CONSOLIDATED FINANCIAL STATEMENTS AND GROUP MANAGEMENT REPORT

DECEMBER 31, 2007

FRANCONOFURT AG

FRANKFURT AM MAIN

FRANCONOFURT AG, FRANKFURT AM MAIN

CONSOLIDATED FINACIAL STATEMENTS AS OF DECEMBER 31, 2007

ACCORDING TO INTERNATIONAL FINANCIAL REPORTING STANDARDS

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Consolidated Balance Sheet as of December 31, 2007

Franconofurt AG, Frankfurt am Main

ASSETS

(in euros)	Note	Dec. 31, 2007	Dec. 31, 2006
NON-CURRENT ASSETS			
Intangible assets	(1)	1,045,211.46	177,848.73
Property, plant and equipment	(2)	560,013.49	393,656.27
Investment property	(3)	61,186,000.00	44,106,369.43
Prepayments rendered	(4)	2,720,999.41	2,855,391.48
Financial assets	(5)	40,663.59	0.00
Other non-current receivables	(6)	1,992,776.00	228,023.48
Deferred tax assets	(18)	627,245.41	205,085.66
Non-current assets		68,172,909.36	47,966,375.05
CURRENT ASSETS			
Inventories	(7)	32,253,203.43	27,057,514.89
Trade receivables	(8)	3,575,401.07	12,951,211.28
Tax assets	(9)	490,602.11	429,763.21
Other current receivables	(10)	910,633.69	536,457.05
Cash and cash equivalents	(11)	22,336,891.66	15,749,415.16
Assets held from discountinued operations	(12)	165,001,134.35	0.00
Current assets		224,567,866.31	56,724,361.59
Total assets		**292,740,775.67**	**104,690,736.64**

Consolidated Balance Sheet as of December 31, 2007

Franconofurt AG, Frankfurt am Main

Equity and liabilities

(in euros)	Note	Dec. 31, 2007	Dec. 31, 2006
EQUITY	(14)		
Capital stock		8,800,000.00	6,600,000.00
Capital reserve		49,470,255.62	27,488,254.29
Cashflow hedge reserve		- 34,194.44	- 96,042.98
Other reserves		19,173,664.42	16,906,142.18
Equity before minorities		77,409,725.60	50,898,353.49
Minority interests		29,528,998.04	16,312,325.59
Total Equity		106,938,723.64	67,210,679.08
NON-CURRENT LIABILITIES			
Non-current interest-bearing liabilities	(15)	45,424,193.19	2,613,318.07
Deferred tax liabilities	(16)	1,591,094.30	830,095.01
Non-current liabilities		47,015,287.49	3,443,413.08
CURRENT LIABILITIES			
Deferred liabilities	(17)	1,597,014.08	1,589,498.48
Tax liabilities	(18)	598,850.00	284,795.00
Current interest-bearing liabilities	(19)	21,497,844.96	28,287,631.46
Trade payables	(20)	1,710,312.53	2,628,457.69
Other current liabilities	(21)	2,570,453.53	1,246,261.85
Liabilities held for sale from discontinued activities	(12)	110,812,289.44	0.00
Current liabilities		138,786,764.54	34,036,644.48
Total equity and liabilities		**292,740,775.67**	**104,690,736.64**

Consolidated income statement **from January 01 until December 31, 2007**

Franconofurt AG, Frankfurt am Main

(in euros)	Note	Jan. 01. - Dec. 31, 2007	Jan. 01. - Dec. 31, 2006
Rental income		3,522,892.93	1,452,462.36
Property operating expenses		- 1,534,975.54	- 783,652.83
Rental earnings	(23)	**1,987,917.39**	**668,809.53**
Proceeds from the sale of property held as inventory		11,885,390.00	12,646,000.00
Carrying amount of the inventory properties sold		- 8,099,261.25	- 8,614,817.94
Earnings from the sale of property held as inventory		**3,786,128.75**	**4,031,182.06**
Administrative expenses	(24)	- 5,214,803.19	- 2,418,142.39
Selling expenses	(25)	- 1,236,409.60	- 389,620.10
Other operating income	(26)	8,272,032.12	7,028,954.86
Other operating expenses	(27)	- 5,297,174.84	- 2,841,247.03
Result from other income and expenses		**2,974,857.28**	**4,187,707.83**
Unrealized gains from fair value measurement of investment property		8,706,138.94	0.00
Unrealized losses from fair value measurement of investment property		- 374,294.42	0.00
Unrealized earnings from fair value measurement of investment property	(28)	**8,331,844.52**	**0.00**
Earnings before interest expenses and taxes		**10,629,535.15**	**6,079,936.93**
Interest expenses		- 2,003,104.24	- 781,677.97
Interest income		666,076.61	84,216.36
Financial result	(29)	**- 1,337,027.63**	**- 697,461.61**
Profit before tax		**9,292,507.52**	**5,382,475.32**
Income taxes		- 1,952,868.40	- 238,428.25
Group net income from continued activities and operations		**7,339,639.12**	**5,144,047.07**
Result from discontinued operations	(30)	1,150,823.95	2,345,618.76
Group net income		**8,490,463.07**	**7,489,665.83**
of which:			
Equity participation at group level (non-minority owners)		4,666,188.16	6,429,470.38
Minority interest		3,824,274.91	1,060,195.45
		8,490,463.07	**7,489,665.83**
Earnings per share (EPS), on the basis of profits attributable to Franconofurt shareholders			
Earnings per share from continued operations (non-diluted)	(31)	0.50	0.82
Earnings per share from discontinued operations (non-diluted)	(31)	0.08	0.25
Earnings per share from continued operations (diluted)	(31)	0.50	0.82
Earnings per share from discontinued operations (diluted)	(31)	0.08	0.25

Consolidated Statement of Changes in Equity **from January 01 until December 31, 2007**

Franconofurt AG, Frankfurt am Main

Comparable period 2006

in euros	Issued Capital	Capital Reserve	Cash Flow Hedge Reserve	Other Reserves	Equity attributable of the shareholders of Franconofurt AG	Minority interests of the equity	Total equity
Note							**(14)**
As of January 01, 2006	**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 increase	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
Dividend payment				-748,000.00	-748,000.00		-748,000.00
Dividend payment from subsidiaries					0.00	-55,000.00	-55,000.00
Other changes		219.59			219.59		219.59
Capital increase at consolidated subsidiaries and disposal of shares in consolidated subsidiaries				9,955,586.88	9,955,586.88	15,253,593.96	25,209,180.84
Unrealized gains and losses from cash flow hedge			-96,042.98		-96,042.98	-55,229.63	- 151,272.61
Result for the period January 01. - December 31, 2006				6,429,470.38	6,429,470.38	1,060,195.45	7,489,665.83
As of December 31, 2006	**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**

Reporting period 2007

in euros	Issued Capital	Capital Reserve	Cash Flow Hedge Reserve	Other Reserves	Equity attributable of the shareholders of Franconofurt AG	Minority interests of the equity	Total equity
Note							**(14)**
As of January 01, 2007	**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**
Cash capital increase	2,200,000.00	22,000,000.00			24,200,000.00		24,200,000.00
Direct costs of capital increase		-6,435.17			- 6,435.17		- 6,435.17
Dividend payment				-3,960,000.00	- 3,960,000.00		- 3,960,000.00
Dividend payment from subsidiaries					0.00	-253,750.00	- 253,750.00
Other changes		-11,563.50		59,813.06	48,249.56	1,287.27	49,536.83
Reduction minorities					0.00	-90,995.00	- 90,995.00
Capital increase at consolidated subsidiaries and disposal of shares in consolidated subsidiaries				1,501,521.02	1,501,521.02	9,611,552.65	11,113,073.67
Unrealized gains and losses from cash flow hedge			61,848.54		61,848.54	124,302.62	186,151.16
Result for the period January 01. - December 31, 2007				4,666,188.16	4,666,188.16	3,824,274.91	8,490,463.07
As of December 31, 2007	**8,800,000.00**	**49,470,255.62**	**-34,194.44**	**19,173,664.42**	**77,409,725.60**	**29,528,998.04**	**106,938,723.64**

Consolidated Statement of Cash Flows from January 01 until December 31, 2007

Franconofurt AG, Frankfurt am Main

Operating business activity *(in euros)*	Reporting period Jan. 01. - Dec. 31, 2007	Comparable period Jan. 01. - Dec. 31, 2006
Earnings from ordinary business activity before interest and tax	10,629,535.15	6,079,936.93
Earnings from the sale of shares from consolidated subsidiaries	- 4,558,696.71	- 5,767,900.00
Unrealized result from fair value measurement of investment property	- 8,331,844.52	0.00
Earnings from sale of tangible and intangible assets	- 10,349.97	- 5,727.56
Depreciation on tangible an intangible assets	255,139.76	78,748.99
Changes in trade receivables	1,752,620.30	- 3,497,575.82
Changes in trade payables	399,865.35	1,701,356.78
Changes in deferred liabilities	432,545.60	1,246,458.48
Changes in inventories	- 5,459,903.37	- 8,924,425.14
Other changes	318,766.52	- 44,315.11
Cash flow from current operating activities excluding finance costs	**- 4,572,321.89**	**- 9,133,442.45**
Interest paid	- 1,922,355.94	- 781,677.97
Cash inflow from interest income	640,376.28	84,216.36
Tax payments	- 681,294.17	- 764,210.22
Cash flow from operating activities of continued activities	**- 6,535,595.72**	**- 10,595,114.28**
Cash flow from operating activities of discontinued activities	- 28,008.32	1,149,538.53
Cashflow from operating activities, total	**- 6,563,604.04**	**- 9,445,575.75**
Investment activity		
Cash outflow from the acquisition of investment property	- 64,336,300.60	- 95,325.86
Cash outflow from the purchase of subsidiary companies	12,000.00	0.00
Cash received from the sale of of shares from fully consolidated subsidiaries	10,905,259.97	10,276,900.00
Cash received from the sale of tangible fixed assets, shareholdings and intangible assets	99,650.72	40,664.46
Cash outflow from the purchase of intangible and tangible fixed assets	- 1,762,802.29	- 501,558.27
Cash flow from investment activities of continued activities	**- 55,082,192.20**	**9,720,680.33**
Cash flow from investment activities of discontinued operations	- 86,528,798.53	- 50,214,270.50
Cashflow from investment activities, total	**- 141,610,990.73**	**- 40,493,590.17**
Financing activity		
Cash inflow from capital increases	24,200,000.00	24,968,466.42
Cash inflow from payments received of capital increases at consolidated subsidiaries	4,488,348.21	0.00
Dividend payments	- 4,213,750.00	- 803,000.00
Drawing down and redemption of debt	45,610,903.48	10,316,900.76
Cash flow from financing activities of continued activities	**70,085,501.69**	**34,482,367.18**
Cash flow from financing of discountinued activities	92,550,917.94	29,494,577.87
Cashflow from financing activities, total	**162,636,419.63**	**63,976,945.05**
Cash and cash equivalents at start of period, total	**15,749,415.16**	**1,711,636.03**
Cash effective changes in changes of consolidated companies	- 428,959.11	0.00
Cash-effective change at continued operations	8,467,713.77	33,607,933.23
Cash-effective change at discontinued operations	5,994,111.09	- 19,570,154.10
Cash and cash equivalents at end of period, total	**29,782,280.91**	**15,749,415.16**
less cash and cash equivalents as of December 31st from discontinued activities	- 7,445,389.25	- 1,451,278.16
Cash and cash equivalents as of December 31st from continued activities	**22,336,891.66**	**14,298,137.00**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE PERIOD ENDING 31 DECEMBER 2007

FRANCONOFURT AG

FRANKFURT AM MAIN

Contents

Corporate information

I. Name and registered offices

The parent company Franconofurt AG has its registered offices in Frankfurt am Main, and is entered in the commercial register of the Amtsgericht Frankfurt am Main under HRB 51764. The company operates its business in rented office premises at the address "Börsenstraße 2-4, 60313 Frankfurt am Main".

The shares of Franconofurt AG were first included in the open market and in the entry standard segment of the open market which has additional transparency requirements on 21 May 2005. With its securities prospectus dated 27 November 2007, the company applied for admission (change of segment) 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). On 27 November 2007, a resolution was adopted with regard to admission of the 8,800,000 no-par value shares to trading on the regulated market of the Frankfurt stock exchange with simultaneous admission to the subsegment of the regulated market with additional post-admission obligations (Prime Standard). Franconofurt AG shares were admitted to the Prime Standard of the Frankfurt stock exchange on 27 November 2007. No public offering took place within the framework of the change of segment. The shares' security code number (WKN) is 637262 and the International Identification Number (ISIN) is DE000637262. The stock ticker is FFM.

II. Purpose of the company

In accordance with section 2 of the articles of association, the purpose of the parent company Franconofurt AG is:

(1) the establishment, acquisition and participation in other companies, and in particular companies whose business purpose comprises the following activities:

a) To arrange completion and provide supporting evidence for the opportunity for the completion of agreements for property, rights equivalent to property, residential premises, commercial premises;
b) to arrange the completion and provide supporting evidence for the opportunity for the completion of loan agreements;
c) the acquisition and disposal as well as the management of property and other investments in its own name and for its own account;

d) the preparation and performance of building projects as a principal in its own name and for its own account and for the account of other parties, using assets of purchasers, tenants, lessees and other parties authorised to use assets, of applicants for acquisition or utilisation rights;
e) the economic preparation and performance of construction projects as a building manager on behalf of and for the account of other parties.

The purpose of the company is also the acquisition and disposal as well as the management of property and other investments in its own name and for its own account.

The company is authorised to conduct all business and carry out all measures which appear to be suitable for serving the purpose of the company. For this purpose it can also establish and acquire other companies and acquire equity participations in other companies.

Introduction

1) Preliminary remarks

Franconofurt AG has prepared these IFRS consolidated financial statements for the period ending 31 December 2007 and for the fiscal year ended on this day in accordance with section 315a HGB (Handelsgesetzbuch – German Commercial Code). In addition to the IFRS rules (International Financial Reporting Standards) as applicable in the EU, the company has voluntarily applied most of the recommendations of EPRA (European Public Real Estate Association), as of January 2006, in these financial statements. The concepts used in the following are: "Balance sheet date" is 31 December 2007, "reporting period" is the period between 1 January 2007 and 31 December 2007; "previous year" is 31 December 2006 or 2006, and the concept "comparison period" comprises the period between 1 January 2006 and 31 December 2006.

2) Basics

These consolidated financial statements of Franconofurt AG have been prepared in accordance with the International Financial Reporting Standards (IFRS) including the interpretations of the International Financial Reporting Committee (IFRIC) as published by the International Accounting Standards Board (IASB). Standards which were not the subject of mandatory adoption as of the closing date have not been the subject of early adoption. The consolidated financial statements are prepared in Euros.

The management board of Franconofurt AG has approved the individual financial statements for forwarding to the supervisory board on 4 April 2008. The supervisory board is responsible for reviewing the consolidated financial statements and for stating whether it approves the consolidated financial statements.

The consolidated financial statements have been prepared on the basis of historical costs of purchase except for investment properties and – if present – the revaluation of available-for-sale financial assets and the financial assets and financial liabilities shown at fair value through profit and loss (incl. derivative financial instruments). Estimates are necessary for preparing consolidated financial statements which are consistent with the IFRS. In addition, management appraisals are necessary for the application of group-wide accounting policies. Activities with relatively high scope for discretion or involving a higher degree of complexity, or activities for which assumptions and assessments are of crucial importance for the consolidated financial statements, are shown in the chapter "Discretionary decisions and estimates" (point 5).

The accounting policies adopted are consistent with those of the prior financial year.

Interpretations and modifications of published standards which were the subject of mandatory adoption for the first time in 2007 and which have been adopted by the European Commission.

IFRS 7 – Financial Instruments: Disclosures (applicable for reporting periods commencing on or after 1 January 2007). IFRS 7 introduces enhanced disclosure obligations for improving the information provided with regard to financial instruments. It requires qualitative as well as quantitative disclosures regarding the extent of risk attributable to financial instruments, including specified minimum disclosures with regard to credit risks, liquidity risks and market risks as well as sensitivity analyses with regard to market risk. The new standard replaces IAS 30: Disclosures in the Financial Statements and Similar Financial Institutions as well as the disclosure obligations of IAS 32: Financial Instruments: Presentation.

The resultant supplementary disclosures relate to various items of the financial statements.

Interpretations and revisions of published standards which are only adopted in 2008 by Franconofurt AG and which have been adopted by the European Commission.

IFRS 8 - Operating Segments. IFRS 8 replaces IAS 14: Segment Reporting, and adapts the regulations applicable to segment reporting, with the exception of minor differences, to the US principle of the Statement of Financial Accounting Standards (SFAS) 131: Disclosures about Segments of an Enterprise and Related Information. This standard requires companies to report financial and descriptive information with regard to their segments which are the subject of reporting requirements. Segments which are the subject of reporting requirements are defined as operating segments or combinations of operating segments which meet certain criteria. Operating segments are defined as the components of a company for which separate financial information is available and which are regularly reviewed by the highest management body of the enterprise (management board) in order to assess the business success and also in order to decide the way in which resources have to be allocated. In general, financial information has to be reported on the basis of internal management. IFRS 8 is applicable for those financial years commencing on or after 1 January 2009. The management board does not expect that the adoption will result in any change with regard to previous reporting.

Interpretations and revisions of published standards which have not yet been adopted by the European Commission.

IAS 23 – Borrowing Costs. On 25 March 2007, the IASB published the changes to IAS 23 - Borrowing Costs. The major change to the standard is the abolition of the option to directly expense borrowing costs which can be directly allocated to the acquisition, construction or production of a qualified asset. In this connection, a qualified asset is deemed to exist if a considerable period is required to put the asset into its intended condition in which it can be used or sold.

The standard has to be applied for the first time to borrowing costs for qualified assets where the initial time for capitalisation of the assets is on or after 1 January 2009. The application of this standard would not have any relevant impact on the consolidated financial statements.

3) Consolidation

a) Consolidation principles

In addition to the parent company, subsidiaries of the Franconofurt Group are fully consolidated in the consolidated financial statements, because Franconofurt AG is able directly or indirectly to control the financial and operating policies of these companies. Capital was consolidated using the acquisition method at the time of acquisition. In the acquisition method, the purchase costs of the acquired shares are netted with the pro-rata fair value of the acquired assets. Any positive difference resulting from the netting process is capitalised in the form of goodwill. The date of acquisition is defined as the date on which the Group acquires control of the net assets, finances and operations of the acquired entity. Any goodwill is subject to an impairment test at least once a year and, if an impairment is identified, it is impaired to the lower recoverable amount.

Income and expenses as well as receivables and liabilities between consolidated entities are eliminated. Intercompany profits are also eliminated. The financial statements of Franconofurt AG and the consolidated subsidiaries are prepared in accordance with uniform accounting policies.

b) Consolidated group

The group of consolidated companies of the Franconofurt Group comprises the following companies:

Company (in Euro)	Registered office	Holding of share capital	IFRS shareholders' equity as of Dec. 31, 2007	IFRS result for 2007
FranconoWest AG	**Düsseldorf**	**84.85%**	**38,812,636**	**4,254,244**
FranconoOst AG	**Leipzig**	**100.00%**	**4,855,452**	**-160,101**
FranconoResidence AG	**Frankfurt am Main**	**100.00%**	**3,409,608**	**400,591**
GlobalProperty GmbH	**Frankfurt am Main**	**100.00%**	**27,430**	**-3,549**
Subsidiaries				
MainProperty GmbH	Frankfurt am Main	100.00%	-314,965	-327,912
RheinProperty GmbH	Düsseldorf	100.00%	-27,697	-51,955
GlobalCommunication GmbH	**Frankfurt am Main**	**100.00%**	**62,038**	**42,098**
GlobalLiving GmbH	**Frankfurt am Main**	**50.00%**	**25,834**	**16,425**
Subsidiaries				
MainLiving GmbH	Frankfurt am Main	100.00%	15,719	-9,307
RheinLiving GmbH	Düsseldorf	100.00%	20,829	-2,749
GlobalAcquisition GmbH	**Frankfurt am Main**	**50.00%**	**29,939**	**104,763**
Subsidiaries				
MainAcquisition GmbH	Frankfurt am Main	100.00%	38,833	115,070
RheinAcquisition GmbH	Düsseldorf	100.00%	89,915	66,458
Financial investments accounted for using the equity method				
GlobalConstruct AG	**Frankfurt am Main**	**45.00%**	**73,992**	**7,002**

GlobalConstruct AG was deconsolidated as of 31 December 2007.

c) *Additions and disposals of parts of companies and other assets and liabilities*

Pursuant to the resolution of the shareholders' meeting FranconoWest AG of 31 January 2007, the capital stock was increased by EUR 7,000,000 to EUR 10,000,000.00 by issuing 7,000,000.00 no-par-value bearer shares. Pursuant to the resolution of the shareholders' meeting FranconoWest AG of 13 June 2007, the capital stock was increased by EUR 20,000,000.00 to EUR 30,000,000.00 by issuing 20,000,000 no-par-value bearer shares. The extraordinary shareholders' meeting of FranconoWest AG held on 2 October 2007 adopted a resolution whereby the share capital is to be increased from EUR 30,000,000.00 to up to EUR 40,000,000.00 in return for a cash contribution. The new no-par-value bearer shares to be issued will be entitled to participate in profits starting 1 January 2007. This capital increase had to be carried out by no later than 31 December 2007. The resolution was entered in the commercial register on 23 October 2007.

An application for listing FranconoWest AG shares in trading on the regulated market as well as the Prime Standard of the Frankfurt Stock Exchange was submitted with the securities prospectus and an application to the BaFin of 25 October 2007. The admission resolution (approval) was submitted on 25 October 2007. Within the framework of the IPO of the company, the capital increase of EUR 3,000,000.00 adopted by the shareholders' meeting on 2 October 2007 was carried out, and was registered in the commercial register on 9 November 2007. Since initial listing on 13 November 2007, shares of FranconoWest AG have been listed on the Prime Standard of the Frankfurt Stock Exchange. The stock ticker is 4FR.ETR. For issuing the 3,000,000 no-par-value bearer shares, FranconoWest AG received gross proceeds of EUR 5,400,000.00 (gross; before issue costs). After placing 2,000,000 shares out of its own holdings during the IPO, Franconofurt AG still holds 84.85 % (28,000,000 shares) of the shares in FranconoWest AG.

2,550,000 shares of the subsidiary Francono Rhein-Main AG were also sold during the financial year.

In financial 2007, FranconoOst AG (formerly "merch zweihundertundsiebenundachtzigste Vermögensverwaltungs AG“ with a share capital of EUR 50,000.00 was acquired as a shelf company for a price of EUR 59,950.00, and its name was changed to FranconoOst AG with the commercial register entry of 8 June 2007 under HRB 23275 at the Amtsgericht Leipzig. The share capital of FranconoOst AG was also increased by EUR 4,950,000.00 to EUR 5,000,000.00.

Pursuant to a resolution of the management board and with the approval of the supervisory board of 18 December 2007, Franconofurt AG concluded an agreement on 31 January 2008 with Grainger FRM GmbH and Grainger FRM (No. 1) GmbH & Co. KG, both indirect subsidiaries of the British Grainger plc, regarding the sale of a total of 15,226,000 shares of Francono Rhein-Main AG (54.38% of the share capital) for a price of EUR 1.50 per share payable in cash. Completion of this agreement was conditional on successful performance of the voluntary take-over offer of Grainger FRM GmbH to the other shareholders of Francono Rhein-Main AG. The management board of Francono Rhein-Main AG was informed on 31 January 2008 that Grainger FRM GmbH will submit a voluntary public takeover bid to the shareholders of Francono Rhein-Main AG in accordance with section 10 WpÜG. Please refer to the publication of Grainger FRM GmbH under www.grainger-angebot.de.

The transfer of the holding of 15,226,000 Francono Rhein-Main AG shares was completed by means of the closing confirmation with effect from 4 April 2008. In return, Franconofurt AG simultaneously received a payment of EUR 22,839,000 (before transaction costs).

For all presented period, the results of Francono Rhein-Main AG are shown as the results of discontinued operations in the consolidated income statement for the period ending 31 December 2007. The Group discontinued depreciation of the non-current assets with the separate classification of the available-for-sale assets and liabilities as of 18 December 2007.

The cash flow statement and the disclosures in the notes to the financial statements have been adjusted accordingly. In accordance with IFRS 5, the discontinued operations are measured at fair value less expected costs to sell. The pro-rata shareholders' equity under IFRS was compared with the selling price per share of EUR 1.50 as of 31 December 2007. Costs to sell are also recognised.

With the sale on 31 December 2007 of 2,500 shares in GlobalConstruct AG to the members of the management board and co-shareholders, GlobalConstruct AG is now accounted for using the equity method as a financial investment in the consolidated financial statements; before that date, the company had been fully consolidated.

4) Accounting policies

In the opinion of the company's management, these audited consolidated financial statements for the period ending 31 December 2007 contain all the necessary disclosures in order to present a true and fair view of the business development and results of operations in the period under review.

a) Recognition of income and expenditure

Income and expenses for the financial year are accounted for irrespective of the date of actual payment. Rental income is recognised when the appropriate benefit has been provided and the amount of the expected consideration can be reliably determined.

The rental income equal to the target rent less sales deductions is recognised monthly as the services are rendered. As part of the process of changing over the accounting systems to SAP in the first half of 2007, the figures shown for rental income and operating and ancillary costs were changed compared with the system used for the corresponding period in 2006. Starting 1 April 2007, the prepayments previously included in the rental income for operating costs which can be charged on to tenants are recognised as other liabilities at the point at which such payments are received. The costs which are capable of being charged on to the tenants are accordingly capitalised in the same amount as services still to be charged in the balance sheet item "inventories". It is not possible for the figures shown for previous years to be adjusted because of the different systems used for collating data and the lack of an appropriate database in the previous accounting system.

The rental agreements concluded with tenants by the Group as part of its operating activities do not constitute leases within the meaning of IAS 17 since the rental agreements were normally concluded for an indefinite period rather than for a fixed term. The tenants have a unilateral right to terminate the rental agreements, subject to providing statutory notice.

b) Intangible assets

Individual purchased intangible assets are shown at cost upon initial recognition. The cost of an intangible asset acquired in a business combination is defined as its fair value at the time of acquisition. In subsequent periods, the intangible assets are measured at cost less cumulative amortisation 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 amortised over their useful economic life and are tested for impairment if there is an indication that the intangible assets may be impaired. For intangible assets with finite lives, the useful lives and amortisation methods are reviewed at least at the end of each financial year. Any amortisation charged on intangible assets with finite lives is recognised in the income statement in the expense category which corresponds to the function of the intangible asset within the entity. Intangible assets with finite lives are amortised using the straight-line method over a useful life of two to five years.

Any intangible assets with an indefinite useful life are tested for impairment at least annually either individually or at the cash-generating unit level. These intangible assets are not depreciated. The useful life of an intangible asset with an indefinite useful life is reviewed annually to determine whether the assessment of an indefinite service life continues to be supportable. If not, the change in the useful life assessment from indefinite to definite is made on a prospective basis.

c) Property, plant and equipment

Property, plant and equipment is stated at cost, excluding the costs of day-to-day servicing, less cumulative depreciation. Depreciation is charged on a straight-line basis over a useful life of between 3 and 8 years.

d) Investment property

Investment property is recognised as of the date of transfer 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 transfer is usually payment of the full purchase price which, in turn, is linked to the fulfilment 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 relevant 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. Unrealised gains or losses arising from a change in the fair value of investment property are included in profit or loss for the period in which they arise.

The Group engaged the independent assessor Jones Lang LaSalle to calculate the fair value of the investment property. Jones Lang LaSalle will value the properties on the basis of the 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 a willing seller following proper marketing, each acting independently, knowingly, prudently and without duress.

Assets are normally measured at fair value in the quarter in which they are acquired. The figure which has been recognised is only updated in subsequent quarters if a change in the fair value has taken place. Based on the management board's assessment of the market development, it was not necessary to update these figures as of 31 December 2007.

e) Current taxes

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

VAT on revenues, expenses and assets are recognised 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 recognised as part of the cost of the asset or as part of the expense item as applicable.
- Receivables and liabilities are stated with VAT which may be included.

f) Deferred taxes

Deferred taxes are recognised 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 liabilities were recognised for all taxable temporary differences.

Deferred tax assets are recognised for all deductible temporary differences, carry-forward of unused tax assets and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry-forward of unused tax assets and unused tax losses, can be utilised.

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 utilised. Unrecognised deferred tax assets are reviewed on each balance sheet date and recognised 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 realised 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 recognised directly in equity is recognised 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.

g) Inventories

Assets – and in particular housing units in accordance with IAS 2 – which are held for sale as part of normal operations are shown under inventories. Inventories are shown at the lower of cost and the net realisable value on the balance-sheet date. The net realisable value is defined as the probably attainable sales proceeds less costs which will be incurred until the time of the sale.

This item is also used to show assets – and in particular capitalised ancillary costs which are capable of being charged on to tenants although they have not been actually billed – which in the normal course of business with the tenants are carried under this item until they are eventually charged. This item is opposed by the advance payments in relation to ancillary charges made by the tenants, which are shown under other current liabilities. Subsequent recognition is at amortised cost, less impairments where necessary.

h) Non-current assets held for sale

Non-current assets held for sale and discontinued operations are classified as held for sale and shown separately in the balance sheet. The assets are then no longer depreciated; instead, they are measured at the lower of carrying amount and fair value less costs to sell. If there is a subsequent increase in the fair value less costs to sell, the impairment is reversed up to the original carrying amount.

i) Receivables and other assets

Trade receivables and other assets are initially recognised with their nominal value. Subsequent recognition is at amortised cost, less impairments where necessary.

j) Cash and cash equivalents

Cash and cash equivalents comprise cash at banks as well as cash in hand. They are recognised at nominal value.

k) Borrowing costs

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

l) Deferred liabilities

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

m) Liabilities

Liabilities are shown with their nominal value or in the amount due for repayment.

n) Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

Financial assets in accordance with IAS 32 are classified, depending on the individual circumstances, either as financial assets that are measured at fair value through profit or loss, as loans and receivables, as held-to-maturity investments or as available-for-sale financial assets. The financial assets are measured at fair value upon initial recognition. In the case of financial investments other than those which are measured at fair value through profit or loss, transaction costs which are directly attributable to the acquisition of the asset are also taken into consideration. The financial assets essentially comprise cash and cash equivalents, trade accounts receivable and other financial assets as well as derivative financial assets held for trading.

Franconofurt AG has not taken advantage of the option of designating financial assets at fair value through profit or loss upon initial recognition.

Financial liabilities generally give rise to a claim for return of cash and cash equivalents or another financial asset. These include in particular trade accounts payable, liabilities due to banks, liabilities arising from leases and derivative financial liabilities. Financial liabilities are measured with their fair value upon initial recognition. In the case of all financial liabilities which are subsequently not measured at fair value through profit or loss, the transaction costs which can be directly allocated to the acquisition are also shown.

With regard to the financial liabilities, Franconofurt AG has not taken advantage of the option of designating them as financial liabilities at fair value through profit or loss upon initial recognition.

Financial assets and liabilities are subsequently measured in accordance with the category to which they have been attributed.

Financial assets held for trading are measured at fair value. This is applicable exclusively for derivative financial instruments which are not integrated in an effective hedge in accordance with IAS 39 and which therefore have to be classified as “held for trading”. These are shown under current financial assets or liabilities. Any gain or loss resulting from subsequent measurement is shown in the income statement.

Financial assets in the category "Loans and receivables" are, after initial recognition, shown at amortised cost less impairments. Please refer to the comments under the item "Receivables and other financial assets".

Financial non-derivative assets which are intended to be held to maturity are shown at amortised cost. As of the balance sheet date, Franconofurt AG does not report any held-to-maturity financial assets.

The category "Available-for-sale financial assets" at Franconofurt AG is used as the residual item of financial assets which have not been recognised under any of the other measurement categories. This item is mainly used for interest-bearing securities as well as equity instruments. These are measured at fair value at the time of acquisition and also subsequently. Unrealised profits and losses are shown directly in equity in a separate position after deferred taxes. Only when the financial asset is sold are the cumulative profits and losses which have been recognised directly in equity shown in the income statement on the basis of measurement of fair value. In the case of equity instruments for which there is no price which is listed on an active market and for which no fair value can be reliably determined, the shares are measured at cost less any impairments.

An impairment is recognised if the carrying amount of a financial asset is higher than its fair value. A test to determine whether an impairment exists is performed as of every balance sheet date. Examples of substantial indications of impairment are considerable financial difficulties of the debtor, a high probability of insolvency proceedings being instituted against the borrower, breach of contract and the collapse of an active market for a financial asset.

The existing loan conditions are analysed in order to assess the question of an impairment of financial assets which are classified under the category "Loans and receivables" and which are subsequently measured at amortised cost of purchase.

Profits and losses from financial instruments which are classified as available-for-sale are normally recognised directly in equity until the financial asset is derecognised. An exception to this rule is applicable in the case of an impairment: Losses resulting from measurement at fair value and recognised directly in the revaluation reserve have to be taken into consideration if there is an objective indication of an existing impairment. An impairment is recognised in relation to equity instruments in the category "available-for-sale" if the fair value is significantly and permanently lower than the original costs of purchase. Such a significant nature is assumed if the fair value is lower than the original costs of purchase for a period of more than 12 months.

Cash and cash equivalents comprise sight deposits with an original term of max. three months and overdraft facilities. Cash and cash equivalents are measured at amortised costs of purchase. In the balance sheet, utilised overdraft facilities are shown as liabilities due to banks under current financial liabilities.

Receivables and other financial assets are normally shown with their fair value. An impairment of trade accounts receivable is recognised if there are objective indications that the due amounts are not fully recoverable. Considerable financial difficulties of a debtor, an increased probability that a borrower will become insolvent or will have to undergo another restructuring procedure as well as breach of contract, e.g. failure to pay interest payments and redemption payments on time or at all, are considered to be indications of the existence of an impairment. Individual allowances are created in an appropriate amount in relation to receivables which are very likely to be the subject of default. The general credit risk is recognised by way of impairments on the portfolio of receivables; these are normally based on past experience.

The amount of the impairment is recognised as other operating expenses in the income statement.

Trade accounts payable are normally measured at amortised cost of purchase.

Debt is initially recognised at fair value and after interest and transaction costs paid in advance if these have not been incurred for separate services. In subsequent periods, debt is measured at amortised cost of purchase using the effective interest method. The difference between the amount which is paid out and the amount which is repaid is recognised in the income statement using the effective interest method over the term of the loan. Loan liabilities are classified as current liabilities if the Group does not have the absolute right to postpone repayment of the liability to a point which is at least 12 months after the balance sheet date.

o) Derivative financial instruments and hedging

The management board of Franconofurt AG is responsible for the group-wide hedge policy of Franconofurt AG. Derivative financial instruments are initially measured at their fair value applicable at the time of their acquisitions; they are subsequently also measured at fair value on the balance sheet date. The method of recognising profits and losses depends on whether the derivative financial instrument has been designated as a hedge and, if this is indeed the case, it also depends on the type of the hedged item. Franconofurt AG designates derivative financial instruments either as (a) a hedge of the fair value of a recognised asset, liability, an off-balance-sheet fixed claim or an off-balance-sheet fixed obligation (fair value hedge) or as (b) a hedge of certain risks of fluctuating cash flows associated with a recognised asset or a recognised liability or an expected future transaction which is very likely to occur (cash flow hedge).

At the point at which the transaction is completed, Franconofurt AG documents the hedge relationship between the hedging instrument and underlying, the aim of its risk management as well as the underlying strategy for taking out hedges. A uniform hedge strategy throughout the Group exists for concluding hedges; every hedge is related to this strategy. In addition, at the beginning of the hedge and at all times subsequently, the company documents the assessment as to whether the derivatives used in the hedge are highly effective in achieving offsetting changes in fair value or cash flows of the underlyings. A retrospective effectiveness measurement using the Dollar-offset method is carried out every quarter in order to demonstrate the effectiveness of hedges.

The fair values of the various derivative financial instruments which are used for hedging purposes, as well as the movements in the reserve for cash flow hedges, are shown in the notes under chapter “Financial risk management and hedges”. The entire fair value of the derivative financial instruments designated as hedges is shown as a non-current asset or non-current liability if the remaining term of the hedged underlying is more than 12 months after the balance sheet day; it is shown as a current asset or current liability if the remaining term is less than 12 months after the balance sheet day.

(a) Fair value hedge

The changes in the fair value of derivatives which have been designated as a hedge of the fair value of a recognised asset, liability or an off-balance-sheet fixed obligation and which qualify as a fair value hedge are recognised in the income statement together with the changes in the fair value of the hedged assets or liabilities which are attributable to the hedged risk. Any resultant foreign exchange profits and losses are netted.

(b) Cash flow hedge

The effective part of changes in the fair value of derivatives which are designated for hedging the cash flow and which qualify as a cash flow hedge is recognised directly in equity. On the other hand, the ineffective part of such changes in fair value is normally recognised directly in the income statement under the other operating income/expenses (net) if the future profit or losses of the hedge exceed the fair value of the cash flows expected in future from the transaction which is very likely to occur (“cover surplus”). On the other hand, the cumulative profit or loss attributable to the hedge is recognised in equity (“cover shortfall”). In the event of cover shortfall, the ineffective hedge is not recognised in the income statement because in this case the transaction to be hedged is not covered.

Amounts which are shown directly in equity are transferred to the income statement and recognised as income or expense in the period in which the hedged underlying is recognised in the income statement. The profit or loss attributable to an effective hedge of floating interest loans using interest swaps is shown in the income statement under financing income or financing costs. Any profit or loss attributable to an effective hedge of export sales with foreign exchange futures is shown in the income statement as revenue. However, if a hedged future transaction results in the recognition of a non-financial asset (e.g. inventories) or a non-financial liability, the profits or losses previously recognised in equity are included in the initial measurement of the cost of purchase or cost of production of the asset or the liability. If a hedge expires, is sold or no longer meets the criteria for recognition as a hedge, the profit or loss which has accumulated up to that point in equity is retained in equity and is only recognised in the income statement when the originally hedged future transaction actually occurs. If it is no longer expected that the future transaction will occur, the cumulative profits or losses recognised in equity are immediately transferred to the income statement.

5) Accounting judgements and estimates

When preparing the financial statements, the company’s management has to make accounting judgements and estimates. Due to the business model, accounting judgements and estimates of significant value were mainly applied for the item “Investment property”.

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.

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 assumption of the future development of the global and industry environment were used to assess the future development of business. Because future developments of these conditions may differ from these assumptions, the actual amounts which are reported may differ from the original estimates. If the actual development differs from the expected development, the assumptions and where necessary the carrying amounts of the corresponding assets and liabilities are adjusted accordingly.

6) Segment reporting

The Franconofurt Group bases its segment reporting on the principles of IAS 14 as of 31 December 2007:

Segment reporting as of December 31, 2007 (Jan. 01, 2007 until Dec. 31, 2007) | **Segment reporting as of December 31, 2006 (Jan. 01, 2006 until Dec. 31, 2006)**

	2007 Frankfurt conversion business	2007 Real estate holding business	2007 Services	2007 Financial Investment Business	2007 Total	2007 Consolidation	2007 Total	2006 Frankfurt conversion business	2006 Services	2006 Financial Investment Business	2006 Total	2006 Consolidation	2006 Total
	Euro	Euro	Euro	Euro	Euro	Euro	Euro	Euro	Euro	Euro	Euro	Euro	Euro
Rental income	1,470,776	1,890,633	161,483	0	3,522,893	0	3,522,893	1,219,835	232,628	0	1,452,463	0	1,452,463
Revenues from the sale of assets classified as available-for-sale	11,885,390	0	0	0	11,885,390	0	11,885,390	12,646,000	0	0	12,646,000	0	12,646,000
Revenues from services and other operating income	94,733	603,809	3,014,793	4,558,697	8,272,033	0	8,272,032	51,345	1,558,274	6,679,335	8,288,954	- 1,260,000	7,028,954
Revenues from transactions with other segments	1,759,093	2,998	6,996,945	0	8,759,036	- 8,759,037	- 0	80,795	2,934,151	0	3,014,946	- 3,014,946	0
Total revenues before mark-ups	**15,209,993**	**2,497,441**	**10,173,221**	**4,558,697**	**32,439,352**	**- 8,759,037**	**23,680,315**	**13,997,975**	**4,725,053**	**6,679,335**	**25,402,363**	**- 4,274,946**	**21,127,417**
Unrealized gains from fair value measurement on investment properties	**0**	**7,421,637**	**0**	**0**	**0**	**910,208**	**8,331,845**	**0**	**0**	**0**	**0**	**0**	**0**
Total revenues after mark-ups	**15,209,993**	**9,919,078**	**10,173,221**	**6,352,760**	**34,233,415**	**- 9,642,892**	**32,012,159**	**13,997,975**	**4,725,053**	**6,679,335**	**25,402,363**	**- 4,274,946**	**21,127,417**
Segment result	**4,963,994**	**6,406,294**	**1,140,814**	**5,963,493**	**0**	**- 6,714,694**	**10,629,535**	**1,564,474**	**692,141**	**5,375,175**	**7,631,790**	**- 1,551,853**	**6,079,937**
Earnings before interest expenses and taxes							**10,629,535**						**6,079,937**
Financial result							**- 1,337,028**						**- 697,462**
Profit before tax							**9,292,508**						**5,382,475**
Income taxes							**- 1,952,868**						**- 238,428**
Group net income from continued activities and operations							**7,339,639**						**5,144,047**
Result from discontinued operations							**1,150,824**						**2,345,619**
Group net income							**8,490,463**						**7,489,666**

	Continued activities of the group							Previous year						
	Frankfurt conversion business	Real estate holding business	Services	Financial Investment Business	Total	Consolidation	Total	Frankfurt conversion business	Real estate holding business	Services	Financial Investment Business	Total	Consolidation	Total
Assets and liabilities														
Respectively in Euro														
Segment assets	**44,216,341**	**82,925,671**	**1,633,621**	**51,399,850**	**188,942,483**	**- 62,382,604**	**126,559,879**	**45,736,913**	**59,089,807**	**1,528,843**	**23,930,400**	**130,285,963**	**- 26,230,075**	**104,055,888**
Non attributable assets							**1,179,763**							**634,849**
Available-for-sale assets							**165,001,134**							**0**
Total assets							**292,740,776**							**104,690,737**
Segment liabilities	**26,799,180**	**46,594,683**	**1,408,230**	**0**	**74,802,094**	**- 2,002,276**	**72,799,818**	**26,194,068**	**11,521,813**	**742,414**	**0**	**38,458,295**	**- 2,093,127**	**36,365,168**
Non attributable assets							**2,189,944**							**1,114,890**
Equity							**106,938,724**							**67,210,679**
Available-for-sale liabilities							**110,812,289**							**0**
Total assets							**292,740,776**							**104,690,737**

	Continued activities of the group 2007							Previous year						
	Frankf. conversion business	Real estate holding business	Services	Financial Investment Business	Total	Consolidation	Total	Frankf. conversion business	Real estate holding business	Services	Financial Investment Business	Total	Consolidation	Total
	Euro	Euro	Euro	Euro	Euro	Euro	Euro	Euro	Euro	Euro	Euro	Euro	Euro	Euro
Other segment information														
Investment into the assets														
- Intangible assets	1,285,953	702	17,473	0	1,304,128	0	1,304,128	76,658	0	21,255	0	97,913	0	97,913
- Property, plant and equipment	166,763	101,100	190,812	0	458,675	0	458,675	200,069	40,199	163,378	0	403,646	0	403,646
- Property	0	62,531,363	0	0	62,531,363	- 910,208	61,621,155	0	0	0	0	0	0	0
- Property (prepayments)	0	2,790,953	0	0	2,790,953	- 75,808	2,715,145	0	95,326	0	0	95,326	0	95,326
- Financial assets	0	0	0	27,519,950	27,519,950	- 27,497,450	22,500	0	0	0	26,937,400	26,937,400	- 26,937,400	0
	1,452,716	**65,424,119**	**208,285**	**27,519,950**	**94,605,069**	**- 28,483,466**	**66,121,603**	**276,727**	**135,525**	**184,633**	**26,937,400**	**27,534,285**	**- 26,937,400**	**596,885**
Depreciation														
- Intangible assets	153,704	47	- 1,076	0	152,675	0	152,675	48	0	2,803	0	2,851	0	2,851
- Property, plant and equipment	64,379	23,300	14,786	0	102,466	0	102,466	35,075	355	40,468	0	75,898	0	75,898
	218,083	**23,347**	**13,710**	**0**	**255,140**	**0**	**255,140**	**35,123**	**355**	**43,271**	**0**	**78,749**	**0**	**78,749**

Other major non-cash segmental expenses & revenues

	2007	2006
Unrealized gains from fair value measurement of investment properties	8,706,139	0
Unrealized losses from fair value measurement of investment properties	- 374,294	0

Notes to the balance sheet

The Euro is the reporting currency for all amounts shown in the following.

I. Non-current assets

(1) Intangible assets

Intangible assets mainly comprise SAP licenses and implementation costs associated with installation. Intangible assets developed as follows in the reporting period:

	Cost of purchase	*Depreciation*	*Net carrying amount*
	euros	euros	euros
Balance of Jan. 01, 2006	43,774.12	6,609.12	**37,165.00**
Additions	146,615.66	3,465.93	
Disposals	2,466.00	0.00	
Balance of Jan. 01, 2007	187,923.78	10,075.05	**177,848.73**
Additions	1,372,828.32	159,687.50	
Disposals	223,690.50	0.00	
Reclassification	- 130,219.17	- 8,131.58	
Balance of Dec. 31, 2007	1,206,842.43	161,630.97	**1,045,211.46**

The figures listed under "reclassification" refer to the discontinued operations of Francono Rhein-Main AG and the deconsolidated GlobalConstruct AG.

(2) Property, plant and equipment

Business equipment is recognised under property, plant and equipment. The movements in property, plant and equipment during the reporting period are reported as follows:

	Cost of purchase	*Depreciation*	*Net carrying amount*
	euros	euros	euros
Balance of Jan. 01, 2006	199,947.07	151,159.07	**48,788.00**
Additions	455,612.84	78,273.67	
Disposals	52,215.94	19,745.04	
Balance of Jan. 01, 2007	603,343.97	209,687.70	**393,656.27**
Additions	492,102.78	116,298.72	
Disposals	104,749.63	0.00	
Reclassification	- 123,691.39	- 18,994.18	
Balance of Dec. 31, 2007	867,005.73	306,992.24	**560,013.49**

The figures listed under "reclassification" refer to the discontinued operations of Francono Rhein-Main AG and the deconsolidated GlobalConstruct AG.

(3) Investment property

Investment property developed as follows in the reporting period:

	Cost of purchase euros	***Change in value*** euros	***Fair value*** euros
Balance of Jan. 01, 2006	0.00	0.00	**0.00**
Additions	47,322,063.08	2,467,770.77	
Disposals	5,625,269.11	58,195.31	
Balance of Jan. 01, 2007	41,696,793.97	2,409,575.46	**44,106,369.43**
Additions	155,716,615.10	18,072,104.91	
Disposals	1,100,657.55	120,775.76	
Reclassification	- 143,458,596.04	- 12,029,060.09	
Balance of Dec. 31, 2007	52,854,155.48	8,331,844.52	**61,186,000.00**

An unrealised profit of EUR 8.331.844,52 from the measurement at fair value of investment property is shown in the income statement of the financial statements for the period ending 31 December 2007.

In the reporting period, investment property generated rental income of EUR 3.522.892,93 (previous year: EUR 1,452,462.36). This income is opposed by operating and ancillary costs of EUR 1,534,975.54 (previous year: EUR 783,652.83).

The figures listed under "reclassification" refer to the discontinued operations of Francono Rhein-Main AG.

(4) Advance payments

The advance payments of EUR 2,720,999.41 (previous year: EUR 2,855,391.48) relate to advance purchase price payments and ancillary purchase costs for notarially certified property purchase agreements which in future will be shown under investment properties but for which the burdens and benefits will only be transferred after the balance sheet date.

(5) Financial investments

By way of contrast with the previous year financial statements, the remaining 45% shares in GlobalConstruct AG are shown as financial investments in the consolidated financial statements for the period ending 31 December 2007. The company was fully consolidated in the group of consolidated companies as of 31 December 2007.

(6) Other long-term receivables

The other long-term receivables include the granting of interest-bearing loans.

II. Current assets

(7) Inventories

This item includes properties of EUR 30,605,229.03 (previous year: EUR 26,464,238.89) which are held for sale as part of ordinary activities, as well as advance payments of EUR 988,563.70 (previous year: EUR 360,268.14) relating to ancillary costs which were accrued in the reporting period which are capable of being levied but which have not yet been charged.

The figure attributable to the ancillary costs which are capable of being levied but which have not yet been charged is reduced by the impairments recognised for the anticipated receivables loss at the time at which ancillary cost statements are prepared.

in TEUR	**Impairments**	
	2007	2006
Balance at the beginning of the financial year	0	0
Allocation	44	0
Consumption	0	0
Reversal	0	0
Balance at the end of the financial year	**44**	**0**

The balance sheet item includes advance payments of EUR 703,736.73 (previous year: EUR 233,007.86) relating to shelf properties for which the benefits and burdens had not yet been transferred as of the balance sheet date.

(8) Accounts receivable

All trade accounts receivable and rent receivables have a remaining term of less than one year. The trade accounts receivable declined to EUR 3.575.401,07 in the year under review, (previous year: EUR 12,951,211.28). The figure shown in the previous year financial statements included receivables attributable to a portfolio sale of Francono Rhein-Main AG to an international investor.

Impairments in relation to trade accounts receivable have developed as follows:

in TEUR	Impairments 2007	2006
Balance at the beginning of the financial year	0	0
Allocation	106	0
Consumption	0	0
Reversal	0	0
Balance at the end of the financial year	**106**	**0**

(9) Tax receivables

The tax receivables are attributable to tax prepayments in the years 2005 to 2007 and withheld interest withholding tax of EUR 490,602.11 (previous year: EUR 429,763.21).

(10) Other current receivables

The other current receivables of EUR 910,633.69 (previous year: EUR 536,457.05) comprise positive market values from the swap valuation. Sixteen interest swaps had been concluded as of the balance sheet date; of these, some report positive market values totalling EUR 207.197,36 (previous year: EUR 0.00). For further details, please refer to our comments under “Financial risk management and hedging measures”.

Carrying amounts in TEUR		Dec. 31, 2007	Dec. 31, 2006
Interest cap and swap	**positive**	207	0
	negative	- 527	- 331
- excl. hedge		- 80	- 44
- in conjunction with fair value hedges		0	0
- in conjunction with cash flow hedges		- 238	- 287
Total		- 320	- 331
Thereof: Short-term		0	0
Thereof: Long-term		- 320	- 331

(11) Cash and cash equivalents

Cash and cash equivalents comprise freely disposable cash at banks of EUR 22,336,891.66 (previous year: EUR 15,749,415.16). Of this figure, for FranconoWest AG, EUR 13,000,000.00 was invested at Commerzbank AG as a short-term floating-interest investment with an initial rate of 3.85%.

(12) Available-for-sale non-current assets

Pursuant to a resolution of the management board and with the approval of the supervisory board of 18 December 2007, Franconofurt AG concluded an agreement on 31 January 2008 with Grainger FRM GmbH and Grainger FRM (No. 1) GmbH & Co. KG, regarding the sale of a total of 15,226,000 shares of Francono Rhein-Main AG (54.38% of the share capital).

In the consolidated balance sheet as of 31 December 2007, the assets and liabilities attributable to Francono Rhein-Main AG were shown separately as "available-for-sale".

Pursuant to the resolution of the management board of FranconoWest AG and with the approval of the supervisory board of 18 December 2007, nine investment properties with a fair value of EUR 8,767,000 are to be sold. These investment properties were sold in February 2008 for a figure higher than the fair value.The company did not incur any significant additional directly attributable costs from the sale of the properties. For this reason, the balance sheet item "Investment properties" has been reclassified at fair value as of 31 December 2007.

The write-down to the lower fair value after costs to sell has been deducted from the available-for-sale assets.

The development of the balance sheet item "Available-for-sale non-current assets" in the period under review is shown in the following:

Carrying amounts in TEUR	Dec. 31, 2007	Dec. 31, 2006
Available-for-sale assets		
- Non-current assets	159,518	0
- Current assets	10,577	0
- Write down to lower fair value	- 5,094	0
Total	**165,001**	**0**
Available-for-sale liabilities		
- Liabilities due to banks	101,307	0
- Other current liabilities	9,505	0
Total	**110,812**	**0**

The non-current assets also include the investment properties with a total value of TEUR 8,767 reclassified as available-for-sale assets by FranconoWest AG pursuant to a resolution of the management board.

(13) Summary of current receivables

In accordance with IFRS 7, the recognised trade accounts receivable and the other financial assets are as follows:

in thousand euros				Thereof not impaired and overdue as follows as of the closing date			
	Carrying amount	Thereof impaired as of the closing date	Thereof neither impaired nor overdue as of the closing date	Less than 30 days	Between 31 and 90 days	Between 91 and 180 days	More than 181 days
As of 31 December 2007							
Receivables due from tenants	432	106	326	195	130	0	0
Receivables due from land sales	3,143	0	3,143	0	3,143	0	0
Trade accounts receivable due from affiliated companies	0	0	0	0	0	0	0
Receivables	**3,575**	**106**	**3,469**	**195**	**3,273**	**0**	**0**
Other financial assets	703	0	703	0	218	485	0
As of 31 December 2006							
Receivables due from tenants	0	0	0	0	0	0	0
Receivables due from land sales	12,951	0	12,951	0	12,951	0	0
Trade accounts receivable due from affiliated companies	0	0	0	0	0	0	0
Receivables	**12,951**	**0**	**12,951**	**0**	**12,951**	**0**	**0**
Other financial assets	536	0	536	0	536	0	0

III. Shareholders' equity and liabilities

(14) Shareholders’ equity

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

1. Subscribed capital

As of 31 December 2007, the company’s share capital amounted to EUR 8,800,000.00 (previous year: EUR 6,600,000.00). The share capital consists of 8,800,000 (previous year: 6,600,000) no-par-value bearer shares.

Based on the authorisation issued by the shareholders' meeting of 7 April 2003, the management board, with the approval of the supervisory board, carried out a capital increase out of authorised capital. With the entry of the completion of the capital increase in the commercial register of the Amtsgericht Frankfurt am Main of 17 April 2007, the share capital was increased by EUR 2,200,000 to EUR 8,800,000.

2. Capital reserve

The proceeds of the issue of the new shares from the capital increase carried out in the year under review, to the extent that they exceeded the issue amount of EUR 22,000,000.00, were paid into additional paid-in capital after the costs associated with the issue had been deducted. As of 31 December 2007, the company reports additional paid-in capital of EUR 49,470,255.62 (previous year: EUR 29,488,254.29).

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.

4. Other reserves

The other reserves include the results for the period, the proceeds from the placement of the new shares of the subsidiaries Francono Rhein-Main AG and FranconoWest AG (to the extent that they exceeded the issue amount) as well as other changes.

In addition, in line with the resolution adopted at the ordinary shareholders' meeting on 4 May 2007, dividends of TEUR 3,960 (previous year: TEUR 748) were paid to the shareholders of Franconofurt AG. This is equivalent to a dividend of EUR 0.60 (previous year: EUR 0.17) per Franconofurt share.

The IPO of FranconoWest AG took place in financial 2007, and the IPO of Francono Rhein-Main AG took place in financial 2006. FranconoWest AG placed 3,000,000 shares at EUR 1.80 per share within the framework of the capital increase. The issue price which was higher than the pro-rata carrying amount under IFRS at the point at which the new shares were issued, less directly attributable costs and tax effects per share, also increased the shareholders' equity of Franconofurt AG. Within the framework of capital consolidation, this difference of TEUR 1,501 was recognised in equity under other reserves. In the previous year, 7,000,000 shares of Francono Rhein-Main AG were placed at EUR 3.10 per share. A figure of EUR 10.3 million was accordingly recognised in equity under other reserves.

Within the framework of the IPOs, Franconofurt AG sold 2,000,000 shares of FranconoWest AG at EUR 1.80 per share in 2007 and 649,000 shares of Francono Rhein-Main AG at EUR 3.10 per share in 2006. The pro-rata IFRS shareholders' equity per share was determined at the time of the sale, and the corresponding amounts were reclassified under minorities for the shares which were sold.

In December 2006, Franconofurt AG sold a further 2,575,000 shares in Francono Rhein-Main AG, generating income of EUR 6.7 million for commercial law purposes from the transaction. In the consolidated financial statements, the disposal gain was determined using the partial entity method, and amounted to EUR 5.4 million.The difference of EUR 1.3 million reduced the income shown in the consolidated income statement for the period ending 31 December 2006, and was allocated to minority interests. 2,550,000 shares in Francono Rhein-Main AG were also sold in 2007. The consolidated result includes a disposal gain of EUR 3.5 million. The transaction resulted in an increase of EUR 1.3 million in minority interests in excess of the nominal value.

The other changes also relate to disposals of minority interests to managing directors of service companies and the deconsolidation of GlobalConstruct AG as well as consequent reclassifications as minority interests.

5. Authorised capital

Pursuant to a resolution of the shareholders' meeting of 04 May 2007, which was entered in the commercial register on 20 June 2007, the management board is authorised, subject to the approval of the supervisory board, to increase the company's share capital on one or more occasions until 1 May 2012 by up to a total of EUR 4,400,000.00 in return for cash and/or non cash contributions by way of issuing new no-par-value bearer shares.

The management board was authorised, subject to the approval of the supervisory board, to exclude the shareholders' subscription rights in the following cases:

- For fractions
- If the capital increase is carried out in return for cash contributions and the total proportionate amount of the share capital attributable to the new shares for which the subscription right is excluded does not exceed 10 % of the share capital, either at the time at which the new shares are issued or at the time at which this authorisation is exercised, and if the issue amount of the new shares is not significantly lower than the market price of the already listed shares of the same class and terms at the point at which the issue amount is definitively fixed by the management board in accordance with sections 203 (1) and (2), 186 (3) sentence 4 AktG,
- In the case of a capital increase in return for non-cash contributions for granting shares for the purpose of acquiring companies, parts of companies or equity participations in other companies.

The management board is also authorised, with the approval of the supervisory board, to determine the further details for carrying out capital increases out of the authorised capital.

The new shares can be taken up by credit institutions specified by the management board on condition that they offer these shares to the shareholders (indirect subscription rights).

The company currently does not have any contingent capital.

(15) Non-current interest-bearing debt

The non-current interest bearing debt due to credit institutions is stated as EUR 45.424.193,19 (previous year: EUR 2,513,318.07). In order to minimise the non-current interest risk, the Group has taken out hedges in the form of swaps. The term varies between expiry on 30 December 2013 and 31 December 2018. The company receives three-month EURIBOR and pays a fixed rate of between 4.05 % and 4.89 % plus an agreed bank margin of between 90 and 150 basis points. Property charges of EUR 45,424,193.19 (previous year: 2,613,318.07) have been registered in order to secure the loans.

(16) Deferred tax liabilities

The effective tax rate of the Group of around 41% as of 31 December 2007 is calculated on the basis of the trade tax of approx. 19.65% and an assessment base of 460 in Frankfurt am Main (previous year: 490) as well as corporation tax to be calculated after deduction of trade tax (25.0%) plus a solidarity surcharge of 5.5%. The effective tax rates of the domestic subsidiaries with which a single entity is not deemed to exist for tax purposes vary between 40% and 41%,

The taxes on income calculated in the financial year for the Franconofurt Group and Francono Rhein-Main AG (shown as discontinued operations) are broken down as follows:

	Reporting year euros	**Previous year** euros
Actual taxes on income	323,423	370,360
Deferred taxes	1,629,446	1,498,075
Taxes on income	**1,952,868**	**1,868,435**
Thereof: Continued operations	- 1,035,263	238,429
Discontinued operations	2,988,131	1,630,006

In shareholders' equity, deferred tax liabilities of EUR 12,499.73 (previous year: EUR 66,744.96) are shown under the cash flow reserve.

When the Company Tax Reform 2008 comes into force, IAS 12.47 in conjunction with IAS 12.48 specify that deferred tax assets and deferred tax liabilities have to be measured using the tax rates which are expected to be valid for the period in which an asset is realised or a liability is settled. Accordingly, contrary to the previous year, a tax rate of 32 % (41 %) has been used for this purpose, and the deferred tax assets and deferred tax liabilities have been revalued accordingly. The revaluation process has resulted in a positive effect of TEUR 512.

The taxes of the Franconofurt Group shown as of the reference date, excluding Francono Rhein-Main AG which is shown as discontinued operations, are attributable to the following:

	Reporting year TEUR	**Previous year** TEUR
Tax losses carried forward	1,411	201
Financial derivatives	115	136
Other	0	13
Intercompany profit elimination	- 62	111
Measurement of properties at fair value	- 2,428	- 1,086
Balance of deferred tax liabilities	**- 964**	**- 625**
Figures shown in consolidated balance sheet		
Deferred tax assets	627	205
Deferred tax liabilities	1,591	830

With the exception of TEUR 295 attributable to service companies, the tax losses carried forward incurred as of 31 December 2007 are shown completely.

Reconciliation between the expected (theoretical) tax expense and the effective (actual) tax expense:

	Reporting year thousand euros	Previous year thousand euros
Result of continued operations	9,293	5,383
Effective tax rate	41%	41%
Expected tax expense	3,810	2,207
tax rate change 2007	- 512	0
Taxation difference group companies	- 63	0
Deferred tax on disposal income of discontinued operations	115	0
Tax-free disposal income	- 1,775	- 2,085
Non-capitalised losses carried forward	121	0
Other	257	116
Effective tax expense / income	1,953	238

The tax-free income mainly relates to the sales of shares in equity participations, for which only 5% of business expenses are permitted to be deducted. The process of writing down the discontinued operations to the lower fair value did not have any impact on taxes in 2008. Under tax law, a taxable profit has been generated; the 5% business expense deduction has been recognised in relation to this profit.

(17) Deferred liabilities

The deferred liabilities of EUR 1,597,014.08 (previous year: EUR 1,589,498.48) relate to provisions for management board fees of TEUR 320 (previous year: TEUR 530), provisions for anticipated losses for rent of TEUR 225 (previous year: TEUR 314), the costs of preparing and auditing the financial statements of TEUR 206 (previous year: TEUR 319), outstanding invoices of TEUR 375 (previous year: TEUR 100), provisions for building work which is the subject of a contractual commitment for apartments which have already been sold of TEUR 212 (previous year: TEUR 0) as well as provisions for litigation of TEUR 100 (previous year: TEUR 35).

(18) Tax liabilities

The tax liabilities comprise the expected actual tax payments, particularly of the subsidiaries FranconoResidence AG and GlobalAcquisition GmbH from the taxable income of the current reporting period.

(19) Current interest-bearing debt

The current interest-bearing debt comprises mainly bank borrowings which were raised in order to refinance the properties shown under inventories and which are available-for-sale. Property charges have been registered in order to cover most of the loans. The contract periods vary, and the latest maturity date for the contracts is 30 November 2015. These contracts can be redeemed without having to comply with any period of notice if the secured properties are sold. The company pays either variable rates calculated as three-month EURIBOR plus a bank margin of 1.5% or fixed rates of between 3.85% and 4.85% per annum.

(20) Trade accounts payable

All trade accounts payable of EUR 1,710,312.53 (previous year: 2,628,457.69) have a remaining term of less than one year.

(21) Other current liabilities

The other current liabilities of EUR 1,246,261.85 (previous year: EUR 1,246,261.85) relate to swaps as well as other liabilities with a remaining term of less than 12 months; they consist mainly of deposits received from tenants and prepayments made by tenants in connection with ancillary rental costs. In total, 14 interest swaps had been concluded as of the balance sheet date; of these, some report negative market values totalling EUR 527.222,22 (previous year: EUR 331,394.26). For further details, please refer to our comments under “Financial risk management and hedging measures”.

(22) Overview of current and non-current debt

In accordance with IFRS 7, the recognised financial liabilities, trade accounts payable and the other financial liabilities are broken down in the following:

TEUR		Undiscounted contractual cash flows				
	Carrying amount	Less than 30 days	Between 30 and 90 days	Betwenn 90 and 360 days	Between 1 and 5 years	More than 5 years
As of December 31, 2007						
Financial liabilities	66,922	0	0	0	21,498	45,424
Trade accounts payable	1,553	776	776	0	0	0
Accounts due to affiliated companies	157	157	0	0	0	0
Other financial obligations rent deposits / advance payments for operating costs	1,588	135	135	1,319	0	0
Accrued liabilities	1,597	0	320	1,277	0	0
Other current liabilities	981	136	273	45	0	527
Total	**72,798**	**1,204**	**1,504**	**2,641**	**21,498**	**45,951**
Thereof: Derivatives	527	0	0	0	0	527
In a hedge	527	0	0	0	0	527
As of December 31, 2006						
Financial Liabilities	30,901	0	0	16,143	11,315	3,443
Trade accounts payable	2,628	2,628	0	0	0	0
Accounts due to affiliated companies	0	0	0	0	0	0
Other financial obligations rent deposits / advance payments for operating costs	360	0	0	360	0	0
Accrued liabilities	1,589	0	206	1,383	0	0
Other current liabilities	886	0	555	0	0	331
Total	**36,364**	**2,628**	**761**	**17,886**	**11,315**	**3,774**
Thereof: Derivatives	331	0	0	0	0	331
In a hedge	331	0	0	0	0	331

Notes to the income statement

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

(23) Rental income

Rental income increased in the period under review to EUR 3,522,892.93 (previous year: EUR 1,452,462.36) as a result of the establishment of further real estate holdings. This income is opposed by operating and ancillary costs of EUR 1,534,975.54 (previous year: EUR 783,652.83), and are expenses incurred in connection with management of the real estate portfolio. The operating and ancillary costs also include all property-related maintenance expenses.

(24) General administrative expenses

The general administrative expenses of EUR 5,214,803.19 (previous year: EUR 2,418,142.39) include the personnel expenses incl. social security of EUR 2,559,769.77 (previous year: EUR 1,519.667.86), costs of the leased office premises, car and travelling expenses, legal and consultancy fees, depreciation on intangible assets (software) and property, plant and equipment of EUR 234,882.00 (previous year: EUR 64,555.00).

(25) Selling expenses

The selling expenses of TEUR 1,236 (previous year: TEUR 390) mainly relate to the sale of property holdings from inventories.

(26) Other operating income

The other operating income of EUR 8,272,032.12 (previous year: EUR 7,028,954.86) is mainly attributable to income from sales of 2,550,000 shares of the subsidiary Francono Rhein-Main AG and the placing of 2,000,000 shares on the occasion of the IPO of FranconoWest AG as well as the activities of the service companies for third parties included in this item.

(27) Other operating expenses

The other operating expenses of EUR 5,297.174.84 (previous year: EUR 2,841,247.03) mainly relate to the costs of preparing and auditing the financial statements of TEUR 720 (previous year: EUR 778), legal and consultancy fees of TEUR 334 (previous year: TEUR 147), advertising and representation costs of TEUR 747 (previous year: TEUR 235) as well as other costs in connection with properties of TEUR 292 (previous year: TEUR 569).

(28) Net unrealised profit from the measurement at fair value of investment properties

Net unrealised profits of EUR 8,331,844.52 (previous year: EUR 0.00) from the measurement of financial properties were generated in the period under review; this figure is attributable to the subsidiaries FranconoWest AG und FranconoOst AG. For details, please refer to “Accounting policies”.

(29) Financial result

The financial result of EUR -1,337,027.33 (previous year: EUR -697,461.61) comprises interest expenses for loans of EUR 2,003,104.24 (previous year: EUR 781,677.97) as well as interest income of EUR 666,076.61 (previous year: EUR 84,216.36), including income of EUR 80,748,30 (previous year: EUR 0.00) from the measurement of derivative financial instruments at fair value.

(30) Result of discontinued operations after taxes

The result of discontinued operations after taxes consists of the result of Francono Rhein-Main AG for 2007 less the loss attributable to the measurement of the company at the lower fair value. The result is broken down as follows:

Presentation of the results of FranconoRheinMain AG

(in euros)	Jan. 01. - Dec. 12, 2007	Jan. 01. - Dec. 12, 2006
Rental income	6,382,120.77	1,350,953.20
Costs of operating and ancillary	- 1,382,864.09	- 449,116.66
Rental result	**4,999,256.68**	**901,836.54**
General administrative expenses	- 1,859,181.22	- 133,732.02
Selling expenses	- 44,184.38	- 125,197.66
Other operating income	141,477.39	26,662.41
Other operating expenses	- 1,653,477.31	- 643,680.99
Result of other operating income and expenses	**- 1,511,999.92**	**- 617,018.58**
Unrealised profits from the measurement of investment property at fair value	11,031,121.71	3,766,826.09
Unrealised losses from the measurement of investment property at fair value	- 1,290,861.32	- 1,299,055.32
Unrealised result from the measurement of investment property at fair value	**9,740,260.39**	**2,467,770.77**
Proceeds from the sale of investment property	1,418,000.00	7,253,000.00
Carrying amount of the sold investment property	- 1,221,433.31	- 5,683,464.42
Result from the sale of investment property	**196,566.69**	**1,569,535.58**
Result of ordinary operations before interest and taxes	**11,520,718.24**	**4,063,194.63**
Financing costs	- 2,540,201.49	- 278,485.30
Interest income	252,736.23	190,915.68
Fiancial result	**- 2,287,465.26**	**- 87,569.62**
Result bevore taxes	**9,233,252.98**	**3,975,625.01**
Tax expense	- 2,988,131.28	- 1,630,006.25
Result	**6,245,121.70**	**2,345,618.76**
Measurement at lower fair value	- 5,094,297.75	0.00
Result of discontinued operations after taxes	**1,150,823.95**	**2,345,618.76**

(31) Earnings per share (EPS)

The capital stock amounted to EUR 8.800.000,00 as of the balance sheet date (31 December 2007). The capital stock consists of 8,800,000 (previous year: 6,600,000) no-par-value bearer shares. The company carried out a capital increase in 2007. Please refer to the statement of movements in shareholders’ equity.

The Group result for the period has been used as the basis for calculating earnings per share. This was related to the average number of shares during the reporting period 2007 (namely 8,159,341 compared with 5,993,889 in 2006).

There are no instruments which dilute earnings per share. Accordingly, diluted and undiluted earnings per share are identical.

Financial risk management and hedges

Principles of risk management

As a result of its business operations, the Group is exposed to market, credit and liquidity risks. Risk management is the responsibility of the central Treasury department (Group Treasury) in accordance with guidelines adopted by the management board. The aim of financial risk management is to limit these market risks by the current operating and finance-oriented activities. Group Treasury co-operates closely with the operating entities of the Group to identify, evaluate and provide protection against financial risks. The maximum default risk is defined by the carrying amounts of the financial assets shown in the balance sheet (incl. derivative financial instruments with a positive market value). Selected derivative hedging instruments are also used depending on the risk assessment. In order to minimise the default risk attributable to derivative hedging instruments, the hedges are conducted only with leading financial institutions with a minimum credit rating of BB+/Baa1. The management board specifies in written form the principles for group-wide risk management as well as guidelines applicable for specific areas, e.g. how to handle the foreign currency risk, the interest rate and credit risk, the use of derivative and non-derivative financial instruments as well as the investment of surplus liquidity. Certain transactions require prior approval of the Chief Financial Officer, who is also regularly informed of the extent and amount of the current risk exposure.

(a) Market risks

(a1) Foreign currency risks

Franconofurt AG is not exposed to any foreign currency risk as of the balance sheet day.

(a2) Interest rate risk

Franconofurt AG is exposed to interest rate risks in the Euro zone. In order to minimise the effects of fluctuations in interest rates on net interest income, the Group aims to hedge at least 80% of the interest rate risk for the amounts shown under non-current interest-bearing liabilities. Group Treasury of Franconofurt AG manages the interest rate risk by way of taking out interest rate derivatives (interest swaps and interest caps).

As a result of derivative hedges, a nominal volume of EUR 34.75 million (31 December 2006: EUR 0 million) of net financial debt at FranconoWest AG was hedged by means of interest swaps against changes in interest rates on 31 December 2007. A total of EUR 3.8 million was hedged against interest rate changes in the form of traditional fixed-rate loans. The fixed rates resulting from the transactions which have been taken out are in a range of between 4.05 % and 4.89 %. There were also hedges against rising interest rates as of 31 December 2007 for borrowings taken out to finance property purchases of EUR 14.5 million which had already been certified in notarial deeds but for which the benefits and burdens have not yet been transferred (31.12.2006: EUR 0 million).

In accordance with IFRS 7, interest rate risks are presented by means of sensitivity analyses. These present the effect of changes in market interest rates on interest payments, interest income and expenses, other earnings components as well as shareholders' equity in certain cases. The interest sensitivity analyses are based on the following assumptions:

In the case of financial instruments which have been designated as hedging instruments as part of a cash flow hedge for hedging interest-related fluctuations in payments, changes in market interest rates have an impact on the hedge reserve in shareholders' equity, and are therefore included in the sensitivity calculations relating to shareholders' equity.

Changes in market interest rates have an impact on the net interest income of non-derivative floating-interest financial instruments for which the interest payments have not been designated as underlyings within the framework of cash flow hedges against interest rate risks, and are accordingly included in the calculation of the sensitivities relating to results.

Changes in market interest rates of interest derivatives (interest swaps, interest caps) which are not included in a hedge in accordance with IAS 39 have an impact on other operating income or other operating expenses and are therefore included in the sensitivity calculations relating to results.

Currency derivatives are not included in the consideration of interest rate risks.

The following table shows the theoretical impact of a 1 % change in the level of Euro interest rates on net income and also the change in value directly recognised in shareholders' equity (overall term of the hedge):

	December 31, 2007		December 31, 2006	
Effect in TEUR on	Net income	Changes in value shown directly in equity	Net income	Changes in value shown directly in equity
100 BP higher Euro interest level	1.713	1.182	543	375
100 BP lower Euro interest level	- 1.955	- 1.349	- 543	- 375

(b) Credit risk

There are no significant concentrations of possible credit risks in the Group. There are specifications which ensure that sales with customers are conducted only if the customer has demonstrated an appropriate payment behaviour in the past. In the core business of rental of residential and commercial units, the default risk of the reported assets and the anticipated monthly sales is very low as a result of the tenant structure of 1,844 tenants (previous year: 810) in private and commercial units as of 31 December 2007. The maximum default risk is defined by the carrying amounts of the financial assets shown in the balance sheet excluding cash and cash equivalents but including derivative financial instruments with a positive market value, and amounted to EUR 3.78 million as of the balance sheet date (previous year: EUR 12.95 million).

Franconofurt AG is also exposed to a default risk with its treasury activities. When its liquid funds are invested and also when derivative transactions are carried out, business is conducted only with counterparties with a minimum credit rating of BBB+/Baa1, combined with constant monitoring of the counterparty rating. The Group has adopted a policy which restricts the credit risk in relation to individual financial institutions to a specific amount. The frame agreements for derivative transactions concluded with the financial institution specify that positive and negative market values are netted for the purpose of determining the compensation payment in the event of insolvency. This ruling reduces the credit risk attributable to derivative transactions conducted with the financial institutions.

(c) Liquidity risk

Prudent liquidity management includes the holding of an adequate reserve of cash and cash equivalents, the possibility of obtaining funding by an adequate amount of committed credit lines and the ability to issue securities on the market. As a result of the dynamic nature of the business environment in which the Group operates, the aim of the Group Treasury department is to ensure the necessary flexibility in financing by way of adequate unutilised cash and guarantee credit lines. As of the balance sheet date, the Group has contractually committed credit lines of EUR 60.0 million in cash for financing further property purchases (previous year: EUR 0.0 million) particularly at FrancоnoWest AG. A figure of EUR 7.0 million (previous year: EUR 0 million) of these cash lines was unutilised as of 31 December 2007. The company did not have any guarantee credit lines as of the balance sheet date.

Hedges

Cash flow hedges – interest rate risks

In financial 2007, Francono took out Euro-Payer interest swaps to hedge the cash flow risk of floating-rate Euro bank borrowings (“Pay fix – receive floating”). Floating rate bank borrowings were designated as the underlying. The rating premium is not part of the hedge.

The intention is that changes in the cash flows of the interest swaps compensate for changes in the cash flows of the underlying resulting from changes in EURIBOR. The aim of the hedges is to hedge the cash flow attributable to the bank borrowings against an increase in the reference rate. Rating risks are not covered by the hedge.

The effectiveness of the hedge is reviewed prospectively with the critical terms match method in accordance with IAS 39, AG 108 for the interest swaps as well as the interest caps which are taken out. A sensitivity analysis (assumption concerning the change of no-risk floating interest rates) checks the effectiveness retrospectively as of every balance sheet date by showing that the changes in value of the hedge and the underlying cancel each other out. A relatively small proportion of the hedges was not effective as of the closing date.

General disclosures

I. Articles of association

The articles of association are valid in the version of 4 May 2007.

II. Employees

The companies consolidated in the Franconofurt Group employed 6 management board members as well as an average of 64 employees in the year under review (previous year: 40).

III. Management board

The management board of the company consists of the following persons:

Mr. Metehan Sen	Dipl.-Kaufmann, Frankfurt am Main, board spokesman
Mr. Christian Wolf	Dipl.-Betriebswirt, Frankfurt am Main
Mr. Carsten Siegert	Immobilienkaufmann, Frankfurt am Main up to 31 January 2008:

The business distribution plan of the management board specifies the following distribution of tasks:

Mr. Metehan Sen	Finance, Investor Relations, Controlling and Tax
Mr. Christian Wolf	Acquisition, Sales, Legal

The supervisory board issued rules of procedure for the management board on 13 July 2007.

The total emoluments of the management board are broken down as follows:

in TEUR	2007		2006	
	fix	variable	fix	variable
Carsten Siegert	175	-	175	-
Christian Wolf	175	-	175	-
Metehan Sen	198	231	116	517
benefits of the board directors	548	231	466	517

Mr. Metehan Sen currently receives profit-linked compensation of 8.85% (at the point at which his employment agreement was signed: 10%) of the net income of Franconofurt AG under HGB, less his fixed salary. In the case of further capital increases, the variable compensation is reduced further on a straight-line basis.

The company has not provided the members of the management board with any pension commitments. No benefits have been agreed for cases whereby the activity of the member of the management board is terminated or in the event of a change of control.

IV. Shareholdings of the members of the management board

The members of the management board had the following shareholdings as of the balance sheet date:

Mr. Carsten Siegert

via Lewenhagen Siegert GmbH — 1,900,000 shares

(lock-up period until 2009 for 1,425,000 shares)

Mr. Christian Wolf

via Christian und Nadja Wolf GmbH — 1,726,378 shares

(lock-up period until 2009 for 1,425,000 shares)

Mr. Metehan Sen — 60,200 shares

V. Supervisory board

The supervisory board consists of the following persons:

Mr. Bruno Otto Kling — Bankkaufmann, Bad Vilbel, chairman of the supervisory board

Dr. Heinrich Wolf	Dipl.-Chemiker, Neu-Isenburg, deputy chairman of the supervisory board
Mr. Klaus Nieding	Rechtsanwalt, Frankfurt am Main, member of the supervisory board until 26 February 2008

VI. Compensation of the supervisory board

The supervisory board has received compensation of EUR 33,076.00 (previous year: EUR 12,000.00).

The members of the supervisory board did not hold any shares of the company as of 31 December 2007.

VII. Disclosure of memberships of the members of the management board and members of the supervisory board in other supervisory boards or similar control bodies

Metehan Sen:	Chairman of the supervisory board of Francono Rhein-Main AG, Frankfurt am Main (until 4 April 2008) Deputy chairman of the supervisory board of FranconoWest AG, Düsseldorf Chairman of the supervisory board of FranconoOst AG, Leipzig Deputy chairman of the supervisory board of FranconoResidence AG, Frankfurt am Main
Christian Wolf:	Chairman of the supervisory board of FranconoResidence AG, Frankfurt am Main Supervisory board of FranconoOst AG, Leipzig
Carsten Siegert	Supervisory board of FranconoOst AG, Leipzig

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

Bruno Kling:	Chairman of the supervisory board of EVB Energie AG, Velbert Deputy Chairman of the supervisory board of Francono Rhein-Main AG, Frankfurt am Main (until 4 April 2008) Chairman of the supervisory board of GlobalConstruct AG, Frankfurt am Main (until 18 December 2007) Supervisory board of Primacom AG, Mainz (until 31 December 2007)
Klaus Nieding:	Deputy chairman of the supervisory board of vwd Vereinigte Wirtschaftsdienste GmbH, Frankfurt am Main President of the Deutscher Anlegerschutzbundes e.V.

Managing director of the Deutsche Schutzvereinigung für Wertpapierbesitz e.V., regional association Hesse/Rheinland-Palatinate/Saarland

Dr. Heinrich Wolf: Board member of Qingdao Meteor Rubber & Plastic Co. Ltd.

VIII. Auditors

KPMG Deutsche Treuhand-Gesellschaft Aktiengesellschaft Wirtschaftsprüfungs-gesellschaft, Berlin ("KPMG") was elected as the auditor of Franconofurt AG pursuant to the resolution of the shareholders' meeting of 4 May 2007.

The auditor's fee recognised as expense in the financial year (excl. out-of-pocket expenses and VAT), including the fees for the three listed companies of the Group, is broken down as follows:

	TEUR
Audit of consolidated and annual financial statements 2007	208
Audit review of interim financial statements 2007	72
Certification services	112
Total fees	**392**

The certification services relate to the preparation of comfort letters and audit services in connection with the IPO of FranconoWest AG and the segment change of Franconofurt AG.

IX. Related-party disclosures

The following members of the management board are related parties for the purposes of IAS 24: Carsten Siegert (until 31 January 2008), who had a shareholdings of 21.59% via Lewenhagen Siegert GmbH as of 31 December 2007, as well as Christian Wolf, who held 19.62% of the share capital via Christian und Nadja Wolf GmbH as of 31 December 2007.

In the period under review, the two members of the management board received total emoluments of TEUR 350 (previous year: TEUR 350).

By way of contrast with the transactions described in the consolidated financial statements for the period ending 31 December 2006, no agreements were signed and no transactions were conducted with related parties in financial 2007.

X. Contingencies and other financial obligations

As was the case in the previous year, there were no contingencies as of the balance sheet date.

The following other financial obligations existed as of the balance sheet date.

- As of the balance sheet date, property purchase agreements with a volume of EUR 39.1 million had also been documented in notarial deeds although no benefits and burdens had been transferred as of the balance sheet date. Further purchase agreements for real estate amounting to EUR 10.2 million were also notarized up to the date of the preparation of the financial statements.

- The company has entered into a tenancy agreement with Commerz Grundbesitz Investmentgesellschaft mbH, Wiesbaden, for the office premises in Frankfurt am Main until 30 June 2009. The monthly cold rent is EUR 41,530.98. In addition, the company has also entered into a tenancy agreement with a monthly cold rent of EUR 12,732.00 plus VAT for the office premises in Düsseldorf until 31 December 2010.

- The company has also provided a commitment to Aareon Deutschland GmbH whereby it agrees to source the SAP hosting necessary for handling operations for a monthly fee of TEUR 8 plus VAT for a period of 60 months.

XI. Disclosures in accordance with section 160 (1) no. 8 AktG (3% limit)

As of 31 December 2007, Mr. Carsten Siegert held 21.59% of the voting rights in Franconofurt AG via Lewenhagen Siegert GmbH, and Mr. Christian Wolf held 19.62% of the voting rights in Franconofurt AG via Christian und Nadja Wolf GmbH.

The company has also received the following notifications:

1. The Franklin Templeton Investment Fund notified the company on 12 April 2007 in accordance with section 21 (1) WpHG that its share of the voting rights in Franconofurt AG exceeded the limit of 5% of voting rights on 11 April 2007. The investment company currently holds 499,260 shares, equivalent to 5.67% of Franconofurt AG. In addition, Franklin Templeton Investments has also notified the company in accordance with section 22 WphG that the voting rights are attributable to Franklin Mutual Series Fund Inc.

2. LRI Invest S.A. Luxembourg (a subsidiary of Landesbank Rheinland-Pfalz International S.A.) notified the company on 20 April 2007 that it has exceeded the limit of 5% of voting rights and that it holds 478,166 shares or a 5.43% stake in Franconofurt AG for a public fund under its management.

XII. Statement of compliance with the German Corporate Governance Code

Franconofurt AG and Francono Rhein-Main AG and FranconoWest AG which are included in the consolidated financial statements have confirmed that the shareholders are able to permanently access the statements of compliance with the German Corporate Governace issued by the members of the management board and the members of the supervisory board in accordance with section 161 AktG in 2008 on the company's web site at www.Franconofurt.de >Investor Relations >Corporate Governance, www.FRM.AG> Investor Relations >Corporate Governance; www.FranconoWest.de>Investor Relations >Corporate Governance.

XIII. Disclosures concerning security transactions and equity participations which are the subject of reporting requirements (in accordance with section 15a WpHG and sections 21 et seq. WpHG)

As of 31 December 2007, Mr. Carsten Siegert held 21.59% of the voting rights in Franconofurt AG via Lewenhagen Siegert GmbH, and Mr. Christian Wolf held 19.62% of the voting rights in Franconofurt AG via Christian und Nadja Wolf GmbH. Mr. Metehan Sen holds 0.68% of the voting rights in Franconofurt AG. The free float comprises 5,113,422 shares.

XIV. Events after the closing date

Pursuant to a resolution of the management board and with the approval of the supervisory board of 18 December 2007, Franconofurt AG concluded an agreement on 31 January 2008 with Grainger FRM GmbH and Grainger FRM (No. 1) GmbH & Co. KG, both indirect subsidiaries of the British Grainger plc, regarding the sale of a total of 15,226,000 shares of Francono Rhein-Main AG (54.38% of the share capital) for a price of EUR 1.50 per share payable in cash. Completion of this agreement was conditional on successful performance of the voluntary take-over offer of Grainger FRM GmbH to the other shareholders of

Francono Rhein-Main AG. The management board of Francono Rhein-Main AG was informed on 31 January 2008 that Grainger FRM GmbH is submitting a voluntary public takeover bid to the shareholders of Francono Rhein-Main AG in accordance with section 10 WpÜG. Please refer to the publication of Grainger FRM GmbH under www.grainger-angebot.de.

The transfer of the holding of 15,226,000 Francono Rhein-Main AG shares was completed by means of the closing confirmation with effect from 4 April 2008. In return, Franconofurt AG simultaneously received a payment of EUR 22,839,000 (before transaction costs).

The member of the management board Christian Wolf notified the company on 2 April 2008 in accordance with section 21 (1) WpHG that his share of the voting rights in Franconofurt AG exceeded the limit of 20% on 28 March 2008, and amounted to 23.44% (2,062,878 voting rights). All voting rights are attributable to him via Christian und Nadja Wolf GmbH in accordance with section 22 (1) sentence 1 no. 1 WpHG.

XV. Signature of the management board

Frankfurt am Main, 4. April 2008

Metehan Sen Christian Wolf

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Group management report for fiscal year 2007
Franconofurt AG, Frankfurt am Main

1. Business and background

1.1. Macro-economic situation

In 2007, the German economy continued to post a positive development following a strong year in 2006. According to provisional estimates of the Federal Office of Statistics, price-adjusted gross domestic product (GDP) grew by 2.5%. This is thus the second time in succession that the German economy has reported strong growth. Whereas the domestic economy has been weak, exports have been the main contributory factor to the increase in GDP. Private households were extremely cautious with their spending in 2007, which however was also due to consumers bringing forward their purchasing intentions as a result of the VAT increase in 2007. The economic upswing in 2007 was only partially felt by employees in the form of wage increases.

The positive economic performance continued to have a positive impact on the employment market in 2007. The number of persons in employment in Germany has increased by 0.65 million, setting a new record at around 40 million. The number of unemployed persons amounted to 3.6 million, approximately 15% lower than the corresponding previous year figure.

Inflation in Germany has continued to rise, also as a result of higher energy costs. Consumer prices in 2007 were 2.2% higher than the previous year, and have reached their highest levels since 1994.

1.2. Sector situation

1.2.1. Real estate market in Germany

The interest climate deteriorated in the second half of 2007. This was due to the beginning of the US real estate crisis with the effects on the capital market. Whereas interest levels for 10-year mortgage loans with a loan to value of 60% in 2006 were on average 3.9%, and whereas interest on short-term six-month real estate loans was running at an average of 3.1%, short-term mortgage rates increased on average to the same level as 10-year mortgage rates during 2007, namely to an average level of 4.4%. The strong increase in short-term rates is also due to the strong demand of banks for short-term liquidity.

The German residential real estate market in 2007 was not able to repeat the volume of portfolio transactions seen in 2006, particularly because international insitutional investors have turned their back on the German market. The high expecations of investors with regard to rent increases and selling prices, and also as a result of REIT legislation which was not beneficial for the residential sector, were not met.

Building activity for multi-storey apartment buildings fell to an all-time low in 2007. For the first time in German post-war history, fewer than 200,000 appartments in multi-storey buildings were completed, whereas demand is estimated to be approx. 250,000 to 300,000 appartments p.a. It can thus be assumed that prices for residential property and also rents in good locations should increase in the medium term.

As a listed real estate company, Franconofurt AG initially operated mainly in the real estate partitioning business in Frankfurt am Main. In partitioning business, multiple familiy houses in very good urban locations are purchased with the aim of selling the individual units to owner occupiers or investors after having been previously partitioned. The company has gradually extended the emphasis of its business in 2006 and 2007 to the Rhine-Main region, Northrhine Westphalia and Saxony/Thuringia. This means that Franconofurt AG is affected by the general economic situation and also the developments on the residential real estate market in Germany.

1.2.2. The real estate market in Frankfurt am Main

Prices on the residential real estate market in the high quality locations of Frankfurt have been quite stable in recent years. This was also the case in times of crises, when for instance banks and insurers had to lay off staff in 2001 to 2003 in the wake of the stock market crisis. By way of contrast with the residential sector, the commercial real estate market in 2007 in Frankfurt was characterized by falling prices and rents as well as rising vacancy rates.

Whereas the office market in Frankfurt is still characterized by high vacancy rates of up to 15%, the situation on the residential market in good locations is still characterized by price stability, with slightly rising prices for residential property in prime locations. In addition, the vacancy rate for residential properties in Frankfurt is still significantly lower than the vacancy rate of office properties. It is very probable that Frankfurt will continue to be an attractive location for companies, particularly as a result of the expansion of the airport, which means that there will be further immigration of persons looking for work; in turn, this should continue to have a positive impact on the demand for residential properties.

Increasing world-wide fears of inflation might become a further positive factor for the demand for residential property, which means that investor demand for real estate as safe assets might strengthen, and this might result in further upward pressure on property prices.

1.2.3. Real estate market in the Rhine-Main Region

Franconofurt AG had invested in the Rhine-Main region via its subsidiary Francono Rhein-Main AG. Franconofurt sold its stake of approx. 54% in Francono Rhein-Main AG on 4 April, 2008. This means that the Group currently no longer invests in the Rhine-Main region.

1.2.4. Real estate market in the Rhine-Ruhr region

Franconofurt AG invests in the Rhine-Ruhr region via its subsidiary FranconoWest AG. It invests mainly in the conurbations as well as the main centres such as Cologne, Düsseldorf, Essen, Dortmund and other catchment areas of smaller towns and cities.

The real estate market in the investment area of FranconoWest AG is characterized by the revival of the industrial sector in the Ruhr region resulting from the strong export activities in Germany. Accordingly, prices in good property locations mainly remained stable in 2007, whereas falling prices were reported in other unattractive regions. Last year, the planning departments in Northrhine-Westphalia issued planning permission for a total 38,588 new homes. This is equivalent to a decline of 22.8% compared with the previous year (2006: 49,987 homes). It is likely that prices of multiple family houses in good quality locations should at least remain stable as a result of the weak level of construction of new housing.

1.2.5. Real estate market in Eastern Germany

Franconofurt AG invests mainly in cities in and around Leipzig, Dresden, Halle, Görlitz, etc. via its wholly owned subsidiary FranconoOst AG. It does not invest in the residential property market in Berlin as a result of the high prices. Following the real estate crisis, which resulted in dramatically lower prices several years after reunification, the residential property market in Eastern Germany has now stabilized. In particular, demand of international real estate investors for high-yield rental apartments in urban locations and the general economic upswing have resulted in house prices stabilizing.

It is likely that the yields of Eastern German residential properties will gradually approach Western German levels over the next 10-15 years, and that the current yield spread of approx. 3-4% will decline to approx. 2-3%.

1.3. Positioning of the Franconofurt Group

1.3.1. Real estate holdings of the Franconofurt Group

The IPO of Franconofort AG in the entry standard took place in 2005, and the change to the regulated market (prime standard) of the Frankfurt Stock exchange took place in November 2007.

As a result of the nature of its operations, the company does not have any research and development activities. The company's business operations do not depend on patents, licenses or brands. However, the company observes the real estate market. The company operates exclusively in Germany. It does not have any locations abroad, nor does it have any plans to acquire or establish locations abroad.

The operating and strategic focus of the Franconofurt Group is detailed in the following, from the point of view of those companies which regionally own the real estate assets of the Franconofurt Group.

At present, the Franconofurt Group owns properties in very attractive districts of Frankfurt am Main, via FranconoResidence AG, a wholly-owned subsidiary.

The holding in Francono Rhein-Main AG (FRM), in which Franconofurt AG held a 54% stake, was sold to an international investor on 4 April 2008. The Franconofurt Group holds properties in Northrhine-Westphalia via its 85% subsidiary FranconoWest AG (FRW), and also invests in multiple family houses in Eastern Germany via its wholly owned subsidiary FranconoOst.

1.3.2. Positioning of Franconofurt AG and FranconoResidence AG

As the parent company of the Group, Franconofurt AG performs holding functions and also owns a residential real estate portfolio in selected locations of Frankfurt. Whereas partitioning business in 2006 was mainly conducted by FranconoResidence AG, Franconofurt AG itself resumed partitioning operations in 2008, also in order to optimize company law structures and tax structures. In partitioning business, multiple family houses are acquired mainly from private individuals for attractive prices with the aim of partitioning them into individual residential units which are then gradually sold to owner occupiers.

At the end of 2007, the Group owned a real estate portfolio consisting of multiple family houses worth approx. EUR 30.6 million via Franconofurt AG and Francono-Residence AG (previous year: EUR 26.5 million); this portfolio is shown under inventories.

1.3.3. Positioning of Francono Rhein-Main AG

Francono Rhein-Main AG has been operating as a property investment company in the Rhine-Main region since the spring of 2006. Franconofurt AG sold its 54% stake in Francono Rhein-Main AG to an English property company on 4 April 2008.

1.3.4. Positioning of FranconoWest AG

FranconoWest AG commenced operations in 2006 with the aim of establishing a property portfolio in Northrhine-Westphalia.

In 2007, FranconoWest AG continued the policy of purchasing multiple family houses which was commenced in 2006. It is gradually establishing a regionally oriented portfolio of residential real estate. FranconoWest AG was listed in November 2007. There are plans for a portfolio volume of approx. up to EUR 150 million to be established in the course of the next few years and, if the equity markets recover, there are also plans for possibly further strengthening the company’s capital base by way of capital increases and to increase the total investment volume. The aim is to sell part of the portfolio volume to institutional investors every year. Accordingly, FranconoWest AG sold a portfolio with a volume of EUR 9 million to an English investor for a profit in February 2008.

1.3.5 Positioning of FranconoOst AG

FranconoOst AG commenced operations in 2007. The registered offices of the company are in Leipzig. The paid-up capital of FranconoOst AG is EUR 5 million. The business model of the company is equivalent to that of FranconoWest AG, although the investment focus is Saxony/Thuringia.

1.4. Business processes of Franconofurt AG

In conjunction with the portfolio growth within the Group, it was also necessary for internal procedures and business processes to be adapted to bring them into line with the increased volume of properties and tenants. The company decided in 2006 to introduce an integrated backoffice system on the basis of SAP in productive operations as of 1 April 2007. Since that time, tenant accounts and the related tenancy agreements have been managed and processed on an integrated basis with Finance and Accounting. The implemented infrastructure is the basis to enable the company to achieve further reliable growth in the course of the next few years. The constant purchases and sales of real estate in the Franconofurt AG Group, combined with the SAP changeover and the simultaneous obligation to adopt quarterly market reporting in accordance with the rules of IFRS, have placed significant demands on all employees and the contractually linked service providers. By optimizing some business processes, and in particular the prompt processing of qualitative and quantitative data for improving the information content of statistics (e.g. details of the condition of properties or vacancy rate information based on districts, quarters, maintenance costs) after the end of 2007, the company has put in place the structures which will be necessary for generating further potential for savings in the areas of asset and cost management.

1.5. Corporate governance of Franconofurt AG

The management board and supervisory board attach great importance to compliance with the principles of the Corporate Governance Code. Apart from a few exceptions, Franconofurt AG complies with the recommended rules of conduct of the "German Corporate Governance Code" commission set up by the Federal German Government for corporate management and corporate monitoring.

For a description of the non-compliant application of corporate governance as well as the related publication, please refer to the company's home page (www.franconofurt.de).

1.6. Compensation report of Franconofurt AG

The compensation of the members of the management board is defined by the supervisory board; the members of the management board receive fixed compensation as well as variable compensation. The variable compensation is a profit-linked element which is based on the net income for the year in accordance with the Handelsgesetzbuch (Commercial Code). Specific individual details of compensation paid to members of the management board are set out in the notes.

2. Company development of the Franconofurt Group

2.1. Company development of Franconofurt AG - Overview

Overall, 2007 was a successful year for Franconofurt AG.

Two capital increases with a total volume of EUR 25 million were carried out in 2006, and Franconofurt has received proceeds of approx. EUR 24 million in 2007 as a result of issuing 2.2 million new shares (increasing the current total of shares to 8.8 million). These proceeds have also been invested in establishing FranconoWest AG. Accordingly, Franconofurt AG increased the capital of FranconoWest AG to approx. EUR 30 million in 2007. Within the framework of the IPO FranconoWest AG in November 2007, a capital increase involving an issue of 3 million new shares for an issue price of EUR 1.80 per share was carried out at FranconoWest AG. FranconoWest AG received gross proceeds of EUR 5.4 million from this transaction. At the same time, Franconofurt AG was able to place 2 million shares out of its own holdings, thus reducing its interest in FranconoWest AG from 100% to approx. 85%.

As a result of the sale of Francono Rhein-Main AG (FRM) as of 4 April 2008 and the supervisory board resolution of Franconofurt AG on 18 December 2007 approving the sale, Francono Rhein-Main AG has to be classified as “discontinued operations” in accordance with IFRS 5. This means that the corresponding items of FRM are shown separately as “discontinued operations”. In the consolidated balance sheet, the consolidated income statement and the cash flow statement of Franconofurt AG.

Because Franconofurt AG shows net income of EUR 4.6 million and cumulative profit of EUR 6.7 million in the annual financial statements prepared in accordance with HGB, Franconofurt AG is again capable of paying a dividend. The management board and the supervisory board will propose a dividend payment of EUR 0.75 per share.

2.1.2. Results of operations

The results of operations of the Franconofurt AG Group have also been successful even without the contribution to earnings of FRM. The consolidated result from continued operations is stated as EUR 7.3 million, compared with EUR 5.1 million. The result from the discontinued operation FRM after taxes amounted to EUR 1.1 million in 2007 (previous year: EUR 2.3 million). The result of discontinued operations after taxes comprises the consolidated result for financial 2007 of FRM (EUR 6.2

million) and also an impairment of EUR 5.1 million in order to write down the available-for-sale assets of FRM to the lower selling price in relation to IFRS assets.

Overall, the Group has generated a consolidated result of EUR 8.5 million (previous year: EUR 7.5 million), of which EUR 4.7 million (previous year: EUR 6.4 million) is attributable to the shareholders of Franconofurt AG. The consolidated result is broken down as follows:

Rental result increased to EUR 2.0 million in 2007 (previous year: EUR 0.7 million). The main driving factor in this respect was the rapid establishment of the property portfolio in FranconoWest AG as well as the initial contributions to earnings of FranconoOst AG.

The proceeds from the sale of portfolio properties amounted to EUR 11.9 million (previous year: EUR 12.6 million). The carrying amounts relating to the sales amounted to EUR 8.1 million (previous year: EUR 8.6 million). The sale of these properties resulted in a profit of EUR 3.8 million (previous year: EUR 4.0 million). Accordingly, with sales of residential properties in Frankfurt, Franconofurt AG has been able to maintain its high sales margin unchanged at 32%.

General administrative expenses increased to EUR 5.2 million (previous year: EUR 2.4 million), mainly due to the establishment of FranconoWest AG, FranconoOst AG and the process of setting up the infrastructure (incl. SAP implementation) in the Group’s headquarter in Frankfurt. Most of the costs are personnel costs and costs of material.

The other operating income amounted to EUR 8.3 million (previous year: EUR 7.0 million), resulting mainly from share sales equivalent to 9% of the share capital in FRM (EUR 3.5 million; previous year: EUR 5.4 million) as well as the sale of 2 million shares as part of the IPO of FranconoWest AG (EUR 1.0 million).

The other operating expenses amounted to EUR 5.3 million (previous year: EUR 2.8 million). The strong increase is due to the costs incurred in particular for the IPO of FranconoWest and the segment change of Franconofurt AG to the Prime Standard. This item also includes costs of the service companies of Franconofurt AG.

The balance of unrealized gains and losses from the measurement of investment property amounted to EUR 8.3 million in 2007, and relates to the higher valuations of the real estate portfolios of FranconoWest AG and FranconoOst AG which were acquired in 2007 and which were performed in accordance with IFRS 7.

Financial result amounted to EUR -1.3 million (previous year: EUR -0.7 million). The increase is attributable to the growth in the real estate portfolio and the related increase in the credit volume at FranconoWest AG and Franconofurt AG.

Taxes on income in relation to the profit from continued operations have increased appreciably from EUR 0.2 million to EUR 2.0 million. In the previous year, taxes on income were very low as a result of the mainly tax-free participation disposal income. In 2007, the percentage of income which attracts tax at the normal rate (rental and valuation of financial property) in addition to the participation disposal income is higher.

2.1.3. Net assets

In accordance with IFRS 5, the assets and liabilities of FRM are shown as held for sale in separate lines as of 31 December 2007. The previous year figures still include the FRM figures, and are thus not directly comparable with the year under review.

The total assets of the Franconofurt Group increased appreciably to EUR 292.7 million in 2007 (previous year: EUR 104.7 million). Most of this increase is attributable to the considerable expansion of the portfolios at Francono Rhein-Main AG, FranconoWest AG and FranconoOst AG.

Accordingly, Francono Rhein-Main AG has reported an increase of EUR 44 million in its real estate portfolio recognized in the balance sheet (to EUR 147 million), whereas FranconoWest AG has reported a real estate portfolio of EUR 55 million in the balance sheet. As a result of the timing difference involved in the transfer of economic benefits and burdens, which takes place after notarial certification, the notarially certified purchasing volume is greater than the volume of real estate recognized in the balance sheet.

The Group has also increased its inventory holdings of real estate by EUR 4.1 million to EUR 30.6 million. The item “inventories” shows the carrying amount of the real estate portfolio in Frankfurt earmarked for partitioning into residential properties.

The decline in trade accounts receivable is mainly due to the fact that this position was inflated in 2006 by the sale of a property portfolio of EUR 7.2 million. This receivable was settled by the purchaser of the portfolio in 2007. No portfolio sale was reported in 2007.

Under short-term assets, the available-for-sale assets are shown as EUR 165.0 million (56.4% of total assets). They are recognized after being impaired to their fair value and less any probable costs to sell. The liabilities of EUR 110.8 million determined in connection with the disposal are equivalent to the liabilities shown in the consolidated balance sheet of FRM as of 31 December 2007.

The capital base incl. minorities amounted to EUR 106.9 million at the end of 2007, compared with EUR 67.2 million in the previous year. Minority interests in capital amounted to EUR 29.5 million compared with EUR 16.3 million. The main factors behind the increase were the consolidated profit of EUR 8.5 million as well as the proceeds of EUR 24.2 million of the capital increase.

The investments in residential property were financed with equity and loans. Bank borrowings totalled around EUR 66.9 million at the end of 2007 (previous year: EUR 30.9 million).

2.1.4. Financial position

As is also the case in the income statement, the cash flow contribution of Francono Rhein-Main AG is shown separately as “discontinued operations” in the cash flow statement due to the sale of Francono Rhein-Main AG as of 4 April 2008.

The cash flow from continued operating activities excl. financing costs amounted to EUR minus 4.6 million (previous year: EUR minus 9.1 million). The reason for the negative operating cash flow is the fact that the costs of establishing FranconoWest AG and FranconoOst AG have had a negative impact on operating result. In addition, the consolidated profit also includes the non-cash income from the unrealized result of EUR 8.3 million attibutable to the measurement at fair value of investment property (previous year: EUR 0.0 million) as well as the income from investment sales shown under investing activities. In addition, the cash flow from discontinued operating activities amounted to EUR 0.03 million (previous year: EUR 1.1 million).

The cash flow from total operating activities amounted to EUR minus 6.6 million (previous year: EUR minus 9.4 million).

The cash flow from total investing activities amounted to EUR minus 141.6 million (previous year: EUR minus 40.5 million). Of this figure, EUR minus 86.5 million is attributable to the discontinued operations of FRM (previous year: EUR minus 50.2 million). The cash flow from the investing activities of continued operations of EUR minus 55.1 million (previous year: EUR plus 9.7 million) mainly comprises outflows of EUR minus 64.3 million attributable to the acquisition of investment property and the inflow of EUR 10.9 million from the sale of shares in fully consolidated subsidiaries (compared with EUR 10.3 million in the previous year).

The cash flow from financing activities amounted to EUR 162.6 million (previous year: EUR 64.0 million). The cash flow from continued operations amounted to EUR 70.1 million, and is mainly attributable to the capital increase of EUR 24.2 million at Franconofurt AG as well as inflows of EUR 4.5 million from capital increases at consolidated subsidiaries as well as borrowings of EUR 45.6 million. In addition, dividend payments amounted to EUR 4.2 million compared with EUR 0.8 million in the previous year.

The cash and cash equivalents of the Group increased from EUR 15.7 million to EUR 29.8 million mainly as a result of capital increases and borrowings. Less the cash of EUR 7.5 million attributable to discontinued operations, cash and cash equivalents are now stated as EUR 22.3 million (previous year: EUR 14.3 million).

2.2. Company development of FranconoWest AG

After the holding of Franconofurt AG in Francono Rhein-Main AG was sold as of 4 April 2008, Francono West AG now constitutes the largest equity participation of the Franconofurt Group. This section provides details of the operating development of FranconoWest AG.

FranconoWest AG commenced its operating activities at the end of 2006. Two experienced members of the management board were signed up for the company in the persons of Guido Dollhausen and Christiane Möller. In the course of 2007, the share capital was increased initially from EUR 3 million to EUR 10 million, and then by a further EUR 20 million to EUR 30 million. The capital was paid in exclusively by Franconofurt AG.

FranconoWest AG was listed on the stock exchange in November 2007. Within the framework of the IPO, a capital increase of EUR 3 million was carried out, whereby shares were issued for an issue price of EUR 1.80 per share, with FranconoWest AG receiving gross proceeds of EUR 5.4 million. At the same time Franconofurt AG sold 2 million shares out of its total of 30 million shares, resulting in Franconofurt receiving gross proceeds of EUR 3.6 million.

FranconoWest AG generated consolidated net income of EUR 4.3 million in 2007 (previous year: a loss of TEUR 16). Earnings before taxes amounted to EUR 6.2 million, whereas the write-ups amounted to EUR 6.7 million. The gross rental income of EUR 1.8 million was opposed by general administrative expenses of EUR 1.1 million.

Total assets at FranconoWest AG increased to EUR 82 million (previous year: EUR 3.1 million), driven by the increase in investment property, from EUR 64 million incl. EUR 8.8 million available-for-sale long-term properties which were the subject of a notarially certified sale to an English investor in February 2008. Cash increased to EUR 15.2 million (previous year: EUR 3 million). The equity of FranconoWest AG amounts to EUR 39 million (previous year: EUR 3 million). Long-term debt increased to EUR 39 million, mainly due to additional purchases of property assets, most of which were financed by means of mortgage loans.

2.3. The service companies of Franconofurt AG

In addition to the currently three asset companies Francono Ost AG, FranconoWest AG and FranconoResidence AG, four service companies have belonged to the Franconofurt Group since the end of 2007. The company can cover all services in the real estate sector with these companies: Property purchases, property sales, property management, architectural planning and execution.

The service companies operate in those regions of Germany in which the asset companies of Franconofurt AG are located. At present, they are operating the Rhine-Main region and in Northrhine-Westphalia.

3. Personnel development

In the period under review, the Group employed an average of 64 persons (previous year: 37) as well as six trainees (previous year: seven).

4. Share capital and articles of association of Franconofurt AG

The company's share capital is stated as EUR 8.8 million, and consists of 8.8 million no-par-value shares.

At present, the company is aware of two shareholders whose interest in the capital exceeds 20 % of voting rights. These are Lewenhagen Siegert GmbH and Christian and Nadja Wolf GmbH, with a 21% and 23% interest respectively in the share capital of Franconofurt AG. The member of the management board Mr. Metehan Sen holds a further 60,200 shares of Franconofurt AG. There are no shares which confer special rights, profit participation certificates or similar special rights.

Pursuant to the resolution of the shareholders' meeting of 4 May 2007, the management board was authorized, with the approval of the supervisory board, to increase the sharecapital on one or more occasions until 1 May 2012 by up to EUR 4.4 million in return for cash and /or non-cash contributions, whereby the shareholders' subscription right can be excluded (authorized capital). The management board is authorized, with the approval of the supervisory board, to exclude the statutory subscription right of the shareholders in various cases defined in the articles of association. The main cases are such exclusion in the event of a capital increase involving not more than 10 % of the share capital, or if the capital increase in return for a non-cash contribution is carried out for the purpose of acquiring companies, enterprises or equity participations.

With regard to the conditions for appointing / dismissing members of the management board and also with regard to changes to the articles of association, the rules in the articles of association do not differ from the corresponding rules in the Aktiengesetz (German Stock Corporation Act).

The articles of association of the company are published on the company's web site.

5. Opportunity and risk report

The Group is exposed to various opportunities and risks in the current market situation and also as a result of its strategy.

- The Group operates in the German real estate market, mainly in Frankfurt am Main, Saxony and Thuringia as well as Northrhine-Westphalia, and is thus dependent on the development of the conditions on this specific market and also the general development of the German real estate market. On the other hand, it is thus able to respond more quickly than nation-wide investors to changes in the regions, and has a stronger presence on the local markets, which can be beneficial particularly with regard to purchasing real estate.
- Franconofurt AG requires capital for its further growth. Access to sources of capital may by barred as a result of negative market developments, and this might accordingly have a negative impact on further growth. In addition, it might not be possible for further IPOs and capital increases of subsidiaries (such as that of FranconoWest AG) to be carried out. The share price Franconofurt AG and FranconoWest AG might be volatile, and no guarantee can be provided that liquid trading will develop.
- The Group operates in a segment (purchasing of small properties) in which private investors currently make up the main competition. The greater financial backing of the Group compared with private individuals may mean that the company is a preferred contact for potential sellers of property. There is also a risk that this competition will become more intense. Changes in the market, and in particular stronger demand, may mean that the company is not able to complete the process of expanding its portfolio within an acceptable timescale or that it might not be able to quickly re-fill any gaps which occur as a result of the sale of individual properties or sub-portfolios. The company is thus also exposed to the risk of a delay in expanding the portfolio and also reduced purchasing quality.
- The business model within the framework of the two-pillar strategy also focusses on holding property for the long-term. The purpose of property sales is to achieve the final value creation and enhance profits. However, the aim of the business model is to ensure that (at least most) costs are covered out of the income generated by the existing portfolio. On the other hand, its small size in terms of personnel and its flat structure means that the company is able to adapt to slightly changed market conditions.
- There is a risk that the Group might incorrectly assess the value of the properties to be acquired or the location. The added value of the property can be prevented by the subsequent market valuation, poor lettability and difficult sales opportunities, and results of operations can be exposed to significant risk. Accordingly, impairments recognized in relation to real estate assets might have a considerable impact on the profit of the Group. Some properties, and in particular those of the continued companies FranconoWest AG and FranconoOst AG, are held as fixed assets. These are measured at fair value at IAS 40. Differences between market value and costs of purchase are

recongized in the balance sheet as expense or income. Changes in value accordingly affect the result of the company.

- For financing and selling its properties, the company is exposed to an interest rate risk and also the risk of the availability of borrowings. The company aims to achieve gearing of 80 %. There is thus a risk that the procurement of debt via credit institutions will only be possible in future on the basis of less favourable conditions. If it is not possible for debt to be raised or prolonged in future or if debt cannot be raised or prolonged on reasonable terms, this could have a negative impact on the operations as well as the net assets, financial position and results of operations of the company. These risks are diminished by way of long-term interest hedges which are not tied to specific properties or loan agreements. This means the company can benefit from the currently comparatively low levels of interest rates even if interest rates rise appreciably.
- Failure to recover rental income or liability risks arising from the rental agreements can have a negative impact on the success of the Group's business. The company is exposed to the risk that it might not be adequately insured against all losses, damage and restrictions relating to the use of its properties and also against liability claims. Because of the manageable size of the portfolio and the regional concentration as well as the powerful IT system, the company is able to rapidly respond to rental income default, structural problems, etc., and appropriate countermeasures can be taken.
- With regard to the marketing of real estate, there is a risk that the real estate cannot be sold on the planned terms or within the planned period. This means that, contrary to the planning of the company, it might not be possible to generate revenues, or it might only be possible for revenues to be generated at a later date; this can have a considerable impact on results of operations particularly in the phase during which the portfolio is being established.
- Any deterioration in the tax climate in Germany might have a negative impact on the company’s activities. Particular mention has to be made in this respect of the company Tax Reform 2008, which envisages a restriction in relation to the amount of interest which can be allowed for tax purposes. The effect of the introduction of the so-called interest cap might reduce the extent to which borrowing interest costs can be deducted, and might thus significantly reduce profits.
- Any changes in the regulatory climate in Germany might have a negative impact on the company’s activities.
- The company is exposed to the loss of losing the services of persons in key positions. The management board of Franconofurt AG currently exists of only three persons.
- The company has mutual business relations with its service companies, and any termination of these relations might have a negative impact on the business of Franconofurt AG. Supply shortages might occur particularly in the transitional period until new business relations are established.

The company has taken steps to take advantage of these opportunities or to minimize the impact of these risks. Nevertheless, there is no guarantee, and it is not possible to preclude the possibility, that these opportunities and risks can all occur cumulatively, because they in certain cases are also dependent on external factors.

Risk management of Franconofurt AG

In order to set up a monitoring system to enable developments which might pose a risk to the continued existence of the company as a going concern to be identified at an early stage in line with the statutory regulations, the management board has installed a risk management system. The purpose of this risk management system is to identify potential risks which might pose a danger to the continued existence of the company as a going concern at an early stage, to assess such risks and introduce measures to combat the risks. The management board has arranged for the implementation of powerful software solutions in order to take account of the strong growth of the company.

In order to monitor and manage these risks, the company has installed various mechanisms, and these mechanisms are expected to be optimized in 2008. Because of the size and flat hierarchy structure of the company, all responsibilities are held by the members of the management board or the persons who report directly to the members of the management board. In the opinion of the company, this arrangement ensures that all important information is made available promptly to the decision makers so that an immediate response can be made. The risk management system is also based on the IT system which was installed in 2007 and which combined the tenant accounting system and financial accounting system of the company. This system permits regular monitoring of the costs within the framework of property management and also permits regular monitoring of the major data of the portfolio. External risks which are outside the portfolio (national economy, capital market interest rates, availability of financing, etc.) are monitored by external deliberations which involve regular meetings, and also by means of constant contact between the members of the management board and the financing banks and appraisal experts. The risk monitoring systems are observed and optimized by internal staff and also by external consultants. Although it is relatively unlikely that these risks will all occur simultaneously, it is not possible to preclude the possibility that, despite regular monitoring of all risks, they might all occur at the same time.

6. Forecast report

The prospects for economic growth in Germany in 2008 are mixed, particularly as a result of the negative effects of the US real estate and banking crisis. The International Monetary Fund has reduced its growth forecasts for Germany in its April 2008 publication. The IMF is now forecasting that, following growth of 2.5% in 2007, the German economy might now achieve growth of only approx. 1.5%. At the same time, the growth forecasts of the USA and European countries such as France, England and Italy have also been reduced. The emerging economies of China and India are generating positive growth impetus. It is questionable whether this impetus will be sufficient to enable the German export industry to achieve the same rate of growth as in 2007, which means that a negative impact on the situation on the employment market also has to be expected. In Germany, a stable situation is expected for residential property, whereby prices in peripheral locations should continue to fall, whereas prices in good urban locations might rise slightly as a result of the shortage of high quality accomodation. A further factor is that, following the abolition of tax incentives, new construction activity in Germany had fallen to an all-time low in 2007, and demand for accomodation in the medium term might outstrip supply.

Within the framework of its two-pillar strategy, Franconofurt AG will acquire residential houses in Frankfurt with the aim of partitioning them into residential property and of selling the units to owner occupiers; on the other hand, Franconofurt will acquire investment properties via its equity participations FrancонoOst and FranconoWest with the aim of establishing regional property portfolios in order to generate rental income and also to generate disposal gains from the sale of relatively small portfolios.

It is not possible to preclude the possibility that there might be significant changes in the extent of the equity participations in FranconoOst AG, FranconoResidence AG and FranconoWest AG as a result of strategic business decisions. This is also dependent on the climate on the capital markets.

Overall, we are forecasting IFRS consolidated income from continued operations for 2008 to be higher than the corresponding previous year figure. For 2009, we are predicting comparable positive results.

The sale of the equity participation in Francono Rhein-Main AG will result in a significant disposal income in 2008 in the annual financial statements under HGB; this is the relevant criterion used for calculating the dividend.

7. Report of events after the balance sheet date

On 31 January 2008, Franconofurt AG signed a sales agreement with Grainger FRM GmbH and Grainger FRM (No. 1) GmbH & Co. KG with regard to its 54.38 % holding in Francono Rhein-Main AG. The purchase agreement was subject to the condition that Grainger FRM GmbH is able to purchase at least 70 % of the shares after the submission of a mandatory bid in accordance with WpÜG. The purchase agreement was concluded on 4 April 2008 after all conditions had been satisfied.

In February 2008, FranconoWest AG sold a real estate package with a volume of EUR 9 million to an investor for a profit.

Frankfurt am Main, 4 April 2008

M. Sen C. Wolf