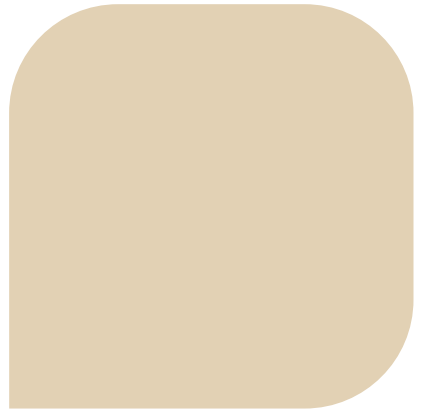
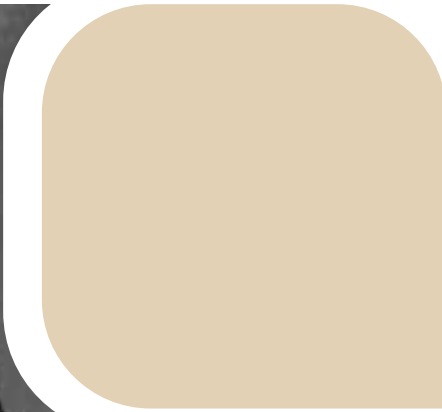




Turning Inefficiencies into **Opportunities.**



Annual Report
2006/2007

April 6, 2006 to March 31, 2007





Company profile

MAGNAT Real Estate Opportunities GmbH Co. & KGaA is a property company specialising in property development in Eastern Europe. The seed investors were the Silvia Quandt family and Themis Equity Partners and Heliad Equity Partners, two financial investors. Other institutional and private investors acquired equity stakes in MAGNAT in three capital issues in July and September 2006 and in April 2007.

MAGNAT's strategy is oriented to exploiting inefficiencies in real estate markets. In contrast to traditional investment strategies, MAGNAT benefits not only from rental income but primarily also from attractive returns on investment for developers and from the fact that capital is tied up for a comparatively short time in the individual projects. All projects must meet above-average return criteria.

MAGNAT's management focuses on property markets that have an attractive outlook for growth: undervalued markets ("anticyclical investing") and markets with high economic growth ("growth markets"). The current geographical focus is on central, eastern and south-eastern Europe enhanced by the exploitation of "special situations" in Germany, the domestic market.

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Data and facts

in the fiscal year 2006/2007

	EUR
Assets	
Investments	19,8 Mio.
Liquid assets	30,2 Mio.
	50,0 Mio.
Group equity incl. minority interests	
	45,4 Mio.
Equity ratio	
	90,9 %
Profit in the abbreviated fiscal year 2006/2007	
	0,3 Mio.
Shares outstanding	
	32,2 Mio.
Shares outstanding (after capital increase in April 2007)	52,9 Mio.
Group equity incl. minority interests (after capital increase in April 2007)	90,0 Mio.

Note: All EUR amounts stated relate to the consolidated financial statements of the Company as of 31 March 2007 unless otherwise stated. For technical accounting reasons the tables and graphs may contain rounding differences of +/- one unit (EUR, % etc.).

www.magnat-reop.com

Management Report

Dear Shareholders!

MAGNAT Real Estate Opportunities GmbH & Co. KGaA (referred to as "MAGNAT" or the "Company" and together with its subsidiaries as the "Group") was founded on 6 April 2006. We are pleased to report that the company, which is still in its infancy, already had a successful first year with profits of EUR 0.3 million.

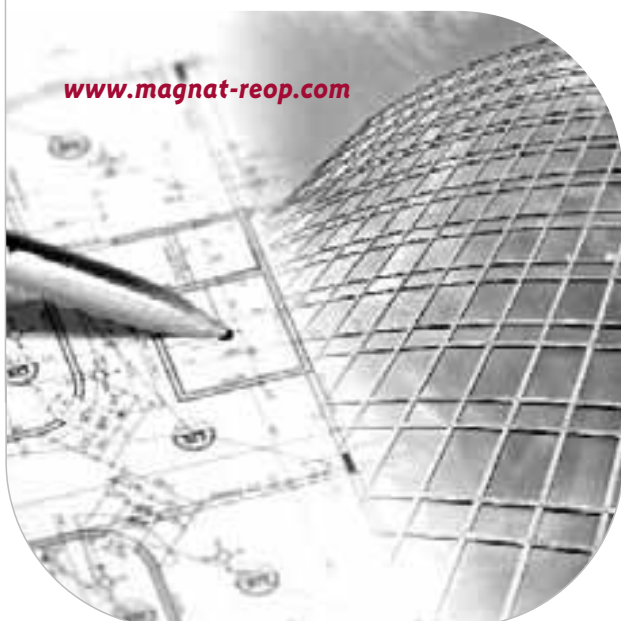
In addition to creating an appropriate operational and organisational structure and optimising project structuring, the focal points in the first fiscal year were capitalising the Company and developing a project and property portfolio as well as building up a project pipeline. MAGNAT met all the key objectives ahead of deadlines and a brief report on the most important milestones is given below.

Capitalization of the Company

By means of several capitalizations a critical mass was achieved which is extremely important in the highly capital-intensive property business. Following the successful conclusion of two capital increases in the fiscal year 2006/2007 the Group's equity (incl. minority shares) as at the balance sheet date amounted to EUR 45.4 million. Following a further capital increase shortly after the close of the fiscal year (in April 2007) the Company's equity now amounts to almost EUR 90 million.

Investment volume

This capitalization results in an investment volume of some EUR 200 million in total, including debt. Considering an appropriate risk diversification, we can thereby achieve an average project volume of around EUR 25-30 million. Under certain conditions, such as co-investments with other investors and/or a high gearing ratio, projects with up to EUR 100 million in



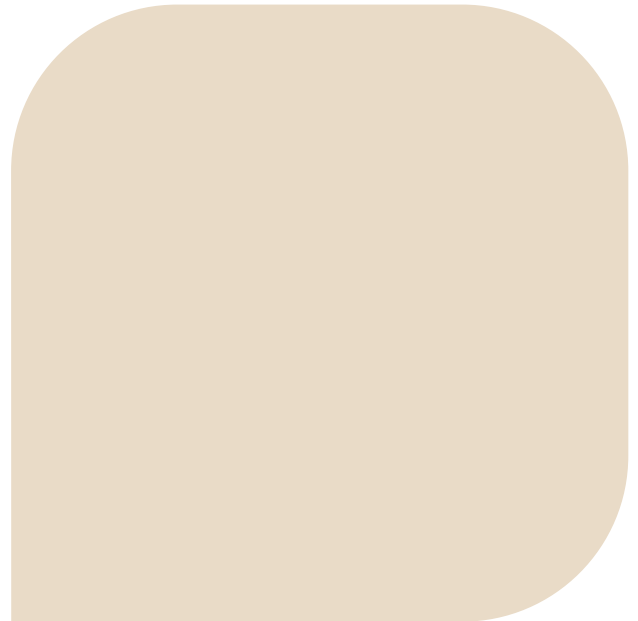
total project volume, and in some cases even more than this, can also be managed.

Efficient investment of the available capital in high-return projects

The capital available in the fiscal year 2006/2007 was invested efficiently in projects. With the investments that were already implemented or arranged as at the balance sheet date (Vossberg, Nasze Katy, Podillja I, Cottage Village Vitaly, Sadko, Eberswalde & Rostock, A&T Portfolio, Mogosoia) – taking account of a series of additional projects which although not legally implemented as at the balance sheet date were arranged in practice – the investment program was for the most part concluded for the EUR 43.5 million in equity that was available. For further information on the investments please see the consolidated management report and the description of the three largest investments in the following section.

Backed by a very extensive project pipeline, the investment program for the new funds obtained from the latest capital increase (April 2007 – gross proceeds of EUR 45.5 million) is also already well advanced. The key noteworthy investments include the acquisition of the YKB portfolio, Turkey (in the consortium with Adama and Immoeast, total transaction volume EUR 136.5 million), access to the Peremogi office block project in Kiev, for which there is already planning permission (total project volume around USD 90 million) and the acquisition of further land for residential projects in Kiev, Bucharest and Sofia (as a result of which the area of land for residential development has now already increased to 300,000 m²).

In almost all cases the listed projects are structured as co-investments, which are also in most cases managed by MAGNAT. All project calculations meet



the above-average return criteria specific to MAGNAT. All projects currently being implemented are to date largely progressing according to plan.

Management is confident that the high growth will continue and become even more buoyant. We would now like to thank you, our shareholders, for the confidence you have placed in us in this early phase of the Company.



Jan Oliver Rüster (CEO)



Peter Waldner (CFO)

The three most important investments in 2006 / 2007

1) "Podillja" commercial centre, Chmelnitzkij Ukraine

Chmelnitzkij is the most important commercial intersection for central and northern Ukraine, the crossing-point for the country's principal trading routes which run in an east-west and north-south direction.

Together with its co-investors MAGNAT has invested in a hypermarket centre, situated on a primary traffic artery in the suburbs. The project consists of three building phases in all: in the first building phase, which has meanwhile been completed, a total of 4,500 shops were built. MAGNAT has acquired title to 500 of these stores with an investment of around EUR 2 million.

In Phases 2 and 3, which are still in the planning stage, capacities are scheduled to triple. For these phases MAGNAT has secured a right of access for itself with a 37.5 % stake.





"Nasze Katy" residential development

2) "Nasze Katy" residential development, Wrocław Poland

The project is located in the suburbs of Wrocław. A flat-screen plant nearby belonging to LG-Phillips is currently under construction, which is due for completion in 2008 and which along with the work performed by subcontractors in parallel, will create over 10,000 new jobs. On top of the existing interest in attractive residential green areas among the urban population of Wrocław this development is creating additional demand for the project.

In all, the project comprises over 900 apartments with a total surface area of around 70,000 m². Construction phase 1 with 67 apartments has been completed in the meantime and all the apartments have already been successfully sold.

The project was structured as a co-investment, with MAGNAT acquiring a 50 % stake in the whole project for an outlay of EUR 3 million in equity.

3) "Eberswalde and Rostock" residential portfolio Germany

The portfolio acquired in the first quarter of 2007 consists of 21 multi-family houses in Eberswalde, Berlin and also in Rostock. In all it consists of over 1,200 residential units and 14 ancillary commercial units, the rentable surface area being approximately 67,400 m². With a transaction volume of EUR 25 million, this was the largest investment in the fiscal year 2006/2007.

In recent years the buildings underwent extensive renovation, although some residual work still has to be completed. The measures taken to reduce the vacancy rate (which was over 20 % at the time of the acquisition) are already bearing fruit. Based on the attractive purchase price of around EUR 400/m² of useable space and the measures being implemented to enhance value, a much higher sales price is expected when the portfolio is resold. The Eberswalde and Rostock residential portfolio was also structured as a co-investment with MAGNAT holding a 75 % stake.



"Eberswalde" residential portfolio

Supervisory Board Report

In the abbreviated fiscal year 2006/2007 (6 April 2006 to 31 March 2007) the Supervisory Board conscientiously performed its duties and obligations pursuant to statute and bylaws. It obtained verbal and written reports on an ongoing basis from the executive directors of the Company's personally liable shareholder concerning the course of the business, the income and financial position and the risk management of MAGNAT Real Estate Opportunities GmbH & Co. KGaA. It reviewed all relevant commercial transactions and at regular meetings with management discussed strategy and underlying business policy issues and important events in the Company. Matters which required the cooperation of the Supervisory Board according to statute and the bylaws were handled by the Board.

The Supervisory Board met on seven occasions (including constituent meetings) at ordinary meetings during the fiscal year. There were also teleconference meetings and other decisions were taken using remote communication procedures. As from November 2006 an investment committee was established which has met once and has made further decisions using remote communication procedures. There was also regular consultation between the Supervisory Board, represented by the chairman of the Supervisory Board, and management outside of the meetings.

Items discussed during the regular meetings in the Company's first fiscal year included fundamental matters of strategy and business policy, approval of investments in properties and property projects, capital increases and the monitoring of existing investments and the risk management system.

Key decisions of the Supervisory Board or the Investment Committee in the reporting period were:

- › *The decision to appoint the chairman and the deputy chairman of the Supervisory Board at the constituent meetings and the adoption of a resolution concerning the internal policies for the Supervisory Board*



- › Resolutions relating to the implementation of two capital increases in July 2006 (6,500,000 new shares at EUR 1.45/share) and in October 2006 (9,200,000 new shares at EUR 2.00/share)
- › Resolutions relating to a further capital increase (completion scheduled after the balance sheet date in April 2007: 20,700,000 new shares at EUR 2.20/share)
- › Adoption of a resolution pursuant to § 14 (2) of the bylaws (authorisation thresholds) concerning property investments of the Company and sales

At the shareholders' general meeting on 7 July 2006, Ernst & Young AG Wirtschaftsprüfungsgesellschaft Steuerberatungsgesellschaft, Stuttgart (Eschborn branch) were appointed auditors for the abbreviated fiscal year 2006/2007. They audited the financial statements of MAGNAT Real Estate Opportunities GmbH & Co. KGaA for the abbreviated fiscal year 2006/2007 and the management report and issued an unqualified audit opinion thereon. The audit report contains no qualifications or references to any misstatements in the management report concerning the information in § 289 (4) of the Commercial Code.

The Supervisory Board received the audited financial statements as at 31 March 2007 with an unqualified audit opinion and the management report at the due time, reviewed them and discussed the documents in detail with the management in the presence of the auditors. The statements made in the Company's management report concerning the information in § 289 (4) of the Commercial Code were discussed with management and reviewed by the Supervisory Board. The result of the audit gave no reasons for objections to the statements in the management report.

At the meeting of 15 June 2007 the Supervisory Board approved the financial statements and proposed that the financial statements be presented to the Compa-

ny's shareholders' annual general meeting for approval in accordance with § 286 German Companies Act.

The consolidated financial statements (under IFRS) for the abbreviated fiscal year 2006/2007 were audited by Ernst & Young AG Wirtschaftsprüfungsgesellschaft Steuerberatungsgesellschaft, Stuttgart (Eschborn branch) who issued an unqualified audit opinion thereon. The Supervisory Board noted this with approval.

MAGNAT Real Estate Opportunities GmbH & Co. KGaA can look back on a successful first fiscal year during which the Company focused on the following: creating an appropriate operational and organisational structure, developing a project and property portfolio and creating an extensive project pipeline, optimising project structuring, implementing two capital increases, and listing its shares on the Open Market of the Frankfurt Stock Exchange.

The Supervisory Board thanks management and employees of the personally liable shareholder for their participation and commitment and for their constructive and successful work in the fiscal year 2006/2007.

Frankfurt am Main, July 2007
For the Supervisory Board

signed **Prof. Dr. Werner Schaffer**
(Chairman of the Supervisory Board)



Consolidated Financial Report under IFRS for the abbreviated fiscal year 2006 / 2007

Consolidated Income Statement

from April 6, 2006 to March 31, 2007 (in EUR)

	Note	2006/2007
Rental income	D.1	106,821.78
Operating expenses for the generation of rental income	D.2	(12,998.24)
Rental profit		93,823.54
Proceeds from the disposal of real estate companies		900,000.00
Net assets of real estate companies sold (including costs to sell)		(555,971.29)
Profit on the disposal of real estate companies	D.3	344,028.71
Gain on investments in associates	E.1.1	2,017.65
Loss on investments in associates	E.1.1	-21,184.50
Loss on entities accounted for using the equity method		(19,166.85)
General and administrative expenses	D.4	(623,059.95)
Other operating expenses	D.5	(110,258.12)
Finance income	D.6	777,577.62
Finance costs	D.6	(110,484.09)
Profit before taxes		352,460.86
Income taxes	D.7	(16,233.31)
Profit after taxes		336,227.55
Thereof attributable to:		
Minority interests		407.99
Equity holders of the parent		335,819.56
Basic earnings per share		0.01
Diluted earnings per share		0.01

Consolidated Balance Sheet

as of March 31, 2007 (in EUR)

<i>ASSETS</i>	Note	March 31, 2007
Non-current assets		
Investments in associates	E.1.1	2,000,650.17
Loans to associates	E.1.2	2,824,369.02
		4,825,019.19
Current assets		
Investment properties	E.2	12,052,357.15
Trade receivables and other receivables	E.3	2,296,168.83
Financial receivables and other financial assets	E.4	215,000.00
Derivative financial instruments	E.5	145,000.00
Income tax receivables	E.6	242,808.20
Securities		56,048.59
Cash and cash equivalents	E.7	30,161,665.27
Total assets		49,994,067.23
<i>EQUITY AND LIABILITIES</i>		
Equity		
Partners' capital	E.8	32,250,000.00
Reserves		11,230,267.33
Equity attributable to equity holders of the parent		43,480,267.33
Minority interests		1,969,715.18
		45,449,982.51
Liabilities		
Non-current liabilities		
Deferred tax liabilities		13,528.31
		13,528.31
Current liabilities		
Accrued liabilities	E.9	223,661.00
Trade payables and other liabilities	E.10	4,278,111.41
Financial liabilities	E.11	27,500.00
Income tax liabilities	E.12	1,284.00
		4,530,556.41
Total liabilities		4,544,084.72
Total equity and liabilities		49,994,067.23

Consolidated Cash Flow Statement

from April 6, 2006 to March 31, 2007 (in EUR k)

	Note	2007
Profit before taxes		352
Change in accrued liabilities		224
Other non-cash expenses		19
Change in investment properties		(5,804)
Change in trade receivables and other receivables		(730)
Change in financial receivables and other financial assets		(215)
Change in derivative financial instruments		(145)
Change in income tax receivables		(243)
Change in deferred tax liabilities		14
Change in trade payables and other liabilities		2,712
Change in income tax liabilities		1
Cash Flows from operating activities	F	(3,815)
Acquisition of subsidiaries (net of cash acquired)		7
Cash paid to increase subsidiaries' capital reserves		(6,250)
Loans to associates		(1,880)
Cash paid for the acquisition of investments in associates		(1,418)
Cash paid for the acquisition of securities		(56)
Cash Flows from investing activities	F	(9,597)
Proceeds from capital increases		43,546
Proceeds from borrowings		28
Cash Flows from financing activities	F	43,574
Change in cash and cash equivalents		30,162
Cash and cash equivalents at the beginning of the period		0
Cash and cash equivalents		30,162

Consolidated Statement of Changes in Equity

Pursuant to IFRSs (in EUR k)

	Note	PARTNERS' CAPITAL		RESERVES	
		General partner's capital	Subscribed capital	Capital reserve	Revenue reserves
April 6, 2006		50	16,500	0	0
Capital increases	E.8	0	15,700	12,125	0
Cost of raising capital	E.8	0	0	-1,231	0
Change in the consolidated group		0	0	0	0
Profit for the period		0	0	0	336
March 31, 2007		50	32,200	10,894	336

Notes to the Consolidated Financial Statements

A. General

1 Corporate Information

MAGNAT Real Estate Opportunities GmbH & Co. KGaA (hereinafter also referred to as the "Company", "MAGNAT" or "MKGaA") was formed on April 6, 2006 and entered in the commercial register under HRB No. 77281 at the Company's registered office in Frankfurt am Main, Germany, on May 31, 2006. The registered office of the Company is at Grüneburgweg 18, Frankfurt am Main. The Company's fiscal year ends on March 31, 2007.

MAGNAT is a real estate company that focuses on real estate development in eastern Europe. Its opportunist strategy concentrates on exploiting inefficiencies in real estate markets. All such

projects must meet the criteria of above-average yield expectations.

Unlike traditional investment strategies, MAGNAT's business model is thus primarily based on develop and sell and buy and sell strategies. MAGNAT concentrates on real estate markets with interesting development cycles: undervalued markets (anti-cyclical investing) and markets with strong economic growth (growth markets). The Group's activities currently focus on Germany. In future, the geographical focus will be on central, eastern and southern Europe, and on special opportunities in the "home market" Germany. In central, eastern and southern Europe (hereinafter also referred to as "CEE/SEE/CIS region"), MAGNAT is concentrating on "second wave" countries, currently comprising Russia, Ukraine, Poland, Romania, Bulgaria and Turkey.

¹ CEE = Central & Eastern Europe; SEE = South-Eastern Europe; CIS = Commonwealth of Independent States

2007		
Equity attributable to equity holders of the parent	Minority interests	Total equity
16,550	0	16,550
27,825	0	27,825
-1,231	-	-1,231
0	1,970	1,970
336	0	336
43,480	1,970	45,450

MAGNAT Real Estate Opportunities GmbH & Co KGaA is parent of the MAGNAT Group. The parent has not made investments in real estate or real estate projects itself to date. Investments are dealt with mainly by project companies, the equity investments in these companies are held directly or indirectly by the parent (via intermediate holding companies). The majority of the investments to date were made with co-investors.

A central element of business policy, which has a corresponding impact on the organization in terms of structures and procedures, is extensive outsourcing, especially of real estate activities. As Asset Manager, the limited shareholder R-QUADRAT Immobilien Beratungs GmbH, Vienna, Austria, (hereinafter also referred to as "R-Quadrat"), in accordance with its special duties pursuant to the partnership

agreement, renders services to MAGNAT covering the entire value chain of real estate activities to a large extent.

2 Adoption of International Financial Reporting Standards (IFRSs)

The consolidated financial statements of the MAGNAT Group, which are prepared by the parent MAGNAT Real Estate Opportunities GmbH & Co. KGaA, are prepared according to uniform accounting policies. The International Financial Reporting Standards (IFRSs) in force and adopted by the EU as of the balance sheet date are applied.

3 Future Changes in Accounting Policies

The following new standards or amendments to standards and interpretations have already been endorsed by the EU, but are not yet mandatory:

- > **IFRS 7 "Financial Instruments: Disclosures"**
- > **The amendment to IAS 1, "Presentation of Financial Statements – Capital Disclosures"**
- > **IFRIC 8 "Scope of IFRS 2"**
- > **IFRIC 9 "Reassessment of Embedded Derivatives"**
- > **IFRIC 10 "Interim Reporting and Impairment Losses"**
- > **IFRIC 12 "Service Concession Arrangements"**

The Group has opted not to adopt the above standards and interpretations early. The new and/or amended provisions are not expected to have a significant effect on the consolidated financial statements. IFRS 7 and the amendments to IAS 1 require additional disclosures to be made in the notes to the financial statements.

> continued from page 15

Furthermore, the following new standards and interpretations have been issued, but have not yet been endorsed by the EU:

- > **IFRS 8** "Operating Segments"
- > **IFRIC 11** "IFRS 2: Group and Treasury Share Transactions"; and
- > **IAS 23** – Amendments to **IAS 23** "Borrowing Costs"

We do not expect these new provisions to have a significant effect on the consolidated financial statements. IFRS 8 may require additional disclosures being made in the notes to the financial statements.

4 Significant Accounting Judgments and Estimates

Exercise of Judgment

In applying the accounting policies, the Company has made the following judgments which have a significant effect on the amounts recognized in the consolidated financial statements. These judgments do not include decisions based on estimates:

- > **Operating lease commitments – Group as lessor**

The Group has entered into commercial property leases on its investment property portfolio. The Group has agreed that it retains all the significant risks and rewards of ownership of these properties which are leased out on operating leases.

Estimates and Assumptions

The key assumptions concerning the future, and other key sources of estimation uncertainty as of the balance sheet date that have a risk of causing a material adjust-

ment to the carrying amounts of assets and liabilities within the next fiscal year are discussed below.

Deferred Tax Assets

Deferred tax assets are recognized for the carryforward of all unused tax losses to the extent that it is probable that taxable profit will be available against which the unused tax losses can be utilized. The calculation of the amount of the deferred tax assets requires the use of judgment on the part of management as regards the amount and timing of the future taxable income and the future tax planning strategies. No deferred tax assets were recognized in the fiscal year as it is not expected that carryforwards of unused tax losses will be able to be utilized.

Fair Value of Unquoted Equity Instruments

The unquoted equity instruments were measured on the basis of the discounted cash flows using the dis-



count rates applicable to items with comparable conditions and risk features. As this measurement is based on assumptions concerning the estimated future cash flows and discount rates, it is subject to estimation uncertainty. As of March 31, 2007, no fair value was able to be calculated for the unquoted equity instruments as the range of possible fair values was too large. The unquoted equity instruments are recognized at amortized cost in the balance sheet.

5 Auditor

The auditor of MKGaA is Ernst & Young AG Wirtschaftsprüfungsgesellschaft Steuerberatungsgesellschaft, Stuttgart, Germany, Eschborn office, Mergenthalerallee 3-5, 65760 Eschborn, Germany (hereinafter also referred to as "E&Y"). E&Y audited the consolidated financial statements as of December 31, 2006 of MKGaA in accordance with International Financial Reporting Standards (IFRSs), as adopted by the EU, and

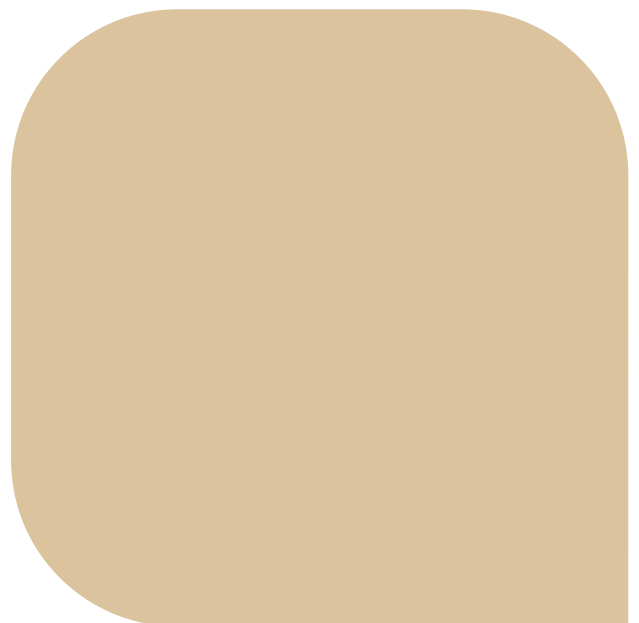
the additional requirements of Sec. 315 a (1) HGB ["Handelsgesetzbuch": German Commercial Code] and issued an unqualified audit opinion thereon.

The auditing fee recognized in profit or loss in the fiscal year came to EUR 90k and relates to the audit of the separate and consolidated financial statements.

B. Consolidated Group and Consolidation Methods

1 Consolidated Group

The subsidiaries included in the consolidated financial statements and the equity-accounted associates are presented below. > see page 19





FM

> continued from page 17

Group entity

			Share in voting rights	Date of formation/ acquisition	Cost EUR k
<i>DIRECTLY HELD SHARES</i>					
Germany					
MAGNAT Development GmbH, Frankfurt am Main	<i>Subsidiary</i>	<i>Formed</i>	100.00 %	Aug. 30, 2006	25.0
Other countries					
MAGNAT Investment I B.V., Broek op Langedijk, Netherlands	<i>Subsidiary</i>	<i>Acquired</i>	75.00 %	Nov. 09, 2006	18.5
MAGNAT Investment II B.V., Broek op Langedijk, Netherlands	<i>Associate</i>	<i>Acquired</i>	50.00 %	Jan. 22, 2007	9.0
R-QUADRAT Polska Alpha Sp. z o.o., Warsaw, Poland	<i>Associate</i>	<i>Acquired</i>	50.00 %	Mar. 26, 2007	6.6
<i>INDIRECTLY HELD SHARES:</i>					
Germany					
Erste MAGNAT Immobiliengesellschaft mbH (formerly Mainsee 432. V V GmbH), Frankfurt am Main	<i>Subsidiary</i>	<i>Acquired</i>	75.00 % ¹	Nov. 15, 2006	21
Zweite MAGNAT Immobiliengesellschaft mbH, Frankfurt am Main	<i>Subsidiary</i>	<i>Acquired</i>	75.00 % ¹	Nov. 10, 2006	19
Dritte MAGNAT Immobiliengesellschaft (formerly: Mainsee 479. V V GmbH), Frankfurt am Main	<i>Subsidiary</i>	<i>Acquired</i>	75.00 % ¹	Feb. 1, 2007	21
Other countries					
MAGNAT Real Estate UA I B.V., Amsterdam, Netherlands			75.00 % ¹		
MAGNAT Real Estate UA II B.V., Amsterdam, Netherlands			33.33 % ²		
MAGNAT Real Estate UA III B.V., Amsterdam, Netherlands			50.00 % ²		
MAGNAT Real Estate UA IV B.V., Amsterdam, Netherlands			50.00 % ²		
R-QUADRAT Ukraine Delta Ltd., Ukraine			33.33 % ³		

¹ Shares are held indirectly via MAGNAT Investment I B.V., Broek op Langedijk, Netherlands.

² Shares are held indirectly via MAGNAT Investment II B.V., Broek op Langedijk, Netherlands.

³ Shares are held indirectly via MAGNAT Real Estate UA I B.V., Amsterdam, Netherlands.

Business Combinations

Individually, the business combinations that took place during the reporting period with MAGNAT INVESTMENT I B.V., Erste MAGNAT Immobilien GmbH and Dritte MAGNAT Immobilien GmbH are insignificant. The disclosures required by IFRS 3.67 have therefore been summarized below:

The fair value of the identifiable assets and liabilities of the acquirees as of the date of acquisition break down as follows:

	EUR k
Cash and cash equivalents	68
Other assets	10
Fair value of net assets	78
Minority interests	-17
Cost of the business combinations	61

The cash outflows due to acquisitions break down as follows:

	EUR k
Cash acquired with the subsidiary	68
Cash paid	-61
Actual cash flow	7

The result from consolidated subsidiaries contained in consolidated profit or loss for the period comes to EUR 20k, of which EUR 5k is attributable to minorities. As the subsidiaries either did not exist at the beginning of the period or did not have any significant operations, it is impracticable to present a breakdown of results as of the beginning of the reporting period or such amounts would be insignificant. Hence a presentation of profit or loss pursuant to IFRS 3.70 (b) as though the acquisition date for the business combination had been the beginning of the period was not made. This profit or loss is at most marginally different from the actual profit or loss for the period. The consolidated subsidiary did not generate any revenue prior to the combination, such that there is no difference to actual consolidated revenue (IFRS 3.70 (a)).

The acquirees' business activities comprise holding and managing real estate.

2 Segment Reporting

The Group operated exclusively in buying and selling in the abbreviated fiscal year and was mainly active in Germany. The Group was only represented in the CEE/SEE/CIS region through its investment in the associate MAGNAT Investment II. B.V. The activities in the CEE/SEE/CIS region did not meet the materiality criteria of IAS 14.35 such that the Group is not split up into different geographical regions.

Hence no segment reporting has been prepared for the fiscal year.

3 Consolidation Methods

The consolidated financial statements include the financial statements of MAGNAT and its subsidiaries as of March 31 of a given fiscal year. The financial statements of the subsidiaries are prepared for the

same reporting year as for the parent, using uniform accounting policies.

Capital was consolidated using the purchase method by offsetting the cost of the shares in the subsidiaries against the Group's interest in the subsidiaries' re-measured equity at the acquisition date. Any difference is allocated to the subsidiary's assets and liabilities insofar as their fair values differ from the carrying amounts disclosed in the financial statements. The hidden reserves recognized are subsequently remeasured applying the accounting policy for the corresponding assets and liabilities.

Intercompany revenue, expenses and income and all intercompany receivables and liabilities were eliminated. Intercompany profits and losses from trade have been eliminated from non-current assets and inventories.

Currency Translation

The functional currency concept was applied to the financial statements of the consolidated entities prepared in foreign currencies. In accordance with IAS 21 ("The Effects of Changes in Foreign Exchange Rates"), assets and liabilities were translated into the reporting currency of euros at the closing rate and expenses and income at annual average rates. In the reporting period, only the financial statements of an associate were not prepared in the reporting currency of euros. As it was not necessary to eliminate intragroup balances and expenses and income, nor eliminate intercompany profits and losses, only the associate's profit or loss for the period had to be translated into euros. This was translated at the annual average exchange rate.

Reconciliation to IFRSs

As the conditions for preparing consolidated financial statements were only met for the first time in the

reporting period and no consolidated financial statements according to reporting standards other than IFRSs were thus prepared, the reconciliations required by IFRS 1.38 do not have to be prepared.

C. Accounting Policies

Assets and liabilities are broken down by maturity (due in less than/more than one year). Deferred taxes are disclosed as non-current.

The income statement was prepared on a voluntary basis in line with the recommendations of the EPRA [European Public Real Estate Association], last amended January 2006.

The reporting currency is the euro (EUR). Where figures have been rounded, this has been stated.

The consolidated financial statements have been prepared on a historical cost basis except for derivative financial instruments which were measured at fair value.

Financial Assets

a) Investments in Associates

Investments in associates over which MAGNAT Real Estate Opportunities GmbH & Co. KGaA has significant influence but no control are reported at the Group's interest in the associate's equity using the equity method pursuant to IAS 28. In subsequent periods, the carrying amount of the investment is increased or decreased to recognize the Group's share in the profit or loss of the associate. The equity method is only applied for as long as significant influence exists.

After using the equity method, the Group determines whether an additional impairment loss needs to be

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charged on its shares on associates. At each balance sheet date, the Group determines whether there are any indications that a share in an associate may be impaired. If this is the case, the difference between the fair value of the associate and its cost is recognized in profit or loss as an impairment loss.

b) Securities

In accordance with IAS 39, other investments are classified as “financial assets held for sale” and recognized at fair value. Profit or loss from measurement at fair value is recognized in a separate item under equity. At the date on which the investments are derecognized or when an impairment is identified, the cumulative gain or loss previously recognized in equity is recognized in profit or loss. The other investments recognized by the Company in the reporting period were disclosed at cost and not fair value. The reason for this approach is that the investments do not have a quoted price on an active market and the fair value cannot be reliably measured.

c) Loans, Receivables and Other Financial Assets

Loans, receivables and other assets are initially measured at fair value and subsequently recognized at amortized cost. Bad debt allowances account for the credit risk, where this is not covered by insurance. Non-interest or low-interest-bearing receivables are recognized at present value.

d) Impairment of Financial Assets

The Group tests financial assets or groups of financial assets for impairment at every balance sheet date.

If there is objective evidence that an impairment loss on loans and receivables carried at amortized cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows

(excluding expected future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate determined on initial recognition). The carrying amount of the asset is reduced through use of an allowance account. The impairment loss is recognized directly in profit or loss.

It is first assessed whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets which are tested individually for impairment and for which an impairment loss is recognized are not included in the collective assessment for the portfolio.

If the amount of the impairment loss decreases in a subsequent period and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed. The amount of the reversal is limited to amortized cost at the date of the reversal. The reversal is recognized in profit or loss. For trade receivables, if there are objective indications (such as probability of insolvency or significant financial difficulties of the debtor) that not all due amounts pursuant to the original payment terms will be collected, an impairment loss is charged using an allowance account. Impairment losses are derecognized when receivables are classified as uncollectible.

Investment Properties

Investment properties are recognized in accordance with IAS 2. The investment properties are measured at

the lower of cost and net realizable value. Besides directly attributable individual costs, cost comprises construction overheads. Borrowing costs are not included in cost in line with IAS 23 ("Borrowing Costs").

Derivative Financial Instruments

The Group uses derivative financial instruments such as options. On the date of their inception and also in subsequent periods, these derivative financial instruments are recognized at fair value. Derivative financial instruments are recognized as assets if their fair value is positive, and as liabilities if their fair value is negative.

The options relate to shares in "Ltd." entities. There is no active market for such shares from which the fair value could be determined. In this case, fair value has to be reliably determined using a recognized business valuation model (such as the discounted cash flow method). The calculation is only reliably if the range of values is not too broad. If the range of calculated values is too broad, and no fair value can thus be determined, the option is measured at cost.

For derivative financial instruments that do not qualify for hedge accounting, any gains or losses arising from changes in fair value are recognized directly in profit or loss.

Taxes

Current Tax Assets and Liabilities

Current tax assets and liabilities for prior periods are measured at the amount expected to be recovered from or paid to the tax authorities. They are calculated based on the tax rates and tax laws applicable as of the balance sheet date. Current tax relating to items which are recognized directly in equity is also recognized in equity and not in the income statement.



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Deferred Taxes

Deferred taxes are recognized using the liability method for temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred tax liabilities are recognized for all taxable temporary differences, except:

- › *in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.*

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

- › *where the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and*
- › *in respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.*

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to

the extent that it is no longer probable that sufficient taxable profit will be available against which at least part of the deferred tax asset can be utilized. Unrecognized deferred tax assets are reviewed at each balance sheet date and recognized to the extent to which it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured using the tax rates expected to apply to the period when the asset is realized or the liability is settled. They are calculated based on the tax rates (and tax laws applicable) as of the balance sheet date.

Deferred tax relating to items which are recognized directly in equity is recognized in equity and not in the income statement. Deferred tax assets and deferred tax liabilities are offset against each other when the Group has an enforceable right to offset the current tax assets against the current tax liabilities and these assets and liabilities relate to income taxes levied by the same tax authority for the same taxable entity.

VAT

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

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

The net VAT recoverable from, or payable to, the taxation authority is included as part of receivables or liabilities in the balance sheet.

Cash and Cash Equivalents

Cash and cash equivalents includes cash and demand deposits and are recognized at nominal value.

Liabilities

After initial recognition, liabilities are measured at amortized cost using the effective interest method. Gains and losses are recognized in profit or loss for the period when the liabilities are derecognized.

Financial Liabilities

In accordance with IAS 39, financial liabilities are recognized at fair value on inception and at amortized cost in subsequent periods. A financial liability is derecognized if the contractual obligation underlying the liability is discharged, cancelled or expires.

Group as Lessor

Leases where the Group retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Initial direct costs incurred in negotiating an operating lease are added to the carrying amount of the leased asset and recognized over the lease term on the same basis as the lease income. Contingent rents are recognized as income in the period in which they are generated.

Revenue Recognition

Revenue comprises proceeds from the sale of real estate companies, net rent and incidental rental expenses.

Revenue is recognized from sales transactions when

- › *substantially all the risks and rewards incidental to ownership are transferred to the buyer;*
- › *the Group retains neither continuing managerial involvement in nor effective control over the object of sale;*

- › the amount of revenue and the costs incurred or to be incurred in respect of the sale can be measured reliably; and
- › it is probable that the economic benefits associated with the transaction will flow to the entity.

D. Notes to the Consolidated Income Statement

1 Rental Income

Rental income breaks down for the Group as follows:

2006/2007	EUR k
Net rents	94.5
Proceeds from incidental rental expenses	12.3
	106.8

Rental income is largely attributable to the lease of land with commercial buildings.

2 Operating Expenses for the Generation of Rental Income

Operating expenses for the generation of rental income mainly comprise allocable expenses of EUR 11k.

3 Profit/Loss on the Disposal of Real Estate Companies

In the fiscal year, the Company sold its 94.5 % share in a real estate company for a purchase price of EUR 900k. The company largely comprised one property. The purchase price was disclosed under trade payables and other receivables as of the balance sheet date.

The cost of disposal of the real estate company mainly relates to the disposal of net assets of the real estate company of EUR 534k. The Company also has deferred disposal costs of EUR 22k.

4 General and Administrative Expenses

2006/2007	EUR k
Legal and consulting fees	321.5
Outside services	186.2
Supervisory Board remuneration	62.0
Management Fees	37.4
Advertising and travel expenses	16.0
	623.1

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5 Other Operating Expenses

2006/2007	EUR k
Non-deductible input tax	75.1
Other	35.2
	110.3

6 Financial Result

2006/2007	EUR k
Finance income	777.6
Finance costs	-110.5
	667.1

Finance income is due in particular to the investment of funds received in connection with the formation of the Company and the capital increases. The finance costs mainly stem from advance project financing.

7 Income Taxes

2006/2007	EUR k
Current income tax expense	2.7
Deferred income tax expense	13.5
	16.2

Tax expenses include corporate income tax and trade tax of the German entities and comparable income tax of the foreign entities.

A reconciliation between the deferred taxes recognized in the balance sheet and the deferred taxes in the income statement is provided below:

2006/2007	EUR k
Increase in deferred tax liabilities as per the balance sheet	13.5
Deferred taxes as per the income statement	13.5

As of the balance sheet date, the consolidated entities had unused tax loss carryforwards of EUR 875k. Deferred tax assets are only recognized on these loss carryforwards if it is probable that there will be

sufficient profit against which they may be utilized in the foreseeable future. As the entities of the MAGNAT Group that generated tax losses only commenced operations in their current form during the reporting period, the generation of future profit is not adequately certain. In addition, the parent generates tax-free income such that it is currently unlikely that the tax loss carryforwards will be able to be used. It was therefore decided not to recognize potential future tax assets on the unused tax losses. The carryforward of existing unused losses is in some cases indefinite and in some cases limited to nine years.

The deferred tax expense of EUR 13.5k recognized in the income statement is attributable to write-downs in the IFRS financial statements which are neutralized in the commercial financial statements of Erste MAGNAT Immobiliengesellschaft mbH and hence also in the tax return. The difference is temporary.

8 Tax Reconciliation

The tax reconciliation between the theoretical and actual (including deferred) tax expense is based on a group tax rate of 37.5%.

2006/2007	EUR k
Profit before taxes	352
Expected tax expense	132
Tax effect of neutralizing costs of raising capital	-461
Tax effects from associates	7
Tax effects from non-deductible expenses	12
Tax effects from the carryforward of unused losses for which no deferred tax assets were recognized	328
Other	-2
Effective income taxes (original and deferred)	16
	Percent
Group tax rate (in %)	4.5

9 Minority Interests

The minority interests in profit or loss of EUR 0.4k relate exclusively to minority interests in MAGNAT Investment I B.V., Netherlands.

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10 Earnings per share

The basic earnings per share are derived from the shares in profit for the period attributable to equity holders of the Company divided by the weighted average theoretical number of shares outstanding. The theoretical number of shares takes into account that the general partner's capital is not represented by shares. Based on the division of capital stock of EUR 32.2m into 32.2 million shares (after capital increases), the general partner's capital is theoretically represented by 50,000 shares.

2006/2007	EUR k
Share in profit or loss attributable to equity holders of the parent	335.8
Shares	
Weighted average number of theoretical shares outstanding	25,793,889
EUR	
Basic earnings per share	0.01
Diluted earnings per share	0.01

The shareholder meeting of February 13, 2007 resolved to increase capital stock by EUR 4.6m. The Supervisory Board was also authorized to raise capital stock by a further EUR 16.1m to EUR 52.9m. Management and the Supervisory Board utilized this authorization by resolution dated March 22, 2007 and approval dated March 23, 2007, respectively. Both capital increases were entered in the commercial register on April 18, 2007.

According to IAS 33.64, the effect on basic and diluted earnings per share for all periods presented should be adjusted retrospectively. The effect on basic and diluted earnings per share is presented below:

2006/2007	EUR k
Share in profit or loss attributable to equity holders of the parent	335.8
Shares	
Weighted average number of theoretical shares outstanding	52,900,000
EUR	
Basic earnings per share	0.01
Diluted earnings per share	0.01

E. Notes to the Consolidated Balance Sheet

1 Non-Current Assets

1.1 Investments in Associates

Investments in associates relate to the acquisition of shares in MAGNAT Investment II B.V., Netherlands, (EUR 9.0.2k) and R-QUADRAT Polska Alpha Sp. z o.o, Poland (EUR 6.6k). Due to a capital increase at MAGNAT Investment II B.V., Netherlands, the cost of the shares in this entity rose by EUR 2,004.2k. Based on measurement under the equity method, the carrying amounts were reduced by EUR 21.2k and increased by EUR 2.0k, respectively, in the reporting period. The major asset of MAGNAT Investment II B.V.,

Netherlands, is an investment in Real Estate UA IB.V., Netherlands, which in turn holds an investment in R-QUADRAT Ukraine Delta Ltd., Ukraine. R-QUADRAT Ukraine Delta Ltd. holds the “Chmelnitzkij” project. For more information, please refer to Section G.4 of these notes to the financial statements.

Summarized Financial Information on the Associates:

March 31, 2007	EUR k
Aggregate assets	10,687
Aggregate liabilities	6,686
Aggregate income	5
Aggregate loss for the period	-38

1.2 Loans to Associates

Loans to associates of EUR 2,824.4k relate to a loan to R-QUADRAT Polska Alpha Sp. z o.o, Poland. The loan was granted for the “Katy Wroclawskie” project, bears interest at 11 % p.a and has a four-year term. The agreement may be terminated by either party with three months' notice.

2 Investment Properties

The investment properties disclosed of EUR 6,249.2k relate exclusively to developed land held for sale. There were no indications of impairment. As of the

balance sheet date, the investment properties were not collateralized. In addition, prepayments of EUR 5,803.2k had been made for other land and buildings.

3 Trade Receivables and Other Receivables

March 31, 2007	EUR k
Trade receivables	900
Prepayments	640
Receivables from related parties	593
Administrative accounts	79
Deferred payments	17
Other	67
	2,296

All receivables are current.

4 Financial Receivables and Other Financial Assets

The financial receivables comprise a loan receivable of EUR 215k. The loan bears interest at the three-month EURIBOR plus 2 % p.a. It has a term of less than 12 months.



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5 Derivative Financial Instruments

The options were recognized at cost as it was not possible to determine fair value. The exercise period of the options is less than 12 months.

6 Current Income Tax Assets

Current income tax assets of EUR 242.8k are attributable to tax overpayments.

7 Cash and Cash Equivalents

The cash and cash equivalents of EUR 30,161.7k relate to cash on hand and bank balances.

8 Equity

As of the balance sheet date, the subscribed capital of MAGNAT Real Estate Opportunities GmbH & Co. KGaA of EUR 32.25m was divided into 32,200,000 no-par value bearer shares with a theoretical nominal value of EUR 1 each and 50,000 no-par value registered shares also with a theoretical value of EUR 1 each. In the reporting period, the number of shares rose by 15,700,000, from 16,500,000 as of the date of formation of the parent to 32,200,000, as a result of new shares being issued in three capital increases (approved capital).

The Company was founded on April 6, 2006 with equity of EUR 16.55m.

On formation of the Company, management was authorized to issue up to 8,000,000 shares with a nominal value of EUR 1 in return for cash or non-cash contributions (approved capital I).

At the extraordinary shareholder meeting of the Company on July 7, 2006 it was resolved to increase the Company's capital stock by up to EUR 5,000k, from

EUR 16,500k to up to EUR 21,500k in return for cash contributions. The issue of up to 2,750,000 shares of a nominal EUR 1 each in return for cash or non-cash contributions was also authorized (approved capital II).

On July 17, 2006, the general partner resolved not to increase MKGaA's capital stock by EUR 5,000k as per the resolution adopted by the Company's shareholder meeting on July 7, 2006, but by EUR 6,500k instead. The additional increase of EUR 1,500k was covered by the approved capital of EUR 8,000k. The Company's capital stock thus amounts to EUR 23,000k.

Following the capital increase, approved capital I amounts to EUR 6,500k. On July 17, 2006, the Supervisory Board of MKGaA approved the resolutions adopted by the general partner MAGNAT Management GmbH on July 17, 2006.

The general partner MAGNAT Management GmbH adopted the resolution on September 18, 2006 to raise capital stock by EUR 9,200k from EUR 23,000k to EUR 32,200k by completely using up approved capital I (EUR 6,500k) and partially using approved capital II (EUR 2,750k of EUR 2,750k). The resolution adopted by the general partner MAGNAT Management GmbH on September 18, 2006 had been approved by the Supervisory Board of MKGaA on September 15, 2006.

The amount generated in excess of the nominal value was transferred to the capital reserve in each capital increase. The cost of raising capital of EUR 1,231k was deducted directly from the capital reserve. Deferred taxes were not recognized as it is not currently expected that the losses incurred in particular though the cost of raising capital will be able to be utilized in future (please refer to Section D.7, "Income Taxes").

In the reporting year, the item minority interests exclusively comprised minority interests in MAGNAT Investment I B.V., Netherlands.

Further details can be found in the consolidated statement of changes in equity.

9 Accrued Liabilities

March 31, 2007	EUR k
Financial statement expenses and auditing fees	138.1
Supervisory Board remuneration	62.0
Outstanding invoices	22.5
Other	1.1
	223.7

10 Trade Payables and Other Liabilities

March 31, 2007	EUR k
Trade payables	1,672
Liabilities to related parties	2,358
VAT liabilities	164
Other	84
	4,278

All trade payables (EUR 1,672k) relate to third parties and the current. They mainly stem from the execution of investment projects.

Liabilities to affiliates chiefly comprise liabilities to partners (EUR 1,795k) resulting from advance financing

provided for joint projects. Liabilities to related parties also include an obligation to provide in the investee with equity (EUR 548k) to enable it to settle its liabilities from real estate purchases.

11 Financial Liabilities

The financial liabilities of EUR 27.5m are current and are attributable to liabilities to minorities.

12 Income Tax Liabilities

Current income tax liabilities of EUR 1.3k relate to trade tax.

13 Operating Leases – Group as Lessor

In its purchases of real estate via the real estate companies held for sale, the Group entered into commercial property leases. The property held comprises office space not used by the Group itself. The remaining lease terms of these non-cancellable leases are between two and four years.

As of the balance sheet date four leases were in place

- > The **“Schwerin”** property has a non-cancellable residual lease term until the beginning of 2011. The tenant has two unilateral options to extend the fixed lease term by five years at a time.
- > The **“Parchim”** property has a non-cancellable residual lease term until the end of 2009. The tenant has two unilateral options to extend the fixed lease term by one year at a time.
- > The **“Worms”** property has a non-cancellable residual lease term until the end of 2011. The tenant has two unilateral options to extend the fixed lease term by five years at a time.

- › The **„Halle Peissen“** property has a non-cancellable residual lease term until the end of 2011. The tenant has three unilateral options to extend the fixed lease term by five years at a time.

As of the balance sheet date, future minimum lease payments receivable under non-cancellable operating leases broke down as follows:

March 31, 2007	EUR k
Less than one year	548
One to five years	2,161
More than five years	0
	2,709



- 1 „Parchim“ property
- 2 „Halle Peissen“ property
- 3 „Worms“ property

F. Notes to the Consolidated Cash Flow Statement

Cash flows from operating activities are calculated using the indirect method. Cash flows from investing and financing activities are calculated on the basis of payments.

Cash Flows From Operating Activities

Cash flows from operating activities of a total - EUR 3,815k are shaped by the land banking activities (EUR 5,804k), as well as trade receivables and other receivables (EUR 730k), financial receivables and other financial assets (EUR 215k), derivative financial instruments (EUR 145k) and income tax receivables (EUR 243k). These are contrasted by an increase in trade payables and other liabilities, where not attributable to investing activities, of EUR 2,712k in total.

Interest received came to EUR 777.6k, interest paid to EUR 110.5k.

Cash Flows From Investing Activities

All of the shares in subsidiaries and associates were acquired during the reporting period, either through the formation of the Company or the purchase of shares. Total cash flows came to EUR 9,597k, of which EUR 31k relates to shares in MAGNAT First Development GmbH & Co. KG, Frankfurt am Main, and EUR 25k to MAGNAT Development GmbH, Frankfurt am Main, which are disclosed under securities. EUR 1,418k relates to shares in the associate MAGNAT Investment II B.V., Netherlands, and EUR 1,880k to a loan to the associate R-QUADRAT Polska Alpha Sp. z o.o, Poland. Cash paid in connection with the increase in all of the subsidiaries' capital reserves came to EUR 6,250k.

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Cash Flows From Financing Activities

Cash flows from financing activities of a total EUR 43,574k are mainly due to the formation of the parent as well as a total of three capital increases carried out during the year.

G. Other Notes

1 Financial Instruments

The Group only holds **derivative financial instruments** to the extent that options for the acquisition of shares in four entities not yet belonging to the Group were acquired. If the options are exercised, the option premium paid of EUR 145k is credited to the subsequent purchase price of the shares. The entities to which the options relate are non-listed. It is not possible to reliably measure the fair value as the target companies are still being set up and future cash flows cannot yet be forecast.

The Company has entered into four different option agreements. They grant the Company the right to invest in various project companies. The four options were exercised by the Company after the balance sheet date on May 15, 2007. The options were "Sadko I", "Sadko II", "Village Vitaly" and "Alexander".

Option **Sadko I** grants the Company the right to acquire 20.3125 % of the shares in OOO Sadko Invest. Option **Sadko II** grants the Company the right to acquire 20.3125 % of the shares in OOO New Sadko Invest. The exercise period for the options ran until June 30, 2007. The exercise price was 50 % of the capital paid out on the date of exercise plus 11 % p.a. as compensation for the cost of interim financing for the writer. The option premium paid is credited to the purchase price.

The **"Alexander"** option grants MKGaA the right to acquire 75 % of the shares in R-QUADRAT Ukraine Alpha Ltd. The exercise price was 75 % of the capital paid out on the date of exercise plus 11 % p.a. as compensation for the cost of interim financing.

The **"Village Vitaly"** option grants MKGaA the right to acquire 50 % of the shares in R-QUADRAT Ukraine Gamma Ltd. The exercise price was 50 % of the capital paid out on the date of exercise plus 11 % p.a. as compensation for the cost of interim financing.

The exercise period for the options ran until June 30, 2007. The option premium paid is credited to the purchase price.

As the two options are derivative financial instruments which are connected to equity instruments, for which no quoted price on an active market is available and whose fair value cannot be reliably



measured, they are measured at amortized cost less any impairment losses. There are no indications of impairment. The options are disclosed in the item derivative financial instruments. The term of all options was less than one year as of the balance sheet date. According to the Group's business model, the target companies are sold soon after conclusion of the project development. Please refer to Section G.4 "Events After the Balance Sheet Date" for more information on exercising the options.

Interest rate risks in connection with **cash flows** only relate to funds deposited on overnight accounts. Interest rate risks are not expected to have any significant negative effects as the funds are only available until the investments are made in the material amount reported as of the balance sheet date and, based on planning, will then be tied up in projects. For the amount deposited as of the balance sheet date of EUR 30,162k, a reduction in the interest rate by 0.5 % p.a. would lead to a reduction in annual interest income of EUR 151k (equals EUR 13k per month).

As there are neither non-current financial assets nor liabilities, there are no interest-related risks from a change in the **fair value** of any existing financial instruments.

The maximum **credit risk** from all financial assets corresponds to the carrying amounts of the loans under other financial assets, trade receivables and other receivables and financial receivables, and other financial assets, and thus totals EUR 5,470k.

The credit risk is countered by maintaining close contact with the borrowers and thereby identifying unfavorable trends at an early stage.

Financial Risk Management

MAGNAT mainly operates in markets outside the eurozone and is therefore exposed to exchange rate risks. Wherever possible and practicable, the same currencies are used in projects (i.e. debt financing of construction costs is arranged in the same currency). When hedging the residual exchange risk, which ideally is limited to the capital employed and profit potential, our approach is very selective: as a rule, hedging on an aggregate basis is given preference over hedging individual project-related risks, and even then hedging is only considered for risks if they exceed certain thresholds and only for the capital employed (not the profit potential).

This approach is based on cost/benefit factors and acknowledges the fact that the currency risk cannot be completely isolated, and that additional multifaceted interdependencies beyond the pure fluctuation in exchange rates play a role. In summary, the management of financial risks is based on tolerating risks within a certain range. A hedge is only sought for peak risks on an aggregate basis in order to counter developments which could pose a threat to the Company's ability to continue as a going concern.

The MAGNAT Group plans to use debt capital to finance the real estate projects, in some cases with floating interest rates. The MAGNAT Group will thus be exposed to an interest rate risk in future as increases in the interest rate push up finance costs. This interest rate risk is only hedged in specific cases. Management believes that it is justifiable to take on this risk considering the cost/benefits, particularly in view of the fact that investments and thus the related financing are not made/ entered into for long periods. This policy is reevaluated at regular intervals, but at least half yearly.

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The development of liquidity is constantly monitored using group-wide financial planning instruments. To date, the liquidity risk has been managed by maintaining a liquidity reserve in the form of unrestricted bank balances. The aim for the future is to shift the management of liquidity to credit lines which can be utilized at any time.

As of the balance sheet date, there were no financial instruments to hedge exchange and interest risks.

2 Other Financial Obligations

The parent's management function is performed by its general partner. Pursuant to the parent's partnership agreement, the general partner receives a reimbursement of its expenses in this regard, which is limited, however, on the basis of the parent's balance sheet total. Given the balance sheet total as

of the reporting date, the expense reimbursement is limited to a maximum of EUR 200k. With a balance sheet total of EUR 100m, the maximum potential compensation is EUR 400k. Above and beyond that, the general partner is remunerated for the assumption of liability at 5 % of its capital stock, or EUR 2.5k p.a. based on current figures. All amounts are stated net of any statutory VAT that might apply.

The founding limited shareholder R-QUADRAT Immobilien Beratungs GmbH, Vienna, as owner of the registered shares with restricted transferability, is obligated pursuant to the parent's partnership agreement to render advisory services to the parent in connection with the acquisition, execution and sale of projects. The compensation is calculated as a percentage of the volume of investments acquired, developed or sold. The parent recharges the amounts billed to it by R-QUADRAT Immobilien Beratungs GmbH to the relevant project companies on a causal basis.

3 Related Party Disclosures

MAGNAT Management GmbH, Frankfurt am Main, and R-QUADRAT Immobilien Beratungs GmbH, Vienna, and their executive bodies are deemed related parties as defined by IAS 24.

a) MAGNAT Management GmbH

MAGNAT Management GmbH is the general partner of MAGNAT Real Estate Opportunities GmbH & Co. KGaA with special duties. The general partner is responsible for the management function, which comprises all tasks in connection with the Company's purpose, particularly the acquisition, leasing, development and sale of directly and indirectly held real estate investments.

As general partner, MAGNAT Management GmbH receives the following compensation pursuant to Art. 8 (2) of the Company's partnership agreement:

1. For performing the management function, reimbursement of the costs and expenses incurred in connection with carrying out proper business operations at the general partner on an ongoing basis, especially personnel and non-personnel expenses, plus 5 % on the total amount, but limited to
 - › a maximum of EUR 100,000.00 per fiscal year if the Company's balance sheet equity pursuant to Sec. 266 (3) A HGB is less than EUR 30.00m (as reported in the financial statements for the relevant fiscal year); or
 - › a maximum of EUR 200,000.00 per fiscal year if the Company's balance sheet equity pursuant to Sec. 266 (3) A HGB is between EUR 30.00m and EUR 100.00m (as reported in the financial statements for the relevant fiscal year); or
 - › a maximum of EUR 400,000.00 per fiscal year if the Company's balance sheet equity pursuant to Sec. 266 (3) A HGB is more than EUR 100.00m (as reported in the financial statements for the relevant fiscal year);

plus any statutory VAT that may be payable in each case.

2. For the assumption of personal liability: compensation of 5 % of the general partner's capital stock plus any applicable VAT. This compensation is payable annually in advance (2006/2007: EUR 5.0k).

Pursuant to the partnership agreement, the general partner receives an advance profit distribution which is calculated as follows:

Company's profit (Sec. 286 AktG ["Aktiengesetz": German Stock Corporation Act]) for a given fiscal year ("Amount A");

less balance sheet equity (capital stock, capital reserves, revenue reserves, retained earnings) of the Company as of the balance sheet date of the previous fiscal year, multiplied by 12 % ("Amount B");

(Amount A less Amount B) multiplied by 25 % = advance profit distribution.

Where Amount A less Amount B is negative ("Amount C"), Amount C is carried forward to the following year. Only once Amount C plus any existing negative carryforward ("Cumulative Amount C") has been offset does the advance profit entitlement as described above arise.

In fiscal year 2006/2007, MAGNAT Management GmbH rendered services of EUR 186k (net of any statutory VAT) to the parent. Of this amount, EUR 122k had not yet been settled as of the balance sheet date.

The rule described above means that the general partner, having generated a return of 12 % on the balance sheet equity, receives a share of 25 % of the amount exceeding the profit for the period.

b) R-QUADRAT Immobilien Beratungs GmbH

As founding limited shareholder of the Company and holder of the registered shares with restricted transferability and having special duties according to the partnership agreement, R-QUADRAT Immobilien Beratungs GmbH receives the following compensation for the aforementioned activities pursuant to the Company's partnership agreement:

1. 2.0% p.a. of the assessment base; assessment base is the direct and indirect real estate investments and other real estate-related investments of the Company (assets) on a consolidated basis pursuant to IFRSs. In the event that no IFRS financial statements are prepared, the assessment base should be calculated by reference to IFRSs.

This compensation is stated net of any statutory VAT; it is payable quarterly in arrears on the 15th of the month following the end of the quarter.

2. A one-off 2.5% of the following assessment base:

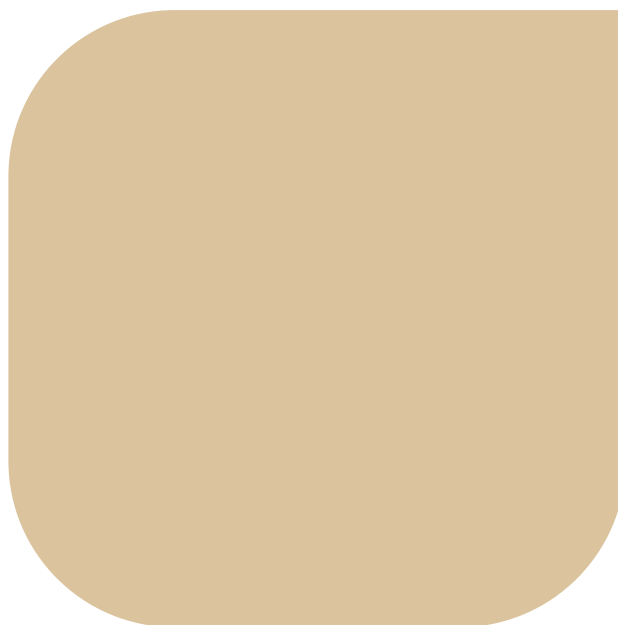
- > *Cost including incidental expenses (on acquisition) or sales proceeds (on sale) for direct real estate investments;*
- > *Cost including incidental expenses (on acquisition) or sales proceeds (on sale) of the underlying real estate for direct or indirect investments of at least 50% in real estate companies;*
- > *Cost including incidental expenses (on acquisition) or sales proceeds (on sale) for other real estate-related investments by the Company.*

as lump-sum compensation for the increased expense in connection with the acquisition and sale of direct and indirect real estate investments or real estate-related investments, i.e. in particular for structured searches for suitable real estate and real estate projects,

pre-selection of properties including review and coordination of any due diligence, holding negotiations in the name and by order of the general partner, preparing contracts using attorneys, etc., handling and arranging financing (negotiations with banks, optimizing the financing structure) as well as for brokering.

This compensation is stated net of any statutory VAT that may be payable, and falls due on completion of the acquisition/sale, but is only available for sales on condition that the sales proceeds from the investment exceed the cost (including incidental expenses), plus all allocable direct costs, borrowing costs and compensation attributable to the project by at least 10%.

3. 1.0% based on the cost and incidental expenses of real estate developments, as a lump sum compensation for the increased expense in connection with supporting and coordinating all activities in connection with the development of real estate in which the Company directly or indirectly holds investments, as well as reviewing and preparing development opportunities in advance.



This compensation is stated net of any statutory VAT; it is payable quarterly in arrears on the 15th of the month following the end of the quarter.

4. There is otherwise no claim to compensation.

The services listed under Nos. 1 to 3 above are rendered by R-QUADRAT Immobilien Beratungs GmbH to the Company on the basis of Art. 8 of the Company's partnership agreement and, in the case of indirect real estate investments, are recharged by the Company to the relevant project companies on a causal basis. Following prior consultation with the general partner, services may in individual cases also be rendered directly to the relevant project company.

In the reporting period, R-QUADRAT Immobilien Beratungs GmbH performed services for group entities as follows:

2006/2007	EUR k
Parent	0.0
Subsidiaries	886.3
Associates	59.5
	945.8

The outstanding balances as of the balance sheet date correspond to the amounts stated in the table and are disclosed in the balance sheet under trade payables and other liabilities.

c) Minority Interests

MAGNAT also had relations with minorities, mainly in connection with the financing of subsidiaries. The

Company bore the full cost of the capital increases and billed the share attributable to minority interests to them accordingly. Equally, there are liabilities to minority interests from the advance financing of business activities.

As of the balance sheet date, MAGNAT had receivables of EUR 542k from the minority R-QUADRAT Capital Beta GmbH, Vienna. It also had liabilities of EUR 647k.

4 Events After the Balance Sheet Date

The shareholder meeting of February 13, 2007 resolved to increase capital stock by EUR 4.6m. Management was also authorized to increase capital, with the approval of the Supervisory Board, by up to a further EUR 16.1m (approved capital 2007/1). Management and the Supervisory Board utilized this authorization by resolution dated March 22, 2007 and approval dated March 23, 2007, respectively. Both capital increases were entered in the commercial register after the balance sheet date on April 18, 2007. Capital stock thus amounts to EUR 52.9m; including the premium, this equals balance sheet equity of approx. EUR 91m.

On April 18, 2007, the capital increases of EUR 4.6m and EUR 16.1m resolved before the balance sheet date was entered in the commercial register. Capital stock thus amounts to EUR 52.9m.

Between the balance sheet date and the date the financial statements were authorized for issue (July 4, 2007), subsidiaries were founded at various levels of the Group. To date, these are pure investment property companies.

In April 2007, the contract was signed for the sale of the entire investment Podillja I, Chmelnitzkij (Ukraine).

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This transaction is still underway. The exact purchase price has not yet been conclusively agreed. The investment is held by the subsidiary, R-QUADRAT Ukraine Delta Ltd., of an associate, Real Estate UA I B.V., Netherlands.

The options for the acquisition of shares in other entities described in the Section "Financial Instruments" were exercised in full.

All of the options held were exercised on May 15, 2007.

Upon exercising the "Alexander" option, 75 % of the shares in R-QUADRAT Ukraine Alpha Ltd. were acquired. This subsidiary is developing building land for the establishment of a "Cottage Village".

Furthermore, the "Vitaly" option was exercised and 50 % of the shares in R-QUADRAT Ukraine Gamma Ltd. thereby acquired. This subsidiary also develops building land.

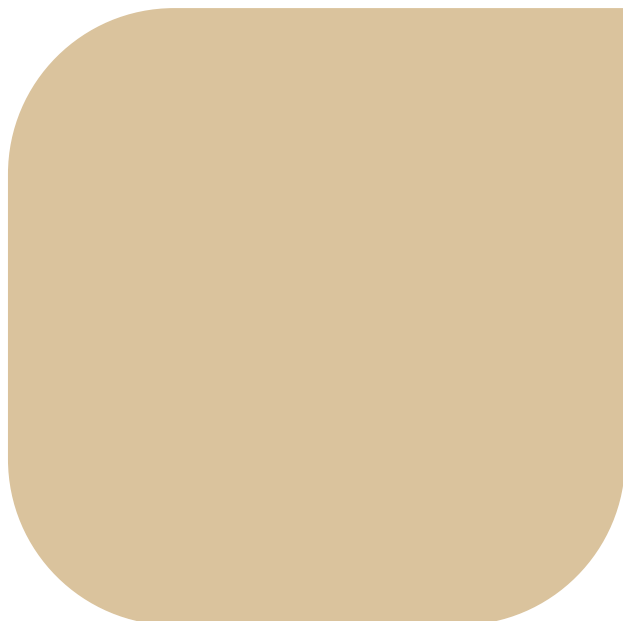
The purchase price for the exercised options is payable in cash. The purchase price had not yet been fixed at the time of preparing the financial statements as, pursuant to the purchase agreement, it must be calculated on the basis of a percentage of the capital paid out (plus incidental expenses). Furthermore, the Company has to pay 11 % as compensation for the cost of interim financing, which will increase the purchase price and also have yet to be determined.

The subsidiaries' business activities are limited to holding and managing real estate.

5 Management and Supervisory Board

a) Management

Pursuant to the partnership agreement, management of the parent is performed by its general partner, MAGNAT Management GmbH, Frankfurt am Main. The



general partner's general managers are Mr. Waldner and Mr. Ruster.

Remuneration is discussed in Section G.2 "Other Financial Obligations".

b) Supervisory Board

The members of the Company's Supervisory Board, their names and positions as well as positions held on other oversight bodies are presented below.

Provided that the Company's shareholder meeting agrees to the proposed remuneration of the Supervisory Board, its total remuneration will amount to EUR 62k.

Frankfurt am Main, Germany, June 29, 2007
MAGNAT Real Estate Opportunities GmbH & Co. KGaA

Jan Oliver Ruster **Peter Waldner**
(General Managers of MAGNAT Management GmbH)

Supervisory Board

Name	Position	Period	Profession
Prof. Dr. Werner Schaffer	Chairman	since July 7, 2006	German Tax Advisor
Dr. Oliver Mensching	Deputy Chairman	since July 7, 2006	German Public Auditor/ Tax Advisor
Dr. Carsten Strohdeicher		since July 7, 2006	Of Counsel
Dr. Walter Steindl		since July 31, 2006	Appraiser
Dr. Christoph Jeannée		since July 31, 2006	Attorney
Wolfgang Quirschmayr		since July 31, 2006	German Public Auditor/ Tax Advisor
Jan Oliver Ruster	Chairman	until July 7, 2006	Businessman
Peter Brumm		until July 7, 2006	Businessman
Stefan Schütze		until July 7, 2006	Attorney

Consolidated Management Report

1 Business and Background

Overview

MAGNAT Real Estate Opportunities GmbH & Co. KGaA (hereinafter also referred to as "MAGNAT") was formed on April 6, 2006 and entered in the commercial register of the local court in Frankfurt am Main on May 31, 2006. In its first fiscal year, the Company focused on the following:

- › *Setting up adequate organizational and procedural structures*
- › *Building up a project and real estate portfolio as well as a project pipeline*
- › *Optimizing project structures*
- › *Implementing two capital increases*
- › *Listing its shares on the open market of the Frankfurt Stock Exchange*

In view of the capital intensity of the real estate business, achieving a critical mass is a major prerequisite for successful business and a risk-adequate portfolio spread. Through a multistage capitalization program, MAGNAT achieved this goal after just one year:

- › *The Company was formed with capital stock of EUR 16.5m.*
- › *Two capital increases were carried out during the fiscal year: 6.5 million new shares at EUR 1.45/share in August 2006 and 9.2 million new shares at EUR 2.00/share in October 2006.*
- › *Another capital increase comprising 20.7 million new shares at EUR 2.20/share was carried out after the balance sheet date of March 31, 2007.*

MAGNAT has had reported equity of almost EUR 91m since the last successful capital increase in April 2007, i.e. after the end of fiscal year 2006/2007. This equity base, coupled with the project-related debt capital, lays the foundations for investments in real estate and real estate projects with a gross volume of EUR 200m.

Business and Organization

MAGNAT is a real estate company that focuses on real estate development in eastern Europe. With its opportunist strategy, it capitalizes on inefficiencies in real estate markets. Returns on projects must exceed industry-standard average rates.

Unlike traditional investment strategies, MAGNAT's business model is thus primarily based on "develop and sell" and "buy and sell" strategies. MAGNAT concentrates on real estate markets with interesting development cycles: undervalued markets (anti-cyclical investing) and markets with strong economic growth (growth markets). The geographical focus is currently on central, eastern and southern Europe, and on special opportunities in the "home market" Germany. In central, eastern and southern Europe (hereinafter also referred to as CEE/SEE/CIS region²), MAGNAT is concentrating on "second wave" countries, currently comprising Russia, Ukraine, Poland, Romania, Bulgaria and Turkey.

MAGNAT Real Estate Opportunities GmbH & Co KGaA is parent of the MAGNAT Group. The parent has not made investments in real estate or real estate projects itself to date. Investments are dealt with mainly by project companies, the equity investments in these companies are held directly or indirectly by the parent (via intermediate holding companies). The majority of the investments to date were made with co-investors.

A central element of business policy, which has a corresponding impact on the organization in terms of

²CEE = Central & Eastern Europe; SEE = South-Eastern Europe; CIS = Commonwealth of Independent States

structures and procedures, is extensive outsourcing, especially of real estate activities. As Asset Manager, the limited shareholder R-QUADRAT Immobilien Beratungs GmbH, Vienna, Austria, (hereinafter also referred to as "R-Quadrat"), in accordance with its special duties pursuant to the partnership agreement, renders services to MAGNAT which cover to a large degree the entire value chain of real estate activities.

Economic Environment

The good climate in the European economy and the global economy as a whole, together with the continued positive developments on the capital markets, despite a few glitches in June 2006 and March 2007, have set a sound economic backdrop. In the second half of 2006, the long awaited upswing in the German economy kicked in. The growth potential in southern and eastern Europe, Russia and the states of the former Soviet Union is an additional special factor for MAGNAT.

There are lots of indications that the sound economic trajectory of the global economy and Europe will continue. In its spring forecast, the OECD assumed GDP growth of 2.9% for the year for Germany. This forecast is corroborated by the detailed analysis of overall economic growth recently published by the German Federal Statistical Office. For 2008, the organization is expecting economic growth of 2.2% in Germany. The eurozone economy is running at full speed: thanks to the recovery in Germany and Italy, the OECD is anticipating an economic expansion of 2.7% in 2007. For the US economy, the OECD is predicting a soft landing at 2.1% with a return to 2.5% forecast for the following year.

The upward trend of the real estate markets persisted into the fiscal year. The markets in eastern and southern Europe, Russia and the states of the former Soviet Union continue to benefit from the overall economic momentum and the catching up required in all areas.

IPO and Capital Increases at MAGNAT

Since July 26, 2006, MAGNAT's shares have been listed on the open market of the Frankfurt Stock Exchange. They were listed on the basis of an exposé. The application in this regard was made to VEM Aktienbank AG pursuant to Art. 6 (4) of the Rules for the Regulated Unofficial Market (Freiverkehr) [Richtlinien für den Freiverkehr]. The shares are traded on the Frankfurt Stock Exchange via the XETRA trading platform and floor trading.

The two capital increases performed in fiscal year 2006/2007 were carried out in private placements. The first capital increase was completed directly before the stock exchange listing; a total of 6.5 million new shares were issued at EUR 1.45/share. This generated gross issue proceeds of EUR 9.425m with issuing costs of 3.5%. The second capital increase was completed in October 2006; a total of 9.2 million new shares were issued at EUR 2.00/share. This generated gross issue proceeds of EUR 18.4m with issuing costs of 4.7%.

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Research & Development

The Company does not conduct any R&D of its own.

2 Results of Operations, Financial Position and Net Assets

Development of Revenue and Earnings

As discussed in Section one above, since the Company's business model is primarily based on "develop and sell" and "buy and sell" strategies, only a limited amount of revenue and other income was generated in the first fiscal year. Rental income generation is a secondary objective of MAGNAT. In its first abbreviated fiscal year, the Company's business activities centered on building up the real estate and project portfolio. This portfolio is set to be the basis for sales and hence the generation of revenue in years to come.

MAGNAT realized revenue of EUR 0.9m and a profit contribution of EUR 0.3m from the sale of the Vossbergstrasse investment in its first fiscal year. On the earnings side, there is also a positive financial result of EUR 0.7m which is attributable, in particular, to the temporary investment of cash. The income of EUR 1.0m generated overall in this regard net of costs of EUR 0.7m lead to profit for the period of EUR 0.3m in the abbreviated fiscal year.

Financial Position

As of March 31, 2007, the Company had capital stock of EUR 32.2m and equity according to the consolidated financial statements came to EUR 45.4m. This equity base is the product of the capitalization steps described in Section 1 and corresponds to the consolidated equity ratio of 90.9%.

As of March 31, 2007, cash on hand made up the lion's share of assets and, pursuant to the investment plan, is earmarked to be invested in expanding the real estate and project portfolio in Q1 and Q2 of the new fiscal year 2007/2008. With regard to the investments in real estate and real estate projects in the reporting year, please refer to the comments below on net assets.

Financial management in the fiscal year focused on the temporary investment of liquidity acquired by the Company upon formation and through the capital increases. As of the balance sheet date, cash and cash equivalents, in the shape of bank balances, amounted to EUR 30.2m. Funds were invested on an overnight or time deposit basis (with a maximum 3-month term) in order to ensure availability for carrying out investments. There were no off-balance sheet financial instruments as of the balance sheet date. No liquidity



bottlenecks arose in the reporting period, nor are any foreseeable.

Net Assets

In addition to the formation capital of EUR 16.5m, gross issue proceeds of EUR 27.8m were generated in the fiscal year through the capital increases in August and October 2006. Costs of EUR 1.2m of raising capital were netted directly with consolidated equity. As of the balance sheet date, the Company had consolidated cash of EUR 30.2m.

In the fiscal year, the Company – indirectly through project companies – made or contractually agreed the following investments:



Development-Portfolio

> Vossberg, Berlin

(Germany – EUR 0.6m acquisition cost): conversion of an office building in Berlin into luxury lofts, 1,700 m² usable space, investment sold prior to commencement of conversion work.

> Nasze Katy, Wroclaw

(Poland – EUR 3.0m acquisition cost, construction costs debt-financed): co-investment 50 % in residential development with 65,000 m² usable space.

> Podillja I, Chemelnitzkej

(Ukraine – EUR 1.9m acquisition cost): completion of a market/phase 1 with a claim to 50 units (in conjunction with an option for phase 2).

> Cottage Village Vitaly, Kiev

(Ukraine – EUR 0.9m acquisition cost, additional financing via sales): co-investment 25 % in residential development, 57 villas with 65,000 m² usable space.

> Sadko I and II, Moscow

(Russia – EUR 2.3m, construction costs debt-financed/from interim sales): co-investment 20 % in residential development, 330 (phase 1) plus 270 (phase 2) economic cottages with approx. 75,000 m² usable space.

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Trading-Portfolio

> **Eberswalde & Rostock**

(Germany – EUR 25m gross transaction volume): co-investment 75 % in residential portfolio 67,400 m² with approx. 20 % vacancy rate.

> **A&T Portfolio Worms, Parchim and Halle**

(Germany – EUR 6m gross transaction volume): co-investment 75 % in office portfolio 9,700 m², fully leased.

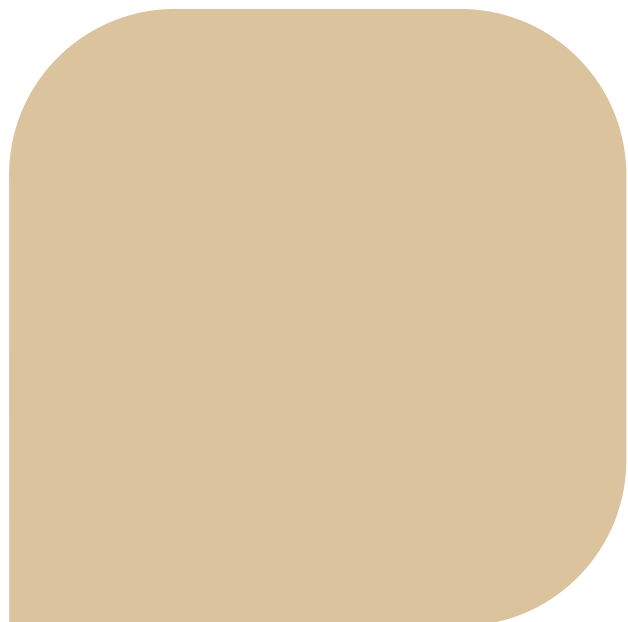
> **Mogosoia, Bucharest**

(Romania – EUR 3.5m gross transaction volume): co-investment 75 % in 57,000 m² building land (land banking).

Shares in the relevant project companies for the investments Sadko I and II were not acquired until after the balance sheet date. Shares in the project companies for the “Cottage Village Vitaly” project in Kiev and for the acquisition of undeveloped land in Kiev (land banking) were also acquired after the balance sheet date. The acquisitions were secured before the balance sheet date by way of corresponding option agreements.

Summary

The economic situation of the Company was very sound as of the balance sheet date thanks to the high equity ratio and the high level of cash and cash equivalents. A positive result was generated through the sale of an investment (Vossberg) in the first fiscal year, surpassing management's expectations as exits had not been planned for the first fiscal year.



3 Events After the Balance Sheet Date

A further capital increase comprising 20.7 million new shares was completed in April 2007 at a price of EUR 2.20/share. On April 28, 2007, an agreement was signed on the sale of the investment Podillja I, Chmelnitzkij (Ukraine – EUR 1.9m acquisition cost). The agreement was concluded in US dollars and is still being executed.

For details regarding the acquisition of investments which only became effective after the balance sheet date, please refer to Section 2 / Net Assets.

4 Risks

No risks to the Company's ability to continue as a going concern are apparent.

Risk Policies

The business activities described in Section 1 – in comparison to traditional real estate investment strategies – are geared towards generating above-average returns. This naturally entails corresponding risks. This above-average risk/reward profile is reflected both in the functional (development and opportunistic exploitation of special opportunities) and the geographical (CEE/SEE/CIS region) focus of business activities.

In view of this, it is neither possible nor expedient to focus risk policies on completely or largely avoiding risks. Instead, risk management focuses on the ongoing identification and active management of risks typical for the business. Risks within certain ranges are tolerated, being offset through higher potential returns from the functional and geographical focus.

Principles of the Risk and Reward Management System

The risk management system is designed to reduce potential risk, ensure the Company's ability to continue as a going concern and support its successful development. By consciously dealing with risk, the opportunities involved can also be exploited with greater certainty.

In view of the continually changing circumstances and requirements, the identification of risks is an ongoing task. Regular jour fixe, controlling meetings, project and one-to-one meetings are a central element of risk determination. The limited shareholder, R-QUADRAT Immobilien Beratungs GmbH, Vienna, Austria, plays a very important role in this regard, as it provides services in accordance with its special duties pursuant to the partnership agreement which cover to a very large degree the entire value chain of real estate activities. Project management, which is of considerable importance especially in development business, also falls within its scope of responsibilities.

Due to the structure in place, management is directly involved in all major decisions. The flat hierarchy facilitates a risk management system that is comparatively simple with few complex structures. The basic concept behind the risk management system is based on the COSO Framework [“Committee of Sponsoring Organizations of the Treadway Commission”].

This concept was chosen with a view to achieving economies of scale at this early stage in the Company's life and thus laying the foundations for expanding the system in line with the organization's growth, and always maintaining an adequate depth of control.

The Supervisory Board is regularly informed about the status of the risk management system and its enhancement.

Analysis of Significant Individual Risks

> Economic and Political Risks

Management sees dangers for its basically favorable environment in the form of national or global political crises and the omnipresent threat of terrorism. It remains difficult to estimate whether the upheavals in the global economy currently being experienced – for example in China, India, Russia, as well as the oil-exporting countries in the Near and Middle East – will continue to have a stimulating effect on the western industrialized nations or whether they will be unfavorable overall in the medium to long term. Preeminent topics with both economic and political tangents, for which at best partial solutions exist and whose medium and long-term effects are thus difficult to gauge, remain global energy supplies and policies as well as progressive global warming.

In the CEE/SEE/CIS region which is of particular importance for MAGNAT, the prevailing political instabilities pose a constant source of danger which can and will continually give rise to uncertainties and problems at short notice. Management is of the opinion, however, that this will not affect the great potential of this region in the medium and long term.

> Market and Industry Risks

The real estate market is heavily shaped and influenced by economic developments which are in turn influenced by numerous factors. Major factors within the individual national economies and real estate markets and sectors are supply and demand by the user, the availability of capital and the cost of capital (especially the prevailing interest rate level) as well as construction costs. Typical risks for the development business are the granting of building permits (we are aiming to reduce project-based risk in this regard by joining projects which already have building approval) and timing and cost-related

risks. On a national and global scale, investor demand for real estate asset class investments and their relative attractiveness in comparison to other asset classes deserves particular mention.

In line with its opportunist strategy, MAGNAT operates primarily in markets which the management believes show high growth potential. The markets in the CEE/SEE/CIS region worked by MAGNAT entail a significantly higher country risk in comparison to the western industrialized nations. This country risk has many different facets, such as political developments, instability of legal systems and jurisdiction in general as well as in relation to property and land registry law, the actual prevailing circumstances and business practice. Many of these risks can neither be precluded nor completely controlled.

Risks are partially offset by avoiding higher than average asset allocations to individual projects and countries, as well as through co-investments with well established local partners.

The risk of rental losses is not very acute for MAGNAT thanks to its business model which does not primarily focus on generating rental income.

> Financial Risks

MAGNAT mainly operates in markets outside the euro-zone and is therefore exposed to exchange rate risks. Wherever possible and practicable, the same currencies are used in projects (i.e. debt financing of construction costs is arranged in the same currency). When hedging the residual exchange risk, which ideally is limited to the capital employed and profit potential, our approach is very selective: as a rule, hedging on an aggregate basis is given preference over hedging individual project-related risks, and even then hedging is only considered for risks if they exceed certain thresholds and only for the capital employed (not the profit potential).

This approach is based on cost/benefit factors and acknowledges the fact that the currency risk cannot be completely isolated, and that additional multifaceted interdependencies beyond the pure fluctuation in exchange rates play a role. In summary, the management of financial risks is based on tolerating risks within a certain range. A hedge is only sought for peak risks on an aggregate basis in order to counter developments which could pose a threat to the Company's ability to continue as a going concern.

The MAGNAT Group plans to use debt capital to finance the real estate projects, in some cases with floating interest rates. The MAGNAT Group is thus exposed to an interest rate risk as increases in the interest rate push up finance costs. This interest rate risk is only hedged in specific cases. Management believes that it is justifiable to take on this risk considering the cost/benefits, particularly in view of the fact that investments and thus the related financing are not made/entered into for long periods. This policy is reevaluated at regular intervals, but at least half yearly.

The development of liquidity is constantly monitored using group-wide financial planning instruments. To date, the liquidity risk has been managed by maintaining a liquidity reserve in the form of unrestricted bank balances. The aim for the future is to shift the management of liquidity to credit lines which can be utilized at any time.

As of the balance sheet date, there were no financial instruments to hedge exchange and interest risks.

> *IT Risks*

Operating and project-based data are stored redundantly and are thus safeguarded against loss. The project-based nature of our business model allows us to forgo establishing an IT concept with a central network architecture for the meantime. Such a concept is

currently still in the planning phase and will only become operational if there is corresponding growth.

> *Other Risks*

The legislative environment in Germany and in the target countries in the CEE/SEE/CIS region may change, potentially at short notice. MAGNAT has no influence on these developments and, in the case of investments which have already been made, might only be able to devise alternative strategies to a limited extent. Furthermore, some of the legal systems in the target countries of the CEE/SEE/CIS region are in the early stages of development, which inevitably involves a higher level of uncertainty.

Environmental risks are managed first and foremost by reviewing the most important aspects in a due diligence, where this is deemed necessary in the case at hand. Risks cannot usually be entirely ruled out. Thanks to the chosen investment structure using project companies, risks are limited to individual projects. Management is not aware of any such risks at present.

Owing to MAGNAT's regional strategy, the Company's taxes are shaped by national regulations in the various target countries and in Germany, and also by double taxation treaties. Any of the above regulations and treaties could change in the future, particularly to the Company's disadvantage, without MAGNAT being able to exert any influence on the matter. In particular with a view to investments that have already been made, it may under certain circumstances not be possible to devise alternative structures to avoid tax.

> continued from page 51

5 Compensation

The Company does not employ any staff. The Company is managed and represented by the general partner MAGNAT Management GmbH. The general partner's costs are recharged to the Company on the basis of the provisions in the partnership agreement. In the fiscal year, the general partner billed services of EUR 186k plus VAT. In addition, it charged the Company a liability premium of EUR 5k on the basis of the provisions of the partnership agreement.

6 Forecast

Economic Environment

Management expects that the economic environment will remain positive, although the potential negative effects of existing risks (please refer to Section 4, Risks) should not be forgotten.

It cannot be ruled out that the excellent development seen in the western real estate markets over the past few years may slow down, as indeed the first indications of a slow-down have been seen in a few countries, such as Spain. It is to be expected that the interest rate, which has risen sharply in the eurozone of late, with a realistic prospect of further interest hikes in the current year, will have a negative effect on the traditional investment market for real estate. In combination with lower real estate returns, the spread between rent yields and borrowing costs has shrunk considerably.

Especially in view of its focus on "second wave" countries in the CEE/SEE/CIS region, management does not expect any negative knock-on effect from a potential slow-down in development in the western real estate markets.

Objectives and Strategic Focus

Our major objectives for fiscal year 2008/2009 are as follows:

> Development

Resources are going to be boosted further in project development by the asset manager R-QUADRAT in order to support the handling of existing projects. We aim to complete and sell individual projects within the current fiscal year (2007/2008). At the same time, we will continue our efforts to expand the project portfolio further by investing free funds, especially from the capital increase of April 2007 and from sales proceeds from current projects. The geographical focus will remain on the CEE/SEE/CIS region, although preparatory measures have already been taken to enter into some new markets.

> Trading (Real Estate)

MAGNAT makes opportunist investments in real estate with high potential. This comprises on the one hand distressed real estate in the German market, with the aim of realizing that potential and quickly selling the property on. In the CEE/SEE/CIS region, MAGNAT invests selectively in land banking in order to benefit from the appreciation potential. Properties acquired in this manner are either sold on in the short term or, depending on their development potential, used to supplement the development business base.

> Spin-Off of the German Business

Following the sale as planned of existing investments in German real estate (commenced projects will at most be rounded off), the Company plans to spin off this business into a new company. With the distressed real estate segment, in particular, having developed very well, a company is to concentrate on this business and expand it further. MAGNAT intends to be the seed shareholder of this new company with a minority stake. After a transition phase, MAGNAT's strategic

asset allocation in Germany will no longer be based on investments in individual projects but rather will be covered by this equity investment. This step will bolster MAGNAT's position as a real estate developer in the CEE/SEE/CIS region.

> Investors Relations/Capital Market

To date, MAGNAT's investor relations have been very restricted due to the lack of a prospectus (the capital increases carried out to date were only offered to existing shareholders in private placements). A prospectus is now being prepared which is due to be submitted to the German Federal Financial Supervisory Authority ["BaFin"] for approval. In addition, once all conditions have been met, we plan to file an application for inclusion in the General and Prime Standards of the Frankfurt Stock Exchange.

Having generated a marginal consolidated profit for fiscal year 2006/2007, our first fiscal year, MAGNAT is aiming to achieve a consolidated profit of well over EUR 10m for the current fiscal year 2007/2008. Profit contributions have been budgeted in particular from trading portfolio sales; from development portfolio sales, besides the proceeds from the sale of the Podillja I, Chmelnitzkij (Ukraine) investment, revenue is due to be recognized according to the percentage of completion method from the completion and sale of residential developments.

Frankfurt, Germany, June 29, 2007
MAGNAT Real Estate Opportunities GmbH & Co. KGaA

signed **Jan Oliver Ruster** signed **Peter Waldner**
(General Managers of MAGNAT Management GmbH)



Auditor's Report

To MAGNAT Real Estate Opportunities GmbH & Co. KGaA, Frankfurt am Main, Germany:

We have audited the consolidated financial statements prepared by MAGNAT Real Estate Opportunities GmbH & Co. KGaA, Frankfurt am Main, Germany, comprising the consolidated balance sheet, the consolidated income statement, the statement of changes in equity, the consolidated cash flow statement and the notes to the consolidated financial statements, together with the group management report for the abbreviated fiscal year from April 6, 2006 to March 31, 2007. The preparation of the consolidated financial statements and the group management report in accordance with IFRSs [International Financial Reporting Standards] as adopted by the EU, and the additional requirements of German commercial law pursuant to Sec. 315 a HGB ["Handelsgesetzbuch": German Commercial Code] is the responsibility of the Company's management. Our responsibility is to express an opinion on the consolidated financial statements and on the group management report based on our audit.

We conducted our audit of the consolidated financial statements in accordance with Sec. 317 HGB and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer [Institut of Public Auditors in Germany] (IDW). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the consolidated financial statements in accordance with the applicable financial reporting framework and in the combined management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Group and expectations as to possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the consolidated

financial statements and the group management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the annual financial statements of those entities included in consolidation, the determination of entities to be included in consolidation, the accounting and consolidation principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements and the group management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion, based on the findings of our audit, the consolidated financial statements comply with IFRSs as adopted by the EU, the additional requirements of German commercial law pursuant to Sec. 315 a (1) HGB and supplementary provisions of the articles of incorporation and bylaws and give a true and fair view of the net assets, financial position and results of operations of the Group in accordance with these requirements. The group management report is consistent with the consolidated financial statements and as a whole provides a suitable view of the Group's position and suitably presents the opportunities and risks relating to future development.

Eschborn/Frankfurt am Main, June 29, 2007

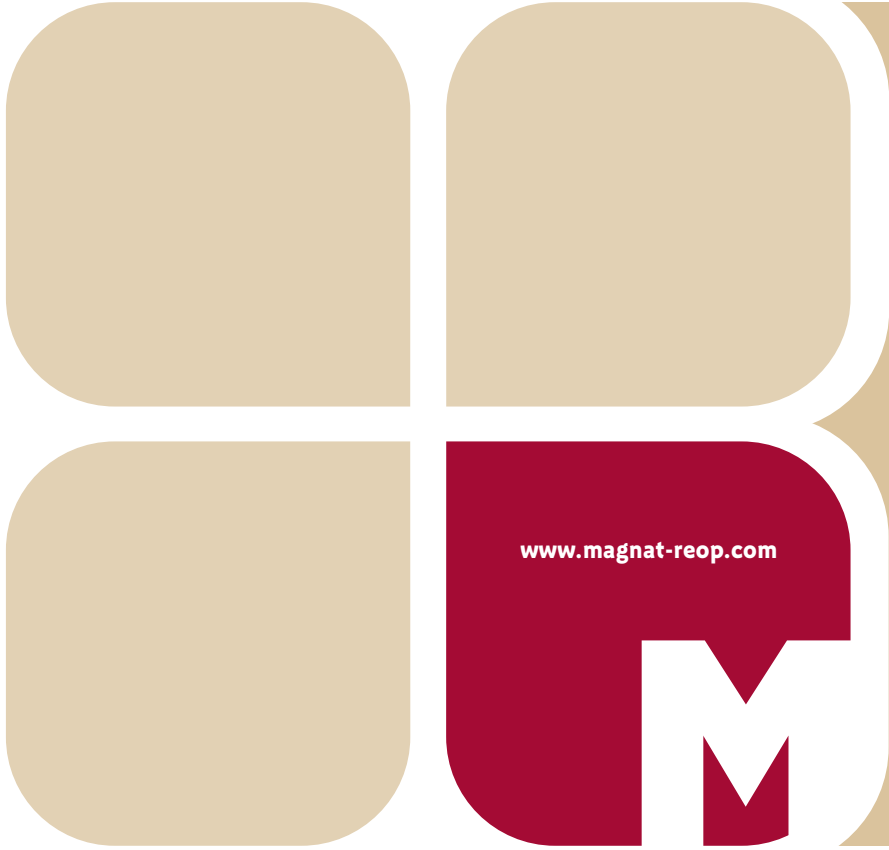
Ernst & Young AG
Wirtschaftsprüfungsgesellschaft
Steuerberatungsgesellschaft

signed **Thilo Kausch-Blecken von Schmeling**
Wirtschaftsprüfer
(German Public Auditor)

signed **Joachim W. Sauer**
Wirtschaftsprüfer
(German Public Auditor)

A large, stylized red 'TM' logo is overlaid on the left side of the image. The background is a black and white photograph of a curved glass skyscraper, viewed from a low angle looking up. The building's facade is a dense grid of windows, and the curve of the building creates a strong sense of depth and perspective. The sky is a uniform dark grey.

TM



www.magnat-reop.com

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