Franconofurt AG

(Formerly: FRIMAG Frankfurter Immobilien AG)

Frankfurt am Main, Germany

Consolidated financial statements and Group management report December 31, 2006

- Testatsexemplar -

Audit certificate

To: Franconofurt AG

We have audited the consolidated financial statements - consisting of balance sheet, income statement, statement of changes in equity, cash flow statement, and notes to the accounts - and the Group management report of Franconofurt AG (formerly: FRIMAG Frankfurter Immobilien AG), for the financial year from January 1 until December 31, 2006. The preparation of the consolidated financial statements and the Group management report according to IFRS, as adopted by the EU, and the additional provisions stated in §315a Paragraph 1 of the German Commercial Code (HGB), as well as the supplementary provisions of the Articles of Incorporation, are the responsibility of the company's legal representatives. Our responsibility is to express an opinion on the consolidated financial statements and the Group management report based on our audit.

We conducted our audit of the consolidated financial statements in accordance with §317 of the German Commercial Code (HGB) and German generally accepted standards for the audited financial statements as promulgated by the Institut der Wirtschaftsprüfer (IDW). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position, and results of operations in the consolidated financial statements in accordance with German principles of proper accounting, and in the Group management report, are detected with reasonable assurance. Knowledge of the business activities and of the economic and legal environment of the Group, and expectations of possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the consolidated financial statements and the Group management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the annual financial statements of the companies included in the consolidation, the determination of the companies to be included in the scope of consolidation, the accounting and consolidation principles used, and significant estimates made by the company's legal representatives, as well as evaluating the overall presentation of the consolidated financial statements and the Group 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, which is based on information gathered as part of our audit, the consolidated financial statements and the Group management report correspond to IFRS, as adopted by the EU, and the additional provisions stated in §315a Paragraph 1 of the German Commercial Code (HGB), as well as the supplementary provisions of the Articles of Incorporation, and present a true and fair view of the Group's net assets, financial position, and results of operations. The Group management report harmonizes with the consolidated financial statements, conveys a true picture of the Group's overall position, and accurately presents the opportunities and risks pertaining to future developments.

Eschborn/Frankfurt am Main, February 28, 2007

Ernst & Young AG
Wirtschaftsprüfungsgesellschaft
Steuerberatungsgesellschaft

Oppermann	Lindig
Public Certified Accountant	Public Certified Accountant

Consolidated balance sheet as of December 31, 2006

Franconofurt AG, Frankfurt am Main

Formerly: FRIMAG Frankfurter Immobilien AG

ASSETS

(in euros)	Note	31.12.2006	31.12.2005
NON-CURRENT ASSETS			
Intangible assets	(1)	177,848.73	37,165.00
Property, plant and equipment	(2)	393,656.27	48,788.00
Investment property	(3)	44,106,369.43	0.00
Prepayments rendered	(4)	2,855,391.48	0.00
Other financial assets	(5)	228,023.48	278,570.96
Deferred tax assets	(13)	205,085.66	61,536.38
NON-CURRENT ASSETS		47,966,375.05	426,060.34
CURRENT ASSETS			
Inventories	(6)	26,697,246.75	17,772,821.61
Trade receivables	(7)	12,951,211.28	2,257,479.87
Tax Assets	(8)	429,763.21	20,248.30
Other current receivables	(9)	536,457.05	53,319.72
Cash and cash equivalents	(10)	15,749,415.16	1,711,636.03
CURRENT ASSETS		56,364,093.45	21,815,505.53
Total assets		**104,330,468.50**	**22,241,565.87**

Consolidated balance sheet as of December 31, 2006

Franconofurt AG, Frankfurt am Main

Formerly: FRIMAG Frankfurter Immobilien AG

EQUITY AND LIABILITIES

(in euros)	Note	31.12.2006	31.12.2005
EQUITY	(11)		
Issued capital		6.600.000,00	4.000.000,00
Capital reserve		27.488.254,29	5.106.639,51
Cash flow hedge reserve		- 96.042,98	0,00
Other reserves		16.906.142,18	1.269.084,92
Equity including minority interests		50.898.353,49	10.375.724,43
Minority interests		16.312.325,59	108.765,81
Equity		67.210.679,08	10.484.490,24
NON-CURRENT LIABILITIES			
Long-term interest-bearing liabilities	(12)	2.613.318,07	6.196.205,11
Deferred tax liabilities	(13)	830.095,01	0,00
Noncurrent liabilities		3.443.413,08	6.196.205,11
CURRENT LIABILITIES			
Deferred liabilities	(14)	1.589.498,48	64.040,00
Tax liabilities	(15)	284.795,00	324.120,55
Current interest-bearing liabilities	(16)	28.287.631,46	4.898.662,13
Interest-rate swaps	(17)	331.394,26	0,00
Trade payables	(18)	2.628.457,69	156.191,96
Other current liabilities	(19)	554.599,45	117.855,88
Current liabilities		33.676.376,34	5.560.870,52
Total equity and liabilities		**104.330.468,50**	**22.241.565,87**

Consolidated income statement from January 1, 2006 until December 31, 2006

Franconofurt AG, Frankfurt am Main

Formerly: FRIMAG Frankfurter Immobilien AG

Rental earnings		**1,570,646.07**	**208,463.20**
Proceeds from the sale of property held as inventory	(22)	12,646,000.00	6,278,660.00
Carrying amount of the inventory properties sold	(23)	- 8,614,817.94	- 3,756,539.63
Earnings from the sale of property held as inventory		**4,031,182.06**	**2,522,120.37**
Administrative expenses	(24)	- 2,551,874.41	- 670,988.26
Selling expenses	(25)	- 514,817.76	- 315,469.52
Other income	(26)	6,892,870.68	1,320,035.61
Other expenses	(27)	- 3,484,928.02	- 1,200,924.32
Result from other income and expenses		**3,407,942.66**	**119,111.29**
Unrealized gains from the revaluation of investment properties to fair value		3,882,058.37	0.00
Unrealized losses from the revaluation of investment properties to fair value		- 1,251,541.01	0.00
Valuation movements	(28)	**2,630,517.36**	**0.00**
Investment property disposal proceeds	(29)	7,253,000.00	0.00
Carrying value of investment property disposed of		- 5,683,464.42	0.00
Profit on the disposal of investment property	(30)	**1,569,535.58**	**0.00**
Earnings from ordinary business before interest and tax	(31)	**10,143,131.56**	**1,863,237.08**
Interest expense		- 1,060,163.27	- 309,484.28
Interest income		275,132.04	20,803.87
Financial result	(32)	**- 785,031.23**	**- 288,680.41**
Profit before tax		**9,358,100.33**	**1,574,556.67**
Tax expense	(33)	- 1,868,434.50	- 658,526.25
Net profit for the year		**7,489,665.83**	**916,030.42**
of which attributable to:			
Parent company shareholders		6,429,470.38	856,017.07
Minority shareholders		1,060,195.45	60,013.35
		7,489,665.83	**916,030.42**
Earnings per share (EPS), undiluted	(34)	1.07	0.24
Earnings per share (EPS), diluted	(34)	1.07	0.24

Consolidated statement of changes in equity

from January 1, 2006 until December 31, 2006

Franconofurt AG, Frankfurt am Main

Formerly: FRIMAG Frankfurter Immobilien AG

	Issued capital	Capital reserve	Cash flow hedge reserve	Other reserves	Shareholders' equity	Minority interests	Total equity
Note	(11)	(11)	(11)	(11)	(11)	(11)	(11)
	Euro	Euro	Euro	Euro	Euro	Euro	Euro
Status January 1, 2005	**1,000,000.00**	**13,836.50**	**0.00**	**2,413,067.85**	**3,426,904.35**	**11,252.46**	3,438,156.81
Capital increase from corporate funds	2,000,000.00			-2,000,000.00	0.00		0.00
Cash capital increase	1,000,000.00	5,500,000.00			6,500,000.00		6,500,000.00
Direct costs of capital increase		-405,679.32			-405,679.32		- 405,679.32
Disposal of shares in consolidated subsidiaries						37,500.00	37,500.00
Other changes		- 1,517.67			-1,517.67		- 1,517.67
Net profit for the year				856,017.07	856,017.07	60,013.35	916,030.42
Status December 31, 2005	**4,000,000.00**	**5,106,639.51**	**0.00**	**1,269,084.92**	**10,375,724.43**	**108,765.81**	10,484,490.24
Cash capital increases	2,600,000.00	22,400,000.00			25,000,000.00		25,000,000.00
Direct costs of capital increase		-18,604.81			-18,604.81		- 18,604.81
Capital increase at consolidated subsidiaries				10,275,000.00	10,275,000.00	10,425,045.21	20,700,045.21
Disposal of shares in consolidated subsidiaries				-319,413.12	-319,413.12	4,828,548.75	4,509,135.63
Dividend payments				-748,000.00	-748,000.00	-55,000.00	- 803,000.00
Unrealized losses from cash flow hedges			-96,042.98		-96,042.98	-55,229.63	- 151,272.61
Other changes		219.59			219.59		219.59
Net profit for the year				6,429,470.38	6,429,470.38	1,060,195.45	7,489,665.83
Status December 31, 2005	**6,600,000.00**	**27,488,254.29**	**-96,042.98**	**16,906,142.18**	**50,898,353.49**	**16,312,325.59**	67,210,679.08

Consolidated cash flow statement

Franconofurt AG, Frankfurt am Main

Formerly: FRIMAG Frankfurter Immobilien AG

(in euros)	Note	Reporting period 01.01.-31.12.2006	Reporting period 01.01.-31.12.2005
Operating business activity			
Earnings from ordinary business before interest and tax	(31)	10,143,131.56	1,863,237.08
Earnings from the sale of shares in fully consolidated subsidiaries	(26)	- 5,767,900.00	0.00
Profit on the disposal of investment property	(30)	- 1,569,535.58	0.00
Earnings from the sale of tangible and intangible assets		- 5,727.56	0.00
Valuation movements	(28)	- 2,630,517.36	0.00
Depreciation		81,739.51	30,310.22
Changes in trade receivables	(7)	- 3,498,731.41	- 676,198.75
Changes in trade payables	(18)	2,472,265.73	131,224.67
Changes in deferred liabilities	(14)	1,525,458.48	8,346.00
Changes in other receivables	(5,9)	- 432,589.85	50,604.16
Non-cash effect of sale of shareholdings		0.00	25,000.00
Changes in other liabilities	(19)	436,743.57	- 381,620.29
Changes in inventories	(6)	- 8,924,425.14	- 8,482,956.30
Cash flow from current operating activities excluding finance costs		**- 8,170,088.05**	**- 7,432,053.21**
Interest payments	(32)	- 985,163.27	- 309,484.28
Cash inflow from interest income	(32)	275,132.04	20,803.87
Tax payments		- 817,674.63	- 713,240.33
Cash flow from current operating activities		**- 9,697,793.91**	**- 8,433,973.95**
Investment activity			
Cash inflow from the disposal of investment property		58,000.00	0.00
Cash inflow from the sale of tangible and intangible assets		40,664.46	0.00
Cash outflow from the acquisition of investment property	(3,4)	- 50,014,707.97	0.00
Cash inflow from the sale of shares in fully consolidated subsidiaries	(26)	10,276,900.00	12,500.00
Cash outflow from the purchase of subsidiaries (minus cash acquired)		- 10,000.00	0.00
Cash outflow from the purchase of intangible and tangible fixed assets	(1,2)	- 592,228.50	- 23,690.22
Cash flow from investment activities		**- 40,241,372.01**	**- 11,190.22**
Financing activity			
Cash inflow from capital increase	(11)	24,968,466.42	5,812,407.94
Cash inflow from capital increase of consolidated subsidiaries	(11)	20,005,396.34	0.00
Distribution of profit	(11)	- 803,000.00	0.00
Cash outflow from redemption of finance debt	(12,16)	- 19,717,748.79	0.00
Cash inflow from drawdown of finance debt□□□□ (2005: Drawdown and redemption of finance debt)	(12,16)	39,523,831.08	4,096,079.00
Cash flow from financing activities		**63,976,945.05**	**9,908,486.94**
Cash and cash equivalents at start of period		**1,711,636.03**	**248,313.26**
Net change in cash and cash equivalents		14,037,779.13	1,463,322.77
Cash and cash equivalents at end of period		**15,749,415.16**	**1,711,636.03**

Group management report for 2006
Franconofurt AG, Frankfurt am Main

Formerly: FRIMAG Frankfurter Immobilien AG

1. Business and background

1.1. Macroeconomic environment

After the extremely weak performance of the last few years, the German economy showed signs of a slight recovery in 2007. According to initial calculations of the Federal Statistical Office, GDP rose by 2.5 % in 2006, following a rise of 0.9 % in 2005.

In contrast to the previous two years' development, the domestic component made by far the larger contribution to GDP growth (+ 1.7 percentage points) when compared with the external input (+ 0.7 percentage points). Private consumption rose by 0.6 %, following two years of virtual stagnation, and government spending rose 1.7 %. External trade continued its strong growth with both imports and exports almost doubling year-on-year. In real terms, exports rose faster (12.4 %) than imports (+ 12.1 %).

Gross wages and salaries amounted to approximately EUR 924 billion in 2006, an increase of 1.4 % on the prior year. However, wages and salaries net of wage taxes and employees' social security contributions were only slightly above the prior-year level (+ 0.3 %). This is attributable primarily to higher social security contributions (+ 4.3 %) and higher employee wage taxes (+ 2.7 %). Since the number of individuals in employment also rose (+ 0.7 %), the average monthly gross income per employee in 2006 rose by just 0.7 %; net income was 0.2 % lower than in the prior year.

1.2. Sector developments

1.2.1. Real estate market in Germany

The German real estate market continues to be a buyers' market, reflecting low interest rates. Financing costs of 3.9 % to 4.9 % for medium-term and long-term mortgages were at an all-time low. Comparatively reasonable prices for real estate – both compared with foreign markets, as well as in the light of marginal increase in prices in Germany over recent years – translate as attractive buying opportunities. This supports the trend towards portfolio transactions identified in recent years. Foreign investors continue to dominate the portfolio transaction market.

At the same time, Germany's housing situation underwent no major changes. Over half of occupied residential units are located in buildings with three or more units. The share in owner-occupied residential units, the ownership ratio, has risen significantly in Germany over the last few years, but is still low compared with the rest of Europe.

By far the greater number of households in Germany continues to be accommodated in rented property. Subletting comprises only a small proportion. The average gross ex-utilities per square meter rent has risen as much as tenfold since 1960. Besides the basic rental charge, this figure also includes monthly expenses for water, drainage, street cleaning, waste disposal, house cleaning and lighting facilities, chimney sweeping, caretaking, public charges, building insurance, and cable connections. The gross rental charge ex-utilities does not include passed-on charges for central heating, heated water, garage rents, surplus charges for subletting, as well as premiums paid for furnished accommodation.

Franconofurt AG, as a stock-exchange-listed real estate company active in the Rhine-Main region and in Hesse, is consequently also affected by the general economic environment in the Federal Republic. The company's initial focus of operations was on the apartment partitioning business, which comprises the purchase of multi-family houses in high-quality urban locations with the aim of first partitioning the individual residential units before selling them to owner-users and investors. These operations were located in the Frankfurt am Main area. The company has gradually shifted the focus of its activities to the whole of the Rhine-Main region, as well as to North Rhine Westphalia.

While the company very successfully continues with the partitioning business in Frankfurt am Main, Franconofurt AG now wishes, through its Francono Rhein-Main AG subsidiary that was floated last year on the stockmarket, to exploit the market potential offered by the entire Rhine-Main region. Franconofurt AG, using the Francono Rhein-Main AG model, has founded the 100 % subsidiary FranconoWest AG with a concentration on North Rhine Westphalia as a geographic area of activity. Both Francono Rhein-Main AG and FranconoWest AG invest primarily in metropolitan residential property within their relevant areas of activity. These companies' activities mean that Franconofurt AG follows economic developments in these regions with even greater interest in the meantime. However, the company's continuing expansion across Germany has led the company to monitor economic developments in other German conurbations as well.

Developments in the German real estate market in 2006 were characterized by higher profile activities on the part of foreign investors. These investors aim to participate in the future economic opportunities offered by the German real estate market, in particular through portfolio transactions.
A further increase in such transactions compared with the previous year was registered. Following a transaction volume of some EUR 12 billion in the prior year, the volume rose by one third to some EUR 18 billion in 2006.

1.2.2. The real estate market in Frankfurt am Main

As the euphoria surrounding the stockmarket evaporated in the years 2001 to 2003, the entire real estate market in Frankfurt am Main fell accordingly. Commercial real estate in Frankfurt was characterized by declining prices and rents, and rising vacancy rates.

Vacancy, or void rates of 20 % in the commercial real estate market were not, and are not, unusual. In the last 18 months, however, the first signs of a positive trend are emerging, and there are indications that a moderate decline in void rates is underway. The number of new constructions planned was also reduced, allowing less new floorspace in gross terms to arrive on the market. It is now possible to foresee that the positive uptrend in the commercial market will gather further strength, and that, over a longer period, void rates will decline gradually.

During the above-mentioned period, the residential market was able to stand aside from the weaker trends of the commercial area. However, demand for private apartments and houses overall is significantly weaker than at the end of the 1990s. The current continuation of the economic upturn and the rise in hiring levels at banks, insurance companies, and other service enterprises in the Frankfurt region allow us to anticipate a further moderate increase in the level of rental charges and sales prices for apartments.

1.2.3. The real estate market in the Rhine-Main region

The following section considers the current situation of the real estate market the Rhine-Main area, which is the focus of the Franconofurt Group's current activities.

The Rhine-Main area is one of Germany's most interesting real estate locations. By contrast with the situation of the real estate sector across Germany, demand in Frankfurt, the region's center, is stable. Due also to shortages in supply in selected locations, residential real estate prices are among the highest in Germany.

The same applies for office rents, with the best locations offering up to 32 EUR /m² ex-utilities.

In the reporting year, increasing numbers of investors left the commercial sector for the residential and semi-commercial sectors. In the case of owner-occupied apartments, new buildings recorded the highest increases with prices falling by 10 %.

The market for rental apartments was shaped by an uninterrupted high demand for reasonably priced accommodation, paired with low supply. There is also excess demand in good and high-quality locations. Rents have meanwhile stabilized at a high level.

1.3. Market environment for Francono Rhein-Main AG

The company competes with other real estate companies that are less specialized than Francono Rhein-Main AG. The Management Board regards the company's direct competitors as comprising a small group of companies, most of which are more weakly positioned than Franconofurt in terms of market position and capital-backing. Comparison, however, is impeded by the differing strategies in terms of location, buyer structure, and individual market knowledge. Similarly, the company does not expect any direct competition from major investors with a nationwide market presence, as they generally operate in the portfolio transactions segment. As a rule, Francono Rhein-Main AG does not acquire real estate as a portfolio transaction, but rather as individual object purchases. From the simple perspective of transaction volume alone, therefore, the company operates at a level that is below that of the major trans-regional investors.

The Management Board believes the company's business model is promisingly positioned for the current and future situation of the market. Among the listed real estate companies, Francono Rhein-Main AG is the only company that creates a portfolio limited to the Rhine-Main area with a focus on residential real estate.

1.4. Positioning of the Franconofurt Group

1.4.1. Franconofurt Group's real estate holdings

The following section presents the operating and strategic orientation of the Franconofurt holding company, particularly from the perspective of those companies that hold the Franconofurt Group's real estate assets on a regional basis.

Via its 100 % subsidiary, FranconoResidence AG, the Franconofurt Group currently holds real estate in very attractive urban locations within the city of Frankfurt am Main.
Francono Rhein-Main AG, in which Franconofurt AG holds 64 %, owns real estate in the Rhine-Main region. The Franconofurt Group owns real estate in the region of North Rhine Westphalia via its 100 % subsidiary FranconoWest AG.

1.4.2. Positioning of Franconofurt AG and FranconoResidence AG

Over the medium term, Franconofurt AG, as the Group parent company, will exercise primarily holding functions. After partially transferring the partitioning business in 2006 to FranconoResidence AG, by the end of 2006 it had residual real estate holdings amounting to around EUR 22 million. In 2007, Franconofurt AG will sell part of its real estate assets, and will in future function primarily as a holding company, with residual real estate assets continuing to be held at the holding company level in order to cover operating expenses.

FranconoResidence AG is active in Frankfurt am Main in the partitioning business. It mainly purchases multi-family houses from private individuals at attractive prices with the aim, after partitioning, of gradually selling individual residential units to owner-occupiers.

At the end of 2006, FranconoResidence owned one real estate holding, consisting of multi-family houses, valued at around EUR 5.3 million.

1.4.3. Positioning of Francono Rhein-Main AG

Francono RheinMain AG has been active since spring 2006 as a real estate investment company in the Rhine-Main region. The company specializes in the acquisition of individual multi-family houses. It is using its own resources to create a real estate portfolio. This differentiates it from other market participants that acquire entire portfolios in the market. Its stockmarket flotation in 2006 expanded its financial possibilities and thereby strengthened its competitive position in the real estate market.

The stockmarket flotation allowed Francono Rhein-Main AG to bring institutional investors on board as shareholders.
Already in its first year of operation, the company sold a small sub-portfolio of four multi-family houses to a foreign investor. The company chose real estate from a location where it was able to acquire new properties in a short space of time.

The company has very rapidly reached critical mass and has further raised purchasing volumes.

The company does not rule out the possibility of acquiring smaller-sized housing portfolios in the medium term. However, in view of the current market situation, we consider it preferable to acquire individual properties since the related prices and qualities that are offered are more favorable.

The company's rental apartments are encountering strong demand. Last year's vacancy rate was 5.2 %. This rate was reduced to 4.5 % with respect to properties we held as of December 31, 2006. The company values a balanced structure in terms of both location and tenants. In the next three to four years, we intend to raise the volume of real estate holdings to EUR 500 million.

Through active property management, which includes targeted modernization as well as the sale of individual properties, the company intends to continually increase the value of the portfolio as well as to achieve a healthy degree of regional diversity.

1.4.4. Positioning of FranconoWest AG

FranconoWest AG commenced operations in 2006 with a mandate to create a real estate portfolio in North Rhine Westphalia.

FranconoWest AG will continue to vigorously pursue this objective in 2007 by adding to the multi-family house purchases it carried out in 2006. In doing so, the company implements the same strategy as Francono Rhein-Main AG. In other words, it is creating a regionally oriented residential real estate portfolio with the aim of rapidly introducing the company to the stockmarket. In the next three to four years, it is planning to achieve a portfolio volume of at least EUR 500 million.

2. Development of the Franconofurt Group

2.1. An overview of the development of Franconofurt AG

2006 constituted another very successful year for Franconofurt AG. It raised both earnings and its equity capital backing.

The company successfully performed two capital increases in 2006. The first capital increase was performed as part of a 10 % increase of the equity base excluding subscription rights. The number of shares was increased from 4 million to 4.4 million, generating proceeds of EUR 3 million. The second capital increase was performed with subscription rights, entailing the placing of 2.2 million shares with institutional investors and generating proceeds of around EUR 22 million. The proceeds from the last capital increase financed capital increases at Francono Rhein-Main AG to the tune of EUR 21.9 million. The successful stockmarket flotation of Francono Rhein-Main AG allowed Franconofurt AG, on a consolidated basis, to generate a further inflow of cash amounting to EUR 21.7 million before deduction of related expenses. Franconofurt AG also sold 3.224 million shares in Francono Rhein-Main AG, resulting in a cash inflow of EUR 9.9 million. This sale boosted consolidated net profit for the year by EUR 5.9 million:

The Franconofurt Group achieved IFRS net earnings after minority interests of EUR 6.4 million in 2006 (2005: EUR 0.9 million). Since Franconofurt AG, in its own non-consolidated financial statements, also reports a net profit, amounting to EUR 6.0 million, the company is once again able to pay a dividend. We intend to pay a dividend of EUR 0.60 per share. On the basis of the current number of 6.6 million shares outstanding, this corresponds to a dividend payment volume of EUR 3.96 million. As a consequence, the dividend volume, which last year was just EUR 0.70 million, has risen more than five-fold.

The Group's equity, excluding minority interests, also rose, from EUR 10.4 million in 2005 to almost EUR 51 million. The two contributors to this increase were the earnings generated in the reporting year and the capital increases.

2.1.2. Earnings position

Franconofurt AG's earnings position presents a positive picture. Rental revenue rose to EUR 2.8 million in 2006 (2005: EUR 0.7 million). The main driver was the rapid creation of the real estate holdings at Francono Rhein-Main AG. The volume of notarial recordings at Francono Rhein-Main AG amounted to around EUR 74.8 million in 2006.

Proceeds from the sale of real estate holdings rose from EUR 6.3 million in 2005 to EUR 12.6 million in the reporting year. The carrying amounts of these properties totaled EUR 8.6 million (2005: EUR 3.8 million). The related sales generated earnings of EUR 4 million (2005: EUR 2.5 million). As a consequence, the profit margin on these disposals was 32 % for 2006 (2005: 40 %).
Franconofurt AG in 2006 reduced its shareholding in Francono Rhein-Main AG from 100 % to 64 % through capital increases and share placings of 3.2 million shares. This generated earnings in the consolidated financial statements of EUR 5.9 million. Earnings from share placings of EUR 1.2 million recognized in the consolidated financial statements are lower than those recognized in the financial statements of Franconofurt AG, since the proportion of the non-cash increase in Francono Rhein-Main AG's net assets attributable to minority shareholders as a result of the share sales reduced the disposal gain in accordance with the partial entity method.
The balance of unrealized gains and losses resulting from the higher valuation amounted to EUR 2.6 million in 2006. In accordance with International Accounting Standards (IAS), investment properties are recognized at fair value. Francono Rhein-Main AG generated an unrealized gain because the company is acquiring multi-family houses at prices below the market average. Valuation was performed on the basis of a property survey conducted by Jones Lang LaSalle, which in turn based its valuation on cash flow analysis.

In contrast with this, the valuation of real estate holdings at FranconoResidence AG entails the recognition of acquisition costs including ancillary acquisition costs, because the properties are classified as inventory (IAS 2).

Earnings from the sale of investment properties amounted in the reporting year to EUR 1.57 million, and resulted from the disposal of a sub-portfolio held within Francono Rhein-Main AG to an institutional investor.

Administration expenses totaled EUR 2.6 million (2005: EUR 0.7 million) and largely reflect personnel and tangible benefit costs.

Net interest expense amounted to EUR 0.79 million. Both the higher level of real estate holdings and the related increase in borrowing volume lead us to expect a further increase in net interest expense.

The pre-tax earnings result in 2006 was EUR 9.3 million. This represents an increase of EUR 7.8 million on the previous year.

Deducting the share of earnings attributable to minority shareholders - predominantly minority shareholders of Francono Rhein-Main AG – resulted in after-tax earnings of EUR 6.4 million (2005: EUR 0.9 million).

2.1.3. Assets

Total assets of the Franconofurt Group rose in 2006 to EUR 104 million (2005: EUR 22 million). This increase mainly reflects the extensive expansion of real estate held at Francono Rhein-Main AG. Approximately EUR 44.1 million of this volume was generated within a period of seven months.

The Group likewise lifted its real estate holdings, by EUR 8.9 million.

The increase in trade receivables results primarily from the sale of a portfolio of apartments amounting to EUR 7.2 million.

These investments were financed largely by equity capital. As of the 2006 year-end, bank borrowings totaled almost EUR 31 million (2005: EUR 11.1 million).

The equity capital base including minority equity amounted to EUR 67.2 million at the end of 2006. The share of equity attributable to minority shareholders totaled EUR 16.3 million.

2.1.4. Financial position

The cash flow from business operations is negative in an amount of EUR 9,697.000. The main reason for this is that the Group has increased its holdings of real estate by EUR 8.9 million. By contrast, net earnings for the year contain the following non-cash income items: income from the sale of investment properties (EUR 1,569.000), income from the disposal of shares in Francono Rhein-Main AG (EUR 5,768.000), as well as unrealized gains from the revaluation of investment properties to fair value (EUR 2,631.000).

Cash flow from investment activities amounts to -EUR 40.2 million and results primarily from investments in real estate amounting to EUR 50.0 million, as well as cash received from the sale of shares in fully consolidated companies totaling EUR 10.3 million.

Cash flow from financing activities amounts to EUR 63.9 million, and results mainly from capital increases totaling EUR 45.0 million, as well as the drawing down of a loan amounting to EUR 19.8 million on a net basis.

This resulted overall in an increase in cash and cash equivalents of EUR 14.0 million.

Francono Rhein-Main AG represents the Franconofurt Group's largest shareholding. The following chapter discusses its operating development.

2.2. Development of Francono Rhein-Main AG

Francono Rhein-Main AG generated revenue of around EUR 8.6 million in the 2006 financial year. Approximately EUR 7.2 million of this revenue derived from the sale to an overseas investor of a sub-portfolio, and EUR 1.4 million relates to rental income from real estate holdings.

The company also achieved an unrealized gain of EUR 2.6 million from the revaluation of investment properties. The market values of the properties were produced by an independent property surveyor, Jones Lang LaSalle. EBIT amounted to EUR 4.1 million (2005: EUR 0.03 million, and earnings before tax (EBT) totaled EUR 4.0 million (2005: EUR 0.09 million).

Net profit for the year at Francono Rhein-Main AG amounted to EUR 2.3 million in 2006 (2005: EUR 0.05 million). As a consequence, the company was profitable in the first year of operating its business model.

By the end of the year the company had closed a volume of real estate purchase transactions totaling around EUR 65.9 million (in terms of acquisition cost). Of this amount, a total volume of real estate disposals amounting to EUR 5.7 million was transacted already during the reporting period. Between the year-end reporting date and the date of the preparation of these financial statements, purchase agreements relating to an additional volume of real estate of EUR 8.9 million have been signed. The economic transfer of ownership is occurring rapidly, mainly in the first quarter.

The inflow of capital from the stockmarket flotation EUR 21.7 million as well as the capital increase at Franconofurt AG amounting to EUR 25 million was thus already reinvested in property during the reporting period. The flotation proceeds were invested in fixed interest instruments for only a short period. As of the year-end, there was no remaining cash invested in interest-bearing instruments because the capital has been reinvested in real estate.

Francono Rhein-Main AG's comfortable level of equity funding should allow the company to rapidly further expand its holdings of property.

2.3. Development of FranconoWest AG

FranconoWest AG commenced operating activities in 2006. It successfully carried out its first purchases in the fourth quarter of 2006. The appointment of Guido Dollhausen meant that the company acquired an experienced Management Board member. The company has current equity funding of EUR 3 million and intends to raise this in the short term to EUR 10 million. In 2006, the company was occupied with its start-up, and profitability is expected for the 2007 financial year. A loss of EUR 0.1 million was reported for 2006. FranconoWest AG's objective is to make the rental income from its property holdings profitable on operating basis. Investment volume amounted to EUR 4.9 million. This entire amount relates to objects where the transfer of benefits and burdens does not occur until 2007. The company has signed further purchase agreements for EUR 3.1 million between December 31, 2006 and February 19, 2007.

2.4. Franconofurt AG's service companies

Besides the three asset-holding companies Francono Rhein-Main AG, FranconoWest AG and FranconoResidence AG, the Franconofurt Group also owns four service companies. These allow us to offer all services related to the real estate sector: real estate purchasing, real estate sales, building management, and architectural planning and execution.

The service companies are active in those regions of Germany in which Franconofurt AG's asset companies are also located. They currently operate in the Rhine-Main region and in North Rhine Westphalia. The individual regional companies are subordinated in each case to a parent company that performs management and organizational functions.

The companies of GlobalAcquisition GmbH acquire real estate for Franconofurt AG's asset companies, while the brokering of real estate is performed by GlobalLiving GmbH companies. GlobalConstruct AG companies are responsible for the management, steering, development, and execution of construction projects as general contractor. GlobalProperty GmbH companies are responsible for the commercial management of real estate.

3. Research and development

Due to the nature of its activities, the company does not engage in any research and development. Its business is not reliant on patents, licenses or trademarks. The company does, however, carry out market research relating to the real estate market.

4. International business

The company operates exclusively in Germany. There are no plans to operate in any foreign locations.

5. Executive bodies, employees, personnel development

Besides the three board members, the Group employed 37 members of staff as well as seven trainees during the reporting period. We plan to recruit further staff as required during the year. During the reporting year, Supervisory Board posts at Franconofurt AG were held by Bruno Otto Kling (Chairman), Dr. Heinrich Wolf, and Klaus Nieding. Klaus Nieding in July 2006 accepted the Supervisory Board mandate previously exercised by Ingrid Rose. The Management Board is composed of Metehan Sen (Spokesman of the Management Board), Carsten Siegert, and Christian Wolf.

6. Corporate Governance

The Management Board and Supervisory Board attach major importance to observing the principles of the German Corporate Governance Code. With few exceptions, Franconofurt AG complies with the recommendations of the Code Commission for corporate governance established by the German Federal Government.

The following divergences exist:

The company does not announce the shareholders' meeting using modern communications media since, due to the size of the company, the number of shareholders, and the confidentiality requirements of many shareholders, we assume demand to be low.

Some of the members of the Management Board receive solely a fixed and no variable remuneration. Management Board members Christian Wolf and Carsten Siegert receive solely fixed remuneration. However, due to their own shareholdings in the Company, the long-term interest of the Management Board in a high level of dividend distribution is regarded as a comparable incentive, with respect to ensuring a positive corporate earnings development, as variable remuneration. Metehan Sen receives both fixed and variable remuneration. The variable remuneration relates to a claim relating to 10 % of the annual net profit of Franconofurt AG, as determined according to German Commercial Code (HGB) accounting standards. The variable remuneration is set off against the fixed salary. When capital measures take place, the variable component of 10 % is diluted pro rata and pro rata temporis.

Due to both the size of the company and the fact that the Supervisory Board is composed of only three members, the company does not create separate supervisory board committees.

The company has not determined any general age limit for members of the Supervisory Board, since it wishes to continue to benefit from the expertise of supervisory board members who have many years of experience relevant to these responsibilities. The company considers such matters on a case-by-case basis.

In order to economize in terms of procedure, the company has decided not to perform individual elections, and has decided to utilize block votes. No shareholder expressed the wish for individual elections at the last elections.

The members of the Supervisory Board receive solely fixed and no performance-related remuneration, since the requirements made of the Supervisory Board are the same, irrespective of the company's earnings. The company takes the view that, in the light of its statutory supervisory function, the Supervisory Board requires neither remuneration dependent on the company's earnings nor any other type of incentive.

Franconofurt AG does not publish interim reports within the period recommended by the Corporate Governance Code of 45 days after the end of the reporting period. As a matter of course, the company endeavors to abide by the recommendations of the code. However, the company's current rapid expansion entails continued and further structural modifications that result in additional reporting-related work. The company would be unable to meet its own standards as far as these reports are concerned if it were to adhere to the deadline recommended by the Corporate Governance Code.

7. Shares and Articles of Incorporation

The company’s capital stock amounts to EUR 6,600,000 and is divided into 6.600.000 million ordinary nil-par bearer shares. Securitization is not permitted.

Shares in the company are held as follows:

- Carsten Siegert holds 21.59 % of the shares in Francono Rhein-Main AG (this corresponds to 1,425,000 shares) through Lewenhagen Siegert GmbH

- Christian Wolf holds 21.59 % of the shares in Francono Rhein-Main AG (this corresponds to 1,425,000 shares) through Christian und Nadja Wolf GmbH

- The free float comprises 56.82 % of the shares (corresponding to 3,750,000 shares)

The two above-mentioned members of the Management Board hold their Franconofurt AG shares via the above-mentioned companies. Both parties are subject to a lock-up period until June 21, 2009.

The Management Board is authorized, with the approval of the Supervisory Board, to increase the capital stock until April 1, 2011 by up to EUR 2,200,000.00 (in words: two million two hundred thousand euros) through one or more tranches of new nil-par bearer shares in return for cash and/or non-cash contributions. The Management Board is authorized, with the approval of the Supervisory Board, to exclude the statutory subscription rights of the shareholders in certain cases defined in the articles of incorporation. The most relevant cases are exclusion in the event of a capital increase entailing not more than 10 % of capital stock, or if the capital is increased in return for a non-cash contribution for the purpose of acquiring businesses, entities or equity investments.

The Management Board is furthermore authorized, with the approval of the Supervisory Board, to determine further details concerning the performance of capital increases from authorized capital.

The Articles of Incorporation do not specify conditions for the appointment and recall of members of the Management Board and Supervisory Board that diverge from the German Stock Corporation Act.

The Articles of Incorporation are published on the company's website.

8. Events subsequent to the reporting date

The company acquired further properties after the balance sheet date. The volume of all these investments in terms of acquisition costs amounts to EUR 13 million as of February 19, 2007.

9. Risk report

As a real estate company, Franconofurt AG is exposed to diverse risks.

Risk management

In order to establish a monitoring system as required by law to detect at an early juncture risks pertaining to the company's ability to continue as a going concern, the Management Board has installed a risk management system that undergoes constant adjustment. This is integrated into the management information system at all levels. Franconofurt AG has mandated Aareon, an IT subsidiary of Aareal Bank, to implement a Group-wide SAP information system to map in real-time both the risk controlling and the company's financial situation. The installation of the SAP infrastructure will be completed by April 1, 2007, in line with the planned budgetary and time requirements. The Management Board anticipates that the SAP system will deliver further improvements in risk management across the Group.

The risk management system identifies potential risks to the company's ability to continue as a going concern at an early stage, assesses these risks, and implements related countermeasures.

Franconofurt AG manages its business using a thorough planning system that looks out over the coming two years on a quarterly basis.

Where predefined limits are exceeded or undershot, the effects on the company of potential divergences from plan are analyzed. This investigation is then used as the basis for developing and executing various measures to counter the risks identified.

The auditor examines the functionality of the risk management system once a year as part of its audit.

In the light of the company's rapid growth, the Management Board has initiated the implementation of high-performance software solutions that both enable a more precise and up-to-date bookkeeping, and automatically monitor the limits defined in the risk management system.

Franconofurt AG is exposed to a range of risks. These include the following:

- The company operates in the German real estate market mainly in Frankfurt am Main, in the Rhine-Main region, and in North Rhine Westphalia, and is therefore dependent on the trends of this specific market and of the overall German real estate market.

- Franconofurt AG requires equity capital funding for its continued growth. Access to sources of equity backing could be closed as a result of negative developments on the stockmarket, thus inhibiting further growth. It might also prove impossible to perform stockmarket flotations of Franconofurt AG subsidiaries, such as that of FranconoWest AG.

- The company competes for suitable investment properties. There is a risk that this competition will intensify. Changes in the market, in particular due to an increase in demand, could result in the company failing to complete its portfolio in the near future or not filling gaps caused by the sale of individual properties or sub-portfolios. The company is thus also exposed to the risk of delays in building up its portfolio, and a poorer purchase quality.

- Due to its financing and the sale of its real estate, the company is exposed to market risks relating changes in interest rates, and risks pertaining to the availability of debt funding. The company aims to achieve a debt ratio of 80 %. There is therefore a risk that in future it will be possible to procure debt capital at only unfavorable conditions. If it is not possible in the future to raise or prolong debt capital, or if this is not possible at favorable conditions, this could have a negative impact on the company’s operations, as well as its net assets, financial position, and earnings. The company and/or its subsidiaries refinance themselves primarily through variable-rate loans that are largely converted into multi-year refinancing forms via swaps.

- Impairment of the real estate assets could affect the company’s result. Some properties, in particular those owned by Francono Rhein-Main AG, are held as fixed assets. Fixed assets are valued at fair value in accordance with IAS 40. Any differences between fair value and acquisition cost are shown on the balance sheet as an income or expense item. Therefore, any changes in value have an effect on the company's earnings.

- There is a risk that the sale of real estate may not be possible at the planned conditions or within the planned timeframe. This could result in, contrary to the company's business plan, sales proceeds being received late, or not at all. This could have a major impact on earnings, particularly during the portfolio growth stage.

- There is a risk that the company miscalculates the estimated value of acquired real estate or of locations. Subsequent market valuation, poor rentability, and reduced sales options could then preclude the value-adding effect of the real estate and jeopardize long-term earnings.

- The loss of rental income or liability risks from the rental agreement could have a negative impact on the success of the company.

- The company is exposed to the risk of not being adequately insured against all losses, damages, restrictions on the use of its real estate and liability claims.

- Risks could arise when executing building and production plans, in particular such that new buildings or renovations could incur higher costs than planned and/or unforeseen expenses. Poor weather could also delay the completion of such work.

- There is a risk that the company may face claims due to non-compliance with building requirements, the existence of hazardous substances and contamination and/or soil pollution.

- A deterioration of the tax situation in Germany could have an adverse effect on the company's operations. The corporate tax reform of 2008, which plans to limit the deductibility of interest expense, deserves particular mention.

- Changes in the regulatory environment in Germany could have an adverse effect on the company's operations.

- The company is exposed to the risk of the loss of key personnel. Franconofurt AG's Management Board currently comprises solely three members.

- The registered brands could be claimed by third parties.

- The company has relationships with its service companies comprising the mutual provision of services, which, if terminated, could have a negative impact on the operations of Franconofurt AG. Shortfalls in the provision of services may arise, particularly in the transitional period prior to entering into a new business relationship.

- There is a risk that the current IT projects fail to produce the desired results or are not completed on time.

- The share price of Franconofurt AG could be volatile and there is no guarantee that a liquid market for the stock can always be available.

10. Outlook

10.1. Future development of the economy and sector, future position of the company, market outlook

The economic outlook is positive for 2007, with economic forecasts predicting growth. In mid-December, the Institute for the World Economy (IfW) announced that it would upgrade a series of data contained in its August 2006 forecasts. As a consequence, the IfW's year-end forecasts viewed the risk of the German economy entering a phase of weakness in 2007 as significantly lower than it did in its August forecasts. This has led the IfW to upgrade its forecast for 2007 GDP growth to 2.1 %. The Federal Ministry of Economics also expects the uptrend to continue. However, its forecast for economic growth is slightly lower at 1.75 %. These positive figures are attributable in part to the anticipated decline in the number of unemployed. The Federal Ministry of Economics expects an annual average fall of around 480,000 in the number of unemployed, and an increase of some 300,000 in the number of those in employment. It appears that wage restraint on the part of employees in the recent past will now be repaid in 2007 in the form of higher employment levels. For 2008, the IfW estimates that the number of unemployed will fall below four million for the first time since 1996. However, economic experts are also expecting the increase in VAT will weaken both domestic demand and exports. This means that the outlook for exports for 2007 is poorer than for the previous year. After growth of 11.8 % in 2006, the IfW is assuming that exports will increase slightly this year, rising by 7.1 % on average.

A stable situation is expected for residential real estate in Germany. It is thought that there will be no major changes in purchase prices for residential property. Rents for residential properties in some individual cases may see slight rises due to inflation. A slight recovery is anticipated for the commercial property sector in general, and a number of major cities in particular should see the end of the downward trend.

The volume of residential real estate units traded as well as capital invested is expected to continue to increase in 2007. In light of the pressure on institutional investors to invest extremely large pools of capital more profitably than is possible on the bond market, as well as the historically low interest rates available in Germany, cross-border real estate investment looks set to boom. At the same time, we expect local authorities to offer greater quantities of real estate for sale, even if the nature of the sale and the dimension of individual transactions will be subject to change in the light of public controversy.

Despite high levels of redundancies, particularly at Frankfurt-based banks, the prices for apartments in desirable locations have not fallen in the past. There has also been no significant change in rental demand. In future, we anticipate that changing lifestyles will drive demand higher in conurbations, and that this development will be underpinned by the fall in employment in rural areas.

10.2. Forecast

The Management Board of Franconofurt AG anticipates significant growth for the company in 2007. By the year-end, we plan to have created a real estate portfolio of up to EUR 200 million at Francono Rhein-Main AG, and a portfolio of up to EUR 150 million at FranconoWest AG. This will create a stable basis for generating income, as well as a significant increase in rental income in subsequent years.

All purchases of real estate intended to be held as investment property will be subject to a careful selection procedure that ensures that the rental income covers interest and loan redemption expenses. This comprises an important component of the Group's efforts to safeguard liquidity. We shall diverge from this principle only where justified in individual cases.

The capital measures performed in 2006 have created the basis for the company's future growth.

The rapid composition of a real estate portfolio within the regional asset-holding companies has laid the foundations for creating a portfolio of multi-family houses across the whole of Germany. Rental income generated from these holdings is intended to form the greater proportion of operating earnings in the medium term. The expansion of the portfolio, however, will be accompanied by a commensurate and budgeted rise in bank borrowings in 2007.

In addition to expanding the portfolio, the company will utilize opportunities to sell smaller sub-portfolios in order to generate additional income, particularly in the growth phase. This means that we expect rental income at the Francono Rhein-Main AG subsidiary to be approximately equal to property disposal proceeds in 2007. The 2007, Franconofurt AG anticipates that 2007 consolidated pre-tax earnings will exceed those are generated in 2006.

In 2007, Franconofurt AG itself will sell part of its real estate assets, and will in future function primarily as a holding company, with residual real estate assets being retained at the holding company level in order to cover operating expenses. Franconofurt AG, as a holding company, will then draw its revenue primarily from the dividends rendered by its subsidiaries, as well as from the proceeds received from placing its subsidiaries' shares in the market.

Frankfurt am Main, Germany, February 28, 2007

M. Sen	C. Siegert	C. Wolf

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

AS OF DECEMBER 31, 2006

FRANCONOFURT AG

FORMERLY
FRIMAG FRANKFURTER IMMOBILIEN AG

FRANKFURT AM MAIN, GERMANY

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1.

CORPORATE INFORMATION

I. Company and registered office

The parent company Franconofurt AG (formerly FRIMAG Frankfurter Immobilien Aktiengesellschaft, company name changed through a modification to the entry in the commercial register made on April 18, 2006) has its registered office in Frankfurt am Main / Germany and is entered under HRB 51764 in the commercial register of the District Court of Frankfurt am Main.

The company operates its business in leased office premises at the address "Börsenstraße 2-4, 60313 Frankfurt am Main". The shares of the company are traded on the open market (Entry Standard) on the Frankfurt Stock Exchange under WKN 637262 / ISIN DE000637262.

II. Purpose of the company

The purpose of the parent company Franconofurt AG is

a) brokering of agreements, or providing information about an opportunity to conclude agreements, concerning real estate, rights equivalent to real property, residential property, commercial premises;
b) brokering of agreements, or providing information about an opportunity to conclude agreements, concerning loans;
c) brokering of agreements, or providing information about an opportunity to conclude agreements, concerning the acquisition of shares in corporations, foreign investment shares, other publicly offered investments, which are administered for the joint account of investors. Publicly offered shares in a corporation or limited commercial partnership, and securitized receivables due from a corporation or limited commercial partnership. Not included are activities as per the German Banking Act (KWG);
d) the preparation and execution of construction projects as principal on the company's own behalf, for its own and third-party accounts, utilizing the assets of purchasers, tenants, lessees, and other beneficiaries, and of bidders for rights of purchase or use.
e) the commercial preparation and execution of construction projects as construction manager on the behalf of third parties, and for third-party accounts, as well as

f) the purchase and administration of own assets, in particular real estate and other capital investments.

Franconofurt AG and the subsidiaries included in the scope of consolidation (referred to below as the "Franconofurt Group" or as the "Group") were predominantly active in real estate trading during the previous year. It bought real estate for quick resale and recognized these assets exclusively under inventories. At the start of 2006, the Franconofurt Group expanded its area of activities to include the management of real estate. This business is pursued by the subsidiary Francono Rhein-Main AG. Since then, it has been mainly acquiring real estate to earn rental income and for capital appreciation; the real estate is therefore classified as investment property.

2. INTRODUCTION

1) Preliminary remarks

Franconofurt AG prepared these IFRS consolidated financial statements as of December 31, 2006 and for the financial year ended on this day in accordance with § 315a Paragraph 3 of the German Commercial Code (HGB) in combination with § 315a Paragraph 1 HGB. In these financial statements, the company has supplemented these IFRSs (International Financial Reporting Standards), as adopted by the EU, by voluntarily applying the recommendations made by EPRA (European Public Real Estate Association) in January 2006.

2) Basics

These consolidated financial statements were prepared, as a matter of principle, applying the historical cost approach. Exceptions to this comprised investment properties, land and buildings, and derivative financial instruments, which were measured at fair value. The consolidated financial statements are presented in euros.

These consolidated financial statements of Franconofurt AG comply with International Financial Reporting Standards (IFRSs) and the Interpretations of the International Financial Reporting Committee (IFRIC) published by the International Accounting Standards Board (IASB). In other words, they comply both with all current standards applied in the EU, and with IFRS. Standards that were not mandatory as of the balance sheet date have not been adopted early. In addition, in preparing the consolidated financial statements, the company has observed the provisions of § 315a Paragraph 1 of the German Commercial Code (HGB).

The accounting policies adopted are consistent with those of the prior financial year with the following exceptions:

In the reporting period, the company concluded derivative instruments for the first time. In this regard, IAS 39 was applied in these consolidated financial statements. The following amended provisions on IAS 39 "Financial Instruments: Recognition and Measurement" are mandatory for all reporting periods beginning on or after January 1, 2006:

- Financial guarantee contracts and loan commitments: this new regulation has expanded the scope of IAS 39. The amendment relates to the recognition of financial guarantee contracts and loan commitments by the guarantor. According to the amended version of IAS 39, financial guarantee contracts and loan commitments are valued at fair value when they are first reported. Financial guarantee contracts and loan commitments must subsequently be measured at the higher of the amount that would be recognized in accordance with IAS 18 "Provisions, Contingent Liabilities and Contingent Assets" and the amount initially recognized minus, when appropriate, cumulative amortization recognized in accordance with IAS "Revenue".
- The hedging of forecast intragroup transactions: this amendment to IAS 39 permits the foreign currency risk from forecast and highly probable intragroup transactions to be designated as a cash flow hedge.
- Fair value option: the option to measure all financial assets or financial liabilities at fair value through the income statement has been limited by the amendment.

The application of these amendments has no effect on the presentation of the company's results of operations or financial position.

Due to the change in business activities, the company, in contrast to the prior year, now holds investment property. For this reason, IAS 40 is applied for the first time. IAS 40.33 has been applied to investment property, which is measured at fair value pursuant to IAS.

Apart from the IFRSs whose application is mandatory for financial year 2006, the International Accounting Standards Board (IASB) and International Financial Reporting Interpretations Committee (IFRIC) have also published other IFRSs and IFRICs which have been endorsed by the EU but which will not become mandatory until a later date. Below, only those standards and interpretations that could be relevant for the company are described. The company has not exercised the option to apply these standards/interpretations in an earlier period.

On August 18, 2005, the IASB published IFRS 7, "Financial Instruments: Disclosures". This standard supersedes the existing IAS 30, and incorporates all provisions regarding disclosures in the notes contained in IAS 32. In this connection, the capital disclosure requirements in IAS 1 were amended or supplemented. This standard has completely restructured the disclosure requirements for financial instruments. Above all, it has become compulsory to make disclosures on objectives, methods, risks, collateral, and management processes. The disclosure requirements of IFRS 7 and the modified capital disclosure requirements of IAS 1 apply to periods beginning on or after January 1, 2007; earlier application is encouraged. The new provisions of IFRS 7 do not affect measurement for the Group, but detailed disclosures in the notes and detailed presentations are required.

The application of the newly published IFRIC 7, IFRIC 8 and IFRIC 9, which had completed the EU endorsement process by December 31, 2006 and which were not applied voluntarily in advance or are not expected to be applicable to the Group, is not expected to have any significant effect on the net assets, financial position, and results of operations.

3) Consolidation

a) Basis of consolidation

In addition to the parent company, all subsidiaries are included in the consolidated financial statements of the Franconofurt the AG Group since Franconofurt AG is able, directly or indirectly, to control the financial and operating policies of these companies. The subsidiaries have been fully consolidated since acquisition. The date of acquisition is defined as the date on which the Group obtains control of the net assets, finances, and operations of the acquired entity.

Income and expenses, and receivables and liabilities between fully consolidated entities are eliminated. Intercompany profits are also eliminated. The financial statements of Franconofurt AG and the consolidated subsidiaries are prepared according to uniform accounting policies.

b) Consolidated Group

The scope of consolidation of the Franconofurt Group comprises the following companies:

		Capital stock	Share	Shareholding	Net profit	Equity as of December 31, 20
FrancoRhein-Main AG, Frankfurt am Main		28,000,000 €	63.49%	17,810,400 €	-292,393 €	42,414,887 €
formerly: FRIMAG Real Estate Investment Trust AG, Frankfurt am Main						
formerly: FRIMAG Real Estate Investment Trust GmbH, Frankfurt am Main						
formerly: FRIMAG Vierte Vermögensverwaltungsgesellschaft mbH, Frankfurt am Main						
Subsidiaries:						
FranconoRhein-Main 1. Vermögensverwaltungsgesellschaft mbH, Frankfurt am Main "vormals: Go Mainsee 469. Vermögensverwaltungsgesellscht GmbH"	since Q4/2006	25,000 €	100%			
FranconoRhein-Main 2. Vermögensverwaltungsgesellschaft mbH, Frankfurt am Main "vormals: Go Mainsee 468. Vermögensverwaltungsgesellscht GmbH"	since Q4/2006	25,000 €	100%			
FranconoRhein-Main 3. Vermögensverwaltungsgesellschaft mbH, Frankfurt am Main "vormals: Go Mainsee 467. Vermögensverwaltungsgesellschaft GmbH"	since Q4/2006	25,000 €	100%			
FranconoRhein-Main 4. Vermögensverwaltungsgesellschaft mbH, Frankfurt am Main "vormals: Go Mainsee 466. Vermögensverwaltungsgesellschaft GmbH"	since Q4/2006	25,000 €	100%			
FranconoResidence AG, Frankfurt am Main		3,000,000 €	100%	3,000,000 €	132,782 €	3,140,866 €
formerly: Rhein Main Residence GmbH, Frankfurt am Main,						
formerly: FRIMAG Zweite Vermögensverwaltungsgesellschaft mbH, Frankfurt am Main						
FranconoWest AG, Düsseldorf		3,000,000 €	100%	3,000,000 €	-87,944 €	2,912,056 €
formerly: FranconoInvest AG, Frankfurt am Main						
formerly: FRIMAG erste Vermögensverwaltungsgesellschaft mbH, Frankfurt am Main						
GlobalLiving GmbH, Frankfurt am Main		25,000 €	50%	12,500 €	70,386 €	96,909 €
formerly: Mainliving GmbH, Frankfurt am Main						
formerly: FRIMAG Mainliving GmbH, Frankfurt am Main						
formerly: FRIMAG Dritte Vermögensverwaltungsgesellschaft mbH, Frankfurt Main						
Subsidiaries:						
MainLiving GmbH, Frankfurt am Main	since Q4/2006	25,000 €	100%			
RheinLiving GmbH, Frankfurt am Main	since Q4/2006	25,000 €	100%			
GlobalConstruct AG, Frankfurt am Main		50,000 €	50%	25,000 €	145,828 €	196,990 €
formerly: MainConstruct AG, Frankfurt am Main						
formerly: FRIMAG Projekt Management AG, Frankfurt am Main						
formerly: FRIMAG Projekt Management GmbH, Frankfurt am Main						
formerly: FRIMAG Fünfte Vermögensverwaltungsgesellschaft mbH, Frankfurt am Main						
Subsidiaries:						
MainConstruct AG, Frankfurt am Main	since Q4/2006	50,000 €	100%			
RheinConstruct AG, Frankfurt am Main	since Q4/2006	50,000 €	50%			
GlobalProperty GmbH, Frankfurt am Main		90,000 €	50%	45,000 €	1,071 €	30,979 €
formerly: MainProperty GmbH, Frankfurt am Main						
formerly: Connos GmbH, Frankfurt am Main						
formerly: FRIMAG Property Management GmbH, Frankfurt am Main						
Subsidiaries:						
MainProperty GmbH, Frankfurt am Main	since Q4/2006	25,000 €	100%			
RheinProperty GmbH, Frankfurt am Main	since Q4/2006	25,000 €	100%			
GlobalCommunication GmbH, Frankfurt am Main		25,000 €	100%	25,000 €	-5,060 €	19,940 €
GlobalAcquisiton GmbH, Frankfurt am Main		25,000 €	50%	12,500 €	190,176 €	215,176 €
formerly: Mainakquisition GmbH, Frankfurt am Main						
Subsidiaries:						
MainAcquisiton GmbH, Frankfurt am Main	since Q4/2006	25,000 €	100%			
RheinAcquisiton GmbH, Frankfurt am Main	since Q4/2006	25,000 €	100%			
				23,930,400 €		

The companies were fully consolidated in the consolidated financial statements and the share of earnings attributable to minority shareholders was correspondingly reported among minority interests in the consolidated balance sheet. Where the company does not hold the majority of the voting rights of the subsidiary, this concerns companies founded in the interests of Franconofurt AG, which almost exclusively render services related to the Group's properties. Since, as a consequence, the economic opportunities and risks of these companies are very closely connected with those of the Group, these companies are fully consolidated in line with SIC 12.

The extraordinary shareholder meetings of Francono Rhein-Main AG on June 9 and 28, 2006 resolved to increase the capital stock by EUR 7,000,000.00 through a cash contribution. Franconofurt AG waived its subscription right in this regard. The capital increase was entered in the commercial register on July 3, 2006. Subsequently, the Management Board of Francono Rhein-Main AG resolved on September 14, 2006, with the approval of the Supervisory Board, to issue 7,000,000 shares at EUR 1.00 each. Commerzbank AG, Frankfurt am Main, Germany, was authorized to subscribe for the shares. The new shares were subscribed for and acquired by Commerzbank AG and privately placed with institutional investors for EUR 3.10 per share. The premium for the new shares was transferred to the company. The shares of Francono Rhein-Main AG were first quoted on the open market and in the Entry Standard segment of the open market, which has additional transparency requirements, on September 15, 2006. On November 8, 2006, the company applied for admission of its entire capital stock to the regulated market of the Frankfurt Stock Exchange, and to the subsegment of the regulated market with additional post-admission obligations (Prime Standard). The admission resolution was passed on November 16, 2006. The Francono Rhein-Main AG share was admitted to the Prime Standard of the Frankfurt Stock Exchange on November 17, 2006. The shares of Francono Rhein-Main AG have the securities code number (WKN) A0J2LC and the international identification number and (ISIN) DE000A0J2LC4. The stock exchange abbreviation is F7R.

As of December 31, 2006, Franconofurt AG sold 3,224,000 shares in Francono Rhein-Main AG.

4) Summary of significant accounting policies

a) Income and expense recognition

Income and expenses for the financial year are accounted for irrespective of the date of payment. Revenue is recognized when the services have been rendered or the benefits and burdens have been transferred. Operating expenses are charged against income when a service is used or when the costs are incurred. Interest is recognized as an income or expense item in the period to which it relates. Interest expenses which are incurred in connection with the acquisition and production of particular assets are not recognized.

The rental income equal to the target rent less sales deductions is recognized monthly as the services are rendered. The prepayments for operating expenses factored into the rent are recognized as revenues in the amount in which allocable operating expenses were incurred in the financial year. Any remaining difference is disclosed as either a rent receivable or liability.

The rental agreements concluded by the Group as part of its operating activities do not represent finance leases within the meaning of IAS 17 since the rental agreements were mostly concluded for an indefinite period rather than for a fixed term. The tenants have a unilateral right to termination giving the statutory notice period.

b) Business combinations and goodwill

Business combinations are recognized using the purchase method of accounting. This comprises recording the identifiable assets (including intangible assets not previously recorded) and liabilities (including contingent liabilities, but not for future restructuring) from the acquired operations at their fair value.

Goodwill resulting from a business combination is initially measured at cost, whereby cost is the excess of the cost of the business combination over the acquirer’s interest in the fair value of the identifiable assets, liabilities, and contingent liabilities of the acquired entity. Following initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the date of acquisition, allocated to the cash-generating units or groups of cash-generating units which profit from the synergy effects of the business combination. This applies irrespective of whether other assets or liabilities of the acquirer are allocated to these cash-generating units. A cash-generating unit or a group of cash-generating units to which goodwill is allocated:

- represents the lowest level within the company at which the goodwill is monitored for internal management purposes; and
- is not larger than a segment based on the Group’s primary or secondary reporting format determined in accordance with IAS 14 "Segment Reporting".

Franconofurt AG defined the legal entities as cash-generating units, that is, each acquired subsidiary was allocated the goodwill that arose on its acquisition.

Where goodwill forms part of a cash-generating unit (group of cash-generating units), and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. The portion of goodwill which is disposed of is measured on the basis of the relative values of the operation disposed of, and the portion of the cash-generating unit retained.

For the sale of a subsidiary, the difference between the sales price and the net assets and the non-amortized goodwill is recognized in the income statement. When shares in fully consolidated subsidiaries are sold, the disposal gain is measured according to the partial entity method, in other words, the proportional share of net assets of the related subsidiary at the time of disposal is compared with the disposal proceeds.

c) Intangible assets

Individual purchased intangible assets are carried at cost on initial recognition. The cost of an intangible asset acquired in a business combination is its fair value at the acquisition date. In subsequent periods, the intangible assets are measured at cost less accumulated amortization and any accumulated impairment losses.

A distinction is made between intangible assets with limited useful lives and those with unlimited useful lives.

Intangible assets with finite lives are amortized over the useful economic life and tested for impairment if there is an indication that the intangible assets may be impaired. In the case of intangible assets with limited useful lives, both the useful life and the amortization method are subject to a review at the end of at least every financial year. Any modifications required to either the depreciation method or the useful life are treated as modifications to estimates. Amortization charged on intangible assets with finite lives is recognized in the income statement in the expense category consistent with the function of the intangible asset within the entity. Intangible assets with finite lives are amortized straight-line over a useful life of two to five years.

Intangible assets with unlimited useful lives are subjected to an impairment test at least once a year, either at the individual asset level or at the level of the cash-generating unit. These intangible assets are not amortized. The useful life of an intangible asset with an indefinite useful life is reviewed annually to determine whether their indefinite life assessment continues to be supportable. If not, the change in the useful life assessment from indefinite to finite is made on a prospective basis.

d) Property, plant and equipment

Property, plant and equipment is stated at cost, excluding the costs of day-to-day servicing, less accumulated depreciation and any accumulated impairment losses. These costs include the cost of replacing part of such plant and equipment when that cost is incurred, if the recognition criteria are met. For furniture and fixtures, depreciation is charged straight-line over a useful life of between three to thirteen years. The Group does not have any other types of property, plant and equipment at present.

Property, plant and equipment is derecognized upon disposal or when no further economic benefits are expected from its continued use or sale. Any gain or loss arising on disposal of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the income statement in the year the asset is derecognized.

The residual values, useful lives, and depreciation methods are reviewed and adjusted as necessary as of each financial year-end.

e) Investment property

Investment property is recognized as of the date of transferal recorded in the notarial deed; this is also the date on which all rights and obligations under the contract are transferred to the buyer (transfer of benefits and burdens). The prerequisite for transferal is usually payment of the full purchase price, which, in turn, is linked to fulfillment of certain conditions – the cancellation of any land charges, entry of the priority notice in the land register, as well as presentation of a waiver of the pre-emption rights or a corresponding negative clearance from the authorities.

Investment properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are stated at fair value.

The fair value reflects market conditions at the balance sheet date. Unrealized gains or losses arising from a change in the fair value of investment property are included in the income statement for the period in which they arise.

Francono Rhein-Main AG engaged the independent assessor Jones Lang LaSalle to prepare an independent market valuation for the reporting period. Jones Lang LaSalle valued the properties on the basis of their market value as defined by the Royal Institution of Chartered Surveyors (RICS). According to RICS, the market value corresponds to the estimated amount that would be paid on the valuation date by a willing buyer and willing seller following proper marketing, each acting independently, knowingly, prudently and without duress.

Investment properties are derecognized when they have either been disposed of, or when the investment property can no longer be used permanently and no future benefit is expected from its disposal. Gains and losses on the retirement or disposal of an investment property are recognized in the income statement in the year of retirement.

f) Tax

Current tax assets and liabilities for current and prior periods are measured at the amount expected to be recovered from, or paid to, the tax authorities. Calculation is based on the tax rates and tax laws applicable as of the balance sheet date.

VAT on revenues, expenses and assets are recognized net of VAT, with the following exceptions:

- Where the VAT incurred on a purchase of assets or services is not recoverable from the taxation authorities, in which case the VAT is recognized as part of the cost of the asset or as part of the expense item as applicable.
- Receivables and liabilities are stated with VAT included

g) Inventories

Assets, particularly residential units as per IAS 2 that are held for disposal as part of the normal course of business, are reported among inventories. Inventories are valued in all cases at the lower of either cost or the net disposal price realizable on the reporting date. The net disposal value represents the disposal proceeds prospectively achievable, minus transaction costs.

h) Receivables and other assets

Trade receivables and other assets are initially recognized at nominal value. Subsequent recognition is at amortized cost and, if required, minus write-downs.

i) Cash and cash equivalents

Cash and cash equivalents comprise bank deposits. They are recognized at nominal value.

j) Borrowing costs

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

k) Deferred tax

Deferred tax is recognized using the liability method on temporary differences as of the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred tax assets and liabilities were recognized for all taxable temporary differences.

Deferred tax assets are recognized for all deductible temporary differences, unused tax asset carryforwards and unused tax loss carryforwards, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax assets and unused tax losses can be utilized.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized. Unrecognized deferred tax assets are reviewed on each balance sheet date and recognized to the extent to which it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply when the asset is realized or the liability is settled. This process is based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

Income tax relating to items recognized directly in equity is recognized under equity and not in the income statement.

Deferred tax assets and deferred tax liabilities are offset against each other when the company has an enforceable right to offset the current tax assets against the tax liabilities, and these assets and liabilities relate to income taxes levied by the same tax authority for the same taxable entity.

l) Deferred liabilities

Deferred liabilities relate to all recognizable legal and constructive obligations of the company to third parties that will probably be realized, and whose amount can be reliably estimated. They are stated at the expected amount payable.

m) Liabilities

Interest-bearing liabilities are measured at fair value on initial recognition. After initial recognition, interest-bearing liabilities are subsequently measured at amortized cost using the effective interest method.

n) Derivative financial instruments

The company uses derivative financial instruments (interest swaps) to hedge against interest-rate risks. These instruments are initially recognized at fair value on the date on which a derivative contract is entered into, and are subsequently measured at fair value. Derivative financial instruments are carried as assets when the fair value is positive, and as liabilities when the fair value is negative.

Derivative financial instruments are measured at fair value on the basis of published market prices. If no price is quoted on an active market, other suitable measurement methods are applied. Suitable measurement methods are widely recognized economic models that consider all the factors that would be considered by assessors and independent market participants when setting prices.

In the case of derivative financial instruments that do not satisfy the criteria for hedge accounting, any gains or losses from a change in fair value are immediately recognized in profit or loss.

At the inception of a hedge, the company formally designates and documents both the hedge relationship, to which the company wishes to apply hedge accounting, and the risk management objective and strategy for undertaking the hedge. The documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged, and how the entity will assess the hedging instrument's effectiveness in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk. Such types of hedging relationships are assessed to establish whether they are highly effective in compensating risks from changes in the fair value or in the cash flows. They are assessed constantly to determine whether they are actually highly effective during the entire reporting period for which the hedging relationship was designated.

Hedging transactions which meet the strict criteria for hedge accounting are recognized as follows:

Cash flow hedges

Cash flow hedges are a hedge of the exposure to fluctuations in cash flows that are attributable to a particular risk associated with a recognized asset or liability, or a highly probable forecast transaction, and that could affect profit or loss. The effective portion of the gain or loss on the hedging instrument is recognized directly in equity, while the ineffective portion is recognized in the income statement.

Amounts taken to equity are recognized in the income statement in the period during which the hedged transaction affects profit or loss, such as when hedged financial income or financial expense is recognized, or when a forecast sale or purchase occurs. Where the hedged item is the cost of a non-financial asset or liability, the amounts taken to equity are transferred to the initial carrying amount of the non-financial asset or liability.

If the forecast transaction is no longer expected to occur, the amounts previously recorded in equity are recognized in profit and loss for the period. If the hedging instrument expires or is sold, terminated, or exercised without replacement or rollover, or if its designation as a hedge is revoked, amounts previously recognized in equity remain in equity until the forecast transaction occurs. If the related transaction is no longer expected to occur, the amount is recognized in the income statement.

5) Accounting judgments and estimates

When preparing the financial statements, the company's management is required to make accounting judgments and estimates. Due to the business model, accounting judgments and estimates of significant value were applied only for the item "Investment property" as well as for the demarcation of the scope of consolidation.

Investment property is measured using the fair value model (IAS 40.33). When determining the fair value, there is scope for interpretation with regard to the key figures (such as the discount rate, market rents and vacancy rates).

The assumptions and estimates are based on premises which are derived from the current knowledge at the time. In particular, the circumstances prevailing at the time of preparing the consolidated financial statements and the realistic future development of the global and industry environment were used to estimate cash flows. Where these conditions develop differently than assumed, and beyond the sphere of influence of management, the actual figures may differ from those anticipated. If there are deviations between actual and anticipated development, the premises, and where necessary, the carrying amounts of the relevant assets and liabilities, are adjusted accordingly.

Where the company does not hold the majority of the voting rights of the subsidiary, this concerns companies founded in the interests of Franconofurt AG that almost exclusively render services related to the Group's properties. Since, as a consequence, the economic opportunities and risks of these companies are very closely connected with those of the Group, these companies are fully consolidated in line with SIC 12.

6) Adaptation of prior year figures

The stock exchange flotation of Francono Rhein-Main AG resulted in an audit of the financial statements for the years 2003 to 2005. This led the company's management to perform adjustments. Overall, these modifications are immaterial for the presentation of the Group's net assets, financial position, and results of operations.

7) Segment reporting

Since the subsidiary Francono Rhein-Main AG has commenced business activities in the area of "Real estate portfolio management", in accordance with the requirements of IAS 14, the Franconofurt Group is providing segment reporting as at December 31, 2006. In accordance with IAS 14, the Franconofurt Group differentiates between five segments:

a) **Partitioning business**: this comprises the sale of properties held as inventory, primarily through the proprietary business activities of Franconofurt AG and its subsidiary FranconoResidence AG

b) **Real estate portfolio management**: this comprises the rental of investment properties by the subsidiaries Francono Rhein-Main AG and FranconoWest AG

c) **Real estate development**: this comprises the entire range of project development, from new constructions, to renovations and expansions, performed primarily by the subsidiary GlobalConstruct AG and its subsidiaries.

d) **Services**: this comprises the building management services performed by the subsidiary GlobalProperty GmbH and its subsidiaries, the sale of real estate through the subsidiary GlobalLiving GmbH and its subsidiaries, and the purchase of real estate through the subsidiary GlobalAcquisition GmbH and its subsidiaries, and

e) **Shareholding business**: this comprises the purchase and holding of shareholding investments, including their sale via stock exchange flotation is and other types of shareholding sales.

No comparable prior year figures are provided in the segment reporting, because no transactions were performed in 2005 in the "Real estate portfolio management" and "Shareholding business" segments, and the segments "Real estate development", as well as "Services" are immaterial.

Franconofurt Group services were rendered primarily in the Rhine-Main region in the 2006 financial year. For this reason, there is no geographic or regional segmentation as of the reporting date. The activities of FranconoWest AG, which commenced in the third quarter of 2006, are as yet immaterial for the reporting period.

Segment reporting as of December 31, 2006 (January 1 to December 31, 2006)

	Partitioning business	Real estate portfolio management	Real estate development	Services	Shareholding business	Total	Consolidation	Total
	Euro	Euro	Euro	Euro	Euro	Euro	Euro	Euro
Rental income	1,219,835	1,350,953	0	232,628	0	2,803,416	0	**2,803,416**
Proceeds from the sale of property held for disposal	12,646,000	0	0	0	0	12,646,000	0	**12,646,000**
Proceeds from the sale of investment properties	0	7,253,000	0	0	0	7,253,000	0	**7,253,000**
Income from services and other operating income	51,345	5,657	999,227	417,307	6,679,335	8,152,870	- 1,260,000	**6,892,870**
Income from transactions with other segments	80,795	21,006	1,991,834	942,317	0	3,035,951	- 3,035,951	**0**
Total revenue before revaluation	**13,997,975**	**8,630,615**	**2,991,061**	**1,592,252**	**6,679,335**	**33,891,237**	**- 4,295,951**	**29,595,286**
Unrealized gains from the revaluation of investment properties to fair value		3,882,058				3,882,058	0	**3,882,058**
Unrealized losses from the revaluation of investment properties to fair value		- 1,251,541				- 1,251,541	0	**- 1,251,541**
Unrealized earnings from the revaluation of investment properties to fair value		**2,630,517**				**2,630,517**	0	**2,630,517**
Total revenue before revaluation	**13,997,975**	**11,261,133**	**2,991,061**	**1,592,252**	**6,679,335**	**36,521,755**	**- 4,295,951**	**32,225,804**
Segmental earnings	**1,564,474**	**4,112,149**	**242,510**	**449,631**	**5,375,175**	**0**	**- 1,600,809**	**10,143,130**
Financial result								**- 785,031**
Earnings before tax								**9,358,099**
Tax								**- 1,868,434**
Net profit before minority interests								**7,489,665**

In December, Francono Rhein-Main AG sold 2,575,000 shares in Francono Rhein-Main AG, generating proceeds of EUR 6,679.000.The disposal gain was calculated according to the partial entity method in the consolidated financial statements, and amounts to EUR 5,419.000. The differential amount of EUR 1,260.000 reduces the income reported in the income statement, and was allocated to minority interests.

	Partitioning business	Real estate portfolio management	Real estate development	Services	Shareholding business	Total	Consolidation	Total
	Euro	Euro	Euro	Euro	Euro	Euro	Euro	Euro
Assets and liabilities								
Segmental assets	45,640,860	58,825,592	536,698	992,145	23,930,400	129,925,694	- 26,230,075	103,695,620
Unallocated assets								634,849
Total assets								104,330,469
Segment debt	26,098,015	11,257,598	275,457	466,957	0	38,098,027	- 2,093,127	36,004,900
Unallocated assets								1,114,890
Equity								67,210,679
Total assets								104,330,469

	Partitioning business	Real estate portfolio management	Real estate development	Services	Shareholding business	Total	Consolidation	Total
	Euro	Euro	Euro	Euro	Euro	Euro	Euro	Euro
Other segmental information								
Investments in fixed assets								
- Intangible assets	76,658	48,703	13,724	7,531	0	146,616	0	**146,616**
- Property, plant and equipment	200,069	92,166	20,733	142,645	0	455,613	0	**455,613**
- Real estate	0	47,322,063	0	0	0	47,322,063	0	**47,322,063**
- Real estate (prepayments)	0	2,855,391	0	0	0	2,855,391	0	**2,855,391**
- Financial investments	0	0	0	0	26,937,400	26,937,400	- 26,937,400	**0**
	276,726	**50,318,323**	**34,457**	**150,176**	**26,937,400**	**77,717,083**	**- 26,937,400**	**50,779,683**
Depreciation								
- Intangible assets	48	615	1,824	979	0	3,466	0	**3,466**
- Property, plant and equipment	35,075	2,731	12,020	28,448	0	78,274	0	**78,274**
	35,123	**3,346**	**13,844**	**29,427**	**0**	**81,740**	**0**	**81,740**

Other key non-cash segmental expenses / income

Earnings from revaluation of investment properties to fair value	2,630,517
Profit on the disposal of investment property	1,569,535

3. NOTES TO THE CONSOLIDATED BALANCE SHEET

I. Business Combinations

On December 20, 2006 Francono Rhein-Main AG acquired 100% of the shares in each of the four companies listed in the section "Consolidated Group". These are shelf companies with net assets of EUR 25.000 each, comprising exclusively cash and cash equivalents. The acquisition costs of these business combinations came to EUR 27.500 each. These purchase prices were paid by Francono Rhein-Main AG in cash.

The other subsidiaries listed in the "Consolidated Group" section, which were consolidated for the first time, concern formations by Franconofurt AG and its subsidiaries of stock corporations by cash subscriptions.

II. Non-current assets

(1) Intangible assets

Intangible assets comprise acquired software and goodwill. Goodwill increased by EUR 10,000 to EUR 44,400.00 (2005: EUR 34,400.00) and results from the purchase of shares in the four asset management companies of Francono Rhein-Main AG. The amount of EUR 34,400.00 results from the purchase of the shareholding in Francono Rhein-Main AG (formerly FRIMAG Real Estate Investment Trust AG, formerly FRIMAG Real Estate Investment Trust GmbH, formerly FRIMAG Vierte Vermögensverwaltungsgesellschaft mbH). In accordance with the IFRS 3.55, no amortization of goodwill was performed. The total of intangible assets amounts to EUR 177,848.73 (December 31 2005: EUR 37,165.00).

Intangible assets developed as follows in the reporting period:

	Acquisition cost	*Depreciation*	*Residual carrying amount*
	Euro	Euro	Euro
Status Jan. 1, 2005	41,836.62	5,751.62	**36,085.00**
Additions	1,937.50	857.50	
Disposals	0.00	0.00	
Status Dec. 31, 2005	43,774.12	6,609.12	**37,165.00**
Additions	146,615.66	3,465.93	
Disposals	2,466.00	0.00	
Status Dec. 31, 2006	187,923.78	10,075.05	**177,848.73**

(2) Property, plant and equipment

Office and operating equipment amounting to EUR 393,656.27 (2005: EUR 48,788.00) was recognized under property, plant and equipment. Property, plant and equipment developed as follows in the reporting period:

	Acquisition cost	*Depreciation*	*Residual carrying amount*
	Euro	Euro	Euro
Status Dec. 31, 2005	178,194.35	121,706.35	**56,488.00**
Additions	21,752.72	29,452.72	
Disposals	0.00	0.00	
Status Dec. 31, 2005	199,947.07	151,159.07	**48,788.00**
Additions	455,612.84	78,273.67	
Disposals	52,215.94	19,745.04	
Status Dec. 31, 2006	603,343.97	209,687.70	**393,656.27**

(3) Investment property

Investment property developed as follows in the reporting period:

	Acquisition cost	*Change in value*	*Fair value*
	Euro	Euro	Euro
Status Dec. 31, 2005	0.00	0.00	**0.00**
Additions	47,159,316.49	2,630,517.36	
Disposals	5,625,269.11	58,195.31	
Status Dec. 31, 2006	41,534,047.38	2,572,322.05	**44,106,369.43**

The company engaged the independent assessor Jones Lang LaSalle to determine the fair value of the investment property. Jones Lang LaSalle valued the properties on the basis of their market value as defined by the Royal Institution of Chartered Surveyors (RICS). According to RICS, the market value corresponds to the estimated amount that would be paid on the valuation date by a willing buyer and willing seller following proper marketing, each acting independently, knowingly, prudently and without duress.

The appraisal prepared by Jones Lang LaSalle measures the investment property held by Francono Rhein-Main AG at a gross value of EUR 46,427,757 less 5% incidental acquisition charges. This results in a net capital value of EUR 44,106,369.43. Accordingly, the fair-value earnings from investment property amount to EUR 2,630,517.36.

The valuation was based on the RICS Appraisal and Valuation Standards, Red Book, 2003. The following main valuation assumptions were used:

- Rental Income: The current net rent excluding utilities (adjusted for vacancies) amounts to EUR 7.93 per m². The estimated market rent (net, excluding utilities) for full occupancy amounts to EUR 8.15 per m².
- Rent increase: §§ 556 - 561 of the German Civil Code (BGB)
- Non-allocable operating expenses: Operating Expenses Ordinance (*"Betriebskostenverordnung"*) of 2003
- Administrative and maintenance expenses: Second Computation Ordinance (*"Berechnungsverordnung"*) of 2001
- Vacancy: the vacancy rate was calculated based on present vacancies, surveys of local experts, and the current condition of the building. Measures that could reduce the number of vacancies were also taken into account.
- Discount rate: object-specific interest-rate in a range between 5.35% and 8.84%. For 90 % of the properties the discount rates range between 6.55% and 8.35%. The average discount rate is 7.33% (weighted) or 7.40% (unweighted).

As of December 31, 2006, the Group held the following:

	Description of object	'urchase dat	Transfer	of constru	m²	Units
1	Frankfurter Str. 6, Kelsterbach	17/03/2006	Mai/ 06	1961	720	8
2	Alte Gasse 37, Frankfurt	08/03/2006	Mai/ 06	1908	516	11
3	Frankfurter Str. 133, Dreieich	21/03/2006	Mai/ 06	1992	1,213	25
4	Glauburgstr. 73, Frankfurt	06/04/2006	Jun/ 06	1889	607	10
5	Bieberer Str. 87,89, Offenbach	06/06/2006	Jun/ 06	1920	1,234	18
6	Bieberer Str. 86, Offenbach	01/06/2006	Jun/ 06	1908	980	17
7	Kaiserstr. 42, Offenbach	26/05/2006	Jun/ 06	1965	2,982	38
8	Kaiser-Wilhelm-Ring 2, Mainz	22/05/2006	Jun/ 06	1973	1,144	38
9	Marienstr. 20, Offenbach	01/06/2006	Jul/ 06	1900	903	11
10	Adolfsallee 17, Wiesbaden	23/06/2006	Aug/ 06	1900	983	22
11	Groß-Hasenbach-Str. 26+28, Offenbach	11/07/2006	Aug/ 06	1914	891	19
12	Buchrainweg 6, Offenbach	26/06/2006	Aug/ 06	1902	592	10
13	Karlsbader Str. 26,28, Rüsselsheim	14/07/2006	Aug/ 06	1974	1,319	22
14	Wallaustr. 80, Mainz	20/04/2006	Aug/ 06	1985	1,189	37
15	Mühlheimer Str. 6, Frankfurt	19/05/2006	Sep/ 06	1972	977	16
16	Querstr. 8, Offenbach	07/07/2006	Sep/ 06	1904-12	1,649	30
17	Paul-Hessemer-Str. 44, Rüsselsheim	07/07/2006	Sep/ 06	1979	581	17
18	Hügelstr. 26, Darmstadt	16/08/2006	Sep/ 06	1958	734	11
19	Freiligrathstr. 1+3, Pfungstadt	16/08/2006	Sep/ 06	ca. 1930	677	15
20	Alt Griesheim 47+47a, Frankfurt	23/08/2006	Sep/ 06	1995	640	12
21	Wasgaustraße 8, Frankfurt	22/08/2006	Sep/ 06	1910	687	11
22	Schiersteiner Str. 2 Wiesbaden	30/08/2006	Okt/ 06	1962	1,588	25
23	Am Brater 9, Schwalbach	08/09/2006	Okt/ 06	1970	685	7
24	Adolf-Kolping-Str. 17, Mainz	14/09/2006	Nov/ 06	1960	642	7
25	Hintere Bleiche 51, Mainz	14/09/2006	Nov/ 06	ca. 1970	227	7
26	Holzstr. 32, Mainz	14/09/2006	Nov/ 06	1972	1,681	25
27	Angelgartenstr. Groß-Zimmern	04/10/2006	Okt/ 06	1968	869	14
28	Adalbertstr. 28, Frankfurt	14/09/2006	Nov/ 06	ca.1950	411	9
29	Mainzer Str. 60, Wiesbaden	12/09/2006	Nov/ 06	1900	773	12
30	Nikolausstr., Wiesbaden	27/10/2006	Dec-06	1972	895	19
31	Kaiserstr. Friedberg	02/11/2006	Dec-06	1850/2001	736	7
32	Hohenstaufenstr., Frankfurt	24/10/2006	Dec-06	1954	821	16
33	Kolping-Str. 6-8, Zornheim	06/11/2006	Dec-06	1972	1,071	16
34	Bismarckring 9, Wiesbaden	21/11/2006	Dec-06	ca. 1900	1,718	13
35	Alt-Sossenheim, Frankfurt	21/11/2006	Dec-06	1910/1978	1,445	13
36	Stiftstr. 6 und 8, Wiesbaden	30/11/2006	Dec-06	1962	595	7
37	Bieberer Str. 82, Offenbach	28/04/2006	Dec-06	1902	1,032	18

The investment properties earned rental income of EUR 1,350,953.20 in the reporting period. Property operating expenses of EUR 449,116.66 were incurred.

In addition, purchase agreements for real estate acquisitions amounting to EUR 18.7 million for which burdens and benefits had not yet been transferred were notarized as of the balance sheet date.

(4) Prepayments

Prepayments of EUR 2,855,391.48 (2005: EUR 0.00) mainly relate to real estate which has already been purchased and that will in future be held as investment property, but for which the benefits and burdens will be transferred after the balance sheet date.

(5) Other financial assets

Other non-current receivables of EUR 228,023.48 (2005: EUR 278,570.96) result from the granting of loans to third parties. They carry an annual interest rate of 5%.

III. Current Assets

(1) (6) Inventories

The inventories item amounting to EUR 26,697,246.75 (2005: EUR 17,772,821.61) comprises real estate held for disposal as part of normal business operations. The inventories are valued at cost. Where the net disposal price is lower, this is reported. As in the previous year, no value adjustments were performed to inventories in the reporting year. Purchase costs comprise directly attributable real estate acquisition and service costs, as well as ancillary purchase costs (e.g. notary fees, renovation and modernization expenses). Borrowing costs are recognized as an expense in the period in which they are incurred.

The item contains prepayments for real estate totaling EUR 233,007.86 (2005: EUR 818,822.00), whereby benefits and burdens have not yet been transferred as of the reporting date.

(2) (7) Trade receivables

All trade receivables are due in less than one year. Trade receivables rose in the reporting year to EUR 12,951,211.28 (2005: EUR 2,257,479.87), mainly due to the portfolio sale of four properties to a foreign investor for EUR 7,195,000.00. Payment was agreed to be by January 31, 2007, however not before 14 days following notification of the officiating notary concerning the cancellation of the any creditors, priority notice, and waiver of the pre-emption rights in accordance with the sales agreement. The preconditions concerning maturity have been satisfied as of today.

(3) (8) Tax assets

Tax assets are mainly attributable to an assessed tax claims and tax prepayments in 2005 and 2006 of EUR 429,763.21 (2005: EUR 20,248.30).

(4) (9) Other current receivables

Other current receivables of EUR 536,457.05 (2005: EUR 53,319.72) primarily concerned a claim for the reimbursement of the purchase price paid for an acquired property, for which another purchaser has exercised a pre-emptive right.

(5) (10) Cash and cash equivalents

Cash and cash equivalents pertain to non-restricted bank balances of EUR 15,749,415.16 (2005: EUR 1,711,636.03). The balances earn interest at floating rates based on daily bank deposit rates.

IV. Equity and liabilities

(6) (11) Equity

The development of equity is shown in the consolidated statement of changes in equity.

1. Issued capital

As of December 31, 2006, the parent company has an issued capital of EUR 6,600,000.00 (2005: EUR 4,000,000.00).

The following changes occurred in the 2006 financial year:

On January 13, 2006, the issued share capital was increased by EUR 400,000.00 on the basis of an authorization issued at the Shareholders' General Meeting of July 1, 2003. A bank subscribed for, and acquired, the 400,000 new shares.

On April 7, 2006, the Shareholders' General Meeting resolved to increase the issued share capital by EUR 2,200,000.00. A bank subscribed for, and acquired, all of the 2,200,000 new shares on the same day.

The issued share capital is composed of 6,600,000 ordinary shares.

2. Capital reserve

As far as they exceeded the issue price, proceeds from the placement of the new shares, less associated costs after eliminating the tax savings made due to these costs, were allocated to the capital reserve. As a result, the capital reserve increased to EUR 27.488.

3. Cash flow hedge reserve

This reserve contains the portion of the gain or loss from a cash flow hedge that is determined to be effective. As of December 31, 2006 an unrealized loss of EUR 96,042.98 (2005: EUR 0.00) was incurred, taking account of deferred taxes and minority interests. The unrealized loss of EUR 75,000.00, incurred up until the formal designation of the hedges, was recognized in the income statement.

4. Other reserves

In the reporting period, other reserves rose to EUR 16,906,142.18 (2005: EUR 1,269,084.92), reflecting both the net profit for the reporting year and the proceeds from the placing of the new shares in the subsidiary Francono Rhein-Main AG, to the extent that these exceeded the issue amount and after deducting related costs.

The extraordinary shareholder meetings of Francono Rhein-Main AG on June 9 and 28, 2006 resolved to increase capital stock by EUR 7,000,000.00 through a cash contribution. Franconofurt AG waived its subscription right in this regard. Subsequently, the Management Board of Francono Rhein-Main AG resolved on September 14, 2006, with the approval of the Supervisory Board, to issue 7,000,000 shares at EUR 1.00 each. The new shares were subscribed for and acquired by Commerzbank AG and privately placed with institutional investors for EUR 3.10 per share. As a consequence, the surplus proceeds for the new shares amounted to EUR 14.7 million. After deducting issue-related costs of EUR 1.0 million, which included tax effects, a capital reserve amounting to EUR 13.7 million resulted for Francono Rhein-Main AG. At the time, 75% (EUR 10.3 million) was attributable to the parent company Franconofurt AG. The newly issued share capital, as well as a share of 25% of the capital reserve generated through the capital raising, was correspondingly attributed to the minority shareholders (totaling EUR 10.4 million).

Franconofurt AG also sold 649,000 shares in Francono Rhein-Main AG as part of the capital increase. Since both transactions were directly related, the portion of the capital reserve generated from the stock exchange flotation and directly attributable to the shares amounting to EUR 319.000 was allocated on earnings-neutral basis to minority interest. As a result, the capital reserve increased by EUR 968.

In December, Francono Rhein-Main AG sold a further 2,575,000 shares in Francono Rhein-Main AG, generating proceeds of EUR 6,679.000.The disposal gain was calculated according to the partial entity method in the consolidated financial statements, and amounts to EUR 5,419.000.The differential amount of EUR 1,260.000 reduces the income reported in the income statement, and was allocated to minority interests. This allowed minority interests to rise by EUR 3,835.000, resulting from the subscribed capital of EUR 2,575.000 and the reduction of the disposal gain of EUR 1,260.000.

Shares in two newly founded service companies were also sold to minority shareholders at nominal value. As a result, minority interests increased by EUR 25.

Above and beyond this, dividend payments of EUR 748.000, or EUR 0.17 per share, were paid to Franconofurt AG shareholders.

5. Minority interests

Minority interests are as follows. We have not allocated expenses and income relating to the elimination of intercompany profits to minority shareholders, since these are deemed immaterial.

in Euro	Minority interests				
Companies	Issued capital	Subscribed capital	Other reserves	Cash flow hedge reserve	Minority interests
GlobalLiving GmbH	25,000	12,500	35,597.73	0.00	48,097.73
MainLiving GmbH	25,000		8,763.18	0.00	8,763.18
RheinLiving GmbH	25,000		-710.64	0.00	-710.64
GlobalProperty GmbH	90,000	45,000	-29,510.35	0.00	15,489.65
MainProperty GmbH	25,000		-6,026.62	0.00	-6,026.62
RheinProperty GmbH	25,000	12,500	-556.55	0.00	11,943.45
GlobalConstruct AG	50,000	25,000	73,820.74	0.00	98,820.74
GlobalAcquisition GmbH	25,000	12,500	95,088.13	0.00	107,588.13
MainAcquisition GmbH	25,000		-618.55	0.00	-618.55
RheinAcquisition GmbH	25,000		-771.22	0.00	-771.22
Francono Rhein-Main AG	28,000,000	10,224,000	5,860,979.37	-55,229.63	16,029,749.74
	28,340,000	10,331,500	6,036,055.22	-55,229.63	16,312,325.59

For key transactions in the reporting year having effects on minority interests, please refer to the comments made concerning Other reserves.

6. Authorized and conditional capital

As a result of a resolution of the Shareholders' General Meeting of April 7, 2006, the Management Board is authorized, with the approval of the Supervisory Board, to increase the issued share capital, once or on several occasions until April 1, 2011, by up to EUR 2,200,000.00 for cash and/or payment in kind, whereby shareholders' subscription rights may be excluded (Approved Capital 2006/I).

On July 3, 2006, the Shareholders' General Meeting resolved to increase the issued share capital by EUR 3,300,000.00.

(7) (12) Non-current interest-bearing liabilities

Non-current interest-bearing liabilities fell to EUR 2,613,318.07 (2005: EUR 6,196,205.11). They comprise loans taken out in connection with the acquisition of real estate.

The loans are primarily secured by land charges. The loans carry variable rates of interest. The current interest rates and maturities of the loans are as follows.

	Loan amount €	Interest-rate %	Term
Frankfurter Volksbank e.V.	270,000.00	4.10	Q3/2009
Degussa Bank	370,000.00	3.70	Q1/2008
Degussa Bank	210,000.00	3.70	Q1/2008
Degussa Bank	499,583.17	3.85	Q4/2010
Degussa Bank	499,583.17	3.85	Q4/2010
Degussa Bank	764,151.73	3.70	Q4/2010
	2,613,318.07		

The effective rate of interest does not diverge significantly from these interest rates. The fair values of the loans do not deviate significantly from the carrying amounts.

(8) (13) Deferred tax liabilities

The deferred taxes recognized as of the balance sheet date break down as follows:

	Consolidated balance sheet	Consolidated income staten
	31/12/2006	01.01.-31.12.2006
	EUR	EUR
Costs of issuing subscribed capital	0	- 707,718
Elimination of intercompany profits	111,488	63,800
Loss carryforwards	200,941	200,941
Interest rate swaps	135,872	30,750
Investment property	- 1,085,848	- 1,085,848
Other effects	12,538	0
	- 625,009	**- 1,498,075**
Deferred tax assets	205,086	
Deferred tax liabilities	830,095	

Besides deferred tax assets of EUR 1,498.000, there are also EUR 370.000 of current tax expenses.

Tax losses arose in some Group companies in 2006 totaling EUR 490.000. These may be carried forward indefinitely. Deferred tax assets were recognized in full for these losses as there are either corresponding deferred tax liabilities from temporary differences in the same amount at the companies concerned or it is highly probable that these assets will be collected in the near future. Tax assets and liabilities were netted to the extent that they relate to the same tax subject and maturities. As of the reporting date, this concerned solely Francono Rhein-Main AG, where deferred tax liabilities arising from investment properties of EUR 1,086.000 were netted against deferred tax assets arising from interest-rate swaps of EUR 136.000 and from loss carryforwards of EUR 120.000. Exclusively deferred tax assets were reported at other Group companies.

Deferred tax of EUR 813.000 was netted against equity. This reflects: an amount of EUR 708.000 for deferred tax relating to the cost of issuing equity capital instruments in the sense of IAS 32.37, and an amount of EUR 105.000 for deferred tax relating to changes in the fair value of derivative financial instruments, which exist as part of an effective hedging relationship and which therefore reported directly in equity.

(9) (14) Deferred liabilities

Deferred liabilities of EUR 1,589,498.48 (2005: EUR 64,040.00) concern mainly costs for contractually committed construction measures to apartments that have already been sold, costs relating to variable Management Board remuneration, as well as audit costs.

(10)(15) Tax liabilities

Tax liabilities fell to EUR 284,795.00 (2005: EUR 324,120.55) and contain the expected actual tax payments arising from the taxable income from the current reporting period.

(11)(16) Current interest-bearing liabilities

The current interest-bearing liabilities of EUR 28,287,631.46 (2005: EUR 4,898,662.13) have a residual term of less than twelve months. They chiefly contain liabilities from loans raised to finance real estate acquisitions. The loans are primarily secured by land charges.

The predominantly variable interest rates rain between 3.5% and 6.45% per annum. The effective rate of interest does not diverge significantly from these interest rates. The current interest-bearing loans have average terms of 2.5 months.

During the reporting period, the subsidiary Francono Rhein-Main AG had at its disposal three short-term master credit facilities amounting to EUR 17,143.000 at the HypoVereinsbank, according to the following composition.

Institution	HYPO-VEREINSBANK	HYPO-VEREINSBANK	HYPO-VEREINSBANK
Loan agreements	Package 1, #367 962 372	Package 2, #367 968 087	Package 2, #367 968 087
Date of enetering into the liability	02-May-06	07-Dec-06	07-Dec-06
Volume	€ 9,943,000.00	€ 1,953,000.00	€ 5,247,000.00
Start date	29/12/2006	29/12/2006	29/12/2006
Maturity date	30/12/2016	30/12/2016	30/12/2016
Variable interest rate	3-month EURIBOR	3-month EURIBOR	3-month EURIBOR
Mark-up in accordance with the bank framework agreement	0.95%	0.95%	0.95%

The short-term credit facility arrangements are utilized gradually for purchasing real estate. When the short-term credit facility arrangements reach the approved volume, they will be converted into long-term loan agreements at the conditions presented in the table. When the short-term credit facilities are converted into loan agreements, the company has a contractual obligation to repay the individual loans. The repayment rates vary from 1 to 2 percent per annum depending on the property. We plan to fully utilize the master credit facilities in the first half of 2007, and convert them into long-term loans.

EUR 9,589,814.86 of the short-term credit facilities had been utilized as of the balance sheet date (current interest-bearing liabilities). A variable interest rate in the amount of the three-month EURIBOR plus a margin of 0.95 percentage points was agreed for the reported loans. For information on hedging the interest rate risk, please see the disclosures in the Section "Financial risk management targets and methods".

In addition, the company has a credit facility arrangement with a total volume of EUR 16.2 million with Eurohypo AG. The term ends nine years following the date on which the loan is paid out. The interest-rate is variable and is composed of three-month Euribor plus a margin of 1.10 percentage points. An interest-rate swap agreement was entered into in connection with this commitment. For information on hedging the interest rate risk, please see the disclosures in the Section "Financial risk management targets and methods".

The real estate acquired in the reporting period serves as collateral. The loans are secured by land charges.

The fair values of the loans do not deviate significantly from the carrying amounts.

(12)(17) Interest-rate swaps

Four interest rate swaps were in place as of the balance sheet date at Francono Rhein-Main AG. As of December 31, 2006, these had a total negative market value of EUR 331,394.26 (2005: EUR 0.00). For more detailed information, please see our explanations on financial risk management targets and methods in the Section "Notes to the cash flow statement".

(13)(18) Trade payables

All trade payables (2006: EUR 2,628,457.69; 2005: EUR 156,191.96) have a residual term of less than one year.

(14)(19) Other current receivables

The other current liabilities of EUR 554,599.45 (2005: EUR 117,855.88) have a residual term of less than twelve months.

4. NOTES TO THE CONSOLIDATED INCOME STATEMENT

The income statement has been prepared in accordance with the cost of sales method and the recommendation of EPRA regarding greater informative value of the income statement for real estate companies.

a) (20) Rental income

Rental income was EUR 2,803,415.56 (2005: EUR 737,406.39) in the reporting period." While, in the prior year, rental income was generated exclusively from property held under inventories, rental income in the period under review of EUR 1,350,953.20 results exclusively from investment property.

b) (21) Property operating expenses

Property operating expenses amount to EUR 1,232,769.49 (2005: EUR 528,943.19) and comprise property management expenses and repair expenses. The property operating expenses item also contains maintenance expenses of EUR 103.000.

c) (22) Proceeds from the sale of property held as inventory

Rental income was EUR 12,646,000.00 (2005: EUR 6,278,660.00) in the reporting period. A total of 44 real estate objects were sold during the reporting year.

d) (23) Carrying amount of the inventory properties sold

The carrying amount of the inventory properties sold was EUR 8,614,817.94 (2005: EUR 3,756,539.63).

e) (24) Administrative expenses

The Franconofurt Group's administrative expenses amounted to EUR 2,551,874.41 (2005: EUR 670,988.26). This takes into account costs related to the Group's administrative area.

f) (25) Selling expenses

In the reporting period, profit of EUR 514,817.76 (2005: EUR 315,469.52) was generated on the disposal of investment property.

g) (26) Other income

Other income of EUR 6,892,870.68 (2005: EUR 1,320,035.61) results to an amount of EUR 5,419,335.40 from the sale of shares in the fully consolidated Francono Rhein-Main AG. The disposal gain was calculated according to the partial entity method. For further details, please refer to our explanations in the section on "Equity".

Furthermore, income relating to activities performed by GlobalConstruct AG and amounting to EUR 1,154,060.90 is included in Other income. GlobalConstruct AG is active in the property development sector as a prime contractor, and generates the income reported here from this activity.

h) (27) Other expenses

Other expenses rose to EUR 3,484,928.02 (2005: EUR 1,200,924.32).

i) (28) Valuation movements

In the reporting period, unrealized gains from the fair value measurement of investment property of EUR 3,882,058.37 were recognized as income. These gains were mainly generated due to the Group acquiring its real estate at favorable conditions. By contrast, unrealized losses from the fair value measurement of investment property of EUR 1,251,541.01 were recognized with an effect on income. This is due to the fact that the real estate portfolio is measured using standardized expert calculations. However, due to the closing date principle, these calculations may not include any expectations relating to factors that will change in the future, such as the vacancy rate.

j) (29) Investment property disposal proceeds

In the reporting period, profit of EUR 7,253,000.00 (2005: EUR 0.00) was generated on the disposal of investment property. Of this amount, EUR 7,195 was generated on the disposal of the following portfolio to a foreign investor.

Object description	**r of construc**	**m²**	**Units**
Starkenburgring 71, Offenbach	1972	2,722	36
Ludwigstr. 68, Offenbach	1955	1,160	18
Gustav-Adolf-Str. 48, Offenbach	1900	666	15
Friedrichstr.14, Offenbach	1920	677	15

k) (30) Profit on the disposal of investment property

In the reporting period, profit of EUR 1,569,535.58 (2005: EUR 0.00) was generated from the disposal of investment property.

l) (31) Earnings before interest and tax

Earnings before interest and tax of EUR 10,143,131.56 rose compared with 2005 (EUR 1,863,237.08). The main effects were felt from the higher business volume generated from sales and rentals, the revaluation of investment property holdings, and the sale of shares in Francono Rhein-Main AG.

m) (32) Financial result

The financial result of -EUR 785,031.23 (2005: -EUR 288,680.41) comprises interest expense of -EUR 985,163.27 for loans (2005: EUR 309,484.28), interest income of EUR 275,132.04 (2005: EUR 20,803.87), as well as expenses for the valuation of interest-rate swaps to fair value of EUR 75,000.00 (2005: EUR 0.00) relating to the non-effective hedging component.

n) *(33)* ***Tax expense***

Reconciliation of expected (theoretical) tax expense to effective (actual) tax expense:

	Reporting year EUR	**Prior year** EUR
Profit before tax	9,358,100	1,574,557
Effective tax rate	41%	41%
Expected tax expense	3,836,821	645,568
Tax-free income	- 2,085,001	0
Trade tax additions	20,067	0
Non-deductible operating expenses	7,154	0
Other	89,394	12,958
Effective tax rate	1,868,435	658,526
Deferred tax expense	1,498,075	232,790
Actual tax expense	370,360	425,736

In the 2006 financial year, the parent company Franconofurt AG sold a total of 3,224,000 shares in Francono Rhein-Main AG in the capital market as part of the capital increase. Revenues for tax purposes generated from this transaction of EUR 6,679.000 (following consolidation: EUR 5,419.000) are 95% tax-free. The expected tax expense diverges from the effective tax expense primarily for this reason.

The effective tax rate is based on trade tax of approximately 19.65% based on a municipal factor of 490 in Frankfurt am Main, and corporate income tax on income after deduction of trade tax of 25%, plus a solidarity surcharge of 5.5%.

o) *(34)* ***Earnings per share (EPS)***

Earnings per share amount to EUR 1.07 (2005: EUR 0.24). The capital stock was EUR 6,600,000.00 as of the balance sheet date (2005: EUR 4,000,000.00). The capital stock is composed of 6,600,000 ordinary shares. The company increased its capital twice in the reporting period. We refer to our comments in Section (11).

Earnings after tax and after minority were taken as the basis for calculating earnings per share. They were shown as a ratio with respect to the average number of shares during the reporting period from January 1, 2006 until December 31, 2006 of 5,993,889 shares (2005: 3,583,000 shares).

There are no instruments that dilute the earnings per share. Basic and diluted earnings per share are therefore identical in amount.

p) (35) Personnel expenses

As a result of the expansion of both the Management Board and the number of members of staff, personnel expenses increased to EUR 2,263,148.98 (2005: EUR 748,829.52). Personnel expenses are reported in the following items in the income statement:

- Property operating expenses: EUR 170.000
- Administrative expenses: EUR 1,962.000
- Selling expenses: EUR 131.000

q) (36) Depreciation

Depreciation rose to EUR 81,739.60 (2005: EUR 20,310.22) and concerned mainly operating and office equipment. It is reported in the following items in the income statement:

- Property operating expenses: EUR 16.000
- Administrative expenses: EUR 57.000
- Other expenses: EUR 9.000

5. NOTES TO THE CASH FLOW STATEMENT

The cash flow statement has been prepared in compliance with the provisions of IAS 7 and the recommendation of EPRA regarding greater informative value of the cash flow statement for real estate companies.

The cash flow statement is presented using the indirect method and shows cash flows of –EUR 9,697,793.91 (2005: -EUR 8,433,973.95) from operating activities, of -EUR 40,241,372.01 (2005: -EUR 11,190.22) from investing activities, and EUR 63,976,945.05 (2005: EUR 9,908,486.94) from financing activities.

Interest payments received of EUR 275.132,04 (prior year: EUR 20,803.87) and interest payments made of -EUR 985,163.27 (2005: EUR 309,484.28) have been allocated to cash flows from operating activities.

Cash and cash equivalents amounted to EUR 15,749,415.16 (2005: EUR 1,711,636.03) as of the balance sheet date.

As of the reporting date, master credit facilities were available at HypoVereinsbank and Eurohypo AG. For further details on these credit facilities, please see our explanations in Note (16).

5.1. Financial risk management objectives and policies

The main financial instruments used by the company – not including derivative financial instruments – comprise bank loans and short-term deposits. The main purpose of these financial instruments is to finance the company's operations. The company has various other financial assets and liabilities such as trade receivables and trade payables, which arise directly from its operations.

The Group also utilizes derivative financial instruments. These comprise mainly interest-rate swaps. The purpose of these derivative financial instruments is to manage the interest rate risks arising from the company's operations and its sources of finance.

It continues to be the company's policy that no trading in financial instruments shall be undertaken.

The main risks arising from the Group's financial instruments are cash flow, liquidity, and credit risks. Management reviews and agrees policies for managing each of these risks, and they are summarized below. The company's accounting and valuation methods for derivatives are presented in the Section "Summary of Significant Accounting Policies".

Cash flow interest-rate risk

The company's exposure to market risk for changes in interest rates relates primarily to the Group's debt obligations at variable rates. The policy is to manage the interest expense using a mix of fixed and variable rate debts. To manage this mix in a cost-efficient manner, the Group enters into interest rate swaps, in which it agrees to exchange, at specified intervals, the difference between fixed and variable rate interest amounts calculated by reference to an agreed notional principal amount.

To minimize the non-current portion of interest rate risk, the company entered into the following swaps covering the total amount of risk. These have 10-year terms starting on December 29, 2006 and July 2, 2007.The company will receive the 3-month EURIBOR on these and pays a fixed interest rate of between 4.03% and 4.34%.

Bank	**HYPO-VEREINSBANK**	**HYPO-VEREINSBANK**	**HYPO-VEREINSBANK**	**EUROHYP AG**
Type	Pay interest rate swap (fixed rate payer)	Pay interest rate swap (fixed rate payer)	Pay interest rate swap (fixed rate payer)	Pay interest rate swap (fixed rate payer)
Swap reference	274375	294005	294006	844884EB
Date of signing interest-rate swap	18-May-06	01-Dec-06	01-Dec-06	10-Oct-06
Volume	€ 9,943,000.00	€ 1,953,000.00	€ 5,247,000.00	€ 9,845,525.00
Start date	29/12/2006	29/12/2006	29/12/2006	02/07/2007
Expiry date	30/12/2016	30/12/2016	30/12/2016	31/03/2016
Fixed interest rate	4.34%	4.34%	4.34%	4.03%
Quotient	365/360	365/360	365/360	365/360
Variable interest rate	3-month EURIBOR	3-month EURIBOR	3-month EURIBOR	3-month EURIBOR

The requirements for hedge accounting have been met since July 1, 2006. Since this date, changes in the fair value of the interest rate swaps are recorded directly under equity in the item "Cash flow hedge reserve".

Liquidity risk

The Group aims to ensure that the balance between providing continuous cover for financing requirements and ensuring flexibility through the use of loans and credit facilities. Along with long-term loan agreements, the company is also funded by short-term loan liabilities, which are individually extended as required.

Credit risks

Receivable balances are monitored on an ongoing basis with the result that the Group's exposure to bad debts is not significant.

6. GENERAL INFORMATION

I. Formation

The company Franconofurt AG was formed on August 18, 2000.

II. Employees

The Franconofurt Group employed an average of 40 members of staff, including members of the boards, in the 2006 financial year.

III. Management Board

Management Board:	Metehan Sen, Business Graduate, Frankfurt am Main (since June 1, 2006), Spokesman for the Management Board
	Carsten Siegert, Real Estate Business Executive, Frankfurt am Main
	Christian Wolf, Business Administration Graduate, Frankfurt am Main

The Supervisory Board issued rules of procedure for the Management Board by resolution dated October 26, 2006. Responsibilities are assigned as follows in accordance with the distribution-of-operations plan:

Metehan Sen	Finances, Investor Relations, Controlling and Tax
Carsten Siegert	Marketing, Strategy, and Expansion
Herr Christian Wolf	Acquisitions, Sales, Legal

The members of the Management Board received the following remuneration:

	Remuneration	
	basic	performance-related
	2006	2006
	€	€
Carsten Siegert	175,000.00	0.00
Christian Wolf	175,000.00	0.00
Metehan Sen	115,500.00	517,544.00

IV. Supervisory Board

The Supervisory Board members are:

Bruno Otto Kling, Bad Vilbel, Banking Executive (Chairman),
Dr. Heinrich Wolf, Neu-Isenburg, Graduate in Chemistry (Deputy Chairman),
Ingrid Rose, Kaiserslautern, Business Graduate (until July 3, 2006),
Klaus Nieding, Lawyer (since July 3, 2006).

The members of the management and supervisory boards were members of the following additional supervisory and management boards as of the balance sheet date:

Bruno Kling:	Supervisory Board of Primacom AG, Mainz, Germany Chairman of the Supervisory Board of EVB Energie AG, Velbert, Germany Supervisory Board of MAX21 AG, Darmstadt, Germany Supervisory Board of Francono Rhein-Main AG, Frankfurt am Main, Germany Supervisory Board of FranconoWest AG, Frankfurt am Main, Germany Chairman of the Supervisory Board of GlobalConstruct AG, Frankfurt am Main, Germany
Dr. Heinrich Wolf:	Board Member of Qingdao Meteor Rubber & Plastic Co. Ltd.

Metehan Sen:	Chairman of the Supervisory Board of Francono Rhein-Main AG, Frankfurt am Main, Germany Supervisory Board of FrancоnoResidence AG, Frankfurt am Main, Germany Chairman of the Supervisory Board of FranconoWest AG Frankfurt am Main, Germany TDVM Capital AG, Frankfurt am Main, Germany
Carsten Siegert:	Supervisory Board of GlobalConstruct AG, Frankfurt am Main, Germany Chairman of the Supervisory Board of FranconoResidence AG,Frankfurt am Main, Germany
Christian Wolf:	Supervisory Board member of: GlobalConstruct AG, Frankfurt am Main, Germany FranconoResidence AG, Frankfurt am Main, Germany
Klaus Nieding:	Chairman of the Supervisory Board of vwd Vereinigte Wirtschaftsdienste GmbH, Frankfurt am Main President of the Deutsche Anlegerschutzbund e.V. (German Investor Protection Association) Managing Director of the Deutsche Schutzvereinigung für Wertpapierbesitz e.V., Hesse/Rhineland-Palatinate/Saarland regional association, (German Association for the Protection of Securities Ownership Interests)

The resolution was taken at the Shareholders' General Meeting on April 7, 2006 that, in future, members of the Supervisory Board should receive a remuneration of EUR 1,000 per meeting. During 2006 four meetings took place following this date. Total compensation of the Supervisory Board was therefore EUR 12,000 (excluding VAT).

V. Securities held by members of the Management Board

Members of the Management Board had the following reported holdings of equities:

Carsten Siegert

via Lewenhagen Siegert GmbH (Lock-up until 2009)	1,425,000 shares

Christian Wolf

via Christian und Nadja Wolf GmbH (Lock-up until 2009)	1,425,000 shares

Metehan Sen	20,000 shares

VI. Auditor

The auditor of Franconofurt AG is Ernst & Young AG Wirtschaftsprüfungsgesellschaft Steuerberatungsgesellschaft, Stuttgart, Germany, Eschborn office, Mergenthalerallee 3-5, 65760 Eschborn, Germany (referred to also as "E&Y"). E&Y audited the consolidated financial statements of Franconofurt AG as of December 31, 2005 and December 31, 2006 in accordance with IFRS, as adopted by the EU, and the additional requirements of German commercial law pursuant to § 315a Paragraph 1 of the German Commercial Code (HGB), and issued an unqualified audit opinion. The interim financial statements as of June 30, 2006 and September 30, 2006 pursuant to IFRS as adopted by the EU were not audited.

The auditor's fees, which are recognized as an expense in the financial year, break down as follows:

	TEUR
Audit of consolidated and parent company financial state	138
Review of quarterly reporting 2006	74
Audit of consolidated and parent company financial state	184
	396

In addition, fees of EUR 102.000 were incurred for issuing a comfort letter in connection with the IPO of Francono Rhein-Main AG. These fees were netted with the proceeds from the issuance of equity instruments, as they relate to additional costs directly attributable to the equity transaction as defined by IAS 32.37.

VII. Related parties

Significant real estate investments were made during the reporting period. In processing these transactions, the company availed itself of the services of subsidiaries included in the scope of consolidation. In this respect, we refer to the schedule of subsidiaries in Chapter 3 b).

Related parties in the sense of IAS 24 comprise the members of the Management Board, Carsten Siegert, who has a shareholding of 21.59% of the capital stock via Lewenhagen Siegert GmbH of 21.59%, as well as Christian Wolf, who holds 21.59% of the capital stock via Christian und Nadja Wolf GmbH.

During the reporting period, the management board members of Franconofurt AG received remuneration of EUR 983.000 (2005: EUR 329.000).

Besides a fixed salary, one member of the Management Board received a profit share equivalent to 10% of the German commercial law after-tax net profit for the year as reported in the German commercial law company financial statements of Franconofurt AG. The Management Board is entitled to participate in the company's earnings from 2006. The variable remuneration component reduces on a linear basis in the instance of further capital increases. (If the capital base were doubled, the profit participation rate would equal 5%).

With a notarized purchase agreement dated March 31, 2006, Lewenhagen Siegert GmbH has concluded a purchase agreement with Franconofurt AG concerning a residential unit (Corneliusstrasse 9; Apartment Number 7 on the sixth floor) entailing the obligation to renovate, for purchase price of EUR 1,100,000. Of this amount, EUR 820,400 is attributable to both the land and the fabric of the original building, and EUR 279,600 to construction services to which Franconofurt AG was obligated (sale price of EUR 3,642.38 per square meter, including the construction service obligation). The transfer of benefits and burdens relating to the residential unit took place on March 31, 2006. It was agreed that the building should be ready for use as of December 31, 2006. Also with a notarized agreement of the same date (March 31, 2006), a residential unit in the same real estate object (Corneliusstrasse 9) was sold to an external customer of Franconofurt AG for a sales price of EUR 3,349.51 per square meter, including obligated construction services. A construction agreement, which also included a description of services, amounting to EUR 1,205,802.50 between Franconofurt AG and its subsidiary MainConstruct AG relating to the reconstruction of the entire object was also presented within the scope of the notarized deed. It was agreed that the payment should fall due for both objects of the time when the construction services were approved. For this reason, as of the reporting date, the company still had opened receivables due from Lewenhagen Siegert GmbH amounting to EUR 1,100,000. The progress of construction works allows the company to assume that payment will be received as of March 31, 2007.
With a purchase agreement dated November 17, 2005 (Deed 655/2005) the company Christian und Nadia Wolf GbR has acquired a piece of land at the cost price of the GbR (company constituted under civil law) at a price of EUR 700,000. As of December 31, 2006, apartments 1 and 4 have been sold, generating revenue of

EUR 358,000. This has generated a gain for the company of EUR 106,359. As of the reporting date, apartments 2, 3, 5 and 6 are entered in the balance sheet as inventory with a value of EUR 476,792.

Management Board members Carsten Siegert and Christian Wolf are personally liable for the bank borrowings that have actually been utilized by Franconofurt AG. For this purpose, they receive a commission on guarantee equivalent to 0.5% of the loan amount. Commissions on guarantee of EUR 20.000 were paid in each case for this reason in the 2006 reporting year.

VIII. Disclosures pursuant to § 160 Paragraph 1 No. 8 of the Stock Corporation Act (AktG)

Carsten Siegert holds 21.59% indirectly through Lewenhagen Siegert GmbH, Frankfurt am Main, Germany, and Christian Wolf holds 21.59% indirectly through Christian Wolf und Nadja Wolf GmbH, Frankfurt am Main, Germany.

As of the current date, Franconofurt AG has received no further communications concerning shareholdings in the sense of § 20 Paragraph 1 AktG, § 20 Paragraph 4 AktG, § 21 Paragraph 1 WpHG or § 21 Paragraph 1a WpHG (where AktG = German Stock Corporation Act, WpHG = German Securities Trading Act).

IX. Declaration of compliance with the German Corporate Governance Code

Franconofurt AG made the declaration of compliance with the German Corporate Governance Code pursuant to § 161 of the German Stock Corporation Act (AktG), which was issued by the management and supervisory boards, and made permanently available to shareholders on its website at www.franconofurt.de >Investor Relations >Corporate Governance.

Francono Rhein-Main AG made the declaration of compliance with the German Corporate Governance Code pursuant to § 161 of the German Stock Corporation Act (AktG), which was issued by the management and supervisory boards, and made permanently available to shareholders on its website at www.francono.de >Investor Relations >Corporate Governance

X. Disclosures on notifiable securities transactions or equity investments pursuant to § 15a of the German Securities Trading Act (WpHG) and §§ 21f. WpHG.

Carsten Siegert holds 1,425,000 shares (21.59%) indirectly through Lewenhagen Siegert GmbH, Frankfurt am Main, Germany, Christian Wolf holds 1,425,000 shares (21.59%) indirectly through Christian Wolf und Nadja Wolf GmbH, Frankfurt am Main, Germany, and the free float comprises 3,750,000 shares (56.82%).

XI. Tax assessment

The parent company is registered at the Frankfurt am Main III tax office.

XII. Contingencies and other financial obligations

As of the reporting date, the following other financial obligations were reported:

Other financial obligations*)	2007 EUR	2008 EUR	2009 EUR	Gesamt EUR
Arising from rental agreement for: Börsenstraße 2 -4 Frankfurt am Main	593.145	593.145	296.573	1.482.863

There are no contingent liabilities.

XIII. Events after the reporting date

The Group is continuing its expansion course by acquiring real estate.

XIV. Proposal for the appropriation of earnings

The Management Board proposes to distribute the unappropriated retained earnings of Franconofurt AG as follows:
Dividend distribution from the unappropriated retained earnings of EUR 3,960,000 (EUR 0.60 per share).

XV. Authorization for issue of the consolidated financial statements

These consolidated financial statements may only be authorized for issue following approval by the Supervisory Board.

Frankfurt am Main, February 28, 2007

Metehan Sen	Carsten Siegert	Christian Wolf

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