.3	1,269.5
Income associated with rental	19.2	20.7
Total	**56,736.7**	**59,109.0**

The rental income from residential companies is generated from the Friesland portfolio of Grasmus Holding B.V., the Brake-Nordenham (Colonia Wohnen GmbH) and Elmshorn/Itzehoe and Brake II (Colonia Portfolio Hamburg GmbH & Co. KG and Colonia Portfolio Bremen GmbH & Co. KG) portfolios, the Ostportfolio und Geilenkirchen portfolio section of Colonia Portfolio Ost GmbH, the Berlin-Marzahn und Nauen portfolio of Colonia Portfolio Berlin GmbH, the portfolios of Emersion and Domus Grundstücksverwaltungsgesellschaft mbH, as well as those of Colonia Residential Sales GmbH. By contrast, the prior year's income still includes rental income from the housing portfolio, Signa, which was sold in the third quarter of fiscal 2009.

Revenues from commercial properties are rental income from the properties at Ferdinand-Porsche-Strasse 1 and 1a in Cologne. A detailed breakdown of income by segments is provided under Note 32.

The income from service charges on a principal basis is as follows:

in EUR k	2010	2009
Residential properties	29,298.3	29,190.0
Commercial properties	266.4	105.6
Total	**29,564.7**	**29,295.6**

6. Property Operating Expenses

Property operating expenses include both costs that can and costs that cannot be passed on to the tenants. Costs that cannot be passed on to tenants include costs for repairs, maintenance and property management, as well as service charges for vacant residential units.

The prior year's property operating expenses were adjusted for purposes of comparison to EUR 9,159 on account of the voluntary reporting change in the 2010 fiscal year (see Note 2.26).

These adjustments are attributable to changes in the presentation of earnings from the measurement of investment property and the associated EUR 7,292 thousand increase in expenses for modernizing the residencies and for maintenance and repair. Furthermore, for a more appropriate presentation, expenses of two subsidiaries in the amount of EUR 1,307 thousand for proceeds from rental income under "general administrative expenses" and in the amount of EUR 560 thousand under "expenses for asset management" were reclassified under "property operating expenses".

Please see Note 2.26 for further information.

7. Net Income from Asset Management

The Colonia Group generated revenues of EUR 7,156.7 thousand (prior year: EUR 7,287.2 thousand) from asset management of properties for third parties in fiscal 2010. The expenses allocated to these service sectors consist primarily of personnel expenses (employees of Colonia Real Estate Solutions GmbH and up to June 30, 2010 employees of CRE Accentro GmbH) in the amount of EUR 2,705.7 thousand (prior year adjusted: EUR 3,630.9 thousand) and other expenses and depreciation and amortization in the amount of EUR 3,969.4 thousand (prior year: EUR 4,252.8 thousand). Thus the Asset Management segment generated a net result of EUR 481.6 thousand (prior year adjusted: EUR -596.6 thousand).

The net result generated by the Asset Management segment for the prior year was adjusted for the reasons explained in Note 2.26.

8. Administrative Expenses

The administrative expenses comprise the following:

in EUR k	2010	2009 adjusted
Personnel expenses	3,808.1	4,401.0
Losses on receivables/adjustments	0.0	671.2
Legal and consulting costs	3,055.5	1,473.8
Year-end costs, auditor, tax consulting, accounting costs	1,091.1	863.8
Travel and advertising costs	801.1	425.2
Rental and leasing costs	480.2	406.7
Shareholders' meeting/mandatory publications	268.3	197.6
Bank charges and commissions	278.4	221.4
Depreciation and amortization	878.9	167.3
Vehicle costs	205.9	235.6
Fees/insurance/memberships	211.7	266.4
Other expenses	2,557.5	1,025.7
Total	**13,636.7**	**10,355.7**

Depreciation and amortization over the course of the fiscal year includes goodwill impairment of EUR 618.2 thousand. Please see Note 19 for further information.

In 2009, a total amount of EUR 1,306.8 thousand was reclassified. This relates to the general administrative expenses of Colonia Wohnen Service GmbH, Cologne, which were reclassified under "rental income from investment property". Reclassification amounts primarily came to EUR 845.8 thousand (EUR 5,246.8 thousand – EUR 4,401.0 thousand) for personnel expenses, EUR 93.0 thousand (EUR 499.7 thousand – EUR 406.7 thousand) for rental and leasing costs, and EUR 317.6 thousand (EUR 1,343.3 thousand – EUR 1,025.7 thousand) for other expenses.

Please see Note 2.26 for further information on adjustments to the prior year's figures.

9. Restructuring Expense

The cost-cutting program initiated in October 2008 came to an end in fiscal 2009. The expense incurred in fiscal 2009 in connection with the program to cut costs and enhance efficiency, which comprises costs for improving and optimizing internal processes, amounted to EUR 399.4 thousand.

There were no further restructuring expenses in fiscal 2010.

10. Other Income (Expenses), Net

Other income of EUR 2,572.5 thousand (2009: EUR 2,346.2 thousand) primarily includes income from derecognition of provisions in the amount of EUR 772.1 thousand (2009: EUR 655.6 thousand) and income from charges passed on to others and insurance settlements in the amount of EUR 914.2 thousand (2009: EUR 466.6 thousand).

Other expenses of EUR 949.0 thousand (2009: EUR 1,031.4 thousand) primarily includes expenses associated with other periods in the amount of EUR 599.7 thousand (2009: EUR 245.7 thousand) and valuation adjustments in the amount of EUR 269.8 thousand (2009: 668.6 thousand).

Other net income for the prior year was adjusted to correct the error explained in Note 2.26. Accordingly, other income for fiscal 2009 was revised downwards by EUR 2,070.6 thousand, from EUR 4,416.8 thousand to EUR 2,346.2 thousand. This relates to a correction of other comprehensive income in accordance with IAS 8 on account of deconsolidation of the Signa portfolio sold in 2009.

11. Impairment of Equity Interests

Over the course of the reporting period, impairment of EUR 1,285.0 thousand on interests in EPF Colonia S.à.r.l & Co. KG was reported as a result of permanent decreases in value.

12. Finance Expenses and Income, Loan Waiver Income, and Expenses from Hedges

The net finance expense comprises the following:

in EUR k	2010	2009
Interest on long-term loans	-30,570.3	-32,319.9
Interest on short-term liabilities	-362.6	-971.6
	-30,932.9	-33,291.5
Redemption of a debtor warrant	0.0	-2,093.6
Ineffective portions of swaps	-853.2	-920.3
Finance costs	**-31,786.1**	**-36,305.4**
Income from loan waiver	0.0	8,700.2
Finance income	435.7	1,092.7
Total finance income	**435.7**	**9,792.9**
Total	**-31,350.4**	**-26,512.5**

The Company uses interest rate derivatives (swaps) to hedge risks of changing interest rates in its financing. These interest rate derivatives serve solely to hedge risks of interest rate changes, and are not used for speculation. The criteria for hedge reporting were met as of the fourth quarter of 2008. To that extent, gains and losses on changes in fair value are recognized directly in profit or loss up to the inception of the hedge relationship. Since the fourth quarter of 2008, changes in market value of these derivative financial instruments, which are designated as cash flow hedges, have been recognized in equity outside profit or loss, after allowing for deferred taxes, to the extent that they pertain to the effective portion of the hedge. The part of the changes in market value that pertains to the ineffective portion of the hedge is recognized in profit or loss in the statement of comprehensive income.

Interest rate swaps are measured at fair value using suitable mathematical valuation models. Discounting is based on the indicative market interest rates (market mean) prevailing at the end of the reporting period, and on indicative volatility figures.

13. Income Tax Expense

The principal components of income taxes for fiscal 2010 and 2009 were as follows:

in EUR k	2010	2009
Current taxes	152.3	679.4
Deferred taxes		
Accrual and reversal of temporary differences	-12,787.7	-1,063.2
Tax advantages offset against equity	-155.4	-70.4
Deconsolidation, etc.	0.0	599.5
	-12,943.1	-534.1
Tax income	**-12,790.8**	**145.3**

Current income taxes for the year primarily pertain to income tax refunds for prior years at two companies, Emersion Grundstücksverwaltungsgesellschaft GmbH (EUR 78.5 thousand) and Colonia Wohnen GmbH (EUR 76.8 thousand).

The deferred tax expense derives primarily from the reversal of deferred tax assets on losses and income expenses in the amounts of EUR 8,230.6 and EUR 2,962.1 thousand and from the allocation of deferred tax liabilities due to the reappraisal of real estate holdings (EUR 2,875.1 thousand). On the other hand, the figure for deferred tax assets was reduced by EUR 726.3 thousand due to loan valuation.

Tax credits of EUR 103.4 thousand from the measurement of derivative financial instruments (prior year: EUR 778.3 thousand) were directly offset against equity. Total tax credits of EUR 258.8 thousand (prior year: EUR 848.7 thousand) were recognized outside profit and loss, in equity.

The actual tax on the Group's profit before taxes differs as follows from the notional figure that would result if the 31.6% corporate income tax rate (prior year: 31.6%) were applied to the same profit. The applied Group tax rate is the total of the federal corporate income tax rate (15%, prior year: 15%), the reunification surtax ("solidarity surcharge") rate (0.83%, prior year: 0.83%) and the index for local business income tax (3.5%, prior year: 3.5%) times the average local business income tax assessment factor for the Group (450%, prior year: 450%).

The causes for the difference between the expected tax expense and the recognized expense are as follows:

in EUR k	2010	2009 adjusted
Consolidated profit (loss) for the year before taxes	**-14,446.7**	**6,855.9**
Taxes computed on the basis of the national income tax rate = expected tax income (prior year: expected tax expense)	-4,561.5	2,164.7
Write-offs of unusable loss carryforwards	17,287.3	2,337.9
Additional recognition of earlier loss carryforwards	-668.5	0.0
Local business income tax exemption for property management companies	-387.1	-2,967.8
Write-downs of financial assets/goodwill	544.4	0.0
Disposal of other comprehensive income due to swap repayment	0.0	653.8
Off-balance-sheet profit corrections	337.1	478.3
Corrections for local business income tax	300.1	309.4
Restatement of deferred taxes for prior year	-68.5	-1,516.0
Share-based payments	34.4	246.8
Eliminations from consolidation	-16.9	-1,070.0
Taxes for prior years	-14.5	-898.2
Loss of loss carry-forward because of merger (prior year: sale)	7.1	109.4
Reconciliation of surplus income under German tax law for foreign corporations	2.1	-6.4
Other differences	-4.7	12.8
Recognized tax expense	**12,790.8**	**-145.3**

Deferred taxes as of December 31 comprised the following:

in EUR k	Consolidated statement of financial position 12/31/2010	Consolidated statement of financial position 12/31/2009	Consolidated statement of comprehensive income 2010	Consolidated statement of comprehensive income 2009
Deferred tax credits:				
Tax losses carried forward	6,102.2	14,332.8	-8,230.6	3,984.8
Interest carried forward	0.0	2,962.1	-2,962.1	-2,248.9
Derivative financial instruments	2,227.5	2,475.7	-144.8	153.1
Elimination of interim profits	287.6	284.5	3.1	11.4
Pension provisions	1.4	3.7	-2.2	3.7
Deferred tax assets (not netted)	8,618.7	20,058.8	-11,336.6	1,904.1
Deferred tax liabilities:				
Fair valuation on investment property	-49,929.3	-47,054.2	-2,875.1	-2,646.4
Deferred taxes on equity portion of convertible bond	-76.7	-76.2	-0.5	-2.2
Debt buyback	-542.9	-572.4	29.5	27.9
Contract value from initial consolidation	0.0	-30.2	30.2	62.5
Initial consolidation of properties held as current assets	-8.9	-8.9	0.0	-0.2
Deferred taxes on fair value or amortized cost of loan	-1,037.5	-1,763.8	726.3	228.1
Pension provisions	0.0	0.0	0.0	1.6
Maintenance provision	0.0	-39.0	39.0	-39.0
Deconsolidation of Signa	0.0	-599.5	599.5	-599.5
Deferred tax liabilities (not netted)	-51,595.3	-50,144.2	-1,451.1	-2,967.2
Deferred tax expense			**-12,787.7**	**-1,063.2**
Deferred tax liabilities (net)	**-42,976.6**	**-30,085.4**		
Recognized in the balance sheet as follows:				
Deferred tax credits	990.2	12,590.1		
Deferred tax liabilities	43,966.8	42,675.6		
Deferred tax liabilities (net)	**-42,976.6**	**-30,085.5**		

Deferred tax credits for tax loss and interest carry-forwards are recognized at the amount for which it is probable that the associated tax benefits can be realized on future taxable profits. The tax losses carried forward exist only in Germany, and therefore do not expire.

The Colonia Group had corporate income tax loss carryforwards of EUR 71,084.5 thousand (prior year: EUR 66,920.9 thousand) and local business income tax carryforwards of EUR 65,603.7 thousand (prior year: EUR 58,188.8 thousand). There was also interest carried forward of EUR 8,251.3 thousand as at December 31, 2010 (prior year: EUR 9,381.3 thousand).

If there are sufficient taxable temporary differences relating to the same taxation authority and the same taxable entity, against which the unused tax losses can be utilized, a corresponding capitalization of deferred tax assets can occur in accordance with IAS 12.36. In the current fiscal year, according to information from the Board of Management, there is likely to be a realization of the recognized taxable temporary differences through the sale of entire real estate portfolios, which will accumulate for the entire assessment period. According to Section 10d (2) of the German Income Tax Act (EStG) regarding minimum taxation, no capitalization on unused corporate tax and local business income tax loss carryforwards in the amounts of EUR 4,692.6 thousand and EUR 1,700.9 was reported in the year of sale (reduced revenues EUR 1,010.5 thousand).

For corporate income tax loss carryforwards of EUR 38,025.4 thousand (prior year: EUR 7,288.5 thousand) and local business income tax carryforwards of EUR 60,075.8 thousand (prior year: EUR 27,103.5 thousand), as well as interest carried forward of EUR 8,251.3 thousand (prior year: EUR 0.0), no deferred tax assets were recognized, primarily due to the damaging shareholder change in the sense of Section 8c (1), sentence 2 Corporate Tax Act (KStG), which will lead to a loss of the respective carryforward in the 2011 assessment period.

14. Personnel Expenses

The statement of comprehensive income contains the following total personnel expenses, divided up among expenses for asset management and administrative expenses:

in EUR k	2010	2009
Wages and salaries	5,856.1	6,640.9
Expense for share-based payments	33.5	781.6
Social security contributions	624.2	609.4
of which: Pension expenses	35.3	40.8
Total	**6,513.8**	**8,031.9**

Personnel expenses were reduced in fiscal 2010, primarily as a result of a reduction in the average number of members of the Board of Management, a reduction in the number of Managing Directors in the subsidiaries and lower expenses for share-based payments.

In the adjusted prior year figure, personnel expenses of EUR 1,307.0 thousand were reclassified under “property operating expenses”, as the employees concerned work for the Residential segment (see also Note 2.26).

During the reporting year, Colonia AG paid EUR 468.1 thousand (prior year: EUR 642.4 thousand) in contributions to the public retirement insurance plan; this is considered a defined-contribution plan. It also paid EUR 0.0 (prior year: EUR 31.6 thousand) into a pension fund.

The average number of employees (including the Board of Management) was:

	2010	2009
Members of the Board of Management[1]	2.0	3.0
Permanent employees (including executives and managing directors)	87.0	88.0
Total	**89.0**	**91.0**

[1] Friedrich Thiele, Chief Real Estate Officer, resigned on April 30, 2010. Please see Note 35

15. Stock Options

The regular shareholders' meeting of June 27, 2005, authorized the Board of Management and Supervisory Board to set up a stock option plan (the 2005 Stock Option Plan). The entitled parties include the members of the Board of Management and employees of Colonia Real Estate AG. No further stock options were exercised in fiscal years 2009 and 2010. As of the end of the reporting period, no stock options were still outstanding under the 2005 Stock Option Plan, and 60,000 stock options were still outstanding under the 2006 Stock Option Plan.

The regular shareholders' meeting of June 6, 2006, authorized the Board of Management and Supervisory Board to set up a stock option plan (the Colonia Real Estate 2006 Stock Option Plan). The entitled parties include the members of the Board of Management and employees of Colonia Real Estate AG and of affiliated entities subordinate to it, as well as the managing directors of affiliated entities subordinate to the Company. A total of 910,400 options were available, 25% of which were set aside for the members of the Board of Management, and 75% of which were set aside for employees of Colonia Real Estate AG and of affiliated entities subordinate to it, as well as the managing directors of entities subordinate to the Company. The shareholders' meeting on July 4, 2007, decided to reduce the stock option plan to 792,000 options, and to adjust the associated Contingent Capital III accordingly. Furthermore, the shareholders' meeting on June 24, 2010 resolved to terminate the authorization to grant stock options from the 2006 Stock Option Plan, as well as associated undrawn Contingent capital III in the amount of EUR 476,000.00.

The regular shareholders' meeting of July 4, 2007 authorized the Board of Management and Supervisory Board to set up a stock option plan (the Colonia Real Estate 2007 Stock Option Plan). The entitled parties include the members of the Board of Management and employees of Colonia Real Estate AG and of affiliated entities subordinate to it, as well as the managing directors affiliated entities subordinate to the Company. A total of 866,560 options are available, 15% of which are set aside for the members of the Board of Management, and 85% of which are set aside for employees of Colonia Real Estate AG and of affiliated entities subordinate to it, as well as the managing directors of entities subordinate to the Company. The shareholders' meeting on June 24, 2010 resolved to terminate the authorization to grant stock options from the 2007 Stock Option Plan, as well as associated undrawn Contingent Capital V in the amount of EUR 756,560.00.

The regular shareholders' meeting of June 19, 2008, authorized the Board of Management and Supervisory Board to set up a stock option plan (the Colonia Real Estate 2008 Stock Option Plan). The entitled parties include the members of the Board of Management and employees of Colonia Real Estate AG and of affiliated entities subordinate to it, as well as the managing directors affiliated entities subordinate to the Company. A total of 624,000 options are available, of which not more than 16% of which are set aside for the members of the Board of Management, not more than 16% are set aside for the managing directors of subsidiaries, and 34% each are set aside for employees of the Company and employees of the Company's subsidiaries. The shareholders' meeting on June 24, 2010 resolved to terminate the authorization to grant stock options from the 2008 Stock Option Plan, as well as associated undrawn Contingent Capital VII in the amount of EUR 285,000.00.

All stock option plans are recognized as equity-settled share-based transactions.

The following table shows the changes in stock options during the year:

	Units	Strike price in EUR
Outstanding at December 31, 2008	1,135,000	19.45
Expired during 2009 reporting period	-148,000	5.47
Outstanding at December 31, 2009	987,000	21.55
Expired during 2010 reporting period	-700,000	24.72
Outstanding at December 31, 2010	287,000	9.86

The weighted average remaining term for these options was 2.2 years as of the end of the reporting period (prior year: 2.6 years). As of the end of the reporting period, 287,000 options (prior year: 390,000 options) were eligible to be exercised.

In order for options to be eligible for exercise, the average opening and closing prices of the Company's stock in Xetra trading over the last five trading days prior to the exercise date must be at least 20% above the strike price, and the option holder must have been an employee of the Company up to that time. When the entitled individual exercises the option, the strike price must be paid to the Company in return for the issue of stock. Exercise of options is restricted during a period prior to the release of quarterly and semiannual results and the preliminary result for the year, and prior to the shareholders' meeting. The option terms permit the option rights to be adjusted in the event of capital increases or capital reductions.

The strike prices for options outstanding at the end of the reporting period lay between EUR 5.53 and EUR 33.55 (prior year: EUR 2.26 and EUR 47.59). The basis price (strike price) of the options from the Colonia Real Estate 2007 Stock Option Plan was originally EUR 25.90 and the basis price (strike price) of the options from the Colonia Real Estate 2008 Stock Option Plan was originally EUR 5.55. As a consequence of several capital increases between 2008 and 2010, the notional value of Colonia AG share capital, which the option holders receive when a stock option is traded as a result of the acquisition of Colonia stock, was reduced, or "diluted". To compensate for this dilution effect, the respective basis prices, which are also the strike prices, were reduced to EUR 3.95 by resolution of the Board of Management and the Supervisory Board on December 8, 2010. In a joined option from the Board of Management and the Supervisory Board of Colonia Real Estate AG this reduction was published January 3, 2011. On February 8, 2011 the Management Board an the Supervisory Board reversed the reduction.

By agreement dated May 7, 2010, employees and the Board of Management decided not to exercise 460,000 stock options. In addition, no new stock options were issued in fiscal years 2009 and 2010. Therefore, the following information relates to fiscal years 2007 and 2008.

The weighted average fair value of the options granted during 2008 was EUR 1.80 (2007: EUR 7.31).

Employee options were measured in 2007 and 2008 using the Black-Scholes method. On the basis of the strike prices, which were equivalent to the trading price immediately before the options were granted, and the options' term of 2 years, and assuming the earliest possible exercise, a risk-free interest rate of 4.57% for 2008 (2007: 3.5%), and a historical volatility of between 57.55% and 76.27% for the stock over the past 250 days for 2008 (2007: 50%), the Black-Scholes method yielded a 2008 option value of between EUR 1.19 (2007: EUR 6.55) and EUR 2.06 (2007: EUR 10.17).

The prorated expense of EUR 33.5 thousand for 2010 (prior year: EUR 781.6 thousand) was recognized under "personnel expenses".

16. Earnings per Share

Basic

Basic earnings per share are calculated by dividing the profit attributable to owners by the average number of shares issued during the year, weighted on a daily basis, excluding shares held by the Company itself as treasury stock.

	2010	2009 adjusted
Earnings attributable to holders of common stock of the parent company (EUR thousand)	-26,743	6,679
Average number of shares issued (in thousands)	29,077	26,327
Basic earnings per share	-0.91	0.25

The average number of shares issued in fiscal 2010 is obtained from a monthly weighting of shares issued. On January 1, 2010, 28,460,000 no-par shares were in circulation. As of the end of the reporting period on December 31, 2010, 31,305,990 undiluted shares had been issued.

Diluted

The diluted number of shares was calculated first of all as the sum of the average number of shares issued plus the number of shares that could be subscribed under diluting options granted. Options are diluting if they would have been granted for the purpose of issuing common stock at a price lower than the average trading price of a share of common stock during the period. This was not the case in 2010, so that no diluting effect resulted from this calculation.

The diluted number of shares was then also calculated by adding to the average number of shares of common stock the potential common stock to be issued under the convertible bond issue (3,210,218 shares). Accordingly the total number of diluted shares was 32,286,849. The diluted earnings per share are calculated from this figure by taking the profit for the year, corrected for potential interest savings less tax from the convertible bonds, and dividing it by the number of diluted shares. Since there is no dilution effect here, diluted earnings per share are calculated in the same way as basic earnings per share, in accordance with IAS 33.43.

Earnings per share for the 2009 fiscal year was adjusted to correct the error explained in Note 2.26. The resulting earnings per share for the reporting year were thus EUR 0.08 lower.

17. Investment Property

The Group's land and buildings were largely appraised by certified, sworn, independent appraisers as of the end of the reporting period, December 31, 2010. Please see Note 2.26 for further information on adjustment of "additions through renovations" and "valuation movements through measurement at fair value" in fiscal 2009. The following table shows the reconciliation required under IAS 40.76.

Changes in real estate assets

	in EUR k
As of Jan.1, 2009	**835,400.0**
Disposals through sale	-31,370.3
Additions through renovations (adjusted)	0.0
Reclassification as assets of a disposal group as held for sale	0.0
Valuation movements through measurement at fair value (adjusted)	10,180.3
At Dec. 31, 2009	**814,210.0**
At Jan. 1, 2010	**814,210.0**
Disposals through sale	-1,557.6
Other disposals	-182.3
Additions through renovations	0.0
Reclassification as assets of a disposal group as held for sale	0.0
Valuation movements through measurement at fair value (net)	5,249.9
At Dec. 31, 2010	**817,720.0**

The indicated fair values (gross present value) of investment properties are largely based on appraisals by well-known independent appraisers in conformity with international valuation standards on the basis of comparable prices (IAS 40.45) or discounted projected net cash inflows using the DCF method (IAS 40.46). Under the DCF method, projected future cash flows from a property are discounted to the measurement date. For this purpose, the net cash flows received from a given property are calculated over a detailed planning period of ten years. These figures result by netting expected receipts against expected disbursements. While receipts as a rule represent net rents, disbursements (gross) particularly consist of the costs that the owner must assume for operating the property. The primary assumptions used for disbursements are maintenance costs of EUR 7.00 to 15.00 per m^2 p.a. (prior year: EUR 7.13 to 8.00 per m^2 p.a.), management costs of approximately EUR 220.00 per residential unit (prior year: EUR 185.00 to 220.00 per unit), operating costs for vacancies of EUR 12.00 per vacant m^2 (prior year: EUR 9.84 to 12.00 per vacant m^2), and a loss of rent risk of 1.5% (prior year: 1.5%) of rental receipts. The net cash flows received for each period are discounted to the measurement date using a property-specific discount rate appropriate for the market. These rates were between 6.87% and 7.51% (including transaction costs) for 2010 (prior year: between 6.6% and 8.20%, including transaction costs). This calculation yields the net present value of the net cash flows received for the period. For the end of the detailed ten-year planning period, a potential terminal value is projected for the measured property, reflecting the most likely price that can be obtained at the end of the detailed planning period. In this case, the discounted net cash flows received for the tenth and eleventh years are capitalized as a perpetual annuity at the capitalization interest rate (exit rate). Depending on the property, this rate varied from 5.36% to 5.97% for 2010 (prior year: 5.6% to 7.2%). It should be noted that the input value for measuring the exit value must take account of the change in the measurement of net operating income. The discount rates are therefore not fully comparable with those of the prior year. Depending on the property, transaction costs in 2010 were between 5.5% and 6.9% and reflected the higher property tax, among other things. In the prior year, transaction costs of 5.5% were recognized as standard. The total of the discounted net cash flows received and the discounted potential terminal value yields the fair value (gross present value) of the property. In the reporting year, additional value adjustments of EUR -4,175 thousand were recognized on the appraiser's values.

Commercial property was measured analogously to the residential portfolio, at a discount rate of 6.75% excluding transaction costs (prior year: 6.75%). A deduction of 4.75% (prior year: 4.8%) was taken for transaction costs from the total of discounted cash inflows.

The fair values of residential and commercial properties were measured by certified, sworn, independent appraisers.

DTZ, Berlin (prior year: DTZ, London, England) was engaged to prepare the fair value appraisals for the residential portfolios (excluding the Nauen portfolio). It specializes in appraising investment properties in the various sectors.

CB Richard Ellis GmbH, of Berlin, Germany, was engaged to prepare the fair value appraisal for commercial properties.

As of December 31, 2010, material adjustments for the current 2010 year resulted for investment properties. They are reconciled below in accordance with IAS 40.77:

Residential properties
The fair value of residential properties reported in the balance sheet was EUR 805,820 thousand as of December 31, 2010. A net gain of EUR 5,550 thousand was recognized against the prior year (EUR 802,010 thousand). Disposals of EUR 1,740 thousand were also recognized.

Commercial properties
As of December 31, 2010, the commercial properties were recognized at their fair value of EUR 11,900 thousand. A write-down of EUR 300 thousand was recognized against the prior year (EUR 12,200 thousand).

Sensitivity analysis for residential properties for changes in the discounting rates used

a) 0.5 percentage point increase in interest rates (DCR)

in EUR million	Carrying amount at 12/31/2010	Valuation with 0.5 percentage point increase in interest rate	Change
Residential properties	805.8	775.0	-3.82%

in EUR million	Carrying amount at 12/31/2010	Valuation with 0.5 percentage point increase in interest rate	Change
Residential properties	802.0	772.2	-3.72%

b) 0.5 percentage point decrease in interest rates (DCR)

in EUR million	Carrying amount at 12/31/2010	Valuation with 0.5 percentage point increase in decrease rate	Change
Residential properties	805.8	838.2	+4.02%

in EUR million	Carrying amount at 12/31/2010	Valuation with 0.5 percentage point increase in decrease rate	Change
Residential properties	802.0	833.2	+3.89%

Under the DCF method, the assumption of the exit value, or the capitalization of the last typical cash flow representative of the property, has a rather significant influence. For a simultaneous allowance of a -0.5 or +0.5 change from the current average of 12.7 in the capitalization factor for the terminal value (the average exit factor), the value of the portfolio as a whole changes as follows:

a) 0.5 percentage point increase in interest rates (exit rate), average capitalization factor: 12.2

in EUR million	Carrying amount at 12/31/2010	Value with 0.5 percentage point increase in interest rate, with reduction of capitalization factor	Change
Residential properties	805.8	763.8	-5.22%

0.5 percentage point increase in interest rates (exit rate), average capitalization factor: 11.8

in EUR million	Carrying amount at 12/31/2009	Value with 0.5 percentage point increase in interest rate, with reduction of capitalization factor	Change
Residential properties	802.0	764.9	-4.63%

b) 0.5 percentage point decrease in interest rates (exit rate), average capitalization factor: 13.2

in EUR million	Carrying amount at 12/31/2010	Value with 0.5 percentage point increase in interest rate, with reduction of capitalization factor	Change
Residential properties	805.8	856.3	6.26%

0.5 percentage point decrease in interest rates (exit rate), average capitalization factor: 12.8

in EUR million	Carrying amount at 12/31/2009	Value with 0.5 percentage point increase in interest rate, with reduction of capitalization factor	Change
Residential properties	802.0	845.9	5.47%

The carrying amounts of residential and commercial properties at the end of the reporting periods were as follows:

in EUR k	2010	2009
Commercial properties	11,900.0	12,200.0
Residential properties	805,820.0	802,010.0
Total	**817,720.0**	**814,210.0**

Contractually assured rental income is expected as follows:

Rental income

in EUR k	1 year	1–5 years	Over 5 years	Total
Commercial	1,059.9	706.6	0.0	1,766.5
(prior year)	(1,059.9)	(1,766.5)	(0.0)	(2,826.4)
Residential	13,916.3	0.0	0.0	13,916.3
(prior year)	(13,537.9)	(0.0)	(0.0)	(13,537.9)
Total	**14,976.2**	**706.6**	**0.0**	**15,682.8**
(prior year)	**(14,597.8)**	**(1,766.5)**	**(0.0)**	**(16,364.3)**

Leases on residential properties are normally subject to three months' notice. Accordingly, the assured rental income for these properties is calculated for three months.

The leases for commercial properties have an average remaining term of 1.7 years (prior year: 2.7 years).

18. Property, Plant and Equipment

Property, plant and equipment only consists of business equipment. This item changed as follows in fiscal 2010:

Changes in assets

in EUR k	Business equipment
Fiscal 2009	
Opening carrying amount, net	1,032.6
Additions	76.9
Reclassifications	-158.4
Disposals	81.2
Depreciation	203.0
Closing carrying amount, net	**666.9**
At Dec. 31, 2009	
Costs of acquisition or creation	1,241.2
Disposals through deconsolidation	2.3
Accumulated depreciation	571.4
Disposals through deconsolidation	0.6
Carrying amount, net	**666.9**
Fiscal 2010	
Opening carrying amount, net	666.9
Additions	309.8
Reclassifications	0.0
Disposals	10.9
Depreciation	200.6
Closing carrying amount, net	**765.2**
At Dec. 31, 2010	
Costs of acquisition or creation	1,513.1
Disposals through deconsolidation	0.0
Accumulated depreciation	747.9
Disposals through deconsolidation	0.0
Carrying amount, net	**765.2**

The statement of comprehensive income shows lease expenses of EUR 272.2 thousand (prior year: EUR 334.6 thousand).

19. Intangible Assets

Intangible assets changed as follows in fiscal 2010:

	in EUR k
At Jan. 1, 2009	**3,154.5**
Additions	370.5
Reclassifications	158.5
Disposals	2.3
Current amortization	246.1
At Dec. 31, 2009	**3,435.1**
Additions	264.2
Reclassifications	0.0
Disposals	0.2
Current amortization	293.7
Goodwill impairment	618.2
At Dec. 31, 2010	**2,787.2**

The recognized goodwill of EUR 2,242.8 thousand (prior year: EUR 2,860.9 thousand) is allocated to the Asset Management cash-generating unit. The Asset Management cash-generating unit is made up the entity Colonia Real Estate Solutions GmbH; this however contains the values in use for "Resolution" and "Accentro". During the year, the recoverable amount of the Asset Management cash-generating unit was calculated by computing a value in use employing cash flow projections based on financial plans prepared by management for a five-year period assuming a growth rate of 0.0% for the period after the end of the planning period. The discount rate post-tax for measuring the value in use of Resolution was 7.98% (prior year: 8.73%), and for measuring the value in use Accentro 7.98% (prior year: 9.17%). Goodwill impairment relates to the value in use for Resolution, recognized under "general administrative expenses".

Intangible assets are related to the Asset Management cash-generating unit and primarily comprise EUR 1,835.7 thousand for goodwill of Resolution, EUR 407.0 thousand for goodwill of Accentro and EUR 544.5 thousand for software.

Current amortization is included in general administrative expenses.

20. Investments in Associates and Other Financial Assets

In the 2010 fiscal year, the Colonia Real Estate Group held investments in associates with a carrying value of EUR 2,429.6 thousand (prior year: EUR 8,213.6 thousand), and associated shareholder loans of EUR 6,345.8 thousand (prior year: EUR 6,302.5 thousand).

The size of stakes the Group held in various joint ventures varies from no less than 2.75% to no more than 15%. The individual equity interests are held by both Colonia AG and CRE German Office GmbH. No new investments in joint ventures were entered into during fiscal 2010. The joint venture partners are Merrill Lynch, Strategic Value Partners – (Deutschland) GmbH, JPMorgan and UBS.

The 4.8% stake (EUR 4,500.0 thousand) in OCM German Real Estate Holding AG with joint venture partner Oaktree was sold in a sale agreement dated December 29, 2010. The stake was transferred via contingent consideration in January 2011. For reasons of intention to sell, the stake is reported under "non-current assets held for sale" as of the reporting date.

Interests in Luxembourg Merrill Lynch companies are held as joint ventures with Merrill Lynch. These companies include various locations in Germany. A total of three stakes are held in Merrill Lynch joint ventures. Colonia Real Estate AG holds a 7.5% equity interest, with a carrying amount of EUR 1,106.2 thousand, in the companies ML Anna Real Estate 1 – 7 S.à.r.l. and ML Anna Real Estate GP S.à.r.l. Equity interests of 10% (EUR 183.2 thousand) in the MLArg Real Estate 1 – 8 S.à.r.l. investment companies were also continued. The Group holds additional interests in ML Poivre Real Estate 1 – 5 S.à.r.l and ML Poivre Real Estate GP S.à.r.l. in the amount of 10% (EUR 7.5 thousand).

Additionally, Colonia Real Estate AG holds a limited partnership interest of 2.75% in VA No1 Dischhaus GmbH & Co. KG. This investment with joint venture partner UBS Real Estate is equivalent to investment capital of EUR 92.4 thousand.

With its co-investor Strategic Value Partners, the Group has investments of 5.4% in each of the Rock Ridge 8 – 10 S.à.r.l. companies, for a carrying amount of EUR 161.7 thousand.

The 15% stake in EPF Colonia S.à.r.l & Co. KG was undertaken with joint venture partner JPMorgan. As at the balance sheet date, this investment had a carrying amount of EUR 876.8 thousand. In fiscal 2010, the interest was impaired by EUR 1,285 thousand, due to a decrease in value expected to be permanent.

Hitherto, loans totaling EUR 6,345.8 thousand (prior year: EUR 6,302.5) have been extended to joint venture holdings over the entire investment period. There is no active market for these equity interests. Additionally, no adequately reliable valuation is possible for these non-controlling interests, so that no fair value is indicated for them.

21. Properties Held for Sale

The item “properties held for sale” includes properties owned by Colonia Residential Sales GmbH (formerly: CRE Wohneigentum GmbH) in Berlin, Landshut, Lingen and Wunstorf in the amount of EUR 9,763.8 thousand (prior year: EUR 6,264.6 thousand).

During the 2010 fiscal year, residential holdings of CRE Accentro GmbH in Wunstorf, recognized under this item in the prior year, with a carrying amount of EUR 552.6 thousand were sold to Colonia Residential Sales GmbH.

22. Receivables and Other Assets

in EUR k	12/31/2010	12/31/2009
Trade receivables	8,038.8	7,285.9
Other assets	1,535.0	7,145.0
Total	**9,573.8**	**14,430.9**

Trade receivables are primarily the companies’ uncollected rents and service charges, and receivables for the Asset Management unit, amounting to EUR 8,038.8 thousand (prior year: EUR 7,285.9 thousand). The receivables were evaluated as a function of their collectability, and were written down accordingly if necessary.

Write-downs on trade receivables changed as follows in 2009 and 2010:

At 1/1/2009 EUR k	Additions EUR k	Reversals EUR k	At 12/31/2009 EUR k	At 1/1/2010 EUR k	Additions EUR k	At 12/31/2010 EUR k
2,843.4	**2.6**	**0.0**	**2,846.0**	**2,846.0**	**964.2**	**3,810.2**

Trade receivables of EUR 498.9 thousand (prior year: EUR 668.6 thousand) were derecognized in fiscal 2010.

The companies’ other assets were primarily creditors with debit balances, receivables from employees, loan receivables, and advance payments made.

The trade receivables have the following maturity structure:

in EUR k	Total	Neither written down nor overdue	0–90 days	91–180 days	181–360 days	> 360 days
Fiscal 2010:						
Trade receivables	8,038.8	711.2	6,111.4	583.3	486.6	146.3
Other assets	1,535.0	1,535.0	0.0	0.0	0.0	0
	9,573.8	**2,246.2**	**6,111.4**	**583.3**	**486.6**	**146.3**
Fiscal 2009:						
Trade receivables	7,285.9	1,432.4	4,771.9	354.4	509.8	217.4
Other assets	7,145.0	7,145.0	0.0	0.0	0.0	0
	14,430.9	**8,577.4**	**4,771.9**	**354.4**	**509.8**	**217.4**

All overdue rent receivables were covered by a blanket single valuation adjustment.

23. Cash and Cash Equivalents

Short-term bank deposits bear interest at the daily rate.

For purposes of the consolidated cash flow statement, cash and cash equivalents comprised the following:

Cash in hand and current account credit lines for purposes of the cash flow statement comprise:

in EUR k	12/31/2010	12/31/2009
Cash and Cash Equivalents	11,108.3	13,071.9
Current account credit lines	-3,314.1	-3,453.3
	7,794.2	**9,618.6**

Colonia has pledged bank accounts with a total credit balance as of the end of the reporting period of EUR 7,104.6 thousand (prior year: EUR 9,045.6 thousand). The liens extend to all present and future rights to disbursement of the credit balances in the pledged accounts. The liens secure all current and future claims of the lienholder against Colonia arising from or connected with the applicable loan agreements. Colonia is entitled to make use of the credit balances in the pledged accounts in the ordinary course of business. The lien remains in effect and valid, without restriction, until all secured claims have been satisfied.

24. Non-Current Assets Held for Sale

The stake in OCM German Real Estate AG, Cologne, was recognized at EUR 4,500 thousand due to the existing disposal plan at the balance sheet date and the sales transaction with lower carrying amount made in January 2011. At the balance sheet date, existing benefits in connection with the sales transaction in the amount of EUR 128.8 thousand were expensed.

In the interim financial statements at September 30, 2010, three residential portfolios of Domus Grundstücksverwaltungsgesellschaft mbH, Cologne, were recognized as non-current assets held for sale. The residential units "Schallstraße, Cologne" were sold in the fourth quarter of 2010. The sales proceeds in the amount of EUR 26.8 thousand were recognized under "other net income". The disposal plan for the rest of the residential portfolios was scrapped in the fourth quarter of 2010 and as a result, this asset was reclassified under "investment property".

25. Equity

Issued capital
The Company's issued no-par shares, which have been fully paid in and have a notional value of EUR 1 per share, changed as follows:

	Units	EUR k
At Jan. 1, 2009	**22,825,600**	**22,825.6**
Cash capital increase (April 2009)	1,300,000	1,300.0
Exercise of stock options (August 2009)	4,334,400	4,334.4
At Dec. 31, 2009	**28,460,000**	**28,460.0**
At Jan. 1, 2010	**28,460,000**	**28,460.0**
Cash capital increase (October 2010)	2,845,990	2,846.0
At Dec. 31, 2010	**31,305,990**	**31,306.0**

In fiscal 2010, the Company's share capital was increased on the basis of a resolution at the shareholders' meeting on June 24, 2010 by issuing new no-par bearer shares in return for contributions in cash or in kind. The issue price for the cash capital increase in 2010 was EUR 3.80 per share (prior year: EUR 2.77).

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).

By way of a resolution at the shareholders' meeting on June 24, 2010, the Board of Management was authorized, subject to the consent of the Supervisory Board, to increase the Company's share capital on one or more occasions before June 23, 2015, by up to a total of EUR 3,023,200.00, by issuing new no-par bearer shares in return for contributions in cash or in kind (2010 Authorized Capital). In fiscal 2010, this authorization was partially exercised in the amount of EUR 2,845,990.00.

Contingent capital

The shareholders' meeting on June 24, 2010 resolved to partially increase Contingent Capital III. The Company's share capital has been contingently increased by up to EUR 316,000.00 (prior year: EUR 792,000.00), divided into up to 316,000 (prior year: 792,000) no-par bearer shares, by the issue of new stock (Contingent Capital III).

The contingent 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 contingently 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 (Contingent Capital IV). The contingent 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 resolutions of June 6, 2006, and July 4, 2007.

The shareholders' meeting on June 24, 2010 resolved to partially increase Contingent Capital V. The Company's share capital has been contingently increased by up to EUR 110,000.00 (prior year: EUR 866,560.00), divided into up to 110,000 (prior year: 866,560) no-par bearer shares, by the issue of new stock (Contingent Capital V).

The contingent 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 contingently 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 (Contingent Capital VI). This contingent 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 shareholders' meeting on June 24, 2010 resolved to partially increase Contingent Capital VII. The Company's share capital has been contingently increased by up to EUR 339,000.00 (prior year: EUR 624,000.00), by the issue of up to 339,000 (prior year: 624,000) new no-par bearer shares (Contingent Capital VII).

This contingent 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.

Other reserves
In addition to additional payments received from capital increases, the other reserves include the equity component of the convertible bond, less deferred taxes and the personnel expense for share-based payments. The reserves have been reduced by the cost of raising capital, less deferred taxes.

Other comprehensive income (adjusted)
On account of the adjustment of the prior year's figures as required by IAS 8 (see Note 2.26), retained earnings for fiscal 2009 were retrospectively reduced by EUR 2,070.6 thousand and other comprehensive income was increased accordingly to EUR -16,260.0 thousand (amount before adjustment: EUR -18,330.6 thousand).

Tax effects of components of earnings for the period outside profit or loss

	2010			2009		
in EUR k	Before tax	Tax	After tax	Before tax	Tax	After tax
Effects of exchange rate changes	-35.1	0.00	-35.1	43.0	0.0	43.0
Effective portion of change in fair value from cash flow hedges	-526.3	102.8	-423.5	4,797.7	-778.3	4,019.4

26. Interest-Bearing Liabilities and Convertible Bond

in EUR k	12/31/2010	12/31/2009
Non-current		
Financial liabilities	467,835.6	477,558.1
Convertible bond	10,576.4	57,377.2
	478,412.0	**534,935.3**
Current		
Financial liabilities	21,871.7	23,576.9
Bank overdraft	3,314.2	3,453.3
Convertible bond	59,196.2	0.0
	84,382.1	**27,030.2**
Total interest-bearing liabilities	**562,794.1**	**561,965.5**

The interest-bearing liabilities include secured liabilities (financial debt) of EUR 489,413.9 thousand (prior year: EUR 501,135.0 thousand). Of this figure, EUR 489,413.9 thousand (prior year: EUR 497,078.1 thousand) is secured by land and buildings with a total carrying amount of EUR 817,720.0 thousand (prior year: EUR 814,210.0 thousand).

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 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 arrears, on each interest payment date. The first interest payments were due on December 7, 2007. The bonds will be redeemed on their maturity date at their accrued par value plus accumulated interest, unless they have been redeemed, converted or retired and cancelled before that date. The Company is entitled to recall the entire bond issue after December 21, 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% 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 initial conversion price per underlying share was EUR 39.524. A contingent capital up to a total of EUR 1,781,600 was established for underlying shares by the shareholders' meeting of June 6, 2006, to cover the convertible bond.

On May 11, 2010, the Company issued a convertible bond with a total par value of EUR 11,440.7 thousand. The bonds are certificated in a global certificate without interest coupons. The total par value is divided equally in no-par bearer bonds with a par value of EUR 6.0078. 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 5.875% of par p.a. as of the inception of the interest accrual period. Interest is payable annually, in arrears, on each interest payment date in May and November. The bonds will be redeemed on their maturity date at their accrued par value plus accumulated interest, unless they have been redeemed, converted or retired and cancelled before that date. From June 1, 2013, the Company is entitled to recall all bonds issued at their accrued par value plus accumulated interest by issuing a notice for early repayment of no less than 30 days and no more than 60 days. A prerequisite is that the stock's trading price, multiplied by the par value and divided by the applicable conversion price, over a period of at least 20 successive trading days must be at least 140% of the accrued par value applicable at the time. The creditors' conversion rights could be exercised for the first time as of June 21, 2010. The conversion period ends on May 4, 2015. The number of underlying shares required to cover a convertible bond is calculated by dividing the total par value of convertible bonds issued by a creditor by the applicable conversion price on the day of conversion, rounded to the next whole underlying share. The initial conversion price per underlying share was EUR 6.0078. A contingent capital up to a total of EUR 3,124,247 was established for underlying shares by the shareholders' meeting of June 19, 2008, to cover the convertible bond.

The principal long-term and short-term interest-bearing liabilities have the following maturities and effective interest rates:

Carrying amount at 12/31/2010 in EUR k	Fair value at 12/31/2010 in EUR k	Carrying amount at 12/31/2009 in EUR k	Fair value at 12/31/2009 in EUR k	Maturity	Interest rate	
171,662.0	188,953.7	169,794.8	189,033.6	9/1/2013	fixed**	4.27%
66,449.6	73,229.0	66,729.4	73,961.5	1/20/2014	fixed	5.28%
65,004.7	71,066.9	65,615.6	71,974.6	1/20/2014	fixed	4.92%
*59,196.2	57,497.8	57,377.2	51,769.8	12/7/2011	fixed	1.88%
*10,576.4	11,921.0	0.0	0.0	5/11/2015	fixed	5.88%
38,903.4	43,657.4	40,183.1	44,607.8	9/1/2013	fixed**	4.27%
0.0	0.0	2,800.0	2,800.0	1/31/2010	n.d.	n.d.
31,505.4	41,811.2	31,938.4	40,952.6	5/31/2038	fixed	5.92%
7,606.1	7,606.1	12,302.5	12,500.0	4/18/2012	variable	n.d.
17,700.0	23,119.9	17,927.4	22,541.2	6/30/2038	fixed	5.71%
113.8	113.8	0.0	0.0	variable term	variable	n.d.
26,159.0	26,527.5	26,159.0	25,874.4	9/30/2016	fixed	2.90%
0.0	0.0	209.1	209.1	variable term	variable	n.d.
8,414.5	8,895.9	8,717.1	9,370.1	8/30/2012	fixed**	5.31%
4,128.6	4,596.6	4,235.6	4,675.9	10/31/2016	fixed	5.02%
6,412.8	6,412.8	8,516.5	8,701.6	variable term	variable	n.d.
31,506.0	35,181.4	30,947.8	34,964.5	12/31/2019	fixed	5.08%
11,159.8	9,174.0	11,020.2	8,443.3	3/31/2037	fixed	1.00%
0.0	0.0	4,056.9	4,056.9	10/31/2010	variable	n.d.
3,196.1	3,196.1	3,169.4	3,169.4	variable term	variable	n.d.
0.0	0.0	265.5	265.5	variable term	variable	n.d.
3,099.3	3,099.3	0.0	0.0	8/31/2012	variable	n.d.
0.4	0.4	0.0	0.0	variable term	variable	n.d.
562,794.1	**616,060.8**	**561,965.5**	**609,871.8**			

** Convertible bond
** Hedged with interest rate derivatives

Yield curves plus relevant credit margins were used to calculate fair values.

Colonia Real Estate AG has an operating funds credit line of EUR 5 million, of which EUR 1.8 million was available at the end of the reporting period.

Colonia Portfolio Hamburg GmbH & Co. KG has a renovation loan from Investitionsbank Schleswig-Holstein that can be drawn in tranches. At the end of the reporting period, it still had EUR 2.5 million in renovation funds available.

The lender banks are informed at regular intervals of the financed portfolios' ability to service capital. The minimum capital requirements (covenants) were satisfied, and there was no default. The lender banks were notified separately with regard to the change in majority shareholder in connection with the takeover of Colonia AG by TAG Immobilien AG.

27. Derivative Financial Instruments

The Company uses interest rate derivatives (swaps) to hedge risks of changing interest rates on its financing. These interest rate derivatives serve solely to hedge risks of interest rate changes, and are not used for speculation. Colonia has applied hedge accounting since the fourth quarter of 2008. Accordingly, the changes in market value of these derivative financial instruments, which are designated as cash flow hedges, are recognized in profit or loss insofar as they apply to the ineffective portion; insofar as they apply to the effective portion of the cash flow hedge, the changes in market value are recognized under components of earnings for the period outside profit or loss, after allowing for deferred taxes. Gains or losses on changes in the fair value of derivative financial instruments that do not satisfy the criteria for recognition as hedge relationships are recognized immediately in profit or loss.

Interest rate swaps are measured at fair value using suitable mathematical valuation models. Discounting is based on the indicative market interest rates (market mean) prevailing at the end of the reporting period, and on indicative volatility figures.

The fair value of the interest rate swaps as of the end of the reporting period was EUR -13,756.0 thousand (prior year: EUR -13,432.3 thousand). The nominal value of the interest rate swaps at December 31, 2010 was EUR 225,745.2 thousand (prior year: EUR 226,912.1 thousand).

The fair value of the financial instruments (swaps) results from the current interest rates at the end of the reporting period, and is calculated using the discounted cash flow method. If interest rates have fallen compared to the date when the hedge was entered into, the result is a negative value. Conversely, the value rises if interest rates rise. The effectiveness of financial instruments (swaps) is evaluated by forming a hypothetical derivative and subsequently comparing the base point values of the hypothetical derivative and the hedging instrument (swap).

According to the calculations received from the bank engaged for the purpose, a parallel shift of 100 basis points upward or downward in the yield curve would cause the value of the interest rate swaps to change by EUR 5,526.8 thousand and EUR -5,526.8 thousand respectively.

28. Provisions for Pensions and Similar Obligations

Colonia primarily maintains defined-contribution retirement plans for its employees. Defined-benefit obligations toward some employees were assumed at the time of the merger of COVER Projektentwicklungsgesellschaft mbH with CRE Resolution GmbH in 2008. These defined-benefit obligations are based on the benefits rules of the Bochumer Verband association, which provide for old-age pensions, early retirement pensions, disability pensions, widow's and widower's pensions and orphaned children's pensions. Retirement pensions are paid on reaching age 65. Disability pensions are paid as of the inception of disability, and survivors' pensions (widows, widowers and orphans) are paid as of the death of the covered individual.

The Colonia Group uses statistical and actuarial calculations by actuaries to make allowances for future developments in the computation of expenses and liabilities associated with these plans. These computations are based on assumptions about the discount rate and the future evolution of wages and salaries.

No other employees were recognized in the group of individuals with entitlements in fiscal 2010. There were no more commitments to be measured for four employees.

Actuarial parameters
The actuarial computations of benefits obligations and pension expenses were based on the following parameters:

in %	2010	2009
Technical rate of interest	4.75	5.5
Expected increase in wage and salary payments	0.0	2.0
Expected increase in pension payments	2.0	2.0
Probability of staff turnover	None	None
Biometric bases of computation	2005G Guideline Tables	2005G Guideline Tables

Changes in provisions
The recognized pension provision is derived as follows:

in EUR k	2010	2009
Initial volume at January 1	57.1	127.1
Disposals through transfers/additions through mergers	0.0	-84.9
Reversals/allocations	-17.5	14.9
Final volume at December 31	**39.6**	**57.1**

The net present values of pension obligations changed as follows:

in EUR k	2010	2009
At January 1	57.1	127.1
Disposals through transfers in 2009/additions through mergers in 2008	0.0	-84.9
Past service cost	6.2	7.3
Interest expense	3.1	9.2
Actuarial loss	-26.8	-1.6
At December 31	**39.6**	**57.1**

The statement of comprehensive income includes the following expense for pension obligations:

in EUR k	2010	2009
Current service costs	6.2	7.3
Actuarial loss recognized during the year	-26.8	-1.6
Interest expense	3.1	9.2
Expense for the year	**-17.5**	**14.9**

The ongoing service costs and the recognized actuarial gains and losses are included in the personnel expense. The interest expense is included in the net interest expense.

At December 31, 2011, allowing for the expense of EUR 9.2 thousand for the year, a pension provision of EUR 41.8 thousand is expected.

During the reporting year, Colonia paid EUR 468.1 thousand (prior year: EUR 642.4 thousand) in contributions to the public retirement insurance plan; this is considered a defined-contribution plan. No payments were made into a pension fund (prior year: EUR 31.6 thousand).

29. Account Payables, Trade and Other Payables

in EUR k	2010	2009
Trade payables	15,131.6	8,338.0
Social security contributions and other taxes	747.7	688.5
Other liabilities	3,001.4	6,337.5
Total	**18,880.7**	**15,364.0**

Trade payables include payment obligations to consultants, appraisers and suppliers for services not yet invoiced.

The other payables primarily comprise an interest-bearing liability to a former shareholder of a subsidiary of EUR 982.3 thousand (prior year: EUR 1,955.9 thousand) and debtors with credit balances of EUR 626.8 thousand (prior year: EUR 1,040.9 thousand). This item also includes, in particular,tax liabilities, security deposits and services that will be due in the new year.

30. Statement of Cash Flows

Please see Note 23 in regard to the composition of cash and cash equivalents included in the statement of cash flows.

During the 2009 fiscal year the Group sold its interest in CRE Signa Berlin Holding AG. The sale was carried out at a total purchase price of EUR 8,380.9 thousand, less a retention bond of EUR 190.0 thousand, or a total payment of EUR 8,190.9 thousand.

In the statement of cash flows for fiscal 2009, gains on the deconsolidation of the stake in CRE Signa Berlin Holding AG amounting to EUR 3,349.9 were recognized under cash from operating activities. The retrospective error correction described in Note 2.26 for 2009 produced a gain from deconsolidation which was lower by EUR 2,070.6 thousand. After adjustment, this was EUR 1,279.3 thousand. Due to the corresponding reduction in consolidated result for 2009, there were no effects on net cash used in operating activities in fiscal 2009.

In conjunction with the voluntary reporting change regarding the results of remeasurement of investment properties at fair value (see point 2.26), there was also a change to presentation in the statement of cash flows. Unlike in the 2009 annual report, the result from unrealized remeasurement of investment property is recognized only under net cash used in operating activities. For this reason, no payments for investments in investment property were recognized under net cash used in investing activities in the year under review. The amount recognized in the prior year was adjusted accordingly, with the result from unrealized remeasurement of investment property thus amounting to EUR -10,180.3 thousand (before adjustment: EUR -2,887.6 thousand).

31. Information on Financial Assets and Liabilities, and Financial Instruments

The following table shows the carrying amounts and fair values of the financial instruments included in the consolidated financial statements:

2010

in EUR k	Measure-ment category per IAS 39	Carrying amount 12/31/2010	Amortized cost	Fair value outside profit or loss	Fair value through profit or loss	Fair Value 12/31/2010
Assets						
Equity investments	AfS	2,429.6	2,429.6	0.0	0.0	n/a
Other financial assets	LaR	6,345.8	6,345.8	0.0	0.0	6,345.8
Receivables and miscellaneous assets	LaR	9,573.8	9,573.8	0.0	0.0	9,573.8
Cash and cash equivalents	LaR	11,108.3	11,108.3	0.0	0.0	11,108.3
Liabilities						
Financial liabilities (non-current and current)	FLAC	489,707.3	489,707.3	0.0	0.0	543,327.9
Bank overdraft	FLAC	3,314.2	3,314.2	0.0	0.0	3,314.2
Convertible bonds (non-current and current)	FLAC	69,772.6	69,772.6	0.0	0.0	69,418.8
Derivative financial liabilities	n/a	13,756.0	0.0	13,756.0	0.0	13,756.0
Trade and other payables	FLAC	18,880.7	18,880.7	0.0	0.0	18,880.7

2009

in EUR k	Measurement category per IAS 39	Carrying amount 12/31/2009	Amortized cost	Fair value outside profit or loss	Fair value through profit or loss	Fair Value 12/31/2009
Assets						
Equity investments	AfS	8,213.6	8,213.6	0.0	0.0	n/a
Other financial assets	LaR	6,302.5	6,302.5	0.0	0.0	6,302.5
Receivables and miscellaneous assets	LaR	14,430.9	14,430.9	0.0	0.0	14,430.9
Cash and cash equivalents	LaR	13,071.9	13,071.9	0.0	0.0	13,071.9
Liabilities						
Financial liabilities (non-current and current)	FLAC	501,135.0	501,135.0	0.0	0.0	554,648.7
Bank overdraft	FLAC	3,453.3	3,453.3	0.0	0.0	3,453.3
Convertible bonds (non-current and current)	FLAC	57,377.2	57,377.2	0.0	0.0	51,769.8
Derivative financial liabilities	n/a	13,432.3	0.0	13,432.3	0.0	13,432.3
Trade and other payables	FLAC	15,364.0	15,364.0	0.0	0.0	15,364.0

Cash and cash equivalents, trade receivables, other financial assets, bank overdrafts, trade payables and other financial liabilities have short remaining terms. Consequently, the carrying amounts as of the end of the reporting period are the same as the fair values. The fair value for financial debt and for the convertible bond was determined as the present value of the payments associated with this liability on the basis of the yield curve applicable as of the end of the reporting period. The market value of interest rate swaps is determined by discounting expected future cash flows over the remaining term of the contract on the basis of current market interest rates or yield curves.

The net result per measurement category is as follows:

2010

	From subsequent measurement						
in EUR k	From interest	From dividends	At fair value	Impair-ment/ write-backs	From disposal	Net profit/ loss in income statement	Net profit / loss in equity
Loans and receivables (LaR)	435.7	0.0	0.0	0.0	0.0	435.7	0.0
Available-for-sale financial assets (AfS)	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financial assets at fair value through profit or loss (aFVtpl)	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financial liabilities at amortized cost (FLAC)	-30,932.9	0.0	0.0	0.0	0.0	-30,932.9	0.0
Financial assets subsequently at fair value through profit or loss (n/a)	0.0	0.0	529.5	0.0	0.0	103.4	426.1

2009

	From subsequent measurement						
in EUR k	From interest	From dividends	At fair value	Impair-ment/ write-backs	From disposal	Net profit/ loss in income statement	Net profit / loss in equity
Loans and receivables (LaR)	1,092.7	0.0	0.0	-671.2	0.0	421.5	0.0
Available-for-sale financial assets (AfS)	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financial assets at fair value through profit or loss (aFVtpl)	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financial liabilities at amortized cost (FLAC)	-35,385.1	0.0	0.0	0.0	0.0	-35,385.1	0.0
Financial assets subsequently at fair value through profit or loss (n/a)	0.0	0.0	-4,826.6	0.0	0.0	-779.7	-4,046.9

At December 31, 2010, the Group's financial liabilities had the following maturities. The information is based on the contractual payments without discounting.

Fiscal year ended December 31, 2010

in EUR k	up to 1 month	1 to 3 months	3 to 12 months	1 to 5 years	over 5 years
Financial liabilities (interest + principal)	3,742.4	6,345.1	31,116.1	419,960.1	166,244.5
Convertible bond	0.0	0.0	62,608.3	15,617.1	0.0
Bank overdraft	3,314.2	0.0	0.0	0.0	0.0
Trade payables and other payables	19,082.9	0.0	0.0	0.0	0.0
	26,139.5	**6,345.1**	**93,724.4**	**435,577.2**	**166,244.5**

Fiscal year ended December 31, 2009

in EUR k	up to 1 month	1 to 3 months	3 to 12 months	1 to 5 years	over 5 years
Financial liabilities (interest + principal)	6,716.3	4,095.2	38,325.1	441,984.1	171,672.9
Convertible bond	0.0	0.0	1,030.6	60,905.6	0.0
Bank overdraft	3,453.3	0.0	0.0	0.0	0.0
Trade payables and other payables	16,381.1	0.0	0.0	0.0	0.0
	26,550.7	**4,095.2**	**39,355.7**	**502,889.7**	**171,672.9**

The following table shows the sensitivity of the consolidated profit before taxes to a change in interest rates deemed reasonably possible (based on the impact on variable-interest loans and interest rate swaps). All other variables remain constant.

	Variable-interest loans	**Interest rate swaps**	
in EUR k	**Impact on pre-tax profit**	**Impact on equity**	**Impact on pre-tax profit**
2010			
Increase by 100 basis points	177.4	5,526.8	0.0
Decrease by 100 basis points	-177.4	-5,526.8	0.0
2009			
Increase by 100 basis points	253.5	7,604.8	0.0
Decrease by 100 basis points	-253.5	-7,604.8	0.0

32. Segment Reporting

Under IFRS 8, certain information in the annual financial statements is to be segmented by line of business and geographical area; the segmentation is to be based on internal reporting.

The Group is managed by way of business segments that are grouped together on the basis of the economic characteristics of their business. At present the Group comprises three segments: Commercial Real Estate, Residential Real Estate and Asset Management. Despite its lesser importance to the Group, the Commercial Real Estate segment (approximately EUR 11.9 million (roughly 1.5%)) is reported separately in conformity with the internal reporting system.

The Residential Real Estate and Commercial Real Estate segments are combined with Investment for the purposes of the management report.

Intra-Group items are eliminated in the reconciliation column. Additionally, this column contains individual income and expense items that cannot be allocated to the segments directly. These items pertain primarily to the management operations of Colonia Real Estate AG.

2010

in EUR k	Residential	Commercial	Asset Management	Reconciliation	Group
Income					
External	97,391.6	1,593.0	7,137.0	-299.5	105,822.1
Internal	1,068.7	102.1	1,118.8	-2,289.7	0.00
EBIT	29,129.8	998.5	334.8	-13,559.3	16,903.8
EBITDA	23,610.6	1,298.5	1,184.0	-12,026.7	14,066.4
Financial liabilities	481,410.4	8,414.5	0.4	3,196.1	493,021.4
Investment properties	805,820.0	11,900.0	0.0	0.0	817,720.0
Derivative financial instruments	13,435.0	321.0	0.0	0.0	13,756.0
Capital expenditures	1,374.6	0.0	199.5	0.0	1,574.1
Finance expenses	27,205.0	490.7	14.8	4,075.6	31,786.1

2009

in EUR k	Residential	Commercial	Asset Management	Reconciliation	Group adjusted
Income					
External	122,048.1	1,397.3	7,312.0	-5,406.2	125,351.2
Internal	1,354.20	267.0	1,106.3	-2,727.5	0.0
EBIT	45,447.7	1,383.4	400.7	-13,863.5	33,368.3
EBITDA	35,273.6	1,383.4	680.5	-13.702.3	23,635.2
Financial liabilities	488,379.5	8,717.1	265.5	7,226.3	504,588.4
Investment properties	802,010.0	12,200.0	0.0	0.0	814,210.0
Derivative financial instruments	13,036.7	395.6	0.0	0.0	13,432.3
Capital expenditures	0.0	0.0	112.5	334.9	447.4
Finance expenses	33,317.9	515.7	49.5	2,422.3	36,305.4

Due to the change to the reporting of earnings from remeasurement, the change to the presentation of expenses connected to proceeds from rental income and the revision of other income, the previous year's segment amounts were adjusted. Please refer to Note 2.26 for further information.

In the first nine months of 2009, the Residential segment still included a Berlin portfolio, which was sold in September 2009. Earnings deteriorated in 2010 on account of higher investment and modernization expenses.

The Commercial segment includes the rental income from commercial properties.

In the Asset Management segment, a cost reduction achieved a significant improvement in earnings, despite the impairment of the “resolution” goodwill at EUR 618.2 thousand (included in EBIT).

The EBIT for the Residential segment includes valuation allowances of EUR 2,372.7 thousand (prior year: EUR 1,550.2 thousand), and the EBIT for the Asset Management segment includes valuation allowances of EUR 0.8 thousand (previous year: EUR 15.0 thousand).

Segment assets are the operating assets that are used by a segment for its business activities and that either are directly allocated to the segment or can be allocated to the segment on a reasonable basis. The segment assets to be reported to the Board of Management are investment properties, commercial properties and Asset Management.

Segment liabilities are the operating liabilities that result from a segment’s business activities and that either are directly allocated to the segment or can be allocated to the segment on a reasonable basis.

In conformity with the management approach, the above segment information represents the information to be reported to the Board of Management in the monthly management reports.

33. Commitments and Contingencies

Capital commitments
No commitments had been entered into as of the end of the reporting period.

Commitments as lessee under operating leases
The Group leases office space, vehicles and office equipment under non-cancelable operating leases. In the 2010 fiscal year, the office lease at the company headquarters in Cologne, due to expire on August 31, 2011, was replaced by a new long-term lease for a fixed rental period of 10 years in Rheinauhafen, Cologne. Furthermore, the lease allows for two renewal options each of five years.

With the exception of the above renewal options, there are no other renewal options extending beyond the basic rental period, or purchase options. Future cumulative minimum lease payments under non-cancelable operating leases are as follows:

in EUR million	2010	2009
Up to 1 year	1.2	1.0
More than 1 year up to 5 years	3.2	1.1
More than 5 years	2.7	0.0
	7.1	**2.1**

The increase in future cumulative minimum lease payments under non-cancelable operating leases largely results from the new long-term lease of office space in Rheinauhafen, Cologne.

Management agreements for commercial and residential properties
The management agreements of four subsidiaries with an external manager were terminated in fiscal 2010. From the 2011 fiscal year, this management will be undertaken by Colonia Wohnen Service GmbH, a subsidiary of Colonia AG, thus reducing the minimum commitments from management agreements.

The Colonia Group has entered into further external property management agreements for its commercial and residential properties that result in the following minimum commitments:

in EUR million	2010	2009
Up to 1 year	2.5	4.0
More than 1 year up to 5 years	1.5	1.7
More than 5 years	0.0	0.0
	4.0	**5.7**

34. Contingent Liabilities

The Group acts as a guarantor toward various banks for existing loan liabilities of approximately EUR 17,155.1 thousand (prior year: EUR 22,703.6 thousand) The guarantees include suretyships for EUR 7,247.3 thousand (prior year: EUR 6,709.3 thousand), letters of comfort for EUR 3,043.8 thousand (prior year: EUR 3,494.3 thousand) and guarantees of EUR 7,500.0 thousand (prior year: EUR 12,500.0 thousand).

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 toward 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. Since May 2010, legal proceedings have been pending in which HSH is acting as the plaintiff in the process based on documentary evidence. However, with its guidance order of January 31, 2011, the Hamburg district court recommended that the plaintiff give up the documentary process. Risks from the now pending due process, which were to be considered in the form of a provision, cannot currently be quantified.

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." In fiscal 2010, the company's property assets were sold and the resulting purchase price used to pay off the mortgage holders. Following the sale of the property assets, the equity interest in Küppersbusch AG & Co. Grundstückgesellschaft OHG is the property of Colonia Real Estate AG, independent of the trustee's power of disposition. Thus the Company would be fully exposed to any liability risks arising from the equity interest in Küppersbusch AG & Co. Grundstücksgesellschaft OHG, in which the Company is the general partner and is personally liable under the pertinent provisions of the Commercial Code. Since the remaining assets are not under the management of the managing bodies of Colonia Real Estate AG because of the follow-up distribution, the associated liability risks to Colonia Real Estate AG cannot accordingly be finally determined, nor can the Company act to counter any liability risks that may exist.

A marketing contract dated September 21, 2010 exists between Colonia Real Estate Solutions GmbH and GSW Immobilien AG for the sale of GSW Immobilien AG residential and/or commercial units. Alongside the marketing contract, a guarantee contract was concluded that provides for a settlement payment by Colonia Real Estate AG if the agreed sales targets are not met. Only some of the sales targets were achieved in the 2010 fiscal year, and the quotas not yet sold in 2010 were carried forward to the 2011 sales year in agreement with GSW Immobilien AG. If the sales targets agreed for the 2011 sales year are not achieved, a future settlement obligation may arise for Colonia Real Estate AG.

With its action dated September 6, 2010, Resolution Beteiligungs GmbH instituted a claim for payment of EUR 1,000,000.00 plus 8% interest against Colonia Real Estate AG at the Cologne district court. This action concerns an alleged payment entitlement of Resolution Beteiligungs GmbH from the contribution agreement of August 13, 2007, taking into account the amendment agreement of February 12, 2009 depending on an achieved level of EBIT. The parties' dispute regards the determination of the basis of computation and the plaintiff's resulting payment entitlements.

Colonia Real Estate AG concluded a verbal commission agreement for procuring a residential complex in Geilenkirchen with Terradomo Projektmanagement GmbH, Wiesbaden in 2006. The parties are conducting a dispute at the Cologne district court regarding the payment obligations resulting from the commission agreement. The risk of the claim is considered on the reporting date in the form of a provision of EUR 100 thousand.

With an action dated December 1, 2010, a claim was made for damages in respect to unauthorized actions of EUR 1,048.7 thousand against Colonia Real Estate Solutions GmbH, as legal successor of Cover Projektentwicklungs GmbH, as well as another defendant. The plaintiff is asserting damages in respect to a residential and commercial property resulting from the demolition of an office and commercial property. Here Colonia Real Estate Solutions GmbH was involved as project developer.

35. Board of Management

The following were members of the Board of Management in fiscal 2010:

- Stephan Rind, Cologne, banker, Chairman of the Board of Management (until March 15, 2011)
- Volker Lemke, Hamburg, tax advisor (not appointed), Chief Financial Officer (until April 1, 2011)
- Friedrich Thiele, Frankfurt, graduate in business, real estate economist (ebs), Chief Real Estate Officer (until April 30, 2010).

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

The Board of Management received the following total compensation in 2010:

2010 (2009) compensation of the Board of Management

in EUR k	Fixed annual salary	Other compensation	Variable component	Total	Transferred to pension fund	Performance units	SOP total 2010 value*
Stephan Rind	500.0	18.1	0.0	**518.1**	0.0	0.0	0.0
	(500.0)	(22.4)	(150.0)	**(672.4)**	(1.5)	(40.0)	(0.0)
Volker Lemke	250.0	8.8	0.0	**258.8**	0.0	0.0	0.0
	(250.0)	(29.1)	(100.0)	**(379.1)**	(1.2)	(30.0)	(0.0)
Friedrich Thiele (until April 30, 2010)	83.3	223.1	0.0	**306.4**	0.0	0.0	0.0
	(250.0)	(21.8)	(100.0)	**(371.8)**	(1.2)	(30.0)	(0.0)
Total	**833.3**	**250.0**	**0.0**	**1,083.3**	**0.0**	**0.0**	**0.0**
	(1,000.0)	**(73.3)**	**(350.0)**	**(1,423.3)**	**(3.9)**	**(100.0)**	**(0.0)**

*fair value at date of grant

The performance units issued for the 2009 fiscal year expired with the departure from the Board of Management of Friedrich Thiele, Stephan Rind and Volker Lemke or were compensated for as part of the extraordinary termination agreement.

No member of the Board of Management received benefits or equivalent commitments from any third party during the past fiscal year with regard to that person's activities as a member of the Board.

Friedrich Thiele left the Board of Management by mutual agreement as of April 30, 2010. The agreement reached with him provided for a severance payment of EUR 220 thousand for his early departure from the board.

With effect from March 15, 2011, Stephan Rind exercised his extraordinary termination right and resigned from the Board of Management by mutual agreement.

On February 14/15, 2011, Rolf Elgeti (member of the Management Board of TAG Immobilien AG, Hamburg) and Hans-Ulrich Sutter (member of the Management Board of TAG Immobilien AG, Hamburg) were appointed further members of the Board of Management by the Supervisory Board. Entry into the Commercial Register took place on February 21, 2011. Rolf Elgeti was appointed Chairman of the Board of Management from March 16, 2011.

Rolf Elgeti:
- treveria plc, Isle of Man, United Kingdom
- GAG Grundstücksverwaltungs-Aktiengesellschaft, Hamburg (Chairman until April 1, 2010)
- AGP AG Allgemeine Gewerbebau- und Projektentwicklungs Aktiengesellschaft, Hamburg (Chairman)
- FranconoWest AG, Düsseldorf (Chairman, since October 8, 2010)

Hans-Ulrich Sutter:
- TAG Gewerbeimmobilien-Aktiengesellschaft, Hamburg
- AGP AG Allgemeine Gewerbebau- und Projektentwicklungs Aktiengesellschaft, Hamburg

On April 1, 2011, Volker Lemke left the Board of Management of Colonia Real Estate AG by mutual agreement. Volker Lemke made use of his extraordinary termination right.

36. Supervisory Board

The Supervisory Board had the following members in the 2010 fiscal year:

- Klaus Lennartz, independent corporate consultant, Hürth, Chairman, member of the Supervisory Board of wfg Wirtschaftsförderung Rhein-Erft GmbH, Frechen, Solare AG, Cologne and Hoch-Begabten-Zentrum Rheinland GmbH, Brühl,

- Stefan Lutz, independent German certified public accountant and tax consultant, Cologne, Vice-Chairman (until March 31, 2011),

- Dr. Carsten Strohdeicher, independent corporate consultant, Munich, member of the Supervisory Board at Magnat Real Estate AG, Frankfurt am Main, and Squadra Immobilien GmbH & Co. KGaA, Frankfurt am Main (until March 31, 2011).

The Supervisory Board received total compensation of EUR 172.0 thousand (prior year: EUR 112.3 thousand) for its activities.

On September 30, 2010, the alternate member of the Supervisory Board, Stefan C. Heilmann, Berlin, managing director of IEG (Deutschland) GmbH and member of the supervisory board of BetonSeal Capital AG resigned his position.

It was announced on March 17, 2011 that Supervisory Board members Stefan Lutz and Dr. Carsten Strohdeicher resigned their positions in the Supervisory Board as of March 31, 2011 (instead of earlier).

On March 23, 2011, the Cologne Municipal Court appointed Dr. Lutz R. Ristow, Hamburg (Member of the Supervisory Board of TAG Immobilien AG, Hamburg, (Chairman), Member of the Supervisory Board of BAU-Verein zu Hamburg Aktien-Gesellschaft, Hamburg (Chairman); TAG Gewerbeimmobilien-Aktiengesellschaft, Hamburg, (Chairman; Banque Havilland S.A., Luxemburg) and Torsten Cejka, Potsdam, as new members of the Supervisory Board of Colonia Real Estate AG with effect from April 1, 2011.

On April 4, 2011, the Company announced that Dr. Lutz R. Ristow, Hamburg, had been elected the new Chairman of the Supervisory Board. Klaus Lennartz, Hürth, is Vice-Chairman of the Company's Supervisory Board.

The Supervisory Board was paid the following amounts in 2010 (amounts for the previous year, if any, are indicated in parentheses):

in EUR k	Fixed component	Meeting honoraria and expenses	Variable component	Total
Klaus Lennartz	50.0	18.0	0.0	**68.0**
(from June 18, 2009)	(21.3)	(7.2)	(0.0)	**(28.5)**
Stefan Lutz	40.0	16.5	0.0	**56.5**
	(30.0)	(6.0)	(0.0)	**(36.0)**
Dr. Carsten Strohdeicher	30.0	17.5	0.0	**47.5**
(from July 8, 2009)	(9.6)	(4.6)	(0.0)	**(14.2)**
Total	**120.0**	**52.0**	**0.0**	**172.0**
	(90.0)	**(22.3)**	**(0.0)**	**(112.3)**

37. Related Party Transactions

Under IAS 24, "Related Party Disclosures," transactions with related entities and individuals must be reported. This requirement pertains to all subsidiaries, associated entities and joint ventures. The Board of Management and the Supervisory Board, as well as owners, are also to be considered related parties within the meaning of IAS 24.9.

TAG Immobilien AG, Hamburg, is a major shareholder of Colonia Real Estate AG, holding 29.82% of its stock as at December 31, 2010. As announced on February 15, 2011, TAG Immobilien AG has now acquired 50.02% of the stock.

The remaining shares are in free float, primarily among institutional investors in Germany and other countries.

One former managing director of Colonia Real Estate Solutions GmbH (formerly CRE Resolution GmbH) is also a managing shareholder of Projekt M – Beteiligungsgesellschaft, Frankfurt am Main, Germany. Under a personnel delegation agreement, and by way of reimbursement of expenses, payments for services of EUR 9.8 thousand were made to Colonia Real Estate Solutions GmbH in 2010.

Stock in a subsidiary of Colonia Real Estate AG was acquired from the managing shareholder of the susbsidiary in 2010 at a purchase price of EUR 120,000.00. The stock had a carrying amount of EUR 12,000.00. In addition, further stock in this subsidiary of Colonia Real Estate AG was acquired by the remaining two shareholders, each at a carrying amount of EUR 12,000.00. One of these former shareholders is now managing director of Agilitas Real Estate GmbH, which concluded an agreement with a subsidiary on the sale of condominiums. In fiscal 2010, Agilitas Real Estate GmbH was compensated for EUR 95.0 thousand (gross) in services rendered.

One managing director of Colonia Real Estate Solutions GmbH was granted a loan of EUR 16 thousand in 2010. This loan bore interest and was repaid in full in the 2010 fiscal year.

Colonia Real Estate AG acquired shares amounting to EUR 12,450.00 in CRE Resolution GmbH, Cologne, from Resolution Beteiligungsgesellschaft mbH, Berlin, in a sale agreement dated May 27, 2010 for a purchase price of EUR 2,460,000.00.

The management holding key positions at the Colonia Real Estate Group is the Supervisory Board and the Board of Management.

Please see Note 35 regarding the compensation of the Board of Management and Note 36 for the Compensation of the Supervisory Board.

Stephan C. Heilmann was an alternate member of the Supervisory Board until September 30, 2010. He is also a shareholder of IEG (Deutschland) GmbH, Berlin. IEG assisted and advised Colonia AG on various projects during the year. A total of EUR 186.2 thousand (gross) was paid for the consulting services provided under this consulting arrangement.

38. Corporate Governance

The Group very largely follows the recommendations of the Germany Corporate Governance Code in the version of May 26, 2010. On March 24, 2011, the Supervisory Board and Board of Management issued the 2010 Declaration regarding the Corporate Governance Code, as required under Sec. 161 of the German Stock Corporation Act. The text of the current declaration of March 24, 2011, can be found on the internet at www.colonia.ag and is permanently available.

39. Independent Auditor's Fees Recognized as Expenses for the Year

During fiscal 2010, the fully consolidated companies of the Colonia Real Estate AG Group paid the following agreed-upon fees to the independent auditor of the consolidated financial statements, bdp Revision und Treuhand GmbH Wirtschaftsprüfungsgesellschaft, of Hamburg:

in EUR k	2010	2009
Audit of financial statements	568.7	343.1
of which for the previous year	115.6	0.0
Other assurance services	220.0	0.0
Tax consulting services	0.0	4.5
Other services	14.7	13.3

The expenses for assurance services are, in particular, fees for the audit of the interim financial statements dated June 30, 2010 and for audit-related services.

40. Events after the End of the Reporting Period

The following significant events occurred after the reporting date which may impact the net assets, financial position and results of operations, as well as the business development of the Company.

On February 15, 2011, TAG Immobilien AG, Hamburg, announced that it had acquired majority voting rights in Colonia Real Estate AG. With the acquisition of the majority voting rights, members of the Board of Management of TAG Immobilien AG Rolf Elgeti and Hans-Ulrich Sutter were appointed by the Supervisory Board as additional ordinary members of the Company's Board of Management. With effect from March 15, 2011, long-standing CEO Stephan Rind resigned from the Board of Management, exercising his extraordinary termination right. With effect from April 1, 2011, CFO Volker Lemke also exercised his extraordinary termination right and resigned from the Board of Management.

Furthermore, it was announced on March 17, 2011 that Supervisory Board members Stefan Lutz and Dr. Carsten Strohdeicher had resigned their positions in the Colonia AG Supervisory Board as of March 31, 2011.

As of April 1, 2011, the Supervisory Board consists of Dr. Lutz R. Ristow, Klaus Lennartz and Torsten Cejka as a result of court appointment dated March 23, 2011. Dr. Lutz R. Ristow was appointed Chairman and Klaus Lennartz Vice-Chairman of the Supervisory Board.

As stated in the joint statement by the Colonia Board of Management and the Supervisory Board dated January 3, 2011 regarding the voluntary takeover bid by TAG, the 2006/2011 convertible bond issued by Colonia (ISIN DE000A0LDSA1) and the 2010/2015 convertible bond (ISIN DE000A1EMFA2) contain an extraordinary termination right for creditors in the event of a change of control at Colonia. A change of control according to the conditions of both convertible bonds has been in place since TAG exceeded the 50% threshold on February 15, 2011. As a result, the holders of convertible bonds may claim their right to early repayment or conversion to shares in Colonia. April 21, 2011 is set as the date of control for the 2006/2011 convertible bond, with April 29, 2011 for the 2010/2015 convertible bond. According to the conditions of issue, when the change of control is announced, each creditor of a convertible bond is authorized to terminate all or individual bonds not yet converted or repaid at least 10 days before the date of control with effect from the date of control and to demand repayment of the bonds concerned on the date of control at their accrued par value plus any accumulated interest up to the date of control. When the 2010 financial statements were prepared, it was not known how many bond holders had utilized their repayment or conversion right. Up to April 11, 2011, bonds with a nominal value of approximately EUR 41.0 million had been terminated. These led to repayments of around EUR 45.1 million.

As a result, Colonia signed a credit framework agreement with TAG Immobilien AG for EUR 75 million on February 24, 2011 for the purposes of redeeming and refinancing short-term and medium-term liabilities, in particular possible claims by the creditors under convertible bonds. The loan has a two-year duration and is subject to the prevailing market interest rate. The loan is primarily the result of the financing agreement by TAG dated December 2010, adopted in the joint statement by the Colonia Board of Management and the Supervisory Board regarding the voluntary takeover bid by TAG dated January 3, 2011.

On March 29, 2011, the Company applied for a transfer from the Prime Standard to the General Standard. On April 1, 2011 the stock exchange approved the application. The entry for trading in the regulated market (General Standard) will be effected on July 4, 2011.

Cologne, April 15, 2011

Colonia Real Estate AG

Rolf Elgeti Hans-Ulrich Sutter

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, April 20, 2010

Colonia Real Estate AG

Rolf Elgeti Hans-Ulrich Sutter

Auditor's Report

We have audited the consolidated financial statements prepared by Colonia Real Estate AG, Cologne, comprising the statement of financial position, income statement and statement of comprehensive income, statement of changes in equity, statement of cash flows and the notes to the financial statements, together with the Group management report, which is combined with the management report of the parent company, for the business year from January 1 to December 31, 2010. The preparation of the consolidated financial statements and the combined management report in accordance with IFRSs, as adopted by the EU, and the additional requirements of German commercial law pursuant to § 315a (1) HGB (Handelsgesetzbuch, the German Commercial Code), are the responsibility of the parent company's management. Our responsibility is to express an opinion on the consolidated financial statements and on the combined management report based on our audit.

We conducted our audit of the consolidated financial statements in accordance with § 317 HGB 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 assets and liabilities, financial position and results of operations in the consolidated financial statements in accordance with the applicable financial reporting framework and in the combined management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Group and expectations as to possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accountingrelated internal control system and the evidence supporting the disclosures in the consolidated financial statements and the combined management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the annual financial statements of those entities to be included in consolidation, the determination of entities to be included in consolidation, the accounting and consolidation principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements and the combined management report. 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 consolidated financial statements comply with IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to § 315a (1) HGB and give a true and fair view of the net assets, financial position and results of operations of the Group in accordance with these requirements. The combined management report is consistent with the consolidated financial statements and as a whole provides a suitable view of the Group's position and suitably presents the opportunities and risks of future development.

Hamburg, April 15, 2011

bdp
Revision und Treuhand GmbH
Wirtschaftsprüfungsgesellschaft

Kurtkowiak	ppa. Schacht
Wirtschaftsprüfer	Wirtschaftsprüfer

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The English version of the annual report is a translation of the German version of the annual report. The German version of this annual report is legally binding.

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